Social Protection in the Philippines

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Abstract

The Philippines is a fairly governed developing country with nominally democratic political institutions. There is broad consensus on the desirability of a society oriented to human development and welfare, but the country is confronted with resurgent poverty, a budget deficit, and the problem of restoring investor confidence in the wake of persistent concerns about the escalation of conflict in Southern Philippines.

The Philippine economy has a significant boom-and-bust cycle, as a result of which it has lagged behind many of its neighbors with its GDP growing only by 3.2% yearly on average during the last decade. In the context of liberalizing reforms, modest economic upsurges were largely driven by investments, exports and remittances of overseas Filipino workers. Poverty incidence has declined modestly to 32% in 1997, but following the Asian financial crisis in 1997/98, the proportion of poor families crept up to 34.2% in 2000.

Social protection in the Philippines is well defined in the formal sector, which is led by manufacturing and services firms and public agencies. Both private sector employees and government workers are covered by contributory social insurance schemes covering industrial accident, health, old age, and death, although the support value for all is less than desired. In the informal sector, there is no coverage, except for the self-employed, who contribute on a voluntary basis. The government occasionally launches programs that have social protection elements, such as rice price subsidy, labor-intensive public work schemes, and integrated community-level social assistance. There are also a number of microfinancing schemes, as well as reskilling programs for those adversely affected by the Asian crisis and displaced by 'flexibilization' processes.

However, most of these programs come far and few between, and although many are targeted at the poor, they are not efficiently run and the benefits are prone to middle class capture. Formal social insurance is increasingly becoming unsustainable, in part because of badly managed investments, corruption, and payroll tax collection problems. Studies also suggest an inequitable setup, with poorer members subsidizing the better off. The difficulties facing social protection are compounded by weaknesses in the bargaining power of workers. Organized labor is now only 10% of the work force and labor unions have diminishing leverage in the workplace.

Reforms will have to be put in place. In formal social insurance, some immediate steps should include changes in the contribution and benefit structure, automatic indexation of benefits, and wider coverage. The social insurance system will also have to be run more efficiently, in a sustainable manner. In the informal sector, the

government will have to cast a wider social safety net, by protecting basic social services from budget cuts, more focused targeting of social assistance and microfinancing programs, and better governance structures in order to avoid the wastage of resources intended for poor and disadvantaged workers.

* The exchange rate of the Philippine peso against the US dollar at the time of writing was US$1=PhP50.

1. Institutional Framework

1.1 General Political, Social, and Economic Framework

Political Structure

The Philippines has a presidential system of government, with the 1987 constitution limiting presidents to a single six-year term of office. The legislative branch of government is modeled on the U.S. system and is composed of the Senate, with 24 seats, and the House of Representatives, with 208 directly elected seats and a few party list representatives. Joseph Estrada's presidential term, which ends in June 2004, is now being completed by the former Vice-President, Gloria Macapagal-Arroyo.

At the moment, the Philippines is faced with problems of reducing the budget deficit and of restoring domestic and international business confidence in the face of concerns on social order, global anti-terrorism and recession of the U.S. economy. The culture is open, with freedom of expression and broad social consensus on the desirability of an outward-oriented society. Despite the persistent potential for escalation of conflict in Southern Mindanao, peace and order hold sway.

The colonial era bequeathed concentration of political and economic power in the hands of a small number of families, culminating in the 21-year rule of Ferdinand Marcos (1965–86), which was characterized by economic mismanagement, corruption and martial law. A democratic system was re-established under Corazon Aquino (1986–92), maintained under Fidel Ramos (1992–98) and consolidated with the election of Joseph Estrada in May 1998. His removal by a civilian coup backed by the military in January 2001, which was later judged to be in accordance with the constitution, ironically seems to have strengthened the prospects for the continuation of responsible democracy in the Philippines (*The Economist Country Briefings*, 2002).

Political parties in the Philippines are based on personalities rather than ideologies. Most of those represented in Congress come from the economic elite, and often switch parties in exchange for political favors from the ruling administration. There are thus continual shifts in allegiance. The new president's party is Lakas ng Edsa (National Union of Christian Democrats/Lakas), which was formed in 1992 to support the presidential candidacy of Fidel Ramos. In February 2001, Lakas merged with several small parties to form the People's Power Coalition and now controls the majority in the two chambers. The three parties that backed Joseph Estrada in 1998 and formed the pro-government coalition, Laban ng Masang Pilipino (LAMP) resumed their separate identities in the wake of his removal. Party lists, meanwhile, continue to be one of the minor political instruments for social mobility.

Economic Structure

The Philippine economy in the last 25 years has been characterized as one following a boom-bust cycle (Fabella, 1994). The Philippines has had three crises in the period 1975–2000. The worst occurred in 1984–85 when GDP contracted by 7.3% in two consecutive years. Then, two milder ones took place in 1991 and 1998, with GDP declining by 0.6% in both years. Because of the large fluctuations in its economic development, the Philippines economy has lagged behind many of its neighbors with its GDP growing only by 3.2% yearly on average during the period.

However, in the five years immediately prior to the East Asian crisis in 1997, the Philippines enjoyed what appears as strong macroeconomic fundamentals. This came about largely because of the restoration of democracy during the Aquino years, and the stabilization of the political situation during the Ramos administration. Another contributing factor was the continuous implementation of structural economic reforms aimed at reforming the tax system, liberalizing trade, privatizing state-owned enterprises, deregulating telecommunications and banking, and rehabilitation of ailing government financial institutions. Thus, the economy posted modest rates of economic growth that was largely driven by growth in investments and exports (see Table 1, Appendix). Moreover, because of the persistent pursuit of trade liberalization from 1980 onwards, manufactured goods accounted for an increasing proportion of exports, thereby reducing the country's dependence on exports of primary commodities that were often subject to price volatility.

However, despite the many initiatives mentioned above, liberalization in non-tradables lagged behind. In addition, the terms of trade shifted against industry and in favor of services. Consequently, a corresponding shift in the composition of output by sector became evident. Thus, the share of industry in total output contracted, despite the impressive performance of manufactured exports, from 35% in 1990 to 32% in 2000, while that of services expanded from 43% to 52%.

As emphasized in the *Economist Country Briefings*, foreign-debt ratios, which had improved markedly in recent years, deteriorated following the peso depreciation in 1997. Improvements had been made in government finances through privatization and tax reform, but were undermined by the economic downturn in 1998 and poor tax administration since, which resulted in a fall in the taxes taken relative to GDP. The new government's aim is to remedy the budget imbalance and restore domestic and international business confidence, which had been slipping since mid-1999 and collapsed in late 2000.

The relatively stable growth environment in the first half of the 1990s translated into greater employment opportunities and the unemployment rate dipped from 9.0% in 1991 to 7.4% in 1996 and 11.2% in 2000. Labor shifted away from agriculture to the more labor-intensive sectors of services and construction in line with the overall reallocation of resources towards the non-tradable sectors (World Bank, 2000). Thus, the share of services in total employment expanded from 39.6% in 1990 to 46.7% in 2000, while agriculture's share contracted from 44.9% to 37.1% (see Table 2, Appendix). Meanwhile, the share of the industrial sector has stagnated around 15% and in the same manner that of manufacturing remained almost constant around 10%. The increase in the share of the services sector is an indication of the growth of the informal sector, which has had to absorb 'an expanding labor force that is unable to find adequate employment in the agriculture and industry sectors' (HCIEE, 2001).

Social and Demographic Structure

The Philippines exhibited improvements in key human development indicators between 1986–96, particularly those related to poverty, education and health. In particular, poverty incidence declined from 44.2% in 1985 to 39.9% in 1991 and 32.1% in 1997, although poverty incidence in the country remains the highest in the ASEAN 5 (see Table 3, Appendix).[1] However, following the Asian financial crisis in 1997/98, the proportion of poor families crept up to 34.2% in 2000.

Meanwhile, the basic literacy rate rose from 89% in 1989 to 94% in 1994. Also, clear gains in school participation have been made – 97 % at the elementary level and 72% at the secondary level in school year 2000–01. However, the progress when measured in terms of the completion rate is more limited, as can be seen in the less than modest improvement in the completion rate, 68% and 71% in school year 2000–2001 (see Table 4, Appendix).

With respect to improvements in health status, life expectancy at birth rose from 65 years in 1990 to 69 years in 1999. This came about as the infant mortality rate, the under–5 mortality rate and the maternal mortality rate all exhibited a definite downtrend in 1990–2000.[2]

The reason why real per capita GDP has been sluggish is not only its unstable growth path but also the rapid population growth. A country of 76.5 million people in 2000, the Philippines stands out as having one of the highest population growth rates (2.36% yearly) in Asia at present. Meeting the demand for basic public goods generated by its young population (49% of whom are aged 0–19) presents a serious challenge to the government and clearly exerts pressure on the already strained government resources. Although social services continue to account for the biggest share of the budget of the national government with the exception of debt service, its proportion continues to decline (see Table 5, Appendix). The current trend of public finances appears unsustainable: either public debt will rise from an already high level, and/or

1 Based on the international poverty line of US$1 per person per day, the poverty incidence in the Philippines was 26 compared to Indonesia's 11, Malaysia's 4 and Thailand's less than 1 (Reyes *et al*., 1999).

2 In particular, the infant mortality rate improved from 56.7‰ live births in 1990 to 48.9‰ in 1995 and 35‰ in 1998. At the same time, the under–5 mortality rate slid from 79.6‰ live births in 1990 to 66.8‰ in 1995 and 55‰ in 1998. On the other hand, the maternal mortality rate declined from 209 per 100,000 live births in 1990 to 180 in 1995 and 172 in 1998.

resources will remain inadequate for social expenditure (Philippine Country Assistance Strategy, World Bank Group, 1999). Corruption is also linked to lower spending on health and education, which in turn narrows opportunities for poor people to invest in their human capital.

The Philippines did not manage to keep the number of poor people from growing considerably. While its economy was not badly affected by the crisis, the number of poor Filipinos rose greatly. The Philippines joined the likes of Vietnam, Laos and Cambodia in the high-poverty column. The vulnerability of the non-poor has increased. About 40% of the population was vulnerable in 1997, compared with 25% who were observed to be poor (Chaudhuri and Datt, 2001). Social safety nets are in place to cushion the impact of shocks, and the presence of some social risk management instruments may be contributing a lot to mitigate the worst features of poverty.

1.2 Availability and Quality of Data

Most of the data for this article was gathered from secondary sources – both local and foreign studies and researches – and official agency documents. Local researches provided a national situationer. Foreign studies, such as from the International Labor Organization (ILO), International Social Security Association (ISSA), World Bank (WB), and Asian Development Bank (ADB), gave global perspectives on social protection systems. Most data are up to date, to 2001 at the latest, and are of good quality, having come from official statistical sources.

Insufficient government resources preclude gathering of data that track the informal sector. Coverage of 'flexibilized' workers is often scanty, which adds to the difficulty of creating a good social protection system for them. The census is a good instrument to reach out to 'undocumented' workers, but it is undertaken only every ten years. Yearly spot surveys, such as the Annual Poverty Indicators Survey (APIS), may shed some light.

1.3 Existing Institutional Framework

The right to organize and the right to strike are legally protected under the country's labor code and various policy issuances. In the public sector, employee organizations are supervised by the Civil Service Commission (CSC), with restrictions on strikes. The interests of the public service are often invoked to discourage protest actions by government employees.

Industrial Relations

Organized labor has little power in the Philippines. Only around one in five workers was a member of a trade union in the late 1990s, although the rate was significantly higher in multinational firms, where around one in three was unionized. This reflects the weak bargaining position of workers in a labor-surplus economy (*The Economist Country Briefings*, 2002).

In 1997, the total number of labor organizations was 8,822 and they cover 3,634,038 workers. The number of collective bargaining agreements (CBAs) in 1997 totaled 2,987 covering 525,007 workers, which represent only 1.7% of the labor force and 1.9% of the total employed. Most of them are in the manufacturing and services sector. Welfare benefits – monetary and non-monetary benefits – enjoyed by the workers were covered by 309 CBAs filed at the Department of Labor and Employment (DOLE) Regional Offices in 1999 (see Table 6, Appendix). Trade unions cover only 13% of the employed labor force and 12% of the total labor force. This means that collective bargaining as an industrial relations process, although not insignificant, is not dominant even in the formal sector of the economy. What prevails is the paternalistic unilateral decision-making process practiced in most micro-, small- and medium-scale enterprises. This also suggests that the bulk of the Philippine labor force is still outside the social security system.

Non-governmental Organizations

Non-profit and non-governmental organizations active in the field of human development and welfare are a very recent phenomenon in East Asia, where in the past they have been discouraged by authoritarian regimes (Yamamoto, 1999). The one exception is the Philippines where they have a longer history due to the American legacy and the Catholic Church. However, technically, civil society organizations (CSOs) have minimal influence on issues on social protection.

Community development in the Philippines is not yet a flourishing part of social policy, and innovations such as community health financing are not seriously considered. Moreover, all NGOs (non-governmental organizations) remain heavily dependent on external sources for funds, notably official overseas aid organizations, U.S. philanthropic funds and Japanese corporate funds (Gough, 2000).

Employers

The influence and power of the local industry, multinational companies and employers in general have been somewhat weakened by the Asian crisis. But numbers are still important: for instance, the ten largest families in the Philippines control half of the corporate sector (in terms of market capitalization). These families have a sorry effect on the economic policy of the government. The Ayalas, for example, control 17.1% of the total market capitalization (Claessens, Djankov and Lang, 1999).

Such wealth concentration, and the interlocking links between owners and government officials, casts doubt on the independence of legal institutions in Southeast Asia, including the Philippines. In a situation of ‘state capture’, legal institutions are subverted and less likely to evolve in a manner that promotes transparent and market-based activities. Thailand, Indonesia and the Philippines seem to have the lowest level of legal institutional growth because of heavy ownership concentration in the corporate sector.

Inter-institutional Cooperation

A tripartite system among government, trade unions, and employers, exists through regional wages and productivity boards (which are supervised by the National Wage and Productivity Commission). Board discussions center mostly on minimum wage adjustments in relation to the consumer price index and cost of living, and gain-sharing schemes. Less discussed, although boards have the power to initiate action, are the needs of workers and their families, the need to induce industries to invest in the countryside and the equitable distribution of income and wealth along the imperatives of economic and social development. A recent action of the tripartite board in Metro Manila is to ratify a PhP.30 emergency cost-of-living allowance.

1.4 Government Support

All presidents, Gloria Macapagal-Arroyo not excepted, have paid obeisance to the protection of the rights of workers, tripartism and social dialogue. In a May Day speech before workers, for example, Arroyo said she shared the sentiments of labor for an adequate social protection mechanism, particularly those affected by the changes brought about by the challenges and demands of globalization (Macapagal-Arroyo, 2001). Her action to scrap the guidelines on labor-only subcontracting has won her praises from most labor groups.

Stronger measures on social protection, such as unemployment insurance and universal health care coverage, have either been waylaid or deferred. Newer moves, such as the implementation of the 20/20 Initiative, have yet to take off.

Inefficiencies in the management of the current social insurance system are widespread. There is a strong clamor for merging the two financing institutions (the Social Security System for private sector workers and the Government Service Insurance System for public sector employees) in order to achieve economies of scale and to eliminate inefficiencies. But 'turfing' has undermined such demands. Reforms are also hard to come by, as proven by the recent ouster of the Social Security System's (SSS) chief executive officer, a known reform advocate, ironically at the instance of the agency's union. Top managers of both SSS and the Government Service Insurance System (GSIS) have also been embroiled in a recent controversy involving reportedly exorbitant salaries and perks.

