

FOURTH PILLAR:

Instituting Social Reforms to Improve Equity

Economic growth alone cannot sufficiently address the issue of inequitable distribution of wealth. According to development literature, a growth that is broad-based and beneficial to the poor leads to a greater decline in poverty. Economic policies should be complemented with the appropriate social reform policy interventions which empower the individual to be productive agents in the economy, and ultimately, in society. Empowering individuals is in itself an opportunity to improve the distribution of wealth in the country. One reason why the poor people remain in their state and are continuously being left behind is their inability to take advantage of the opportunities offered by economic progress.

With limited education and limited access to health services, the poor are not adequately prepared to engage productively in society. Empowering the poor is a necessary ingredient of development, and gives them equal chances in participating in the economic development process. Human capital assets are considered an important factor in the pursuit of sustained economic growth. Empirical studies have shown that improved human capital contributes to increased economic development. Countries with well-trained and healthy workforce do experience increased labor productivity that attracts foreign investors. Foreign investors tend to locate their businesses in areas where a competent labor force is present. In effect, investments in human capital translate to probable increases in financial capital. For a country which has lagged behind other Southeast Asian countries in attracting foreign investments, improving and enhancing its labor force's competencies potentially increases the Philippines' competitiveness. It is in this context that social reforms must be adopted. Economic policies should be complemented with the appropriate social development policies to ensure that a balanced development outcome is achieved. In pursuing social reforms, it is suggested that a comprehensive approach to human development be implemented.

A comprehensive approach to human development means more investments in education, health, housing and other human capital services. Apart from the provision and increased access to social services, a comprehensive human development approach involves reforms directed to address the security aspect of the individual's livelihood and employment. Reforms in the area of expanding access to land and labor opportunities protect the poor from possible unanticipated income shocks.

Government expenditures in the social services sector have been above the 20 percent level (as a percentage of total government expenditure) throughout the different administrations since 1975 (See Table 18). This level of government spending on the social sector is consistent with the 20/20 initiative? of developed and developing countries in ensuring equity through a fixed budgetary allocation for social services.

Likewise, it should be noted that among social services, the education sector has traditionally received the most resources. (See Table 19) This signifies the importance given by all administrations to education.

Despite this level of government expenditure on social services, recent trends seem to indicate that such government commitment to the sector is slowly decreasing. In the last four years, budgetary allocations for social services have been declining. According to the study of Manasan (2003), national government expenditures for social services decreased to 22.20 percent as a percentage of the total budget in 2003 from 24.31 percent, 22.63 percent, and 22.89 percent in 2000, 2001, 2002 respectively. Investments in human capital are suffering because of the fiscal problems of government. Government's decreasing budget for the social sector is a cause for concern.

Table 18. Percent Distribution of National Government Expenditures, By Sectoral Classification, 1975-2004

	1975-1985 (Marcos)	1986-1992 (Aquino)	1993-1998 (Ramos)	1999-2000 (Estrada)	2001-2004 (Arroyo)
Total Social Services	19.97	20.71	24.12	25.32	22.42
Total Economic Services	42.27	24.16	20.85	18.82	14.06
National Defense	12.46	7.13	6.16	5.54	5.08
Total Public Services	10.72	12.17	14.48	13.25	12.53
Others	5.21	6.34	14.46	17.50	18.29
Debt Service	9.38	29.49	19.97	19.57	27.61

Source: Manasan (2003)

Table 19. Percent Distribution of National Government Expenditures for the Social Services Sector By Average Years and Administrations

	1975-1985 (Marcos)	1986-1992 (Aquino)	1993-1998 (Ramos)	1999-2000 (Estrada)	2001-2004 (Arroyo)
Total Social Services	19.97	20.71	24.12	25.32	22.42
Education	12.51	14.72	17.41	17.96	16.33
Health	4.02	3.73	2.56	2.33	1.74
Social Security, Welfare and Employment	1.06	1.55	3.49	4.06	4.11
Housing	2.39	0.71	0.67	0.98	0.25

Source: Manasan (2003)

A. Prioritizing Social Reforms

Given that social reforms are important ingredients in achieving the goal of sustained economic growth and that the present financial capacity of the government is constrained by fiscal position problems, there is then a need to prioritize social reform interventions. This prioritization means concentrating government efforts to social reform measures which will give the highest contribution to the objective of sustained high economic growth.

B. Education Sector

The education sector's important contribution to development is based on the assumption that a better educated or trained worker would be more flexible and productive. Similarly, an educated populace, particularly the poor, can better take advantage of any economic opportunity that may arise due to progress. Given this premise, it is therefore important that reforms be made to make quality education and training accessible.

