POVERTY & EQUITY ASSESSMENT

# Philippines

## Building the Filipino Middle Class: Towards Resilient Futures and Poverty Eradication

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Cover design: Leslie Lim

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The report benefited from the guidance of peer reviewers Pablo Acosta (Lead Economist, WKHS1), Rong Qian (Lead Economist, ELCMU), Gabriel Demombynes (Manager, WKHHC), and Maria Eugenia Genoni (Lead Economist, WKPEP).

The team is grateful for valuable insights from Aart Kraay (Chief Economist, DECPC), Gabriela Inchauste (Manager, WKPEP), Dandan Chen (Operations Manager, EAPMB), James Sampi (Senior Economist, WKPVP), Clarissa David (Senior Country Officer, EAPMB), Tara Beteille (Lead Economist, HEAED), Emma Monsalve (Senior Economist, HEASP), Ruth Rodriguez (Senior Social Protection Specialist, HEASP), Animesh Shrivastava (Lead Agriculture Economist, SEAAG), Ashesh Prasann (Senior Agriculture Economist, SEAAG), Radu Tatucu (Senior Financial Sector Specialist, EEAF2), Tatiana Skalon (Senior Financial Sector Specialist, WKPFD); Jaffar Al-Rikabi (Senior Economist, EEAM2), as well as from participants at World Bank consultations, including representatives from the Government of the Philippines, specifically the Department of Economy, Planning, and Development; the Department of Finance; the Department of Labor and Employment; the Philippine Institute for Development Studies; the Philippine Economic Society Conference 2025; and the University of the Philippines Diliman School of Economics. The team is grateful to Jamie Javier (Team Assistant), Jul Yan Espeleta (Team Assistant), and Mildred Gonsalvez (Program Assistant) for administrative support.

Chapter 4 of this report was supported by the Australian Government.

# List of Acronyms

| Acronym | Full Term |
|---|---|
| 4Ps | Pantawid Pamilyang Pilipino program |
| AKAP | Ayuda sa Kapos ang Kita program |
| ALMPs | active labor market programs |
| BAU | business as usual |
| BARMM | Bangsamoro Autonomous Region in Muslim Mindanao |
| BPO | business process outsourcing |
| CBMS | community-based monitoring system |
| CCDR | country climate and development report |
| CGE | computable general equilibrium |
| COA | commission on audit |
| CPI | consumer price index |
| DBM | Department of Budget and Management |
| DILG | Department of the Interior and Local Government |
| DSWD | Department of Social Welfare and Development |
| ECD | Early Childhood Development |
| ECCD | Early Childhood Care and Development |
| EAP | East Asia and Pacific |
| FIES | Family Income and Expenditure Survey |
| GDP | gross domestic product |
| GIC | growth incidence curve |
| GIDAs | geographically isolated and disadvantaged areas |
| GIDD | Global Income Distribution Dynamics |
| GoP | Government of the Philippines |
| GSIS | Government Service Insurance System |
| HCI | human capital index |
| HCI+ | human capital index plus |
| HUC | highly urbanized city |
| IP | indigenous peoples |
| IRR | implementing rules and regulations |
| LCU | local currency unit |
| LFS | labor force survey |
| LGU | local government unit |
| LIR | low-income region |
| LMIC | lower-middle-income country |

# List of Acronyms

| Acronym | Full Term |
|---|---|
| LDRRMF | Local Disaster Risk Reduction and Management Fund |
| MARINA | Maritime Industry Authority |
| MIR | middle-income region |
| MPM | multidimensional poverty measure |
| MSME | micro, small, and medium enterprise |
| NCR | National Capital Region |
| NDRRM | National Disaster Risk Reduction and Management |
| NEDA | National Economic and Development Authority |
| NTA | National Tax Allocation |
| OECD | Organisation for Economic Co-operation and Development |
| OFW | Overseas Filipino Worker |
| PCIC | Philippine Crop Insurance Corporation |
| PEA | poverty and equity assessment |
| PFM | public financial management |
| PFMAT | public financial management assessment tool |
| PHP | Philippine peso |
| PIM | public investment management |
| PISA | Programme for International Student Assessment |
| PIT | personal income tax |
| PPP | purchasing power parity |
| PSA | Philippine Statistics Authority |
| SPI | statistical performance indicators |
| SAM | social accounting matrix |
| SSS | Social Security System |
| TFP | total factor productivity |
| UMIC | upper-middle-income country |
| VAT | value-added tax |

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# Overview

Over the past 15 years, the Philippines has become one of the world's fastest growing middle-income economies. Since the Global Financial Crisis, gross domestic product (GDP) per capita growth has been broadly pro-poor, averaging 3.5 percent a year, among the top quartile of middle-income countries. Poverty fell to 15.5 percent in 2023 (17.5 million people); inequality declined below a Gini coefficient of 40, the high-inequality threshold, for the first time in four decades; and the country is poised to cross the upper middle-income country (UMIC) threshold in the near future.

The Government's Ambisyon Natin 2040 envisions a prosperous, predominantly middle-class society where no one is poor by 2040. **To reach this ambitious goal, this report identifies priority opportunities to continue reducing poverty while building a secure middle class.**

Despite the notable gains made in reducing poverty and inequality, **the country remains far from achieving the broad, resilient middle class envisaged by Ambisyon Natin 2040. Economic security remains elusive for most Filipinos, and nearly three in five children live in poor or vulnerable households**. Almost 60 percent of the population live under the UMIC poverty line of US$8.30 a day (2021 purchasing power parity, or PPP), a higher bar than the national poverty line, reflecting how far most Filipinos remain from upper-middle-income living standards. And fewer than a quarter of Filipinos are securely in the middle class, a share that has barely grown since 2018. The median household's income is only 76 percent above the national poverty line, meaning that, for many households, a shock as common as a typhoon or illness can undo years of progress – a situation particularly alarming in one of the countries most exposed to climate-related hazards in the world.

Achieving the ambitions of Ambisyon Natin 2040 will require stronger actions to accelerate growth, particularly through foundational infrastructure and policies to foster competition (World Bank 2025a). Recent global developments, including fuel disruptions associated with the 2026 conflict in the Middle East, pose downside risks that could push nearly 2 million Filipinos into poverty.

Behind these outcomes, three intertwined weaknesses stand out:

1. **Low income and weak job prospects**: Higher-paying jobs have moved people out of poverty, especially in rural areas, but productivity and wage growth are too weak to build a large middle class. This leaves families vulnerable to shocks and limits investments in skills and other productivity-enhancing measures.

2. **Gaps in insurance and social protection systems**: Numerous social protection, social insurance, and disaster response initiatives are in place, but fragmentation and gaps in coverage undermine their ability to protect households in the face of frequent shocks.
3. **Uneven public services and local state capacity:** Public services are insufficient to offset these challenges: near universal education and health-care coverage coexist with low learning rates and stubbornly high child stunting rates. Basic services and foundational infrastructure are lagging, especially in areas where poverty is highest.

This report uses new evidence on poverty and vulnerability, subnational service delivery, labor regulations, and fiscal incidence to **identify opportunities for reducing poverty and building an economically secure middle class**. If the Philippines can combine reforms to boost productivity and job creation, with a focus on equity and resilience, it can nearly eradicate poverty by 2040 and expand the secure middle class to more than half of the population.

## 1. The Last Decade Delivered Swift Progress but Thin Margins

### Poverty and inequality: Strong gains, yet still far from UMIC standards

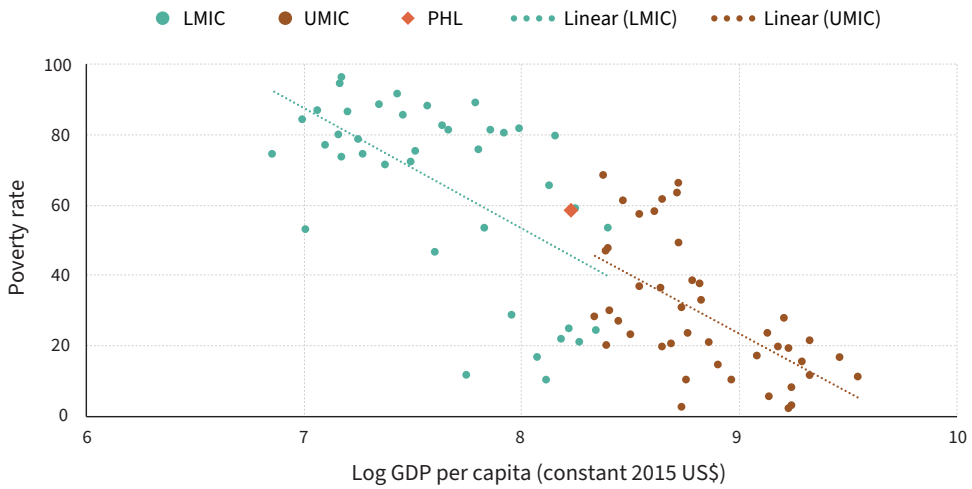
Poverty in the Philippines has declined steadily since 2012, apart from the temporary spike during COVID 19. **By 2023, the national poverty rate had fallen to 15.5 percent, below its 2018 level, despite the pandemic, and is projected to reach around 12.3 percent by 2028** if the pre COVID growth–poverty relationship holds. Excluding 2018–2021, poverty fell at an average of 7.7 percent per year. Inequality declined from a Gini of 46.5 in 2012 to 39.3 in 2023, bringing the Philippines broadly in line with other middle-income countries in East Asia. Access to electricity, improved water and sanitation, and schooling approached near universal levels. Even so, children, Indigenous Peoples, and rural families continue to face high risks of falling into poverty, which is closely linked to low schooling and jobs in the primary sector (Box 1).

#### Box 1: Profile of poverty and vulnerability

In the analysis, patterns showing who is poor and who is vulnerable clearly emerge:

- **Nearly 60 percent of children live in poor or vulnerable households**, including a quarter living in poverty with low human capital outcomes (23.6 percent stunting among under fives, and 90 percent of 10 year olds unable to read at grade level).
- **Indigenous Peoples are twice as likely to be poor as the average Filipino**, with a poverty rate of 32.4 percent.
- **Nearly three in ten Filipinos are vulnerable to falling into poverty** (27.7 percent); these families have a **median income that is only 28 percent above the poverty line** – a level too close to subsistence for them to be able to build up assets and absorb common shocks.
- Lower educational attainment is strongly associated with poverty (**nearly half of poor adults have a primary education or less**)
- Roughly **a third of the poor are in households where the main job is in agriculture and fisheries**, and generally self-employment.
- Wage jobs outside of agriculture and fisheries accounted for about **95 percent of the decline in poverty between 2012 and 2023**.

**FIGURE A.** International poverty rate based on UMIC poverty line, most recent year




**Source:** World Development Indicators.

Yet, relative to its UMIC aspirations and East Asia and Pacific (EAP) regional peers, the Philippines remains far behind. At the UMIC poverty line (US$8.30/day, 2021 PPP), **58.7 percent of Filipinos are poor**, compared with 33.8 percent in regional peers and 29.4 percent in UMICs on average. This poverty rate remains high relative to countries with similar levels of per capita output, both lower-middle-income (LMIC) and UMIC (Figure A). The prosperity gap, which measures how many days it takes the average worker to earn a high income country standard of US$28 per day, shows that progress has been slower than in neighboring countries: the Philippines' gap shrank by 36 percent since the early 2000s, compared to 50–60 percent in peer nations.[1]

## Poverty has fallen, but vulnerability remains high

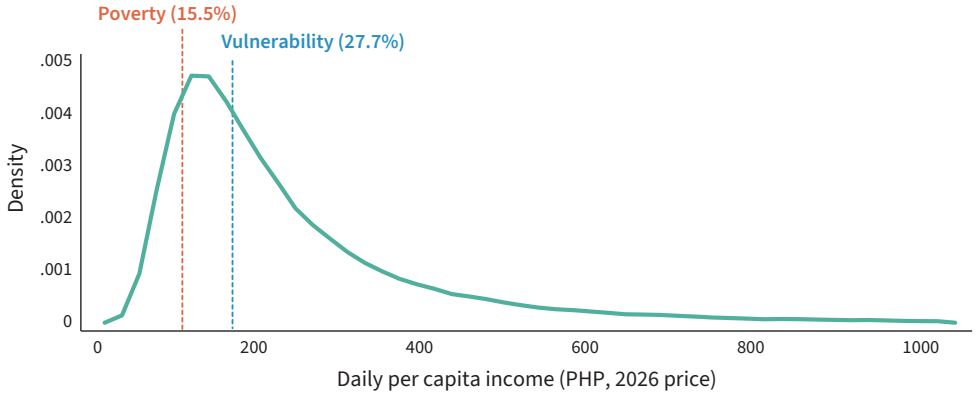
The report goes beyond the poverty headcount by classifying people into four income risk groups:[2]

- **Poor**: below the national poverty line (approximately US$4.08/day)
- **Vulnerable**: economic vulnerability is defined as those with at least a 10 percent chance of becoming poor (poverty line to US$6.50/day)
- **Emerging middle class**: at least a 10 percent chance of becoming vulnerable (US$6.50–11.70/day)
- **Secure middle class and high income**: Low risk of downward mobility (above US$11.70/day)

This reveals a concentration of people **in the bottom and lower middle with a thin top**. An estimated 27.7 percent of Filipinos are vulnerable and around one third are in the emerging middle class and hence at risk of falling into vulnerability.

[1] Regional peers are Indonesia, Malaysia, Viet Nam, and Thailand.
[2] Income-risk groups are based on predicted income volatility at the household level, as described in Appendix B.

**FIGURE B. Poverty and vulnerability status in the income distribution, 2023**




**Source:** World Bank tabulations based on FIES 2023.
**Note:** Daily per capita income is adjusted to 2026 prices using CPI and are spatially deflated according to national poverty lines.

This aligns with perceptions, with more than 60 percent of Filipinos self-identifying as poor. **About a quarter are securely middle class or high income, a share that has not increased since 2018**. Just over 15 percent of Filipinos are considered middle class when using a benchmark that reflects the region's higher standard of living (US$15/day).

Critically, there is a large concentration of people just above the poverty line in the Philippines (Figure B), which leads to **substantial churning between vulnerability and poverty**: of the 15.5 percent who were poor in 2023, about half were not poor in 2021. This reflects a median income among the vulnerable of just 28 percent above the poverty line. The rise in global fuel prices associated with the 2026 Middle East conflict illustrates precisely this risk: higher transport and energy costs ripple into food prices and household budgets, with the potential to push nearly 2 million Filipinos into poverty.

Simultaneously, the Philippines faces **some of the world's highest exposure to climate-related hazards**, with an estimated 61 percent of the population at high risk from tropical cyclones, about 20 of which occur annually. Cyclone losses amount to about 1.2 percent of GDP each year and could rise sharply without adaptation. Disasters disrupt schooling and work, damage assets, and worsen nutrition.

Food prices are a critical issue for food security and household vulnerability to poverty. This is especially true for rice, which accounts for nearly a fifth of spending among the poorest 30 percent in the Philippines and has a recent history of significant price volatility. As a result, in 2023-2024, **the cost of living for the bottom 30 percent rose roughly 3 percentage points faster** than for average households. Agricultural support policies apply an implicit tax on consumers estimated at 18 percent of consumer expenditures, but output growth remains sluggish, and rice farmers remain twice as likely to be poor as the average Filipino. This points to a critical policy tension: the need to keep rice affordable for consumers, particularly the poor, while also increasing the productivity of a structurally high-cost farming sector.

## High childhood poverty and vulnerability are tomorrow's growth constraint

Children are at the center of this vulnerability. **Nearly 60 percent of children in the Philippines live in poor or vulnerable households**. Stunting affects almost one in four under fives, with higher rates in poorer provinces, and 90 percent of 10 year olds cannot read and understand an age appropriate text. Despite the importance of early childhood education programs in foundational human capital, including nutrition, only 20 percent of three- to four-year-olds were enrolled in them in 2022. Frequent class suspensions due to climatic shocks (more than 30 days in 2023-2024 in most of Luzon) and residual effects of schooling disruptions during the COVID-19 pandemic further hamper learning. The Human Capital Index Plus (HCI+) is 175 out of a possible 325 points, implying that a child born today is expected to reach only about half of their earnings potential.

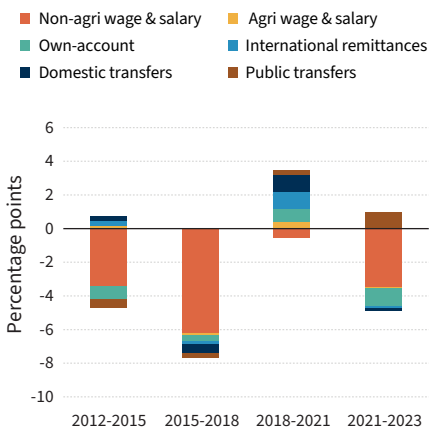
These outcomes are particularly poor in high poverty regions, **reinforcing inequality through intergenerational traps**. The children of poor households in lagging regions face a compounding disadvantage: they are more likely to experience stunting in early childhood, more likely to attend under-resourced schools, and less likely to be enrolled in early childhood programs. The spatial dimension compounds this further: children born in poorer areas face a combination of lower public spending per capita and weaker service delivery. Addressing inequality in the Philippines requires equalizing the conditions under which the next generation forms its human capital.

The flagship conditional cash transfer program, **Pantawid Pamilyang Pilipino Program (4Ps)**, has been critical to both current and future welfare. Its conditionalities and program complementarities work to raise school enrollment, improve nutrition, and support preventive health care among poor households. Abstracting from second-round effects, 4Ps transfers are estimated to have directly reduced poverty by 2.2 percentage points in 2023. However, as poverty rates have fallen, so has its targeted coverage, shrinking from about 4.4 million beneficiary families to around 3.1 million, while benefits have eroded in real terms. High levels of vulnerability and churning into and out of poverty suggest that more responsive and broader program coverage would strengthen children's learning and health outcomes.

## Jobs and structural transformation: Strong growth at the bottom, weak in the middle

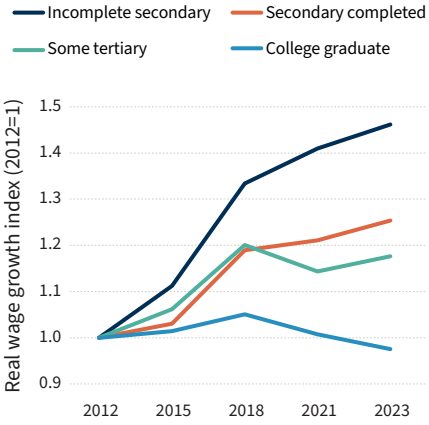
The main driver of poverty reduction since the Global Financial Crisis has been rising income from **jobs outside the primary sector**. Younger generations of relatively more educated workers have moved out of self employed agriculture and fisheries into wage jobs in construction, commerce, transport, and services. Between 2012 and 2023, **wage income from non primary activities accounted for about 95 percent of the decline in poverty** (Figure C). Job creation outpaced working-age population growth, and most new wage jobs for low skilled workers were created in construction and commerce; these jobs generally pay more than agriculture. Labor market indicators through 2024 showed a tightening labor market as the economy recovered from the pandemic.

**FIGURE C.** Poverty reduction by income source, 2012–2023




**Source:** World Bank tabulations based on FIES 2012-2023
**Note:** Income from imputed rent, gifts, and capital returns are not shown. Own-account work combines self-employment, net share of crops, and family sustenance activities.

**FIGURE D.** Real wage growth by educational attainment, 2012-2023




**Source:** World Bank tabulations based on FIES 2012, 2015, 2018, 2023
**Note:** Based on spatially deflated wages, adjusting for gender, region, age and its square, and number of hours worked per week and its square.

But in 2025 and 2026, gains slowed due to job losses in manufacturing and construction linked to disruptions in public infrastructure spending following the investigation of flood control irregularities in 2025 and, more recently, the 2026 oil price shock.

Incomes have converged across regions: low- and middle-income regions have grown faster than the National Capital Region (NCR), and rural areas, especially lagging regions in and near the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) benefiting from improved security conditions, have seen faster income growth than urban areas. In 2018–23, **average incomes grew by more than 5 percent per year in the poorest parts of the country**, while they stagnated or fell in richer areas. Access to public services also converged, with less developed regions narrowing the gap in electricity, water, and sanitation services. These gains in rural areas and lagging regions have been the drivers of national poverty reduction since 2012.

**Productivity growth has been weak**, however, with growth driven by capital accumulation, while exports and manufacturing stagnated. As wages for workers with less than secondary education grew by nearly 50 percent, **real wages for college graduates were flat** (Figure D). More than a third of workers (39 percent) have more education than their jobs require and receive only modest returns on their extra schooling.

In short, the growth model **worked well to increase incomes at the bottom of the distribution**, especially in rural areas, by generating low skill wage jobs in sectors like construction, transportation, and commerce. It has worked **less well for building a large, secure middle class** because productivity growth and high skill job creation remain constrained.

## 2. The Challenge of Building a Broad and Resilient Middle Class

**As the Philippines approaches upper-middle-income status, it faces the twin challenge of accelerating poverty reduction while building a robust middle class.** If the pre-pandemic growth-poverty relationship is maintained, poverty is projected to fall to 12.3 percent by 2028. Given the high concentration of people just above the poverty line and the country's high prevalence of shocks, progress can be easily reversed. Achieving the poverty target requires faster income growth for the poorest and improved resilience. Building a robust middle class means creating better job opportunities for all skill levels, an agenda requiring not only broader productivity gains and institutions that enable dynamism in the private sector, but also better service delivery and a reliable social insurance system.

**Improving outcomes for children living in poverty and vulnerability is the thread that connects both objectives**: it is both a moral imperative and the most important determinant of the country's long-term development trajectory. Progress on both poverty eradication and the middle-class agenda ultimately depends on sustained investment in human capital.

The analysis points to **three interlocking channels** undermining the growth of broad-based, durable economic security for most Filipinos: low income and weak job prospects; gaps in insurance and social protection systems; and uneven public services and local state capacity.

### Low income and weak job prospects

The Philippines has a **dualistic labor market with widespread informality and non regularized work**. Official statistics suggest that just about a third of workers make social security contributions, with another third in wage work but without contributory coverage, and the remainder in self-employment or unpaid family work. While regularized workers have strong job protections, in sectors key for low-skilled workers, such as construction, agriculture, and manufacturing, even medium and large firms rely on non-regularized labor, accounting for more than a third of workers. This is also common in the public sector, especially among local government units (LGUs).

This **dualism is the result of a regulatory framework** that involves genuine trade-offs:

- Complex and uncertain dismissal process, with high separation costs that increase the expected costs of regularization;
- Payroll contributions that make formal low wage jobs relatively more expensive, disincentivizing formality for both employers and employees; and
- Uneven enforcement of existing regulations that opens the door to repeated cycles of short-term contracting (known as *endo* from "end-of-contract") and overreliance on contractors.

Together, these features create a system in which informality and non-regularization are rational responses for both firms and workers, especially in lower-paying occupations.

Addressing this requires a coordinated reform effort across the labor code, the design of social insurance, payroll cost structures, and enforcement capacity.

**Women, and particularly those with less education, face additional barriers.** Prime age female labor force participation is almost 30 percentage points lower than men's, with the gap reaching 37 points for women with secondary education or less. Norms around household care combined with limited childcare options and job opportunities keep most women without college degrees either out of the labor force or limited to own account work.

Building on one of the world's largest diasporas, millions of Filipinos continue to seek better opportunities internationally. **More than 2 million Overseas Filipino Workers (OFWs) work under temporary contracts mostly as domestic workers or seafarers.** Becoming an OFW has led to upward mobility and local development. However, migration requires significant upfront investment, meaning it is typically better-off households that can finance a family member's migration. Regions with a longer history of out-migration have accumulated the remittance income and informal networks that make subsequent migration easier to finance, reinforcing a cycle that leaves poorer, less-connected regions behind. As a result, remittances flow disproportionately to wealthier households and regions, muting their potential for poverty reduction.

### Gaps in insurance and social protection systems

**Widespread informality and non-regularized employment leave only a third of working Filipinos covered by social insurance**, including just one-in-ten workers with less than complete secondary schooling. Initiatives to expand social security coverage to non-regularized workers already exist, such as the KaSSSangga and the AlkanSSSya programs, though with low uptake.

The absence of effective insurance markets leaves **households relying on family networks and public programs when hit by climatic shocks**. Private insurance penetration is extremely low; as of 2018, for example, less than 6 percent of residential properties were insured against typhoons and floods. Crop insurance, though fully subsidized, reaches fewer than half of smallholder farmers, with payouts far below what is needed to repay debts or replant. Public disaster risk-management funds compound this gap: they are typically underutilized at the local level, insufficient for even moderate events, and too slow to access at the national level. In practice, households draw on remittances and social transfers to smooth consumption during shocks, making social assistance a critical line of defense against the permanent welfare losses that follow uninsured shocks.

There is scope to reallocate resources from poorly targeted and fragmented programs toward better targeted transfers and broader contributory schemes and risk management instruments.

- The tax and spending system is **progressive but only marginally contributes to poverty reduction, and vulnerable households are net payers** into the fiscal system, receiving fewer benefits than they pay in taxes and contributions.
- Among social assistance programs, **4Ps stands out** as the largest, best targeted, and most cost effective, but its coverage has fallen in line with the national poverty rate as newer, less well-targeted programs have been introduced to support vulnerable workers and families.

### Uneven public services and local state capacity

LGUs are increasingly important in the provision of critical interventions following the 2019 Mandanas Garcia ruling, but **the quality and availability of public services and foundational infrastructure remain highly uneven across and within provinces**. Given the importance of LGUs in providing foundational infrastructure and services (including primary health care, nutrition, disaster response, and early childhood development services), gaps in local capacity become **first-order constraints on inclusive growth and resilience.**

Improving service delivery in this context faces critical challenges:

- **Insufficient and unequal resources**: Realized per capita spending is low for many LGUs. For example, around PHP 388 (about US$17.7 in 2021 PPP) per person was allocated to local health services in 2022. Because the National Tax Allocation (NTA) formula is heavily weighed by population and land area, highly urbanized cities (HUCs) enjoy higher per capita budgets even as nearly 90 percent of the country's poor and vulnerable population lives outside of HUCs. These are the LGUs with the smallest budgets in per capita terms and those most reliant on NTA.
- **Weak allocative and operational efficiency**: LGUs spend about half of their resources on general and economic services, reflecting high fixed costs of basic functions, while low utilization rates in capital-intensive sectors suggest systemic problems with public financial management (PFM) and project investment management (PIM). PFM systems are fragmented and often paper-based; fragmented data systems and outdated regulations reduce data sharing; and weak accountability can distort spending, sometimes increasing budgets without corresponding gains in growth or poverty reduction.
- **Fragmented and underdeveloped data and monitoring systems**, combined with limited interagency data sharing, further dampen the potential for local capacity and accountability. A lack of systematic monitoring and evaluation reduces the ability to design and implement effective policies and engage in timely course-correction when needed.

## 3. Policy Priorities for Eradicating Poverty and Strengthening Resilience

Economic transformation has helped millions escape poverty but has been insufficient in building widespread economic security. Looking ahead, two forces threaten to deepen and entrench vulnerability further. Climate shocks—both in terms of frequency and severity—are expected to continue intensifying. At the same time, rapid technological change, particularly the expansion of artificial intelligence in services exports and robotics, poses growing risks to the jobs that have supported the upward mobility of vulnerable households. **Addressing vulnerability is about equipping Filipinos with the tools and capacities needed** to weather these global shocks.

With this in mind, **this report lays out a policy agenda focused on critical interventions to support better opportunities and greater resilience for poor and vulnerable families**. The policy recommendations build on and complement earlier recommendations for faster growth and job creation (World Bank 2025a) and are aligned with the World Bank Group's Jobs Strategy.[3] As shown throughout this report, the challenges are many, so the recommendations aim to address binding constraints with long-term and broad implications. To this end, the policies recommended are designed to improve public service delivery and near-term employment opportunities for women and lower-skilled workers, and to reduce insurance gaps.

**A clear priority for the country is to strengthen human capital** by addressing persistently high stunting rates and poor learning outcomes, challenges that are both a consequence of poverty and inequality and a cause of their persistence across generations. Children in the poorest households and in lagging regions face compounding disadvantages. Several recent studies, including the World Bank's 2024 Philippines Human Capital Review, outline challenges in the provision of education, health services, and social protection in the country. The policies described in this report aim to address this intergenerational cycle directly, including by expanding social protection coverage, increasing access to early childhood development, strengthening household resilience to shocks, expanding employment opportunities for poorer households, and improving local and national capacity for service delivery.

This assessment draws on a rich set of household, labor, and administrative data to document recent progress and remaining challenges in poverty reduction, jobs, and resilience in the Philippines. At the same time, **important data constraints shape what can be observed directly**. Some reflect survey design limitations: the absence of nationally representative longitudinal data limits the ability to track poverty persistence and employment transitions, and the labor force survey provides only partial information on earnings and informality. Others are rooted in a systemic data governance challenge, including limited data sharing due to ambiguous privacy and classification rules, security concerns, and the absence of harmonized standards. This results in fragmented systems that prevent data from being combined or compared across agencies, thus constraining

[3] The Job Strategy is anchored in three mutually reinforcing pillars: (1) investing in foundational infrastructure and human capital, (2) strengthening governance and the business environment, and (3) mobilizing private capital at scale.

subnational analysis and monitoring and evaluation. These limitations, identified throughout the report, motivate a focused data agenda that prioritizes both clearer data governance and sharing frameworks around administrative data, as well as targeted improvements to the existing survey systems.

### Pillar 1: Strengthen the preconditions for productive employment

Improved public service delivery plays a crucial role in creating pathways out of poverty by expanding access to economic opportunities and the human capital investments that enable sustained welfare growth. As such, these recommendations address **uneven service delivery and state capacity gaps** with a focus on supporting lagging regions. In particular, the recommendations aim to:

- **Improve evidence-based policy design and implementation**. A fundamental constraint on the quality of policy and program quality is fragmented, underdeveloped data systems. A reform establishing norms for inter-agency data sharing within a modernization of data privacy regulations would build and integrate these systems, enabling better public financial management, targeting, monitoring, and evaluating.
- **Improve service delivery in lagging regions**: Municipalities deliver essential services (e.g., early childhood, disaster response, and agricultural extension services), yet capacity and resources vary sharply. This can be improved through revisions to the NTA formula to direct more resources to poorer areas (World Bank 2025a). At the same time expanding the Public Financial Management Assessment Tool (PFMAT) framework to target capacity building would help under-resourced LGUs more effectively use their rising share of national resources to improve service delivery and infrastructure.

### Pillar 2: Expand access to more and better jobs for the poor and vulnerable

Expand access to **better jobs for the poor and vulnerable**, especially for women's economic opportunities, regulating barriers to formalization, and broadening OFW opportunities.

- **Improve women's economic opportunities**: Raising women's economic participation requires both lowering barriers to entry and improving returns to work. The recent Early Childhood Care and Development (ECCD) Act can be an important catalyst for women's employment and for improving stunting and learning outcomes, provided implementation is strong. Improving and simplifying the bank guarantee process to expand private lending to micro and small enterprises would particularly benefit women, given their higher reliance on self-employment and lower access to formal lending.
- **Promote transitions to more productive employment**. Progress on formalization requires a coordinated package of reforms rather than adjustments to individual instruments in isolation. Priority directions include reforms to the dismissal framework that reduce regulatory uncertainty for employers while strengthening worker protections through portable social insurance; lowering the relative cost of formal employment at the bottom of the wage distribution; and building enforcement capacity, including labor inspection and inter-agency data sharing.

- **Support broader access to OFW opportunities**. Overseas domestic work offers meaningful opportunities for lower-skilled women, while seafaring is an important sector of partial year migration that generates disproportionate remittance inflows. Expanding access requires targeted interventions: reducing credit constraints for would-be migrants in areas with below-average OFW deployment, and particularly targeting domestic work and seafaring training costs, which include paying for berth space to train at sea. Together, these measures can boost remittance flows to the communities that need them most.

### Pillar 3: Strengthen the resilience of poor and vulnerable households

To break the cycle of poverty and vulnerability many families find themselves in, this outcome addresses **gaps in social protection and insurance**.[4]

- **Make social protection systems more responsive**. Updating the 4Ps policy framework to index benefits to inflation, expanding coverage to include children in vulnerable families, and enhancing shock-responsiveness through a more responsive social registry based on the Community-Based Monitoring System (CBMS) would strengthen both current poverty reduction and support tomorrow's human capital.
- **Improve disaster response for smallholder farmers**. Smallholder farmers are among those most exposed to disasters. The provision of public and private agricultural insurance should be broadened, including ensuring that the existing crop insurance program provides adequate coverage and timely payments.
- **Address the structural drivers of high food prices**. Durable reductions in food prices require closing a large productivity gap that current agricultural spending, heavily weighted toward input subsidies and trade protection, has not adequately addressed. The question of how to rebalance this spending and manage the trade-offs between consumer affordability and smallholder farmer livelihoods requires careful evaluation. Reducing reliance on ad hoc import restrictions and discretionary tariff increases is a near-term area worth examining, with shock-responsive social protection playing a complementary role in protecting vulnerable households during any transition.

**TABLE 1.** Policy recommendations

| Policy Area | Recommended Policy Action |
|---|---|
| **Pillar 1: Strengthening the preconditions for productive employment** | |
| **Improve evidence-based policy design and implementation** | Establish interagency data-sharing protocols to support improved data collection and broader data use for policy implementation, monitoring, and evaluation within a modernized data privacy framework. |
| **Improve service delivery in lagging regions** | Institutionalize technical assistance and a dedicated capacity fund within the Department of the Interior and Local Government (DILG) regional offices to provide targeted assistance in addressing capacity gaps identified through the Public Financial Management Assessment Tool. |

[4] Complementary actions on taxation are being analyzed for a Public Finance Review also under preparation.

| Policy Area | Recommended Policy Action |
|---|---|
| **Pillar 2: Expanding access to more and better jobs for the poor and vulnerable** | |
| **Improve women's economic outcomes** | Universalize early childhood development interventions through program coordination, budget allocation for the Early Childhood Care and Development (ECCD) Act, and a digital monitoring system. |
| | Roll out portfolio-level credit guarantees for micro, small, and medium enterprise loans through PhilGuarantee, including those of women-owned enterprises. |
| **Promote transitions to more stable and productive employment** | Undertake a comprehensive reform agenda, including of the labor code, barriers to enforcement, and social insurance policies to encourage broader regularization, especially for lower skilled workers, while preserving the flexibility that firms need to respond to shifting demand and technological change, and to absorb economic shocks. |
| **Support broader access to OFW opportunities** | Pilot targeted support for liquidity-constrained workers in lagging regions to access overseas employment opportunities, especially in domestic work and seafaring, to expand OFW networks into lagging regions. |
| **Pillar 3: Strengthening resilience of poor and vulnerable households** | |
| **Make social protection system more responsive** | Update the 4Ps program and its targeting methodology to expand coverage to include households vulnerable to poverty and to implement annual inflation adjustments. |
| | Authorize database linkages and ad-hoc updates of the registry based on the Community-Based Monitoring System to ensure a responsive registry for social programs. |
| **Improve disaster response for smallholder farmers** | Prepare a comprehensive agricultural insurance policy framework that strengthens public insurance provision and institutionalizes private sector provision while supporting operational improvements to the Philippine Crop Insurance Corporation to allow for faster payouts and development of new crop-insurance products. |
| **Address the structural drivers of high food prices** | Undertake a broad reform agenda spanning agricultural productivity, trade policy, and targeted social protection to increase food production and reduce food prices. |

## 4. Combining growth, jobs, and equity reforms

Using a Computable General Equilibrium (CGE) linked to a household level microsimulation model, **this report models the impact on poverty, inequality, and vulnerability** of the equity reforms proposed in this report in combination with the proposed growth and jobs reforms from World Bank (2025a).

