

The Philippine Development Plan, Population Program and Poverty Alleviation

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C O N T E N T S

Tables	iv
Abstract	vi
I. Introduction	1
II. Poverty Situation	4
III. Underlying Causes of Poverty	8
A. Unequal distribution of resources	9
B. High fertility rate	10
C. Inappropriate development strategy	11
IV. Development and Population Policies	12
A. Structural reforms	15
B. Agrarian reform	22
C. Human resources development and social services	24
D. Debt relief and role of official flows	27
E. Toward a more effective fertility reduction	35
V. Conclusion	41
References	45

T A B L E S

1. Comparative Indicators of Population Growth and Economic Performance: ASEAN Economies	2
2. Income Distribution: 1971, 1985	3
3. Poverty Line (per month), Incidence and Magnitude: 1971, 1985	5
4. Average Annual Rates of Growth of Per Capita Aggregates: 1971-87 (in percentages)	6
5. Main Source of Income by Farming Activity, Bottom 30%, 1985 (in percentages)	8
6. Size Distribution of Farms, 1980	9
7. Segmentation of MCRA 15-44 into Contraceptive Need: Philippines 1980-1988	13
8. Selected Indicators of Economic Adjustments, Philippines 1980-88	19
9. Comprehensive Agrarian Reform Program: Area Coverage, Projected Beneficiaries, and Period of Implementation . . .	23
10. Sectoral Distribution of Government Expenditures: Obligation Basis	26
11. Selected Economic and Social Indicators: 1972, 1985-1987	30
12. Selected Indicators of External Debt: 1987, 1988-1987 . . .	36
13. Alternative Population Projections: 1980-2030	37
14. Population Program Expenditures (in million pesos), 1983-1987	38
15. Contraceptive Prevalence Rates for Currently Married Women 15-44 years old: 1968, 1977, 1978, and 1983	39

A B S T R A C T

Notwithstanding the resumption of economic growth, the Philippines still faces a large incidence of poverty and a huge net outflow of resources. A population growth of 2.4 percent and unequal access to productive resources exacerbate the situation.

These challenges have historical roots. Until the 1970s, there was a bias against exports, agricultural and rural development due to excessive tariff protection and foreign loans. The structural adjustment program, started in 1981, did not prevent the 1983-1985 debt crisis when average per capita income fell sharply.

Five areas of policy and program intervention are therefore recommended. First, further structural reforms through market-oriented policies, e.g., privatization, deregulation and decentralization should be pursued. Second, the agrarian reform program should promote equity, productivity gains, and the investment of landowners compensation in rural industries. Third, the quality of education, health and nutrition services should be upgraded in order to raise labor productivity. Fourth, more concessional capital flows and debt reduction measures are imperative. And fifth, fertility reduction efforts should be intensified with greater political will and effective methods.

This five-pronged approach should be implemented within an interactive population, development and natural resources framework in order to achieve economic dynamism and moderate fertility.

I. Introduction

Development and population policies find ultimate significance in their impact on poverty alleviation and sustained improvement of living conditions. In the Philippines, the development plan and population program will only be relevant to the extent they effectively address the specific roots of pervasive poverty and other long-standing structural problems which impede economic growth, while at the same time, reorienting their implications toward human resource development.

The objectives of this paper are: to examine the various aspects and dimensions of Philippine poverty within the context of the Philippine Development Plan and the National Population Program, and to identify issues and areas of concern where policy intervention, program changes, and other actions are needed to attain poverty alleviation and population growth targets in the development process. For the purpose of this paper, the poverty line is defined as the income needed by a family of six in order to support their minimum nutritional requirements based on a least cost diet, and other basic needs.

The implications of the economic performance and population growth of the Philippines can be further appreciated if compared with those of other ASEAN countries. During the period 1965-1986, the economic growth of the Philippines on a per capita basis was the lowest it has ever been. This situation was at its worst in 1980-1986 as a result of the 1983-1985 recession occasioned by a debt crisis. The export share of the Philippine gross domestic product (GDP) was comparable to that of Thailand in 1986, and better than that of Indonesia as a result of the Philippine government's shift to an export development strategy in the 1970s after two decades of promoting import substitution. This strategy shift, however, did not prevent the ensuing debt crisis, given the effects of the capital-intensive, external debt-financed development strategy of the 1970s. Many of the projects implemented with debt financing during that period turned out to be either internationally uncompetitive or having low benefit-cost ratios.

On the other hand, the fall in the population growth rate during the period 1965-1986 was slower relative to those of other ASEAN countries, except for Malaysia which pursues a pronatalist program.

Table 1. Comparative Indicators of Population Growth and Economic Performance: ASEAN Economies

	Real GDP average annual growth rate		Average annual growth of pop(%)		*Av. annual growth rate: real GNP per capita (1965-86)	Share of exports to GDP(%)		Long-term debt as percentage of GNP	
	1965-80	1980-86	1965-80	1980-86		1965	1986	1970	1986
Philippines	5.9	-1.0	2.9	2.5	1.9	17	25	21.8	72.2
Indonesia	7.9	3.4	2.3	2.2	4.6	5	21	29.9	49.7
Malaysia	7.4	4.8	2.5	2.7	4.3	42	57	10.8	77
Thailand	7.4	4.8	2.7	2.0	4.0	18	27	11.1	35.2
Singapore	10.4	5.3	1.6	1.1	7.6	123	n.a.	n.a.	n.a.

Source: World Development Report, 1988, IBRD.

The Philippine population program was, on the whole, characterized by a weak direct fertility reduction component, and until the early 1980s, a lack of integration between population and development planning efforts. Consequently, the relatively poorer performance in both economic growth and fertility reduction resulted in an average real GNP per capita in 1965-1986 of 1.9 percent, which is even less than one-half the comparative performance of Malaysia, Thailand and Indonesia. These figures certainly imply the need to pursue a development strategy which will have the greatest possible impact on raising incomes through, among other things, an effective and integrated population program.

The incidence of national poverty in 1985 was estimated at 59 percent, which was equivalent to about 5.8 million families out of a total household population of 9.8 million. Population growth declined to 2.41 percent in 1987 based on official estimates. As a result of high fertility in the past, the projected annual population increment is about 1.4 million for the period 1987-1992. The supply of labor will rise by at least 850,000 annually during the same period as the labor force participation rate further increases from 65.5 in 1987 to 66.3 by 1992.

Table 2. Income Distribution: 1971, 1985

	1971	1985
Urban		
Top 20%	51.2	50.5
Bottom 30%	8.1	9.7
Gini Coefficient	0.46	0.43
Rural		
Top 20%	51.5	45.7
Bottom 30%	8.2	11.2
Gini Coefficient	0.46	0.37
Total		
Top 20%	54.0	52.1
Bottom 30%	7.1	9.3
Gini Coefficient	0.453	0.446

Source: Family Income and Expenditure Survey, NSO.

These alarming demographic trends are taking place at a time when national resource constraints are more restrictive and total family income remains inequitably distributed. The large public debt means that 45 percent of the national government budget was used for debt service and 31 percent of export receipts from goods and services went to the servicing of the total external debt in 1988. Income distribution remains highly unequal based on a Gini coefficient of 0.446 in 1985, notwithstanding some improvements since 1971 (Table 2). The share of the top 20 percent families to total income fell from 54 percent to 52.1 percent, while that of the bottom 30 percent rose from 7.1 percent to 9.3 percent from 1971 to 1985. Aside from the more uneven distribution of land, the country's natural resources are undergoing an alarming depletion due to unsustainable economic activities resulting in a dangerous 25 percent forest cover (as compared to

an ecologically consistent target of 40 percent). A large portion of the population indirectly depends on the uplands and forest for sustenance. Forest-based communities alone consisted of at least 300,000 families as of 1986.

The economic crisis of 1983-1985 significantly contributed to the adverse poverty conditions in 1985. As a result, real GNP per capita fell to its 1975 level while real personal income per capita plunged to its 1972 level in 1985.

This paper is thus divided into three major parts. Part I describes the poverty situation and its various dimensions based mainly on the 1985 family income and expenditures and other related surveys. Part II explains the underlying causes of poverty such as the impact of a highly unequal distribution of income and productive resources, a high population growth, and the inappropriate development strategy of the past three decades. Part III discusses current initiatives and the policy agenda in the Updated Development Plan for 1988-1992, which addresses these major problems, and their implications. Part IV presents a conclusion.

II. Poverty Situation

The poverty situation deteriorated from 1971 to 1985. The official 1985 poverty line which was estimated at 2,382 pesos per month, represents an incidence of 59 percent compared to only 49 percent in 1971 (Table 3). Urban poverty incidence, however, grew more rapidly (from 38.4 percent in 1971 to 56.1 percent in 1985) than did rural poverty incidence (from 55.6 percent in 1971 to 63.7 percent in 1985). This clearly shows a faster deterioration of urban conditions, although more poor families can be found in the rural areas in view of lower incomes and a larger population base.