At present, the provision of quality education and training is beset with several challenges that need to be addressed. The dismal performance of students in the National Elementary Assessment Test (NEAT) and, National Secondary Assessment Test (NSAT) and the National Achievement Test (NAT) in English, Math and Science competencies reflect the deteriorating quality of Philippine

education. According to the National Educational Testing and Research Center of the Department of Education, for the school year 2000-2001 students from public schools got mean percentage scores' of 51.39 and 51.91 in the NEAT and NSAT respectively. Similarly, students from private schools did not fare much better and got mean percentage scores of 55.40 in the NEAT and 57.52 in the NSAT.

In the National Diagnostic Tests held last June 2002 by the Department of Education, which tested Grade 4 students for grade 3 competencies and First Year students for Grade six competencies, Grade 4 students got 40 percent of total as correct answers while First Year students got 28 percent of total as correct answers. This deterioration in quality is brought about by the inadequacy of textbooks, classrooms and chairs; the low quality of teaching and learning; weak educational foundation during childhood; and uneven distribution of teachers across regions.

Another issue that needs to be addressed is the high drop out rate in elementary and high school. Less than 70 percent of Grade 1 entrants actually graduate from Grade 6 and less than half of Grade 1 entrants complete high school.

Table 20 below shows cohort survival, completion and drop out rates in elementary and high school in the Philippines.

Table 20. Basic Education Indicators, in %

Indicators	SY 99-00	SY 00-01	SY 01-02
Participation Rate			
Elementary	96.95	96.77	94.54
Secondary	65.43	66.06	1.06
Cohort Survival Rate			
Elementary	69.48	67.21	67.13
Secondary			
Based on Grade 1	48.68	49.76	49.86
Based on First Year	72.08	73.05	73.16
Completion Rate			
Elementary	68.38	66.13	66.33
Secondary			
Based on Grade 1	47.20	48.10	71.01
Based on First Year	69.89	70.62	48.39
Drop Out Rate			

Elementary	7.72	7.67	n.a.
Secondary	9.55	8.50	n.a.

Source: Department of Education, (Factsheet as of Sept. 27, 2004)

Investment in education is also low when compared to other countries. The Philippines' total public expenditure on education as a proportion of GDP is just 3.2 percent while Thailand spends 5 percent, Malaysia 7 percent and India 4.1 percent of GDP (Please refer to Table 21 below).

Table 21. Education Expenditure Comparison

Country or Territory	Public expenditure per student as a % of GDP per capita			Total public expenditure on education	
	Primary	2001/2002 Secondary	Tertiary	% of GDP	Of govt. exp.
Philippines	11.8	9.4	13.9	3.2	14.0
Rep. of Korea	17.2	16.9	7.4	3.6	17.4
Thailand	15.9	13.0	31.1	5.0	28.3
Malaysia	17.0	27.6	83.5	7.9	20.0
Bangladesh	8.3	13.4	42.5	2.3	15.8
India	13.7	23.0	85.8	4.1	12.7
Japan	22.1	21.8	17.5	3.6	10.5
United States	21.1	23.9	26.5	5.6	15.5

Source: World Education Digest, 2004

More than the problem of access, the government must prioritize completion and quality of the country's basic education.

Direction for Reforms:

- *Review the Magna Carta for Public School Teachers* to look for means to effectively deploy teachers in order to address the low pupilteacher ratio in elementary and high school.
- *Rationalize the public higher education sector* by re-focusing the mandate of state universities and colleges based on area of academic and research expertise.
- *Conduct a study on the special education fund of the LGUs* focusing on the fund's efficient and optimum utilization.
- Address *financial constraints* to meet classroom and *book* shortages and

teacher training.

C. Health Sector

The performance of the Philippine health sector has produced encouraging results, most particularly since the implementation of the Health Sector Reform Agenda. Infant mortality rate was reduced from 57 in 1990 to 35 per 1,000 livebirths in 1998 while the children-under-five mortality rate also decreased from 80 per 1,000 live births in 1990 to 48 in 1998. Maternal mortality improved for the period 1991-97 at 172 per 100,000 live births compared to the maternal mortality rate for the period 1987-93 of 209.

Morbidity rates from infectious diseases such as malaria and tuberculosis (TB) have also improved (refer to Table 22). Life expectancy has also increased to 66.3 years for males and 71.6 for females in 2000. Although these figures suggest that the sector is unproblematic, studies have noted that the sector is financed inadequately. Similarly, health service delivery seemed to be unfocused due to the devolution provided for under the 1991 Local Government Code.

