

# **Policy Reforms in Philippine Social Protection and Labor Systems Beyond COVID-19**

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## **Abstract**

The COVID-19 pandemic has exposed the disproportionate vulnerability to poverty of informally employed workers, the unemployed youth, and retired senior citizens with no pension, and highlighted the need for a stronger social contract that will protect vulnerable segments of the population against the risks and hazards that lead to income loss and impoverishment. The coverage of the existing social security programs has remained largely limited to regular employment in the formal sector. Policy reforms in social protection and labor systems are needed to lift households out of poverty, transition the unemployed and the informally employed workers to productive and decent work, reduce the inequalities across populations and regions that hamper economic growth, and build resilience against future adverse employment and economic shocks.

## **1. Introduction**

The resulting economic shutdown from imposing one of Asia's longest and strictest quarantine measures to contain the spread of

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the highly transmissible COVID-19 virus led to massive job losses and shrank household consumption spending that made up nearly three-fourths of the Philippine economy. The sharpest plunge in year-over-year (YoY) GDP growth was observed in the second quarter of 2020 at -16.9 percent. With a sluggish recovery over the remainder of the year, the full-year 2020 GDP growth contracted by 9.6 percent. The COVID-19-induced economic recession has had more adverse impact on the vulnerable segments of the working age population, e.g., the informally employed workers, unemployed youth, and retired elderly persons with no pension. The financial and social security of these high risk population groups is an important concern for the Philippine government that envisions the eradication of poverty by 2040 (National Economic and Development Authority (NEDA), 2017a, 2017b).

This paper begins with a brief description of the negative impact of the COVID-19 pandemic on employment and work hours which has had more devastating effects on the lower income and disadvantaged groups of workers. This is followed by a discussion of policies and programs for more inclusive social protection and labor systems including the: (a) expansion of the coverage of statutory social insurance schemes and social assistance programs; (b) creation of an enabling legal framework to transition informal workers to formality such as the Magna Carta for Workers in the Informal Economy; and (c) strengthening of the Sustainable Livelihood Program and more effective implementation of regional industrial development programs to reduce regional inequality and increase labor productivity.

## **2. Impact of COVID-19 on employment**

The COVID-19 crisis negatively impacted both employment and work hours. Between 2019 and 2020, labor force participation rate shrank by 2.4 percentage points and employment rate dropped by -6 percentage points.<sup>2</sup> This represents a decline in the number of who participated in the labor force and the number of employed by respectively, 677,980 and 3.3 million people. In comparison, unemployment

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<sup>2</sup> The annual absolute levels and rates for employment indicators are computed as an average of four rounds of Labor Force Surveys covering the months of January to December for the years 2019 and 2020. For informal employment rates and levels, the annual averages for 2019 and 2020 are computed using three quarterly labor force surveys from January to September.

rate more than doubled from 5.1 percent in 2019 to 11.1 percent in 2020 and underemployment rate increased by 2.9 percentage points from 13.7 percent in 2019 to 16.6 percent in 2020. This translates to an increase in the number of unemployed persons by 2.6 million from 2.3 million in 2019 to 4.9 million in 2020 and an increase by 682,185 underemployed workers from 5.8 million in 2019 to 6.5 million in 2020. Many workers still at work in 2020 suffered from a sharp reduction in work hours. The percent of working full-time (i.e., at least 40 hours a week) dropped from 68.2 in 2019 to 54.2 in 2020 indicating a decline in the number of full-time workers by 7.7 million from 28.9 million in 2019 to 21.2 million in 2020.

The economic fallout from COVID-19 has had more detrimental impact on the vulnerable workers such as the youth and informally employed workers who already faced financial insecurity and income inadequacy prior to the pandemic and are least able to deal with negative income and economic shocks. The number of youth aged 15 to 24 years old who were not in employment, education or training (NEET) increased from 3.57 million in 2019 to 3.82 million in 2020, of whom more than 70 percent were not in the labor force. The youth labor force participation rate which was already low prior to the pandemic dropped further from 38 percent in 2019 to 35 percent in 2020 while the youth unemployment rate<sup>3</sup> which was more than three times higher than that of adults before the pandemic spiked further from 14 percent in 2019 to 23 percent in 2020 (Figures 1 & 2). This corresponds to an increase in the number of unemployed youth from 1.02 million in 2019 to 1.62 million in 2020. However, underemployment<sup>4</sup> was more widespread for adult workers which increased from 14 percent in 2019 to 17 percent in 2020 representing 5.65 million underemployed adult workers in 2020.

Similar to young workers, Filipino women also suffer from very low labor force participation rate which worsened during the pandemic from 48 percent in 2019 to 45 percent in 2020 (Figure 4). Cabegin and Gaddi (2019) attributed the low labor force participation of Filipino women to a number of factors including stereotyped gender roles that

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<sup>3</sup> Unemployed persons are those who are seeking and available for work but could not find work in the reference week; or those who are not seeking work due to the following reasons: (a) tired/believe no work available; (b) awaiting results of previous job application; (c) temporary illness/disability; (d) bad weather, and (e) waiting for rehire job/ recall.

<sup>4</sup> A worker is considered underemployed if he/she prefers to work more hours.

ascribe childrearing and domestic roles to women and economic roles to men, occupational gender segregation, employer discriminatory practices, and undercounting of women’s economic activities.

Figure 1. Labor force participation rate, youth\* and adult workers, 2019 & 2020

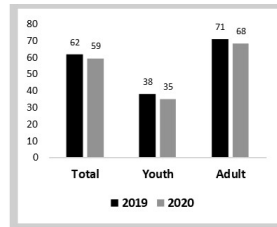


Figure 2. Unemployment rate youth\* and adult workers, 2019 & 2020

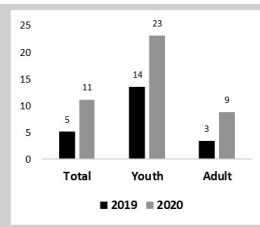
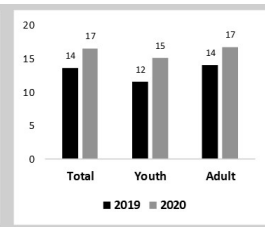


Figure 3. Underemployment rate youth\* and adult workers, 2019 & 2020



\* Youth refers to persons 15 to 24 years old; Adults are persons aged 25 years old and over.  
Source: Quarterly Labor Force Surveys corresponding to the period January to December of 2019 and 2020, Philippine Statistics Authority; Author’s calculations

