

# KIHASA International Workshop 2012

Poverty Reduction Policies  
in Selected Asian Countries  
: Trends, Strategies and Challenges

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## TABLE OF CONTENTS

1. Lao PDR .....	5
2. Thailand .....	41
3. Malaysia .....	63
4. Vietnam .....	113
5. Myanmar .....	133
6. Indonesia .....	147
7. Philippines .....	169
8. Cambodia .....	187



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Poverty Reduction Policies in Selected Asian Countries: Trends, Strategies and Challenges

## **Lao People's Democratic Republic**

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## **National Poverty reduction of Lao PDR.**

- Referring to the law on the Government of the Lao PDR No. 02/NA dated 6<sup>th</sup> May 2003;
- Referring to the National Leading Committee for Rural Development and Poverty Eradication request No. 116/NLCRDPE dated 28th September 2009;

### **I. National poverty profile**

#### **Definition of poverty:**

Poverty is the deprivation of basic needs for the daily livelihood such as shortage of food that cannot provide the energy of 2100 Kcal/day/person, deprivation of clothes, durable shelter, inability to afford for the health care in case of sickness, inability to afford for the elementary education, inability to have the access to public services.

#### **Poverty Line**

The Government of Lao PDR defined the official poverty line as a sum of minimum food and non-food expenditures based on the result of LECS I and II with the support of Sida and WB,

The food basket includes food items based on the typical diet in the country. The minimum food expenditure of a household is equivalent to the total cost of the basket of food items satisfying the minimum calorie requirement of 2,100 kcal per capita, the international norm defined by WHO/FAO. food poverty line is estimated as the monthly cost of the minimum requirement of calories in the region. The non-food poverty line for each region is obtained by calculating the average non-food expenditure of households whose total per capita consumption is equal to the poverty line defined for the respective regions, and rural and urban areas.

Based on LECSII, the urban and rural poverty lines are 20,597 kips and 19,718 kips, respectively. The poverty lines by region are as follows: 22,613 kips for the Vientiane Municipality; 19,550 kips for urban areas and 17,253 kips for rural areas in the Northern region; 20,751 kips for urban areas and 19,991 kips for rural areas in the Central region; and 19,476 kips for urban areas and 19,015 kips for rural areas in the Southern region.

### **Poverty Indicators**

In Lao PDR, households with total expenditures are below the poverty line is defined as “poor.” During the period between FY 1992/93 and FY1997/98, the poverty head count index declined from 46.0% to 39.1%. While the poverty gap index slightly decreased from 11.2% to 10.3% for the same period, the squared poverty gap index has remained at the same level.

Although the incidence of poverty declined from FY 1992/93 to FY 1997/98, it did not bring about any improvements in the household expenditure level of the poor. The rural-urban difference in terms of the poverty incidence was remarkable; the head count index in rural areas was 42.5% in FY 1997/98 while the head count index in urban areas was 22.1%. The poverty gap indices in rural and urban areas were 11.4% and 4.9%, respectively. The rural-urban gaps still remained significant since the incidence of poverty in both urban and rural areas reduced by the same proportion. The poverty index varied widely across regions. The incidence of poverty in FY 1997/98 was 13.5% in the Vientiane Municipality, 47.3% in the Northern region, 39.45 % in the Central region, and 39.8% in the Southern region, respectively. The depth and severity of poverty also indicated prominent regional disparities: the poverty gap ratios were 2.8% in the Vientiane Municipality, 13.9% in the Northern region, 9.7% in the Central region, and 10.0% in the Southern region. Although the poverty incidence declined nationwide during the period between FY 1992/93 and FY 1997/98, degrees of decline in the poverty incidence differed from region to region. The headcount ratio of the poor in the Vientiane Municipality declined at an annual rate of 13.5%, while the rate of decrease was 3.6% in the Central and Southern region and 2.1% in the Northern region. The poverty gap ratio and the squared poverty gap ratio in the Northern region increased for the same period, although those indices dropped in the other regions. The regional differences in poverty status has been widening across the country. In particular, in the Northern region, which has the highest incidence of poverty, the depth and severity of poverty have deteriorated.

### **Inequality Indicators**

Compared to other Asian countries, inequality in Lao PDR is not high. The Gini coefficient, however, increased from 0.34 in FY 1992/93 to 0.38 in FY 1997/98. The

Lorenz Curve shows that the consumption share of the bottom 10% of the population decreased while the consumption share of the richest 10% of the population increased for the same period. The Gini coefficients deteriorated nationwide, and in particular in the Northern region in both urban and rural areas. The worsening degree of inequality in the Northern region is attributed to regional differences in infrastructure maintenance affecting market accessibility and the resulting impact on the distribution of economic growth effects.

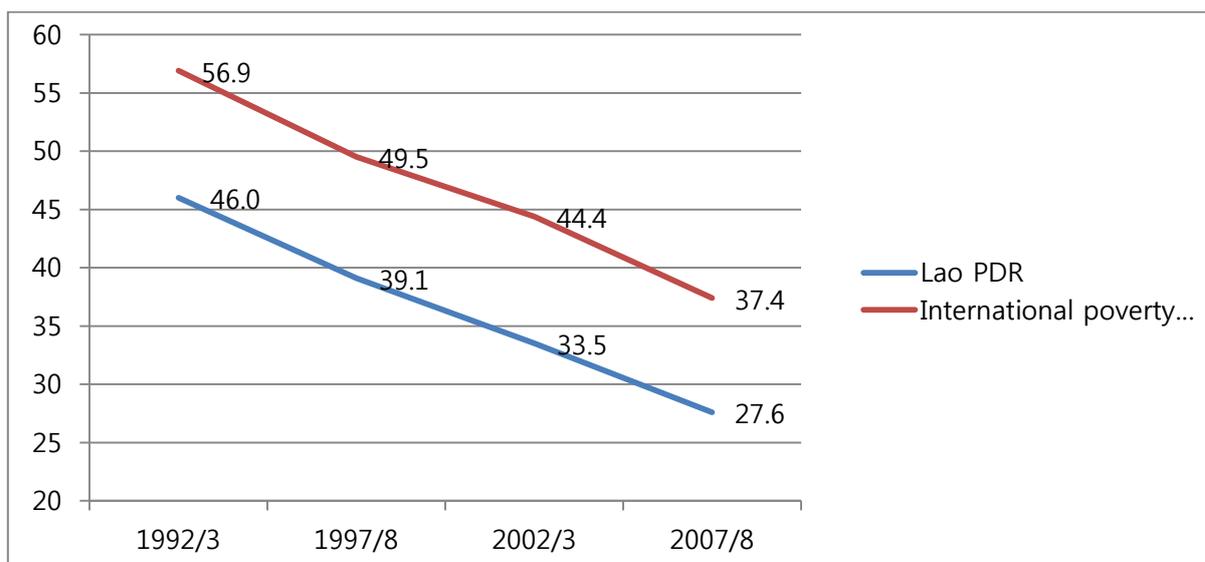
### **Poverty Factors**

Using the poverty analysis based on LECS II by *Kakwani, N. et al., (2002)* as a reference, we applied the multiple linear regression analysis to identify correlations between household consumption level and socio-economic indicators. The explanatory variables, which show significant correlation to the household consumption level, are as follows: household size (negative: probability<0.01); household size-squared (positive: p<0.01); persons 0-6 years as percentage of household size (negative: p<0.01); female household head (negative: p<0.01); age of head (positive: p<0.05); and age of head- squared (negative: p<0.05). Besides them, the following explanatory variables are also significantly correlated to household consumption levels: years of schooling of head, occupation of head (employer and own account worker), ownership or access to assets (motorcycle, tractor and boat), more firewood use in village than re-growth, access to pipe water.

### **Poverty trends:**

Lao PDR has seen a steady decline in national poverty headcount since the first LECS survey in 1992/3. Figure 1 shows the poverty headcount rate at the national poverty line and the international poverty line of \$ 1.25 a day. In 1992/3 almost half of the Lao population lived in poverty according to the national poverty line. By 2007/8 the poverty headcount rate was just above a quarter. The international poverty line shows a similarly dramatic drop, from 57% to 37%.

(For the latest figures are still in the consideration of the government, not yet publication)



The poverty headcount measure fails to take into account whether the poor have consumption levels just below or far below the poverty line. It is therefore indifferent to the distribution amongst the poor and insensitive to the degree of poverty. The poverty gap and poverty severity measure address this weakness. The poverty gap equal the average consumption shortfall of the poor relative to the poverty line. The greater the distance, the higher will be the poverty gap. Poverty severity applies and increasing weight to greater distances below the poverty line and is therefore sensitive to the severity of poverty.

	1992/3	1997/8	2002/3	2007/8
Poverty headcount	46.0	39.1	33.5	27.6
Poverty gap	11.2	10.3	8.0	6.5
Poverty severity	3.9	3.9	2.8	2.3

The poverty gap offers additional support to the picture of successful poverty alleviation during the past five years. The poverty gap fell from 8.0 to 6.5 between 2002/3 and 2007/8. Not only has the share of the population living below the poverty line fallen, as shown by the decline in the headcount, but also the average

consumption shortfall of those under the poverty line is smaller than five years earlier.

The severity of poverty decline from 2.8 to 2.3, a substantial reduction just like the headcount and gap measures. Since the poverty severity gives the highest weight to the poorest, this implies that the drop in poverty since 2003/3 benefited the neediest. Those figures put Lao PDR's poverty decline in regional perspective. In the early 1990s Lao PDR was one of the poorest countries in South East Asia but has seen a rapid decrease in poverty, with just over a third of the population living on below \$1.25 a day by 2007/8. However, Lao PDR's neighbors Vietnam and China have been able to reduce poverty even more rapidly, so the country now lags further behind than in the early 1990s. Although poverty reduction has been rapid, the constraints facing Lao PDR have prevented it achieving the rapid decreases in poverty seen in neighboring countries and it remains one of the poorest countries in South East Asia.

## **II. Major national anti-poverty policies and goals**

In almost one decade, Lao government has initiated and intended to monitor and assess overall goals and specific targets to reduce poverty and hunger in order to achieve the Millennium Development Goals in the country. The monitoring work towards these goals through the implementation of the five-year National Social and Economic Development Plans, aiming to reduce poverty and improve the well-being of the people. As a result with an imperative economic growth, it has contributed to a significant reduction of poverty since the 1990s.

However several challenges remain, and at this halfway point to 2015 the impetus towards achieving the Goals must rapid and continue to grow, particularly the poverty reduction goals. The current poverty status is available from comprehensive Consumption and Expenditure Surveys, carried out at five year intervals.

The poverty situation from the latest Lao Expenditure and Consumption Surveys (LECS) 2007-2008. It offers a trend analysis of poverty reduction in Lao PDR and draw lesson for meeting the poverty alleviation targets as proposed in the 6<sup>th</sup> National Social- Economic Development Plan (NSEDP) for 2006 to 2010. It builds a platform for preparation of the 7<sup>th</sup> NSEDP for 2011 to 2015 in designing the target intervention for poverty reduction. Furthermore this benchmark will provide a remarkable sign of progress towards achieving the MDG goal of poverty reduction by 2015.

This is to provide analysis about poverty in different dimensions related to household welfare, including expenditures, incomes, nutrition, and access to health, and education of household members. This is also emphasize the ability of Lao households to access infrastructure. To achieve the MDG target and government goals it is essential to understand not only the committed efforts of country but also external factors such rising food and oil prices and the global financial crisis, which may have a significant impact on the potential for poverty reduction in the Lao PDR. Even with the strong commitment from Lao government, it would need continue support and collaboration of the development partners and stakeholders for a great success in poverty reduction and achievement of MDGs by 2015 as well as escape from the Least Development Country status and low income country by 2020.

### **Poverty Reduction and Equity in Socio-Economic Development Plans**

In 1996, the 6th People's Revolutionary Party Congress adopted the long-term national development goal toward the year 2020. Based on the long-term national development goal, GOL has drawn up National Socio-Economic Development Plans (NSEDP) every five years. The Government, however, does not have adequate capacity for development planning, including human resource and statistical data on production and labor. In addition, the slow progress of decentralization hampered improvements in the budget and planning processes.

The long-term development goal set in 1996 is to exit the group of Least Development Countries (LDC) by the year 2020. This goal is expected to be realized through "poverty alleviation by growth with equity." In order to achieve the long-term goal, GOL defined eight national priority programs in the transition process.

### **Government Budget and Public Expenditures**

The Lao government budget is classified into current and development budgets. While the development budget, which is included in the Public Investment Programs (PIP), is planned under the Committee for Planning and Cooperation (CPC), the current budget is under the Ministry of Finance (MOF). The coordination problems between MOF and CPC including the provincial authorities have caused budget deficits due to the difficulty in matching the two lines of budget. In addition, although the bottom-up budget process was introduced under the decentralization

initiatives, the budget for the line ministries is allocated in response to the sector policies rather than development needs at the provincial level. The provincial tax revenue base and the remittance of taxes and duties collected at the provincial level to the central treasury become key issues in the process of fiscal decentralization which has still to be institutionalized. Those obstacles to implement development projects properly decreased the effectiveness of the projects.

The public expenditure on the economic sector, including agriculture, industry, and transportation and communication, accounted for the largest share while the public spending on the social sector including education decreased. On the other hand, the share of the social sector in the capital expenditure grew although the economic sector still absorbed the largest portion of public investment. Reflecting the policy goal of poverty eradication, public spending on agriculture and rural development and education has expanded. The funds for this capital expenditure largely depend on foreign assistance.

### **Social Policies**

There are two key social policies for poverty reduction: the Education Strategic Vision up to the year 2020 and the Health Strategy up to the year 2020.

The Education Strategic Vision prepared by the Ministry of Education and the donors is a basic strategy to identify the needs and the funds available, including foreign assistance, to it. The long-term goals of the vision are: improvement of access to basic education for all; an increase in enrollment rates of primary and lower secondary education; and improvement of literacy rates. GOL focuses on the construction of primary schools in villages without access to primary education since the limited access to basic education and significant regional differences have been critical issues. In order to achieve these goals, GOL must secure a sufficient number of teachers qualified, to increase enrollment rates among the ethnic minorities and females, and to enhance capacity building at the central and provincial levels for planning and implementation of programs.

The Health Strategy has set forth the basic health strategy including the basic concept, medium and long-term health goals and priority programs in order to attain the national goals to provide the universal health service by 2020. In terms of the implementation of the strategy, it is necessary to develop concrete action plans.

## **Policy Framework for Poverty Reduction and Equity**

Since GOL promotes policy-making based on consensus building, GOL attaches importance to the participatory planning process requiring the participation of local authorities and mass organizations. In 2001, CPC prepared the Interim Poverty Reduction Strategy (I-PRSP), which covered the poverty situation in the country, the policy and strategy framework of poverty reduction, priorities regarding the poverty reduction strategy and the consultation process for a full-PRSP. I-PRSP recommended adequate poverty monitoring at the local level based on poverty indicators measured by *Kakwani, N., et al., (2002)*. F-PRSP will be finalized as the National Poverty Eradication Program (NPEP) including the programs and projects to be implemented. Although the completion of NPEP was scheduled for March 2003, the working process is delayed.

### **The long term goals (2011-2015).**

1. Poverty rate in the whole country must decline below 19 percent of the population and the rate of poverty families are declined from 198,678 families(=18,86%) of the whole families. And remain not over 99,000 families(9,40%), villages' poverty are declined from 3,175 villages(37,69%) of the whole villages, and remain not over 960 villages(11%) in 2015.
2. Over half of villages in the whole country are developed, develop large villages to be small district in rural areas at least 1-2 in each districts.
3. Develop 10 focus of GOL and 54 focus areas in provincials(64 priority focus areas) to be developed infrastructure and become small districts in rural areas.
4. The movement of workers and population are improved, focus on villages resettlement, families without permanent residence, permanent occupation in 167 areas in the whole country are improved.
5. To achieve an Implementing of MDGs of UNDP

### **Priority Programmes for (2011-2015):**

1. Gathering small villages into large and permanent residence programme, sustainable and permanent occupation to the people, 174 priority project and total budget are 900 billion kip(equivalent 32,14% of the whole budget).
2. Productions promotion, making more incomes to the people, 228 projects, equal 600,42 billion kip(21,44%).

3. Programme for development of rural infrastructures, 194 projects, total budget 972,26 billion kip(34,72%).
4. Services development of socio and cultures in rural areas, 211 projects, total budget 271,76 billion kip(9,71%).
5. Capacity building for rural governance, 157 projects, total budget 49,00 billion kip(1,75%).
6. Programme for cooperation to abroad, 3 projects, total budget 6,56 billion kip(0,23%)

### **III. Major government-led anti-poverty programs**

#### **National Programmes**

The Lao PDR has maintained a low prevalence rate of HIV/AIDS as compared to that in the neighbouring countries by raising awareness and monitoring the situation. The National Strategy and Action Plan on HIV/AIDS/STI for 2006- 2010 have been formulated, with the goal of maintaining this low prevalence. The Lao PDR has recently reached its goal of eliminating opium cultivation in the country, with the number of opium addicts also being reduced by a third. The national strategy for the post-opium scenario is being put into action to sustain opium eradication, provide alternative livelihoods, cease drug trafficking, rehabilitate addicts, and increase awareness of the negative effects of drug addiction. The UXO contamination poses an ongoing development challenge to the Lao PDR.

Community education, victim assistance and UXO survey and clearance operations are priority activities for the Government. The foundations of the “National Regulatory Authority” (NRA) for the UXO sector in the Lao PDR were established and the Authority has begun to function effectively.

#### **Drug Control Programme**

Since GOL believes that opium production is both cause and consequence of poverty, the drug control program has been working to eliminate opium cultivation and promote alternative crop production with the support of UN Drug Control Program (UNDCP) since 2000. Opium production is a main cash income for poor households in the Northern region. The estimated annual production volume was 123 tons. The domestic gross opium consumption accounted for 57% of the total production. Out of the domestic consumption, 47% was consumed by the addicted. GOL banned

opium production in 2000. Reflecting the goal of eliminating opium production by 2006, GOL has initiated campaigning in communities, funding addicts rehabilitation programs, enhancing the legal compliance, and so forth, in addition to implementation of alternative income generating programs through rural infrastructure development.

### **Microfinance Program**

In Lao PDR, there is no functionable financial system to support production and commercial activities of the poor whereas credit demand is high in rural areas. It is because of the inefficiency attributed to the small average loan amount of US\$300 and the high operation cost of rural credit. In order to promote rural microfinance, GOL, the donors and international NGOs have supported local credit institutions such as the Agricultural Promotion Bank (APB). The current key issue for microfinance in the country is to increase financial independence. The donors including ADB and UNDP have provided microfinance institutions with technical assistance.

### **UXO Decontamination Programme**

Up to the present, severe unexploded ordinance (UXO) contamination during the Vietnam War has been known to affect over 50% of Lao territory. A great number of victims and their families have suffered from UXO accidents, and UXO contamination remains an obstacle to socio-economic development of the country, including rural development. It is believed that UXO contamination is one of the main causes of rural poverty in the county. In order to reduce the negative impacts of UXO contamination, *the UXO Decontamination Programme* has been implemented with the support of donors including UNDP and UNICEF. Out of the 15 provinces contaminated by UXO, 8 provinces of the Central and Southern regions have been intensively damaged. Since the current scope of *the UXO Decontamination Programme* is how to maintain its sustainability, the donors are supporting local human resource development and capacity building in the country.

### **Participatory Village Development and Sustainable Land Use Programme**

In the Northern rural areas, a number of agricultural households engage in shifting cultivation. The growing population in the region requires larger shifting cultivation

with shorter off-cultivation periods in order to meet an increasing food demand. The overuse of lands for shifting cultivation, however, induced lower agriculture production and environmental degradation. Since the negative impact severely affects the poor population, GOL implemented shifting cultivation stabilization programs. The conventional stabilization programs focused solely on agricultural development and lacked consideration on other resources available in rural areas.

### **The Participatory Village Development and Sustainable**

*Land Use Programme*, which was planned as an alternative rural development, is a community-based participatory program, promoting not only the stabilization of shifting cultivation but also the introduction of paddy rice and fruit cultivation with irrigation, maximizing the use of water and forest resources and the sustainability of rural development. A pilot project of the program is planned by the Adventist Development and Relief Agency International (ADRA), an international NGO that has successfully implemented the same type of project in Thailand. Applicability of the experience with the project in Thailand to Lao PDR is of great interest to GOL and the other donors.

The GoL is carrying on the implementation of the National Socio-Economic Development Plan 2006-2007, the National Millennium Development Goals and Sectoral Strategies with the aim to achieving the targeted objectives and outcomes. Impressive strides were achieved in improving the macroeconomic framework and noticeable improvements were realized in many economic, social, legal and institutional development areas.

Efforts are ongoing within the implementation of the public administration reform in order to strengthen the public sector management, enhance the government's organizational structure and capacity, and improve the civil service management and human resource development as well as public service delivery.

Efforts are equally being made to continue the implementation of reforms in the legal and judicial framework, and in the public financial management, in order to improve governance and transparency, ensure the fulfillment of commitments to ASEAN and AFTA, facilitate accession to WTO and combat corruption.

At the same time, the Government is promoting domestic and foreign private investment, designing and implementing policies to protect the environment,

strengthening the banking and financial sector and proceeding with the integration of the economy within the global and regional context.

While the Government is multiplying its efforts to place the market economy on the right track and provide a solid foundation for private sector-based growth, the role of the Government is equally being enhanced in setting rules and regulations, ensuring a better balanced economic growth, building necessary physical and social infrastructure, maintaining macroeconomic stability, as well as political and social harmony.

### **Priority Programmes**

Primary health care is the main priority aimed at increasing the standards and availability of health care in the country. The components include the following:

- Information, Education and Communication (IEC) including the reorganisation of the IEC, the preparation of campaigns and the translation and dissemination of information about hygiene and proper lifestyles (the '3 cleans' of preventative healthcare: drinking boiled water, eating cooked food, and washing hands before eating and after using the toilet) in ethnic languages;

- Expansion of the Rural Health Service Network including curative services, strengthening primary health care (PHC) with an emphasis on the 47 poor districts, expanding PHC to reach more than 80 percent of villages, enabling remote and poor villages to have access to basic health care and referral services to hospitals, the construction of 150 new health centres, three regional hospitals, 13 provincial hospitals, and 10 type A district hospitals and 46 Type B district hospitals in poor districts, and promote the role of women in PHC. This is the single largest programme accounting for about a third of the total expenditure in the sector'

- Upgrading the Capacity of Health Workers, with priority to increase the number of health personnel working at the village and district levels and emphasis on the 47 poorest districts. Special efforts will be made to increase the good behaviour, morale and capacity of the health personnel at the district and village levels in parallel with the provision of essential drugs and necessary medical equipment to the district hospitals, the Health Centres, and the drug revolving funds at the village level;

- Maternal and Child Health (MCH) promotion through the MCH Centre of the Ministry of Health and its facilities in provinces. Many of the interventions, such as essential obstetric care require upgraded health facilities with delivery and operating theatres which are financed under Strategic Programme (ii) above or are subsumed under the strengthening of the MCH network;
- Immunisation as the cornerstone of primary health care as it is one of the most efficient and cost-effective methods of improving health;
- Water Supply and Environmental Health comprising primarily efforts to increase access to safe water through various methods and access to latrines both at schools and in households;
- Control of Communicable Diseases such as malaria, dengue, cholera, tuberculosis and helminth, through among others the Global Fund (for funding the malaria and TB programmes);
- HIV/AIDS/STI Control through surveillance, prevention, care, support and treatment; and
- Development of Village Drug Revolving Funds as a major mechanism to provide at least some curative services for those living in remote areas so that they do not have to depend completely on unsupervised itinerant drug sellers or travel excessively long distances to access simple care;

The above components absorb the lion's share of resources in the health sector. The other supporting programmes in the sector include food and drug safety and the promotion of collaboration/complementarity between traditional and modern medicines. Also, it is necessary to improve the health management and health financing structures of the country, through among others, the introduction of health insurance and health equity funds, both of which have considerable impact on the financing of health services for the poor.

**The Health sector targets in 2006- 2010) include the following:**

- ⊙ Life expectancy at birth will rise to 63.5 years;
- ⊙ Infant mortality to reduce to 55 per 1,000 live births;

- ⊗ Mortality of children under five years (child mortality) to reduce to 75/1,000;
- ⊗ Maternal mortality to reduce to 3300 per 100,000 live births;
- ⊗ Number of people catching tuberculosis to reduce to 72 cases per 100,000 people;
- ⊗ Child vaccination coverage to reach 85 percent;
- ⊗ Vaccination programme to eliminate dangerous epidemics to reach 100 percent;
- ⊗ Ratio of malnourished children under five to reduce to below 30 percent;
- ⊗ Access to basic health care services to reach 100 percent;
- ⊗ Access to safe water to increase to 75 percent of the people overall;
- ⊗ Access to safe water in rural areas to increase to 70 percent of the people;
- ⊗ Coverage of toilet facilities meeting sanitary standards to rise to 60 percent;
- ⊗ Proportion of schools having segregated sanitary facilities to rise to 35 percent;
- ⊗ For the 72 poor districts, the Ministry of Health has set the following targets for 2010:
  - 100 percent of the population in all the 72 poor districts will have access to PHC; and
  - 75 percent will have access to clean water; and
  - 55 percent to will have access safe sanitation.

**These are some programmes which runs by Ministry of labor and social welfare**

**a. Title of programme: *Medical care and sickness benefits for civil servants and enterprises workers***

**Legal framework: *Decree 178/PM Start from 1993 for civil servants and reform to decree 70/PM and decree 207/PM from 1999 for enterprises' workers***

**Purposed of programme: *to support health care services through Ministry of Public Health, health insurance benefits and sickness benefits.***

**Type of benefits and payment system: *Cash benefits***

**Number of beneficiaries: *civil servants enterprises workers 124,538 insured person***

**Administrative organization: *Ministry of labour and social welfare(SASS and SSO)***

**Source of fund: *contribution from government, employers and workers***

**Shortcoming: *Small amount of contribution but need more benefits***

**b. Title of programme:** *Old age, Disability and survivor benefits*

**Legal framework:** *same as the mention above*

**Purposed of programme:** *To pay benefits for retirements, disability pension including war invalidity, survivor and death grants, ophans' pension and employment injury.*

**Type of benefits and payment system:** *Cash benefits*

**Number of beneficiaries:**

**Administrative organization:** *Ministry of labor and social welfare*

**Source of fund:** *Government revenue*

**Shortcoming:** *a huge amount that the government have to pay every year*

**c. Title of programme:** *Family and child benefits*

**Legal framework:** *Start from 1993*

**Purposed of programme:** *To pay allowance for spouse and child*

**Type of benefits and payment system:** *cash benefits*

**Number of beneficiaries:**

**Administrative organization:** *Ministry of labor and social welfare*

**Source of fund:** *Government revenue*

**Shortcoming:** *small amount if compare to the living condition*

**(For more details on the government long term programmes please see in ANNEX table)**

#### **IV. Analysis on the effectiveness of government-led anti-poverty policies**

The Lao government prepared a poverty reduction strategy as laid out in the National Growth and Poverty Eradication Strategy(NGPES) and National Socio-Economic Plan 2006-2010, which revolves around the prioritization of 47 poorest districts for special poverty reduction programmes. The NGPES endorsed a strategy of poor area development. The implementation focused on 47 priority districts out of a total of 142 districts, identified on a set of household, village and district level indicators. Subsequently, it was extended to another 25 poor districts. As part of the government's rural development and poverty alleviation strategy, the resettlement or relocation of remote communities has been used by the government to pursue multiple objectives such as a reduction in shifting cultivation, eradication of opium

cultivation, provision of social service and enhanced cultural integration and nation-building.

