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Remittances and Poverty – a Case Study of the Philippines

By

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Abstract

Remittances are the second largest inflow of capital to the Philippines after Foreign Direct Investment. The Philippines are a lower middle income country with about 33 percent of its 76.5 million population living in poverty. Earlier research on remittances and poverty agrees on the positive effects of remittances on poverty. This thesis' objective is to show how remittances are distributed among the regions and how remittances relate to poverty in the Philippines. Questions of particular interest are how and if the absolute poor benefit from remittances and what effect remittances have on the income distribution. This thesis is based on a review of the literature on remittances and poverty. It further compares statistics on household income and poverty within the Philippines.

This thesis finds that the share of people living in poverty decreased between 1985 and 2000, while the headcount of people in poverty increased. Most of the poor people live in rural areas and most of the decrease in poverty has been in urban areas. Remittances are higher for regions with high income, low share of people living in poverty and high stage of urbanization. The income distribution in the Philippines is highly unequal and remittances are the most unequally distributed income source. The income distribution is more equal for regions with higher remittances per capita.

Key words: Remittances, Poverty, Income Inequality, Rural, Urban, the Philippines

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Sammanfattning

Penningförsändelser är det näst största inflödet av kapital till Filippinerna efter Utländska direktinvesteringar. Filippinerna är ett lägre medelinkomstland med cirka 33 procent av deras 76.5 miljoner befolkning i fattigdom. Tidigare forskning på penningförsändelser och fattigdom har kommit fram till att penningförsändelser har positiva effekter på fattigdom. Denna uppsats mål är att framställa hur penningförsändelserna är fördelade mellan regioner och hur penningförsändelser relaterar till fattigdom. Frågor av speciellt intresse är hur och ifall människor i absolut fattigdom drar fördel av penningförsändelser och vilken effekt penningförsändelser har på inkomstfördelningen. Denna uppsats är baserad på en genomgång av litteratur på penningförsändelser och fattigdom samt statistik på hushållsinkomst och fattigdom.

Denna studie visar att andelen människor som lever i fattigdom minskade mellan 1985 och 2000 medans antalet fattiga har ökat. Flest fattiga lever på landsbygden och störst minskning i fattigdom har skett i stadsområden. Penningförsändelser är högre till regioner med hög inkomst, låg andel fattiga och högt stadiet av urbanisering. Inkomstfördelningen i Filippinerna är mycket ojämn och penningförsändelser är mest ojämnt fördelad. Inkomstfördelningen av penningförsändelser är mer jämnlik i regioner med hög penningförsändelser per capita.

Nyckelord: Penningförsändelser, Fattigdom, Inkomstskillnader, Rural, Urban, Filippinerna

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List of Abbreviations

ADB	Asian Development Bank
ARMM	Autonomous region in Muslim Mindanao
BSP	Bangko Sentral ng Pilipinas
CRSA from abroad	Cash receipts, Support and Other forms of Assistance from abroad
DESA	The Department of Economic and Social Affairs, a United Nation's Population Division
FDI	Foreign Direct Investment
FIES	Family Income and Expenditure Survey
GDP	Gross Domestic Product
IMF	International Monetary fund
NCR	National Capital Region
NSCB	National Statistical Coordination Board
NSO	National Statistic Office of the Philippines
ODA	Official Development Assistance
PHP	Philippine Peso
POEA	Philippine Overseas Employment Administration
RER	Real Exchange Rate
WIDER	World Institute for Development Economics Research at the United Nations University
USD	United States dollars

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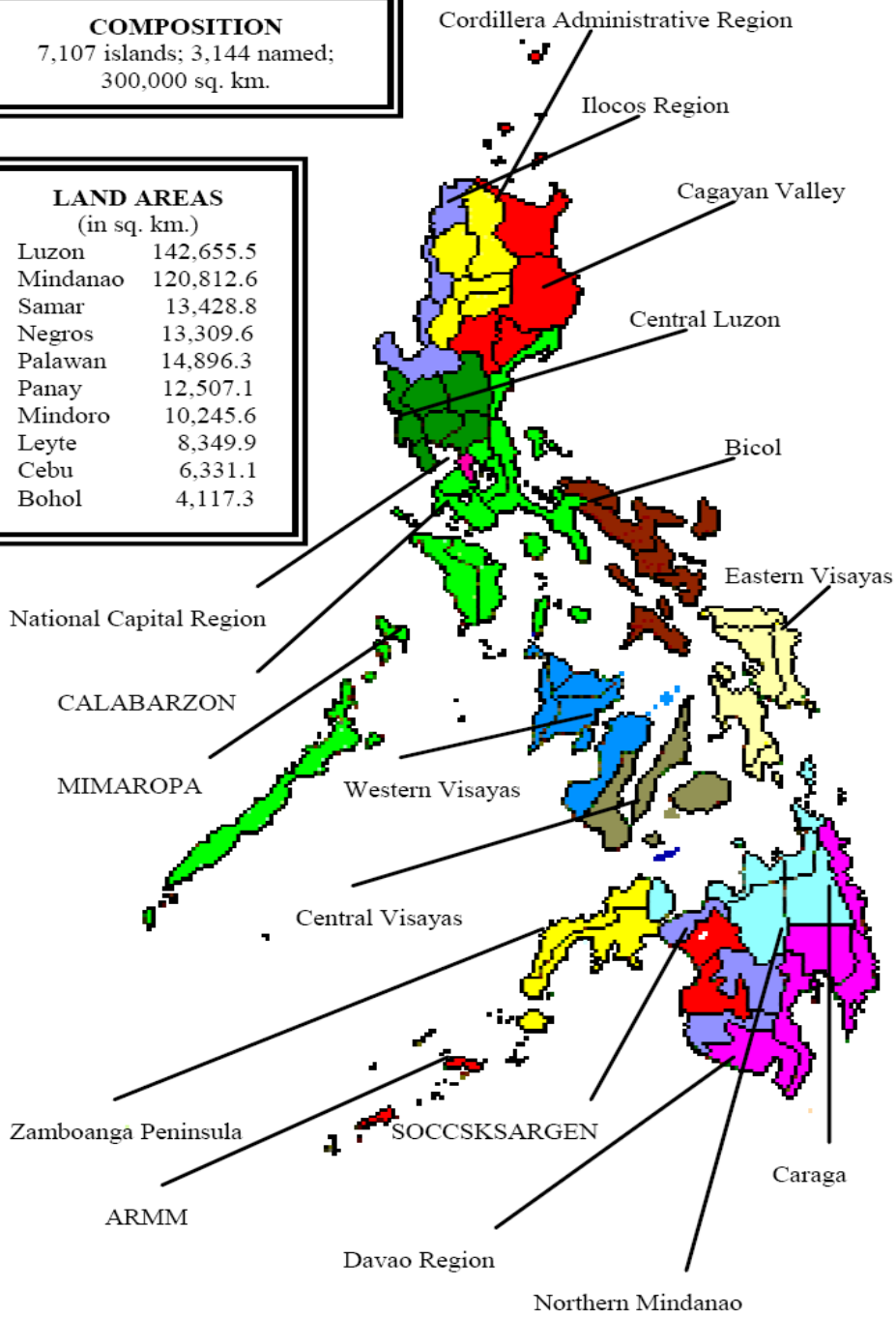
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Map of the Philippines

COMPOSITION
 7,107 islands; 3,144 named;
 300,000 sq. km.

LAND AREAS
 (in sq. km.)

Luzon	142,655.5
Mindanao	120,812.6
Samar	13,428.8
Negros	13,309.6
Palawan	14,896.3
Panay	12,507.1
Mindoro	10,245.6
Leyte	8,349.9
Cebu	6,331.1
Bohol	4,117.3



1 Introduction

1.1 Background

Capital is an important ingredient for reducing poverty. Capital can come to the poor as Foreign Direct Investment (FDI), Official Development Assistance (ODA), and government subvention or as other incomes. The size and aim of FDI, ODA and government subvention are decided by actors not related to the poor people. Other incomes consist of income sources whose existence is not largely dependent on external actors, for example labour incomes on local markets and gifts or income transfers between relatives and friends. Remittances are counted as other incomes since the capital is sent from former family members and goes straight to the beneficiaries.