On a more general plane, the government's performance has been constrained by widely acknowledged weaknesses in implementation capacity and governance. To be sure, there are landmark laws to control the system and set standards: the revised Labor Code, the Wage Rationalization Act, the Social Security Law and the new GSIS Law, the new Medicare Law. But improvements are needed in the capacity for policy formulation and implementation; program management; procurement; controlling corruption, transparency and accountability; and congressional and judicial processes. Lobbying is a fact of life. Congressional measures are natural targets, but so are executive actions. This can work both ways. NGOs can lobby for progressive measures, although those with deeper pockets – big business – might call the shots. Sometimes, lobbying plus public pressure can bring about good policies.

Years of internal warfare have undermined both human development and social protection particularly in Mindanao. Statistics on basic health and education show utter neglect of basic social services provision especially for particular ethnic and religious groups, like the Muslims. Such deprivation has aggravated the existing conflict in the area.

1.5 Traditional and Contemporary Perception of the Social Protection System

Throughout East Asia, the extended family continues its role as a provider, saver and redistributor, despite rapid economic development and urbanization. This should permit more families to mitigate risk by 'self-insuring': saving in good times and spending in bad times. The level of savings is extremely high in East Asia, the Philippines excepted (WDR, 2000).

Nonetheless, calculations of private transfers show high levels in the Philippines, Indonesia and Malaysia, adding 9% to 20% to the average incomes of recipient households. In the 1980s, the majority of people aged over 60 were receiving income from family members and an even higher proportion lived with children or family – between 75% and over 90% in the Philippines and Thailand (Gough, 2000).

It is no surprise that the family support element has found its way also within the structures of social security. As in most social security schemes in Asia, eligibility, and amount of benefits in the Philippines are based on the family situation of the beneficiary. Heads of families, with dependents, qualify more easily or receive higher benefits (Langendonk, 2000).

The value of family or group orientation in the Philippines greatly helps Filipinos in coping with human poverty and insecurity. Social security for an individual often includes the income and/or assets of other members of his family, from whom he could claim financial support.

Too much reliance on the protective shield of the family has a tradeoff, however. Filipino rank-and-file, in contrast to their Western counterparts, are less autonomous, more dependent on superiors for guidance, and less accepting of risk and responsibility (Mendoza, 2001). Acceptance of the authority of the superior, and hierarchical authority structures, and an inability of the inferior to decide, precludes job autonomy. Filipinos also ranked high in a related value: uncertainty avoidance, which is related to the need for employment stability; stress in the workplace; and willingness to follow rules (Acuña and Rodriguez, 1995).

The state, on the other hand, is widely perceived as the key provider of social assistance. It provides social assistance as a safety net, assuring some kind of social protection for individuals and families with few sources of income. Though social safety nets are in place to cushion the impact of shocks, they are still short of social risk management instruments to mitigate the worst features of poverty. Ironically, the Philippine government is organizationally weak to enforce its own formal structures on the routines of family and community life (Mendoza, 2001).

The government is judged by the people in its role as provider. Overall, based on the Social Weather Survey, July 2001, the public is satisfied – 46% satisfied, and 29% dissatisfied – with the current government's performance. That is also the reason in part why entitlements are welcome but not obligations, such as taxes. Such imbalance is somewhat mitigated by other mediating instruments, such as user fees, which have been introduced in some sectors, such as health care, water supply and sanitation. In fact, to sustain devolved hospitals and clinics, a number of local governments have adopted user charges.

2. Review of the Existing System

2.1 Social protection in the Formal (Organized) Sector

2.1.1 Categorization of the Formal Sector

In general, the Philippine economy is a dualistic economy, that is, it is divided into a modern but small sector and a backward but large sector (Ofreneo, 1991). This characterization directly leads to segmentation of the formal labor force. The industrial sector has three major sub-sectors: import-substituting, export-oriented, and numerous small domestic fabricators/assemblers and cottage or home-based producers (Ofreneo and Barriatos, 1991). The agricultural sector has three segments: the export-oriented crop and plantation sub-sector, commercialized home-oriented agricultural sub-sector, and subsistence farming. The services sector is diversified from modern and large service establishments (government service, educational institutions, banks, hotels, department stores), which cater mainly to the needs of the elite and the middle class; a constellation of medium- and small-scale establishments (retail stores, market stalls, barber shops, and so on); and a galaxy of micro enterprises, which are generally unregistered and are engaged in the buy-and-sell business and in the delivery of all kinds of personalized and customized services (Ofreneo and Barriatos, 1991).

The private sector (mostly family-owned) is the biggest employer in the Philippines. It takes on about 37% of the total employed. The government sector, on the other hand, employs only 8% of the total employed. In 2000, there are 14.33 million wage and salaried workers and they account for 50% of the total employed.

The general working environment is legally protected, through a revised labor code. There are also protective laws, which establish labor standards and mechanisms for the organized sector. Despite remarkably extensive labor legislation covering minimum wages, hours of work, paid leave, employment security, protection against dismissal, redundancy pay and occupational health and safety (Deery and Mitchell, 1993 and Rigg, 1997), protection in practice is poor. This is due to weak government agencies, bribery of officials and weak trade unions (Gough, 2000).

In recent years, as a result of globalization and liberalization, local firms have had to cope with a less sheltered environment. They are no longer protected against foreign products by high import duties. Domestic companies are experiencing downturns in the short run, their products are no longer competitive in a largely middle-class market, with severe consequences for labor and social protection. Corporate reorganization, organizational rationalization, reengineering and downsizing facilitate the casualization of the workforce to lower wage bills (Maragtas *et al.,* 1999a). To avoid high overhead costs, manufacturing firms keep a leaner number of workers – a key component of a 'labor flexibilization' strategy – and trade off overtime pay for social compensation (Aganon, 1993).

Relatively slow growth in the industry sector has been symptomatic of economic performance in recent years. Unlike some of its neighbors, the Philippines has lagged behind in shifting its output and employment structure away from agriculture to industry and to services. Industry's share in GDP contracted from more than 35% two decades ago to nearly 32% in 2000. Manufacturing, which dominates the sector at over 70% of industrial value added, was at the forefront of the expansion, spurred by a strong performance in electronics arising from buoyant U.S. demand for semiconductors and other high-technology products.

The overall productivity and competitiveness of the Philippines remain a challenge. Estimates of total factor productivity (TFP)[3] point to low productivity. The country experienced slight increases in productivity during the periods 1992 and 1995, but these gains were completely eroded in 1996. TFP recovered in 1997 and showed an increasing trend since then, but the growth rate remained negative. The country's capital productivity (measured by ICOR)[4] was stagnant during the same period. The fluctuation in the TFP was attributed to the roller-coaster growth of labor productivity. The country's labor productivity dived to a negative in 1991, rose to 2.05% in 1995 and seesawed since then until 1999 (Mendoza, 2001).

2.1.2 Social Insurance and Savings Schemes

Social security in the Philippines covers the formal sector labor only, and is built on a narrow membership base. In the Philippines, this is being taken care of separately by the SSS and the GSIS for private and public sector employees respectively. This partition could also be considered as its weakness – two administrative centers with separate budgets, bipolar centers of accountability, possibility of duplications, and the like (Maragtas, 2001).

About 25 million workers (which is 65% of the labor force) from both the private and the public sectors receive social security benefits in the form of health care, retire-

3 TFP measures the growth arising from technical progress and technical efficiency. It is measured by the residual between the growth of the economy and the weighted sum of the growth of the primary factor inputs – labor and capital (Medium-Term National Action Agenda for Productivity, 2000–2004).

4 ICOR means inverse of incremental-capital output ratio ($\Delta GDP/I$) (Philippine Council for Productivity 2000 Annual Report).

ment and social disability pensions and other minor assistance in the form of maternity and funeral benefits. This fact simply means that around 35% or 11 million of the workforce are without social protection as mandated by the Philippine Constitution (Maragtas *et al*., 1999a). Subscription to social security by these workers is through an employee contribution to social insurance.

The social security apparatus in the country has all the characteristics described by Schulz (1993):

1. Participation is compulsory for all modern sector workers and public employees.
2. Benefit schemes are financed by contributory payroll taxes levied on both employers and workers. Employers finance employment injury insurance wholly. Contributions are accumulated in special funds out of which benefits are paid. Any excess funds are invested to earn further income.
3. Benefits (and contribution rates as well) are directly related to the level of earnings and/or length of employment.
4. A person's right to benefits is secured by his contribution record without any test of need or means.
5. Retirement benefits are designed to meet 'minimum income needs' during the retirement period and are paid out regularly (e.g. monthly) till death. The 'right to retire' involves providing compensation based upon years of service rather than upon need *per se*. The financial obligations are based on actuarial calculations that allow for the pooling and sharing of risk.

The SSS presently administers two programs:

Social security (SS) includes maternity, disability, retirement, death and funeral services. It provides replacement income for workers in times of death, disability, sickness, maternity and old age.

Employee's compensation (EC) includes the following industrial injury-related services: income cash benefit for temporary total disability or sickness and permanent total disability, medical services appliances and supplies provided to the affected member beginning on the first day of injury or sickness, and rehabilitation services consisting of medical, surgical and hospital treatment. The EC program, started in 1975, provides double compensation to the worker when the illness, death or accident is work-related. EC benefits are granted only to members with employers other than themselves.

The sickness benefit is a daily cash allowance paid for the number of days a member is unable to work due to sickness or injury. The amount of an employee's sickness benefit is computed as the daily sickness allowance times the approved number of days. Effective from 1997, the daily sickness allowance is 90% of the average daily salary credit. A member can be granted sickness benefit for a maximum of 120 days in one calendar year.

The maternity benefit is a daily cash allowance granted to a female member who is unable to work due to childbirth or miscarriage. The maternity allowance is equivalent to 100 % of the member's average daily salary credit multiplied by 60 days for normal delivery or miscarriage, 78 days for caesarian cases. All female members with qualifying contributions, including self-employed and voluntary members, are now entitled to maternity benefits that cover only the first four complete deliveries including miscarriages on or after May 1997. The disability benefit is a cash benefit paid to a member who becomes permanently disabled, either partially or totally (Maragtas *et al*., 1999b).

The retirement benefit is a cash benefit paid to members who can no longer work due to old age. Any Filipino who is 60 years old and unemployed and has made at least 120 monthly contributions prior to the semester of retirement; and any person who is 65 years old, whether employed or not (if employed, he should have made 120 monthly contributions prior to the semester of retirement, whether employed or not) is qualified for this long-term insurance benefit. There are two types of retirement benefit. First, the *monthly pension,* which is a lifetime cash benefit paid to a retiree who has made at least 120 monthly contributions to the SSS prior to the semester of retirement; and the other, the *lump sum amount*, is granted to a retiree who has not paid the required 120 monthly contributions (Maragtas *et al*., 1999b).

The principal benefit package of the GSIS consists of compulsory and optional life insurance, retirement, separation and injury-related compensation benefits. Active GSIS members are entitled to the following loan privileges: salary, emergency and housing loans. In addition to government workers, the GSIS services the members' dependents and beneficiaries, the retirees and pensioners, and the survivors of the deceased members or pensioners. The GSIS issues policies for Compulsory Life Insurance (Regular), and Optional Life Insurance. Member privileges also include service loans, salary and emergency loans, *Bahay Ko* housing loan, socialized/special housing, and pension loans.

Another major program, which both the SSS and the GSIS had, is the medical care program. The National Health Insurance Act of 1995 transferred the administration of the Medicare program to the Philippine Health Insurance Corporation (PhilHealth) for an integrated and comprehensive approach to health development.

Also engaged in other forms of social security are the Retirement and Separation Benefits System (RSBS) for military personnel; the Overseas Workers Welfare Administration (OWWA), which administers a welfare fund for overseas Filipino workers; and the Home Development Mutual Fund (HDMF) for social housing.

Loans are non-insurance social benefits that SSS provides to member workers at reduced interest rates. Loan categories include salary, educational, calamity, emergency, and housing. Provident funds are virtually non-existent, except for those provided in some government financing institutions like the Bangko Sentral ng Pilipinas (BSP).

Employers, whether private or public, pay half of the social insurance premiums, the other half being drawn from the employees in the form of employee contributions. The individual partly bears the risks of the existing schemes. In Medicare, for example, support value has hovered between 40% and 60% in recent years, forcing workers to rely in part on family resources.

Companies engaged in community and social services, and manufacturing firms (to a lesser extent), augment the salaries of workers by encouraging overtime work. Overtime pay, however, is not really a part of a social compensation: workers earn it by extending their working hours. The idea is to rechannel surpluses to direct productive work. Community and social services firms are plausibly firms not dedicated to earning profit. Altruistic considerations make it possible for these firms to motivate workers to do extra hours of working time, in exchange for which they get overtime pay.

Variations in employment benefits across regions may reflect differing employment practices, or responses to varying workers' needs, and this could be a minefield for further investigation. It would be interesting to find out why firms in Ilocos, Cagayan Valley, and Northern Mindanao register above average shares of employment benefits. Metro Manila establishments, as expected, do provide one of the highest proportions of employment benefits. Yet, for every peso earned by Metro Manila workers, a third of it is accounted for by overtime pay. This could be indicative of the high costs of living, as workers have to earn more to override budget constraints and pay for costly basic needs.

Studies on cross-subsidization in Medicare also yield wide inequities. Generally, poor workers subsidize well-off employees (who have a higher incidence of catastrophic illnesses requiring more expensive treatments), and the workers in lagging regions (such as Eastern Visayas) subsidize Metro Manila employees (Urquico, 1994).

To date, the Philippines has not been in a position to put in place a comprehensive formal social safety net. While some elements of such a safety net do exist, such as severance pay and pensions, coverage is incomplete and often difficult to enforce. Other key elements, such as unemployment benefits, are completely absent. The focus of the government remains on economic growth supplemented by targeted poverty alleviation measures.

2.1.3 Social Assistance and Services: Benefits and Transfers

For children and youth, the Department of Social Welfare and Development (DSWD) has enacted a total of eight national policies, inclusive of the Early Childhood Care and Development (ECCD). ECCD is designed to enhance the quality and coverage of essential health, nutrition, psychosocial development and early education services of Filipino children aged 0 to 6 years. These policies cover issues such as employment of children, child abuse and discrimination, and international and domestic adoption.

The DSWD has achieved milestones in attending to the needs and welfare of all sectors in society. One of the major contributions is its commitment to advocate self-reliance by incorporating skills development to every social sector. Family welfare targets social preparation for project participation and community volunteer resource development; women's welfare aims at self-enhancement skills development, maternal and childcare skills development and productivity skills development; emergency assistance tackles disaster management capability-building; and the program for disabled persons caters to self-social enhancement services.

Among the different levels of Local Government Units (LGUs), the municipality has the biggest responsibility in implementing social welfare services. Community participation is being harnessed in the services the DSWD has devolved to LGUs, such as family and women's welfare; while it is also implied in child and youth welfare, through the institution of community-based services. Its key program for poverty alleviation managed by the national office applies community organizing before services are delivered to the community, which they themselves pick out as relevant to their needs (Bautista, 2002).