The government has concentrated on the development of agricultural production, to reorient the agricultural sectors from semi-subsistence and subsistence to commercial production to ensure the enhanced supply of raw materials to the processing industries, meeting the growing domestic requirements for agricultural products, and rapidly expanding agricultural exports. Consequently the value of production in the agriculture sector has increased on average by 3,4 percent per year. Industrial production has grown at a steady and rapid pace, with the sector-wide average growth reaching 11,3 percent per year.

In the industrial sector, several significant activities have been implemented during the five-year period, a number of industrial zones were established and there has been a general increase in the number of new factories and companies created.

The various indicators have all shown commendable results on poverty reduction since 1990. The impressive declining trend in poverty incidence, if continued, would enable the country to achieve the MDG target of reducing the proportion of people below the poverty line by half by 2015. The Government is committed to poverty eradication and the promotion of equity among different groups of the Lao multi-ethnic population. The overall strategy is to assist the poor to help themselves to fully utilise their labour and other modest resources, improve their situation and exit poverty. The Government will help enlarge the economic opportunities, enable the provision of basic social and essential economic services, ensure security and facilitate the participation and empowerment of the poor in economic, social, political and other arenas to reduce poverty on a sustainable basis. Proposed initiatives within the Plan include the rehabilitation and construction of infrastructure, the development of agricultural production and SMEs, the extension of credit to the poor, and the provision and effective use of basic social services. Additionally, it is important to provide a secure environment by ensuring the security of people and property against violence, destruction, theft and unexploded ordnance (UXO), food insecurity and protection against unforeseen calamities such as natural disasters. Also, targeted interventions are to be implemented in the 47 poorest and 25 poor districts to achieve more rapid reduction in poverty. Decentralisation and the two-way flow of information will be enhanced, to enable the poor to actively participate.

As a result, with strong commitment by the government and international donors a remarkable record of poverty reduction has been achieved over the last fifteen years. Poverty in Lao PDR declined steadily from 46% to 33% during the past decade and reached 28,7% by 2006. With such pace of progress, the country is on course to attain the MDG target of halving poverty by 2015. Food poverty declined faster than overall poverty and the average number of months without sufficient rice in villages dropped.

### **Vulnerable Groups in Lao PDR**

Three groups can be identified as being in the high risk of poverty incidence category: ethnic minorities, low-income groups affected by the land distribution, and households with opium addicts.

#### **Ethnic Minorities:**

The ethnic minorities such as Tibeto-Burmese, Mon-Khmer and Hmong-Mien are vulnerable groups with higher poverty incidences. The population in the country can be classified into four ethnic and language groups: Tai-Kadai (67%), Mon-Khmer (24%), Hmong-Mien (8%) and Tibeto-Burmese (3%). The incidence of poverty among the ethnic minorities is considerably higher than among the majority ethnic group of Tai-Kadai.

While the literacy rate of Tai-Kadai was 72.8%, the ethnic minorities had low literacy rates: 0.7% for Tibeto-Burmese, 26.5% for Hmong-Mien and 36.9% for Mon-Khmer. Since literacy is one of the key determinants of people's well-being, ethnic minorities with low educational attainment are deemed to be in the high risk of poverty category.

**Low-Income Groups Affected by Land Distribution:** Since 1989, farmers have been entitled with the private land property. The inefficient and unequal land distribution of the land reform had worsened rural poverty. The main objective of the land reform slightly changed from controlling the illegal cultivation in forests to stabilizing the shifting cultivation. Since there is no guideline to implement the program, land distribution is largely at the administrative officers' discretion. The arbitrary land distribution resulted in differences in land size, land productivity and access to water. In order to avoid unequal and unfavorable land distribution, some

people migrated to other places where they resume the shifting cultivation. In addition, the shorter off-cultivation period caused soil impoverishment and erosion. The land degradation brought about a vicious circle of poverty as lower yields proved insufficient for subsistence.

**Households with opium addicts:** Lao PDR is one of the main opium producing countries. Although GOL prohibited opium production in 1998, the estimated opium production area in 2000/01 was 17,255 ha. Opium production and addicts concentrate mainly in the Northern region (15,086 ha) and the Central region (2,169 ha). While opium is an important income source for the poor, it would be a cause of poverty for households as they lose the labor and increase expenditures to care for addicts in the family.

### **The Impacts of policies**

The impacts as a result of eight-years(2003-2011) poverty reduction fund intervention in rural community development are shown in the following progressive indicators:

- About 900,000 villagers are gaining the benefits the rural intervention of poverty reduction fund.
- 2,885 sub-projects of social basic needs are delivered to 2,185 villages, 309 Khumban(cluster villages), 21 districts of 7 provinces.
- 531 primary and secondary schools were built.
- 3000 kilometers long of roads were constructed and reached to 1,360 villages
- 54 dispensary houses, 550 gravity warty system, and 155 irrigation system were built.
- 296 forestry protected areas were established.

### **The challenges**

The Lao PDR has faced difficulties , such as limited human and financial resources, especially the service of experts, and delays in the implementation of some crucial work. Limited road access in some districts means that companies hired to carry out various projects were reluctant to continue their work. The fund also lacks staff qualified in social work and community development work that makes it difficult to campaign and mobilize people to participate in projects.

The concept of PR is presently only focus on the financial support from the World Bank(low-cost-loan). Thus, this fund may be good in present but it will not be suitable practice in Lao context through future generation. Because this fund is lent loan and we have to give back interest to the WB. As considered by author, the concept of village development fund, which is now implementing by Lao woman, will be suitable and very helpful for poverty reduction of the country.

Because village development fund comes from villagers themselves and they will give more value, and also share interest to each member through sustainable development. This fund should be promoted by government, policy makers, implementers and villagers to spread out through many villages and communities.

## **V. Policy strategies and suggestions (Policy mix)**

The overall strategy is to assist the poor to help themselves to fully utilise their labour and other modest resources, improve their situation and exit poverty. The Government will help enlarge the economic opportunities, enable the provision of basic social and essential economic services, ensure security and facilitate the participation and empowerment of the poor in economic, social, political and other arenas. Only a small fraction of the poor that cannot take advantage of the opportunities to help themselves due to age and other factors would require direct financial support. The Government has to continue to provide pensions to people with disabilities and those elderly individuals who did good deeds for the nation. The NGPES presented the strategic medium term framework for fighting poverty with the participation of the people through human resource development and rural development.

The different components of the poverty eradication strategy are presented briefly in the following:

### **a) Expansion of Economic Opportunities**

Based on the experiences of many developing countries including those of the Lao PDR and its neighbours, it is recognized that rapid economic growth is necessary to reduce poverty on a sustainable basis. The people including farmers, workers, traders, and micro, small, medium and large entrepreneurs are the main agents that generate economic growth through their efforts and innovations. The Government is primarily a facilitator in this process. The assets and efforts of all the people

including the poor are necessary for the country to maintain rapid economic growth, reduce poverty and sustain development. This is all the more significant, since the poor constitute about a third of the population of the Lao PDR. The successful countries in East and Southeast Asia mobilised the efforts of all their peoples rich and poor, men and women, skilled and unskilled in order to generate and sustain rapid economic growth, reduce poverty and achieve the status of newly industrialized countries (NICs). They treated their people as their most valuable resource.

More than three-quarters of the population of the Lao PDR live in rural areas and a large majority of these depend on agriculture for their main means of livelihood. As in many other countries, poverty in the Lao PDR is predominantly rural and is more severe in the remote highlands. Experience during the past fifteen years has shown that increasing agricultural productivity and improving market access through road infrastructure have been instrumental in reducing poverty in the lowlands. Thus, the incidence of poverty in the accessible rural lowlands is significantly lower than that in other rural areas. The lesson is that increasing the productivity in agriculture and auxiliary occupations in the rural areas and improving the access to markets are critical for achieving further significant reductions in poverty over the medium term. The Government recognizes this to be a high priority. Proposed initiatives within the Plan include the rehabilitation and construction of irrigation systems and their improved operation; introduction and wider distribution of improved seeds of crops, fruits and vegetables; protection of livestock; and sustainable management of forests and other natural resources, through community participation. Improvements in marketing and infrastructure are also planned. Provision of support services including agricultural and livestock extension and the supply of production and investment credit are planned by the Government. At the same time, private initiatives including those by foreign investors and traders from neighbouring countries to promote contract farming, especially in horticulture and tree crops are being encouraged.

The informal sector comprising mostly micro and small enterprises has been an important contributor to growth in the Asian NICs, especially during the early stages. Apart from agriculture, a large proportion of the full and part-time employed in the Lao PDR are dependent on the informal sector (in mainly trade and services) in both the urban centres and the rural areas. It is quite likely that a significant

proportion of these are poor. Consequently, increasing opportunities and improving the productivity in this sector are crucial for enhancing the country's economic performance and reducing poverty. Initiatives proposed in the Plan include the promotion of micro, small and medium enterprises, enlarging access to appropriate technologies, and provision of other support services including the supply of credit (both through formal institutions and informal ones including user groups) and training.

A third important area is the formal private sector including agro processing/manufacturing, mining, construction, tourism, wholesale and retail trade, transport, and other services.

Legislation and regulations have been put in place to improve the enabling environment, and

to encourage both domestic and foreign private investments in the country. Private investments are vital catalysts for technological advances. They are also the engines of growth of higher productivity (remunerative) jobs, which are important vehicles for poverty reduction.

A fourth area is the provision of infrastructure including roads and bridges, river landings/jetties, electricity, telecommunications and postal services. These are critical for the movement of people and goods, flow of essential information in a timely manner, and orderly and efficient functioning of markets including labour markets.

A fifth area relates to macroeconomic policies and the management of public finances, including public expenditure allocation. The Government has begun to pay increased attention to pro-poor macroeconomic and public expenditure policies and these will be implemented with increased vigour during 2006-2010.

Funds will be increased for poverty reduction to support the extension of credit to the poor to support the development of their production and business operations. Efforts will be focused on increasing the incomes of the poor and reducing the gap between the rich and the poor to create a social balance. The Government will support the opening up of development and training opportunities for the poor to increase their skills and abilities for production and business including marketing; reduce the risks for poor households from accession to the AFTA and WTO; revise and supplement the policies to be completed; and step-up and implement the policies to support the poor.

## **b) Social Services**

The provision and effective use of basic social services (e.g. primary, lower secondary and adult education, basic healthcare, safe water and sanitation) is an important means to break the poverty cycle. Enhanced access to and use of basic social services is an urgent need especially in the remote highlands. The Government faces the dilemma of how to fund the high cost of providing basic social services to a small and widely scattered population that is difficult to reach. While bringing services to the people is the preferred option, bringing the people to accessible service centres and providing the services may be more practical and affordable at the present stage of development of the country. The Government has been testing this approach in selected difficult to reach areas. The challenges faced and the lessons learned will guide the further development of these areas. Education and literacy are prerequisites for the introduction and adoption of modern productivity enhancing technologies and for competing in both domestic and world markets. Implementation of the Education for All Programme is the key plank within the Government's Education Sector Strategy and the main means for promoting primary and lower secondary education, and adult and non-formal education. More primary, secondary and pre-schools will be built and supplied with qualified teachers and the necessary equipment, to improve the population's access to education, particularly those in remote areas. The Plan also incorporates programmes to improve school participation and completion rates, and the quality of teaching and learning. Evidence from various countries in the region including the Lao PDR, shows that the education of girls and women has multiple benefits, affecting their welfare, and that of their children (the future generation) and families. The access of the poor to basic health care is constrained by not only the availability of the services but also the ability of the poor to pay the service fees and purchase the recommended medicines. While the present system does provide for exemption of payment of the service fees by the poor, its application in practice has proven quite difficult. Also, most of the health facilities depend on service fees to cover their operating costs. The Government is exploring various options to improve the access of the poor to public health services at affordable terms. The immediate priorities in the health sector are to (i) increase people's access to quality health care services, (ii) stop the spread of communicable diseases, and (iii)

decrease maternal and child mortality rates. To do this, the Government is building and upgrading health centres and hospitals, and raising the capacity of health care professionals. Attention is to be given to the preparation and use of the policy on health monitoring and treatment for the poor.

The access to safe water and sanitation is relatively low as compared to the regional averages. The costs of the water supply schemes are quite high due to the high standards stipulated. It is necessary to explore less costly and more appropriate technologies and adopt them to the Lao situation to expand coverage of safe water more rapidly. The Government's approach has been to address the provision of the water supply services on a cost recovery basis. In the rural areas, community ownership and operation are being tried on a pilot scale under various projects.

### **c) Security**

The third component is security including ensuring the security of people and property against violence, destruction, theft and unexploded ordnance (UXO), food insecurity, and protection against unforeseen calamities such as natural disasters. The security situation has improved consistently over the past decade, thanks to the efforts of the communities with assistance from both the local and central governments.

Unexploded ordnance or UXO is one of the major security challenges facing the poor communities in terms of access to land and markets. It is also a major risk, especially for children. There appears to be a significant correlation between the presence of UXO and the prevalence of poverty. The Government with support from a number of development partners is addressing the clearance of UXO and the rehabilitation of the cleared areas.

The UXO/Mine Risk Education (MRE) teams will visit and deliver MRE training to all communities in the country. All agricultural areas considered to be "high priority" will be cleared, as well as a sizeable portion of other areas identified as "medium priority." A national database on Mine/UXO accidents will be developed and updated regularly, to feed into the prioritisation of UXO clearance and MRE tasks. The elimination of opium cultivation and use has been another major security challenge. The country has been successful in eliminating the cultivation of the crop. However, it has been more difficult to find alternative crops or other livelihood activities that generate adequate incomes to improve the economic status of the

former poppy growers and lift them out of poverty in a sustained way. This is a festering problem that would need continued attention in the various development programmes including the targeted interventions.

Food (rice) security is a pressing concern for the population in general, and for the poor in particular. Geographic and seasonal pockets of rice scarcity persist, and many communities still lack adequate coping mechanisms. Availability of adequate quantities of rice throughout the year is the key component of food security. There have been considerable improvements in national food security in recent years resulting from substantial increases in rice production. However, food security may be still a significant concern for the poorest households. The constraints include limited distribution capacity, increasing population pressure on available lands and the prevalence of natural disasters.

Security from natural disasters such as floods and droughts is a further dimension that needs to be addressed. The stress is on the importance of community involvement and the strengthening of community resilience, in addition to material help from the Government and the partners in development including NGOs. The Government will develop and implement the programmes for the prevention of and protection from natural disasters; regularly monitor the situation including seasonal rice scarcity and weather changes; and find methods to solve the damage and provide timely support to the victims.

#### **d) Participation and Empowerment**

The fourth category encompasses the participation of the poor in making decisions about their future and the future of their communities, on economic, social, cultural and political issues. It includes the availability of avenues for the poor to “voice” their concerns and be heard on the key issues affecting them. These are essential for their empowerment. People’s participation has been one of the important pillars in nation building over the past three decades. The Prime Minister’s Decree (no. 001) stipulates the provinces as the strategic units, the districts as the planning and fiscal units, with the villages (communities) as the implementing units. Both the public administration and the Party machinery encourage the active participation of the people in local decision-making. Measures to strengthen the capacities of the communities including the poor in articulating their priorities, implementing the programmes and monitoring the progress are included in the Plan.

Decentralisation is an important means to ensure the sustained participation of the people, including the poor and women, in local affairs. The Lao PDR has been fortunate in this regard, as the State Administration has been built on a decentralized system, with numerous authorities and responsibilities shared between the Centre and the Provinces. While the system has worked reasonably well in the last quarter of the 20th Century, it has become increasingly apparent that a comprehensive review of the existing distribution of the authorities and responsibilities between the Centre and Provinces is necessary to make the public administration respond better to the emerging opportunities and challenges in the first quarter of the 21st Century. The Government has already initiated steps to review the arrangements and the process of adjustment will continue during the Plan period.

Informed participation of the people including the poor requires improvements in the two way (top-down and bottom-up) flow of information and communication and education. The mass media including newspapers, radio and televisions as well as telephones (landlines and mobile) are important means. The people will be provided with more information through the media and other channels to increase their ability to participate in the socio-economic development of the country. The people's knowledge about their rights and obligations will be improved.

#### **e) Development of the Poorest Areas**

The NGPES has identified 47 poorest and 25 poor districts. The Committee for Planning and Investment (CPI) together with the Ministries of Agriculture and Forestry, Education, Health and Communication, Transport, Post and Construction and jointly with the local communities and authorities has facilitated the preparation of focal area development plans for some 33 kumbans (groups of villages) in pilot districts among the 47 poorest districts identified in the NGPES. Most of the programmes are in the areas of agriculture and rural development (sustainable livelihoods), education, health and transport/infrastructure.

The targeted interventions include such activities as focal areas development, Village Development Funds and the Poverty Reduction Fund (PRF). The Government plans to (i) diversify funds for resettlement, stop forest destruction, and eliminate opium growing areas; (ii) increase the incomes of the people in the rural and remote areas and minority ethnic people; (iii) encourage people to escape from

poverty and become rich to help others who are still poor and abolish hunger (rice scarcity) and poverty; (iv) integrate the poverty reduction action plan into regional socio-economic development; (v) prepare priority projects in particular areas such as support for land zoning conditions for production and housing; (vi) support the campaign and upgrade the knowledge and responsibilities of people involved in poverty reduction at different levels in line agencies and the poor people; (vii) evaluate and publicize the types, models and effective methods which are suitable to each part and locality; (viii) develop and increase staffing; and (ix) promote agriculture, forestry and fisheries as the ways to reduce poverty. It will organize the pilot project to dispatch youth to work in the poor districts and villages, and prepare suitable policies for the youth to build confidence and volunteer for long term work in difficult areas. Boarding schools have been developed to provide opportunities for schooling for ethnic minorities in remote villages. The Government will facilitate the migration of people from remote areas to help find wage employment and better access to services.

The emphasis is on increasing investment and implementing transparent policies for poverty reduction. The priority projects in the PIP put forward development of the difficult areas, especially in the 47 poorest districts to get out of the poor status as planned. At the same time, grant aid needs to be attracted for infrastructure development in these areas.

Attention would be paid to economic development of the border economy, focusing on development of border checkpoints, along roads especially the important ones and economic corridors. Special attention would be directed to animal rearing, planting industrial trees and forestry for raw materials in the mountainous and flat terrains. Poverty reduction projects will be implemented in association with the projects for reducing slash and burn practices and turning to permanent paddy cultivation, and healthcare projects. Priority is to be given to the development of the skills of local labour. Significant investment in upgrading and improving education and healthcare development will be considered in the first instance.

### **Gender Equality:**

The Government is taking concrete steps to achieve gender equality in all spheres by: supporting poor women's economic activities; improving their access to basic services such as education and health, and productive resources, such as extension

services; involving them in local decision-making; and generally increasing their involvement and taking their needs into account in developing policies and plans. It is planned that all ministries will develop strategies and action plans to promote gender equality at national, provincial, district and village levels. More training will be provided to promote the role of women in the agricultural and business sectors and their access to credit will be improved. Women's legal awareness and access to justice will be improved and the number of women in leadership positions is being increased.

**Governance:**

The Government intends to build an effective and ethical public service, to ensure that all Lao people can fully enjoy their constitutional rights by being educated and well informed, to establish a credible legal framework and to have accountable and transparent financial management practices. The governance programme aims to improve four main areas: public service improvement, people's participation, rule of law and sound financial management. The capacities and ethics of civil servants will be further upgraded, along with systems such as the intranet, and working conditions. It is important that the public's confidence in and knowledge of the legal system and access to it is increased. Additionally, accountable and transparent financial management practices are necessary to achieve macro-economic stability. The Government plans to make the budgetary framework more supportive of private sector growth and investment.

**Natural Resources and the Environment:**

The rich natural resources of the Lao PDR play a vital role in the country's socio-economic development. It is therefore important that they are protected and exploited in a sustainable manner. The Government plans to prepare and implement the national strategic plan on the environment. This entails improving environmental management, plans, policies and laws; increasing environmental education and awareness; establishing mechanisms and promoting investment; and improving international coordination and cooperation. More surveys and information need to be collected to further assess the situation and to develop relevant plans and policies. Industries will have to reduce and minimize pollution.

**Private Sector Development:**

A more favourable environment for the promotion of the private sector and the attraction of FDI will be created by primarily improving the legal system and maintaining socio-economic stability. Additionally, existing regulations, laws and procedures will be modified and the administrative application system for business activities of enterprises will be reformed to accelerate the process of setting up a business. A favourable environment will be created to attract FDI by accelerating investment procedures and developing a technically educated workforce. The policies on investment priorities will be reviewed including the regulations on granting investment permits especially land acquisition fees, transport and telecommunications service charges.

**Science and Technology:**

The Government aims to create a technologically advanced nation with a highly skilled workforce. Upgrading the science and technology sector will reduce disparities between the Lao PDR and other countries in the region and facilitate economic integration. Importance is to be given to research in basic sciences for technological development, the exploitation of natural resources and the protection of the environment. Scientific and technological research and teaching will be upgraded along with the facilities, laboratories and equipment. There will be dissemination of basic information about intellectual property rights and copyright registration for people and organisations to register their science-technology products for industrial (patent) rights.

**Sectoral and Regional Development**

The sector-specific development guidelines for the five-year period 2006-2010 will be to develop sectors and regions aiming to strengthen the nation's advantages and ability to compete in the international arena, by developing and utilising the country's natural and human resources.

**Agriculture, Forestry and Fisheries:**

The vision is to transform the agriculture sector into a thriving sector based on innovative technologies and practices in high value-added production and processing, catering to domestic and world markets. The rural economies will be

diversified and farming methods and infrastructure upgraded. A detailed development structure will be established for prioritised plants and domestic animals in the direction of large-scale production. The Ministry of Agriculture and Forestry (MAF) will implement four strategic programmes on the sustainable use of natural resources, land allocation, food security, support services and others. The Government will actively seek and promote markets in order to improve the sale conditions for farm products. Significant changes will be made in the management and exploitation of forestry products through limiting logging and planting forests for economic and protection purposes. The Government will continue to invest in the introduction and breeding of high value aquatic products.

### **Rural Development:**

The vision is to reduce the disparities between rural areas and urban centres by enhancing the transport and communications networks and improving the living conditions of the rural people, especially those in remote areas. The overall strategy is to create employment, increase incomes and restructure the rural economies. The Government will support the development of small-scale industries. Industrial centres in the three regions will be developed. Investments will be made in the development of the border economic zones to provide services for import-export, tourism and border transport. The largest health programme in the next five years is the expansion of the rural health service network. Additionally, the education of the rural population will be improved by increasing access to quality education.

### **Education:**

The education system will be strengthened as the cornerstone of a human resources development strategy focussed increasing labour productivity. In order to improve the education of the whole population, it is necessary to concentrate on equitable access, quality, relevance and management of the education system. It will implement the principle of compulsory primary education and the development of education at all levels, paying particular attention to the ethnic areas and the disadvantaged groups. The Education for All programme will be the main vehicle for increasing primary and lower secondary school participation and completion and reducing adult illiteracy. In the five-year period 2006-2010, it is hoped that illiteracy will be completely abolished and that peoples' access to and attendance at

quality primary, secondary, vocational and tertiary schools and universities will increase. More schools will be upgraded, constructed, and supplied with appropriate equipment and qualified teachers.

**Health:**

The main objectives in improving the health status of the population of the Lao PDR are to reduce urban-rural health differentials, lower mother and child mortality rates, raise life expectancy and reduce the spread of communicable diseases. Prevention and increased treatment are the key methods in the health sector to achieve these objectives. Most of the priority programmes in the health sector are focussed on primary health care covering both preventive and curative aspects. People will be taught how to lead more hygienic lifestyles and encouraged to get vaccinated and seek hospital/clinic treatment when sick. The number of health centres and properly qualified medical staff will be increased as well as the quantity and quality of equipment and medicines. Access to the health service that is fair and equal will be increased.

**Industry and Minerals:**

The orientation of industrial development in the five-year period 2006-2010 is to give priority to developing the electricity and processing industries catering to domestic consumption and exports; while continuing to promote mining, and developing selectively some industries serving agricultural and rural economic development. Attempts will be made to bring new power stations into operation to boost the electricity exports and to meet the needs of domestic production and consumption. Investment in mining and regional industries will be encouraged. The idea is to concentrate investment in innovative technologies, modernising the manufacturing foundations, reducing imports, and gradually increasing exports. The distribution modes of some products will be improved to increase the transaction ability and commodity circulation.

**Infrastructure:**

The objective for infrastructure is to continue to maintain, improve and develop the socio-economic infrastructure with focus on such areas as inland, international, river and air transport; telecommunications; schools; and health centres to create

favourable conditions for development. The necessary infrastructure will be provided to allow people in all parts of the country to easily participate in development activities and interact with businesses and markets outside the country. Integrated inland infrastructure will be further developed, with particular emphasis on major roads. New airports will be built and the current ones upgraded. A number of river routes and main river port systems will be improved and constructed. The construction of a railway system will commence. The distribution of sanitised water to the population and irrigation systems will be increased.

**Services including Tourism:**

In the five-year period 2006-2010, the quality of service activities will be upgraded to meet the demands of production, consumption and exports, contributing to economic growth, the expansion of employment and the improvement of the people's welfare. The Government will concentrate on developing services with a quick turnover of capital and those that generate sufficient revenues to the state budget. It will promote the effective and convenient exchange and flow of commodities in and outside the country. The human capacities and infrastructure of basic necessary services such as information and telecommunication systems, transport, trade, and banking will be upgraded. More sports facilities will be made available to athletes, which coincide with the preparations for the 25th SEA Games.

**Regional Development:**

The long-term vision is to achieve balance between the three regions and among provinces within the regions, building upon the natural and human resources in each area. The Government aims to address the disparities among and within regions through mobilising funds from all economic sectors and directing the funds for each region and the local authorities to follow-up on these. The potentials of each region in areas such as agriculture, forestry, hydropower, mining and tourism will be utilised in developing the regions equitably and boosting economic growth. The Government will continue investing in socio-economic infrastructure, expanding the production of goods, providing health and education facilities for the people and reducing poverty.

## **Conclusion**

The future of Lao people is jeopardized by still high level of poverty that affects especially the livelihood of rural families. To improve their standard of living, the Government of Lao PDR commits itself in a voluntary policy aiming to eradicate mass poverty by 2010 and freeing the country from the status of least-developed country by 2020. Although some progress is noteworthy, a continuous and intensive effort must endure to achieve the objectives. The Poverty Reduction Fund is one of the most efficient governmental tools to implement the NGPES at the village level. It is the government of Lao PDR model for community driven development. An extension over of the PRF over the country is required to contribute to the aimed large-scale poverty alleviation.