With globalization there is a larger movement of people and capital in the world. International migrants remit to relatives and friends in the home country and remittances are counted as the second largest capital flow to developing countries, after (FDI), and before (ODA) (DESA, 2005, p.41). We need to know who the beneficiaries are in order to figure out the impact of remittances on the home country. Depending on which income group the beneficiaries of remittances belong to and how remittances affect the income distribution within the country, it can be seen if remittances decrease the country's poverty.

The Philippines is a developing country with heavy migration and a large flow of remittances. Most Filipino migrants remit on a regular basis (ADB, 2004a, p.7) and estimated remittances to the Philippines in 2005 amounted to 10.7 Billion USD (BSP, 2006a). It is a representative country for the developing countries and due to the large size of remittances and long history of migration the impacts of remittances can be studied.

1.2 Purpose

The purpose of this thesis is to explore effects on poverty from remittances. Previous studies on this subject mostly agree on remittances as a tool to decrease poverty. Remittances are also shown to not have a direct positive effect on the poorest people as remittances mostly go to the wealthier households. By studying how remittances are distributed within the country, it is possible to illustrate if remittances go to the poorer regions and households within the Philippines. This thesis will find out if remittances decrease poverty in the Philippines and the objective is to show how remittance incomes are distributed in the Philippines. Questions of particular interest are;

- How are remittances distributed among the regions of the Philippines?
- Do the absolute poor benefit from remittances?
- What effect do remittances have on relative poverty?
- Do remittances affect the distribution patterns of income in the Philippines?

1.3 Method and material

First, by studying the literature on poverty and remittances, the theoretical considerations will give a possible outcome of the situation. Second, by studying the distribution of incomes in the Philippines it can be found out whether remittances are a major income of the poorest households.

Some of the most important literature on remittances is listed hereafter; benefits and costs from migration with a focus on the impact of remittances (The World Bank, 2006a): reforms and policies on how to address migration, remittances and brain drain (Özden and Schiff, 2006): the development potential of remittances, the implementation of remittances fostering activities (Maimbo and Ratha, 2005). The literature covering remittances in the Philippines is listed hereafter; Brief introduction on the study of

migration from and remittances to the Philippines (Dimzon, 2005): A broad analysis on the results of household surveys on Filipino Overseas Workers (ADB, 2004a, 2004b).

By studying primary data such as the Family Income and Expenditure Survey (FIES) in the Philippines it is possible to analyse the impact of remittances on poverty. The most recent completed FIES is from 2003 and is used in this thesis. FIES is a nation-wide survey on Filipino households' income and expenditures. This data can be used to see national, regional and intra-regional differences in the household economy.

In order to collect the primary data a Minor Field Study was carried out in the Philippines. Apart from the necessary data, the field study has provided me with deep information about migration, remittances and poverty. First, by visiting the Philippine Overseas Employment Administration (POEA) I got the chance to learn more about labour migration and the government's role in promoting it. Second, by visiting the National Statistic Office of the Philippines (NSO) I could interview the people processing the household survey and understand how the household survey is carried out. The field study has largely affected my way of thinking and understanding the Filipino society through many and long interviews and discussions with citizens from a wide array of social classes.

1.4 Disposition

This study is divided into the following parts: Chapter two, theoretical framework on remittance and poverty. The purpose of this chapter is to explain what a remittance is and how it affects the economy and poverty; Chapter three describes remittances and poverty on the national level. The purpose of this chapter is to give an understanding of the Philippines' economic structure and how remittances relate to it; Chapter four analyses regional differences in remittances and poverty. The purpose of this chapter is to see how remittances are distributed among the regions of the Philippines and how remittances relate to regional differences in income and poverty; Chapter five studies intra-regional

differences in remittances and poverty. The purpose of this chapter is to see if remittance follow a natural income distribution pattern or are differently distributed among the regions; Chapter six provides the conclusions from this thesis.

2 Explaining Remittance and poverty - Theoretical considerations

This chapter is structured as follows; 2.1 defines remittances theory, 2.2 explains the effect of remittances on the national economy, 2.3 explains the effect of remittances on poverty, 2.4 summarizes this chapter.

2.1 Remittance theory

With migration comes the opportunity to remit to the home country. The reason for remitting and the size of remittances are connected to the reasons for migration. The *New Economics of Labour Migration (NELM)* was presented by Stark and Bloom in 1985 to explain the migration as a strategy to diversify the family's (group's) sources of income thereby linking the income of the migrant with the family in the home country. There are two main approaches for analyzing remittances: the "portfolio" approach and the "altruism" approach (IMF, 2005, p.78). These approaches are the two main channels for remitting behaviour.

The portfolio approach sees remittances as a self-interest controlled capital transfer between home and host country to diversify the migrant's savings. Portfolio motives come out of investment opportunities and a saving differentiation between home and host country (IMF, 2005, p.78). Macro economic factors can explain the size of this kind of remittance. Empirical research on this subject has not agreed on how macro economic factors affect the amount. Swamy (1981) concludes that exchange rates and interest rates have no significant impact, while El-Sakka and McNabb (1999) have proven it to be so. The host country's economic activity is supposed to have a positive effect while the home country's economic activity is supposed to have a negative effect on the size of remittances (IMF, 2005, p.81). Since a large part of the remittances is sent to countries

with low economic performance, it can be assumed that most of it is not portfolio investment. By assuming rational behaviour and full information, the migrant would choose to invest the capital in the country with the best economic progress.

The altruistic approach sees remittances as a transaction that benefits the receivers in the home country without any performance demand on the receiver in order to get the remittances. Altruistic motives start in ties with the family income and are expressed as either repayment of an old loan or some kind of aid to the receiver. Since remittances usually are sent to the family or relatives of the migrant aid can be expressed as repayment of an old informal loan in order to simplify the remitting behaviour.

2.1.1 Family loan arrangement

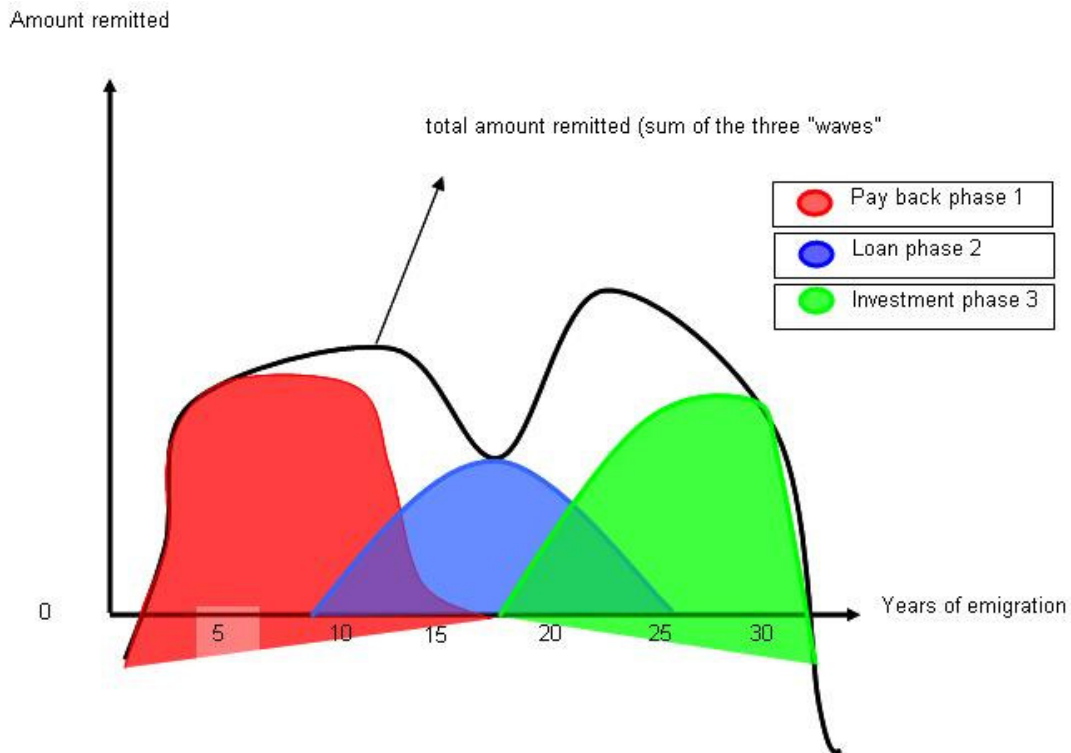
The theoretical considerations of *NELM* have been extended by Poirine (1997) in the *Family loan arrangement* to show that remittances are an informal and implicit repayment to the family for costs taken before departure.