2.2 Social Protection in the Informal Sector

2.2.1 Categorization of the Informal Sector

The International Labor Organization (ILO, 1998) defines the informal sector as "small-scale self-employed activities (with or without hired workers) at a low level of organization and technology with the primary objective of generating employment and incomes. The activities are usually conducted without proper recognition from authorities and escape the attention of the administrative machinery responsible for enforcing laws and regulations." On the other hand, the Social Reform Agenda, which was launched by the Ramos administration in 1994, defines the informal sector as "very small scale units producing and distributing goods and services and consisting of independent, self-employed producers in urban and rural areas some of whom also employ family labor and/or a few hired workers or apprentices, which operate with very little capital or none at all; which utilize a low level of technology and skills; which operate at a low level of productivity; and which provide low and irregular incomes and highly unstable employment" (Lazo 2000). Lazo (Lazo 2000) proposed that the definition of the informal sector might gain more clarity by enumerating the sub-sectors within the informal sector, thus:

- home workers;
- microentrepreneurs/petty producers;
- small miners;
- small-scale construction workers;
- street vendors, hawkers, peddlers;
- drivers and operators of taxicabs, *jeepneys*, tricycles;
- petty retailers such as owners of *sari-sari* stores;
- barter traders;
- domestic helpers.

In addition to the groupings mentioned above, the Department of Labor and Employment (ILS/DOLE, 1994) also includes the unemployed in the informal sector.

Given the nature of the sector, informal sector activities are largely unrecorded and unregistered in official statistics. Thus, estimating the size of the informal sector is fraught with difficulties. However, estimating the informal sector to consist of self-employed own-account workers and unpaid family members, Soriano and Sardana (1998) reckon the informal sector to have grown from 11.3 million in 1986 to 13.5 million in 1996, accounting for 51.5% of the total number of employed persons during the period. On average, 57% of those in the informal sector are in the agriculture sector, 33% in the services sector and 6% in the industry sector.

2.2.2 Problems and Features of the Informal Sector

Precisely because the informal sector is outside the scope of most government regulations, workers in the informal sector have limited access to social protection (e.g. social insurance and labor legislation) enjoyed by workers in the formal sector. Lazo (Lazo 2000) succinctly summarizes the issues confronting the informal sector:

Statistical and Policy Invisibility

Because of the dearth of official statistics, there is little appreciation of the magnitude and importance of the informal sector. As a result, the lack of data translates to policy and budget invisibility. In addition, informal sector workers are not organized. This fragmentation perpetuates the invisibility of the sector to policy makers.

Poor Working Conditions and Lack of Standards

There is no well-defined employer-employee relationship in the informal sector. In most cases, workers in the informal sector are self-employed. Also, in cases where some semblance of an employer-employee relationship exists, there are no formal contracts, only verbal agreements on the terms and conditions of employment, thus making the workers vulnerable to exploitative working conditions. As such, terms and conditions of work are substandard and are not subject to strict enforcement and regulation. Work hours are long and the workplace tends to be inadequate. Wages are low and other fringe benefits are non-existent.

Lack of Access to the Formal Social Security System

Although self-employed workers with a net monthly income of PhP.1,000 per month have the option to enroll with the SSS, only 13 % of the total SSS members in 2000 are self-employed workers (a total of 3 million registered as self-employed out of the 23 million SSS members). Thus, workers in the informal sector remain largely outside the reach of the formal social security system. This occurs because of the administrative difficulties involved in collecting their contributions. Specifically, given the irregular and seasonal nature of their incomes, it is difficult to determine the appropriate amount of contribution that will be required of the informal sector worker. Also, because informal sector workers are widely dispersed, the administrative machinery for collecting contributions and paying benefits remains inadequate (SRI, 1996).

Lack of Access to Productive Resources, Precarious Employment and Uncertain Incomes

Limited access to productive resources such as raw materials, training, credit, technology and markets are major obstacles in improving productivity and increasing incomes in the informal sector. Because of lack of assets, those in the informal sector find it difficult to access the formal credit market. Thus, they rely mainly on microfinance programs.

2.2.3 Social Assistance and Services: Benefits and Transfers

Some social assistance/transfer programs address the needs of the informal sector. These programs are generally designed to help the poor. In the Philippines, the most important social assistance program is the rice price subsidy program. At the height of the Asian financial crisis in 1998, this program received the most in terms of government funding (PhP.8 billion). The government also experimented with a public works program in addressing past crises (e.g. in the mid-1980s). It has also initiated a health insurance scheme for indigents in the late 1990s. In addition, the government has implemented the Comprehensive and Integrated Delivery of Social Services (CIDSS) program in poor communities as an integrated approach to poverty alleviation.

Rice Price Subsidy Program

Essentially, the rice price subsidy program aims to provide rice to consumers at a price below that prevailing in the market by setting a ceiling price and to protect farmers' income by setting a floor price for *palay* (paddy). It is administered by the National Food Authority (NFA), which transfers income to consumers by subsidizing the cost of the consumption of rice.

However, studies (Clarete *et al*., 1998; Roumasset, 1999) indicate that the NFA has not been able to prevent high consumer prices or low producer prices. Figure 1 in the Appendix shows that retail prices have been consistently higher than the official NFA release price from 1995–999. Similarly, farm-gate prices of *palay* were typically above the official NFA support price in the same period – making the latter irrelevant to farmers. Roumasset (1999) attributes the divergence between official and actual market prices to the fact that the NFA is a relatively small player in the total rice market of the country.

Public Workfare and Employment Programs

The Philippines has had rich experience in implementing public works programs as counter-cyclical interventions from 1973 to 1994. However, documentation on the experience has been poor and scanty.

Food for Work Program. This program was implemented progressively from 1986–91 in Negros Occidental and five other provinces. It was meant to mitigate the impact of the sharp decline in world sugar prices on sugar cultivators, particularly the wage-dependent but unemployed sugar workers or sakadas. It included activities involving land development (small irrigation projects and agro-forestry work in the uplands), physical infrastructure development (constructing and rehabilitating roads and bridges, public markets) and social infrastructure development (day care centers, health and training facilities). Participating workers received both cash and in-kind (rice) payments.

Rural Works Program. The Rural Works Program funded small infrastructure projects (repair and maintenance of schoolrooms, health and daycare centers, roads, bridges and irrigation networks; cleaning of estuaries, drainage and waterworks systems; and reforestation programs) in selected depressed and rural communities to assist workers displaced by company closures/retrenchment and those affected by El Niño. Workers were paid minimum wage. Some 3,364 unemployed workers found temporary jobs in various government infrastructure projects worth PhP.4.4 million under this program (Reyes *et al*., 1999).

Health Insurance for Indigents

The 'Medicare para sa Masa' (Medicare for the Masses) of the National Health Insurance Program (NHIP) extended the coverage of Medicare benefits to the indigent or marginalized sector which accounts for about 40% of the population.

Beneficiaries are given health cards or IDs which entitles them to in-patient curative care, including room and board, drugs and medicines, x-ray and laboratory expenses, doctors' fees, operating room/surgical operations, regular out-patient benefits and special out-patient services for specific illnesses including primary consultation with physicians, chest x-ray, urinalysis, fecalysis, sputum microscopy and complete blood count. The program provides a built-in response mechanism that will help the poor gain better access to health services during times of crisis. Given their low incomes, indigents typically utilize government health facilities.

Comprehensive and Integrated Delivery of Social Services (CIDSS)

The primary goal of the CIDSS is to empower impoverished and disadvantaged families, sectors and communities so that their minimum basic needs are met. Among the social protection strategies that the CIDSS pursues (Bautista, 1999) are:

(1) Convergence of services provided by government and civil society organizations;
(2) Targeting of primary beneficiaries of services to be delivered at the local level;
(3) Community organizing;
(4) The prioritization of the basic requirements for survival and security of marginalized individuals, including other enabling needs;
(5) Upgrading of administrative, technical and managerial capabilities of local government units (LGUs) in the delivery of social services; and
(6) Generation of revenues from alternative sources aside from those allotted by the national government.

The focal programs of CIDSS include the following: family and community welfare, women's welfare, child and youth welfare, emergency assistance, self-employment assistance (SEA-K), food and nutrition, health, water and sanitation, income security, peace and order, basic education and literacy, participation and governance and infrastructure. There are numerous projects under each of these programs, which require the close coordination with other government instrumentalities.

An independent evaluation of the CIDSS indicated that the program had achieved some degree of success in addressing the minimum basic needs of local communities (Bautista, 1999). Ninety-eight percent of respondents in CIDSS areas indicated that the quality of life in their local communities improved compared to 84.8% in non-CIDSS areas.

2.2.4 Voluntary Schemes: Savings, Credit and Microinsurance Schemes

A large segment of poor households in the Philippines are involved in some form of microenterprise. Because of stringent requirements (especially with respect to collateral) and inadequate information on financing sources, the poor do not borrow from formal financial institutions. Additionally, the high transaction costs involved in the processing of small loans, predisposes banks against providing their services to the poor. 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 for social protection. It not only provides 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 the Philippines, microcredit to the poor has come from two main sources: government-directed credit programs and private microfinance institutions.

Government-directed credit programs are funded out of the government's budgetary allocation or loans/grants from donor agencies and are lent out at subsidized rates. On the other hand, private microfinance institutions including credit cooperatives, credit unions, rural banks and credit NGOs, are also an important source of seed capital for the livelihood or microenterprise activities of the poor.

Self-employment Assistance – Kaunlaran (SEA-K)

The SEA-K is a community-based microfinance project under the Comprehensive and Integrated Delivery of Social Services (CIDSS) program of the Department of Social Welfare and Development (DSWD). It is aimed at building the capabilities of people's organizations (POs) to self-administer the provision of socialized credit. In Level 1 of the program, 20 to 30 members are organized to form a group called SEA Kaunlaran Association (SKA) and are provided with training in microfinance development.

SEA-K provides these people's organizations some seed capital (no more than PhP.150,000) at zero interest to lend to their members for their livelihood needs. The average size of the individual loan is PhP.6,000. Some SKAs impose a 10 % service fee (NCC Policy Notes 98–05). Individual borrowers pay weekly amortization to the SKA, which in turn repays the DSWD. The collection is deposited in a bank and forms part of a revolving fund.

The 25 to 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 dues, the other members are obligated to pay on his behalf. Failure to repay the loan may result in a non-release of the loans to the other group members. These sanctions in effect foster a sense of responsibility for the loans that one avails and places an element of shame on the borrower when he cannot meet his dues, since it will put undue financial burden on the part of his co-members.

Level 2 deals with the institutionalization of the gains of Level 1 through the organization of the SEA Kabayans, which are comprised of two to five SKAs that have established a good track record in terms of their capability to manage their finances and to generate savings. In this regard, the program has been rather successful in encouraging its members to save. As of 1997, its beneficiaries have been able to save PhP.52 million.

People's Credit and Finance Corporation (PCFC)

The PCFC was intended to be the lead institution in the wholesale delivery of funds to microfinance institutions (e.g. rural banks, cooperatives, NGOs, and people's organizations) for re-lending to the poor.

The PCFC operates a number of credit programs: the Helping Individuals Reach their Aspirations through Microfinance (HIRAM), the Rural Microenterprise Financing Program (RMFP) that is funded by ADB, the International Fund for Agricultural Development (IFAD), and the UNDP Microfinance Support Program (MSP). All programs make funds available to eligible microfinance institutions for on-lending to the poor. The RMFP uses the modified Grameen Bank approach (GBA) to lending, while the MSP aims to assist retail microfinance institutions by providing them loans concurrently with technical assistance.

The PCFC provides both investment credit (e.g. loans for on-lending) and institutional credit (loans to strengthen the capability of partners to implement and manage their PCFC funded credit programs). It charges an interest rate of 12 % and a service fee of 1%. The maximum initial end-borrower loan that is allowed is PhP.6,000. Furthermore, conduits are required to re-lend the funds within 90 days from the date of release of the original loan from the PCFC. For the various conduits, the average loan size is PhP.8,000. So far, the PCFC has released a total of PhP.2.5 million in loans – PhP.1.5 million under the HIRAM and PhP.0.8 million under the ADB-IFAD.

Private Microfinance Institutions

A survey of 86 organizations of informal sector workers (with a combined membership of close to 40,000) in Metro Manila in 1996 indicates that these organizations provide a wide range of innovative programs and services that serve to protect their members from contingencies with little or no help from the government. Prominent among these programs are the mutual assistance programs, the savings and credit/ lending services (SRI, 1996).

Under the mutual assistance program, members are required to contribute a fixed amount on a regular basis to a common fund, which is used to service the claims of members in times of contingencies such as death, sickness, accident, disability and natural calamity. Thus, these organizations take on the character of an informal social security system.

Death and disability benefits are generally given in the form of grants, while other contingent benefits are in the form of loans. In most cases, the loans are sourced under the savings and credit/lending services of the organization in which case the principal is determined by the amount of savings deposits or capital shares that a member has. Meanwhile, 65 of the organizations surveyed offer some type of savings program to their members while 84 provide a credit program.

On the other hand, the amount of contributions varies according to what is considered affordable to members. Note that the majority of members of these organizations come primarily from the urban poor with an average monthly income of PhP.2,500 to PhP.7,500. The case studies of four of the 86 organizations included in the SRI survey indicate that microinsurance schemes can be financially sustainable despite the small contributions that members can afford. It appears that key to this success is the establishment of a link between savings and credit so as to maximize savings mobilization and the capital base to service social protection needs (SRI, 1996).

Ahon sa Hirap, Inc. (ASHI)

The ASHI has the distinction of being the oldest existing replication of the Grameen Bank approach (GBA) to credit delivery to the bottom poor in the Philippines. ASHI bases its mission on the principle that given direct access to non-collateral loan funds, the poor can increase their income and employment opportunities and in so doing not only rise from poverty, but contribute to the social and economic development pursuits of the country. Founded in 1989 as an action-research project of the University of the Philippines Los Baños (UPLB), ASHI is now an NGO that can enter into contract and loan arrangements with and receive grants and donations from various local and international agencies.

ASHI members have grown from 100 in 1989 to 8,802 to date. Its loan portfolio has increased from an initial PhP.40,000 in 1989 to PhP.21.1 million as of March 2000. More notable is the achievement of a 98.89% loan repayment. ASHI attributes this to its earnest effort to impress among its clients the four core values of unity, discipline, hard work and perseverance.

Access to microfinance services through ASHI has been associated with a substantial reduction of poverty. Among clients in the fourth loan cycle and above, the number of very poor was reduced from 76% to 13%. About 51% of members in this group have progressed from being very poor to moderately poor and some 22% have completely come out of poverty. In comparison, about half of those who did not join four years ago are still very poor and another half are moderately poor.

ASHI clients have also improved their quality of housing. More than half (53%) of ASHI clients now live in houses that score 'out of poverty' on the ASHI house index. Also, there was a significant difference between the educational attainment of ASHI clients and the children of non-clients. Although only ten out of the 152 ASHI families have children attending college or have already graduated, this rate is still better than that of the non-client group, of which there are no children in college.

During times of poor catch or poor harvest, clients and non-clients had similar coping strategies – tightening their belts and eating less. However, only a small percentage of ASHI clients compared with non-clients borrowed from usurious sources. This is because ASHI does function as a safety net in times of calamities or 'hungry' seasons, as members could withdraw from their emergency fund savings (group savings) or from their personal savings (savings which earn interest can be withdrawn anytime). Also, rescheduling or restructuring of loan payments during such times is possible. In addition, there are special loan windows for home repairs, as well as health and educational loans.

Lastly, there is a striking difference between ASHI clients and non-clients in savings behavior. Eighty-four percent of ASHI clients reported that they had personal savings while only 16% of non-clients had any. This may be due to the fact that savings is an important feature of Grameen banking.

2.3 Labor Market Policy

2.3.1 Active Labor Market Policy

Promotion of Small Enterprises

The promotion of small and medium enterprises is a major development strategy being adopted by the government. The role of SMEs in the Philippines is not limited to the simple creation of wealth or capital. They are vital to dispersing new industries to the countryside and stimulating gainful employment. In this sense, they bring about more balanced agro-industrial growth and equity in income distribution.