Figure 4. Labor force participation rate, female and male workers, 2019 & 2020

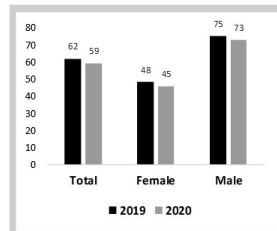


Figure 5. Unemployment rate female and male workers, 2019 & 2020

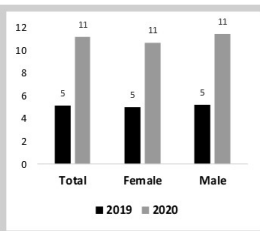
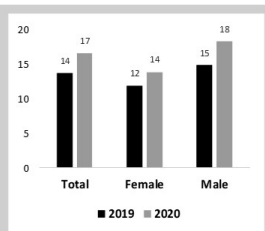


Figure 6. Underemployment rate female and male workers, 2019 & 2020

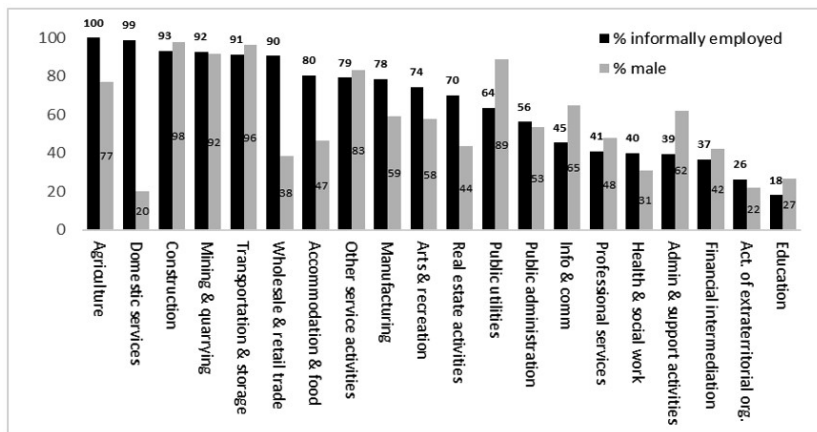


Source: Quarterly Labor Force Surveys corresponding to the period January to December of 2019 and 2020, Philippine Statistics Authority; Author’s calculations

However, once in the labor force, men are more likely to be underemployed than women (Figure 6). The underemployment rate in 2020 was 14 percent for women and 18 percent for men representing 4.4 million underemployed women and 6.5 million underemployed men. Workers with less education have higher underemployment rates. The Philippines has achieved a reversal of the gender gap in education, with women in the workforce twice more likely to have completed a college education than men (26% for women and 13%

for men in 2019 have graduated from college), and nine percentage points less likely to have lower than secondary education (21% for women and 30% for men in 2019). Lower education is associated with employment in lower paying and low-skill elementary occupations such as refuse workers and laborers in agriculture, construction and transport, which are dominated by men.

Figure 7. Percent of informally employed and male workers by industry, 2020



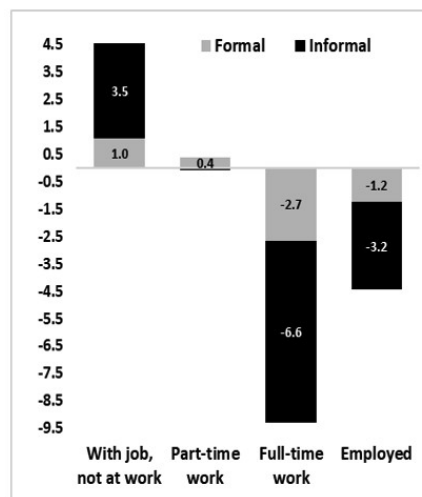
Source: Quarterly Labor Force Surveys, Philippine Statistics Authority; Author's calculations

The Filipino workforce is characterized by a persistently pervasive informality. Estimates of informal employment<sup>5</sup> showed that four out of five Filipino workers were informally employed from 2008 to 2020 (Cabegin, Forthcoming). Men are more likely to be informally employed than women. In 2020, 85 percent of men workers were estimated to be informally employed compared to 78 percent for women workers. While women are more likely to be unpaid family workers or own-account workers in informal enterprises, men workers are more

5 The ILO (2003) defines informal employment as those that are, “in law or practice, not covered or insufficiently covered by formal arrangements” including national labor laws and regulations in social security and income taxation. Informal employment estimates in 2020 were derived using the following types of workers with the highest rates of informality (of more than 90 percent) from the 2008 Informal Sector Survey: (a) family workers in own-family farm or business; (b) self-employed without any paid employee; (c) employer in own family farm or business; (d) workers in private households; (e) agricultural, forestry and fishery workers; (f) workers in elementary occupations; (g) workers who are paid in kind, per piece, “pakyaw”; (h) short-term, seasonal, or casual workers and those who works for different employers

likely engaged in informal poor-quality wage employment in formal enterprises, without social security coverage, secure contracts, and worker representation. Of the six major industries with the highest rates of informality of at least 90 percent, four industries were male-dominated namely construction, transport and storage, mining and quarrying and agriculture (Figure 7).

Figure 8. YoY change in the number of employed (in million) by type of employment, 2020



Source: Averaged for three quarters corresponding to the months from January to September

The pandemic has had dire consequences on the already vulnerable workers in the informal economy. The YoY reduction in the number of full-time workers was -4.46 million in 2020<sup>6</sup> of which -3.23 million were in informal employment (Figure 8). This was accompanied by a YoY increase in workers who had a job but were not at work<sup>7</sup> by 4.53 million workers of which 3.48 million were informally employed. Pursuant to the principle of “no work, no pay,” many workers who were temporarily laid off or furloughed from work due to the pandemic lost their wages or incomes on unworked days.

<sup>6</sup> Averaged for three quarters covering the months from January to September 2020.

<sup>7</sup> These include workers who had a job but were not at work during the survey reference period due to pandemic-related business closures and economic shutdown.

### **3. Moving toward more inclusive social protection and labor systems**

It is the policy of the State to empower every Filipino family “to meet its minimum basic needs of health, food and nutrition, water and environmental sanitation, income security, shelter and decent housing, peace and order, education and functional literacy, participation in governance, and family care and psycho-social integrity” (Section 2(1) of Republic Act 8425, 1998). This is operationalized in the government’s goal of ending poverty and transition the country to a high-income status<sup>8</sup> by 2040 (NEDA, 2017a, 2017b).