The chain of family loan arrangement works in three steps: The first step is the preparation and costs for migration; the second step is when the migrant has migrated and repays the debt and saves for the future through remittances. The migrant's savings are used to prepare a new generation for migration; the third step concerns the new generation repaying their debt with remittances to the former migrant worker, currently retired in their home country. The loan is informal or implicit so the interest rate and amount are not precisely agreed upon, which makes the enforcement of repayment hard. The enforcement is done through social control, cultural values of family solidarity and loyalty, and threats of a loss of the family support at a later stage in life. The size of remittances stay stable for a longer period of time and this indicates that there is a good enforcement of repayment (Poirine, 1997, p.593. 589-590).

The remittances life cycle can be divided into three components; pay back phase 1, loan phase 2, and investment phase 3 (Poirine, 1997, p.599). Figure 2:1 illustrates an M-

curved wave of total remittance from migrants intending to return home for retirement. If the migrant intends to retire in the host country the investment phase (phase 3) will not be remitted and remittances will adopt a concave cone head instead.

Figure 2:1 A theoretical average remittance function in the “intend to return” case



Source: Poirine, 1997, p.599

2.1.2 Remittances decision model

The decision to remit may be taken pre-migration as in the family loan arrangement theory where the migrant accumulates a debt pre-migration that needs to be repaid. The remittances that are not bound to a family loan arrangement need to be explained through other decision processes. Stanton Russell (1986) made a decision model with four key

elements which explains the increased remittances sent. The four key elements for remittances can be summarized as: *pool of remittances; decision to remit; size of remittances; how to use remittances.*

The pool of remittances is determined by the amount of migrant workers, their wage rate and the economic activity in the host country which all have a positive correlation with remittances. The marital status (married people have closer ties to family members in the home country) of the migrant positively affects the decision and amount to remit. The economic and social situation of the migrant's family in the home country affects the migrant's decision and amount to remit. This means that for migrants from families with low household income, low education and occupational level, the migrant is more likely to remit and to choose a larger amount to remit. Further, the migrant's disposable income earnings have a positive correlation with the decision and amount to remit (Stanton Russell, 1986, p.679, 683-689)

Factors which, when increasing negatively, affect the decision and amount to remit are political risk factors in the sending country, ratio of female migrants in the host country, household income level, employment of non-migrant family members, level of education and occupational level of migration. The decision to remit and how to remit is determined by positive correlation to the facility of transferring funds and an ambiguous correlation to the exchange rate and relative interest rate between host and home country. Years since out-migration have had a positive effect on the decision and amount to remit and the usage of remittances (Stanton Russell, 1986, p.679, 683-689)

2.2 Impact of remittance on the economy

Remittances increase the inflow of foreign exchange to home countries and thereby increase the demand for domestic currencies. When remittances are later used for consumption or investment there is further impact on the home economy as either an increase in consumption or increase in investment.

The effects from the increased demand for the home currency are not clear. Some research shows that the real exchange rate (RER) can appreciate as an effect of remittances (See for example Bourdet and Falck, 2006) and give rise to Dutch Disease. The theory of Dutch Disease sees capital inflow as a cause of appreciation of RER, which makes the export sector less competitive and domestic consumption favour tradable imported goods and non-tradable domestic products. This change has a negative effect on GDP if tradable sectors are more productive than non tradable sectors. Countries with high unemployment or underemployment are less likely to experience Dutch Disease (McKinley, 2005, p.2-4).

Depending on whether remittances are sent with the intentions of altruism or self-interest, the effect will differ. Capital that is used in portfolio investment (self-interest) increases the economic activity since investments are made with the intentions to generate profits and productivity, in the same manner as FDI. Capital that is sent to help and support relatives and friends (altruism) does not come with a demand for profits and productivity. If the remittances are mostly altruistic, it is more likely that the inflow will have a smaller effect on the economic activity. The effect could even become negative if the capital makes the receiver less productive than the productivity the capital generates from being used. The idea that remittances work as compensation capital for poor economic performance was supported by Chami et al (2005, p.77) which found negative correlation between the size of remittances and the home country's GDP for the period 1970-1998.

The reason for the negative correlation between the size of remittances and GDP is the moral hazard and asymmetric information. The receivers are assumed to have the same income no matter if they work or not since remittances compensate for low income. The receivers then maximize the utility by spending more time for leisure since it becomes cheaper in an opportunity cost perspective. The remitters' utility is thereby assumed to be a function of their net consumption and the receivers' utility, while the receivers' utility is a function of their work effort and the size of the remittances. The

model also assumes the presence of asymmetric information; the remitter can not observe the receivers' work effort, which induces the moral hazard problem in remittances. This model explains that there may be a problem with decreased productivity when remittances are present and it states that remittances may not be the best tool for development and economic growth.

Remittances are seen as a contributor to Gross National Product (GNP) and bring foreign exchange to many developing countries (Rapoport and Docquier, 2003, p.4). The capital inflow has a positive impact in countries with high unemployment, even when most of it goes to consumption (Maimbo and Ratha, 2005, p.5). Increased remittances per GDP reduce the aggregate output volatility in the home country and dampen economic crises and recession (IMF, 2005, p.77). Remittances give the receiver a higher disposable income, and a higher disposable income has a spending effect, which has a positive multiplier effect on GDP. In the long run the higher capital inflow gives possibilities to accumulate capital through domestic saving and investment which have a positive effect on GDP (Bourdet and Falck, 2006, p.7).

2.3 Impact of remittance on poverty

Poverty is either measured in *absolute* or *relative* terms. Absolute poverty is the headcount with less income than a poverty line (1USD or 2USD per day). This method is best when studying how many people are living in poverty. A problem with this method is to set the bar of poverty line in order to see the number of people living in poverty. Relative poverty is the headcount receiving the lowest income relative to the country's average income. The GINI coefficient and the Lorenz curve are two commonly used methods for measuring relative poverty (for example Todaro and Smith, 2003, chapter 6). This method of measuring poverty is good when studying inequality in the country, while it does not work as well when studying the severity of poverty.

A problem with increasing the income of the poor is that this capital needs to either come from new incomes or from redistribution of present incomes. Without new income sources there will exist net losers from the redistribution. One problem with fighting poverty is to reduce it without making other people poor. Income distribution matters for economic growth and for poverty reduction (Bourguignon, 2004, p.9).

The size of remittance income for a household depends on how many family members migrate abroad and earn a high income. In a cross-country study, found Adams and Page (2003, p.20-21) a strong statistical impact on poverty reduction through increased international migration and remittances.

Richer households have greater possibilities to invest in high initial migration costs. Richer households are also more likely to invest in higher education which makes them more attractive to foreign employers and more likely to receive high-paid work abroad. These factors indicate that the possibility of receiving remittance income is unequally distributed in favour of the richer part of the population. When remittance income largely depends on the possibility of receiving remittances it will be unequally distributed in favour of the richer deciles.

People with scarce resources are more risk averse in their resource allocation. Poor people mostly allocate their resources to decrease variation in consumption and to avoid starvation (see Todaro and Smith, 2003, p.441-444). Poor people have problems borrowing money due to the lack of insurances and can also spend a lower share of their total earnings on other things than basic consumption. Migration and remittances are thereby more likely an option for richer households.

Remittances are supposed to decrease when household income increases (Hunte, 2004, p.91). Remittances should thereby be lower for households with higher income. The demand for incomes to fill basic needs is strong for all households in a developing country, which means that any decline of remittances can be hard to distinguish by studying aggregate incomes for a developing country.