ANNEX TABLE

This table shows the Government's Projects and budget in 10 focus areas by 2011-2015

Unit : million kip

No		No of programmms	Total Amount	Budget resources	
				Internal budget	Ext_budget
1	2		3=4+5	4	5
	<b>Total investment budget</b>	<b>228</b>	<b>591,318</b>	<b>444,263</b>	<b>147,055</b>
<b>1</b>	<b>Phongsaly province</b>	<b>47</b>	<b>129,706</b>	<b>77,823</b>	<b>51,882</b>
	Mai District	47	129,706	77,823	51,882
a	Palai villages	47	129,706	77,823	51,882
<b>2</b>	<b>Oudomsay</b>	<b>2</b>	<b>13,548</b>	<b>13,548</b>	<b>-</b>
	Namor District	2	13,548	13,548	-
a	Khuang villages	2	13,548	13,548	-
<b>3</b>	<b>Luangprabang</b>	<b>25</b>	<b>48,371</b>	<b>29,023</b>	<b>19,349</b>
	Phonthong district	25	48,371	29,023	19,349
a	Naluang village	25	48,371	29,023	19,349
<b>4</b>	<b>Huaphan</b>	<b>14</b>	<b>25,086</b>	<b>25,086</b>	<b>-</b>
	Viengthong district	2	2,086	2,086	-
A	Meung Peu village	2	2,086	2,086	-
	Add district	1	1,500	1,500	-
a	Cheafai village	1	1,500	1,500	-
	Xamneua district	1	1,500	1,500	-
a	Phathy village	1	1,500	1,500	-
	Xiengkong district	10	20,000	20,000	-
a	Laohoung-Phiengsa village	10	20,000	20,000	-
<b>5</b>	<b>Xiengkhuang</b>	<b>34</b>	<b>94,457</b>	<b>65,124</b>	<b>29,333</b>
	Mork district	3	21,124	21,124	-
a	Meuangmork village	1	16,370	16,370	-
b	Khangvieng village	2	4,754	4,754	-

	Khoun district	8	7,755	4,653	3,102
a	Sangluang village	8	7,755	4,653	3,102
	Phasay district	23	65,577	39,346	26,231
a	Namsiem village	23	65,577	39,346	26,231
<b>6</b>	<b>Vientiane province</b>	<b>76</b>	<b>238,786</b>	<b>206,383</b>	<b>32,403</b>
	Saysomboun district	64	158,079	125,676	32,403
a	Ao village	7	28,771	28,771	-
b	Longcheang village	32	81,364	68,138	13,225
c	Meuang om village	25	47,944	28,766	19,178
	Hom district	12	80,707	80,707	-
a	Phalavek village	12	80,707	80,707	-
<b>7</b>	<b>Bolikhamsay province</b>	<b>1</b>	<b>4,143</b>	<b>4,143</b>	<b>-</b>
	Viengthong district	1	4,143	4,143	-
a	Thongmisay village	1	4,143	4,143	-
<b>8</b>	<b>Attapeu province</b>	<b>1</b>	<b>5,232</b>	<b>3,139</b>	<b>2,093</b>
	Sansay district	1	5,232	3,139	2,093
A	Vangtad village	1	5,232	3,139	2,093
<b>9</b>	<b>Champasak province</b>	<b>27</b>	<b>29,989</b>	<b>17,994</b>	<b>11,996</b>
	Mounlapamoke district	27	29,989	17,994	11,996
a	Nongnga village	27	29,989	17,994	11,996
<b>10</b>	<b>Technical project</b>	<b>1</b>	<b>2,000</b>	<b>2,000</b>	<b>=</b>

**KIHASA International Workshop 2012**

**Poverty Reduction Policies in Selected Asian Countries: Trends, Strategies and Challenges**

## **Thailand**

***By.* Somchal JITSUCHON**



## Poverty and Inequality Reduction Policies in Thailand

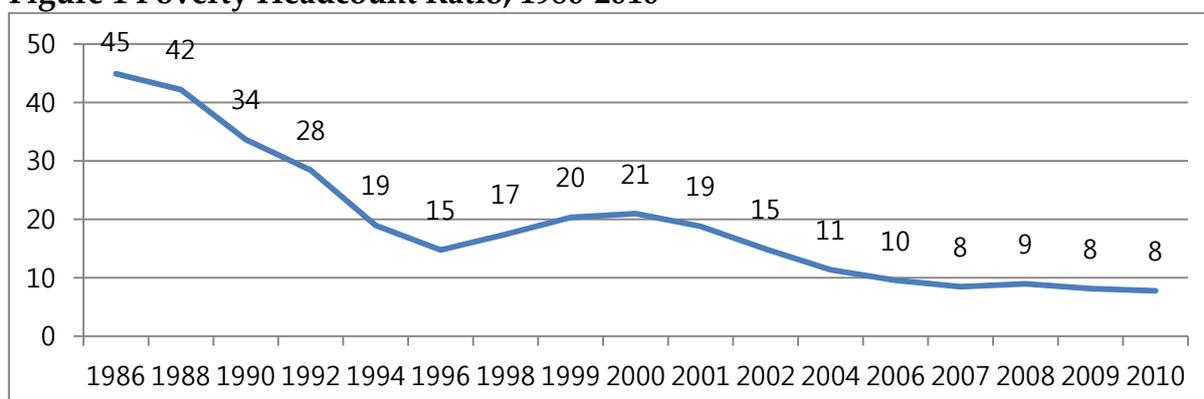
This paper gives a short account of poverty situation in Thailand and how the problems were tackled in the past as well as in the present time. The paper consists of 5 sections. Section 1 describes the relation between economic growth and poverty in Thailand over the past half century. Section 2 discusses briefly the nature of poverty problem, and followed by Section 3 which focuses more on inequality issues. The last two sections discuss policy framework and some more details on policy measures.

### 1. The Economy and Poverty

Thailand has enjoyed a remarkable economic growth over the past 60 years; the average annual growth rate over the period 1952-2011 is about 6.2 percent. The World Bank announced last year that it had upgrade Thailand to be an upper middle income country. The high economic growth has been a result of massive structural adjustments. The production structure transformed from an agricultural economy into an industrialized one, with manufacturing exports playing a major role as primary grown engine. The market mechanism, active private sector and macroeconomic policy focusing on stability have been pointed out as key factors driving growth.

The result of the high average economic growth is the upgrading of well-being of Thai people in general. Large number of people was lifted out of poverty. As figure 1 shows, almost 40% of population escaped poverty in only about one general (25 years), from 1986 to 2010.

**Figure 1 Poverty Headcount Ratio, 1986-2010**



Note: A household is defined as poor if monthly consumption falls below the household-specific poverty line.

*Source:* Author's calculation using Socio-Economic Household Surveys (various years) from the National Statistical Office, Thailand.

## **2. Understanding Poverty in Thailand**

The poverty rates shown in figure 1 above is sometimes called 'absolute poverty' rates. Absolute poverty is derived from the concept of basic minimum needs, usually comprise of basic needs in food and basic needs non-food. The two basic needs are summed up to 'poverty line(s)', and a household is deemed absolutely poor if their consumption (or income) falls below the poverty line. When basic needs are defined to be at very low level, the absolute poverty becomes destitute poverty. The current absolute poverty in Thailand is not destitute poverty, as the poverty lines are allowed to consist of numerous consumption items beyond those very basic needs ones (such as foods, clothing, medicine, shelters), and the levels were set to relative high compared to international standards among developing countries.

The key nature of the absolute and the destitute poverty is that they respond quite well to general economic growth, provided that the income distribution is not made much worse during the economic growth. That is the key reason of the rapid reduction of absolute poverty in Thailand.

There is another possibility of poverty measurement, one that is sometimes called relative poverty, or subjective poverty. It is subjective because it relates to how people feel whether they are poor or not, and it is relative because the way people feel is often influenced by their relative economic status compared to the well-being of the average population or the rich in the society. Since it is relative concept, this poverty measurement is closely related to income distribution. When income inequality is high and persistent, the relative poverty will also be usually persistent as well. Surveys often find that people declared themselves as being poor or even poorer than in the past despite the fact that their income and consumption were higher and increasing.

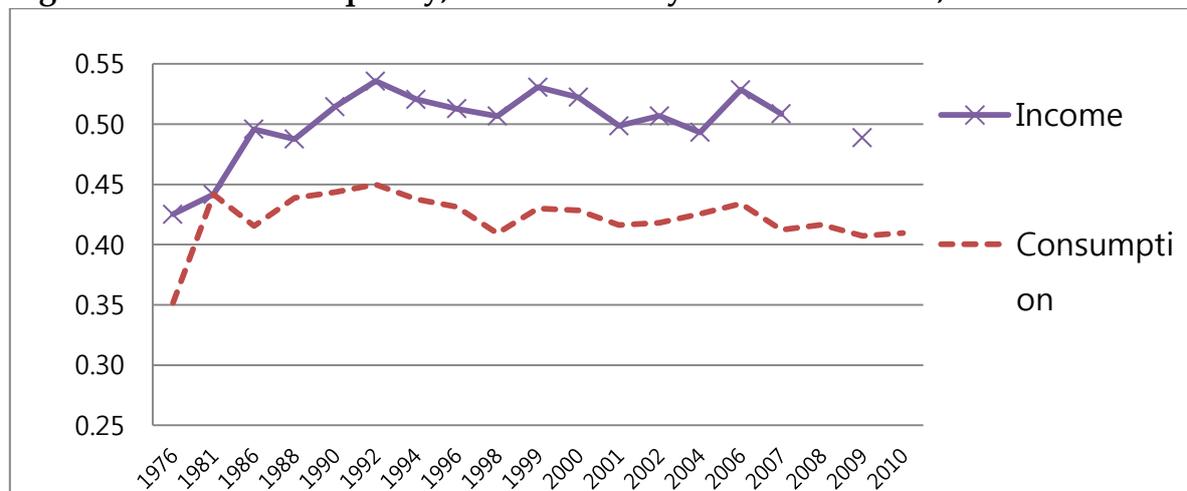
There are key differences between the absolute and relative poverty other than the way they are measured. For example, the relative poor are often more mobile, more political active and thus are more recognized in the society. The better recognition also makes the relative poor to have higher 'social capital' compared to the absolute poor, as they can invest their time building up network with others. The causes of the two type of poverty are also different, although some of them can overlap. Unlike the absolute poor, the relative poor do not lack basic needs but rather have problem accessing to economic and social opportunities that would allow them to rise up the economic ladder to join those in the middle income or rich classes. For example, the relative poor might have education higher than primary ones, but is denied access to high quality secondary education, let alone access to

tertiary education. The social capital that they possess is often in the form of patronage system, where the relationship with other, richer, fraction of the society is based on unequal level.

### 3. Poverty and inequality

While figure 1 makes it clear that absolute poverty is not a serious concern in Thai society, we should now look at how serious the problem of relative poverty is. As mentioned earlier, the concept of relative poverty is closely linked to inequality. Figure 2 shows that Thai society indeed suffers from a high level of economic inequality. The Gini coefficient, a well-known indicator of inequality, is quite high by international standard. For example, Gini coefficient using household income has been consistently above 0.5 over the past 30 years. This puts the level of income inequality in Thailand among the top ten percentile of all countries in the world (Jitsuchon (2012)). Figure 3 reconfirms this fact with a comparison of Thailand's inequality with some other ASEAN countries. It shows that income share of the richest Thai was the highest among these selected ASEAN countries, and the incomes share of the poorest Thai the lowest.

**Figure 2 Economic Inequality, as measured by Gini coefficients, 1975-2010**

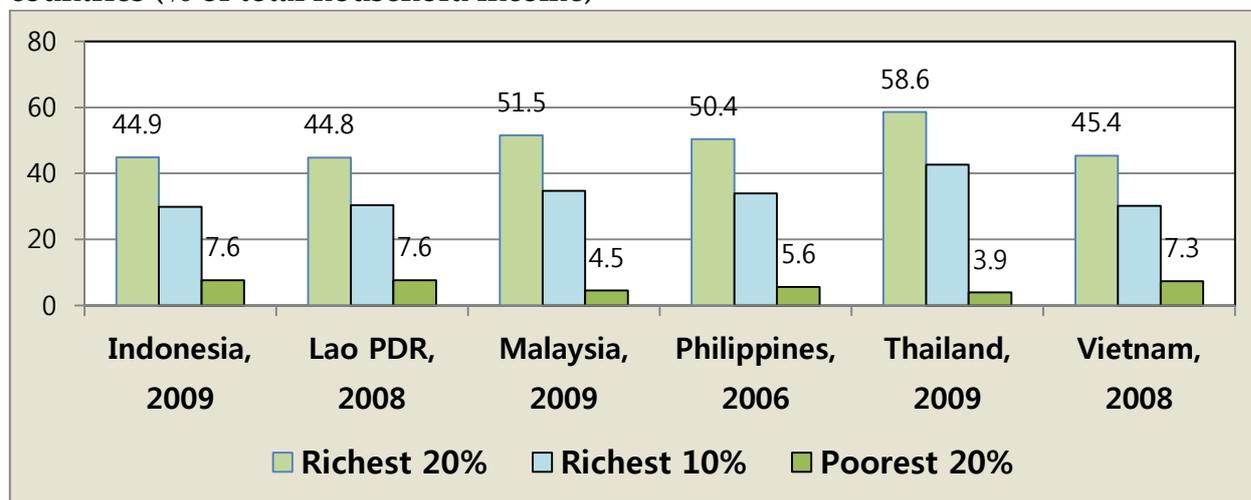


Source: Author's calculation using Socio-Economic Household Surveys (various years) from the National Statistical Office, Thailand.

The high level of economic inequality not only indicates the problem with relative poverty, it also signifies that the inequality in Thailand is rather unjust. That is to say some of the riches became rich through unjustifiable means (such as corruption, abuse of power, clientelism) while some of the poor remain poor not because they are lazy or simply unlucky but rather because they are denied equal opportunities. Government policies have much to do about this unjustifiably high level of

inequality as well. I will discuss about this in more details in the next section on policy.

**Figure 3 Income Shares of the Richest and Poorest among some selected ASEAN countries (% of total household income)**



Source: Compiled by the Author from World Development Indicators database 2012

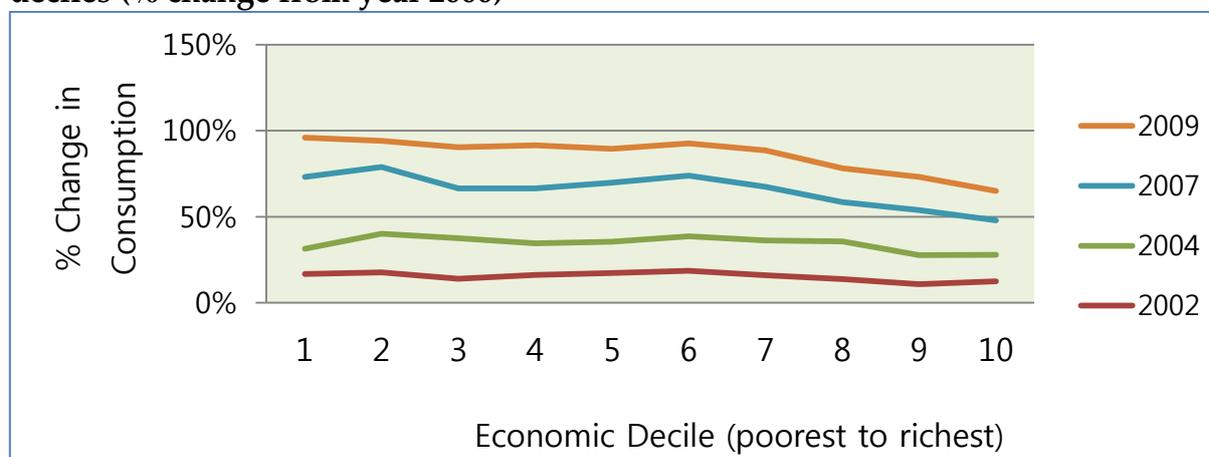
The problems of absolute poverty and relative poverty (or income inequality) can be related. For example, with high inequality the poor will not get full benefit of economic growth, making it more difficult to tacking the poverty problems. Also, an unequal society would normally look at poverty reduction based more on social assistance measures rather than trying to create equal opportunity for all.

There are many other problems arising from high inequality. The political conflicts in the past several years in Thailand become widespread into almost every corners of the society mainly because of the perception of high and unjustifiable level of inequality. At the same time, the recent overuse of populist policies is mainly because such policies are powerful political tool mainly in highly unequal societies. But perhaps most important is that the factors that underpin inequality are also preventing serious movements toward more comprehensive social protection and welfare system. Consequently, a large portion of underprivileged and poor people remain vulnerable to economic, social and natural risks.

One of few positive sign is a slow improvement in income distribution in Thailand. Figure 4 shows that over the past decade or so income gap between the rich and the poor has become slightly narrower. The consumption of the richest grew the slowest, while those in 'lower income class' (defined as those in decile 2-5) grew the fastest. The narrowing gap can be explained by many factors, but can also be summarized by the fact that the return to Thai capitalists has been growing slightly more slowly than the return to wage earners. Figure 5 indicates the steady increase

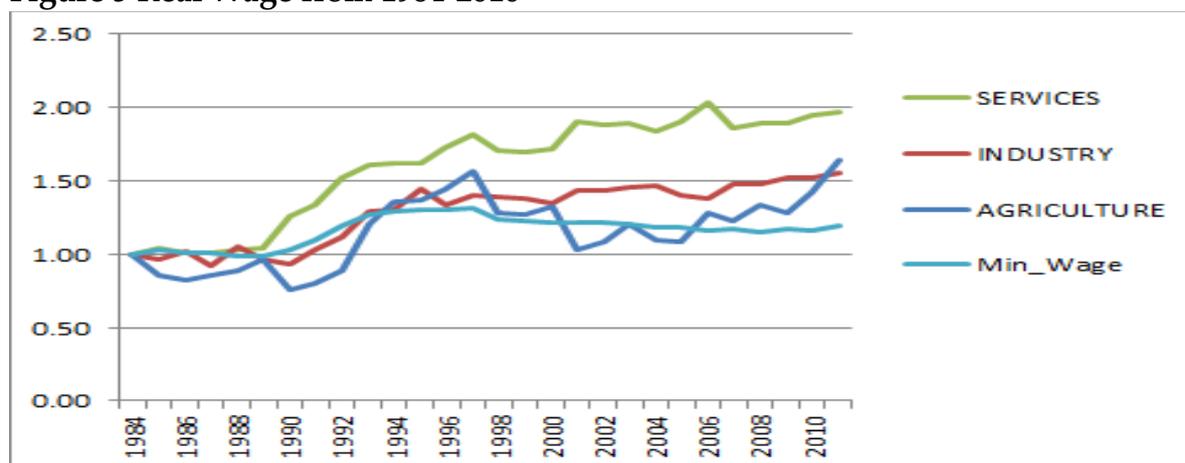
of real wage in all economic sectors during 1984-2010. Interestingly, it also shows that the real minimum wage has not increased over the same period. This possibly point to the widening gap among wage earners of different skill levels. Note, however, that this does not mean that Thailand can escape from the global phenomenon that capitalists and entrepreneurs have been getting bigger share of income distribution (due possibly to globalization can skill-based technology advancement). It is likely that 'foreign' capitalists/entrepreneurs (not Thai capitalist/entrepreneurs) are those who have gained most from whatever economic growth Thailand has had in the past 1-2 decades.

**Figure 4 Change of per capita consumption of Thai households of 10 economic deciles (% change from year 2000)**



Source: Author's calculation using Socio-Economic Household Surveys (various years) from the National Statistical Office, Thailand.

**Figure 5 Real Wage from 1984-2010**



Note: real wage indices are calculated with actual real wage in 1984 equal to one.

*Source:* Author's calculation using Labor Force Surveys (various years) from the National Statistical Office, Thailand.

#### **4. Povert and Inequality Reduction Policies: Conceptual Framework**

Appropriate policy design should be based on facts about poverty and inequality, both static and dynamic dimension. I summarize those facts as follows:

1. Absolute/destitute poverty in Thailand has been improving rapidly over time. There is now only very small portion of Thai population who are officially labels as poor. Moreover, the general living standard of these people is much better than those poor people in many other lower-developed countries.
2. There might remain a very small fraction of Thai population who are 'chronically poor', not benefit much from the general improvement of the Thai economy. These could be those living in the mountains or other very remote areas.
3. The inequality in Thailand is a serious concern, having been rising during the most part of the 'modern economic development' era of Thailand since early 1950s. And despite some slight improvement since around 2000, the level of inequality remains high by international standards.
4. The recent improvement in income distribution can be attributed to the narrowing gap between Thai capitalists/entrepreneurs and the wage earners. However, the inequality among the wage earners might be widening, as those who earn minimum wage losing out to those getting higher pay. This does not mean that the gap between the poor and the rest are widening though, as the poorest are usually not wage earners. In fact, Figure 4 suggests that the poorest (decile 1-2) are actually getting closer to the rest of the society.

The above summary of poverty and income distribution can lead to the following conceptualization of policies.

1. Poverty policy should aim more at solving relative poverty rather than absolute poverty.
2. Economic growth remains instrumental for poverty reduction.
3. On inequality, policies should have two objectives: one is to speed up the narrowing process of the gap between the poor and the rest, and the other is to prevent the reversal of narrowing process of the gap between the rich and the rest.

Policy packages that could attain the above two policy conceptualization are present in Table 1, with target groups clearly specified. The policy package aiming at the

richest 1% is primarily to reduce the ‘bad gap’ between the rich and the rest (meaning to reduce the chance of getting rich through unjustifiable means such as corruption), while those packages for other target groups are to reduce the ‘good gap’. For example, the promotion of innovation and entrepreneurship for the upper middle income groups is to make sure that they too can enjoy the benefit of globalization and technology advance, which has benefited the supper rich all over the world. As education always plays a major role in closing the gap and reducing poverty, it is put with highest priority for all other target groups. Emphasis is slightly different though. For the middle income group, the key issue is on education quality, not education access, as this group does not have access problem. The other two lowest target groups need, however, both the access and quality.

**Table 1 Inclusive Growth Policy Matrix of Poverty and Inequality Reduction**

Target Group	Approximated Population Share	Policy Packages
Richest	1%	reduce corruption, clientelism, renting seeking, tax reform
Rich, Upper Middle Income	24%	innovation, entrepreneurship, tax reform
Middle Income	35%	quality education, high-skill training, universal social protection/welfare
Lower Middle Income	35%	better access to high quality education, medium-skill training, more political right, universal social protection/welfare
Low Income/Poor	5%	better access to high quality education, poverty targeting, extra welfare

Social protection and welfare are important for the lower three groups, and I suggest a universal coverage for all basic social protection and welfare because they are most effective in reducing inequality and yet affordable for a country with development level as Thailand (see Jitsuchon et.al (2009)). I also suggest extra social protection and welfare for the poorest population (with full tax financing) to ensure that they are not left out. Skill training is critical to Thai workers, who are moving a mass into production process without learning much appropriate skills from schools. Political right and activism should be guaranteed for those who can afford the luxury of time and effort to participate in the political process and voice the concern of the underprivileged. These are normally not the poorest, but rather the lower middle income group. Lastly, reforming tax system is necessary not only as a

direct way to narrow the gap, but to also raise the money for establishing universal basic social protection and welfare.

Table 1 contains mostly economic measures. It is worth noting that solving a problem as complex as reducing inequality require much wider approach than just the economic one. For example, legal system should also be reformed to ensure that everyone get equal legal treatment regardless of their economic status. Various laws were designed to benefit the rich, and the law enforcements are sometimes biased against the poor. Natural resource management can also play a vital role in helping the poor (if managed properly) or hurting them (if managed improperly). On social measures, bridging and bonding social capital for the poor and the underprivileged will enhance their chance to get more equal economic and social opportunities.

I will discuss some of the proposed policy package in the subsequent sections.

## **5. Povert and Inequality Reduction Policies: Detailed Measures**

The policy conceptualization set forth in the previous section can be used to guide policy recommendation in more details. Here I focus only on four policy measures, or groups of measures. They are welfare and social protection, tax reform, human capital development, and inclusive macroeconomic policies.

### **5.1 Universal Welfare and Social Projection**

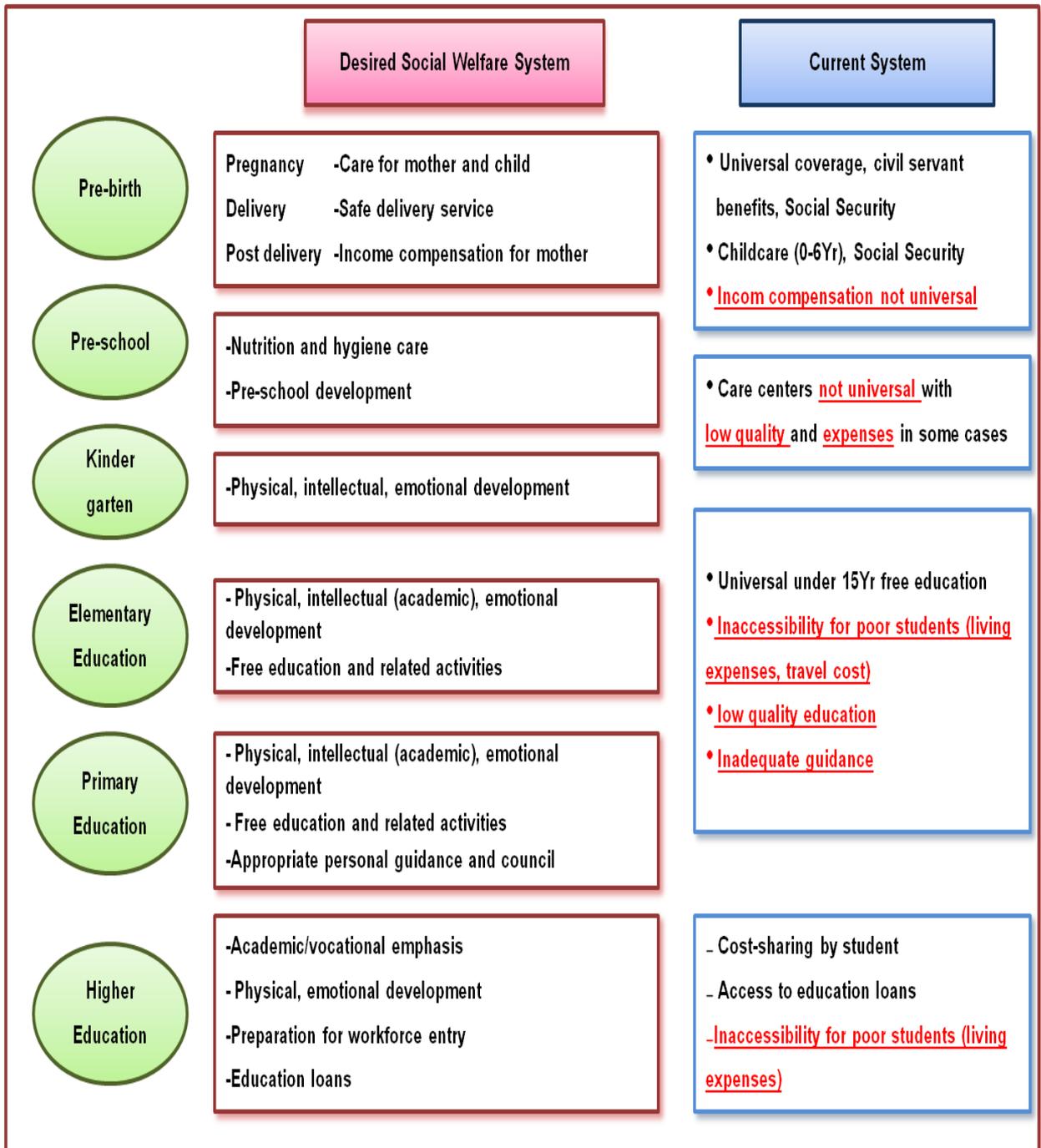
The key reason for putting the highest policy priority on universal welfare and social projection system is my belief that this is the most effective policy in closing the economic gaps between the have and the have-not. Welfare and social protection is not something entirely about monetary transfer to the poor or the vulnerable, but rather a guarantee that they are not denied opportunities to develop their potentials to the fullest. It is the top priority for Thailand because at the moment the country does not have a comprehensive system of welfare and social protection just yet. Not all 'standard' measures of welfare and social protection available in developed countries are present in Thailand, and for those measures that the country has, they do not cover all Thai. Figures 6 to 8 give detailed pictures how incomplete the current social protection and welfare system in Thailand is<sup>1</sup>, and are arranged according to a life journey from birth to death. The comparisons in the three figures are between 'desired' social protection and welfare

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<sup>1</sup> The figures are taken from Jitsuchon et.al (2009), which was originally written in Thai but was later translated into English by the World Bank.

