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Global Transmission Mechanisms and Local Policy Responses Philippine Cases

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Executive Summary

The impact of the Global Financial Crisis in the Philippines has been mild overall. This is due to the small size and stagnation of the economy's tradables sector (Medalla 2007, Lim 2009) and its limited exposure to global financial markets. There have been dramatic declines in the export sector in 2008ⁱ; but again, the export sector, especially in the export processing zones, generates limited local value-added -- at twenty percent of export value -- and is largely located in the National Capital Regionⁱⁱ and its environs.

Transmission mechanisms

Export-related job losses in the capital and in the other urban areas will of course reverberate in the rest of the country because urban and rural economies continue to be linked by the long-term trend of rural-to-urban migration . (Quisumbing and Nieven, 2005, 2007). To the extent that migrants to urban areas remit to rural areas, the **urban-rural migration link** is one mechanism through which the largely-urban impact of the crisis is getting transmitted to rural areas.

International migrants are a transmission mechanism for the crisis but, on the other hand, remittances have also been an important safety net in the past for idiosyncratic as well as locally and nationally correlated income shocks (Yang, D and H Choi 2005). With an equivalent of ten percent of the population working abroad or one-fourth of the labor force, migration of Filipino workers to other countries has become ubiquitous. Half of Filipino households are recipients of transfers from other households. The 1997 Family Income and Expenditures Survey reveals that one-fourth of total interhousehold transfers come from households with mainly domestic incomes, while three-fourths comes from families relying mainly on foreign incomesⁱⁱⁱ. OFW remittances from abroad have served to augment Filipino households' income during financial difficulties.

But the remittance response to the present crisis may differ from the 1998-2000 financial crisis in the sense that the overseas origin of the crisis may now be constricting the ability of remittances to play an insurance function. Workers abroad who would have sent more money back home are themselves also facing economic difficulties. If not for the 27 percent increase in the number of deployed workers in 2008 (Jamaylin, 2009), it is entirely possible that remittances could have turned procyclical, being reduced when they are most needed.

No national database is available to test the speculation that remittances were not available as an insurance mechanism or as a countercyclical source of flows for households in 2008 and 2009. But Yap et al (2009) show that a non-negligible decline in remittances took place during the crisis period (see **Box 1** below).

Box 1 Overseas income shocks

Out of the sample of 2,802 households surveyed, 415 or 14.6 percent had a member who is an OFW. 39 percent of these 415 households had an OFW who returned during the past 6 months. Moreover, 26 of these 162 households—which is 16 percent—indicated retrenchment or lay-off as the reason for returning home. Another way to look at it is that 6.3 percent of households which rely on OFW remittances—or 26 out of 415—saw this source of income disappear as a result of the crisis.

Meanwhile, 9 percent of the households with an OFW, indicated that he/she experienced wage reduction during the period November 2008-April 2009. Some 8.7 percent of the households who received remittances during the past 6 months experienced reduction in amount of remittances received during the same period.

Source Yap et al, 2009

It will be important to watch the subsequent trends closely. Official data from the Bangko Sentral reveals that nearly fifty percent of remittances to the Philippines come from US-based Filipinos and entities. Since US household wealth also declined due to the crash in asset values, there may be a surprising reduction of per capita remittances even after the economic crisis has already bottomed out and even after job markets abroad have tightened once more. This phenomenon can have knock-on effects on the local housing construction industry and possibly on segments of the banking sector. To cope with this, the government has pressed its foot on the accelerator. *Similar to the governments of Nepal and of Bangladesh, the Philippine government has responded to the global recession by looking for new overseas markets for the country's workers.*

Box 2 Crisis response: overseas deployment

Almost 1.2 million Filipinos were deployed to overseas jobs in 2008, an average of 3,400 a day — up from 1.1 million in 2007. Half were deployed in the Middle East (most to Saudi Arabia and the United Arab Emirates), with another 18 percent in Asia (most to Hong Kong, Singapore, and Taiwan). About 22 percent were sea-based. Contract labor migration, an institution dating to the 1970s, has resulted in an estimated 9 million Filipinos — or one-fourth of the overall Philippine workforce — working in more than 190 countries.

Source Philippine Overseas employment Administration

A third kind of transmission mechanism is the ***decline in exports***. Aggregate merchandise exports from January to May 2009 declined by 34.5 percent to \$13.814 billion from \$21.096 billion reported a year earlier during the same five-month period. This paper will examine examples of impacts on mining (Appendix E) and the production of abaca fibers for export. It would appear that there was nothing to be done on the production side in the case of electronics and machine exports, which is why local governments in these export zones, such as in Cavite province, did not address themselves to production-side interventions.

Because manufacturing establishments in the electronics industry are embedded in regionalized and globalized parts and components production platforms^{iv}, rather than being localized stand-alone or clustered enterprises, their recovery would depend on the recovery of the regional platform itself. The same thing goes for mining (Appendix E).

However, in the case of products that do not require scale economies as in the case of handcrafted products or agricultural production, there is scope for production-side interventions.

The ***decline in public sector revenues*** is also an effect of the crisis. However, it has a greater bearing on the extent to which the government can implement countercyclical measures. Local governments also experience fiscal difficulties, as local revenue sources decline. This is particularly evident in cities that are dependent on business tax revenues that are in turn dependent on the buoyancy of consumer spending. Local taxes decline significantly at the moment when local governments need to provide safety nets or production-side support for local industries. In the case of mining (Appendix E), the business taxes are paid out to jurisdictions where the head offices are located. With a few exceptions, these head offices are located in Metro Manila, so the negative fiscal effects of mining company closures and slowdowns are felt in Metro Manila, not in the mining towns.

Local responses

Crisis impacts and national government responses to the economic crisis in the Philippines have recently been documented in (Yap et al, 2009). Similarly Manasan (2009) assesses ongoing social protection programs for their adequacy and efficiency in the face of the global financial crisis. A number of these programs are novel, and the most notable among them is the Conditional Cash Transfers scheme (*Pantawid Pamilyang Pilipino Program*), after the manner of Brazil's *Bolsa Familia*, that is being scaled-up in 2009 and 2010 to benefit one million families.

At the macro level though it is not clear that there has been much additional public sector spending. The national government budget for 2009 is not significantly higher than the 2008 budget, although subsequent accounting may reveal that off-budget resources may have indeed been mobilized, such as proceeds from bond floats of a government corporation called the National Development Corporation^v. Staff at the National Anti-Poverty Commission also readily acknowledge that many of the programs listed under CLEEP^{vi} (Or Comprehensive Livelihood and Emergency Employment Program) also represent a substantial number of the regular and previously ongoing programs of the line agencies^{vii}.

Local level investigations reveal the heterogeneous impacts of the global financial crisis in the Philippines. This paper presents a modest effort at describing the transmission mechanisms of the global economic crisis. The impacts are diverse and the possibilities for coping also need to be diverse.

The paper sets out to describe i) ongoing vulnerabilities in the local financial sector, particularly the rural banks that are emerging as an important depository and remittance conduits for international migrants; ii) constraints faced by local authorities that make intervene on the production side difficult; iii) partnerships between industry leaders, local governments and local communities that are creating new domestic economy production linkages even during the crisis iv) new safety nets introduced by the national government and complementary social protection initiatives that may be needed to address income shocks.

A. Averting local financial sector impacts of the global crisis

The financial system is the life-blood of economies. This must also be true to some extent for rural banks and micro-credit institutions in the context of local economies affected by the global financial and economic crisis. In the Philippines, rural banks are increasingly being used as conduits and depository banks by overseas Filipinos. There are also specialized micro-credit banks and rural banks with micro-credit operations that have been growing very rapidly in the past decade. Although the rural banking system proved itself to be resilient so far, there have been worries that the general economic slowdown and possible retrenchments of overseas Filipinos could pose a significant risk to the rural financial systems.

The mildness of the local economic slowdown, the surprising growth of overseas remittances in 2008, the high liquidity in the Philippine banking system and the policy consensus that led to increased deposit insurance coverage prevented a crisis from taking place in this sector.

There are, however, signs that overseas remittances will reveal weakness over the medium-term as they already have during the first semester of 2009. The weakness of the country's tradables industries (discussed above), also means that the income shock among returning retrenched workers can be severe in the case of a prolonged period of global economic stagnation after the 2008 crisis.

The scenario of a prolonged global economic stagnation highlights the importance not just of prudence and portfolio diversification in the rural banking sector but also of programs for local economic development that could create work and investment opportunities for returning workers.

Box 3 below qualitatively describes the negative demand-side effects on the lending activities of rural and micro-credit banks in the country.

Box 3 How has the financial crisis affected the quality of your loan portfolio?

<p>How has the financial crisis affected the quality of your loan portfolio?</p> <p>There has been:</p> <ul style="list-style-type: none">• Decrease in number of loan renewals• Higher drop out rate• Lower loan amounts requested by clients <p>Due to:</p> <ul style="list-style-type: none">• Clients experiencing business slowdown• Loss of employment of other family members of clients• Credit pollution• Personnel turn-over or staff fall-out <p style="text-align: right;">Source: Llanto, Gilberto and Jocelyn Alma Badiola (2009)</p>

One of these rural banks with micro-credit operations is the New Rural Bank of San Leonardo, whose main office is in the province of Nueva Ecija, very near the Northern part of Metro Manila. A major client group that they serve through savings vehicles and small and micro-credit programs are the overseas Filipinos and their clients.

Andres Panganiban, the president of the New Rural Bank of San Leonardo (NRBSL), was very supportive of the proposal to double the deposit insurance coverage of rural bank clients. This proposal became law in April 2009, coming in the heels of a number of rural bank collapses. NRBSL's Panganiban believes^{viii} that the move will help assure the small depositors in local communities that their lifetime savings deposited in banks are secure.

A significant number of deposits in banks such as NRBSL are financial proceeds from remittances of overseas Filipino workers who are saving for healthcare, education, housing costs and investment in both current and future business enterprises upon their return. NRBSL itself has 72,000 clients. The amount of remittances of Filipinos working abroad, who comprise ten percent of the population and one-fourth of the work force, was around \$16 billion in 2008.

Also in the communities where NRBSL have on-going microfinance and community credit programs, "about 60 percent of loan accounts depend on the continued flow of remittances as payments for credit amortizations."^{ix} At the onset of the global financial crisis in 2008, it was feared that the pre-termination of overseas employment and remittances^x could disrupt the cash flows of businesses and projects financed under these loan accounts. Without adequate deposit insurance coverage, and with the uncertainty in 2008 surrounding overseas employment, even banks like NRBSL that are highly rated by the Bangko Sentral can become vulnerable to the so-called "flight to quality" by depositors.

The increased deposit cover notwithstanding, Panganiban believes that the government should do more to prepare for the possible collapse^{xi} of overseas employment. He says that the government should support the creation of investment platforms that can turn the savings of overseas Filipinos into profitable enterprises and address the inevitable local impacts of the crisis.

The notion of creating local investment platforms will probably not go away, even after the global financial crisis ends.

Medalla et al (2007) argue that a "remittance-driven economy" creates a contradiction by increasing the import-intensity of consumption, investment and production. This weakens the demand in the (import-replacing and export-oriented) tradables sector^{xii} and it leads to anemic investments^{xiii}. This effect of remittances on the economy's import intensity is of course mediated by the low cost of abundant foreign exchange. The entry of incomes from abroad also makes it possible for consumer spending to push both the modern and marginal non-tradables sectors of the economy along. The lack of investments^{xiv} and job creation, however, that could have made intensive use of the country's underemployed labor and agricultural resources itself, becomes a push factor for the further deployment of Filipinos overseas. Certainly, this would have to form part of the explanation for the dramatic departure of Filipino workers to other countries even when it seems most inappropriate and inopportune.

In the end, the feared collapse of rural banks was largely averted. With the collapse of exports and direct foreign and investments the Philippine economy stayed afloat mainly because of the record deployment of Filipinos abroad. The biggest rural bank in Mindanao, One Network Bank, reports a doubling of remittances in 2008 (see for instance Cayon 2009).

The fact, however, that the record 27 percent increase in the number of deployed workers in 2008 (Jaymalin, 2009) resulted in only a 13.7 percent increase in remittances shows

that the sacrifices entailed by labor deployment have generated dramatically lower returns. The high unemployment rates in the destination countries are bound to exert downward pressure on incomes of overseas Filipinos for some time. By mid-2009 the year-on-year growth rate of remittances was only two percent.