Inclusive social protection and labor systems are crucial to achieve a poverty-free Philippines. The International Labour Organization (ILO, 2004) defines social protection as a set of public measures to protect individuals from the negative consequences of risks and hazards over the life cycle from childhood to old age including the loss of jobs and incomes, sickness, employment injury or invalidity, maternity, aging and death. NEDA (2007) defines social protection as the set of policies and programs intended to “reduce poverty and vulnerability to risks and enhance the social status and rights of the marginalized by promoting and protecting livelihood and employment, protecting against hazards and sudden loss of income, and improving people’s capacity to manage risks.”

Social protection is an investment in human capital that increases productivity and builds resilience against negative job and income shocks by smoothing consumption; it averts poverty by preventing the nearly poor from falling into impoverishment or the poor from sinking deeper into destitution during an economic crisis, as well as facilitates a quicker sustainable recovery from disasters; it strengthens social cohesion and stability (Alderman & Yemtsov, 2012) and contributes to inclusive growth (Asian Development Bank [ADB], 2016; UN ESCAP, 2018).

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<sup>8</sup> In *Ambisyon Natin 2040*, the Philippine government aims to attain a GDP per capita of US\$9,350 or GNI per capita of US\$11,000 by 2040 (NEDA, 2017a). This falls under the lower end of the range for high-income countries before the World Bank adjusted upwards in 2020 the minimum GNI per capita of US\$12,535 to be classified as a high-income country. With a GNI per capita of US\$3,850 in 2019, the Philippines is classified as lower-middle-income country but is close to moving up to upper-middle-income status (i.e., economies with a GNI per capita of between US\$4,045a and US\$12,535).

Toward this end, there is a need to expand the coverage of social assistance to poor households and social security to informal workers who are inadequately protected against hazards leading to income loss and impoverishment over the life cycle. Promoting social protection includes providing access to basic health care and decent work, compulsory primary and secondary education, and financial security during old age to guarantee a minimum level of consumption and wellbeing. The Philippines needs to increase the level of investment in public social protection, which is among the lowest in Southeast Asia, accounting for 2.2 percent of GDP, compared with 6.3 percent in Vietnam, 4.3 percent in Singapore, 3.8 percent in Malaysia, 3.7 percent in Thailand and 3.3 percent in Timor-Leste (ILO, 2017).

### **3.1 Expand the coverage of statutory social insurance scheme**

The high incidence of informal employment in the Philippines engendered a large gap in social insurance coverage as mandatory social security schemes are limited largely to regular employment.<sup>9</sup> Based on the social security statistics by the Philippine Statistics Authority (PSA, 2019), only 41 percent of the labor force contributed to a pension scheme in 2018. About 58 percent of employees in government and private establishments were covered by statutory social insurance schemes while the corresponding figures for self-employed and domestic workers were only 11 percent and one percent, respectively. In 2018, only 20 percent of the population 60 years old and over received a retirement pension.

The COVID-19 pandemic has exposed the greater vulnerability of informally employed workers to fall deeper into poverty. They face a high risk of being laid off from work or losing a livelihood during an economic crisis and yet have very limited coping capacity to overcome such adversities. With meagre daily incomes, informal workers cannot

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<sup>9</sup> Article 295 of the Labor Code of the Philippines defines regular employees as those who are: (a) engaged to perform activities which are “usually necessary or desirable” in the usual business or trade of the employer; or (b) those who were engaged to render work for at least one year, regardless of employment continuity. Regular employees are entitled to benefits provided by law such as social security benefits (e.g., retirement, death, disability, funeral, sickness, maternity), payment of at least the legislated minimum wage and wage-related benefits (e.g., overtime, night differential, rest day, holiday and 13th month pay), security of tenure and right to self-organization and collective bargaining.



afford to pay regular contributions to a social insurance program. At the same time, they are considered not poor enough to be eligible for public cash transfer programs. As such, they are likely to fall between the cracks.

***3.1.1 Horizontal expansion of the social insurance scheme coverage to be universal to all workers and the pension scheme to be universal to all senior citizens***

***3.1.1.1 Universal social security for all workers***

It is important to delink social security with employment status to attain universal social protection. Universal social security coverage of all workers drives down or even eliminates future expenditures for social pension of indigent senior citizens. Unlike the almost universal membership coverage of National Health Insurance Program at 85 percent of the population in 2020, only 11 percent of self-employed workers are covered by a social insurance scheme. The self-funded voluntary scheme of the Social Security System (SSS) for informal workers has failed to meet the mark because the low productivity levels and fluctuating earnings of informal workers limit their ability to pay social security contributions on a regular basis.

Self-employed workers or independent contractors are those who earn their incomes from operating independently their businesses or trades as opposed to employees who work for an employer who has the right to control the manner and means of performance of the employee. Considered by tax authorities as both an employer and an employee, self-employed workers pay a hundred percent of their social security tax. Without a cost-sharing component with an employer, self-employed workers or independent contractors contribute a larger share of their income for social security tax than higher-paid regular employees, making the system regressive and undermining the crucial attribute of ethics and fairness in a tax system. The SSS contribution rate is 13 percent of the average monthly salary credit which is fully borne by a self-employed worker but is co-shared for employees with the employer who pays 65 percent of the employee's monthly social security tax.

In comparison, the National Health Insurance program under the Universal Health Care Act<sup>10</sup> uses a combination of contributory and non-contributory schemes to ensure universal coverage. It has two types of members, namely: (a) direct contributors or those who have the capacity to pay including regular employees, self-earning professional and technical workers, and domestic workers; and (b) indirect contributors that include the rest of the population whose premium contribution are either fully or partially subsidized from general taxation. To incentivize broad-based participation in the statutory social security scheme, the government can match social security contributions of informal workers from general taxation up to a certain percentage of the monthly salary credit. Government matching of social insurance contribution for informal workers is practiced in other Asian countries like Thailand and India.

The COVID-19 pandemic has accelerated digital transformation and the growth of gig economy or platform-mediated workers such as food delivery riders and ride-hailing drivers who provide services via a digital platform or smartphone application. The Transport Network Companies (e.g., Grab, Micab, HYPE, U-Hope, etc.) and online food delivery companies consider e-hailing and online food delivery drivers as self-employed workers or independent contractors who are not subject to social protection coverage and other protections of labor law. There is a need to investigate the possible misclassification by businesses of these platform-mediated workers as independent contractors rather than employees who are entitled to labor law protection including the provision of minimum wage, social protection coverage, meal breaks and overtime, sick and maternity/paternity leaves, occupational safety and health and collective bargaining rights. Courts in a few countries such as Spain and Italy have declared drivers in app-based food delivery and courier companies as employees rather than independent contractors.