Families that receive remittances are expected to move up in both social and income classes (Dimzon, 2005, p.99), which indicates that if the poorest people get a migration opportunity and remittances they will likely move up in the income strata. This means that the distribution of the possibility to migrate and receive remittances should be more equally distributed than the distribution of remittances.

As the motives behind remitting (altruism versus self-interest) affect the way remittances are spent it also affects the receiving households' financial status. The consequences of remittances differ among people and nations. The Adams (2006) study on remittances in Guatemala shows that remittances increase a family's investments in the form of housing and education expenditures rather than basic consumption (Adams, 2006, p.78). Cox Edwards and Ureta (2003) studied school retention in El Salvador and found a lower risk of leaving school among rural youths from households with remittances (Cox Edwards and Ureta, 2003, p.450). The Nilsson (2005) study on remittances in El Salvador shows decreases in absolute poverty through remittances and also points to the importance of other factors for poverty reduction since many poor households are not beneficiaries of remittances. Cross-country studies have shown that remittances decrease absolute poverty (Adams and Page, 2003, p.20). This indicates that migration and remittances are also options for the poorest households of the economy and that remittances have a positive impact on the life and existence of the poor people.

Chami et al (2005, p.75) notice decreased GDP for countries where remittances increase. Remittances can thereby lower the incentive to work due to the increases of remittances. This is mostly referred to as the moral hazard problem of remittances as the remitter can not observe how the income is spent by the receiving household.

2.4 Summary

Migration is assumed to be a part of a strategy to increase and diversify the family's incomes according to *NELM*. In the *Family loan arrangement* a remittance first is a repayment for costs to the family during the migrant's educational phase. After repaying the debt the remittances become a loan to the family for educating future migrants and in the third step remittances work as investment capital for the migrant's retirement in the home country. Migrants with close relatives still living in the home country are more likely to send remittances and if the relatives have a low household income, low education and occupational level it is more likely that the migrant will send more remittances. Migrants are less likely to send remittances when they come from richer households, have higher education and occupational level.

The results of reducing poverty depend on the size of the means, channels and purpose. Remittances have shown to have positive effects on absolute poverty. It needs to be seen through country-specific data whether remittance decreases poverty within a country. Remittances can increase poverty when remittances go to the already wealthy. Moral hazard can be the reason for remittances to have a negative effect on GDP.

3 Remittances and poverty in the Philippines

This chapter is structured as follows; 3.1 describes how income and remittances are measured, 3.2 shows the economic structure and household income, 3.3 describes the national poverty.

3.1 Family Income and Expenditure Survey

The Family Income and Expenditure Survey (FIES), a survey covering about 50 000 households in the Philippines, is undertaken by the National Statistic Office (NSO) of the Philippines. NSO's survey reliability is highly ranked by The World Institute for Development Economics Research (WIDER), which indicates that the quality of NSO's figures is high. The purpose of the survey is to show the present economic situation of the Filipino households and the survey is renewed every three years. The latest figures are from 2003 and there is a new survey undertaken in 2006.

Variables describing how the respondents report remittances are the migrants' status within the family and the channels used for sending remittances. Remittances can be reported as "Cash receipts, Support and other forms of Assistance from abroad" (CRSA from abroad), gift or some kind of labour income. Since CRSA from abroad does not include domestic income this variable is most reliable for analyzing remittances. The variables gift stay at low figures for all income classes and regions, which confirm that remittances are more likely reported as CRSA from abroad than gift. Remittances is a family redistribution of incomes and thereby more likely seen as a capital assistance from abroad rather than a gift which further supports the idea that CRSA from abroad is the best variable for analyzing remittances.

Most of the support and assistance from abroad come from people who have ties to the households and largely consist of migrated relatives. Since migrants sending remittances stay away from the household a longer period of time it is more likely that

the family reports remittances as CRSA from abroad rather than a certain labour income. CRSA from abroad is expected to mostly consist of remittance income but does not include all remittances. Since CRSA from abroad mostly consists of remittances this variable alone should work well to illustrate the patterns of remittances.

Formal remittances in 2003 were 7.6 billion USD (BSP, 2006a) which rounds up to about 413 billion Philippine Peso (PHP) (oanda.com, homepage, 2006-01-02). BSP's estimated amount of remittances is a good indicator for the size of remittances. BSP's figures come from banks reporting international transfers. This amount can include capital transfers that are not remittances, for example tourist expenditure, which is difficult to tell apart from remittances. FIES 2003 is in contrast a survey where the respondents can choose to not fully declare their economic situation. Some people may prefer to not declare all their remittances income. CRSA from abroad in FIES 2003 is 347 billion PHP which makes a difference of about 66 billion PHP. CRSA from abroad stands for about 84 percent of the remittances reported by BSP. It is as expected smaller than formal remittances, and is a representative indicator of remittances due to its size and its likeliness to completely consist of remittances.

The survey data can be used to distinguish similarities and differences between the households depending on remittance income. For example it can be seen whether remittance income is urban or rural biased and in which income class the beneficiaries belong.

3.2 Household incomes

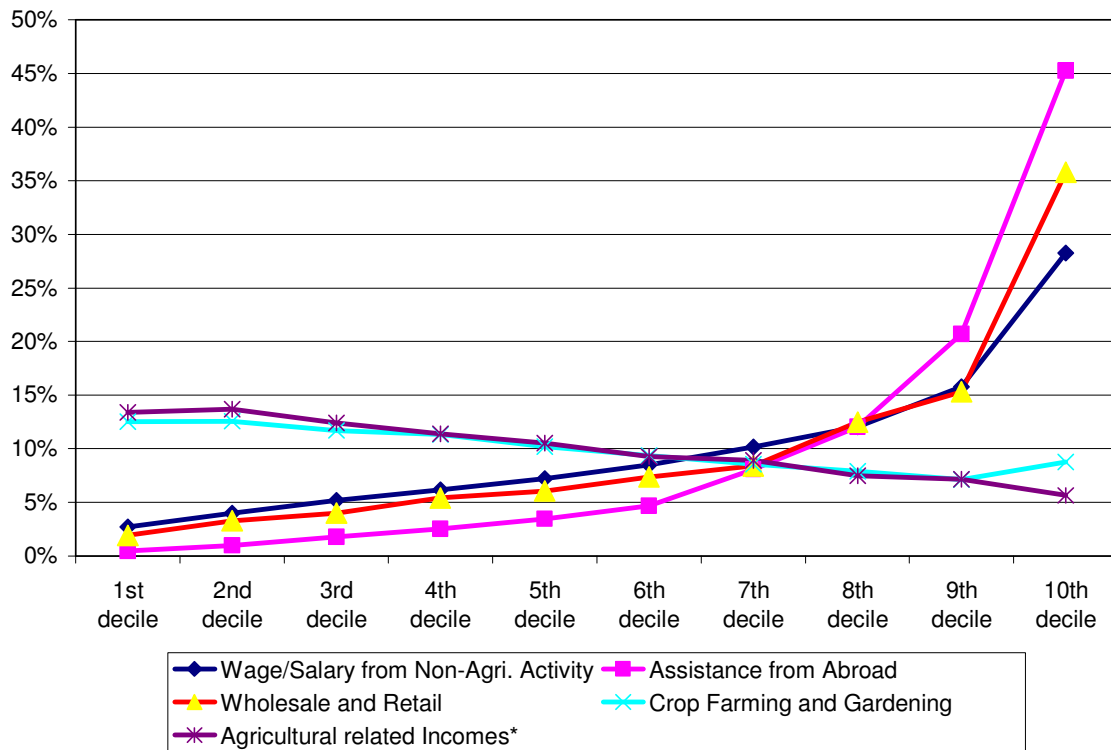
A common characteristic for developing countries, such as the Philippines, is that the income distribution is highly unequal. A large share of the population receives a small share of the total income, while the larger share of the total income goes to the wealthier part of the population. Specific incomes, such as remittances, are expected to show similar patterns in distribution as total income.

By studying average income it can be seen how specific income sources build up the aggregate income. Since the GINI coefficient for the Philippines is high the average income must be higher than the median income. Average income will thereby show how the economy is built up while it will not work as well to show the median household's financial status.