B. Crisis and drivers of local economic development (Sibagat, Agusan del Sur)

The effects of the global financial collapse are also transmitted through other mechanisms. There are pockets of the Philippine economy that were severely affected by the collapse in the demand for exports. Commodity prices also went down. Philippine shipments of coconut products in the first nine months of 2009 was down 21.5 percent compared to the same period in 2008. The mining sector has been an area of major investments in recent years in Mindanao, but 2008 was a particularly bad year for mineral exports coming from the island -- for instance, nickel ore exports revenues were down by 58 percent, iron ore export revenues were also down by 23 percent.

This section deals with successful adjustments in the case of the abaca fiber industry in Agusan del Sur province, while a subsequent section (Appendix E) deals with the more severe difficulties encountered by the mining industries.

Box 4 Decline in abaca exports 2000-2009

Philippine export earnings from abaca fiber and manufactures are projected to reach \$80 million in 2009, slightly lower than last year's \$100 million, although demand for such products in markets abroad remains strong.

The Philippines remains the world's biggest supplier of abaca fiber with a share of around 86 percent, followed by Ecuador comprising the remaining 14 percent.

Philexport News and
Features, May 2009

The resiliency of abaca products in some provinces can be attributed to a strong push towards product and niche diversification, the introduction of firm level mentoring by industry-level organizations, by local governments and by the Department of Trade and Industry. On the other hand, the mining industry is largely extractive. It provides almost no scope for product innovation. It rises or falls on the strength of long-term international demand, and it is tightly embedded in international, rather than local, production platforms that have recently suffered deep retrenchment.

In other places, however, the collapse of the demand for commodities and products destined for the global markets led middlemen to stop buying. Abaca fiber is one commodity whose price dropped precipitously during the crisis (especially from the fourth quarter of 2008 to the 2nd quarter of 2009). Abaca is woven into cloth, turned into gift items, and bundled into the well-known Manila hemp.

Price volatility, long-term trends and policy issues

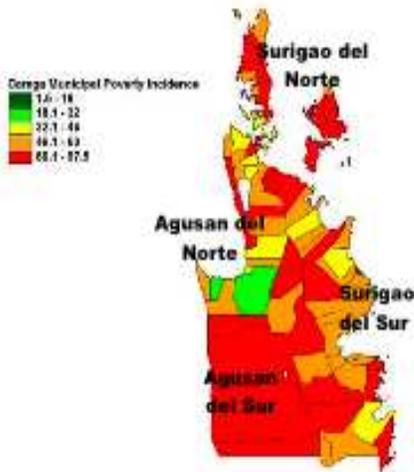
The price of a kilo of the S2 grade fiber (excellent) plunged from P64 in June-July 2008 to P37 in April 2009, while that of M1 (coarse) fell from P40 to just P11. In places like Bicol, Caraga and many of the Mindanao provinces, this decline in abaca prices coincided with equally substantial declines in the prices of copra (dried coconut flesh). From an average price of P32.70 per kilogram during the first quarter of 2008, the price of copra went down to P13.23 per kilogram in the first quarter of this year. Copra from coconut is an even more important economic produce for places like Bicol and Caraga. In terms of both land and the people employed in its production, copra is more important than abaca. Coconut is planted in more than three million hectares of land in the country, while abaca is planted only in 137,000 hectares of the agricultural land.

What this means is that the magnitude of the income shocks to households in provinces such as those in Bicol and the Caraga regions need to be placed in this perspective of a major fall in the price of a key local commodity like coconut. Incomes of families relying only on work in coconut farms is typically not enough to lift incomes above the poverty threshold of P75,000 per family per year. At two hectares per family and no intercropping^{xv} allowed by the landlord, the net income per family in 2008 would be less than P20,000 if sold as copra, and less than P40,000 for families near transport routes that can sell whole nuts (See Pabuayon et al, 2008). This poverty abounds in the 3.3 million hectares of coconut areas. Based on country Human Development Reports, regions with disproportionately coconut areas tend to have high poverty incidence. This is certainly the case for Bicol with 40.5% of families in 2003, Eastern Visayas (35.5%), Zamboanga Peninsula (44.1%) and Caraga (47.3%) and ARMM (45.7%)

Swings in commodity prices must imply that the concern of policy will have to pay attention not only to chronic poverty, but also to variations in the depth of poverty resulting from commodity price swings and typhoons and droughts that destroy harvests. Public policy will also need to pay attention to families that are not so poor and even those above the poverty line but are at risk of being falling and being trapped in poverty when income shocks come their way.

Poverty incidence among the municipalities of Agusan del Sur are estimated by the National Statistics Coordination board to be between 50 percent and 83 percent. The poverty rate for the entire region can be gleaned from the areas colored red in figure 1 below. Being one of the poorest provinces in the country, the Agusan del Sur towns of Sibagat and Esperanza were chosen in 2008 to be the pilot areas for the Philippine government's new Conditional Cash Transfers program against chronic poverty. This will also be discussed in a section below.

Figure 1 Municipal-Level Poverty Incidence, based on the Small Areas Estimates of the National Statistics Coordination Board



The matter must also go beyond risk insurance or income portfolio diversification in the face of income shocks; for if there is a long-term decline for some important crops or industry sub-segments, public action may be needed in order to coordinate stakeholders around local economic development initiatives.

The prospects for the sustained growth for abaca production seem to be better than the prospects for sustained long-term copra production. For while the decrease in demand for copra in the world market, apart from being a result of the overall reduced consumer demand, is also said to be due to a shift in preference (from coconut oil to palm oil), the decline in the price of abaca appears to be mainly an artefact of the generalized reduction in global demand for all traded goods.

In contrast to copra, which is being replaced by palm oil, new uses for abaca fiber are being constantly discovered, especially in the context of replacements to synthetic materials abroad and in the context of an increasing local demand for its use in domestically produced cordage and fiber crafts. According to the Fiber Industry Development Authority, 85 percent of abaca production is utilized as input to domestic production.

In the case of abaca, we find a trend towards a wide diversity of uses for it that are being discovered. The abaca industry is expected to continue making a stronghold in both the domestic and international markets. Below is a summary of the opportunities, prospects and developments that bear on the abaca industry that have been emerging in the past few years^{xvi}.

- Strong demand for abaca as a result of the expanding market for specialty papers for food packaging as in tea bags and meat casings, filter papers, non-wovens and disposables.
- Growing demand to conserve forest resources and to protect the environment from problems posed by non-biodegradable materials, particularly plastics, contributed to the growing demand for natural fibers like abaca.
- Due to the environmental degradation, Japan, which is one of the major abaca consumers, is now replacing PVC with natural fibers or materials free from chlorine.

- Development of new uses for abaca such as textile materials for the production of *pinukpok* or as blending material, with silk, piña or polyester, in the production of high-end fabrics.
- Growing demand for handmade paper as art media, photo frames, albums, stationery, flowers, all purpose cards and decoratives.

In the town of Sibagat in the province of Agusan del Sur, some buyers of abaca fiber stopped buying in late 2008^{xvii}. The slump in international demand and the high levels of inventory of the raw fiber among abaca traders pushed down prices and momentarily for a couple of months although prices are already recovering.

However, triggered by the high local demand of *tinagak*, a tightly knotted abaca fiber strand used as raw material for fabrics and crafts, the abaca mass-produced in Sibagat is also rapidly starting to be produced in Prosperidad and Rosario towns. Tinagak-making is now being seen as a growing and dependable and profitable livelihood for these municipalities because of the assurance of market resulting in increased volume of produced tinagak. The Fiber Industry Development Authority reports that an additional 6,000 hectares is being utilized in Agusan del Sur Province for abaca production.

Public support for entrepreneurial drivers

The supply for *tinagak* abaca fiber did not just encounter the demand for it, as if in the air. There is no electronic trading system for abaca products that would reveal buying and selling prices for processed and semi-processed and manufactured abaca products. The encounter was driven by the entrepreneurial process and assisted by public resources and institutions that have been deployed to mitigate the economic pain and to discover new products for the domestic and export markets.

In the “morning after” the global economic meltdown, the crafts designers and manufacturers of Cebu city were also trying to burrow their way out of the halt of orders in major markets. They were also teasing out the domestic demand for abaca crafts that was starting to reveal itself. They were trying to discover new designs and combinations of materials and processes that will be attractive to foreign and domestic buyers who, they know, will resume their purchases and will need to set up fresh products for their post-crisis display windows.

Local government units (LGUs), the Department of Trade and Industry (DTI) and business groups from Caraga region and Central Visayas (region 7) worked hand-in-hand in creating more income and employment for the local coffers and far-flung villagers to alleviate the current global economic clampdown.

Box 5 Agusan del Sur local governments coordinate efforts to support One-Town One-Product initiatives

With support of the Caraga region Department of Trade and Industry (DTI) Agusan del Sur province and its 14 towns stepped up their one-town, one-product (OTOP) program to cope with the crisis. The province itself and its towns are very poor, so they are directing their production for destinations like Cebu, Metro Manila and export markets. A link-up with efforts of the DTI and business groups in Cebu (discussed below, provides one exemplary route for accessing product markets outside of Agusan del Sur province.

Agusan del Sur Rep. Rodolfo Plaza^{xviii} and his sister, Agusan del Sur Governor Ma. Valentina Plaza, mobilized their respective resources to make the province globally competitive. As of November 2009 their products that are already in the market include abaca, banana, rubber, processed food, integrated poultry, tourism services, organic and wood products, rattan, tilapia and other agricultural products. To make the program more accessible, the provincial government established the San Francisco One-Stop, One-Town Terminal Complex in San Francisco town that would serve as their trading center.

These products are coming from the municipalities of Sibagat, Bayugan, Prosperidad, Loreto, La Paz, Veruela, San Francisco, Rosario, Bunawan, Trento, Sta. Josefa, Talacogon, San Luis and Esperanza. It was learned that the highest demand in the market is the “tinagak,” a tightly knotted abaca fiber strand used as raw material for fabrics.

Abaca mass production in Sibagat, as its one-stop, one-town product, is already expanding to Prosperidad and Rosario, said provincial business development unit officer Irene Lavilla. *Tinagak*-making flourished into a dependable and profitable livelihood for these three municipalities because of the assurance of market-reproduced *tinagak*.

— Adapted from Crismuno Mike (November 2009)
“Prosperity soars high in 14 towns”

SPIN: Getting to know supply and demand through subcontracts

There is, however, a promising effort pioneered through the Department of Trade and Industry's SPIN or Subcontracting Partners Innovation Program project (See box 6 below). Subsequently, the approach has been rapidly copied in other parts of the country during the post-crisis setting.

SPIN is an instance where small local firms in poor areas entering supplier/sub-contracting arrangements on the strength of local skill sets, mass-production capabilities and proximity to high quality abaca products and the ability to comply with product standards that the ultimate exporter requires.

DTI region VII director Caberte believes SPIN allows exporters to increase production volumes are now able to accept bigger orders. She says, “most exporters, who do not have enough workers to do the job orders of their clients, subcontract some of these processes.” By June 2009, 109 training classes have been conducted under SPIN, which was participated in by 25 micro, small and medium enterprises and 2,622 people. About P67.2 million worth of orders were booked through the program.

The DTI in Caraga is also being supported by the national government (under the umbrella of national government crisis-response CLEEP program) in expanding its livelihood trainings, business planning services that prepare entrepreneurs for financing proposals that would be submitted to local rural and micro-finance banks. Many of these are also under the auspices of the DTI's long-running One-Town-One -Product (OTOP) program.

But many other OTOP projects as well as livelihood projects of other national agencies and local government units that have been launched in the past had no clear link with market players on the product demand side.

In contrast to the pre-crisis One-Town-One-Product projects of the Department of Trade and Industry, however, the pioneering SPIN program of region VII DTI begins with the demand-side for the local produce.

These manufacturer-local subcontractor arrangements potentially have several advantages for local producers, especially if the partnerships acquire longer-term predictability:

The first is the confidence of local sources of equity and loans that the sales projections in the business plans have a good chance of being realized. In other settings, in the services sector for example, such predictability of sales draws on the strength and sales track record of a brand that is developing partnerships through franchising arrangements.

The second advantage of such arrangements is the quick specification of product designs and the early realization of capability upgrades that need to be made. This focuses the energies of local producers and entrepreneurs.

Third, the lead exporting firm can be a source of managerial support and even of operating capital. This can be very important during that phase where local creditors and investors are still in the process of understanding the risks and return characteristics of an entrepreneurial project. Informally, this can turn out to be the functional equivalent of a venture capital arrangement, where the “helper” risks capital but is, in exchange given a strong voice in the setting-up and running of the enterprise during the early stages.