### *3.1.1.2 Universal social pension for senior citizens*

The Philippines' demographic transformation characterized by declining fertility rates and increasing life expectancy and longevity

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<sup>10</sup> Republic Act Republic Act No. 11223 (Universal Health Care Act): An Act Instituting Universal Health Care for All Filipinos, Prescribing Reforms in the Health Care System, and Appropriating Funds Therefor.

is associated with an accelerated growth of the elderly population. The Philippine population projections of the PSA (2014) estimated the number of persons aged 60 years and older to more than triple from 6.26 million in 2010 to 19.7 million in 2040, implying a more than doubling of the share of senior citizens from 6.7 percent in 2010 to 14.3 percent in 2040. This highlights the need for reforms in pension schemes that guarantee a better quality of life and improved wellbeing of an expanding elderly population. A law that provides universal pension for senior citizens ensures income security and eradication of poverty among elderly citizens.

Close to two-thirds of senior citizens did not receive a pension in 2016. About 20 percent of the elderly population were covered by a formal pension scheme (e.g., GSIS, SSS) and another 17 percent were beneficiaries of the social pension program. The eligible beneficiaries of the social pension program are indigent senior citizens defined as any person 60 years old and over who is “frail, sickly, or with disability, and without pension or permanent source of income or regular source of income, compensation, or financial assistance from his/her relatives to support his/her basic needs” (Section 2(h) of Republic Act No.9994). NEDA (2017) attributed the gap in coverage to a very restrictive eligibility criterion for the social pension program, which Senate Bill Nos. 133 and 259<sup>11</sup> proposes to relax by the inclusion of all senior citizens who are not covered elsewhere by a formal pension scheme.

### ***3.1.2 Vertical expansion of the coverage of social insurance to include a higher old-age social pension for the elderly poor and the provision of unemployment insurance***

A monthly cash assistance of PHP800 (PHP500 under the social pension program and PHP300 unconditional cash transfer under the tax reform law) is provided to indigent senior citizens. This amount is less than one-third of the international poverty line of US\$1.90 a day (PHP95 a day/PHP2,850 a month), that is needed to support basic needs of food, clothing, and shelter, and captures extreme poverty.

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<sup>11</sup> Senate Bill 133: An Act Increasing the Monthly Social Pension of Senior Citizens and Expanding the Coverage Thereof. Eighteenth Congress of the Republic of the Philippines. Senate Bill 259: An Act Increasing the Monthly Social Pension of Senior Citizens and Expanding the Coverage Thereof, amending for this Purpose Republic Act No. 7432, as Amended. Eighteenth Congress of the Republic of the Philippines.

Senate Bill Nos. 133 and 160<sup>12</sup> seek an increase in the monthly social pension for senior citizens from PHP500 to PHP1,000.

The provision of an unemployment insurance can protect workers from an adverse shock that leads to loss of jobs and income, by allowing them to maintain consumption during unemployment spells and prevents the nearly poor workers to be pushed into poverty (Moffitt, 2014). Thailand, Vietnam, and Malaysia have unemployment insurance as part of their social insurance schemes that accounts for 0.2 percent of monthly earnings in Malaysia, 0.5 percent in Thailand and one percent in Vietnam. A crucial precondition of an inclusive unemployment insurance scheme is a universal social security scheme discussed in the earlier section.

To minimize the possible undesirable effect of lengthening unemployment for recipients of an unemployment insurance, Malaysia reduces the level of benefit with increasing length of unemployment and increases the minimum number of monthly contributions with succeeding unemployment insurance claims. The qualifying conditions for an unemployment benefit in Malaysia include: (1) a minimum number of months of contribution (i.e., at least 12 months of contributions in the 24 months before the first claim, at least 18 months in the 36 months before the second claim, or at least 24 months in the 48 months before the third claim); (2) registration as a job seeker with the government employment service, and; (3) the cause of unemployment being involuntary and not due to voluntary resignation, misconduct, or expiration of a fixed-term contract.

A qualified unemployed person in Malaysia can claim an unemployment benefit equivalent to 80 percent of monthly earnings for the first month, 50 percent for the second month, 40 percent for the third and fourth months and 30 percent for the fifth and six months. In comparison, House Bill 7028 or the Philjobs Act of 2020 proposes the provision of unemployment benefits equivalent to 80 percent of the member's basic pay, for up to three months. The design of the unemployment insurance scheme in the Philippines can learn from

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<sup>12</sup> Senate Bill 160: An Act Granting Universal Social Pension to all Senior Citizens Aged 65 Years Old and Above, amending for this Purpose Republic Act No. 7432, as Amended. Eighteenth Congress of the Republic of the Philippines.

Malaysia to minimize the moral hazard of reduced effort in finding a job more quickly and delaying the exit from unemployment.

### 3.2 Expand the coverage of social assistance programs

The Pantawid Pamilyang Pilipino Program (4Ps) which started in 2007 and institutionalized in 2019 by Republic Act No. 11310<sup>13</sup> is the country's main poverty alleviation program. Section 3(o) of Republic Act No. 8425 (Social Reform and Poverty Alleviation Act) defines poor individuals and families as those "whose income fall below the poverty threshold as defined by the National Economic and Development Authority and/or cannot afford in a sustained manner to provide their minimum basic needs of food, health, education, housing, and other essential amenities of life." Beneficiaries of the 4Ps program are households falling below the provincial poverty threshold and selected from the *Listahan ng mga Sambahayang Nangangailan (Listahan)* or the National Household Targeting System for Poverty Reduction (NHTS-PR).<sup>14</sup>

The number of 4Ps household beneficiaries increased from 321,380 in 2008 to nearly 4.9 million in 2019. This number represents close to two million more households than the three million Filipino households living below the national poverty line of PHP10,756 in 2018. However, the national per capita poverty threshold<sup>15</sup> of PHP71 a day (PHP50 a day for basic food items and PHP21 a day for non-food items)<sup>16</sup> has been criticized to be too low. Mangahas (2011,

13 Republic Act 11310: An Act Institutionalizing the Pantawid Pamilyang Pilipino Program. Republic of the Philippines. April 2019. The 4Ps beneficiaries receive educational grants of PHP 3,000 per year (PHP 300 per month for 10 school months) per child in elementary level, PHP 5,000 per year per child in the junior high school level and P7,000 per year per child in the senior high school level, and a health and nutrition grant of PHP 7,500 per year. Recipients of the 4Ps need to comply with the conditions for the cash grant including at least 85 percent school attendance rate per month for child beneficiaries, regular preventive health care check-ups and up-to-date vaccinations for children below 6 years old, compliance to deworming protocols for children 6 to 14 years old, attendance and use of maternal health care for pregnant mothers, and attendance to monthly family development sessions.

