

Understanding the extent, composition, and characteristics of the poor

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The 2010 Philippine Millennium Development Goal (MDG) Report noted that the country has been posting a medium rate of progress in terms of meeting the MDG target for poverty reduction. Since there are only a few years left before the MDG deadline, collaborative efforts among the different sectors should thus be geared toward achieving the 2015 target. This is particularly important because the country has recently been challenged by a number of economic and natural shocks which include the food and fuel price hikes in 2008, the global financial and economic crisis that reached the country in the latter part of 2008, and the devastating typhoons Ondoy and Pepeng that hit the country during the last quarter of 2009, followed by the El Niño phenomenon in the latter part of 2009.

Many households are considered vulnerable to various shocks. Using a panel data from the 1997 Family Income and Expenditure Survey (FIES) and 1998–1999 Annual Poverty Indicator Survey (APIS), Reyes (2003) found that a high proportion of households were adversely affected by the 1997 Asian financial crisis and the 1997/1998 El Niño and La Niña episodes, which caused them to move in and out of poverty during that period. Addressing poverty caused by transitory shocks requires different types of intervention.

In this regard, this *Policy Notes* looks into the extent and composition of poverty, and provides some idea on the basic

PIDS Policy Notes are observations/analyses written by PIDS researchers on certain policy issues. The treatise is holistic in approach and aims to provide useful inputs for decisionmaking.

This *Notes* is mainly drawn from PIDS Discussion Paper No. 2010-30 titled “Chronic and transient poverty” by the same authors. The authors are Senior Research Fellow (C. Reyes); Research Associates (C. Mina and A. Tabuga); and Senior Research Specialists (R. Asis and M.B. Datu), respectively, at the Institute. The views expressed are those of the authors and do not necessarily reflect those of PIDS or any of the study’s sponsors.

characteristics of the poor in recent years. It also presents some insights that could guide the government in the formulation of specific types of interventions for different groups of households, especially the chronic and transient poor.

Probing deeper into the poverty picture: the panel data

Using various rounds of the FIES and APIS from 2003 to 2008, three different panel data sets were generated using exact matching. The FIES panel data set, covering the periods 2003 and 2006, includes 7,899 households while the APIS panel data set, covering 2004, 2007, and 2008, contains 7,446 households. The 5-year panel data set, which is a combination of the FIES and APIS panel data sets, consists of 6,574 households.

What is chronic and transient poor?

Reyes (2003) further classified the poverty status of households into four categories depending on their poverty status in each of the covered years. The chronic poor are those who are consistently income-poor during the period under study. The transient poor refer to those who are classified as poor during a given point in time but were previously nonpoor for at least one year during the period under study. The previously poor are those who are classified as nonpoor during a given point in time but were previously poor for at least one year during the period under study. The transient and the previously poor are those who are moving in and out of poverty. Meanwhile, the never poor refer to

those who had never been poor during the period under study.

What is the extent and composition of the poor?

Reyes et al. (2010) found that the transient poor comprises a significant portion of the poor. Their share to the total poor increases as the period under study is extended. The probability of falling into poverty increases because more and more households may become vulnerable to shocks as more periods are placed under study.

For instance, using the FIES panel, about one-fifth (20.4%) of the panel households are considered chronic poor while 10.4 percent were transient poor from 2003 to 2006 (Figure 1). One out of every three who were classified as poor in 2006 was previously nonpoor. Using the APIS panel, the chronic poor during the periods 2004, 2007, and 2008 accounted for 17.2 percent of all the panel households (Figure 2). Interestingly, the proportion of the transient poor during this 3-year period is relatively higher (at 33.9%) than that in the FIES panel. Using the combined FIES and APIS panel, 12.4 percent of the households had remained poor from 2003 to 2008 while a considerable 42.7 percent of them had been moving in and out of poverty over the 5-year period (Table 1). From 10.4 percent in the FIES panel (2-year period) to 33.9 percent in the APIS panel (3-year period), the proportion of the transient poor is seen to increase to 42.7 percent when a longer panel (5-year period) was used.

What are the basic characteristics of the poor?

The patterns observed with regard to the characteristics of the poor are consistent across the three different panel data sets as seen below.