Three scenarios are considered:

1. **Business as usual (BAU):** current policies continue, with growth and employment following existing trends.
2. **Equity reforms**: the set of reforms proposed in Table 1 is implemented.
3. **Growth, jobs, and equity reforms**: combination of the equity reforms with the World Bank's reform agenda for growth and jobs (World Bank 2025a).

The simulations show:

- **BAU**: Without reforms, poverty falls to 11.1 percent by 2030 and 6.0 percent by 2040, vulnerability remains high at 16.2 percent, and the secure middle class reaches only 43.2 percent by 2040. Inequality reduction stalls by 2030 and reverses by 2040.
- **Equity reforms**: Poverty reduction is accelerated, with poverty reaching 9.7 percent by 2030 and 4.8 percent by 2040, while inequality is maintained 0.3-0.4 points below BAU. The impact is concentrated at the bottom of the distribution and narrows the poverty gap between Mindanao and NCR by 2 percentage points relative to BAU. Measures also expand coverage of social protection and other coping mechanisms, increasing resilience. The share of the population in vulnerability falls to 14.7 percent by 2040, 1.5 percentage points better than BAU, and the secure middle class reaches 45.8 percent, a gain of 2.6 percentage points over BAU. Critically, the equity reforms function as insurance: their contribution becomes more consequential if growth is below potential, such as due to trade disruptions.
- **Growth, jobs, and equity**: The combined package delivers the largest and broadest welfare gains. Poverty falls to 7.2 percent by 2030 and 2.9 percent by 2040, near eradication. Vulnerability drops to 10.7 percent, and the secure middle class expands to 54.8 percent, more than 11 percentage points above BAU, reflecting the essential role of generating more productive employment to move households out of vulnerability. Inequality is kept roughly at its 2023 level through 2040 rather than increasing, as under BAU.

## 5. Conclusion

The Philippines has made **meaningful progress** in reducing poverty and inequality, but with **thin margins**: incomes are clustered just above the poverty line, the middle class is stagnating, gaps remain in social protection, and state capacity for service delivery is uneven.

This report shows that **achieving Ambisyon Natin 2040's vision of a prosperous, predominantly middle class society where no one is poor is possible by 2040** with comprehensive reforms that address constraints to both growth and household resilience. By **combining policies to unleash growth and job creation with a focused equity and resilience package**, the Philippines can virtually eliminate poverty by 2040; expand the secure middle class to encompass a majority of its population; keep inequality in check; and build a more shock resilient society in the face of frequent climatic shocks and other risks.

Delivering on this agenda will require coordinated action and sustained political commitment. Taken together, **these reforms can turn today's fragile progress into resilient futures**, bringing the Philippines significantly closer to its ambition of a middle class society free of poverty by 2040.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CHAPTER 1.

# Trends and Patterns of Poverty and Shared Prosperity

Except for the pandemic-related spike, poverty in the Philippines has declined rapidly since the Global Financial Crisis. As of 2023, 15.5 percent of Filipinos, or 17.5 million people, were living in poverty. Income inequality eased, as the Gini index dipped below the high-inequality threshold for the first time in at least 40 years. Yet, 27.7 percent of Filipinos remain vulnerable to poverty, with median incomes just 28 percent above the poverty line. Meanwhile, the COVID-19 pandemic stalled the growth of the secure middle class, which has stagnated at around 24 percent of the population since 2018. Human capital opportunities have expanded, leading to substantial educational mobility, but gaps in the quality of social services have resulted in poor learning outcomes, and nearly a quarter of children under five are stunted. Spatial disparities remain pronounced, despite faster poverty reduction in rural areas: poverty rates range from 32.4 percent in BARMM to less than 2 percent in the NCR.

**The Philippines, a nation of about 112.7 million people that is on the cusp of becoming upper-middle-income, has made significant strides in economic development and poverty reduction since the early 2000s, establishing itself as one of the fastest growing economies in the East Asia and Pacific region.** A diverse archipelago, the country comprises three major island groups—Luzon, which includes the NCR, Visayas, and Mindanao—each with diverse cultures and languages. This multicultural and multilingual fabric is unified by a widespread proficiency in English, a significant advantage for global economic integration. The country's growing stock of human capital is central to its development narrative. Demographically, the Philippines has a relatively young population compared to the rapidly aging East Asia and Pacific region, presenting a "demographic dividend" that can be harnessed for continued growth. Labor has historically been a key export, leading to one of the world's largest diasporas—third only to China and India, countries with significantly larger populations. A crucial pillar of the economy, remittances provide a stable inflow of foreign currency and support domestic consumption. More recently, the country has successfully leveraged its English-speaking workforce by increasing service exports, particularly in business process outsourcing.

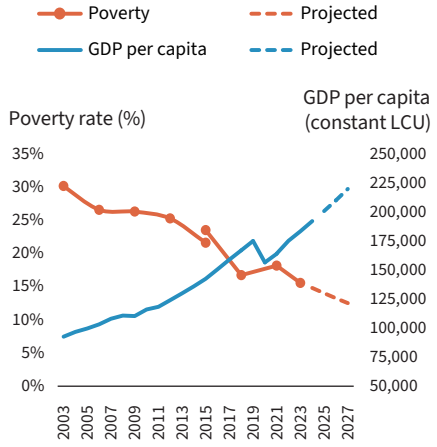
**Despite this progress, achieving Ambisyon Natin 2040's vision of a prosperous, predominantly middle-class society where no one is poor still requires considerable effort.** As shown in the sections that follow, significant socioeconomic challenges persist, including areas of high poverty, widespread economic vulnerability, and limited opportunities for upward mobility.

## 1.1 How Have Poverty and Shared Prosperity Evolved in Recent Years?

**As of 2023, 15.5 percent of Filipinos, or 17.5 million people, were living in poverty** (Figure 1.1). This reflects important gains made over the past two decades: excluding the COVID-19 pandemic, poverty fell at an average rate of 7.7 percent per year between 2012 and 2023, reflecting strong economic growth.[5] The pandemic caused a sizable though temporary setback, pushing more than 2 million Filipinos back into poverty in 2021. By 2023, poverty had fallen below the 2018 rate, yet it was higher than would have been expected under a scenario of constant poverty reduction.[6] As shown in the next chapter, as employment shifted out of agriculture into better-paying work largely in services and construction, rising wage earnings were the key driver behind the poverty gains. If the relationship between growth and poverty reduction seen from 2012 to 2018—a period of fast poverty reduction and healthy growth—holds, poverty rates would be expected to fall to 12.3 percent by 2028.

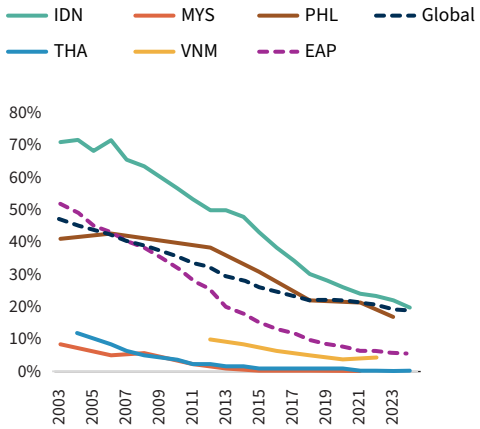
**Though the Philippines made strong gains over the past two decades, it has not been able to keep pace with the gains made by its regional peers.**[7] This can be seen across various indicators, including the international poverty rate based on LMIC standards and the prosperity gap.[8] By international standards, the Philippines has higher poverty than its peers and has seen a less impressive reduction relative to Indonesia (comparability is limited in Viet Nam due to a break in the series) (Figure 1.2). As of 2023, it takes the average worker in the Philippines 4.4 days to earn the equivalent of a worker in a high-income country.

**FIGURE 1.1.** Poverty and growth trends, 2003-2028




**Source:** Authors' elaboration based on FIES (2003-2023) and World Bank (2026).
**Note:** See Appendix B for details on the survey break in 2015. Projections based on the annualized elasticity of private consumption in constant LCU on poverty (2012-2018), pass-through to household income of 0.7, and projections of private consumption based on World Bank (2026).

**FIGURE 1.2.** Lower-middle-income international poverty rate for the Philippines and peer countries, 2003-2024




**Source:** World Development Indicators.
**Note:** Indonesia, Malaysia, Thailand, and Viet Nam are regional peers (World Bank, 2025a). Despite the series break, the poverty rate in the Philippines calculated using 2015 data comparable to the 2003–2012 series is only 1.9 percent lower than that derived from the 2018-2023 series.

[5] An updated version of the 2015 household survey was released for comparability with 2018 onwards. This report considers the two periods before and after 2015 separately. Appendix B provides additional details about the household survey.

[6] Estimates using different historical elasticities of private consumption to poverty change place the observed poverty rate in 2023 between 2.6 and 4.5 percentage points higher than expected in the absence of the downturn.

[7] Following World Bank (2025a), this report uses four large ASEAN economies as peers for benchmarking purposes: Indonesia, Malaysia, Thailand and Viet Nam. All four countries have higher GDP per capita than the Philippines, and three are already UMIC.

[8] The prosperity gap is the average factor by which individuals' incomes must be multiplied to attain a prosperity standard of high-income countries, measured at $28 per day.

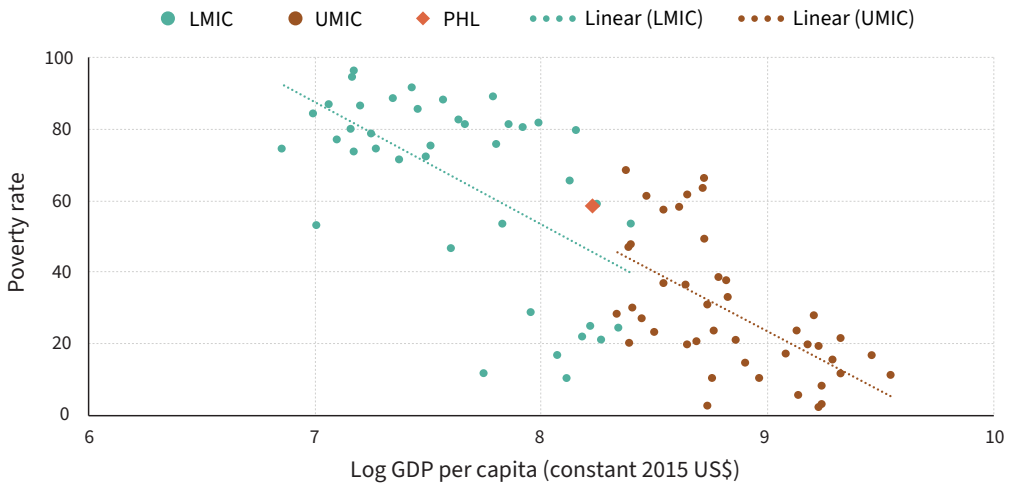
The rate of improvement seen in the Philippines lags behind its regional peers, where gains of 50-60 percent were made over the past two decades compared to the Philippines' gain of 36 percent.

**TABLE 1.1. Key poverty and shared prosperity indicators, 2018-2023**

| | Philippines | | | Peers | EAP | LMIC | UMIC |
|---|---|---|---|---|---|---|---|
| | 2018 | 2021 | 2023 | 2023[a] | 2023[b] | 2023[c] | 2023[d] |
| **Poverty** | | | | | | | |
| National poverty rate (%) | 16.7 | 18.1 | 15.5 | | | | |
| Number of poor (millions), national line | 17.7 | 20.0 | 17.5 | | | | |
| Poverty rate, $3.00 per day (2021 PPP) (%) | 8.3 | 8.1 | 5.3 | 2.8 | 1.8 | 13.5 | 2.5 |
| Poverty rate, $4.20 per day (2021 PPP) (%) | 21.8 | 21.3 | 16.9 | 8.8 | 6.0 | 24.5 | 5.8 |
| Poverty rate, $8.30 per day (2021 PPP) (%) | 60.2 | 62.3 | 58.7 | 33.8 | 29.4 | 56.6 | 25.8 |
| Multidimensional poverty rate (%) | 9.3 | 8.9 | 6.2 | 3.0 | 2.5 | 18.5 | 4.1 |
| **Shared Prosperity** | | | | | | | |
| Gini index | 42.3 | 40.7 | 39.3 | 35.2 | 34.9 | 35.7 | 37.8 |
| Prosperity gap | 4.7 | 4.8 | 4.4 | 3.2 | 2.9 | 5.8 | 2.9 |
| **Labor Market** | | | | | | | |
| Share of population (15-64) working (%) | 59.4 | 58.5 | 60.5 | 72.7 | 64.7 | 55.8 | 61.6 |
| …of which is in wage work (%) | 67.2 | 65.9 | 68.3 | 49.6 | 60.8 | 50.3 | 65.5 |
| …of which is in agriculture (%) | 21.2 | 21.4 | 19.9 | 28.7 | 23.3 | 25.8 | 17.1 |
| Share of poor working (%) | 52.7 | 51.6 | 53.3 | 69.3 | 56.1 | 49.4 | 47.7 |
| Share of non-poor working (%) | 60.5 | 59.7 | 61.5 | 73.0 | 65.2 | 57.0 | 65.1 |
| Share of youth (15-24) working (%) | 30.6 | 27.5 | 25.5 | 37.1 | 30.7 | 34.9 | 34.5 |
| Share of women working (%) | 46.7 | 47.0 | 49.4 | 62.9 | 55.3 | 45.6 | 50.3 |
| **Vulnerability and Shocks** | | | | | | | |
| Vulnerability at LMIC line (%) | 22.8 | 24.5 | 24.4 | 13.3 | 11.6 | 18.7 | 9.1 |
| People at high risk from climate-related hazards (2021, %) | | 61.2 | | 16.7 | 16.4 | 36.2 | 14.2 |

**Source:** Authors' elaboration based on the Global Monitoring Database.
**Note:** Poverty rates reported for the international poverty lines (per person per day) are expressed in 2021 PPP. The three poverty lines reflect the typical national poverty lines of low-income countries, lower-middle-income countries, and upper-middle-income countries, respectively. The prosperity gap is defined as the average factor by which incomes need to be multiplied to bring everyone to the prosperity standard of $28. Vulnerability at LMIC line refers to the share of the population living just above the LMIC poverty line ($4.20 per day (2021 PPP)) (below 1.5 times its value) who remain at high risk of falling into poverty due to even small shocks or setbacks. This is an internationally comparative measure that differs from the country-specific vulnerability definition used throughout this report. Work includes paid and unpaid work. Values for climate-related hazard risks are for ca. 2021. Values for peer, regional, and income groups are reported as the simple average for the countries with information from that year. As such, the poverty rates reported may deviate from official World Bank published rates. [a] Peer countries are large ASEAN countries with a survey within three years of 2023. This includes Indonesia, Thailand, and Viet Nam, and excludes Malaysia for lack of recent data. [b] Region and income group countries are included if a survey within three years of 2023 is available. For the region, these are: China, Indonesia, Malaysia, Mongolia, Philippines, Thailand, Tonga, and Viet Nam. [c] The Lower-Middle-Income Countries (LMIC) include: Bangladesh, Benin, Bhutan, Bolivia, Cameroon, Côte d'Ivoire, Egypt, Arab Rep., Honduras, India, Kenya, Kyrgyz Republic, Lebanon, Nepal, Philippines, Senegal, Tunisia, Uzbekistan, Viet Nam, the West Bank and Gaza, and Zambia. [d] The UMIC include: Argentina, Armenia, Belarus, Brazil, China, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Georgia, Guatemala, Indonesia, Iran, Islamic Rep., Iraq, Jamaica, Kazakhstan, Malaysia, Mexico, Moldova, Mongolia, Montenegro, Paraguay, Peru, Serbia, Suriname, Thailand, Tonga, and Turkey.

**FIGURE 1.3.** International upper-middle-income poverty rates, most recent year




**Source:** World Development Indicators.
**Note:** Includes all countries with available information since 2014

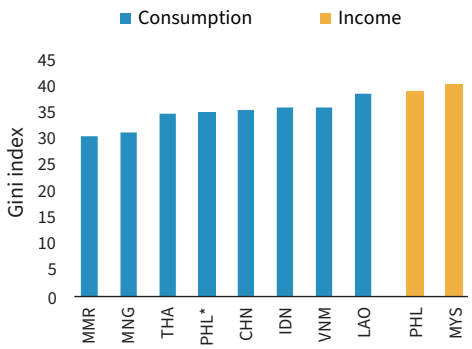
**As the Philippines finds itself on the verge of becoming UMIC, its international poverty rate remains high relative to countries of similar levels of per capita output, both LMIC and UMIC** (Figure 1.3). The LMIC threshold of USD 4.20 (2021 PPP) per day is just above the national poverty line (which averages USD 4.08 per day), generating a poverty rate of 16.9 (Table 1.1). Yet, the Philippines is on the verge of becoming upper-middle-income. At that point, the relevant benchmark will increase to USD 8.30 per day, resulting in 58.7 percent of the population considered poor, and the Philippines will have among the highest poverty rates of the countries in the income group, 39th of 45 countries.

**Income growth has been accompanied by higher access to basic services, leading to a reduction in multidimensional poverty.**[9] Access to basic schooling, improved water, and electricity are approaching universal levels, and access to improved sanitation, the weakest indicator, increased by 8 pp between 2012 and 2023. The multidimensionally poor—defined internationally as those who either live on less than US$3.00 or are deprived across multiple dimensions—is fairly uncommon in the Philippines, with only 6.2 percent of the population in this condition in 2023, down from 9.3 in 2018.[10] This is made up primarily of the 5 percent of Filipinos who are living on less than US$3.00 (2021 PPP) per day.

[9] Individuals are considered multidimensionally deprived if they fall short of the threshold in at least one dimension (income, education, basic services) or in a combination of indicators equivalent in weight to a full dimension (source: World Bank https://www.worldbank.org/en/topic/poverty/brief/multidimensional-poverty-measure). The baseline MPM used for international comparison is based on the international poverty line. Using the LMIC ($4.20 PPP) threshold to consider monetary poverty causes the MPM to increase to 17 percent, below Indonesia (22 percent) and significantly higher than Viet Nam (4 percent).

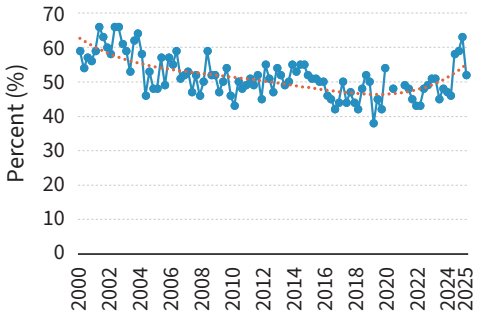
[10] World Bank calculations using survey data accessed through the GMD. Data are from the closest available survey within three years to 2023. Individuals are considered multidimensionally deprived if they fall short of the threshold on at least one dimension (income, education, basic services) or on a combination of indicators equivalent in weight to a full dimension. Monetary poverty rates refer to the international poverty line per day (2021 PPP) line.

**FIGURE 1.4.** Inequality in middle-income countries in East Asia, circa 2023




**Source:** World Bank World Development Indicators and FIES 2023.

**FIGURE 1.5.** Self-rated poverty trends, 2000-2025




**Source:** Social Weather Stations, 2000 to 2025.
**Note:** The frequency of surveys has changed over time. There was only one survey in 2020, and it was carried out in May. Most years have four surveys. For comparability across years, the only value for 2025 is March.

**Poverty reduction has been accompanied by a faster decline in inequality in recent years, placing the Philippines broadly in line with other middle-income countries in the region**. By 2023, income inequality, measured by the Gini index, had fallen to 39.3, crossing below the 40-threshold used to identify countries considered to have high inequality. This reflects an annualized reduction of 1.4 percent from 2012, when the Gini index stood at 46.5. With this recent reduction, inequality in the Philippines is now broadly in line with other middle-income countries in the region. Cross-country comparisons should note that the Philippines reports income-based inequality, which typically exceeds consumption-based estimates. Using consumption data, the Gini is 35.2, comparable to regional peers (Figure 1.4). Survey under coverage of top incomes is a concern when measuring income inequality: combining surveys with complementary datasets suggests high concentration in 2022, with the top 10 percent of the population receiving about half of income, including 20 percent received by the top 1 percent; the bottom half receives 13 percent.[11] This is similar to peers and not significantly different than in 2003.[12]

## 1.2 How Many People Are at Risk of Falling Back into Poverty, and Is There a Stable Middle Class?

**Despite the notable decrease in monetary and non-monetary poverty, most Filipinos still feel that they are struggling to afford their daily expenses**. This is reflected in Filipinos' self-assessment of poverty: at the end of 2024, 63 percent considered themselves poor, a 20-year high (Figure 1.5). Subjective assessments of poverty, such as the Social Weather Stations collected in the Philippines since the 1980s, are not accurate estimates of monetary poverty, but provide meaningful information about perceptions of vulnerability as well as changing aspirations as the country approaches upper-middle-income status. For example, the increase in the self-rated poverty rates in 2024 was

[11] Source: World Inequality Database (WID).

[12] Wealth is even more concentrated than income, with the top 10 percent of Filipinos estimated to hold 61 percent of the country's wealth.

during a period of high rice prices, which put significant strain on household budgets. Notably, food insecurity persists beyond those living in poverty, with nearly a quarter of households (22.9 percent) reporting experiencing hunger over the past three months in 2024 (Mangahas and Torres 2024).

**More than a quarter of Filipinos are not currently poor but are vulnerable to falling into poverty because their incomes sit just above the poverty line**. When vulnerability is defined as having a greater than 10 percent chance of falling into poverty, an estimated 27.7 percent of the population is vulnerable (Box 1.1; Figure 1.6). This reflects a high concentration of households clustered just above the poverty line (Figure 1.7). The median vulnerable household income is only about 28 percent above the poverty threshold, roughly US$1.14 per person per day at 2021 PPP. Small income shocks (e.g., missing work due to illness, a typhoon) can therefore push these households into poverty. This results in significant churning between poverty and near-poverty: of the 15.5 percent of Filipinos who were poor in 2023, about half (8.6 percent) had not been poor in 2021.[13]

### BOX 1.1: Beyond poverty measurement: Defining income groups

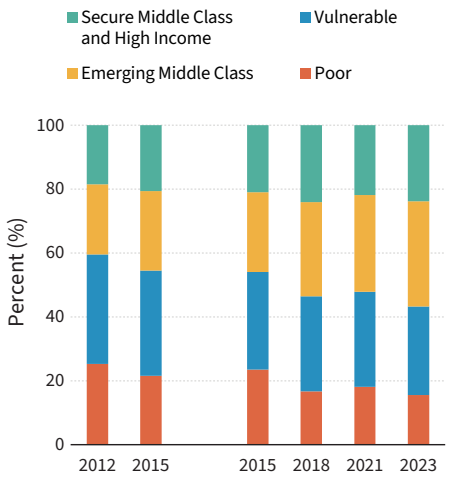
A lack of longitudinal data in the Philippines limits the extent to which change in welfare and income can be directly observed. In cases like these, the methodology of Chaudhuri (2003) has been widely used to estimate the risk of falling into poverty from repeated cross-sections.[14] Fundamentally, it uses household characteristics to estimate a measure of income volatility and to identify households for whom volatility implies a high chance of falling into poverty. This methodology was used to divide the population into five groups defined by their risk of falling into poverty: (1) the poor, (2) the vulnerable, (3) the emerging middle class, (4) the secure middle class, and (5) the high income.[15] The thresholds and definitions are detailed in Table 1.2. While this approach provides a consistent way to estimate vulnerability in the absence of panel data, it cannot fully capture the duration of poverty spells or the sustainability of welfare gains over time. This results in an estimated 27.7 percent of households being vulnerable to poverty. This is based on a methodology similar to that used by the Philippine Institute for Development Studies, which estimates between 21 to 24 percent of the nonpoor are vulnerable to poverty (Cabalfin, Albert, and Mahmoud 2026).

### TABLE 1.2 Definition of income groups

| Income Group | Per capita daily income, USD (2021 PPP) | Monthly income for a family of five, PHP 2026 | Meaning |
|---|---|---|---|
| Poor | Below the national poverty line (~USD 4.08) | Below the national poverty line (~PHP 15,600) | In poverty |
| Vulnerable | Between the national poverty line and USD 6.50 | Between the national poverty line and PHP 24,800 | 10% or higher chance of falling into poverty |
| Emerging middle class | Between USD 6.50 and USD 11.70 | PHP 24,800 – PHP44,700 | 10% or higher chance of falling into vulnerability |
| Secure middle class | Between USD 11.70 and USD 18.30 | PHP 44,700 - PHP 70,000 | 5-10% chance of falling into vulnerability |
| High Income | Above USD 18.30 | Above 70,000 | 95% or higher chance of staying in the middle class |

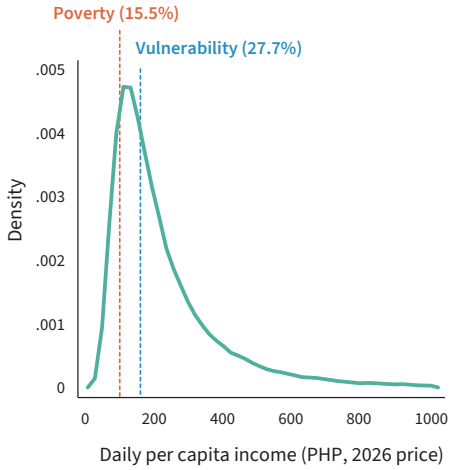
[13] This was estimated based on synthetic panels using Predictive Mean Matching (PMM), an extension of Lucchetti et al. (2025).
[14] This methodology has most recently been used by Krah, Montalva, and Tiwari (2026) for the EAP region.
[15] The high-income group accounts for 9 to 11 percent of the population in each year. To simplify the figures, these are being reported as part of the secure middle class.

**FIGURE 1.6.** Share of the population by income group, 2012 to 2023




**Source:** World Bank tabulations based on FIES 2012-2023.
**Note:** See Box 1.1.

**FIGURE 1.7.** Poverty and vulnerability in the income distribution, 2023




**Source:** World Bank tabulations based on FIES 2023.
**Note:** Daily per capita income is adjusted to 2026 prices using CPI and are spatially deflated according to national poverty lines.

**Poverty reduction has not yet translated into commensurate gains in the middle class. Less than a quarter of Filipinos are solidly in the middle class or high income**, defined as those with daily per capita income above US$11.70 (2021 PPP). This share has remained broadly unchanged since 2018 and expanded relatively little since 2015, compared with the poverty decline observed during this period. International benchmarking shows a slower growth of the middle class in the Philippines relative to regional peers, leading to just over 15 percent of the population being considered middle class by global standards (Krah, Montalva, and Tiwari, 2026).[16] A further challenge is that educational progress suggests limited intergenerational mobility (Box 1.2).

**By contrast, the emerging middle class—families who face lower likelihood of poverty shocks but are not quite secure—has expanded significantly, growing by 8 percentage points since 2015 to reach 33 percent in 2023**. The emerging middle class includes the median Filipino, with a median income just 76 percent above the poverty line (compared to 28 percent for vulnerable households). For comparison, the median Indonesian household's consumption is 97 percent above the poverty line.[17] Filipinos' rising yet unmet aspirations are reflected in the high rate of self-perceived poverty rates reported above. The expansion of the emerging middle class, coupled with the large share of the population that is still vulnerable, places significant demands on the state to deliver improved services and foster the conditions for the economy to generate more and better job opportunities. Yet, for many in this group, the journey to full middle-class status remains incomplete, underscoring the need for policies that address lingering economic insecurity and support a robust middle-class society.

[16] For the purposes of cross-country benchmarking, this income group definition is based on international poverty lines. Under the international benchmark, individuals living below $4.20/day are classified as "LMIC Poor"; those above $4.20 but below $8.30/day are "UMIC Poor"; those with incomes between $8.30 and $15/day are "Vulnerable"; Middle class are those earning between $15/day and $56/day; and high income as those earning above $56/day.

[17] World Bank tabulations based on official household surveys. Of the peer countries, this can only be estimated for Indonesia.

### BOX 1.2: Strong absolute intergenerational mobility, but limited relative mobility

**Younger Filipinos have gained greater access to schooling and are attaining higher levels of education than their parents.** Cohort patterns point to strong absolute mobility: among those born in the 1990s, the share that did not complete secondary school is half that of those born in the 1960s (20 vs. 40 percent), while the share with a college education has doubled (30 vs. 15 percent). This shift has raised the skills base of the potential labor force, adding 7.4 million adults with secondary education and 5.1 million with a college degree between 2009 and 2023. Although income mobility cannot be tracked directly, due to the lack of longitudinal data, these intergenerational education gains suggest the Philippines outperforms peers at similar income levels in absolute educational mobility (Van der Weide et al 2024).

**Nonetheless, parental education remains a strong predictor of outcomes:** half of adults whose parents completed only elementary school did not finish secondary, far higher than among those whose parents had some secondary education (Figure 1.8). Mobility is improving for younger cohorts, with an intergenerational mobility index of about 0.56 for those born around 2000, up from 0.49 for those born in the 1980s.[18] Relative mobility seems stronger in areas with lower poverty and inequality, with Luzon standing out (Figure 1.9).

**FIGURE 1.8.** Educational attainment of parents and adult children, 2023

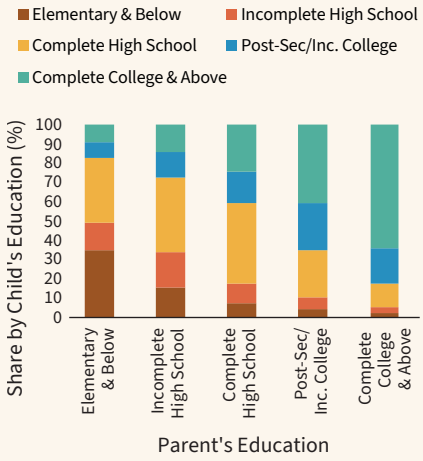
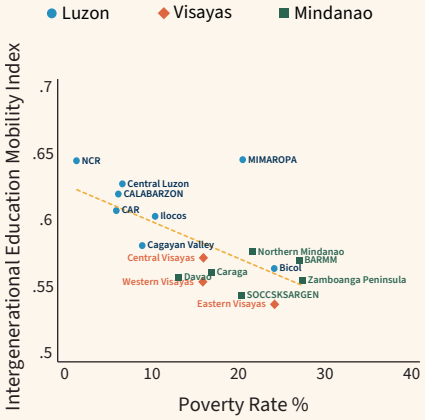



**FIGURE 1.9.** Intergenerational education mobility and poverty incidence by region, 2023




**Source:** World Bank tabulations based on FIES 2023.
**Note:** These figures are based on multigenerational households. They have been reweighted to match the adult population by age cohort, sex, education level, and region.

## 1.3 What Are the Distinct Characteristics of the Poor Compared to the Non-Poor?

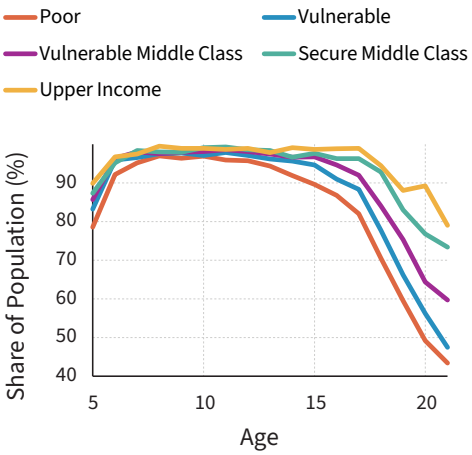
**Policies to accelerate upward mobility and reduce poverty should be designed based on the characteristics and needs of the poor and vulnerable**. The poor are concentrated in rural areas, have lower levels of education (with nearly half having only primary education or less) and higher dependency ratios (110.2 vs 43.8 for the middle class), and are more likely to be self-employed in agriculture (see Appendix A for a full set of indicators).

[18] The intergenerational educational mobility index captures the extent to which parental education remains a key determinant of educational outcomes. As longitudinal data that would link parental and child outcomes allowing for a better understanding of mobility is not available, this analysis is based on Filipinos living in multigenerational households. About 32 percent of Filipino households are multigenerational. See Appendix B for more details on the methodology used to calculate intergenerational mobility in education.

At 32.4 percent in 2023, indigenous populations (IPs) have the highest poverty rate of the groups monitored.[19] IPs represent 9 percent of the population and, along with Muslim ethnic minorities (5.4 percent), have lower access to key services like internet connectivity, secondary schools, and improved sanitation, and worse economic outcomes even when migrating to other parts of the country (World Bank 2024a; World Bank 2025a). More generally, access to basic services and assets, such as computers and mobile phones, is limited among the poor. For this group, policies need to help families meet basic needs, particularly those with children, through improved nutrition and health and education interventions, while building up rural value chains and women's economic inclusion to break the cycle of intergenerational poverty.

**Critically, nearly a quarter (24 percent) of children live in poverty and another third (34 percent) in vulnerability, threatening long-term productivity without deeper human-capital investments.** Expanded school access and the 4Ps program have narrowed enrollment gaps.[20] Primary and secondary enrollment is high (85–87 percent), driven by an 11.6 percentage point rise in age-appropriate secondary enrollment since 2017. Yet poor children are less likely to be in school, especially at ages 5–7 (delayed entry) and after 12 years (higher secondary dropouts) (Figure 1.10). Post-secondary disparities persist despite free tuition and technical education access. Early childhood enrollment is especially low (only 40 percent of 3–4-year-olds in 2019), with inequality in access tied to location.[21] This was severely disrupted by the COVID-19 pandemic, with enrollment falling to 20 percent of three-to four-year-olds in 2022.