Notwithstanding the slight improvement in income distribution in 1985 for the entire country, estimates show that the distribution is worse in urban than in rural areas, which conforms with the more rapid increase in the incidence of poverty in urban areas. Industry, which is largely urban-based, was more seriously affected during the external debt induced crisis of 1983-1985, relative to the agricultural and service sectors. This condition could be attributed to the stronger

Table 3. Poverty Line (per month), Incidence and Magnitude, 1971, 1985

	1971			1985		
	Poverty line	incidence	Magnitude (000 families)	Poverty line(P)	Incidence	magnitude (000 families)
Philippines	-	49.3	3173	2382	59.3	5676
Metro Manila Region (MRR)		33.3	175	3282	44.1	551
Outside MMR		50.8	2998	2285	61.6	5126
Urban	-	38.4	533	2912	56.1	1325
Rural	-	55.6	2465	2066	63.7	3800

Source: Philippine Development Plan, 1987-92.

performance of the latter sectors during that period, and can be mainly explained by the substantive removal of policy biases against agriculture starting in 1981 through structural reforms, i.e., dismantling of agricultural trading monopolies, price control and export taxes, which improved rural economic opportunities. Moreover, rural to urban migration provided some demographic relief to the rural sector. The service sector has traditionally been a net absorber of employment, particularly the informal sector, and further manifested its greater adjustment capacity to the debt crisis.

While no dependable and direct estimates of the poverty trend between 1971 and 1985 exist, the growth in per capita GNP and personal incomes gives us some indication. Per capita GNP and personal income fell by 4.6 percent and 3.9 percent yearly, respectively, in 1981-1985, from an average annual growth of 3.9 percent and 1.43 percent during 1971-1979 (Table 4). This can be attributed to the impact of the world recession in 1981-1982 and the 1983-1985 domestic economic crisis. It is also notable that the growth in real GNP in 1971-1979 was not proportionately reflected in the expansion of personal incomes. In fact, real wages appeared to have fallen during the period as a result of the rapid increase in the labor force. Economic recovery started in mid-1986, resulting in increases in per capita GNP and personal income of 3.0 percent and 0.62 percent in 1986-1987, respec-

Table 4. Average Annual Rates of Growth of Per Capita Aggregates: 1971-87
(in percentages)

	1971-79	1979-81	1981-85	1971-85	1986-87
GNP	3.92	1.10	-4.63	1.00	3.03
Indirect taxes (net)	7.40	-7.33	-5.94	1.25	22.28
Depreciation	3.90	8.80	-2.08	2.84	-1.38
Corporate income	13.11	-1.88	-43.12	-8.92	53.68
Personal income	1.43	-0.90	-3.85	-0.44	0.62

Source: National Income Accounts.

tively. It is not clear, however, whether average real wages increased during this period. This is due to the absence of official statistics, although personal incomes improved, but at a slower rate than the GNP. Administered minimum wages were, however, protected from inflation through statutory adjustments, even though this was limited to 25 percent of salaried workers due to noncompliance and exemptions.

Based on a NEDA study of low-income groups using the 1985 family income and expenditure survey (FIES) data, the per capita annual income of the bottom 30 percent in the income ladder was about 2,538 pesos for the entire year. This is roughly equivalent to 1,269 pesos per month for a family of six members. The average income of the bottom 30 percent is about 53 percent of the estimated national poverty line. These are, therefore, the poorest of the poor. They number about 3 million families, 2.5 million of whom live in rural areas and about 2 million of them dependent on agriculture. The following characteristics are noted:

- a) The average economic dependency ratio of agricultural families in the bottom 30 percent was 2.5, while that of nonagricultural families was 3.5;
- b) The poor families in agriculture had a higher labor force participation rate (LFPR), lower unemployment and a

- higher underemployment rate, which may be due to the deployment of women workers during peak seasons;
- c) The average size of families of the rural poor was 6.3 compared to 5.2 for the rest;
 - d) Rice farmers had the highest average earnings while forestry workers received the lowest; and
 - e) Farming accounted for 65 percent of the main source of income of agricultural families, 11.5 percent of which is drawn from agricultural and nonagricultural wages, while the rest is accounted for by other sources including sustenance activities and crop-sharing.

The poorest agricultural families are also characterized by small farm size averaging 1.56 hectares per family and inadequate access to or use of modern technology (with only 35 percent using fertilizer). The majority (52 percent) of crop-farm families do not own the land they farm, while 15 percent cultivate other farms as tenants or lessees. Only 20 percent have access to irrigation. Only 13 percent used credit (since 1970) and most of those who did (80 percent) relied on informal services. Only 12 percent have benefited from government extension services. They have low levels of educational attainment, with less than 10 percent completing secondary and tertiary education. About 25 percent lack toilets and 80 percent have no access to electricity.

It is independently estimated that as many as 17.0 million Filipinos live in upland communities, or are directly dependent thereon. Although not distinctly treated by the FIES and other surveys, they comprise a sizeable majority among the poorest. Their situation is even more precarious both to themselves and the economy because of the real threat and damage to the environment occasioned by their inefficient exploitation of natural resources. The underpricing of licenses to harvest the public forest as well as the conduct of unsustainable farming methods in the uplands exacerbate the process of depletion of the natural environment.

Most poor urban families are in Metro Manila and highly urbanized areas where they number about 1.5 million. Their average income is half that of urban families. Most of them are engaged in nonformal and service activities, many of which pose occupational hazards, and

Table 5. Main Source of Income by Farming Activity, Bottom 30%, 1985
(in percentages)

	Farming	Wages			Sustenance activities	Net share crops	Other sources	Total income
		Agri- culture	Nonagri- culture	Total				
Rice	69.85	6.80	3.85	10.65	6.82	1.40	11.28	100.00
Corn	62.85	6.65	6.04	12.69	7.65	2.34	14.47	100.00
Sugar	48.53	16.53	0.00	16.53	26.27	0.00	8.67	100.00
Other crops	55.66	9.82	4.01	13.83	11.87	2.89	15.74	100.00
Coconut	66.20	5.99	3.07	9.06	7.81	2.89	14.04	100.00
Fruit	33.77	47.98	0.00	47.98	0.00	0.00	18.25	100.00
Livestock	19.93	12.37	0.00	12.37	0.00	0.00	67.70	100.00
Poultry	35.40	0.00	0.00	0.00	0.00	17.19	47.41	100.00
Others	72.61	4.79	0.00	4.79	7.23	0.00	15.38	100.00
TOTAL	65.15 =====	7.18 =====	4.27 =====	11.45 =====	7.74 =====	2.06 =====	13.61 =====	100.00 =====

Source: 1985 FIES and World Bank, 1988.

live in substandard dwellings which they do not own, in densely occupied areas.

The poverty situation in the Philippines has thus worsened during the 1971-1985 period, particularly in urban areas. The poor, in general, have larger families and lower access to productive resources and public services. As a consequence, their socioeconomic status has hardly seen any meaningful improvement.

III. Underlying Causes of Poverty

Poverty has several dimensions and root causes. But the most fundamental causes are due to three factors: unequal land ownership and lack of access to other productive resources; high fertility rate, particularly among the poorest; and a past development strategy which was heavily biased against agriculture, employment-creation and other economic activities favorable to the poor.

Table 6. Size Distribution of Farms, 1980

Size of farm (ha)	% of farms	% of land area
0.50	8.5	0.7
0.50 to 0.99	14.2	3.1
1.00 to 1.99	28.2	12.2
2.00 to 2.99	18.0	13.7
3.00 to 4.99	17.2	21.3
5.00 to 7.00	8.3	16.6
7.01 to 9.99	2.2	6.5
10.00 to 24.99	3.0	14.5
25.00	0.4	11.5

Source: Derived from 1980 Census of Agriculture, in World Bank Report 6779-PH.

A. Unequal Distribution of Resources

The distribution of land is more skewed than that of income. Based on the 1980 census of agriculture, 68.9 percent of farms accounted for 29.7 percent of land area, while only 5.6 percent of farms occupied 32.5 percent of the land area (Table 6). This situation persisted because past land-reform efforts were limited in scope, i.e., transfer of tenanted rice and corn, and public grants of homestead patents and pasture leases. These resulted in the perpetuation of tenancy relations in many areas and lack of owner-operated lands.

Some 175,000 families have security of tenure through stewardship contracts in 430,000 hectares or 2.6 percent of forest lands. In contrast, timber license holders, which are limited to about 132, have rights over 27 percent of forest lands and pay license, stumpage and other fees which are well below the economic value of timber resources. Access to some municipal fishing areas and well-stocked lakes is also dominated by a few big commercial fleets and concessionaires, although

enhanced communal access is being pursued as an official policy. Marine resources in many areas are being exhausted by improper and ecologically damaging fishing methods. Common-property management systems are, therefore, critically needed to encourage more environmentally safe and equitable fishing methods.

B. High Fertility Rate

Poor families generally have more children. Although older children can be considered assets by families engaged in agriculture, the general impact of high fertility is the reduced capacity of families to save. Moreover, sharing of food and other resources within the family or household can be uneven, with children being the most affected. This is a cause of poor nutrition and less opportunities for economic and social advancement. Household characteristics such as those pertaining to economic status and size, therefore, have significant impact on demographic processes and future characteristics.

