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# Republic of the Philippines

## Labor Market Review

### Employment and Poverty

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EAST ASIA AND PACIFIC



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## Abstract

This study analyzes labor market performance in the Philippines from the perspective of workers' welfare. It argues that pervasive in-work poverty is the main challenge facing labor policy. Poverty is primarily due to low earning capacity of the poor and to their limited access to regular and productive jobs. Behind these are the two interrelated root causes of in-work poverty—low education of the poor, and the scarcity of productive job opportunities. The labor market is segmented into “good” and “bad” jobs, with the poor working in the latter. They hold jobs that are informal, temporary or casual, and low-paid. Widespread informality means that the poor neither benefit from the minimum wage policy nor from employment protection legislation. They do not benefit from wage growth either, because their bargaining power is weak. “Good” jobs are so few, especially in rural areas, that even better educated workers are often forced to take unskilled jobs and work as low-paid laborers. The reduction of in-work poverty hinges on removing constraints to gainful employment in both supply side (better education and skills) and demand side (better jobs). It is critical that the young poor have improved access to quality education, and be equipped with skills required in the modern sector of the economy. But in parallel, better jobs need to be created, which can be attained from the growth of the formal and higher value added sector of the economy. The process of structural transformation should be supported by effective labor policy. Labor regulations need to be made simpler and more flexible to facilitate the reallocation of labor from less to more productive activities, and from informal to formal sector. Targeted training programs have the potential to address the problem of low skills among the poor workers, especially the young ones. Such programs should be developed on a pilot basis and expanded if proven to be cost-effective.

## Abbreviations

ALMPs	Active Labor Market Programs
ALS	Alternative Learning System
ASEAN	Association of Southeast Asian Nations
BLES	Bureau of Labor and Employment Studies
CCT	Conditional Cash Transfer
CBEP	Community-Based Employment Program
DOLE	Department of Labor Employment
DSWD	Department of Social Welfare Development
FIES	Family Income Expenditure Survey
GIP	Government Internship Program
IWBs	In-work Benefits
ISS	Informal Sector Survey
ILO	International Labour Organization
LFS	Labor Force Survey
MIS	Management Information Systems
M&E	Monitoring and Evaluation
NCR	National Capital Region
NEET	Not in Education, Employment or Training
NWPC	National Wages and Productivity Commission
OECD	Organization for Economic Co-operation and Development
PDR	Philippine Development Report
PSA	Philippines Statistics Authority
PES	Public Employment Services
PESO	Public Employment Service Offices
SPES	Special Program for the Employment of Students
SLP	Sustainable Livelihood Program
TVET	Technical-Vocational Education and Training
TESDA	Technical Education and Skills Development Authority
WEF	World Economic Forum
WDI	World Development Indicators

## Main Concepts Used in the Report (Definitions)

**“Bad” jobs.** Jobs are considered “bad” if they are low-paid and informal, and thus, are not covered by labor regulations. Jobs can also be “bad” if they are involuntarily part-time, temporary or casual. As a rule, jobs that are deemed as “bad” are associated with an elevated risk of poverty. “Good” jobs are jobs that pay above the low-pay threshold or are formal, unless they have some characteristics that render them “bad” (e.g. are involuntarily part-time or temporary). As a rule, “good” jobs are associated with low risk of poverty.

**Earning capacity.** A household’s earning capacity is proxied by the household’s labor income per earner.

**Informal employment.** Wage workers are categorized as formal if they meet at least two of the following three criteria: have a written employment contract, have employer-provided social insurance, or are protected from arbitrary dismissal. Otherwise, they are categorized as informal. Self-employed workers are formal if they maintain a proper bookkeeping system; otherwise, they are informal. Unpaid family members are informal by definition.

**Low-paid jobs.** A job is low-paid if it pays wage that is lower than two-thirds of the median wage. A job is very low-paid if it pays less than 50 percent of the median wage. The concept of low-pay refers to wage and salaried jobs, but could be extended to include self-employment jobs. However, there is no information on earnings of the self-employed in the Philippine Labor Force Survey (LFS).

**Underemployment.** Workers are categorized as underemployed if they would like to work more hours. They are categorized as *visibly* underemployed if they work less than full time (less than 40 hours per week). Otherwise, they are categorized as *invisibly* underemployed.

**Poverty.** This Note focuses on the bottom 20 percent (quintile) of income distribution. It aims to determine the differences in the risk of poverty faced by different worker groups, rather than to determine poverty headcount. The risk of poverty is the likelihood that a person falls into the bottom 20 percent of income distribution, rather than that the person’s income is below the official poverty line. The bottom 20 percent of the population is a subset of the population below the official poverty line, which is estimated at about 25 percent (2012 data).

**Unemployment.** According to the standard International Labor Organization (ILO) definition, a person is unemployed if he/she meets the following three conditions: (a) did not work in the reference period, (b) is available for work, and (c) is looking for work. In the Philippines, a broader definition is used whereby a person is considered unemployed when he/she meets the first two conditions, but not necessarily the third one.

**Work intensity.** Work intensity is measured as the product of (a) the proportion of the number of earners to the number of household members of working age, and (b) the average number of hours worked by the earner.

# Overview

This report sets out to analyze labor market performance in the Philippines from the perspective of workers' welfare. Its main goal is to identify labor market constraints to reducing poverty and sharing prosperity, and to suggest ways to address them. To this end the report focuses on three areas. First, it looks at the nature of jobs and employment in the Philippines, and how it has changed during the course of economic growth. Second, it examines the links between labor market outcomes and poverty. Finally, it analyzes the effectiveness of labor market policies and programs, and suggests measures to enhance their performance.

The report finds that in-work poverty is pervasive in the Philippines. On the one hand, it is caused by low labor productivity, which reflects low education and skills of the workforce. On the other, it is caused by lack of productive job opportunities. This may give rise to a vicious circle: workers have little incentives to invest in skills because there are few jobs requiring advanced skills. At the same time, skill-intensive jobs are not being created because workers lack the required skills. The economic growth in the last decade has not improved this situation much. It has created jobs, but it has hardly brought about structural change. The newly created jobs are still “bad” jobs—they are informal and precarious, pay little and often do not lift workers out of poverty. Although younger workers are better educated than older ones, there is still a large fraction of youth, especially those with poor background, who lack education and skills that would allow them to take more productive and better paying jobs. But even better educated workers often end up in low-skilled and “bad” jobs, implying that there is not enough “good” jobs. Strikingly, real wages remained flat despite growth in labor productivity, in a stark contrast to strong wage growth in other countries in the region. Labor market segmentation and large productivity differentials between sectors give rise to earnings inequality and impede the attainment of shared prosperity objective. The urban/rural and formal/informal divides are particularly pronounced. Rural and informal workers earn little, and are at a high risk of poverty. To reduce poverty and promote shared prosperity, the Philippines needs to address the twin problems of low skills and low productivity jobs. A mechanism also needs to be put in place to ensure that gains in labor productivity translate into higher wages. Poverty in the Philippines will not be reduced without growth in real wages, especially at the bottom of the wage distribution.

These problems cannot be addressed by means of labor policy alone. To improve labor market outcomes fundamental reforms are necessary in the areas of education, investment climate and business environment. The recent *Philippine Development Report* (World Bank 2013), and the *Philippines Skills Report* (World Bank 2010) discuss these reforms in detail, while the *East Asia Pacific at Work* (World Bank 2014a) provides a regional perspective. This report builds on these studies, but concentrates on the role of labor policy in improving workers' welfare. Annex Table A summarizes main differences between this report and its predecessor, the *Philippine Development Report*.

The report focuses on the domestic labor market at the national level. As such, it does not cover important issues of international migration, and of regional variation in labor market outcomes in the Philippines. The issue of migration was addressed in World Bank (2013) and will be addressed in the upcoming Association of Southeast Asian Nations (ASEAN) labor migration study. The regional variation in labor market conditions will be covered in the upcoming *Mindanao Jobs Report*.

This overview follows the structure of the main report, and is divided into three parts. Part I looks at the nature of jobs and employment in the Philippines and their changes during the course of economic



growth. Part II examines the links between labor market outcomes and poverty. Part III discusses the effectiveness of labor market policies and programs.

## I. Nature of jobs and employment

Most people work in the Philippines and few are unemployed. Economic growth creates jobs, but hardly improves their quality. It largely reproduces the existing traditional employment structure, with a high share of low-skilled and informal jobs. Real wages do not grow, despite growth in labor productivity. Wage inequality is high, with a large share of the workforce in low-paid employment. On a positive note, young workers move to more productive activities. They are better educated than the older generation, although the share of poorly educated, low-skilled youth is still relatively high. Moreover, many youth are idle, neither in employment nor in education.

### *Economic growth created enough jobs to absorb the increase in population of working age but failed to improve jobs quality*

**Economic growth during the last decade created enough jobs to absorb the growing labor force.** In the last 10 years employment grew at the same rate as the population of working age, meaning that the labor market fully absorbed the increase in the supply of labor. New entrants to the labor market were finding employment, and there was no increase in unemployment. Contrary to what was claimed in some earlier studies, economic growth was not jobless (Figure O.1).

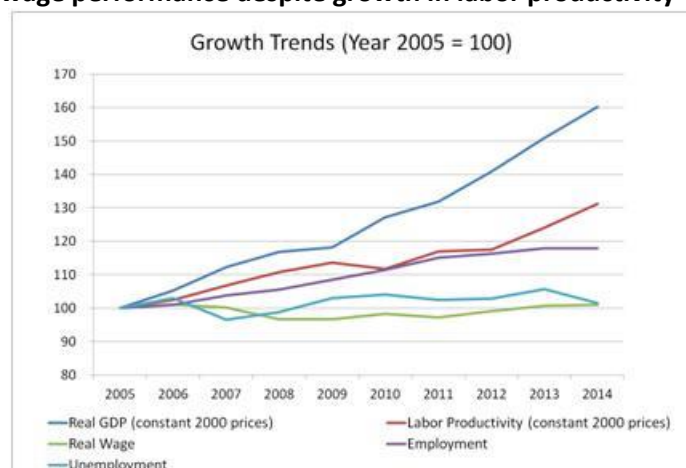
**Economic growth did not bring about wage growth.** Although labor productivity was growing at a relatively high pace, real wages remained stagnant in the last decade.<sup>1</sup> Economic growth created jobs, but failed to improve their average quality. Most workers, especially informal ones, have not benefitted from growth in terms of higher real wages. This is in sharp contrast to developments in other Asian countries, which saw a considerable increase in real wages. Why labor productivity growth did not translate into wage growth in the Philippines is an important question. This is intriguing given the growth of the minimum wage relative to labor productivity. One possible explanation is the weak bargaining power of low-skilled workers vis-à-vis employers in a large segment of the economy, especially in the informal sector. Another possibility is a downward pressure on wages exerted by new labor market entrants (see Box O.1).<sup>2</sup> As such, employment growth came at the expense of the lack of real wage growth.

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<sup>1</sup> Changes in the average wage mask substantial diversity in wage dynamics by industry and occupation. In many occupations and industries, wages were rising, while in others they were falling. Highly skilled workers such as engineers (computer, electrical, mechanical, chemical, etc.) and accountants saw considerable real salary increases during the period 2006-2014. In contrast, unskilled and low-skilled workers, such as freight handlers, saw their wages fall. The picture is mixed for middle-skilled occupations. For example, motor vehicle mechanics and heavy truck drivers experienced large wage hikes. At the same time, production clerks, salespersons, tailors, etc. saw some decline in their real wages. (Source: Structure of Earnings Survey, various years).

<sup>2</sup> We also looked at changes in the international migration flows of Filipino workers to see if they could impact domestic labor market conditions. Preliminary analysis suggests that the recent slight fall in overseas deployment was too small to exert a discernible additional downward pressure on wages.

**Figure O.1. Dismal wage performance despite growth in labor productivity**



Sources: National Accounts, Philippine Statistics Authority (various years); Yearbook of Labor Statistics (various years), Current Labor Statistics, Bureau of Labor and Employment Statistics; *Global Wage Report 2014-2015*, International Labor Organization; World Development Indicators, World Bank.

Note: 2014 real wage data is average of January and April 2014.

#### **Box O.1 Demographic pressure on the labor market**

Each year almost 2 million young people, below 20 years of age, enter the labor market in the Philippines. About 55 percent become economically active, either already employed or looking for jobs, by the time they reach the age of 20. The labor market absorbs them remarkably quickly—44 percent of the cohort are employed by the age of 20, 65 percent by the age of 25, and 70 percent by the age of 30. Unemployment falls fast with age. Over 6 percent of youth aged 20 are looking for work, compared with less than 3 percent of those aged 30.

While the large cohort of new labor market entrants finds employment quickly, it is likely to exert a substantial downward pressure on wages. This may partly explain the lack of real wage growth despite the growth in labor productivity that is observed in the Philippines during the 2000s. The increase in employment has come at the price of the lack of wage growth.

### *“Bad” jobs are widespread, but young workers move to better jobs*

**Employment structure remains traditional, and the modern sector of the economy is still relatively small.** The service sector is the largest employer (about half of total employment), followed by agriculture (one-third of total employment), while industry plays a relatively minor role (World Bank 2013). The size of the wage-and-salary sector is still modest. Wage and salary workers represent about 60 percent of total employment, whereas the self-employed and unpaid family members account for the remaining 40 percent.

**Informality looms large.** Around three-quarters of all jobs, and two-thirds of urban jobs are informal. Among wage workers, 6 out of 10 are hired informally. About 50 percent of the informal workers are wage workers, the rest are self-employed and unpaid family workers. Informal wage workers lack employment contract and social insurance, and are not protected against unfair dismissal. All else being equal, their wages are significantly lower.

**Many jobs require little skills, and laborers are the largest occupational group.** One in three workers is employed as a laborer in a job that requires no skills (farmers are separate category). Even outside agriculture and in urban areas, unskilled workers account for nearly one-fourth of total employment. The prevalence of low-skilled employment reflects both the scarcity of skilled jobs, and the relatively

low educational attainment of the workforce. As many as 44 percent of workers have less than secondary education, which is substantially higher in rural areas (57 percent) and is high even in urban areas (30 percent).

**There is a shortage of skilled jobs.** Educated workers are often forced by necessity to take unskilled jobs, and work as laborers. About 30 percent of workers with secondary education hold unskilled jobs, and 35 percent of laborers have at least secondary education. This suggests that the scarcity of “good” jobs is not caused by an insufficient supply of middle-skilled labor. Instead, there seems to be not enough “good” jobs because the demand for skilled labor is weak in the Philippines.

**Young workers move to better jobs.** Young workers are better educated and are more likely to be employed outside agriculture and in the wage-and-salary sector. But they hardly migrate to urban areas: the share of urban employment among younger age cohorts is only marginally higher than among older ones. Although not dramatic, the changes in the employment structure by age are noticeable. Young workers are more likely to be employed in the services and industry, and to hold wage and salary jobs than older workers. For example, the share of wage-and-salary employment among the 20 to 29 age cohort is 20 percentage points higher than among the 40-49 cohort. Young workers are more likely to hold both highly-skilled (professional) and low-skilled jobs, than older workers.

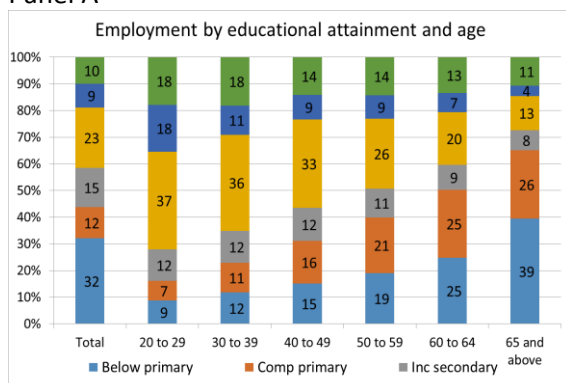
### *Low educational attainment among youth from poor background remains an issue*

**Younger workers are better educated than older ones, but there is still a sizable group of poorly educated youth.** Nearly 30 percent of workers in the 20-29 age cohort have not completed secondary education (Figure O.2, Panel A). This proportion is substantially lower than among older age cohorts. This indicates an improvement in access to education among the youth. Nonetheless, the pool of poorly educated young workers remains large.

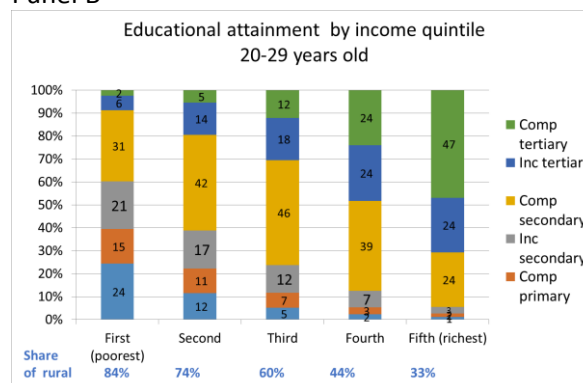
**The problem of low educational attainment is particularly pronounced among youth from poor families, most of whom live in rural areas.** In the bottom income quintile, 60 percent of young workers lack full secondary education (Figure O.2, Panel B). This data is startling because workers with less than secondary education face substantially worse labor market prospects than those who completed high school. Their earnings are significantly lower, and the risk of poverty is much higher.

**Figure O.2. Younger workers are better educated but education agenda is unfinished**

Panel A



Panel B



Sources: Labor Force Survey 2013; Bank staff calculations.

### *Most Filipinos are employed, but many of them are underemployed*

**On the face of it, labor resources are almost fully utilized in the Philippines.** Employment rate, as defined by the ratio of employment to working age population, provides a summary measure of the utilization of labor resources. The 60 percent employment rate (Table O.1) is average by international standards, but is lower than most ASEAN countries, where employment rate is above world average. The modest employment rate is primarily due to the low labor force participation rate among youth and women. Only one in two women is economically active in the Philippines. There is a 27 percentage point difference between the labor force participation rate of women and men.

**Among the employed, one person in five is underemployed.** The underemployed would like to work more to increase their earnings. Close to 60 percent work less than full-time, largely because they do not have access to regular full-time jobs. The unemployment rate is relatively low. The standard ILO unemployment rate, which includes only the jobless who are actively looking for work, is less than 3 percent. The unemployment rate is around 6 to 7 percent (Table O.1) using a broad measure of unemployment, which includes persons available for work, but not actively looking for work. In addition to underemployment and unemployment, outmigration of Filipino workers and substantial overseas employment indicate that labor resources are not domestically utilized to their full potential (World Bank 2013).

**Table O.1. Employment and unemployment rates, 2013.**

	Total	Urban	Rural	Male	Female
			<i>Percent</i>		
Employment/Population 15+	59.5	57.5	61.0	71.9	47.3
Unemployment rate <sup>a</sup>	7.1	8.6	6.0	7.5	6.5
Underemployment rate <sup>b</sup>	21.0	16.0	24.5	23.6	16.8

Sources: Labor Force Survey 2013; Bank staff calculations.

<sup>a</sup> Broad definition of unemployment, including persons who are available for work, but not looking for a job.

<sup>b</sup> Underemployment rate is the share of workers who want to work longer hours in total employment.

**A large fraction of Filipino youth is idle.** One out of four persons aged 15 to 24 is not in education, employment or training (NEET). This is a high proportion by both international and regional standards (World Bank 2014a). Only 14 percent of young people who are NEET are actively seeking employment. The high NEET rate is associated with poverty. The percentage of idle youth is the highest in the first two income quintiles (bottom 40 percent). This undermines the hypothesis that the Filipino youth are idle because of the high reservation wages due to remittances. Discouragement from the lack of productive job opportunities is a more convincing explanation of youth idleness. The NEET rate is virtually the same in urban and in rural areas.

### *Persistently high wage inequality and high incidence of low-pay*

**Wage inequality is moderately high in the Philippines by international standards.** Wage inequality is higher than in most developed European countries, but in the middle of the developing economies range. High earners (top decile) earn about seven times more than low earners (bottom decile). In the most equal countries, this ratio is less than four, and exceeds 10 in the most unequal countries. The relative earning status of low-paid workers is modest. The bottom decile worker earns about 40 percent of the median wage. This is much less than in low inequality countries, where the bottom decile worker earns over 60 percent of the median wage. However, it is more than in very high inequality countries, where the bottom decile worker earns around 20 percent of the median wage.

**Wage distribution changed little in the last 15 years.** Economic growth did not improve the relative status of low-paid workers and hardly reduced the incidence of low-pay. If anything, wage inequality slightly increased, which resulted from an increase in relative wages of the top 10 percent of wage earners rather than from a decrease in wages of the bottom 10 percent of wage earners.

**Incidence of low-pay is high.** As many as 30 percent of all wage workers earn less than two-thirds of the median wage, which is a standard low-wage threshold. In countries where wage inequality is lower than in the Philippines, the incidence of low pay is within the 10 to 20 percent range. The high incidence of low-pay translates into the high incidence of in-work poverty.

### *Low-pay and informality go hand-in-hand*

**Incidence of low-pay is particularly high in the informal sector.** In the informal sector 56 percent of workers are low-paid, while in the formal sector, 7 percent. Low-paid employment is almost tantamount to informal employment. About 90 percent of all low-paid jobs are informal.<sup>3</sup> The high incidence of low-paid employment is thus an upshot of widespread informality.

**High incidence of low-pay among informal workers is closely related to the characteristics of informal jobs.** Informal wage jobs are concentrated in rural areas in the services sector, and in low-skilled occupations. Over 50 percent of all low-paid jobs are in the services sector, and 36 percent of service and sales workers have low paid jobs. The incidence of low-pay among skilled manual workers is three times lower.

**Incidence of low-pay is significantly higher among women than men.** As many as 37 percent of women are in low-paid employment compared with 25 percent of men. This large difference may be due to women being more likely employed in low wage industries and occupations. Almost 80 percent of women are employed in the service sector compared with less than 50 percent of men, who are more often employed in the better paying industry sector. However, discrimination seems to play a role. All else being equal, women earn less than men.

**Wage inequality is driven by labor market segmentation.** The low-paying lower tier of the labor market is informal and casual, and mostly rural. The well-paying upper tier is formal, secure, and mostly urban. Workers in the lower tier are poorly educated and hold low-skilled jobs, while those in the upper tier have at least secondary education and hold middle- and high-skilled jobs. Wage differentials between labor market segments are large, with average formal workers earning more than twice than informal workers. Urban workers earn 50 percent more than their rural counterpart. Workers with tertiary education earn 3.4 times more than those with primary education, and skilled manual workers earn 70 percent more than laborers. Results of regression analysis indicate that urban/rural residence, formality status, education, and skills level (proxied by occupation) are the four most important factors that independently contribute to wage inequality.

## **II. Labor Market Determinants of Poverty**

**People are poor in the Philippines because they earn little, not because they do not work.** Having a job does not provide a pathway out of poverty, and in-work poverty is pervasive in the Philippines. It is the quality of a job that matters. Workers employed in low-productivity jobs run a higher risk of

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<sup>3</sup> The reverse is not true. Many informal jobs are relatively well-paid. For example, one informal job in four pays more than the median wage.

poverty than the unemployed. Such “bad” jobs are common. They tend to be informal and casual, and do not pull workers out of poverty. The prevalence of low-productivity jobs means that the earning capacity of many households is low, which is the primary cause of poverty in the Philippines. Contrary to a common myth, poverty is not a result of idleness. Members of poor households are not jobless; they do work, but they hold casual, low-paying jobs. Hence, the reduction of poverty in the Philippines hinges on increasing the earning capacity of the poor by investing in their education and by improving their access to productive jobs.

## Worker characteristics and poverty

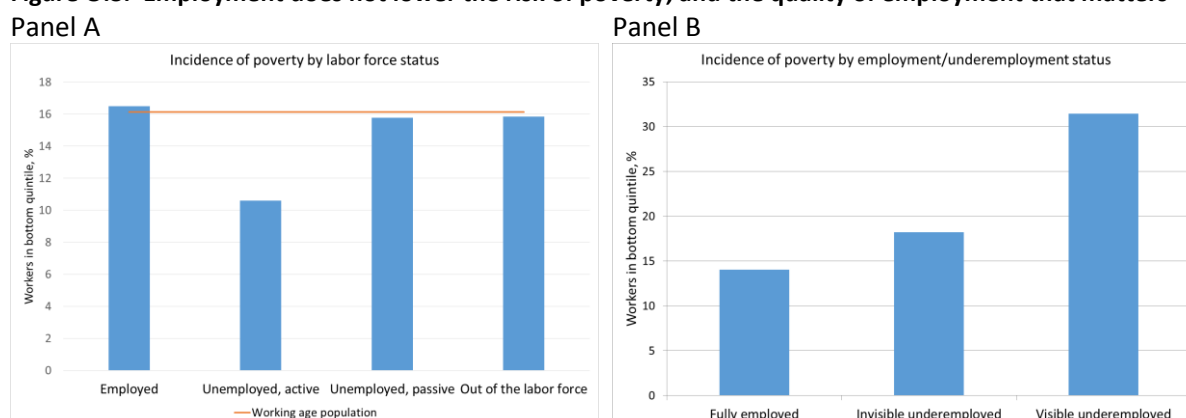
**In-work poverty is pervasive in the Philippines.** The working poor are characterized by having low educational attainment, residing in rural areas, and having informal jobs that are often temporary, casual, or part-time. The majority of the working poor work as laborers in unskilled occupations. In-work poverty is not limited to rural areas; it also occurs in urban areas and outside agriculture. The key factor behind urban poverty is informality, where the vast majority of low-paying jobs are. Informal workers, both wage workers and the self-employed, face an elevated risk of poverty.

## High incidence of in-work poverty

**Labor force status has little impact on the risk of poverty in the Philippines.** The employed are as likely to be poor as the economically inactive, and paradoxically, more likely to be poor than the unemployed (Figure O.3, Panel A). Because low-paying jobs are plenty, having a job by and of itself does not protect one from poverty. The majority of the working-age poor are employed, while the unemployed account for a tiny fraction of the working-age poor.

**Unemployment does not mean poverty.** The unemployed are often well-educated young persons from better-off families, who look for jobs that meet their professional aspirations. This does not mean that unemployment is not a social problem in the Philippines. It is a problem because it lowers the returns to investment in human capital, and implies underutilization of the well-educated labor force. It also entices some of the well educated workers to seek job opportunities abroad rather than at their home country.

**Figure O.3. Employment does not lower the risk of poverty, and the quality of employment that matters**



Note: Poverty = bottom quintile of individual per capita income distribution.

Visible underemployed = work less than full-time (40 hours per week) and would like to work more.

Invisible underemployed = work full-time but would like to work more.

Source: Family Income and Expenditure (FIES)—Labor Force Survey data, January 2013; Bank staff calculations.

**From the perspective of poverty, underemployment is a bigger problem than unemployment.** The underemployed (those who want additional work) face the highest risk of poverty (World Bank 2013). The *visibly* underemployed (those who work part-time) are the most vulnerable to poverty. They are twice as likely to be poor as the fully employed (Figure O.3, Panel B). Underemployment is more pronounced in rural than in urban areas. The underemployed represent about one-third of the working poor.

### *Rural workers and are agricultural laborers represent majority of working poor*

**In-work poverty is mostly, although not exclusively, a rural and agricultural phenomenon.** Rural workers, who account for the bulk of the working poor, run a much higher risk of poverty than urban ones. The average rural workers are almost four times more likely to be in the bottom income quintile than their urban counterparts. As a result, 84 percent of all working-poor live in the rural areas.

**Contrary to common perception, industrial workers are somewhat more likely to be poor than service workers.** The difference in poverty risk between industrial workers and service workers is rather small (3 percentage points), but still significant. Service jobs are not necessarily worse than manufacturing jobs, and not all manufacturing jobs are “good”. The industry and service sectors are heterogonous in the Philippines as elsewhere, providing both “good” and “bad” jobs.

**Non-wage workers are predominant among the working poor.** The self-employed and unpaid family workers represent 52 percent of the bottom income quintile (Figure O.4). The self-employed also run a higher risk of poverty than wage workers, in both urban and rural areas. The rural workers are predominant among the poor wage workers. Almost 40 percent of rural wage workers fall into the bottom income quintile, compared with less than 10 percent of urban ones. This characteristic of in-work poverty has important implications for the minimum wage policy (see below).

**Figure O.4. Wage workers in rural areas are the single largest group among the working poor**



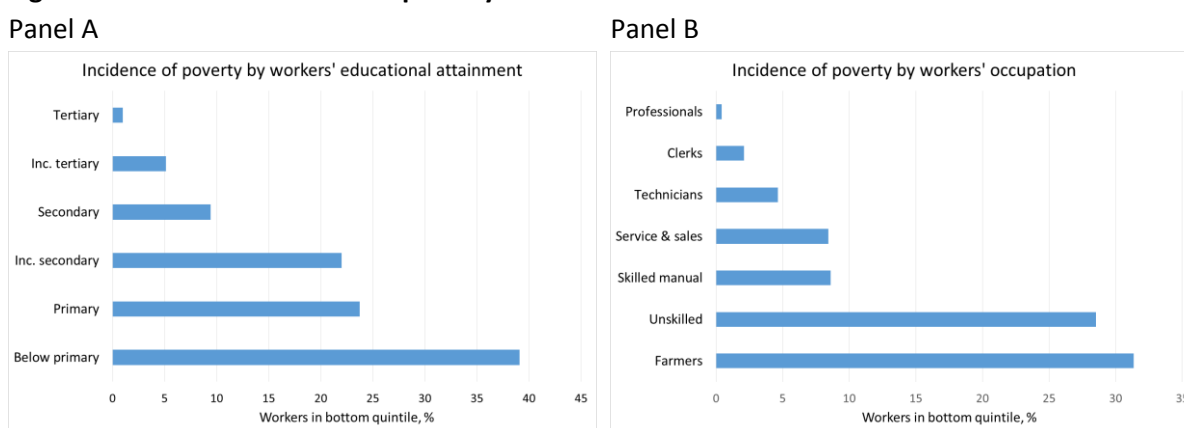
Source: Family Income and Expenditure –Labor Force Survey data, January 2013; Bank staff calculations.