Box 6 A public-private initiative: Sub-contracting Partners Innovation Program (SPIN)

In Central Visayas, 45 municipalities joined the SPIN program, which conducted 77 trainings and generated to 1,791 jobs. In the region alone, orders made through the program amounted to about P59.9 million. Ninety percent of the orders are from Bohol, which is also the top-producing province under SPIN.

Although SPIN was initially meant to benefit residents in “cleared conflict areas” Director Aster Caberte, regional director of DTI Cebu said the program has been implemented in eight other regions in the country.

Caberte joined the visit to Agusan del Sur province. She urged the Agusan province (Caraga region) abaca craft producers to share their skills, train more individuals and share their production expertise to other Agusan folk to be able to meet the rising domestic and international demand that is being coursed by the global market through Cebu firms like 33 Point 3 inc. Under Spin, residents who underwent skills training in weaving and craftsmanship are trained to do actual export orders.

Aster Caberte also said that the local weavers, as sub-contractors, played an important support role in enabling exporters to cope with their orders from foreign buyers. The Cebu buyers on their part have already learned the value of having production arrangements that are both diversified and unburdened by high overhead costs.

Jennifer Cruz of 33 point 3 Exports, Inc. tells their sub-contracting partners in Agusan del Sur who are weavers and producers of abaca handicrafts that their partnership should be preparing to ride the wave of global economic recovery. Cebu-based 33 point 3 Exports, Inc has business experience of more than a decade and, through the SPIN program in Agusan del Sur, is now one of the buyers of Talacogon Weavers Association [TWA].

In DTI Region VII (Cebu-Bohol-Siquijor), which is the region of origin of 33 point 3 Exports, Inc., the objective of this pioneer SPIN program is to establish supplier relationships in areas of the country that that have only very limited access to government resources. It is a program that links the local producers to exporters in Cebu to provide more income to the handicraft producers to augment incomes from farming.

The assessment of the Cebu-based contingent of DTI-SPIN and 33 Point 3 Inc. is that the

quality, price and craftsmanship of Agusan del Sur producers, are at par with other suppliers. The Talacogon Weavers Association was the first to close an order with the Cebu-based company -- and by August 2009 it has already delivered the first batch of its first deliverables worth half a million pesos in all. TWA employs 40 weavers from the different barangays in Talacogon and is expected to employ more in subsequent periods.

The SPIN program, launched in June 2008, was initiated by DTI 7 together with the Cebu Gifts, Toys and Housewares (Cebu-GTH) Foundation in an effort to make exporters become more cost-efficient in their operations and enable them to cope with declining demand for export products. Spin had an initial budget of P500,000 but the DTI has increased the allocation to P5 million.

"We tried to look at the possibility of subcontracting and saw it as an opportunity to help the countryside," said DTI 7 Director Asteria Caberte in a press conference last Wednesday. Caberte said 13 Cebu GTH-member companies participated in the program. SPIN was awarded the Presidential Citation for Best Practice because of its focus on "market-driven" schemes.

—Adapted from *Crismundo (August and November 2009)*
and *Magallon-Estero (2009)*

Sibagat town, the province's leading abaca producer, is also seen by the SPIN program as having a good future with Cebu-based fiber crafts exporters, initially through placemats and "sinamay" products of the Sibagat Abaca Weavers Association (SAWA). Banana chips production has also been gaining ground; internationally Mindanao-based entrepreneurs are saying that banana exports have remained very strong notwithstanding the crisis.

Public support for the Sibagat Abaca Weavers Association in barangay Sinai Sibagat actually started after the 1998 Asian financial crisis. Some of the Emergency Employment Programs during that time were pilot-tested in the Caraga region, this being one of the poorest regions in the country. The approach was through training-cum-production following the 'one-village, one-product' concept. In these programs some of the materials used in production during training are given out as grants. "The Sinai, Sibagat, and other Agusan del Sur areas were developed into an Abaca Village Enterprise, and the Del Pilar, Cagdianao, Surigao del Norte areas into a Fish Processing Village Enterprise" (Reyes, 1999) .

Linking-up with the export-oriented domestic manufacturing sectors, however, have started to be supported by the government only recently. Technical and Financial support has also been granted to the SAWA weavers by donor agencies like Spain's PADER program and Australia's FOCAS program.

SPIN as a finance and business development innovation

The approach developed by the SPIN program that has opened up market-led opportunities for resource and labor-rich areas in Agusan del Sur marks an important departure and innovation from rural banking or even from the more engaged rural micro-credit schemes of banks and microfinance NGOs. These existing financing modes do not link up buyers and sellers as a matter of routine and they also do not usually play an active role in identifying and addressing the organizational and technical capacity problems of local partners that would ensure make their proposed business viable. In other words, it is almost as if there is presumed to be a set of viable business propositions "out there" that entrepreneurs simply have to decide to invest in and then bring to the attention of banks.

Business opportunities are not always obvious, viability has to be discovered and only after a group has shown that the technical, organizational, and raw material and financial challenges are surmountable (or not) will banks learn about risk-and-return characteristics of a class of business proposals. The process of discovering viability is a public good (Rodrik 2008), which is why it does make sense for public sector agencies to defray some of the set-up costs for new kinds of businesses. Connecting to global markets cannot substitute for a development policy.

Those who will embark to discover the feasibility of business proposals will need to risk their own capital and public resources should be welcomed. The problem is that the ability to bear risk and the appetite for it is extremely low in low-income settings like Sibagat, Agusan del Sur (see **Table 1** below).

Table 1 Barangay poverty estimates, Sibagat, Agusan del Sur

Barangay Poverty Estimates*, Sibagat town Agusan del Sur Province	Non-Poor		Total	Poverty Incidence
	Non-Poor	Poor		
Afga	1033	2450	3483	70.3%
Anahawan	129	486	615	79.0%
Banagbanag	62	605	667	90.7%
Del Rosario	101	416	517	80.5%
El Rio	467	956	1423	67.2%
Ilihan	325	760	1085	70.0%
Kauswagan	136	209	345	60.6%
Kioya	95	724	819	88.4%
Magkalape	38	162	200	81.0%
Magsaysay	131	686	817	84.0%
Mahayahay	651	802	1453	55.2%
New Tubigon	303	1333	1636	81.5%
Padiay	188	1174	1362	86.2%
Perez	112	733	845	86.7%
Poblacion	2331	2220	4551	48.8%
San Isidro	83	635	718	88.4%
San Vicente	331	545	876	62.2%
Santa Cruz	39	350	389	90.0%
Santa Maria	84	562	646	87.0%
Sinai	127	459	586	78.3%
Tabon-tabon	432	1871	2303	81.2%
Tag-uyango	124	421	545	77.2%
Villangit	84	830	914	90.8%
Kolambugan	249	1610	1859	86.6%

*Estimates derived using a method analogous to NSCB (2009)

The well-known reason of course is that poor people have no resources to spare and the failure of an investment can be catastrophe for a household. “The rich get richer,” partly because they are the ones who can take on the entrepreneurial risks. In the case of the Sibagat Abaca Weavers Association donor funds did come in for the processing plant, for instance and this provides one strong explanation of how an enterprise emerged in the context of a very high poverty level of 78 percent in barangay Sinai.

While the Sibagat Weavers Association (SAWA) is able to pay a daily rate of P150 for its workers and pay for operating costs, decisions to make major and possibly risky investments for new product lines for example will continue to be difficult. In the course of partnering with Cebu-based export firms it can therefore be anticipated that Cebu-based partners may have to play a financing role and not just a mentoring role in the ratcheting up the production capabilities of SAWA.

Following Rodrik's insight (Rodrik, 2008) that the discovery of the viability of new entrepreneurial activities is a public good, we know that such will be available as templates for subsequent investors. The imitators will not only have an easier time setting up and clinching purchase deals with Cebu firms, their business proposals to financial institutions will also be assessed as having a lower risk compared to the original. The towns of Sibagat and Talacogon, followed by Prosperidad and Esperanza towns are setting some of the basic templates that the other towns can imitate.

Further institutional innovations: Beyond SPIN for abaca and beyond OTOP

The abaca sub-sector is fast growing but it is still just a small part of the local Agusan del Sur economy (see Appendix A). Coconut, banana and camote are highly significant crops if one goes by the land devoted to them. There are also other crops that may have a potential similar to that which is being realized for abaca.

It is important to return to the larger context of Agusan del Sur's economy by asking a number of questions that have to do with sustaining the creation of market links seen in the case of abaca, making money flow to the poor province of Agusan del Sur and identifying economic risks and responses that the recent crisis has shown to be important.

The first question is whether and how the other agricultural products may similarly be "given a break" through links with firms that know the requirements of urban and overseas markets.

Thus, although coconut products are processed in Cebu, Cebu coconut processors have stronger links with Mindanao coconut areas that have better access to seaports that bring vessels to Cebu. If the approach is to be holistic^{xix}, one cannot avoid confronting the fact that the Agusan del Sur is a landlocked province and the Caraga region has the lowest road density in the country, at less than half the national average and at one-fiftieth of Metro Manila's road density (WB, 2005).

It is not clear that the One-Town-One-Product initiatives in the Agusan del Sur towns of Bayugan, Loreto, La Paz, Veruela, San Francisco, Rosario, Bunawan, Trento, Sta. Josefa, and San Luis will also be linked to firms such as those that are being drawn into the Agusan del Sur abaca industry by the SPIN project. While wood and rattan products being developed in these OTOP areas in Agusan del Sur may be of interest to the Cebu furniture industry, products related to the main cash crops like coconut and banana may require complementary long-term interventions that may require major investments in productivity and in the commercialization of new by-products whose commercial value is not easily eroded by high transport costs.

Because people in income-poor provinces have low purchasing power, employment in non-farm activities is scarce. Labor must be embodied in products that would be sold and

consumed elsewhere. Because it is important for income-poor provinces to have partners with strong footholds in, and knowledge of, urban and export markets, these provinces need to attract investors who can bring in the understanding about the requirements of the market and can transfer the technical and managerial knowledge required by distant markets. Just as there is job-matching in the labor markets provided by public employment offices of local government units, agents that generalize the work of the SPIN project are also needed in order to remove the barriers to the flow of technology, managerial capacity and financing.

Appendix 3 describes an innovative approach implemented in the Mindanao rice industry and banana industry that brings collateral-free long-term financing to smallholders whose produce, as in the case of the SPIN project, can be aggregated to help exporters enter into bigger volume contracts. The approach is being implemented by so-called “corporatives”. Corporatives become the vehicle for long-term equity financing by banks and entrepreneurs during the early years. During those early years the corporative acquires technologies and facilities needed for the reliable delivery by the smallholders of produce required by multinational food companies. Gradually, as part of the incorporation agreement, the ownership structure of the corporative evolves. The smallholders acquire bigger shares in the corporative, as they implement the buyout of the original providers of equity, which in this case included the government's own Land Bank of the Philippines. After a decade, the corporative may be transformed into a cooperative whose majority owners are the smallholders of a decade ago. This is a modality that may find its way into Agusan del Sur.

The second question that may be asked, now that the bigger picture is being scanned, is whether and how it might become possible for communities to be shielded from the erratic movements of international commodity prices.

Farm-incomes diversification has often been a proposed solution. This may be possible in the case of coconut farming families that, with the permission of landowners can plant a variety fruit trees underneath the coconut trees. With investments in inter-cropping net incomes can double (depending on the share that the landlord extracts) and incomes can continue to flow even when the buying price of nuts and copra falls (see Pabuayon et al 2008).

Long-term contracts can also be a way for small farmers to pass on risk-bearing for price fluctuations to parts of the value-chain that could handle the risks. Banana farmers in Davao del Norte, which is the biggest banana producer in the country, have begun to enter into fixed-price long-term contracts with multinational companies. For some of them, such as the clients of the One Network Bank, the predictability of transactions and income streams was part of what they sought in order to make their own collective investments bankable. The farmers negotiated for a contract price that would give them good returns for their labor and investments, the price would sometimes be below or above what the informal spot markets would offer. Forward contracts have been previously used for copra, sugar, coffee and soybeans (Varangis and Larson, 1996).