The situation of the poor in rural areas is further complicated by the inaccessibility of public services. As indicated in the survey of low-income group families, they have very limited access to basic social facilities and services. They exhibited a preferential need for health facilities and services which include family planning followed by educational services and infrastructure support such as water, roads, and electricity. In fact, the 1986 contraceptive prevalence survey shows that the unmet need for contraceptive use ranges from a low of 22 percent (Region XII) to a high of 36.9 percent (Region VIII, the poorest region) or an average of 29.5 (Table 7). The unmotivated average is 12.8 percent with a low of 4.7 percent (Region VI) and a high of 29.9 percent (Region XII). It is evident, therefore, that even with the family planning program, 42.3 percent of the population were not effectively using any form of contraceptive in 1986.

The population program of the new government which assumed power in February 1986 seeks to improve the quality of life through a process which fully respects the rights of individuals and families to make their own decisions on population matters. Its program thrusts consist of family planning (FP) and responsible parenthood, along with integrated population and development planning.

Under the Family Planning and Responsible Parenthood Program, an additional 1.5 million eligible couples who desire to practice family planning are targeted. Services, meanwhile, continue to be delivered to the 3.8 million who are already covered. This is in order to attain an annual population growth of 2.16 percent with a base of 65.7 million by 1993.

The strategies are to: (a) improve the deployment and quality of family planning service; (b) integrate nutrition, health care and FP services; (c) strengthen IEC; (d) improve manpower and logistic support; and (e) promote population and development integration in policy making and project implementation.

C. Inappropriate Development Strategy

For a country with a high population growth, an employment-oriented development strategy is imperative. But this has been seriously pursued only recently, starting in 1986 under the new government. The trade policy regime in the 1960s favored import-competing industries due to the high level of industrial protection brought about by high tariffs and import restrictions. In the 1970s, a generous dosage of fiscal incentives, financial repression and excessive reliance on foreign borrowings, as well as the overvalued domestic currency and negative real interest rates, favored capital-intensive projects and eroded incentives to export as well as employment-oriented activities.

The structure of industrial promotion and protection prior to 1986 indirectly penalized agriculture, on which the majority of the population and the poor are dependent. Moreover, the policy treatment and institutional arrangements relating to agriculture made the terms of trade even less favorable. Agricultural prices were controlled, exports were taxed to raise revenues and mitigate the inflationary effects of high commodity prices, and trading was subjected to oligopolistic practices. During the period 1960-1982, the rice, corn, sugar and coconut subsectors which were the main sources of food and export crops and where most farmers were productively employed, suffered from negative nominal rates of protection of 14 percent, 6 percent, 35 percent, and 31 percent, respectively, due mainly to direct price interventions and the overvalued peso. As estimated, the

penalty effects on export crops were higher. Notwithstanding the policy advantage given to industry, its contribution to employment generation has remained low at 14.6 percent of total employment as of 1987, from 15.2 percent in 1975. The rate of employment absorption, instead, was highest in services from 31 percent in 1975 to 37.6 percent in 1987. The share of agriculture to total employment fell from 53.5 percent to 47.8 percent during 1975-1987.

IV. Development and Population Policies

The evolution of public policies in recent years can be better appreciated by understanding the impact of the 1983-1985 debt crisis. That crisis was addressed by an adjustment program which placed priority on economic stability over growth and poverty redressal. As a consequence, real GNP growth contracted by 7.1 percent and 4.2 percent in 1984 and 1985, respectively, raised unemployment to 12.5 percent in 1985 but succeeded in curbing inflation from a high of 50 percent in 1984 to 5.7 percent in December 1985. Similarly, import restrictions improved the current account deficit to 0.3 percent of GNP in 1985 from 8.1 percent in 1982 (Table 7).

The stabilization efforts involved cuts in government expenditure, which fell overall by 17 percent per capita between 1979 and 1984. Expenditure per capita in 1984 fell by 30 percent below the 1979 level and health and community amenities fell by one-third.

Economic recovery is now taking place, albeit in fragile terms, given the 2.0 percent and 5.7 percent real GNP expansion in 1986 and 1987, respectively. Growth was 6.7 percent in 1988. The Philippine government approved the Updated Development Plan for 1988-1992 in July 1988 with the following goals and targets.

- a) Alleviation of poverty;
- b) Generation of productive employment;
- c) Promotion of equity and social justice; and
- d) Attainment of sustainable economic growth.

Table 7. Segmentation of MCRA 15-44 into Contraceptive Need: Philippines and by Region, CPS 1986

	PHILS.	NCR	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
1. No need	3.7	2.8	3.6	2.7	3.3	4.1	5.2	3.4	5.5	2.9	3.0	3.3	2.5	5.4
2. Hard core	8.7	3.9	9.9	7.5	7.1	8.9	12.9	3.3	7.4	12.9	9.1	7.9	9.4	8.5
3. Unmotivated	12.8	10.8	12.5	18.8	11.3	9.0	13.7	4.7	12.0	13.4	12.3	7.7	14.6	29.9
4. Unmet need	29.5	24.6	32.1	34.1	26.5	32.0	33.3	29.3	27.3	36.9	30.4	25.7	30.8	22.0
a) Potential users for birth spacing	16.3	13.8	19.7	22.5	17.9	17.6	16.1	14.4	10.5	20.1	12.2	13.1	16.5	7.8
b) Potential users for family limitation	13.2	10.8	12.4	11.6	8.6	14.4	17.2	14.9	16.8	16.8	18.2	12.6	14.3	14.2
5. Current users	45.3	57.9	41.9	36.9	41.8	44.0	34.9	39.4	47.8	33.9	45.2	55.4	42.7	34.2
a) Spacers	25.0	35.1	23.0	27.1	37.3	24.0	17.6	18.1	22.7	16.0	18.3	25.1	22.9	20.0
b) Limiters	20.3	22.8	18.9	9.8	14.5	22.0	17.3	21.3	25.1	17.9	26.9	30.3	19.8	14.2
TOTAL MCRA (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
N	18443	2436	1259	884	1886	2424	1270	1586	1361	1021	1034	1069	1339	874

N.B.

- = Too old/hysterectomized
- Hard core = Do not want more children and do not intend to use FP
- Unmotivated = Want more children and do not intend to use FP
- Unmet need: Potential users for birth spacing = Want more children and intend to use FP
- Potential users for family limitation = Do not want more children and intend to use FP
- Current users: Spacers = Want more children and currently using FP
- Limiters = Do not want more children and currently using FP

Source: 1986 Contraceptive Prevalence Survey, University of the Philippines Population Institute.

The major economic and social targets are:

- a) The incidence of poverty will fall from 59 percent in 1985 to 45.2 percent in 1992 with the number of families in poverty falling from 5.8 million to 5.75 million;
- b) The unemployment rate will decline from 10.6 percent in 1988 to 4.6 percent in 1992 and underemployment rate from 31.7 percent to 25.2 percent during the same period; and
- c) Real GNP and real per capita GNP will grow by 6.5 percent and 4.1 percent annually, respectively, with the highest per capita income attained in 1981 being regained by 1991.

The targets are premised on a favorable world environment, successful implementation of required structural reforms and filling up of an estimated foreign exchange financing gap of \$8.4 billion during the Plan period. The Plan is, therefore, extremely vulnerable to any unfavorable factor under these assumptions. But even if Plan targets are achieved, the ensuing situation will remain difficult in 1992 given the still disturbing poverty and underemployment scenarios.

In order to achieve these development goals and targets, five areas of public policy need to be given the highest priority, namely: a) structural policy reforms aimed at raising productive employment and equity; b) comprehensive agrarian reform to improve access to agricultural and public lands and raise farm productivity; c) human resource development through effective social services to enhance their impact, particularly on the poor; d) external debt relief to reduce the outflow and unproductive use of national resources; and, e) effective family planning to accelerate fertility reduction.

The highest priority needs to be given to job creation to raise real incomes, in conjunction with efforts to redistribute land and improve access to other resources. Such an approach will head off the phenomenon of deteriorating real wages in a period of buoyant economic growth as experienced in the past. The structural changes arising from agrarian and other policy reforms will remove institutional and other market rigidities which stifle private enterprise. They are expected to unleash the underlying potentials of the economy by mobilizing labor and utilizing natural resources in the most productive and efficient manner. Raising the impact of public services will make poverty redressal more effective, enhance human resources deve-

lopment, and help develop a more skilled labor force required for economic dynamism. Relief mainly in the form of debt reduction is needed to sustain the economic recovery process, which started in mid-1986, into the medium term since the projected huge debt-service payments have contractionary economic effects. Resources freed from debt servicing can be productively allocated to key physical infrastructure development and social services. Successful fertility reduction efforts will make the development process more manageable in the long term via a more active investment program through larger national savings. An effective surveillance system, particularly at the local community level, will be required to assess the impact of progress in these policy areas.

A. Structural Reforms

Major progress has been made in restructuring the economy in pursuit of the Updated Plan based on an employment-oriented and rural-based development strategy formulated by the new government. The recent achievements in this direction include tax reforms which involved progressive taxation, reconstruction of the national budget in favor of social services and public investments in rural areas, import liberalization concurrent with tariff reform and a flexible exchange rate policy, and privatization of public assets. These reforms are intended to achieve a more equitable and elastic tax system, to improve social services for the poor and avoid taxing them, to raise industrial competitiveness and labor absorption, to improve the policy environment for rural development, and to minimize government involvement in traditional private enterprise activities.

