

Philippines: Generating Inclusive Growth in the Philippines: The Role of the Services Sector

1. Consistency with DFSG objectives:

The proposed work aims to analyze the role that the services sector can have in the Philippines to generate inclusive growth. In the Philippines, the services sector accounts for over fifty percent of GDP and employs over half of the labor force. Job quality in the sector varies significantly (e.g., well paid jobs in the banking sub-sector and those in the informal retail sector). As a result, average productivity in the sector is relatively low and trails significantly behind that of industry.

Inclusive growth (or lack of) is a major concern in the Philippines. While the growth performance of the country has been on the low side in East Asia,¹ the Philippines especially stands out for its lack of strong progress in tackling poverty. This concern grew stronger in recent years as, from 2002 to 2007 the country experienced a growth surge (up to 7.1 percent) which, not only failed to dent poverty, but was actually associated with an increase in poverty incidence. As a result, as of 2006 (latest available data), one third of the population is below the poverty line and another 20 percent is near poor.²

Recent studies have looked into some drivers and constraints to inclusive growth in the Philippines—none, however, focused on the services sector. In 2007, as part of its country diagnostics studies, the Asian Development Bank assessed the Philippines' *Critical Development Constraints*. After a Hausmann-Rodrick-Velasco based growth diagnostics,³ the report identifies, separately, the critical constraints to growth and to poverty reduction. It concludes that, in terms of sectors, "supporting expansion and diversification of the industrial base" is critical to overcoming the constraints to growth and poverty reduction. Strangely, the report does not foresee the large and labor intensive services sector as an important potential source of inclusive growth. A forthcoming World Bank report *Philippines: Fostering More Inclusive Growth*, concludes that the sector pattern of growth was an important factor in the disappointing performance of the country in generating inclusive growth (e.g., high growth originating from the capital intensive manufacturing sector). The report, while containing specific chapters on agriculture and manufacturing and their role in employment generation and poverty alleviation, does not contain such an analysis for the services sector.

Understanding the critical constraints to inclusive growth in the services sector is necessary for the Philippines to make significant headway in tackling poverty and boosting growth.

¹ During 1980-99, per capita growth of GDP averaged close to zero in the Philippines, far below the 6.5 percent recorded for the EAP region as a whole.

² Poverty headcount based on constant National Poverty Line.

³ Hausmann, R., D. Rodrick, and A. Velasco, 2005, *Growth Diagnostics*, Harvard University, Cambridge.

2. Technical soundness and originality:

How does the work build on existing methods?

The proposed work builds on the recent growth diagnostics analysis and inclusive growth analysis undertaken by the Asian Development Bank and the World Bank, respectively.⁴ As discussed above, while these reports have a very good analysis of a wide range of issues, they do not analyze in any depth the role that the services sector could play in generating inclusive growth. By specifically focusing on the services sector, the proposed project would fill an important analytical gap in the Philippines literature. It is also expected that some new policy recommendations would result. For example, in contrast to the conclusion of the ADB report that the country should first and foremost expand and diversify its (low labor intensity) industrial base, policy efforts focusing on the large and labor-intensive services sector are likely to be more successful in generating strong and sustained inclusive growth.

Is new ground covered within the particular country context on inclusive growth?

Yes, as discussed above, the focus on the services sector is new and fills an important gap in the literature.

Have you obtained the necessary data to conduct the analysis?

Most of the key have already been secured (e.g., household survey data; corporations databases). Further data are expected to be obtained through industry surveys, in partnership with industry associations.

Specify to what extent you intend to use micro data on firm and household sides and the analyze links between aggregate and micro information.

Family income and expenditure surveys will form an integral part of the analysis, in particular on the analysis of labor markets and poverty in the services sector. Micro-level industry data are also expected to be used to analyze prospects in the services sector overall, and at the sub-sectoral level.

3. Relevance to country priorities:

The project is at the core of the authorities and the World Bank's research and policy agenda. The government's current (2004-2010) Medium-Term Philippines Development Plan (MTPDP) has for overarching goal to boost growth and reduce poverty. Similarly, the new Philippines CAS (2000-2011) focuses directly on inclusive growth. As already mentioned, the project would also build on a recent AAA on Inclusive Growth.

Projected strong input into the new administration's medium-term reform agenda. General elections are scheduled for May 2010 and a new administration is due to take place in July. This new administration will have to prepare a new six year MTPDP. The proposed project would directly contribute to shaping some of the policy discussions and priorities with the new administration, especially as far as the medium-term reform agenda is concerned.

⁴ Namely ADB, 2007, *Philippines: Critical Development Constraints* and World Bank, 2010, *Philippines: Fostering More Inclusive Growth*.

4. Knowledge sharing, dissemination and capacity building plan:

A strong collaboration and participation of key local partners and business associations is expected. For example, two chapters of the report are expected to focus on labor intensive services sub-sectors; a first one would analyze constraints and prospects for skilled labor and another one for unskilled/semi-skilled labor. For their relevance to the Philippines economy, the former is the Business Process Outsourcing sector for which the participation of the BPO industry association (BPAP) will be actively sought; the latter will be the tourism sector, for which partnership with the Department of Tourism is expected. Collaboration with the National Economic and Development Agency (NEDA) is also expected.

Dissemination is expected to take place through various seminars and workshops at leading universities in the Philippines or through a major conference with key project partners. Key findings and recommendations would also be included in the Philippines Quarterly Update and in the annual Philippines Development Report.

5. Client and donor engagement:

Both the government and donors are fully aligned behind the goal of fostering inclusive growth in the Philippines. As such collaboration with government agencies such as NEDA, the Department of Tourism, the Department of Finance will be an integral part of the project, both at the analytical stage and at the policy recommendation stage.