Location. The chronic and the transient poor are mostly found in Mindanao (specifically Caraga, Autonomous Region in Muslim Mindanao [ARMM], and Zamboanga Peninsula) while the majority of the nonpoor households are located in Luzon (particularly the National Capital Region [NCR]; Cavite, Laguna, Batangas, Rizal, Quezon [CALABARZON]; and Central Luzon). In addition, the chronic poor are mostly rural dwellers while the never poor are usually located in urban areas. Another interesting finding in terms of location is that a large number of the transient poor are found in Luzon.

Household head profile. The proportion of female-headed households is highest among the never poor while lowest among the chronic poor.

Heads of the chronic and transient poor are relatively younger than those of the never poor.

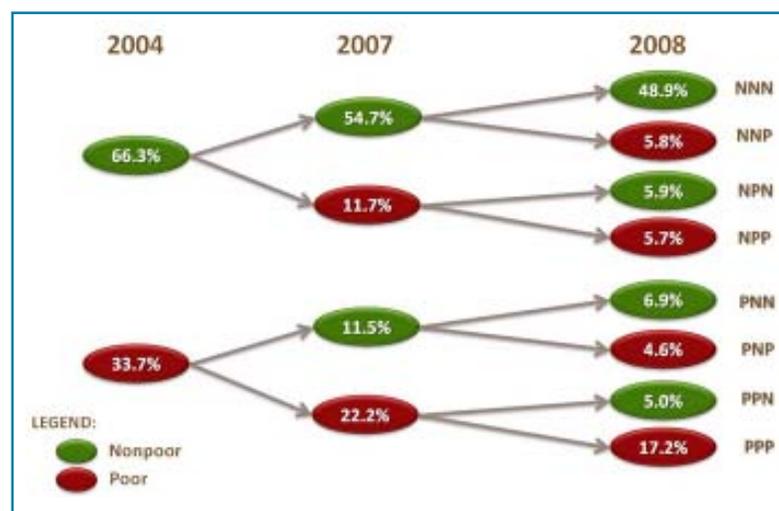
The educational attainment of heads seems to increase with income. More than half of the chronic and transient poor have heads who did not reach secondary level while more than half of the never poor have heads who were at least high school graduates.

Figure 1. Movements in and out of poverty of FIES panel households, 2003 and 2006



Note: The figures refer to the share of the population subgroup to the total number of households in the panel data set. Thus, the percentages for each year add up to 100. Source of basic data: Matched files of the 2003 and 2006 Family Income and Expenditure Survey (FIES).

Figure 2. Movements in and out of poverty of APIS panel households, 2004, 2007, and 2008



Note: The figures refer to the share of the population subgroup to the total number of households in the panel data set. Thus, the percentages for each year add up to 100. Source of basic data: Matched files of the 2004, 2007, and 2008 Annual Poverty Indicator Survey (APIS).

The majority of the chronic poor heads are engaged in agriculture while few of them do nonagriculture work. In contrast, more than half of the never poor have heads whose

Table 1. Distribution of 5-year panel households, by poverty status, 2008 (unweighted)

Poverty status	Percent
Chronic poor	12.4
Transient poor	21.3
Previously poor	21.4
Never poor	44.9

Source of basic data: Matched files of the 2003 and 2006 FIES; and 2004, 2007, and 2008 APIS

jobs/businesses are nonagriculture-related while less than 50 percent of them have heads who either have agriculture-related jobs/businesses or no work at all.

In terms of occupation of household heads, more than half of the panel households have heads who are farmers, fisherfolks, or forestry workers. This is the largest among the major occupational groups of households. The second largest group includes laborers and unskilled workers, which accounted for about one-fourth of the total panel households, followed by trade and related workers with 7 percent, and then plant and machine operators and assemblers, with 4 percent.

Household composition and income. Chronic and transient poor households are relatively larger and usually have higher dependency ratio compared to the never poor. The chronic and the transient poor tend to have five to six members on the average while the never poor households are usually composed of four members. Similarly, the chronic and transient poor have around four to five dependents (members aged below 15 years old) out of every 10

members while the never poor only have about two dependents for every 10 members.