This is still a fairly new innovation in the banana industry and is still being “tested”, so to speak. In early 2008 the informal spot market in Davao was offering almost double the price of their long-term contract. This led many farmers to sell their harvests of banana to spot market agents instead of their contract partners. The damage to the system of forward contracts was such that the governor of the province took a direct role in preventing the spot market buyers from taking advantage of the situation (see Ledesma,

2008). This shows that the setting up of institutions that can govern market transactions can be very important in local economies that supply commodities with volatile prices .

Third, if correlated risks at the industry or at the community level cannot be avoided altogether, and if individual savings schemes are limited because of high poverty rates, are there insurance or income-support mechanisms that might be contemplated and promoted? Can conditional cash transfers be effective in settings like Agusan del Sur province?

A possible unintended consequence of the One-Town-One-Product strategy is the dependence on a single set of products. This exposes rural communities to correlated risks when product demand goes down or when the partner firm goes bankrupt. This may be unavoidable. Focusing on products and linking up to sub-national production chains allows communities to specialize, to realize economies of scale and to reap the productivity benefits that specialization promises. However, this creates correlated risks at the community level that prevent neighbors or townmates from aiding each other when the industry gets into trouble. Appendix 5 “Mining Towns in Crisis” describes the circumstances are associated with extreme dependence on one industry.

We describe the mechanism of migration, perhaps present in Agusan del Sur to some degree, that can help households and communities diversify their income sources. We already said that non-farm sources of employment are seldom found in income-poor settings. People, therefore, need to search elsewhere for work. Quisumbing shows that that in addition to rural-to-urban center migration, rural-to-rural migration as well as migration to small nearby urban areas are also a significant phenomenon in Mindanao provinces

It is unsurprising to see that the localities that are growing fast are also those places with the highest number of poor people. The incidence or percentage of poverty may be low, but the absolute number of poor people can be very high. One finds this in the key port areas of Mindanao, such as in Zamboanga, Iligan, Davao and General Santos (NSCB, 2009). These areas attract migrants from the landlocked and rural areas of Mindanao where economic opportunities are scarce.

The expectation then is that, unless there is a barrier to mobility, poor families will have relatives or family members in the areas of high economic activity, if they have not yet transferred to these areas permanently.

Surigao del Norte and Misamis Occidental are, however, among a handful of provinces^{xx} that have both a high level of poverty incidence and a large number of poor people (NSCB, 2009). The population appears to be staying put, instead of moving towards the provinces and regions with high economic activity as seems to be the case of most other places.

Table 2 Educational attainment in Caraga

Province	Adult functional literacy rate (>15 yrs)	% High school graduates (1997)
Metro Manila	92.4	73.2
Agusan del Sur	71.8	31.7
Agusan del Norte	88.2	41.8
Surigao del Sur	82.4	38.6

Surigao del Norte	81.6	32.6
Misamis Occidental	84.8	37.5
Bulacan	90.6	50.6

Source: Philippine Human Development Report, 2002

One of the barriers to mobility identified in the literature on Philippine internal migration is the low level of educational attainment^{xxi} (Esguerra and Manning, 2007). Table 2 shows that Surigao del Norte and Misamis Oriental both have very low functional literacy rates for adults and a low percentage of high school graduates compared, for instance, with adults in Metro Manila or its environs (Bulacan).

The numbers for Agusan del Sur are significantly worse compared to either Surigao del Norte or Misamis Occidental – which may mean that if education was a barrier to out-migration for these two provinces, then it might also be a barrier for Agusan del Sur.

If Agusan del Sur households are immobile because of low educational attainment, this imposes limits on the diversification of income sources through migration to urban areas by family members. Esguerra (forthcoming) shows that economic mobility or the ability to find gainful employment in urban areas is indeed affected by an individual's educational attainment. Not having a high school diploma may be a poverty trap.

In particular Esguerra (forthcoming), using econometric results, shows that young workers (15-18) from poor families who went to high school but failed to finish high school will have a very hard time looking for work. If they were looking for work in the country's urban areas, it would take them an average of 9.8 weeks to find one. With a high school diploma, however, job search period would significantly be cut to only 5.3 weeks.

Not having a high school diploma affects young workers more negatively as they become older. Older workers (19-24) who are non-high school graduates and are from poor families have an even harder time looking for work. If the needed period of job-search lengthens for this category of workers as they grow older then two possibilities should be worth noting: i) job experience may not count for much if one does not even have a high school diploma – this in turn may result from limited learning capacities of individuals or from limited learning opportunities that come their way during employment² ii) this could lead to impoverishment, especially for poor youth who have started to form their own families and who would then have bigger financial responsibilities.”

Conditional cash transfers then? The section below discusses the relevance of the CCT program to the post-crisis situation in Agusan del Sur. It also discusses some of the results of the piloting of the CCT in two Agusan del Sur towns.

C. Conditional Cash Transfers (CCT)

Conditional cash transfers were recently launched in the Philippines. One might say that this program has been the main crisis response initiative of the Philippine government. Before the crisis, the program was already being contemplated. It was officially launched in September 2007 and piloted in a number of Metro Manila cities in two towns of Misamis

² One might say that it is in such situations that subsidized job apprenticeships become important. Unfortunately even PESOs, apparently, no longer make the effort to find employment for young people who have not finished high school.

Occidental Province, and in two towns of Agusan del Sur province (Sibagat and Esperanza). The pilots were implemented starting December 2007.

After program designs were enhanced following the initial experience in the pilot sites, the plan was to proceed with the implementation of the Pantawid Pamilyang Pilipino Program or 4Ps that will cover 250,000 families.

The onset of the global financial crisis, however, led to an ambitious ratcheting up of the target coverage to one million poor families. In November 2009, the World Bank country office in the Philippines announced the approval of a loan to the Philippine government that would ensure five years of financing for the CCT program in the Philippines.

Program design and prospects of achieving the objectives

As in CCT programs elsewhere, the program uses a geographical poverty mapping and proxy means-testing of individual households in the target *barangays* (sub-municipal) that allows the implementer to bring resources towards the poorest among the poor. The Philippine CCT program intends to reach the lower 40 percent among Philippine households who are below the poverty line. In the latest official surveys 4.7 million families representing 26.9 percent of the nation's households were below the poverty line in 2006.

Under the leadership of the Department of Social Welfare and Development (DSWD) the program will be implemented with the help of local government units, the Department of Health and the Department of Education. The Philippine CCT provides a grant of a maximum of P1,400 per month per family (with three children) on certain conditions: regular school attendance of children and healthcare for pregnant women and children. Specifically, each child will get an allowance of P300 per month provided that the child's school attendance is at least 85 percent during the ten school-year months. The most important conditions for a family to receive the health cash grant of P500 per month are: that pregnant women should have regular pre-natal check-ups, should be assisted by a skilled practitioner during child birth and should have post-natal check ups. Full immunization for newborn children and de-worming for children aged 0 to 6 is also required.

The CCT program has well-defined objectives. It aims to provide incomes for the poorest families at the same time that it also creates the incentives for improved health and education outcomes of the poorest families. A comprehensive description of the program design may be found at the website of the Department of Social Welfare and Development.

At this early stage the most daunting challenge to the achievement of program objectives appears to be found on the supply-side: a) will there be enough classrooms that are accessible to children? ii) will teacher absenteeism be solved, where it is a problem? iii) health services delivery is decentralized in the Philippines, the big question is whether local governments, especially those with in poor areas with very limited fiscal resources, will change their priorities so that a sufficient number of qualified health personnel are hired and so that health facilities are well-equipped iv) finally, behavioral changes are expected from the beneficiaries.

Appendix G summarizes findings from two recent researches. The first research models household behavior; using data from Philippine household surveys it anticipates that

significant achievements can be expected, in spite of the very modest grant amounts. Without discussing the CCT program itself, the second research presents a warning concerning the baseline situation wherein access to health facilities and health programs in general is shown to be highly inequitable.

Other details of the program in the Philippines are contained in Appendix F.

Conditional Cash Transfers in post-crisis Sibagat and Esperanza, Agusan del Sur

The economic conditions in post-crisis Sibagat and in Agusan del Sur have been described in several sections of this paper. Unemployment and underemployment are a major problem; more so given the deep poverty of the province, Table 1 also present the poverty situation in the barangays of Sibagat town.

The transmission of the global financial crisis through the collapse of demand and prices for exports of coconut, abaca, and mining have also been described. The innovativeness, but also the limitation of the government's (SPIN) response of linking up Agusan del Sur enterprises to formal sector establishments in a high-growth region (Cebu) has also been described. Suggestions have been propounded in this paper for creating equity-based vehicles for financing village enterprises and agricultural enterprises and for mimicking the best elements of the successful SPIN program of the Philippine government.

The extreme poverty of households in the province prevents them from making the investments needed to diversify incomes, to establish enterprises and tap opportunities presented by distant markets and to cope with the income shocks resulting from the crisis. Migration to urban and peri-urban areas is seen to be a difficult pathway out of poverty, especially because of the very low educational attainment of the population.

Income shocks have also been described as being correlated at the province-level and community-level; this is due to the reliance on a few agricultural products, in neighboring provinces in Mindanao (Surigao del Sur, Davao Oriental). The correlation of income shocks at the community level may also result from the necessary specialization of village community enterprises that would become suppliers for firms catering to foreign and urban markets.

How are these post-crisis local conditions in Agusan del Sur related to conditional cash transfers?

Through CCT local government budgets are mobilized to address chronic poverty

As the ADB study (Son H and Florentino, 2008) in Appendix G indicates, the conditional cash transfers program in the Philippines can indeed be seen as a viable response to chronic poverty in the country. Using quantitative analysis of previous household surveys the report finds that income improvements by themselves will not lead to significant improvements in household investments in human capital – conditionalities are necessary.

In the context of Sibagat town in Agusan del Sur and perhaps in other CCT implementation areas one fortuitous effect of the program is the reallocation of local government budgets so that these will now be focused on social spending, especially for the decentralized health sector.

Local governments typically invest i) in projects that are visible ii) in expenditures that directly reward political supporters, such as employment in the *municipio* of people coming from an allied clan or the parcelling out divisible goods like rice or fertilizers or small public works. The local political cycle prevents local politicians from paying attention to projects that are not visible and whose impacts have long gestation period, on projects that have inter-jurisdictional spillovers. The investments in education and health are exactly the kinds of investment that local politicians have not been financing, even though these have been devolved to them by the local government code.

In Esperanza, an additional P309,000 pesos was allocated to increase the supplies of medicines at the rural health units, seven additional workers were also deployed to support trainings needed to help both the local bureaucracy and the beneficiaries to comply with CCT program requirements. In Sibagat, where 2,750 households were already receiving cash grants by March 2009, the DSWD's documentation of the pilot (Solloso, 2009) reveals the following:

Twelve remote barangay health centers will be constructed out of the materials salvaged from the old municipal building.

A teacher was hired to serve in a sitio in Barangay Padjay; four additional staffs were employed to help the DSWD staffs who were rolling out the CCT program;

The LGU hired Dr. Jocelyn Andan as a Municipal Health Officer (MHO) in a regular plantilla position. This was followed by the hiring of a nurse and one midwife to adequately serve the increasing number of children and pregnant women availing of health services.

What CCT is not designed to achieve, necessary complements

The CCT program is not designed to be responsive to the idiosyncratic risks faced by individuals. Health insurance, through membership in the Social Health Insurance Scheme of the PhilHealth is the appropriate response to income shocks due to catastrophic illnesses requiring hospitalization or chronic diseases like hypertension and diabetes. Universal social health insurance coverage is expected to be achieved in 2010 and is an important complement to the CCT program of the Philippine government.

The CCT program's monthly cash grants for beneficiary compliance with health and educational conditionalities is not an appropriate response for addressing income shocks due to the loss of employment or due to the decline in the international price of agricultural commodities, or due to droughts that destroy the harvests of various crops. Appendix B, describes the uses of public works schemes in the context of crop-related income shocks. Appendix E shows that these can also be important in the context of the price volatility of metals being mined in Mindanao. Certain design elements may have to be kept in mind, some of which are also discussed in (Esguerra et al, 2002):

First, the procyclical character of local government revenues has to be kept in mind. When mining companies in Davao Oriental closed down, local government revenues also went down. Because local governments have very limited borrowing scope (not to mention willingness) the ability of local officials to expand job creation or income-support programs is negatively affected;

Second, as highlighted by Manasan (2009) national government programs for employment creation need to be carefully targeted. Road maintenance schemes launched under the government's crisis response programs in 2008 and 2009 failed to reach the poorer segment among those affected by the crisis. This was also validated by the information gathered from Davao Oriental mining documentation for this project – the public works jobs that became available based on funding from the national government were given to political supporters of incumbent politicians. The duration of the jobs was also very limited;

Third, employment creation schemes for income support need to be “incentive-compatible” — if there is to be a sharing of expenditures between national and local governments levels infrastructure funds from the national government should be dedicated to the payment of wages, while the local governments share should be for the purchase of construction materials. This will ensure that the public works scheme that will be chosen will be intensive in the use of labor. The national government, as in an earlier pilot program by of the Department of Labor and Employment's Bureau of Rural Workers, should provide the assistance needed for increasing the labor intensity of the technology used in building public works during crises.