14 *Listahan* is a registry of Filipino households, including those classified as poor using proxy means test to estimate household income based on non-income proxy indicators such as education and employment of household members, and household assets.

15 meet basic food and non-food items (Philippine Statistics Authority, 2019b).

16 The PSA derives the non-food poverty threshold indirectly by using the ratio of food expenditure to total expenditure in low-income families at 70 percent share for food items and the residual of 30 percent to non-food items.

2014) contends that the PSA in 2011 adjusted the poverty threshold downwards by downgrading the quality of the one-day food menu used in the computation of the food poverty threshold (e.g., excluding milk for children in the breakfast menu, reducing the viand for lunch from two to one, and eliminating meat from the dinner menu), resulting in a statistical reduction in poverty incidence by 5.4 percentage points compared to pre-adjusted levels. The ADB (2005) also cited that the pricing used in estimating the poverty threshold did not account for the fact that low-income households pay higher for commodities because they cannot afford to buy in bulk to take advantage of discounts and need to make more frequent purchases for everyday items that are repackaged in smaller portions or “tingi”.

The PSA’s non-food poverty threshold of PHP21 a day is too low to adequately meet non-food necessities that includes “clothing and footwear, fuel, light and water, housing, rental of occupied dwelling units, transportation and communication, health and education expenses, non-durable furnishing, household operations and personal care and effects” (PSA, 2019b).

The downward adjustment resulted in the reclassification of one million households from poor to non-poor and decreased the poverty incidence from 26.3 percent to 20.9 percent in 2009. Lowering the poverty threshold reduces the number of individuals and families facing acute income insecurity who will qualify for social assistance programs such as the 4Ps. The low subsistence incidence<sup>17</sup> of only 6.2 percent of Filipino households in 2018 estimated by the PSA (2019b) appears contradicted by the World Bank data indicating that the Philippines has among the highest prevalence of moderate or severe food insecurity in the population<sup>18</sup> worldwide at 55.3 percent in 2018. This rate is more than twice that for the world at 25.8 percent and higher than most Southeast Asian countries such as Cambodia

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17 Subsistence incidence is computed as the proportion of families/individuals whose incomes are not adequate to meet basic food needs.

18 The World Bank defines the prevalence of moderate or severe food insecurity in the population as the percent of population living in households classified as moderately or severely food insecure (i.e., when at least one adult in the household has reported to have been exposed, at times during the year, to low quality diets and might have been forced to also reduce the quantity of food they would normally eat because of a lack of money or other resources). World Bank Open Data. Retrieved from: <https://data.worldbank.org/indicator/SN.ITK.MSFI.ZS>

(44.1%), Malaysia (15.1%), Vietnam (14.5%), Indonesia (7%) and Singapore (4.7%).

### ***3.2.1 The need to adjust the poverty line to better reflect deprivation***

The poverty threshold should be adjusted by defining a more adequate level of both food and non-food items including housing space, clothing and footwear, fuel, light and water, compulsory schooling up to the secondary education and other essential non-food items. The selection criteria for the one-day food menu can prioritize the proteinic content rather than minimize cost. Both the food and non-food items should be adjusted for their corresponding inflation rates. The COVID-19 pandemic that accelerated digital transformation including e-commerce, online transaction for public services, and remote learning, has also made access to internet services and digital devices as necessities for minimum standard of living.

An alternative measure is to anchor the Philippine poverty threshold on the international poverty line for a lower-middle-income country which is currently where the Philippines is at or an upper-middle-income country which the Philippines aims to be by 2022. The international per capita poverty line is established at US\$3.20 a day (equivalent to a per capita poverty threshold of PHP165 a day) for lower-income middle countries and US\$5.50 a day (or PHP275 a day) for upper-middle income countries. The international poverty threshold for upper-middle income countries is equivalent to PHP33,000 a month for a family of four which is about 28 percent the monthly income of PHP120,000 for a family of four that corresponds to a life that is *“matatag, maginhawa at panatag”* envisioned by the Philippine government for most Filipinos by 2040 (NEDA, 2017b).

A poverty threshold that more accurately reflects the impoverishment and economic deprivation of individuals and households would enable the government to enact better-targeted “measures that protect and enhance the right of all people to human dignity, reduce social, economic and political inequalities, and remove cultural inequalities” (Article XIII, Section 1, 1987 Constitution of the Republic of the Philippines).

***3.2.2 Horizontal expansion of the coverage of 4Ps to all populations and households living in extreme poverty in accordance with the international poverty line for upper middle-income countries***

The COVID-19 pandemic and ensuing economic recession has highlighted the need to protect the already poor and the near poor, including the informally employed workers, who are more likely to slide or fall deeper into poverty and less likely to recover quickly from the adverse economic and health impact of the crisis. Expanding the coverage of 4Ps to all populations and households living below the poverty line of PHP275 per person a day (US\$5.50 a day) can keep more children in school that, in turn, will improve their access to better employment opportunities in adulthood and reduce the transmission of poverty across generations.

Eligible beneficiaries can be classified into: (a) severity of poverty (e.g., the indigents with per capita income below US\$ 1.90 a day; the poor with per capita income below US\$3.30 and the moderately poor with per capita income below US\$5.50); and (b) type of poverty (i.e., chronically poor or those who were poor before COVID-19 and transitory poor or those who fell into poverty after COVID-19). The program can prioritize the most destitute among the chronically poor for long-term measures aimed at pulling them out of the poverty trap, and gradually scale up to include short-term measures to aid the transient poor recover from negative economic shocks and into more productive employment.

***3.2.3 Vertical expansion of the 4Ps to include a training grant for unemployed youth and a supplemental fund to cover transportation costs in secondary education***

The unemployment problem in the Philippines is primarily a youth problem with those 15 to 24 years old being more than three times more likely to be unemployed than adults aged 25 years old and over. There are many contributing factors to a high youth unemployment including lack of job opportunities on the demand side and limited education and work experience on the supply side. Young people from poor households are especially at risk of being educationally



disadvantaged as their families struggle to provide basic food and non-food necessities to their children.