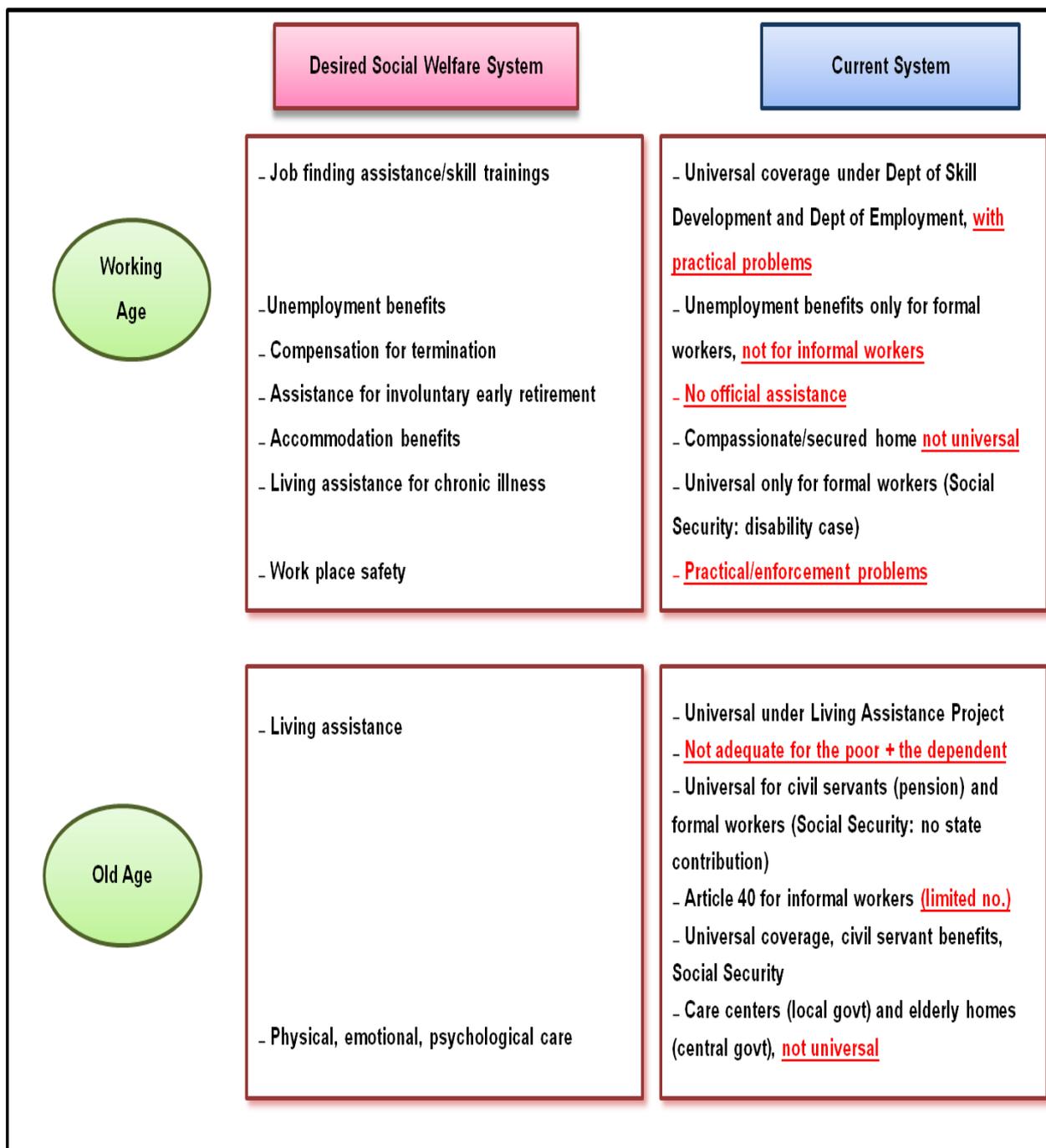
and the current situation in Thailand. Those texts written in red under the column 'current system' indicate the incompleteness of the current system. In summary, Thailand needs to extend welfare to pre-school children, poor students, informal workers, and poor and uncared elderly. These are the key 'welfare gaps' that Thailand needs to close in order to guarantee equal opportunities for all Thai at all age.

Figure 6 Comparison between the desired and present system: birth to higher education



Source: Jitsuchon et.al (2009)

Figure 7 Comparison between the desired and present social welfare: working age to retirement



Source: Jitsuchon et.al (2009)

Figure 8 Comparison between the desired and present social welfare: retirement and disability

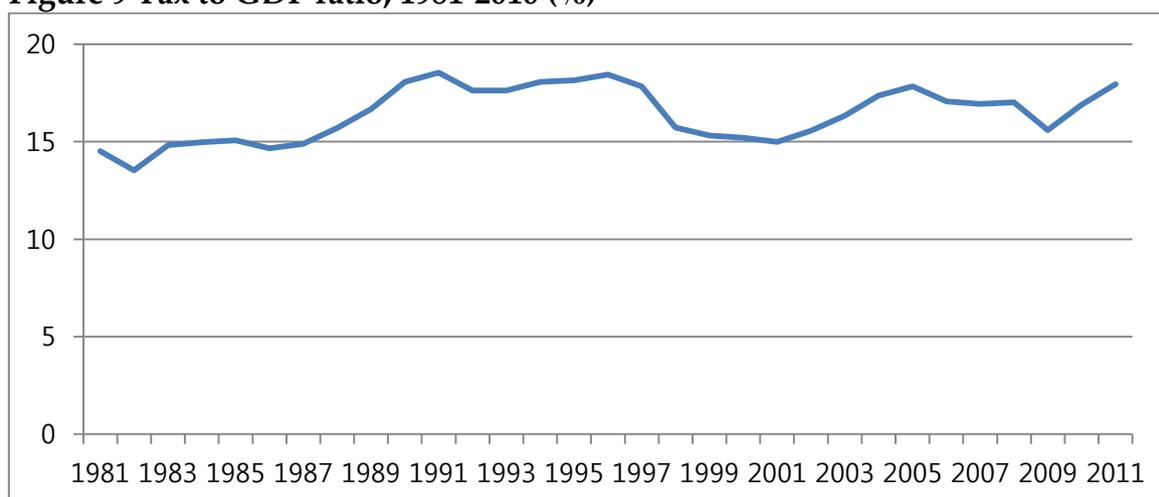
	Desired Social Welfare System	Current System
Old Age (Cont)	<ul style="list-style-type: none"> <li>- Job finding assistance/skill trainings</li> <li>- Extra care/ long term care</li> <li>- Facilitation for everyday life</li> </ul>	<ul style="list-style-type: none"> <li>- Universal coverage under Dept of Skill Development and Dept of Employment, <u>with practical problems</u></li> <li>- <u>No official assistance</u></li> <li>- Other than financial assistance (e.g. bus, train, footpath) <u>not universal</u></li> </ul>
Death	<ul style="list-style-type: none"> <li>- Funeral assistance</li> </ul>	<ul style="list-style-type: none"> <li>- Universal under Living Assistance Project for those over 60Yr and formal workers under Social Security (in event of death)</li> <li>- and those under 60Yr (central govt)</li> </ul>
xxx	<ul style="list-style-type: none"> <li>- Living assistance</li> <li>- Physical, emotional, psychological care</li> <li>- Job finding assistance/skill trainings</li> <li>- Extra care</li> <li>- Facilitation for everyday life</li> </ul>	<ul style="list-style-type: none"> <li>- Universal under Living Assistance Project <u>Not adequate for the poor + the dependent</u></li> <li>- Universal coverage for healthcare under civil servant benefits, Social Security <u>but other not universal (e.g. disabled homes)</u></li> <li>- Universal coverage under Dept of Skill Development and Dept of Employment, <u>with practical problems</u></li> <li>- <u>No extra care</u></li> <li>- Other than financial assistance (e.g. bus, train, footpath) <u>not universal</u></li> </ul>

Source: Jitsuchon et.al (2009)

## 5.2 Tax Reforms

Any discussions on establishing a comprehensive social protection and welfare system cannot avoid concerns made by many on financing such system, and on proper management of the system. Theoretically, financing can be done through many channels: tax financing, contributions from the beneficiaries, donations in various forms, corporate social responsibility (CSR), social enterprises, to name a few. Practically, the most important fund source remains tax revenue by the central and local governments. Historically, Thai government has been collecting tax at around 14-18% of GDP during 1981-2010 (see Figure 9) or an average of 16.8%. This is a rather low level by international standard. According to a World Bank research (World Bank (2008), the potential tax revenue for Thailand should be at 21.35% of GDP. The shortage of tax effort from its potential of 4.5% of GDP is very large, and is one of the most powerful explanations why Thailand has not embarked on more decent social protection and welfare system.

**Figure 9 Tax to GDP ratio, 1981-2010 (%)**



Source: Ministry of Finance and the National Economic and Social Development Board

Reforming tax system is thus high on policy priority. Not only tax reform will raise fund necessary for improving social protection and welfare, but the tax system itself can be made more redistributive. Jitsuchon (2010) argues that Thai tax system was not 'horizontal equitable' yet, meaning that there were many Thai with similar ability to pay tax were actually paying much different amount of tax. He continues to suggest that tax reform should consist of:

1. Expanding tax base on asset and property holdings and income

2. Expanding tax base on personal income tax, by abolishing the de factor social norm that certain occupation (such as farmers) should be tax exempted, and collect tax based on actual income.
3. Reduce personal income reduction items, such as reduction of taxable income by the purchase of 'long-term equity fund' (LTF) and 'retirement mutual fund' (RMF), which almost entirely benefit the high income earners.
4. Increase value added tax to at least 10% from the current level of 7%, which is quite low by international standard.
5. Introducing new taxes, such as windfall tax that levied on increased valuation of lands resulting from public infrastructure construction projects, certain capital gain taxes such as those on profit from stock trading, inheritance tax, pollution tax etc.

### 5.3 Human Capital Development<sup>2</sup>

The development of human capital is very important in ensuring continued high economic growth, which would help reducing poverty further, and could narrow the inequality group if rightly managed. Many experts argue that such development in Thailand is not performing the two tasks with satisfactory results, and it is clearly an area badly in need of reform. Starting with education, it has been pointed out numerous times that Thailand's education system does not need more budget but rather management reform. TDRI (2012) argues that accountability in the education system would help increase the quality of education. It proposes that rewards/punishments should be introduced and linked to the students' performance.

The next question is what kind of "education quality" is most relevant in enhancing Thailand's potential economic growth. Acemoglu and Zilibotti (1999) argued that education must provide skills that are compatible with changes in technology in the modern world, in order to avoid the "technology-skill-mismatch" problem. Surveys of foreign firms operating in Thailand revealed that the type of skills they desire from their employees are foreign language skills, information technology skills, communication skills, problem-solving skills and leadership (Figure 10). The World Economic Forum (2009) suggested "entrepreneurship education" in which education must prepare students to possess an entrepreneurial spirit and the ability to "think outside the box."

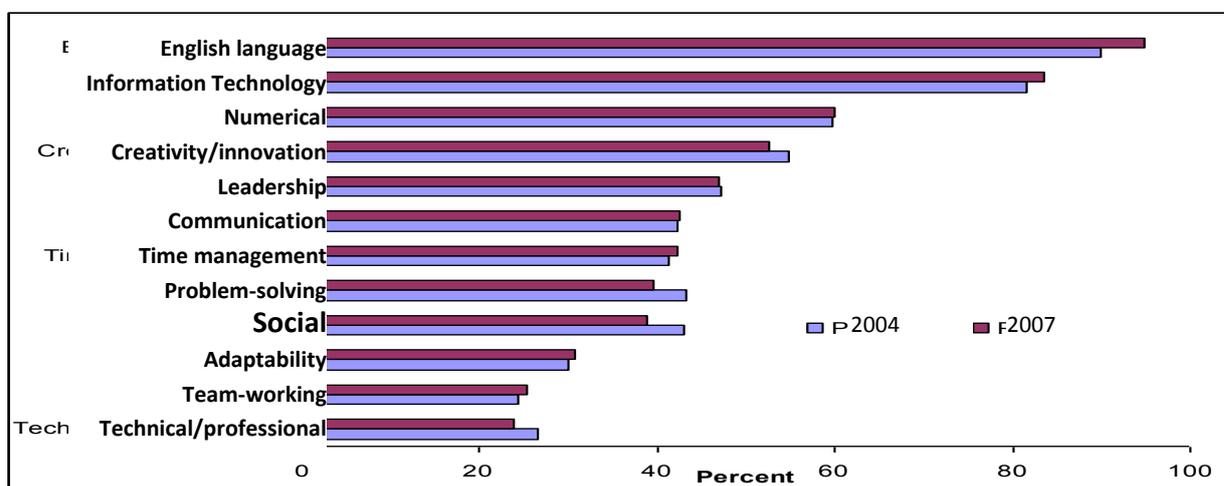
Education is not the only way to acquire skills. There are currently many channels through which Thai workers can obtain additional skills. The government provides skills training at no or low cost for both low-educated and highly-educated workers,

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<sup>2</sup> This section is mostly reproduced from Jitsuchon (2012a)

through the Department of Skill Development under the Ministry of Labor, and also through various “centers of excellence.” Private companies with more than 100 workers are also required by law to support skills training for their workers, either by themselves or by hiring external training services. A tax benefit is given as an incentive to such companies. Although access to skills training is much better now than it had been in the past, a problem remains in terms of the effectiveness of the trainings. Many trainees cannot use the skills they obtain to advance their career or increase their pay scale. Somchai et al. (2009) suggested that training programs should be demand driven, where workers and small firms can initiate the programs and ask for full financial support from the government.

**Figure 10 Type of Skills Thai Workers Lack, as Reported by Foreign Investors in Thailand**



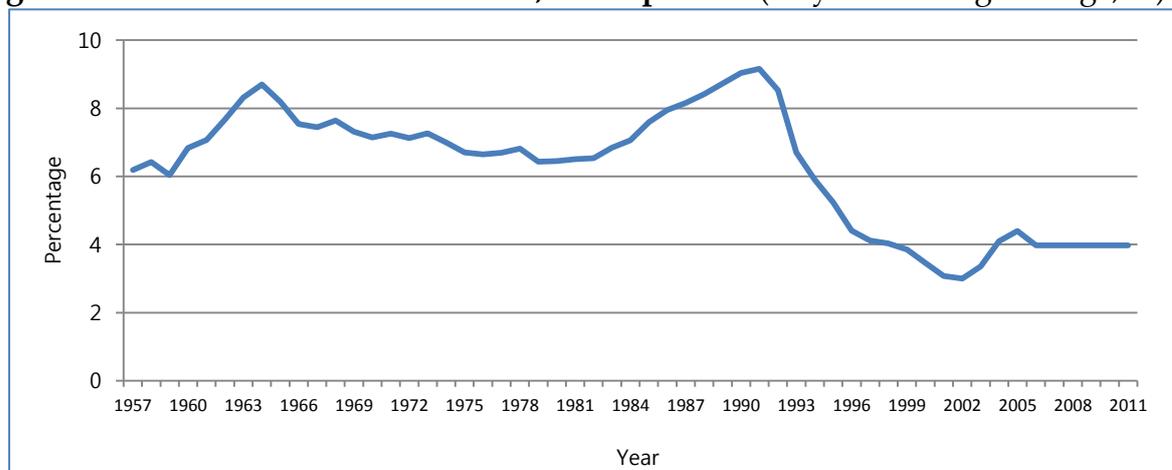
Source: World Bank (2008).

#### 5.4 Inclusive Growth Policy Package

With the backdrop of the global uncertainty in economic growth in the past several years, which is widely perceived to continue into the near future, most discussions on solving poverty and inequality problems have bundled the two issues with the economic growth. This is the reason for the popularity of the concept of ‘inclusive growth’ among the international organization on development.

The appeal of the inclusive growth model is very relevant to Thailand, as few countries are experiencing both the high degree of inequality and poor prospect of future economic growth as Thailand is. On economic growth, Figure 11 shows vividly how the medium-term growth prospect for Thailand is worrisome. Since more than 15 years ago, the medium-term growth is only around 4 percent or less, compared to the high level of at least 6 percent in the preceding 40 years.

**Figure 11 Medium-term Growth Rates, 1950s-present (11-year moving average, %)**



*Note:* The moving averages for the years 2006-2011 are calculated using 2001-2011 data.

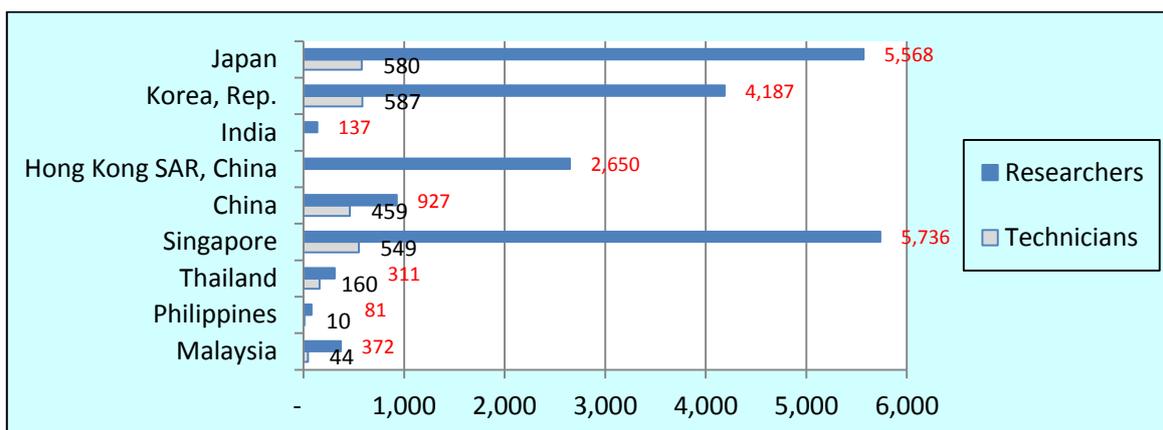
*Source:* Calculated by the author using national income data from the Office of the National Economic and Social Development Board, Thailand.

Policy packages on inclusive growth that is suitable for Thailand should comprise of those packages in Table 1 above. I here discuss in more details of some of the packages.

### Inequality-reducing Innovations

Long-term economic growth needs constant rate of innovation. But global experience in the past thirty years has seen capitalist and large entrepreneurs benefiting most from the technological advancement. The key question is thus to make innovations work more for the rest of the society other than the rich. The types of innovation that would reduce inequality and poverty should have two strands. One is on the high-end innovation. To reduce the gap between the rich and the rest that arises from the technology advancement, measures should be devised to encourage and promote the use of high technology and innovations among the medium-size firms. This is equivalent to the 'high middle income' target group in Table 1. Jitsuchon (2012a) points out that low level of innovation activities among Thai firms, especially the medium-size ones, are a result of the serious shortage of research personnel (researchers and technician). Thailand had only about 300 research personnel for every one million population, which is much lower than other countries that have been successful in driving up technology upgrading (Figure 12).

**Figure 12 Research Personnel (per one million population)**



Source: Jitsuchon et.al (2011), compiled using World Development Indicators (2010) database.

### Increasing competitiveness of labor-intensive SMEs

Figure 5 above shows that there are sectors where real wages have not increased much. These are some sectors in agriculture and industry. The slow increase of real wage usually correspond also with slow increase in competitiveness of the sectors as well as the workers' productivity. Development of human capital as ready mentioned earlier is one way to increase labor productivity. But innovation in management of small and medium enterprises (SMEs) can play a very important role in increasing both firm and labor productivity too. This can be done while keeping the labor, rather firing them and moving toward capital-intensive production, as sometimes suggested by many development economists. The management innovation for SMEs can be something as simple as streamlining production process, to more sophisticated method such as introducing information technology into the production process. Other forms of innovation suitable for SMEs are marketing innovation, which can be done with low cost<sup>3</sup>.

### Reducing Financial Gap

Poor and underprivileged individual and firms usually face financial constraints necessary to upgrading their human capital or business profitability, and to deal with various kinds of economic and social shocks. Although there have been substantial development on financial markets for the grass-roots, many Thai are still denied access to credits at the time when they are most needed, or have to pay high interest rates and with unfavorable loan conditions.

### Increasing Regional Infrastructure Investment

<sup>3</sup> For complete classification of innovation activities, see OECD (2005).

One well-known fact about inequality in Thailand is its spatial dimension, where income disparity between big cities and rural areas have been very high (although the welfare difference between those living in small cities/towns and rural areas is narrowing). To narrow the gaps between big cities (like Bangkok) and the other areas need massive infrastructure investment. This can be done in steps. Since economic growth in Thailand has been driven mostly by international trades, cities that host major sea ports stand to gain more from economic growth. To spread the gain from growth to other areas can therefore be done by lowering logistic cost between port cities and other areas suitable for production bases of exportable goods. That would be the first step. The next step is to expand the coverage of production network into other, even more remote, areas.

ADB (2005)'s study on the impacts of rural infrastructure, such as road and energy, on poverty confirms the positive impact on rural poverty. This study can be used as baseline for the government to design a national plan on rural infrastructural development that would most effectively reduce poverty.

#### Fiscal Decentralization

Meaningful fiscal decentralization has been put in place since 1999. There have been visible evidences on how importance it has been to the lives of those living in rural areas. Most of the fund have been used to build physical infrastructure, and can thus have positive impact on poverty and inequality as just mentioned. The next stage is to increase local governments' spending on social issues such as provision of welfare to young children, working poor, single parents, and elderly poor. Although the progress in the latter areas are still slow, one can expect (or hope) that it will speed up alongside the rapid increase of political awareness among the poor and the underprivileged in Thai society.

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**KIHASA International Workshop 2012**

**Poverty Reduction Policies in Selected Asian Countries: Trends, Strategies and Challenges**

## **Malaysia**

***By.* Zulkarnain Ahmad HATTA**



## **Poverty Reduction Policies in Malaysia: Trends, Strategies and Challenges**

Defining poverty conceptually is easier as opposed to operational definition. It is widely agreed that poverty is a multi-dimensional problem that often involves much more than a lack of income. Dimensions of poverty may include vulnerability to various social risks such as crime and family abuse, a lack of social assets, insufficient human capital development and access to social services, as well as a weak political voice. Hence, the definition of poverty is ultimately country specific.

Universally poverty is normally referred to World Bank's "dollar-a-day" at purchasing power parity (PPP) measure. However, for country specific purposes it is standard recommended practice to use national poverty lines where there exist. Most countries adopted this practice in the 2005 Millennium Development Goal report (United Nations, 2011). Malaysia developed its own poverty line in the 1970s when the government's national policy gave poverty eradication a high priority. The government based this poverty line on assessments of the minimum consumption requirements of an average sized household for food, shelter, clothing and other non-food needs.

### **Definition of Poverty in Malaysia**

Adjustments were made to the poverty line in its earliest form, for differences in mean household size and cost of living among the three main regions of Malaysia – Peninsular Malaysia, Sabah and Sarawak. No adjustments were made for rural or urban location. This resulted in three regional poverty lines (besides the national one). These poverty lines, with adjustments for inflation and changing mean household sizes, were in use from their adoption in 1976 to 2004.

Although the poverty line was defined by consumption, poverty status was determined with reference to gross household income rather than expenditure. Thus, households with incomes below the poverty line were defined as living in poverty, and those with incomes below half the poverty line as living in "hard-core" or extreme poverty. In 2004, a revision was done to the poverty line. The revised

poverty line now defined for each household and averaged to each state and rural/urban location, taking into account relative costs of living, household composition and size. This new poverty line also defines extreme deprivation or hard-core poverty as household with incomes below their food poverty line or households unable to meet their minimum food needs. In 2009, the mean national poverty line translated to an unadjusted RM6.50 per capita a day (equivalent to US\$3.00 a day, PPP).

### **Measuring and Monitoring Poverty Incident in Malaysia**

Prior to 2005, the 7<sup>th</sup> Malaysia Plan (1996-2000) used the following three components to estimate the absolute Poverty Line Income (PLI):

#### **Absolute Poverty**

The PLI is defined separately for each household in the Household Income Survey (HIS) based on its size, demographic composition and its location (state & stratum) – a household is considered poor if its income is below own PLI or hardcore poor if its income is below its food PLI.

#### **Food PLI**

Choosing a commonly consumed and least-cost food bundle that yields the specified calorie required, and valuing this at current prices. Energy required of each household is based on the sex and ages of its members. Food basket chosen to meet the daily calorie required of Malaysians, yield a balance diet comprising a variety of foods containing 10-20% calories from protein, 20-30% from fat and 50-60% from carbohydrate.

#### **Non-Food PLI**

Based on the actual expenditure of the bottom 20% expenditure group derived from the Household Expenditure Survey (HES). The PLIs are updated by using the Consumer Prices Index (CPI) of these expenditure baskets: Food, clothing and footwear, durables, transport and communication, and others (Zin, 2011).

### **Trends in Poverty Before and After 2008 Financial Crisis**

Malaysia's commendable success in reducing its poverty incidence from 49.3% in 1970 to 8.1% in 1999 and 5.5% in 2000 is attributed to various factors including rapid economic growth with macroeconomic stability and the inclusion of poverty reduction as an integral element of its development strategy (Department of Statistics Malaysia, 2011).

Hardcore poverty was reduced from 1.2% in 2004 to 0.7% in 2009 and the incidence of overall poverty fell from 5.7% in 2004 to 3.8% in 2009. The overall poverty rate is 3.7% in Malaysia (Department of Statistics Malaysia, 2011).