Fourth, employment creation schemes through public works should be available on-demand, however, compensation should conform to prevailing rural wage for the unskilled in order to have a mechanism for self-selection of the needy into the program and exclusion of the non-poor. One way of implementing labor on-demand schemes in the Philippines in this manner would be through unsolicited proposals from community groups. The proposals should be subject to competitive bids from other work groups that are also seeking employment. One of the study areas for this paper (Antipolo, Rizal) features local ordinances that would implement employment generation schemes based on infrastructure identified by communities and based on the use of labor-intensive approaches. The country's procurement rules can prove to be a hindrance; local governments in particular are prevented from exceeding expenditure percentage thresholds that would go to compensating personnel.

Finally, based on empirical findings in India and in the context to agricultural areas, Esguerra et al (2002) argues that employment-on-demand schemes should also be seen as instruments for encouraging smallholder farmers to improve the productivity of their underutilized land assets. This may be one program that is appropriate for Agusan del Sur. In India, as well as in other countries, poor farmers protect their households against the possibility of droughts or pestilence by setting aside a few sacks of rice or farm animals whose main use is as a store of value in case of emergencies (Binswanger, 1992). This means that credit-constrained farmers forgo investments that can improve the productivity of their lands and of their crops or diversify their income sources. Therefore, these are programs that can potentially help farmers improve situations in poor agricultural areas like Agusan del Sur..

A proposed division of labor:

Public works CCTs and premature entry of the youth in labor markets

During the Asian financial crisis cum El Nino crisis in 1998-1999 one of the most important

impact of job-loss of a household head is the deployment of women and young children into the labor market. This was documented by Lim (2000).

Typically, the deployment of secondary income earners (women and youth) into the labor markets in search of jobs of last-resort coincides with the rise dropouts from schools. Appendix H provides some documentation on this phenomenon in the city of San Jose del Monte in Bulacan province. Among the middle-class this impact on the young is manifested by the transfer from private schools to public schools. Congestion results.

Among the poorer segments of the population dropping out results. Dropping out was not as marked in San Jose del Monte City as was the phenomenon of congestion in public schools due to the abandonment of private schools by the middle class.

In much poorer areas, however, where unemployment and underemployment spates among adults can have severe effects on the well-being of families the dropping out of children from high school in order to look for work is expected to be a very important second-round effect of adult unemployment. High school students are usually affected by this because they are the ones who are already capable of finding some form of employment that can augment the household's income.

In Agusan del Sur and in the Caraga region, the already low proportion of high school graduates in the population (indicated in Table 2) is probably a consequence of chronic poverty. However, it may also be the consequence of the repeated inability of households to cope with income shocks coming from multiple sources already described in this paper.

There are two possible responses to the phenomenon of youth unemployment that is induced by temporary adult unemployment or underemployment.

First, Incorporate additional incentives into the CCT for keeping high school-aged children in school (12-19 years old). In normal times one might expect that adult unemployment might be mitigated by community level safety nets. However, given the high stakes of finishing high school as described above, it might make sense to augment community-level mutual assistance by kin and neighbors with publicly funded incentives. It is shown in Fafchamps and Lund (1997) that while income shocks from burial and even unemployment can be significantly covered by informal mechanisms of mutual support among kin networks, such income shocks that affect very poor households and non-kin are usually not covered. See **Box 7** below.

Box 7 Under-coverage of the poor in informal unemployment insurance

Using detailed data on gifts, loans, and asset sales, Fafchamps and Lund (1997) investigate how rural Filipino households deal with income and expenditure shocks. They find that transfers are triggered by the contingency of a shock (such as loss of work or failure of crop), and they claim that the system is best described as a system of quasi-credit. In this system, mutual insurance is provided by tightly knit networks of friends and relatives through flexible, zero-interest informal loans, combined with pure transfers. Mutual insurance does not appear to take place at the village level; rather, households receive help primarily through networks of friends and relatives. This highlights the possibility that even the familiarity provided by living closely together in the same area may not suffice to provide reliable modes of monitoring need and ability and willingness to reciprocate in the future. Loans are taken for consumption purposes. Most borrowers and lenders have exchanged loans before, and many

have switched roles in the transaction. Indeed, having provided transfers to other households entitles the provider to call on the support of the borrower once (s)he, in turn, requires support. Few loans require collateral or have a set repayment schedule, and loan contracts are rarely interlinked with other contracts. The majority of informal loans, 80 percent, carry no interest charge.

Other findings of Fafchamps and Lund (1997) reject models of risk sharing that portray informal lending as an efficient mix of perfectly enforceable credit and insurance contracts. Such gifts and loans on average cover the expenses associated with funerals and with the loss of earnings resulting from unemployment of the household head or his spouse.

According to econometric tests, full insurance cannot be rejected at the one percent level for funerals and for unemployment of the head or spouse, but it can be rejected for all other categories of risk such as those associated with acute sickness and mild sickness.

Fafchamps and Lund (1997) also find that poor households, whose capacity to reciprocate is limited by their poor human capital endowments, may not receive as much support as they may need.

Second, public works should augment incomes, especially during periods crises triggered by calamities, general economic slowdown, crop failures and income shocks resulting from price volatility of key crops and mineral planted and mined in the locality. these would ease the pressure on families to prematurely deploy young people into the labor market.

Public works schemes need not be available at all times. But there are meso-level contingencies leading to correlated unemployment and income shocks, such as those described here that cannot be addressed by informal insurance mechanism of community and kin. This is bound to be especially salient in poor communities, like those in the Caraga region.

However, in areas that are infrastructure poor it should be possible to make an exception – employment through public works schemes jointly funded by local and national governments can be made available on-demand, with a view to improving the productivity of local economies in extremely poor localities.

Appendix A

Land planted to various crops in the CARAGA provinces (2008)
(other than rice and corn)

Area Planted/Harvested of Crops (Other than Palay and Corn), in hectares
CARAGA Region, Philippines, 2008

Abaca	CARAGA Administrative Region	9,912	Mango	CARAGA Administrative Region	3,382
	Agusan del Norte	3,250		Agusan del Norte	2,930
	Agusan del Sur	3,180		Agusan del Sur	125
	Surigao del Norte	362		Surigao del Norte	142
	Surigao del Sur	3,120		Surigao del Sur	185
Banana	CARAGA Administrative Region	25,967	Mango	CARAGA Administrative Region	208
	Agusan del Norte	9,002		Agusan del Norte	82
	Agusan del Sur	11,638		Agusan del Sur	65
	Surigao del Norte	1,095		Surigao del Norte	22
	Surigao del Sur	4,232		Surigao del Sur	39
Cabbage	CARAGA Administrative Region	35	Onion	CARAGA Administrative Region	.
	Agusan del Norte	20		Agusan del Norte	.
	Agusan del Sur	7		Agusan del Sur	.
	Surigao del Norte	8		Surigao del Norte	.
	Surigao del Sur	.		Surigao del Sur	.
Calamansi	CARAGA Administrative Region	1,072	Peanut	CARAGA Administrative Region	233
	Agusan del Norte	129		Agusan del Norte	134
	Agusan del Sur	777		Agusan del Sur	39
	Surigao del Norte	66		Surigao del Norte	20
	Surigao del Sur	100		Surigao del Sur	40
Camote	CARAGA Administrative Region	13,568	Pineapple	CARAGA Administrative Region	545
	Agusan del Norte	3,335		Agusan del Norte	258
	Agusan del Sur	2,994		Agusan del Sur	160
	Surigao del Norte	3,113		Surigao del Norte	41
	Surigao del Sur	4,126		Surigao del Sur	86
Cassava	CARAGA Administrative Region	8,562	Rubber	CARAGA Administrative Region	5,546
	Agusan del Norte	975		Agusan del Norte	30
	Agusan del Sur	520		Agusan del Sur	5,500
	Surigao del Norte	3,165		Surigao del Norte	1
	Surigao del Sur	3,902		Surigao del Sur	15
Coconut	CARAGA Administrative Region	219,102	Sugarcane	CARAGA Administrative Region	3
	Agusan del Norte	26,700		Agusan del Norte	1
	Agusan del Sur	12,550		Agusan del Sur	.
	Surigao del Norte	90,000		Surigao del Norte	.
	Surigao del Sur	89,852		Surigao del Sur	2
Coffee	CARAGA Administrative Region	4,047	Tobacco	CARAGA Administrative Region	10
	Agusan del Norte	425		Agusan del Norte	.
	Agusan del Sur	1,498		Agusan del Sur	.
	Surigao del Norte	18		Surigao del Norte	2
	Surigao del Sur	2,106		Surigao del Sur	8
Eggplant	CARAGA Administrative Region	579	Tomato	CARAGA Administrative Region	78
	Agusan del Norte	38		Agusan del Norte	33
	Agusan del Sur	448		Agusan del Sur	20
	Surigao del Norte	18		Surigao del Norte	7
	Surigao del Sur	75		Surigao del Sur	18
Garlic	CARAGA Administrative Region	.	ALL CROPS (other than rice and corn)	CARAGA Administrative Region	292,848
	Agusan del Norte	.		Agusan del Norte	47,342
	Agusan del Sur	.		Agusan del Sur	39,521
	Surigao del Norte	.		Surigao del Norte	98,080
	Surigao del Sur	.		Surigao del Sur	107,905

Source: Bureau of Agricultural Statistics (<http://countrystat.bas.gov.ph/>)

Appendix B

Helping mono-crop coconut farmers weather El Niño droughts

A disastrous drought in 1998 brought severe hardship to Philippine coconut farmers – suppliers of 60 percent of the world’s production of coconut oil – and exposed their extreme vulnerability to risk. By offering coconut farmers a well-designed, flexible public works program, the Philippine government could have significantly mitigated their income and consumption reduction, and even improved their longer-term possibilities for self-protection and for earning non-farm income.

During that time, the annual income of the majority of an estimated two million coconut farming households is P30,000, well below the official poverty line of P70,000 per year for an average family of six persons. Severe dry seasons brought by the El Niño phenomenon, the wild fluctuation of copra prices, and the rise in the production of substitutes to coconut oil in foreign markets caused copra prices to drop to between P2 and P3 per kilo by September 2000, representing a 70 percent drop compared to the 1999 buying price of P8 per kilo.

Because local incomes are low, farmers do not have opportunities for generating non-farm income that do not co-vary with activity in the coconut farms. This means that when incomes from farming are low, it is likely that incomes from other activities are low as well. As a consequence of this covariance of income risk, households are much more limited in helping each other through inter-family transfers and other community-based modes of informal insurance and collective savings. Reduced consumption of essential goods and investment in human capital, cutting of coconut trees and slowdown of re-planting to replace senile trees, and the migration of farm hands into the urban areas are among the most obvious coping mechanisms of affected households and farm communities. These have costly long-term consequences in terms of the loss of assets, the reduction of farm productivity, and loss of human capital.

The risks facing the sector are both cyclical (because of drought) and structural (because of emerging substitutes to coconut oil, although coconut oil is still favored by many international buyers for its better lauric content). But coconut farmers are severely limited in their risk diversification strategies and self-protection. Over half of these farm households are mono-crop plantations; inter-cropping is not practiced and households seldom have other sources of incomes except those activities arising from the harvesting, transporting, and semi-processing of coconuts into copra. These activities also slow down when activity in the farms go through their seasonal slumps, except in areas close to Metropolitan centers which are able to take advantage of diversified opportunities for non-farm production. The barriers for risk diversification are the following: (i) the limited size of the local market for non-food products, (ii) the lack of disposable incomes for investing into new ventures, and (iii) high transaction costs and losses due to spoilage of selling non-coconut products to urban markets because of difficult access to urban centers. It is no wonder that among the agricultural crops as well as animal farming, coconut is reportedly the least attractive for banks (so much so that the secretary of the Department of Agriculture had once proposed a separate financing program for livelihood projects in the coconut sector).