The 4Ps which is conditioned on the children's school attendance is a strategy to narrow the education and skills gap between children in the low- and high-income households. The 4Ps provide education grants to children up to 18 years old in beneficiary households: PHP3,000 per year for elementary education, PHP5,000 for junior high school and PHP 7,000 for senior high school. Nevertheless, the attainment of higher education for children beneficiaries depends largely on the availability of public schools within their reach, particularly for junior and senior secondary education. Inequitable access to quality education is reflected in the wide geographic variation in school presence and concentration which is magnified for higher education. The number of private and public schools offering senior secondary education for the Academic Year 2018-2019 ranged from as low as 220 (with 168 public schools and 52 private schools) in the Autonomous Region of Muslim Mindanao (ARMM) to 852 (with 168 public schools and 674 private schools) in the National Capital Region (NCR), while the teacher-student ratio in the public senior high schools ranged from 1:72 in the ARMM to 1:26 in the NCR.

Several studies (Ebinum et. al., 2017; Lavy, 1996; Mhiliwa, 2015) showed a negative effect of distance to and lack of availability of schools on the students' school attendance and performance. Children who are distantly located from an appropriate school face higher schooling costs that they could not afford and may discourage school attendance or encourage child labor. In this respect, the 4Ps education grant for students can be supplemented by a home-to-school transport allowance for students who are located far away enough (e.g., more than one kilometer for primary education and more than two kilometers for secondary education) from the nearest appropriate school facility or who need to travel through challenging terrains or routes (e.g., mountain, river) to get to school. This is key to achieving the Philippine Sustainable Development Goal No. 4.2 of ensuring that "all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes" by 2030. In 2018, the net enrolment rate for senior high school was only 51 percent nationwide and ranged from 11 percent in the ARMM to 69 percent in the NCR.

To empower beneficiary households to lift themselves out of poverty, the 4Ps can include a training and employment program for youth household members above 18 years old who are not in education, employment nor in training. Chile's anti-poverty program Ethical Family Income or *Ingreso Etico Familiar*, for example, has a program for unemployed youth above 18 years old that includes training in soft skills development and building technical competencies and labor market intermediation (Cecchini et al., 2012)

### ***3.2.4 More efficient targeting methods to reduce exclusion and inclusion errors from social assistance programs***

The existing selection of beneficiaries for the 4Ps involves two stages: (a) geographic targeting that selects municipalities with a poverty incidence of at least 50 percent and "pockets of poverty" for municipalities with poverty incidence of less than 50 percent; (b) selection of eligible beneficiaries from the identified geographic areas using the National Household Targeting System for Poverty Reduction (NHTS-PR) or Listahan that employs a proxy means test method for determining economic status of households.

Knox-Vydmanov et al., (2016) assert that the Listahan has problems of accuracy leading to the inclusion of non-poor recipients and exclusion of households and populations that should be eligible for the program. Acosta et al., (2019) showed that the *Pantawid Pamilyang Pilipinong Program* suffered from declining targeting accuracy which partly explained the lower program coverage rate among the targeted poor households from 58 percent in 2013 and 59 percent in 2015 to 49 percent in 2017. They estimated that 77 percent of the 3.9 million 4Ps beneficiaries in 2017 belonged to the bottom 40 percent of the income distribution of which 46 percent were from the poorest 20 percent of the population.

There is need for more efficient targeting methods for the 4Ps program to ensure maximum coverage of the poor. Adopting a combination of different targeting methods could yield higher targeting accuracy. The self-targeting approach can replace geographic targeting in the first stage of the selection process, as is currently practiced in conditional cash transfer programs in other Southeast Asian countries like Indonesia where prospective beneficiaries need to apply for the

program. An effective nationwide information campaign about the program is critical in the self-selection approach to minimize the exclusion error inherent in geographic targeting. The inclusion error is also reduced with the self-targeting approach by discouraging the non-poor from participating in the application and verification process. Alatas et al., (2012) indicated that targeting efficiency is improved when households are required to apply for the program, as poor households are more likely to seek out the program than rich households.

In the second stage of the selection process, the applicants' eligibility is determined through the existing Listahan or registry of poor households. The assessment and verification of economic status can be done by program administrators with strong community involvement from the local government units and civil society organizations that could also play a critical role in disseminating information and assisting poor households in their community to participate in the application process.

In addition to household assets and employment and education status, other relevant proxy variables are indicators of the regularity of employment or incomes (e.g., work in the informal sector or wage work that is not covered by social insurance). The Listahan needs to be updated regularly and should include all those who applied for the program and were verified to be poor (i.e., living below the poverty threshold).

### **3.3 Upgrade labor market policies and programs to lift workers out of poverty and into decent work**

Decent work is an essential pathway out of poverty. Poverty cannot be eliminated without providing the labor force with a sustainable productive livelihood and employment. Since the 4Ps is the country's primary strategy for achieving the long-term vision of a poverty-free Philippines by 2040, there is need to complement it with active labor market policies to transition the labor force into decent work. Exit from the 4Ps should be not only time-bound with a maximum period of seven years but also results-oriented so that graduation from the 4Ps is associated with an exit from poverty. The 4Ps should be more results-

oriented aiming to build human capital of children to prepare them for better work opportunities in adulthood and prevent the transmission of poverty across generations, and to capacitate adult members to obtain decent work and livelihoods that generate sustainable higher incomes that will keep themselves out of poverty.

### ***3.3.1 Consolidation of labor market programs***

The Philippines has several labor market programs including: (a) employment facilitation programs such as the Department of Labor and Employment (DOLE) Phil-JobNet and JobStart Philippines; (b) short-term employment scheme such as the DOLE *Tulong Panghanapbuhay sa Ating Disadvantaged/ Displaced Workers* (TUPAD) which provides emergency employment in social community projects for up to 30 days for the unemployed and underemployed poor and the Special Program for Employment of Students (SPES) which provides summer employment poor out-of-school youth and students on school break; (c) microenterprise development such as DOLE KABUHAYAN program which provides start-up capital in the form of raw materials and equipment, and business training and DSWD Sustainable Livelihood Program; (d) skills development such as DOLE Kasanayan at Hanapbuhay Program, TESDA scholarship programs in Dual Training System and Training for Work Scholarship Program.

There is need to harmonize, coordinate and consolidate labor market programs to improve efficiency, minimize duplication and overlap in target population, and facilitate the promotion of beneficiaries from one program to another. The development of an integrated beneficiary data base and information system can also facilitate the monitoring and evaluation of beneficiaries' economic status and labor market performance.

