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POVERTY & ECONOMIC POLICY RESEARCH NETWORK

Policy Research Brief

May 2010 – Number 79

The Impact of the Global Financial and Economic Crisis on Poverty in the Philippines

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

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

Results at the macro and micro levels reveal that although the impact of the crisis was not as large as initially expected, it has affected some specific sectors in the economy and in varying degrees. For instance, workers in the manufacturing sector are most likely to be displaced or could experience reduction in wages or in number of working hours. Households that depend largely on remittances as a source of income could also be adversely affected when remittances decline.

Macro Level Impacts. Simulation exercises that capture the direct impact through these channels reveal an increase in poverty incidence by 0.14 percent, which would translate to approximately 120,000 people (Table 1). Poverty gap and severity of poverty also increases by 0.06 percent and 0.05, respectively. Meanwhile, wage reduction among affected households could lead to a 0.22 percent increase in poverty rate (representing about 201,000 households) with poverty gap index increasing slightly by 0.08 and severity of poverty index by 0.01.

Table 1. Results of Counterfactual Simulation

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

Source: CBMS Survey 2009

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

CBMS survey results showed that 7.6 percent of the households would be directly affected by the global crisis through the two major transmission channels mentioned earlier (Table 2). About 2.3 percent was directly affected through overseas employment and remittance while 5.5 percent was affected through domestic employment. The most likely affected households are those living in the urban areas. Households that are highly dependent on agriculture are not directly affected by the global crisis.

Table 2. Households Affected by the Global Financial Crisis

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

¹ Overseas employment and remittance.
Source: CBMS Survey 2009

Results of the CBMS survey confirmed that the potential impact of the crisis on poverty varies across different groups of households. Certain groups of households or individuals were more likely affected by the crisis as compared to the other groups. Households that are highly dependent on remittances as a source of income would be adversely affected through reduced remittance receipts. Of the households that received remittances during the past six

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

months, 12.1 percent reported that they suffered a decline in the amount of remittances received while 9.1 percent indicated that they experienced a decline in the frequency of receipt of remittances during the period (Table 3).

Table 3. Households Affected by the Crisis through Remittances

| Indicator | No. | % |
|---|-----|------|
| HHs that received remittances | 372 | |
| HHs that experienced a decline in amount of remittances received | 45 | 12.1 |
| HHs that experienced a decline in the frequency of receipt of remittances | 34 | 9.1 |

Source: CBMS Survey 2009

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

Table 4. Members Who Experienced Reduction in Wage, Working Hours or Employment Benefits

| | No. | % |
|---------------------------|-------|-----|
| No. of employed persons | 7,114 | |
| Member who lost job | 115 | 1.6 |
| With reduced wage | 88 | 1.2 |
| With cut in working hours | 80 | 1.1 |
| With reduced benefits | 8 | 0.1 |

Source: CBMS Survey 2009

Coping Mechanisms Adopted. In response to the crisis, households adopted various coping strategies. One of the most common strategies is modifying food expenses (Table 5), which was adopted by 89.3 percent of the directly affected households. Results across all sentinel sites showed that poor households are more predisposed to change food consumption pattern, withdraw children from school and change health-seeking behavior. These coping strategies may be damaging and counter-productive in the medium- and long-run, especially on women and children and other vulnerable groups. Withdrawal of children from school may have negative long-term consequences. The health status of the affected households could also be adversely affected if they do not seek medical attention.

Government Responses. The government, in response to the crisis, has also identified and implemented some programs that could mitigate the impact of the crisis. For instance, the government started to implement the Economic Resiliency Plan (ERP) to cushion the impact of the crisis and jumpstart the economy through a mix of accelerated government spending, tax cuts and public-private sector investments in infrastructure projects. Several government agencies also played a role in assisting those that are directly affected by the crisis, including the overseas Filipino workers (OFWs) and local workers who were displaced due to the crisis.

Table 5. Coping Strategies Adopted by Affected Households

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

Source: CBMS Survey 2009

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

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

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

This Policy Brief is based on the research paper of the same title which was presented during the 8th PEP General Meeting on June 2010 in Dakar, Senegal. A full version of the paper may be downloaded from the Poverty and Economic Policy website: www.pep-net.org. For further details, please contact the PEP-CBMS Network Coordinating Team at (632) 5262067 or at reyesc@dlis-csb.edu.ph or cbms.network@gmail.com.