Table 1 showed that there are also regional difference in the incident of poverty (IOP), which was slightly lower in Peninsular Malaysia compared to Sabah and Sarawak, which had relatively higher IOP at 58.3% and 56.5% respectively in 1976. This state of affairs can be explained by the more rapid development in Peninsular Malaysia compared to Sabah and Sarawak. However, there was still rapid and continual reduction of poverty in Sabah and Sarawak with the IOP declining from 51.2% and 51.7% in 1976 to 16.0% and 5.8 % respectively in 2002. Nevertheless poverty remained high in certain states like Kedah, Kelantan, and Perlis in which the development is slow despite the rapid decline in the overall IOP in Malaysia. In Kelantan, for instance, the IOP in the state was the highest in Malaysia in 1976 at 67.1% compared to other states and continued to remain high at 10.6% in 2004 and 4.8% in 2009. In states such as Selangor and Wilayah Persekutuan, the proportion of the poor is relatively low and has been less than 10.0% since 1984 (Zin, 2011).

[Table 1]

*Poverty Incident in Malaysia by State from 1970-2009*

<b>State</b>	<b>1970</b>	<b>1976</b>	<b>1985</b>	<b>1990</b>	<b>1997</b>	<b>1999</b>	<b>2002</b>	<b>2004</b>	<b>2007</b>	<b>2009</b>
Johor	45.7	29.0	12.2	9.8	1.6	2.5	1.8	2.0	1.5	1.3
Kedah	63.2	61.6	36.6	29.9	11.5	13.5	10.7	7.0	3.1	5.3
Kelantan	76.1	67.1	39.2	29.6	19.2	18.5	12.4	10.6	7.2	4.8
Melaka	44.9	32.4	15.8	12.4	3.5	5.7	2.7	1.8	1.8	0.5
N. Sembilan	44.8	33.0	13.0	9.1	4.7	2.5	2.2	1.4	1.3	0.7
Pahang	43.2	38.9	15.7	10.0	4.4	5.5	3.8	4.0	1.7	2.1
Perak	48.6	43.0	20.3	19.2	4.5	9.5	7.9	4.9	3.4	3.5
Perlis	73.9	59.8	33.7	17.4	10.7	13.3	10.1	6.3	7.0	6.0

Palau Pinang	43.7	32.4	13.4	8.7	1.7	2.7	1.4	0.3	1.4	1.2
Selangor	29.2	22.9	8.6	7.6	1.3	2.0	1.1	1.0	0.7	0.7
Terengganu	68.9	60.3	28.9	31.3	17.3	14.9	10.7	15.4	6.5	4.0
Sabah	-	58.3	33.1	34.3	16.5	20.1	16.0	24.2	16.4	19.7
Sarawak	-	56.5	31.9	21.0	7.3	6.7	5.8	7.5	4.2	5.3
W.P.KL	-	9.0	4.9	3.7	0.1	2.3	0.5	1.5	1.5	0.7
W.P Labuan	-	-	-	-	-	-	-	2.7	4.2	3.8
Malaysia	49.3	-	20.7	16.5	6.1	7.5	5.1	5.7	3.6	3.8

Source: Zin, 2011

Unemployment and wage levels are among the immediate variables to be affected in a recession. The unemployment rate rose from 3.2% in 2007 to 3.7% in 2008 and is expected to rise further to 4.5% in 2009. These figures are, nevertheless, still within the Keynesian definition of full employment, which is 5% (EPU, 2009). The unemployment rate was 3.6% to half past in 2011 (Ministry of Finance Malaysia, 2011).

Currently there are revised and separate PLIs for each state in the country. The revised version takes into account different household size, a separate classification based on the urban and rural areas. A PLI is therefore defined separately for each household based on its size, demographic composition and location. Presently, the poverty line income in Malaysia is defined in terms of the minimum expenditure level required to maintain a certain standard of living and is updated annually using the CPI. Different poverty line incomes have been used to reflect variations in costs of living and household size between Peninsular Malaysia, Sabah and Sarawak. Tables 2 and 3 showed that in 2010 the PLI under the 9<sup>th</sup> Malaysia Plan was set at RM763 (US\$254) per month for a household of 4.1 persons in Peninsular Malaysia, RM1, 048 (US\$349) for a household of 4.9 in Sabah and RM912 for a household of 4.9 in Sarawak. The absolute hardcore poverty line is estimated at half the official PLI (Department of Statistics Malaysia, 2010).

[Table 2]

*Poverty Line in Malaysia*

2010

Poverty Line	Peninsular Malaysia	Sabah and Labuan	Sarawak	Malaysia
Incidence of Poverty <sup>1</sup> (%)	2.0	19.2	5.3	3.8
No of Poor Households ('000)	102.2	99.1	27.1	228.4
Mean PLI (RM monthly)	763 (US\$254)	1,048 (US\$349)	912 (US\$304)	800 (US\$266)
Mean Per Capita PLI <sup>2</sup> (RM monthly)	194 (US\$64)	225 (US\$75)	208 (US\$70)	198 (US\$64)

Source: Economic Planning Unit and Department of Statistics Malaysia, 2010

Note: 1 Refers to households with mean monthly gross income below its mean PLI

Note: 2 Due to varying household sizes, the per capita PLI will be used by implementing agencies to identify the target groups

[Table 3]

*Poverty Line in Malaysia by Mean Household Size 2010*

Poverty Line	Peninsular Malaysia	Sabah and Labuan	Sarawak	Malaysia
National	4.1	4.9	4.5	4.2
Urban	4.0	4.8	4.6	4.1
Rural	4.4	5.0	4.5	4.5
Poor	6.4	6.5	6.2	6.4

Source: Economic Planning Unit and Department of Statistics Malaysia, 2010.

Table 4 shows that the Gross Domestic Product (GDP) in Malaysia contracted US\$156.53 billions in 2007 and US\$278.7 billions in 2011 and the GDP growth was 5.7% in and 4.7% in 2011 respectively. The GDP per capita in Malaysia was last reported at US\$7,760 in 2007 and US\$5,364.5 in 2011. The Gross Domestic Product (PPP) in Malaysia was reported at US\$13,740.93 in 2007 and US\$14,730.93 in 2011. The unemployment rate in Malaysia was 3.2% in 2007 and 3% in 2011 (Department of Statistics in Malaysia, 2011).

[Table 4]

*Socio-Economic Indications in Malaysia Before and After 2008 Economic Crisis*

<b>Socio-Economic</b>			
<b>Indicators in</b>	<b>2007</b>	<b>2009</b>	<b>2011</b>
<b>Malaysia</b>			
GDP	US\$156.53 Billions	US\$221.83 Billions	US\$ 278.7 Billions
GDP Growth Rate	5.7%	4.8%	4.7%
GDP Per Capita	US\$7,760	US\$4,500	US\$5,364.5
GDP (PPP)	US\$13,740	US\$14,200	US\$14,730.93
GINI Index	46.2	47	46.21
Unemployment Rate	3.2%	4.7%	3%

Source: Department of Statistics in Malaysia, 2011

**Poverty Reduction Programs in Malaysia**

Despite the successes in reducing poverty (less than 4%), there remains vulnerable sections of the population due to disadvantaged circumstances. In the effort to develop a more inclusive approach, the economic development model is being pursued. Capacity building in Malaysia in the context of alleviation of socio-economic inequalities is being implemented by expanding the economy, and at the same time giving subsidies to the needy. In pursuing inclusiveness, the approach is anchored on two objectives: i) Enabling equitable opportunities for all, and ii) Providing a social safety net for the disadvantaged groups. For the second objective, equitable access to health, education and basic infrastructure are being emphasized. Mechanisms for targeted income support will be enhanced as general subsidies are being phased out.

Two features of social policy that distinguish Malaysia from other countries are:

- a. social policies have had an orderly and incremental development owing to a supportive environment within a lengthy and continuous period of stability, which is unlike the experience of many developing countries, and
- b. a succession of strong governments and a public sector committed to improve the welfare and well-being of all Malaysians (United Nations, 2003).

The evolution of the social policy and welfare regime and its significance for poverty eradication in the 50-year span from 1957 to the present may be analyzed according to four different phases, namely, 1957–1980, the Mahathirist regime of 1981–1997, financial crisis period of 1998–2002, and the post-2003 regime under Prime Minister Abdullah Hj. Ahmad Badawi. A summary of the evolution is shown in Table 5.

Table 5

*Evolution of Welfare Regime Since 1957*

1957-	1981-1997	1998-	2003-present
<p>Narrow 'welfare-state' style policies</p> <p>Public health programmes Free education Unemployment benefit State pension / EPF Income support</p>	<p>Rigorous social policies</p> <p>Combat poverty Target Hardcore poor</p>	<p>Financial Crisis: Effects</p> <p>Impact on the poor Inadequate social protection plans</p>	<p>'National Social Welfare Policy'</p> <p>Ministry of Women, Family and Community Development</p>
<p>NEP (1970) Broader 'welfare-state' style policies</p> <p>Land reforms FELDA, FELCRA, IADP Poverty eradication (rural)</p>	<p>NGOs Involvement</p> <p>Microcredit - AIM</p> <p>Private Involvement</p> <p>Privatisation Moderate government expenditure</p>		<p>Agriculture Productivity</p> <p>Further strengthening Agropolitan</p> <p>Zero-poverty target</p>

**Advancing Agricultural Sector**

The government introduced several measures in the 2010 budget to modernize the agriculture sector as well as increase self-sufficiency and ensure food security. Under the National Food Security programs, a sum of RM190.8 (US\$63.6) million was allocated to upgrade and improve drainage and irrigation infrastructure for rice cultivation. As of July 2010, a total of RM75.9 (US\$25.2) million was spent benefiting 8,345 farmers. In addition, the construction of *Paya Peda* Dam project to increase water supply to skim *Pengairan Padi in Besut* commenced on 1 June 2010 and is expected to be completed by 2014. In order to modernize the aquaculture industry, 47 entrepreneurship training programs were held in the first seven month of 2010 benefiting 800 breeders. Efforts were also taken to implement the incubator program to train and guide youths and graduates to be successful entrepreneurs. For this, an incubator and is expected to be completed by April 2011. To enable entrepreneurs to export more agriculture produce, the government took efforts to upgrade air cargo facilities at Kuala Lumpur International Airport (KLIA) (Ministry of Finance Malaysia, 2011a).

### **Strengthening Small Medium Enterprises**

As Small Medium Enterprises (SMEs) constitute 99.2% to total employment, several measure were taken to further develop and improve the potential of SMEs. To ensure effective and efficient administration of SME funds and grants, 79 SME funds and grants totalling RM8.8 (US\$2.94) billion administered by various agencies were rationalized to 33 funds and coordinated by SME Corp. In addition, approval of microfinance by financial institutions was shortened to an average of six days, with disbursement to be made within four days, meanwhile, RM200 (US\$66.66) million was given to *Tabung Ekonomi Kumppulan Usaha Niaga (TEKUN)*, including RM20 (US\$6.66) million for *Skim Pembangunan Usahawan Muda India* (Ministry of Finance Malaysia, 2011a).

### **Improving Welfare of Student**

A special notebook package with free broadband services was introduced in January 2010 to enable university student from low income families' access ICT facilities. Initially, this package will be offered to 100,000 students for RM50 (US\$16.66) per month for two years. As of September 2010, a total of 87,343 students have benefited for this program with total government spending of RM3.7 (US\$1.23) million. Since January 2010, *Keretapi Tanah Melayu Berhad* (the national train provider) has given 50% discount on fares for long distance travel of Malaysian students aged 13 and above through the 1Malaysia KTM Discount Card. This initiative is to improve the welfare of students, particularly those from low income families. The government absorbed the cost of printing the discount cards as well as expended RM4.0 (US\$1.33) million to offset revenue losses to KTMB. As of June 2010, a total 53,190 student benefited from this scheme (Ministry of Finance Malaysia, 2011a).

### **Strengthening Pre-School Education**

As early education is important in the pursuit of knowledge, the government has decided to incorporate pre-school education into the mainstream education system. The NKRA (national key result areas) on improving student outcomes has set a target 72% of enrolment in pre-school by 2011, from 67% in 2010. In addition, the quality and number of pre-school teachers and assistants will be increased. As of August 2011, about 72% of children in the age cohort four to five were enrolled in

pre-school, including those managed by Ministry of Education, National Unity and Integration Department (JPNIN), *Jabatan Kemajuan Masyarakat* (KEMAS) and the private sector. Furthermore, training was provided to 2,060 pre-school teachers from the private sector and JPNIN (Ministry of Finance Malaysia, 2011a).

### **Improving Literacy and Numeracy**

The literacy rate of Malaysia 89% and the NKRA target is to increase literacy and numeracy rate of year-one pupils to 90% in 2011 from 25% and 45%, respectively in 2010. As of August 2011, 65% of the pupils have achieved literacy and 74.0% numeracy skills. Expert facilitators were placed in all District Education Departments to support language and mathematics teachers. New LINUS (literacy and numeracy program) modules were also developed to enable students to compare concepts easily (Ministry of Finance Malaysia, 2011a).

### **Creating Quality School**

In efforts to further improve the standard of education, the government introduced a new ranking to classify high-performing schools based on academic achievements and extracurricular activities. Thus far, 20 schools have been classified as high-performing schools. These schools will be given flexibility in terms of curriculum and selection of staff as well as students to encourage innovation in management of schools and improve performance. In addition, an incentive of RM700,000 (US\$224,322) will be given to the schools while RM1,000 (US\$333.33) and RM700 (US\$263.33), respectively, will be offered to each teacher in secondary and primary schools. High performance schools will be served as a benchmark and are required to network with other schools within the vicinity by sharing facilities and expertise towards narrowing the performance gap (Ministry of Finance Malaysia, 2011a).

### **Eradicating Hardcore Poverty**

Poverty rate in Malaysia is 3.7% (Ministry of Finance Malaysia, 2011). The government aims to eradicate 48,643 hardcore poor households by the end-2011. During the first seven months of 2011, the government spent RM646 (US\$316) million on welfare assistance to help hardcore poor households. Of this RM162 (US\$54) million was allocated to Sabah and Sarawak. Concerted efforts also undertaken to ensure welfare aid is provided on the first day of the month. To further

alleviate hardcore poverty in rural areas, the government continued with Skim Program Lonjakan Mega which involves integrated land development for agriculture. As of June 2011, a sum of RM75.0 (US\$25) million was expended for this programme from the total allocation of RM141 (US\$47) million. Projects under this programme are ongoing in 11 rural areas including in ULU AWIK and Batang Lupar in Sarawak, Pulau Banggi and Kota Marudu in Sabah. As a result of these initiatives, the number of hardcore poor households declined 46% to 25,679 as of August 2011. In addition, the E-Kasih database was continuously updated to identify and assist the poor (Ministry of Finance Malaysia, 2011a).

Under the NKRA (national key result areas) on low-income households, efforts were intensified to tackle hardcore poverty. Among the initiatives, is the Gerakan 1AZAM programme aimed at creating jobs through employment and entrepreneurship. As at August 2010, a total of 8,125 household were identified to participate in this programme (Ministry of Finance Malaysia, 2011a).

### **Assisting the Poor and Vulnerable Groups**

In line with target to reduce the poverty rate to 2.8% by end 2011, intensified efforts have been made to enhance the earning capacity of the rural poor. In the 2011 budget a total of RM90. (US\$30) Million was allocated for the People's Well-Being Development Scheme to implement income-enhancing, skills training and capacity building programmes. As of August 2010, a total of RM14.2 (US\$4.7) million was spent under the Increasing Income Program benefiting 3,512 participants. Meanwhile, RM4.1 (US\$1.36) million was spent under the Skills Training and Career Program benefiting 541 trainees. To improve education outcome, RM4.8 (US\$1.6) million was spent under the Excellence in Education Program benefiting 7,000 students. Efforts were also undertaken to provide affordable housing and restore dilapidated houses (Ministry of Finance Malaysia, 2011a).

For this, RM30.6 (US\$10.2) million was expended under the Housing Assistance Program benefiting 1,568 households. An additional 3,520 participants have benefited from capacity building initiated through the Mental Development Program with an expenditure of RM6.5 (US\$2.16) million. Meanwhile, as of July 2010, a total of 3,455 women underwent skills training and entrepreneurship

programme through the Department of Women`s Development and Amanah Ikhtiar Malaysia (AIM - a microfinance institution). Of the total, 31.0% completed training, while the rest are still undergoing training (Ministry of Finance Malaysia, 2011a).

[Table 6]

*Assisting the Poor and Vulnerable Groups Development Programs*

Year	Name of Program	Budget	No. of Beneficiaries
2010	Increasing Income Program	US\$4.7 million	3,512
2010	Skills Training and Career Program	US\$1.36 million	414
2010	To Improve Education	US\$1.6 million	7,000
2010	Housing Assistance Program	US\$10.2 million	1,568
2010	Mental Development Program	US\$2.16 million	3,520

Source: Ministry of Finance Malaysia, 2011a

### **Eradication Urban Poverty**

The government allocated a total of RM48.0 million to provide welfare assistances and support house rental payments for the urban poor. As of September 2011, RM17.7 (US\$5.9) million was spent to assist 27,659 urban poor households. Furthermore, in April 2011 the ministry of Federal Territories and Urban Well-Being launched a strategic plan for the period 2011- 2014 to address urban poverty in a holistic manner, including to assist households with monthly income below RM3,000 ((US\$1000). In addition, to support the urban poor venture into small businesses, RM60.5 (US\$20.1) million was disbursed to 17,907 applicants under the urban micro credits programme by AIM, during the first eight months of 2011 (Ministry of Finance Malaysia, 2011a).

### **Increasing Home Ownership**

Continuous efforts have been undertaken to provide affordable housing to the citizens, particularly those in the low and middle-income groups. A total of 44,146 low-cost houses priced between RM21,500 (US\$7166) and RM35,00 (US\$1166) per unit have been offered for sale to current tenants by the Kuala-Lumpur City Hall (DBKL) and National Housing Department. As of August 2011, a total of 23,239

tenants have agreed to purchase the houses under the scheme. In addition, 61, 136 low-cost houses were offered for rental under JPN, of which 47,984 houses were occupied. To increase the purchasing power of house buyers, the government launched the flexible housing withdrawal scheme in August 2011 the enables EPF contributors to utilize current and future savings in Account 2 to obtain higher financing. As an important initiative in encouraging home ownership, the government established a housing credit corporation in December 2007, to guarantee bank loans of those without fixed income. As of September 2011, the housing credit corporation has guaranteed 2,033 housing loans amounting to RM96.4 (US\$32.13) million (Ministry of Finance Malaysia, 2011a).

### **Expanding Public Health Facilities**

In, 2011, a sum of RM3.6 (US\$1.2) billion was allocated to build and upgrade hospitals and clinics. As of August 2010, a total of RM1.7 (US\$.57) billion was spent for expansion of the National Heart Institute (IJN), construction of hospitals in tamping, Kluang and Tampoi as well as upgrading hospitals in Batu Pahat and Kota Bharu. In addition, 51 premises were converted into 1Malaysia clinics in selected urban areas of Selangor, Kuala-Lumpur, Penang and Johor. As of August 2011, a total of 808,831 patients received treatment in 1Malaysia clinics nationwide, averaging 70 patients per day (Ministry of Finance Malaysia, 2011a).

### **Enhancing Social Safety Nets**

The government remains committed to providing welfare assistance for the disabled, senior citizens and single mothers. To enhance self-employed and employability of the disabled, RM75.3 (US\$25.1) million was spent for the implementation of community based rehabilitation programme, which benefited 18,943 disabled persons as of September 2011. In additions, a total of RM3.3 (US\$1.1) million was expended for the construction and upgrading of four RM6.6 (US\$2.2) million was spent for the construction of old age homes for senior citizens in Melaka and Selangor, respectively. Furthermore, the monthly allowance for disabled children was increased from RM50 (US\$16.66) to RM150 (US\$50) for each child enrolled special schools run by non-government organization (NGOs). This has benefited 3,980 disabled children. In an effort to provide investment opportunities and improve income of the citizens, the government issued a RM3.0 (US\$1) billion

*SUSUK* (Association of Islamic banking institutions Malaysia) 1 Malaysia on 21 June 2010 of which RM2.4 (US\$0.8) billion was subscribed *SUSUK* (Association of Islamic banking institutions Malaysia) 1 Malaysia guarantees a return of 5.00% per annum to be paid quarterly and provides flexibility for subscribers to buy and sell before the maturity period. A total of 74,781 investors with an average holding of RM32,078 (US\$10.692) subscribed to *SUSUK* (association of Islamic banking institutions Malaysia) 1 Malaysia, of which 41.7 are aged 56 years and above (Ministry of Finance Malaysia, 2011a).

### **1 Malaysia Retirement Scheme**

Inadequate retirement savings remain a major concern for most Malaysians, in particular the self-employment and those without a fixed income. To assist these individuals, the 1Malaysia Retirement Scheme was introduced in January 2010. The scheme is flexible with minimum contribution of RM50 (US\$16.66) to a maximum of RM5,000 (US\$1666.66) per month. Contributions will enjoy annual dividend declared by EPF, in addition, to a 5.000% contribution from the government up to maximum of RM60 (US\$20) per year over the next five years. As of June 2011, there were 14,786 contributors to this scheme. The 1 Malaysia Retirement Scheme was extended to housewives since 19 July 2011 (Ministry of Finance Malaysia, 2011a).

The overall labor force participation rate is expected to remain high at 63.5 in 2011 (2009:63.1%). In terms of gender, both male and female participation rates are envisaged to increase marginally to 79.8% and 46.5% (2009:79.5; 46.0%), respectively. participation of the younger workforce, especially those in the 25-34 age group represents the largest proportion, accounting for 31.4% of the total workforce, followed by the 35-44 age group at 25.8%. The age dependency ratio (65 years and above) is expected to increase steadily by 24.2% (2009:23.4%), reflecting rising intake of students at this level in the past few years. With the continued expansion of the domestic economy, employment opportunities are expected to increase in all economic sectors. The services sector is anticipated to remain the largest employer, constituting 53.6% of total employment in 2011 (2009: 53.6%), followed by manufacturing (27.8%), agriculture (11.8%), construction (6.5%) and mining (0.4%) (Ministry of Finance Malaysia, 2011a).

The favourable labor market conditions are also reflected by the increasing number of vacancies and lower retrenchments. In the first six months of 2010, job vacancies reported via Job Malaysia increased by 992,035 (January-June 2010:539,872). The manufacturing and services sectors constitute the bulk of vacancies, accounting for 40% and 30.4%, respectively. The demand for professional jobs, which comprise legal officers, managers and senior officials, professionals, technicians and associate professionals increased markedly by 55.8% to 136,275 vacancies (January-June 2009: 10.5%; 87,494). Likewise, the share of vacancies for professionals remained high at 13.7% (January-June 2010: 16.2%). Vacancies for graduates were at 73,183, with most job offerings in the services sector which accounted for 84.5%, particularly in the finance, real estate and business services as well as education (Ministry of Finance Malaysia, 2010).

#### ***Amanah Ikhtiar Malaysia (AIM)***

The AIM modelled on the highly successful Grameen Bank of Bangladesh began as a pilot project in 1986 to provide credit to the hardcore poor in the Northwest Selangor region of Peninsular Malaysia. This is a government funded program. The success of the pilot project in reaching out to the hardcore poor and commendable credit recovery rate propelled the government to establish a private trust called the AIM launched with support from the Malaysian Economic Development Foundation which gave it an initial grant of RM120,000 (US\$40,000), the Asian and Pacific Development Centre and the government of the state of Selangor.

The objectives of AIM are to eradicate hardcore poverty in its areas of operation through the provision of benevolent loans designed to finance income-generating activities and to attain financial viability through income generated from administrative charges. The AIM has been lauded as one of the most successful replications of the Grameen Bank and the scheme had provided loans worth RM287 (US\$96) million to about 298,864 borrowers by 2007. AIM outreach to the poor had increased from 17.3% in 1999 to 79.0% in 2007 thus making it one of the most successful credit and anti poverty programs in the country. The success of AIM in reaching out to the poor and impressive loan recovery rates of almost 100% has

resulted in an increase in development fund allocation from various sources including the government (Ministry of Finance Malaysia, 2011a).

### **Social Safety Net Programs in Malaysia**

Social protection and economic strength are interrelated. Any government that intends to develop a systematic social protection program needs the support of a strong economy. In Malaysia, the growth and implementation of social protection was the result of careful planning and adoption of prudent strategies. Planning of the schemes took into consideration the rising needs of the covered population and the demand for coverage of new contingencies. Forethought was exercised in adjusting the benefit structure while actuarial backing was sought to ensure the long term viability of the fund.

The driving force behind social safety net programs in Malaysia is capacity building of the human capital. Various social protection programs exist in Malaysia. These programs generally refer to public universal benefits and employment-related measures which protect the population against standard social security contingencies. These can be categorized as old-age (pension); sickness, injury and invalidity; and social assistance (welfare). Old age, sickness, injury, and invalidity benefits those who have previously contributed, while social assistance does not require any form of previous contributions. There are no unemployment benefits in Malaysia; severance pay, which at most, amounts to one month of wages per year of work – the only payment received by retrenched workers. Malaysian social security programs essentially are based on a three-pillar system – social insurance, universal coverage and social assistance. Below are descriptions of the major programs that are in being implemented in Malaysia.

#### **Old Age - Under *Kumpulan Wang Persaraan (KWAP)* [Retirement Fund Incorporated]**

- Cash benefits
  - Title of program: Pension Fund
  - Legal Framework: First Laws: Statutory and Local Authorities Pensions Acts 1980 (Act 239) and revised Retirement Fund Act 2007 (Act 662)

- Outline: A pension scheme designed by the government for the civil servants
- Types of System: Pension Fund
- Types of Benefits & Payment Systems: On retirement, a public sector employee is entitled to pension benefits, gratuity and 'golden handshake'<sup>4</sup> payment (if applicable). The pension benefits and gratuity would be paid one month after retirement whereas the 'golden hand-shake' would be paid on the last day of work. The gratuity is paid as a lump sum, whereas the pension benefits are paid monthly for the rest of the employee's life span. The pension and grant rates are dependent upon the length of service and the last drawn salary received by the employee. Civil servants are entitled to a 50% replacement rate if the length of service is more than 25 years. If the length of service is less than 25 years, the pension entitlement is based on the following formula:  $1/600 \times \text{length of service taken into account} \times \text{final monthly salary received}$ . A different calculation of minimum pension benefits applies to an employee who retires because of health reasons, appointment in society or organization, or death. The minimum pension benefit is one fifth of the final salary if the length of service was less than 10 years.
- Qualifying Conditions & the number of Beneficiaries: KWAP pension is contributed for the public sector employees who are granted pensionable status by the Public Service Department. An employer is required to register all of its employees with KWAP within 14. Days from the date the pensionable status is granted by Public Service Department. As at 30 June 2011, in total there are 585 contributing employers with 130,142 members.
- Administrative Organization: KWAP
- Source of Funds: Government and employees
- Shortcomings: The most common complaint from pensioners is that their pension is not sufficient to meet the increasing cost of living

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<sup>4</sup> Under the 'golden handshake' facility, public servants may accumulate up to a maximum of 90 days of their annual leave in exchange for cash payment at the end of their service; the amount is calculated based on the last drawn salary, inclusive of all allowances, and the accumulated leave, being leave not taken on grounds of exigencies of service.

yearly. In 2011's national budget, the government announced that pensioners will receive a 2% increase starting in 2012. While pension payments currently form a small percentage of government operating expenditure, the former amount is expected to escalate with increasing numbers of pensioners, longevity and inflation. The higher the amount of pension payment, the smaller is the amount for other operating expenses and financing which might increase government debt.