### ***3.3.2 Strengthening the Sustainable Livelihood Program through effective entrepreneurship education***

The Sustainable Livelihood Program Microenterprise Development (SLP-MD) is a primary exit strategy of the 4Ps program aimed at building capacity of beneficiaries to earn higher incomes and pull themselves out of poverty. It provides a seed capital fund to start a micro enterprise or upgrade existing livelihoods. An evaluation of the

program, however, indicated a limited positive effect on labor supply and no significant effect on household income and wages (Orbeta et al., 2020) due to unproductive use of funds that did not generate profits. The SLP-MD program has a significant failure rate indicated by the closure of 51 percent of individual business projects and 28 percent of group business projects (Orbeta et al., 2020).

Access to a seed capital fund and microcredit alone is not sufficient to guarantee business success and microenterprise development. Most micro-scale entrepreneurs lack the entrepreneurial attributes of creativeness, innovativeness and risk taking (Jain & Ali, 2013) that are critical to exploit business opportunities for greater value creation and wealth generation. The SLP-MD beneficiaries are likely to be necessity-driven entrepreneurs who are pushed to start a business venture to make a living because of a lack of better job prospects. Along with financial access, entrepreneurship education and mentorship that develop an entrepreneurial mindset and skills could act as an equalizer between the poor and the non-poor entrepreneurs and plays a vital role in the creation and sustainability of productive enterprises.

In this connection, the Department of Trade and Industry (DTI), rather than the Department of Social Welfare and Development, may be better suited to deliver the government's Sustainable Livelihood Program. The DTI is mandated under RA 10644 to provide entrepreneurs with links to markets and suppliers as well as business advisory services including training in entrepreneurial mind setting, development and assessment of viability of business proposal including the existence of a market for products, mentorship, financial management and access to trade fairs. A wider regional coverage of the DTI's entrepreneurship program can be facilitated with the establishment of Negosyo Centers in all the 145 cities and 1,489 municipalities that offer the full services of business registration facilitation, entrepreneurship education, product development, access to financial service providers, establishing linkages with suppliers, and the promotion of products and services in the regional, national and international markets, and which is mandated under the Go Negosyo Act of 2014. Although over a thousand Negosyo Centers have been established nation-wide, only 11 percent were operating in full-service capacity, with majority located in Luzon (DTI, 2021).

### ***3.3.3 Create an enabling regulatory and institutional framework to transition the informal economy to decent work and sustainable productive livelihood***

The informally employed workers which constitute the great majority of the Filipino labor force, are characterized by low and irregular incomes, poor working conditions, and lack of social security, freedom of association and collective representation. Transitioning the informal workers to formality is vital to transitioning workers to decent work and pulling their households out of poverty. The proposed bill on the Magna Carta for Workers in the Informal Economy (MACWIE)<sup>19</sup> provides the legal framework to transition informally employed workers to formality. The Bill addresses decent work deficits in the informal economy and gives informal workers the right to: (a) social protection; (b) freedom of association, social dialogue, and collective negotiation; (c) security at work; (d) just and humane conditions of work; and (e) occupational safety and health.

However, the proposed MACWIE lacked a provision on the right of workers in the informal economy to collectively bargain, apart from the right to collectively negotiate, in accordance with the constitutional right of “all workers to self-organization, collective bargaining and negotiations, and peaceful concerted activities, including the right to strike in accordance with law” (Article XIII, Section 3, paragraph 2, of the 1987 Philippine Constitution). The ILO Recommendation No. 204 urges member countries to “ensure that those in the informal economy enjoy freedom of association and the right to collective bargaining, including the right to establish and, subject to the rules of the organization concerned, to join organizations, federations and confederations of their choosing” (Section 31) and “employers’ and workers’ organizations should, where appropriate, extend membership and services to workers and economic units in the informal economy” (Section 33).

The existing legal framework that supports collective bargaining in the Philippines is limited to labor unions whose members are employees in “commercial, industrial and agricultural enterprises

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<sup>19</sup> Several Senate and House Bills on the Magna Carta for Workers in the Informal Economy have been introduced including Senate Bills Nos. and House Bills Nos. 154, 326, 664, 987, 1352 and 11651.

and in religious, charitable, medical or educational institutions whether operating for profit or not” (Article 253 of the Labor Code of the Philippines, as amended). Workers who do not have a definite employer or whose employment does not involve an employee-employer relationship such as self-employed workers are allowed by the Labor Code of the Philippines to “form a labor organization for their mutual aid and protection” but not for the purpose of collective bargaining.

Given an unequal balance of power between the workers in the informal economy and the authorities that wield power over policies and programs that directly affect the conditions of their work and livelihood, collective bargaining creates a level playing field where informal workers gain a stronger voice to improve their livelihood, incomes, and productivity. Section 11 of the ILO Recommendation 204 states the characteristics of a good policy framework for transitioning informal work to formality, and which can provide as issues on the bargaining agenda between the informal workers and the proper authorities. These include: (a) the promotion of a conducive business and investment environment; (b) respect for and promotion and realization of the fundamental principles and rights at work; (c) the promotion of equality and the elimination of all forms of discrimination and violence, including gender-based violence, at the workplace; (d) the promotion of entrepreneurship, micro, small and medium-sized enterprises, and other forms of business models and economic units, such as cooperatives and other social and solidarity economy units; (e) access to education, lifelong learning and skills development; (f) access to financial services, including through a regulatory framework promoting an inclusive financial sector; (f) access to business services; (g) access to markets; (h) access to infrastructure and technology; (i) the promotion of sectoral policies; (j) the establishment of social protection floors, where they do not exist, and the extension of social security coverage; (k) the promotion of local development strategies, both rural and urban, including regulated access for use of public space and regulated access to public natural resources for subsistence livelihoods; (l) effective occupational safety and health policies; (m) efficient and effective labor inspections; (n) income security, including appropriately designed minimum wage policies; and (o) effective access to justice.

Several countries have afforded workers in the informal economy the right to bargain collectively. Fulton (2018) noted that the terms and conditions of work of self-employed workers were determined by collective bargaining or some form of trade union engagement in 11 European countries, namely, Austria, Belgium, Denmark, France, Germany, Italy, Netherlands, Serbia, Spain, Sweden, and the United Kingdom. The ILO and Danish Trade Union Development Agency (2019) cited a few examples in which trade unions in Africa have organized the informal economy into the trade union movement: the Tanzania Unions of Industrial and Commercial Workers in Tanzania organized the informal workers and recruited them into the union; the Sierra Leone Labour Congress (SLLC) helped organize the informal economy into associations and registered them as trade unions which were later affiliated with the SLLC; the Zambia Congress of Trade Unions formed the Zambia Informal Economy Association (AZIEA) and Association of Vendors and Marketers in Zambia (AVEMA) that later became associate members of the Zambia Congress of Trade Unions. Nepal and Uganda have also organized informal economy workers through their sector trade unions.