### *Poor education and lack of skills are key factors behind in-work poverty*

**Workers with higher educational attainment and more skills face a substantially lower risk of poverty than their less educated and less skilled peers.** Figure O.5 illustrates the pattern of the poverty risk falling with improvements in education and skills, in both urban and rural areas. This suggests a clear policy implication that investment in access to and quality of education is the most effective way to combat in-work poverty.

**Figure O.5 Incidence of in-work poverty falls with increases in education and skills**



Sources: Family Income and Expenditure–Labor Force Survey data, January 2013; Bank staff calculations.

**Completing secondary education is critical.** Workers with less than secondary education face a high risk of poverty and are preponderant among the working poor. Altogether, they represent nearly 80 percent of the working poor. The completion of secondary education dramatically lowers the risk of poverty. Less than 10 percent of workers with secondary education are in the bottom income quintile, compared with nearly 25 percent of workers with primary education (Figure O.5, Panel A).

**Equally critical is the acquisition of occupational skills.** Nearly 30 percent of unskilled workers (laborers) fall into the bottom income quintile, and account for close to 60 percent of all working-poor (Figure O.5, Panel B). In contrast, workers with mid-level vocational skills are much less likely to be poor. Less than 10 percent of skilled manual, or service and sales workers are in the bottom quintile. The acquisition of higher-level technical skills lowers the risk of poverty still further.

### *In-work poverty and informality are closely linked*

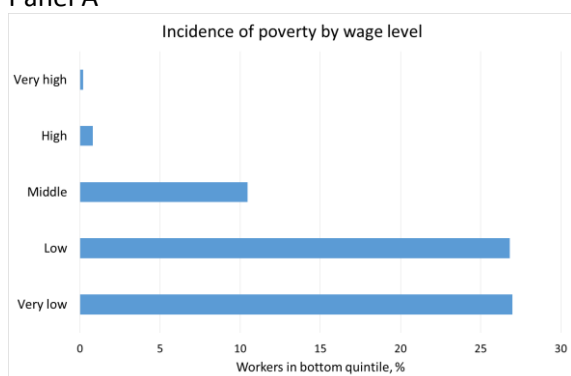
**As expected, in-work poverty is closely linked with low wages.** Workers who earn less than two-thirds of the median wage face a significantly higher risk of poverty than those who are above the low-pay threshold (Figure O.6, Panel A). These are not surprising results, but imply that reduction of in-work poverty in the Philippines hinges on growth in real wages, or on reduction in wage inequality, or both. Unfortunately, none of these conditions was met in the 2000s.

**With low paid jobs concentrated in the informal sector, in-work poverty is closely related to informality.** Over 90 percent of all low-paid jobs are informal, and as a result, informal workers are disproportionately represented among the poor. The high incidence of in-work poverty is thus just a mirror image of pervasive informality. However, while the majority of the working poor are informal workers, informal employment does not necessarily lead to poverty. Many informal workers earn above the low-pay threshold and avoid poverty (Figure O.6, Panel B).

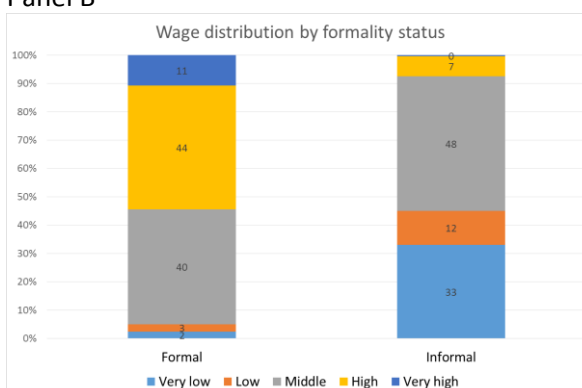


**Figure O.6. Strong link between low-pay, informality, and poverty**

Panel A



Panel B



Sources: Labor Force Survey 2013, Informal Sector Survey 2008, National Statistics Office; Bank staff calculations.

Notes: Very low pay = less than 50 percent of median wage; low pay = less than 67 percent of median wage; middle pay = less than 15 percent of median wage; high pay = less than 3 times the median wage; very high pay = 3 times the median wage or higher. The intervals are right-open and left-closed; the upper endpoint for the lower wage group is the lower endpoint for the higher group.

**Incidence of poverty is lower among female workers than male workers.** Men comprise two-thirds of the working poor. The risk of poverty faced by a female worker is 5 percentage points lower than that of a male worker.

### Household characteristics and poverty

**Philippine households are poor as they are disadvantaged by four factors that determine per capita income.** First, in poor households fewer household members of working age are employed than in non-poor ones. Second, those who are employed, work shorter hours. Third, they earn less. Finally, there are more dependents in poor than in non-poor households.

### *Low earning capacity rather than joblessness is the primary cause of poverty*

**Differences in earning capacity play the most important role.** The impact of differences in earning capacity is greater than that of work intensity. First, the differences in earning capacity between the poor and non-poor are larger compared to their differences in work intensity. Second, all else equal, increases in earning capacity more sharply reduce the risk of poverty than increases in work intensity (increases in either number of earners within the household or in hours worked). The earning capacity of poor households is much lower than that of non-poor. On average, earnings of workers from the bottom quintile households are half of those of their counterparts from the middle income quintile. These are substantial differences, much larger than the difference in work intensity.

**An increase in households' earning capacity leads to a sharp reduction in the risk of poverty.** If a household moves from the first to the second earning capacity group, the risk of poverty drops by 18 percentage points.<sup>4</sup> However, the increase in earning capacity needs to be considerable to have noticeable reduction in the risk of poverty. To move from the first to the second earning capacity group, the employed household members would need to double their earnings. For many poor households such increase is hardly possible given the limited job opportunities that are available to them.

<sup>4</sup> Households were divided into five groups of equal size (quintiles) that represent different levels of earning capacity, ranging from low to middle to high.

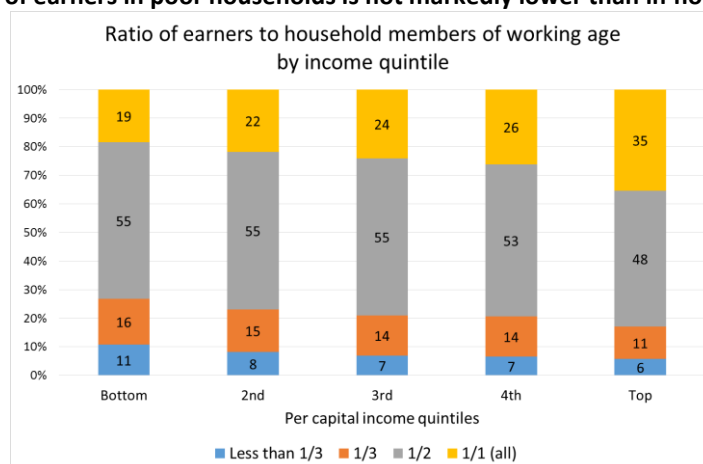
**Poor households are seldom jobless.** In poor households, most family members of working age are usually employed. Poverty is associated with joblessness in only a fraction of poor households. However, the proportion of jobless households is somewhat higher among the poor than among the non-poor. For example, among the poorest households, 11 percent only have one earner per four household members of working age. This is 4 percentage points more than households in the middle income quintile (Figure O.7). But the number of poor households, where few of their members work, is still rather small. Joblessness is not the primary factor behind poverty in the Philippines.

**The risk of poverty is only modestly reduced with more earners within a household.** The relationship between poverty and the number of earners in the household is rather weak. For example, if the number of household members employed increases from 2 to 3, the likelihood of poverty drops just by a few of percentage points. High work intensity does not necessarily protect households from poverty.

**Workers in poor families work shorter hours than their counterparts in non-poor families.** On average, workers in the bottom quintile work almost 4 hours per week less than those in the second quintile, and 7 hours less than those in the middle, third quintile. These are substantial differences in hours worked, which translate into lower total earnings of poor households.

**The poor work shorter hours because of lack of opportunities to work full-time.** Among the poor, the percentage of workers who would like to work more is significantly higher than among the non-poor. For instance, 33 percent of bottom quintile workers would like to work longer hours, compared with 10 percent in the top quintile. The poor work shorter hours not by choice, but because they have no other option. There is a shortage of regular—full-time and permanent—jobs accessible to vulnerable workers.

**Figure O.7. Number of earners in poor households is not markedly lower than in non-poor ones**



Sources: Family Income and Expenditure–Labor Force Survey data, January 2013; Bank staff calculations.

Note: 1/3 = one of three household members of working age is employed; 1/2 = one of two household members of working age is employed; 1/1 = all household members of working age are employed.

**Low earning capacity is often accompanied by short work hours.** Household members who earn little also work shorter hours. For instance, members of households with the lowest earning capacity work 13 hours per week less on average than households with the highest earning capacity. The combination of low earning capacity and shorter working hours pushes households even deeper into poverty. The poor cannot offset their low earning capacity by working more because of lack of opportunities for additional work.

## Minimum wage has limited potential to reduce in-work poverty in the Philippines

The minimum wage is a policy tool intended to address in-work poverty, and the Government of the Philippines is actively using it for this purpose. However, the potential of the minimum wage policy to reduce in-work poverty is limited for two reasons. First, a large proportion of the working poor are not wage earners. Second, the working poor who are wage earners are usually employed informally. Hence, majority of the working poor are not covered by the minimum wage policy.

**Workers covered by the minimum wage policy represent a minority among the working poor.** The majority of the working poor are informal or non-wage workers who are not covered by the minimum wage policy. Wage workers, who are targeted by the minimum wage policy, represent only about half of the working poor (Figure O.4, while the other half includes the self-employed and unpaid family workers. Over 90 percent of low-paid workers are employed informally, and thus, are not covered by the minimum wage policy. As a result, less than 2 percent (sic!) of the working poor benefit from the minimum wage policy. The minimum wage policy does little to address in-work poverty in the Philippines.

**Workers who benefit from minimum wage are not necessarily poor.** Nearly 50 percent of low-paid workers come from relatively well-off families (top 60 percent), and less than 30 percent from the poorest families. Accordingly, minimum wage increases benefit many non-poor workers. At the same time, the high minimum wage may limit the chances of the poor to be employed formally (see Section III).

## III. Labor regulations and employment programs

**Labor regulations in the Philippines, on paper, provide workers considerable degree of protection, but in reality, benefit only a small group of workers.** This is mainly due to the large proportion of non-wage employment, widespread informality, and non-compliance with labor regulations. As a result, there is a big discrepancy between the *de jure* and the *de facto* coverage of worker protection. The labor market is segmented—while some workers benefit from regulations, others do not. And by raising the cost of formal labor, labor regulations contribute to segmentation. There is scope for reducing the distortionary effects of labor regulations in the Philippines, without compromising the important objective of worker protection. The relevant measures include better aligning of minimum wage with worker productivity, and making the regular employment contracts more flexible. Both measures would strengthen incentives to hire workers formally under regular employment contracts, and thus, could increase the actual coverage of worker protection. However, because of the employment structure in the Philippines—largely agricultural, informal, and non-wage—labor policies have a limited role in expanding coverage of worker protection as the employment structure changes only with economic development.

**Employment programs implemented in the Philippines broadly target vulnerable workers, including the youth.** Programs are numerous and implemented by many agencies. Fragmentation and weak coordination among agencies are likely to limit the programs' impacts. However Information on program performance is limited, making the assessment of program effectiveness difficult.

## Labor Regulations

Labor regulations discussed in this report encompass employment protection legislation and minimum wage policy. Consistent with earlier studies, the report argues that labor regulations are stringent in the Philippines (World Bank 2013). In addition, it argues that as such, they are likely to contribute to informality, and segmentation of the labor market into “good” and “bad” jobs. As a result, the actual coverage of worker protection is limited.

### *Labor regulations are strict*

**The Philippines is recognized as having one of the most comprehensive labor regulations in the ASEAN region.** According to the *Global Competitiveness Report 2014*, the Philippines has a low labor market efficiency score, mostly due to the rigid hiring and firing practices, high redundancy costs, and limited flexibility in wage determination. The Philippines ranked 91st among the 144 economies on the labor market efficiency scale.

**Minimum wage is high relative to worker productivity.** The minimum wage accounts for about 70 percent of the value added per worker in the Philippines, which is high by regional and international standards (World Bank 2013). The minimum wage varies by administrative region in the Philippines, but on average, it accounts for about 80 percent of the median wage in a region. In some regions, the ratio is still higher. In 9 out of 17 regions, the minimum wage is higher than the median wage. This is because the minimum wage is set based on labor productivity in the *formal* sector, with no regard to productivity in the *informal* sector.<sup>5</sup>

### *Actual coverage of labor regulations is limited*

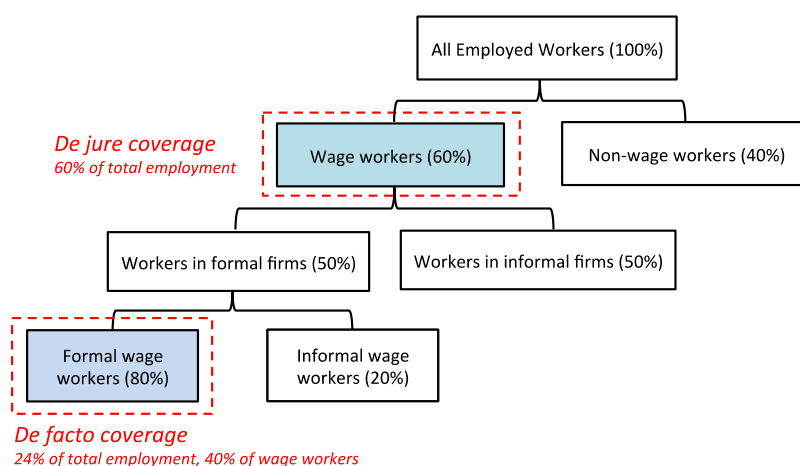
**The actual coverage of employment protection legislation is limited because of the relatively small size of wage employment, and widespread informality.** Wage and salary employment represents only 60 percent of total employment in the Philippines, and only about 40 percent of wage and salary workers are employed formally. Accordingly, employment protection legislation effectively covers only about one-quarter of the workforce. There is thus a considerable discrepancy between *de jure* and *de facto* coverage of labor regulations (Figure O.8).

**Informality limits the actual coverage of the minimum wage policy.** Among employees of private firms, less than half (45 percent) are employed in firms that are formal. Among those who are employed in formal firms, about 25 percent are paid less than the minimum wage. Accordingly, only about one-third of workers in private firms benefit from the minimum wage policy.

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<sup>5</sup> The minimum wage is determined through collective bargaining between formal sector employers (mostly represented by large firms), and trade unions, which represent formal sector workers. The reference wage for the negotiations is the average wage of *formal* workers, who are full-time workers with permanent employment contracts. As a result, the statutory minimum wage in the Philippines does not represent wage conditions in the informal sector.

**Figure O.8. Informality and non-compliance limit the coverage of worker protection**



Sources: Informal Sector Survey 2008; Bank staff calculations.

### *Strict labor regulations are likely to contribute to labor market segmentation*

**While informality confines the effective coverage of labor regulations, strict labor regulations contribute to informality.**<sup>6</sup> This is because strict regulations raise the cost of formal labor relative to informal, and as such, discourage employers from hiring workers formally. This effect is particularly strong in the case of low-productivity workers. There is thus a trade-off between the strictness of labor regulations and their actual coverage. By reducing the strictness of labor regulations, the Government could encourage formal employment, and thus, expand the actual scope of employment protection and the minimum wage policy.

**Strict employment protection legislation leads employers to increasingly use temporary employment contracts.** As such, it contributes to duality within the formal sector. According to the LFS, about 40 percent of employees in private establishments had non-regular employment in 2013. A survey conducted among large formal establishments, shows that about 35 percent of employees were hired either on a non-regular basis, or as independent sub-contractors in 2012. This is 7 percentage points higher than four years earlier.

**High minimum wage may exclude low-productivity workers from formal employment.** The minimum wage is not a major problem for formal firms, which tend to be larger and employ more skilled workers. In the formal sector, the minimum wage accounts for about 60 percent of the sector's average wage, which is high, but not dramatically high. However, it is a major problem for informal firms, which tend to be small and employ less-skilled workers. In the informal sector, the minimum wage accounts for about 115 percent of the sector's average wage. This means that the cost of formalization for such firms could be prohibitively high, because they would have to pay their workers substantially more than they are paying as informal firms. This is relevant given that as many as 70 percent of informal wage workers are paid less than the minimum wage.

<sup>6</sup> Labor regulations are only one factor behind informality in the Philippines, and not necessarily the most important one. It is the whole business environment (of which labor regulations are part) plus the culture of (in)formality that influence firms' decisions whether or not to formalize.

## *There is scope to enhance workers' welfare by reducing the distortionary effects of labor regulations*

**Making regular employment contracts more flexible could reduce segmentation.** The increasing incidence of temporary employment contracts indicates that regular contracts are no longer a satisfactory option for many employers. This report presents for consideration the idea of a Single Employment Contract (also referred to as Equal Opportunity Contract), which is currently gaining popularity in Europe as a means to eliminate the duality between open-ended and temporary employment. The idea is that all contracts are open-ended, but the administrative procedures governing dismissals are relaxed, and employment protection is instead provided via severance pay that increases with job tenure.

**Aligning minimum wage with worker productivity can improve the chances of less-skilled workers being hired formally.** Setting the minimum wage is a delicate balancing act. On the one hand, the minimum wage is meant to preclude exploitation of workers by employers, and to prevent in-work poverty. On the other, it should be linked to worker productivity and should not discourage employers from hiring workers formally. Set at its current level, minimum wage in the Philippines favors the first objective, but compromises the second. The policy needs to be rebalanced in order not to exclude low-productivity workers from formal employment. Finding a satisfactory solution requires an empirically informed dialogue among main stakeholders, in which the interests of small employers and informal workers are adequately represented. This report endorses the recommendation made in the *Philippine Development Report* (World Bank 2013) to initiate social dialogue on minimum wage policy.

**Improving the enforcement of labor regulations can expand coverage, but only marginally.** The coverage of labor regulations is low primarily due to the low share of employment in formal firms. In addition, formal firms do employ workers informally—informal workers account for up to 25 percent of their workforce. Even with perfect enforcement and full compliance, the coverage of labor regulations would increase only by 6 percentage points to reach the still modest 30 percent. The coverage of labor regulations will expand only with an increase in formal wage and salaried employment, which hinges on the structural transformation of the economy.

## **Employment programs**

**The two largest groups of programs being implemented in the Philippines are direct job creation and training programs, which broadly target vulnerable workers and the youth.** The size of direct job creation programs is substantially larger than that of training programs.<sup>7</sup> The programs mainly benefit the better skilled among the vulnerable workers, leaving out the most disadvantaged, who lack the basic skills. However, the low-skilled workers are often covered by other government programs targeting the poor, which also aim to improve the employability of the beneficiaries.

**Programs are fragmented and information on their performance is scant.** It is difficult to assess the performance of employment programs in the Philippines due to the paucity of data. Different

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<sup>7</sup> The so-called livelihood assistance program, which is a small business start-up support program, covered about 500,000 persons in 2014. Among the youth bridging programs, 180,000 persons benefited from a hiring subsidy, and 20,000 from government internship program in 2014. Public infrastructure programs vary in size. They are expanded during economic downturns to act as a social safety net. For example, about 400 thousand workers were hired under the road construction program, and 5,000 under the road maintenance program in 2014.

programs are administered by different government agencies, and coordination among agencies is limited. This leads to program fragmentation.<sup>8</sup> Monitoring and evaluation (M&E) of program performance is underdeveloped, which limits evidence on their actual coverage, targeting efficiency, cost-effectiveness, and impact.

**Instituting program monitoring and evaluation, and using the results to allocate resources to programs that are best performing could enhance their impact.** There is scope for improving the impact of employment programs by enhancing coordination among implementing agencies, and by developing an M&E system. The results of M&E should guide the policy and allocation of resources. One possible policy direction would be to focus resources on cost-effective training programs, which equip the beneficiaries with employability skills demanded in the labor market, and as such, have the potential to enhance their long-term employment prospects. This is particularly relevant given that poor skills of vulnerable workers are the main obstacle to their taking more productive jobs.

## Conclusions

Widespread in-work poverty is the main challenge facing labor policy in the Philippines. The working poor are poorly educated and have informal jobs that offer no workers protection. Most of them live in rural areas, where productive job opportunities are few. This points to two interrelated root causes of in-work poverty: low education among vulnerable workers and scarcity of “good” jobs. Addressing these two constraints requires reforms on both the supply (education and skills) and demand (jobs) side of the labor market. These reforms have four objectives:

- Improvement in workforce education, especially among young cohorts entering the labor market, so that workers have the skills required in the modern sector of the economy.
- Structural transformation, which entails the development of more productive formal wage and salaried employment sector, including an increase in agricultural productivity.
- Reallocation of labor from less to more productive activities, which involves labor moving from agriculture to services and industry.
- Improvement of the effectiveness of the existing labor policies.

The first three objectives lie beyond the realm of labor policy. Specific interventions to advance these objectives are extensively discussed in World Bank (2013 and 2010). As regards the fourth objective, measures to improve the effectiveness of labor policy include:

- Simplification of the Labor Code, including making regular employment contracts more flexible could reduce segmentation by lowering the costs of hiring workers formally. The introduction of Single Employment Contract could reduce duality within the formal sector by making all contracts open-ended.
- Revision of the minimum wage policy to factor in productivity of informal workers. The minimum wage better aligned with productivity of *all* workers would strengthen incentives for employers to hire low-productivity workers formally, and would thus increase the effective coverage of the policy. Such revision should be based on empirically informed dialogue among all stakeholders, including those representing the interests of small employers and informal workers.

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<sup>8</sup> There are over 45 implementing agencies, of which only 15 report to DOLE. About 50 direct job creation programs were reported to DOLE in 2014.

- Overhaul of employment programs to enhance their cost-effectiveness and impact. This includes programs consolidation to decrease fragmentation; better coordination among government agencies; improving targeting so as to better cover vulnerable workers; strengthening and instituting program M&E system and using evaluation results to improve program performance and expand programs that have the largest impact. This also includes strengthening the capacity of Public Employment Office (PESOs) to deliver effective job search assistance and counseling services.



## ANNEX *Philippine Labor Market review v. Philippine Development Report*

**Table A Summary of main differences between the Philippines Labor Market Review and the Philippines Development Report.**

	Philippine Labor Market Review Employment and Poverty	Philippines Development Report: Creating More and Better Jobs
Focus	Worker welfare and labor policy	Jobs and development policy
Key policy challenge addressed in the report	Reducing in-work poverty	Creating more and better jobs
Reform priorities	<p>Improve education and skills of disadvantaged youth.</p> <p>Enhance productive job opportunities available to the poor (which entails reforms recommended by the PDR).</p> <p>Improve efficiency of labor regulations and employment programs.</p>	<p>Enhance competition.</p> <p>Simplify regulations.</p> <p>Secure property rights.</p> <p>Invest more in human and physical capital.</p>
Scope (topic either not or less covered in the other report)	<p>Returns to education and skills.</p> <p>Wage inequality and low-pay.</p> <p>Profile of in-work poverty.</p> <p>Labor market determinants of poverty.</p> <p>Labor regulations and employment programs (from worker protection perspective).</p>	<p>Economic growth.</p> <p>Migration.</p> <p>Structural transformation.</p> <p>Sector performance.</p> <p>Investment climate, and business and labor regulations (from business environment perspective).</p> <p>Political economy.</p>

# Chapter 1

## Nature of Jobs and Employment in the Philippines

### Introduction

This chapter examines labor market outcomes in the Philippines from the equity perspective. It focuses on the nature of jobs and employment and its evolution over the last decade. It finds that economic growth during the last ten years created enough jobs to absorb new labor market entrants. Growth did not reduce unemployment, but was not jobless (contrary to what is sometimes claimed). Actually, employment grew at a somewhat higher rate than the population of working age, leading to some reduction in labor market slack. However, economic growth failed to improve the quality of jobs. Most strikingly, real wages did not rise during the last decade despite the growth in labor productivity, and the incidence of low-paid employment did not fall. Wage inequality remains high, driven by the segmentation of the labor market into “good” (well-paying and formal) and “bad” (low-paying and informal) jobs.

The employment-to-working age population ratio is relatively high by international standards, and the unemployment rate is relatively low. However a large proportion of the workforce is engaged in low-productivity activities in the informal sector, and in subsistence agriculture. Behind the low-productivity employment are poor education and low workforce skills. The employment structure is evolving toward a more modern one, but the change is slow. The young generation of Filipino workers tends to hold somewhat better jobs than the older generation. Young people are better educated, move from agriculture to services and industry, and are more likely to be employed in the wage and salary sector. Despite this progress toward more modern employment structure, substantial challenges remain. There is still a large proportion of poor youth with low educational attainment ending up in low-skilled jobs. Well educated young workers often cannot find jobs that match their skills and meet their professional aspirations. Most worryingly, a large proportion of youth is idle, not in employment, education or training, and this proportion is particularly high among youth from poor background.

To improve labor market outcomes, the Philippines needs to create more of better jobs. For these more productive and better paying jobs to be created, workers need to have the skills necessary to take them. Investment in education and skills of the future generation of workers, especially from disadvantaged social background, is thus critical to the development of the modern sector of the Philippine economy, and consequently to the reduction in poverty and inequality.

This chapter is divided into three sections. Section 1 looks at the main labor market trends over the last decade and at the employment structure. Section 2 analyzes the utilization of labor resources. Section 3 examines wage inequality and the profile of low-paid employment.

## I. Main labor market trends and employment structure

This section looks at the labor market effects of economic growth in the Philippines. It finds that in the last decade, economic growth created enough jobs to absorb the increase in the population of working age. Growth was thus not jobless, and actually led to a slight reduction in the labor market slack. However, output and labor productivity growth has not translated into real wage growth. Real wages remained flat in the last decade, suggesting that the quality of jobs has not improved much, but also that capital appropriated virtually all productivity gains. The employment structure remains traditional, although younger workers increasingly move to modern sectors of the economy. Overall, workers' education remains low, but again, younger workers tend to be better educated. However, educational attainment of youth from poor families is still unsatisfactory.

*Economic growth created enough jobs to absorb the increase in population of working age but failed to improve their quality*

**During the last decade, the Philippine economy created enough jobs to absorb labor force growth.<sup>9</sup>**

Table 1.1 shows that employment grew at roughly the same rate as the population of working age. New entrants to the labor market were finding employment, and there was no increase in unemployment (Figure 1.1, Panel A). Economic growth was thus sufficiently strong to avoid an increase in labor market slack due to population growth.

**Economic growth did not bring about wage growth.** Although labor productivity was growing at a relatively high pace, real wages remained stagnant in the last decade (Table 1.1, Figure 1.1, Panel A). Economic growth created jobs, but failed to improve their average quality. Most workers have not benefitted from growth in terms of higher real wages. This is in sharp contrast to developments in other Asian countries, which saw a considerable increase in real wages (Figure 1.1, Panel B). The purchasing power of Filipino workers is falling behind that of their peers in other countries. Why labor productivity growth did not translate into wage growth in the Philippines is an important question. It is all the more intriguing given the growth of the minimum wage relative to labor productivity (World Bank 2013). One possible explanation is weak bargaining power of workers vis-à-vis employers in a large segment of the economy, especially in the informal sector. Another possibility is a downward pressure on wages exerted by new labor market entrants. Inasmuch this is the case, low wages are the price of the good employment record. The reasons for the dismal wage performance need to be better understood and further research is warranted in this area.

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<sup>9</sup> World Bank (2013) claims that growth was jobless in the Philippines, in the sense that it did not reduce the unemployment rate. In other words, it did not create jobs that could be filled by the unemployed. However, the unemployment rate in the Philippines is relatively low and to a large extent is due to frictional and structural factors (reservation wages of the unemployed, a skills mismatch). As argued in this report, the problem is the lack of "good" jobs, rather than jobs in general.