The following additional steps need to be taken to attain the desired impact of these initiatives:

- a) Implementation of the second stage of the import liberalization program covering about 460 items and requisite tariff adjustments to raise industrial efficiency and minimize oligopolistic industrial arrangements;
- b) Accelerated rehabilitation of the formal rural credit delivery system, i.e., rural banks, development of non-traditional credit sources and conduits such as farmer cooperatives and NGOs, and intensified public

- infrastructure investments in rural areas;
- c) Greater reliance on and vigorous implementation of domestic taxes in view of their more progressive impact and higher revenue productivity relative to foreign trade taxes;
 - d) A more credible privatization program to avoid undue competition with the private sector; and
 - e) Repeal of monetary policies which discourage savings and investments such as the high reserve ratio on banks of 21 percent, the gross receipts tax on banks, the final tax of 20 percent on interest on savings and the mandatory lending of 25 percent of loanable funds to agriculture and agrarian reform.

Import liberalization and the narrowing of tariff dispersion among industries are highly contested policies, particularly when gross international reserves are low. But unless these are pursued further, domestic industries will remain inward-looking, internationally uncompetitive, and dominated by oligopolistic influences. Exports which have fueled the sound performance of many economies in the region will not then be exploited fruitfully. As in the past, import controls and high tariffs penalized agriculture via high-cost industrial inputs, and led to currency overvaluation which reduced incentives to the export and agricultural sectors.

It has been established that only 3 out of 10 farmers take advantage of formal credit to agriculture. Aside from financial deregulation and the removal of policy biases against agriculture, other sources of assistance to poor farmers need to be tapped in the form of public investments for year-round irrigation, farm-to-market roads, and post-harvest facilities in order to reduce processing losses of up to 20-30 percent, and to improve the marketability of farm output. The rehabilitation of the formal rural credit system will encourage more formal savings and provide greater credit resources to off-farm activities which are critical to employment-generation, particularly during off-season conditions. NGOs and cooperatives can be increasingly tapped as conduits of rural credits.

Another element of the structural reform program is the promotion of domestic taxes to achieve social equity. Export taxes were abolished in 1985 and tariff reform has reduced the average tariff rate

to 28 percent in 1985 from 45 percent in 1979. As of 1986, the primary and export sectors had average effective protection rates (EPR) of -1 percent and -5 percent, respectively. These penalty rates contrast with the average EPRs of 13 percent for all sectors, 27 percent for import competing non-exporters and 24 percent of manufacturing. Tariffs generally distort foreign trade even as they are relied upon for industrial protection and revenue purposes. Within the internal revenue system, collection from taxes on profits need to be intensified in view of its higher buoyancy and more positive distributive effects relative to indirect taxes which are generally regressive. Higher taxes on unused urban lands also have to be enforced.

The privatization of publicly acquired assets will eliminate undue government competition with the private sector and lead to the productive utilization of assets most of which, heretofore, have not been operating and creating employment. Budgetary subsidies to unprofitable state-owned enterprises which are financed from borrowings will also be eliminated if the same are privatized. As of the end of 1988, only less than 20 percent of the \$7-billion worth of mainly idle publicly acquired assets have been sold or transferred to the private sector. This is due to legal and administrative bottlenecks and the reluctance of supervising government departments to give up the use of such assets in order to pursue their program targets. Meanwhile, the potential of idle assets in creating more jobs through fresh private equity and other initiatives is not adequately exploited. The excessive reliance of private buyers on the external debt-to-equity conversion program has also delayed sales because of the concern for inflationary consequences.

The Philippine capital market is extremely imbalanced and underdeveloped. There is an excessive reliance on banks as sources of investment funds instead of equity, particularly in closed corporations. Financial intermediation costs are, however, artificially raised by the 21-percent reserve requirement on banks, the tax on gross receipts and mandated lending to agriculture. All these ought to be reduced or eliminated to lower the cost of debt financing. In addition, the rehabilitation of some 450 rural banks and the secondary trading of Land Bank bonds which are used as payment for land transfer under the Comprehensive Agrarian Reform Program (CARP) need to be

Table 8. Selected Indicators of Economic Adjustment, Philippines
1980-1988

	1980	1981	1982	1983	1984	1985	1986	1987	1988
A. GNP, income & employment									
Real GNP (% change)	5.0	3.4	1.9	1.1	-7.1	-4.1	1.8	5.9	6.7
Agriculture	4.7	4.0	3.1	-2.1	2.3	3.3	3.3	-1.0	3.4
Industry	4.7	4.5	2.2	0.7	-10.2	-10.2	-2.1	7.7	8.9
Services	6.2	3.4	3.5	3.2	-7.4	-4.4	2.9	6.6	7.1
Real per capita GNP (% change)	2.3	0.9	-0.5	-1.4	-9.3	-6.5	-0.6	3.4	4.2
Real per capita personal consumption (% change)	1.7	1.4	0.6	0.3	-1.4	-2.5	-1.5	3.7	2.7
Unemployment	8.1	9.1	9.5	10.5	10.4	12.5	11.8	11.2	9.7 /p
Underemployment rate	-	37.3	36.4	37.1	36.4	37.9	35.6	33.6	32.6 /p
Real wages per worker (CPI, 1978=100)	19.4	19.8	18.1	17.5	16.6	16.2	15.4	14.7	15.9
(Av. for the year for workers in Metro Manila)	-	112.1	113.9	109.6	139.0	100.0	105.9	134.4	174.7 (Jan-Oct av.)
SKEM Compensation Index /a									
B. Savings and investment (in percent of GNP)									
Gross domestic investment	30.7	30.7	28.8	27.1	17.4	14.3	13.2	15.4	18.2
National government /b	3.2	4.2	2.8	2.7	1.9	1.5	2.6	1.8	1.4
Public corporations	4.2	5.0	4.5	4.8	2.4	2.1	0.9	1.2	1.1
Others	23.3	21.5	21.5	19.6	13.1	10.7	9.7	12.4	15.7
Total savings	30.7	30.7	28.8	27.1	17.4	14.3	13.2	15.4	18.2

Table 8. Selected Indicators of Economic Adjustment, Philippines (Continued, page 2)
1980-1988

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Gross national savings	25.7	25.7	21.2	19.9	14.7	15.4	18.6	15.4	17.7
Foreign savings	4.9	5.0	7.6	7.1	2.7	1.0	5.5	0.0	0.5
Public sector deficit	5.6	4.9	7.8	6.4	4.4	3.3	11.2	2.7	3.5
of which: national gov't budgetary deficit	1.3	4.0	4.3	2.0	1.9	1.9	5.0	2.4	2.6
private sector (-surplus)	-0.7	0.1	-0.2	0.7	-1.7	-2.3	-5.7	-2.7	-3.0
C. External objectives									
Current account balance (million US\$)	-1904	-2061	-3200	-2750	-1116	-103	996	-539	-551 (Jan-Oct)
Percent of GNP	5.4	5.4	8.1	8.1	3.5	0.3	3.3	0.6	3.4
Export (% change in US\$ value)	25.8	-1.1	-12.2	-0.3	7.7	-14.1	4.6	18.1	23.6 /1(Jan-Oct)
Import (% change in US\$ value)	25.8	2.8	-3.5	-2.3	-18.9	-15.8	1.3	33.6	22.3 /1(Jan-Oct)
Trade balance (million US\$)	-1939	-2224	-2646	-2482	-679	-482	-202	-1017	-1067 (Jan-Oct)
Gross international reserves (M\$) of central bank	3155	2574	1711	865	886	1061	2459	1959	2027
Net international reserves (M\$) /c of central bank	-	51	-1403	-1825	-1810	-1836	-914	-726	-677 (June)
Arrears (million US\$, end-of-period)	-	-	-	1639.0	2690.0	0.0	0.0	0.0	0.0

/1 Public sector deficit prior to 1986 does not include SSS,GSIS, GFIs and CB.

Table 8. Selected Indicators of Economic Adjustment, Philippines (Continued, page 3)
1980-1988

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Exchange rate (pesos/US\$)	7.5	7.9	8.5	11.1	16.7	18.7	20.4	20.6	21.09
Terms of trade (1985=100)	94.5	87.9	92.2	83.4	85.4	100.0	107.9	118.0	133.7(Oct.)
D. Fiscal indicators (P B except percent) /2 (cash basis)									
Revenue effort (%)	13.1	11.8	11.4	12.0	10.8	11.5	12.8	14.7	13.6
Capital outlays	12.9	20.8	18.6	16.1	19.6	23.1	28.4	17.3	13.1
Percentage of government expenditure	33.9	43.2	35.4	30.4	29.3	28.9	25.7	14.4	9.9
Net lending	0.7	0.9	2.2	2.4	4.4	1.7	15.1	7.1	6.5
Percent of government expenditures	1.8	1.9	4.2	4.5	6.6	2.1	13.7	5.9	4.9
Current operating expenses	24.5	26.4	31.7	34.5	42.9	55.3	66.9	95.5	112.5
Percent of government expenditures of which: interest payments (P B)	64.3	54.9	60.3	65.1	64.1	69.0	60.6	79.7	85.2
	2.3	2.4	3.6	5.0	10.4	14.7	21.6	36.9	45.9
Percent of government expenditures	6.0	5.1	6.8	9.4	15.6	18.3	19.6	30.8	34.7
Deficit (P B)	3.4	12.1	14.4	7.4	10.1	11.1	31.3	16.7	21.2
Deficit (% of GNP)	1.3	4.0	4.3	2.0	1.9	1.9	5.0	2.4	2.6

/2 Fiscal indicators for 1988 are preliminary as of Jan. 11, 1989.