The main income for most households is clearly Non-agricultural wages which accounts for about 50 percent of total income within all income deciles in the nation (FIES 2003, my own calculations). The second largest income source is remittances and the third largest income source is wholesale and retailing. All three incomes are the main incomes for the four highest deciles, while Non-agricultural wages is the main income for all deciles in the nation.

The incomes are unequally distributed in favour of the richer deciles except for agricultural related incomes, figure 3:1. About half of the total income from the three main incomes goes to the three highest income deciles.

Figure 3:1 The distribution of the four largest income sources per income deciles



Source: FIES 2003, my own calculations

Note: * = Agricultural related incomes is the sum of “Wage/Salary from Agricultural Activity”, “Livestock and Poultry Raising”, “Fishing”, “Forestry and Hunting”, “Net Share of Crops and others” and “Income from family sustenance activities”.

Remittances are the second largest income source and about 22 percent of the households have CRSA from abroad as income (FIES 2003, my own calculations). The households receiving remittances are mostly within higher income deciles. Remittances are the most unequally distributed income source in favour of the richer deciles compared to the other major incomes, figure 3:1. Almost half of all remittances go to people within the highest deciles. Remittances are very low for households in the lowest income deciles, which supports the theory that the poorest people have low access to migration and remittances.

The number of households with remittances as an income source is more equally distributed among the income deciles than the amount of remittances received (FIES 2003). This indicates that even if the possibility to migrate is equally distributed, the likeliness to get high paid work abroad is higher for those in higher income deciles.

The fourth largest income source is Crop farming and Gardening. Crop farming and Gardening is one of the four largest income sources for all income deciles except the two highest income deciles. This income shows – like other agricultural related income sources – a perverse distribution as most of the income goes to the poorest deciles, figure 3:1. Agricultural related incomes accounts for about 12 percent of the average income and for about 43 percent of the first income decile’s total income (FIES 2003, my own calculations). This means that agricultural related incomes are of relatively larger importance for poor households than for the average household. The agricultural related income is slightly higher for the poorer households. Agricultural related incomes are of large importance for almost every household in the Philippines.

3.3 Poverty in the Philippines

The Philippines is classified as a lower middle income country. About 44 percent of the population in 1985 was living in poverty when using “the poverty threshold” (food plus non-food needs) (Schelzig, 2005, p.17). The country’s GDP in current USD grew on average six percent per year from 1985 to 2000 (The World Bank, 2006b). The economic growth has been high compared to other lower middle income countries, which led to a higher GDP for the Philippines than the average lower middle income country. The good economic growth should have decreased poverty during this period.

The share of people living in poverty decreased from about 44 percent to about 33 percent between 1985 and 2000 (Schelzig, 2005, p.17). Even though the share of people living in poverty decreased, the headcount of people living in poverty did not decrease. The Philippines has had an average population growth of 2.3 percent per year during this

period of time (The World Bank, 2006b). High population growth can obstruct the good consequences growth can have for poverty (the Malthusian population trap, for example Todaro and Smith, 2003, p.275-279). The magnitude of the poor population amounted to about 31 million of the population of 76.5 million people in 2000. The headcount of people in poverty increased about 4 million people from 1985 to 2000 (Schelzig, 2005, p.19). The real poverty is assumed to be higher because of two reasons. First, because it is difficult to measure poverty and second, because the inflation during the period lowers the real value of the poverty line. Schelzig (2006) found by using different approaches for studying poverty that the poverty in percentage of total population has decreased but the headcount of people living in poverty has increased and that most of the increases are within rural areas.

When measuring poverty in the Philippines by using international poverty lines (1USD or 2USD) it can be seen that poverty largely decreased during the 1990s. This decrease is mostly explained by changes in the exchange rate and that there is a large share of the population with incomes close to the international poverty lines. Small changes in the international poverty lines largely affect the headcount of people in poverty (Schelzig, 2005, p.27-28). Most of the decrease in poverty during the 1990s seen by using international poverty lines comes from the depreciation in PHP compared to the USD.

3.3.1 Income inequality in the Philippines

The GINI coefficient of a country's income distribution can be used to see how equal the income of a country is. When a country's GINI coefficient increases it means that the country's income distribution has become more unequal and when the GINI coefficient decreases it means that the income distribution has become more equal.

The Philippines' GINI coefficient was about 45 in 1988 which indicates highly unequal income distribution. The GINI coefficient increased to 49 in 1997 (WIDER,

2006-10-29). The increased GINI coefficient between 1988 and 1997 was mostly represented in a large increase in income for the 10th decile (richest 10 percent of the population) while the lower deciles dropped some of their share of total incomes (WIDER, 2006-10-29). The Philippines had economic growth during this period which indicates that the economic growth was not pro-poor prior to 1997.

The Philippines had on average no economic growth in GDP between 1997 and 2003. The GINI coefficient decreased between 1997 and 2003 from 49 to 47 (NSO, 2007a). The shares of total income for the lower deciles broadly increased after 1997 and the share of total income for the 10th decile largely decreased indicating decreased income inequality during this period (FIES, 2003).

The total income in 2003 was divided so the 20 percent richest received 53 percent of the total income while the 50 percent poorest received 19 percent (FIES, 2006-11-30). This shows that even though the economy is becoming more equal there is still highly unequal income distribution in the Philippines.

By studying differences between GDP growth and GINI coefficient between 1987 and 2003 it can be seen that GDP growth makes the income distribution more equal. After three years of high economic growth the reported GINI coefficient was lower and after three years of low economic growth the reported GINI coefficient was higher. This points to a correlation between economic growth and lower income inequality. Research undertaken by Dollar and Kraay (2002, p.219) shows a correlation between economic growth and reduction in poverty. The correlation between the GINI coefficient and GDP growth may derive from the fact that economic growth reduces poverty.

3.4 Summary

FIES are used to analyse how income and remittances are distributed in the Philippines. The survey covers the whole country and shows the economic situation of Filipino households. FIES makes it possible to see how remittances relate to other types of income sources. Non-agricultural wages are the most important income source of the average income followed by remittances and wholesale and retailing. The largest income sources are unequally distributed in favour of the richer deciles. Crop farming and Gardening and other agricultural related incomes are the most important income sources for the poorer deciles. Agricultural related incomes are more equally divided in favour of the poorer income deciles. About 33 percent of the population in the Philippines lived in poverty in 2000. The share of people living in poverty has decreased since 1985 but the headcount of people living in poverty increased between 1985 and 2000. The income inequality is shown to increase when the economic growth is lower and shown to decrease when the economic growth is high.

4 Regional remittances and poverty in the Philippines

This chapter is structured as follows; 4.1 describes how income and remittances are divided among regions in the Philippines, 4.2 studies differences in remittances according to the region's stage of urbanization, 4.3 analyzes the regional differences in remittances and poverty.

4.1 Regional income distribution

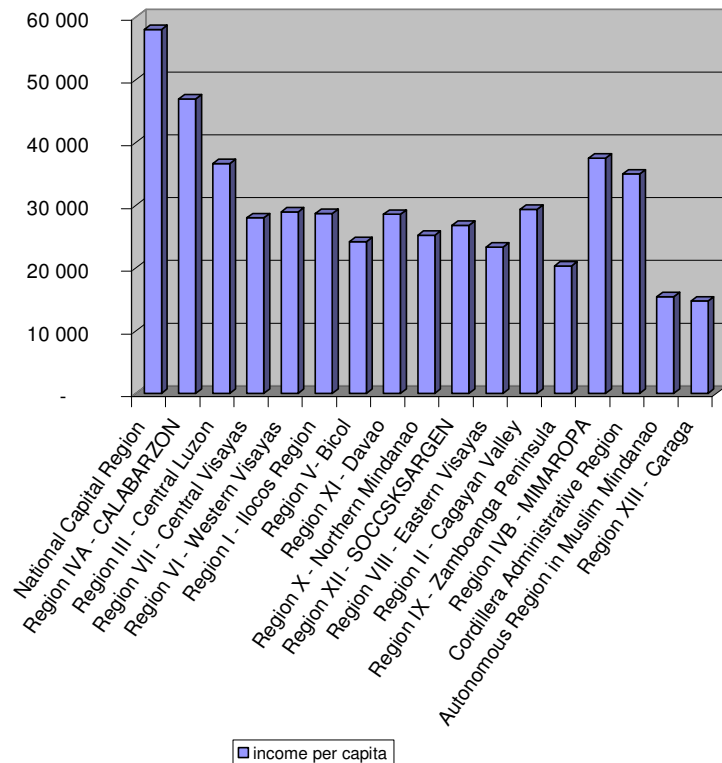
Regional income distribution shows how the incomes are divided among the regions. This will show which regions receive most of the income and which regions receive least income. There exist large differences between regions in terms of income, population and poverty. More than 50 percent of the population reside in the northern part of the Philippines (Luzon) and the rest of the population is almost equally divided between the other two parts, Mindanao and Visayas (NSO, 2007b).