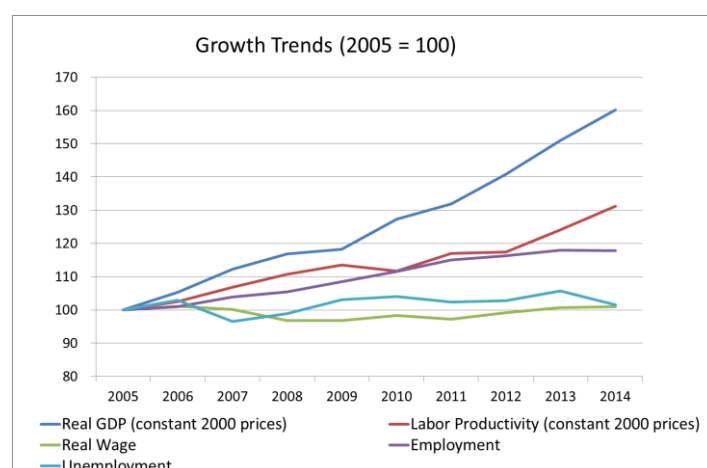
**Table 1.1 Growth of main labor market variables, 2004-2014**

	<i>Annual average growth rate, percent</i>
a. Population of working age	1.8
b. Employment	1.9
c. Real GDP	5.3
d. Labor productivity	3.4
e. Real wage	0.0
f. Absorption = desired rate of growth (a+d)	5.2
g. Slack = desired - actual rate of growth (f-c)	-0.1

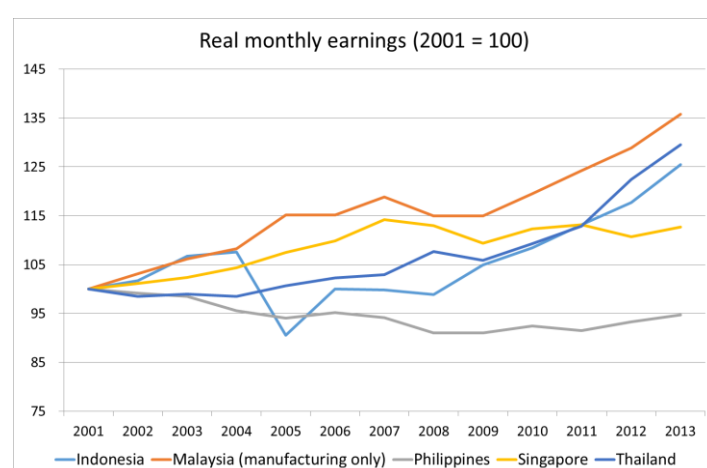
Sources: National Accounts, Philippines Statistics Authority; Yearbook of Labor Statistics, Bureau of Labor and Employment Studies

Note: 2014 real wage data is the average of January and April 2014.

**Figure 1.1 Growth in employment and labor productivity, while real wages are stagnant**  
Panel A



**Figure 1.1, cont.**  
Panel B



Sources:

Growth Trends :National Accounts, Philippine Statistics Authority (various years); Yearbook of Labor Statistics, Current Labor Statistics, Bureau of Labor and Employment Statistics (various years)

Real monthly earnings: *Global Wage Report 2014-2015*, International Labor Organization, World Development Indicators, World Bank

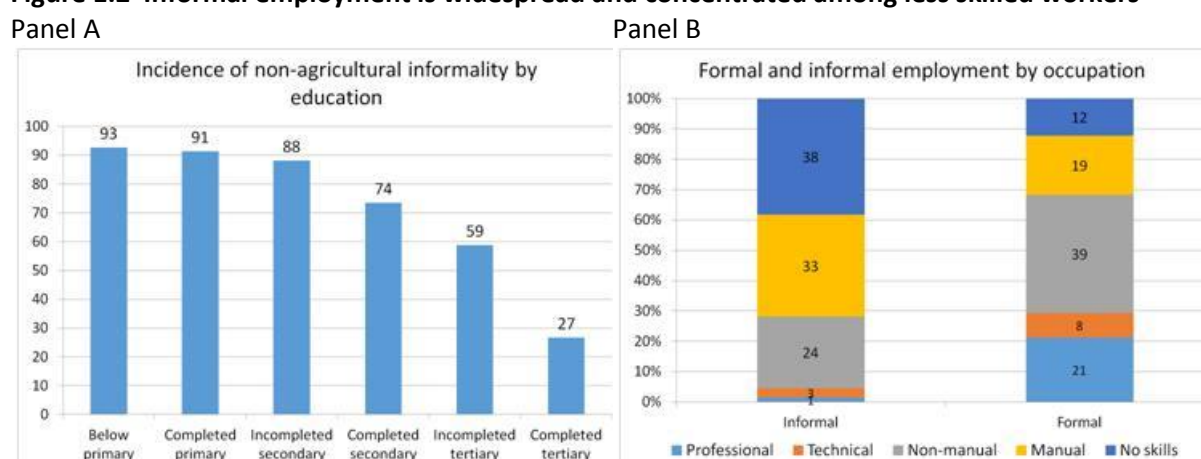
Note: 2014 real wage data is the average of January and April 2014.

## *“Bad” jobs are widespread, but young workers move to better jobs*

**Employment structure remains traditional, and the modern sector of the economy is still relatively small.** The service sector is the largest employer, followed by agriculture, while industry plays a relatively minor role. Roughly, every second worker is employed in the services sector, and every third in agriculture. Only one out of seven workers is employed in industry. Furthermore, the size of the non-wage sector is substantial. About 40 percent of workers are either self-employed, or unpaid family members. Such a high share of non-wage employment is another symptom of a traditional employment structure, since economic development is associated with a growth in the share of formal wage and salary employment (Gindling and Newhouse 2012, Margolis 2014). Overall, employment in the Philippines is concentrated in low-productivity activities (World Bank 2013).

**Informality<sup>10</sup> looms large.** Around three-quarters of all jobs are informal. In urban areas, outside agriculture two-thirds of jobs are informal. Even in the wage and salary sector, 6 out of 10 jobs are informal (Annex 1A Table 1A). Formal wage and salaried jobs are few, with a negative effect on productivity and wages. This is because, on average, informal jobs are less productive and pay less than formal ones (Pages and Stampini 2007, Taymaz 2009). Informal jobs outside agriculture require lower skills than formal ones, and are disproportionately held by less-educated workers (Figure 1.2). An increase in the share of formal employment is thus key to productivity and earnings growth in the Philippines.

**Figure 1.2 Informal employment is widespread and concentrated among less skilled workers**



Sources: Informal Sector Survey 2008; Bank staff calculations.

**Many jobs require little skills and laborers are the single largest occupational group.** One in three workers (excluding farmers) is employed as a laborer in a job that requires no skills. Outside agriculture and in urban areas, unskilled workers account for nearly one-fourth of total employment. The prevalence of low-skilled employment reflects both the scarcity of skilled jobs, and the relatively

<sup>10</sup> Informal employment comprises of the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households, during a given reference period.

This report identifies informal employment using the following criteria. Wage employment is considered informal if it does not meet at least two of following conditions: a) having a written contract, b) payment of social security contributions by the employer, and c) protection from job dismissal. Self-employment is considered informal if the self-employed does not maintain proper bookkeeping and accounting practices. By assumption, unpaid family workers are considered informally employed. For more detail, see Annex: Defining Informal Employment.

low educational attainment of the workforce. As many as 44 percent of workers have less than secondary education; this proportion is substantially higher in rural areas (57 percent), but it is high even in urban areas (30 percent). If a large proportion of the workforce is unskilled, firms have little incentive to provide “good” jobs; and if few “good” jobs are available, workers have little incentive to acquire skills (Snower 1994). Both better education and investments in the modern sector of the economy are necessary to break the vicious circle of low skills inhibiting the creation of better jobs, and the lack of productive job opportunities discouraging the acquisition of better skills.

**There is a shortage of skilled jobs.** Educated workers are often forced to take unskilled jobs, and work as laborers. About 30 percent of workers with secondary education hold unskilled jobs. And as many as 35 percent of laborers have at least secondary education. This suggests that the scarcity of “good” jobs is not caused by an insufficient supply of middle-skilled labor. Instead it seems there is not enough “good” jobs because the demand for middle-skilled labor is weak in the Philippines.

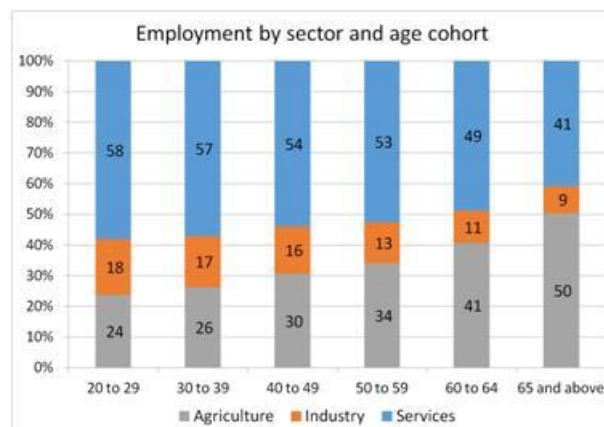
**Traditional employment structure prevailing in the Philippines has important welfare implications.** It means that there is a lot of “bad” jobs—jobs that are informal, not covered by labor regulations, requiring little skills, paying little, and not pulling workers out of poverty (see Chapter 2). Accordingly, poverty reduction requires structural change, that is, reallocation of labor from traditional, low productivity jobs toward more productive jobs in the modern sector of the economy. This primarily entails migration from rural to urban areas, and from agriculture to service and industry sectors. The pace of structural change is relatively slow in the Philippines (World Bank 2013), hindering income growth and poverty reduction. However, there are positive developments and employment gradually shifts towards modern sectors. In particular, younger worker cohorts are more likely to have jobs in the modern sectors of the economy than older ones.

**Young workers move to better jobs.** Young workers are better educated and are more likely to be employed outside agriculture, in the wage-and-salary sector. But surprisingly, they hardly migrate to urban areas: the share of urban employment among younger age cohorts is only marginally higher than among older ones. Although not dramatic, the changes in the employment structure by age are noticeable. The share of service and industry employment decreases with age, and so does the share of wage employment. On the other hand, the share of self-employment sharply increases (Figure 1.3). For example, the share of non-agricultural employment among workers in the 20 to 29 age group is 10 percentage points higher than that among 50 to 59 age group, and 6 percentage points higher than among the 40-49 group. The increase in the share of service employment among younger workers is somewhat larger than that in industry employment, which is consistent with the faster growth of service than industry employment (World Bank 2013). The transition from self-employment to wage employment is even more pronounced. The share of wage-and-salary employment among the 20 to 29 age cohort is 27 percentage points higher than that among the 50-59 cohort and 20 percentage points higher than among the 40-49 cohort. These changes in the employment structure matter from the welfare perspective as they contribute to poverty reduction. As it will be shown later, workers employed outside agriculture and in the wage-and-salary employment earn more and are less likely to be poor than agricultural workers and the self-employed. What is perplexing is the negligible increase in the share of urban employment among young workers, which limits the potential gains in poverty reduction because urban jobs are better than rural jobs (Gindling and Newshouse 2012). Urban jobs are more productive, pay more, and are associated with a significantly lower risk of poverty

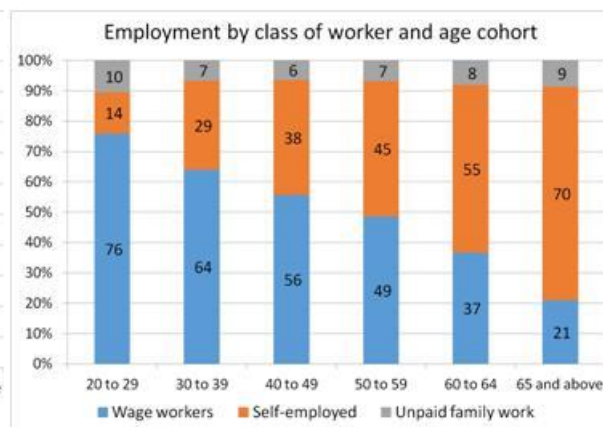
than rural jobs (see Chapter 2). The obstacles to rural to urban migration warrant further investigation.

**Figure 1.3 Younger workers have better jobs**

Panel A



Panel B



Sources: Labor Force Survey 2013; Bank staff calculations.

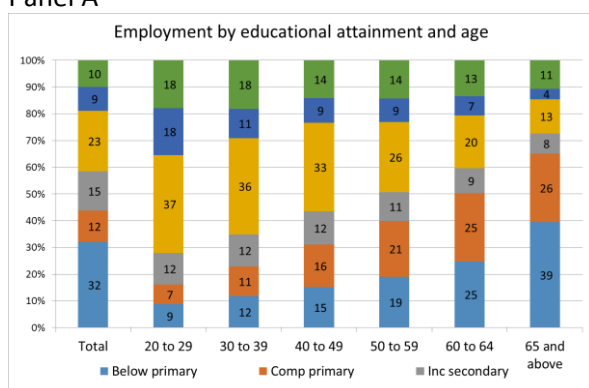
### *Low educational attainment among youth from poor background remains a big issue*

**Although younger workers are better educated than older ones, there is still a sizable group of poorly educated youth.** While the Philippines has made progress in enrollment rates, completion remains an issue. Nearly 30 percent of workers in the youngest age cohort (20-29) have not completed secondary education (Figure 1.4, Panel A). This proportion is substantially lower than among older age cohorts, which is a measure of progress in improving access to education. For example, among the 40-49 age cohort, the share of workers with less than secondary education is almost 15 percentage points higher (43 percent). Nonetheless, the pool of rather poorly educated young workers is large.

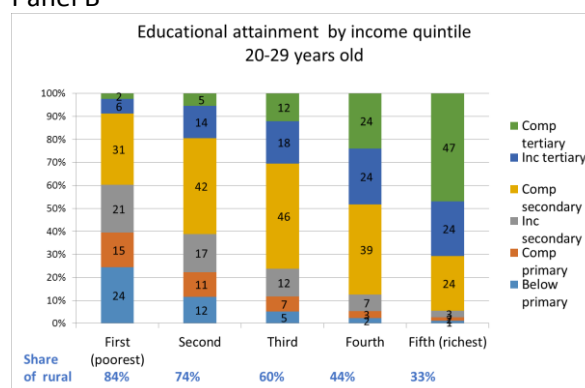
**Low educational attainment is particularly pronounced among youth from poor families, most of whom live in rural areas.** In the bottom income quintile, as many as 60 percent of young workers lack full secondary education, and 40 percent in the second quintile (Figure 1.4, Panel B). These are high percentages. Their importance lies in the fact that workers with less than secondary education face substantially worse labor market prospects than those who completed high school. Their earnings are significantly lower (see Section III below), at the risk of poverty is much higher (see Chapter 2). Improving access to good quality secondary education among the poor, especially in rural areas, is thus a key component of a strategy to reduce poverty and promote shared prosperity.

**Figure 1.4 Younger workers are better educated but education agenda is unfinished**

Panel A



Panel B



Sources: Labor Force Survey 2013; Bank staff calculations.

## II. Utilization of labor resources

The majority of persons of working age are employed in the Philippines and unemployment is relatively low. However, the employment- to-working age population ratio<sup>11</sup>, although relatively high by international standards, is lower than in the most dynamic ASEAN economies. There is room to improve the utilization of labor resources by bringing more people into employment, which would translate into higher incomes and lower poverty. This can be primarily achieved by increasing the labor force participation rate among women and youth. The relatively high percentage of youth who are not in employment or education is of particular concern. However, the biggest issue is underemployment; that is, employment in low-productivity, low-paying jobs, which are often part-time or temporary. From the poverty perspective, low-productivity employment is a bigger issue than unemployment. To improve the utilization of labor resources, the Philippines needs to create more of better jobs.

### *Most persons of working age are employed, but many of them are underemployed*

**On the face of it, labor resources are almost fully utilized in the Philippines.** The employment-to-working age population ratio is relatively high by international standards. However, it is lower than in most of the ASEAN countries, where the employment rate is above the world average. For example, the employment rates in Vietnam and Thailand are 15 and 11 percentage points higher than in the Philippines (Figure 1.5), respectively. On the other hand, the employment rate in Malaysia is lower by 3 percentage points.

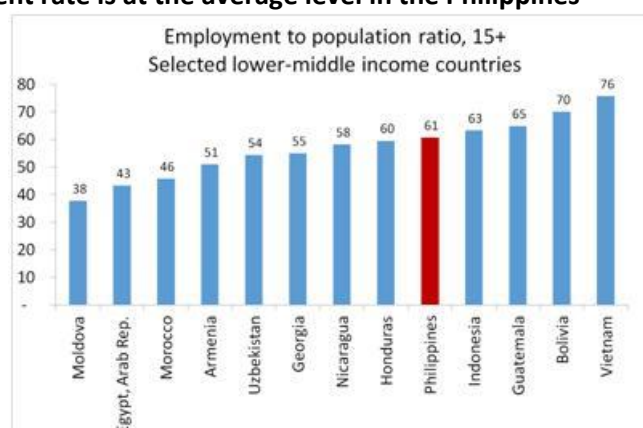
**The unemployment rate is relatively low.** Using a broad measure of unemployment, which includes persons available for work, but not actively looking for work, the unemployment rate is around 6 to 7 percent. The standard ILO unemployment rate, which includes only the jobless who are actively looking for work, is less than 3 percent. If all the unemployed—both active and passive—found employment, the employment rate would increase by about 5 percentage points. This would still be lower than in the high employment ASEAN countries. In order to increase the employment rate, the Philippines primarily needs to raise the labor force participation rate, which would bring about much larger employment gains than reducing the unemployment rate.

<sup>11</sup> Employment to working age population ratio is a summary measure of the utilization of labor resources.



**Labor force participation rate is particularly low among women and youth.** Only one woman in two is economically active in the Philippines. There is a 27 percentage points difference between the labor force participation rate of women and men, which is not unusual as in virtually all countries, men are economically more active than women. This reflects cultural norms as well as institutional factors such as access to child care facilities. However, the large pool of economically inactive women means an untapped potential for income growth. Improving incentives and opportunities for women to enter the labor market would result in significant welfare gains. The same refers to youth, an issue that is dealt with in more detail below.

**Figure 1.5 Employment rate is at the average level in the Philippines**



Sources: Key Indicators of the Labour Market database (2013), International Labour Organization; Bank staff calculations.

Note: Low middle incomes countries with gross national income per capita of more than or less than \$1,000 from the Philippines in 2013 were selected for this graph.

**Low-productivity employment is a bigger problem in the Philippines than unemployment.** Many workers have jobs but still look for additional work opportunities. These underemployed workers seek additional earnings to avoid poverty. Chapter 2 shows that employment does not protect one from poverty, and that the underemployed are particularly vulnerable to poverty. After all, the underemployed are at a significantly higher risk of poverty than the unemployed. It is estimated that about one worker in five is underemployed, that is, looking for more work (World Bank 2013). Close to 60 percent of these workers are “visibly” underemployed, that is, they work less than full-time (40 hours per week).

**Socio-economic profile of the underemployed and the unemployed is very different.** The unemployed tend to be young, well-educated, and mostly come from well-off families (see Chapter 2). In contrast, the underemployed are prime age workers with less than secondary education, and come from poor families. For instance, the unemployment rate among workers with tertiary education (8 percent) is twice as high as that among workers with primary education (4 percent). In contrast, the underemployment rate among workers with primary education (25 percent) is more than twice as high as that among workers with tertiary education (11 percent). Underemployment is a predominantly rural phenomenon—nearly 70 percent of the underemployed live in rural areas. The unemployed are found in both urban and rural areas (almost 50-50 split), but the unemployment rate is higher in urban areas (9 percent) than in rural areas (6 percent). Unemployment is a problem of young, well-educated persons who search for, but cannot easily find jobs that match their skills and meet their professional aspirations. Underemployment is a problem of less educated workers who hold low-paying jobs and are forced to seek additional work—any work—in order to make ends meet.

**Table 1.2 Main labor force indicators**

	Employment/ Population 15+	Underemployed/ Employed	Unemployment rate	Labor force participation rate
	<i>percent</i>			
<b>Total</b>	59.5	21.0	7.1	64.1
<b>Urban/Rural location</b>				
Urban	57.5	16.0	8.6	62.9
Rural	61.0	24.5	6.0	64.9
<b>Sex</b>				
Male	71.9	23.6	7.5	77.7
Female	47.3	16.8	6.5	50.6
Total	59.5	20.9	7.1	64.1
<b>Age</b>				
Youth (15-24)	37.4	19.7	16.6	44.8
Prime age (25-54)	73.5	21.9	5.0	77.4
Older (55-64)	66.7	19.4	2.6	68.4
Old (65+)	35.8	13.7	1.6	36.4
<b>Educational attainment</b>				
Below primary	66.2	27.3	3.3	68.5
Comp. primary	65.4	25.4	4.1	68.2
Inc. secondary	46.0	24.5	7.0	49.4
Comp. secondary.	61.5	20.1	9.2	67.7
Inc. tertiary	44.9	17.1	10.0	49.9
Comp. tertiary	73.0	10.5	7.7	79.1

Sources: Labor Force Survey 2013; Bank staff calculations.

### *Many young Filipinos are not in employment or education, and not looking for jobs*

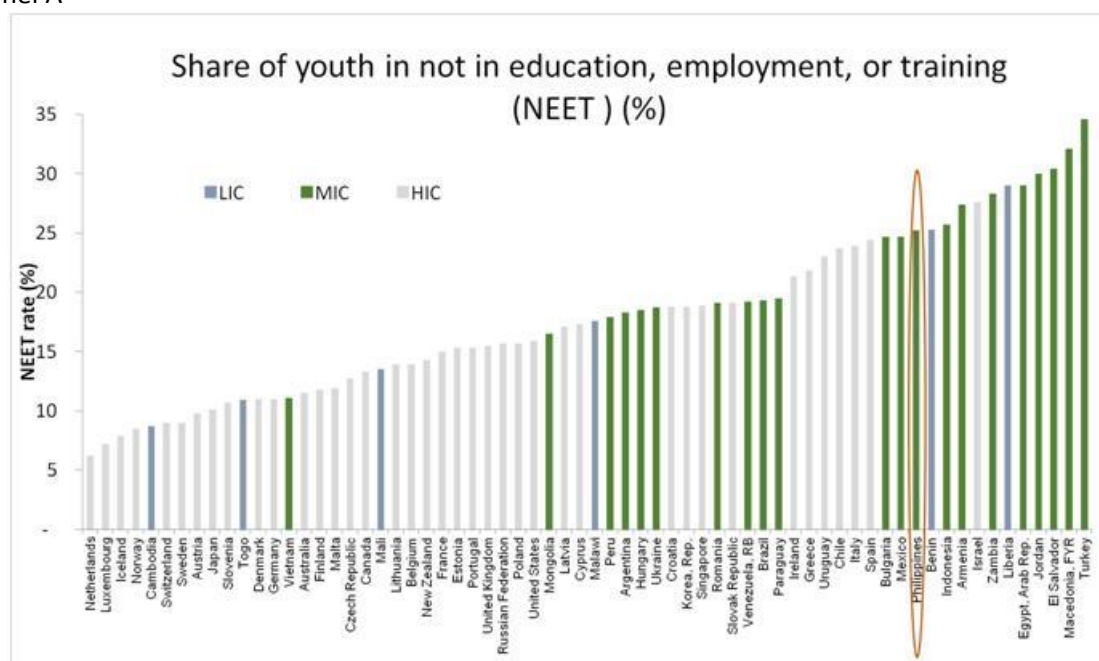
**A large fraction of Filipino youth is idle.** One out of four persons aged 15-24 is NEET.<sup>12</sup> This is a high proportion by both international and regional standards (Figure 1.6, Panel A). The NEET rate is significantly lower in Vietnam, Thailand, or Malaysia (World Bank 2014a), and approximately the same in Indonesia. In best performing countries, the NEET rate is less than 10 percent; in majority, it is below 20 percent. Expectedly, the NEET rate is much higher among young women (31 percent) than among young men (19 percent). Only 14 percent of young people who are NEET are actively seeking employment. Again, this percentage is higher among men (20 percent) than among women (10 percent). The majority of NEETs are economically inactive, although some would take a job if offered—25 percent of men and 9 percent of women. These results indicate that there is scope to reduce the NEET rate in the Philippines, which would have a positive impact on welfare. In order to design effective policy interventions promoting youth employment, one needs to identify the reasons of economic inactivity among the youth.

**High NEET rate is associated with poverty.** The percentage of idle youth is highest in the first two income quintiles (bottom 40 percent), and lowest in the top income quintile (Figure 1.6, Panel B). This is a counterintuitive result. One could have presumed that the relationship between household income and NEET is positive rather than negative. That is, the youth in poor households cannot afford to be idle, while those in non-poor households do not have to work. But apparently the relationship is negative: the NEET rate in the bottom income quintile is twice as high as in the top quintile (28 and 14 percent, respectively). There seems to be reverse causality: youth from poor families are idle possibly because of limited job prospects; idleness, in turn, contributes to poverty. In addition, youth from better-off families can afford to go to college, hence, they are not NEET. Interestingly, there is no clear relationship between the NEET rate and educational attainment. Rather surprisingly, the NEET rate is highest among youth with completed secondary and tertiary education (over 30 percent), and is the lowest among youth with incomplete secondary or tertiary education (about 15 percent). However, better educated workers are more likely to actively look for jobs, while less educated ones tend to be economically passive. For example, jobseekers account for 25 percent of NEET youth with tertiary education, and 7 percent for those with less than secondary education. The NEET rate is the same in urban and in rural areas.

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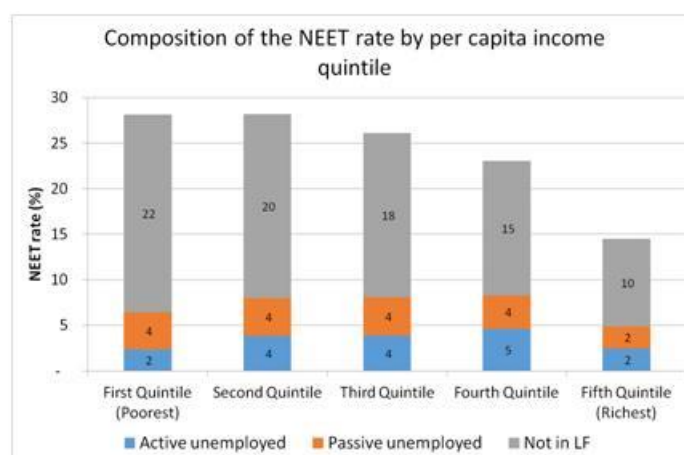
<sup>12</sup> One may think that the high NEET rate in the Philippines reflects the 10 (rather than 12) year education cycle and pupils finishing secondary education at the age of 16 and not entering the job market immediately. However, the NEET rate among youth aged 18-24 is still higher at 30 percent, which means that the high NEET rate is not explained by the relatively short education cycle.

**Figure 1.6 A large proportion of Filipino youth is idle, particularly among the poor.**  
Panel A



Source: Key Indicators of the Labour Market database (2013), International Labour Organization; Bank staff calculations.

Panel B



Source: Labor Force Survey 2013 and Family Income Expenditure Survey 2012; Bank staff calculations.

### III. Wage distribution and its determinants

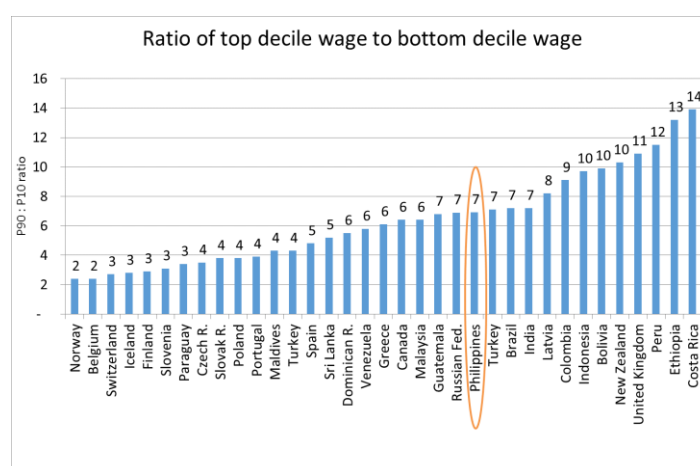
Wages are an important attribute of job quality. “Bad” jobs are jobs that pay little in relative terms. Wage—and consequently, income—distribution influences social welfare and sense of fairness in society. Highly unequal wage distribution is associated with higher poverty rates, and runs counter the shared prosperity agenda. This section examines the wage distribution in the Philippines and finds that wage inequality is high, but not exorbitant by international standards. The incidence of low-pay is high—there is a large number of “bad” jobs that pay little compared with the median wage. Wage inequality neither decreased nor increased with economic growth, which means that low-paid jobs are being reproduced and their share did not decline. This section argues that wage inequality in the Philippines is driven by labor market segmentation, with large wage differentials between the formal and informal sectors, urban and rural sectors, and modern and traditional industries. Ultimately,

these wage differentials boil down to differences between high-skilled and low-skilled activities. Wage inequality, to a large extent, reflects inequality in education and skills. Investment in education and skills would thus be an effective way to reduce wage, and consequently income, inequality in the Philippines.

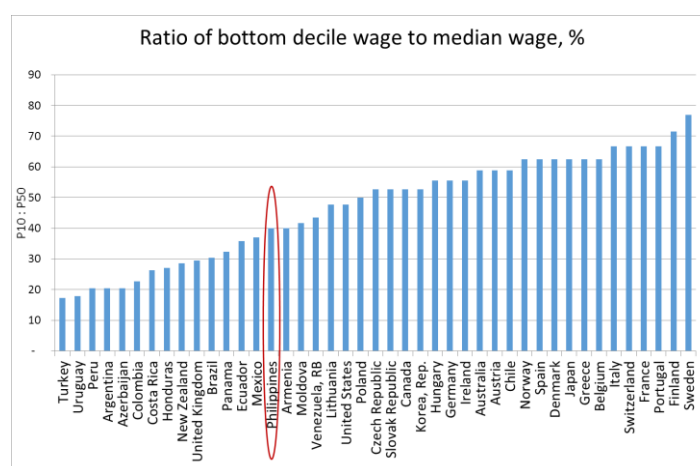
### *Persistently high wage inequality and high incidence of low-pay*

**Wage inequality is moderately high in the Philippines by international standards.** It is higher than in most developed European countries, but in the middle of developing economies' range.<sup>13</sup> High earners (top decile) earn about 7 times as much as low earners (bottom decile). In the most equal countries, this ratio (known as the decile or 90/10 ratio) is less than 4, whereas in the most unequal countries, it exceeds 10 (Figure 1.7, Panel A).

**Figure 1.7 Wage inequality is relatively high in the Philippines**  
Panel A.



**Figure 1.7, cont.**  
Panel B.



Sources: ILOstat; Bank staff calculations.