Table 8. Selected Indicators of Economic Adjustment, Philippines (Continued, page 4)
1980-1988

	1980	1981	1982	1983	1984	1985	1986	1987	1988	
E. Monetary indicators										
Domestic liquidity (% change)	18.1	21.1	16.1	18.6	7.3	9.6	12.4	11.3	23.4	/d (Nov)
Reserve money (unadjusted) (% change)	10.7	9.2	5.4	48.7	20.6	13.5	31.9	13.8	16.9	(Dec)
Base money	-	-	-	-	-	-	22.3	9.5	15.5	(Nov)
F. Interest rates and prices /e										
Time deposits (all maturities)	14.0	16.7	14.9	17.1	32.7	15.5	9.5	11.1	13.7	(Dec)
Secured loans (all maturities)	16.0	17.1	18.7	21.7	39.7	17.8	13.9	16.3	16.6	(Dec)
T-bills (91 days)	12.3	12.8	14.0	15.4	42.2	16.4	9.5	13.6	16.7	(Dec)
CB bills (all maturities)	-	-	-	-	40.0	16.1	17.4	12.8	15.4	(Nov)
MRR (90 days)	-	-	-	17.1	36.5	12.8	8.5	10.1	11.9	(Dec)
Inflation rate (CPI, end-period)	15.7	10.7	8.5	26.1	50.8	5.7	-0.3	7.4	9.0	
Inflation rate (CPI, average)	18.2	13.1	10.2	10.0	50.3	23.1	0.8	3.8	8.8	

/a Base year used: January 1981=100 for 1981; 1981=100 for 1982 to 1984; and 1985=100 for 1985 to 1988.

/b Includes infrastructure and other capital outlays.

/c Actual, exclusive of external nonmonetary arrears.

/d Data for 1988 refer to the other transfer of the nonperforming accounts of PNB and DBP to the NG.

/e Refers to weighted average interest rates end-year figures.

/f Preliminary.

Note: Growth rates are computed based on same period of previous year.

Sources: NEDA, Central Bank of the Philippines (CBP), National Statistics Office (NSO) and other official sources.

pursued with vigor.

On the whole, this set of measures is expected to trigger desirable structural changes which, together with increased rural investments, will maximize employment-oriented activities. They will also reduce urban-rural income disparities to the extent that rural-based economic potentials are activated.

B. Agrarian Reform

The Taiwanese example and other successful experiences show that agrarian reform, if properly implemented, will be an effective driving force towards rural mobilization, industrialization and employment. A majority of poor agricultural families who do not own land--the most critical productive asset--stand to benefit from the implementation of CARP. The program is based on the principles of just distribution and compensation, and farmers' and farmworkers' right to directly or collectively own the land they till. Republic Act (RA) 6657 implementing CARP, provides, among other things, for: (a) a maximum 5-hectare retention limit plus 3 hectare for each eligible heir and farmer-beneficiary; (b) implementation period of 4-10 years with a phased schedule starting with idle lands and disposable public agricultural lands, followed by those in excess of the retention limit and starting with those above 50 hectares in private agricultural and commercial farms after a period of 10 years; (c) production sharing equivalent to 3.0 percent of gross sales in corporate farms; (d) setting up of about 83 provincial and 42,000 barangay agrarian reform committees to assist in the implementation of the program; and (e) provision of support services. The Program is expected to cover 10.3 million hectares, and benefit 3.9 million farmers and heir-beneficiaries. It is estimated to cost about \$15.5 billion for the period 1987-1997, one-fourth of which is for land compensation (Table 9).

One of the keys to the program's success will be the ability of farmers to use their new land assets productively to enable them to earn higher incomes. Higher farm productivity is a function of the quality of inputs, extension services, farm management, and marketing, which all require substantial government support. The country's experience in the 1970s shows that while rent reduction improved a farmer's income, land transfer had a neutral effect on productivity

Table 9. Comprehensive Agrarian Reform Program: Area Coverage, Projected Beneficiaries, and Period of Implementation

Program	Projected area (hectares)	Percent share	Projected beneficiaries (no.)	Percent share	Period of implementation
Phase I	1454800	14.1	765009	18.6	1987-1992
Rice and corn lands	727800		522675		1987-1991
Idle and abandoned lands	250000		83332		1989-1992
Voluntary offers	400000		133335		1988-1992
PCGG surrendered/sequestered	2500		833		1987-1992
Gov't-owned agricultural lands	74500		24834		1990-1992
Phase II	7487900	72.7	2685302	68.8	1987-1992
Public A & D lands and lands under agricultural leases	4595000		1721000		1989-1992
ISF areas	1880000		626667		1988-1997
Resettlements	478500		159500		1987-1992
Private agricultural lands in excess of 50 hectares	534400		178135		1988-1992
Phase III	1352900	13.2	450966	11.6	1992-1997
Other private agricultural lands					
- 5.01 - 24.00 hectares	1049800		349932		1994-1997
- 24.01 - 50.00 hectares	303100		101034		1992-1994
T o t a l	10295600		3901277		1987-1997

Source: Presidential Agrarian Reform Council.

and income. It was the availability of high-yielding technology, particularly in rice farming, and effective support services which counted most. Moreover, preliminary estimates show that farmers engaged in plantation and export crops are likely to benefit most in terms of income improvement from more favorable management, technology and market conditions. The proliferation of small plots of land may also warrant consolidated farming to achieve economies of scale. Enhanced access to foreign markets of potential agricultural surplus will be essential.

The distribution of land under the Program should consider the equity effects of both land transfer and projected income opportunities. With agrarian reform, it is expected that a more intensified use of labor in smaller landholdings will take place, particularly with multi-cropping, leading to increased employment. Further financial liberalization and the present policy of minimizing credit subsidies should raise the employment-to-capital ratio.

CARP should likewise address the need to productively recycle landowners' compensation. Emphasis should be given to the promotion of small- and medium-scale industries in rural areas, preferably in the form of such postharvest facilities as mills, dryers, grain warehouses and transport facilities. This will promote the retention of land compensation proceeds within the rural areas and minimize rural-to-urban capital flows. An improved agricultural policy regime will intensify external and domestic resource flows toward the rural areas.

C. Human Resource Development and Social Services

The share of public expenditures for social services, particularly health and education, to the total national government budget substantially increased during the 1985-1988 period (Table 10). This trend is in the right direction in view of the high social priority rating of these services and the need to address the social setbacks in 1983-1984. But within each category of social services, much more reform and refocusing of attention are imperative to raise their impact.

The public education system, regressive in many aspects, needs to be corrected. The 78 state colleges and universities (SCUs) are

highly subsidized, offer better quality of instruction and often benefit students belonging to high- and middle-income groups. On the other hand, elementary education is characterized by enrollees coming mainly from low-income groups, poor teaching facilities and substandard training. Retention and enrollment are adversely affected by low cohort survival (elementary) and transition (elementary to secondary) rates which were 65.9 percent and 87.8 percent, respectively, in 1987 (Table 11).

The public education program should, therefore, concentrate resources on the improvement of the quality of primary and secondary education, and the nationwide implementation of free secondary education, as constitutionally mandated. It must effect a gradual shift away from the provision of tertiary education through the 78 SCUs which account for only 23 percent of tertiary enrollment. In the interim, the elementary and secondary programs of SCUs will be phased out while the setting up of new SCUs will be subjected to stricter standards.

Concerning the quality of education, rural pupils generally had lower achievement than their urban counterparts. This fact reflects differences in school inputs and economic status of families. The health and nutritional status of pupils play a very prominent role in terms of their absorptive capacity. On the whole, it has been demonstrated that better schools pay teachers higher salaries while investments in instructional materials, particularly in textbooks, have a high incremental effect on academic achievement. Teachers' training, upgrading of teaching facilities and functional literacy ought to be emphasized. Particularly at the primary and secondary levels, appropriate and timely investments leading to improved quality of schooling are critical to the development of a strong and highly skilled labor force in the long run.

With respect to health, the policy shift from curative to preventive care must be intensified. Due to poor environmental conditions, preventable infectious and communicable diseases still account for about 41 percent of all deaths among all age groups. The infant mortality rate, which was 54.1 in 1987, is one of the best indicators of health. It ranges from a low 44 in Manila to as high as 113 in some parts of the country, implying a wide disparity in the quality of health services among various regions. Infant mortality rates also

Table 10. Sectoral Distribution of Government Expenditures /1
Obligation Basis (In billion pesos, 1985-1989)

Sector	1985	1986	1987	1988	1989 Projections
Economic services	20.8	28.1	25.0	35.6	44.7
Agriculture	4.7	4.9	7.5	13.4	16.2
Industry	1.1	0.7	1.2	1.4	1.3
Utilities & infrastructure	15.0	22.4	16.3	20.8	27.2
Social services	14.9	21.0	27.5	35.9	44.0
Education & manpower dev't.	10.6	14.8	17.0	21.9	29.9
Health	2.8	3.6	4.1	6.0	7.3
Social security & labor welfare /a	0.8	1.1	6.0	7.5	6.4
Housing & community dev't	0.7	1.6	0.4	0.5	0.4
Defense /b	10.1	11.6	12.6	16.8	20.8
General public services	10.3	10.6	12.6	15.6	19.0
Debt service and net lending	31.3	43.2	77.8	86.8	100.4
Net lending	12.5	15.1	7.6	6.5	2.7
Interest payments	14.7	21.6	37.4	45.9	51.4
Debt amortization	4.1	6.5	32.8	34.4	46.3
Expenditures	87.4	114.5	155.5	190.7	228.9

/1 As of August 8, 1988.