SMEs tend to be far more innovative in developing indigenous or appropriate technology, which could then grow into pioneering technological breakthroughs. Available SME programs may generally be classified into four categories:

(1) Financial;
(2) technical, which covers entrepreneurial and workers training;
(3) backward linkages; and
(4) research information.

Ninety-five percent of enterprises in the Philippines are SMEs, employ 55% of the labor force, and contribute some 25% of value-added. As such, their promotion and enhancement are of vital importance and necessity in order to maximize their potential to push the nation into sustainable development and global competitiveness (APO, 1999).

Available data from the Department of Trade and Industry indicate that 88% of manufacturing establishments are cottage-type size. About 10% are small enterprises, and about 1% are large enterprises. Employment generation by cottage-size enterprises is 23%; small enterprises, 8%; medium enterprises, 19%; and large enterprises, 50%. Significantly, 97% of exporters are SMEs.

SMEs face a number of problems, including poor policy and institutional environment, inadequate technology and production skills, limited access to finance and other inputs, poor access to information and knowledge, and lack of good management structures, systems and capacities. These are exactly the areas of strength of large enterprises.

The government directly participates in the provision of financial services to SMEs and poor households through its banking institutions and numerous directed credit programs. Two government financing institutions – the Development Bank of the Philippines (DBP) and the Land Bank of the Philippines (LBP) – lend to MicroSMEs and poor households including farmers and land reform beneficiaries either directly through their retail lending windows or indirectly through their wholesale lending windows.

The financial sector reforms initiated by the government in the 1990s, e.g. bank entry and branching liberalization, have laid the groundwork for promoting microfinance in the country. This was further boosted by the recent passage of the General Banking Law of 2000, which includes provisions that set a much clearer policy framework for promoting microfinance (Lamberte, 2001).

Notwithstanding this considerably improved policy environment for microfinance to flourish, banks still face some constraints in expanding their financial services to MicroSMEs and poor households. Lending to MicroSMEs and poor households is a very risky venture, especially if lenders base their decisions solely on the strength of the cash flow position and character of borrowers. Instability of the economy can make those loans much riskier because cash flows can easily dry up during a sudden downturn of the economy. Also, poor infrastructure increases the cost of providing financial services to MicroSMEs and poor households (Lamberte, 2001).

Guarantee and Financing Services for SMEs

The government is not lacking in programs to assist SMEs financially. The Guarantee Program provides a guarantee cover of up to a maximum of 90% on the loans of qualified entrepreneurs. The guarantee primarily works as a collateral substitute or as a collateral supplement. A microfinancing facility provides credit by co-financing with umbrella NGOs, and allows financing institutions to rediscount their SME loan/credit instruments. It can also finance up to a maximum of 90% of the total project cost of the SME, with the financing institutions co-financing at least the remaining 10%.

A short-term direct financing facility makes available a credit line for working capital and receivables financing or a short-term loan which can be repaid within one year for the purchase of simple machineries and equipment, setting up of sales outlets and other business expansions. There is also a direct lending program which addresses the credit needs of SMEs for financing their purchase orders for domestic or foreign markets.

Human Capital Formation, Skills Development (Labor Supply)

The country's Department of Labor provides bridging or transition opportunities, especially to the vulnerable sectors, to help them graduate into more productive, remunerative, secured or more formal employment or livelihoods. The key programs for this purpose are:

Promotion of Rural Employment Through Self-employment and Entrepreneurship Development (PRESEED). The Department provides under PRESEED self-employment opportunities among rural workers and their families, particularly the 'assetless' and 'landless' groups who have entrepreneurial potential, through access to entrepreneurship training, credit and technical assistance.

Support to Kabataan Program. The Kabataan Program is the government's flagship program for the youth. It encourages high school, college and vocational students and out of school youth to engage in constructive and productive activities throughout the year. Its components are:

- **Special Program for Employment of Students (SPES).** The SPES helps poor, but deserving students pursue college education by providing them with employment opportunities during summer and / or Christmas vacations. Employers are encouraged to hire the youth by giving them the incentive of paying only 60% of the minimum wage, with the government paying the balance of 40% through education vouchers.
- **Work Appreciation Program.** This year-round youth program promotes work appreciation and work ethics among youth by exposing them to actual work situations, familiarizing them with work procedures/standards, use of machines and tools and providing them other practical knowledge relevant to specific occupations.

Tulong Alalay sa Taong May Kapansanan. Pursuant to the Magna Carta for Disabled Persons, this program attempts to integrate persons with disabilities into mainstream society by providing them with training and employment opportunities.

Rural Works Program. The Department's Rural Works Program aims to generate temporary job placement in community-based infrastructure projects that are labor intensive to address the displacements caused by the recent financial crisis and other economic restructuring problems, particularly in rural areas.

The ILO has developed practical guidelines in employment-intensive infrastructure programs, which are being introduced in the Philippines (ILO, 2000).

Other DOLE carrier programs and projects are:

Human Resource Development Program. The program seeks to empower employers, the end-users of skilled workers to achieve productivity and competitiveness and to train workers to think critically and creatively, and to nurture the values of work ethics, self-reliance, self-discipline and nationalism. The programs in this area include the Industry Capability Build-up Program (ICBP), Technical Vocational Education and Training (TVET) for Workers, Skills Training and Certification, the Dual Training System (DTS) and the Apprenticeship Program (TESDA).

Maritime Training Program. To maintain the world class standing of Filipino seafarers and in compliance with the country's commitments to the Standards for Training, Certification and Watch-keeping (STCW) Convention, DOLE conducts refresher and upgrading courses for maritime officers.

Labor Standards Enforcement Program. Through the inspectorate program, DOLE regulates and enforces compliance with existing laws on general labor standards, technical safety standards and general health and safety standards. It also undertakes development initiatives like the Work Improvement for Small and Medium Enterprises to promote voluntary compliance with labor laws and promote appreciation of their value to a productive work place.

Occupational Safety and Health Program. To inculcate awareness of safety and health at the workplace among employers and workers, DOLE conducts training and research projects on occupational safety and health. The training conducted includes courses on Basic Occupational Safety and Health, Work Environment Measurement, Construction Safety, the Zero Accident Program and an appreciation course addressing substance abuse.

Reskilling

In the context of displacement of the workers during the Asian crisis, reskilling provided the means to equip retrenched workers with skills for new jobs, and offer a means to generate some form of income, either through regular employment or self-employment. Reskilling programs ensure that workers are equipped with functional literacy and high value added skills (in the case of overseas workers), which are within global standards. To ensure availability of skills for export industries, the government made investments in equipment and technology for skills building. The Technical Education Skills Development Authority put in place a Safety Net Training Grant Scheme to address primarily the displacements due to the Philippines' accession to the WTO-GATT (Mendoza and Guillermo, 2000).

Linking Training Needs and Market Demand

Job Watch of DOLE, as the name implies, generates and publishes information of worker displacement with the intention of matching this with available job vacancies. Displaced workers register with the Public Services Employment Offices (PESO), which carry out Job Watch in each municipality/city. Reports from the municipalities are summarized into provincial and regional reports. The Bureau of Labor and Employment Statistics (BLES) integrates this in order to come up with a national picture of the extent of displacement and the potential for reemployment (see Table 7, Appendix). Only those who registered get information on the government's program for displacement.

The use of information on displacement is limited to reports generated by DOLE as part of its monitoring system. In some local government units like Cebu City, the data from the PESO are utilized for the city's manpower planning and development efforts and other social welfare projects of the government.

Another component is Job Link. It provides different kinds of interventions that aim to accelerate reemployment of displaced workers either through jobs or through self-employment. Reskilling programs fall under this component, through the different skills development programs and access mechanisms of various government agencies. Programs range from skilling programs for individuals and companies, livelihood generation programs and employment assistance to some forms of assistance to dependents of displaced workers through scholarship programs. Job Link, facilitated through the PESO, also offers training cum production for rural workers, an expanded livelihood development program and a place assistance program for overseas workers.

Livelihood and Entrepreneurship Development

The Technology and Livelihood Resource Center (TLRC) spearheads enterprise development and the creation of livelihood opportunities, particularly benefiting marginalized sectors, through an integrated and strategic approach covering the promotion, utilization and funding of resource and technology breakthroughs. In partnership with local governments, the TLRC brings its expertise and resources through the establishment of Technology and Livelihood Development Centers (TLDCs) in cities and provinces. The TLDCs act as channels to deliver TLRC's livelihood interventions at the local level.

2.3.2 Passive Labor Market Policy

Quality

The Philippine educational system is one of the most mature in Asia and permeates even the remote *barangays*. However, the Philippine government is faced with the challenge of improving the quality of education. Education quality is a function of many factors: qualification and number of teachers; availability of learning materials and facilities; classroom space and quality. Unfortunately, most Philippine public schools are lacking in these areas. Notwithstanding improvements in providing universal access, the performance of Filipino children in achievement tests and the differences in the performance between public and private schools reveal a quality problem. For instance, Filipino students ranked poorly in the Third International Mathematics and Science Test (TIMST) administered in several countries in 1999, i.e.

ranking fourth from bottom in science and third from bottom in mathematics (The 20/20 Initiative: A Comprehensive Agenda of Action for the 21st Century, 2001).

Access

As of school year 1999–2000, about 97% of children who should be in elementary school were actually enrolled. Enrollment in high schools also rose as the participation rate improved to 65% in the same year. In 1999, the adult (age 15 and above) literacy rate was 95.1%. The government is said to have at least coped with the growth in enrollment, which had swelled to more than 2% annually for elementary school and more than 3% for high school since 1981, together growing faster than the population. However, the Asian economic crisis of 1997–98 undermined the gains as indicated by the increase in drop-out rates and the transfer of students from private to public schools (Presidential Task Force, 2001).

Access to education depends largely on family income and infrastructure. Children of low-income households cannot meet their demand for education, because there are no credit markets for education.

Access and cohort-completion rates vary greatly between regions, and the quality of education is widely regarded as having declined. The gains in access to basic education are overshadowed by the difficulty in enhancing the school's holding power. For instance, for every 100 children who enter Grade 1, only 69 are able to finish Grade 6 and less than half (about 48 only) are able to complete secondary schooling. More than 30% of children drop out before reaching Grade 6.

The existing system does not fully prepare Filipinos for the most pressing challenges of the labor market today. Education and training policies must provide an environment for all, especially the talented poor, to seek and access training and retraining for the needed skills. This can be achieved through scholarships and education loans. Further research and development training is also needed for a government-financed center of excellence.

Inadequate investments in education and training have kept a large proportion of workers in low-productivity sectors. Nearly 40% of the employed are still in agriculture at this stage of the country's development. Lacking industrial skills and discipline, workers in agriculture who are no longer needed due to gains in agricultural productivity are absorbed not by the high-productivity sectors, but by the low-productivity ones like community, social, and personal services.

Trends in education financing are not encouraging: the rapid expansion of state colleges and universities (there are 130 of them today, compared with 25 in Japan and 30 in Thailand) has begun to 'crowd out' basic education, which has the highest social rate of return.

Other Income Support

The National Statistics Office (NSO) includes as income support and as components of employment benefits the following items: bonuses, food subsidies, cost-of-living allowances, commutable transportation and representation allowances, commissions paid to employees, retirement and terminal pay, and gratuities. They are designated as ‘other benefits’ in the Annual Survey of Establishments. A much broader definition would include a wider assortment of benefits. Welfare plan provisions found in collective bargaining agreements, for example, could range from Christmas (13th month) pay and job enrichment programs to scholarships and wedding gifts.

There is no provision for unemployment benefits. Retrenchment benefits usually take the form of early retirement benefits, which are both provided by the government and private sectors. In the public sector, the most popular employee services are uniforms, meal benefits, and rice benefits (Binghay, 1998).

Overseas Employment

The Philippines is a big exporter of labor. By 1995, 1.5 million Filipinos lived abroad as permanent immigrants and a further 2 million at least worked temporarily abroad or at sea (Woodiwiss, 1998). The remittances they send home amount to 6.4% of Filipino GNP, and 10% if unrecorded cash and goods brought home by workers are included (ILO 2000: Tables 2, 4). These inflows, together with the household flows within the country, constitute a significant element of the Filipino welfare regime (Gough, 2000). Today, DOLE estimates that there are five million Filipinos working abroad.

The Overseas Workers Welfare Administration (OWWA) provides pre-departure, on-site and reentry programs for OFWs through the Overseas Workers Welfare Fund. Pre-departure services include grants of insurance coverage, pre-departure loans and the Medicare Program, among others. On site services consist of repatriation assistance, family assistance loans, the setting up of Filipino Workers Resource Development Centers, community outreach programs, and public assistance, among others. Additionally, there is a program for returning OFWs to reintegrate them into mainstream society. The program components are airport assistance, disability assistance for those who suffer a work-related accident or injury; a burial gratuity program for legal heirs of deceased OFWs, training grants for seaman’s career development and the ‘skills for employment’ scholarship program for children of deceased or disabled OFWs. Table 8, Appendix shows the status of welfare cases from 1984–2000.

Minimum Wage Policy

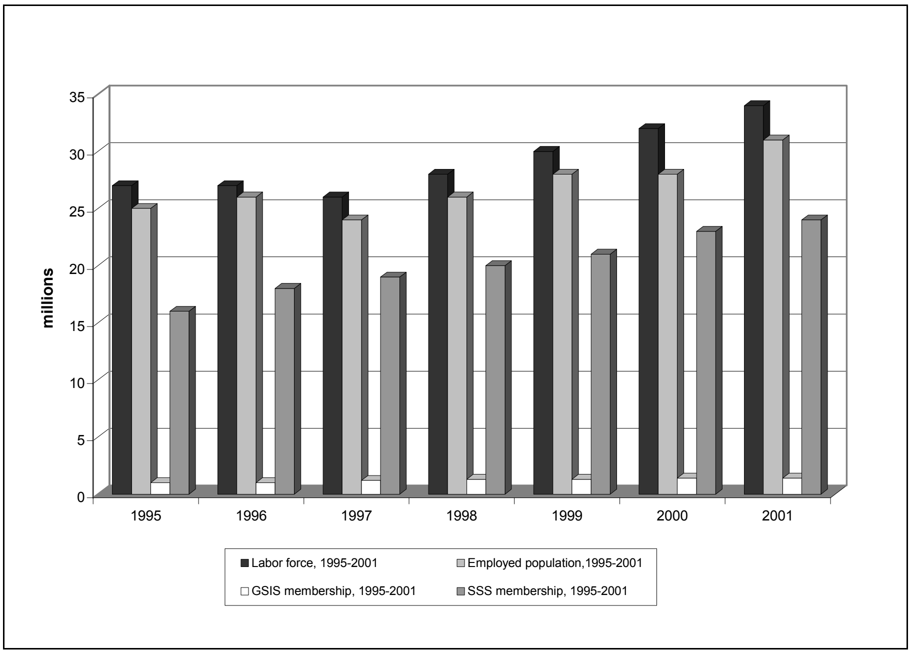
In the Philippines, the decentralization of minimum-wage setting and the greater reliance on bargaining between workers and employers in wage setting are directed at relaxing or removing restraints that prevent the price of labor from adjusting to reduce unemployment (House of Congress, 2001). Operationally, it is the Regional Tripartite Wages and Productivity Board, which decides on the minimum wage for every region (as discussed earlier).