<sup>13</sup> International comparisons of wage distribution are difficult and imprecise due to differences in definitions and data sources. The estimates of inequality measures are subject to a wide margin of error, and thus, need to be interpreted with due caution. Even for a single country the estimates may differ significantly depending on the data source.

**Wage distribution changed little in the last 15 years.** Economic growth did not improve the relative status of low-paid workers and hardly reduced the incidence of low-pay. If anything, wage inequality slightly increased. The decile ratio was 6.4 in 2001 and presently stands at 6.9 (as of 2013). This increase in inequality resulted from an increase in relative wages of the top 10 percent of wage earners rather than from a decrease in wages of the bottom 10 percent of wage earners. At least, economic growth did not worsen the relative status of low-paid workers. Actually, there were some positive changes at the bottom of the wage distribution, but they were negligible. The incidence of low pay decreased by 1 percentage point between 2001 and 2013, and the 10/50 ratio increased from 38 to 40 percent, which is within the margin of error).

**Relative wage status of low-paid workers is modest in the Philippines.** A worker at the bottom decile of the wage distribution earns about 40 percent of the median wage (Figure 1.7, Panel B). This is rather low when compared to low wage inequality countries, where a worker at the bottom decile earns over 60 percent of the median wage. In such countries, the distance between a worker at the bottom of the wage distribution and the median worker (known as the 10/50 ratio) is substantially smaller than in the Philippines. However, in high wage inequality countries the 10/50 ratio is less than 30 percent, and thus the distance between the worker at the bottom decile and the median worker is larger than in the Philippines. Based on these metrics, the Philippines appears as a moderately high wage inequality country. The P10/P50 ratio is particularly relevant from the perspective of poverty and shared prosperity. The lower the ratio, the higher the incidence of in-work poverty and the more pronounced is social exclusion.

**The incidence of low-pay is high.** As many as 30 percent of all wage workers earn less than two-thirds of the median wage (Figure 1.8, Panel A).<sup>14</sup> Low-paid workers are vulnerable to poverty and in fact, a lot of them end up being poor (Chapter 2). The high incidence of low-pay is characteristic of high wage inequality. In countries where wage inequality is lower than in the Philippines, the incidence of low pay is within the 10 to 20 percent range.

**Incidence of low-pay is particularly high in the informal sector.** The difference between the formal and the informal sector is dramatic (Figure 1.8, Panel B). In the informal sector, it is the majority of workers (56 percent) who earn less than two-thirds of the median wage, while in the formal sector, it is a small minority (7 percent). Low-paid employment is almost tantamount to informal employment. About 92 percent of all “bad”, low-paid jobs is informal jobs.<sup>15</sup> The high incidence of low-paid employment is thus an upshot of widespread informality. This implies that the minimum wage policy, which reaches only formal workers, has a very limited potential to address low-paid employment (see below and Chapter 2 for a more detailed discussion on the effectiveness of the minimum wage policy).

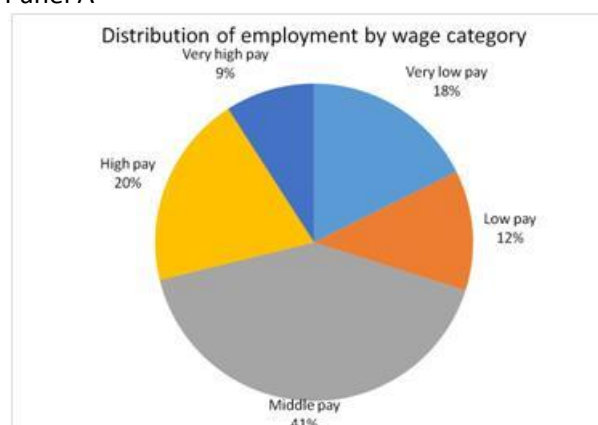
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<sup>14</sup> Two-thirds of the median wage is a standard threshold of low-pay. The value of this threshold was ₱167 per day (US\$3.8) in 2013.

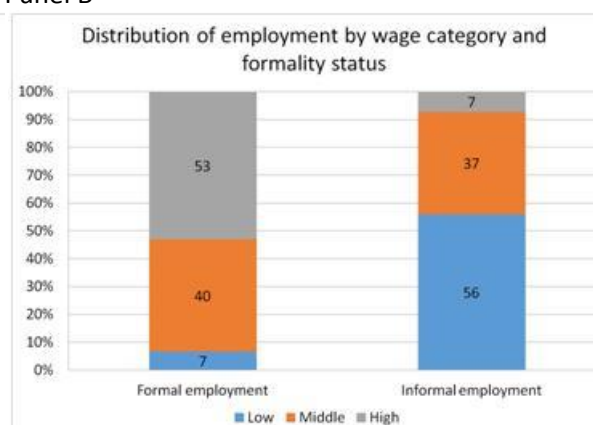
<sup>15</sup> The converse is not true; there is a large proportion (44 percent) of informal jobs that are *not* low-paid.

**Figure 1.8 High incidence of low-pay driven by informal employment**

Panel A



Panel B



Sources: Labor Force Survey 2013 (Panel A) and ISS 2008 (Panel B); Bank staff calculations.

Note: Very low pay = less than 50 percent of median wage; low pay = less than 67 percent of median wage; middle pay = 150 percent of median wage; high pay = less than 3 times the median wage; very high pay = 3 times the median wage or higher. The intervals are right-open and left-closed; the upper endpoint for the lower wage group is the lower endpoint for the higher group.

**High incidence of low-pay among informal workers is closely related to the characteristics of the informal jobs.** Informal wage jobs are concentrated in rural areas, in the services sector and among low-skilled workers (see Annex 1A Table 1A). All these jobs tend to be low-paid. The incidence of low-pay among rural workers is nearly twice as high as among urban workers (40 and 21 percent, respectively) and rural workers account for two-thirds of low-paid employment. As many as 54 percent of all low-paid jobs are in the services sector and the incidence of low-pay among service and sales workers is 36 percent. In comparison, the incidence of low-pay among skilled manual workers (e.g. craftsmen, machine operators, etc.) is three times lower at 12 percent, and 10 percent among industrial workers. (Annex 1B Table 1B. provides detailed information on the profile of low-paid employment in the Philippines).

**Low-skilled workers have the highest incidence of low-pay.** Every second laborer (an unskilled worker in so-called elementary occupations) is low-paid, and unskilled workers represent close to 70 percent of low-paid employment. Service and sales workers are the second largest group, which accounts for about 20 percent of low-paid employment.

**Incidence of low-pay is significantly higher among women than men.** As many as 37 percent of women are in low-paid employment compared with 25 percent of men. This large difference, may be due to women being more likely employed in low wage industries and occupations. Close to 80 percent of women are employed in the service sector compared with less than 50 percent of men, who are more often employed in the better paying industry sector. Furthermore, 20 percent of women are employed in low-paying service and sales occupations, compared with 14 percent of men. Informality does not play a role here, because the incidence of informal employment is the same among women as men (67 percent). However, discrimination seems to play a role. All else being equal, women earn less than men.

**Underemployment and low-paid employment are closely related.** About 55 percent of the underemployed have low-paid jobs. This is particularly the case with the “visibly” underemployed, among whom almost three-quarters are in low-paid employment. This correlation adds validity to the concept of underemployment. Most of those who look for additional work—the underemployed—

do so because they earn little. However, low-paid employment is a broader concept than underemployment. There are workers who hold low-paid jobs but do not look for additional work and, accordingly, are not categorized as the underemployed. The underemployed are a subset of low-paid workers.

To conclude, wage inequality in the Philippines manifests itself in two ways: in a wide wage differential between the bottom 10 percent wage earners and the median worker, and in a high incidence of low-paid employment. There is a lot of jobs that pay relatively little. Factors behind the high incidence of low-pay is informality and unskilled employment. Below we examine the determinants of wage variation in more detail.

### *Wage inequality is driven by labor market segmentation*

**Wage inequality in the Philippines is high because of labor market segmentation.**<sup>16</sup> There are two sectors with a large wage differential between them. The low-wage sector is traditional, informal, and rural. While the high-wage sector is modern, formal, and urban. The low-wage sector employs less-educated and low-skilled workers, and the high-wage sector employs more educated and better skilled ones. The inter-sectoral differences in skills intensity seem to be central. To a large degree wage differentials between the sectors boil down to education and skill differential. For example, the formal and urban segments of the labor market are significantly more skill intensive than the informal and rural segments (Annex 1A Table 1A). And lack of skills seem to be a major barrier for workers to move from the traditional low-wage to the modern high-wage sector.

**Wage differentials between labor market segments are large.** To illustrate, an average formal worker earns over twice as much as an informal worker. An urban worker earns 50 percent more than his/her rural counterpart. A worker with tertiary education earns 3.4 times as much as one with primary education. And a skilled manual worker earns 70 percent more than a laborer. However, these raw wage differentials do not take into account differences in worker and job characteristics among sectors. For example, workers in the formal sector are better educated and more skilled than those in the informal sector, thus the formal/informal wage differential also reflects the education and skills premia. Regression analysis allows one to separate the impact of different factors on wages, and to estimate their independent effects. The regression adjusted (independent) effect of selected variables on wages are shown in Table 1.3. The full results of the regression analysis are presented in Annex 1C Table 1C.

**There is a number of factors that independently contribute to wage inequality in the Philippines.** Table 1.3 indicates that the most important among them are urban/rural location, formal/informal status, and education and skills (proxied by occupation). Wage inequality reflects large differences in job and worker characteristics. There are large productivity differentials between urban and rural, and formal and informal jobs, as well as between well-educated and skilled workers and those with less education and skills. For example, a formal worker enjoys a 33 percent wage premium over an observationally identical informal worker. All else being equal, a skilled manual worker is paid a wage that is 30 percent higher than that of an unskilled worker. And a university graduate earns 74 percent more than a high school graduate. Altogether, these observable factors explain about 36 percent of

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<sup>16</sup> Segmentation indicates that workers who have different characteristics operate in different labor markets, with different working conditions, different promotional opportunities, different wages, and different market institutions. (Reich et al. 1973).



variation in wages. There is residual inequality that is accounted for by unobservable differences in worker and job characteristics as well as institutional factors (e.g. differences in bargaining power between workers and employers in different segments of the labor market).

**Table 1.3 Regression adjusted wage premia**

	Wage premium (percent)
Urban/Rural	20
Formal/Informal	33
Tertiary/Primary education	113
Tertiary/Secondary education	74
Secondary/Primary education	34
Industry/Services	18
Skilled manual/Unskilled	30
Skilled manual/Services and sales	13
Service and sales/Unskilled	14
Male/Female	30

Sources: Labor Force Survey 2013 and Informal Sector Survey 2008; Bank staff calculations.

**Reducing wage inequality requires addressing its underlying causes: large skill differentials among workers and productivity differentials among jobs.** Improving the status of low paid workers and reducing the incidence of low-pay is important to achieve poverty reduction and shared prosperity goals. Investment in education of youth from socially disadvantaged background is a way to reduce skill differentials. Strengthening incentives for formality and enhancing job opportunities in the formal sector so that workers move from low-productivity informal to more productive formal employment lessens productivity differentials among jobs. Finally, improving agricultural productivity also reduces the urban/rural wage differential.

**Minimum wage policy has a limited potential to reduce wage inequality in the Philippines.** This is due to the large size of the informal sector, where the bulk of low-paid workers are employed. As discussed in Chapter 3, informal workers do not benefit from the minimum wage policy. In fact, the majority of them earn less than the minimum wage. The minimum wage policy, in its current form, may even contribute to wage inequality as it creates a barrier between the formal and informal sector (see Chapter 3). It prices low-productivity workers out of better-paid formal employment and pushes them into low-paid informal employment. The increased supply of workers in the informal sector drives wages down in that sector. As such, the minimum wage policy sustains the formal/informal wage differential.

## ANNEX 1A Non-agricultural employment by formality status and worker characteristics

**Table 1A: Non-agricultural employment by formality status and worker characteristics, 2008**

		Distribution of non-agricultural employment		Informality rate
		Informal	Formal	
		<i>percent</i>		
Total		100	100	67
	<i>Location</i>			
Urban		60	74	62
Rural		40	26	75
	<i>Sex</i>			
Men		55	55	67
Women		45	45	67
	<i>Age</i>			
Youth		19	17	70
Prime age		69	76	64
Older		9	6	74
65 and above		3	1	89
	<i>Education</i>			
Below primary		12	2	93
Completed primary		17	3	91
Incomplete secondary		16	4	88
Completed secondary		32	23	74
Incomplete tertiary		15	21	59
Completed tertiary		8	46	27
	<i>Status in employment</i>			
Wage workers		53	96	53
Self-employment		39	4	95
Unpaid family workers		8	0	100
	<i>Occupation</i>			
Managers & gov't employees		24	13	79
Professionals		1	19	10
Clerks		3	17	27
Technicians		3	8	40
Service & sales		15	17	64
Skilled manual		26	16	76
Unskilled		29	10	85
	<i>Economic activity</i>			
Industry		24	22	68
Services		76	78	66

**Table 1A: Non-agricultural employment by formality status and worker characteristics, 2008**

<i>Firm size</i>			
Micro (1-10 employees)	91	44	84
Small (11-50)	8	42	32
Medium (51-250)	1	11	20
Large (250+)	0	4	15
<i>Income quintiles</i>			
Bottom	30	3	92
2 <sup>nd</sup>	35	11	76
Middle	14	15	47
4 <sup>th</sup>	16	30	34
Top	5	42	10

Note: Wage workers are categorized as formal when they meet at least two of the following three criteria: have a written employment contract, have employer provided social insurance, and are protected from arbitrary dismissal; otherwise, they are categorized as informal. Self-employed workers are formal if they have proper bookkeeping system; otherwise, they are informal. Unpaid family members are informal by definition.

Sources: Informal Sector Survey 2008; Bank staff calculations.

## ANNEX 1B Profile of low-paid employment

**Table 1B: Profile of low-paid employment**

	Incidence of low-pay	Share in low-paid employment	Share in total employment
<i>Total</i>	30%	100%	100%
<i>Location</i>			
Urban	21%	34%	50%
Rural	40%	66%	50%
<i>Gender</i>			
Men	25%	50%	60%
Women	37%	50%	40%
<i>Age</i>			
Youth (15-24)	44%	35%	24%
Prime age (25-54)	25%	56%	69%
Old (55-64)	32%	7%	6%
Older (65+)	48%	2%	1%
<i>Education</i>			
Below primary	58%	24%	12%
Comp. primary	46%	18%	12%
Inc. secondary	43%	17%	12%
Comp. secondary.	29%	32%	33%
Inc. tertiary	18%	6%	9%
Comp. tertiary	4%	3%	22%
<i>Sector</i>			
Agriculture	61%	36%	18%
Industry	13%	10%	24%
Services	28%	54%	58%
<i>Occupation</i>			
Managers & gov't employees	6%	1%	4%
Professionals	3%	1%	9%
Technicians	11%	2%	4%
Clerks	8%	3%	10%
Service & sales	36%	19%	16%
Skilled manual	12%	7%	18%
Unskilled	52%	68%	39%
<i>Formal vs. informal*</i>			
Informal	56%	92%	60%
Formal	7%	8%	40%

Sources: Labor Force Survey 2013 January, Informal Sector Survey 2008 for informal vs formal distinction; Bank staff calculations

Note: Workers are categorized as low-paid if they earn less than two-thirds of the median wage.

## ANNEX 1C Wage Regressions

**Table 1C: Wage Regressions**

Data source	(1)		(2)		(3)		(4)	
	Using LFS 2013				Using ISS 2008			
	coefficient		t-statistics		coefficient		t-statistics	
<i>Education (base = below primary)</i>								
Completed primary	0.089	***	8.8		0.106	***	9.7	
Incomplete secondary	0.123	***	11.3		0.123	***	10.6	
Completed secondary	0.294	***	29.8		0.221	***	20.5	
Incomplete tertiary	0.462	***	33.9		0.334	***	26.4	
Completed tertiary	0.845	***	54.6		0.595	***	38.5	
Experience <sup>a</sup>	0.026	***	35.8		0.023	***	31.8	
Experience^2	-0.000	***	-26.8		-0.000	***	-22.9	
Male	0.264	***	39.1		0.246	***	39.6	
Urban	0.182	***	29.5		0.178	***	29.6	
<i>Sector (base = agriculture)</i>								
Industry	0.174	***	19.1		0.166	***	17.3	
Services	0.006		0.7		0.008		0.9	
<i>Occupations (base = unskilled)</i>								
Managers & gov't employees	0.775	***	33.6		0.658	***	32.9	
Professionals	0.830	***	48.8		0.622	***	40.2	
Technicians	0.501	***	26.0		0.439	***	25.4	
Clerks	0.473	***	34.0		0.338	***	26.5	
Service & sales	0.133	***	12.2		0.120	***	11.1	
Skilled manual	0.259	***	29.1		0.259	***	30.5	
Informal	N/A		N/A		-0.396	***	-57.0	
_constant	4.350	***	354.1		4.549	***	323.7	
Observations	36,668				31,445			
R-squared	0.508				0.596			

Sources: Labor Force Survey 2013 January, Informal Sector Survey 2008; Bank staff calculations

<sup>a</sup> Experience was defined as age minus the average number of years of education for each educational classification.

\*\*\* p<0.01, \*\*p<0.05, \*p<0.1, denote statistical significance at 99%, 95%, and 90% levels, respectively.

## ANNEX 1D *Defining Formal Employment*

The way the concept of formality is operationalized depends on the specific data source. In this empirical analysis we define formal employment in Philippines based on the information provided by the 2008 Informal Sector Survey (ISS). It should be noted, however, that the ISS or any other data sources do not unambiguously determine the way formal employment is defined. There may be different criteria used to identify formal employment, and the results will vary depending on the choice of the criterion. This implies that there is no single “right” measure of formality. There may be different estimates of the size of formal employment in Philippines obtained using other sources, and all of them may be valid. There is bound to be some ambiguity in the measurement of formality.

This report defines formal employment as follows. In the case of wage employment, the criteria used to distinguish between formal and informal employment are: a) having a written employment contract, b) payment of social security contributions by the employer, and c) protection from job dismissal. This definition considers a job formal when at least two of the three criteria are met. In the case of the self-employed, the enterprise is considered formal when it maintains proper bookkeeping and accounting practices. By assumption, unpaid family workers are considered informally employed.

Given that the estimates of the size of the formal employment depend on the definition, we present below a set of estimates that were obtained using different operational definitions of the formality of wage employment. (The focus is on wage employment as the size of informal self-employed is not sensitive to changes in the definition). Table 1.D.1. provides the upper and lower bound estimates of the size of formal wage employment in Philippines. At the same time, it shows how sensitive the results are to changes in the definition of formality.

**Table 1D: Percentage of wage workers meeting different criteria of formality, 2008.**

Formality criteria			Share in wage employment, %	Formality status
Written contract	Social insurance	Protection from dismissal		
no	no	no	27.1	informal
yes	no	no	29.2	informal
no	yes	no	29.7	informal
no	no	yes	55.2	informal
Any single criterion is met			78.2	informal
yes	yes	no	31.2	formal
yes	no	yes	25.9	formal
no	yes	yes	26.7	formal
yes	yes	yes	21.9	formal
At least two criteria are met <sup>a</sup>			40.1	formal

Sources: Informal Sector Survey 2008; Bank staff calculations.

<sup>a</sup> The criterion of formality is used in this report.

# Chapter 2

## Labor Market Determinants of Poverty in the Philippines

### Introduction

Poverty among working age population is the effect of unfavorable labor market outcomes of individuals and households. People are poor because they are unemployed or have low-paying jobs. Also, because they live in households with few earners, or in households with low earning capacity. Distinguishing between these different factors is important in designing an effective poverty reduction policy.

This chapter aims at identifying labor market determinants of poverty in the Philippines by examining the connection between poverty, and worker and households characteristics. It finds that having a job does not provide a pathway out of poverty, and that in-work poverty is pervasive in the Philippines. It is the quality of a job that matters. Workers in “bad” jobs run a higher risk of poverty than the unemployed. There are numerous “bad” jobs, which tend to be informal and concentrated in low-productivity activities, including in subsistence agriculture. The Government uses the minimum wage policy to address in-work poverty; however, it reaches only a minority of the working poor, and as such, is largely ineffective. This chapter further argues that the primary cause of poverty is low earning capacity, rather than low work intensity among the vulnerable households. The low earning capacity reflects both low-skills of the poor, and lack of productive job opportunities. Therefore, poverty reduction in the Philippines hinges on both improving workforce skills, and on improving access by the poor to more productive jobs.

The chapter is structured as follows. Section I looks at the connection between worker and job characteristics, and poverty. Section II examines the role played by work intensity and earning capacity in explaining households’ poverty status. Section III analyses the potential of a minimum wage policy to reduce in-work poverty in the Philippines. The last section concludes and discusses policy implications of the analysis.

### I. Worker and job characteristics and poverty

This section examines the risk of poverty faced by different population groups based on their labor market status. It finds that workers in low-productivity jobs are at substantially higher risk of poverty than the unemployed. Rural and agricultural workers are particularly vulnerable to poverty and represent the bulk of the working poor. However in-work poverty is not limited to rural areas. Urban workers who have informal and low-skilled jobs are also highly vulnerable to poverty. Annex 2A Table 2A and Annex 2B Table 2B show the detailed profile of in-work poverty. The strong link between in-work poverty and low-productivity employment indicates that poverty reduction is contingent on the creation of better, formal jobs, as well as on investment in education and skills among the poor.

### *In-work poverty is pervasive*

**Labor force status has little impact on the risk of poverty in the Philippines.** The employed are as likely to be poor as the economically inactive, and paradoxically, more likely to be poor than the unemployed (Figure 2.1, panel A). Having a job, by itself, does not protect one from poverty. It is thus the quality of a job that matters. And the quality of jobs varies considerably in the Philippines (see Chapter 1 and the analysis below).

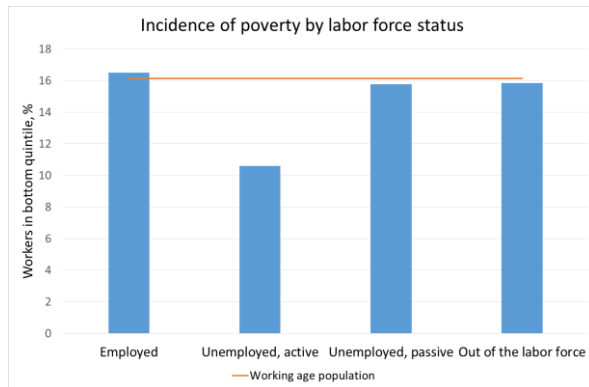
**Majority of the working-age poor are employed.** The unemployed account for only a tiny fraction of the working-age poor. Figure 2.1, Panel B illustrates this pattern. As many as 60 percent of the working-age poor have a job. The unemployed, that is, persons who are looking for a job or at least would like have a job, account for less than 4 percent of the poor. The remaining 35 percent are persons who are out of the labor force. The high incidence of in-work poverty in the Philippines points to two things. First, there is substantial number of “bad” jobs, which do not lift workers out of poverty. Second, poverty will be reduced only if there will be more “good” jobs, which entails gains in labor productivity being translated into higher wages. As shown in Chapter 1, the latter condition cannot be taken for granted. Wages in the Philippines are inelastic to growth, which is an obstacle to poverty reduction.

**Unemployment does not mean poverty.** Workers looking for a job are less likely to be poor than many of the jobholders. This is a surprising result, contrary to what is observed in other countries, especially higher income ones where the unemployed face a considerably higher risk of poverty than the employed. Why is the pattern in the Philippines opposite to that prevailing in higher income countries? The explanation lies in the socio-economic profile of unemployment in the Philippines, which is different from that observed in higher income countries. In the Philippines the unemployed tend to be better educated and come from well-off families, while in higher income countries, the unemployed tend to be less educated and come from poorer families than the employed (World Bank 2013). Put differently, the poor cannot afford to be unemployed, whereas the unemployed have higher reservation wages and look for better job opportunities that would match their professional aspirations. This is not to say that unemployment is not a social problem in the Philippines. It is a problem because it lowers the returns to investment in human capital, and implies underutilization of the well-educated labor force. It also entices some of the well educated workers to seek job opportunities abroad rather than in their home country. But the link between unemployment and poverty is rather weak in the Philippines.

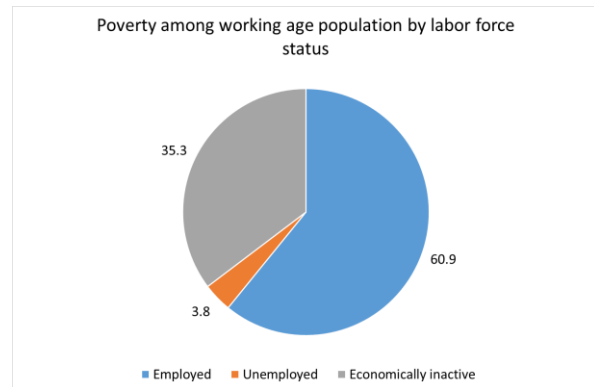


**Figure 2.1 Employment does not lower the risk of poverty**

Panel A



Panel B

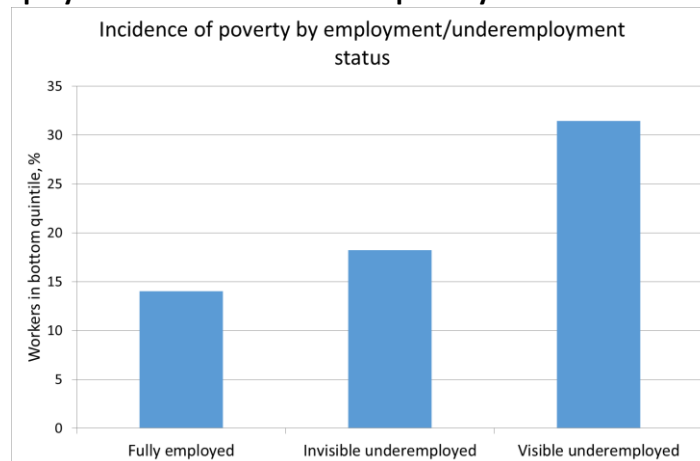


Sources: Family Income Expenditure Survey–Labor Force Survey data, January 2013; Bank staff calculations.

Note: Poverty = bottom quintile (20 percent) of income distribution.

**Underemployment is more of a problem from poverty perspective than unemployment.** Workers who are underemployed, or those seeking additional work, face the highest risk of poverty. Over 30 percent of workers who are visibly underemployed fall into bottom income quintile, compared with only about 10 percent of the unemployed and 15 percent of the fully employed (Figures 2.1 and 2.2). Workers are *visibly* underemployed when they work less than full-time (40 hours per week). They are *invisibly* underemployed when they work 40 or more hours per week, but still seek additional work. The latter category is also at a higher risk of poverty than the fully employed, but not in the same degree as the visibly underemployed. Altogether, the underemployed represent about one-third of the working poor, of which the visibly underemployed represent close to 25 percent.

**Figure 2.2 Underemployment increases the risk of poverty**



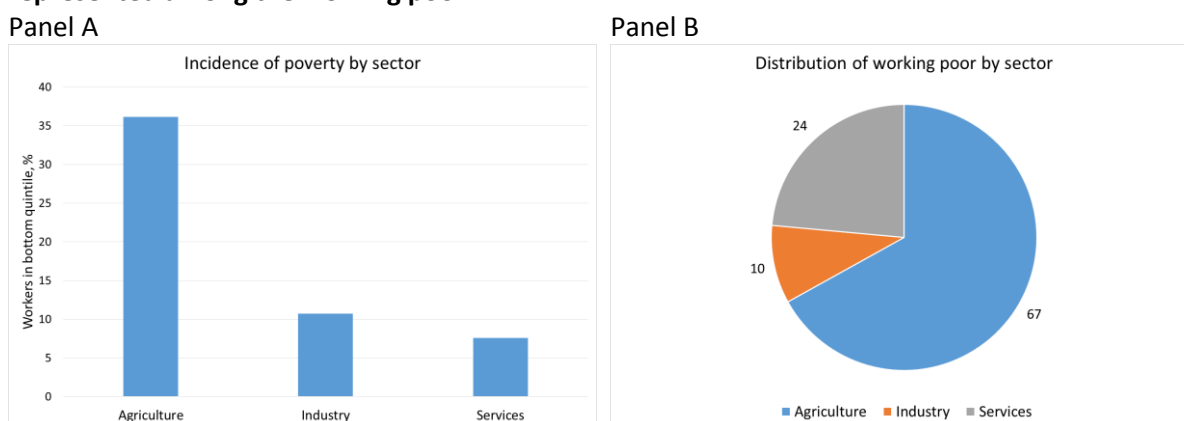
Sources: Family Income Expenditure Survey–Labor Force Survey data, January 2013; Bank staff calculations.

Note: Poverty = bottom quintile (20 percent) of income distribution; Visible underemployed = work less than full-time (40 hours per week) and would like to work more; Invisible underemployed = work full-time but would like to work more.

### *Majority of working poor live in rural areas and work in agriculture*

**In-work poverty is mostly, although not exclusively, a rural and agricultural phenomenon.** Rural workers run a much higher risk of poverty than urban ones, and account for bulk of the working poor. An average rural worker is almost four times more likely to be in bottom income quintile than his/her urban counterpart (the probabilities are 24 and 6.3 percent, respectively). As a result, 84 percent of all working-poor live in rural areas. The same is true for agricultural workers, who are much more likely to be poor than their counterparts employed in industry or services. They are also disproportionately represented among the working poor (Figure 2.3). The high incidence of poverty among rural workers reflects the very low productivity of agriculture in the Philippines. Consequently, poverty reduction is contingent on productivity growth in agriculture, which necessitates the completion of land reform programs (Briones 2013, PDR 2013, Reyes and Mina 2013).<sup>17</sup>

**Figure 2.3 Agricultural workers run the highest risk of poverty and are disproportionately represented among the working poor**



Sources: Family Income Expenditure Survey–Labor Force Survey data, January 2013; Bank staff calculations.