/a Projections include allocation for land distribution (CARP).

/b Projections include allocation for the Philippine Constabulary
and Integrated National Police.

Source: DBM.

vary according to the socioeconomic characteristics of families as indicated by such factors as the occupation of parents and residential location. The infant mortality rate is higher in rural areas. From 1973 to 1983, however, there was a faster increase in the rate in urban than rural areas, reflecting largely a more serious increase in poverty rates in urban areas. (See Herrin, April 1988.)

The primary health care (PHC) program should put emphasis on training, improved health facilities, increased availability of cheaper drugs, particularly generic brands, and better target-setting, particularly for the poorest and preschool undernourished children. Nutrition intervention efforts should focus on the primary source of malnutrition by addressing poverty and inadequate intake of nutritious food, instead of treating the problem from a largely medical and clinical perspective. As in the case of tertiary education, leakages in services to the least deserving clients should be minimized through a system of improved targeting and cost recovery. Greater use of private and public medical insurance schemes should be pursued.

Other public services in the form of social housing and social security which are even more inadequate need to be addressed. With high population growth and rural-to-urban migration, there is a need to upgrade the distressingly low quality of shelter of the poor, particularly of those "squatting" or occupying land illegally. Public housing programs hardly reach them due to their inability to provide for a minimum amount of equity and cost recovery. Social security benefits which cover less than 15 percent of the aged, do not cover the self-employed and are well below the needs of the sick, the retirees, and the old. The average household has roughly only two wage earners and cannot provide the principal social security protection to its members, unlike in other countries like Thailand.

The implementation of a more comprehensive but focused social services delivery program would require greater social mobilization at the local community level and more effective surveillance systems. For this purpose, a policy review of the role of NGOs in the development process is being undertaken to help improve their financial and implementing capacities as development partners of government. NGOs will be increasingly tapped in the delivery of specialized services and monitoring of public programs.

D. Debt Relief and Role of Official Flows

The implications of the \$28.65 billion external debt (as of December 31, 1987) are appalling (Table 12). For the period 1988-1992, the net resource transfer to foreign creditors is projected at \$15.3 billion. A financing gap of \$8.4 billion is also estimated after considering existing commitments and obligations to achieve development plan targets. For 1988 alone, debt service payments after rescheduling was roughly \$3.24 billion, or 1,180 pesos per Filipino.

The greatest threat arising from the external debt lies in the possible abortion of the economic recovery process and its accompanying social retrogression which could result from insufficient foreign exchange reserves. As of December 31, 1988, foreign exchange reserves stood at only \$2.0 billion, equivalent to about two months' worth of imports.

Despite comprehensive policy reforms, international private banks resist extending fresh loans. The sound allocation and effective utilization of official flows, therefore, become more crucial. Many foreign loans in the past were either misallocated to less productive endeavors or resulted in nonviable undertakings. In the first half of 1988, 4.6 billion pesos were spent out of the 6.9 billion pesos released for disbursement and 11.5 billion pesos programmed, or a utilization rate of 67 percent. Considering that about \$870 million worth of official commitments scheduled for disbursement was not used, more could have been achieved if absorptive capacity were raised and project implementation were further decentralized. Efforts are now being taken to speed up the process and improve the quality of project selection and implementation through training of project managers, effective supervision and monitoring and other measures.

Donors and creditors, particularly official sources should be more flexible in allowing the government to choose its project priorities such as rural-based and social development infrastructures. Often, there is a tendency for some official sources to influence the choice of projects for funding along criteria which favor their commercial, political and other objectives, but which are not in keeping with those of the Philippine government.

In 1987, no loans for social services were negotiated out of a total \$1.3 billion foreign loans incurred by the national government.

In the case of grants and technical assistance, only \$20 million went to the social sector (education) during the same year out of a total of \$117 million worth of grants. Even during the 1984-1985 crisis years, when the level of social services was critically below needs, only 26 percent of total grants went to this sector. Somewhat indirectly, some foreign assistance which was used for budget support financed some social services.

The same bias holds in the sectoral distribution of the public investment program. Physical infrastructures for social services, such as hospitals and school buildings, accounted for only 4.1 percent and 11 percent of public investments in 1986 and 1987, respectively. Water supply, sewerage and sanitation accounted for 13.3 percent in 1981 and 5.4 percent in 1987 of total investments. The main reasons for this lopsided distribution are the traditional biases in favor of economic infrastructures and lack of funds to provide for complementary operating costs of social infrastructures, such as manpower and recurrent expenditures for maintenance.

The opportunity cost of debt service can be considered to be the foregone social services and their direct impact on human resource development which would have otherwise been financed. In 1988, the budget for social services accounted for 19.3 percent of the national budget, in contrast to 45 percent for total debt service. In fact, the national government budget for 1988 was contractionary to the extent that foreign debt service accounted for 21.3 percent of the said budget.

The response of the international community to the Philippine debt problem has been restrained, even in the case of most official creditors. For the latter, this has been through two Paris Club restructuring agreements covering one-and-a-half year consolidated periods each, unlike the multiyear rescheduling extended by commercial banks which covered five years of grace period and an extended payment period of 17 years under the second agreement with the Philippines. The following are the more notable developments in the mobilization of external assistance: (a) the conversion of some of its official loans by the U.S. government to grants in 1986; (b) the increase in the annual yen credit by Japan to the Philippines from an average of \$230 million under the 12th, 13th and the special yen credits in 1984, 1985 and 1986, respectively, to \$617 million under the 14th yen credit in

Table 11. Selected Economic and Social Indicators 1972, 1985-1987

	Actual			
	1972	1985	1986	1987
I. National income accounts				
Gross national product (million pesos) /a at constant 1972 prices	55939	87867	89611	94680
Personal consumption	40013	65977	66597	70260
Government consumption	5260	8221	8187	8774
Gross domestic investment	10890	11124	10181	12190
Exports	9877	19351	23560	23299
Less: imports	10334	13995	17555	21982
Net factor income from abroad	-525	-2037	-1676	-2268
GNP per capita (in pesos) At constant 1971 prices	1437	10934	11067	12313
II. Other Macro Indicators				
Consumer price index, Philippines (1978=100)				
All items	46.4	352.6	355.3	368.7
Food, beverages and tobacco	48.1	332.0	329.1	343.0
Clothing	42.4	387.3	404.5	416.9
Housing and repairs	44.4	334.3	358.9	376.8
Fuel, light and water	43.4	548.3	511.0	520.1
Services	46.7	366.0	376.9	389.1
Miscellaneous	42.0	345.6	360.5	371.4
Employment indicators				
Past week reference /1				
Labor force (million persons)	12.9	20.5	21.4	22.6
Employed	12.1	17.9	18.9	20.1
Unemployed	0.8	2.6	2.5	2.5
Labor force participation rate(%)	60.2	63.1	63.8	65.5
Unemployed (%)	6.5	12.5	11.8	11.2
Underemployment (%) /2	23.4	37.9	35.6	33.6
Workers placed overseas ('000)	14.4	372.8	378.2	449.3
Foreign exchange remittances of overseas contract workers (million \$) /3	5.0	694.0	696.0	809.0
No. of graduated apprentices and learners under DOLE Training Program	2046	10461	10170	6683

Table 11. Selected Economic and Social Indicators 1972, 1985-1987
(Continued, page 2)

	Actual			
	1972	1985	1986	1987
No. of trainees graduated from NMYC Skills Training Program	16549	72176	89524	164342
Legislated daily minimum wages /4				
Nonagriculture				
Metro Manila	8.0	57.08	57.08	69.33
Outside Metro Manila	8.0	56.00	56.00	69.33
Agriculture				
Plantation	4.8	46.7	46.7	58.5
Nonplantation	4.8	35.7	35.7	47.12
III. Agriculture and agrarian reform				
Agrarian reform (cumulative, since program implementation)				
No. of emancipation patents issued	423	37660	43661	131131
(annual increment)			6001	87470
No. of beneficiaries	423	28801	33237	99300
(annual increment)			4436	66063
No. of hectares	682	28244	33183	113328
(annual increment)			4939	80145
No. of landowners compensated by LBP	94/b	12099	12619	13053
(annual increment)			520	434
No. of tenant beneficiaries under leasehold operations	62622/c	533808	546520	551384
(annual increment)			12712	4864
IV. Population				
Population level (thousand) /5				
Philippines	38917	54668	56004	57356
NCR	4397	6942	7147	7354
Region I	3127	3903	3979	4056
Region II	1803	2521	2584	2618
Region III	4005	5456	5590	5728
Region IV	4446	7089	7287	2488
Region V	3082	3922	4012	4105
Region VI	3862	5092	5207	5323
Region VII	3201	4195	4278	4362
Region VIII	2489	3073	3129	3185
Region IX	1956	2863	2928	2994
Region X	2114	3178	3264	3350
Region XI	2424	3836	3934	4032
Region XII	2009	2598	2665	2733