**FIGURE 1.10. School enrollment by age and household income group, 2023**




**Source:** World Bank tabulations based on FIES 2023.

**Vulnerable families, meanwhile, occupy a transitional position.** Compared to the poor, they are more urbanized, have higher educational attainment (15.4 percent with tertiary education versus 7.7 percent among the poor), and better access to services and assets. Their labor market profile shows a shift away from self-employment and agriculture toward paid employment in sectors like manufacturing, construction, and services. However, they still lag in terms of urbanization, education, digital inclusion, and asset ownership. A third of Filipino children live in vulnerable households. The vulnerable are at risk of falling back into poverty if faced with even small shocks, as shown above, so policies should focus on bridging the gap to resilience—

[19] Coincidentally, this is the same poverty rate as BARMM. Source: Philippines Statistics Authority

[20] Orbeta et al. (2023) found that the 4Ps increased school enrollment among children 12 to 17 years old in urban areas by 8 to 9 percentage points, which increases the chance of enrollment at 18+ years old.

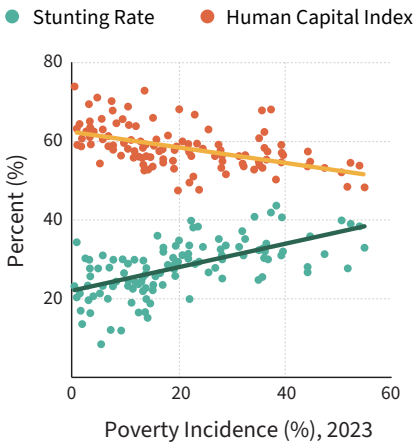
[21] World Bank tabulations based on the Annual Poverty Indicators Survey (APIS) (2019-2022).

promoting the creation of better jobs for lower skilled workers, skills upgrading, financial literacy, and adaptive social safety nets and interventions designed to protect against income shocks. Support for women's economic inclusion and affordable housing is also important for this group.

**The emerging middle class stands out for its higher levels of education (30.1 percent with tertiary education), greater urbanization (nearly 60 percent live in urban areas), and better access to services and digital assets.** They are predominantly paid employees in commerce, manufacturing, and services, with lower dependency ratios and smaller household sizes. However, as compared to the secure middle class, the emerging middle class still faces several gaps. The secure middle class has even higher educational attainment (51.7 percent with tertiary education), greater urbanization (67.2 percent), and better access to improved services and assets, especially computer ownership (38.9 percent vs. 16.7 percent). Secure middle-class households also have fewer young children (15.9 percent vs. 22.5 percent) and a lower dependency ratio (45.7 vs. 57.5), indicating greater economic stability. Labor market participation among the secure middle class is characterized by a higher proportion of paid employees and a lower share of self-employment. For the emerging middle class, the key is to increase income through an economy that generates higher productivity jobs and a public sector that provides affordable, quality services like public transit, education, and health care.

**Critical gaps in the quality of services are a particular challenge for Filipinos who cannot afford private services**. These gaps are most starkly reflected in high rates of stunting and poor performance in learning – outcomes with long-term implications for human capital accumulation and economic development. Nearly a quarter (23.6 percent) of children under five years old were stunted in 2023 (higher than in other peer countries) (Bristol 2024). Persistent deficits in nutrition, healthcare quality, and early childhood development result in higher stunting rates in poorer provinces (Figure 1.11). Ninety percent of 10-year-old Filipino students cannot read and understand an age-appropriate text; poor learning outcomes worsened during two years of school closures amid the COVID-19 pandemic (World Bank and UNESCO 2024). Challenges in foundational learning lead to poor performance internationally, as reflected in the 2022 PISA assessment: out of 80 participating countries, the Philippines ranked no higher than 74th in math, reading, or science (OECD 2025a).

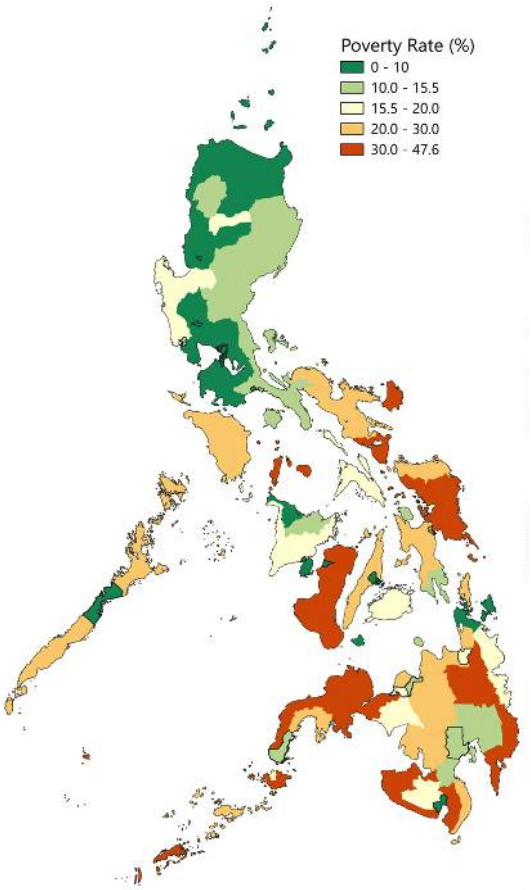
**FIGURE 1.11. Correlation of poverty to HCI and stunting rate by area**




**Source:** Poverty rates based on FIES 2023, 2020 subnational HCI (methodology found in World Bank, 2024c); stunting rates from Food and Nutrition Research Institute (FNRI).

School quality is the contributing element to human capital that most trails the regional average, per the HCI+ index. The HCI+ shows that a child born in 2026 will only achieve about half of their potential earnings (175 points out of 325), with school quality lagging the regional average by 26 points (365 out of 625). These outcomes are worse in poorer parts of the country (World Bank 2024c). Opportunities for improving learning outcomes include better school infrastructure, smaller classes, provision of books and learning materials, and increasing instructional time: though 205 instructional days are prescribed by law, legislated activities, celebrations, and other activities reduce instructional time to an average of 191 days, with some regions losing a further 30-40 days due to disaster-related suspensions (Second Congressional Commission on Education, 2026).

**FIGURE 1.12. Poverty rate by province and HUC, 2023**




**Source:** FIES 2023

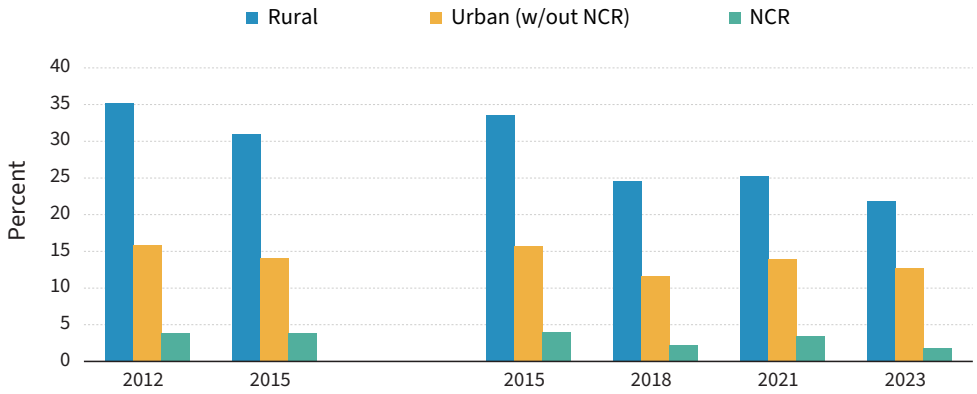
**Finally, geography plays a key role in poverty rates across the country**. Poverty is much higher in the south, Mindanao (24.8 percent), and the center, the Visayas (21.4 percent), than in the north, with only 1.8 percent in the NCR and 12.0 percent in the rest of Luzon (Figure 1.12). With the population having spread across more than 2,000 islands, about one in five Filipinos (25 million people) live in geographically Isolated and Disadvantaged Areas (GIDAs), defined as areas with limited access to services and markets due to remote location, difficult terrain, limited transportation, and high poverty. Conflict has also played an important part in the country's spatial gaps in development (Box 1.3). The resulting disparities are stark: the HCI varies by 26 percentage points between the lowest and highest performing parts of the country. Local governments play an increasingly important role in delivering foundational infrastructure, health, and nutrition, but local capacity and financing gaps are a significant challenge (see Chapter 3).

### BOX 1.3: Conflict and recent peace dividends

**The recent decline in poverty in BARMM illustrates how conflict dynamics shape development and welfare**. The 2018 Poverty Assessment highlighted a mutually reinforcing cycle in Mindanao: violence destroys assets, disrupts services, and erodes human capital, which depresses investment, jobs, and governance, locking places into low productivity equilibria (World Bank 2018). In the then Autonomous Region in Muslim Mindanao, poverty remained above 50 percent through the 2010s and reached about 63 percent in the first semester of 2018, even as national poverty fell. However, BARMM has more recently experienced substantial declines in poverty, coinciding with the ratification of the Bangsamoro Organic Law (BOL) in 2019, the establishment of the BARMM with broader autonomy and fiscal resources, and a marked reduction in conflict incidents (World Bank 2024b). Recent reports point to improved security, rising market activity, and stepped-up infrastructure investment that helped households diversify income sources and increase labor earnings alongside transfers. Nonetheless, conflict linked to land disputes, compounded by poor governance, *rido* (clan-based feuding), and political rivalries persist in parts of the region, including areas inhabited by non-Moro IP in Maguindanao (Madrigal, Cuesta Leiva, and Somerville 2024). Measures that support the peace process and reduce ambiguity over land ownership are disproportionately important for reducing poverty among the IP.

**Even as the emerging class has grown in both rural and urban areas, recent poverty reduction has been overwhelmingly driven by progress in rural areas.** At 21.9 percent, rural poverty remains nearly double that of urban areas (12.7 percent), even after excluding NCR (Figure 1.13). A key driver of this rural progress has been the economic transition from self-employment in agriculture and fisheries to wage-based jobs, often in construction and the service sector (see Chapter 2). Nonetheless, rural poverty remains deeply intertwined with agriculture and fisheries, as households where the primary earner works in these sectors constitute a third of the nation's poor.

**FIGURE 1.13. Poverty rates by area, 2012-2023**




**Source:** World Bank tabulations based on FIES 2012 – 2023.
**Note:** Survey break in 2015, see Appendix B for details.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CHAPTER 2.

# Drivers of Changes in Poverty and Shared Prosperity

Pro-poor income growth, particularly in rural areas, has been the key driver of poverty reduction since the Global Financial Crisis. Income growth among poorer households has been driven by labor shifts out of self-employment in the primary sector toward non-primary sector wage jobs. This trend explains 95 percent of the poverty reduction since 2012. Job creation for low-skilled workers was primarily in construction, commerce, and transportation, sectors that provide higher wages than the primary sector but often under precarious contracts. Unlike 2012-18, which saw the expansion of the 4Ps program, government transfers have played a more limited role in poverty reduction in recent years. Stagnant wage growth for college-educated workers and falling international remittances have limited the growth of the middle class. Exposure to shocks, particularly climatic, is high, while safety nets are incomplete, compounding the vulnerability of low-income households. Generating higher-productivity jobs and strengthening safety net systems is essential to reach the national ambition of a resilient middle class.

**The past fifteen years stand out as years of rapid economic growth accompanied by structural transformation and increased employment in the Philippines.** Since the Global Financial Crisis, the country's GDP grew rapidly, and employment growth outpaced population growth (World Bank 2025a). Driven by services, GDP per capita growth averaged 3.5 percent annually between 2010 and 2023, among the top 25 percent of middle-income countries globally. Growth has also become more spatially balanced; low- and middle-income regions grew faster than richer ones, and low-skilled workers relocated toward relatively higher productivity jobs. Yet, even if the faster growth seen through 2023 continues, it will not sufficient to achieve the Ambisyon Natin 2040's objective that "by 2040, the Philippines is a prosperous middle-class society where no one is poor."

This chapter examines how this economic growth impacted households and identifies key transmission channels to maximize its impact on reducing poverty and fostering a stable middle class.

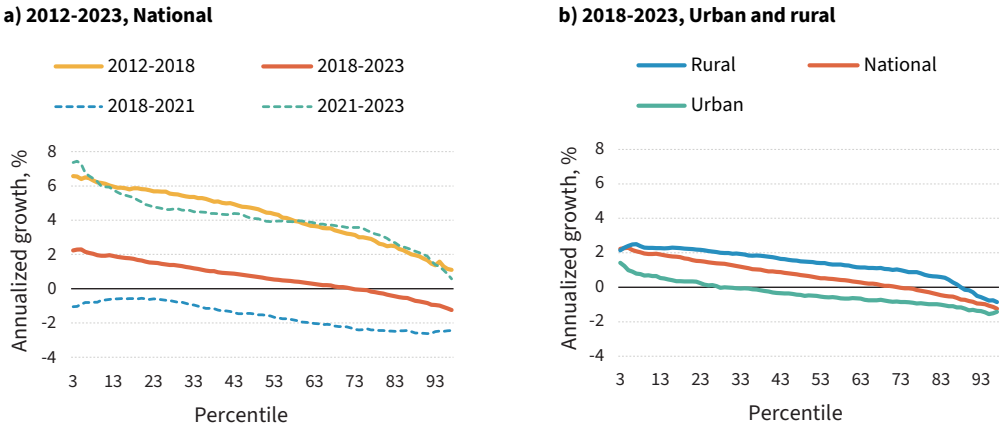
## 2.1 Is Growth Conducive to Poverty Reduction and Economic Inclusion?

**Household incomes rose rapidly after the Global Financial Crisis but slowed sharply around COVID-19, with gains concentrated among poorer rural households** (Figure 2.1).[22] Three patterns stand out. First, median household income growth decelerated from 4.5 percent per year in 2012-18 to 0.6 percent in 2018–2023, an almost 90 percent

[22] Due to methodological changes in rent imputation estimation over time, as discussed in Appendix B, all analysis of income growth excludes the value of rent imputation.

reduction, compared with about a 50 percent slowdown in GDP per capita growth over the same periods. Among the poorest 40 percent, incomes still grew by 1.8 percent annually in 2018–2023, but this lagged behind peer economies (2.6 percent in Viet Nam; 3.4 percent in Thailand) (Figure 2.2). The slowdown is associated with a sharp economic contraction in 2020 and 2021 due to the pandemic, which affected the entire national economy (Figure 2.1a). Second, the pattern has been decisively pro-poor even more recently, in part because many urban households have yet to fully recover from the pandemic: annual growth between 2018 and 2023 exceeded 2 percent for the poorest decile while contracting by more than 1 percent at the 90th percentile. For the top 60 percent of urban households, including vulnerable and aspiring middle-class groups, incomes declined in real terms (Figure 2.1b). Third, rural incomes have outpaced urban incomes since the Global Financial Crisis. Combined with continued urbanization, rural income growth drove most poverty reduction; it accounted for over 77 and 68 of the decline in 2012–2015 and 2015-18, respectively, and 56 percent in 2021–2023 (Figure 2.3).

**FIGURE 2.1.** Income growth across the distribution




**Source:** World Bank calculations based on FIES.
**Note:** Urban and rural curves are based on area-specific percentiles and thus do not sum up to the national distribution.

**FIGURE 2.2.** Income growth of the poorest 40 percent, 2018-2023

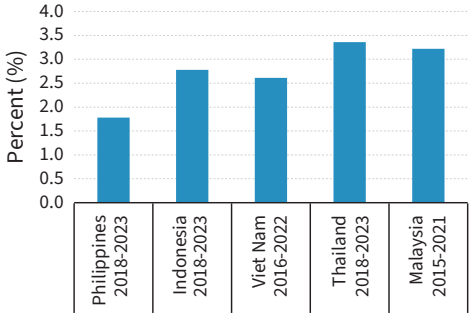
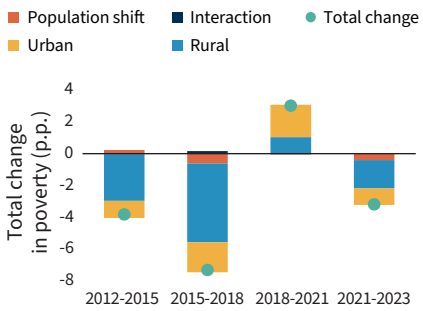
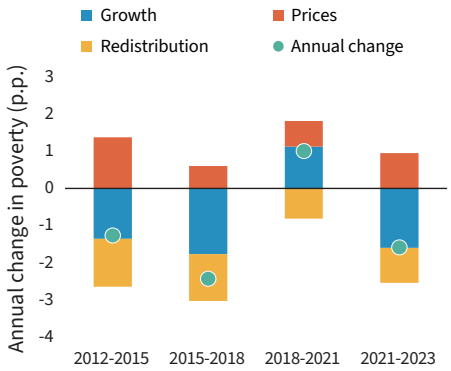



**FIGURE 2.3.** Poverty reduction in urban and rural areas, 2012-2023



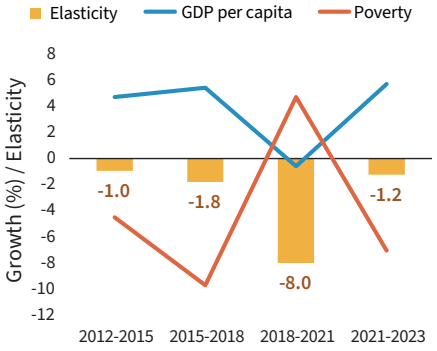

**Source:** World Bank calculations based on FIES and World Bank Poverty and Inequality Platform.
**Note:** Figure 2.3. shows how changes in poverty levels can be attributed to different groups, depending on their place of residence. The intersectoral (rural and urban) components display how the incidence of poverty in rural and urban areas, respectively, has changed, assuming the relative population size in each has remained constant. *Population shift* refers to the contribution of changes in population shares due to migration and demographic changes between urban and rural areas, assuming poverty incidence in each group has remained constant. The interaction between the two indicates whether there is a correlation between changes in poverty incidence and population movements using the national poverty line. The decomposition follows Huppi and Ravallion (1991).

**FIGURE 2.4.** Contribution of growth, distribution, and prices to poverty reduction, 2012-2023




**Source:** World Bank calculations using FIES.
**Note:** To increase comparability across periods, the figure presents the average annual change in each period.

**FIGURE 2.5.** Growth elasticity of poverty, 2012-2023




**Source:** FIES, National Accounts; 2012-2023.
**Note:** Based on changes in poverty under the national poverty line, excluding imputed rent.

**Average income growth and, to a lesser extent, distributional changes, drove poverty reduction, although higher relative food prices offset some gains**. Poverty changes can be decomposed into: (i) growth in average income; (ii) shifts in the income distribution; and (iii) price effects (reflecting changes in the relative cost of the poverty bundle of goods). Average income growth was the primary driver of poverty reduction since 2012, except around the COVID-19 pandemic, when incomes fell (Figure 2.4). Falling inequality was also important for poverty reduction throughout the period. By contrast, faster food inflation raised the real value of the poverty line, increasing poverty on average by 1 percentage point per year, with rice inflation as a key driver (Box 2.1). These results point to the importance of food prices as a lever to accelerate poverty reduction.

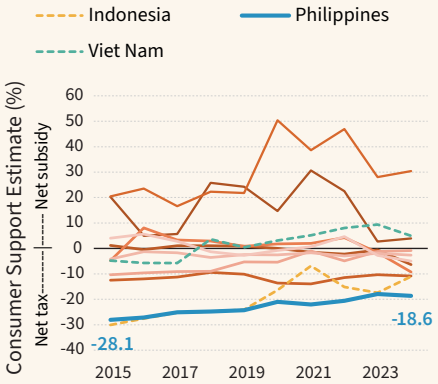
**Ensuring that growth reaches the poor more effectively and that safety nets can absorb shocks during downturns are complementary dimensions of the poverty-reduction agenda.** Between 2015 and 2018, growth–poverty elasticity was relatively high: a 1 percent rise in GDP was associated with a 1.8 percent fall in poverty (Figure 2.5). Unfortunately, during the COVID-19 contraction, poverty was strongly responsive (elasticity -8.0), reflecting both high vulnerability to income shocks and the limited success of the response measures to the disruptions of the pandemic.[23] As bottom incomes recovered in 2021–2023, elasticity improved to -1.2, but did not reach as high as the 2015-2018 period. Sustaining higher elasticity will require stronger links between poorer households and growth sectors, as well as more effective safety nets, as discussed on the next page.

[23] The Philippines undertook measures that covered almost 70 percent of the population. Even so, relative to countries peers, the country recorded one of the more modest household income support spending increase while facing one of the largest economic contractions (World Bank 2023b).

## BOX 2.1: Food prices as a source of vulnerability

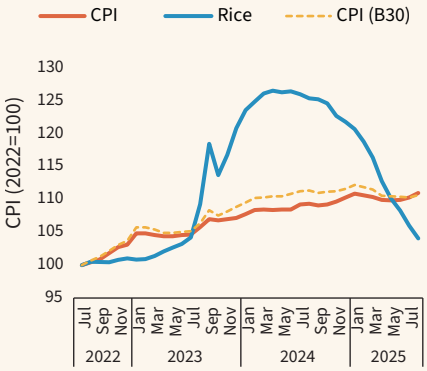
**High food prices in the Philippines impose a disproportionate burden on poor and vulnerable households, with rice as the primary driver.** Food accounts for 60 percent of spending among the poorest 30 percent (B30), compared with 43 percent for the average household, and rice alone represents about 18 percent of B30 budgets, double that of the average household.[24] During the 2023–2024 rice price surge, the cost of living for the bottom 30 percent rose roughly 3 percentage points faster than for the average household (Figure 2.7). Agricultural support policies act as an implicit tax on consumers estimated at about 18 percent of consumer expenditure, contributing to prices roughly 24 percent above reference levels (Figure 2.6). This burden is larger than in the other emerging economies in the analysis, with only Indonesia showing similar levels. Microsimulations suggest that removing this implicit consumer tax could have reduced poverty by around 1.1 percentage points in 2023.

### FIGURE 2.6. Consumer support estimate of agricultural policies, 2015-2024




**Source:** OECD (2025)
**Note:** Unlabeled trend lines reflect Argentina, Brazil, China, India, Kazakhstan, Russia, South Africa, and Ukraine.

### FIGURE 2.7. Rice price inflation and CPI trends, 2022-2025




**Source:** World Bank tabulations based on PSA
**Note:** This figure adjusts CPI to baseline 100 in July 2022.

**The Philippines has maintained a long-standing combination of trade barriers, production subsidies, and public procurement interventions aimed at achieving food security objectives prioritizing local production**. The 2019 Rice Tariffication Law (RTL) replaced import quotas with a 35 percent tariff and opened the market to private importers, coinciding with a significant reduction in real retail prices of around 28 percent between 2018 and early 2023. However, the tariff continues to raise local rice prices, and its reduction to 15 percent in June 2024 came only after the 2023-2024 rice inflation surge had already run for about nine months. Despite increased spending on rice subsidies, mechanization, and seeds, output growth remains sluggish (World Bank 2023c), while the rice self-sufficiency ratio has fallen from 95 percent in 2016 to 72 percent in 2024.[25] Similar distortions can be found in other items in the basic food basket, keeping domestic prices for a range of staples above import parity (OECD 2023). Reforming these policies involves trade-offs. In the post-RTL period (2019-2023), farmgate palay prices, the prices paid to producers, declined by approximately 20 percent in real terms relative to the 2014-2018 period. The available evidence suggests that those most exposed to lower farmgate prices are concentrated in the upper income quintiles, while most farming households, including smallholders, are net rice consumers (Balié et al., 2021). Even so, like other agricultural families, rice producers face high poverty rates—nearly double the national average (27 percent in 2023).

**Low productivity lies at the heart of high food prices and high rural poverty**. Agricultural total factor productivity in the Philippines grew at just 0.45 percent per year between 2011 and 2020, compared with a world average of 2.5 percent and significantly higher rates in Viet Nam and Cambodia (USDA ERS, 2023; OECD, 2025). International experience points to the importance of gradually rebalancing toward policies that boost agricultural productivity, such as diversification, technology adoption, and local capacity building, as a more sustainable path to serving both producers and consumers (World Bank 2023c). At the same time, targeted social protection, calibrated to scale up during food price crises, offers a more reliable instrument for protecting vulnerable households than market-wide interventions.

[24] Philippines Statistics Authority.
[25] Rice self-sufficiency ratio as reported by the Department of Agriculture in 2026.

## 2.2 What Is the Role of Labor and Nonlabor Income Sources Behind the Recent Changes in Poverty and Inequality?

**Wages from jobs outside the primary sector have driven income growth and poverty reduction**. From 2018 to 2023, household incomes from wage earnings grew throughout the income distribution, with real annual gains from nearly 2 percent in the poorest decile to 0.6 percent in the ninth (Figure 2.8). This resulted both from workers shifting from own-account work (particularly in the primary sector) to wage jobs and from increases in wages per worker (as shown in the next section). Wage income from non-primary activities reduced poverty by 3.1 and 6.2 percentage points in 2012–2015 and 2015-18, respectively, and by 3.5 points during the post-pandemic recovery (Figure 2.9). This accounts for 95 percent of poverty reduction since 2012. Meanwhile, own-account (self-employment and MSME ownership) income fell at the top, with annualized declines from 0.3 percent in the sixth decile to 1.2 percent in the tenth. This was driven by a shift of workers away from own-account work at the top half of the distribution and especially in the top decile, which saw a 10 percent reduction in the share of employment in own-account work.[26]

**Private and public transfers have played a minor role in poverty reduction since 2018**. As 4Ps program coverage increased, government transfers accounted for 0.5 percentage points of poverty reduction in 2012-15 and 0.3 percentage points in 2015-18. After rising as part of the pandemic response, government transfers to the poorest households declined relative to 2018 (Figure 2.8). This would have increased poverty in 2023 if not for increases in other income sources (Figure 2.9). Even so, the 4Ps have delivered significant gains in beneficiaries' human capital and remain crucial to keeping many beneficiary households out of poverty in the near term (absent the program, the 2023 poverty rate might be 2.2 percentage points higher)[27] and in the long term (Diaz 2025; Orbeta et al. 2023).

**FIGURE 2.8. Growth incidence by income source, 2018-2023**

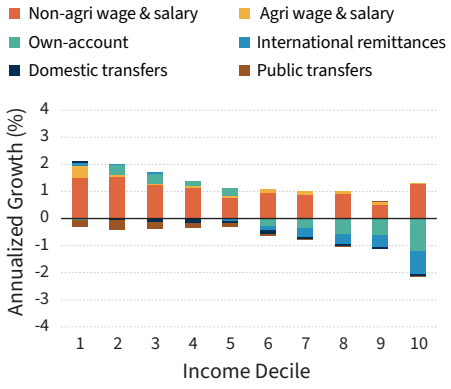
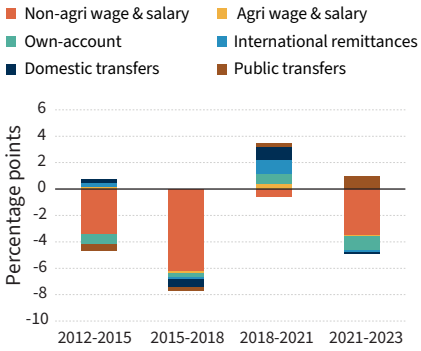



**FIGURE 2.9. Poverty reduction by income source, 2012–2023**




**Source:** World Bank tabulations based on FIES 2012-2023
**Note:** Income from imputed rent, gifts, and capital returns is not shown. Own-account work combines self-employment, net share of crops, and family sustenance activities.

[26] Since 2018, the shift out of own-account work towards wage-employment has been limited to the poorest, reflecting the continued movement of workers out of own-account work in the primary sector, and the top half of the distribution, with own-account work falling by 10 percent among employment in the top decile by 2023.

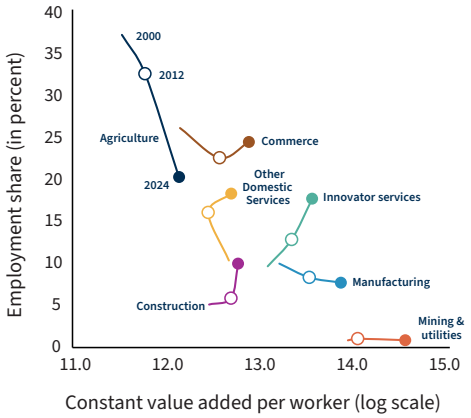
[27] This estimate is derived from a static fiscal incidence analysis using 2023 household survey data (see Chapter 3). The analysis measures the direct distributional impact of 4Ps transfers by comparing pre-transfer and post-transfer income, holding household behavior constant. It does not account for second-round effects, such as changes in labor supply or local economy multipliers.

Declines in private transfers, both international remittances and domestic transfers, accounted for a 2 percentage-point increase in poverty in 2021 relative to 2023. Private transfers had not fully recovered by 2023, especially for higher-income households.

## 2.3 Has Growth Translated into More and Better Jobs for Poor and Vulnerable Populations?

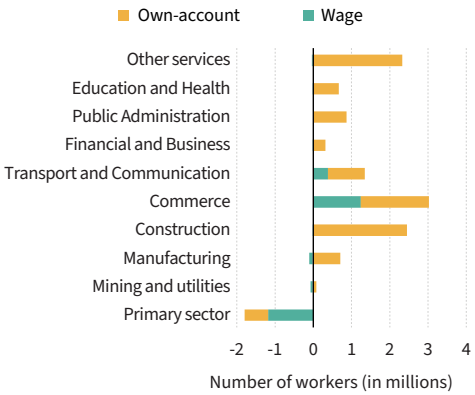
**Philippine jobs are increasingly wage-based and services-oriented**. Since 2012, employment has grown faster than the working-age population, with jobs shifting from self-employment in the primary sector to wage employment in higher-productivity activities—namely, construction, commerce, and innovator services (Figure 2.10 and Figure 2.11).[28] Higher post-secondary enrollment has reduced youth participation (18–25) to 39.8 percent in 2023 (from 42.1 percent in 2018), an overall positive development for future productivity.[29] As of 2023, about 68.6 percent of workers were wage workers, and 24.5 percent were own-account workers (including 2.6 percent who were employers) (Table 2.1). Participation and job structure vary sharply by gender and welfare: men are much more likely to be working than women (71.2 vs. 49.4 percent), participation rates are lowest among poor households (53.3 vs. 61.5 percent for the nonpoor), and poor households rely more on primary-sector and unpaid work. Education gradients remain steep: college graduates show the highest participation (77.0 percent) and overwhelmingly occupy wage jobs (83.7 percent). The labor market continued tightening through mid-2025 as the economy continued to recover from the pandemic: between June 2023 and 2025, unemployment fell from 4.5 percent to 3.7 percent, and underemployment fell from 12.0 percent to 7.2 percent.

**FIGURE 2.10. Sectoral changes in employment and labor productivity, 2000-2024**




**Source:** PSA National Accounts. Labor Force Survey, World Bank (2025a).
**Note:** "Innovator services" include sectors such as transportation and communication, financial services, real estate, and professional and business services. "Other domestic services" include public administration, education, health, and other services.

**FIGURE 2.11. Change in number of wage and non-wage jobs by sector, 2012-2023**




**Source:** World Bank tabulations based on FIES 2012 and 2023

[28] "Innovator services" include sectors such as transportation and communication, financial services, real estate, and professional and business services.
[29] Source: World Bank tabulations based on FIES 2023.

However, disruptions in public infrastructure spending following the investigation of flood control irregularities in the second half of 2025 and the Middle East conflict in the first half of 2026 have affected sectors like construction and transportation, key employment sectors for lower-skilled workers. By February 2026, unemployment had increased to 5.1 percent (from 3.8 percent in February 2025). For youth, it had increased to 15.0 percent from 10.4 percent one year prior.

**At the bottom of the skills distribution, the process of structural transformation was led by a generational shift from agriculture into wage employment, particularly in construction. But gains have been weaker for women**. Primary sector employment fell by about 1.8 million between 2012 and 2023, largely as a result of older workers, 80 percent of whom only had primary schooling, exiting the labor force.[30] Despite this contraction, output did not decline: between 2006 and 2023, primary sector value added rose by 40 percent and value added per worker by 33 percent (World Development Indicators). Most new jobs for low-skilled workers were created in construction, which added nearly 1.1 million jobs for workers who did not complete secondary school. Commerce and transportation contributed another 650,000 jobs. These were mostly wage jobs paying more than agriculture, though few were likely regularized with benefits (see Section 5.2). Women benefited less from this transition, continuing instead to rely primarily on own-account work (see Section 4.1).

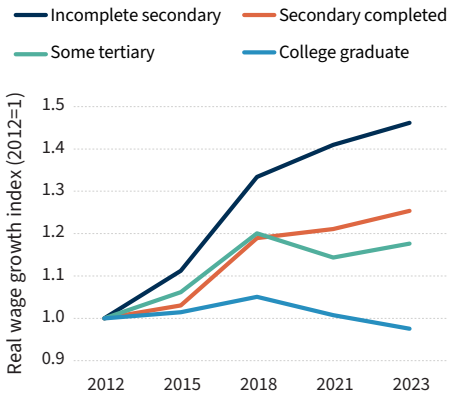
**Critically, the primary sector still accounts for half of the jobs for the working poor and 30 percent of the jobs of the vulnerable**. As such, increasing agricultural and fisheries' productivity, value-added activities like food manufacturing, and linkages to markets remain an essential priority. Other critical sectors for the working poor are construction (500,000 workers), commerce (both self-employed and wage workers), and over a quarter million (270,000) individuals working for private households as domestic helpers, caregivers, and similar roles.

**Intergenerational increases in the skills of the labor force have been largely absorbed by services**. The Philippines saw a net increase of 7.7 million workers with at least completed secondary school between 2012 and 2023. Services accounted for 79 percent of jobs created for these workers. For those with no post-secondary schooling, construction remained important (contributing about 30 percent of net job creation for this group); however, commerce, other services, and the transportation sectors accounted for two-thirds of job creation. Services accounted for 79 and 87 percent of jobs created for those with some tertiary education and college graduates, respectively.

**Recent growth coincided with robust job creation and structural reallocation; however, productivity growth, an essential ingredient for wage growth, has played a minor role** (World Bank 2025a). Growth was driven by capital accumulation, with productivity growth accounting for less than 10 percent of economic growth.

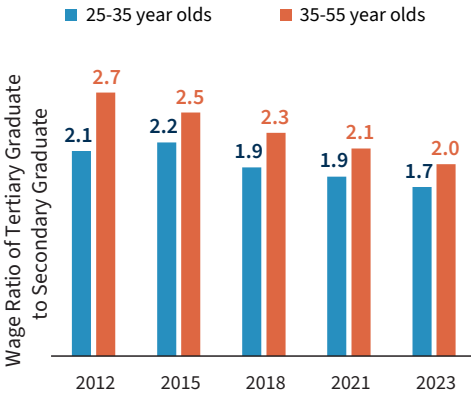
[30] Between 2009 and 2023, the adult population 65 or younger with only a primary education or lower fell by 2.1 million people (source: World Bank tabulations based on FIES).

**FIGURE 2.12. Real wage growth by educational attainment, 2012-2023**




**Source:** World Bank tabulations based on FIES-LFS 2012, 2015, 2018, and 2023.
**Note:** Based on spatially deflated wages, adjusting for gender, region, age and its square, and number of hours worked per week and its square.