Note: Poverty = bottom quintile (20 percent) of income distribution.

### *Self-employment: necessity rather than opportunity*

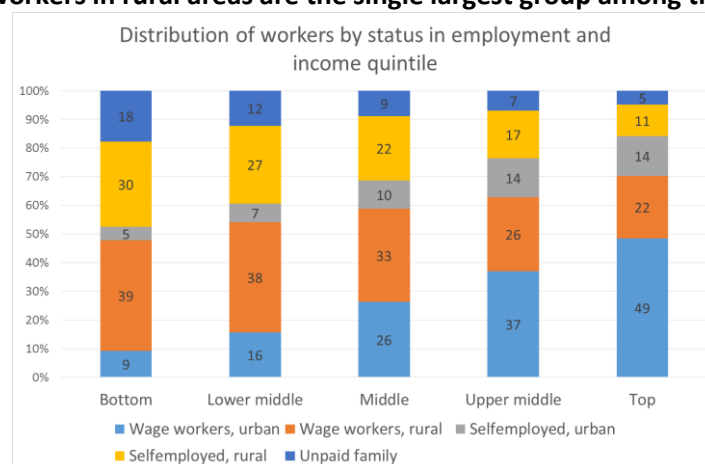
**Non-wage workers are predominant among the working poor.** The self-employed and unpaid family workers represent 52 percent of the bottom income quintile (Figure 2.4). The self-employed also run a higher risk of poverty than wage workers, in both urban and rural areas (Figure 2.5). For the majority of the self-employed, entrepreneurship is thus a necessity rather than an opportunity, and reflects limited access to formal wage employment. However, Figure 2.4 also shows that the self-employed in the Philippines (as elsewhere) are a heterogeneous group, consisting of both successful and

<sup>17</sup> Despite a long history of agrarian reforms in the Philippines, there remains a number of structural and policy issues that need to be addressed in order to enhance agricultural productivity. These include the assignment and security of property rights, which affect the incentives for farmers to invest; improvements in targeting of land distribution to make it more pro-poor; adequate provision of public goods and support services; and sufficient public investment in rural infrastructure, and research and development (World Bank 2013).

unsuccessful entrepreneurs.<sup>18</sup> Finally, the data suggest that one way out of poverty is to move from informal self-employment to formal wage employment.<sup>19</sup>

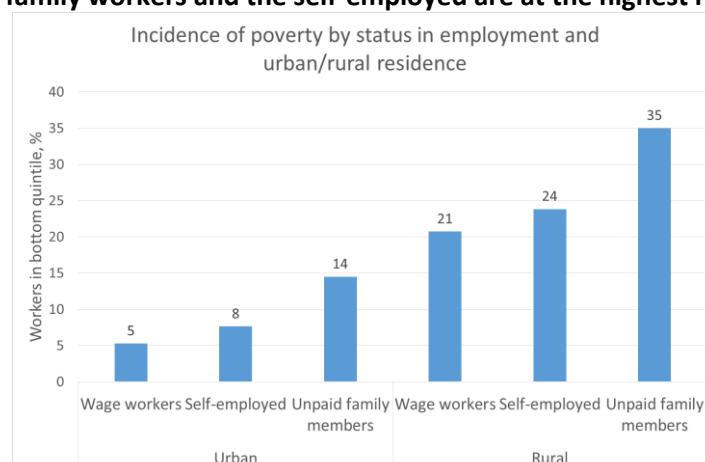
**Rural workers are predominant among the poor wage workers.** Almost 40 percent of rural wage workers fall into the bottom income quintile, compared with less than 10 percent of urban ones (Figure 2.4). Low-paid rural wage employment is thus a big issue from the poverty perspective.

**Figure 2.4 Wage workers in rural areas are the single largest group among the working poor**



Sources: Family Income Expenditure Survey–Labor Force Survey data, January 2013; Bank staff calculations.

**Figure 2.5 Unpaid family workers and the self-employed are at the highest risk of poverty**



Sources: Family Income Expenditure Survey–Labor Force Survey data, January 2013; Bank staff calculations.

Note: Poverty = bottom quintile (20 percent) of individual per capita income distribution.

<sup>18</sup> Gindling and Newhouse (2012) show that in low- and middle-income countries, about a third of all self-employed workers are unsuccessful entrepreneurs in the sense that they live below the poverty line of US\$2/day.

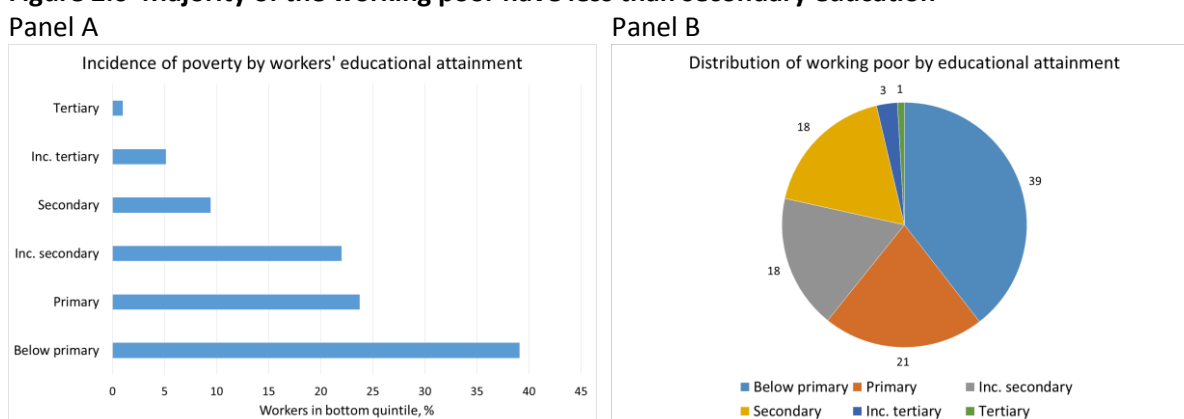
<sup>19</sup> This pattern applies to most low- and middle-income countries. According to Gindling and Newhouse (2012), “the growth of the private wage and salary sector remains the dominant engine of growth and better jobs” (p. 15).

### *Poor education and lack of skills are key factors behind in-work poverty*

**In-work poverty is concentrated among less educated workers.** Workers with less than secondary education face a high risk of poverty and are preponderant among the working poor (Figure 2.6). Altogether, they represent nearly 80 percent of the working poor.<sup>20</sup> Among workers with less than primary education, nearly 40 percent are poor, and among those with primary education almost 25 percent are poor. The completion of secondary education lowers the risk of in-work poverty quite dramatically to less than 10 percent. The risk of poverty among workers with tertiary education is negligible.<sup>21</sup>

**In the same vein, in-work poverty is prevalent among low-skilled workers.** About 30 percent of all laborers—workers in unskilled occupations—are in the bottom income quintile; laborers account for close to 60 percent of all working-poor. The possession of some vocational skills dramatically reduces the risk of poverty. The incidence of poverty among skilled manual workers (e.g. craftsmen, machine operators, etc.) and among service and sales workers is three times lower than among unskilled workers. These results imply that investment in vocational skills has a huge pay-off (see Chapter 1). Workers in middle-skilled jobs are much better-off than those in unskilled ones. Accordingly, the provision of vocational training geared to the needs of employers has a significant potential to move workers out of poverty.

**Figure 2.6 Majority of the working poor have less than secondary education**



Sources: Family Income Expenditure Survey–Labor Force Survey data, January 2013; Bank staff calculations.

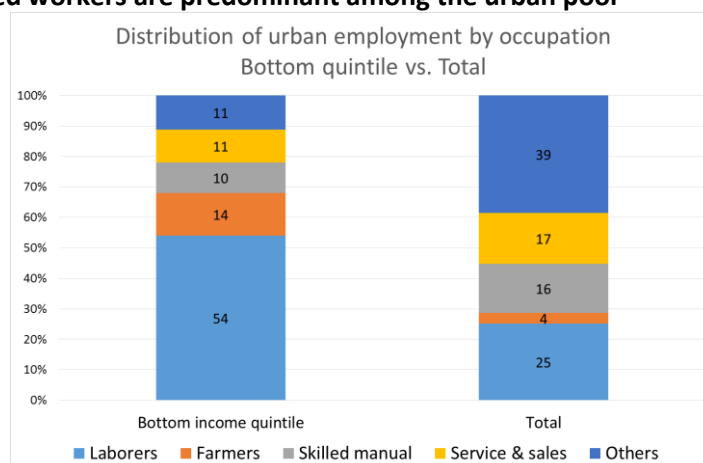
Note: Poverty = bottom quintile (20 percent) of income distribution.

**Poverty among low-skilled workers is not only rural but also an urban phenomenon.** Unskilled employment is not limited to rural areas. Around one-third of all unskilled workers (laborers) live and work in urban areas, and they are often poor. Figure 2.7 shows the occupational structure of urban poverty. Over half of the poor in urban areas work in unskilled occupations. This proportion is more than twice as high as their share in total urban employment. Unskilled employment, closely associated with poverty, is thus a big issue also in urban areas. The reduction of poverty in the Philippines requires addressing the issue of low skills among the poor in both urban and rural areas.

<sup>20</sup> These results reflect low public investment in education in the past. Many workers are poor, because they did not have an opportunity to obtain quality education.

<sup>21</sup> Reyes and Mina (2013) provide a more detailed analysis of the links between education and in-work poverty.

**Figure 2.7 Unskilled workers are predominant among the urban poor**



Sources: Family Income Expenditure Survey–Labor Force Survey data, January 2013; Bank staff calculations.

Note: Poverty = bottom quintile (20 percent) of income distribution; Others = clerks, technicians, professionals and managers.

### *In-work poverty is closely linked with informal employment*

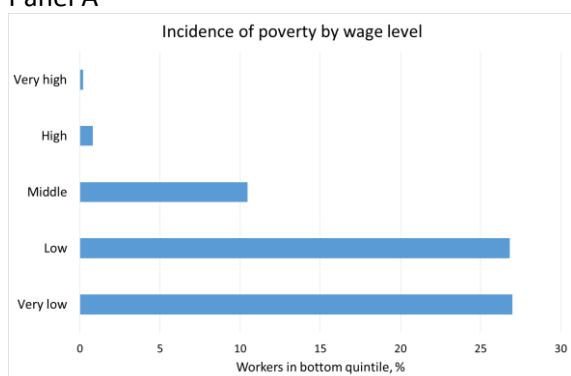
**Expectedly, in-work poverty is closely linked with low wages.** Workers who earn less than two-thirds of the median wage face a significantly higher risk of poverty than those who are above the low-pay threshold (Figure 2.8, Panel A). Workers who earn more than 1.5 times the median wage are seldom poor. These are not surprising results. What matters, however, is that there are many low-paid jobs in the Philippines (see Chapter 1), which explains the high incidence of in-work poverty. Low-skills, low-productivity, low-wages, and poverty go hand in hand.

Low paid jobs are concentrated in the informal sector. **Consequently, in-work poverty is closely related to informality.** Over 90 percent of all low-paid jobs are informal.<sup>22</sup> Low-paid employment means informal employment. And informal employment, which is predominantly low-paid, is often associated with poverty (Figure 2.8, Panel B). The high incidence of in-work poverty is thus just a mirror image of pervasive informality (see Chapter 1).

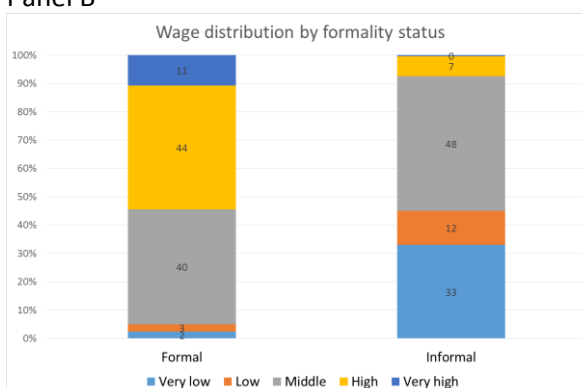
<sup>22</sup> See Chapter 1 for the definition of informal employment used in this report.

**Figure 2.8 Strong link between low-pay, informality and poverty**

Panel A



Panel B



Sources: Labor Force Survey 2013, Informal Sector Survey 2008, National Statistics Office; Bank staff calculations.

Note: Poverty: bottom quintile (20 percent) of income distribution.

Very low pay = less than 50 percent of the median wage; low pay= less than 67 percent of the median; middle pay= less than 150 percent of the median; high pay= less than 3 times the median; very high pay= 3 times the median or higher. The intervals are right-open and left-closed; the upper endpoint for the lower wage group is the lower endpoint for the higher group.

### *Female workers are less likely to be poor than male workers*

**Incidence of poverty among female workers is lower than that among male workers.** It is men who are preponderant among the working poor. The risk of relative poverty faced by a female worker is 5 percentage points lower than that of a male worker (18 percent). This, combined with a higher share of men in the workforce, means that bulk (two-thirds) of the working poor are men.

**Working women are less likely to be poor because they are better educated and have better jobs than men.** On average, labor market outcomes are more favorable among women than men due to two closely related factors. First, women are better educated than men. The percentage of employed women with post-secondary education is 11 points higher than that of men (31 and 20 percent, respectively). Correspondingly, the percentage of working women with less than secondary education is also substantially lower (37 and 49 percent, respectively). Second, and as a result, women tend to have better jobs than men. For example, as many as 40 percent of women work in middle- and high-skilled white collar occupations, compared with only 22 percent of men.<sup>23</sup> Women are also less likely than men to be employed in agriculture and more likely to be employed in the service sector, where wages are significantly higher.

**Analysis of wage distribution shows a mixed picture of female wages relative to male wages.** The incidence of low-pay is substantially higher among women (37 percent) than among men (25 percent). But at the same time, women are significantly more likely to be in the top salary bracket (13 percent of women and only 7 percent of men earn top salaries).<sup>24</sup> Wage dispersion is thus much higher among women than men. While men tend to cluster around the middle of the wage distribution, women occupy its bottom and upper tail. But even if low-paid, women are not necessarily poor. This is

<sup>23</sup> These occupations include managers, government officials, professionals and associate professionals (technicians), and clerical workers.

<sup>24</sup> The top salary bracket includes salaries that are higher than three times the median wage.

because they are often secondary earners in better-off households. In contrast, men are primary earners, and thus, if they have a low-paid jobs, their household is likely to be poor.

**Expectedly, younger workers face a higher risk of poverty than prime age workers.** The difference, of five percentage points, is significant, although not dramatic. Still, young people are overrepresented among the working poor: one of four poor workers is less than 25 years of age. The high incidence of poverty among young workers is a common phenomenon, because the youth are new entrants to the labor market and lack work experience. Their productivity is lower than that of more experienced workers and accordingly, they earn less (see Chapter 1).

## II. Household characteristics and poverty

Why are households poor? Because they work less than non-poor households, or because they earn less? **Low earning capacity of poor households is the primary cause of poverty in the Philippines.** Lower work intensity is a contributing factor. It is not a result of choice, but of lack of opportunity to work more. The poor want to work more but lack chances to do so. The low earning capacity and low work intensity tend to go hand in hand, pushing households deeper into poverty. The common cause of both low earning capacity and low work intensity of poor households is their limited access to gainful employment. This access is limited by the scarcity of productive job opportunities, particularly in rural areas. But more fundamentally, it is limited by low education and skills of the poor. Hence, poverty reduction hinges on improvements in educational attainment and skills of the poor, particularly among the youth. It also hinges on enhancing productive job opportunities and on improving their access to those opportunities.

### Box 2.1. Determinants of household income

There are four factors that determine the household's income per capita: number of earners within the household, the number hours they work, their *earning capacity*, and the number of dependents. The product of the first two factors, the number of earners and the number of hours they work is referred to as *work intensity*.

*Work intensity* measures the amount of labor that the household supplies to the market. Its first component, the number of earners (relative to the number of household members of working age), is referred to as an *extensive* margin of work intensity. The second component, the number of hours worked, is referred to as an *intensive* margin.

*Earning capacity* is the amount of labor income that the employed household members are able to earn. It is measured as the household's total labor income per earner.

The relationship between household income and its labor market determinants is expressed by the following decomposition formula:

$$\frac{Y}{P} = \frac{A}{P} * \frac{E}{A} * h * \frac{Y}{E * h}$$

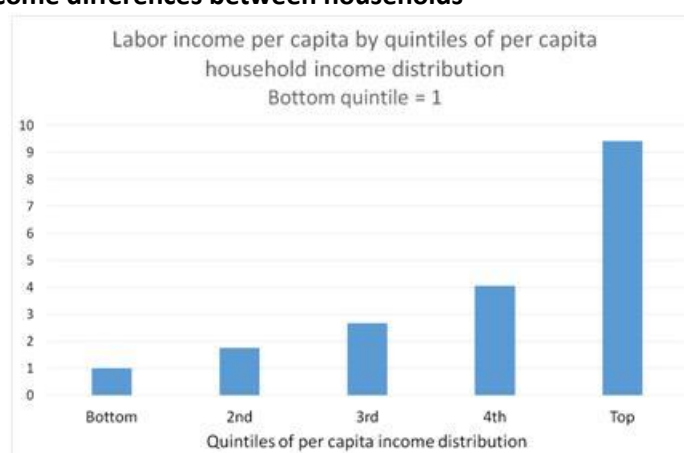
where: Y = total labor income earned by the household, P = number of household members, A = number of household members of working age, E = number of household members who are employed, h = the average number of hours worked by an earner per week.

According to the formula, the difference in income per capita between households depends on differences in: the demographic factors A/P, the number of earners E/A, hours of work h, and earnings per hour worked Y/(E\*h).

## *Households differ in their ability to generate income*

**There are large differences in labor income among households in the Philippines.** Some households earn a lot, while others earn little (Figure 2.9). The richest households (top 20 percent) earn, on average, over 9 times as much as the poorest ones (bottom 20 percent). These differences in labor income can be explained by four factors: the number of earners in the household, the number of hours they work, their earning capacity, and the number of dependents (Box 2.1). In the ensuing analysis we focus on the first three factors, which are related to labor market outcomes.

**Figure 2.9 Large income differences between households**



Sources: Family Income Expenditure Survey–Labor Force Survey data, January 2013; Bank staff calculations.

**Philippine households are poor because four factors act to their disadvantage.** First, in poor households fewer household members of working age are employed than in non-poor ones. Second, those who are employed, work shorter hours. Third, they earn less. Finally, there are more dependents in poor than in non-poor households. Work intensity of poor households is lower and so is their earning capacity. Table 2.1 summarizes these differences.

**Table 2.1. Factors determining household income by income quintiles, 2013.**

Income quintiles	Work intensity		Earning capacity	Demographic factor
	Percentage of household members of working age employed	Average hours worked	Labor earnings per earner (middle quintile =100)	Percentage of household members of working age
Bottom	57.7	38.1	51	58.7
Lower middle	60.7	41.7	70	69.3
Middle	62.5	45.1	100	74.9
Upper middle	64.3	46.1	137	79.8
Top	69.5	46.4	277	86.0

Sources: Family Income Expenditure Survey–Labor Force Survey data, January 2013; Bank staff calculations.

## *Differences in earning capacity play the primary role*

The relative importance of the factors differs. **Differences in earning capacity play the most important role.** Their impact is larger than that of work intensity. First, the differences in earning capacity between the poor and non-poor are larger than those in work intensity. Second, all else

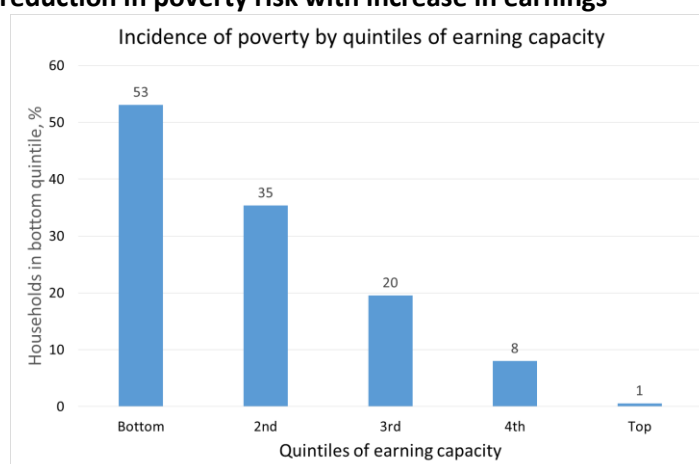


equal, increases in earning capacity bring about sharper reductions in the risk of poverty than increases in work intensity; that is, increases either in the number of earners within the household or in the hours worked. The number of dependents, plays a role, but it is not related to labor market outcomes and beyond the scope of labor policy. Thus in the ensuing analysis, we focus on the labor market determinants of poverty: earning capacity and work intensity.

**Differences in earning capacity between the poor and non-poor are substantial.** On average, earnings of workers from the bottom quintile households are 30 percent lower than those of their counterparts from the second quintile, and 50 percent lower than those of their counterparts from the middle quintile of income distribution (Table 2.1). These are substantial differences. Workers from the bottom quintile would need to double their earnings to move the middle quintile of income distribution.

**An increase in households' earning capacity leads to a sharp reduction in the risk of poverty.** If a household moves from the first to the second earning capacity group, the risk of poverty drops by 18 percentage points (Figure 2.10).<sup>25</sup> However, the increase in earning capacity needs to be considerable to noticeably reduce the risk of poverty. To move from the first to the second earning capacity group the employed household members would need to double their earnings. For many poor households such increase is hardly possible given the limited job opportunities available to them.

**Figure 2.10 Sharp reduction in poverty risk with increase in earnings**



Sources: Family Income Expenditure Survey–Labor Force Survey data, January 2013; Bank staff calculations.

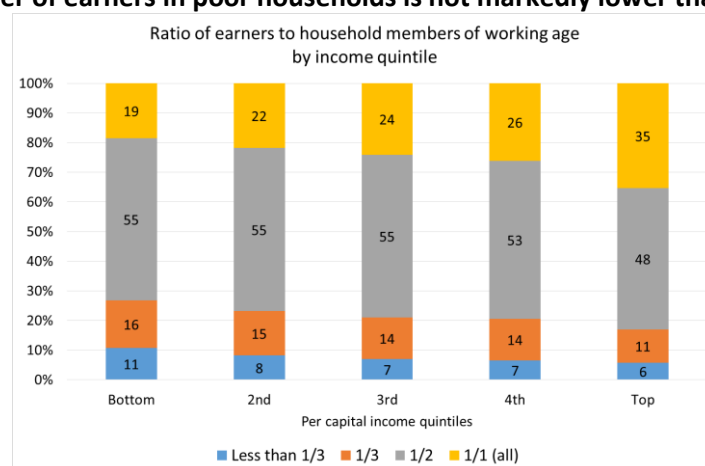
### *Differences in work intensity contribute to income inequality*

**There are fewer earners in poor households than in non-poor households.** However, the difference is not large. The ratio of employed household members to all household members of working age is 58 percent in the bottom quintile and 63 percent in the middle quintile (Table 2.1). Figure 2.11 shows a more nuanced picture. In majority of poor households, the employment ratio is the same as in non-poor households. But there is a group among the poor households where the employment ratio is low, and this group is considerably larger than among the non-poor households. Specifically, the fraction of households with few earners (one earner per three household members of working age or

<sup>25</sup> Households were divided into five groups of equal size (quintiles) that represent different levels of earning capacity, ranging from low to middle to high.

less) is 27 percent among bottom quintile households, and 21 percent among middle quintile households. In the top quintile households, this fraction is still lower (17 percent). Although households with few earners are a minority among the poor, it is a substantial minority. It is thus important to identify constraints to employment among these households. Are these constraints on the supply side (e.g. lack of skills, disability, or child care), or on the demand side (e.g. lack of job opportunities)? Answering these questions requires more research, and is beyond the scope of this report. But the answer is important because some of these households could be moved out of poverty if barriers to their employment were identified and addressed through targeted policy interventions.

**Figure 2.11 Number of earners in poor households is not markedly lower than in non-poor ones**



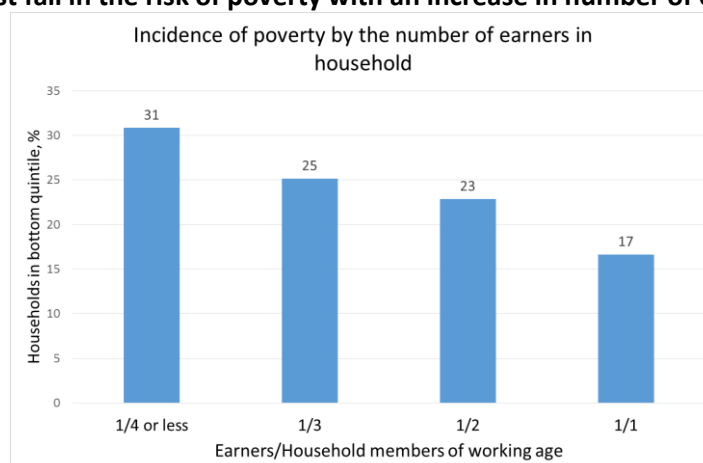
1/3 = Out of three household members of working age one is employed;

1/1 = all household members of working age are employed.

Sources: Family Income Expenditure Survey–Labor Force Survey data, January 2013; Bank staff calculations.

**Welfare gains from additional employment are modest.** Expectedly, households with few earners face a higher risk of poverty (Figure 2.12). But surprisingly, the relationship between poverty and number of earners in a household is relatively weak. An increase in the number of earners only slightly reduces the risk of poverty. For example, the incidence of poverty among households where one out of two persons of working age is employed is only 2 percentage points lower than among households where one out of three persons is employed. Only households, where all persons are employed, manage to noticeably reduce the risk of poverty, but still many of them remain poor. One out of six households where everybody works is still poor. High work intensity does not protect households from poverty.

**Figure 2.12 Modest fall in the risk of poverty with an increase in number of earners**

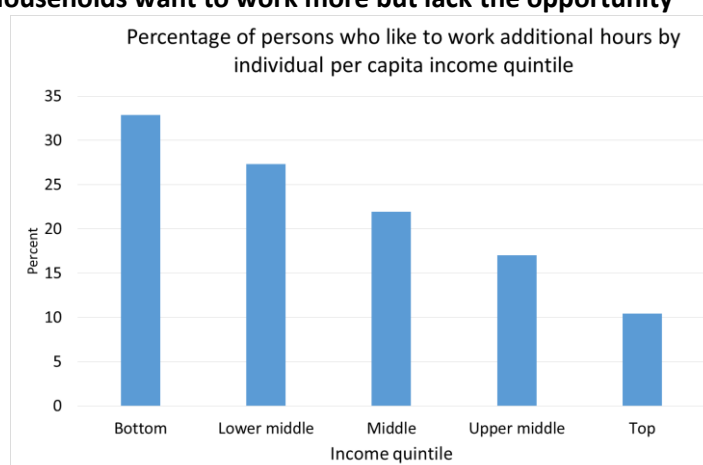


Sources: Family Income Expenditure Survey–Labor Force Survey data, January 2013; Bank staff calculations.

**Workers in poor families work shorter hours than their counterparts in non-poor families.** This amplifies the differences in work intensity between the poor and non-poor households. On average, workers in the bottom quintile work almost four hours per week less than those in the 2<sup>nd</sup> quintile, and seven hours less than those in the middle (3<sup>rd</sup>) quintile (Table 2.1). These are substantial differences in working time, which translate into lower total earnings of poor households.

**The poor work shorter hours because of lack of opportunities to work full-time.** Among the poor, the percentage of workers who would like to work more is significantly higher than among the non-poor (Figure 2.13). For instance, 33 percent of bottom decile workers would like to work longer hours, compared with 22 percent in the middle quintile and 10 percent in the top quintile. Apparently the desire to work longer hours is strongly related to low household income. The poor work shorter hours not because they choose to, but because they have no other option.

**Figure 2.13 Poor households want to work more but lack the opportunity**



Sources: Family Income Expenditure Survey–Labor Force Survey data, January 2013; Bank staff calculations.

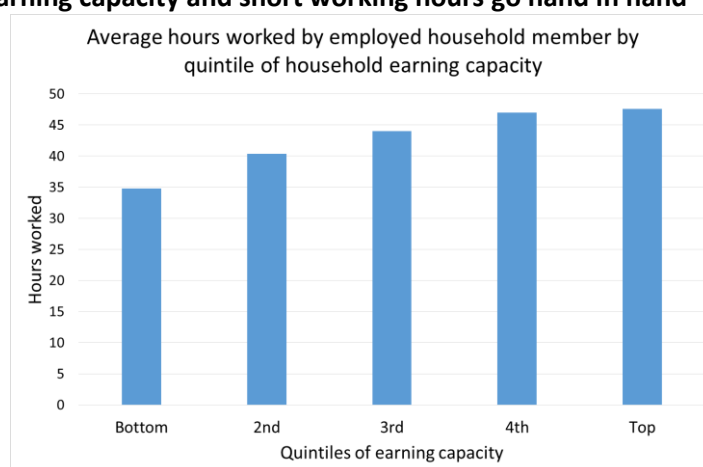
### *Low earning capacity and low work intensity go hand in hand*

**Low earning capacity is often accompanied by low work intensity.** Figure 2.14 shows that there is a positive relationship between household earning capacity and number of hours worked. Households whose members earn little also work shorter hours. For instance, members of households with the

lowest earning capacity work an average of 35 hours per week, which is nine hours less than households with the middle earning capacity, and 13 hours than households with the highest earning capacity. The combination of these two factors—low earning capacity and low work intensity—pushes households even deeper into poverty.