The Philippines is divided into 17 regions. There is a large difference in income per capita among the regions (FIES 2003, my own calculations). The regional income is higher for regions with larger populations. Differences also exist when comparing regional per capita income for the regions. By comparing region locations in the map with their per capita income it can be seen that the richer regions are located in the northern part of the Philippines (also called Luzon) and the middle income regions are located in the middle (also called Visayas) and most of the poorest regions are located in the southern part of the Philippines (also called Mindanao).

The regions with the highest income are also the regions with the largest populations. About 25 percent of the income goes to the National Capital Region (NCR) which consists of Manila and its nearest area (FIES 2003). The regions with second and third highest income are the National Capital Region's two adjacent regions (Calabarzon and Central Luzon). About 37 percent of the total population live in these regions but the

income per capita is still high for these regions. Only five regions have per capita income above the average per capita income level: NCR, Calabarzon, Central Luzon and the two regions with smallest populations – Region IVB MIMAROPA and Cordillera Administrative region. These five regions are all located in the northern part of the Philippines (Luzon).

Figure 4:1 Regional per capita incomes (PHP)



Source: FIES 2003

Note: The regions are positioned in descending order from left to right based on their aggregate income.

For the rest of the regions the income per capita is rather equal, figure 4.1. The second largest city, Cebu City, is located in the fourth richest region (Central Visayas). The

average income seems to be concentrated to urban areas. The two poorest regions, Autonomous region in Muslim Mindanao (ARMM) and Caraga, are located in the southern part of the Philippines.

Region income per capita compared to region remittance per capita shows that regions with the highest income per capita also have the highest remittance per capita. The regions with lowest income per capita are also the regions with least remittances per capita. Remittances per capita are more concentrated to northern regions than region income per capita.

Non-agricultural wages are the largest income source within all regions except the poorest region, ARMM. The three regions with clearly highest non-agricultural wages per capita also have high remittance income. But remittances are also high for some regions with lower non-agricultural wage per capita. It is not possible to see any clear correlation between remittances and non-agricultural wages. Non-agricultural wages differ less between regions than remittances.

4.2 Remittances and agricultural related incomes

The region's stage of modernization should affect the composition of the income sources. Modernization can be measured by comparing how far the specific regions have gone in the process of general social change brought about by the transition from an agrarian to an industrial mode of production. Urban regions compared to rural regions have a smaller share of agricultural incomes in their total income. By calculating the region's agricultural related income share of the total income it is possible to see how dependent a region is on agricultural activities. Regions with lower dependency on agricultural activities are assumed to be more urbanized than the others. Agricultural related income is the sum of "Wage/Salary from Agricultural Activity", "Crop farming and Gardening", "Livestock and Poultry Raising", "Fishing", "Forestry and Hunting", "Net Share of Crops and others" and "Income from family sustenance activities".

The average region has about 20 percent of its total income from agricultural income. The three richest regions are also the three most urbanized regions of the Philippines (FIES 2003, my own calculations). Central Visayas is the region with fourth largest income and is also the region with fourth lowest share of income from agricultural activities. Regions in the Philippines with high total income are also regions with a small dependency rate on agricultural incomes.

By comparing remittances with the agricultural incomes differences between the regions can be visualized. Regions with highest agrarian incomes are regions with lowest income from remittances, for example ARMM and Region IVB MIMAROPA. Regions with highest remittance income have low or average agrarian income compared to other regions, for example NCR, Region IVA Calabarzon and Region III Central Luzon. Least remittances go to regions in the south of the Philippines (Mindanao) which are mostly dependent on agricultural related income.

4.3 Regional poverty and remittances

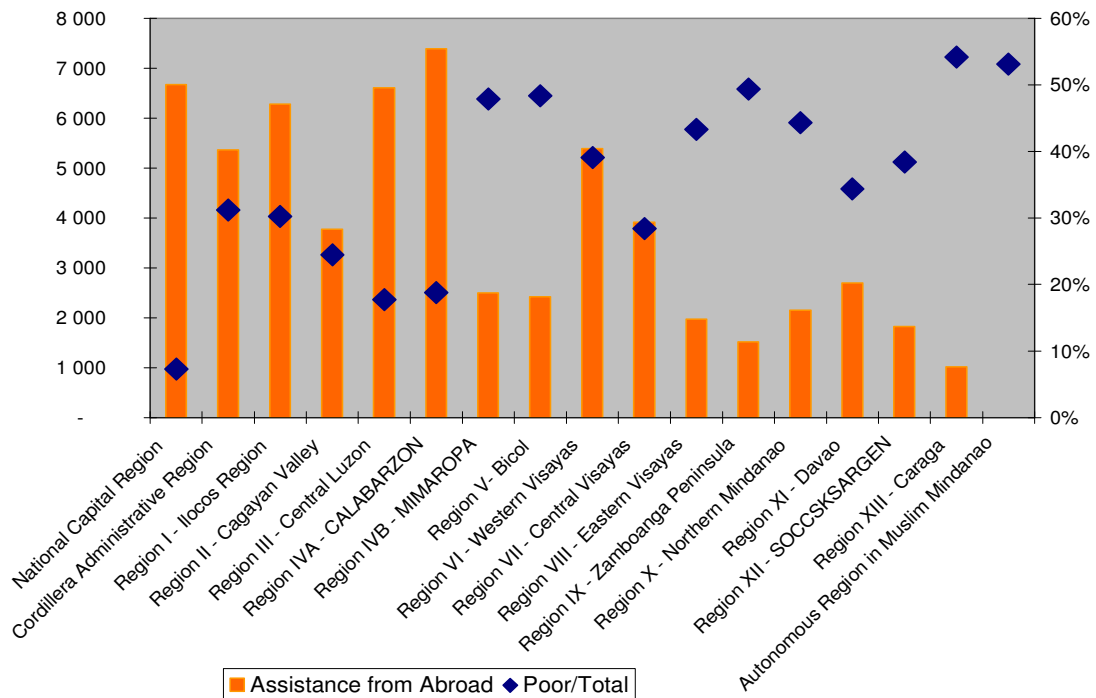
As poverty differs between countries it also differs between regions. By comparing data on regional poverty with the regional income and remittances it can be seen whether remittances go to regions with a high share of poverty. If regions with a high share of poverty also have high income from remittances it can be concluded that remittances mostly go to the poorer people in the Philippines.

Schelzig (2005, p.28) found a large difference between urban and rural poverty development. Urban poverty decreased from 33 percent to 20 percent between 1985 and 2000 while rural poverty decreased from 51 percent to 47 percent. High population growth led to the fact that the headcount of people living in poverty did not decrease. The headcount of people living in poverty increased less in urban areas between 1985 and 2000. The share of people living in absolute poverty decreased for most of the regions between 1991 and 2000 (Schelzig, 2005, p.20-21). Since rural regions have a high share

of agricultural related incomes findings from studying poverty and remittances should give similar conclusions to those found in section 4.2.

Regions with the highest share of poor people in 2003 were in Visayas and Mindanao, figure 4:2. The regions with smallest share of poor people are NCR and two adjacent regions (Calabarzon and Central Luzon). Even though the relative share of absolute poverty is lowest in NCR the number of poor people are still large since this region has the largest headcount of citizens. Regional poverty can differ between the local districts. For example in NCR there have been large increases in absolute poverty for specific poor districts while the share of people living in absolute poverty decreased for the region (Schelzig, 2005, p.23).