There is a need to remove the legal impediments that prevent informally employed workers in the Philippines from enjoying their right to organize and bargain collectively. Informally employed workers have little or no bargaining power over the conditions of their work or livelihood. Collective bargaining promotes equity by establishing a better balance in bargaining between the informally employed workers and the authorities that formulate the rules and practices that impact their working conditions, productivity and enterprise growth and development; it promotes social justice for workers and fosters social cohesion which is vital in accelerating the process of economic recovery and building greater resiliency and a more sustainable higher growth path.

### ***3.3.4 Eliminate constraints that inhibit women from participating in the labor force***

Despite being better educated than their male counterparts, Filipino women have low participation in the labor force that hinders access to social security schemes and other social protection programs designed to protect against health, social and economic risks (Tabuga



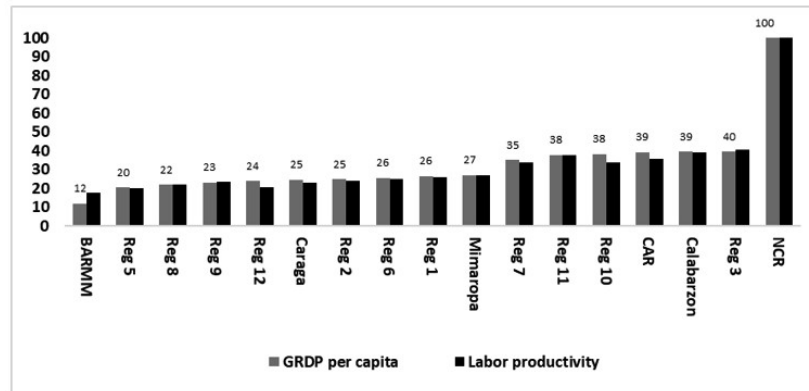
& Cabaero, 2019). Some studies (Morrison et al., 2007; Mulugueta, 2021; Stier & Lewin, 2002) show that increasing employment of women reduces household poverty. Cabegin and Gaddi (2019) recommended the following policy reforms to increase female labor force participation: (a) counter stereotyped gender role and patriarchal mindset through the development of public information, teaching and learning materials that promote gender equality; (b) extend paternity and parental leave to ensure more equal conjugal sharing of home production and childcare; (c) improve workplace environment for working parents with young children through the enactment and enforcement of policies that require the establishment of day care centers and lactation stations in the workplace; (d) strengthen digital literacy and vocational and technical education by TESDA for mothers and young women to provide them with skills that facilitate their transition to productive employment; (e) strengthen sustainable livelihood and entrepreneurship education for the poor; and (f) extend anti-discrimination-in-employment laws to prohibit discrimination by religion and religious beliefs, ethnicity, sexual orientation and gender identity, civil status, and pregnancy status, and to cover all aspects of employment including hiring, firing, pay, job assignments, promotions, layoff, training, fringe benefits, and any other term or condition of employment.

### ***3.3.5 Reduce regional inequality in the industrial development to increase regional labor productivity and decent work***

There are wide disparities in living standards across the regions of the country. The richest region is the NCR with a per capita GRDP (at constant 2018 prices) of PHP456,532 and labor productivity of PHP1.2 million per worker in 2019. The NCR has per capita GRDP that was 8.5 times higher and labor productivity that was 5.6 times higher than the Bangsamoro Autonomous Region of Muslim Mindanao (BARMM), the poorest region. Figure 9 shows the large divergence of the regions' GRDP per capita and labor productivity relative to the NCR. Labor productivity indicates how much output of goods and services is generated by a worker on average and is an important determinant of economic growth, incomes, and standards of living (Krugman, 1997; Sharpe et al., 2008). Maintaining a high labor productivity growth is important to continue in a path of sustainable and accelerated per capita GDP growth which is essential to poverty

alleviation. The inequality in regional development is characterized by the NCR as the outlier and the rest of the regions falling far behind with their labor productivity ranging from 18 percent to 41 percent of that of the NCR in 2019.

Figure 9. Per capita GRDP (at constant 2018 prices) and labor productivity of regions relative to the National Capital Region (%), 2019



Source: Regional Accounts, Philippine Statistics Authority; Author’s calculations

Income inequality across regions hampers economic growth. Inequality in income engenders inequality in education (Cingano, 2014; Coady & Dizioli, 2017) that is crucial to achieving higher labor productivity and decent work, and sustainable economic growth. ADB (2021) links the disparities in income and labor productivity across regions in the Philippines with the presence of tradable industries in manufacturing and tradable business services (e.g., financial intermediation, professional and business activities, and information and communication services), and underscores the need for more effective implementation of regional programs under the Philippine Development Plan 2017-2022 for agricultural modernization, the establishment of regional manufacturing hubs and spatial dispersion of Information Technology-Business Process Management industries. The same study also recommends that regional industrial policy needs to be supported by a strong regional education policy and contextualized education programs to meet the labor market requirements for skilled workers under a more modern and industrialized regional economies.

#### 4. Conclusion

The COVID-19 pandemic has triggered the worst economic fallout in Philippine post-war period with the -9.6 percent GDP growth in 2020 surpassing the 7.3 GDP contraction in 1984 and 1985 - the years characterized by a heightened political unrest and economic instability. Compared to its ASEAN counterparts, the Philippines has performed the poorest along with Myanmar in recovering from the crisis, with Vietnam's and Brunei Darussalam's GDP's expanding respectively by 2.9 percent and 1.2 percent in 2020 while that for Singapore, Malaysia and Thailand contracted by -5.4 percent, -5.6 percent and -6.1 percent, respectively. The crisis has surfaced the extreme vulnerability of the Philippines' disadvantaged workforce – the informally employed workers, the unemployed youth, the elderly without retirement protection – that are more adversely affected by the crisis. Increasing globalization and intensified climate change and environmental degradation are more likely to increase the frequency of negative external shocks that threatens more the poorest and least resilient population groups.

The government needs to prioritize policy reforms for stronger social protection and labor systems that build increased resilience against economic shocks, reduce inequalities across population groups and regions, foster a higher and sustained inclusive economic growth, and enable the country to achieve its goal of eradicating poverty and transition from a middle-income to a high-income country by 2040.

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