Table 22. Mortality and Morbidity Rates from Infectious Diseases, Philippines

Infectious disease	Mortality Rate (cases per 100,000 population)	Morbidity Rate cases per 100,000 population)
Malaria 1998	0.9	73
1990	1.5	123
Tuberculosis 1995	39	<i>n. a.</i>
1975	69	<i>n. a.</i>

Source: Department of Health

Direction for Reforms:

- *Increase delivery of primary health care.* There is a need to prioritize government immunization programs and social health insurance.
- *Re-tool and re-train the health professionals.* Health and program managers at the national, regional and local levels must update their leadership and management skills and knowledge given their new roles in the delivery of health care services devolved to local governments.
- *Develop and strengthen the technical expertise of public health practitioners* particularly on disease surveillance and epidemiology, health risk assessment, research, policy and standards development, project development, disease prevention and control, and health promotion.

- *Improve the role of the local government in health care delivery and financing.* Local governments should find ways to increase resources for health services and make delivery of health care services more efficient and effective.
- *Adopt and implement priority programs and policies to improve maternal health that include information, education and communication (IEC) activities* to encourage informed decisions and promote better health particularly among the urban poor.

D. Housing Sector

The provision of shelter is important as it positively affects an individual's predisposition to work and outlook in life. Shelter is an important asset of the poor which they are hesitant to part with even in times of economic hardships since it provides a sense of security, prestige and dignity. Access to decent shelter, however, has always been a problem for many Filipinos, especially in the urban areas. According to the estimates of the Housing and Urban Development Coordinating Council (HUDCC), a backlog of 3.6 million housing units is expected by 2004. As of October 2000, there has been an estimated 7.5 million informal settlers in key urban centers in the country, with 57 percent in Metro Manila. The lack of funding assistance and the private sector's reluctance to invest in low cost housing has been cited as reasons why the squatting problem has persisted.

Direction for Reforms:

- *Prioritize government funding assistance.* There is a need to focus government funding assistance to the low-income groups, particularly those availing the socialized housing packages worth P225,000 and below. It would be best to allocate such resources in the sector which do not attract much financial support. Similarly, with limited resources there is an urgent need to make subsidies well targeted.
- *Encourage private sector investment in low cost housing.* Government should encourage the private sector to invest in the low cost and socialized housing. To maintain construction costs to a minimum and thus make investments in these sectors viable, the government can provide the private sector with technical assistance on low-cost housing technologies.
- *Encourage community approach home-ownership.* Continue the community approach in home-ownership. Based on the experience of the Community Mortgage Program (CMP) of the National Home Mortgage Finance Corporation (NHMFC), this type of home-ownership is wellreceived by the

poor as shown by their high amortization payment rate. According to NHMFC, the CMP which started in 1989 has averaged a 77.61 percent collection efficiency (as of June 2004).

E. Access to land

One of the primary objectives of the Comprehensive Agrarian Reform Program (CARP) is the promotion of social equity by transferring land property rights to farmers. Its successful implementation is hindered, however, by the slow land distribution process, land valuation, premature conversion of agricultural lands to residential and commercial uses, and limited access of farmers to credit.⁹

Another major stumbling block to the land reform process is the land valuation issue which springs from the country's inconsistent land laws and inadequacies in land management. Only recently has the formula for land valuation been revised effecting an increase in land values that are more tenable to landowners. The premature conversion and reclassification of lands have also deprived beneficiaries from owning land which is rightfully classified within the land reform program. Moreover, farmer's access to credit from formal sources has been limited primarily because the law prohibits land collateralization within 10 years from the awarding of titles.

Direction for Reforms:

- *Allow farmers to use land as collateral.* Enact a law that will allow land to be used as collateral in securing credit from formal lending institutions.
- *Enact and implement a national land use policy.* Pass a comprehensive land use act that will delineate forest lands and agricultural land areas with proper consideration of the areas' supply and demand requirements and productivity trends.
- *Increase tax on idle lands.* Provide disincentives for keeping land idle by increasing idle land taxes. This will help also minimize land ownership for speculative purposes and minimize conflicts among landowners and the government.
- *Adopt a more acceptable land valuation system.* Find a strategic formula for proper land valuation that will be acceptable to private individual landowners.
- *Ensure efficient use of government funds.* Review the mandates of the related government agencies to ensure efficient utilization of resources in

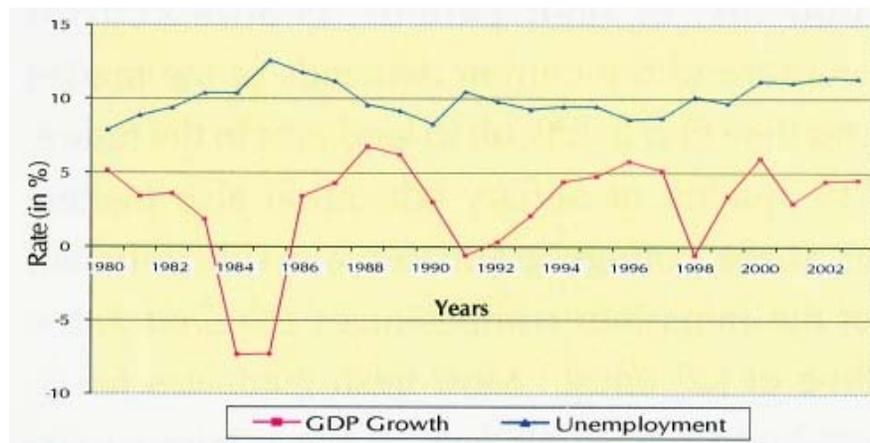
delivering support services to farmers and agrarian reform beneficiaries.