Figure 4:2 Remittances and poverty per region (PHP per capita, poor people/region’s population)



Source: FIES 2003, NSCB, 2007-08-31, my own calculations

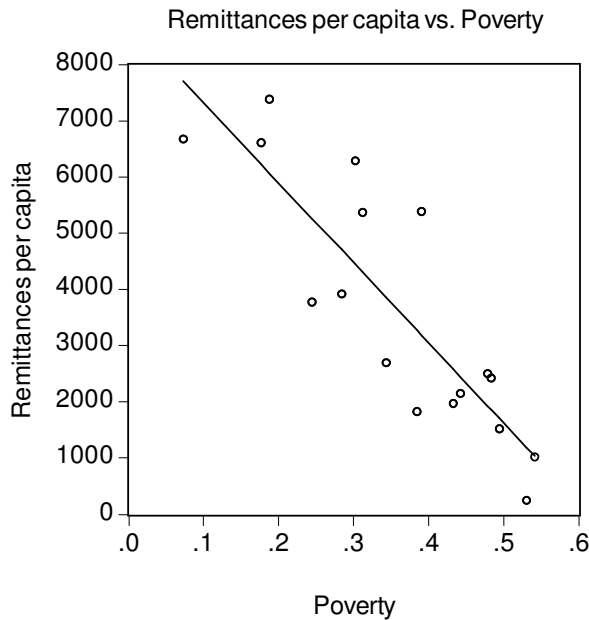
Note: Assistance from abroad = left axis. Poor/Total = right axis.

The share of people living in poverty did not decrease between 1991 and 2003 in three regions; Region V Bicol, Region VIII Eastern Visayas and ARMM (Schelzig, 2005, p.21). The income and remittances per capita in 2003 for these three regions were low. NCR had the highest remittances per capita in 2003 and also witnessed the largest decrease in people living in poverty between 1991 and 2003.

By comparing poverty and remittances between regions it can also be seen that poverty is lower for regions in Luzon compared to regions in Visayas and Mindanao. Region V Bicol is located in southern part of Luzon and has a high share of people living in poverty. This region also has much smaller incomes and remittances per capita than other regions in Luzon.

When remittances per capita are compared to a region's rate of poverty it can be seen that there is a clearly negative correlation between these variables, figure 4:3. Remittances per capita are lower for regions with a higher share of people living in poverty and remittances per capita are higher for regions with a lower share of people living in poverty. Poverty seems to be more severe for regions with lower incomes and remittances per capita. ARMM is the poorest region with the lowest remittances per capita and highest share of people living in poverty.

Figure 4:3 Remittances and poverty per region in the Philippines (PHP)



Source: FIES 2003, NSCB, 2007-08-31, my own calculations

Note: Poverty is a value between 0-1 where zero corresponds to 0 percent and one corresponds to 100 percent.

4.4 Summary

The regions differ in size and population. Most of the population lives in northern regions (Luzon) and most of the income goes to these regions. Regions' income per capita compared to their location on the map shows that the richest regions are located in the northern part of the Philippines and that the poorest regions are located in the south of the Philippines (Mindanao). The largest income sources: Non-agricultural wages, remittances, wholesale and Retailing are higher for regions with higher income per capita and lower for regions with lower income per capita. Regions with high agricultural related incomes are shown to have a lower share of remittance income. Remittances are

shown to mostly be an urban income source. The richest regions (NCR, Calabarzon and Central Luzon) have the lowest share of people living in poverty. The regions with the highest share of people living in poverty are the poorest regions. It can also be seen that remittances mostly go to regions with a lower share of people in poverty.

5 Intra-regional remittances and poverty in the Philippines

This chapter is structured as follows; 5.1 describes the intra-regional economic structure, 5.2 analyzes intra-regional differences in income and remittances, 5.3 summarizes this chapter.

5.1 Intra-regional economic structure

The national and regional economic structure has been explored in chapters three and four. This chapter focuses on how the incomes are distributed within the region and whether there are differences between the regions. There can be differences within the regions depending on the income, remittances and poverty. In chapter four it was seen that most differences in poverty and remittances can be traced back to differences in income between regions. In this chapter regions are therefore analyzed depending on their income per capita. Regions with high income per capita also have high remittances per capita, a low share of people living in poverty and are of highly urban nature. NCR, Calabarzon and Central Luzon are three regions with high income per capita. Regions with low income per capita also have low remittances per capita, a high share of people living in poverty and are of rural nature. ARMM, Zamboanga Peninsula and Caraga are three regions with low income per capita.

In section 3:2 it could be seen from the average income that the three largest income sources also are unequally distributed in favour of the richer deciles. The most important income source for all income deciles in the nation is non-agricultural wages. The other two largest income sources, Remittances and Wholesale and Retailing are not major incomes for most of the households since they are considerably smaller than non-agricultural wages and are unequally distributed. We expect the same pattern to be shown when studying income distribution on regional level.

Regions with a low share of people living in poverty (for example NCR, Calabarzon and Central Luzon) show similar income distribution to the average income patterns. The income structure for all income deciles are similar to the income structure seen for national income in section 3:2. The lower and the tenth deciles are less dependent on non-agricultural wages in regions with high income, as was seen in the average income patterns.

Regions with a high share of people living in poverty (for example ARMM, Zamboanga Peninsula and Caraga) differ from the average income in their income distribution. A small share of the aggregate income goes to these regions which partly explains a larger variety in income distribution. But it is clear that the largest income sources are more unequally distributed in regions with lower income.

Non-agricultural wages make up a smaller share of the poorer regions' per capita income. This means that poorer regions are more dependent on other income sources than average income shows. Since non-agricultural wages are unequally distributed it follows that non-agricultural wages are not the main income for the poorer deciles in the poorer regions in contrast to the average income pattern shown in section 3:2. The largest income source for most households in poorer regions is instead Crop Farming and Gardening. Crop Farming and Gardening is the largest income of ARMM and almost equally distributed among the income deciles. Agricultural related incomes are more equally distributed for low income regions than the national average agricultural income shows.

5.2 Intra-regional income and remittances

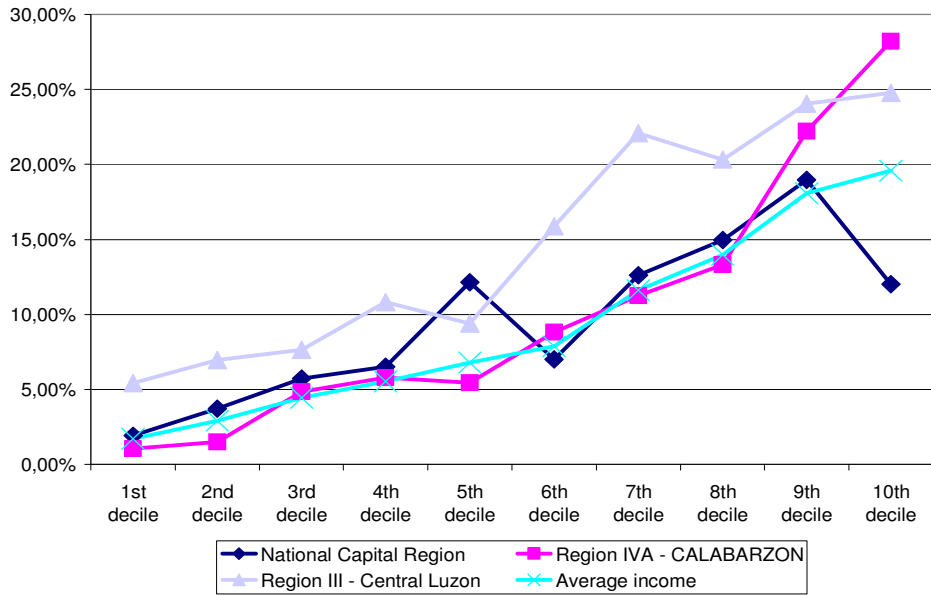
Remittance is the most unequally distributed income source when studying the average income patterns, figure 3:1. It is interesting to see whether remittances are more unequally distributed within poorer regions. The analysis is, as in section 5:1, concentrated on the three richest regions and the three poorest regions. NCR, Calabarzon

and Central Luzon represent the regions with a low share of people in poverty and with high income while ARMM, Caraga and Zamboanga Peninsula represent the regions with a high share of people in poverty and with low income. If remittances are more equally distributed in poorer regions, it indicates that remittances can work to lower income inequality.