3. Assessment of the Effectiveness and Efficiency of the Existing System

3.1 Coverage

Coverage gaps occur due to statutory exclusions, poor enforcement, or the lack of attractive benefits despite high contributions for particular groups.

Figure 1: Labor Force and GSIS and SSS Members



Statutory Exclusions. Contributory social insurance covers only the larger enterprises in the formal sector. Smaller employers, particularly in industries that compete with the informal sector, are often excluded from many of the provisions, as are household workers, daily-rated laborers, farmers, fishermen, and many urban self-employed. The informal sector thus operates outside the scope of regulations, with low and unstable levels of income, and poor working conditions. The result of the statutory exclusions is that many of the most vulnerable people are not protected.

In the Philippines, about 25 million workers from both the private and the public sectors, and another 1 million dependents, receive social security benefits in the form of health care, retirement and social disability pensions and other minor assistance in the form of maternity and funeral benefits (Figure 1). If the target constituency is the entire labor force of about 34 million workers, then social security is largely off the mark.

The population coverage of the formal social security system in the Philippines is among the highest in Asia. That suggests that at least the workers as a group pay the costs of their own security. The majority clearly lack any ‘exchange entitlement’ to secure social security needs – health care, housing, education, and retirement benefits.

Even among those covered, the poor workers benefit disproportionately little from social security services. The employee contribution is regressive, and poor cross-subsidization among income groups, among age groups and across regions makes the social insurance program a benefit for the better off, paid for in part by the poor. The better off have better access to social insurance because they live in urban areas where the services abound, and they know how to use the system.

Quantifying the Benefits

Short-term insurance benefits include sickness, funeral grants, maternity benefits, and rehabilitation service (see Box 1, Appendix). In 2000, Medicare captured the largest share of short-term insurance benefits, at 71%. Maternity benefits have a share of 19%, with rehabilitation service having the lowest share at 0.2%.

Statistics in 2000 obtained from SSS suggest that death benefits, at 45%, have the largest share of benefits among the three long-term programs. Retirement collected 40% of all long-term benefits in the same year.

Disability pensions had a share of only 19% of benefits. These claimants received an average of PhP.2,669 each. Although rigorous screening procedures by SSS and the Employees Compensation Commission ensure the payments accrue to those incapacitated by work-related accidents, it is also possible that high disability claims may also reveal moral hazard problems when there are incentives to characterize oneself as disabled.

SSS statistics also show that housing accounted for only 1.2% of total loans in 2000. Salary loans, on the other hand, pulled in 98% of all the loans during that year. Together, salary and housing loans accounted for 99% of total loans.

Social Assistance Programs in the Informal Sector

Rice Subsidy Program

From 1995 to 1998, NFA’s rice releases as a percentage of the country’s total rice consumption were 10.7. This indicates that on average only about 11% of the country’s 14 million households could have actually benefited from the NFA’s rice subsidy. However, during the height of the Asian financial crisis in 1998, NFA’s rice releases expanded to 22.2% of total rice consumption as the NFA increased imports of rice to about 2 million tons.

On the other hand, in 1995–98, NFA procurement of *palay* as a percentage of total *palay* production was less than 1% on average. This suggests that less than 1% of the estimated 3 million farmers could have actually benefited from the implicit subsidy on *palay* farmers.

Public Workfare and Employment Programs

The number of individuals employed by the food for work program fluctuated between 179,000 and 883,000 during the period 1986 to 1991. On the other hand, the rural roads project created 247,600 work days per year at its peak, while some 3,364 unemployed workers found temporary jobs in various government infrastructure projects worth PhP.4.4 million under the rural works program in Mindanao in 1998 (Reyes *et al*., 1999).

Health Insurance for Indigents

As of October 2000, only 551,328 households (or some 2.5 million individuals) in 84 provinces and cities and 777 municipalities were participating in the Indigent Program. However, the Arroyo administration plans to accelerate the expansion of the program.

CIDSS

By 1997, CIDSS was in 1,154 *barangays* in 432 municipalities in 77 provinces. This corresponds to 28.1% of the target municipalities and in 2.7% of the target *barangays* (see Table 1). Thus, the coverage of the CIDSS is by no means large.

Table 1: Comprehensive and Integrated Delivery of Social Services (CIDSS) Target Areas

1994							
Local Government Units (LGU)	**Province**	**Municipality**			**Barangay**		
		Total	**CIDSS covered**	**% of total**	**Total**	**CIDSS covered**	**% of total**
SRA Areas (Social Reform Agenda)	16	221	28	12.6	4,238	56	1.3
Non-SRA Areas	17	378	47	12.4	10,386	94	0.6
Total	33	599	75	12.5	14,624	150	1.0
1997							
LGU	**Province**	**Municipality**			**Barangay**		
		Total	**CIDSS covered**	**% of total**	**Total**	**CIDSS covered**	**% of total**
SRA Areas	20	960	135	14.1	19,056	407	2.1
Non-SRA Areas	57	575	297	51.6	24,177	747	3.2
Total	77	1,535	432	28.1	43,233	1,154	2.7

Source: Bautista, 1999, Table 1.2 page 12

Microcredit and Microinsurance Schemes

Because of the very nature of the informal sector, data on the reach of microcredit and microinsurance schemes are sketchy. Despite this, it is clear that coverage of these schemes is small relative to the total number of informal sector workers. For instance, SRI (SRI, 1996) found that only 40,000 workers are members of the informal sector organizations in NCR (National Capital Region) that implement microcredit and microinsurance schemes. This number represents one percent of the total number of informal sector workers in NCR.

Self-employment Assistance – Kaunlaran (SEA-K)

This program has been found to be fairly effective in terms of outreach, having reached nearly four times its estimated number of beneficiaries (Lamberte *et al.*, 1997). This is attributed to the network of social workers in SEA-K. Thus, community-based development workers and community associations are found to be effective facilitators and conduits of credit funds to the poor.

As of 1997, around 3,461 SKAs representing 77,470 individuals in 16 regions have benefited from PhP.292 million in seed money released for Level 1. Beneficiaries are women (receiving more than 11% of total loans granted), and also include those who search for and collect discarded items, out-of-school youth, street children and persons with disabilities, poor families, single parents, the unemployed and senior citizens.

In 1998 alone, 19,757 member beneficiaries were provided a total of PhP.53.4 million for livelihood projects under Level 1. On the other hand, PhP.12.6 million was granted to 16 SEA Kabayans composed of 49 SKAs to augment their capital base.

People's Credit and Finance Corporation

As at the end of December 2000, the PCFC had 178 active conduits. Of this number, 37% were rural banks, 31% were cooperatives, and 15% each were NGOs and cooperative banks. In turn, some 324,108 individuals have benefited from its various programs.

3.2 Feasibility

The social insurance programs are inherently inefficient and costly to run.

Because social insurance is tied to a narrow contribution structure on a struggling formal labor sector, this has led to inefficiencies. Prior to 1998, SSS has stockpiled unnecessarily high surpluses – due to extremely well-managed investment portfolios and restrained spending – at the price of inadequate benefits for workers. Today, it is on the verge of bankruptcy because of bad investments.

For SSS, significantly higher benefits can be given to worker members, or a wider net of benefits can be cast, without threatening the viability of the program. For GSIS, balancing expenditures with revenues is a clear priority. Systematic reform must make sure social insurance leads to neither deficits that oblige the national government to intervene nor excessive surpluses that reduce benefit payments to workers.

3.3 Financial Sustainability

How adequate are the funds of the system? Without significant reforms leading to improved compliance levels, higher tax rates or reduced benefits, a lower ratio of administrative costs to contributions, and significant improvements in the rate of return obtained in investment, the present social security programs are unlikely to be sustainable in the medium-term (Asher, 1998).

A youthful working population, combined with a shrinking pool of potential workers who can contribute to social insurance through payroll taxes, can set the stage for actuarial difficulties for both SSS and GSIS. The same problems may be caused by bad investments made by the SSS, which has drained the agency of its reserves. Without any payroll tax increases, SSS will fold up in a year or two, according to newspaper accounts.

Underlying demographics would cause future problems in benefit disbursements.

Demographics suggest that the aging of current SSS and GSIS members (which will increase retirement payments) will combine with a shrinking pool of potential workers (which will decrease contributions to social insurance through payroll taxes). The actuarial imbalance – projected expenditures for the benefit of retirement pensioners would exceed likely future rates of wage taxation from the working population – means that serious difficulties lie ahead for the social insurance system. Of course, even if there were no underlying demographics involved, there would still be rising concerns about the existing retirement benefit inequities.

Outside the two social security agencies, factors are at work that sustain stresses on social compensation. Average social wages at the firm level are expected to decline in the wake of increasing 'flexibilization', which entails labor cost-cutting, subcontracting, and accompanying cutbacks in wages and employer-based benefit programs. Tax-based programs of social protection are likewise expected to suffer as a slowdown in the growth of *regular* employment in the formal sector reduces the revenue basis of contributory social insurance schemes.

All these would maintain pressure on workers to meet security needs with other sources of income, mostly from social networks.

Social Assistance/Transfer Programs

The financing of social assistance/transfer programs is a critical area of concern in countries where the coverage of the social insurance system is limited. This is the case because that segment of the population which is excluded from the social insurance system has no recourse but to rely on publicly provided social safety net programs during times of crisis. However, the principal issue with respect to the financing of this type of social assistance programs stems from the fact that the need for such financing increases precisely when the government can afford it least. That is, the government's fiscal position tends to be adversely affected by natural disasters and economic disruptions.

The Philippine experience in 1997 to 1998 illustrates this problem well. Central government revenues started to falter in the last half of 1997 following the onset of the Asian financial crisis. In 1998, total tax revenues were PhP.96.5 billion short of the original target. All in all, the tax effort plunged from 16.3% of GNP in 1996 to 14.8% in 1998 and 13.7% in 1999.

Nonetheless, the budget of basic social services as well as poverty alleviation appear to be better protected relative to the other sectors from the fiscal austerity measures implemented in 1998. Thus, Table 9, Appendix shows that the share of poverty alleviation activities (net cost of NFA operations, which was largely financed off-budget) in the government budget as well as the share of basic social services in the government budget was maintained in 1998. Despite this positive development, real per capita government spending on poverty alleviation (net cost of NFA operations) and basic social services declined that year. This is indicative of the inadequacy of government spending on social safety nets during the crisis (if one abstracts NFA rice price subsidies).

Rice Price Subsidy Program

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.

This is consistent with international experience in general food subsidy programs which reveals that the cost of transferring income to the poor is high since non-poor families also benefit from such a subsidy. The leakage from such schemes was estimated to be about 50% in India, 60% to 70% in Egypt and Morocco and 50% to 70% in Pakistan (Subarrao, 1996; citing Kennedy, Alderman, 1987). If one assumes a 50% leakage, then the cost-benefit ratio of the NFA rice subsidy is equal to 2.5.

Public Workfare and Employment Programs

The public works program represents a continuous drain on the national government budget. However, in the final analysis, their sustainability should be judged on their ability to make a real contribution to the build-up of physical infrastructure that will increase productivity. Thus, the choice of projects is critical.

Health Insurance for Indigents

With the premium for the health insurance set at PhP.1,188 per household, the target number of indigent population enrolled would cost the central governments and LGUs some PhP.2.2 billion each year beginning 2004. However, it is envisioned that both the national government and the LGUs will recoup these expenditures through increased cost recovery in government hospitals as the National Health Insurance

Program achieves universal coverage. At this point, the current difficulty in expanding the coverage of the self-employed is a major obstacle to achieving universal coverage.

Microcredit and Microinsurance Schemes

Self-employment Assistance – Kaunlaran (SEA-K)

The program's repayment rate is quite high at 90%. This is indicative not only of the strong social preparation of the SKAs, but also of the consistency between the loan size and the borrower's absorptive capacity. At the same time, the administrative cost per peso of SEA-K loan (at PhP.0.10 per peso) is low compared to similar programs. However, since SEA-K loans are interest-free, the program is not able to recover its financial, operational, and administrative costs. This makes the program unsustainable and dependent on the continuous infusion of funds from the government's budget.

People's Credit and Finance Corporation

An assessment of the Grameen-type program of the PCFC indicates that the per capita household expenditures of clients tend to be higher than those of non-clients. Moreover, poverty rates for clients are lower than those for non-clients. These findings suggest that participation in the Grameen-type program helps improve the welfare of clients.[5] However, Lamberte *et al.* (Lamberte *et al.,* 1997) show that the said program is not able to recover cost, regardless of whether cost reflects administrative cost only or includes financial cost also. Thus, the PCFC is financially unsustainable like the SEA-K.

In an effort to reduce the fiscal costs associated with government-directed credit programs, the government adopted a market-oriented policy framework for microfinance in 1999. With this reform, the government will veer away from the direct involvement of government non-financial agencies (GNFAs) and government-owned and controlled corporations (GOCCs) in the implementation of credit programs. Instead, it is envisioned that private financial institutions will play a greater role as retailers in the provision of financial services to the poor with the government financial institutions (GFIs) acting as wholesalers.

3.4 Gender Equity

Women workers dominate in the services sector (community, social, and personal services); and in financing, insurance, real estate and business services, including retail and wholesale trade. There are more women than men in professional, technical, and related jobs (Maragtas *et al*., 1999b).

As a result, women workers fare better in the distribution of SSS per capita benefits by sex. Women get more benefits per recipient. Employees' Compensation favors male workers, per recipient, but the gap is narrow.

5 This result is replicated in the case of the Ahon sa Hirap, Inc.

Social insurance programs need to be designed to take into account the longer life expectancies of women, the additional implications for women of the risk of loss of support due to death, abandonment, and the less stable earnings patterns commonly found among women workers.

Where benefits are tied strictly to previous earnings, discrimination against women in the labor market is likely to translate into inadequate unemployment, disability or retirement benefits and women's less regular employment patterns can mean either lower benefits or the loss of program eligibility (Ortiz, 2001).

3.5 Costs of Administration

Both SSS and GSIS have statutory limitations on the amount of funds that can be spent on administration. The limit is 10% of revenue. This limit has enabled the two agencies to support a salary decompression scheme. Top-ranking officers enjoy considerably high salaries and perks. But the Presidential Committee on Good Governance has judged the salary levels in the two institutions to be unreasonably high, and is moving to put new restrictions on how the 10% is to be spent.

GSIS is plagued by income shortfalls and poorly managed investments, although it has been more generous in benefit spending. Between SSS and GSIS, GSIS emerges as the more expensive administrator. On average, the operating expenses of GSIS are two to four times costlier than those of SSS. A merger of the two institutions, although a tough political challenge, would achieve scale economies and improve organizational efficiency.

3.6 Targeting

Existing social insurance programs have a mixed record in adequately addressing the insurance needs of many workers, especially needy groups such as poor workers and older workers. Public employees also receive much more generous benefits than private sector workers. Overall, access to benefits is skewed in favor of less disadvantaged groups.

Social solidarity requires risk sharing among income groups, age groups and persons of differing health status. Cross-subsidies occurring among public sector employees and among private sector workers suggest, however, an unintended infraction of this principle owing to differing incentives generated by state policies on contributions and benefits. Records from the SSS, GSIS, and the HDMF indicate that the direction of subsidization is not necessarily from rich to poor, from young to old, or from well-protected groups to disadvantaged groups (Gonzalez, 1996).

The general pattern of cross-subsidies exhibits unflattering features. There are a number of cases when (1) one or more of the poorer groups are subsidizing more well-to-do groups; (2) younger, healthier groups have a higher share in benefits than in contributions; (3) women workers subsidize male workers; and (4) a poor region would be a source of subsidy for less poor regions. Overall, there is little relationship between the vision of solidarity to protect disadvantaged groups and social insurance institutions as they currently function.