**FIGURE 2.13. Wage premium of college graduates compared to secondary school graduates, 2012-2023**




**Source:** World Bank calculations based on FIES-LFS 2012 to 2023

Inward-facing growth, with three out of four new jobs being created in non-tradable sectors, contributed to lower productivity growth as the export-to-GDP ratio declined from 33 to 27 percent between 2010 and 2023. Though IT and business services outsourcing (BPO) grew, manufacturing stagnated due to real effective exchange rate appreciation, high energy costs, technology trends, and a challenging regulatory environment (World Bank 2025a). Since labor is the main source of income for most households, this poses a challenge for building the middle class and household resilience.

**Modest productivity growth has translated to flat wages for college graduates and a declining education wage premium, even as wages at the bottom of the distribution have grown**. While wages for those with less than complete secondary schooling grew by nearly 50 percent (reflecting sectoral shifts and an overall increase in the wages of low-skilled workers across sectors), real wages of college graduates have remained close to their value in 2012 (Figure 2.12). Even so, a college degree continues to confer a large advantage, nearly doubling average earnings compared to secondary school graduates. This premium has fallen over time for both young and more experienced workers (Figure 2.13).[31] Additionally, college graduates in their twenties face higher unemployment rates than any other group. While this partially reflects higher reservation wages and a longer search period, it is also consistent with a skills mismatch.

**Skills mismatch and limited technical capabilities have led to a rising share of college graduates working in lower-skill positions**. From 2012 to 2023, the skill mismatch rose by 7 percentage points among technicians and associate professionals (defined as those typically requiring 1–3 years of tertiary education), and as well as among clerks, service workers, and laborers (usually requiring secondary education).[32]

[31] The education wage premium is measured as the proportion of average earnings of college graduates over that of secondary school graduates.

[32] General requirements of education per occupation type are based on ILO (2012).

Thirty-nine percent of workers have more education than their jobs require, and they earn only about 5 percent more for each surplus year of schooling compared with returns of 7 to 19 percent for those whose qualifications match job requirements (Melchor 2022). Skills gaps compound the challenge: a 2022 World Bank survey found mismatches between the skills needed for jobs and the capabilities of graduates in fields such as healthcare, IT, and computer science. Furthermore, a 2024 report showed that Filipinos lagged in proficiency in ICT-related tasks regionally (World Bank 2022a; World Bank 2024d). Growing evidence suggests that fast technological change, especially the expansion of artificial intelligence, requires swift adaptation in the BPO sector, which remains a significant contributor to export performance (World Bank 2024e).

**Shifts in employment and falling skill premia since the Global Financial Crisis have delivered notable gains for lower-skilled workers, especially men, through a capital-driven construction boom. However, construction has slowed significantly in 2025 and early 2026**. To sustain progress toward poverty eradication and a resilient middle class by 2040, several sectors stand out as engines of job creation and mobility. Locally, tourism and agribusiness can anchor job creation for lower-skilled workers and regional development. Tourism can build demand for local agriculture, fisheries, and services in lagging regions, but weak last-mile infrastructure and costly logistics constrain competitiveness and limit local sourcing. Agriculture's low productivity arises in part from small, fragmented land holdings; high and volatile input costs; inadequate farm-to-market links; and policy distortions that have discouraged diversification and misdirected public spending (World Bank 2023c). More broadly, international migration will likely continue to play an important role in supporting intergenerational mobility. Domestic work and seafaring, in particular, are well established OFW corridors that both sustain remittances and open opportunities for different groups, including women without a college degree and workers in lagging regions (see Chapter 5).

## 2.4 What Is the Role of Fiscal and Social Policies and Shocks for Poverty Reduction and Shared Prosperity?

**The Philippines' fiscal system is progressive overall, but its distributional impacts are modest.**[33] Taxes and cash transfers reduce inequality by 2.8 Gini points and poverty by 0.5 percentage points, reflecting transfers just able to offset the tax burden of households at the bottom. Inequality in market income (employment, remittances, and other private sources) is reduced from a Gini index of 40.7 to 37.9 through taxes (income, payroll, VAT and excise) and cash transfers (Figure 2.14). If we consider the cash value of public education and health services, the Gini falls further to 33.9, a 6.8-point decline. This places the Philippines around the middle of the MIC distribution, suggesting meaningful, though not exceptional, inequality reduction (Wai-Poi, Sosa, and Bachas 2025).

[33] Based on World Bank tabulations of the distribution of taxes and spending modelled based on the 2023 FIES and corresponding administrative data on revenues and expenditures. The methodology traces household welfare from pre-fiscal or market income (such as wages, remittances, rents, and dividends) to post-fiscal by allocating taxes, transfers, and in-kind transfers (notably public health and education services) benefits to households, enabling a standardized assessment of how fiscal policy affects poverty and inequality. This approach was developed by the Commitment to Equity Institute (CEQ Institute) at Tulane University. For information on the methodology, implementation guidelines, applications, and software of the CEQ approach, see Lustig (2022). As a static accounting exercise, it does not model behavioral, lifecycle, or general equilibrium effects and excludes corporate income taxes and infrastructure or other public goods spending, as well as service quality considerations in education and health.

**FIGURE 2.14.** Gini Index before and after fiscal policies, 2023

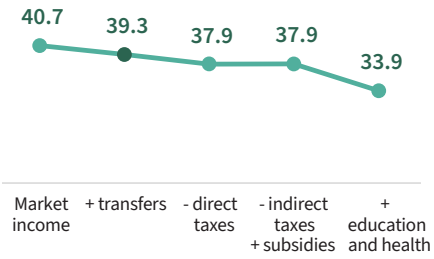
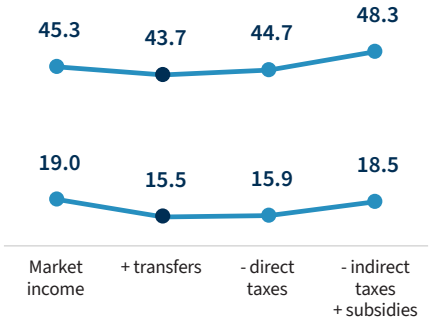



**FIGURE 2.15.** Poverty and vulnerability rates before and after fiscal policies, 2023




**Source:** World Bank calculations based on FIES.
**Note:** Vulnerability rate in Figure 2.15 reports the share of the population living below the vulnerability threshold, including those in poverty.

**While fiscal policies marginally reduce poverty, combined taxes and transfers lead to a 3 percentage-point increase in vulnerability**. Without transfers or taxation, poverty would be 19.0 percent in 2023, with 45.3 percent of the population being either poor or vulnerable (Figure 2.15). With public transfers, poverty stands at 15.5 percent—the official poverty rate—reflecting substantial relief relative to a no-transfer baseline. However, after accounting for taxes, poverty rises to 18.5 percent, 3 percentage points higher than the official poverty rate, but still a 0.5 percentage point decrease relative to the rate without public transfers.[34] This reduction, albeit modest, is one of the best results among LMICs and around the middle among UMICs, outperforming Viet Nam but lagging Indonesia, Thailand, and Malaysia (Wai-Poi, Sosa, and Bachas 2025). However, since households above the poverty line are less likely to receive transfers and pay more taxes (reflecting higher consumption levels), vulnerability levels are 3.0 percentage points higher after fiscal interventions than based on market income (48.3 compared to 45.3 percent).

**The Philippines is among the most exposed countries to climatic shocks globally, ranking fourth in climate-related events from 2000 to 2019, with about 20 tropical cyclones annually** (World Bank 2022b). Average annual cyclone losses are about 1.2 percent of GDP, and, without measures to counteract the effects of climate change, could reach 3.7 percent by 2030 and 11.0 percent by 2050 (World Bank 2022b). These extreme weather events not only destroy infrastructure and deplete household assets but also significantly disrupt agriculture and livelihoods. Each additional heavy-rain day (over 100 mm) is associated with a 1.4 percent reduction in wages, reflecting mobility disruptions and higher maintenance and repair costs from flooding (World Bank 2025a).

[34] In this fiscal incidence methodology, the in-kind value of public health and education is added to households' "final income," but the approach is a static, accounting exercise. It does not adjust for service quality, long-run human capital gains, household savings from having access to public services, or broader spillovers. In the case of the Philippines, upper income households are significantly more likely to invest in private health and education (especially pre-university) due to quality concerns of these public services. As a result, estimates can over- or understate the socioeconomic benefits from health and education public services. For a detailed discussion of the CEQ methodology, see Lustig (2022).

**These risks go beyond natural hazards to include global shocks like the COVID-19 pandemic, the high rice prices of 2023-2024 (Box 2.1), and, more recently, the fuel price shocks related to the 2026 Middle East conflict**. These can have particularly damaging impacts on poor and vulnerable households that are already struggling to meet their basic needs. A fuel price shock of 60 percent, for example, can push up to 1.9 million Filipinos into poverty if mitigation measures are not taken.[35] This reflects not only the direct impact of higher prices for household fuel purchases, but also, indirectly, the impact of higher food and public transportation prices, given their importance in value chains, as well as employment disruptions in sectors like construction and transport.

**Given the country's context of high exposure to natural hazards and widespread household vulnerability, a resilient safety net is critical**. This can be achieved through a combination of expanded social insurance access and social assistance. As shown in Chapter 3, public spending can be used more effectively to achieve this goal. For example, program proliferation risks fragmentation and weaker outcomes. At the same time, updating employment regulations can help broaden social protection through increased social insurance coverage (Chapter 5). Raising the level and quality of social spending through sustainable tax policies and effective labor regulations are central to building resilience across Filipino households.

## 2.5 What Structural Factors Constrain Poverty Reduction and Shared Prosperity?

**This section takes stock of the evidence presented so far to consider how economic growth can better translate into poverty and vulnerability reduction, and the faster growth of a resilient middle class.** Recent years have brought encouraging signs. Growth has been broadly pro-poor, especially in rural areas, supported by structural transformation away from primary activities and toward wage employment in construction and services. Low-skilled workers have benefitted from rising employment and relatively faster wage growth, which drive poverty reduction. Yet these gains coexist with stubborn constraints. Rural poverty remains nearly double urban poverty, regional gaps are stark, and roughly 28 percent of Filipinos are vulnerable to falling into poverty. Middle class growth has stagnated as real wages remained flat for college-educated workers, skills mismatches have widened, and international remittances fell. Exposure to frequent shocks, including climate- and price-related, continues to undermine household resilience, while social assistance has not added materially to poverty reduction since 2018.

**Taken together, these patterns suggest that the binding constraints lie not just in the pace of growth, as documented in World Bank (2025a), but also in the channels that translate growth into widespread, durable welfare gains**. Three considerations are central. First, while job creation has driven the gains seen since the Global Financial Crisis, continuing to improve opportunities for lower-skilled workers, especially women,

[35] World Bank estimates based on FIES 2023 and a moderate shock scenario equivalent to a 60 percent oil price shock.

remains central to helping more households build resilience and economic security. Second, large spatial disparities in access to markets and services reduce opportunities and the potential for broader poverty reduction. . Third, given gaps in human capital, low household assets, and high exposure to shocks, public interventions and investments remain critical to building household resilience. The analysis points to three mutually reinforcing focus areas where targeted action can amplify the poverty- and shared-prosperity impacts of growth.

- **Focus area 1: Increasing the resilience of vulnerable households**: Private insurance is extremely limited, and public programs like crop insurance and disaster response exist, but they face important implementation gaps. While many Filipinos have moved out of poverty, more than a quarter are highly vulnerable to poverty. This suggests the need for a closer look at the country's social safety net and, particularly, the continued importance of its flagship 4Ps program..
- **Focus area 2: Accelerating poverty reduction through local service delivery**: Gaps in market connectivity, human capital, and services persist across regions and LGUs, reducing the capacity of households and firms in lagging areas to benefit from growth and to diversify into higher-productivity activities. The Mandanas ruling, which deepens decentralization by reallocating more national tax revenues to local governments, underscores the critical need to strengthen local public investment and service delivery, alongside improvements in the efficiency and accountability of subnational spending.
- **Focus area 3: Broadening employment opportunities to foster inclusion and economic security**: There is an opportunity to boost sustainable poverty reduction and foster a robust middle class through both upgrading to better jobs and increased employment. Three challenges undermining inclusion merit particular attention. First, the labor force remains underleveraged despite low unemployment, most visibly in women's low labor force participation and limited employment opportunities. Second, precarious employment remains prevalent, slowing the growth of the middle class and of a broader social insurance system. Third, weak local opportunities continue to drive millions of Filipinos to seek overseas employment, including low-skilled women. Yet workers in lagging regions remain underrepresented among those tapping into these opportunities.

## TABLE 2.1. Key labor market outcomes by population group, 2023

| | Labor force status as share of working-age population | | Employment status, as share of working-age population | | | | Sector of activity, as share of working-age population | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Working | Not working | Paid employee | Non-paid employee/ family worker | Employer | Self-employed | Agriculture & fisheries | Extractive | Food Manufacturing | Computers & electrical equipment | Renewable energy | Construction | Other manufactures | Communication | Public service including defense | Transports | Trade | Finance/ insurance | Services to business | Other services |
| **Total** | **60.5** | **39.5** | **68.6** | **4.5** | **2.5** | **24.5** | **19.9** | **0.5** | **2.5** | **1.2** | **0.1** | **10.3** | **4.7** | **0.6** | **6.1** | **8.3** | **19.7** | **1.4** | **6.9** | **18.0** |
| **By area** | | | | | | | | | | | | | | | | | | | | |
| Rural | 60.8 | 39.2 | 60.2 | 6.5 | 3.3 | 30.1 | 34.6 | 0.5 | 1.9 | 0.6 | 0.1 | 10.3 | 3.2 | 0.3 | 6.8 | 6.0 | 17.2 | 0.9 | 3.1 | 14.4 |
| Urban | 60.2 | 39.8 | 75.3 | 2.9 | 1.8 | 20.0 | 8.0 | 0.4 | 2.9 | 1.6 | 0.1 | 10.2 | 5.8 | 0.8 | 5.6 | 10.1 | 21.7 | 1.8 | 10.0 | 20.9 |
| **By welfare quintile** | | | | | | | | | | | | | | | | | | | | |
| Q1 (poorest 20%) | 53.6 | 46.4 | 56.4 | 8.9 | 2.4 | 32.2 | 45.8 | 0.6 | 1.8 | 0.3 | 0.0 | 10.5 | 3.4 | 0.2 | 3.6 | 6.8 | 14.3 | 0.2 | 1.4 | 11.0 |
| Q2 | 56.0 | 44.0 | 64.0 | 5.7 | 2.1 | 28.2 | 28.7 | 0.6 | 2.6 | 0.7 | 0.0 | 13.2 | 4.4 | 0.3 | 4.5 | 8.7 | 18.7 | 0.6 | 2.8 | 14.3 |
| Q3 | 59.3 | 40.7 | 67.9 | 4.1 | 2.0 | 26.0 | 18.9 | 0.5 | 2.7 | 1.2 | 0.1 | 12.6 | 5.0 | 0.4 | 5.1 | 9.5 | 22.6 | 0.9 | 4.8 | 15.8 |
| Q4 | 62.8 | 37.2 | 71.9 | 3.0 | 2.0 | 23.1 | 12.0 | 0.5 | 2.8 | 1.6 | 0.1 | 10.5 | 5.7 | 0.5 | 6.0 | 9.6 | 22.4 | 1.5 | 8.2 | 18.6 |
| Q5 | 68.4 | 31.6 | 76.6 | 2.6 | 3.5 | 17.4 | 6.1 | 0.3 | 2.2 | 1.7 | 0.1 | 6.0 | 4.4 | 1.2 | 9.6 | 6.7 | 19.0 | 3.0 | 13.7 | 26.0 |
| **By sex** | | | | | | | | | | | | | | | | | | | | |
| Female | 49.4 | 50.6 | 65.1 | 7.0 | 2.0 | 26.0 | 12.2 | 0.1 | 2.2 | 1.4 | 0.0 | 0.5 | 4.2 | 0.5 | 7.3 | 0.9 | 30.3 | 2.0 | 7.7 | 30.6 |
| Male | 71.2 | 28.8 | 70.9 | 2.8 | 2.8 | 23.5 | 25.0 | 0.7 | 2.6 | 1.0 | 0.1 | 16.8 | 5.0 | 0.6 | 5.3 | 13.2 | 12.7 | 1.0 | 6.4 | 9.6 |
| **By age group** | | | | | | | | | | | | | | | | | | | | |
| Youth (15-24) | 25.5 | 74.5 | 75.9 | 14.0 | 0.7 | 9.5 | 22.0 | 0.6 | 3.3 | 1.8 | 0.0 | 11.4 | 3.7 | 0.5 | 2.8 | 5.2 | 22.0 | 1.1 | 8.3 | 17.3 |
| Prime (25-54) | 76.7 | 23.3 | 70.9 | 3.0 | 2.3 | 23.8 | 17.9 | 0.5 | 2.5 | 1.3 | 0.1 | 10.5 | 4.8 | 0.6 | 6.3 | 8.9 | 19.1 | 1.6 | 7.6 | 18.4 |
| Older (55-64) | 66.0 | 34.0 | 51.0 | 3.8 | 4.6 | 40.6 | 28.0 | 0.3 | 1.6 | 0.2 | 0.0 | 8.2 | 4.9 | 0.2 | 8.0 | 7.8 | 20.9 | 0.6 | 2.5 | 16.7 |
| **By education level** | | | | | | | | | | | | | | | | | | | | |
| Secondary Incomplete or Lower | 57.3 | 42.7 | 58.1 | 6.4 | 2.7 | 32.8 | 38.9 | 0.7 | 2.1 | 0.2 | 0.0 | 14.3 | 4.0 | 0.1 | 2.7 | 8.2 | 15.5 | 0.1 | 1.3 | 11.7 |
| Secondary Completed | 60.8 | 39.2 | 69.8 | 3.8 | 2.1 | 24.3 | 14.0 | 0.5 | 3.2 | 2.0 | 0.1 | 11.9 | 6.1 | 0.3 | 4.5 | 10.8 | 23.8 | 0.5 | 5.2 | 17.2 |
| Some Tertiary | 49.9 | 50.1 | 69.2 | 4.9 | 2.7 | 23.2 | 9.2 | 0.3 | 2.6 | 1.8 | 0.1 | 6.1 | 4.9 | 0.8 | 8.0 | 9.5 | 26.5 | 1.5 | 11.4 | 17.3 |
| College Graduate | 77.0 | 23.0 | 83.7 | 2.1 | 2.4 | 11.8 | 3.7 | 0.2 | 1.8 | 1.2 | 0.1 | 3.3 | 3.4 | 1.5 | 13.2 | 3.7 | 16.3 | 4.9 | 16.4 | 30.3 |
| **By poverty status** | | | | | | | | | | | | | | | | | | | | |
| Non-poor | 61.5 | 38.5 | 70.4 | 3.8 | 2.5 | 23.4 | 16.1 | 0.5 | 2.6 | 1.3 | 0.1 | 10.3 | 4.8 | 0.6 | 6.4 | 8.5 | 20.5 | 1.6 | 7.7 | 19.0 |
| Poor | 53.3 | 46.7 | 54.5 | 9.8 | 2.4 | 33.3 | 49.4 | 0.6 | 1.7 | 0.3 | 0.0 | 9.9 | 3.3 | 0.1 | 3.4 | 6.2 | 13.4 | 0.1 | 1.2 | 10.4 |

**Source:** World Bank calculations using FIES-LFS 2023.
**Note:** The table presents labor market indicators by population subgroups. Labor market indicators are calculated for individuals in the age group of 15-64. Employment status and sector indicators (if available) are calculated for the subpopulation of those that are working. Population shares are calculated for observations with non-missing values only. Missing values for the labor market indicators are presented separately, therefore totals for each indicator may exceed 100%. Education level refers to the highest level completed. The poor are defined using the national poverty line.

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CHAPTER 3.

# Increasing the Resilience of Vulnerable Households

Filipino households are exposed to multiple and compounding shocks, including one of the highest exposures to natural disasters. Households rely on a combination of remittances, social assistance, crop insurance, and government disaster risk management to cope, but each of these mechanisms has significant gaps. Private insurance penetration is very low. Crop insurance reaches fewer than half of smallholder farmers and consistently underpays. And local disaster risk-reduction funds are underutilized for preparation and adaptation, and insufficient for emergency response to moderate-to-severe events. Among social assistance instruments, 4Ps stands out as the most cost-effective and best-targeted program, yet coverage has fallen to its lowest level since 2012 as families have graduated from the program. However, vulnerability remains high, and program proliferation increases the fragmentation of the social protection system. Reorienting social spending around a larger, more shock-responsive 4Ps that can be financed by consolidating less effective programs and broadening the tax base, offers the most direct path to reducing vulnerability and strengthening human capital.

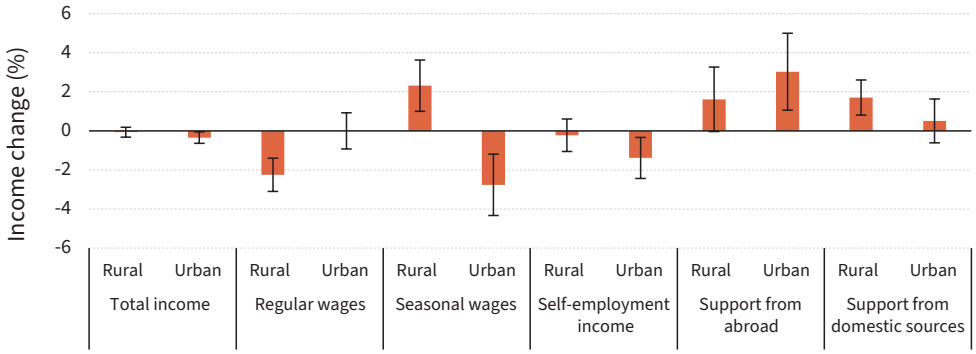
**Despite rapid poverty reduction, more than 15 percent of Filipinos live in poverty, and nearly 28 percent are close enough to the poverty line that a single shock can undo years of hard-won progress.** As documented in previous chapters, this vulnerability is rooted in persistently low-income buffers, recurring exposure to climate and price shocks, and a labor market that increasingly offers wages above the poverty line but under precarious contracts. Well-designed policies are needed to help income-strapped households cushion against shocks and to sustain consumption and human capital investments during downturns. Coverage of the social security system is incomplete, while the 4Ps program reaches fewer households, and other interventions struggle to reach those most in need. This chapter examines the various coping mechanisms used by households, with a special focus on how key public policies, such as crop insurance, disaster risk management, and social assistance, can better help poor and vulnerable households build long-term resilience.

## 3.1 Vulnerability Compounded by Inadequate Coping Mechanisms

**Filipino households are exposed to multiple sources of shocks, from health emergencies and food price volatility to the natural hazards that often strike the Philippines**. Low household income combined with limited safety nets and financial instruments interact with high exposure to severe climate events, leaving an estimated 61 percent of Filipinos at high risk for climate-related hazards (7th out of 103 countries, worse than its ASEAN peers).[36]

[36] Source: World Bank calculations using data from the World Bank Group Scorecard indicator: the percentage of people at high risk of climate-related hazards globally, based on 2021 data.

**FIGURE 3.1.** Changes in income in the presence of rain shocks, 2023




**Source:** World Bank tabulations based on FIES 2023 and local rainfall data.
**Note:** This figure reports a series of log-linear regression models measuring the relationship between exposure to heavy rain and the change in income received from each source in the second half of the year compared to the first half of the year. Heavy rain is defined locally as annual rainfall levels exceeding the average of the past five years by 15 percent or more (approximately the 80th percentile).

This vulnerability has long-term impacts on human capital, leading to lower birth weights (Edwards, Gray, and Borja, 2021), worse nutrition (Skoufias, 2020), and weaker learning outcomes due to frequent class suspensions—for example, more than 30 days in the 2023-2024 school year in most of Luzon (Second Congressional Commission on Education, 2025).

**Although the Philippines is one of the world's most disaster-prone countries, private insurance penetration remains very low**. Less than 6 percent of residential properties were insured against typhoons and floods as of 2018, and fewer than 1 percent of households held catastrophe insurance, leaving the government and households themselves to largely bear the cost of natural disasters (World Bank, 2020).

**Instead, many households rely on remittances and social assistance to cope with income shocks**. In 2023, households exposed to rain shocks maintained overall income, but urban and rural strategies diverged. In urban areas, reductions in seasonal wages (−2.8 percent) and self-employment income (−1.4 percent) were offset by higher remittances (+3.0 percent) (Figure 3.1). In rural areas, lower regular wages were offset by higher seasonal earnings and domestic transfers, primarily social assistance. The 4Ps program, in particular, has cushioned consumption losses and improved child nutrition, school enrollment, and labor participation among disaster-affected households (Bowen, 2015; Ravago, Roumasset, and Jandoc, 2015; Pajaron, 2014; Aldaba, 2019; and Bollig et al, 2024).

**The Philippines has one of the largest agricultural insurance programs in Southeast Asia, yet its full potential remains underrealized.** The Philippine Crop Insurance Corporation (PCIC) has been the main provider of agricultural insurance for more than 40 years. Supported by government premium subsidies, it covers roughly one-third of farmers. Though meant to target subsistence farmers, eligibility extends to a far broader group:

while about 57 percent of Filipino farmers own less than 1 hectare, any farmer with less than 7 hectares is eligible. Even among those who are insured, payouts fall short of covering production costs and are frequently delayed. Claims settlement is often slow, partly due to reliance on paper-based processes, but also because traditional indemnity insurance, the main product offered by PCIC, is not well suited to smallholder farmers. As a result, farmers are often unable to repay debt and may need to borrow to finance replanting, sometimes from informal lenders (World Bank, 2024g). Without access to premium subsidies, private insurers have engaged in only a limited number of isolated pilots that have not scaled.

**Government-led disaster risk management and response are central to the resilience of poor and vulnerable households against shocks that private insurance, remittances, and savings cannot fully absorb**. This is operationalized, in part, through two public funds: the Local Disaster Risk Reduction and Management Fund (LDRRMF), set in each LGU as 5 percent of normal revenue, and the National Disaster Risk Reduction and Management Fund (NDRRMF) as the backstop when local resources are exhausted. The LDRRMF experiences high underutilization, though 70 percent should be targeted for prevention and preparation, and 30 percent for response.[37] Underutilization of these funds has been linked to unclear spending guidelines and weak institutional capacity (Domingo and Manejar, 2021). At the same time, individual LGU funds are too small to cover even moderate disaster events, with funding gaps worsening significantly for more extreme events (World Bank, 2016). In practice, the national government routinely steps in to cover recovery and reconstruction costs that LGUs cannot finance, creating an implicit contingent liability that is neither quantified nor disclosed in the fiscal risk statement (World Bank, 2020a). However, the NDRRMF is subject to its own weaknesses: allocations have historically been set based on the previous year's appropriation rather than expected losses, access requires presidential approval through a multi-agency chain that can take up to a year, and any unspent balance reverts to the General Fund at year-end rather than accumulating as a reserve (World Bank, 2020b; World Bank, 2023).[38]

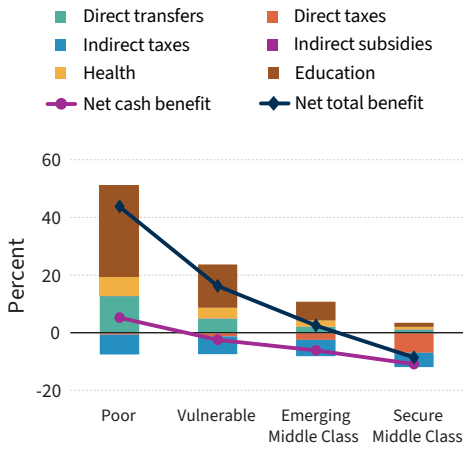
## 3.2 Reorienting Social Spending Toward the Most Effective Instruments

**Social spending is the most direct instrument available to reduce vulnerability among poor and near-poor households**. The fiscal system is most generous for the poorest: in cash terms, households living in poverty receive net fiscal benefits of approximately 6.4 percent of pre-tax income. With in-kind transfers (primarily public education), this increases to 44.9 percent (Figure 3.2). However, the average vulnerable household pays more in taxes than it receives in cash benefits—underscoring that the system, while progressive, could do more to protect those at risk of falling back into poverty.

[37] LDRRMF underutilization is shown for 2022 in Chapter 4; World Bank (2020b) shows that more than half of available LDRRMF balances were unspent in 2018; Domingo and Manejar (2021) shows that only 17 percent was spent on average between 2015 and 2019.

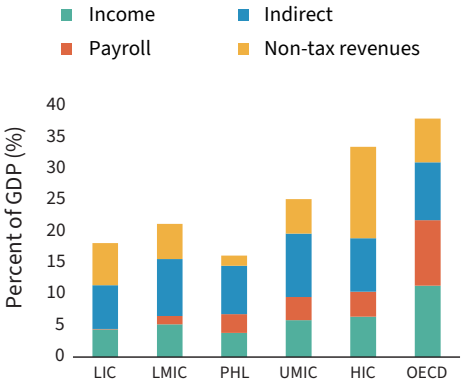
[38] While the government has begun developing a Disaster Risk-Based Budgeting framework since 2023, this transition remains incomplete.

**FIGURE 3.2.** Taxes and benefits as a percent of market income, 2023




**Source:** World Bank calculations based on FIES.

**FIGURE 3.3.** Revenues as a percent of GDP, 2023




**Source:** World Bank estimates based on Wai-Poi, Sosa and Bachas (2025).

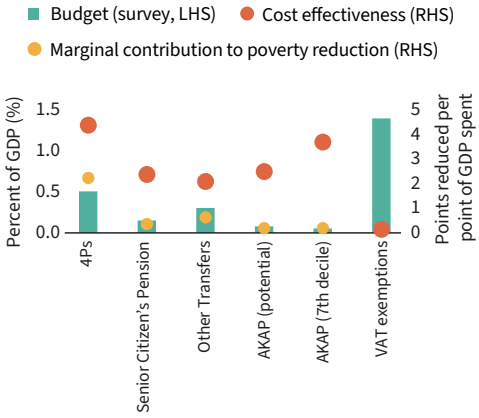
**Expanding social assistance to cover more vulnerable households is a high-return investment, but one constrained by limited fiscal space**. An extensive literature documents the positive impacts of cash transfers on poorer households, including long-term human capital gains.[39] At the same time, studies find that cash transfers have not led to disincentives to work or to negative consumption patterns.[40] However, the Philippines collects less revenue than the typical middle-income country, and this gap is even more pronounced when non-tax revenues are considered (Figure 3.3). Modest increases in revenue could fund targeted transfers that leave the poorest better off and significantly reduce poverty, while increased health and social insurance spending could support the vulnerable and emerging middle class. In the near term, however, the more pressing question is how to use existing resources more efficiently. This makes the choice of which programs to prioritize consequential.

**The 4Ps stands out for its effectiveness, strong targeting, and superior cost-effectiveness relative to other instruments**. The flagship program, targeted at households living in poverty with children, is designed to reduce intergenerational poverty over the longer term rather than near-term poverty alone. Even so, 4Ps is estimated to reduce current poverty by 2.2 percentage points. It is estimated to deliver more poverty reduction per peso than other transfer programs, including the indigent senior citizen's pension and the "*Ayuda sa Kapos ang Kita*" program (AKAP), and VAT exemptions (Figure 3.4). With a cost-effectiveness of 4.4, for every percentage point of GDP spent on the 4Ps, poverty falls by 4.4 percentage points. This is 200 times more effective than VAT exemptions, which have a cost-effectiveness of only 0.2, and almost twice as effective as the senior citizen's pension. In addition, this does not even account for its documented long-term impact on human capital.

[39] For example, Millan et al (2019).

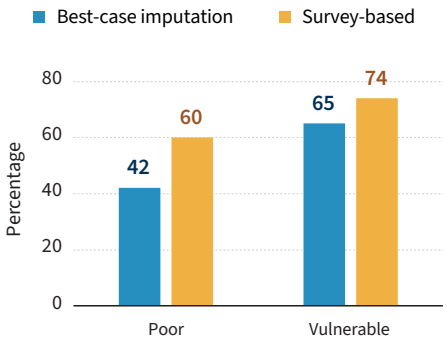
[40] See, for instance, the discussion of the literature in World Bank (2023) October Malaysian Economic Monitor. A specific study on the 4Ps, covering the period of 2009-11, found no difference in the probability of working or of the number of working hours for beneficiaries or non-beneficiaries (Chaudhury, Friedman, and Onishi 2013).

**FIGURE 3.4.** Budget, poverty impact, and cost-effectiveness of social assistance programs, 2023




**Source:** World Bank calculations based on 2023 FIES.
**Note:** All budgets are the resulting totals from the CEQ model except for VAT exemptions, which are scaled based on administrative data (as the survey-admin gap is much wider for VAT). AKAP is shown under two implementation assumptions due to lack of direct inclusion in the survey.

**FIGURE 3.5.** 4Ps coverage gap among poor and vulnerable households, 2023




**Source:** World Bank calculations based on 2023 FIES.
**Note:** Only 3.4 million households self-reported receiving 4Ps in the FIES 2023 out of about 4.1 million covered in 2023. This self-reported coverage is labeled as "survey-based" in the figure. The "best-case imputation" estimate is the coverage rate if we allocate the missing 500,000 beneficiary households fully to poor and then to vulnerable households.

**Despite this record, coverage has been shrinking.** After fluctuating between 3.8 and 4.4 million beneficiary families between 2014 and 2023, coverage fell by 800,000 to 3.1 million in 2025, its lowest level since 2012. The authorities planned to add near-poor households in 2026 using the information from the CBMS to increase coverage to 3.5 million, though this planned expansion may be affected by emergency measures in response to rising oil prices due to the Middle East conflict.