**Why do poorer workers work shorter hours than non-poor workers?** One possibility is that this reflects voluntary choice. The alternative possibility is that less productive workers have limited access to full-time and permanent jobs. The high prevalence of *visible* underemployment, that is, workers with part time or casual jobs looking for additional work, provides support for the latter hypothesis. The low earning potential of households cannot be offset by working more because they face limited opportunities for additional work.

**Figure 2.14 Low earning capacity and short working hours go hand in hand**



Sources: Family Income Expenditure Survey–Labor Force Survey data, January 2013; Bank staff calculations.

**To conclude, the low earning capacity of vulnerable households is the primary cause of in-work poverty in the Philippines.** The earning capacity of poor households is much lower than that of non-poor households. At the same time, an increase in the household’s earning capacity leads to a sharp decline in the risk of poverty. In contrast, poor households do not differ much from non-poor ones in terms of number of earners, although there is a non-negligible group of poor households with few earners. The poor tend to work shorter hours than non-poor because of more limited access to regular, full-time and permanent jobs. Improving access of the poor to productive jobs, and enhancing their earning capacity are thus two related challenges facing labor policy in the Philippines. Investing in education and skills of youth from poor backgrounds is the most effective way to respond to these challenges. But better skilled workers need better jobs. Thus creating more and better jobs is equally important (World Bank 2013).

### III. Can minimum wage policy reduce in-work poverty in the Philippines?

In work-poverty is pervasive in the Philippines. The minimum wage is a policy tool intended to address in-work poverty, and the Government of the Philippines is actively using it for this purpose. Relative to the value added per worker, the minimum wage in the Philippines is high by regional and international standards (World Bank 2013). However, the effectiveness of minimum wage policy in reducing poverty depends not only on its amount, but also on labor market structure. The question

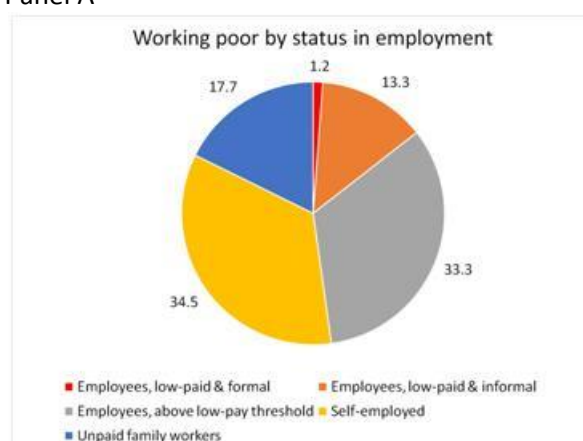
is then, what is the actual potential of minimum wage policy to reduce poverty. This section argues that this potential is limited for two reasons. First, a large proportion of the working poor are not wage earners. Second, those working poor who are wage earners are usually employed informally. Hence, the majority of the working poor are not reached by the minimum wage policy.<sup>26</sup>

### *Few working poor benefit from the minimum wage policy*

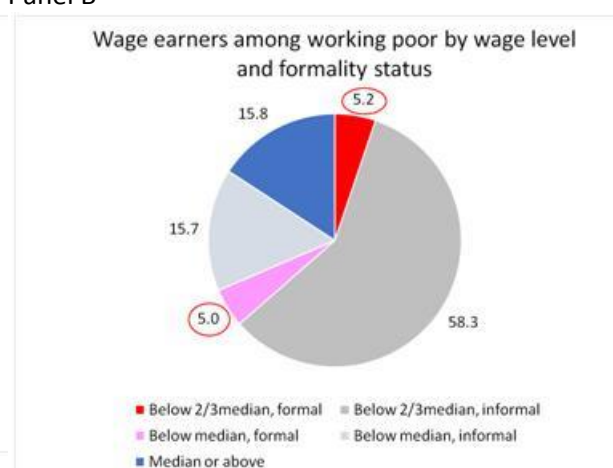
**Minimum wage policy reaches a small minority of the working poor.** This is because of two reasons. First, many of the working poor are not paid workers, they are either self-employed or unpaid family workers. Second, wage workers who are poor are usually employed informally and not covered by the minimum wage policy. Figure 2.15, Panel A illustrates these points. Wage workers represent only about half of the working poor, with about 60 percent employed informally. This is especially the case with low-paid workers, who are the target of minimum wage policy. Among them over 90 percent are employed informally. Accordingly, few low-paid workers are formal and covered by minimum wage policy. And these low-paid formal workers represent less than 2 percent (sic!) of the working poor. Given the labor market structure in the Philippines, the minimum wage policy hardly reaches the working poor. Its potential to reduce in-work poverty is thus very limited.

**Figure 2.15 Low-paid workers are a minority among the working poor**

Panel A



Panel B



Sources: Family Income Expenditure Survey–Labor Force Survey data, January 2013; Bank staff calculations.

Note: Low paid = workers earning less than two-thirds of the median wage.

**Minimum wage policy also reaches the minority of poor wage workers.** This is because most of them are employed informally, as earlier mentioned. The minimum wage policy could benefit only from 5 to 10 percent of the wage workers in the bottom quintile of income distribution.<sup>27</sup> Figure 2.15, Panel B shows that only about 5 percent of poor workers have formal low-paid jobs. Another 5 percent of poor workers have formal jobs that pay above the low-pay threshold but less than the median wage. These workers are potential beneficiaries of minimum wage policy. Even if they are accounted for, the effect of minimum wage on in-work poverty among *wage* workers is bound to be limited.

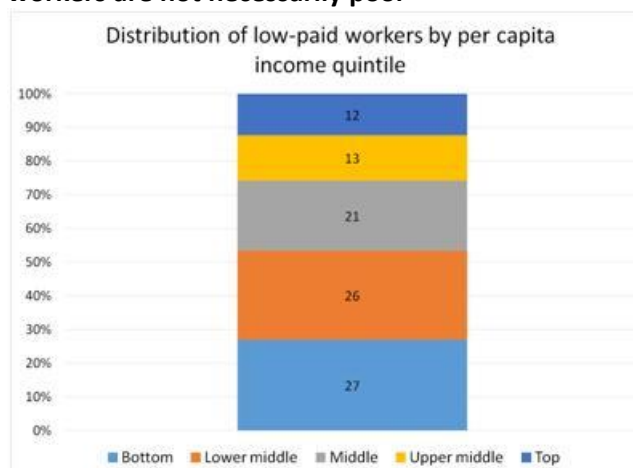
<sup>26</sup> See Gindling (2013) for a more in-depth discussion of the potential of the minimum wage to reduce poverty.

<sup>27</sup> These estimates disregard the potential disemployment effect of the minimum wage policy, which can be significant when minimum wage is high relative to productivity (as in the case of the Philippines).

### *Minimum wage policy benefits large number of workers in better-off households*

**Contrary to the intention, minimum wage is not a well-targeted anti-poverty measure.** A large proportion of low-paid workers are not poor. Only 27 percent of low-paid workers are in the bottom income quintile (Figure 2.16). Even if one extends the analysis to the bottom 40 percent, still close to half of all low-paid workers are not poor or near poor. This means that monetary benefits of a minimum wage increase would accrue to a large number of relatively wealthy households (upper 60 percent), not only to poorer ones. This result is not specific to the Philippines. A similar pattern has also been found in other countries (Card and Kruger 1995).

**Figure 2.16 Low-paid workers are not necessarily poor**



Sources: Family Income Expenditure Survey–Labor Force Survey data, January 2013; Bank staff calculations.

The minimum wage policy is ineffective in addressing in-work poverty in the Philippines. **Are there alternative policy instruments available to tackle in-work poverty?** The Organization for Economic Co-operation and Development (OECD) countries increasingly use in-work benefits (IWBs), that is, transfer payments that top-up the earnings of low-income workers. They differ from traditional social transfers in that they are conditional on having a job. There are two broad categories of IWBs: those targeted towards individual low-paid workers, and those targeted towards low-income families (OECD 2009a, 2009b).

**In-work benefits do not seem a viable option to address in-work poverty in the Philippines.** One reason for this is that IWB schemes are found to be either ineffective or very expensive in countries where the distribution of in-work earnings is compressed at the bottom of the wage ladder (OECD 2009a). This is exactly the situation in the Philippines, where the incidence of low-pay is very high. Accordingly, the policy would be very costly and probably fiscally unsustainable. Another reason is that IWBs would be ineffective because of high informality, as in minimum wage policy. Workers operating in the shadow would not be reached by transfers conditional on having a formal job. It is the widespread informality that severely limits the potential of labor policy tools to fight in-work poverty.

## **Conclusions and policy implications**

**The main labor market problem in the Philippines is low-productivity employment and pervasive in-work poverty.** Workers with “bad” jobs are poor, rather than the unemployed. People are poor because they earn little, not because they do not work. They are also poor because they hold

temporary, casual or part-time jobs, and thus, work short hours. Not because they want to, but because they do not have access to regular jobs. They often seek additional employment, but fail to find it. Low earning capacity and lack of access to regular jobs go hand in hand, pushing households deeper into poverty.

**Low earning capacity of poor households reflects two things.** First, low educational attainment and low skills of poor workers. Second, the lack of productive job opportunities. “Good” jobs are scarce, “bad” jobs are common. These low-paying “bad” jobs are predominantly informal, rural and agricultural, and in low-skilled occupations. They also include self-employment jobs held by entrepreneurs because of necessity rather than opportunity.

**The potential of labor policy to address in-work poverty is limited.** The minimum wage policy is largely ineffective due to the labor market structure in the Philippines. It reaches few of the working-poor because bulk of them are not wage workers, or are employed informally. Similarly, in-work benefit schemes, popular in higher income countries, do not seem fiscally affordable because of the high proportion of low-paid workers. In addition, their coverage is confined to the formal sector, hence as with the minimum wage policy, they would fail to reach to majority of the working poor.

**A broader reform agenda is required to address in-work poverty.** The two twin reform goals are to improve worker productivity, and to enhance the quality of jobs. These two objectives are closely related. The availability of skilled and productive workforce entices investment and the creation of new, higher value-added jobs. Simultaneously, better job opportunities strengthen incentives to invest in education and skills. On the one hand, the demand for labor and skills is the function of the existing supply. On the other, the supply of skills responds to the demand. Therefore, in order for reforms to be successful, they need to address constraints on both the supply and demand side of the labor market. By doing so, they have a potential to set in motion a virtuous cycle—better workplace skills encourage investment and hiring that lead to higher demand for labor, which in turn, encourages workers to invest in skills that improve supply of labor.<sup>28</sup>

**There are two supply side measures necessary to reduce in-work poverty.** First, investment in education and skills, especially among the poor. This is critical as in-work poverty is strongly correlated with low educational attainment and lack of skills. Improving workforce skills is a two-track issue, which involves: (i) improving the quality of education for children entering the education system, and (ii) providing training opportunities for persons of working age who need to upgrade their skills to find productive employment (see Chapter 3).

Second, support for reallocation of labor from less toward more productive activities. The latter involves facilitating labor mobility, including movements of labor from rural to urban areas, from agriculture to services and industry, and from informal to formal sector. Each of these transitions need to be supported by different policy interventions. Successful *rural to urban migration* requires a well-designed urbanization policy as well as measures to include migrant workers in urban workforce, housing markets, and social networks. *Migration from agriculture to industry and services* needs to be supported by training programs (including trainings provided by firms) to equip migrant workers with skills required in new jobs. Finally, *formalization of employment* involves measures to

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<sup>28</sup> The policy options presented here are consistent with those discussed in Reyes and Mina (2013) and in the *Philippine Development Report* (World Bank 2013).

increase the benefits of formality (e.g. access to credit) and to decrease its regulatory and monetary costs.

**On the *demand* side, the reduction of in-work poverty requires improving access by the poor to more productive jobs.** Critical in this regard are improvements in agricultural productivity (Briones 2013). Currently low agricultural productivity is one of the main factors behind in-work poverty. In-work poverty will not be substantially reduced, unless jobs in agriculture become more productive. The key to raising agricultural productivity is the completion of agrarian reform programs, and adequate public investment in the sector (World Bank 2013).

**Other demand side measures are necessary to reduce poverty.** The economy needs to grow to create better, higher paying jobs that will lift the poor out of poverty. Investment climate reforms are needed to build foundations for sustainable long-term economic growth, and consequently, strong labor demand. Such reforms are extensively discussed in the *Philippine Development Report* (World Bank 2013), and their analysis is beyond the scope of this report. The next chapter looks at selected elements of the investment climate that refer to labor regulations and policies.



## ANNEX 2A *Incidence of poverty by labor force status*

**Table 2A: Incidence of poverty<sup>a</sup> by labor force status, 2012-13**

	Poverty rate	Poverty share
	<i>percent</i>	
Non-working age population	27.1	47.9
Working age population	16.1	52.1
<i>Labor force status</i>		
Employed	16.5	60.9
of which: Underemployed	31.7	22.1
Unemployed <sup>b</sup>	13.6	3.8
Active	10.6	-
Passive	15.8	-
Out of the labor force	15.8	35.3

<sup>a</sup> Poverty is defined in relative terms as bottom quintile of individual per capita income distribution.

<sup>b</sup> Broad definition of unemployment, including persons available for work but not actively looking for work.

Sources: Family Income Expenditure Survey–Labor Force Survey data, January 2013; Bank staff calculations.

## ANNEX 2B *Incidence of poverty by employment status*

**Table 2B: Incidence of poverty by employment status, 2012-13**

	Poverty rate	Poverty share
	percent	
Sex		
Male	18.3	68.8
Female	13.8	33.2
Age		
Youth (15 - 24)	21.1	24.1
Prime age (25 - 54)	16.0	65.4
Older (55 - 64)	11.7	7.0
65 +	14.4	3.6
Education		
Less than primary	39.1	39.5
Primary	23.8	21.3
Incomplete secondary	22.0	17.7
Secondary	9.4	17.9
Incomplete tertiary	5.1	2.8
Tertiary	1.0	0.9
Location		
Urban	6.3	15.8
Rural	23.6	84.2
Sector		
Agriculture	36.1	67.0
Industry	10.7	9.5
Services	7.6	23.6
Status in employment		
Wage workers (employees)	13.2	47.8
Self-employed	18.5	34.5
Contributing family workers	30.4	17.7
Occupation		
Managers & government employees	6.9	6.4
Professionals	0.4	0.1
Technicians	4.7	0.8
Clerks	2.1	0.7
Service & sales workers	8.4	6.3
Farmers	31.4	23.5
Skilled manual workers	8.6	5.9
Laborers	28.5	56.4
Underemployment		
Visible underemployment	31.5	22.9
Invisible underemployment	18.2	9.9
Full employment	14.0	67.1

<sup>a</sup> Poverty is defined in relative terms as bottom quintile of individual per capita income distribution.

Sources: Family Income Expenditure Survey–Labor Force Survey data, January 2013; Bank staff calculations.

# Chapter 3

## Labor Regulation and Employment Programs

### Introduction

Labor regulations and employment programs are meant to enhance workers' welfare by lowering their exposure to risks arising from labor market imperfections and by increasing the workers' capacity to deal with such risks. Labor regulations and employment programs do have other roles from efficiency perspective as they affect the allocation of labor and productivity of firms. This chapter discusses their roles from equity perspective, assesses their effectiveness in enhancing workers' welfare, and suggests options to improve their impact.

This chapter finds that, on paper, labor regulations in the Philippines provide workers with considerable degree of protection, but in reality, they benefit only a small group of workers. This is mainly due to their limited effective reach, as the Philippines features a large proportion of non-wage employment, widespread informality, and non-compliance with labor regulations. There is therefore a big discrepancy between the *de jure* and the *de facto* coverage of worker protection. The labor market is segmented—while some workers are covered by regulation (formal), others are not (informal). Among the covered workers, not all benefit from the same degree of protection as employment contracts provide varying levels of security, which give rise to further segmentation. Previous chapters indicated that low-skilled workers are disproportionately outside the coverage of worker protection. Hence, labor regulations, although intend to protect the most vulnerable workers from risks, raise the cost of labor; as such, they unintentionally exclude the same workers whom they intend to protect. There is scope for reducing the distortionary effects of labor regulations in the Philippines, and consequently for limiting labor market segmentation. The relevant measures include making employment contracts more flexible, and taking into account productivity of low-skilled workers in setting minimum wage. Both measures would strengthen incentives to hire workers formally under regular employment contracts, and thus, increase the actual coverage of worker protection (Freeman 2009, Johnson et al. 1998, Loayza et al. 2005, Packard et al. 2012). However, because of the employment structure in the Philippines—largely agricultural, informal, and non-wage—labor policies have a limited role in expanding coverage of worker protection as such structure changes only with economic development.

Employment programs run in the Philippines broadly target the vulnerable workers, primarily youth and informal workers, including the self-employed. The programs are numerous, often small and implemented by a number of agencies. Limited information is available on their design, cost, and performance. A relatively small proportion of vulnerable workers benefit from employment programs.

As pointed out in Chapter 1, low skills often prevent vulnerable workers from accessing productive employment. Hence, this report calls for enhancing the effectiveness and potentially scaling-up of training programs targeted at less skilled workers, including youth with incomplete secondary education. The government has undertaken positive steps towards this end, but more effort is needed

to build the knowledge base on program effectiveness and impact, and eventually consolidate resources on programs that are cost-effective.

This chapter is organized as follows: Section I discusses the labor regulations, focusing on employment protection legislation, and minimum wage, and Section II discusses the employment programs. Both sections present policy implications.

## I. Labor Regulations

This section presents the degree and coverage of worker protection, discusses their implications on workers' welfare, and suggests options to improve their impact. It shows that labor regulations in the Philippines are comprehensive and strict, but cover only a relatively small fraction of the workforce. It argues that there is a trade-off between strictness and coverage—strict regulations discourage employers from hiring workers formally, and thus, reduce the effective scope of worker protection. This applies both to high hiring and firing costs, and to minimum wage that is above productivity of many low-skilled informal workers. Consequently, strict labor regulations contribute to informality and labor market segmentation. The workers who are left outside the scope of labor regulations are often the most vulnerable ones, whose productivity is less than the cost of formal employment. The challenge is to expand the effective coverage of worker protection by reducing the cost of compliance, while ensuring that worker rights are adequately protected. This report presents an option of making employment contracts more flexible by reducing the procedural cost of dismissal, while providing employment protection through monetary compensation for dismissal increasing with job tenure. It also calls for considering ways to take into account productivity of low skilled workers while setting minimum wage. Revisions in labor policies can enhance worker protection, but significant gains can only be achieved with the growth of the formal sector of the economy.

### *Labor regulations in the Philippines provide workers a considerable degree of protection*

**Labor regulations in the Philippines provide workers with comprehensive protection that meets international standards.** Within the Asian region, the Philippines is recognized as having one of the most advanced labor codes (Bitonio 2008). Labor regulations are embodied in the Constitution, the Labor Code, and other laws, which are supplemented by issuances of the President and the Secretary of Labor and Employment. They provide workers many rights such as the right to security of tenure, a living wage, humane conditions of work, self-organization, collective bargaining and negotiations, among others.<sup>29</sup> The Philippines has also ratified key conventions of ILO, committing itself to the protection of workers, and has been an active participant in the ILO's decent work agenda. On the other hand, several studies argue that labor regulations in the Philippines raise the cost of labor relative to worker productivity, impeding the efficient functioning of the labor market (Sicat 2009, Sicat 2010, Paqueo et al. 2014).

**Employers view labor regulations in the Philippines as rigid.** The Philippines scores relatively low in labor market efficiency according to the World Economic Forum's (WEF) *Global Competitiveness Report 2014* (WEF 2014), which implies that the country's formal labor market is heavily regulated. The Philippines ranked 91st among 144 economies on having a flexible labor market, a position that has barely improved over the years and has remained lower than other countries with similar levels

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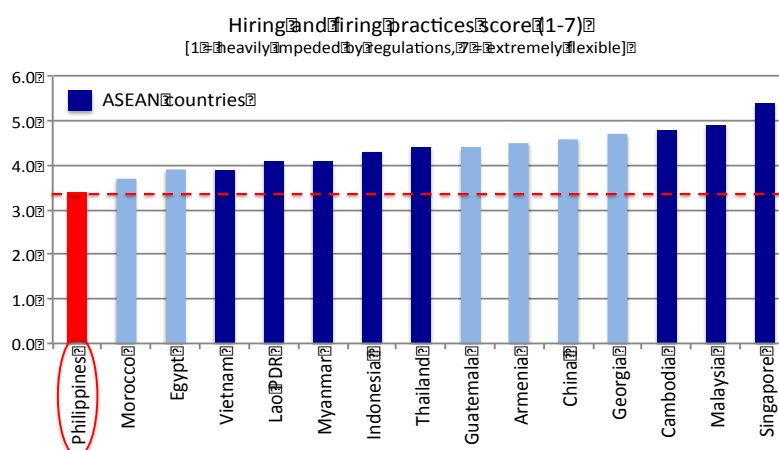
<sup>29</sup> See Paqueo, et al (2014) for a summary of salient features of labor policy and legal framework in general.

of economic development (Annex 4 Table A1). The perception that the country's labor regulations is rigid is consistent across employers' surveys and is well discussed in the *Philippine Development Report* (World Bank 2013). However, it should be noted that majority of the respondents in these surveys are large formal firms for whom labor regulations are enforced and binding. But, as it will be discussed later in this section, majority of firms in the Philippines are small and informal. They are mostly not covered by enforcement authority or are subject to less stringent regulations. Furthermore, most of workers in the Philippines are employed in the informal sector, where no labor regulations apply.

### *Labor regulations are rigid primarily because of strict dismissal procedures and high minimum wage*

**A valid dismissal involves long administrative process that includes notices to the employee, hearings, and payment of separation benefits.** The laws on employment protection and wages in the Philippines are generally pro-labor. The Labor Code is the governing law among employees in private firms while separate laws apply to employees in the public sector and in private households. In all of these labor laws, employment contracts are broadly classified into regular and non-regular contacts, but the policy preference is towards regular contracts. Terminating a regular employment is particularly cumbersome. In addition to the long dismissal process, an employee is given the right to contest the validity of his dismissal through a dispute resolution mechanism, which could be lengthy and costly and whose decisions often favor the employees (World Bank 2013). Among similar countries, employment protection laws in the Philippines are particularly rigid, which is reflected in the low score in hiring and firing practices in the *Global Competitiveness Report* (Figure 3.1).

**Figure 3.1 Employment protection legislation is restrictive in the Philippines**



Source: *Global Competitiveness Report 2014-2015*, WEF (2014)

**Minimum wage is high relative to the median wage in most regions in the Philippines.**<sup>30</sup> It is found to be high by several measures, both relative to Filipino workers productivity and to minimum wage rates in other countries with similar levels of economic development (World Bank 2013; Betcherman 2014, del Carpio and Pabon 2014, Paqueo et al 2014, and World Bank 2014a). This minimum wage refers to the wage floor that applies to employees in private firms, who represent 76 percent of wage

<sup>30</sup> The minimum wage in the Philippines varies by administrative region as well as by sector (agricultural and non-agricultural) and by type of establishments (lower minimum wage rates usually apply for smaller establishments).

workers (the remaining 24 percent are employees in the public sector and in private households, who are covered by separate wage laws). The minimum wage for employees in private firms varies by administrative region in the Philippines but, on average, it accounts for about 80 percent of the median wage in a region. In some regions, the ratio is much higher.<sup>31</sup> Actually, 9 out of 17 regions have a minimum wage that is higher than the median wage (Figure 3.2). However, some firms can apply lower minimum wage rates. This specifically refers to retail and service establishments, and manufacturing firms employing less than 10 workers. Institutional details of the minimum wage setting in the Philippines are provided in the *Philippine Development Report* (World Bank 2013)

**Minimum wage is set at a high level because it is meant to serve as a social safety net.** The minimum wage for private firms is set at an amount that would cover the needs of workers and their families (see Box 3.1).<sup>32</sup> To account for these needs, the government introduced the two-tier wage system in 2012, whereby the first tier is the mandatory regional wage floor while the second tier is an amount that serves as a guide for employers to adjust wages above the floor wage.<sup>33</sup> The recent reform aims to set the wage floors close to the poverty thresholds in order for the minimum wage to serve as a social safety net among wage workers. Consequently, the number of minimum wages below the poverty threshold was greatly reduced. Only 14 minimum wages were still below the poverty threshold in 2014, and 30 in 2010. The target of this reform is to close all minimum wage-poverty threshold gaps by 2015.

### **Box 3.1 Minimum wage setting in the Philippines**

Each administrative region in the Philippines has a wage board, which is responsible for setting the minimum wage rates in the region. The criteria for minimum wage fixing adopted by the regional boards are as follows: 1) needs of workers and their families; 2) capacity to pay of employers; 3) prevailing wage levels; and 4) requirements of economic and social development (NWPC 2015). In general, the wage boards issue a wage order once a year, unless there is a petition for a wage increase due to supervening conditions such as increases in prices of petroleum products and basic goods and services (NWPC 2015). Any labor organization within a region can file a petition for a wage increase. The scale of increase is the result of the decision among members of the wage board, which is composed of representatives of workers, employers, and the government.

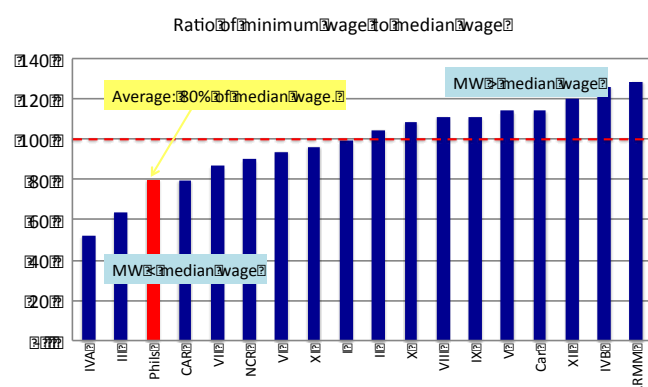
NWPC = National Wages and Productivity Commission

<sup>31</sup> The minimum wage is roughly equal to the 25<sup>th</sup> percentile for full-time wage workers with permanent employment contracts.

<sup>32</sup> According to DOLE NWPC Guidelines No. 01 on the procedure for the minimum wage fixing issued in 2007.

<sup>33</sup> The regional minimum (floor) wage is calculated as follows:  $x(\text{poverty threshold}) + y(\text{average wage}) + z(\text{socio-economic indicators})$ , where  $x + y + z = 1$ .  $x$ ,  $y$ , and  $z$  represent the weights of the indicators and may vary across regions depending on the gaps between the minimum wage, poverty threshold, and average wage, and impact of the socio-economic indicators.

**Figure 3.2 Minimum wage in many regions is higher than the median wage**



Sources: Labor Force Survey data, January 2013; National Wages and Productivity Commission; Bank staff calculations.  
MW = Minimum wage.

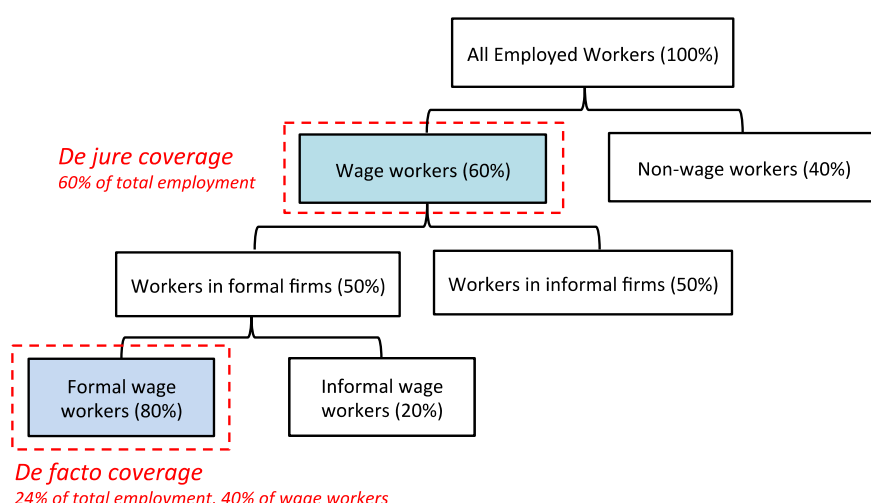
**Minimum wage grows in line with average wage.** As a result, the minimum wage to average wage ratio stayed roughly constant in the last 10 years. The real value of minimum wage slightly increased by 6 percent in the National Capital Region since 2006. However, the ratio of minimum wage to value added per worker has gradually declined over the last 10 years, because labor productivity grew faster than both minimum wage and average wage (see Chapter 1). Nonetheless, at 0.69, the ratio is still very high by international standards (World Bank 2013).

*Widespread informality and non-compliance create a rift between the *de jure* and *de facto* coverage of worker protection*

***De jure* worker protection coverage is relatively low, *de facto* coverage is even lower.**<sup>34</sup> By definition, labor regulations apply only to wage workers, who account for 60 of all employed in the Philippines (Figure 3.3). The limited *de jure* coverage of worker protection is due to the high share of non-wage employment, consisting of the self-employed and contributing family members. But even among the wage workers, many do not benefit from worker protection because they are either employed in informal firms, or employed in formal firms but are hired informally. As a result, there is a substantial rift between the *de jure* and *de facto* coverage of labor regulations in the Philippines—only about 24 percent of all employed and 40 percent of wage employees benefit from worker protection.