As seen in previous discussions, universal programs are relatively easier to administer, but suffer from both high leakage and under-coverage. Benefits are not given to those who are most in need of them. As a consequence, the poor have limited access to social security services. Targeted programs, on the other hand, enhance cost-effectiveness. Target groups receive more benefits for the same cost, or for fixed benefit levels, costs are reduced.

Yet target group-oriented programs, where groups are granted eligibility on the basis of some easily identifiable shared characteristic, are not given the importance they deserve. Apart from massive social assistance programs (e.g. victims of natural catastrophes), few schemes exist that would benefit low-income groups, including poor workers and their families. The handful that exist include calamity loans (given by SSS and GSIS to members who suffer losses arising from natural disasters) and union-based social assistance.

Many of these have tiny constituencies. Organized labor is only a tenth of the entire labor force, and few unions have their own social assistance schemes such as emergency loans, health clinics, and consumer cooperatives. Medicare II[6], which is targeted at communities with low welfare levels, is operational only in a few municipalities.

Management inefficiencies may not be insignificant. Administrative costs are high because of the additional need to select and monitor beneficiaries. In the case of calamity loans, no screening device is built into the targeting mechanism, so that rich and poor alike in disaster areas could access the benefits. This could also give rise to self-selection effects: to a certain extent, those with the ability to transact with ease are those from the middle and upper end of the income ladder.

Medicare II, despite being a low-cost intervention, is underfunded. Also, only small predictable costs are covered, a set up that is not economically efficient as collecting the amount needed to pay for routine checkups only to return the same amounts to the beneficiaries as the services are provided makes little sense. The Medicare II projects are unsustainable if no substantial subsidy is provided by the national government or if they are not integrated with the formal system.

Social Assistance Programs

Rice Price Subsidy Program

It should be emphasized that the NFA intervention is a general consumer subsidy and, as such, benefits even the non-poor. Figure 2 in the Appendix shows that the regional distribution of NFA rice was not sensitive to poverty incidence even with the implementation of the Rice Subsidy Program in selected provinces in 1998.

6 Medicare I is the main medical care program.

For instance, it shows that the share of NFA rice in total rice consumption in ARMM (Autonomous Region of Muslim Mindanao), CAR (Cordillera Autonomous Region) and Western Visayas was 14.6%, 16.3% and 6.7% respectively (well below the 22.2% average) in 1998, although the incidence of poverty in the said regions was 57.3%, 42.5% and 39.9% respectively (higher than the national average of 31.2%). In contrast, NFA rice accounted for 28.3% and 27.4% of total rice consumption in Central Luzon and Southern Tagalog (including NCR) respectively, although poverty incidence in these regions is the lowest around the country at 15.4% and 15.8% respectively.

Given this perspective, Balisacan *et al*. (Balisacan *et al.*, 2000) suggests that the provision of food subsidies to the poorer segments of society can be done more effectively through food stamps in urban areas and food-for-work programs in rural areas. He stresses that the design of these programs should be guided by certain principles and institutional arrangements, like the use of geographic targeting and incorporation of screening costs and penalties for leakage and under-coverage.

Public Workfare and Employment Program

Discussions with the project managers of the food-for-work program indicate that many laborers were willing to work for as little as PhP.60 per day compared to the program's effective wage rate of PhP.104-PhP.108 per day and the market rate of PhP.90 per day (Subbarao *et al.,* 1996). In like manner, the wage rate adopted by the Second Rural Roads Improvement Project was 25% to 30% higher than the minimum agricultural wage rate. As such, the higher effective wage rate offered by these programs attracted even the non-poor and eroded their effectiveness as a poverty alleviation measure. This suggests that there is a need to restrict employment of workers (either through means-testing or self-targeting mechanisms based on appropriate wage setting) in similar projects in the future if they are to be effective in targeting the poor.

At the same time, the program was not timed to counter seasonal fluctuations and could have competed with the agricultural activities in the area. In this regard, Subbarao noted that the program has limited impact in stabilizing consumption.

Government Microcredit Schemes

People's Credit and Finance Corporation

The PCFC's conduits are spread all over the country. Figure 3 in the Appendix shows the distribution of PCFC's total loan releases across regions. However, it shows that regions with a higher poverty incidence tend to receive a smaller portion of PCFC's total loan releases.

CIDSS

In the first instance, targeting in the CIDSS is largely done by geographical targeting. In 1995 to 1996, only municipalities belonging to the fifth and sixth income class were eligible under the program. However, the coverage expanded in 1997 to include all municipalities regardless of income class.

On the other hand, *barangays* were selected on the basis of the results of an MBN (Minimum Basic Needs) survey, the willingness of local groups to undertake the CIDSS, accessibility, and the stability of the peace and order situation in the area. However, Bautista (Bautista, 1999) reported that only 77.5% of the selected *barangays* were in fact the poorest in the municipalities.

3.7 Accountability and Transparency

The success of social protection depends on *effective administration* and good implementation of adequately designed programs. Common operational problems among government agencies include corruption, cronyism and favoritism; inadequate information processing, storage and retrieval systems; and organizational cultures that are hostile to customer service. Where implementing organizations already have these kinds of problems, the development of an organizational reform strategy will be just as important as the development of a program reform strategy.

At the policy levels, the planning of social protection is affected by a wide range of social and economic factors and especially by the quality of governance. *Good governance* is crucial for sound macro-economic management, progressive taxation and equitable allocations of funds for social development. At the implementing levels, the impact of basic social services is reduced by governance defects such as inadequate budgets and wasteful, inefficient and unresponsive administrations. It is the poor who suffer most due to poorer access, little bargaining power and influence on local officialdom and service providers. The effects of such deficiencies in governance are exemplified by the highly unsatisfactory coverage situation in social insurance schemes. These schemes have been in force for decades in many countries but have failed to reach those most in need of protection (Ortiz, 2001).

Corruption exists on a fairly significant level in the Philippines. As is well known, corruption biases government spending away from socially valuable goods, such as social protection. Based on the World Bank study, about PhP.200 billion or 30% of the government's annual budget of PhP.600 billion goes to waste due to graft and corruption. Ill-gotten money, or money realized from corruption, is not invested nor spent in the Philippines, but is spirited out of the country and kept abroad to avoid detection and prosecution. Grand corruption may already have robbed the nation of trillions of pesos over the years. In a recent event, the state-controlled pension fund in SSS lost billions of pesos in questionable investments during the Joseph Estrada administration.

4. Development of Innovative Programs and Alternative Social Protection Schemes

Given the difficulties in funding public social assistance programs in times of crisis, there is a need to develop a more financially sustainable social protection program for that segment of the population (about 40% to 50%) outside the ambit of SSS/GSIS, so as to ensure that they have access to a means of smoothing their income and expenditures during times of crisis.[7] The positive experience of private microfinance institutions in the country with respect to the build-up of members' savings capacity suggests that the establishment of more Grameen-type savings/credit/insurance programs across the country will help provide assistance to members during times of crisis.

Table 2: Potential Social Protection Approaches by Economic Sector

	Formal sectors	Informal sectors
Agriculture	Agricultural insurance Disaster preparedness Child protection Active labor market programs (skills development, labor exchanges/employment services, employment generation) Passive labor market policies Social insurance Formal social assistance	Child protection Microinsurance Social funds Disaster preparedness Social assistance Active labor market programs (skills development, labor exchanges/employment services, employment generation) Price supports and limited agricultural insurance
Industry and Services	Active labor market programs (skills development, labor exchanges/employment services, employment generation) Child protection Social insurance Passive labor market Formal social assistance	Child protection Microinsurance Active labor market programs (skills development, labor exchanges/employment services, employment generation) Social funds Social assistance

Source: Ortiz, 2001

Micro-insurance offers the possibility of providing social insurance at affordable prices, expanding coverage by having a realistic understanding of the problems that communities face, and promoting community involvement. Options for the future include the pooling of different existing organizations, private-public partnerships, and an assessment of the role of reinsurance. A second approach is to devote more effort to the marketing of microinsurance, as a large percentage of the target population is still not well informed of the benefits of being insured.

However, the experience also indicates that government non-financial institutions like the PCFC are not efficient in managing directed credit programs for the poor. Moreover, the evidence to date suggests that the implementation of Grameen-type programs is better left to private microfinance institutions but with GFIs being the wholesale source of funds. In this context, the government has (1) to identify the factors that are key to the success of the programs discussed in this paper considering

7 Although the extension of the coverage of the Philippine national health insurance program to include indigents is laudable not only in broadening its coverage but also in improving its financial sustainability, its impact would only be limited to the health sector. Moreover, the realization of such an expansion remains to be demonstrated.

that similar programs in the past have failed, and (2) to explore ways of upscaling microcredit and microinsurance programs.

What is the appropriate role of government in support of microfinance institutions? First, government assistance is needed to provide programs to help build the capacity of these organizations in the area of financial and credit management and deposit mobilization. As these entities (particularly the NGOs) become more engaged in microfinance work, their deposit mobilization has to be integrated into their basic operation. Thus, they have to shift their focus from fundraising to deposit taking. Second, the government is also needed in providing a suitable supervisory and regulatory framework for microfinance institutions. At present, there is no agency regulating the deposit-taking function and financial intermediary function of cooperatives and NGOs. Consequently, poor people who put their savings in these organizations are not adequately protected. Third, the government should help establish performance standards for these institutions.

In the end, it should be emphasized that these Grameen-type programs have to be financially self-sufficient. That is, they should be able to recover not only their administrative cost but also the financial cost of their operations. In this regard, it is important that end borrowers pay market rates of interest.

5. Policy Recommendations

5.1 Formal Sector

A number of lessons can be learned from the major findings:

1. *As the country adapts to globalization, some of the changes are likely to induce losses in human welfare and setbacks in social compensation.*

Globalization alongside with its opportunities for human advancement is creating new threats to human welfare. Globalization introduces the Philippines to job and income and health insecurities. Dislocations from economic and corporate restructuring, and from dismantling the institutions of social protection, have meant greater insecurity in jobs and incomes. The pressures of global competition have led countries and employers to adopt more flexible labor policies with more precarious work arrangements (United Nations Development Programme, 1999). The policy changes that are taking place are bringing in their wake consequences that adversely affect human welfare. Stalled social expenditures have a direct impact on vulnerable groups.

At the microeconomic level, as firms try to become more competitive by downsizing and adopting flexibilization measures, prospects for labor have become bleaker. Flexibilization reduces the firm's obligations to offer regular employment, thus eliminating the need for social compensation and reducing, on a wider scale, the revenue basis of statutory social security programs. Salaried workers who are retained are forced to accept cutbacks in employee benefits in order to survive.

Yet it is no longer a question of whether the changes are necessary or not. Desirable or not, the drive for global competitiveness would make them inevitable. The response therefore is not whether to adapt or not, but how.

Because their concern is on the 'big picture', macroeconomic policies will fail to reach poor workers. What is crucial is to ensure that human needs, specifically the welfare concerns of workers, are adequately addressed. Macroeconomic policy setting must be balanced by sectoral and targeted programs directed toward protecting sectors particularly in need. The social protection mechanisms in place have a great role to play in providing a conscious and coherent attempt to offset the adverse impact of current economic changes on wages and social compensation, and in crucial concerns such as health care, housing, education, and security for the elderly.

2. *Reforms are necessary, but many of the current initiatives may not be enough to secure the social protection of low-income workers.*

Reforms will be needed to make sure the social protection system withstands the pressures of a changing economic environment, and inability to introduce changes might mean further difficulties for workers. But initiatives being undertaken or contemplated may not be sufficient.

For example, the efforts of DOLE to forbid labor-only subcontracting – backed up by a number of court rulings favoring labor – have not deterred its practice. Poor capacity to monitor the behavior of firms has contributed to its widespread usage. DOLE has also intervened in a number of cases to enforce collective bargaining agreements. But again, its poor surveillance capacity hinders a successful attack against violators of workers' rights.

New rounds of contribution rate hikes are often the policy response to ensure both benefits and financial solvency of statutory social insurance. But the benefits' real value is easily eroded by inflation. Much more importantly, restructuring the contribution structure without addressing the issue of equitable cross-subsidies would still leave the poor workers shortchanged in the distribution of benefits.

3. *There are tradeoffs between giving broader coverage and maintaining long-term program viability and intergenerational equity.*

Even if it were better allocated, social security spending would not be enough to fully finance a minimum package of cost-effective social insurance services for workers. So far, there is very limited room for maneuver because of the small revenue base of statutory social security, and the need to maintain a reasonable level of reserves to preserve viability and contain any shocks to the system. A pay-as-you-go system may not thrive in a situation of high unemployment and struggling economic growth. Given such constraints, there is a pressing need to lower expectations about what can be accomplished by social security systems, so that the reduced expectations of workers can be fulfilled.

4. *Family support will remain an important part of social networks, but it should not become a substitute for meeting the social security needs of workers. The key is to increase the choices for the workers.*

Informal social security schemes operate well in communities and persist despite the existence of formal social protection systems because of the apparent willingness of households to pay at least some of the costs of social security.

There is no justification, however, for relying exclusively on family support to maintain protection for old age and against other risks. Social protection is a public good for which the government has full accountability. What is important is for the government to provide incentives that will permit households to find the most efficient mix between household transfers and government measures. For example, households can be encouraged to co-finance retirement and other insurance schemes. Giving workers a number of economically viable choices, instead of narrowing their options to extremes (reducing their access to the system, on the one hand, or allowing them a somewhat free ride on formal social security, on the other), would result in better targeting of resources and greater sensitivity of public programs to their needs.

Policy Options

Reforming the existing social compensation mechanisms would require a number of policy choices.

1. *Sustained promotion of macroeconomic policies that expand levels of output, investment, and security need satisfaction.*

Nothing works better than macroeconomic policies that simultaneously promote equitable economic growth, job creation, and social protection. Economy-wide adjustment programs should go hand in hand with social investment or measures intended to reinforce the positive effects of economy-wide policies. These should include productive asset-creating programs that improve incomes and create human capital by enabling targeted poor groups to actively participate in the economic life of the nation. Increases in demand-driven social protection and assistance funds must provide enough incentives by way of benefits, relative to the cost of participation, to make the beneficiaries truly active partners in economic growth.

Even in the short run, if tradeoffs in the allocation of limited resources become obvious, social safety nets will have to be provided to offset the worst effects of macroeconomic policies. As the links between growth-oriented development and social protection are being defined, it would be necessary to couple direct economic investments to expanded social security mechanisms.