### **Old Age – Under the Employment Provident Fund (EPF)**

- Cash benefits
  - Title of program: Provident Fund
  - Legal Framework: First law: 1951 (Provident fund) and revised 1969 (Social Security) and 1991 (Provident Fund)
  - Outline: A compulsory savings scheme designed to cater to the retirement needs of private sector employees
  - Types of System: Provident fund and social insurance
  - Types of Benefits & Payment Systems: A contribution constitutes the amount of money credited to members' individual accounts in the EPF. The amount is calculated based on the monthly wages of an employee. The current rate of contribution is 23% of the employee's wages of which 11% is from the employee's monthly wage while 12% is contributed by the employer.
  - Qualifying Conditions & the number of Beneficiaries: Private and non-pensionable public sector employees. The total number of active and contributing members is 6.11 million. The total number of active employers is 481,886.
  - Administrative Organization: Employees Provident Fund
  - Source of Funds: Employers and employees
  - Shortcomings: The EPF is divided into two main accounts: 70% of members' contributions are credited to Account I for retirement purposes, and the remaining 30% of their contributions are deposited in Account II that may be used for pre-retirement purposes, such as withdrawals for purchasing houses and financing pre-retirement expenses. The amounts and withdrawals of contributions had

increased over time. The increasing number of EPF withdrawals is a major concern as this could lead to the inadequacy of funds to finance retirement expenses.

### **Old Age – Under the Armed Forces Fund (AFF)**

- Cash benefits
- Title of program: Lump Sum Withdrawal Inclusive of Dividends and Bonuses
- Legal Framework: Parliament Act 1973 (Act 101)
- Outline: The main objective is to provide retirement benefits and other benefits for members of other ranks Malaysian Armed Forces (compulsory contributors) and a savings scheme for officers and members of the Armed Forces of the volunteer forces.
- Types of System: Pension and bonus
- Types of Benefits & Payment Systems: The rate of a current member's contribution to the fund is 10% of the monthly salary, with an additional 15% contribution from the government. The government portion is paid to the Consolidated Pension Fund for payment as monthly pension. Voluntary contributors may withdraw their savings at any time but they are allowed to be contributors again even though their first withdrawal had been made. The scheme acts as a savings scheme that permits them to contribute voluntarily to the fund. The contribution starts from a minimum of RM25 up to a maximum of RM750 (subject to contributions being in multiples of RM5). Voluntary members will not receive any additional contribution from the government. An added advantage of being a member, whether compulsorily or voluntarily is that members enjoy the disablement benefit scheme and their dependents gain from the death scheme.
- Qualifying Conditions & the number of Beneficiaries: Contributors are the serving members in the Armed Forces. The numbers of beneficiaries are 24,325.
- Administrative Organization: Armed Forces Malaysia
- Source of Funds: Government and armed forces member
- Shortcomings: This program only for military and a rather small and do not play a crucial role in the social welfare system in Malaysia.

## Old Age – Under the Department of Social Welfare

- Cash benefits
  - Title of Program: Financial Assistance for the Older Person
  - Legal Framework: Not applicable
  - Outline: To support the poor elderly so that they continue to live and lead a normal life with care, concern and support from their local community
  - Types of System: Old age allowance
  - Types of Benefit & Payment Systems: RM150 for each person, monthly allowance
  - Qualifying Conditions & the number Beneficiaries: Elderly, age 60 and above, those with no sources of income, and those with no family or family members who can provide or contribute to them. Total 99,399 older persons are receiving allowance.
  - Administrative Organization: Department of Social Welfare
  - Sources of Funds: Government
  - Shortcomings: Most of the elderly in Malaysia today worked prior to their retirement age in menial jobs with low pay such as being a labourer or a farmer. Among the female elderly, half were never involved in the laborforce. Thus, for these elderly (who are poor and do not have the ability to earn) most of their incomes comes from transfer such as money from aids, *zakat* (i.e., an Islamic taxation compulsory upon Muslims to help designated beneficiaries which include the destitute and the poor) and public assistance; such as, *Bantuan Orang Tua* (Assistance for the Elderly) provided by the Department of Public Welfare. Since formal income support such as assistant for elderly is not widespread in Malaysia, elderly income security is heavily dependent on non-formal sources, especially transfers from adult children and grand sons.

## Old Age – Under the Department of Social Welfare

- In-kind benefits
  - Title of Program: Old Folks Home - Rumah Seri Kenangan (RSK), Rumah Ehsan
  - Legal Frame-work: The Destitute Persons Act (1977) and revised Rules for the Management of Old Folk Home 1983

- Type of System: Home help services
- Types of Benefits:
  - i) Day-care Centres for Elderly - To provide facilities to care for the elderly especially those living alone or those with family members or guardians out of work.
  - ii) Activity Centres for Elderly - To provide facilities for the elderly to meet and be involved in societal activities, sports or recreation, religious activities and others, so that they remain active and productive.
  - iii) Home Help Services - To provide services to poor elderly people who live alone or with families but need help. Trained volunteers visit them to assist in their daily chores such as housework, to keep them company, to help them buy groceries, pay bills and do basic health care for them.
  - iv) Mobile care Unit of Elderly - This mobile unit, an extension to the Home Help Service provides transportation for the elderly to the hospital or clinics.
- Outline: To provide care and protection to the destitute elderly and to give them a harmonious and a peaceful living environment
- Qualifying Conditions & the number Beneficiaries:
  - For RSK - Destitute, aged 60, has no infection illness, has no family or next-of-kin, and has no permanent home and able to take care oneself. Number of beneficiaries is male 1,226 and female 72.
  - For *Rumah Ehsan* - Aged 60 and above, those who are independent, those with no families or care providers, those with no infection illness and no sources of income or incapable of self-support. Application is done voluntary, accordingly to the rules of the Management of Destitute Patients Home 1978. Number of beneficiaries is male 110 and female 102.
- Administrative Organization: Department of Social Welfare
- Sources of Fund: Government
- Shortcomings: This program is not sufficient to help all the elder persons in Malaysia. This scheme is strictly means-tested, and low income is the principle determinant of eligibility. However, benefits are not provided for claimants who have relatives that are liable and able to support them. There is a tendency for benefits to be biased towards claimants in the urban areas as most rural dwellers are excluded either through ignorance or through the administrative procedures of receiving and processing

applications in the large urban centres This program is not sufficient to help all the elder persons in Malaysia.

### **Disability – Under Department of Social Welfare**

- Cash Benefits
  - Title of Program: Incentive Allowance for Disabled Workers
  - Legal Framework: Not applicable
  - Outline: To sustain an income to meet the basic needs for persons with disabilities (PWD's). As an incentive to encourage PWD's to be employed independence and be a productive member of a community. To improve the standards of living of PWD's in the community.
  - Types of System: Monthly allowance
  - Types of Benefit & Payment Systems: RM300 for each person, monthly allowance.
  - Qualifying Conditions & the number of Beneficiaries: Those are registered with the Department of Social Welfare, and self employed or an employee. In addition, those with a monthly income not more than RM1200, excluding family income, 16 years old and above and not a residence in any institutors that provides food, shelter, and clothing. Number of beneficiaries is total 35,084 persons.
  - Administrative Organization: Department of Social Welfare
  - Sources of Fund: Government
  - Shortcomings: This scheme only for applicable those income not more than RM1200

### **Disability – Under Department of Social Welfare**

- Cash Benefits
  - Title of Program: Financial Assistance for PWD's who are incapable of work
  - Legal Framework: Not applicable
  - Outline: To help sustain an income for PWD's who are incapable of work. To increase their quality of life especially for persons with disabilities who are incapable of work and to avoid or minimize their admission into welfare institutions.

- Types of System: Monthly allowance
- Types of Benefits & Payment Systems: RM150 for each person, monthly allowance
- Qualifying Conditions & the number of Beneficiaries: Citizen of Malaysia, residing in the country and individuals' source of income is not more than the eligible criteria for financial assistance. The source of income refers to all individuals' income including pensions, PERKESO, monthly assistance, insurance etc. PWD's who are registered with department of social welfare; those with disabilities which are not clearly defined will have to be certified by the medical officer, those of the age between 18 to 59; those who are not recipient of financial assistance scheme of the Department of Social Welfare, those who are not participants of the Community Based Rehabilitation programme by the government or NGOs. Assistance may be also be considered to those families receiving monthly financial assistance, including those taking care of bed-ridden, disabled and chronically ill and their income is below the eligible criteria for financial assistance. Number of beneficiaries is total 14,799 persons.
- Administrative Organization: Department of Social Welfare
- Sources of Fund: Government
- Shortcomings: Financial Assistance for PWD's who are incapable of work and the rehabilitation program for disabled is not sufficient and available in Malaysia

### **Disability – Under Department of Social Welfare**

- Cash Benefits
  - Title of Program: Financial Assistance for Carers of Bed Ridden Disabled and Chronically Ill
  - Legal Framework: Not applicable
  - Outline: To help reduce the financial burden of family member providing care to the PWD's or chronically ill. To encourage better care for PWD's or chronically ill, to improve the quality of life of this target group, to avoid or minimize their admission into welfare institutions, and to strengthen family relationships.

- Types of System: Monthly allowance
- Types of Benefits & Payment Systems: RM300 for each person, monthly allowance
- Qualifying Conditions & the number of Beneficiaries: Applicant has to be the family member providing care to the PWD's or chronically ill, citizens of Malaysia, residing in the country, those who have a family income of less than RM3, 000 a month and families who are needy and poor. Number of beneficiaries is total 17,297 persons.
- Administrative Organization: Department of Social Welfare
- Sources of Fund: Government
- Shortcomings: Financial Assistance for Carers of Bed Ridden Disabled and Chronically Ill, the rehabilitation program is not sufficient and available in Malaysia for family well-being.

### **Disability – Under Department of Social Welfare**

- Cash Benefits
  - Title of Program: Launching Grant
  - Legal Framework: Not applicable
  - Outline: To provide financial assistance to the target group who are keen and have the potential to be enterprising or to be involved in small business; to encourage financial assistance recipients to be independent and to improve their quality of life, and not to be dependent of government's assistance.
  - Types of System: One off allowance
  - Types of Benefits & Payment Systems: RM2, 700 (one-off)
  - Qualifying Conditions & the number of Beneficiaries: Recipients (or family members) monthly assistance; person with disabilities who are currently receiving services from the department; former trainees of welfare institutions and cases under supervision or on probation. Number of Beneficiaries is total 598 persons.
  - Administrative Organization: Department of Social Welfare
  - Sources of Fund: Government
  - Shortcomings: Formal sector employees are covered by an Employee Provident Fund (EPF), a contributory pension programme, and by an

insurance programme (SOCISO) that helps workers who are victims of industrial accidents. There is no programme that offers minimum income protection against adverse business cycles or other shocks to income.

### **Disability – Under Department of Social Welfare**

- Cash Benefits
  - Title of Program: Financial Assistance Artificial Aids or Assistive Devices
  - Legal Framework: Not applicable
  - Outline: To help PWD's who cannot afford artificial aids such as artificial legs, and arms, callipers, crutches, wheelchairs, special glasses, special shoes, and other support, tools, that are recommended by the doctors or specialist. To assist PWD's to improve their capabilities and to be self reliance.
  - Types of System: Artificial aid
  - Types of Benefits & Payment System: The actual price of the artificial aid or assistive devices.
  - Qualifying Conditions & the number of Beneficiaries: PWD's who are registered with the Department of Social Welfare, persons and recommended by doctors and specialist. Those who are needy and cannot afford their own artificial aids or support tools. Number of beneficiaries is total 1,271 persons.
  - Administrative Organization: Department of Social Welfare
  - Sources of Fund: Government
  - Shortcomings: In carrying out the preventive and rehabilitative measures for person with disabilities, assistive devices are major requirements of people with disabilities. Therefore, production and distribution of assistive devices are being arranged to provide the necessary assistive devices to disabled persons through department of social welfare is not sufficient and available for all disable persons in Malaysia.

### **Disability – Under the Armed Forces of Malaysia**

- Cash Benefit
  - Title of Program: Death and Disablement Benefits Scheme
  - Legal Framework: First law: Parliament Act 1973 (Act 101)
  - Outline: To help the armed forces member for better life
  - Types of System: Death and disable allowance
  - Types of Benefits & Payment Systems: Compulsory and voluntary contributors are automatically covered under the Armed Forces Death and Disablement Benefits Scheme. This scheme is designed to provide the contributors with a fair sum of money upon discharge from service due to infirmity of mind or body, or to the next of kin upon death while in service.
  - Qualifying Conditions & the number of Beneficiaries: Under the superannuation scheme, serving members of the other ranks in the Armed Forces are required to contribute 10% of their monthly salary to the Armed Forces with the government as employer contributing 15%. For officers, participation is voluntary and the contributions are a minimum of RM 25 with a maximum of RM750 monthly. The number of beneficiaries is 530.
  - Administrative Organization: Malaysian Armed Forces
  - Sources of Funds: Armed forces members and government
  - Shortcomings: This scheme only for military personnel not for all citizens in Malaysia.

### **Disability – Under the Employment Provident Fund (EPF)**

- Cash benefits
  - Title of Program: Social Insurance
  - Legal Framework: 1951 (Provident fund) and revised 1969 (Social security) and 1991 (Provident fund)
  - Outline: To help the disable people by pension fund
  - Types of System: Provident fund and social insurance
  - Types of Benefits & number of Beneficiaries: A reduced pension is paid if contributions were paid for at least 33.3% of the months since first becoming insured; with a total of at least 24 months of contributions. The degree of disability is assessed by the medical board appointed by the

Social Security Organization in consultation with the Ministry of Health. The minimum monthly disability pension is RM250.

- Qualifying Conditions & the number of Beneficiaries: Constant-attendance supplement: Paid if the insured requires the constant attendance of others to perform daily functions, as assessed by the Social Security Organization's medical board.
  - Invalidity grant: Paid if the insured is not eligible for a disability pension but has at least 12 months of contributions and has been assessed as disabled by the Social Security Organisation's medical board.
  - Funeral grant: The deceased received or was entitled to receive a disability pension. The grant is paid to the insured's dependents or next of kin.
  - Disability pension: Must have at least 24 months of contributions in the last 40 months; or must have contributions in at least 66.7% of the months since first becoming insured, with a total of at least 24 months of contributions. The number of beneficiaries is 17,297 disabled persons.
- Administrative Organization: Employment Provident Fund
- Source of Funds: Insured person, self-employed person, employer and government.
- Shortcomings: Social security programs in Malaysia offer different levels of benefits different groups of workers with those in government employment receiving the best benefits and those in the informal sector virtually nothing.

### **Disability – Under Employment Provident Fund**

- Cash benefits
  - Title of Program: Permanent Disability Benefits
  - Legal Framework: First law: 1951 (Provident fund) and revised 1969 (Social security) and 1991 (Provident fund)
  - Outline: To help the disable people by pension fund and social insurance
  - Types of System: Provident fund and social insurance

- Types of Benefits & number of Beneficiaries: Incapacitation benefit (provident fund): A lump sum of total employee and employer contributions (Accounts 1 and 2) plus compound interest minus drawdown payments is paid. The interest rate is set annually by the government on the recommendation of the Employees Provident Fund Board. Additional benefit (provident fund): A lump sum of RM5, 000 is paid.
  - Disability pension (social insurance): The pension is 50% to 65% of the insured's average monthly earnings in the 24 months before the disability began, depending on the number of contributions paid. The maximum pension is 65% of the insured's average monthly earnings in the 24 months before the disability began. The maximum monthly earnings used to calculate benefits are RM 2,950.
  - Reduced disability pension: The pension is 50% of the insured's average monthly earnings in the 24 months before the disability began. The minimum monthly pension is RM 250.
  - Constant-attendance supplement: 40% of the insured's pension (up to RM 500 a month).
  - Invalidity grant (social insurance): A lump sum of total employer and employee contributions plus interest is paid. The minimum annual interest rate is 4%.
  - Benefit adjustment: Social insurance benefits are adjusted according to changes in the cost of living and the financial health of the fund.
  - Temporary Disability Benefits: The benefit is 80% of the insured's average daily wage in the 6 months before the disability began. The insured must be certified by a medical doctor to be unfit for work for at least 4 days. The benefit is paid for the period the employee is on medical leave. The minimum daily benefit is RM10. The maximum daily benefit is RM 78.70.
  - Permanent Disability Benefits: For a total (100%) disability, the pension is 90% of the insured's average daily wage in the 6 months before the disability began. The minimum daily benefit is RM 10. The maximum daily benefit is RM 88.50.

- Constant-attendance supplement (total permanent disability): 40% of the insured's pension (up to RM 500 a month) is paid if the insured requires the constant attendance of others to perform daily functions, as assessed by the Social Security Organization's medical board.
- Partial disability: A percentage of the full pension is paid according to the assessed degree of disability. The minimum daily benefit for a permanent partial disability is RM10.
- Workers' Medical Benefits: Benefits include necessary medical treatment, hospitalization, medicine, artificial limbs and other prosthetic appliances, and physical and vocational rehabilitation. Care is provided in government hospitals and by physicians under contract with the Social Security Organization.
- Qualifying Conditions & the number of Beneficiaries: If the disability is assessed as less than 20%, the insured can request the benefit as a lump sum. If the disability is at least 20%, the insured is paid monthly payments or pension, and may request up to 20% of the benefit as a lump sum. The medical board appointed by the Social Security Organization, in consultation with the Ministry of Health, assesses the degree of disability. Benefit adjustment: Benefits are adjusted according to changes in the cost of living and the financial health of the fund. The number of beneficiaries is 18,943 disabled persons.
- Administrative Organization: Ministry of Finance, Employees Provident Fund, Ministry of Human Resources and Social Security Organization (SOCSO).
- Source of Funds: Insured person, self-employed person, employer and government.
- Shortcomings: Only formal sector employees are covered by an Employee Provident Fund (EPF), not for all employees in Malaysia.

### **Survivors – Under EPF & SOCSO**

- Cash Benefits
  - Title of Program: Survivor Benefits

- Legal Framework: First law: 1951 (Provident fund) and revised 1969 (Social security) and 1991 (Provident fund)
- Outline: To help the survivor people by pension fund and social insurance
- Types of System: Provident fund and social insurance
- Types of Benefits & Payment Systems: Survivor benefit (provident fund): A lump sum of total employee and employer contributions (Accounts 1 and 2) plus compound interest minus drawdown payments is paid. The interest rate is set annually by the government on the recommendation of the Employees Provident Fund Board. The interest paid by the Board in 2009 was 5.65%. Additional benefit (provident fund): A lump sum of RM 2,500 is paid. Reduced survivor pension: The pension is 50% of the deceased's average monthly earnings in the 24 months before death. The minimum monthly survivor pension is RM 250.
  - Funeral grant (social insurance): Up to RM 1,500 is paid to the insured's dependants or next of kin.
- Qualifying Conditions & the number of Beneficiaries: Survivor pension (social insurance): If the deceased was a disability pensioner, 100% of the disability pension is paid; if the deceased was employed, 50% to 65% of the insured's average monthly earnings in the 24 months before death are paid, depending on the number of contributions.
  - The survivor pension is split as follows: 60% of the benefit is paid to the eligible widower and 40% to eligible children. In the absence of the above, 40% of the benefit is paid to parents or grandparents and 30% to eligible siblings.
  - Benefit adjustment: Social insurance benefits are adjusted according to changes in the cost of living and the financial health of the fund.
  - The benefit is paid to the named beneficiary (non-Muslims) or administrator (Muslims). In the absence of a named beneficiary, the benefit is paid (in order of priority) to the administrator (Muslims), spouse, children, parents, and siblings.
  - Additional benefit: A lump sum is paid on the death of a fund member (up to age 55) to the dependent spouse (if married) or parents (if single) for the cost of the funeral.

- Provident fund benefits are paid in addition to social insurance benefits. All provident fund benefits are payable abroad.
- Survivor pension: The deceased had at least 24 months of contributions in the last 40 months prior to death; or contributions in at least 66.7% of the months since first becoming insured, with at least 24 months of contributions.
- Reduced survivor pension: A reduced pension is paid if the deceased paid contributions for at least 33% of the months since first becoming insured, with a total of at least 24 months of contributions.
- Eligible survivors include a widow (the widower if he was the insured's dependent) and unmarried children younger than age 21 (or until the completion of a first university degree, no limit if disabled). The spouse's pension ceases on remarriage.
- Other eligible survivors (in the absence of the above): Paid to the parents (grandparents if the parents are deceased) and to unmarried dependent brothers and sisters younger than age 21. The minimum monthly survivor pension is RM 250. The number of beneficiaries is 1,570.
- Administrative Organization: Provident fund: Ministry of Finance, Employees Provident Fund, Social insurance: Ministry of Human Resources and SOCSO
- Source of Funds: Insured person, self-employed person, employer, and government
- Shortcomings: Only formal sector employees are covered by SOCSO and an Employee Provident Fund (EPF), not for all employees in Malaysia.

### **Sickness – Under Department of Social Welfare**

- Cash Benefits
  - Title of Program: Immediate Federal Assistance Scheme
  - Legal Framework: Not applicable
  - Outline: To help poor that requires immediate assistance
  - Types of System: One of allowance

- Types of Benefits & Payment Systems: Amount for assistance (maximum) chronically ill patient RM 500
- Qualifying Conditions & the number of Beneficiaries: For groups who are needy and underprivileged and families with an income less than RM1,000 a month. The number of beneficiaries is 1,832.
- Administrative Organization: Department of Social Welfare
- Sources of Fund: Government
- Shortcomings: This scheme is not applicable and sufficient for all family in Malaysia

### **Work Injury**

- Cash Benefits
  - Title of Program: Insurance for work injury
  - Legal Framework: 1929 and revised 1969 (social security)
  - Type of program: Social insurance system
  - Types of Benefits and Payment Systems: Compulsory coverage of employees earning up to RM3,000 a month. Previously registered employees earning more than RM 3,000 must continue to contribute. Voluntary coverage is employees earning more than RM 3,000 a month, on agreement between the employer and the employee.
    - Exclusions: Household workers, members of the armed forces, government servants, persons in institutions, prisoners, spouses of business owners, and self-employed persons. Special system is application for public-sector employees.
  - Qualifying Conditions & number of Beneficiaries: There is no minimum qualifying period. Number of beneficiaries is total 34,020 persons.
  - Administrative Organization: SOCSO
  - Source of Funds: Insured person, employer
  - Shortcomings: SOCSO manages a social security system covering all working Malaysian citizens and their dependants but the penetration is not significant.

### **Unemployment – Under Department of Social Welfare**

- Cash Benefits

- Title of Program: Apprenticeship Allowance
- Legal Framework: Not applicable
- Outline: To assist youth who are children of financial assistance recipients of the Department of Social Welfare especially school dropouts, those unemployment or with social problems, to acquire training skills or internship.
- Types of System: Monthly allowance
- Types of Benefits & Payment Systems: RM200 for each person, monthly allowance
- Qualifying Conditions & number of Beneficiaries: Children, those are financial recipient from Department of Social Welfare and former inmates of institution under the Department of Social Welfare. Those are under supervision for delinquent cases, under the Department of Social Welfare, other client or department. Number of beneficiaries is total 1,342 persons.
- Administrative Organization: Department of Social Welfare.
- Sources of Fund: Government
- Shortcomings: Under this scheme, monetary benefits and other benefits as well as apprenticeship allowance are provided by the government and administered by the Department of Social Welfare, under the jurisdiction of the Ministry of National Unity and Social Development. These benefits are not sufficient form unemployment. The plight of workers becomes even more critical as there is no welfare programme for the unemployed in Malaysia.

### **Family Allowance – Under Department of Social Welfare**

- Cash Benefits
  - Title of Program: Financial Assistance
  - Legal Framework: Not applicable
  - Outline: To give assistance to the targeted group of the Department of Social Welfare who are underprivileged, in order to temporary lighten their financial difficulties or until they become self reliance
  - Types of System: Monthly allowance

- **Types of Benefits & Payment Systems:** The amount for the Public Assistance differs in each state as the following: Perlis: RM50—RM150, Kedah: RM80—RM350, Pulau Pinang: RM60—RM200, Perak: RM50—RM115, Selangor: RM70—RM175, Negeri Sembilan: RM100—RM200, Melaka: RM140—RM230, Johor: RM50—RM115, Pahang: RM50—RM175, Terengganu: RM200—RM450, Kelantan: RM50—RM90, Sabah: RM70—RM175, Sarawak: RM60—RM250.
- **Qualifying Conditions & the number of Beneficiaries:** Each state has its own public assistance and eligibility requirements. Allocated of funds also varies in each state. Assistance will be given to underprivileged families who are needy. The number of beneficiaries is 23,679.
- **Administrative Organization:** Department of Social Welfare.
- **Sources of Fund:** Government
- **Shortcomings:** The Federal government sets limits for the amount of public/social assistance given to claimants. Benefits are based on the total monthly income of a family.

### **Family Allowance – Under Department of Social Welfare**

- **Cash Benefits**
  - **Title of program:** Financial Assistance for Children
  - **Legal Framework:** Not applicable
  - **Outline:** To assist underprivileged, needy children so that they could continue living with their family and get affection, care and attention. To nurture and strengthen the family institutions so that parents become independent and continue to provide proper care for their children.
  - **Types of System:** Monthly allowance
  - **Types of Benefits & number of Beneficiaries:** Minimum RM100 for each person, monthly and maximum RM450 for each family with more than 4 children.
  - **Qualifying Conditions & number Beneficiaries:** For families who are taking care for their children; children for the age of 18 and below; children who are orphan; and children with parents or guardians who

are incapable to care for them or who have lost their sources of income due to weakness, disabilities, diseases or imprisonments. Number of beneficiaries is total 66,912 children.

- Administrative Organization: Department of Social Welfare.
- Sources of Fund: Government
- Shortcoming: Monthly allowances are given at a rate of RM100 per person, up to a maximum of RM450 per family. This allowance is not sufficient for family welfare.

▪ Cash Benefits

- Title of program: Financial Assistance for Foster care Children
- Legal Framework: Not applicable
- Outline: To encourage children to continue living in their community and not be admitted into any welfare institutions; to place children from welfare institutions into foster families so that they can experience that attention and affection of healthy family environment, and live on a societal surroundings; to recognized the rights of the child for protection and assistance when living with foster families; and to recognized the role and responsibility of foster families who are entrusted to take care of the children.
- Types of Benefits & Payment Systems: Minimum RM250 for each child, monthly and maximum RM500 for each family who cares for 2 or more children, monthly.
- Qualifying Conditions & number Beneficiaries: Children, who are age 18 and below, orphaned, staying with foster families; and not placed under the Child Adoption Act 1952; and placed under the Foster Care Scheme and not fixed income limit for foster families. Number of beneficiaries is total 140 children.
- Administrative Organization: Department of Social Welfare.
- Sources of Fund: Government
- Shortcomings: Monthly allowances are given at a rate of RM250 each child, up to a maximum of RM500 per family. This allowance is not available and sufficient for family welfare in Malaysia.