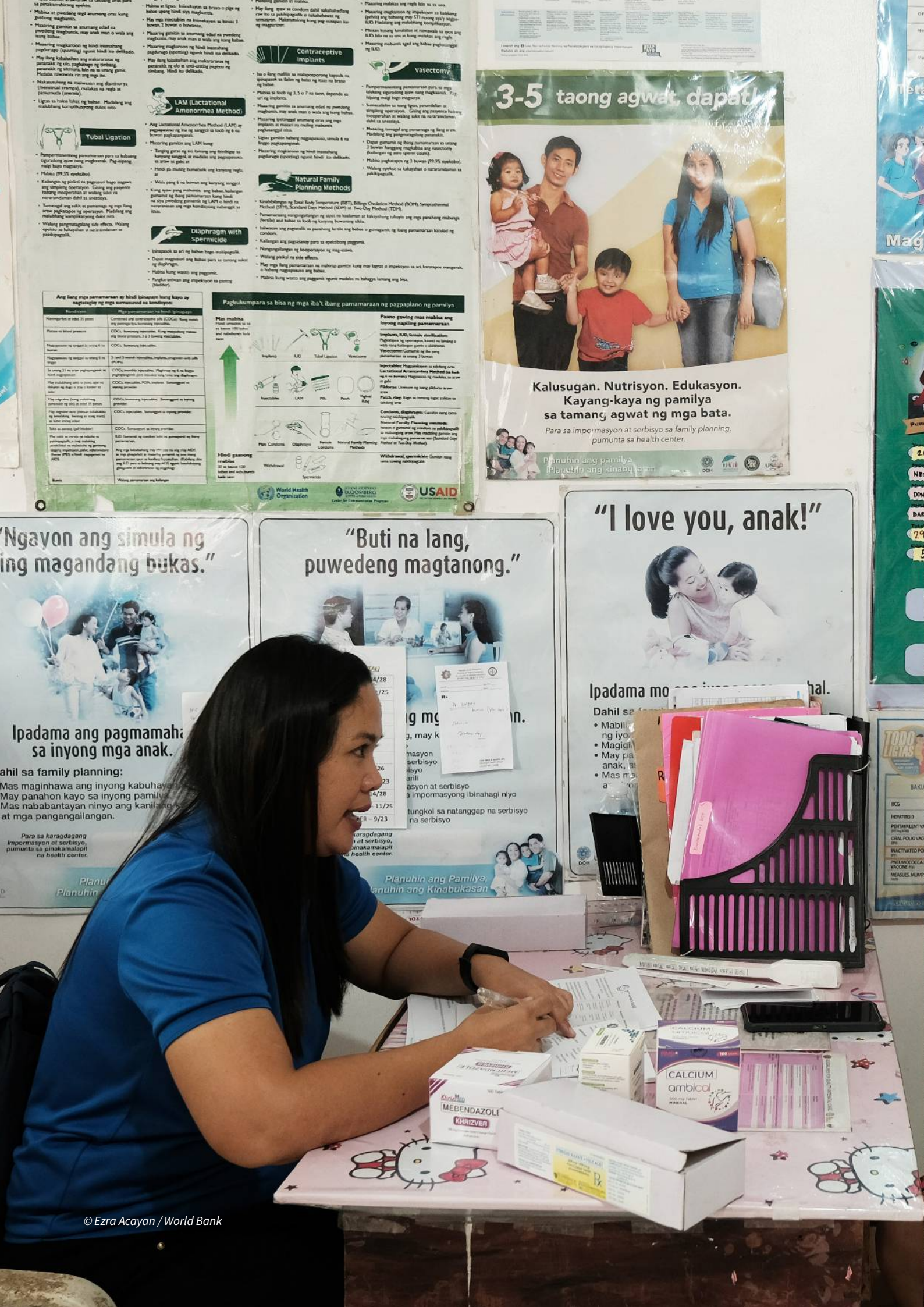
Depending on the patterns of underreporting in the household survey, between 42 and 60 percent of poor households with children and between 65 and 74 percent of vulnerable households with children were not covered by the 4Ps (Figure 3.5). The recent reduction in coverage reflects the graduation of households that are no longer eligible, consistent with declining poverty rates. This trend warrants attention, given that poverty and vulnerability still affect more than half of the country's children. It also reflects a graduation and enrollment process that is not yet agile enough to respond quickly to new needs: the recently established CBMS, a de facto population census collected every three years to establish program eligibility, does not allow for updates between rounds and currently has no recourse for including recently formed households, changes in household composition, or changes in economic conditions, thus limiting the ability to capture rapid welfare changes following shocks or changes in needs.

**This challenge is compounded by the fragmentation of social assistance, which dilutes the system's overall impact**. Recent initiatives aimed at protecting vulnerable groups from price and other shocks face design and implementation challenges. The AKAP program, rolled out in 2024 to target vulnerable households affected by high inflation, based eligibility on individual earnings rather than household income and did not build on existing social registries, allowing for leakage to higher-income households while explicitly excluding 4Ps and indigent senior beneficiaries. The "*Walang Gutom*" electronic food stamps, which began rolling out in 2025, may face access and coverage constraints for remote and rural communities, while in-kind transfers, such as the "P20" subsidized rice program, have been shown to be less cost-effective and more logistically complex than cash transfers in international studies (such as Cunha, De Giorgi, and Jayachandran 2019). These new programs are in addition to a broad array of social programs already being implemented: a 2017 World Bank assessment identified 17 social welfare programs, 12 social insurance programs, 22 labor market programs, and 12 social services programs, excluding smaller assistance programs such as scholarships and subsidized housing (World Bank, 2018). With fragmentation comes weak monitoring and varying levels of targeting efficiency. About 28 percent of the 2026 budget for social transfers is allocated to three programs with discretionary eligibility criteria (the Assistance to Individuals in Crisis Situations, Medical Assistance for Indigent and Financially Incapacitated Patients, and the temporary employment program "**Tulong Panghanapbuhay sa Ating Disadvantaged/ Displaced Workers**").

**International experience cautions against weakening or displacing successful conditional cash transfers**: Mexico's cancellation of its flagship CCT led to a 12 percentage-point reduction in school enrollment for boys aged 15–17, illustrating potential human capital losses when effective programs are undermined (Marquez-Padilla, Parker and Vogl 2025). Rather than consolidating resources behind the most effective instrument, new programs introduced alongside a shrinking 4Ps program have spread limited fiscal space across a less coherent portfolio.

**The evidence points to potential gains from a clear reorientation of the social assistance system around a stronger, more responsive 4Ps program**. Expanding 4Ps coverage to include vulnerable families with children would be more cost-effective and reinforce education and health investments compared to rolling out new programs or relying on broad-based VAT exemptions. This could be implemented through tiered support for poor versus vulnerable households, similar to programs in China, Viet Nam, Indonesia, and Brazil (Lugo, O'Keefe, and Wang, forthcoming). Calibrating benefit adequacy to the needs of beneficiary households and adjusting for food inflation would further strengthen its impact. Given its national coverage and targeting, the 4Ps can be used as a platform for linking poor and vulnerable households to economic opportunities, such as youth skills development and active labor market policies, to ensure both long-term poverty reduction and, by supporting

program graduation, program sustainability. The effectiveness of shock-responsive social protection also depends on timely and up to date data on household circumstances, which remains a constraint in the current system. Social registries and digital payment systems can be leveraged to improve the system's ability to cushion transitory shocks without permanently expanding caseloads, such as through dynamic enrollment and anticipatory transfers made before a cyclone or other shock hits. Reallocating social spending to the 4Ps, notably by consolidating smaller and less effective programs, and reviewing VAT exemptions, could allow the Philippines to do more with existing resources, reducing vulnerability today while building the human capital foundation for a larger and more stable middle class in the future.



CHAPTER 4.

# Accelerating Poverty Reduction Through Local Service Delivery

Spatial convergence in regional economic output has coincided with a convergence in household incomes, resulting in faster poverty reduction among the poorest areas in the country. Yet, public service delivery and quality of local spending vary substantially across areas, undermining economic growth and poverty reduction. With the Mandanas ruling, local governments play an increasingly important role in public service delivery—including in foundational infrastructure, health, and nutrition—but poorer cities have lower resources per capita, a challenge exacerbated by the current NTA formula. Additionally, capacity constraints in implementation, especially on infrastructure projects, reduces the effectiveness of public spending. Policies to support faster convergence across the country include reforms to strengthen LGU fiscal capacity and equity, improved public investment management, and enhanced budget transparency and performance monitoring.

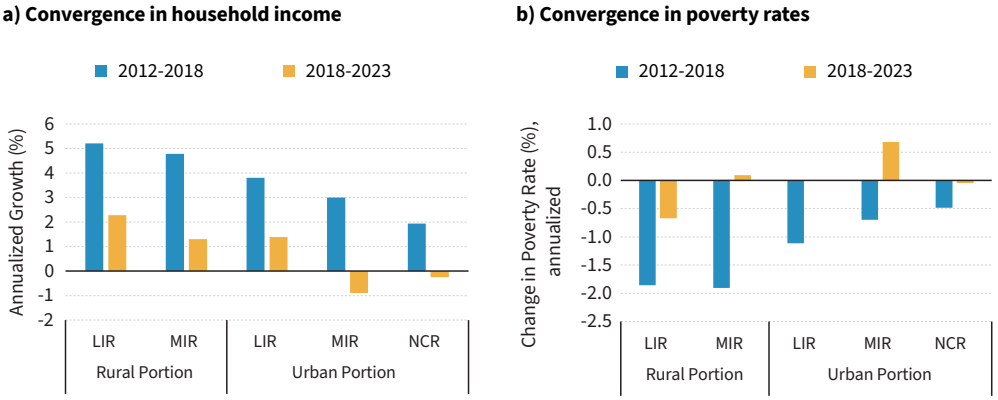
**Reducing poverty sustainably requires narrowing the country's substantial spatial disparities in both service quality and economic opportunity**. Among the services provided through LGUs, those key to supporting poor and vulnerable households include early childhood development, primary healthcare, local infrastructure, agricultural extension, and disaster response. Following the Mandanas ruling, disparities in local capacity to deliver these services have become a more binding constraint as resources expand. This chapter examines the contribution of income convergence to recent poverty reduction and identifies the service delivery challenges faced by lagging regions.

## 4.1 Spatial Convergence in Welfare

**Convergence in regional economic output has been accompanied by convergence in household incomes and poverty incidence**. Low-income regions (LIRs) and middle-income regions (MIRs) have grown faster in GDP and labor productivity than the NCR.[41] This pattern holds at the household level, with LIRs and MIRs posting larger income gains in 2012–2018 and again in 2018–2023, especially in rural areas. From 2012 to 2018, household incomes in rural LIRs grew by 5.2 percentage points per year versus 3.8 in urban LIRs; rural MIRs rose 4.8 versus 3.0 percentage points in urban MIRs; and NCR increased only 1.9 percentage points (Figure 4.1 a). Although income growth slowed in 2018–2023 due to COVID-19, convergence persisted, with LIRs and rural MIRs continuing to see positive household income growth while urban MIRs and NCR stagnated or declined.

[41] Source: World Bank (2025a).

**FIGURE 4.1.** Convergence in household outcomes, 2012-2023




**Source:** World Bank tabulations based on FIES 2012-2023.
**Note:** The figures show categories arranged by increasing average household income levels in 2012, meaning rural MIR has a lower average income than urban LIR. All incomes are adjusted for inflation using the CPI and are spatially deflated according to national poverty lines. Because of a change in how imputed rent is calculated as part of household total income, the reported values reflect income without including imputed rent.

National poverty reduction was largely driven by rural LIRs and MIRs, with more pronounced declines in 2012–2018 and only rural LIRs achieving significant reductions in 2018–2023 (Figure 4.1 b); this convergence reflects robust job creation beyond the primary sector and a shift into higher-productivity activities such as construction, commerce, and innovative services, as discussed in the previous chapter. However, disparities in poverty levels remain. While 55.2 percent of cities and municipalities have poverty incidence below 20 percent, 7.8 percent still record poverty rates above 40 percent, with most of these high-poverty areas found in Mindanao and Visayas.[42]

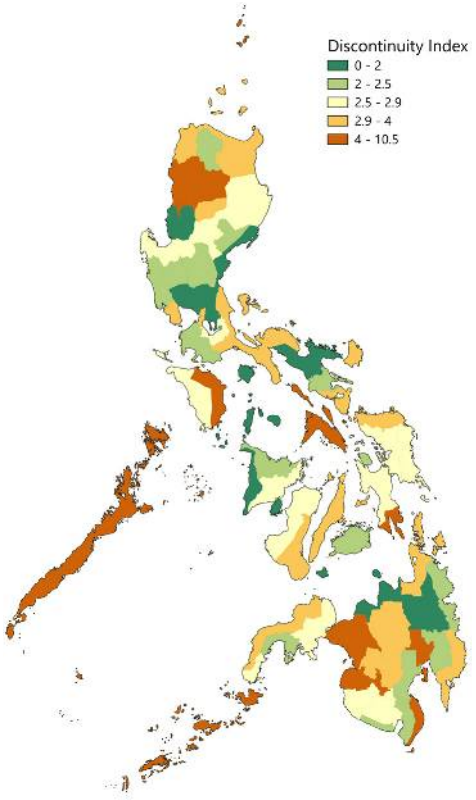
**Access to public services also converged, with less developed regions narrowing the gap in providing improved water and sanitation services and electricity. Yet, significant disparities in service delivery remain across neighboring cities and municipalities**. The improvements in emerging areas meant that by 2023, on average, the share of the population with access to improved water sources was at least 90 percent across all four groups.[43] Still, considerable dispersion can be found across LGUs—HUCs, cities, and municipalities—which deliver basic services locally, including primary health centers, water and electricity, safety and security, and support for education, such as early childhood interventions. The State Discontinuity Index, which measures disparities in service delivery across localities within each province, shows significant variance in local service provision across neighboring LGUs. Certain provinces, including Basilan, Tawi-Tawi, Sulu, Abra, and Palawan, stand out for their uneven public service provision (Figure 4.2).

[42] Source: PSA, 2023 Small Area Estimates. Available at: https://psa.gov.ph/content/881-cities-and-municipalities-recorded-poverty-incidence-20-percent-or-lower-2023 (accessed February 9, 2026). The shares differ slightly from those reported on the website because HUCs were added to the count based on the official 2023 poverty statistics from the PSA.
[43] World Bank tabulations based on FIES 2018 and 2023.

## 4.2 The Importance of LGUs and Devolution for Continued Convergence

**The role of LGUs in sustaining spatial convergence—especially in infrastructure, human capital investments, and regulatory framework—became more prominent after the 2019 Supreme Court Mandanas-Garcia ruling** (the *Mandanas ruling*), which increased the share of national resources transferred to the LGUs.[44] Growth in LGU spending has outpaced national spending since 2017, peaking in 2022 at 4.5 percent of GDP (19.2 percent of government spending), up from 2.9 percent and 16.8 percent, respectively. Around 20 to 30 percent of public spending in sectors like health and social security is done at LGU level. The NTA, which rose to 3.5 percent of GDP and 14 percent of public spending in 2022 after the Mandanas ruling, is the primary transfer to local governments. The NTA makes up over 80 percent of resources for about three-fourths of LGUs. Most LGUs have low own-source revenues, mainly due to limited administrative capacity, restrictive revenue authority under the Local Government Code, and, in some areas, weak local economic activity.

**FIGURE 4.2.** Measure of state discontinuity by province, 2020




**Source:** World Bank tabulations using city/municipality-level indicators based on CPH 2020 (for enrollment rate, electricity, and water access), DOH (for health or the survival rate of under-five), and ACLED data (for security or the number of days with no conflict). The methodology is based on Ceriani, Lopez-Calva, & Restrepo-Oyola (2024).

**The process of devolving responsibilities to LGUs is still unfolding**. As shown in Table 4.1, the list of functions devolved to LGUs is extensive, but LGUs vary significantly: there are 1,488 municipalities and 146 cities and HUCs, with populations ranging from fewer than 200 to nearly 3 million. The devolution of functions is yet to be clarified, such that, as of 2026, LGUs do not exercise many of their legal mandates, and many devolved functions remain managed by the central government. LGUs are particularly important in three areas essential for poverty eradication and the creation of better jobs: (1) local infrastructure development essential for productivity and access to markets; (2) human capital investments through primary health, nutrition and early education services; and (3) local regulations that can foster or hinder economic dynamism.

[44] The Philippines Supreme Court (Supreme Court Decision Mandanas-Garcia v. Ochoa G.R. Nos. 199802 and 208488) significantly expanded the role of LGUs by increasing their access to financial resources to 40 percent of national internal revenue taxes. Implementation of the ruling began in 2022.

**TABLE 4.1. List of devolved functions, 2026**

| | Function | Key Service Components |
|---|---|---|
| 1 | Agriculture & Fisheries Support Services | Extension services; distribution of seedlings/fingerlings; control of plant/animal pests and diseases; operation of demonstration farms; inter-barangay irrigation; enforcement of fishery laws |
| 2 | Health & Primary Health Care | Disease surveillance; maternal and childcare; family planning; nutrition services; public health-facility enhancement; non-communicable & communicable disease prevention/control |
| 3 | Social Welfare and Community Development | Assistance to senior citizens; disability services; vulnerable groups; livelihood support; day care centers; protective services |
| 4 | Local Infrastructure and Public Works | Municipal roads and bridges; flood control; water supply & sanitation systems; drainage; waste treatment; construction of public facilities (classrooms, public buildings) |
| 5 | Environment and Natural Resource Management | Solid waste management; sanitary landfill/MRF; protection of water/air quality; mangrove conservation; community forestry; pollution control |
| 6 | Education Support (Non-instructional) | Maintenance or construction of school facilities; public libraries or reading centers; support services ancillary to formal instruction |
| 7 | Local Economic Development, Livelihood and Tourism | Support to micro/small enterprises; tourism, arts and culture promotion; local market operations (public markets/slaughterhouses) |
| 8 | Public Safety and Regulatory Functions | Local business permitting; licensing; local peace and order; enforcement of local ordinances; fire protection / local fire services |
| 9 | Disaster Risk Reduction and Emergency Response | Preparedness; early warning; response; recovery; risk assessments; evacuation and evacuation planning |
| 10 | Monitoring, Standards and Capacity | Inventory of existing functions, services and facilities; capacity building/ organizational strengthening; standards for service delivery; reporting and accountability; phasing of assumption of responsibilities |

**Source:** World Bank analysis based on: Implementing Rules & Regulations (IRR) of EO 138, s. 2021; Municipal Devolution Transition Plan (MDTP); and Pinamalayan DBM / DILG LGU Devolution Transition Plan templates and guidance.

**The transfer of responsibilities to LGUs provides an opportunity to advance the convergence agenda on all fronts.** Service delivery has a profound impact not only on human capital and living conditions, but also on economic development, acting as both a direct driver of growth and jobs as well as an essential enabler for broader economic transformation. As fiscal decentralization grows and LGUs handle more sectoral spending, effective subnational governance is essential to reduce regional inequality and support place-based development. The rest of this chapter uses novel information on LGU budgeting and spending to identify opportunities for supporting underperforming LGUs (Box 4.1).

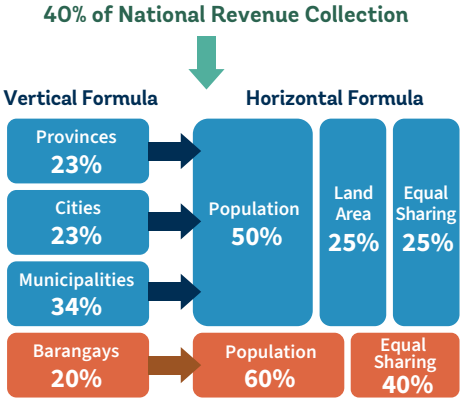
### BOX 4.1: Subnational spending data

This analysis relies on data on fiscal spending across local government units. Though information is collected for auditing, it is not compiled and processed for analysis, thus limiting its ability to show how differences in spending translate into outcomes. For this study, the World Bank team compiled the data by web-scraping budget information from the official reports and website of the Commission on Audit (COA). Merged with statistical information about household welfare estimated from the FIES and census, they allow an examination of the relationship between local government fiscal measures and welfare outcomes. The findings presented in this chapter demonstrate the potential of granular and administrative data to generate evidence-based insights that can inform policy decisions at both the national and local government level.

## 4.3 Local Resource and Capacity Challenges

**The ability of LGUs to effectively fulfill this role varies across the country and is shaped by three factors**: (1) the availability of *resources*; (2) the distribution of these resources across sectors and localities, i.e. *allocative efficiency*; and (3) their capacity to spend them effectively to achieve desired outcomes, i.e. *operational efficiency*.[45] The analysis below shows that LGUs struggle both with insufficient resources and limited capacity to deploy them effectively. Together, these dimensions highlight the dual challenge of ensuring adequate fiscal resources and enhancing institutional capacity to deliver results.

**FIGURE 4.3.** NTA distribution formula, 2026




**Source:** Valley and McDonald (forthcoming)

**Resources for LGUs are likely to be insufficient for many to fully deliver on their mandates, slowing poverty reduction and spatial convergence**. Limited data to measure regional service needs and costs prevents an accurate quantification of the vertical fiscal gap, the difference between revenues and expenditure needs. Yet, a recent report from DEPDev suggests that poorer municipalities face bigger fiscal gaps than richer ones and, with increased devolution, these may grow (DEPDev, 2025). Indeed, realized low per-capita spending, for example—an average of just PHP 388 (USD 17.7 in 2021 PPP) per capita on locally funded healthcare in 2022—suggests many LGUs have insufficient resources to meet their communities' needs. Instead, the average LGU spends almost half of its resources on administration,[46] reflecting high fixed costs of core administrative LGU functions and likely coming at the expense of infrastructure and core service provision.

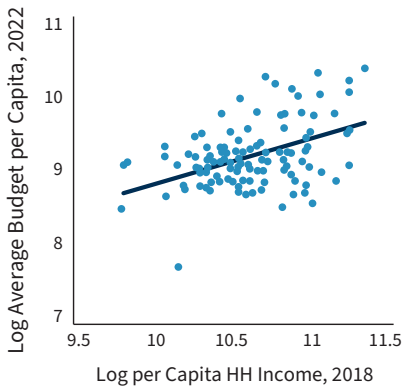
**Intergovernmental transfers account for most LGU financing, but the current formula does not fully support allocative efficiency**. The current NTA equalizes the distribution of national resources across LGUs mostly based on size of the LGU (both population and land), overlooking differences in local spending needs, economic conditions, and local revenue-generating capacity (Figure 4.3).[47]

[45] The 1991 Local Government Code ensured that LGUs manage over 80 percent of the country's road network, directly influence trade and investment attraction at the regional level, as well as provide essential services, including health and education.

[46] General public service is the largest spending item in LGU budgets, largely composed of administrative functions, including executive and legislative offices, treasury, tax collection, planning, internal audit, civil registration, and human resource management.

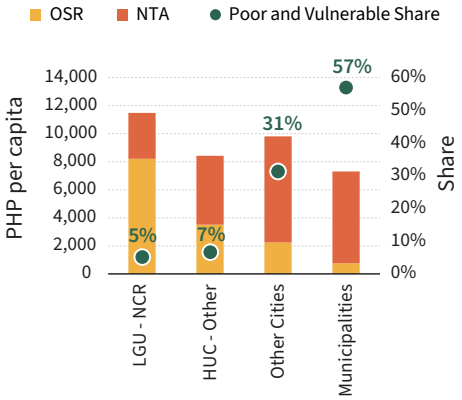
[47] The NTA is determined as 40 percent of national tax collections from three years prior. The NTA is apportioned among LGU levels as follows: provinces (23 percent), cities (23 percent), municipalities (34 percent), and barangays (20 percent). Within each category, individual LGU shares are determined by a weighted formula: provinces, cities, and municipalities receive allocations based on population (50 percent), land area (25 percent), and equal sharing (25 percent), while barangays' shares are based on population (60 percent) and equal sharing (40 percent).

**FIGURE 4.4.** LGUs by budget per capita and household income level, 2022




**Source:** WB staff estimates using BLGF 2022 and FIES 2018. Each point represents the average of cities/municipalities per province based on their income classification. The relation between per capita household income and budget per capita is positive (0.52) and significant at a 1 percent level.

**FIGURE 4.5.** LGU budget in per-capita terms, 2022




**Source:** Valley and McDonald (forthcoming) and World Bank tabulations based on FIES 2023.
**Note:** OSR = own-sourced revenue. Poor and vulnerable share is the share of the country's poor and vulnerable population living in each of the four types of LGUs.

This approach, combined with differences in local revenue mobilization, leads to richer HUCs and municipalities employing significantly more resources than poorer counterparts, even in per capita terms (Figure 4.4). In 2022, municipalities received the highest NTA per capita, more than double that of NCR LGUs (Figure 4.5). Yet NCR LGUs still commanded around 50 percent more in per-capita resources owing to own-source revenues more than 10 times larger. Accounting for 57 percent of the country's poor and vulnerable population, municipalities remain the LGU type with the smallest per-capita budgets, suggesting that the current NTA formula is insufficient to close the gap created by disparities in local tax bases. As it increases the share distributed to LGUs, the Mandanas ruling could be used to reduce the gap between expenditure needs and local potential revenue capacity.

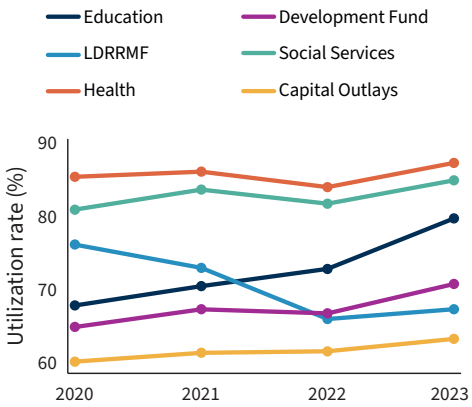
**Availability of resources alone does not guarantee developmental impact; local capacity to use resources effectively is essential**. The effectiveness of spending at the LGU level matters for local services, as reflected in its impact on access to rural health units. Each percentage point increase in health spending is associated with 0.3-0.7 percentage point more population with coverage, translating to 150-350 additional people gaining access in a typical 50,000-person LGU.[48] The budget utilization rate, measuring the proportion of budgeted resources spent, can be a key indicator of operational efficiency—or the ability of local governments to convert budgets into actual spending supporting services and measurable improvements in well-being. Overall, utilization rates remained largely stable in 2022 despite the increase in NTA. The available data suggest that only some of this absorption went into increased wage spending; more analysis is needed to identify other absorption channels. Notably, LGUs in low- and middle-income regions had higher utilization rates, with about 71 to 74 percent both in 2019 and 2022. LGUs in NCR had the lowest average utilization rates, spending only 63 to 67 percent of their funds.

[48] World Bank tabulations based on the Census of Population and Housing 2020, COA, and PSA's 2021 poverty small area estimates.

**Inefficiencies in spending vary across sectors, with the most severe underutilization found in capital investment-related spending.** Capital outlays consistently underperform, with utilization rates of only 64-67 percent, while development fund utilization is also low at around 65-67 percent, indicating persistent challenges in executing development infrastructure projects and capital investments (Figure 4.6).[49] These low utilization rates in capital-intensive sectors suggest systemic problems with the implementation of public investment projects and capacity constraints that prevent governments from effectively translating budgeted infrastructure spending into actual development outcomes. In contrast, sectors heavily reliant on human resources like education (73-78 percent), health (87-89 percent), and social services (83-84 percent) maintain more stable and higher utilization rates. The primary inefficiencies in spending may lie specifically in the management of capital and development investments, which often rely on large procurement activities, rather than operational spending dominated by wage costs. These disparities highlight the need for targeted diagnostics and interventions for infrastructure development projects, including stronger coordination mechanisms across LGUs.

**Persistent institutional constraints in public financial management underpin operational inefficiencies and undermine LGUs' ability to deliver services effectively**. Oversight and results monitoring mechanisms remain weak, with limited transparency and coordination between LGUs and national government agencies. Available evidence suggests that PFM systems remain largely paper-based and fragmented, lacking integration across budgeting, procurement, and reporting functions (Philippines 2025).[50] This inefficiency is compounded by weaknesses in PIM frameworks, which hinders evidence-based project selection. Paper-based and weak PIM processes also make it harder to monitor projects and identify bottlenecks and inefficacies in delivering infrastructure, including in flood prevention. This is reflected in very low rates of utilization of budget allocations to capital projects. The lack of digital infrastructure, standardized data protocols, and trained personnel further limits the ability of many LGUs to manage resources strategically and respond to local development needs.

**FIGURE 4.6. Sectoral budget utilization rates as a percent of budget, 2020-2023**




**Source:** World Bank tabulations based on COA.

**These constraints are most acute in poorer municipalities, where the gap between mandated service delivery responsibilities and actual management capacity is widest**. Inputs such as functioning internal audits, realistic budgets, and actionable

[49] The LDRRMF is set at 5 percent of estimated regular revenue (including NTA) and designated as 70 percent for disaster preparedness and 30 percent for relief/recovery. Its usage fluctuates partially depending on whether the locality was hit by natural disasters. Unexpended LDRRMF balances accrue to a special trust fund for five years, after which they revert to the LGU's general fund for use on other social services.

[50] The 2025 PEFA assessment found that certain government agencies continue to rely on manual processes that limit timely consolidation and reconciliation of financial reports, with key indicators in this area rated C, and notes that the rollout of critical integrated systems such as IFMIS and BTMS continues at a slower pace than planned.

investment plans are key factors in determining whether services reach communities, yet evidence shows that these capabilities remain weak. The PFMAT, first launched in 2012 with donor support and mandated for all LGUs by DBM in 2022, assesses weaknesses across seven PFM pillars, including budgeting, investment programming, and internal audit, and translate findings into a sequenced PFM Improvement Plan (PFMIP).[51] The results have been disappointing: national average scores moved only marginally over a decade (from 2.32 out of 4.0 in 2013 to 2.99 by 2022, below the target of 3.20), the same weaknesses appeared in every cycle, and only half of LGUs submitted scores even after submission became mandatory (Asian Development Bank, 2023). A core challenge is a disconnect between assessment and remediation. Regional Inter-Agency Teams that provided hands-on technical assistance for PFMIP implementation functioned while donor funding lasted through 2016, leaving PFMIPs as compliance documents with no funding, no TA, and no accountability for follow-through.[52]

**Designing reforms that deliver results at the local level requires grappling with the political economy of LGU governance**. Political dynasties are a structural feature of the landscape: estimates for 2025 indicate that 113 out of 149 city mayors were from family dynasties (Latoza, Ballerda and Oliveros 2025), and dynasties have been found to increase municipal spending by 4 to 5 percent, particularly on economic services and health, without corresponding gains in growth or poverty reduction (Dulay and Go, 2021). This pattern points to resource misallocation that weakens the link between spending and outcomes. Reforms that strengthen accountability, transparency, and results-based governance at the local level are an important part of the equity agenda. Building in mechanisms that make resource allocation more transparent, link transfers to performance, and empower communities to hold local governments accountable can help ensure that expanded fiscal space and program resources translate into genuine improvements in service delivery.

**The wide variation in LGU effectiveness in delivering the foundations for job creation and poverty reduction points to the need for a more explicit and coherent decentralization policy, supported by targeted interventions across several dimensions**. A review of the intergovernmental fiscal system is needed to induce local governments to mobilize more of their own revenues, expand the resource base, and address horizontal inequities across LGUs. This should be accompanied by improvements in financial and investment management to address allocative and operational inefficiencies in how resources are currently used. Greater transparency and accountability require standardized reporting and digital platforms capable of generating timely, granular budget and performance data. These can serve as the foundation for performance-based and sector-specific grants that create stronger incentives for results-driven service delivery. Finally, a coherent strategy for the devolution of responsibilities, paired with coordinated capacity-building programs and structured horizontal learning among LGUs, is essential to support lagging local governments in assuming devolved functions and moving toward more equitable and effective local governance.

[51] The PFMAT for LGUs was developed by DBM with financial and technical assistance from the European Union Delegation to the Philippines. A DBM Memorandum Circular mandated all LGUs to submit their PFMAT beginning in 2022. The ePFMAT covers seven pillars: policy-based budgeting, credibility of the budget, comprehensiveness and transparency, predictability and control in budget execution, accounting and reporting, internal and external audit, and citizens' participation.

[52] As reported in the May 2019 presentation "Reforming and Sustaining Local Government Unit Public Financial Management (LGU-PFM) Systems in the Philippines" by Imelda C. Laceras, Regional Director of the Department of Budget and Management, Central Visayas.

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CHAPTER 5.

# Broadening Employment Opportunities to Foster Inclusion and Economic Security

Women, and especially lower-skilled women, are the largest untapped source of potential workers. Facing a combination of labor supply challenges from gender norms and care constraints and few viable employment options for lower-skilled women, initiatives that support flexible employment, self-employed workers, and microenterprises, along with wider adoption of digital technologies, can unlock substantial growth and poverty reduction. Second, reforms to reduce labor market dualism, such as streamlining dismissal rules, would improve job quality and productivity, especially for workers without college degrees. Third, as international migration continues to be an important opportunity for upward mobility in the country, reducing barriers to international migration from lagging regions can help tilt remittances to support lagging regions.

**Creating more and better jobs is the primary engine for shared prosperity in the Philippines**. Today's constraints to securing a high-quality job fall disproportionately on women, lower-skilled workers, and those in lagging regions. This chapter identifies practical pathways to increase household income and resilience through measures that expand opportunity, raise job quality, and harness migration for faster poverty reduction.

## 5.1 Removing Barriers and Expanding Options for Women's Employment

**Women's lower labor force participation in the Philippines remains the largest untapped source of labor market growth and a critical lever for poverty reduction**. In 2023, only 64.8 percent of prime-age women participated in the labor force—28 percentage points lower than men—with the gap widest among the poorest (Figure 5.1). While comparable to Malaysia and smaller than Indonesia, this gap is larger than Viet Nam and Thailand, underscoring substantial headroom for potential employment growth.[53] Access to schooling and hence better employment opportunities helps close the gap: college-educated women have an 81 percent participation rate, narrowing the gender gap to 11 points, while women with secondary education or less are over 30

[53] International comparisons are based on ILOSTAT (https://ilostat.ilo.org/data/). The LFP gap for the Philippines in the ILOSTAT is 26.2 (based on 2022 LFS).

**FIGURE 5.1.** Labor force participation rates by gender and income decile, 2023

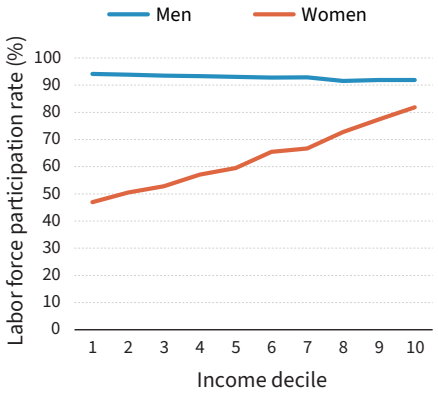
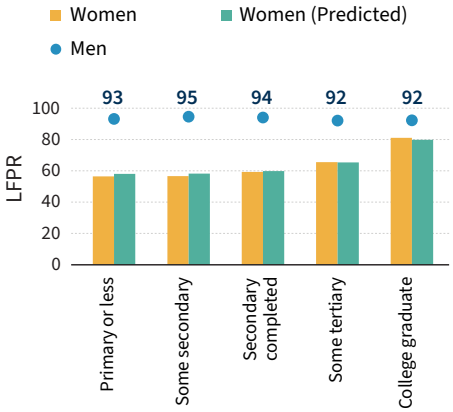



**FIGURE 5.2.** Labor force participation rates by gender and educational attainment, 2023




**Source:** World Bank tabulations based on FIES-LFS 2018 and 2023
**Note:** Figures 5.1 and 5.2 report labor force participation rates for adults age 25 to 55. Figure 5.2 excludes adults currently enrolled in educational programs. "Women (predicted)" value reports the fitted LFP controlling for age and the number of children in the household. The category of "some tertiary" includes technical and vocational education and training, as well as those who did not finish college.

points less likely to work than similarly skilled men (Figure 5.2). An increase in women's employment, especially among lower-skilled women in low-income households, would generate significant reductions in poverty and vulnerability.