<sup>34</sup> This is a positive rather than normative statement. The relatively low *de jure* coverage of labor regulations is a consequence of the existing employment structure, and as such, cannot be extended. The policy objective is to reduce the gap between the *de jure* and the *de facto* coverage by increasing the latter through reforms to foster formality.

**Figure 3.3 Informality and non-compliance limit the coverage of worker protection**

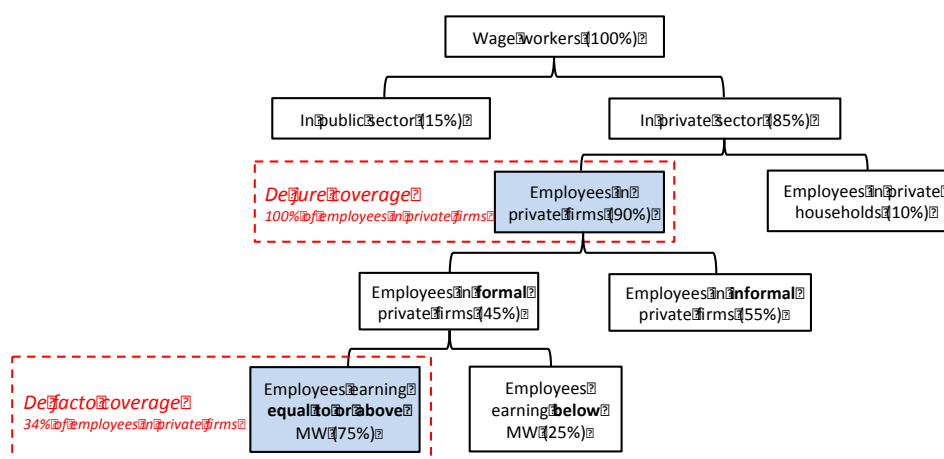


Sources: Informal Sector Survey 2008; Bank staff calculations.

Note: This report defines “workers in informal firms” as workers who reported that their employers are private households, or are private establishments whose businesses are not registered or do not have fixed locations. Workers are considered as “informal wage workers” if any two of the following conditions are met: employment can be terminated without advance notice, employers do not pay social insurance contributions, and employment is not based on written contract.

**Informality severely limits the actual coverage of minimum wage policy.** Less than half (45 percent) of wage workers in private firms are employed in formal firms. Of these wage workers, about 75 percent are paid equal or above the minimum wage. Therefore, only about one-third of workers in private firms are actually covered by the minimum wage policy (Figure 3.4).

**Figure 3.4 Low *de facto* coverage of the minimum wage policy for employees in private firms**



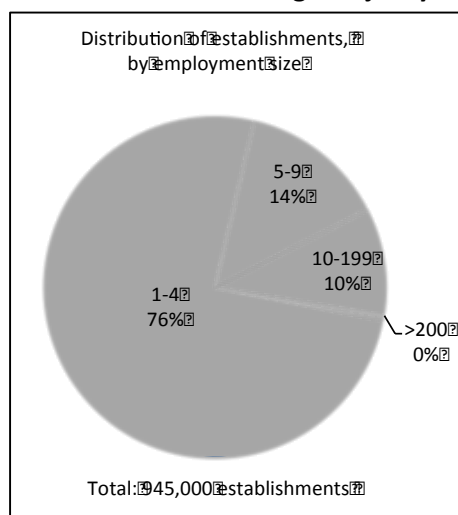
Source: ISS 2008 and the regional minimum wage rates; Bank staff calculations.

**Many formal firms are small and are subject to lower labor standards.** Firms employing less than 10 workers account for about 90 percent of nearly one million registered firms in the Philippines (Figure 3.5). Given this magnitude, the labor inspectorate can cover only a small portion of them, which provides room for firms to circumvent regulations or violate labor standards. Data from Department of Labor and Employment (DOLE) show that the incidence of violations of general labor standards and the minimum wage was higher among smaller establishments (Figure 3.6). Moreover, the applicable



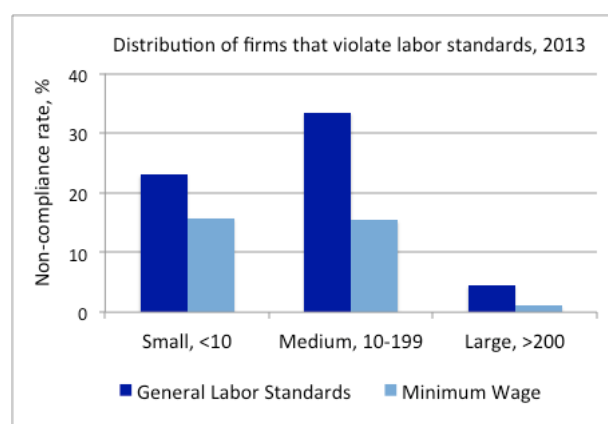
labor standards for smaller establishments are lower compared to the larger ones. As mentioned above, small firms employing less than 10 workers, can apply lower minimum wage rates than larger firms. Employees in smaller establishments are also not entitled to some benefits such as holiday pay, leaves, and retirement benefits (DOLE 2014a).

**Figure 3.5. Small establishments account for the large majority of the formal economy**



Sources: 2012 List of Establishments; Bank staff calculations.

**Figure 3.6. Smaller establishments have higher incidence of violations of labor standards than larger firms**



Sources: Compliance data from Bureau of Working Conditions, DOLE; Bank staff calculations.

### *Strict labor regulations are likely to contribute to labor market segmentation*

**Within the covered sector not all workers enjoy the same degree of protection.** Varied forms of flexible work arrangements have spread in the Philippines.<sup>35</sup> The incidence of non-regular employment is increasing. According to LFS, about 40 percent of employees in private establishments had non-regular employment contracts in 2013, which was higher than 33 percent 10 years.<sup>36</sup> Another

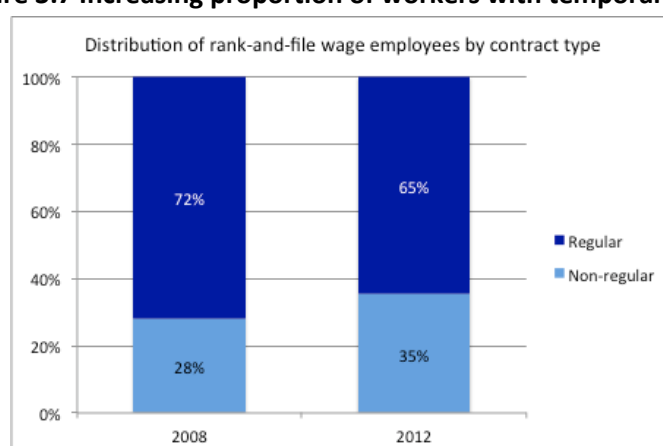
<sup>35</sup> See Brimon (2010) for discussion on flexible forms of employment in the Philippines.

<sup>36</sup> The Labor Force Survey does not provide information on the type of employment contract (regular or non-regular) of the employee, but it provides information on the employee's nature of employment (permanent or short-term).

survey conducted among large, formal establishments shows that in 2012, about 35 percent of rank-and-file employees were hired either on non-regular basis or through independent sub-contractors, which is 25 percent higher than four years earlier (Figure 3.7). Businesses also find creative ways to circumvent the rules. For example, there is a pervasive use of rotating five-month contract as a way to circumvent the rule that non-regular workers are classified as regular workers after six months of probation (Bitonio 2008, World Bank 2013). Importantly, available evidence indicates that workers with non-regular contracts have less employment security and receive lower wages. On average, they earn only about 70 percent of the national average wage (ILO 2012).

**Proliferation of non-regular employment reflects employers' attempts to avoid rigidities imposed by the strict employment protection regulations.**<sup>37</sup> The tedious procedure for a valid dismissal of an employee is meant to limit the employer's prerogative to dismiss a worker. Its primary aim is to protect the employee from risks associated with sudden job loss. However, the strictness in termination procedure in effect works the opposite way. High firing cost discourage employers to hire workers on regular contracts, giving rise to the high incidence of temporary employment in the Philippines (ILO 2012, World Bank 2013). It is noteworthy, that the increase in the proportion of non-regular employment contracts is a trend observed in many countries with strict employment protection legislation (World Bank 2014).

**Figure 3.7 Increasing proportion of workers with temporary jobs**



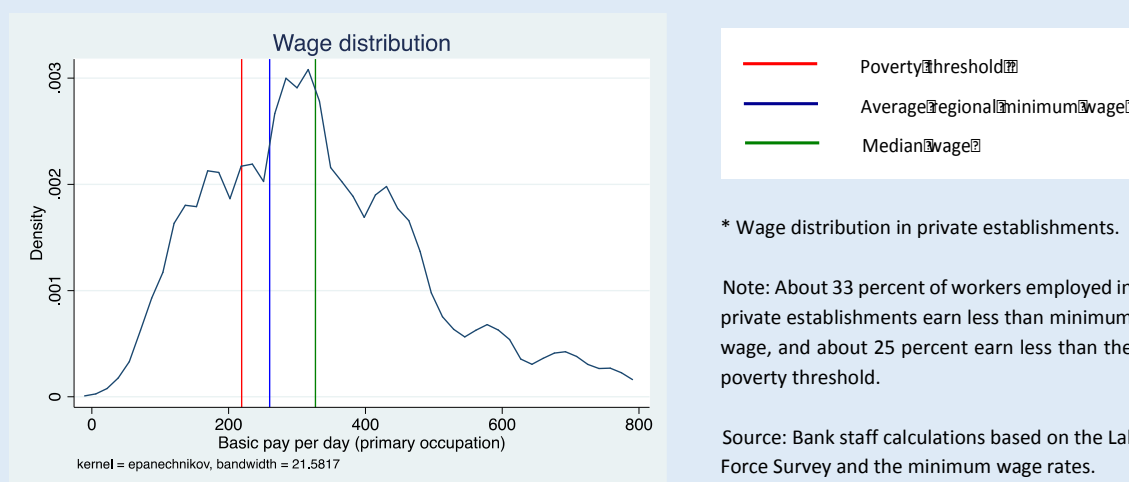
Sources: Bureau of Labor and Employment Statistics Integrated Surveys; Bank staff calculations.

**Minimum wage fails to serve as an effective wage floor because many workers earn less than the minimum.** Set at its current level of about 80 percent of the median wage, the minimum wage leaves outside its coverage about one-third of all wage earners (Figure 3.8). If the minimum wage were set at the poverty threshold level (which represents around 70 percent of the median wage in the region), then fewer (about one-fourth) wage earners workers would be outside the effective coverage of the minimum wage policy (Figure 3.8). Accordingly, a minimum wage set at the poverty threshold level

<sup>37</sup> The question is often asked why the proportion of irregular contracts is increasing while the rules governing regular contracts remain unchanged. The answer is that employers hire new workers using irregular contracts (flow), which leads to a gradual increase in the percentage of these contracts among employees (stock). In addition, there is likely to be a snowball effect: employers learn from each other about the advantages of using irregular contracts. If one employer starts to use such contracts, his/her competitor has an incentive to use substitute irregular contracts for regular ones, too.

could provide an effective wage floor for more wage earners, while still playing its poverty prevention function.

**Figure 3.8 Minimum wage cuts deep into wage distribution \***



**High minimum wage is one of the factors that makes it difficult for workers to move from the informal to the formal sector.** The minimum wage is not a major problem for formal firms, which tend to be larger and employ more skilled workers. In the formal sector, the minimum wage accounts for about 60 percent of the sector's average wage, which is already high but not dramatically high. However, it is a major problem for informal firms, which tend to be small and employ less-skilled workers. In the informal sector, the minimum wage accounts for about 115 percent of the sector's average wage, which is so high that it is likely to discourage informal firms from formalizing their activity. This is because the minimum wage is above the productivity level of a large fraction (up to 70 percent) of informal workers. It pushes low-skilled workers into informal employment. They cannot be hired formally because the value of their marginal product is less than the minimum wage.

*There is scope for labor regulations to enhance the welfare of workers by reducing their distortionary effects*

**Labor market in the Philippines consists of relatively small regulated segment and a large unregulated segment.** In the regulated (formal) sector worker rights are protected and wages are relatively high. However entry to this sector is difficult, particularly for less productive workers who are most vulnerable to poverty. In the unregulated (informal) sector, workers enjoy little rights and wages are low. Entry to the sector is easy, which gives workers subsistence income, although this does not necessarily lift them out of poverty (see Chapter 2). Stringent labor market regulations and substantial increases in labor costs, contribute to this duality. Workers whose productivity is less than the cost of employing them formally are excluded from worker protection. Labor policy faces the challenge of reducing this duality and strengthening the incentives for formal employment. This can be done by reducing the costs of formal employment relative to informal employment, and ensuring adequate protection of worker rights at the same time. This is a delicate balancing act. However, one should bear in mind that labor policy is only one of many factors behind informality, and thus, its capability to address it is limited. Still, it can make a marginal difference. Reducing the distortionary

effects of labor regulations can be made possible through better aligning of minimum wage with worker productivity, and making employment contracts more flexible.

**Aligning minimum wage with worker productivity could improve the chances of low-skilled workers being hired formally.** In setting minimum wage, it is advisable to consider wage distribution not only in the formal, but also in the informal sector, and set it at a level that does not cut deep into the overall wage distribution. Admittedly, this is a difficult task in a two-tier labor market, like the one in the Philippines. The wage distributions are very different in the upper, formal tier, and in the lower, informal tier (see Chapter 1). The minimum wage set based on the wage distribution in the formal sector, as it is currently the case, is too high to be used in the informal sector, where labor productivity is low. On the other hand, if the minimum wage were set based on the wage distribution in the informal sector, it would be too low to be meaningful for formal workers. Some compromise is necessary to strengthen the incentives for employers to hire low-skilled workers formally.<sup>38</sup> An empirically informed discussion among social partners is needed to find a middle ground (World Bank 2013).

**Making regular employment contracts more flexible can reduce duality within the formal sector.** The increasing incidence of flexible forms of employment indicates that regular contracts are no longer viable for many employers. This report reiterates the policy option as presented in the *Philippine Development Report* (World Bank 2013) to foster tripartite dialogue—among the government, businesses, and workers—to redefine valid forms of flexible work arrangements and to enforce these arrangements effectively.<sup>39</sup> This report also presents another option to introduce a single open-ended contract, which assumes that all contracts are indefinite, while the severance pay increases with tenure. This contract is meant to relax administrative procedures governing dismissals, including the judicial review of the validity of dismissal. The use of single open-ended contract has been seen as a way to address the deeply entrenched segmentation in the labor market.<sup>40</sup> Recently, the government has proposed reforms along these lines by deeming all employment as regular, with few exceptions, and to reduce termination costs (DOLE 2014b).

*Labor policies have a limited role in expanding the coverage of worker protection as formality and wage employment grow only with economic development*

**Improving the enforcement of labor standards among firms can expand coverage, but only marginally.** This is because the scope of enforcement authority is limited to formal firms, which employ only about half of wage workers. Improving the enforcement of labor standards, such as increasing the capacity of the labor inspectorate and lowering the cost of compliance, is likely to expand the coverage of worker protection, as firms would be encouraged to offer their workers formal employment. But even if full compliance were achieved, which is important on its own right, the gain in coverage would be limited.

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<sup>38</sup> Minimum wage is just one of the factors influencing employers' decision whether or not to hire workers formally. Other factors include hiring and firing costs, taxes and social security contributions, and other costs associated with formal employment.

<sup>39</sup> World Bank (2013) elaborates more on this policy option.

<sup>40</sup> See Casale and Perulli (2014), and Lepage-Saucier, Schleich and Wasmer (2013) for the discussion of the pros and cons of single open-ended contract.

**There is more to be gained from formalization of employment.** Informality among businesses is a larger constraint to expanding worker protection than non-compliance among formal firms. There is more potential to expand the coverage of worker protection by encouraging informal firms to formalize their businesses. While there is some scope to reduce the cost of formal employment by making labor regulations more flexible, labor reforms can play only a secondary role in promoting formalization. Reforms play the primary role in reducing costs and enhancing the benefits of doing business in the formal sector.

## II. Active Labor Market Programs

This section describes the major active labor market programs (ALMPs) in the Philippines; assesses the extent to which they improve the employment chances of vulnerable workers; and suggests ways to improve their effectiveness. The three main groups of programs are public works, livelihood assistance, and training. In addition, public employment service offices provide jobs search assistance to the unemployed, mostly less-skilled ones. However, their number is limited, and they are located mainly in urban areas. Public works and livelihood programs are targeted mainly at the poor among informal workers. Training programs are targeted at the youth, including those from poor backgrounds. However, they do not reach the most disadvantaged youth, those with less than secondary education. Public works and livelihood programs are run on a larger scale than training programs, and cover a higher proportion of the target population. Little is known about the effectiveness of the programs because their performance is not monitored and evaluated on a systematic basis. Public works and livelihood assistance programs are primarily meant to provide temporary employment and income support. Evidence from other countries indicates that they hardly improve long-term employment prospects. In contrast, the main objective of training programs is to improve employability of participants. Limited available evidence suggests that training programs implemented in the Philippines are relatively successful in this respect. However, some training participants do not find the skills they acquired useful for their jobs. The two main issues that limit the programs' impact are program fragmentation coupled with limited coordination among implementing agencies, and an underdeveloped program M&E system, which consequently result in insufficient information on program performance. There is scope for improving the effectiveness of ALMPs in the Philippines. First and foremost, there is a need to better understand the cost-effectiveness and impact of different programs, which calls for a thorough review of program performance. This involves the development of an M&E system to produce information necessary to improve program design and implementation, and to channel resources to programs that proved to be most cost-effective. Finally, the review of institutional arrangements and better coordination among various implementing agencies could reduce inefficiencies resulting from program fragmentation. Table 3.1 summarizes main characteristics of ALMPs in the Philippines.

**Table 3.1 Key characteristics of main ALMPs in the Philippines.**

Feature	Direct Job Creation Programs		Training
	Public Works	Livelihood Assistance	
Objective	Temporary wage employment	Support to self-employment	Enhance skills of workers
Target group	Unemployed	Informal workers	Youth and low-income youth
Targeting criteria	Self-selection (paying less than the minimum wage)	Varies by program, some programs require business proposal to qualify for assistance	Completion of secondary education; aged 15–30 years
Coverage of target group	High	High	Moderate
Assessment of targeting effectiveness	Effective, according to national survey	Varies by program, micro-finance does not seem to reach the poor	Effective based on profile of beneficiaries
Share in ALMPs expenditures	Largest	Large	Small
Estimated cost per beneficiary (Peso) <sup>d</sup>	6,000 <sup>a</sup>	250 to 10,000 <sup>b</sup>	25,000 <sup>c</sup>
Assessment of program effectiveness	Effective, but impact is short-term	Effective, but only among higher-skilled workers	Effective among participants who found jobs
Major implementing agencies	DA, DAR, DENR, DPWH	DA, DOLE, DSWD, and government banks	DOLE, DSWD, TESDA
Monitoring and evaluation	Performance of programs performance is not monitored on a systematic basis and consolidated information on program outcomes is not available. The net impact of programs has not been evaluated.		
Main issues	Many government agencies implement programs with limited coordination, leading to program fragmentation		

<sup>a</sup> Assumes one beneficiary works for 30 days and is paid 75 percent of the daily minimum wage.

<sup>b</sup> Estimates from Sustainable Livelihood Program. Cost per beneficiary varies depending on the form of assistance.

<sup>c</sup> Assumes a training course that runs for about 30 days.

<sup>d</sup> 1 US Dollar = 45 Philippine Peso (2014)

DA = Department of Agriculture; DAR = Department of Agrarian Reform; DENR = Department of Environment and Natural Resources; DPWH = Department of Public Works and Highways; DOLE = Department of Labor and Employment; DSWD = Department of Social Welfare and Development; TESDA = Technical Education and Skills Development Academy.

### *Direct job creation and training are the two most important active labor market programs being implemented in the Philippines*

**Direct job creation programs are the largest active labor market programs in the Philippines.** They include public works (emergency employment programs, cash/food-for-work), livelihood assistance programs, government internships, apprenticeships, and wage subsidy (see Annex 3B Table 3B for description). Their primary objective is to provide temporary or immediate employment. Some of these programs, such as the internships, apprenticeships, and wage subsidy programs, go beyond the primary objective as they also aim to improve the future employability of workers by providing them on-the-job training. Almost all government agencies in the Philippines are involved in the implementation of direct job creation programs, encompassing many sectors (agriculture, micro-finance, labor, social welfare, public works and highways, education, among others), as well as levels (national, regional, and local levels). Many of these programs are small, but taken altogether, they account for the largest share in government expenditures on active labor market programs (see Annex 3B Table 3B for indicative budget).

**Government-supported training programs in the Philippines are meant to provide a more equitable access to skills enhancement.** They include technical-vocational education and training (TVET) scholarship programs (training grants) and community-based training programs. Compared with direct job creation programs, the government spends much less on training programs. Most TVET programs in the Philippines are provided by private technical vocational institutions (TVIs) and only a few are provided by government-owned institutions. TVET students pay for their own training fees, but the government provides financial support to selected TVET students through scholarship programs (see Annex 3B Table 3B for description). On the other hand, community-based training programs are shorter in duration and less technical than TVET programs. They are administered solely by government agencies as extension support services of their own programs such as small business development, community-driven development, and agricultural development programs. In terms of budgetary allocation, community-based training programs receive more budget than the regular TVET scholarship programs (see Annex 3B Table 3B for indicative budget).

**In addition to programs, the government provides employment facilitation services to reach out to workers in local communities.** They are primarily undertaken by the PESOs situated in different localities and are being managed by the local government units (LGUs). PESO services include the provision of labor market information, career guidance, employment coaching, and job-worker matching through on-line search tools (PhilJobnet), job referrals, and job fairs (see Annex 3B Table 3B for description). As of 2014, there are about 1,900 PESOs in the Philippines but only about 400 are institutionalized, which means that the office was established with a legal basis and the staff hold permanent positions.<sup>41</sup> DOLE's role is to coordinate the network of employment facilitation service providers in the Philippines. Currently, DOLE is pilot-testing JobStart, a program being implemented with PESOs that provides a full-cycle of employment assistance in the school-to-work transition among young workers (Annex 3B Table 3B).

*Programs for the informal workers are large in scale, but there is little understanding on how they benefit the workers*

**There are many livelihood assistance programs in the Philippines, which target informal workers.** The assistance comes in many forms such as access to microfinance (grants or loans) or provision of physical resources (raw materials, equipment, and tools). They target the self-employed (individual, groups, or cooperatives) to allow them to undertake income-generating activities. They also target low-wage workers to allow them to have additional sources of income. In 2013, livelihood assistance programs were estimated to have served as many as 600,000 workers (Table 3.2). But in other years, the number of workers served went up to over a million. Livelihood assistance programs targeting small farmers to enhance their earnings capabilities were the largest in terms of coverage in 2013. Other major forms of livelihood assistance include microfinance and provision of a mix of grants and equipment to be used for business start-ups.

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<sup>41</sup> An institutionalized PESO is created by virtue of city/municipal ordinance and has a Memorandum of Agreement with DOLE. It has its own budget allocation and a dedicated professional staff.

**Table 3.2 High coverage of livelihood programs relative to the number of low-income self-employed**

Forms of Livelihood Assistance (Implementing Agency)	No. of beneficiaries, 2013 <sup>a</sup> ('000)	Estimated % of target group <sup>b</sup>
Assistance for rural farm & fishery workers (DA)	317	16
Microfinance (LandBank)	175	9
Mix of grants and equipment (DSWD & DOLE)	105	4
Other forms of livelihood assistance (other agencies)	9	0
<b>Total</b>	<b>606</b>	<b>30%</b>

<sup>a</sup> Estimates based on the reported number of jobs generated.

<sup>b</sup> Estimates based on the number of jobs generated and the estimated number of poor self-employed in the Philippines.

Sources: World Bank staff estimates based on data from DOLE and Labor Force Survey – Family Income Expenditure Survey 2012.

**Livelihood assistance programs cover a considerable proportion of the target group.** Assuming a limited error of inclusion, the livelihood assistance programs cover about 30 percent of low-income self-employed (Table 3.2). This coverage rate is high compared to that of programs for the youth. Such high coverage of these programs is made possible by the massive amount of government expenditures devoted to them (see Annex 3B Table 3B for indicative budget). While some of these programs are regular programs of the implementing agencies and receive regular budget allocation, others are created on *ad hoc* basis or are expanded by realigning funds from other sources.<sup>42</sup>

**However, there is little understanding how livelihood assistance programs in the Philippines benefit the workers served.** This can be attributed to the weak M&E components of these programs. A study of employment generation programs in the Philippines observed that there is generally lack of identification and integration of data even within an agency (Ballesteros and Israel 2014). The oversight agencies conduct periodic monitoring of programs and base their assessments on selected cases.<sup>43</sup> Moreover, there are many forms of livelihood assistance in the Philippines, with varying design and implementation features (Table 3.2). Hence, a generalized conclusion as to their overall performance cannot be drawn. A more in-depth research is needed on to better understand the profile of beneficiaries, targeting efficiency and the impact of specific livelihood assistance programs.

**Livelihood assistance provided through microcredit does not benefit the poorest.** A study evaluating the impact of microfinance on small-scale entrepreneurs in the Philippines shows positive impacts on employment and income among clients (Kondo, 2007). However, majority of the qualified applicants are not poor, which can be attributed to microfinance institutions favoring the enterprising individuals, with higher likelihood of repayment than with the ultra poor. Moreover, a rapid assessment study conducted on the microenterprise development component of DSWD's Sustainable Livelihood Program (SLP) indicates that it can do little to transform the beneficiaries' undertakings into sustainable and viable sources of livelihood (Ballesteros *et al* 2015). Therefore, there remains a limited understanding on which form of livelihood assistance can benefit the most disadvantaged workers in the Philippines, which also holds for other countries (Box 3.2).

<sup>42</sup> It is possible for an implementing agency to realign its funds into other programs. Hence, some programs can be supported out of the funds of other regular programs of the agency.

<sup>43</sup> In some of these cases, it was observed that livelihood assistance grants are used by beneficiaries to meet their immediate consumption needs and to pay off their debts, rather than to expand their livelihood undertakings.



**Box 3.2 Evidence on what works for the necessity self-employed is limited**

Globally, significant knowledge gaps exist on what works for the necessity self-employed. However, there is a general agreement in the literature that the self-employed is a heterogeneous group and they vary in motivations behind their labor market status—while some have voluntarily chosen to be self-employed, others are forced to be out of necessity. The latter is due to lack of skills to take on wage employment or limited wage employment opportunities (World Bank 2007, Gindling and Newhouse 2012). Employment programs for the necessity self-employed can be in the form of training, to equip them with skills to transform their businesses into sustainable sources of livelihood, or skills to take on wage employment. However, the training depends largely on the skills needs of the necessity self-employed. There is therefore a need to identify these skills needs before designing a training program for the self-employed and whether or not these skills are the same ones demanded by the labor market. Cho, *et al* (2014) argued that small-scale subsistence entrepreneurs often lack entrepreneurial aptitude and basic numeracy and literacy skills. But if programs that promote entrepreneurship target the self-employed who possess these skills, those who do not will therefore be excluded. The excluded ones can be the target of social safety nets and interventions that connect them with wage employment. However, if wage employment is limited, social safety nets alone will not lead to increase in earnings and living standards.

### *Programs for the youth are small scale and do not reach the most disadvantaged groups*

**Youth programs aim to facilitate the education-to-work transition and to equip the youth with employability skills.** Table 3.3 summarizes basic information on these programs. The *Special Program for the Employment of Students* (SPES) and *Government Internship Program* (GIP) are implemented primarily to create jobs for the youth; whereas the TVET training scholarship programs are implemented primarily to enhance the skills of participants through on-the-job training. The *Special Training for Employment Program* (STEP), *Private Education Student Financial Assistance Program* (PESFA), and SPES programs are specifically targeted at the low-income youth. In particular, STEP focuses on short training courses targeted at the low-income youths in rural areas where access to formal education is limited.

**Table 3.3 Youth employment and training programs**

Program <sup>a</sup>	Target Group	No. of beneficiaries, 2014 <sup>b</sup>	Estimated % of target group
<b>Direct job creation (wage subsidy)</b>			
Special Program for the Employment of Students (SPES)	Low-income youth	182,584	20 <sup>c</sup>
Government Internship Program (GIP)	Youth	22,522	<1
<b>Training</b>			
Training-for-Work Scholarship Program (TWSP)	Youth	175,522	4
Special Training for Employment Program (STEP)	Low-income youth	27,917	3 <sup>c</sup>
Private Education Student Financial Assistance Program (PESFA)	Low-income youth	26,758	3 <sup>c</sup>

<sup>a</sup> Includes government-financed ALMPs that include youth as their target groups.

<sup>b</sup> Data on direct job creation programs are taken from DOLE; data on training are taken from TESDA.

<sup>c</sup> Estimated using the number of beneficiaries relative to the estimated number of youth NEET in the Philippines.

**Among youth programs, the coverage of the wage subsidy program (SPES) is relatively high, whereas that of training scholarship programs is low.** The number of students who participated in SPES represented 20 percent of the estimated number of low-income youth NEET in the Philippines in 2014 (Table 3.3). At the same time, the number of low-income TVET students whose training was financially

supported by STEP and PESFA was low at only 3 percent. As to other programs that are broadly targeted at the youth, such as GIP and TWSP, the coverage is also low at 1 to 4 percent of the youth NEET in the Philippines.