Table 11. Selected Economic and Social Indicators 1972, 1985-1987
(Continued, page 3)

	Actual			
	1972	1985	1986	1987
Population characteristics				
Crude birth rate (per 1,000 DPN) /6	38.9	32.2	31.7	31.3
Crude death rate (per 1,000 PDPN) /6	10.3	7.9	7.8	7.6
Age dependency ratio (%) /6	91.6	77.8	76.8	75.8
Family planning prevalence rate (per 100 married couples of reproductive age)	23.0	35.1	43.8 /7	43.8 /7
Family planning effectiveness		81.5	75.6 /7	75.6 /7
Population density /6	129.7	182.2	186.7	191.2
V. Education				
Enrollment (in million persons)	9.72	14.6	14.08	14.45
Elementary	7.02	9.4	9.23	9.56
Secondary	1.87	3.4	3.40	3.48
Tertiary	0.83	1.8	1.45	1.41
Cohort survival rate				
Elementary (Gr. I to Gr. IV)	56.7	66.0	65.1	65.9
Secondary (Yr. I to Yr. IV)	66.6	78.3	72.5	72.0
Transition rate (Elem. to Secondary)	70.4	86.6	84.9	87.8
No. of classrooms constructed	419	4196.0	2579	5084
Pupil textbook ratio	10:10	2:1	2:1	2:1
No. of scholarship grants	250	3679	2962	2707
VI. Health, nutrition and family planning				
Life expectancy (in years) /6	57	63.1	63.4	63.7
Infant mortality rate /6 (per 1,000 live births)	78.4	56.8	55.5	54.1
Crude death rate /6 (per 1,000 population)	10.3	7.9	7.8	7.6

Table 11. Selected Economic and Social Indicators 1972, 1985-1987
(Continued, page 4)

	Actual			
	1972	1985	1986	1987
Crude birth rate /6 (per 1,000 population)	38.9	32.3	31.7	31.3
Total fertility rate (%) /6	5.7	4.3	4.2	4.1
Family planning prevalence rate (%)	23	35.1	43.8 /7	43.8 /7
Proportion of preschoolers below 75% of standard weight-for-age	21.5 /8	21.6	19.1	19.0
VII. Housing				
Housing construction (in dwelling units) /9				
Total	4323	35212	18001	29258
Construction of new units	4323	17769	7544	15967
Upgrading of marginal settlements	-	3986	1546	4176
Development of sites and services	-	13457	8911	9115
Housing finance (cumulative) /10				
Mortgage purchases (million pesos)	191.4	1120.2	860.8	1735.7
No. of beneficiaries	991	13495	5345	-
No. of units acquired	973	7173	6449	12424
Pag-IBIG (cumulative) /11				
Membership (in million)	-	2.1	2.1	1.13 /12
Collection (in million pesos)	-	4547.0	5544.7	6375.0
(annual increment)	-	-	997.7	830.3
VIII. Social services				
No. of disadvantaged individuals reached (million persons)	1.07	5.2	5.6	6.1
Service outreach (million persons)				
Self-employment assistance	-	0.12	0.12	0.14
Practical skills development	0.027	0.2	1.18	0.09
Day care and supplementary feeding	0.027	1.8	1.80	1.90
Emergency assistance	2.200	2.5	1.80	3.02
Family planning and counseling	0.045	1.7	1.60	1.50
Special social services	0.008	4.1	4.00	3.80
Social security (GSIS and SSS)				
Coverage (cumulative, in million persons)	3.8	11.4	11.6	11.90
Benefit payments (PM)	267.5	3.2	3691	4594.3
Contributions (PM)	749.5	4.6	4829	7472.2

Table 11. Selected Economic and Social Indicators 1972, 1985-1987
(Continued, page 5)

- /a Target levels of GNP and components were based on preliminary 1986 levels.
- /b 1974 data.
- /c 1973 data.
- /1 Past week reference period refers to the past calendar week preceding the date of interview while past quarter reference period refers to the past three months.
- /2 Percentage of those who worked for less than 40 hours within a week to total employment.
- /3 Remitted through the banking system.
- /4 Data refers to prevailing minimum legislated wage as of the end of the year.
- /5 1985 & 1986 figures are projections based on the 1980 Census of Population and Housing. No actual data are available for noncensus years including 1987.
- /6 1972 figures are projections based on the 1970 Census of Population; 1985, and 1987 figures are projections based on 1980 Census of Population and Housing.
- /7 Covers the period mid-1986 to mid-1987 based on the 1986 Contraceptive Prevalence Survey (CPS).
- /8 1978 data.
- /9 NHA production and government financed construction for 1986 and 1987.
- /10 1972 figures refer to mortgage take outs by NHMFC only; 1986 and 1987 figures include SSS, GSIS, NDMF, and NHMFC releases.
- /11 Pag-IBIG started in 1979.
- /12 Membership decreased since the program was made voluntary in 1987.

1987, and a reduction in interest rate; and (c) the projected allocation of about \$375 million from the ASEAN-Japan Development Fund. The Philippines is currently requesting from Japan at least \$725 million under the 15th yen credit. To be sure, more could be achieved if debt reduction schemes were extended by creditors instead of simply extending fresh loans.

Considering the requirements of the growing population and the existing structures governing health, education and other services, there is a need for more direct and immediate human resource development assistance. (It is notable that Japanese grant-aid in FY 1982-1987 favored human resource development projects.) Out of the total of 455 million yen assistance, 42 percent went to agriculture and food production, 27 percent to education and manpower development, 17 percent to health and sanitation, and 3.5 percent for water supply and sewerage. Only 6.3 percent went to industry, mining and transportation. Moreover, international initiatives such as the UNICEF proposal for the setting up of a fund to buy the debt papers of sovereign debtors and channel the proceeds in domestic currency to programs promoting the development of children ought to be supported.

E. Towards a More Effective Fertility Reduction

In addition to the social costs of the debt problem and pervasive poverty, rapid population growth imposes a more serious challenge with longer-term implications. Projections based on a medium variant of fertility indicate that the Philippine population is expected to nearly double by 2030, with population reaching 107.1 million in 2030 from 57.4 million in 1987 (Table 13). Under alternatively low and high fertility assumptions by 2030, the Philippine population is projected to reach between 97 and 117 million. This problem has several fundamental causes, the most significant of which are the prevalence of low-income families which have higher fertility rates, and the vagueness of the national population policy statement on the strategy and methods for implementation. Public policies and other measures to alleviate poverty have been extensively discussed in national debates. But the issue of rapid population growth and its negative consequences have not elicited much concern until recently; now concern is being expressed from no less than the Philippine

Table 12. Selected Indicators of External Debt Management 1987, 1988-1992

	Dec. 1987	Projected	
		1992	1988-1992
1. Total foreign exchange liabilities (\$B)	28.649	34.811	
Medium-term	23.515	32.029	
Short-term	5.134	2.782	
2. Debt service burden, (DSB in \$)			
Before rescheduling	4571	5659	
After rescheduling	3057	3936	
3. Debt service burden, DSB to current account receipts ratio			
Before rescheduling	49.6	35.1	
After rescheduling	33.2	24.4	
4. DSB to GNP ratio (%)			
Before rescheduling	13.3	10.5	
After rescheduling	8.9	7.3	
5. Net resource transfer to creditors (\$B) /1			15.3
6. Projected external financing gap (\$B) /2	-	-	8.4

/1 Includes projected debt service burden and identified new money as of September 1988.

/2 Includes requirement for reserve build-up.

Sources: NEDA & Central Bank.

Table 13. Alternative Population Projections, 1980-2030

Year	Low variant		Medium variant		High variant	
	Millions	Growth rates	Millions	Growth rates	Millions	Growth rates
1980	48316	-	48316	-	48316	-
1985	54488	2.4	54668	2.4	54761	2.4
1990	60670	2.1	61480	2.3	61894	2.4
1995	66415	1.8	68424	2.1	69447	2.3
2000	71319	1.4	75223	1.9	77209	2.1
2005	75858	1.2	81590	1.6	84970	1.9
2010	80653	1.2	87206	1.3	92516	1.7
2015	85470	1.2	92429	1.2	99614	1.5
2020	89988	1.0	97682	1.1	105946	1.2
2025	93905	0.9	102686	1.0	111696	1.1
2030	97099	0.7	107123	0.8	117099	0.9

Sources: NEDA, Philippine Population Projections, 1980-2030 and Herrin (July 1988).

Congress and the President herself.

The Philippine population program adopts a two-pronged approach through its integration into the overall development program, and pursuit of family planning. Population and development planning efforts are integrated through the traditional consideration of population as a demand variable and the conscious consideration of the impact of development on the demographic processes. This two-way interrelationship is now increasingly recognized and treated in the formulation and implementation of the development plan at both the policy and program levels. Research, training and institutional development activities are being carried out with better and more sophisticated tools in support of initiatives to attain consistency of policies and programs relating to population resources, environment

Table 14. Population Program Expenditures, 1983-1987
(in million pesos)

Year	Total expenditures	Percent Share of Expenditures By Source			
		Total	GOP /a	USAID	Others /b
1983	204.5	100.0	51.5	28.6	19.9
1984	225.0	100.0	52.7	32.0	15.3
1985	247.8	100.0	45.0	29.0	26.0
1986	286.1	100.0	43.7	25.0	31.3
1987	189.5	100.0	45.0	45.5	9.5

/a Includes contributions made by local governments, participating agencies and POPCOM.