**While the main barrier to women's workforce participation is gender norms, even when women work outside the home, they face limited, care-incompatible job options, especially when they lack an advanced education** (Belghith, Lavin, and Lapalombara, 2021; Belghith and Fernandez, 2021; Belghith, Fernandez, and David, 2022). Seventy-five percent of men and 80 percent of women agree that "a man should earn and a woman should care for the family," with childcare in particular being cited as a priority (over 95 percent reported that childcare should be provided by family) (Belghith, Lavin, and Lapalombara, 2021). Reflecting this, roughly 9 in 10 women out of the labor force in 2023 cited household responsibilities as the main reason.[54] However, this only partially reflects the labor intensity of childcare, since marriage alone, even without children, is associated with a 10-point drop in women's workforce participation (Figure 5.3). At the same time, women's options for gainful employment are severely limited without higher education. Among working women who did not complete secondary school, fewer than half hold paid wage jobs, with a third employed by private households in domestic or care work (Figure 5.4). College-educated women's higher employment rates reflect better opportunities, with 83 percent working in paid wage jobs. These provide higher wages that allow the outsourcing of household tasks and benefits, and offer flexibility, including telework and maternity leave.

[54] Based on World Bank tabulations of FIES 2023.

**FIGURE 5.3.** Labor force participation rates of married women relative to unmarried women without children, 2023

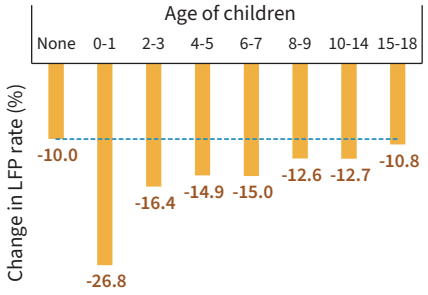
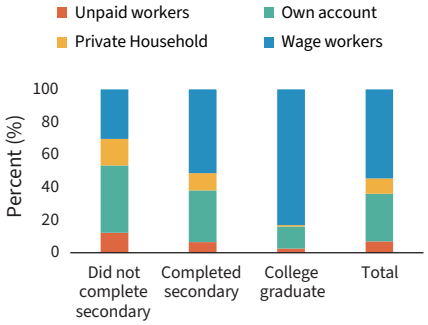



**FIGURE 5.4.** Women's employment type by educational attainment, 2023




**Source:** World Bank tabulations based on FIES-LFS 2018 and 2023
**Note:** Figure 5.3 reports the difference in women's LFP of married women with children to otherwise similar women who are unmarried and do not have children. The results are based on a regression controlling for education, age and its square, region, and urban status. The sample is limited to women ages 18 to 55. In Figure 5.4, "private household," refers to workers employed by private households, largely but not limited to domestic and care workers.

**Own-account work and digital technologies offer women greater flexibility, creating important pathways into employment; however, constrained access to credit and digital skills limits how much women can earn through these channels**. Twenty-nine percent of working women are own-account workers or microentrepreneurs, most operating very small businesses: 80 percent of women-led MSMEs employ fewer than five workers, and 36 percent are single-person enterprises.[55] These businesses are smaller than their male-owned counterparts, more reliant on personal savings and microfinance, and less likely to use formal credit, reflecting barriers such as documentation requirements, collateral constraints, and perceived loan risk.[56] Digital access has expanded women's employment opportunities: broader internet access has been associated with a 4 percentage point increase in female labor force participation (Dettling 2017), and during the pandemic, women took up remote work at three times the rate of men.[57] Yet digital skills remain scarce and unevenly distributed, and while a higher share of women entrepreneurs report taking training in the past year (47 percent versus 38 percent for men), limited digital literacy, poor connectivity, and high transaction costs continue to constrain their market reach.[58]

**Increasing women's employment can significantly boost household income and resilience**. Gender norms, particularly unbalanced household burdens, are a major barrier. Addressing these requires not only reducing the labor intensity of motherhood through affordable childcare and expanded early education, but also taking steps to shift social attitudes to value women's work outside the home and men's involvement in the home. Job opportunities also need to be expanded for lower-skilled women, especially work compatible with home responsibilities, through key sectors like tourism, professionalized childcare, and overseas domestic work (see Chapter 5.3).

[55] World Bank analysis based on the 2020 Future of Business Survey collected by the OECD and Facebook.
[56] World Bank tabulations based on 2020 Future of Business Survey collected by the OECD and Facebook; the Global FINDEX database 2017-2021; and Bangko Sentral ng Pilipinas 2021 Financial Inclusion Survey.
[57] World Bank analysis based on LFS January 2021 to December 2022.
[58] World Bank analysis based on the 2020 Future of Business Survey (OECD and Facebook).

While part-time work is not prohibited, there is no legal framework for part-time formal employment. Digital skills and technologies can further support women's participation, while broader access to financial instruments and training for microentrepreneurs can help increase their income. Finally, given the importance of gender roles and norms, incorporating gender-sensitive elements with targets is essential for active labor market programs (ALMPs) to effectively support women's employment.

## 5.2 Increasing Formalization and Regularization

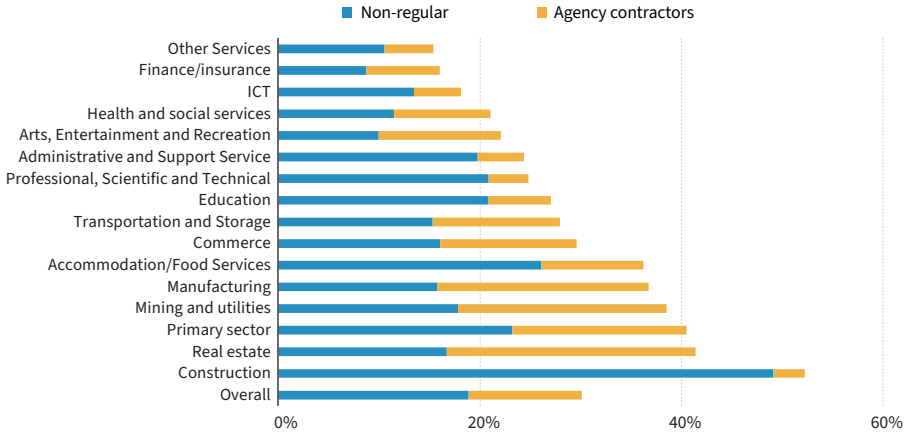
**Labor regulation reform is one of the most consequential and contested areas of Philippine economic policy** (World Bank 2023a). This complex challenge includes genuine trade-offs that no single instrument can fully resolve. Regulations intended to protect workers can, under certain conditions, reduce employers' willingness to hire formally, shifting risk onto the very workers they aim to cover. Conversely, weakening protections without adequate alternatives expose workers to greater insecurity. The Philippine labor market reflects the accumulated effects of this tension over decades: a small share of workers enjoy strong formal protections, while the majority—especially those with less education, in smaller firms, or in sectors with high seasonal variation—remain in precarious, informal, or non-regularized arrangements. Addressing this challenge requires a sustained effort across multiple fronts, and the political economy of reform presents significant challenges that any reform package should consider.

**As more workers have transitioned into wage employment, the potential for increased formalization and employment-linked social protection grows**. There were almost 50 million workers in the Philippines as of 2025. About a third of them, or 18 million, contributed to either the social security system (SSS) or the public sector equivalent (GSIS).[59] Official surveys do not allow for identification of formality, regularization, or individual contributions to Social Security, but estimates are broadly aligned with the administrative records. These records suggest that regularization is significantly higher among college-educated workers, reaching about 64 percent, while just around 12 percent of workers who have not completed secondary schooling are likely regularized (Table 5.1). Non-regularized employment and subcontracting is common, particularly in industries generating jobs for low-skilled workers. This includes more than half of jobs in construction and more than a third of those in real estate (which includes security and cleaning/maintenance services), the primary sector, manufacturing, and accommodations and food services (Figure 5.5). Even the public sector, particularly LGUs, relies heavily on non-regular arrangements, with nearly 30 percent of workers hired under Contracts of Service or Job Orders.[60] By law, employer payroll contributions should be extended to contractual, probationary, and other non-regular employees—but official contribution rates suggest many remain uncovered.

[59] Source: Government of the Philippines "Social Security System 2025 Performance Scorecard" (Accessed November 2025) https://www.sss.gov.ph/wp-content/uploads/2025/10/Proof-of-Accomplishment-3rd-Quarter.pdf; and Integrated Corporate Reporting System.

[60] Department of Budget and Management Press Release, April 2024

**FIGURE 5.5.** Non-regular workers as a share of rank-and-file workers in medium and large firms by industry, 2021-2022




**Source:** PSA, 2021/2022 Integrated Survey on Labor and Employment (ISLE).

**TABLE 5.1** Employment type by educational attainment (%), 2023

| | | Incomplete secondary | Secondary | Some tertiary | College | Total |
|---|---|---|---|---|---|---|
| Wage | Likely SSS contributions | 11.6 | 30.6 | 39.9 | 64.1 | 31.9 |
| | Unlikely SSS contributions | 44.6 | 38.9 | 28.9 | 19.2 | 35.6 |
| Non-wage | Self-employed | 34.5 | 24.6 | 23.5 | 12.1 | 25.4 |
| | Employer | 3.0 | 2.2 | 2.9 | 2.5 | 2.6 |
| | Unpaid, family | 6.3 | 3.8 | 4.9 | 2.2 | 4.5 |

**Source:** World Bank tabulations based on FIES-LFS
**Note:** Wage workers who are likely to receive SSS contributions are those who (1) live in households that made SSS, GSIS, or PhilHealth contributions and (2) are paid based on regular work periods (such as by the week or month), (3) receive monetary payments(as opposed to in-kind payments), and (4) are not temporary, seasonal, casual, or working for multiple employers.

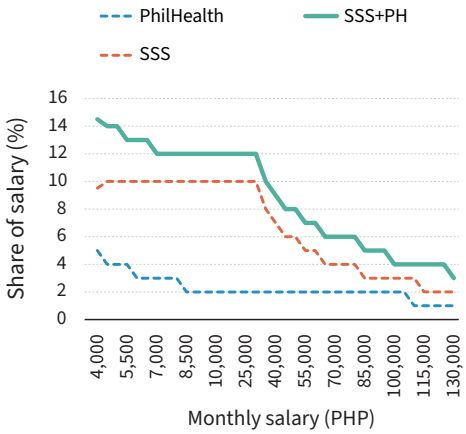
### Two challenges arise from this structure:

1. **Lower social protection coverage undermines household resilience** (World Bank 2023a). In the Philippines, formal workers are entitled to employer contributions to three required contributory systems: the SSS, PhilHealth, and Pag-IBIG (savings plan for housing). The SSS is particularly important, since it extends beyond old age pension to include unemployment insurance, sick leave, maternity leave, disability, and loans in the event of a disaster.

2. **Fewer long-term positions can reduce skill acquisition and career progression**. Over-reliance on short-term employment can curtail career development opportunities, particularly for lower-skilled workers and youth, by reducing opportunities for on-the-job learning and firm-specific skills. Reforms that reduced dismissal restrictions for regularized workers in the similarly dual labor market of Italy increased the number of trained workers by affected firms by 50 percent (Bratti, Conti, and Sulis 2021). Challenges from high turnover also harm the quality of public services, including those provided by LGUs (World Bank 2024c).

**The combination of different policies and regulations currently in place are likely contributing to non-regular employment and informality**. A complex and costly dismissal process for regular workers, combined with payroll costs of approximately 23 percent of gross wages, incentivize firms to rely on short-term contracts and subcontracting to maintain flexibility and reduce costs. Strict hiring and dismissal regulations are associated with higher informality (Ohnsorge and Yu, 2022) and a greater reliance on temporary contracts (Boeri and Garibaldi, 2024). Actual termination costs can far exceed statutory minimums due to legal challenges and potential back wage awards, with dismissal cases sometimes taking years to resolve.[61] Unlike Malaysia, Singapore, and Viet Nam, the Philippines does not explicitly recognize poor performance as a just cause for dismissal. Instead, it relies on the stricter threshold of "gross and habitual neglect," which, from the employer's perspective, increases the perceived risks of regularization.[62] In particular, distortionary payroll costs at the bottom of the distribution incentivize both employers and employees to opt out of formality for the lowest earners (Figure 5.6). This situation is compounded by minimum wages that are high relative to the level of labor productivity in some parts of the country, effectively pricing some workers out of formal employment (World Bank 2025a). Together, these three features (e.g., regulatory uncertainty around dismissal, the regressive cost of payroll contributions, and high minimum wages) may incentivize informality and non-regularization as rational responses for both firms and workers.

**FIGURE 5.6. SSS and PhilHealth employee and employer contributions as a share of salary, 2023**




**Source:** World Bank tabulations based on contribution tables.
**Note:** The x-axis uses a non-linear scale with expanded intervals at the lower and upper tails to highlight detail at the extremes.

**At the same time, the relatively long probationary regime of six months presents the opportunity for firms to rotate through probationary—or "endo" (end of contract) workers—through repeated short-term employment spells.** Both endo and labor-only contracting are already prohibited under Philippine law, yet the practice continues at scale.[63] Expanding legal restrictions on non-regular contracts without a corresponding improvement in enforcement capacity and in the underlying cost structure of regularization risks pushing firms further toward informality rather than toward compliance. Equally, further restricting employer access to short-term contracts outright, including legitimate project-based and seasonal arrangements, carries risks

[61] World Bank B-READY database, 2025.

[62] World Bank analysis of the following legal code and regulations: Philippines: Labor Code (Presidential Decree No. 442). Malaysia: Employment Act 1955 (Act 265); Industrial Relations Act 1967; Code of Conduct for Industrial Harmony. Singapore: Employment Act (Cap. 91); termination due to employee misconduct (Ministry of Manpower); responsible retrenchment (Ministry of Manpower); Viet Nam: Labour Code No. 45/2019/QH14.

[63] They are permitted for project-based work, seasonal employment, teaching contracts tied to a school year, or overseas employment. Source: Department of Labor and Employment (DOLE). (2017). Primer on Contracting and Subcontracting. https://www.dole9portal.com/qms/references/QP-OO2-11/DO%20174-17.pdf. Labor-only contracts are banned under Department Order No. 174 (2017).

for business flexibility that could dampen hiring. The policy challenge is therefore not to eliminate all forms of non-regular employment, but to close the space for non-compliant arrangements while preserving those that serve legitimate operational needs.

**A recurring finding across comparative labor market analysis is that the gap between what regulations say and how they are practiced is often as consequential as the content of the rules themselves**. This is also the case in the Philippines. Existing legal prohibitions on endo and labor-only contracting have not prevented their widespread use, in large part because enforcement capacity is severely constrained; there are only a few hundred labor inspectors, and few firms report inspections (World Bank 2023a; World Bank B-READY database 2025). In addition, inter-agency data systems that would allow monitoring of employer compliance with social insurance contributions remain fragmented. Regulatory reform that addresses these enforcement bottlenecks is likely required to change behavior at scale.

**A careful and balanced reassessment of existing labor regulations and payroll costs is needed to encourage more regularization in a dynamic economy, balancing protection, productivity, and opportunity**. The solution lies not only in closing legal loopholes but also in crafting balanced reforms that provide for more flexibility for employers, better protection for displaced workers, and greater enforcement. For example, this might mean pairing a streamlining of dismissal policies with greater enforcement of SSS coverage, expanded unemployment insurance, and improved data to support better enforcement. Adjustments to the payroll tax to reduce its regressivity could be achieved with revenue neutrality through modest adjustments to the payroll tax contribution ceiling or by broadening the PIT. Good initiatives to expand SSS coverage to non-regularized workers already exist, though with low uptake. These include the KaSSSangga Collect Program for public sector contractors (with 56,000 members in 2025 out of over 800,000 contractors in 2023), the AlkanSSSya for the self-employed, the Contribution Subsidy Provider Program (CSPP), through which employers or other organizations voluntarily contribute to the SSS payments of vulnerable workers, and the simplified regime for domestic workers. These should be expanded as part of a comprehensive reform package of complementary measures, though low uptake would first need to be understood and addressed.

## 5.3 Harnessing Remittances for Poverty Reduction

**As of 2025, limited local employment opportunities continued to drive millions of Filipinos to seek OFW opportunities.** With over 10 million Filipinos working abroad, including over 2 million OFWs, the Philippines is the third-largest source of immigrant labor globally World Bank (2024). Resulting remittances have become a cornerstone of household welfare and macroeconomic stability, accounting for roughly 9 to 10 percent of GDP in recent years. Seventy percent of these remittances are received from OFWs—contract migrants engaged primarily in domestic work (47 percent) and seafaring (20 percent).[64] Demand for overseas jobs remains strong, even as the economy has grown: after the disruptions of the COVID-19 pandemic, the number of OFWs reached an all-time high of 2.3 million in 2023 and 2.4 million in 2024, accounting for nearly 5 percent of

[64] World Bank tabulations based on FIES 2023 and Department of Migrant Workers, Overseas Employment Statistics, https://dmw.gov.ph/statistics accessed September 2025.

Philippine employment.[65] Preliminary 2025 estimates suggest over 25 percent year-on-year growth. Women make up 55-60 percent of OFWs, and more than half have only a secondary education or lower. For women with lower levels of schooling in particular, international contract work represents an important avenue for upward mobility. While international migration is an important contributor to household welfare and the Philippine development strategy, it also involves trade-offs that affect long-term productivity growth (see Box 5.1).

### Box 5.1: Trade-offs of remittance-driven development

*Large remittance inflows and migrant outflows both support (by incentivizing and financing more human capital and local demand) and challenge (by limiting the creation of higher productivity jobs) the Philippines' long-term poverty-reduction strategy.*

**Remittances generate local demand in non-tradable sectors but may be undermining the creation of higher-productivity jobs in tradable sectors.** Remittance-fueled demand is estimated to have supported over 600,000 jobs in the primary sector, 200,000 in retail, and 150,000 in construction in 2018 (Kikkawa et al 2024). In the long run, remittances have been found to lead to higher local incomes: Batista et al. (2025) find that an increase of one standard deviation in remittances raises long-term local migrant income by 14.7 percent (driven by higher migration and higher migrant earnings) and local income (excluding remittances) by 6.4 percent, associated with an employment shift away from agriculture. At the same time, remittances can set up a self-reinforcing cycle: as inflows boost spending on housing and services, wages and prices in non-tradables rise, which further weakens tradable sectors.[66] This can be exacerbated by exchange rate appreciation arising from high inflows of international remittances (Carare, et al. 2025).

**The impact of remittances on human capital is also nuanced: they have increased educational attainment but may also be contributing to a mismatch between the skills demanded and offered locally**. Local wages are unable to compete with international rates, making it difficult to retain expertise in certain fields, particularly nursing (World Bank 2023a). And while the prospect of migration increases the country's overall skill level by incentivizing more individuals to train than will migrate (Abarcar and Theoharides, 2024), many make their educational choices by targeting migration opportunities rather than local demand, which contributes to a skills mismatch locally.

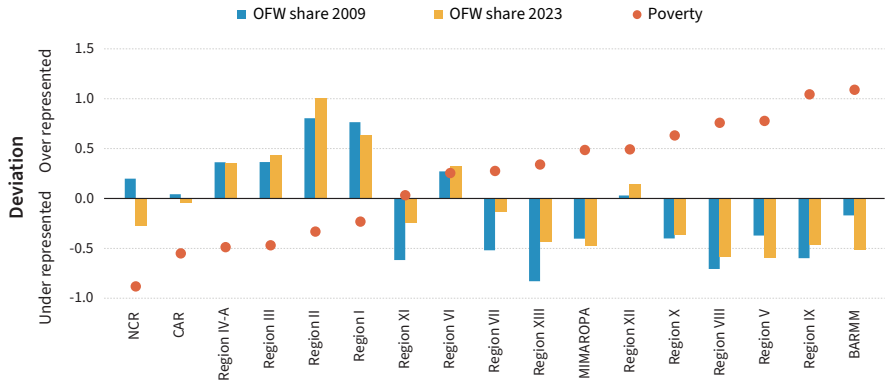
**Remittances are an important contributor to household resilience and the middle class**. As shown in Chapter 3 and in previous international research (such as Pajaron, 2014), remittances are an important tool for income smoothing when households are hit by shocks. While earlier waves contributed to poverty reduction (for example, Yang and Martinez 2005), recent trends show them to be particularly important for the middle class, with the secure middle class receiving about 60 percent of remittances. Remittances are disproportionately sent to households with greater earnings potential: household heads with a college degree were both more likely to receive remittances (25 percent) and, among recipients, to derive a larger portion of their income from them (24 percent), compared to those with only a secondary education or less (19 percent and 21 percent, respectively).

**Critically for the Philippines' ability to support poverty reduction through remittances, the poorest regions are less likely to send OFWs, leading to lower remittances**. International remittances as a share of income increase over the income distribution and are higher in areas of lower poverty rates, notably regions like Ilocos (where they account for 10.5 percent of all household income), Central Luzon (8.5 percent), and

[65] Department of Migrant Workers, Overseas Employment Statistics, https://dmw.gov.ph/statistics accessed September 2025.

[66] While firms in non-tradables can pass the increase in labor costs into output prices, those in the tradable sectors cannot, as import competition is a discipline mechanism. Thus, remittance-induced wage increases reduce the relative profitability of tradables, which tend to exhibit more dynamism due to scale and competition effects.

**FIGURE 5.7. Share of OFW workers, relative to their population and poverty rates by region, 2009 and 2023**




**Source:** World Bank tabulations based on FIES 2023 and FIES 2009.
**Note:** OFW/population is the ratio of the share of OFWs compared to the share of the national population. Poverty and OFW/population are based on 2023 values. This figure reports the deviation of the share of OFWs relative to the share of population by region. Similarly, it reports the deviation of the poverty rate from the national average.

Cagayan Valley (8 percent).This relationship and longstanding correlation between lower poverty and higher OFW rates is shown clearly in Figure 5.7.[67]

**The Philippines has a strong track record of policies supporting international migration for poverty reduction and local development (World Bank 2023d). Targeting some of these efforts to lagging regions offers an opportunity for more rapid poverty reduction and reduced spatial inequities**. This is especially relevant, given that 59 percent of new OFWs in 2024 were hired for domestic work, an occupation accessible to women without college.[68] Another important group is seafarers, an occupation with growing international opportunities in which the Visayas has built an advantage. Notably, this group of OFWs spends only part of the year overseas and is legally obligated to remit 80 percent of their basic salary. A significant barrier is low liquidity in poorer regions. Migration is typically financed by family or through informal loans from relatives and neighbors, while access to certifications and trainings is more costly in remote provinces.[69] Would-be seafarers undertake four years of training, including a one-year apprenticeship that requires securing scarce berth space aboard a ship.[70] Given the local economic benefits from remittances and the higher costs of human capital investments and migration facing individuals in poorer, less-connected regions, reducing credit constraints for training and pre-migration costs in these regions could offer a promising pathway to expanding opportunities to poorer households. The limited evidence base on training-cost financing for prospective migrants makes this an area where piloting is particularly warranted. Emerging models such as Global Skill Partnerships, which co-finance training in origin countries aligned with destination-country labor market needs, offer a promising design framework for such pilots. Piloting different approaches in lagging regions could lead to an effective lever for broadening access to migration among poorer households.

[67] One exception is seafarers, who are disproportionately drawn from the Visayas region in contrast with other OFWs, who are predominantly from Luzon.

[68] Source: Department of Migrant Workers, Overseas Deployment Statistics. This figure combines three occupational categories: (1) domestic cleaners and helpers, (2) domestic housekeepers, and (3) cleaners and helpers in offices, hotels, and other establishments.

[69] PSA, 2018 National Migration Survey.

[70] The apprenticeship can be replaced by 36 months of unstructured seagoing service per the Commission on Higher Education, relevant for cases in which berth space is not secured.

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CHAPTER 6.

# Priorities for Accelerating Poverty Reduction and Shared Prosperity

This chapter outlines a reform roadmap to move Filipinos out of poverty and into a secure middle class. For this, the Philippines needs to boost growth and translate it into more and better jobs. The policy recommendations build on the analysis presented in this report and were informed through extensive consultations.

Three challenges stand out as driving vulnerability and undermining economic security in the analysis presented in this report.

- First, **income is low** (the median household is just 76 percent above the poverty line), resulting in high vulnerability to shocks and limited potential investment in higher-quality education and other productivity-enhancing measures.
- Second, vulnerability arising from low income is compounded by **gaps in the social protection system** in the face of frequent shocks, including frequent natural disasters.
- Third, **public services are insufficient** to offset these challenges: near universal education and health-care coverage coexist with low learning rates and persistently high stunting rates. Spending on public services is undermined by weak capacity for policy design and implementation.

## 6.1 Policy Recommendations

**With the dual objective of eradicating poverty and building the middle class by increasing household resilience, policy recommendations are organized around three intermediate outcomes:** (1) strengthening the preconditions for productive employment; (2) expanding access to more and better jobs for the poor and vulnerable; and (3) strengthening income resilience (Table 1 in the Overview).

**In selecting these policies, recommendations focused on building on existing regulations and programs whenever possible**. Throughout consultations, it was repeatedly noted that multiple programs addressing the same or similar issues already exist. A lack of coordination and clear accountability across public agencies and LGUs, fragmentation of resources across uncoordinated interventions with overlapping objectives, fragmented data systems (Box 6.1), and, at times, incomplete implementation with limited monitoring, undermine the effectiveness of these programs.

For example, the AlkanSSSya program, an award-winning micro-savings and informal sector inclusion scheme for self-employed and irregular income earners to make small, manageable contributions to the SSS social insurance system, was rolled out in 2012; as of 2025, it was estimated to have fewer than 100,000 beneficiaries.

### BOX 6.1: Limited data access as a bottleneck to policy implementation

**A major challenge limiting data usage for policy making and implementation in the Philippines is the fragmentation and redundancy of government data systems**, where information is collected and stored in isolated silos without effective frameworks for sharing and integration.[71] Fragmentation in subnational financial data is a prime example: LGU fiscal records are collected separately by the Commission on Audit, the Bureau of Local Government Finance, and individual LGUs themselves; no unified, harmonized dataset exists. Publication lags, reporting standards across LGU types and years are inconsistent, and gaps in coverage limit the ability of policymakers to use fiscal data for evidence-based decision making.

**This situation is compounded by agencies' reluctance to make data accessible due to concerns over privacy, security, and ambiguous data classification rules; the result is overly restrictive sharing policies and slow adoption of cloud technologies.** The lack of clear guidance on data-sharing feasibility, absence of harmonized standards, and outdated legacy policies further impede efficient data exchange, forcing agencies to maintain costly, separate storage systems. Legal uncertainties, including around the extraterritorial application of the Data Privacy Act, lead to avoidance of international data transfers, even when global cloud services may offer better security. Additionally, poor cross-functional collaboration, underutilization of open and geospatial data, and the absence of a coherent, whole-of-government data governance strategy contribute to costly overlaps, limited data reuse, and missed opportunities for evidence-based decision-making and digital transformation.

At the same time, **while the country collects frequent surveys and censuses, and has significant subnational coverage (Appendix C), statistical data remain underutilized, and critical knowledge gaps persist**. Knowledge gaps include: no household longitudinal data (needed to better understand mobility and shocks), an incomplete measure of self-employment income at the individual level, a lack of data on regularized workers, and a lack of measures on the prevalence of informality in employment and product markets. The CBMS—a recently implemented de facto population census collected by LGUs every three years, intended for eligibility verification of social programs—does not consider the update mechanisms needed for responsive social assistance and other programs. There are also important lags in the publication and release of data.

**Given the central role of more and better jobs in reducing poverty and vulnerability, these recommendations are aligned with the World Bank Group's Jobs Strategy[72] and complement the World Bank's growth and jobs recommendations for the Philippines** (World Bank 2025a). These policy priorities aim to address the binding constraints on growth and job creation in the Philippines: limited market contestability, high energy and logistics costs, a complex business environment, infrastructure gaps, climate volatility, and slow productivity growth. The recommendations in this report focus on ensuring that the poor and vulnerable benefit from this growth process by addressing limited access to opportunities, good quality services, and productive assets. Together, the two reports present a coherent policy package (Appendix D).

[71] National Economic and Development Authority (NEDA), Government of the Philippines. (2023). Philippine Development Plan 2023–2028. Available at: https://pdp.neda.gov.ph/philippine-development-plan-2023-2028/

[72] The Job Strategy is organized around three pillars: invest in foundational infrastructure and human capital; strengthen governance and business-enabling policies to create a predictable regulatory environment; and mobilize private capital at scale.

### Pillar 1: Strengthen the preconditions for productive employment

Foundational public services, including health and education, are the bedrock of productive employment and long-term poverty reduction. However, their delivery is undermined by inefficiencies arising from fragmented and underdeveloped monitoring systems and low implementation capacity, with the deepest gaps concentrated precisely where the poor and vulnerable are most numerous. The following recommendations can help to address these challenges:

- **Improve evidence-based policy design and implementation**. The quality of both policy design and program implementation in the Philippines is fundamentally constrained by data systems that are fragmented, largely paper-based, and siloed across agencies. Meanwhile, existing legislation, such as the Data Privacy Act, has created a culture of reluctance to share data across agencies, further limiting coordination and monitoring. Modeling international examples, such as Singapore's 2018 Public Sector Act, by enacting a Public Sector Efficiency Act that modernizes the data-privacy framework while establishing norms for inter-agency data sharing, standardized digital reporting across agencies and LGUs, and integration of budget and performance data would create the information infrastructure needed for timely course correction, performance-based grants, and the application of more sophisticated analytical tools to improve targeting and resource allocation.

- **Improve service delivery in lagging regions**. The nearly 60 percent of the poor and vulnerable who live in municipalities are the LGUs most reliant on the NTA, yet they are the least equipped to supplement it with own-source revenues and with the lowest levels of capacity. These areas also have the lowest per-capita budgets. The Mandanas ruling has expanded the overall pool of intergovernmental transfers, but without NTA formula reform, it risks reinforcing this pattern. Revisiting the NTA formula to consider local needs (World Bank 2025a) can help close the financing gap, but the capacity for effective public spending remains constrained. The PFMAT results reveal weaknesses in budget execution, internal audit, and performance monitoring. Linking PFMAT assessments to a dedicated capacity-building fund within DILG regional offices would create a coherent pathway to improving the quality of spending in lagging regions.

### Pillar 2: Expand access to more and better jobs for the poor and vulnerable

This set of recommendations aims to expand access to better jobs for the poor and vulnerable, targeting in particular obstacles to women's economic opportunities, barriers to formalization, and broadening OFW opportunities.

- **Improve women's economic opportunities**. The 2025 ECCD System Act marks an important step toward reducing one of the most binding constraints on women's labor force participation in the Philippines: household responsibilities, which approximately 9 in 10 women outside the labor force cite as their primary reason for not working. By expanding access to affordable, high-quality early childcare, the Act has the potential to significantly reduce women's care burden and open employment pathways, particularly for lower-skilled women, for whom the absence of childcare options is most constraining. Realizing this potential, however, depends on implementation:

adequate budget allocation, improved program coordination, sufficient program hours to enable women to take up meaningful employment, and effective monitoring. It is also important to address demand-side barriers: deeply entrenched gender norms and skepticism about the value of early education outside the home. Public campaigns that build awareness of the developmental benefits of early childhood interventions and normalize center-based childcare are an important complement to support uptake.

Women-owned enterprises and smallholder farmers face the steepest barriers to formal credit, as they lack the collateral and credit history that banks require. PhilGuarantee, the sole state-owned credit guarantor, has a mandate to bridge this gap but operates under a fragmented legal framework inherited from five predecessor agencies that merged in 2018, with close to 98 percent of its portfolio concentrated in housing, as of 2025.[73] Consolidating this framework to formalize mandates for agriculture and MSME guarantees could help better integrate these products. A near-term policy priority with significant potential to increase access to credit, reduce transaction costs, and support coverage at scale would be the design and adoption of portfolio-level guarantees on pools of MSME loans, rather than loan-by-loan assessment.

- **Promote transitions to more stable and productive employment**. Of the approximately 50 million workers in the Philippines, only 18 million currently contribute to SSS or GSIS. International experience shows that strict employment protection legislation raises the cost of regularization and shifts firms toward informal or short-term arrangements, particularly for low-skilled workers and youth (Ohnsorge and Yu 2022). High minimum wages and regressive payroll taxes compound this challenge, creating disincentives for formality both for workers and for employers. Reforms that reduce payroll taxes for low-wage workers have succeeded in increasing formality, including in Colombia (Kugler, Kugler, and Herrera Prada 2017).

  Chapter 5 identifies regulatory and enforcement challenges that interact in ways that make non-regularization rational for both firms and workers. Resolving these challenges requires a coordinated, packaged solution rather than sequential adjustments to individual instruments. Priority directions include: streamlining dismissal procedures to reduce regulatory uncertainty; reviewing distortionary policies, including regressive payroll contributions and minimum wages, that may reduce formality, especially for low-wage workers; strengthening enforcement through expanded inspector capacity and inter-agency data sharing across SSS, PhilHealth, and the Department of Labor and Employment; identifying and addressing the drivers of low uptake of programs like AlkanSSSya and KaSSSangga; and developing a more portable social insurance architecture, including broadening unemployment insurance, so that greater employer flexibility does not come at the expense of worker security.

- **Support broader access to OFW opportunities**. International migration offers one of the most direct pathways to better-paid employment for lower-skilled Filipino workers, particularly women, for whom domestic work abroad represents a significant

[73] Based on PhilGuarantee's First Quarter 2025 Performance Report.

income premium over local opportunities. The Philippines is among the most institutionally advanced labor-sending countries in the world, with a comprehensive framework spanning pre-departure certification, migrant support, and reintegration that other countries seek to emulate (World Bank 2023a). With this institutional foundation already in place, the critical question is how these opportunities can be extended to areas where remittances can have the biggest impact.

Liquidity is an important constraint in lagging regions: migration is financed primarily through family savings or informal loans, with fewer than 3 percent of migrants accessing formal credit. Current financial assistance is oriented primarily toward OFWs already deployed or in distress, rather than prospective migrants facing upfront costs. Piloting targeted interventions for domestic workers and berth fees for seafarers—groups with well-established demand corridors and strong income returns—in lagging regions, including credit or grant programs to cover certification and pre-migration costs, would allow the Philippines to apply its institutional strengths to a specific and tractable gap. Where destination-country demand is identified in advance, Global Skill Partnerships offer a complementary model: co-financing training in the Philippines that is aligned with specific employer needs abroad would reduce both the upfront cost burden on prospective migrants and the mismatch risk for destination employers. Efforts should include complementary measures to build financial literacy, and pilots should be designed with evaluations and monitoring, including of local net effects. Together, these measures can boost remittance flows to the communities that need them most.