**Most youth programs miss out the disadvantaged groups.** The selection criteria of SPES, GIP, TWSP, and PESFA require potential beneficiaries to have completed at least secondary education and to be either students, or recent graduates (see Annex 3B Table 3B for selection criteria). These selection criteria indicate that they cater to the needs of better educated youth who have better chances of finding productive employment. However, it is the low-educated youth who are the most disadvantaged and run the highest risk of poverty (Chapter 2). To address this gap, the government implemented STEP in 2014 to widen access to training programs among indigent youth. Globally, evidence on which active labor market program works for the disadvantaged youth is limited (Box 3.3). This calls for evaluation of existing programs for the youth in the Philippines and for pilot-testing of new ones to determine their potential impact.

**Some initiatives reach out to disadvantaged youth, who are not part of active labor market programs.** These include programs under the auspices of the education sector.<sup>44</sup> There had also been innovations in the delivery of social protection services that link social assistance programs with ALMPs to ensure that youth from poor households are provided employment assistance. An example is the conditional cash transfer (CCT) program—the *Pantawid Pamilyang Pilipino Program* (4Ps), which links its beneficiaries with training, public works programs, and employment facilitation service.

**Box 3.3 Employment programs for the youth can have positive impacts**

In a study on different categories of employment programs targeted at the youth, Betcherman, *et al* (2007) pointed out that labor market interventions appear to have positive impacts on employment and earnings of beneficiaries. It argued that there are no major differences across categories of interventions in terms of impact and cost-effectiveness. This implies that particular types of programs should not be favored but rather interventions should be chosen based on the specific obstacles to employment that need to be overcome. There is limited evidence on impact of employment programs for the youth in the context of developing countries. But Quintini and Martin (2006) offered some insights on what works in the context of the OECD countries—programs should come into play early; private sector and local communities need to be mobilized and involved in project design; targeting should distinguish between teenagers (who should be helped to remain in school) and young adults (who need help in acquiring work experience) and focus on school drop-outs; job-search assistance should be provided to the youth; programs should insist on tight work-search requirements; services should be integrated into a comprehensive package; and social partners and public authorities at all levels should be involved.

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<sup>44</sup> One of these programs is the Abot-Alam Program of the Department of Education, which aims to enroll out-of-school youth in appropriate program interventions in education such as the Alternative Learning System. Another example is the Students' Grant-in-Aid Program for Poverty Alleviation being implemented by the Commission on Higher Education to provide financial assistance to poor students.

*Public works are meant to provide temporary employment opportunities for the most disadvantaged workers*

**Public works programs in the Philippines are used to provide temporary employment opportunities to low-skilled workers.**<sup>45</sup> The jobs include construction of roads, flood control structures, school-buildings, water systems, among others. To make public works more targeted at the disadvantaged workers, government agencies are mandated to hire unskilled workers from the community where the project is being undertaken.<sup>46</sup> There are no clear-cut guidelines as to targeting the beneficiaries of public works programs. Implementing agencies have generally relied on self-selection method by paying the beneficiaries 75 percent of the minimum wage. However, some social assistance programs such as the CCT have recently linked their beneficiaries to public works programs to provide them additional source of income. Livelihood programs also include components that assist their beneficiaries in accessing emergency employment programs.

**Evidence indicates that public works programs in the Philippines benefit mainly the poor.** About 80 percent of the families who availed of the cash/food-for-work program belong to the bottom 40 percent of the income distribution, according to the Annual Poverty Indicators Survey (APIS) (Figure 3.9).<sup>47</sup> The cash/food-for work program is among the public works programs being used to assist displaced workers as a result of shocks such as natural calamities and economic crisis. However, other than the cash/food-for-work program, there is no other evidence on targeting efficiencies of other public works program.<sup>48</sup> The consolidated information on the beneficiaries of public works programs show only the number of beneficiaries, but not their economic background.<sup>49</sup>

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<sup>45</sup> Public works programs refer to the infrastructure and emergency employment programs enrolled under the Community-Based Employment Program (CBEP).

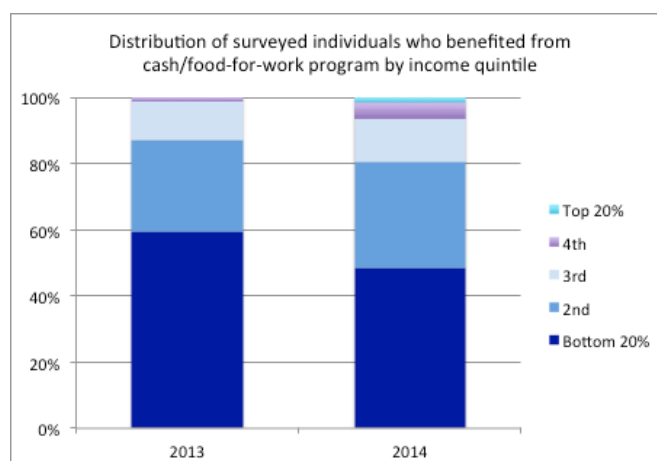
<sup>46</sup> Public works programs, in general, are mandated to hire workers from the local community where the government project is being undertaken, not only the unskilled workers but also the skilled ones.

<sup>47</sup> The sample covered by APIS, however, is very small. The number of individuals (weighted) who benefited from cash/food-for-work program in both 2013 and 2014 APIS represented less than 1 percent of the entire individuals covered by the survey.

<sup>48</sup> Among the ALMPs, APIS covered only cash/food-for-work, Training-for-Work Scholarship Program (TWSP), and CBEP. The sample size for TWSP and CBEP are too small to allow valid statistical analysis.

<sup>49</sup> Detailed information on beneficiaries served is available from each implementing agencies, but the quality of information varies depending on how the agency keeps record of the beneficiaries of its programs.

**Figure 3.9 Cash/food-for-work programs mainly benefit the poor**



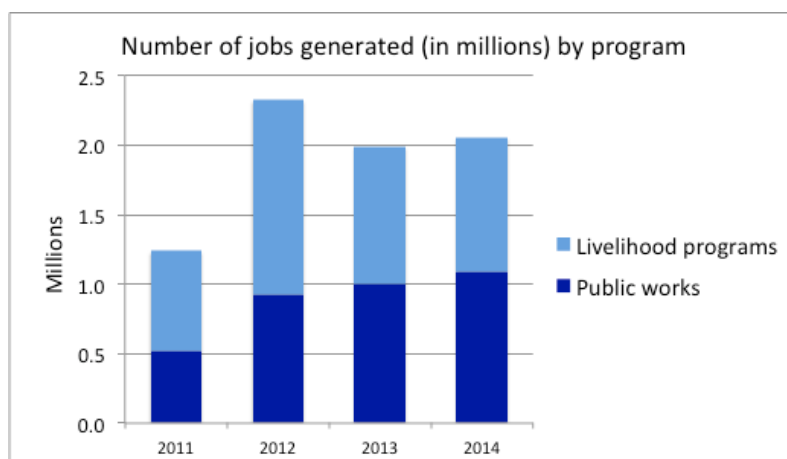
Source: World Bank staff estimates using Annual Poverty Indicators Survey.

**Public works programs account for the largest share of government expenditures on ALMPs.** The resources devoted for public works programs vary every year depending on economic conditions, but on average, they account for the largest share in the government expenditures on ALMPs (see Annex 3B Table 3B for indicative budget). Public works, in particular, are important countercyclical interventions. In times of crisis, there is more spending, such as during the global financial crisis in 2009 and during the onset of natural calamities. In general, both public works and livelihood assistance programs are the most important ALMPs that receive the largest amount of government resources. Public works programs created roughly as many jobs as livelihood assistance programs (Figure 3.10).

**Public works programs are primarily designed as stop-gap measures.** They are short-term and seasonal in nature. Implementing agencies vary in their guidelines in administering their public works programs but, in general, one beneficiary is allowed to work for only up to 30 days and can avail of any of the public works program up to twice per year.<sup>50</sup> The design and implementing features of these programs indicate that they are likely to have limited long-term employment effect on the beneficiaries. That is, once a worker reaches the maximum number of working days allowed, he loses the income support. However, some public works programs are meant to create infrastructure such as irrigation system, farm-to-market roads, post-harvest facilities as well as disaster-risk mitigating infrastructure that benefit the rural farm workers. Many of these types of public works programs are implemented by the departments of agrarian reform and agriculture. Experience in other countries also show that public works programs can have positive spillover effects (Box 3.4).

<sup>50</sup> The cash-for-work program of DSWD, for instance, can be availed for only 10 days, but can be extended to at most three months depending on economic conditions in the area of implementation.

**Figure 3.10 Public works programs generate as many jobs as livelihood programs<sup>51</sup>**



Source: Department of Labor and Employment.

#### **Box 3.4 Public works can be designed to have positive spillover effects**

The primary objective of public works programs is to provide temporary income support, but they can also be designed to have secondary objectives that create longer-term benefits to recipients. For example, public works programs can include a training component in their core design to enable workers to gain needed skills to help them transition into more regular employment (e.g. Jefes de Hogar in Argentina). They can also require beneficiaries to save a portion of their wage earnings to enable them to obtain credit and begin a self-employment activity (Vision 2020 Umurenge Program in Rwanda). Moreover, public works programs can create physical assets that are of commercial value to communities such as irrigation infrastructure. More examples of these types of public works are discussed in Subbarao, et al (2013).

**Public works programs in the Philippines are highly fragmented.** As in the case of livelihood assistance programs, public works programs are composed of many small-scale projects being implemented independently by different government agencies. As such, implementation arrangements vary across agencies. For example, all emergency employment and livelihood assistance programs of DOLE are clustered under the Integrated Livelihood and Emergency Employment Program. Meanwhile, emergency employment programs of DSWD are clustered under its disaster response program while the livelihood assistance programs are clustered under SLP. DOLE is responsible for monitoring public works programs, but its role is limited to consolidating information on these programs.

<sup>51</sup> The number of jobs generated by public works programs are calculated not by the actual number of workers served, but by using the following formula: percent share of labor cost to total project cost / (average daily wage per job x duration of program in months x 22 days per month).

*Training programs are relatively successful, but there is room for making them more relevant to labor market needs*

**TVET programs are often not sufficient to improve the employment prospects of trainees.** A large proportion of beneficiaries of TVET training scholarship programs do not find jobs. A survey of TVET graduates conducted by the Technical Education and Skills Development Authority (TESDA) in 2012 showed that only about half of the training scholarship beneficiaries (49 percent) were employed one year the training, which is a relatively good result (Table 3.4).<sup>52</sup> But many of those who did not find employment withdrew from the labor market. This pattern has also been observed in earlier years. The high rate of labor market withdrawal after training participation is disappointing because vocational training programs are meant to address structural unemployment. The fact that a substantial proportion of training participants withdrew from the labor market limits the efficiency of training programs (Orbeta and Abrigo, 2011).

**Table 3.4 Half of TVET graduates in 2012 were able to find jobs after graduation**

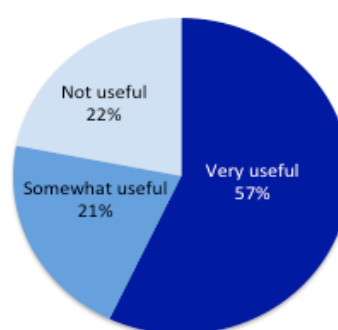
Employment Status	All TVET graduates	Scholarship beneficiaries*
Total graduates (number)	788,439	239,339
Total graduates (% distribution)	100	100
In the labor force	68	72
Employed	44	49
Unemployed	23	23
Not in the labor force	32	28

\* Training financially supported by the government

Source: Technical Education and Skills Development Authority (2013)

**Figure 3.11 Most trainees find training useful**

Distribution of responding TVET graduates by perception of usefulness of training



Source: Technical Education and Skills Development Authority (2013)

**Most TVET graduates who found jobs viewed training as useful.** Available evidence indicates that among the TVET graduates who were employed after the training, about 80 percent reported that the skills acquired from training were useful to their jobs, according to a survey on TVET graduates conducted by TESDA (Figure 3.11). However, to assess the actual impact of training participation on employment outcomes one would need to carry out net impact evaluation to compare employment outcomes (e.g. the job placement rate) of the treatment group (those who received training) with those of the control group. International evidences show that the net impact of training courses is considerably lower than the gross impact (Card et al. 2010, 2015).

<sup>52</sup> No information is available on the quality of employment—for example, whether the job is formal or informal, permanent or temporary, and what is the wage offered. The relatively high gross job placement rate is likely to reflect the fact that the standard unemployment rate is very low in the Philippines, which means that jobseekers find jobs relatively easily (although not necessarily “good” jobs).

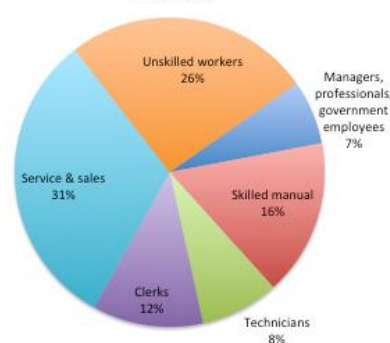
### *Outreach of public employment services is limited*

**Majority of unemployed who used PESOs are urban low-skilled workers.** According to LFS, about 30 percent of the unemployed who used PESOs to search for jobs were service and sales workers, another 25 percent were unskilled workers, including farmers (Figure 3.12, Panel A). This indicates that PESOs reach out primarily to the low-skilled segment of the workforce. Majority of the unemployed who used PESOs live in urban areas (Figure 3.12, Panel B). This can be attributed to the fact that PESOs are located mainly in urban localities, such as in municipal/city halls, or in schools/universities.

**Figure 3.12 Majority of the unemployed who used PESOs are unskilled workers, mostly from urban areas**

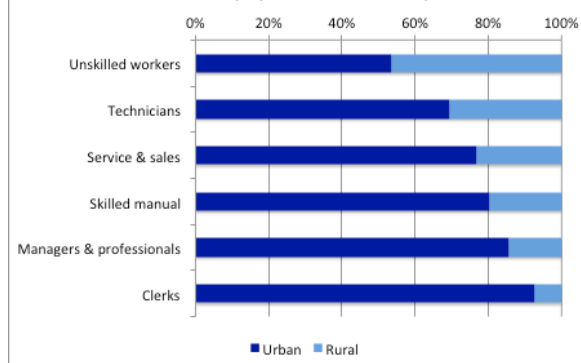
Panel A

Distribution of unemployed who used PESOs by previous occupation



Panel B

Distribution of unemployed who used PESOs by urban/rural



Source: World Bank staff estimates using Labor Force Survey 2013

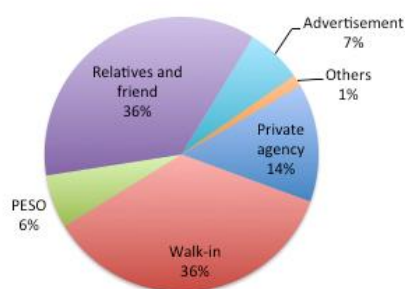
**Public employment services are used by few jobseekers and employers.** Only 6 percent of the unemployed used PESO to search for jobs, according to LFS (Figure 3.13, Panel A). From the employer side, the Bureau of Labor and Employment Studies Integrated Survey showed that 13 percent of medium-to-large formal establishments (20 or more workers) used PESOs to look for applicants (Figure 3.13, Panel B). This indicates the low reliance on PESOs of jobseekers and employers. This can be attributed to many factors such as the quality and effectiveness of services provided, difficult access to services, and their limited outreach (concentration of PESO in urban areas). It was noted that in many LGUs, personnel are assigned to PESOs in an *ad hoc* or add-on capacity without additional and separate resources and budget (Bitonio, 2008).



**Figure 3.13 Majority of jobseekers and employers use informal means for job-worker matching**

Panel A

Distribution of unemployed who used PESOs by job search method

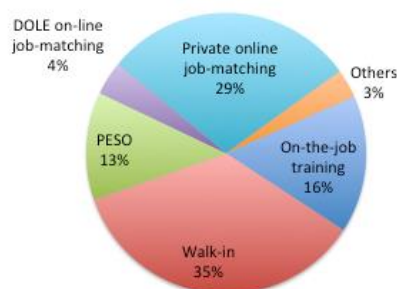


Note: 40% of unemployed workers in the LFS supplied answers.

Sources: Bank staff calculations; Labor Force Survey, 2013.

Panel B

Distribution of establishments by applicants search method



Note: Survey covers formal enterprises with 20 or more employees.

Sources: Bank staff calculations; Bureau of Labor and Employment Statistics Integrated Survey, 2012.

### *There is scope to improve the effectiveness of active labor market programs*

#### **A number of measures could enhance the effectiveness of employment programs in the Philippines.**

These include (a) improving coordination among the different implementing agencies, (b) consolidating small scale programs to exploit the economies of scale, (c) integrating employment programs with other social protection programs, (d) improving access to and quality of public employment services, (e) expanding programs that enhance workers' skills and improve their long-term employment prospects, and (f) developing an M&E system to inform employment policy. Some of these measures are discussed in more detail below.

#### **A more in-depth review of existing programs is necessary to better understand their performance.**

The assessment provided in this section offer insights on which programs deserve a thorough review. Among them are public works and livelihood assistance programs, which take up a large share of government expenditures on ALMPs, but whose long-term employment impact is likely to be limited. On the other hand, programs such as internships, apprenticeships, wage subsidy, TVET scholarship, and capacity-building programs account for a relatively small share in government spending on ALMPs, but their employment impact is likely to be longer-term. The cost-effectiveness of each specific program is largely unknown. However, there are some recent initiatives to evaluate program performance. Still, more investments are needed to enhance the available information on the performance of existing programs. This would allow the government to make informed decisions concerning program design, and allocation of resources to programs that prove to be most cost-effective. All major programs need to be monitored and evaluated regularly to redesign those that perform poorly, and scale-up those that are most cost-effective.

**ALMPs should be integrated with other social protection programs.** This particularly refers to using a common targeting system to ensure that the poorest households also benefit from ALMPs. The government has set up a national household targeting system, which is being used by social welfare programs. However, this targeting system is not yet widely used for ALMPs. Currently, ALMPs use different selection criteria, depending on the implementing agency. As argued in this section, this has resulted in ALMPs benefitting mainly better-skilled workers, while leaving out the less-skilled ones,



who are most disadvantaged. There had been reforms in the social protection system in the Philippines, which aim to integrate ALMPs with social welfare programs. In this regard, social welfare programs have extended their services to include labor market interventions targeted at the most disadvantaged workers. For example, public works programs keep certain number of job vacancies for 4Ps beneficiaries; livelihood programs have also extended their coverage to 4Ps beneficiaries; and training programs are provided to high school graduates of 4Ps beneficiary household members.

**There is a need to explore the most effective implementation arrangement to enhance the role of PESOs.** Institutionally, PESOs are independent entities, although they are linked to DOLE's regional offices for coordination and technical supervision. The institutional capacity to carry out the services, and the resources devoted to them, varies because they are managed by different local government units, non-governmental organizations, community-based organizations, or state universities and colleges. Such implementation arrangement is likely to affect the distribution of PESOs across the country, with a bias against locating in rural areas where low-skilled workers are based. The current set-up of PESOs also prevents DOLE from providing uniform guidelines in providing employment facilitation services. Many of them are not institutionalized and therefore, the continuity of their services is uncertain. The existence of non-institutionalized PESOs depends solely on the managing unit. This limits the role of DOLE in providing them technical supervision and in enhancing their capacity to carry out employment facilitation services.

**The government may consider expanding training programs.** This report has identified lack of skills as a key constraint to productive employment. Training programs hence have the potential to address the root cause of labor market disadvantage in the Philippines.<sup>53</sup> Although they cannot be a substitute to a high quality education system, they can equip disadvantaged workers with employability skills that will enhance their long-term job prospects. (This is in contrast to public works, which provide only short-term employment). International evidence indicates that in order to be effective, training programs need to be designed so as to address well identified needs of both workers and employers, and tailored to the different needs of various worker groups (e.g. women vs. men, younger vs. older workers, less skilled vs. more skilled). Training programs can be designed in a variety of different ways. Important design features include course curriculum, focus on technical versus socio-behavioral skills, classroom versus on-the-job training, and training duration.<sup>54</sup> Training programs need to be pilot-tested to determine their impact and to identify groups that benefit most from different training interventions. Given limited resources, scaling up of successful training programs can be coupled with scaling down of the least effective programs. This entails evaluation of the cost-effectiveness and impact of the whole range of different ALMPs that are currently in place in the Philippines.

**Pilot-testing new programs is key to improving their design and implementation features.** There are recent initiatives in the government to pilot-test new programs. For instance, a new youth employment program known as JobStart, is pilot-tested by DOLE to evaluate its impact on the randomly selected youth from the target population aged 18 to 24 years who completed secondary education and had limited work experience over the past year. The result of the pilot-test will provide

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<sup>53</sup> In developed countries, vocational education and training can be classified into three distinct systems: 1) school-based vocational training and education; 2) formal apprenticeship schemes; and 3) dual vocational training systems (Eichhorst 2015). All three modes of training delivery exist in the Philippines, with an addition of community-based training (TESDA 2015).

<sup>54</sup> Socio-behavioral skills (also referred to as job attitudes or work ethics) are often neglected in training curricula, while research shows that they are as critical for employability as technical, job-specific skills.

information on the potential impact of the program on the beneficiaries' employment and earnings, as well as information on potential pitfalls in implementation procedures. More resources are needed to step-up pilot-testing of new programs. Earlier experience (e.g. that of DSWD with the CCT program) indicates that investing resources on pilot-testing yields long-term benefits as it helps reduce implementation costs and increase cost-effectiveness of the program.<sup>55</sup>

**Finally, developing an M&E system is key to improving program design and enhancing the effectiveness of employment policy.** Currently, little is known about the performance of different employment programs. This represents an important informational obstacle to an efficient allocation of the scarce program resources. Once the M&E system is in place it becomes possible to assess cost-effectiveness and impact of different programs, scale up programs that perform well, and redesign (or scale down) programs that perform poorly. Ultimately, the M&E system allows the Government to carry out evidence based policy, and to allocate available resources so as to maximize the impact of employment policy.

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<sup>55</sup> The pilot-testing of JobStart is being supported by the Asian Development Bank, while that of the CCT was supported by the World Bank.

## ANNEX 3A *The Philippines ranks low in labor market efficiency*

**Table 3A: The Philippines ranks low in labor market efficiency**

Country	Labor market efficiency score <sup>a</sup> (1-7)	Rank in labor market efficiency (out of 144)	Selected components (1-7)			Ratio of min. wage to ave. value-added per worker/ <sup>b</sup>
			Hiring and firing practices	Redundancy costs, weeks of salary	Flexibility in wage determination	
Singapore	5.7	2	5.4	3.0	6.0	–
Malaysia	4.8	19	4.9	23.9	5.5	0.23
Cambodia	4.6	29	4.8	19.4	4.8	–
Lao PDR	4.6	34	4.1	47.2	5.7	0.37
China	4.6	37	4.6	27.4	4.8	0.33
Georgia	4.5	41	4.7	4.3	5.6	–
Vietnam	4.4	49	3.9	24.6	5.1	0.60
Thailand	4.2	66	4.4	36.0	4.3	0.41
Myanmar	4.2	72	4.1	20.2	5.5	–
Armenia	4.2	74	4.5	11.0	5.1	0.25
Guatemala	4.1	85	4.4	27.0	5.7	0.73
Philippines	4.0	91	3.4	27.4	4.8	0.69
Indonesia	3.8	110	4.3	57.8	4.4	0.55
Morocco	3.8	111	3.7	20.7	5.4	0.74
Egypt	3.1	140	3.9	36.8	5.1	–

<sup>a</sup> Score of 1 means heavily impeded by regulations, 7 means extremely flexible.

<sup>b</sup> – means no minimum wage.

Sources: *Global Competitiveness Report 2014-2015* (WEF 2014); and World Bank's *Doing Business Report 2015* (World Bank 2014b).

## ANNEX 3B Description of major labor market programs in the Philippines

**Table 3B: Description of major labor market programs being implemented in the Philippines**

Program	Description	Objective	Implementing Unit	Target Group	Targeting Method
<b>A. Direct job creation programs</b>					
1. Public works	Short-term employment programs (up to 30 days per beneficiary)	Provide temporary income support (paid 75% of minimum wage)	All government agencies, primarily DPWH, DA, and NHA	Unemployed	Self-selection
2. Livelihood programs	Temporary source of financial support for business start-ups, also includes training and job referral	Enable workers undertake income-generating activities by providing microfinance or physical equipment	All government agencies, primarily DOLE, DSWD, DA, and Land Bank	Informal workers	Varies by program, other programs use national household targeting system
3. Government Internship Program	On-the-job training in government offices for 3-6 months	Provide temporary income support and work experience (paid 75% of minimum wage)	DOLE, PESOs, and participating government agencies	Youth	Fresh college or TVET graduates, 18-30 years old
4. Special Program for the Employment of Students	On-the-job training in private establishments for 20-52 days	Provide temporary income support and work experience (paid minimum wage)	DOLE and private establishments	Youth from low-income households	Students, 15-25 years old
<b>B. Training programs</b>					
1. Technical-vocational education and training (TVET) scholarship programs					
a. Training-for-Work Scholarship	Grant to avail of skills training courses	Increase supply of skills to priority sectors as identified by the government	TESDA and TVIs	Youth	At least 18 years old high school graduates
b. Private Education Student Financial Assistance	Grant to avail of skills training courses	Access to TVET programs by students from low-income households	TESDA and TVIs	Youth from low-income households	At least high school graduates from low-income households
c. Special Training for Employment Program	Grant to avail of skills training courses	Access to TVET short-term programs by students from low-income households	TESDA and TVIs	Youth from low-income households	At least 15 years old
2. Community-based training programs	Short-term training programs	Access to training programs for livelihood activities	Various government agencies	Informal workers	Varies by program
<b>C. Employment facilitation services</b>					
1. JobStart Philippines	Full-cycle employment facilitation (education-to-work transition program)	Assist beneficiaries find jobs by providing them training, job referral, and internship	DOLE, PESOs, TVIs, and private establishments	Young workers	Unemployed, 18-24 years old, at least high school graduate
2. Sustainable Livelihood Program (employment facilitation track)	Full-cycle employment facilitation (education-to-work transition program)	Assist beneficiaries find jobs by providing them training grant and job referral	DSWD, PESOs, TVIs	Young workers	High graduates of CCT beneficiary households
2. Job-worker matching	Job fairs, online jobs-applicants search tools	Match jobseekers and employers	DOLE, PESOs, and public and private institutions	Unemployed	Self-selection
3. Labor market information	Publications on labor market trends and hard-to-fill jobs	Reduce information gaps on labor market	DOLE, TESDA, PESOs	Unemployed	Self-selection
4. Employment coaching	Seminar/workshop on labor market trends and job prospects	Assist jobseekers find jobs suitable to their qualifications	DOLE, TESDA, PESOs	Unemployed	Self-selection

**Table 3B (continuation). Description of major labor market programs being implemented in the Philippines**

Program	Regularity of Program	Record Keeping	No. of Beneficiaries (Source of data)	Indicative Budget in Pesos (Source of data)	Other Information
<b>A. Direct job creation programs</b>					
1. Public works	Regular program, coverage depends on the availability of jobs in government projects	Regional offices of agencies record the number of jobs created and submit the information to DOLE for consolidation	997,600 jobs generated in 2013 (CBEP database)	5.8 billion in 2013 (World Bank staff estimates based on no. of jobs generated)	One beneficiary can take on as many as 3 jobs within a year
2. Livelihood programs	Regular program, coverage depends on budget allocated	-- same as above --	606,000 jobs generated in 2013 (CBEP database)	3 billion in 2013 (CBEP database)	In 2013, jobs generated and budget cover DOLE, DSWD, DA, DTI, DFA, CFO, NHA and LandBank
3. Government Internship Program	Seasonal, only when jobs are available in government agencies	-- same as above --			Government agencies where the GIP beneficiaries work pay the beneficiaries from various fund sources
4. Special Program for the Employment of Students	Seasonal, only when private establishments participate	-- same as above --	167,600 beneficiaries in 2013 (DOLE)		DOLE pays 40% of salary, private establishment pays 60%
<b>B. Training programs</b>					
1. Technical-vocational education and training (TVET) scholarship programs		TVIs submit number of TVET graduates and scholarship beneficiaries to TESDA			
a. Training-for-Work Scholarship	Regular program	-- same as above --	175,500 beneficiaries in 2014 (TESDA)	1.4 billion in 2014 (GAA)	
b. Private Education Student Financial Assistance	Regular program	-- same as above --	26,800 beneficiaries in 2014 (TESDA)	200 million per year (TESDA)	
c. Special Training for Employment Program	Regular program	-- same as above --	28,000 beneficiaries in 2014 (TESDA)	833 million in 2014	
2. Community-based training programs	Regular program, coverage depends on budget allocated	Agencies keep record of workers served, but no central consolidating agency	937,000 graduates in 2014 (TESDA only)	Not available	
<b>C. Employment facilitation services</b>					
1. JobStart Philippines	Regular program	DOLE records the number of beneficiaries	Not available	Not available	Currently being pilot-tested by DOLE
2. Sustainable Livelihood Program (employment facilitation track)	Regular program	DSWD records the number of beneficiaries	106,000 beneficiaries in 2014 (employment facilitation track only) (DSWD)	2.4 billion in 2014, including livelihood track (GAA)	Program covers two tracks: livelihood program and employment facilitation
3. Job placement	Regular program	PESOs records the number of beneficiaries and submits to DOLE	1.4 million job applicants placed in 2014 (DOLE)	2.5 billion in 2014, DOLE central office only (GAA)	
4. Labor market information	Regular program	DOLE records the number of publication views	2.9 million individuals reached in 2014 (DOLE)	-- Included in above budget --	
5. Employment coaching	Regular program	PESOs records the number of beneficiaries and submits to DOLE	800,000 individuals covered in 2013 (DOLE)	-- Included in above budget --	

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