- Cash Benefits
  - Title of program: School Aid
  - Legal Framework: Not applicable
  - Outline: To provide assistance to children of poor needy families so that they can continue with their schooling and to ensure that all children are given their rights to get primary and secondary school education, minimizing school dropouts.
  - Types of Systems: Annual allowance
  - Types of Benefits & Payment Systems: The actual price of school fee, exam fee, work book, transportation fee, School uniform amounting to RM180 per child for a year (primary) and RM220 per child for a year (secondary).
  - Qualifying Conditions & the number of Beneficiaries: Underprivileged children's orphans, and PWD's, children of parents, who are needy, unemployment, weak due to disability or disease or under imprisonment or in detention, the monthly income of parents or guardian is below the eligibility criteria for financial assistance. Number of Beneficiaries is total 6,209 students.
  - Administrative Organization: Department of Social Welfare
  - Sources of Fund: Government
  - Shortcomings: Children have been largely protected from the adverse impact of the economic crisis due to the social safety nets that were already in place. The government's provision of universal benefits, notably free education and health care, as well as subsidies on a number of essential commodities, have been able to ensure that most children and poor families do not fall through the gaps. Concerns remain with regard to the comprehensiveness of the social safety nets, with only limited coverage rates of programmes specifically targeted at poor families and children, and many particularly vulnerable children out of reach of school-based social interventions such as school aid programmes.

## **Challenges for Poverty Reduction in Malaysia**

### **Migrant Workers Issues**

Globalisation, liberalisation and Malaysia's current development policies pose numerous challenges, which have direct and indirect implications for poverty. The urban poor, the near poor and migrant workers were affected by contraction in employment, resulting in unemployment and retrenchment by the financial crisis 2008. The increasing numbers of foreigners in poverty in the post crisis of 2008 have contributed to the increasing incidence of poverty. The crisis also pushed the issue of foreign workers to the forefront of policy debate for several reasons. The presence of migrant workers, their remittance abroad, perceived competition between local and migrant workers for employment and the anticipated influx of large numbers of foreigners from neighbouring countries caught up in severe turmoil all emerged as pressing concerns. Foreign workers account for about 20% of the labour force and this has important implications for poverty, and human resource development (Nair, 2010). The tightening labour market of the nineties saw a large influx of foreign workers both legal and illegal into the country.

The presence of foreign workers exacerbates poverty problems especially in the urban areas with demand on amenities like housing health and education. In addition the presence of foreign workers intensifies the competition for employment in the informal sector and for low wage jobs. The easy availability of unskilled workers at low wage rates intensified during the crisis contributed to wage rates being depressed and reluctance on the part of employers to increase wage rates, invest in capital intensification and human resource developments thus resulting in low productivity. Rural urban migration and the influx of foreign migrants both legal and illegal exacerbate the increase in the number of urban poor households. This has important policy implications and resolving urban poverty problems require different approaches from those adopted for the rural sector.

### **Ethnic Issues**

Racial and regional disparities in academic performance in subjects critical to the economy have been observed the performance of '*Bumiputra*' (son of land) and rural students fall below that of the urban and non '*Bumiputra*' students if remedial measures are not undertaken to the benefits of the economy will elude segments of the population widen racial inequality and increase the digital divide between the poor and non poor.

While in the past rural poverty especially amongst the *Bumiputra* has been the major focus of poverty eradication efforts the ethnic conflict has brought relative and urban poverty to the forefront. Issues pertaining to relative and urban poverty have to be addressed within the context of the delicate nature of ethnic relations in the country and different policy prescriptions and programmes are needed to resolve poverty problems (Nair, 2010).

The notion and perception of poverty in Malaysia was that of rural poverty and because the Malays were dominant in the rural sector poverty among the rural Malays shaped the official national level conceptualisation of poverty. The NEP focussed on eradicating mainly Malay poverty and the policies and efforts for poverty eradication became highly ethnicised.

### **Poverty Line Income Issues**

The current approach to poverty measurement is not radically different from previous plans. Poverty continues to be defined in absolute and relative terms with the recognition that poverty programmes needed to be more target specific and pockets of poverty had to be eradicated. There have been changes in the manner in which relative poverty has been conceived. While in the past the bottom 40% of the population was defined to be in relative poverty, under the current Plan it is the bottom 30% of the population. The rationale for redefining relative poverty from the bottom 40% of the population to 30% is not clear. The redefinition of relative poverty makes inter-temporal comparisons difficult. In addition, an eligibility criteria of RM1200 (US\$400) has been stipulated for assistance which is 2.3 times the PLI of Peninsular Malaysia (Nair, 2010). What this appears to suggest is that despite being classified as being above the PLI households still needed assistance to improve their quality of life. This raises serious questions as to the usefulness of existing PLIs to demarcate the poor from the non-poor households. In addition, it is not clear as to which income cut-off is to be used to identify the beneficiaries of poverty eradication efforts.

- According to the government of Malaysia, if a household earn of (four persons) RM900 (US\$300), RM1,000 (US\$333.34) or even RM1500 (US\$500) a month, they cannot be considered as poor. Therefore, the families and more media

reports complaining that they cannot meet their basic needs even they earn RM2,000(US\$666.67). Here, the government how will calculate the poverty line.

- The World Bank standard recommends that medium-income countries should calculate PLI based on US\$2 (RM6.20) per individual per day. Meaning one person would need US\$2 per day in order to meet both food and non-food necessities if that figure is used for Malaysia a theoretical household of 4.4 people will need RM858 a month to not be declared poor. Here PLI is not correct.
- Britain and Australia calculate PLIs based on the median income of its households. The median income is a country's total income divided by half. The PLI is two-thirds of the median income. In Malaysia the median income is RM2,830 (US\$944). Using this method, the PLI will be RM1,886 (US\$629).
- The government considers a household as comprising an average of 4.4 members (Total number of households divided by total population = 4.4). The PLI of monthly RM763 (US\$254), therefore, is translated into a daily income of RM25.45 (US\$8.50) that a household needs to meet the eight components such as food, rent, clothing and fuel and so on. Therefore, it is impossible to meet basic needs by this small amount of money.

### **Climate Change Issues**

Climate change is a global issue with significant implications for Malaysia. Carbon dioxide (CO<sub>2</sub>) from fuel combustion and deforestation activities contributes to global warming and has caused a shift in the climate system. During the Plan period (2011-2015), Malaysia will adopt a dual strategy in addressing climate change impacts: firstly, adaptation strategies to protect economic growth and development factors from the impact of climate change; and secondly, mitigation strategies to reduce emission of greenhouse gases (GHGs) (Economic & Planning Unit, Malaysia, 2010).

### **Analysis**

Since independence in 1957, Malaysia has successfully transformed itself from a poor country to a middle-income country. The incidence of poverty has been drastically reduced from 49.3% in 1970 to only 3.8% in 2010, with hardcore poverty

nearly eradicated, declining to 0.7% in 2009 (Abidin & Rasiah, 2009). Malaysia can effectively declare victory in its fight against poverty. Nevertheless, pockets of poverty remain both in terms of specific geographies and particular communities. The government remains committed to transmitting assistance and welfare to the poor and vulnerable. Special programmes are being undertaken to address poverty on a sustainable basis, especially in terms of providing income generating opportunities, such as through agro-politan projects. Since the face of poverty is no longer purely a rural phenomenon, specific interventions will also be targeted towards the urban poor, such as through micro credit schemes (Hew, 2008). The government has also expanded programmes involving practical on-the-job training through the vocational dual training system and also through graduate internship programmes. Internships, soft-skill training and job placement initiatives will be targeted towards unemployed graduates. Under the two economic stimulus packages during financial crisis in 2008, 76,940 unemployed graduates, school leavers and displaced workers were trained. Lifelong learning programmes were enhanced through the expansion of distance learning, e-learning, retraining and skills-upgrading offered by various institutions. At the local level, community colleges assumed a greater role in implementing retraining and skills-upgrading programmes, benefiting a total of 507,940 participants (Abidin & Rasiah, 2009).

Malaysia has experienced a period of high economic growth over the last few decades, propelling the nation from an agricultural and commodity-based economy to become a prosperous thriving middle-income nation. Malaysia's real GDP has grown by an average of 5.8% per annum from 1991 to 2010. This growth rate has helped improve the quality of life for Malaysians and supported widespread advances in education, health, infrastructure, housing and public amenities. During the Ninth Malaysia Plan period, 2006- 2010, the country progressed in the achievement of the National Mission to transform Malaysia into a developed nation by 2020. Though the growth momentum has recently slowed down due to the global economic and financial crisis, public spending through the two economic stimulus packages and accommodative monetary policy have helped the nation recover.

During the Ninth Plan period, despite a slower growth in employment of 1.6% per annum, 0.9 million jobs were created, mainly in the services sector. With the labor

force increasing by 1.7% per annum during the period of 2006 to 2009, the unemployment rate increased slightly from 3.5% in 2005 to 3.7% in 2009. Despite this slight increase in unemployment, Malaysia remains in full employment position. The unemployment rate is expected to improve marginally to 3.6% in 2010. The quality of life for Malaysians improved through better access to healthcare, public transport, electricity and water. Measures were also taken to create a caring society and promote community well-being (Hew, 2008). Economic development was based on sustainability principles to ensure that the environment and natural resources are preserved so that growth will not come at a cost to future generations.

On the other hand, about 17,400 People with Disabilities (PWDs) benefitted through 409 community-based rehabilitation centres. These centres provided services such as disability screening and detection, vocational training, and dissemination of information on disabilities. A policy and an action plan on PWDs were formulated in 2007 with the aim of integrating PWDs into the mainstream of society.

Employment opportunities for PWDs were enhanced through various policies in the public sector. A total of 7,975 PWDs was placed in the private sector through the electronic labor exchange system for PWDs. The National Policy and Action Plan for the Elderly was revised to enable the elderly to realise their potential and utilise all possible opportunities. Various facilities and privileges for the elderly such as special counters and seating areas in government agencies were introduced. Existing institutions for the elderly were upgraded to provide better care and services. A total of 22 day care centres was established to take care of 16,300 older persons.

While poverty has been substantially reduced, a significant 40% of Malaysian households still earn less than RM2,300 (US\$766.66) a month. Income disparity and economic differences between Sabah and Sarawak on the one hand, and Peninsular Malaysia on the other, as well as between rural and urban areas within Peninsular Malaysia, must be appropriately and effectively addressed. Towards this end, both the New Economic Model and the Tenth Malaysia Plan, which emphasize inclusive growth, aspire to provide equal opportunities to all Malaysians.

Malaysia's success in reducing poverty was due to the policy of poverty eradication being made an integral part of the National Economic Plan (NEP). Poverty eradication programs were implemented alongside development plans and financial allocations for them were made in all the Malaysia Plans. Poverty eradication

measures targeted the rural area where the incidence of poverty was quite high. To that extent, rural development programs focused on agriculture and land reform were part of the social policy and welfare regime. In addition, agriculture will be linked to agro-based industry to move productivity up the value chain and increase the income generated by agriculture workers.

Besides agricultural programs, Malaysia has social programs and policies that benefit the public in general while targeting specific groups. General public welfare programs are the responsibility of the Department of Social Welfare under the Ministry of Women, Family and Community Development. While the number of social assistance payments and beneficiaries has steadily increased, payments tend to favor applicants in urban areas over those in rural areas. To improve the services and extend coverage, a national social welfare policy and national policy for the elderly were enacted. These policies, with other social policies, sought to address specific socio-economic issues that arose in particular periods.

### **Recommendation**

The study has suggested some recommendation that will enhance to economic development and poverty reduction. Focusing on skills development, especially in terms of up skilling the existing work force must be emphasized to facilitate industries to move up the value chain. Promoting the development of concentrated industrial clusters and supporting ecosystem towards enabling specialisation and economies of scale; increasingly targeting investment promotion towards investment quality (as opposed to just quantity), which support higher value add activities and diffusion of technology; and increasing public investment into the enablers of innovation, and venture capital funding. Skills training should be given special emphasis to develop the necessary human capital to meet industry's requirements and drive productivity improvements to move up the value chain.

Technical education and vocational training should be mainstreamed, with a focus towards raising the quality of qualifications. This is key towards providing a viable alternative to enable individuals to realise their full potential, according to their own inclination and talent. This principle necessitates a renewed focus on championing the interests of each and every community, ensuring no group is left behind or marginalised in the course of the nation's development. Social justice should be

required taking into consideration the respective levels of achievement of each community. The distributional policies of the Government will therefore be focused towards ensuring equality of opportunities for all.

During the Plan period 2010, the well-being of the urban bottom 40% households will be addressed through capability building programmes to improve their income and overall quality of life. Programmes to increase the incomes of rural households will focus on upgrading their skills, linking them to employers in nearby clusters and cities as well as providing support for self employment, micro-businesses and small scale industries. Efforts will also be undertaken to increase the productivity and sustainability of agro-based activities through the adoption of modern agricultural technology and expansion of contract farming. Improving human capital productivity within rural agriculture and agro-based industries; and skills training in areas such as carpentry, tailoring, baking, hospitality, handicrafts, motor mechanics and food processing to support self-employment. The delivery of these training programmes will be tailored to the specific opportunities of target localities.

Over the past decade, Malaysia has invested heavily in post-secondary and higher education. Currently, the nation has established 20 public universities and 26 private universities, as well as 405 public skills training institutes and 584 private skills training institutes. In 2009, higher education institutions across the nation produced more than 181,000 graduates, including more than 81,000 graduates from private higher education institutions. Similarly, in 2009, skills training institutes produced more than 120,000 graduates, including more than 30,000 graduating from private skills training institutes (The Economic Planning Unit, Malaysia, 2010).

Malaysia's current workforce with tertiary education stands at 23%, whereas the average for Organisation of Economic Co-operation and Development (OECD) countries is nearly 28% . Furthermore, of the graduating students who were employed, 29% in 2006 and 33% in 2009 earned less than RM1, 500 (US\$500) per month. Employers and industry associations state that lack of soft skills, such as positive work ethics, communications, teamwork, decision making and leadership skills, is the primary factor with some, like Singapore and Finland, as high as 35%.

For students graduating from local higher education institutions in 2009, 27% remained unemployed six months after completion of their hampering employability of many Malaysian graduates. As there is still a sizeable gap between the competency levels of graduates and comparable international standards, the issue of graduate competency needs to be addressed to ensure that Malaysia has a skilled, well-rounded and employable graduate pool to enter the workforce. Although Malaysia has done remarkably well at the national level and is on track to achieving seven of the MDGs by 2015, there are pockets of difference sub nationally. These pockets need specific interventions to increase attention to the most vulnerable population groups in order to eliminate persistent inequalities between the rich and poor, between those living in rural, remote areas or urban slums and better-off urban populations, and among those disadvantaged by geographical location, gender, age, disability or ethnicity. In Malaysia need a new standard to measure poverty one that more accurately represents the cost of food, clothing, rent and other basic necessities, and how much it takes for an average family of four to keep themselves afloat in today`s Malaysia.

Much of the enabling policy framework is in place to ensure environmental sustainability. Still, Malaysia`s commitments to the global community and to itself – as attested by the various Malaysia Plans, by legislation and policies for environmental and resource management, green energy, physical planning and climate change – need to be followed up to ensure much better implementation, coordination, monitoring and evaluation. Malaysia should also develop appropriate incentives for states and the private sector to implement initiatives and to comply with national policies and objectives.

Rising temperatures are associated with volatile weather changes, shifts in rainfall patterns and climate zones and a rise in sea levels. Due to its climate and location, Malaysia is among the many economies that are likely to feel the force of climate events sooner, rather than later – in the form of coastal and inland flooding, rise in vector borne diseases, or drops in agricultural yields due to continuous occurrence of droughts (Nair, 2010). These events not only have the potential to destroy lives and communities, but also pose a significant economic risk. The government will review the value at risk for communities to develop a clear understanding of the cost-benefit trade-offs involved in averting or reducing the impact of such climate-

related hazards. During the Economic Plan (2011-2015), the government of Malaysia has allocated RM1.5 (US\$0.5 billion) billion to mitigate the poverty those person will be affected by natural disaster (Economic and planning Unit, Malaysia, 2010). It can also mitigated by social safety nets. During the Plan period, the following measures also will be taken (Economic & Planning Unit, Malaysia, 2010):

- Developing a robust risk framework to assess and quantify the climate risk faced by the economy and prioritises measures to address those risks;
- Implementing policy decision frameworks to ensure that future infrastructure investments are climate resilient; and
- Enhancing capacity in the field of climate prediction and modelling to develop stronger Malaysia-specific and sector-specific knowledge.
- Awareness: Increasing the level of awareness of all Malaysians that environmental sustainability is a shared responsibility. All levels of society need to play their part in protecting the environment, not only for the management of tangibles such as solid and liquid household and industrial wastes, but also intangibles such as electricity. To achieve this, the Government will pursue co-operative efforts with the private sector and civil society to bring this message to all Malaysians;
- Faculty: Increasing local capacity and capabilities in areas of relevant knowledge through introduction of green topics in the curriculums of schools and institutions of higher learning. The Government will also introduce a system for formulation of grading and certification mechanisms for competent personnel in green technology;
- Finance: Financial incentives will be critical in driving businesses to explore, adopt and innovate on green technology. A green technology soft loan scheme of RM1.5 billion has been launched to provide soft loans to companies that supply and utilise green technology, in which the Government bears 2% of the total interest rate and a guarantee of 60% on the financing amount and banking institutions back the remaining 40%. The Government will also implement tax incentives such as tax breaks for buildings and designs that work harmoniously with nature;
- Infrastructure: The Government will initiate green townships in Putrajaya and Cyberjaya with guidelines and rating scales based on carbon footprint.

The roll-out of these guidelines will be implemented for other green townships across the country;

- Research: The Government will enhance research, development and commercialisation efforts in green technology through local research centres and industries. The Government will encourage partnerships with foreign institutions such as universities or multi-national companies; and
- Marketing: Ministry of Energy, Green Technology and Water together with Standard and Industrial Research Institute of Malaysia (SIRIM), will develop a national eco-labelling scheme and standards for our products and services that matches international standards. This will in turn support the Government's green procurement initiative as well as assist local manufacturers to export their products. Increased labelling of environmentally-friendly goods and services such as Energy Efficiency Star Rating, Low Carbon Footprint Products and Green Building Index will increase Malaysia's competitiveness.

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**KIHASA International Workshop 2012**

**Poverty Reduction Policies in Selected Asian Countries: Trends, Strategies and Challenges**

## **Vietnam**

***By.* Dang Kim CHUNG**



## **PART I: INTRODUCTION**

### **1.1. Poverty reduction background in Vietnam**

The new economic background of Vietnam has changed dramatically since its entry into the World Trade Organization (WTO). Vietnam's accession into WTO in early 2007 marked an important landmark to the country, greatly affecting the economic growth in general and the effectiveness of poverty reduction in particular. Especially, once Vietnam has become the middle-income country, it will face with many new challenges when Official Development Assistance (ODA) or incentive credit loans from others countries and international organizations will decline. Meanwhile, Vietnam is still in the list of the middle-income countries that has the lowest GDP per capita. Vietnam must bring into play its endogenous capacity based on refining the institution of the market economy to avoid the traps of the middle-income economies. It is needed to develop the social protection system to ensure social security for the poor and vulnerable when economic crises occurs.

Owing to strong measures of the Government, Vietnam has been recognized for its quite successful achievements in overcoming the global economic and financial crisis caused by subjective and objective reasons. Vietnam is also dealing with the challenges caused by the insecure macro-economy. GDP growth is slowing down while Consumer Price Index (CPI) is increasing drastically. In 2008, CPI was 19.9 percent while in 2009, it still stood at 6.9 percent. In 2010, the index increased by 11.75 percent. By May 2011, it reached 12.07 percent<sup>5</sup>; however, it is estimated that CPI in 2011 will touch 19 percent. As a result, by May 2011, the inflation rate has increased more than 54 percent in comparison with that in 2007. This has greatly affected living standards of the poor.

A high increase in price has affected the life of almost all people in Vietnam. The most influencing groups are wage earners because they have no income source except for their salary. However, the most serious influencing group are the poor, especially those who are the target groups of the social protection programme because they lack of capacity to deal with it. As the findings from the Vietnam Household Living Standards Survey (2008) by GSO, spending on food of 20 percent of the poorest people account for about 60 percent of the total expenditure of the

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<sup>5</sup> GSO, annual and monthly statistic data in 2011.

households. The price continuously increases while people's demands of food keep constant; therefore, households have to cut down their spending for other purposes, including education, health and other essential ones. Though income gained from production - business - service activities of the poor household increases, however, that increase is small because the costs for inputs also grow. The target group of the social protection programme is the most vulnerable because the level of social protection benefit is very low (only equivalent to 40 percent of the poverty line) while they have no other income source.

According to the results from the review on poor households in 2010 by MoLISA in collaboration with GSO (the poverty line of 400,000 dongs per month per person for the rural areas and 500,000 dongs per month per person for the urban areas), currently, Vietnam has about 3 million poor households and 1.6 million nearly-poor ones (those that has the income equivalent to 1.3 times compared to that of the poor ones). The poverty line estimates to be adjusted when the CPI increases more highly. This will be a huge pressure for the formulation of rapid and sustainable poverty reduction policies based on creating capacity for the poor to actively deal with misfortunes and to self-escape from poverty.

## **1.2. Achievements on poverty reduction**

Over the past two decades, Vietnam has obtained impressive achievements in poverty reduction. The rate of poor households reduced to 9.45 percent in 2010 from 22 percent in 2005. The poor have been created with more favourable conditions to better access basic social services; infrastructure in the poor districts and communes has been enhanced; the living standards of the people in these areas have been improved dramatically. These achievements have been keeping Vietnam on the way to realize one of the most important Millennium Development Goals (MDGs), which has been highly recognized by the global community.

However, outcomes of the poverty reduction are not sustainable while a number of poor households have escaped from poverty. Their incomes are still nearby the poverty line. Annually, the rate of re-poor households is still high while there is a quite big gap between the rich and the poor among regions and population groups. The living standards of the poor, in general, are still challenging, especially in mountainous and remote areas where many ethnic minority groups are living. The

cause for the mentioned-above situation is that the country is facing with various challenges; therefore, though the state always invests great efforts on poverty reduction, people's demands have not much met. In addition, several programmes, policies on poverty reduction have not been comprehensive, short-term, lacked of closed coordination and cooperation while management mechanism, direction, task assignment from the central to local level are unreasonable, so realization of poverty reduction objectives in some areas and regions has not been effective. Moreover, a number of the poor are passive in self-escaping from poverty<sup>6</sup>.

### **1.3. New context of poverty**

Socio-economic context of Vietnam is changing while the nature of poverty and their influencing potentials to people's living standards is evolving. Poverty is not a prevalent phenomenon but a trend more focusing on ethnic minority groups in mountainous and remote areas; those who are easily vulnerable in a new working environment, new socio-economic process and due to rapid socio-economic development of Vietnam in recent years.

Features of the poor are also changing. Though almost all population groups are benefiting from a high economic growth which has been maintained over the past two decades, their participatory level in the development process is various, which has led to dramatic differences among population groups in terms of living standards, asset ownership and poverty reduction process.

Vietnamese society is becoming more diverse in comparison with that in the past two decades when the country began its "renewal" policy. Though Vietnam has been lifted out of the list of the poorest countries in the world, a number of people in the population have not escaped from the poverty trap. Poverty reduction programmes should be developed in accordance with specific characteristics of specific population groups in particular areas. They should focus on building capacity for the groups to have capacity to escape from poverty and achieve sustainable poverty reduction.

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<sup>6</sup> Resolution No 80/NQ-CP on guidance for sustainable poverty reduction in 2011-2020 period

#### **1.4. Guidance of the Government for 2011 – 2020 period**

On May 19<sup>th</sup> 2011, the Government approved the Resolution No 80/NQ-CP on guidance for sustainable poverty reduction in 2011 – 2020. This resolution affirms the determination of the Government in poverty reduction. Accordingly, sustainable poverty reduction is a key issue in the Socio-economic Development Strategy in 2011 – 2020 period to gradually improve and enhance the living standards of the poor, especially those in mountainous and remote areas; creating new strong and comprehensive changes in poor areas; narrowing gaps between rural and urban areas, among regions, ethnic and population groups<sup>7</sup>.

Specifically, by 2020, average income per capita in the poor households increases by 3.5 times; the rate of poor households declines by 2 percent nationwide; particularly in poor districts and communes, the rate of the poor households as the poverty line per year will reduce by 4 percent by period; living conditions of the poor will be remarkably improved in terms of health, education, culture, clean water, housing; the poor have more favourable conditions to access basic social services; socio-economic infrastructure in extremely poor districts, communes, wards, hamlets, villages will be focusingly invested according to the criteria for new rural areas, especially the essential infrastructure such as traffic, electricity and clean water. The resolution also proposes 06 support policies for common poverty reduction, including: (i) support for production, vocational training, employment, income increase for the poor; (ii) support for education and training; (iii) support for healthcare and nutrition; (iv) support for housing; (v) support for the poor to access legal aid services; (vi) support for the poor to enjoy cultural activities and information. In addition, the Government will also applies special poverty reduction policies for the poor households in the mountainous villages and hamlets nearby border areas. These villages and hamlets are not listed in the poor districts but the poor households here are unable to self-subsidize food.

#### **PART II: IMPLEMENTATION RESULTS OF THE POVERTY POLICIES**

For the poverty reduction effort, the Government has been developing a number of national programmes, projects and policies to support the poor in many fields. However, only three programmes that directly deal with the poor target group, including (i) Socio-economic Development Programme for the communes with

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<sup>7</sup> Resolution No 80/NQ-CP on guidance for sustainable poverty reduction in 2011-2020 period

extremely disadvantaged economic status in ethnic minority and mountainous areas in 2006-2010 period (Programme No 135 Phase II); (ii) National Targeted Programme on Poverty Reduction in 2006 – 2010 period; and (iii) Resolution No 30a on Rapid and Sustainable Poverty Reduction for 62 poor districts. The contents of the programmes focus on (i) assisting the poor to access basic social services and (ii) supporting production development.

## **2.1. Preferential credit policy for poor households**

### **2.1.1. Design of the policy**

The preferential credit policy for poor households play a key role in realizing the objective of poverty reduction. The goal of the National Targeted Programme on Poverty reduction in the next five year is that 06 million of poor households can access preferential credit loans to develop their production activities. Poor households do not have to mortgage their assets and are exempted from all administrative fees when accessing credit loans.

Current preferential credit programmes are applying different levels of interest. Only for the poor households, currently, there are 05 different levels of interest and they are too low in comparison with that in the market at the same time point<sup>8</sup>. The level of interest by the Resolution No 30a may be 0 percent so that the poor households can purchase breeding varieties for agricultural development or running small-scaled businesses. The highest level of interest is 0.65 percent per month.

### **2.1.2. Outputs of the implementation**

For incentive conditions (in addition to preferential interest) such as simple administrative procedure, no asset mortgage for loans, favourable method of capital transfer, VBSP organizes a monthly transaction in communes on a certain date, which has created favourable conditions for the poor to access credit resource more easily and be responsible for paying debts. Therefore, the rate of reclaimed loans and interest is high while the rate of overdue debts is low<sup>9</sup>.

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<sup>8</sup> VBSP, Report on the implementation and organization of preferential credit programmes in VBSP and recommendations, supplementations and amendment for the next period, 2010.