Roughly 80 percent of households with at least one member being an overseas Filipino worker (OFW) are considered as never poor while only about 7 and 4 percent of such households are chronic and transient poor, respectively.

The chronic poor reported the highest mean percentage of income derived from agriculture, followed by the transient poor. Around 56 percent of the total income of the chronic poor is derived from agricultural sources whereas for the transient poor, the share is about 45 percent. In contrast, only about 18 percent of the total household income of the never poor is derived from agricultural sources/activities.

Interestingly, percentage changes in income are evident among the transient and previously poor, or those who are moving in and out of poverty. For instance, the majority (82.1%) of the transient poor experienced a decrease in income by up to 60 percent from 2003 to 2006. In contrast, the income of the majority of the previously poor increased from 40 to more than 100 percent.

Ownership of assets, access to basic amenities and social services, and housing characteristics. The chronic and the transient poor possessed very few assets. Among the leading assets commonly owned by these poor households are radio and television sets, followed by sala

set, telephone/cellular phone, and VTR/VHS/VCD/DVD player. Other high-priced assets such as computer, airconditioner, vehicle, refrigerator, and washing machine were visible only among nonpoor households, particularly the never poor.

Access to basic amenities (e.g., electricity, safe water, sanitary toilet facilities) is also seldom present among poor households, especially the chronic poor. In addition, the proportion of households with access to the PhilHealth program is higher among the nonpoor than the poor. Around 33.8 percent of the previously poor and 52.9 percent of the never poor have access to the program. On the other hand, only 26 percent of the chronic poor and 24.9 percent of the transient poor have at least one member who is a PhilHealth beneficiary.

Households living in makeshift housing and informal settlements comprised a small percentage of the total households in the panel. Notwithstanding this, the proportions are slightly higher among the chronic poor and the transient poor than among the previously poor and the never poor.

Policy implications

Identifying the extent, composition, and characteristics of the poor is very critical in designing effective poverty reduction programs. This is particularly true in developing countries like the Philippines where budgets for social programs are limited. Thus, proper targeting system should be

adopted to ensure that greater resources are channeled to target beneficiaries, particularly those in poor and underserved areas.

Recently, there have been efforts toward more targeted interventions for the poor. However, there has been no distinction between chronic and transient poor. For instance, the Pantawid Pamilyang Pilipino Program (4Ps) or the Conditional Cash Transfer (CCT) Program utilized a two-step targeting scheme, with geographical targeting at the first stage and household targeting at the second stage. Although socioeconomic conditions of households are assessed at the second stage, poor households are treated here as a homogeneous group. None of the previous programs, however, has made a serious effort in delineating the kinds of interventions necessary for various types of poor households.

The major finding of Reyes et al. (2010) is that the poor are not a homogeneous group. Those who are classified as poor at any point in time consist of the chronic poor and the transient poor. In fact, the transient poor comprised a significant portion of the poor.

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While the panel data sets used in the study do not necessarily reflect the true characteristics of the entire population across years under study, the details of the above finding provide an idea of the extent, composition and characteristics of the poor in the Philippines. The study, however, does not intend to generalize the findings to the entire population.

As suggested, the two groups of poor households, namely the chronic and the transient poor, need different types of interventions. Longer-term investment schemes are more appropriate in addressing chronic poverty. These may include providing assistance to chronic poor households that will help increase their human and physical assets or returns to those assets. On the other hand, transient poverty may be addressed through risk-mitigating, or insurance and income stabilization, schemes. The transient poor are considered vulnerable to various economic and natural shocks so they have to be protected against these shocks. The

government can also help the transient poor cope with shocks. Programs that reduce risks or help households manage the risks better can be designed and implemented. This type of intervention can help households from falling into poverty.

Moreover, identifying the characteristics of the different groups of households, particularly the chronic and the transient poor, can be of great help in designing specific types of interventions. The chronic poor tend to reside in the rural areas and are engaged in agriculture. This suggests the need for the poverty reduction strategy to focus on the rural areas, particularly on agriculture. The chronic poor also tend to have larger family sizes. Better population management therefore is a critical component of an effective poverty reduction strategy. And finally, education is an essential factor affecting the poverty status of households. As such, providing access to education is an effective way of breaking the cycle of poverty. 

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