Without discounting the possible use of other policy instruments (such as commodity price stabilization programs), an obvious program to reduce the exposure to risks of coconut growers is labor-intensive public works. It would not only smooth income streams of the very poor workers during the lean seasons, but also put in place the infrastructure needed to improve the linkages to product and labor markets in urban areas. This can go a long way towards reducing the barriers to income and risk diversification (i.e., inter-cropping) of households and communities. Conceivably, households and community organizations with more diversified income sources will also acquire an enhanced ability to tap bank credit for their investment needs. The source of funding will always be an issue, but because the fluctuations in the coconut sector do not necessarily follow the fluctuations in the rest of the economy, this is less of a problem than in the case of public works designed to respond to a generalized slowdown of the economy.

Appendix C

Caraga Facts

Metro Manila caters to both domestic and international markets, thanks to its well-developed connective infrastructure such as ports, airports, road networks and telecommunication facilities. To date, its road density per square kilometer is 10 times the national average; Caraga, on the other hand, has the lowest road density at 0.4 (WB, 2005)

Appendix D

Corporatives: Bringing equity capital into small-holder enterprises

A key challenge for growth in Mindanao provinces is for capital to move into the rural areas. But with farm yields at very low levels and with farmers engaged in rice, banana, corn, and coconut possessing very low skill levels, it would be hard for investors or creditors to passively scan the horizon and come by investment projects that are bankable.

Some rural banks mainly rely on a business approach of taking deposits from the rural areas that would then be invested in risk-free government treasury bills in Metro Manila. Very few would provide assistance in business development. Most creditors take the attitude of assuming that there are either good business propositions or there are none. Rural financial institutions are also risk-averse and require collateral, except for those that lend short-term micro-loans using variations to the Grameen approach.

This appendix describes the corporative approach. Like the SPIN approach, investments are made based on the specifications of the buyers with whom the smallholders will collectively contract through their organization. Unlike SPIN, the corporative approach brings in equity capital, with the equity owners exercising discretion and formal governance authority in running the smallholders' enterprise during the early years. Unlike rural banks, no collateral is required; the corporative sells the organization's produce and remits the net income to the individual farmers after making a mandatory deduction that would pay for the individuals' share capital. Unlike micro-finance institutions, the corporative is heavily involved in constructing a bankable enterprise by being the nexus of contracts between smallholders and large buyers. Unlike micro-financing institutions the smallholders become the owners of the entity that financed their collective investments.

Low productivity, difficult access to markets and requirements for high quality by export markets are key hurdles facing agriculture in Mindanao. On the other hand, production needs to be based on- or complemented by production by smallholders because of the difficulty of consolidating land needed for corporate farms. Business interests from China for instance have been scouting, with much difficulty for 3,000-hectare land parcels in order to achieve scale economies for corn production. Corporations have thus taken the next available option which is to coordinate and aggregate production by smallholders. This is the next-best thing to achieving the volume, competitive production costs, and quality demanded by export markets.

Dasuraicor (Davao del Sur Agro-industrial Corporative, Inc.) is a joint venture of the Land Bank of the Philippines and the One Network Bank. Its corporation by-laws provide for a mandatory ownership take-over by farmer clients once they have built up their share capital.

The Dasuraicor approach bridges the wide gap that prevents the meeting of supply and demand for finance through "supervised agri-production financing scheme." This is described by One Network Bank as entailing the following:

- Look for a long-term buyer and validate if there are mature and risk-free production technologies that can be disseminated to communities of smallholders;
- Establish with long-term buyer what the optimal production volume should be;
- Validate that farmers can make good money by being long-term contract producers, establish a binding contractual arrangement between the buyer, the farmers, the corporative processor (Dasuraicor) and the Bank (One Network Bank), which can provide additional financing;
- Organize farmers and create a firm financed by the venture capital of owners of One Network bank and the Land Bank. This corporative firm will, in due time, be owned by the farmers. The firm (Dasuraicor) will assemble and secure the production technology, set up the long-term contract with the buyer and supply financing for operations and required capital investments;

The bank (One Network Bank) deploys loan officers who are also agricultural technicians responsible for farmers achieving production volumes and standards, instead of just screening

and processing loans.

Adapted from "Financing Supervised Agricultural Production for Small Farmers with Linkages to Long-term Buyers: The One-Agri Product Financing Scheme of One Network Bank" presentation by Alex Buenaventura at the Silang Seminar On International Development Organized by: The International Institute for Rural Reconstruction Y. C. James Yen Center, Cavite, Philippines, 20-21 June, 2007.

Appendix E

Mining Town in Crisis

The mining sector is among those severely affected by the crisis. With the crisis, prices of mining commodities like iron, copper, steel, chromite and nickel plummeted. Among the worst affected is iron, whose price dropped drastically from \$130/ton to just about \$30/ton amid the crisis. As a result, ongoing explorations were aborted, several mining companies closed down, leaving thousands unemployed.

In Surigao del Norte alone, which produces iron and nickel, an estimated 40,000 people were said to have been affected. Apart from those employed by large companies, There were also small mining communities that produce for large mining companies; these were all left with hardly any other means of income. Few would be lucky enough to find temporary employment in construction or in farming areas.

In Davao Oriental, there would have been initiatives by some mining companies and barangays to set up livelihood projects, in anticipation of the effects of the crisis. Mr. Roy de Lima, community relations officer of Core Mining, had already been talking to barangay officials and community members whom they had previously trained in barangay economic enterprise regarding production of organic vegetables, as climate in the area was favorable to organic farming, he said. He had also had talks with Figaro, a Philippine coffee company that buys its coffee from communities and farmers nationwide, regarding the marketing of coffee produced by Calapagan, Lupon in Davao Oriental. But these did not materialize as companies shut down their operations too soon. "Had we been given at least 6 months, we could have set up those livelihood projects," de Lima said.

LGUs could not be relied upon for income support or employment programs, de Lima said. Barangays rely only on IRA and hardly have funds for such employment programs. Municipal mayors have their own set of priorities.

The provincial government held a job fair, de Lima said, but only a handful would land jobs; certainly not enough jobs were available for the thousands displaced. Congressmen would also bring in construction or road cleaning projects but only those with prior connection to politicians would get the jobs. In those projects, de Lima said, only five "new" workers (i.e., not previously employed) would be taken in for short-term, contractual jobs.

Displaced workers thus had to rely on odd jobs and micro enterprises like sari-sari stores to cope with the crisis. In Surigao, nickel production had continued until September and this had enabled households to survive the crisis and save up.

Today, there are signs that households are beginning to pick up the pieces. Along with sari-sari stores that sprouted, a number of small mining firms and communities have also re-started operations. "Meat is now sold on weekends at the public market and people are buying," de Lima said. Some have been able to do some house repairs, he added. Those who went back to mining have bought cellphones, de Lima said with a chuckle, as miners leave their families at home while they work in mining sites.

It is relatively easy for small-scale mining to restart operations, de Lima said; thus, there are far more small-scale mining firms than there are large-scale companies. Large-scale mining firms earn more, he said, but they have large set-up costs and the realization of profits take much longer. Large-scale mining firms have to pay about three to five million pesos fees and bribes for processing of permits, certifications, clearances, and other documentary requirements to national government agencies like the National

Commission on Indigenous People, he said, and this does not include payments at the regional, provincial, and municipal levels as well as to tribal chieftains at the barangay level.

The ease or difficulty of picking up of economic activity in mining also depends on the commodity. Small copper producers can pick up faster, compared, for instance, to iron, de Lima said, because copper can be transported in containers and do not require large shipments. Copper also fetches a higher price than iron. Also, if the iron has large titanium content, this will have to go further processing in Japan, and the titanium would only lose its value because only iron is bought.

There were efforts to organize small-scale mining firms that would supply commodities to large firms/investors. But many of these ventures have failed. Chinese investors would enter into contracts with these small mining firms but end up not getting what they were promised.

Appendix F

Conditional Cash Transfer (CCT) Philippines - Improving the Human Capital of the Poor (*Pantawid Pamilyang Pilipino Program or 4Ps*) Department of Social Welfare and Development (DSWD)

Based on a DSWD Project Description submitted to the Millennium Challenge Corporation.

I. RATIONALE AND DESCRIPTION

A. Towards Poverty Reduction

1. A strategy of inclusive growth is fast evolving as a key agenda of emerging markets in many developing countries, with the end in view of achieving a significant reduction in poverty. Inclusive growth is anchored on three pillars, namely: (a) economic growth can be created by generating full and productive employment; (b) access to economic opportunities can be broadened by providing mechanisms for capability enhancement; and (c) minimum well-being can be ensured by providing social protection. Inclusive growth aims to disperse the benefits of economic development. Safety nets are at the core of inclusive growth, which can be channelled to address the welfare of the vulnerable and needy (ADB 2008)¹.

2. In the Philippines, a wide range of social protection programs is in place. However, the 1997 Asian financial crisis exposed weaknesses in coverage, targeting methodologies and techniques, and operational constraints. These result in significant leakages; resources go unduly to the non-poor and the near-poor amid lack of reliable poverty measures as well as overlaps and redundancies in sectoral or geographical beneficiaries (ADB 2008)².

3. Inadequate human capabilities and limited access to social services are often key factors underlying poverty and inequality in the country. While the Philippines has achieved nearly universal primary education, enrolment in secondary education, at about 73%, leaves much room for improvement. In 2004, the average enrolment rate for the bottom 10% of the population was less than 55% compared to about 75% for the top 10%. Attendance in secondary education is below the national average in the poorer regions. In terms of health services, disparities in access to such services among income groups are even more pronounced. The average access to health services was a little over 30% for the bottom 20% of the population while it was close to 45% for the top 20%.

4. Confronted with these findings, the Government of the Philippines, through the leadership of the Department of Social Welfare and Development (DSWD) was moved to adopt a Conditional Cash Transfer (CCT) Program dubbed as *Pantawid Pamilyang Pilipino Program (4Ps)*. Aside from providing income support to extremely poor households that would encourage them to increase investments in their children's human capital, 4Ps will serve as the lead vehicle through which the many crosscutting issues (e.g. targeting, monitoring and evaluation) will be addressed.

5. The 4Ps - as adapted from the CCT Programs in Latin America - is a poverty reduction strategy that provides cash grants to extremely poor households to allow the members of the families to meet certain human development goals. The focus is on building human capital of poorest families (health/nutrition and education) given the observation that low schooling, ill health and high malnutrition are strongly associated with the poverty cycle in the Philippines.

6. In order to ensure an effective and well-targeted social protection program, 4Ps employs a [i] targeting system to identify the poorest households objectively and to prevent inclusion³ and exclusion⁴ errors, [ii] system verification of compliance that includes a computer system being developed to be installed in the schools where children beneficiaries are attending classes and in health centers where the mothers bring their children for health checkups and immunization, and [iii] a two-pronged monitoring and evaluation (M&E) system to ensure that implementation is done

in accordance with set policies and procedures as well as to evaluate whether the program was able to successfully improve the lives of the beneficiaries in the communities. These are all being undertaken to determine impact and to ensure that assistance is directly given to the deserving and qualified households thereby ensuring a graft free program⁵.

7. Aside from this, 4Ps also helps fulfil the country's commitment to meet the Millennium Development Goals, namely: (a) *Eradicate Extreme Poverty and Hunger*, (b) *Achieve Universal Primary Education*, (c) *Reduce Child Mortality*, (d) *Improve Maternal Health*, and (e) *Promote Gender Equality*. Furthermore, the program is also aligned with the DSWD's goal of poverty reduction and empowering the poor and vulnerable groups of society. Likewise, it is also a part of the Department's Reform Agenda under the National Sector Support for Social Welfare and Development Project.

B. Program Goal and Objectives and Expected Outcome

8. Specifically, the program aims to achieve the following goal and objectives:

Goal

9. To promote human capital development among poor families, especially children, to break the intergenerational cycle of poverty.

Objectives:

- a. To improve the health condition of children age 0-14 years old;
- b. To improve the maternal health of pregnant and lactating mothers;
- c. To raise consumption of nutrient dense foods among poor households;
- d. To increase enrolment/attendance of children in elementary/high school; and
- e. To encourage parent's participation in the growth and development of their children, and their involvement in the community.