For households in the richer region's lower deciles remittances per capita are moderately higher than for households in the poorer regions' lower deciles. Remittances per capita are clearly higher for the higher deciles in richer regions rather than higher deciles in poorer regions (FIES 2003, my own calculations). Remittances are a more common income source for richer households and for households in richer regions. It can also be seen by studying remittances' share of household income, figure 5:1, that households in richer regions are more dependent on remittances as an income source than households in poorer regions, figure 5:2.

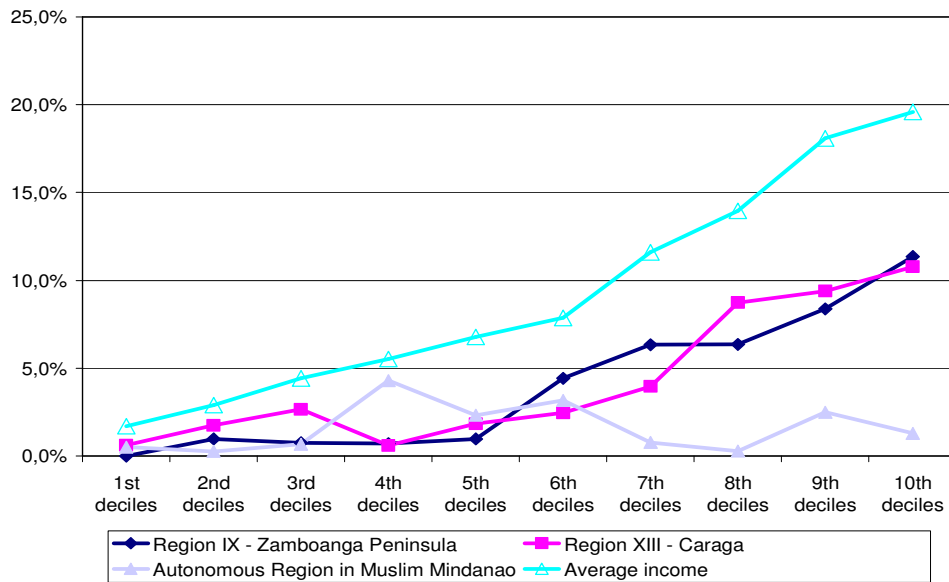
Most households in high income regions show similar dependency on remittances as an income source. The tenth deciles in NCR and Region III Central Luzon receive clearly a lower share of regional remittances compared to Region IVA Calabarzon and the average income. The distribution seems thereby to be more equal for these two regions although remittances in the high income regions tend to – as with average incomes – mostly be an income for the richer households.

Figure 5:1 Remittances share of household's income



Source: FIES 2003, my own calculations

Figure 5:2 Remittances share of household's income



Source: FIES 2003, my own calculations

The share of remittances of household income per decile shows whether there are regional differences in how remittances are divided within the regions. Since the amount of remittances received differ between regions it helps to know whether remittances are divided differently within the regions. NCR, Calabarzon and Central Luzon have higher income and remittances per capita but show a dependency on remittances as an income source close to the average income, figure 5:1. Remittances' share of total income per deciles for the richer regions, except Central Luzon, follows the average income pattern. This means that the distribution of remittances in richer regions follow the national pattern except for Central Luzon.

Remittances' share of household income is clearly higher for all deciles in Central Luzon than for other regions and for the average incomes, figure 5:1. This means that any change in remittances has a larger impact on the economy of households in Central Luzon rather than other regions.

It can be seen by studying figure 5:1 that higher incomes do not largely affect remittances' relative share of the household's income. The economic structure did not largely differ between average income and richer regions.

Remittances per capita are clearly below the average remittances per capita for all deciles in low income regions (FIES 2003, my own calculations). Regions with low income have another economic structure as they are more dependent on agricultural related income sources. Remittances are almost zero in ARMM, which explains why there is no clear distribution pattern among the deciles, figure 5:2.

Remittances' share of household income for all deciles in poorer regions is lower than the average income, figure 5:2. This shows that remittances are of lower importance for households in low income regions since remittances make up a smaller share of their household income. The number of households with remittance income is few in the low income regions' poorest deciles. As remittances' share of total income increases, more households receive remittances. This observation is expected as more receivers makes up a larger income source.

Remittances differ between regions and their deciles. Region I – Ilocos Region and Region VII – Central Visayas has almost the same regional income (figure 4:1), rather equal dependency on agricultural related incomes, same share of people living in poverty, figure 4:2. The size of remittances largely differs between these two regions. Remittances in Ilocos Region account for about 22 percent of the total income, while in Central Visayas it accounts for about 14 percent of the total income.

Ilocos Region is located in the Northwest of Luzon and thereby closer to the richest regions than Central Visayas is. Central Visayas on the other hand is the fourth most urban region and includes the second largest city, Cebu city. Central Visayas is thereby expected to have a more urban nature in its economic activity than Ilocos Region has.

The income distribution of Ilocos Region is more equal than it is for Central Visayas. Non-agricultural wages are higher in Central Visayas, although for the specific income deciles the income is only higher for the two highest deciles. Remittances per capita in Central Visayas are much smaller than in Ilocos Region but the figure is about the same for these two regions' tenth deciles. This shows that differences in income distribution can exist between regions even though income and poverty are the same.

5.3 Summary

In this chapter the regions' income distribution is analyzed. A difference of income, remittances and poverty can be seen in chapter four where a division between high income and low income regions is clear. This chapter start with an analysis of the average income distribution and the region's income distribution. Non-agricultural wages is the largest income source but since it is largely unequally distributed it does not count as the largest income source for most households in poorer regions. The other two largest income sources (remittances, wholesale and retailing) follow similar patterns to non-agricultural wages. Agricultural incomes are important for everyone in the Philippines but mostly for the poorest people. Richer households have almost the same amount of

incomes from agricultural related income sources as poorer households. The difference exists in the fact that richer households have more and larger income sources, such as non-agricultural wages and remittances.

Remittances are larger income for households in richer regions. Even though remittances are smaller in poorer regions there is still a similar distribution pattern for the regions' income deciles. The distribution among deciles seems to not be largely affected by the amount of remittances.

By comparing Ilocos Region with Central Visayas it can be seen that two regions with similar income, poverty rate and stage of urbanization may show large difference in income distribution. Ilocos Region has more remittance income than Central Visayas and the income distribution of remittances in Ilocos Region are more equally distributed than remittances in Central Visayas are.

Chapter 6 Conclusions

The purpose of this study was to explore effects on poverty of remittances. By studying an income survey for the Philippines it is possible to conclude whether remittances benefit the poorer or the richer households. Questions of particular interest were to see what kind of households benefit from remittances and what effect the income source has on relative and absolute poverty in the Philippines. The results of this study suggest that:

- The distribution of remittances among regions follows the pattern of income for the regions. Regions with higher income have higher remittance income. Remittances are highest for northern regions and lowest for southern regions.
- The poverty in the Philippines is mostly rural and most remittances go to urban regions. Regions with a high share of people living in poverty also have small remittance income. Regions with a small share of people living in poverty have higher remittance income. Remittances have larger benefits for the absolute poor in high income regions while they have small or none benefits for the absolute poor in low income regions.
- Remittances are the most unequally distributed income source in favour of the richer deciles. Remittances have a bad effect on relative poverty as this income source is highly unequally distributed in favour of the richer deciles and richer regions.
- Since remittances exist in the poorest deciles and at this point it has not been observed whether households with remittances move to higher deciles, it can be concluded that part of the reason for the highly unequal distribution among deciles is the movement of households to higher deciles.

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