2. *Selective use of policy instruments for prioritizing and restructuring social insurance resources in favor of poor workers.*

Several policy instruments can be used selectively to ensure low-income workers have full access to social insurance resources:

a) *Changes in the contribution and benefit structure.* The idea is for the better off to subsidize the social security needs of the poor workers. Beringuela (Beringuela, 1993) has demonstrated that this is possible in Medicare by raising the income ceiling on contributions, lowering the payroll tax rate and increasing the amount of benefits. Similar studies on the other social insurance components, such as Employees Compensation and Social Security, can be undertaken to demonstrate the feasibility of equitable cross-subsidization.

b) *Automatic indexation of benefits*. Adjusting benefits is a discretionary practice, requiring approval by social security boards. Yet social security schemes are effective in cushioning the workers against the impact of economic shocks or restructuring only to the degree that there is a regular indexation of benefits (Gillion, 1993). It is fully justified on equity grounds. The equity standard may be the consumer price index, or index of net earnings. Index-linked increases are also possible in provident funds. Of course, indexation may also apply to contribution rates. Like wage indexation, benefit indexation requires a thorough study, because of its possible adverse impact on employment levels and on governmental fiscal resources.

c) *Targeted social compensation schemes.* To protect the most vulnerable workers, social security can be designed in a manner that discourages the better off from using it. Grosh (1998), citing medical care as an example, suggests that low-level services for poor groups may be subsidized if similar, but high-level services (e.g. health maintenance organizations, or HMOs) can be supplied by the private sector for the well-off. Housing and education can be similarly fashioned to achieve self-targeting outcomes.

d) *Other targeted schemes can be considered*. There are, for instance, customized options that take into account the institutional capacities existing in the targeted areas. If firms are extensive in urban areas, a program targeted through factories will have few under-coverage problems. Targeting benefits ensure a better reallocation of resources, but means testing (which relies on reported income or on other verifiable correlates of poverty) will almost surely raise administrative costs. Still, targeting is extremely helpful in reducing leakages and making sure more support is available to those most in need.

d) *Shifting contributions from wages to profits.* Because formal social security is wage-based, it taxes labor more than capital, and thus lowers the returns to labor. If part of the burden of social security contributions is shifted from labor to profits, this distortion in the use of factors can be minimized. A profits contribution can be enforced in lieu of a payroll contribution, but this proposition will have to be given careful study.

3. Where possible, expansion of existing contributory social security programs to cover those displaced by flexibilization practices.

There may be justification for significant government intervention to inhibit private action that eliminates the social compensation of displaced workers, especially those who are made worse-off by flexibilization. Unless there is preemptive action by the government, it seems doubtful whether firms can be prevented from resorting to subcontracting practices that whittle down existing social protection schemes. The government can restructure the current social security schemes to cover those who are sidelined by downsizing moves (e.g. by offering unemployment insurance), or those who end up in contingent employment situations (e.g. by extending coverage to outworkers). A broader program of mandatory coverage even for subcontractors would eliminate unjustified social wage differentials between regular employees and contingent workers.

These changes would, as in the case of other reforms, require a reevaluation of the benefit and contribution structure aimed at achieving equity and adequacy.

4. *Improvements in the efficiency of social security agencies.*

SSS and GSIS can enhance their respective systems to maintain a better symmetry between benefits and contributions by increasing the incidence of benefits and GSIS by eliminating its cost burdens without skimping on important aspects of program management and implementation. Both institutions will have to improve the quality of social security services.

The justifications for a unitary institution apply to all social insurance components: wider coverage (which could include non-regular employees in the private and public sectors), and efficiency gains in collection, monitoring, fund management and claims processing.

A merger between SSS and GSIS would likely invite apprehension over practicality, ease of implementation, political feasibility, and high consolidation costs. But in reality, there may be few allocative implications in the long run.

5. *Monitoring of the social security situation, especially of living standards and health of low-income workers, so that the effectiveness of reforms may be assessed and modified.*

Keeping track of the human condition of workers – their health, living standards, ability to respond to risks and emergencies – is necessary to determine the impact of both economic changes and the reforms in social compensation. Monitoring and evaluation allow decision-makers to ascertain the kinds of changes necessary to keep the social protection system responsive to the needs of workers. Regular surveys that measure key social security coverage rates and outcomes in various regions may be critical for long-term effective operation of the system of social security.

6. *Increasing the bargaining power of workers to give them a 'first line of defense' against setbacks in social compensation.*

Fringe benefits used to be a strategic variable in collective bargaining between unions and employers. As labor is 'flexibilized', however, hard-won social security rights are being eroded. Unions must continue pressing for the preservation of social protection provisions in collective bargaining agreements, but legislation and government regulation would help immensely (especially non-unionized workers). The government needs to improve the legal framework for social protection.

Amendments to the Labor Code have been long overdue. As suggested by the Center for Research Communications (CRSS/CRC) study, the repeal should focus on setting limits on subcontracting by delineating which forms are legally permissible. It should also include a penal clause on labor-only subcontracting. Additionally, in order to establish clear guidelines that workers can use for bargaining leverage, court decisions on labor-only subcontracting cases should be collated and published. A pro-labor Congressional initiative is crucial in making sure the rights of workers to social wages is not left out of any subcontracting arrangements. The strengthening of the regulatory powers of DOLE is just as important, so that it could effectively enforce CBAs and impose sanctions on erring employers.

Labor federations can be of big help in the effort to protect outworkers. They should cast a wider net by giving formal recognition to a permanent pool of casual or temporary workers, offering them skills training or retooling, and establishing job placements systems.

5.2 Informal Sector

Poverty Alleviation Program vs. Social Protection Program

In a country like the Philippines where the poverty incidence is high even when there is no natural disaster or economic disruption, there is an acknowledged difficulty in making a clear distinction between poverty alleviation programs and social protection programs. This is the case because existing poverty programs of the government in almost all cases serve a dual role – as an instrument for poverty alleviation and as a social protection program when crisis hits. The function of responding to crisis situations is thus often built into the existing poverty programs of various agencies. Government agencies, especially in the economic and social sectors, have therefore each maintained at least one program which they regularly implement and which can be expanded if they are called to contribute by providing services whenever any form of calamity strikes. Perhaps this is the fact because the Philippines has regularly been subject to crises of some form or other, such as typhoons, floods, El Niño, La Niña, earthquakes, volcanic eruptions, financial and even civil and religious conflicts. This is not a bad practice *per se* if one considers that it takes time to put in place the mechanics, logistics and institutional structure of a poverty alleviation program and/or social assistance program. The more successful programs require some degree of social mobilization.

Providing Basic Social Services

Earlier experience with crisis situations suggests that the poor tend to cut back on their consumption of basic social services during periods of crisis primarily because their incomes have been reduced. This suggests the need to protect the public provision of basic social services during times of crisis. Furthermore, it is important that regular modes of delivering basic social services should be enhanced during such periods to help the poor overcome the high private costs of utilizing basic public social services, like transport costs for the purpose of education. In addition to this, mechanisms to compensate for the loss/reduction in income should not be forgotten, since not all goods and services consumed by the poor are provided by the public sector.

Effectiveness and Impact of Programs

Choice of Programs

Different types of emergency and crisis situations affect various groups differently. For instance, in 1997/1998 poorer households in the rural areas, particularly farmers and fishermen, were the hardest hit by El Niño, while the wage earners in the formal sector and the construction industry were more adversely affected by the Asian financial crisis. On the one hand, the impact of El Niño was transmitted through reduced agricultural output, higher food prices and a rise in underemployment and on the other hand, the incomes of wage earners were reduced as many of them were either forced to take a cut in number of hours worked or were laid off. Consequently, it is essential to tailor-make the design of social protection programs to the nature of the specific social/economic disruption that the country faces at any point in time.

In general, the experience in the Philippines suggests that some types of social protection programs work better than others. For instance, the past performance of NFA subsidies clearly indicates that universal food subsidies are not cost-effective. At the same time, the government does not appear to have the comparative advantage in directly implementing credit-based employment programs, but private microfinance institutions (particularly those that follow the Grameen Bank approach) have been shown to help improve the welfare of their poor clients. Moreover, most of these organizations are effective in reaching the poor, especially women who are found to be good borrowers. On the other hand, public workfare programs have been proven to be an effective social safety net in other countries. However, the Philippines has had some experience here that points to some pitfalls that have to be avoided in this regard. In particular, public works programs should be timed so as not to compete with existing employment opportunities in the area. Also, the wage rate that should be used for public works programs should not exceed the market wage rate so as to enforce self-targeting on the part of the beneficiaries.

Targeting Approach

In general, it is important to recognize that the cost of administering the means test, such as beneficiary screening procedures, can be prohibitive. Thus, there is a good deal of value in designing programs with self-targeting elements. In the case of public workfare, this would involve setting wages below the market wage rate. In the case of food subsidies, this may involve choosing food items that may be classified as inferior goods or those that are consumed disproportionately by the poor. On the other hand, simulations have shown that the most effective approach, given information constraints, is the one which targets the poorest people in the poorest provinces/city (Balisacan *et al*., 2000).

Financial Sustainability

There is an urgent need to develop more financially sustainable social safety net programs for the portion of the population that is not covered by SSS/GSIS. At the same time, the experience of private microfinance institutions in the country tends to affirm their ability to stimulate savings amongst their members. Thus, it is suggested that the government expand its support for Grameen-type savings/credit/insurance/provident funds that provide loans and assistance to members during times of crisis.

Institutional Structures and Processes

Lead Agency

There seems to be a great need for an agency or a body that will be tasked with the coordination of the design, implementation and monitoring of social assistance programs. Such an agency can be expected to bring greater focus to social safety nets. At present, there is a tendency for the various sectoral agencies to simply expand their existing poverty alleviation programs quite independently of other agencies in times of crisis.

However, there is no need to create a new 'body'. In principle, either one of the Social Development Committee (SDC) under the National Economic and Development Authority (NEDA) and the National Anti-Poverty Commission (NAPC) may take on the lead role in the area of social safety net programs. The NEDA-SDC is the highest policy-coordinating body for all social sector programs, while the NAPC is in charge of the overall coordination of poverty-reduction initiatives. The NAPC has the advantage of having a better representation across sectors, since it includes representatives not only from other government agencies but also from basic sectors and NGOs. However, the NEDA-SDC has an edge in terms of being more established and stable as an institution.

Role of LGUs

Related to the issue of the role of the NAPC is the role of the LGUs in poverty programs. RA 8425 provides that 'the local government units through the local development councils of the province, city municipality or *barangay* shall be responsible for the formulation, implementation, monitoring and evaluation of the national Anti-Poverty Agenda in their respective jurisdictions. On the other hand, the central government shall provide:

1) a menu of high priority anti-poverty programs and projects from which the LGUs can select;
2) technical assistance to LGUs in project development and capability building; and
3) fund augmentation for LGUs undertaking projects with poverty alleviation objectives'.

This strengthens the view that the NAPC's advocacy role can be more meaningful by helping mediate local needs and programs and national government support through NGOs or the private sectors. The NAPC can do much in helping forge formal commitment from local chief executives as well as in instituting capacity building for the LGUs to promote the specific projects identified in support of flagship programs.

Community-based Programs

The most effective programs appear to be those where community participation is high. In this regard, social preparation appears to be key to the effectiveness of poverty alleviation programs. This is the lesson from CIDSS, as it illustrates the importance of localizing the approach, forging commitment and interfacing with the *barangay* leaders in contributing to the program's achievements and success. The ASHI case also displays the importance of clients' participation, not only in the program itself, but also in decision-making, in planning, program design and improvement.

Appendix

Table 1: Key Macroeconomic Indicators, 1981–2001

Year	GDP growth rate (%)	Fixed capital growth rate (%)	Export growth rate (%)	Inflation rate (%)	91-Day T-Bill Rate (%)	Exchange rate (Peso/US$)	NG fiscal deficit* % to GNP	BOP** (US$ million)
1981	3.4			17.7	12.6	7.9	–4.3	–547.0
1982	3.6	5.2	–10.7	8.7	13.8	8.5	–4.6	–1,671.0
1983	2.0	8.3	3.7	5.1	14.2	11.1	–2.1	–2,118.0
1984	–7.4	–28.7	4.8	46.8	28.5	16.7	–2.0	–1,626.0
1985	–7.2	–30.3	–15.9	23.2	26.7	18.6	–2.0	2,301.0
1986	3.5	1.3	17.2	–0.4	16.1	20.4	–5.3	1,242.0
1987	4.3	6.5	7.2	3.0	11.5	20.6	–2.5	264.0
1988	6.7	18.8	14.5	12.2	14.7	21.1	–3.0	593.0
1989	6.1	21.1	9.0	11.5	18.6	21.7	–2.2	451.0
1990	3.2	17.0	2.1	13.2	23.7	24.3	–3.5	–93.0
1991	–0.6	–14.1	6.5	18.5	21.5	27.5	–2.1	2,103.0
1992	0.4	6.6	4.3	8.6	16.0	25.5	–1.2	1,492.0
1993	2.1	8.8	6.2	7.0	12.5	27.1	–1.5	–166.0
1994	4.4	7.4	19.9	8.3	12.7	26.4	0.9	–1,802.0
1995	4.7	4.8	11.7	8.0	11.8	25.7	0.6	631.0
1996	5.9	12.1	15.4	9.1	12.3	26.2	0.3	4,107.0
1997	5.2	11.6	17.4	5.9	13.1	29.5	0.1	–3,363.0
1998	–0.5	–11.0	–20.0	9.7	15.3	40.9	–1.8	1,803.0
1999	3.4	–1.9	3.8	6.7	10.2	39.3	–3.6	3,820.0
2000	4.0	–0.1	17.6	4.4	9.9	44.2	–3.9	–512.0

* National government.
** Balance of Payments.
Source: Department of Budget and Management, various years.

Table 2: Labor Force Status

	1995	1996	1997	1998	1999	2000
Labor force (thousand)	28,040	29,637	30,265	31,278	32,000	31,688
Employed (thousand)	25,698	27,442	27,888	28,261	29,003	28,178
Unemployed (thousand)	2,342	2,195	2,377	3,017	2,997	3,510
Employment rate (%)	91.6	92.6	92.1	90.4	90.6	88.9
Unemployment rate (%)	8.4	7.4	7.9	9.6	9.4	11.1
Distribution of employed by industry group (%)						
Agriculture	44.07	41.73	40.38	39.89	39.11	37.50
Industry	15.60	16.64	16.71	15.72	15.58	15.80
Services	40.26	41.61	42.90	44.37	45.28	46.65
Industry n.e.c*	0.08	0.02	0.02	0.03	0.03	0.04
Distribution of employed by class of worker (%)						
Wage and salary workers	45.61	47.72	48.64	49.03	49.63	51.36
Own-account workers	39.16	37.52	38.18	37.55	37.28	37.07
Unpaid family workers	15.23	14.75	13.18	13.41	13.09	11.57

* National Government Expenditures as a proportion of GNP, by sectoral classification 1975–2002.
Source: Department of Budget and Management, various years.