### Pillar 3: Strengthen the resilience of poor and vulnerable households

To break the cycle of poverty and vulnerability that many families find themselves in, this outcome addresses gaps in social protection and insurance for the poor and vulnerable, strengthens disaster response, and eases key cost-of-living pressures.

- **Make the social protection system more responsive**. Updating the 4Ps policy framework to index benefits to inflation and expand coverage to include vulnerable families with children will support household resilience at the bottom of the income distribution and reinforce investments in education and health services by providing cash support to children in needy households that use these services. Drawing on international experience, expansion to vulnerable non-poor households could be designed through tiered benefits. For example, Brazil's Bolsa Familia, which covers about 25 percent of the population, provides unconditional benefits to the poorest households and only variable (child-specific) conditional benefits to other beneficiary households.

  A fundamental challenge in the country's social protection system is limited agility stemming from siloed data systems and a rigid national registry through the CBMS. Changing the CBMS law to facilitate linkages to other databases and allow for updates reflecting household composition and income changes is essential for increasing agility.

- **Improve disaster response for smallholder farmers**. The Government of the Philippines is in the process of implementing systematic reforms to agricultural insurance provision in the Philippines. A new comprehensive agricultural insurance law under preparation should define the respective roles of government and private insurers, further institutionalize a national agricultural coinsurance pool, allow private insurers to access premium subsidies, and better target those subsidies (World Bank, 2024g). This should be complemented by PCIC operational improvements, digital claims processing to allow for faster payouts, roll out of parametric insurance products instead of the more operationally complex indemnity policies, and reinsurance for a considerable share of PCIC portfolio.
- **Address the structural drivers of high food prices**. Despite sustained public investment, agricultural spending heavily weighted toward input subsidies and trade protection has not closed the productivity gap that keeps domestic production costs above international levels. Rebalancing this spending toward productivity-enhancing measures while managing the trade-offs between consumer affordability and smallholder farmers' livelihoods requires careful evaluation over the long term. For trade policy, reducing reliance on ad hoc import restrictions and avoiding discretionary tariff increases above current levels are near-term priorities. Replacing price policies with effective productivity-raising interventions across the agricultural sector is an important medium-term approach to lowering the cost of food for consumers. Complementary social protection measures can help cushion the transition for smallholder farming households while longer-run productivity gains take hold.

## 6.2 From Recommendations to Results

**Estimations of the likely impact of implementing recommendations, while imperfect, can provide important information regarding the broad magnitude of policy options to improve decisions**. The report builds on the same macroeconomic CGE modeling used in World Bank (2025a) and links to a new microsimulation model that allows for granular allocation of job creation and income growth across different population groups. Measures related to social protection coverage are first modeled using the fiscal incidence model presented in Chapter 3 and then added to the microsimulation model to project into the future, including its multiplier effect (Appendix E).

**Macroeconomic simulation**. A multi-sectoral CGE model is used to estimate economy-wide effects through 2040. The BAU scenario is calibrated to match long-term growth trajectories, providing a benchmark for evaluation. Policies are simulated based on parameters of impact that are derived on sectoral models of firms, households, and labor force. For each scenario, the CGE model provides outcome paths for GDP, sectoral outputs, employment and wages, aggregate household consumption, factor returns, and consumption prices, which will be used as linking variables for the microsimulation model.

**Linked with a microsimulation model**. A household-based microsimulation model was developed to link with the macroeconomic model to understand the distributional implications of the different policy scenarios. It is based on the Global Income Distribution Dynamics (GIDD) methodology of Bourguignon and Bussolo (2013), which incorporates general equilibrium feedback while leveraging the granularity of household-survey data. The two models are linked through sectoral wage, employment growth, and GDP growth: specifically, simulated employment growth and wage growth from the CGE is fed into the microsimulation model to adjust employment and labor income, and the CGE estimates of GDP growth are used to adjust non-labor income. Age- and gender-population projections come from the United Nations World Population Prospects. As wages and job creation shift across sectors, the GIDD models behavioral responses in the labor force through a discrete choice labor supply model (based on a conditional logit) across economic sectors, informed by a *Mincerian* ordinary least square regression that estimates sectoral wages for each individual. Following Bourguignon and Spadaro (2006) and Olivieri et al. (2014), this allows for workers to move across sectors in response to sectoral job creation/destruction trends and differential wage growth rates. This model is applied using a Monte Carlo sampling approach to account for stochastic uncertainty in the job reallocation process.

The integrated macro-micro simulation model derives household incomes by income source (labor income based on employment and wage growth and non-labor income based on a pass-through of GDP growth) for each household. This granularity not only allows for the projection of aggregate poverty rates and inequality levels for each scenario but also for the disaggregation of these results by income level, region/province, gender, and skills levels.

**Fiscal incidence Microsimulation**. A household-level model combining administrative information and the 2023 household survey was developed to study the distributional incidence of taxes, transfers, and subsidies. This is used to model how the proposed recommendations will affect coverage and benefits of social assistance and social insurance programs across the income distribution with the goal of increasing household resilience to negative shocks. It is also used to model the first-order impact of lower food price levels associated with reforming rice tariff policies.

## 6.3 Results

**Three scenarios are considered**. The first is a BAU baseline, in which current policies continue, and growth and employment follow existing trends.[74] The second introduces the equity reforms proposed in Table 1. The third and most comprehensive scenario combines the Equity package from this report with the growth and jobs agenda proposed by World Bank (2025a) to capture the joint effect of growth, jobs, and equity reforms implemented together.

[74] For consistency, this is the same BAU as used in World Bank (2025a).

**The simulation results reaffirm the central importance of broad-based growth as the primary driver of welfare gains in the Philippines** (Table 6.1). As documented throughout this report, growth has been the key engine of poverty reduction, and this holds in the simulations: full implementation of the Growth and Jobs reform agenda would raise GDP by 1.4 percentage points above baseline and generate an additional 4.8 million jobs (World Bank 2025a), translating into reductions in poverty of 2.7 percentage points (5.5 percentage points using the UMIC threshold) by 2030 and 2.3 percentage points (8.4 percentage points using the UMIC threshold) by 2040, relative to BAU, with vulnerability falling by 2.6 and 4.1 percentage points, respectively.

**TABLE 6.1 Marginal impact of growth, jobs, and equity reforms relative to BAU, 2030 and 2040**

| | 2030 | | | | 2040 | | | |
|---|---|---|---|---|---|---|---|---|
| | Poor (p.p.) | Vulnerable (p.p.) | UMIC (p.p.) | Gini points | Poor (p.p.) | Vulnerable (p.p.) | UMIC (p.p.) | Gini points |
| Equity reforms | -1.4 | -0.5 | -1.5 | -0.4 | -1.2 | -1.5 | -2.9 | -0.3 |
| Growth and jobs reforms | -2.7 | -2.6 | -5.5 | -0.6 | -2.3 | -4.1 | -8.4 | -0.4 |
| Growth, jobs and equity | -3.9 | -3.4 | -7.3 | -1.0 | -3.1 | -5.6 | -11.3 | -0.8 |

**Source:** World Bank tabulations based on FIES 2023 and World Bank (2025a).
**Note**: Gini index defined over [0, 100]. Simulation results are based on the CGE model developed for World Bank (2025a), calibrated using the 2018 Philippines SAM (Beyene et al., 2024), linked to household level based on the GIDD methodology of Bourguignon and Bussolo (2013).

**Yet the results also make a strong case for the equity reforms on their own terms**. Even in the absence of the growth and jobs agenda, the targeted equity reforms would reduce poverty by 1.4 percentage points (1.5 percentage points using the UMIC threshold) and vulnerability by 0.5 percentage points by 2030, and by 1.2 and 2.9 percentage points under the national poverty line and the UMIC threshold by 2040, while compressing the Gini index by 0.4 points in 2030 and 0.3 points in 2040. When both packages are implemented together, poverty falls by 3.9 percentage points by 2030 and 3.1 percentage points by 2040, vulnerability declines by 3.4 and 5.6 percentage points, and inequality falls by 1.0 and 0.8 Gini points, respectively.

**Critically, the value of the equity reforms increases if the growth and jobs agenda is not fully achieved**, whether due to political economy constraints, capacity limitations, or external shocks that depress growth below potential. The equity reforms build buffers to help sustain welfare gains for the poor and vulnerable. This is done through the labor market, with measures to increase earnings for women and workers in lagging regions and to regularize low-wage workers, as well as through more effective public interventions, including measures building public sector capacity, broadening and improving insurance and its backstops, and refocusing on successful public programs.

**The reforms reduce poverty significantly faster, such that, by 2040, poverty will be nearly eradicated, and inequality will be maintained in check** (Figure 6.1). Without reforms, poverty is projected to reach 6.0 percent by 2040. This should be reduced to

**FIGURE 6.1.** Poverty rate projected by scenario, 2030 and 2040

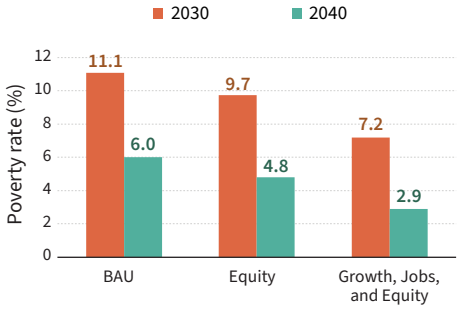



**FIGURE 6.2.** Projected poverty rate based on the UMIC threshold by scenario, 2030 and 2040

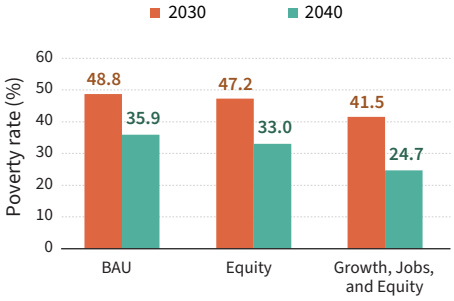



**FIGURE 6.3.** Projected poverty rate difference between Mindanao and NCR by scenario, 2023 and 2040

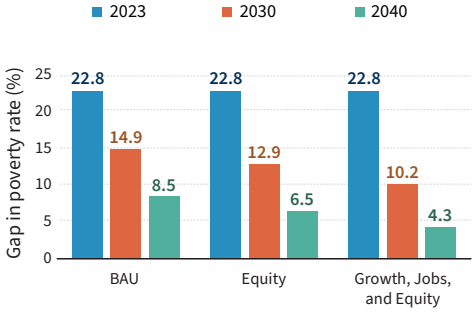
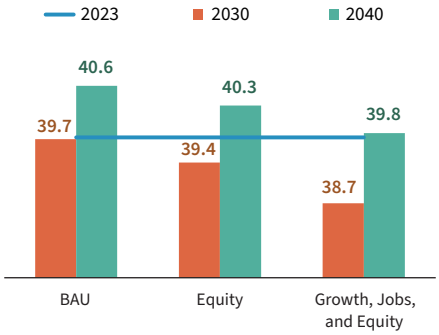



**FIGURE 6.4.** Projected Gini index by scenario, 2030 and 2040

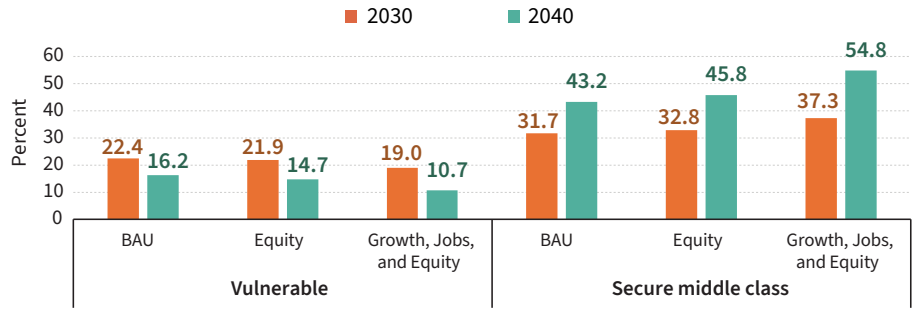



**Source:** World Bank tabulations based on FIES 2023 and World Bank (2025a).

4.8 percent with equity reforms only and 2.9 percent with the full growth, jobs, and equity reform package. As standards of living rise, the UMIC poverty line will become increasingly relevant. Under this higher threshold, poverty would be about 11 percentage points lower with reforms by 2040: 24.7 percent compared to 35.9 percent (Figure 6.2). Notably, the equity reform package contributes to faster poverty convergence, reducing the gap in poverty rates between NCR and Mindanao by 2 percentage points relative to BAU (Figure 6.3). Without reforms, inequality reduction is expected to stall by 2030 and reverse by 2040. The growth, jobs, and equity reform package should continue to reform inequality through 2030 and to keep 2040 inequality at about the same level as in 2023 (Figure 6.4).

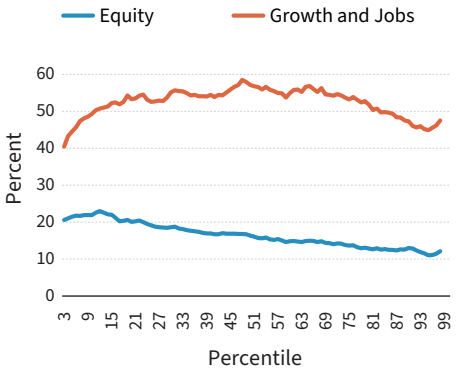
**There is an important asymmetry in the role of the two reform agendas: while equity reforms contribute meaningfully to poverty reduction, their effect on moving households out of vulnerability and into the secure middle class is more limited**. Under the equity-only scenario, the share of vulnerable households falls from 27.6 percent in 2023 to 14.7 percent by 2040—1.5 percentage points better than the BAU trajectory of 16.2 percent (Figure 6.6). Similarly, the secure middle class reaches 45.8 percent under equity reforms alone, compared to 43.2 percent under BAU—a 2.6 percentage point gain. The full growth, jobs, and equity package, by contrast, reduces vulnerability to 10.7 percent by 2040 and expands the secure middle class to 54.8 percent—more than 11 percentage points above BAU.

**FIGURE 6.5.** Projected vulnerable and middle class population share by scenario, 2030 and 2040



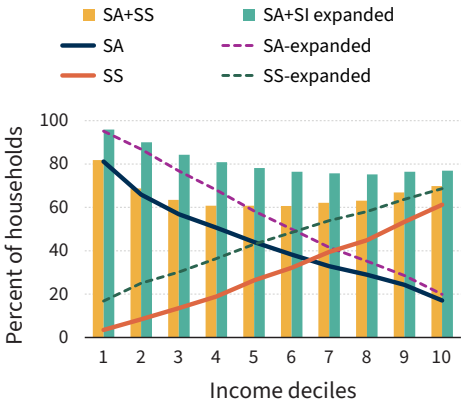

**Source:** World Bank tabulations based on FIES 2023 and World Bank (2025a).

**FIGURE 6.6.** Projected income growth relative to BAU by percentile, 2023-2030




**Source**: World Bank tabulations based on FIES 2023 and World Bank (2025a).

**FIGURE 6.7.** Projected coverage rates of social assistance and Social Security before and after expansion




**Source:** World Bank tabulations based on FIES 2023.
**Note:** SA = Social Assistance; SS = Social Security; SA-expanded = expansion of 4Ps to include vulnerable households; SS-expanded= expansion of SSS coverage to 50 percent of uncovered full-time wage workers.

**This is also reflected in how the reform packages affect household income growth over the distribution: the growth and jobs reforms increase growth faster in the middle of the distribution, where vulnerable and emerging middle-class household sit, while the equity reforms target the bottom of the distribution** (Figure 6.6). This pattern reflects a structural reality: escaping vulnerability and consolidating a position in the middle class requires sustained increases in labor productivity and earnings. It depends critically on access to more productive, better-paid jobs. The objective of the growth and jobs reform agenda is to ensure these jobs are created. The equity reforms aim to equalize opportunities to ensure more people can participate in this growth process and build the resilience needed to mitigate the disruptive impact of shocks on wellbeing and long-term productivity growth.

**The equity reforms will support increased household welfare not only through higher income but also through an expansion of the social protection and insurance systems.** This is the result of broader regularized employment opportunities and greater access to insurance and credit for MSMEs and smallholder farmers. Figure 6.7 illustrates social protection coverage if the 4Ps were expanded to cover vulnerable households and informality among wage workers was cut by a half. Cutting informality by a half would greatly increase social protection, especially for the vulnerable and emerging middle class, with coverage in the fifth decile rising from 58 percent to 78 percent.

## 6.4 Conclusion

The reforms presented in this report support a more inclusive growth process that builds on the creation of more and better jobs for reducing poverty and building resilience. Advancing these reforms will require a coordinated policy package rather than isolated measures, especially the complex and multi-pronged reforms around labor regulations and rice policies. These reforms require careful policy design and sequencing, along with disciplined execution and robust monitoring. For example, changes to labor regulations should be synchronized with measures that lift firm- and economy-wide productivity so that productivity growth can support higher wages and social protection enrollment. Similarly, broadening agricultural support to other products and reducing price interventions should be coupled with productivity-enhancing interventions that have been shown to work. The central role of the LGUs cannot be overstated, but must also include policy coordination across neighboring LGUs and national agencies to reduce the costs and risks of fragmentation. Taken together, the proposed reforms will support the country in its goal of achieving a middle-class society free of poverty by 2040.

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APPENDIX A.

# Key Poverty and Shared Prosperity Indicators

**TABLE A.1** Core poverty and equity indicators, 2018-2023

| | 2018 | 2021 | 2023 |
|---|---|---|---|
| **$3.00 per day (2021 PPP)** | | | |
| Headcount (%) | 8.3 (0.2) | 8.1 (0.2) | 5.3 (0.1) |
| Gap (%) | 1.6 (0.0) | 1.6 (0.1) | 1.0 (0.0) |
| Severity (%) | 0.5 (0.0) | 0.5 (0.0) | 0.3 (0.0) |
| Number of poor (in millions) | 8.8 | 8.9 | 6.0 |
| **$4.20 per day (2021 PPP)** | | | |
| Headcount (%) | 21.8 (0.3) | 21.3 (0.3) | 16.9 (0.3) |
| Gap (%) | 5.4 (0.1) | 5.3 (0.1) | 3.7 (0.1) |
| Severity (%) | 1.9 (0.0) | 1.9 (0.0) | 1.2 (0.0) |
| Number of poor (in millions) | 23.1 | 23.5 | 19.1 |
| **$8.30 per day (2021 PPP)** | | | |
| Headcount (%) | 60.2 (0.4) | 62.3 (0.3) | 58.7 (0.4) |
| Gap (%) | 24.0 (0.2) | 24.4 (0.2) | 21.5 (0.2) |
| Severity (%) | 12.1 (0.1) | 12.2 (0.1) | 10.2 (0.1) |
| Number of poor (in millions) | 63.7 | 68.6 | 66.3 |
| **National poverty line** | | | |
| Headcount (%) | 16.7 (0.3) | 18.1 (0.3) | 15.5 (0.3) |
| Gap (%) | 3.9 (0.1) | 4.3 (0.1) | 3.4 (0.1) |
| Severity (%) | 1.3 (0.0) | 1.5 (0.0) | 1.1 (0.0) |
| Number of poor (in millions) | 17.7 | 20.0 | 17.5 |
| Vulnerability at LMIC line | 22.8 (0.2) | 24.5 (0.2) | 24.4 (0.2) |
| Percentage of people at high risk from climate-related hazards (2021*) | | 61.2 | |
| Gini index | 42.3 (0.3) | 40.7 (0.2) | 39.3 (0.3) |
| Prosperity Gap | 4.7 (0.0) | 4.8 (0.0) | 4.4 (0.0) |
| Multidimensional poverty (%, World Bank) | 9.3 | 8.9 | 6.2 |
| **Mean income (LCU)** | | | |
| Total | 69,153 (556.5) | 71,639 (512.2) | 84,301 (652.1) |
| B40 | 27,783 (71.1) | 30,288 (79.8) | 37,085 (92.3) |
| T60 | 96,733 (713.2) | 99,206 (625.3) | 115,778 (835.7) |

**Source:** World Bank calculations using survey data accessed through the Global Monitoring Database.
**Note:** Poverty rates reported for the poverty lines (per person per day), which are expressed in 2021 purchasing power parity dollars. These three poverty lines reflect the typical national poverty lines of low-income countries, lower-middle-income countries, and upper-middle-income countries, respectively. Vulnerability at the LMIC line is defined as being between 1 and 1.5 times the LMIC poverty line. Mean income is computed using the spatially adjusted per capita income in LCU. Standard errors are reported in parentheses.

## TABLE A.2 Poverty indicators by subgroup, 2018-2023

| | Poverty rate (%) | | | Number of poor (in thousands) | | |
|---|---|---|---|---|---|---|
| | 2018 | 2021 | 2023 | 2018 | 2021 | 2023 |
| **By age group** | | | | | | |
| Children (less than age 15) | 25.0 | 27.6 | 24.8 | 7,952 | 8,178 | 7,416 |
| Adults (age 15 to 64) | 13.5 | 15.1 | 12.7 | 9,033 | 10,944 | 9,435 |
| Elderly (age 65 and older) | 9.9 | 10.6 | 8.0 | 686 | 871 | 688 |
| **By sex** | | | | | | |
| Female | 16.5 | 18.0 | 15.4 | 8,656 | 9,844 | 8,621 |
| Male | 16.9 | 18.3 | 15.7 | 9,014 | 10,149 | 8,918 |
| **By education (age 16+)** | | | | | | |
| Secondary Incomplete or Lower | 21.9 | 23.8 | 20.1 | 6,479 | 7,148 | 5,977 |
| Secondary Completed | 9.5 | 12.4 | 10.4 | 2,069 | 2,922 | 2,650 |
| Some Tertiary | 5.0 | 7.2 | 5.9 | 535 | 845 | 702 |
| College Graduate | 1.6 | 2.6 | 2.0 | 153 | 327 | 269 |
| **Urban/Rural** | | | | | | |
| Rural | 24.5 | 25.3 | 21.9 | 12,649 | 13,525 | 11,320 |
| Urban | 9.3 | 11.4 | 10.2 | 5,021 | 6,468 | 6,219 |
| **Region** | | | | | | |
| Ilocos Region | 9.9 | 14.4 | 11.9 | 510 | 763 | 641 |
| Cagayan Valley | 16.3 | 15.4 | 10.4 | 583 | 568 | 390 |
| Central Luzon | 7.0 | 11.4 | 8.2 | 837 | 1,430 | 1,058 |
| CALABARZON | 7.1 | 10.2 | 7.9 | 1,102 | 1,676 | 1,345 |
| MIMAROPA | 15.1 | 20.8 | 23.0 | 467 | 668 | 756 |
| Bicol | 27.0 | 29.3 | 27.5 | 1,621 | 1,816 | 1,736 |
| Western Visayas | 16.3 | 19.0 | 19.5 | 1,267 | 1,517 | 1,575 |
| Central Visayas | 17.7 | 27.6 | 19.8 | 1,371 | 2,221 | 1,627 |
| Eastern Visayas | 30.7 | 28.9 | 27.3 | 1,420 | 1,389 | 1,343 |
| Zamboanga Peninsula | 32.7 | 30.1 | 31.7 | 1,218 | 1,145 | 1,222 |
| Northern Mindanao | 23.1 | 26.1 | 25.3 | 1,129 | 1,323 | 1,310 |
| Davao | 19.1 | 16.8 | 16.0 | 978 | 900 | 885 |
| SOCCSKSARGEN | 28.2 | 28.1 | 23.1 | 1,348 | 1,400 | 1,057 |
| NCR | 2.2 | 3.5 | 1.8 | 302 | 482 | 262 |
| Cordillera Administrative Region | 12.0 | 9.9 | 7.0 | 214 | 181 | 129 |
| BARMM | 61.8 | 37.2 | 32.4 | 2,481 | 1,590 | 1,614 |
| Caraga | 30.5 | 33.2 | 20.8 | 822 | 924 | 590 |

**Source:** World Bank calculations using survey data accessed through the Global Monitoring Database.
**Note:** Poverty rates are reported for the per person, per day national poverty lines.

## TABLE A.3 Benchmarking of poverty and inequality, circa 2023

| | Philippines 2023 | Indonesia 2024 | Thailand 2023 | Viet Nam 2022 |
|---|---|---|---|---|
| GDP per capita (2015 US$) | 3,746 | 4,355 | 6,394 | 3,604 |
| Poverty rate at $3.00 (%) | 5.3 | 5.4 | 0.0 | 1.6 |
| Poverty rate at $4.20 (%) | 16.9 | 19.9 | 0.2 | 4.2 |
| Poverty rate at $8.30 (%) | 58.7 | 68.3 | 10.1 | 21.5 |
| Gini | 39.3 | 34.9 | 33.5 | 36.1 |
| Prosperity Gap | 4.4 | 4.8 | 1.9 | 2.6 |

**Source:** World Bank calculations using survey data accessed from the GMD, PIP and the World Development Indicators.
**Note:** Table shows data from the latest available year within three years of 2023 for each country. Poverty rates reported for the $3.00, $4.20, and $8.30 per person, per day poverty lines are expressed in 2021 purchasing power parity dollars. These three poverty lines reflect the typical national poverty lines of low-income countries, lower-middle-income countries, and upper-middle-income countries, respectively. GDP per capita is expressed in constant 2015 US$. The Gini index is a measure of inequality ranging from 0 (perfect equality) to 100 (perfect inequality). The Prosperity Gap captures how far a society is from $28 per person, per day (expressed in 2021 purchasing power parity dollars), which is close to the average per capita household income when countries reach high-income status. The welfare variables and survey year (in parentheses) of the benchmark countries are: IDN: CONS (2024); THA: CONS (2023); VNM: CONS (2022).

## TABLE A.4A. Demographic profiles of the poor, 2018-2023

| | 2018 | | | 2021 | | | 2023 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Poor | Nonpoor | Total | Poor | Nonpoor | Total | Poor | Nonpoor | Total |
| **Demographics** | | | | | | | | | |
| Age of top earner (average) | 42.2 | 43.7 | 43.5 | 43.1 | 44.5 | 44.3 | 42.4 | 44.3 | 44.1 |
| Top earner is female (%) | 17.6 | 32.0 | 30.2 | 19.7 | 33.9 | 32.0 | 18.8 | 33.6 | 31.9 |
| Top earner is married (%) | 81.9 | 66.4 | 68.3 | 88.5 | 81.9 | 82.8 | 79.8 | 61.1 | 63.2 |
| Top earner's highest level of education: Secondary incomplete (%) | 74.2 | 35.9 | 40.7 | 67.9 | 33.3 | 37.9 | 67.9 | 33.0 | 36.9 |
| Top earner's highest level of education: Secondary completed (%) | 19.6 | 29.5 | 28.3 | 23.6 | 28.9 | 28.2 | 24.4 | 30.2 | 29.5 |
| Top earner's highest level of education: Some tertiary (%) | 4.7 | 14.8 | 13.5 | 5.5 | 13.4 | 12.4 | 5.0 | 12.6 | 11.7 |
| Top earner's highest level of education: College graduate (%) | 1.6 | 19.8 | 17.5 | 3.1 | 24.4 | 21.5 | 2.7 | 24.3 | 21.9 |
| Share of children age 6-18 attending school | 88.5 | 93.2 | 92.2 | 91.8 | 95.0 | 94.3 | 92.2 | 95.5 | 94.8 |
| Share of children (age 0-14) in household (%) | 45.0 | 27.1 | 30.1 | 40.9 | 23.8 | 26.9 | 42.3 | 23.5 | 26.5 |
| Share of elderly (age 65+) in household (%) | 3.9 | 7.1 | 6.6 | 4.4 | 8.1 | 7.4 | 3.9 | 8.3 | 7.6 |
| Household dependency ratio (average) | 121.8 | 67.9 | 77.0 | 107.2 | 61.4 | 69.8 | 110.2 | 60.9 | 68.6 |
| **Location** | | | | | | | | | |
| Household lives in urban area (%) | 28.4 | 55.8 | 51.2 | 32.3 | 55.8 | 51.5 | 35.5 | 57.7 | 54.2 |
| NCR (% by income group) | 1.7 | 14.9 | 12.7 | 2.4 | 15.0 | 12.7 | 1.5 | 14.7 | 12.6 |

| | 2018 | | | 2021 | | | 2023 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Poor | Nonpoor | Total | Poor | Nonpoor | Total | Poor | Nonpoor | Total |
| Luzon w/o NCR (% by income group) | 30.2 | 47.2 | 44.4 | 35.5 | 46.6 | 44.6 | 34.5 | 46.5 | 44.7 |
| Visayas (% by income group) | 23.0 | 18.2 | 19.0 | 25.6 | 17.4 | 18.9 | 25.9 | 17.5 | 18.8 |
| Mindanao (% by income group) | 45.1 | 19.6 | 23.9 | 36.4 | 21.1 | 23.9 | 38.1 | 21.3 | 23.9 |
| **Access to services** | | | | | | | | | |
| Improved access to drinking water | 83.9 | 93.9 | 92.2 | 88.8 | 95.7 | 94.4 | 90.0 | 96.7 | 95.6 |
| Improved access to sanitation facilities | 79.4 | 95.6 | 92.9 | 89.0 | 97.7 | 96.1 | 89.1 | 97.5 | 96.2 |
| Access to electricity | 81.7 | 95.7 | 93.3 | 87.5 | 98.2 | 96.2 | 90.1 | 98.2 | 96.9 |
| **Asset ownership** | | | | | | | | | |
| Own mobile phone (at least one) | 78.4 | 93.1 | 90.6 | 88.5 | 96.3 | 94.9 | 83.2 | 95.8 | 93.8 |
| Own computer | 1.8 | 24.6 | 20.8 | 2.8 | 27.7 | 23.2 | 1.6 | 21.9 | 18.8 |
| Own vehicle (four-wheel) | 0.3 | 9.9 | 8.3 | 0.9 | 11.7 | 9.7 | 0.6 | 11.1 | 9.5 |
| Strong outer wall material | 68.6 | 91.2 | 87.4 | 75.7 | 93.2 | 90.0 | 76.2 | 93.7 | 91.0 |
| Strong roof material | 80.6 | 95.4 | 92.9 | 91.9 | 98.2 | 97.1 | 92.1 | 98.4 | 97.4 |

**Source:** World Bank calculations using survey data accessed through the Global Monitoring Database.
**Note:** Poverty profiles are presented as shares of poor, nonpoor and total populations. The poor are defined using National poverty line. Age, marital status, sex, and education refer to top earners only. In households with no working household members, the information is reported for the household head. Household dependency ratio is the ratio of children (0-14) and elderly (65+) over working-age population (15-64). Education level refers to the highest level attended, complete or incomplete. Improved drinking water sources include piped water on premises and other improved drinking water sources (public taps or standpipes, tube wells or boreholes, protected dug wells, protected springs, and rainwater collection) (WHO/UNICEF Joint Monitoring Programme). Improved sanitation facilities are sanitation facilities likely to ensure hygienic separation of human excreta from human contact, including flush/pour flush (to piped sewer system, septic tank, pit latrine), ventilated improved pit latrine, pit latrine with slab, and composting toilet (WHO/UNICEF Joint Monitoring Programme).

## TABLE A.4B. Demographic profiles by income group, 2023

| | Poor | Vulnerable | Emerging Middle Class | Secure Middle Class and High Income |
|---|---|---|---|---|
| **Demographics** | | | | |
| Age of top earner (average) | 42.4 | 43.3 | 44.2 | 45.2 |
| Top earner is female (%) | 18.8 | 24.0 | 31.6 | 43.5 |
| Top earner is married (%) | 79.8 | 71.7 | 61.9 | 51.7 |
| Top earner's highest level of education: Secondary incomplete (%) | 67.9 | 52.0 | 35.2 | 15.4 |
| Top earner's highest level of education: Secondary completed (%) | 24.4 | 32.7 | 34.8 | 23.0 |
| Top earner's highest level of education: Some tertiary (%) | 5.0 | 8.8 | 13.4 | 14.6 |
| Top earner's highest level of education: College graduate (%) | 2.7 | 6.6 | 16.7 | 47.0 |
| Share of children age 6-18 attending school | 92.2 | 94.4 | 95.6 | 97.5 |
| Share of children (age 0-14) in household (%) | 42.3 | 32.3 | 22.5 | 14.7 |

| | Poor | Vulnerable | Emerging Middle Class | Secure Middle Class and High Income |
|---|---|---|---|---|
| Share of elderly (age 65+) in household (%) | 3.9 | 5.9 | 8.5 | 10.7 |
| Household dependency ratio (average) | 110.2 | 79.2 | 57.5 | 43.8 |
| **Location** | | | | |
| Household lives in urban area (%) | 35.5 | 46.1 | 59.5 | 68.6 |
| NCR (% by income group) | 1.5 | 7.2 | 15.9 | 21.8 |
| Luzon w/o NCR (% by income group) | 34.5 | 44.2 | 48.1 | 47.1 |
| Visayas (% by income group) | 25.9 | 20.5 | 16.7 | 15.2 |
| Mindanao (% by income group) | 38.1 | 28.2 | 19.4 | 15.9 |
| **Access to services** | | | | |
| Improved access to drinking water | 90.0 | 94.0 | 97.0 | 99.3 |
| Improved access to sanitation facilities | 89.1 | 95.0 | 98.1 | 99.7 |
| Access to electricity | 90.1 | 96.4 | 98.6 | 99.7 |
| **Asset ownership** | | | | |
| Own mobile phone (at least one) | 83.2 | 93.0 | 96.2 | 98.4 |
| Own computer | 1.6 | 4.7 | 16.7 | 49.2 |
| Own vehicle (four-wheel) | 0.6 | 1.7 | 5.8 | 29.4 |
| Strong outer wall material | 76.2 | 88.1 | 94.9 | 98.6 |
| Strong roof material | 92.1 | 96.9 | 98.8 | 99.7 |

**Source:** World Bank calculations using survey data accessed through the Global Monitoring Database.
**Note:** The vulnerability groups are classified based on per capita income thresholds. The Poor are those whose income fall below the national poverty line. The Vulnerable group includes individuals with income at or above the national poverty line but below $6.50/day (2021 PPP). The Emerging Middle Class consists of those with income at or above $6.50 but below $11.70/day (2021 PPP). The Secure Middle Class and High Income includes individuals with income at or above $11.70/. Refer to Table A.4a notes for the definition of the other indicators.