Expected Outcomes:

10. Compared to a similar population not receiving the conditional cash transfer, the following outcomes shall be achieved:

a. Health and Nutrition

- ◆ 10 percent increase in the number of pregnant women getting antenatal and post natal care, and whose child birth is attended by a skilled health professional
- ◆ 10 percent increase in the number of children 0-5 years old availing of health preventive services and immunization
- ◆ 6 percent decrease in stunting among children age 0-5 years old
- ◆ 0.5 percent decrease from baseline level in the growth rate of the population

b. Education

- ◆ Current attendance of children to increase by 8 percent
- ◆ Transition rates from primary to secondary school to increase by 8 percent
- ◆ Years of education completed to increase by one year
- ◆ Elementary school gross enrolment rate for children 6 to 12 years to increase by 5 percent
- ◆ Attendance in a school or day care over 85 percent of school days to increase by 10 percent
- ◆ Increased enrolment of children 3-5 years old to day care/pre-school by 5 percent

c. Economic/Poverty

- ◆ Share of food expenditures in the household budget to increase by 4 percent
- ◆ Expenditure on nutrient dense foods (protein rich foods, fruits and vegetables) to increase by 2 percent.

C. Program Package and Conditionalities

11. The poorest households identified as beneficiaries with pregnant women members and children 0-14 years old (3-14 years old children who are attending day care/school) shall receive P500.00 as health and nutrition grant and P300.00 per child as education grant monthly. A maximum of three children beneficiaries shall be covered by education grant. Thus, a household with three children beneficiaries shall receive P 1,400.00 as monthly grants for a period of five years for as long as they comply with the conditionalities of the program.

12. The 4Ps household grantee shall be the most responsible adult person in the household. The monthly grant shall be conveyed via Landbank Cash Cards. Meanwhile, in areas where there are no available Landbank, the available rural banks will be utilized⁶.

13. The Project Management Office (PMO) has focal persons at the Financial Management Service of the Department to handle all matters pertaining to finances and budgets for the operation of 4Ps. All requests and releases of funds for the implementation of 4Ps follow the Department's accounting rules and procedures and are subject to COA audits.

14. Payments to the beneficiaries are processed centrally at the national level, primarily by the PMO, and paid directly to Landbank Batasan Office, and shall be released by the Landbank branch offices in the covered municipalities and provinces directly to the household beneficiaries.

15. As the program stipulates, the provision of cash grant to poor households is based on beneficiaries' compliance with the conditions set forth by the program. These conditions include the following:

- a. Pregnant women shall get pre natal care, childbirth shall be attended by skilled/trained health professionals, and mother shall get postnatal care thereafter.
- b. Parents/guardians shall attend family planning sessions/mothers classes, Parent Effectiveness Service and other topics that are of their needs and interest.
- c. Children 0-5 years old shall get regular preventive health checkups and vaccines.
- d. Children in elementary school must at least receive twice a year de-worming
- e. Children 3-5 years old shall go to day care/pre-school and attend at least 85% of the time.
- f. Children 6-14 years of age shall enrol in schools and attend at least 85% of the time.

16. Strict compliance⁷ with the above specific conditionalities on health and education shall be followed by the household beneficiaries to sustain receiving grants in the program.

17. Proposed areas for the implementation of 4Ps under World Bank financing program are the top twenty poorest provinces in the country comprising Luzon, Visayas and Mindanao. Proposed provinces and municipalities for MCC funding support program are the next twenty poorest provinces in the country located in Luzon and Visayas Cluster provinces. Primarily, the target provinces and municipalities for the MCC are apart from that of the target for WB financing program.

18. Operational design, mechanics and procedures shall be the same following the basic cycles in the implementation of 4Ps such as conduct of community validation and organization of household assemblies, verification of compliance, periodic release of cash grants based on compliance and spot checking in every detail in program implementation. The institutional structures and pattern of collaboration with partner agencies shall also be followed to ensure that appropriate support and commitment shall be elicited in the implementation of the program.

19. Organization of Grievance System at the national, regional and provincial level shall also be established as a mechanism to facilitate due process in resolving complaints and grievances related to 4Ps implementation. Program procedures, systems and components in the implementation of 4Ps ready for replication in other possible expansion areas.

E. Pilot Implementation

23. Pilot implementation¹¹ commenced in the last quarter of 2007 covering 4,589 households in the four municipalities and 2 cities in three regions—CARAGA, Region X and National Capital Region (NCR). As such, the following were the highlights of the said pilot implementation:

Compliance of children beneficiaries with education is high as shown by the marked improvement in their school attendance. Children enrolled in primary education reached 90-95% attendance particularly in the Municipalities of Sibagat and Esperanza in Agusan del Sur (CARAGA) and Bonifacio in Misamis Occidental (Region X)¹⁴

Compliance with health of pregnant women and children 0-5 years old were markedly shown in increase of attendance of pregnant women and children 0-5 years old visiting the health center.

Strong support and commitment of the local executives in the implementation of 4Ps to ensure supply side of the program and in ensuring active participation of focal persons on health and education at the community level involving the midwives and barangay health workers and teachers and school heads. Municipalities in pilot areas hired additional LGU workers to assist DSWD Municipal Link, provided additional transportation allowances to mobile health workers/midwives and augmented school furniture, fixtures, books and supplies.

High-level participation of administration, including, Secretaries and Undersecretaries of DSWD, Department of Education, Department of Health, National Anti-Poverty Commission, Department of Interior and Local Government as members of the National Advisory Committee overseeing the overall implementation and providing appropriate inputs and recommendations in strengthening program implementation and regularity and extensive consultations from the regional to the municipal levels through the Regional and Municipal Advisory Committee involving key stakeholders/partner agencies in the implementation of the program.

Challenges Encountered During Pilot Implementation

a. *Use of cash cards through Landbank of the Philippines using ATM as the most ideal and safest method for receiving cash transfers.* While beneficiaries may have complaints over the cost of having to go to the nearest Landbank ATM (especially from remote rural areas), use of ATM cash cards provide a “sense of ownership and social status” to the beneficiaries¹⁶

b. *Institutionalizing the verification systems, monitoring and spot checking on a regular and timely basis.* This will help assess/monitor compliance with health and education conditionalities, operational processes of the program are functioning as intended and to trouble shoot any process problems that may arise.¹⁷

c. *Social acceptability of the conditionalities on health with respect to cultural beliefs—awareness to and sensitivity to indigenous peoples enrolled in the program and enhanced advocacy and communication component particularly on compliance with health and education conditionalities.*

d. *Institutionalizing 4Ps Grievance Redress Systems at the National, Regional and Provincial Grievance levels.* The primary objective is to facilitate due process in resolving complaints and grievances related to 4Ps implementation, along with this is the implementation of 4Ps advocacy and communication support activities at the barangay to promote public understanding and support .

e. *Encourage but oversee potential projects and initiatives that build on the 4Ps project.* There have been attempts to implement such projects such as cooperatives among beneficiaries, insurance packages for beneficiaries, and rice stores. The Project Management would implement guidelines and policies as to how people initiatives can be rolled out. Potential projects and initiatives by led by the beneficiaries themselves to remove any potential of political maneuvering or manipulation.¹⁸

Appendix G

Two CCT-related studies from the ADB

Son, Hyun H. and Jhiedon Florentino (2008) "Ex-ante Impact Evaluation of Conditional Cash Transfer Program on School Attendance and Poverty: The Case of the Philippines." Asian Development Bank ADB Economics Working Paper Series No. 14

The key messages emerging from the study could be also regarded as recommendations for countries considering interventions through CCT programs.

First, conditionality plays an imperative role in CCT programs. Cash transfer, by itself, will not suffice to increase school attendance significantly, which means that conditionality would have to be introduced. Possibly also, the quality of schooling would have to be improved when administering any cash transfer programs aimed at a sustained reduction in poverty.

Second, the emphasis on targeting helps maximize the program's impact and effectiveness. The results showed that the targeted CCT program would lead to greater school attendance and poverty reduction. However, targeting and monitoring can increase the cost per beneficiary, which reduces the program's efficiency. However, designing a program with a weak or nonexistent targeting strategy not only reduces the transfer cost per beneficiary but also leads to leakages to the nonpoor, driving down its impact and effectiveness.

Third, to ensure success, complementing CCT programs with other components of social policy may prove meritorious. Complementary programs that can manage the supply side of services—such as high transportation costs and quality of teaching—and accommodate the heterogeneity of targeted household behavior will enhance the effectiveness of CCT programs, including the PPP program in the Philippines.

Fourth, good governance is an important component of a CCT program. As is the case for all effective social safety nets, a CCT program should be transparent in operation to encourage learning, minimize corruption, and ensure that beneficiaries and the wider population understand how the program functions. Corollary to this, political support at high levels for the program is one of the main issues to be considered in implementing a CCT program. Such political supports are critical as a CCT program requires coordination across different sectors in the government, particularly education, health, and social welfare.

Finally, it is also imperative to ensure regular monitoring of operations and rigorous evaluation of effectiveness of CCT programs, both *ex ante* and *ex post*. *Ex ante* impact evaluations like the current study would be useful in answering a number of policy-relevant counterfactual questions that *ex post* evaluations are unable to answer.

Son Hyun (2009) Equity in Health and Health Care in the Philippines. Asian Development Bank

Empirical analysis is carried out using Demographic and Health Surveys and Annual Poverty Indicator Surveys conducted in the Philippines.

There is a high degree of inequity in favor of the richest decile of the population for all indicators of health service utilization. Inequity in the proportion of facility-based delivery is particularly high, it highly favors the richest 10% of the population. Less than 10% of women in the lowest wealth decile deliver in a health facility, while about 84% of their wealthiest counterparts deliver in a health facility. Less than one-fifth of deliveries of the poorest pregnant women are assisted by skilled birth attendants such as midwives or doctors, the rest are assisted by traditional birth attendants (called *hilots*) or by families and friends. This finding clearly shows that publicly provided services for child

delivery are utilized more by the non-poor than the poor. This implies that the nonpoor benefit from public subsidies more than the poor, contrary to the stated intentions of public policies.

Overall, the findings indicate that there is a decline in overall utilization of health care. More importantly, equity in health care has worsened during the period under consideration: the nonpoor who are less burdened by illness or diseases receive more health care services, while the poor who bear a greater burden of illnesses receive less health care. The widening inequity favoring the rich is likely to jeopardize achievement of the Millennium Development Goals and other national and regional targets. To counteract the pro-rich inequities it is recommended that coverage in poor communities be increased through appropriate targeting mechanisms and effective service delivery strategies. In addition, policy options that can improve the pricing structure of health care are called for. An example of such options could be a low-income card scheme (the “30 Baht” policy) that had been implemented in Thailand since 2001. Moreover, as prices of drugs in the Philippines are among the highest in Asia, a measure that seeks to reduce prices of essential drugs needs to be effectively and promptly implemented. Equally important is the improvement in the quality of services provided by primary health care facilities such as BHSs and RHUs, which are largely utilized by the poor.

The findings of the study on greater inequities within regions cast doubts on the effectiveness of decentralization in the Philippine health system. This echoes an earlier study on the Philippines by Lakshminarayanan (2003) that shows that decentralization does not always result in greater efficiency, equity, and effectiveness in the health sector.

Five years after the decentralization in the health sector started, health outcomes in the Philippines are stagnant. These findings point to a further need for studies to identify which service delivery mechanisms are effective in the Philippine context. It was also found that equity in utilization of health care services within regions has worsened over the period. This calls for policy interventions tailored to each region or province. As funds, resources, and capacities may be limited, these interventions should be targeted to the worst-performing region or province and directed toward those factors that account for regional differences. For instance, a shortage of BHSs is found to be a factor that explains provincial differences in antenatal care services as well as in seeking treatment for TB among males (ADB 2009).

However, these interventions should be made to work within a devolved structure. Thus, the formulation of province-wide investment plans for health for provinces that do not have such plans should be intensified. These province-wide investment plans can serve as the basis for planning priority health services and determining the assistance the province would require from the national government. At the same time, the national government should increase its capacity to assist the provinces in several areas. One is in providing technical assistance to the local government in planning, which may involve increasing capacity in terms of human resources and skills. The government should also ensure that it promptly fulfills its funding and resource commitments to the provinces. This may require changes in administrative procedures to facilitate fund release to provinces.

To address financial barriers to utilization of health care services among the poor, two recommendations could be put forward. First, the databases of the social insurance system, PhilHealth, should be evaluated to have a more accurate picture of coverage. This will provide better data on the scope of expansion needed to achieve universal coverage. Second, advocacy to enrol the poor in PhilHealth should be continued, particularly in provinces and municipalities where coverage rates for the sponsored population are low.