Table 3: Poverty Incidence

	1985	1988	1991	1994	1997	2000
Poverty incidence of families (%)						
Philippines	44.2	40.2	39.9	35.5	31.8	34.2
NCR	23.0	21.6	13.2	8.0	6.4	9.7
Outside of NCR	47.5	43.1	44.2	39.9	36.2	
Urban	33.6	30.1	31.1	24.0	17.9	20.4
Rural	50.7	46.3	48.6	47.0	44.4	47.4
Poverty incidence of population (%)						
Philippines	49.3	45.5	45.3	40.6	36.8	40.0
NCR	27.2	25.2	16.7	10.5	8.5	12.7
Outside of NCR	52.8	48.7	49.9	45.5	42.1	
Urban	37.9	34.3	35.6	28.0	21.5	25.0
Rural	56.4	52.3	55.1	53.1	50.7	54.4

Table 4: Selected Human Development Indicators

	1990	1995	2000
Basic literacy rate (%)	89.8	93.9	
School participation rate (%)			
Elementary	99.10	92.70	96.40
Secondary	54.71	62.25	72.25
School completion rate (%)			
Elementary	67.6	65.37	66.13
Secondary	71.5	69.89	70.62
Life expectancy (years)	65	67	69
Infant mortality rate	57	49	35.3
Under–5 mortality rate	80	67	54.9
Maternal mortality Rate	209	180	172

Table 5: Real Per Capita National Government Expenditures on Social Services, 1975–2002 (in 1985 peso)

	Average								
	75–85	86–92	93–98	1996	1997	1998	1999	2000	2001P
Total social services	389	519	522	573	645	625	606	604	566
Education	230	357	398	419	493	492	464	452	433
Health	70	87	56	59	69	57	58	52	45
Social welfare, labor & employment	32	28	54	68	70	63	68	77	80
Housing & community development	56	47	15	26	13	13	17	22	9

Source: Manasan, 1999

Table 6: Number and Percent Distribution of CBAs by Welfare Benefit Provisions, Philippines: 1999

Welfare Benefit Provision	Percent	Welfare Benefit Provision	Percent
A. Health care benefits		D. Supplementary Benefits (cont'd.)	
Medical services	38.2	Incentive pay	3.6
Dental services	30.7	ECOLA	0.6
Medicines/Medical allowance	9.4	Bonuses*	34.3
Hospitalization plan	32.7	*Attendance*	*2.9*
Optical allowance/service	2.9	*Performance*	*2.3*
		Signing	*10.7*
B. Employee Assistance		*Christmas*	*10.7*
Burial aid	40.5	*13th month*	*28.8*
Birth assistance	1.3	*14th month*	*1.3*
Canteen subsidy	0.3		
Meal subsidy	4.5	E. Terminal Benefits	
Product discount	0.3	Retirement benefits	28.5
Rice and corn allowance/subsidy	9.7	Gratuity pay	17.8
Educational assistance	4.9	Severance pay	3.9
Educational loan	7.4	Death benefit	25.2
Calamity loan	4.9		
Emergency loan	11.0	F. Leave Benefits	
Housing loan	4.5	Personal leave*	8.4
Cooperative fund	3.6	*Birthday*	*6.5*
Car loan	1.3	*Enrollment*	*0.3*
Vale	3.6	*Menstrual*	*0.6*
		Wedding	*2.3*
C. Well-Being/Health Promotion Programs		Emergency leave*	21.7
Recreational activities*	21.0	*Death/Burial*	*13.6*
Sportfest	*7.1*	*Accident*	*11.0*
Field trip	*1.0*	Incentive leave	0.6
Excursion	*7.1*	Vacation leave	53.1
Others	*7.1*	Sick leave	46.9
Workers education	23.3	Paternity leave	24.6
Family planning services	37.2	School/Study leave	1.0
Health and safety equipment provision*	16.8	Maternity leave	19.1
Shoes	*5.2*	PIB leave	1.3
Hats	*2.3*	Union leave (to attend seminars, conferences)	22.0
Masks	*3.2*	Paid time-off (for handling grievances, CBA negotiations)	1.9
Boots	*1.3*		
Helmet	*3.2*		
Gloves	*1.3*	G. Miscellaneous Benefits	
Others	*1.9*	Wedding gift	0.6
Insurance plan*	11.0	Transport service	7.1
Life insurance	*6.5*	Christmas package/gift	5.2
Accident insurance	*8.1*	Christmas party	5.8
Health fund	4.9	Tip/Service charge	0.6
LMC/Productivity/Quality Circle	10.4	Labor day assistance	7.4
		Uniform*	47.6
D. Supplementary Benefits		*Allowance*	*23.0*
Per diem	0.6	*Clothing/Set*	*24.6*
Transportation allowance	1.9	Feast day assistance	0.3
Light/Water allowance	0.6	Printing of CBA copy	11.3
Rice/Corn allowance	0.6	Use of bulletin board	17.2
Profit sharing	1.6	Provision of office space	10.4
Commission	1.0	Access to office equipment	3.6
Longevity pay	1.9		
Merit Increase	4.5		

* Details will not add up to totals due to multiple provisions.

Table 7: Job Vacancies Solicited/Reported, Applicants Registered and Applicants Placed Through Local Employment Services, Philippines (1998 – 2000)

Indicator	**1998**	**1999**	**2000**
Applicants placed	**393,470**	**635,762**	**719,676**
Public Employment Service Office (PESO)	***263,747***	***492,680***	***520,238***
Regular Employment	165,534	371,144	402,580
Special Program for Employment of Students (SPES)	87,816	102,532	102,963
Work Appreciation Program (WAP)	3,866	9,280	5,306
Tulay 2000	2,577	2,168	2,745
Retrenched/Displaced Workers	3,021	5,886	5,141
Returning OCWs	155	84	220
Migratory Workers	778	1,586	1,283
Employment Promotion Division (EPD)	***89,830***	***93,362***	***145,900***
Regular Employment	66,297	68,029	127,373
Special Program for Employment of Students (SPES)	8,741	6,921	4,597
Work Appreciation Program (WAP)	10,260	5,631	3,473
Tulay 2000	687	495	555
Retrenched/Displaced Workers	216	213	667
Returning OCWs	0	0	0
Migratory Workers	3,629	12,073	9,235
Local Recruitment Agencies	***39,893***	***49,720***	***53,538***

Table 8: Status of Welfare Cases (1984 – 2000)

	1984	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Cases handled	1,856	5,742	8,427	13,404	8,625	7,308	6,074	5,386	5,715	5,810	6,431	6,637	7,038	7,747	4,733	5,620	5,391
Cases pending at the beginning	565	791	1,783	3,448	3,929	5,026	3,811	2,667	2,989	2,838	3,126	3,768	4,654	5,108	1,854	2,603	2,603
Cases received	1,291	4,951	6,644	9,956	4,696	2,282	2,263	2,719	2,726	2,972	3,305	2,869	2,384	2,639	2,879	3,017	2,788
Cases disposed	1,065	3,959	4,979	9,475	3,599	3,497	3,407	2,397	2,877	2,684	2,663	1,983	1,930	5,893	2,130	3,017	2,788
Regular	1,065	3,959	4,979	9,475	3,599	2,563	2,207	1,197	1,677	2,084	2,663	1,983	1,930	1,309	2,130	3,017	2,788
Inventory	0	0	0	0	0	0	0	0	0	0	0	0	0	3985	0	0	0
Archived	NB[1]	NB	NB	NB	ND[2]	934	1,200	1,200	1,200	600	0	0	0	599	0	0	0
Cases pending at the end	791	1,783	3,448	3,929	5,026	3,811	2,667	2,989	2,838	3,126	3,768	4,654	5,108	1,854	2,603	2,603	2,603

1 NB: no breakdown available.
2 ND: no data available.

Table 9: National Government Expenditures on Basic Social Services and Poverty Alleviation, 1996–98

	1996	1997	1998
Level in million pesos			
Basic social services	62,074.80	81,291.25	88,888.35
Poverty alleviation	1,784.26	2,586.31	2,666.24
Basic social services plus poverty alleviation	63,859.06	83,877.56	91,554.60
Grand total expenditures	416,139.47	491,783.02	537,433.27
% of total			
Basic social services	14.92	16.53	16.54
Poverty alleviation	0.43	0.53	0.50
Basic social services plus poverty alleviation	15.35	17.06	17.04
Real per capita spending (pesos)			
Real per capita basic social services	345.67	416.65	401.84
Real per capita poverty alleviation	9.94	13.26	12.05
Real per capita basic social services plus poverty alleviation	355.60	429.90	413.89

Figure 1: Retail vs. Release Price, Farm vs. Support Price, Philippines (1995 – 1998)

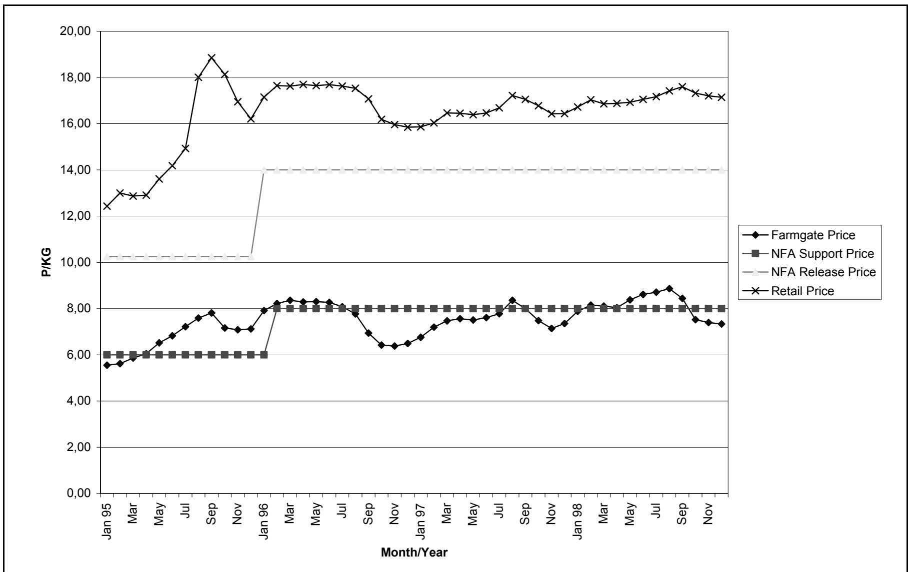


Figure 2: NFA Rice Distribution and Poverty Incidence, 1998

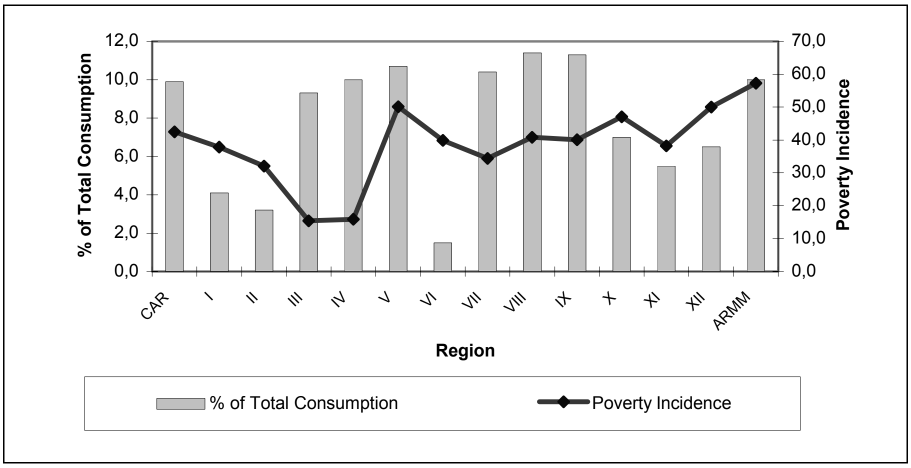
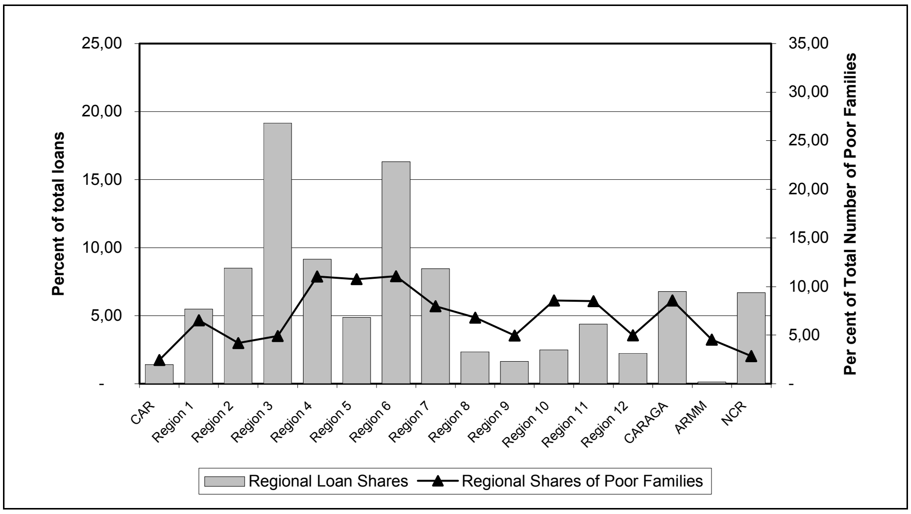


Figure 3: Share of Various Regions to Total PCFC Loans, as of end December 2000



Box 1: Benefits from Statutory Social Security

Benefits	Program Sources	
Short Term	**SSS**	**GSIS**
Sickness	PhilHealth	PhilHealth
Funeral	SS, EC	SI, OLI, EC
Maternity	PhilHealth	PhilHealth
Medical service	EC	EC
Rehabilitation	EC	EC
Long Term		
Retirement	SS	SI
Death	SS, EC	SI, OLI, EC
Disability	SS, EC	SI, EC

Legend: SS = Social security; SI = Social Insurance; OLI = Optional Life Insurance; EC = Employees Compensation

Acronyms

ADB	–	Asian Development Bank
APIS	–	Annual Poverty Indicators Survey
ARMM	–	Autonomous Region of Muslim Mindanao
ASHI	–	Ahon sa Hirap, Inc.
BLES	–	Bureau of Labor and Employment Statistics
BSP	–	Bangko Sentral ng Pilipinas
CAR	–	Cordillera Autonomous Region
CBA	–	Collective Bargaining Agreement
CIDSS	–	Comprehensive and Integrated Delivery of Social Services
CSC	–	Civil Service Commission
CSO	–	Civil Society Organization
CRSS/CRC	–	Center for Research Communications
DBP	–	Development Bank of the Philippines
DOLE	–	Department of Labor and Employment
DSWD	–	Department of Social Welfare and Development
DTS	–	Dual Training System
EC	–	Employees Compensation
ECCD	–	Early Childhood Care and Development
GBA	–	Grameen Bank Approach
GDP	–	Gross Domestic Product
GFI	–	Government Financial Institutions
GNFA	–	Government Non-financial Agencies
GOCC	–	Government-owned and Controlled Corporations
GSIS	–	Government Service Insurance System
HDMF	–	Home Development Mutual Fund
HIRAM	–	Helping Individuals Reach their Aspirations
ICOR	–	Inverse of Incremental-capital Output Ratio
ICBP	–	Industry Capability Build-up Program

ILO	–	International Labor Organization
IFAD	–	International Fund for Agricultural Development
ISSA	–	International Social Security Association
Lakas	–	Lakas ng Edsa (National Union of Christian Democrats)
LAMP	–	Laban ng Masang Pilipino
LBP	–	Land Bank of the Philippines
LGU	–	Local Government Units
MBN	–	Minimum Basic Needs
MSP	–	Microfinance Support Program
NAPC	–	National Anti-poverty Commission
NCR	–	National Capital Region
NEDA	–	National Economic and Development Authority
NFA	–	National Food Authority
NGO	–	Non-governmental Organization
NHIP	–	National Health Insurance Program
NSO	–	National Statistics Office
OFW	–	Overseas Filipino Workers
OWWA	–	Overseas Workers Welfare Administration
PCFC	–	People's Credit and Finance Corporation
PESO	–	Public Services Employment Offices
PO	–	People's Organization
PRESEED	–	Promotion of Rural Employment Through Self-Employment and Entrepreneurship Development
PSU	–	Public Sector Union
RMFP	–	Rural Micro-Enterprise Financing Program
RSBS	–	Retirement and Separation Benefits System
SDC	–	Social Development Committee
SEA-K	–	Self-Employment Assistance-Kaunlaran
SKA	–	SEA Kaunlaran Association
SME	–	Small and Medium Enterprise
SPES	–	Special Program for Employment of Students
SRA	–	Social Reform Agenda
SS	–	Social Security
SSS	–	Social Security System
STCW	–	Standards for Training, Certification and Watchkeeping
TESDA	–	Apprenticeship Program
TFP	–	Total Factor Productivity
TIMST	–	Third International Mathematics and Science Test
TLDC	–	Technology and Livelihood Development Center
TLRC	–	Technology and Livelihood Resource Center
TVET	–	Technical Vocational Education and Training
UPLB	–	University of the Philippines Los Banos
WB	–	World Bank

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