## TABLE A.4C. Labor market profiles of the poor, 2018-2023

| | 2018 | | | 2021 | | | 2023 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Poor | Nonpoor | Total | Poor | Nonpoor | Total | Poor | Nonpoor | Total |
| **Labor force status of top earner (%)** | | | | | | | | | |
| Working | 94.8 | 91.2 | 91.6 | 92.9 | 90.0 | 90.4 | 94.0 | 91.1 | 91.5 |
| Not working (unemployed or out of labor force) | 5.2 | 8.8 | 8.4 | 7.1 | 10.0 | 9.6 | 6.0 | 8.9 | 8.5 |
| **Employment status of top earner (%)** | | | | | | | | | |
| Paid employee | 55.8 | 70.3 | 68.4 | 57.9 | 71.3 | 69.4 | 59.1 | 72.8 | 71.2 |
| Employer | 3.1 | 4.0 | 3.9 | 3.4 | 3.6 | 3.6 | 3.0 | 3.2 | 3.2 |
| Self-employed | 41.2 | 25.7 | 27.7 | 38.7 | 25.1 | 27.0 | 37.8 | 24.0 | 25.6 |
| **Economic sector of top earner (%)** | | | | | | | | | |
| Agriculture and fisheries | 52.9 | 16.8 | 21.5 | 45.7 | 16.9 | 20.9 | 46.4 | 16.1 | 19.6 |
| Extractive | 0.9 | 0.6 | 0.6 | 0.8 | 0.5 | 0.5 | 0.8 | 0.6 | 0.6 |
| Food | 1.8 | 2.8 | 2.7 | 1.8 | 2.6 | 2.5 | 1.7 | 2.5 | 2.4 |
| Computers & electrical equipment | 0.1 | 1.4 | 1.3 | 0.3 | 1.3 | 1.2 | 0.3 | 1.2 | 1.1 |

| | 2018 | | | 2021 | | | 2023 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Poor | Nonpoor | Total | Poor | Nonpoor | Total | Poor | Nonpoor | Total |
| Renewable energy | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.01 | 0.1 | 0.1 |
| Construction | 11.9 | 12.7 | 12.6 | 13.5 | 12.8 | 12.9 | 13.9 | 12.9 | 13.1 |
| Other manufactures | 3.6 | 5.7 | 5.4 | 4.5 | 5.6 | 5.4 | 3.5 | 4.9 | 4.7 |
| Communication | 0.1 | 0.7 | 0.6 | 0.1 | 0.8 | 0.7 | 0.2 | 0.7 | 0.6 |
| Public services including defense | 3.3 | 7.1 | 6.6 | 3.8 | 7.1 | 6.7 | 3.2 | 6.5 | 6.1 |
| Transports | 6.9 | 10.6 | 10.1 | 7.9 | 8.5 | 8.4 | 8.6 | 9.8 | 9.6 |
| Trade | 10.1 | 17.7 | 16.7 | 12.0 | 18.3 | 17.5 | 11.1 | 17.3 | 16.6 |
| Finance/insurance | 0.1 | 1.6 | 1.4 | 0.2 | 1.7 | 1.5 | 0.1 | 1.6 | 1.5 |
| Services to business | 1.0 | 5.9 | 5.2 | 1.8 | 8.0 | 7.2 | 1.6 | 8.6 | 7.8 |
| Other services | 7.3 | 16.3 | 15.1 | 7.6 | 15.8 | 14.7 | 8.5 | 17.2 | 16.2 |

**Source:** World Bank calculations using survey data accessed through the Global Monitoring Database.
**Note:** The table shows the share of poor, nonpoor, and total households whose top earner is working, not working, etc. In households with no working household members, the information is reported for the household head. The poor are defined using National Poverty Line.

## TABLE A.4D. Labor market profiles by income group, 2023

| | Poor | Vulnerable | Emerging Middle Class | Secure Middle Class and High Income |
|---|---|---|---|---|
| **Labor force status of top earner (%)** | | | | |
| Working | 94.0 | 93.3 | 91.9 | 88.5 |
| Not working (unemployed or out of labor force) | 6.0 | 6.7 | 8.1 | 11.5 |
| **Employment status of top earner (%)** | | | | |
| Paid employee | 59.1 | 68.0 | 72.6 | 77.0 |
| Employer | 3.0 | 2.5 | 2.7 | 4.4 |
| Self-employed | 37.8 | 29.6 | 24.7 | 18.6 |
| **Economic sector of top earner (%)** | | | | |
| Agriculture and fisheries | 46.4 | 27.2 | 15.6 | 7.3 |
| Extractive | 0.8 | 0.7 | 0.7 | 0.4 |
| Food | 1.7 | 2.7 | 2.6 | 2.3 |
| Computers & electrical equipment | 0.3 | 0.8 | 1.4 | 1.6 |
| Renewable energy | 0.01 | 0.0 | 0.1 | 0.1 |
| Construction | 13.9 | 17.4 | 14.4 | 7.5 |
| Other manufactures | 3.5 | 4.7 | 5.3 | 4.4 |
| Communication | 0.2 | 0.3 | 0.5 | 1.2 |
| Public services including defense | 3.2 | 4.0 | 5.4 | 9.8 |
| Transports | 8.6 | 11.0 | 11.3 | 6.9 |
| Trade | 11.1 | 15.7 | 18.9 | 16.7 |
| Finance/insurance | 0.1 | 0.6 | 1.4 | 2.8 |
| Services to business | 1.6 | 3.6 | 7.9 | 13.8 |
| Other services | 8.5 | 11.2 | 14.7 | 25.3 |

APPENDIX B.

# Technical Annex

## Poverty data and methodology

Poverty and inequality estimates are calculated from the Family Income and Expenditure Survey (FIES), which is collected by the Philippines Statistics Authority (PSA) every two years. The PSA estimates national official poverty rates using income welfare aggregates evaluated against per-capita poverty lines broadly based on the cost-of-basic-needs approach. Using a national reference food bundle based on expert opinion of what constitutes a nutritionally adequate bundle, province-specific bundles are set separately for urban and rural areas and reflect locally consumed commodities. Unlike the international poverty line, which is fixed and updated by CPI, the national poverty lines are updated by re-estimating the food poverty lines at current prices. These locally priced bundles that constitute food poverty lines are scaled up by a constant food-to-non-food ratio to calculate total poverty lines. There are 163 poverty lines set corresponding to urban and rural areas of the 81 provinces and the NCR in the country. As with poverty rates, the Gini coefficient measuring inequality is based on income welfare aggregates.

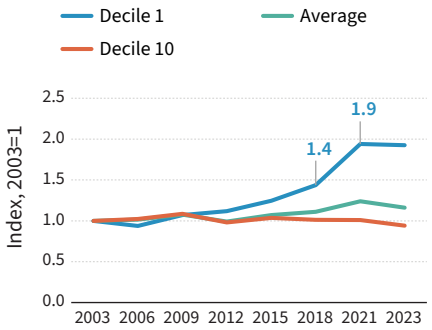
## Intertemporal survey comparability

The FIES is the principal source of data on household income and expenditures in the Philippines, and the principal data source for this analysis. The 2023 FIES marked the 20th iteration of the survey since its inception in 1957. As with most long-term surveys, the FIES has undergone sampling updates and methodological changes over the years. For the purpose of verifying the robustness of recent welfare trends, we assessed the comparability of the last 20 years of FIES collections. We identified two changes in methodology with implications for the analysis and interpretation of the welfare trends: sample expansion in 2018, and a change in imputed rent methodology between 2018 and 2021.

**Sample expansion in 2018**: Representativeness increased from 17 regions in 2015 to 117 domains (provinces and HUCs) in 2018 following an increase in the sample size from approximately 40,000 households to 148,000 in 2018 (and about 164,000 in 2021 and 2023). Between 2015 and 2018, the sampling frame was also updated from the 2003 Master Sample to the 2013 Master Sample. To allow for trend estimates in 2018, the PSA released a revised version of the 2015 survey with adjustments to increase comparability to the 2018 sampling strategy. This report uses both 2015 surveys: the original values for trends ending in 2015 and the revised values for trends after 2015.

**Change to imputed rent in 2021 and 2022:** Changes in the field collection of imputed rent information were made in 2021, leading to a noticeable increase in the real value of imputed rent between 2018 and 2021 for poorer households, but not for wealthier households (Figure B1). Because of this change in the imputed rent methodology, imputed rent is not considered for measuring income growth trends in this report.

**FIGURE B1. Change in the real value of average imputed rent 2003-2023**




**Source**: World Bank tabulations based on FIES 2003-2023.

## Vulnerability and welfare classes

Vulnerability and welfare classes were estimated for the Philippines following Chaudhuri (2003) as applied in Krah, Montalva, and Tiwari (2026). For this report, the approach was applied to the official Philippine poverty methodology using a broader set of variables available in the FIES 2023. The approach defines the lower boundary of different income classes not by current income status alone, but by the risk of future poverty.

In the absence of nationally representative panel data, the method uses cross-sectional variation across households as a proxy for intertemporal income variability. A regression model is estimated in which per capita household income is explained by a vector of observable household characteristics. Critically, the model also estimates the variance of the error term, which is allowed to differ across households. This variance captures idiosyncratic income risk and is interpreted as a measure of each household's income volatility. To account for this heteroskedasticity, the model is estimated using a Feasible Generalized Least Squares (FGLS) procedure, yielding household-specific estimates of both expected income and income uncertainty.

The regressors included in the Philippine application are: household size, share of children, and region; asset ownership and access to basic services (electricity, piped water, improved sanitation, and selected appliances); non-labor income sources (remittances and domestic private transfers); and characteristics of the household head or main earner, including age, gender, marital status, educational attainment, labor force status, and sector of employment.

Using the household-level estimates of expected income and income variance, each household is assigned a vulnerability score corresponding to its estimated probability of falling below the poverty line. Consistent with the broader literature, a 10 percent probability threshold is adopted to identify households at risk of poverty.

The vulnerability line is then defined as the mean per capita income of non-poor households whose estimated poverty risk falls within one percentage point of this threshold. Households with incomes below this line are classified as vulnerable; those above it are considered part of the secure, non-vulnerable non-poor, comprising the middle class and above.

## Intergenerational mobility of education

The intergenerational mobility of education (IGM) estimates for the Philippines, presented in Box 1.2, are derived using the methodology developed by Van der Weide et al. (2024). The measure is derived from the correlation between parental education and the educational attainment of adult-aged children residing in the same household.

For parental education, the measure used is the maximum years of schooling achieved by either the father or mother within the household. The adult child's education years refer to the years of schooling completed by adult children aged 22 and above, capped at 17 years. Age cohorts are defined based on the child's age as of 2023.

Given the survey structure, this comparison is estimated in the Philippines based on the subsample of the adult population in the same household as their parents. This is about 31 percent of the adult population. Population weights are recalibrated using the expected population size of each region, age, sex, and education group cell. Implicit in this methodology is that the in-sample population does not have significant unobserved differences from the out-of-sample population. To assess the representativeness of the in-sample population, labor income and labor force participation rates were compared with the full sample (using original weights). Both had small yet statistically significant differences: the in-sample has slightly lower income (by about PHP 3,200; $p = 0.006$), which is approximately USD 58 per year) and a 1.4 percentage-point higher participation rate (77.0 versus 75.7 percent; $p < 0.001$).

Intergenerational education mobility itself is measured as the difference in years of education between parent and child. The primary measure used is the inverse correlation (1-COR) between parents' and adult children's years of schooling; a higher value of this index indicates greater mobility, meaning that parental education is less determinative of the child's educational attainment.

APPENDIX C.

# National Data Gap Assessment

Overall, the Philippines demonstrates strong statistical performance, with an SPI score of 83.8 in 2024, well above both regional and global averages, and solid compliance with international standards. The analysis shows that remaining challenges are related to timeliness, integration, and system management. Delays in metadata publication and access to underlying microdata constrain timely policy analysis, while data gaps persist in selected SDG areas, notably Climate Action (SDG 13) and Zero Hunger (SDG 2). Data infrastructure emerges as the weakest area, underscoring the need for targeted institutional and process reforms, such as adopting common statistical business processes, strengthening system integration, and expanding the use of administrative data, to move from a technically compliant system toward a more efficient, integrated, and policy-responsive statistical system.

This appendix presents the National Data Gap Assessment for the Philippines, which identifies gaps in data availability, frequency, openness, and quality across critical policy areas to ensure alignment with SDG indicators, national development priorities, and World Bank data needs. The assessment draws primarily on the data underlying the World Bank's Statistical Performance Indicators (SPI), especially Pillars 2 through 5, and benchmarks the country's performance against regional and global standards to allow for a comparable assessment of data gaps. The SPI broadly measures a country's statistical system's capacity to produce, manage, and use data for decision-making. The **SPI framework** assesses the maturity and performance of national statistical systems in five key areas, called pillars: (i) Data Use; (ii) Data Services; (iii) Data Products; (iv) Data Sources; and (v) Data Infrastructure. Table C.1 presents the color-coded standards used to benchmark performance.

**TABLE C.1 Standards for performance in each indicator**

| Quantitative indicator | | Qualitative indicator | |
|---|---|---|---|
| | Country's value above regional and global average | | Country meets optimum standard |
| | Country's value above regional or global average | | Country only meets minimum standard |
| | Country's value below regional and global average | | Country does not meet minimum standard |

As of 2024, the Philippines achieved an overall SPI score of 83.8 (Figure C1), an increase of 10 points since 2016. The Philippines' overall SPI score is higher than both the global average (69.3) and the East Asia & Pacific average (66.6) (Table C.2). The Philippines outperforms these benchmarks across all pillars, particularly in Data Use (100.0) and Data Services (93.0). Data Infrastructure (70.0) is the weakest area, though still above the global average of 64.5 and the regional average of 57.2.

**FIGURE C1. The Philippines' overall SPI score, 2016-2024**

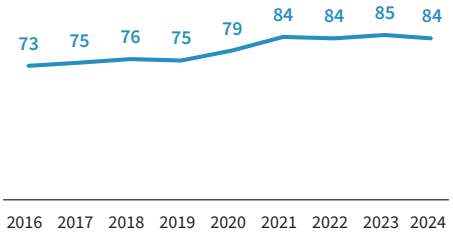



**TABLE C.2. The Philippines' SPI score by pillar, 2024**

| Pillar | Philippines | East Asia & Pacific Avg. | Global Avg. |
|---|---|---|---|
| Pillar 1: Data Use | 100.0 | 67.8 | 74.6 |
| Pillar 2: Data Services | 93.0 | 73.0 | 70.9 |
| Pillar 3: Data Products | 84.2 | 63.4 | 68.0 |
| Pillar 4: Data Sources | 72.0 | 54.8 | 57.5 |
| Pillar 5: Data Infrastructure | 70.0 | 57.2 | 64.5 |
| **Overall SPI Score** | 83.8 | 66.6 | 69.3 |

**Source:** World Bank's Statistical Performance Indicators. Note: The score ranges from 0 to 100.

**Data Services:** *Strong performance though the timeliness of sharing the metadata could be improved and should accompany the data uploads.*

SPI Pillar 2 focuses on the openness and accessibility of a country's data services. The Philippines outperforms both the global and regional averages across the five indicators (Table C.3).

**TABLE C.3. The Philippines' SPI Pillar 2: Data Services, 2024**

| Element | Philippines | East Asia & Pacific Avg. | Global Avg. |
|---|---|---|---|
| Machine Readability Score | 89.3 | 56.0 | 61.0 |
| Non-Proprietary format Score | 97.6 | 88.0 | 87.0 |
| Download Options Score | 56.4 | 52.0 | 53.0 |
| Metadata Available Score | 53.3 | 51.0 | 53.0 |
| Terms of Use Score | 97.6 | 35.0 | 41.0 |

| | | Optimum | Minimum |
|---|---|---|---|
| SDDS/e-GDDS subscription | SDDS | SDDS+ or SDDS | e-GDDS |
| NADA metadata | Yes | Yes | Yes |

**Source:** World Bank Statistical Performance Indicators.
**Note:** Indicators in the upper part of the table are based on an assessment of openness of official statistics by the Open Data Inventory (ODIN). The score ranges from 0 to 100. The indicators in the lower part of the table assess whether a country subscribes to the IMF's data dissemination standards and utilizes the open-source microdata cataloging system NADA.

Scores for **Nonproprietary Format** and **Data License/Terms of Use** are particularly high. Nonproprietary formats are essential for accessibility, as they allow users to access data without costly proprietary software, while open licenses ensure data can be reused and adapted freely. The **Machine Readability score (89.3)** is also strong, indicating that most data are made available in machine-readable formats like XLSX or CSV, which enable easy data processing.

The **Download Options score (56.4)** reflects progress in providing essential metadata, such as indicator definitions, upload dates, and source agencies. **Metadata Available Score (53.3)** is the weakest-performing indicator, suggesting that while some download mechanisms are in place, improvements can be made by providing bulk or customizable downloads as well as API access. The timeliness of sharing the metadata could be improved and should accompany the data uploads.

The Philippines meets the optimum standard for the bottom two indicators on data dissemination. The country subscribes to the **IMF's Special Data Dissemination Standard (SDDS)**, which promotes the publication of comprehensive and timely economic data to enhance transparency and support access to international capital markets. Additionally, the country uses **NADA**, an open-source microdata cataloging system that allows users to easily browse, compare, and access key datasets.

### **Data Products:** *Strong coverage of SDGs, with climate action and hunger lagging*

SPI Pillar 3 captures whether countries are able to produce indicators related to the SDGs. The Philippines demonstrates strong overall coverage of SDG indicators, with an overall score of 84.2, well above the regional (63.4) and global averages (68.0) (Table C.4).

**TABLE C.4. The Philippines' SPI Pillar 3: Data Products, 2024**

| SDG | Philippines | East Asia & Pacific Avg. | Global Avg. |
|---|---|---|---|
| SDG1: No Poverty | 100.0 | 61.0 | 66.0 |
| SDG2: Zero Hunger | 60.0 | 46.0 | 53.0 |
| SDG3: Good Health and Well-Being | 80.0 | 52.0 | 61.0 |
| SDG4: Quality Education | 100.0 | 68.0 | 70.0 |
| SDG5: Gender Equality | 75.0 | 51.0 | 51.0 |

| SDG | Philippines | East Asia & Pacific Avg. | Global Avg. |
|---|---|---|---|
| SDG6: Clean Water and Sanitation | 85.7 | 61.0 | 79.0 |
| SDG7: Affordable and Clean Energy | 94.4 | 83.0 | 84.0 |
| SDG8: Decent Work and Economic Growth | 87.5 | 67.0 | 73.0 |
| SDG9: Industry, Innovation, and Infrastructure | 80.0 | 62.0 | 67.0 |
| SDG10: Reduced Inequality | 75.0 | 61.0 | 69.0 |
| SDG11: Sustainable Cities and Communities | 75.0 | 66.0 | 61.0 |
| SDG12: Responsible Consumption and Production | 100.0 | 78.0 | 85.0 |
| SDG13: Climate Action | 50.0 | 41.0 | 39.0 |
| SDG15: Life on Land | 91.7 | 81.0 | 83.0 |
| SDG16: Peace, Justice, and Strong Institutions | 100.0 | 62.0 | 70.0 |
| SDG17: Partnerships for the Goals | 93.3 | 75.0 | 77.0 |
| **Overall** | 84.2 | 63.4 | 68.0 |

**Source:** World Bank Statistical Performance Indicators.
**Note:** For each SDG, the score ranges from 0 to 100. The score captures the share of SDG indicators that are available based on country, adjusted country data, and estimated or Global Monitoring data based on a five-year moving average. SDG 14 (Life Below Water) is excluded, as this goal is not relevant for landlocked countries.

The country achieves perfect scores (100.0) for several SDGs, indicating comprehensive data availability for these goals. In contrast, coverage is weakest for Climate Action (SDG13), with a score of 50.0, and Zero Hunger (SDG2) at 60.0. Building on the strong overall performance in this pillar, the country could further improve from streamlining its data products, particularly leveraging those from administrative sources. This could free up resources to strengthen statistical products in areas where coverage is thin to close the gaps in data availability and timeliness.

### **Data Sources:** *Strong performance in data collection, progress needed in timely sharing*

SPI Pillar 4 evaluates the availability and frequency of key data sources. The Philippines demonstrates a generally strong performance across its data sources, meeting optimum standards for all but one indicator (Table C.5).

Three censuses (Population, Business, and Agriculture) were conducted within the last 10 years. The country also shows robust survey activity, particularly in the Labor Force Survey, which is conducted quarterly. The Household Survey on Income or Consumption and the Health/Demographic Survey meet the optimum frequency requirements.

Completeness of birth and death registration is relatively high, with the latest available data from 2022 indicating that approximately 80-89% of births and deaths were registered. Finally, the availability of data at the first administrative level is also relatively strong at 54.6%, well above the East Asia & Pacific average (39.0 %) and the global average (32.0 %).

Although the standards under this pillar are met, timely access to the microdata is constrained. The significant lag between the release of key indicators from these data sources and the availability of underlying microdata hampers timely analysis for evidenced-based policymaking.

**TABLE C.5. The Philippines' SPI Pillar 4: Data Sources, 2024**

| | | Philippines | | |
|---|---|---|---|---|
| **Censuses** | **Latest year conducted** | **Census conducted in last 10 yrs or last 20 yrs** | **Optimum** | **Minimum** |
| Population census | 2024 | Yes, in last 10 yrs | 1 within last 10 yrs | 1 within last 20 yrs |
| Agriculture census* | 2022 | Yes, in last 10 yrs | | |
| Business/establishment census | 2018 | Yes, in last 10 yrs | | |
| **Surveys** | **Latest year conducted** | **Number of surveys conducted in last 10 yrs** | **Optimum** | **Minimum** |
| Household survey on income or consumption | 2023 | 4 | 3+ within last 10 yrs | 1 within last 10 yrs |
| Labor force survey | 2023 | 10+ | | |
| Health/demographic survey | 2022 | 3 | | |
| Agriculture survey | 2022 | 6 | | |
| Business/establishment survey* | 2024 | 8 | | |
| **Civil Registration and Vital Statistics** | **Most recent available year in UN SDG database** | **Share of births and deaths registered** | **Optimum** | **Minimum** |
| Completeness of birth and death registration | 2021 | Births: ~80-89%<br>Deaths: ~80-89% | 90%+ of births registered *and* 75%+ of deaths registered | 90%+ of births registered *or* 75%+ of deaths registered |
| **Geospatial data** | **Most recent available year** | **Share of data available** | **East Asia & Pacific Avg.** | **Global Avg.** |
| Data available at the first administrative level | 2024 | 54.6% | 39.0 % | 32.0 % |

**Source:** World Bank Statistical Performance Indicators; Philippine Statistics Authority; UN Department of Economics and Social Affairs. (*) Not reflected in latest SPI, information updated after 2024.

**Data Infrastructure:** *More focus is needed on governance, planning, and system integration to move from a "technically compliant" to a "high-performing" statistical system.*

SPI Pillar 5 evaluates whether a country's statistical system has well-developed hard infrastructure (legislation, governance frameworks, and standards), soft infrastructure, and the financial resources to effectively deliver. The Philippines demonstrates good performance in this pillar (Table C.6).

The country has national statistical legislation that is compliant with the UN Fundamental Principles of Statistics and a fully funded national statistical plan. It meets the optimum standard with regards to the application of different manuals and classification systems.

However, there are some gaps. Data strategy and institutional arrangements for a cohesive national data governance approach are missing. The Generic Statistical Business Process Model is not in use, and the central government accounting status does not meet the minimum standard.

**TABLE C.6. The Philippines' SPI Pillar 5: Data Infrastructure, 2024**

| Element | Philippines | Optimum | Minimum |
|---|---|---|---|
| National statistical legislation compliant with UN Fundamental Principles of Statistics | Yes | Yes | Yes |
| System of national accounts in use | SNA 2008 | SNA2008 or ESA2010 | SNA1993 or ESA1995 |
| National accounts base year | 2018 | Chained price | Within last 10 yrs |
| Classification of national industry | rev4 | ISIC Rev4 or NACE Rev2 | ISIC Rev3 or NACE Rev1 |
| CPI base year | 2018 | Annual chain linking | Within last 10 yrs |
| Classification of household consumption | COICOP | COICOP | COICOP |
| Classification of status of employment | ILO or ICSE-93 or NAICS | ILO or ICSE-93 or NAICS | ILO or ICSE-93 or NAICS |
| Central government accounting status | Other | AC | CA |
| Government Finance Statistical Manual in use | 2014 | GFSM2014 or ESA2010 | GFSM2001 |
| Monetary and Financial Statistics Manual in use | MFSM 2000 | MFSM 2000 or MFSMCG (2008/2016) | MFSM 2000 or MFSMCG (2008/2016) |
| Generic Statistical Business Process Model in use | No | Yes | Yes |
| National statistical plan that is fully funded and under implementation | No | Yes | Yes |

**Source:** World Bank Statistical Performance Indicators.

APPENDIX D.

# Growth, Jobs and Equity Reforms

| Topic | Growth and Jobs Recommendation *(World Bank 2025a)* | Equity recommendations | Nature of Alignment |
|---|---|---|---|
| Public sector capacity and coordination | Upgrade tax administration; advance procurement reforms; introduce M&E and convergence budgeting systems to reduce the fragmentation of innovation programs; harmonize national and local government regulations for business permits to enable data exchange, system interoperability, ID, and authentication systems (Implement Philippine Business Portal). | Public Sector Efficiency Act (data sharing norms) | Equity reform is a foundational reform supporting broad information sharing and M&E implementation across the public sector, supporting the Growth and Jobs recommendations for sector-specific reforms |
| Improved local service delivery | Revise the LG code to clarify functional mandates and ensure allocation of skilled HR matching devolved areas; consider equity in the transfer allocation formula; introduce performance-based transfers; increase fiscal autonomy for revenue generation. | Target PFM capacity building | Equity reform complements by emphasizing the capacity needs of poorer LGUs |
| Women's economic opportunities | Scale up early childhood development; implement Enterprise-Based Education and Training and Digital Skills Act; invest in STEM and emotional skills; mutual recognition of key professions | Universalize ECD interventions under the ECCD Act (nutrition, cognitive stimulation, digital monitoring) | Equity reform operationalizes early childhood intervention. |
| Micro, Small and Medium Enterprises | Revising single borrower's limits; natural disaster risk insurance for SMEs; expand guaranteed coverage of PhilGuarantee to innovation investments; credit infrastructure and collateral registry; market demand technology diffusion; suppliers' development programs | Provide credit guarantee fee subsidies for micro and small enterprises | Equity reform complements with focus on increasing credit for micro and small enterprise loans |
| Labor regulations | Carefully consider introducing a part-time employment framework; simplify employment permitting to reduce hiring costs; revise layoff processes to align the time it takes to dismiss with regional good practices; revise minimum wage mechanism to align wages with labor productivity. | Broad reform agenda, including simplifying hiring and dismissal processes and tax distortions for low-wage workers | Equity reform complements through deeper analysis on hiring and dismissal; addresses disincentives of high payroll taxes for low earners. |
| Climate/ disaster risk management | Climate adaptation infrastructure; resilient construction permitting; private sector supplier diversification; resiliency in procurement considerations | Measures to strengthen Philippine Crop Insurance Corporation and private agricultural insurance | Equity reform focuses on improving insurance for small farm holders and better use of public funds |
| Agriculture/ food prices | Streamline procedures for land clustering and joint ventures in agriculture; streamline non-tariff measures to reduce trade costs. | Broad reform agenda targeting agricultural productivity to reduce reliance on tariffs and import restrictions. | Equity reform focuses on reducing price interventions that increase local food prices |
| Areas that do not overlap | Transportation infrastructure and reforms; Investment of public pension funds and innovation programs; strengthen sector regulators; business entry and location permitting; insolvency procedures; land leasing for foreign companies; energy cost deductions; energy audits; energy use tax incentives; Beneficiary Ownership Registry; trade agreements, customs modernization, VAT refunds, and export promotion; foreign investments and investment promotion. | Migration from lagging regions; adaptive social assistance; broadening social protection system | |

APPENDIX E.

# Modeling Assumptions for the Policy Scenarios

This appendix describes the modeling assumptions underlying the policy scenario analysis. As described in Chapter 6, policy interventions are modeled through two complementary frameworks: the MANAGE CGE model, which captures economy-wide and macro-fiscal effects, and the GIDD microsimulation, which translates those effects into household-level and distributional outcomes.

## Outcome Area 1: Strengthening Preconditions for Productive Employment

**Data sharing reforms**. Cross-agency data sharing and interoperability are key enablers of these efficiency gains: integrated data systems improve beneficiary targeting, reduce duplication, and strengthen budget execution (IMF 2023). These reforms are modeled as an increase in productivity growth generated through improvement in the efficiency of public investment leading to increased effective capital formation (Buffie et al., 2012; Komatsuzaki, 2016). This is applied drawing on the IMF's 2019 Public Investment Management Assessment, which estimates a 23 percent efficiency gap for infrastructure in the Philippines.[76] Reforms are assumed to reduce this gap by 10 percentage points over a seven-year horizon beginning in 2028, increasing the effective public capital stock by approximately 3 percent. Applying an output elasticity of 0.162 for public capital (based on Gupta et al., 2014), this translates into a long-run output gain of approximately 0.49 percent, represented in the CGE as an additional 0.07 percentage point of TFP growth per year over 7 years.

**LGU capacity reforms**. This reform is modeled as an increase in productivity growth equivalent to an increase of 10 percent of NTA funds to the bottom income quintiles. Evidence on fiscal multipliers finds that spending in less developed regions carries a multiplier of approximately 2.6, compared to no statistically significant effect in more developed regions (Yang 2026). Assuming a post-Mandanas intergovernmental transfer budget of 3.5 percent of GDP and a multiplier differential of 0.6, the reform is modeled as a 0.2 percent increase in national TFP above baseline, phased over seven years. In the GIDD, this is represented as 10 percent faster wage growth in lagging regions relative to the national average by 2040, with an intermediate effect of 3 percent faster growth by 2030.

[76] This is a lower bound estimate: PIDS estimates higher inefficiencies for health and education spending (Lavado and Cabanda 2009), and middle-income cross-country estimates are about 34% (IMF 2025).

### Outcome Area 2: Expanding Access to More and Better Jobs

**Women's economic outcomes**. Expanded early childhood care and MSME lending to women, along with the measures included in World Bank (2025a), are projected to increase women's labor force participation by 1.1% annually over five years. This labor supply shock is modeled in the CGE as part of the growth and job reform scenarios; as such, it is not included in the Equity-only scenario to avoid duplication.

**OFW opportunities**. The scenario targets regions with below-average remittance receipts, benchmarking them against the Luzon average (Regions I-V and CAR). The modeling assumes the gap between lagging regions, and the target rate is reduced by 50 percent by 2030 and 80 percent by 2040, resulting in a projected 7 percent national increase in remittances by 2040. As shown in Table E.1, the largest proportional gains accrue to the poorest deciles, though remittances remain concentrated in the top income decile.

**TABLE E.1.** Projected remittance growth by income decile

| Income Decile | % Change in Remittances, 2030 | % Change in Remittances, 2040 | Share of Total Remittances, 2030 (%) | Share of Total Remittances, 2040 (%) |
|---|---|---|---|---|
| 1 (Poorest) | 4.0 | 39.7 | 0.7 | 0.9 |
| 2 | 2.9 | 30.0 | 1.3 | 1.5 |
| 3 | 2.1 | 20.0 | 2.2 | 2.3 |
| 4 | 1.8 | 14.8 | 3.1 | 3.2 |
| 5 | 1.6 | 11.9 | 4.2 | 4.3 |
| 6 | 2.1 | 9.5 | 5.8 | 5.8 |
| 7 | 2.2 | 9.1 | 8.3 | 8.3 |
| 8 | 2.4 | 8.2 | 11.9 | 11.9 |
| 9 | 2.3 | 6.5 | 19.0 | 18.8 |
| 10 (Richest) | 2.1 | 4.3 | 43.4 | 43.0 |
| **Total** | **2.0** | **7.4** | **100.0** | **100.0** |

### Outcome Area 3: Adaptive Social Protection and Climate Resilience

**Scaling up the 4Ps program**. The expansion of the 4Ps is first modeled in the fiscal incidence model to estimate the number of additional beneficiaries implied by an expansion that would cover vulnerable households. This is tabulated as the number of households in the 2023 data that are poor or vulnerable and have children under the age of 18, yielding a total of 8.2 million households. Households are then allocated into the 4Ps until this target value is reached using predicted income to proxy imperfect targeting on the ground and aligning with the subnational targets currently in place for the 4Ps program. Household-specific benefit amounts are tabulated based on the current 4Ps benefit values and household composition. This is then modeled in the CGE as an exogenous increase in government transfers equivalent to 0.36 percent of

2023 GDP, applied to income deciles according to Table E.2. The scenario is assumed to be budget-neutral, financed by an equivalent reduction in government consumption. The fiscal multiplier for the expansion is estimated in the CGE to be 0.17. These same households are allocated into the 4Ps in the GIDD, with transfer values adjusted by 40 percent to increase comparability with other 4P beneficiaries by correcting for known underreporting in household survey data.

**TABLE E.2. Cost of 4Ps Expansion by Income Decile (% of GDP)**

| Income Decile | Baseline 2023 | Expanded Coverage Scenario | Change from Baseline |
|---|---|---|---|
| 1 (Poorest) | 0.17 | 0.20 | 0.03 |
| 2 | 0.10 | 0.16 | 0.06 |
| 3 | 0.07 | 0.13 | 0.06 |
| 4 | 0.05 | 0.10 | 0.05 |
| 5 | 0.03 | 0.07 | 0.04 |
| 6 | 0.02 | 0.06 | 0.04 |
| 7 | 0.01 | 0.04 | 0.03 |
| 8 | 0.00 | 0.02 | 0.02 |
| 9 | 0.00 | 0.02 | 0.01 |
| 10 (Richest) | 0.00 | 0.01 | 0.01 |
| **National** | **0.45** | **0.81** | **0.36** |

**Broader household resilience to disasters**. Based on shock parameters derived from the Philippines Country Climate and Development Report (CCDR), the climate resilience scenario imposes exogenous improvements relative to the business-as-usual baseline: a 1.65 percent average increase in labor productivity and a 0.57 percent reduction in capital depreciation. These shocks capture the avoided losses from expanded social protection and improved agricultural insurance, and are passed through to household incomes in the GIDD via labor and capital income channels. Note that World Bank (2025a) did not model improved resilience, despite including resilience measures; hence, this reflects a joint impact of the reforms from both of the reports, applied through the Equity scenario to avoid duplications.

**Address the structural drivers of high food prices**. Only one measure is modeled: in the near-term, maintaining rice tariffs at 15 percent and in the medium-term generating productivity-enhancing public goods. This implies a reduction of the rice import tariff from 35 percent in 2023 (the baseline) to 15 percent. This is modeled in the CGE as a 57.14 percent reduction in the tariff rate, applied as a one-time policy shock in 2025. In the GIDD, the reform is translated into a one-time 20 percent increase in purchasing power on rice expenditures for net rice-consuming households, while income from rice production is reduced by 20 percent for net rice-producing households, reflecting a high-end estimate of the potential pass-through of lower prices to farm incomes.



Supported by Australian Aid