Appendix H

Crisis and Congestion in Public Schools: San Jose del Monte City

Dr. Amancio S. Villamejor, Jr. (CESO IV). The student population in the public school system ballooned; this has been happening for the past 3 to 4 years, but the economic crisis had a pronounced impact on the population. DepEd's role is to assure achievement of standards to ensure the quality of our graduates; this is done in partnership with the parents, the students and the school owners. We had a dilemma in the cases where we already had double shifting to accommodate the students. We were lucky that we had 7 new schools, 3 in high school and 4 in elementary. We also now have a City Science High School. We were able to ease the pressure on the Sapang Palay National High School with these developments from 8,00, to 6,000 to 5,000.

At the elementary level, we were able to put up Partida Elementary School (ES), which is an extension of Nieto ES; we were able to expand San Roque ES from Grades 1 and 2 only to now cover up to grade 6, and Ricafort ES which also covers up to Grade 6. We were also able to build high schools San Martin (through local initiative), Goldenville (LGU financing), Graceville National High School (through the congressman), and also the expansion of the Minuyan National High School, for 2 hectares beside the Water District.

The City population is growing quite rapidly; we are #1 in Region III, and #2 nationwide. Our growth rate has been at about 12.5 to 13% annually.

Table 3 Estimated population of San Jose del Monte City

Time milestone	Population ('000)
prior	300
2007 elections	500
current	700

The more established schools would be Sto. Cristo, and Kaypian, an integrated school, with a national high school. These schools would generally have the more stable populations, facilities, and resources.

The private school population was about 20,000(?) last school year, and is still the same this school year. <This means that the population did not grow, and that the growth rate + EVS balanced with drop out rate, somehow. We do not have data on historical growth rate.> There are about 120 private schools with authority to operate; these are mostly elementary schools. Definitely, many stopped schooling. ALS is supposed to be some kind of safety net. It is focused on accreditation and literacy. It provides some seminars and reviews.

Table 4 Estimated student population of San Jose del Monte City

Level	Public	Private	~ Population ('000)
ES	57,006	~20,000	77.0
HS	24,640	~18,500	43.1
TOTALS	81,646	~38,500	120.1

TESDA needs high school graduates. I told Mr. Dedicar of ALS to focus on literacy and livelihood training. Sapang Palay, and San Jose Del Monte populations are vulnerable. Even if the public school system is able to catch the drop outs from the private school there are still practical considerations, such as, students who transfer often do not carry their credentials with them, as they still have pending accounts with the private schools that they come from.

The real property tax declined, our programs suffered (teacher aid, supplies, books, school buildings, black boards and chalk.) We opened 3 high schools. San Martin, Graceville, and Golden ville. Goldenville serves a family population of 2,500 relocatees. It has 1 principal, and has 6 classrooms. Its PE classes are held in open space. We were informed by the principal that there will be another batch of relocation coming soon.

In 2008, Cong. Robes financed 100 slots in the Education Voucher Systems, and Dep Ed provided 97, valued at PhP 5,000 per unit, all for the elementary school level.

Goldenville High school raised about PhP 100,000 in value of various goods and services to implement repairs and improvements, soliciting from sources such as the LGU, the LGU SEF, a realty company, softdrinks dealer, PTCA, Principal Teachers, School Fund, Goldenville, SJDMNTS (??). They estimate that this is also being done by other schools, and that in reality they probably need about 10 times this figure to deliver on their required repairs, maintenance and minor improvement projects.

Inn 2007, in the public schools, the shortage was at 263 for teachers, and 174 for class rooms, at an enrolment level of 76,341. Towerville High School did not have books or instructional materials during that time.

There has been a marked decline in the realty tax collected by the city which necessitated campaigns even by DepEd with the parents, reminding them of the value of the realty tax to the city and specifically to education. This did not amount to much. In the immediate two years the scenario was that: PhP 58.0m targeted, only PhP 42.0m was given to them; the target this year was lowered to PhP 45.0m. This means that the decline in realty tax payments is significant. The City DepEd receives about 1.0% of the total realty tax collection, representing the Special Education Fund. This translates to a previous expected realty tax collection of about PhP 5.8B for the city, in 2008, but the actual collection was PhP 4.2B or a decrease of about 38%. This year, they hope that it will be PhP 4.5B, to indicate some recovery.

The direct impact of this is that, the city has not been able to invest in the programmed infrastructure, building maintenance, black boards and chalk, and items for teachers and teacher aides. A specific cluster of schools that has been affected, and therefore the situation has been exacerbated; the last three are high schools in the relocation sites. Supposedly, new teachers would be deployed in these schools if the items arrived.

Table 5 High schools with the highest student:teacher ratio

High School	Total Enrolment	Total Teachers	Student: Teacher
Muzon	3,611	61	59.20
Towerville	1,578	25	63.12
Graceville	412	0	
Golden Ville	407	0	
Overall (HS)	24,640	477	51.66

Table 6 Number of instructional rooms

Elem. School	Total Enrolment	Tot Instruct. Rms	Student: Rms
Muzon	5,364	56	95.79
Golden Ville	1,464	15	97.60
Graceville	1,550	14	110.71
Partida	701	6	116.83
Kaypian	1,414	11	128.55
Overall (ES)	57,006	843	67.62

Towerville ES, though not included on the table, is 11th from the bottom (75.97).

The most apparent pattern was the decline in the population of private schools, however this was somehow averted through the Education Voucher System (EVS) which provided some PhP 5,000/ student/ year support for about 100 students from the public school system studying in the private school system.

The public school system was able to accommodate the deluge from the private school system, not because it was anticipated, but because the province planned for a continuing increase in the

demand for public school services. Bulacan's population growth rate is second highest in the country at about 4.0% per year. Already, Bulacan is the second province in terms of population size. The City DepEd was able to have some new schools opened

For the years 2007-2009, the City DepEd was able to secure 200 items for new permanent teachers; this year (2009-2010) it was only allowed 55 new permanent teachers position.

Muzon is the relocation site established from 1998-2000 during the time of then President Fidel V. Ramos. It is a barangay in itself, probably among the biggest in the area then and now. There were about 3,000 relocatee families, or at least 12,000 individuals.

San Jose Del Monte West Central School has a case of a single class having 20 of 49 students absent. When the DepEd sent a team to investigate the situation, the consistent answer has been lack of work. (There is a feeding program, but they feel that it is quite insufficient, and it is only for those who attend school and while they are in school. This is being supported by in San Manuel by the Madrigal Foundation.)

The Dep Ed has standard programs called the Drop Out Reduction Program (DORP) whose goal is to achieve practically nil drop outs by 2015. It includes components called Open High, the Alternative Learning System (ALS), and Project Ease. The ALS is meant to catch students who drop out and provide a support system when they drop out of school, and a transition so that they could go back to school more easily. The ALS is unable to account for all those who drop out. Project Ease is for students who work, to ease the burden of students who work. Usually these would be in bakeries or in vending. There is also some effort to profile students who are at risk of dropping out.

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- i Exports have massively gone down from more than \$59 billion in 2007
 - ii In 2006 Metro Manila accounted for 32.5 percent of the country's gross domestic product
 - iii Author's computations in Esguerra et al (2001)
 - iv Certain kinds of goods require scale economies in production, with specific locations specializing in particular tasks and components and with the production being located in different countries. For a description of the trade in tasks and components see Gill, Indermit and Homi Kharas (2007) An East Asian Renaissance: Ideas for Economic Growth. Published by the World Bank
 - v See Romero AD (September 10, 2009)
 - vi see <http://www.op.gov.ph/cleep/index.html>
 - vii Interview with the Director and staff members of the National Anti-Poverty Commissions Macro Policy Unit. November 2009
 - viii "NRBSL supports increase in deposit insurance coverage" Press Statement from the Office of the President of the New Rural Bank of San Leonardo, 30 October 2009.
 - ix *ibid*
 - x Although officials of the Department of Labor and Employment like assistant Secretary Theresa Soriano estimated that as many as 50,000 Filipinos working abroad would lose their jobs, remittances did not collapse. They even grew by 14 percent in 2008, despite the crisis. One clear explanation is that those who lost their jobs were replaced by others. Philippine Overseas Employment Administration chief claims that the number of workers deployed abroad went up dramatically by 27 percent in 2008 -- from 1,077,623 deployed in 2007 to 1,376,823 in 2008 (see Jaymalin 2009).
 - xi "While recent estimates show that the number of overseas Filipino workers increased between 2007 and 2008 overall, fewer Filipinos left the country for overseas employment in December 2008 (89,800) than in either November 2008 (106,600) or December 2007 (95,300).⁷⁹. The sharp rise in migrant deployments in 2008 could be followed by return migration in 2009, as recently hired workers are laid off. Over 6,000 Filipino migrants, mostly women working in electronics factories in Taiwan and men working on Middle Eastern construction projects, returned home before the end of the contracts in the first three months of 2009." page 43 Fix et al (2009).
 - xii The size of tradables sector over the years can be measured using the share of manufacturing, mining and agriculture over the years. The employment share of manufacturing and mining has been inching down from around seven percent towards five percent in the past fifteen years. The employment share of agriculture has been inching down towards twenty percent, from 25 percent in the decades before the Asian financial crisis (Lim, 2009). In figure 7 of the monograph Lim (2009) calculates these percentages using a consistent definition of the total labor force, which consistently includes workers waiting for overseas work and "discouraged workers" who would accept work if they were offered it. It would be fair to say, as Clarete (2009) does that the decline in agriculture may also be a result of pre-existing weaknesses.

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- xiii Joseph Lim (2009) shows that the share of investment in GDP has been low and declining since 1990 it was at sixteen percent in 2007 and early 2008 and even went below that in 2000. In contrast, there has been a rise in consumer spending from around 66 percent in 2000 to the high 70s in recent years. This went along with the rise of overseas remittances from workers, which has been driving the rise of the “net factor incomes from abroad” in the national income accounts. Net factor incomes from abroad have more than doubled since 1990, representing more than 11 percent of GDP by 2008.
- xiv In an important sense, both capital and labor now have to be seen as being mobile. Local economies and the country as a whole need to be seen as being in competition with other locations that offer better returns for these factors of production. Unfortunately, as the scale of outmigration depletes the local supply of skilled and entrepreneurial people local economies also become unattractive for capital. This is of course on top of substandard infrastructure and low economic densities that also reduce the attractiveness of local economies. (See de Dios 1997)
- xv intercropping with banana and cassava can increase the net annual income by P28,000 per family, introducing cacao, black pepper, coffee and other fruit trees have been known to yield an additional P50,000 per family. See Pabuayon et al 2008 for examples)
- xvi information is from EntrePinoy
- xvii Interview with Nikkin Beronilla of Sibagat town, Agusan del Sur. He mentions the barangay of Sinai as being one of those severely affected by this decline in demand for abaca.
- xviii In the Philippines, the “Rep.” is the representative of the congressional district to the national legislative body. He controls budgets of various national agencies that typically amount to P60 million per year. In very poor setting like the province of Agusan del Sur and its municipalities, Congressional funds are often bigger than the disposable funds of municipalities. For a reference on these magnitudes see Ramos, Charmaine (2006)
- xix Other things make it difficult for the coconut industry to realize its potential, though these issues are encountered in all coconut areas: one-third of the coconut trees are senile, fertilizer and labor inputs are inadequate, low-yielding varieties are still the rule. What makes matters more difficult for Agusan del Sur is that improvements in coconut industry productivity all require significant investments. The extraordinary levels of poverty in the region again implies that these investments will not be made without financing.
- “Despite the government’s efforts to rehabilitate the country’s coconut farms, full success is limited by the unavailability of seed nuts for replanting. Thus, the PCA in 2008 embarked on an incentive system that would encourage farmers to provide the required seed nuts for replanting. Under the scheme, farmers will be paid up to PhP30 per seed nut that has been fully out planted in the field. Payment is to be made as follows: PhP7 once the seed nut is maintained at the nursery, additional PhP7 when the seed nut is already at the seedling stage of about one foot in length, and finally, an additional PhP16 after out planting in the field for a total of PhP30. For Quezon 1 alone, farmers have some 541,000 seed nuts already being maintained in their nurseries as of mid-2008” (Pabuayon et al, 2008)
- xx others in such a list would be the Bicol region provinces, Misamis Occidental,
- xxi Esguerra and Manning (2007) observe that a) many educated migrants leave the poor and rural areas to find work opportunities in cities in the services and industry sectors and b) overseas migrant workers come from better-off regions