F. Access to employment opportunities

Employment acts as a major route out of poverty because labor power is the principal, and most often than not, the only asset of the poor. Unfortunately, the Philippines' track record in employment creation over the years has been generally inadequate relative to its rapidly increasing labor force. As a result, unemployment rate has increased from 7.9 percent in 1980 to 11.4 percent in 2003 while underemployment remains at a high level of 17 percent.

Unemployment is particularly high among the young. In the April round of the Labor Force Survey this year, the 15- to-24-year-old bracket constituted more than half (50.7 percent) of the total unemployed. Moreover, unemployment is highest (43.2 percent) among those who only reached high school level. Understandably, the young, less-experienced and less-trained people are more likely to be jobless than their older counterparts. Hence, government policies must be geared towards reducing the number of young people leaving school sooner. Keeping the youth in school will not only prepare them for a more productive future, it will also effectively lessen the number of people entering the labor market.

Fig.13. Philippine GDP Growth Rates (%) and Unemployment Rate (%), 1980-2003



Source: National Statistical Coordination Board

Tertiary education, however, does not guarantee a job with decent wage as 35 percent of the total unemployed today are college graduates. Several factors may explain this. One is simply the lack of jobs or when jobs are available, they are usually not in the fields of specialization where graduates were trained for. Students, or their parents, choose courses unaware of the current demands of the market and they find it difficult to land jobs in the future. The quality of tertiary education also matters as some college graduates are still deficient of the minimum competencies required at the time of job entry. Most fresh graduates fail

to get hired over their lack of the minimum six-month job experience. Another kind of mismatch is "over-qualification" wherein college degrees are required even in the relatively less skill-intensive jobs.

These cases imply the need for improvements in the labor market information system and the forging of closer links between schools, training institutions and industry to provide job security. Government must be able to ensure favorable terms of employment and ensure that these job opportunities are made available to the skilled and productive individuals.

Direction for Reforms:

- *Incorporate a six-month on-the-job training in the school curricula.* This will expose the students to the rudiments of the real work environment and improve their employability as most of new graduates fail to get hired over their lack of experience. To improve the new graduates' chances of getting jobs, a six-month, on-the-job training can be included in the school curricula.
 - *Upgrade workers' skills and competencies.* Because of the high rate of obsolescence these days, it is important to put in place a program that will allow the retraining and upgrading of skills, particularly of the unemployed, to make them more responsive to the rapidly changing needs of the labor market.
 - *Promote a stronger public-private partnership in developing an effective labor market information system.* This would facilitate the determination of the supply of skills needed by the economy, shorten the period and reduce the cost of job search, and effectively lessen the job-skills mismatch. Direct government interventions in the labor market such as the Public Employment Services Office in every local government as well as private initiatives such as the Job Matching Radio Program, which regularly air job openings in different companies, must be encouraged.
 - *Review the system of providing retirement, disability and other social protection schemes to workers.* Apart from the questions raised on the financial viability of GSIS and SSS, it is also important to widen the scope of social security coverage to better reach the informal sector.
 - *Amend the Labor Code of the Philippines.* With the changing of the economic environment due to globalization, labor laws must also be more attuned to the current realities of the market. A thorough review of some Labor Code provisions, particularly those pertaining to Administration and Enforcement (*Book III, Chapter VI Article 129*), Powers and Duties of the National Labor Relations Commission (*Book V, Chapter II, specifically Article 217*), Greater Employment Flexibility with Appropriate Safeguards for Worker (*Articles 106 to 109 of the Labor Code in relation to Articles 279, 280, 281*) and the State Insurance Fund (*Book IV*) must be conducted.
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- ⁷ The 20/20 Initiative calls for the allocation of at least twenty percent of a country's national budget to social services. The Initiative was endorsed by the World Summit for Social Development in 1995.
- ⁸ The Department of Education defines mean percentage score as the ratio between the number of correctly answered items and the total number of test questions or the percentage of correctly answered items in a test.
- ⁹ Marideth Bravo and Blanquita Pantoja, "Beyond 2000: Assessment of the Economy and Policy Recommendations - Dealing with Agrarian Reform, Philippine Institute of Development Studies (PIDS), May 1998.