/b Includes UNFPA and others from 1971 to 1977, and UNFPA, WB/IDA, and others from 1983 to 1986.

Sources: Herrin (July 1988) and POPCOM.

and development. Nevertheless, there is still room for the active pursuit of this integrative process in some sectoral and regional plans, and in project development and execution.

On the other hand, the policies, programs and methods addressed to directly reduce fertility through family planning are vague and less effective. For instance, the official population policy statement with respect to the desirable family size, and the specific role and commitment of the state to attain this, seems equivocal. There is ambivalence and inconsistency between: (a) the objective of reducing the population growth rate from 2.41 percent with a population base of 57.4 million in 1987 to 2.16 percent by 1993 or a population level of 65.7 million; and (b) the goal of fully respecting the rights of individuals and families to make their own decisions and exercise an informed free choice in pursuing family planning and responsible parenthood.

Moreover, in 1987, only 58.5 percent of the targeted number of

Table 15. Contraceptive Prevalence Rates for Currently Married Women 15-44 Years old: 1968, 1973, 1978 and 1983

Methods	1968	1973	1978	1983
All Methods	15.5	24.4	37.1	32.1
Modern program methods	2.2	10.4	12.5	17.6
Pill	1.3	6.9	4.8	5.5
IUD	0.1	2.6	2.4	2.5
Sterilization	-	0.9	5.3	9.5
Injection	-	-	-	-
Other program methods	5.5	8.0	12.7	9.1
Rhythm	5.5	7.0	8.9	7.1
Condom	-	1.0	3.8	2.0
Nonprogram methods	7.8	6.0	11.8	5.3
Withdrawal	6.2	4.0	9.5	4.3
Others	1.6	2.0	2.3	1.1

Source: Herrin (July 1988).

family planning acceptors were enlisted. The national government contributed only 45 percent of total program funding in 1983-1986 with roughly one-third dependent on USAID. Worse, total expenditures (in real terms) in 1986 were only one half of the peak in 1984 and 14 percent less than 1983 when the debt crisis started. NGO-operated clinics were more effective than those operated by DOH in generating acceptors as of 1985. This is due to the greater familiarity of NGO medical workers on some contraceptive methods, i.e., IUDs and vasectomy, wider NGO network and general lack of public doctors in rural areas.

The situation is complicated by the increase in the proportion of women in childbearing ages to the total population, a decline in the mean age at marriage, and the slow decline in marital fertility. Fortunately, the relative contribution of nonprogram and less effective family planning methods declined in 1983 relative to previous

years.

A more determined and active interventional approach is therefore necessary in view of the negative externalities imposed on society by a high population growth. Due to resource constraints, such intervention cannot be effectively undertaken on a massive scale via increases in freely dispensed contraceptive methods. More impact can instead be generated through more effective IEC programs and a service delivery system which are guided by clear targets and methods.

The participation of the entire community needs to be mobilized by the political leadership with the cooperation of the Church, private organizations and local governments. It is noteworthy that the Catholic Church, a prominent social institution in the Philippines and certainly a key agent in the pursuit of a sound national population policy, recognizes the existence of a "demographic problem which creates difficulties for development," as Pope John Paul II has stated. He maintains that "it is certain that public authorities can intervene, within the limit of their competence, by favoring the availability of appropriate information and by adopting suitable measures, provided that these be in conformity with the moral law and that they respect the rightful freedom of married couples." The full support of the Church crucial to national population management efforts has not been actively solicited. Instead, the Church has limited its endorsement of family planning to natural methods.

While the program has a sizeable acceptance, the problem of many families is the lack of access to the most effective methods, considering the estimated 29.5 percent of families with unmet needs. For the poor, the need for subsidized services is unavoidable but cost recovery is mandatory for other higher income acceptors. Very recently, the National Economic and Development Authority (NEDA) Board decided to: (a) assign the Department of Health (DOH) as the lead agency responsible for family planning service delivery; (b) transfer the outreach structure and its resources from the Population Commission (POPCOM) which is largely a coordinating body to DOH; (c) promote the participation of other agencies in the area of IEC and motivation; and (d) orchestrate NGO family planning services with the health structure. These decisions are expected to improve program implementation. However, a higher motivation of health workers is critically needed to promote FP with the same zeal as other clinical

services such as maternal and child care. The better performance of NGO-operated clinics attests to such need and the necessity of greater impact.

V. Conclusion

The experience of the Philippines in managing the debt crisis in 1983-1985 points to the need for undertaking an economic adjustment process which explicitly upholds the interest and welfare of the poor. The negative effects of that debt crisis were reinforced by the biases of past policies and had more severe social consequences on low-income groups.

Since early 1986, the new government has achieved considerable success in accelerating the economic recovery process with the aid of policy reforms, partial debt relief, and a favorable world economy.

It is, however, still faced with the twin and very serious problems of a heavy debt burden and a very high population growth. These problems are, to be sure, mainly the negative legacies of the past government for which quick solutions are not easy to find. But with resolute and effective countermeasures, these challenges can become more manageable, and lead to a gradual and sustained improvement in living conditions, particularly in achieving the lower poverty incidence target of about 45 percent by 1992.

The most crucial reform measures need to be emphasized. First, development policies must be reoriented to support a growth strategy which will promote rural development and productive employment. In addition, public investment projects must incorporate as much employment content as possible by harnessing local labor with a view to giving the poor the opportunity to earn their sustenance without the need for expensive government subsidies. The experience under the Community Employment and Development Program (CEDP) in 1986-1987 highlighted the wide scope for gains and benefits from employing local labor with preference for the poor through public investment projects. Many rural infrastructures like farm-to-market roads and irrigation facilities can be created with maximum use of labor without sacrificing their structural efficiency. Training on labor-based construction methods will be a necessary ingredient for effective

implementation, considering institutional rigidities. At the macro-level, policy distortions in the form of government intervention in both product and factor markets need to be avoided. The pursuit of flexible wage, interest rate and exchange rate policies is critical in this respect.

Second, CARP must be effectively implemented since such an opportunity for promoting equity with growth comes rarely in the development process. Aside from the need to implement land transfer smoothly, based on market-based compensation to landowners, the government ought to develop a productivity enhancement program which addresses the peculiar needs of the estimated 10.3 million small, and mostly poor, farmers and upland dwellers expected to benefit in the process. Equity in land distribution is only the first step. It is the productivity and profitability of activities of the beneficiaries which will count most. Moreover, the productive recycling of the massive compensation to landowners into a productive source of development financing, particularly for rural off-farm activities, ought to be pursued. This must be tied up with the privatization of many idle assets taken over by government from the private sector due to their financial insolvency. Also, fiscal reforms, such as increased reliance on taxes on incomes, profits and large landholdings, and the regular adjustment of allowable deductions to avoid taxation of the poor, will have a high social and economic impact.

Third, social services need to have a sharper focus due to limited public resources resulting from huge debt servicing and the emergence of additional social priorities like agrarian and urban reform, free secondary education, and burgeoning basic needs arising from a high national fertility rate. This will require a streamlined service delivery system, improved identification and targeting of the poorest population as primary clientele, and an enhanced and local community-based surveillance system. The involvement of NGOs in the design and delivery of developmental services and increased support of foreign funding sources for human resource development projects will heighten the achievement of social objectives.

Fourth, further and substantial debt relief is urgent in conjunction with greater access to export markets particularly in relation to CARP. Debt reduction is the highest priority. No less than a concerned international action will be required toward this end.

There are a few new and encouraging developments. The innovative debt conversion scheme was launched for Mexico earlier this year. The general capital increase of the World Bank has been approved. And a new contingency International Monetary Fund (IMF) facility has been introduced to cushion country programs from adverse external influences. Japan, too, has started the recycling of its capital surplus. But more international cooperation efforts are needed. The World Bank and the IMF must lead more aggressively in reversing the net outflow of resources from creditor countries. The tax and regulatory authorities of creditor countries must offer more active and effective support.

At the end of World War II, the London Accord forgave 70 percent of Germany's prewar debt and put a ceiling on the interest payment of the United Kingdom to 2 percent of foreign exchange earnings each year. The Marshall Plan was launched and brought Europe back to recovery and development. A similar, if not bolder, initiative today is needed. The proposed Philippine Incremental Aid Plan, which is intended to raise substantially the level of current official flows and to plug the net resource transfer of resources to creditors, is a step warranting full international support.

And fifth, effective family planning services and the institutionalization of the demand for smaller families will have to be resolutely pursued. Social institutions and other community enablers must be effectively involved, including the influential Catholic Church. This is not an easy task but the economy and the population cannot afford a less ambitious plan.

These policy and program measures are now evolving, albeit slowly, and hopefully into a national consensus. Faithful implementation and political will are necessary but not sufficient conditions to their successful achievement. It is imperative that these policy and program measures be pursued within an interactive population, development and natural resources framework if the Philippines is going to improve its capability to alleviate poverty and improve the sustainability of long-term growth and fertility reduction.

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