<sup>9</sup> VBSP, Report on the implementation and organization of preferential credit programmes in VBSP and recommendations, supplementations and amendment for the next period, 2010.

From 2003 – 2010, up to 10 Millions poor households could access preferential credit loans, in which, 2 million households escaped from poverty successfully. Total debts owned by poor households by 2009 were 32,400 billion dong and by September 2010, this number was 35,700 billion dong. As a result, about 2.2 million workers were employed; more than 2,012 thousand students and pupils with disadvantaged economic status could access credit loans; more than 2.5 million clean water and environmental sanitation works in rural areas have been built up; 74 thousand houses for the households in Mekong Delta to overcome floods; more than 277 thousand houses have been built for the poor households and those who are targeted by preferential state policies; more than 88 thousand workers in the households targeted by the preferential state policies have accessed credit loans to go abroad to work.

**Table 1: Poor households’ access to preferential credit policies**

Year	Rate of the poor households that have accessed preferential credit policies (%)		Rate of the poor households have not known about the policies (%)	
	Total	Ethnic minority	Total	Ethnic minority
2007	44.41	51.48	2.64	2.32
2008	42.52	51.18	2.59	2.11
2009	39.38	49.09	1.54	2.31
2010	41	50.9	1.48	2.03

*Source: Adopted from the data of VHLSS, GSO*

According to the data of VHLSS, the rate of poor households that could access preferential credit loans was 42.5 and 41 percent in 2008 and 2010, respectively. Only for poor ethnic minority households, this rate was remarkably higher (about 10 percent). It can be concluded that the coverage of preferential credit policies to the poor households is quite good because among the poor ones, due to various reasons, many of them have no demand of getting credit loans.

## **2.2. Policy on supporting vocational training for poor workers**

### **2.2.1. Design of the policy**

The policy on supporting vocational training for the poor was initiated in the National Targeted Programme on Poverty Reduction in 2006 – 2010 period. The objective of this policy is that in 05 years (2006 – 2010), there would be 150,000 poor people were exempted from training fees when participating in vocational training courses. The aim of this policy is to help the poor workers get stable non-agricultural jobs after participating in vocational training courses as self-employing or working for some production – business units. The creativeness for the policy is quite clear and suitable if its implementation is good. The poor would self-bring into play their capacity to self-escape from poverty.

### **2.2.2. Outputs of the implementation**

The set target in the National Targeted Programme on Poverty Reduction in 2006 – 2010 is that “by 2010, 150 thousand poor people would be exempted from vocational training fees”. As reported, by 2009, there were 100 thousand poor people that were trained freely in the Programme (as estimated, in 04 years, there would be 150 thousand poor workers trained freely, reaching 100 percent of the set target for 05 years). In which, more than 60 percent found jobs or self-generated jobs, contributing to increasing income for the poor households.

Supporting vocational training for poor workers tends to ensure number of participants but not the training quality, especially when the poor have low educational level. Many people do not know what to do with their acquired knowledge from vocational training courses.

Budget allocated for the vocational training component is often disbursed at the end of the year, which leads to the situation that local authorities have to try their best to organize the training course in time. As a result, training contents are not relevant to trainees’ demands and the use of budget is ineffective.

There are many poor households that have not participated in vocational training courses for different reasons as the training courses have not been organized; no

information about the programme or they do not have enough conditions to participate in the training<sup>10</sup>.

In general, there has not had a system to supervise and monitor the effectiveness of this policy, especially the matching between vocational training with employment. Similar to the training courses on agricultural extension, many vocational training courses have not been effective.

## **2.3. Policy on agricultural - forestry – fishery extension for poor households**

### **2.3.1. Design of the policy**

It can be affirmed that the agricultural- forestry - fishery extension (hereinafter agricultural extension) activity has created great impacts on income improvement for poor households via encouraging them to self-develop their production activities to self-escape from poverty. This achievement is illustrated by the rate of 68 percent of the households that have demand of agricultural extension. If only calculating the households in the agricultural production, this rate is up to 80 percent. Therefore, it can be confirmed that the deployment of agricultural extension is essential. Moreover, most of the poor households are active in the agricultural field.

### **2.3.2. Outputs of the implementation**

The set target in the National Targeted Programme on Poverty Reduction in 2006 - 2010 is that "in 05 years, there would be 4.2 million people were provided with agricultural extension activities". Overall, this target has been achieved. As reported by MARD, in 05 years, about 4 million people were provided with the ways and methods to do farming, 330 thousand households have been supported with different kinds of agricultural varieties and facilities<sup>11</sup>. Agricultural extension activities have changed awareness, way of thinking, way of farming, eliminating outdated farming practices. As a result, it has contributed to the improvement of income for the poor households.

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<sup>10</sup> MoLISA – UNDP, Mid-term Review Report for the National Targeted Programme on Poverty Reduction, 2009.

<sup>11</sup> MARD, End-of-project report for the project on agricultural – forestry – fishery extension and support for production and trade development under the National Targeted Programme in 2006-2010 period, 2010

Total budget for the implementation of the project on agricultural - forestry - fisher extension and support for production and trade group development in 2006 - 2010 period (62 provinces/cities and 03 associations) is 383 billion dong, about 76.26 billion dong per year and 1.2 billion dong per province per year on average. In which, the state budget for the project is about 295 billion, accounting for two-thirds of the total budget, 55.5 billion per year and 900 million dong per province per year on average. The contribution of local authorities account for about 5 percent of the total budget<sup>12</sup>.

As the results of the VHLSS in 2008 and 2010, the rate of poor households that benefited from this project fluctuated from 18 - 22 percent and it tends to reduce. The rate of poor ethnic minority households that benefited from the project doubled. The rate of households that did not know about the project in 2007 and 2008 was 8 - 9 percent. This rate was a half reduced in 2009 and 2010. This confirms that communication for the project was better done.

**Table 2: Rate of poor households that have accessed agricultural extension policies<sup>13</sup>**

Year	Rate of the poor households that have accessed the project (%)		Rate of the poor households that do not know about the project (%)	
	Total	Ethnic minority	Total	Ethnic minority
2007	22,34	43,15	9,29	8,71
2008	20,95	41,23	9,74	8,89
2009	18,38	33	4,46	3,82
2010	18,06	32,01	4,24	3,46

Source: Adopted from the data of the VHLSS, GSO.

The results of the qualitative survey with the poor households illustrate that 65 percent of the households participating in the training courses on agricultural extension have applied a part of their acquired knowledge for their production. This

<sup>12</sup> MARD, End-of-project report for the project on agricultural – forestry – fishery extension and support for production and trade development under the National Targeted Programme in 2006-2010 period, 2010

<sup>13</sup> Working out from the data of VHLSS 2008 and 2010, GSO

has contributed an important part for their self-escape from poverty. Agricultural extension activities are also very various depending on the demands of each locality such as supports with training courses, farming varieties, farming facilities, fertilizers, etc. In many localities, agricultural extension activities are carried out via models, which have attracted people's participation. Mass organizations also play an important role in improving farming skills for their members.

However, presented in many assessment reports, a quite number of inadequacies in this component can be seen as:

In three years from 2006 to 2008, though the budget disbursed for the component accounted for nearly 30 percent of the total budget for 2006 - 2010 period, this component faced no difficulty in achieving the set target for the whole period. This exposes the disconnection between the development of the plan and implementation. There is a high rate of poor households who do not want to participate in the training courses on agricultural extension because they believe that this activity is not practical to them. There is the situation that people are mobilized to the training courses to fill the gaps. The language used in the training courses are Kinh language (Vietnamese official language), so it is not suitable to ethnic minority groups. Agricultural extension activities only focus on supports for inputs but no attention to outputs. This is an important part in agricultural extension because the products of the poor can become market commodities to help them escape from poverty. Poor people's production also faces with many risks due to the impacts of price fluctuation and natural disasters.

There is a lack of connection between the training courses on agricultural extension and preferential credit loans. Therefore, after the training courses, many households do not have enough capital to develop their production as they are trained.

## **2.4. Policy on supporting healthcare for the poor**

### **2.4.1. Design of the policy**

Policy on supporting healthcare for the poor is a key concern in the National Targeted Programme on Poverty Reduction over periods to ensure social protection for them. The set target is that "by 2010, 100 percent of the poor were issued with free health insurance cards and they would be paid by health insurance fund when

they had health check-up and treatment. It can be confirmed that the policy on supporting healthcare for the poor was designed quite clearly and it has greatly contributed to improving living standards for the poor and nearly poor. The policy also gives priority to ethnic minority groups in the extremely disadvantaged economic areas targeted by the Programme No 135. In order to provide health insurance for all by 2014, the policy ensures 100 percent of the support for the face value of the health insurance cards for the poor and 50 percent for the nearly poor. That face value does not exceed 6 percent of the minimum wage.

In addition, the programmes focus on developing the network of health clinics to cover all the country. Diversifying forms of healthcare consist of fixed healthcare, mobile healthcare and basic healthcare. Level of payment for the poor patients as stipulated is 5 percent of the total expenditure for health check-up and treatment.

#### **2.4.2. Outputs of the implementation**

In 2010, 13.43 million poor and ethnic minority people and 800 nearly poor ones were provided with health insurance cards. Almost all 100 percent of the poor were issued with health insurance cards and most of them had the expire date of 12 months. 99 percent of the key respondents said that the procedure for health check-up and treatment using health insurance cards is simple and convenient.

Participation of nearly poor people in the policy is insignificant because they do not think that they will be sick when they get health check-up and this is also a burden in their family expenditure.

In general, this policy has caused positive impacts to ensure healthcare for the poor, greatly contributing to a decrease in daily spending of the poor households. 99 percent of the poor said that the procedure for health check-up and treatment using health insurance cards was simple and they satisfied with this service<sup>14</sup>.

### **2.5. Policy on supporting education for the students in poor households**

#### **2.5.1. Design of the policy**

In combination with the policy on supporting healthcare for the poor, the policy on supporting education for the students in poor households is also a key content in ensuring social protection for them. This policy is recognized as an efficient tool to

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<sup>14</sup> MoLISA – UNDP, Mid-term Review Report for the National Targeted Programme on Poverty Reduction, 2009.

contribute to sustainable poverty reduction, especially for ethnic minority groups. The set target is:

In the National Targeted Programme on Poverty Reduction: in 05 years from 2006 to 2010, there would be 10 million poor students to be exempted with tuition fees and other contributions to the schools. In addition, there would be additional support policies for ethnic minority students so that they had opportunities to go to schools. Therefore, in addition to support for poverty reduction in the future, these policies also play a key role in ensuring fundamental rights for people. Forms of support in the policy are quite various. In terms of target groups, the policies are designed for all pupils and students from kindergartens to upper secondary level and higher. There are more incentive policies for ethnic minority students in the extremely disadvantaged economic areas. Levels of support are also diverse depending on the family status of the students. For instance, exempting or reducing tuition fees, support of textbooks, notebooks, scholarships, meals, etc.

### **2.5.2. Outputs of the implementation**

In general, the policy on supporting education has obtained its set target. In 04 years from 2006 - 2009, about 8 million poor pupils had been exempted with tuition fees; 2.8 million poor pupils were supported with textbooks and notebooks<sup>15</sup>. By 2020, it can be sure that the goal of 10 million poor students will be exempted with tuition fees.

99 percent assessed that procedures of the project were simple and convenient. 95 percent of the households targeted by the policy stated that this support was important to them while at least 30 percent of their children could not go to schools without this support. Therefore, it can be affirmed that the policy has created positive impacts on encouraging pupils to schools.

18 percent of the key informants have not let their children to schools though they are supported by the policy. Therefore, it is clear that there are still barriers to education access. These barriers consist of "informal" educational fees, which are quite big to the poor households (uniform, textbooks or other contributions to

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<sup>15</sup> MoLISA – Bureau of Social Protection, data on social protection and poverty reduction in 2006 – 2010 period, Labour and Social Affairs Publishing House, 2010.

schools). In addition, households have to pay opportunity cost when their children go to school and do not do domestic work. In addition, there are still other barriers relating to the regulations on resident certificates, therefore, a number of the migration poor households have not benefited from this policy for their children. The school-drop-out situation, in general, has been decreased; however, it is still prevalent in some educational level, especially for female ones. Main causes are<sup>16</sup>:

- For primary level: Economic reason is not the main one. The current school dropout situation is mainly taking place in mountainous and remote areas where ethnic minority groups are living. The main causes for the situation are: (i) long travelling distance from home to schools and difficult traveling conditions (in rainy season); (ii) attitude/concern by children's parents to their study; (iii) community culture; (iv) children's health conditions, etc.
- For lower secondary level: households' demand of labour force of children has decreased, so the cause "drop-out for work" has not been much serious in recent years. There is also the situation that pupils drop school because of their poor school performance due to a huge volume of knowledge that they cannot grasp, especially at the eighth and ninth grade. The travelling conditions and distance from home to schools is also one of the reasons.
- For upper secondary level: main causes for children's drop-out consist of: (i) (formal and informal) educational fees are the major problem; (ii) use of the knowledge gained from the upper secondary level is unclear, especially in remote areas); (iii) children have to engage in economic activities that generate income; (iv) early marriage, especially in ethnic minority groups.

Another inadequacy is the quality of suppliers. Though there are the policies to ensure that almost all pupils at school age can go to schools; however, quantity and quality of schools, teachers, teaching tools, curriculum have not met the practical demands, which has made many children are unable to go to schools. As a result, the gap between ethnic minority children and Kinh, Chinese ones in accessing education is bigger and bigger. The educational quality is the lowest in remote and mountainous areas where ethnic minority groups are living.

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<sup>16</sup> Results of the interviews with the officer supervising support policies on education for poor students in MoET.

## **2.6. Policy on supporting housing for poor households**

### **2.6.1. Design of the policy**

Policy on supporting housing for poor households is deployed via the Decision No 167/2008/QĐ-TTg dated December 12<sup>th</sup> 2008 of the Prime Minister on the policy on supporting housing for the poor. Policy on supporting housing for the poor is totally appropriate when the survey data from VHLSS show that up to 37 percent of the poor households are living in temporary houses. This is an important content to ensure minimum living conditions for the poor, creating conditions for them to stabilize their life.

Budget for building houses is allocated from the state budget with 6 million dong per households. For those in the disadvantaged economic areas, the budget is 7 million dong per households. In addition, there are additional budget from local authorities, the budget mobilized from community and self-contribution of the poor. Moreover, the poor households can get credit loans with a maximum amount of 8 million dong. The mentioned-above amount of support has been implemented since 2008 for all areas and it has not been adjusted.

### **2.6.2. Outputs of the implementation**

In two years 2009 and 2010, there were 317,000 households that benefited from the policy, accounting for 62 percent of the households that had demands of support. This rate was 95 percent in poor districts<sup>17</sup>. The rate was quite high compared to that in 2006 - 2006 (only 21 percent of the poor households benefited from the policy, the rate for ethnic minority households was nearly 42 percent; in 2001 - 2005 period, only 6 percent of the poor households benefited from the policy<sup>18</sup>). Average cost price for a house is up to 20 -25 million dong, much higher than the stipulated amount of support from the policy. Therefore, its quality is quite good.

After the Resolution No 30a was approved, support for the poor households in 62 poor districts has been especially given with priority. As a result, up to now, houses for poor households in these districts have been nearly secured.

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<sup>17</sup> Ministry of Construction - Summing-up Report on two years of implementing the policy on supporting housing for the poor households according to the Decision No 167/QĐ-TTg, February 2011.

<sup>18</sup> MoLISA – UNDP, Mid-term Review Report for the National Targeted Programme on Poverty Reduction, 2009.

The policy on supporting housing for the poor households has been mobilized much support from state enterprises, community. This support is assessed to be quite effective.

The support from state budget is quite outdated while over the past years, the price for materials has increased continuously. This level of support is impossible for the areas with disadvantaged travelling conditions because of a high transport cost. Meanwhile, for the households that have no bottom land or the localities have no reserved land fund, it is difficult to implement the policy. In that case, many localities have mobilized support from other resources or cut down number of beneficiaries to give priority to the most disadvantaged households. In two years, 2009 and 2010, 8,275.6 billion dong were mobilized and 6,080 billion dong were disbursed. In which:

- State budget: 3,904.4 billion dong (including the budget for 2011); 2,139.6 billion dong were disbursed;
- Local budget: 464 billion dong; 447.9 billion dong were disbursed;
- Credit loans from VBSP: 2,182 billion dong were disbursed
- Other sources: 1,698.9 billion dong; 1,462.1 billion dong were disbursed.

## **2.7. The policy on supporting clean water for the poor households**

### **2.7.1. Design of policy**

The policy on supporting clean water for the poor households is implemented according to the Decision No 134/2004/QĐ-TTg and the National Targeted Programme on Clean Water and Rural Environmental Hygiene. In which, forms of support are clearly identified as support of materials (cement, hand pump, water pipeline, etc...); support in cash for digging wells, building cisterns, things to reserve clean water, etc. Therefore, it can be said that forms of support are various. In addition, this programme also deploys the projects on providing clean water by cluster for the poor areas. Besides, there are many other projects that are conducted mainly in poor areas by UNICEF in collaboration with MARD. There is the situation that two different agencies/organizations share the same contents in a kind of support. As a result, there is still an overlap.

It can be affirmed that ensuring clean water for the poor is very important to ensure health for people. However, local authorities face difficulties in deploying the

programmes at the same time due to an overlap. This policy is a combination between support for the poor and support for poor community, which has created many choices for beneficiaries.

### **2.7.2. Outputs of the implementation**

It can be seen that the rate of poor households accessing clean water increased year by year. However, by 2009, up to 32 percent of the poor households had not been able to access clean water to use. Most of them were living in mountainous and remote areas where there is a lack of underground water, especially in the dry season. Support of clean water via the Programme No 134 was recognized for its various choices for the poor households. The programmes on supplying clean water in community were highly appreciated for their sustainability; however, they have not been accessed by the poor households because the clean water projects were built in advantaged areas. As a result, it is difficult to take water to the disadvantaged areas.

In 2006 - 2009, nearly 1,600 poor clean water projects were concentratingly built in the communes targeted by the Programme No 135. However, these projects had small-scales and they have not been standardized, so their quality is poor.

## **ABBREVIATIONS AND ACRONYMS**

UNDP	: United Nations Development Programme
WB	: World Bank
UNICEF	: United Nations Children's Fund
PM	: Prime Minister
MoLISA	: Ministry of Labour, Invalids and Social Affairs
MARD	: Ministry of Agriculture and Rural Development
VBSP	: Vietnam Bank for Social Policies
GSO	: General Statistics Office
VHLSS	: Vietnam Household Living Standards Survey
WTO	: World Trade Organization
GDP	: Gross Domestic Product
CPI	: Consumer Price Index
MoET	: Ministry of Education and Training
MPI	: Ministry of Planning and Investment
DoLISA	: Department of Labour - Invalids and Social Affairs
MARD	: Ministry of Agricultural and Rural Development
MoJ	: Ministry of Justice
VBSP	: Vietnam Bank for Social Policies
MoH	: Ministry of Health
NA	: National Assembly
ODA	: Official Development Assistance



**KIHASA International Workshop 2012**

**Poverty Reduction Policies in Selected Asian Countries: Trends, Strategies and Challenges**

## **Myanmar**

***By.* Tluang Lian HNIN**



Myanmar is the third largest population in continental Southeast Asia after Vietnam and Thailand. It has an estimated population of 60 million people comprising of 8 major ethnicities along with over smaller 130 ethnicities. The complexity of political and ethnic conflict has hindered the successive governments to implement development policies since the country gained independence from the British in 1948.

The history of economic development in Myanmar can be described in three chronological segments as follows:

- (1) Parliamentary democracy period: 1948-1962
- (2) Socialist period under military rule: 1962-1988
- (3) Market-oriented period under military rule: 1988 to the present.

Successive governments in Myanmar from U Nu in parliamentary period and Ne Win under the military rule up to the State Peace and Development Council (until March 2011) have aimed to improve the social and economic conditions of the farmers while at the same time extracting the economic surplus from them for development purposes. However in practice it has been noted that the overwhelming emphasis on reaching the latter objective and to maintain price stability in the entire economy is detrimental to achieving the former objective. The stated aim of successive governments amounts to eradicating human poverty.<sup>19</sup> Due to the incomplete nation building and ethnic conflict as stated earlier, Myanmar has never maintained the momentum of economic growth and the attempt of poverty reduction has not been witnessed. It's only after the new government is formed in March 2011 that the government openly admitted the prevalence of poverty in the country.

### **(1) National poverty profile**

Myanmar has no precise definition of poverty specific to the country. However, U Myint<sup>20</sup>, appointed by President Thein Sein his Chief Economic Advisor, suggested two options to define "poverty" that is appropriate for Myanmar. The first is to define poverty in terms of money implying if a household or a person has enough resources to meet their basic needs. The second approach he highlighted is looking beyond money

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<sup>19</sup> Myat Thein (2004). "Economic Development of Myanmar," Institute of Southeast Asian Studies, Singapore.

<sup>20</sup> U Myint is considered to be one of the leading economists in Myanmar and allegedly has close relationship with Aung San Suu Kyi. His appointment is regarded by some analysts as an attempt of the new government to get public trust.

measure and to think of poverty in terms of specific goods and services that are necessarily regarded to meet their basic needs such as if the households or individuals have enough food, enough shelter, enough clothing, enough safe drinking water, enough health care, enough education and so on. He also pointed out the need to determine the meaning of “enough”.<sup>21</sup> With regards to indentify poverty, he also suggested to consider the 7 operational poverty indicators suggested by Prof. David Gorden of Bristol University in England in which any young person living under conditions that are not able to satisfy any two or more of the indicators is considered to be poor.<sup>22</sup>

Myanmar has no clear national poverty line and no survey poverty was done until 1997. Four national household surveys of two variants provide Myanmar’s poverty estimates. The first two surveys are national Household Income and Expenditure Surveys (HIES) conducted by Myanmar Central Statistical Organization (CSO) in 1997 and 2001, and the other two are Living Standards Measurement Surveys (LSMS) conducted by Myanmar government with the support of UN agencies and others.<sup>23</sup> Of Myanmar’s total population of about 60 million, 70% live in rural areas. According to HIES 1997 the poverty rate in Myanmar was 22.9 percent (Nyunt Shein and Hla Hla Myint 2001). This increased to 25.6 percent under HIES 2001 (GoUM 2006).

Starting from 2004 the Integrated Households Living Conditions Assessment (IHLCA) project has been launched by UNDP in close cooperation with the Ministry of National Planning and Economic Development (MNPED), UNICEF and Swedish International Development Cooperation Agency (Sida). The IHLCA 2004/2005 estimated a poverty headcount of 32.1 percent in 2005. After a five-year interval the same survey estimated a lower poverty headcount of 25.6 percent in 2010. According to IHLCA 2010 report,

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<sup>21</sup> Dr. U Myint. “Reducing Poverty in Myanmar; the Way Forward,” a paper presented to the “Forum on Poverty” held in Naypyidaw, 20-21 May, 2011).

<sup>22</sup> David Gorden, “*Indicators of Poverty and Hunger*”, Expert Group Meeting on Youth Development Indicators (New York: United Nations, December 2005). Two sets of 7 indicators, one set for Deprivation and Severe Deprivation are set up for (1) Food; (2) Water; (3) Sanitation facilities; (4) Health; (5) Shelter; (6) Education; and (7) Information. For example, in the case of information – having no access to radio or television (i.e. broadcast media) at home would fall into category of *Deprivation*. But having no access to newspapers, radio, television, computers or phones at home (i.e. no information sources) would be considered as falling into the category of *Severe Deprivation*.

<sup>23</sup> UNDP, UNOPS and IDEA International supported implementation of the 2004/2005 IHLCA survey; and UNDP, UNICEF, World Bank, SIDA and Statistics Sweden supported the 2009/2010 IHLCA survey. The Myanmar national poverty profile is wholly relied on IHLCA 2004/2005 and IHLCA 2009/2010 reports.

poverty incidence has fallen from 32% to 26% between 2005 and 2010 which is statistically significant. The poverty rate in rural area remains considerably higher than in urban area, at 29% and 16% respectively, and poverty has fallen at a faster rate in urban than rural areas at 27% and 18% respectively. The highest values of poverty incidence are in Chin at 73% followed by Rakhine (44%), Tanintharyi (33%), Shan (33%) and Ayeyarwady (32%). The downward trend is found in most States and Regions, though many of these differences are not statistically significant.

**National Poverty Incidence by Strata, 2005-2010**

	Urban			Rural			Total		
	2005	2010	% Change 2005-2010	2005	2010	% Change 2005-2010	2005	2010	% Change 2005-2010
<b>Union</b>	21.5	15.7	-27	35.8	29.2	-18	32.1	25.6	-20
	-1.86	-1.08		-1.9	-1.55		-1.67	-1.36	

Source: IHLCA Survey 2004-2005, IHLCA Survey 2009-2010

### Poverty Line

IHLCA 2010 report presented into the “**food poverty**” and “poverty” lines. While the food poverty line measures how much consumption expenditure is required to meet basic caloric needs only that represent extreme hardship. The poverty line simply adds an allowance for non-food expenditure. According to the findings for “food” poverty, the poverty level is only around 5% which is deemed very low. Food poverty primarily remains a rural phenomenon in Myanmar. It’s worth noting that the variation between states and regions are wide with the highest incidence of food poverty is Chin (25%) followed by Rakhine (10%), Tanintharyi (9.6%) and Shan (9%). In comparison between IHLCA 2005 and IHLCA 2010, the overall incidence of food poverty has been halved from 9.6% to 4.8%. The downward trend is evident in both urban and rural areas at a broadly similar rate.

IHLCA 2010 also revealed the overall finding of “**poverty**” line that around 25% of the population falls below the poverty line in which rural poverty incidence stands at 29% whereas urban poverty at 15%. The contribution of rural poverty to total poverty is 84%.

The overall poverty incidence has fallen by around 6 percentage points between IHLCA 2005 and IHLCA 2010, and the downward trend is witnessed in both urban and rural areas but it's higher in rural area.

Statistically both food poverty and poverty has significantly declined. Overall, these data suggest an improvement in basic consumption for the poorest 30% of the population in Myanmar with remaining gap between states/regions and in particular, between rural and urban areas.

### **Labour Force Participation in Myanmar<sup>24</sup>**

According to IHLCA 2010, the participation rates of the labour force in Myanmar are high standing around two-thirds (67%) of the population of aged 15 and above. This rate has slightly increased from IHLCA 2004 level of 64%. A large difference of labour participation is also found between urban and rural areas at 60% and 70% in which female rates is lower (54%) than male participation rate (82%). It is interesting to note that poor household rate is higher (69%) than the non-poor (66%). Lowest participation rates are found mainly in urban Yangon at 57% and in Rakhine (58%) where economic dependency ratios tend to be very high. There are stark differences in child participation rates (ages 10-14) between the poor and non-poor at 18% and 10% respectively, and between participation rates of the poor and non-poor aged 15-24 at 72% and 62% respectively.

These data suggest that poverty is not primarily due to non-participation in the labour force but due to low remuneration/returns for those participants. However, the much higher rates of child (from 10-14) participation among the poor group raises questions about the possible intergenerational transmission of poverty and poverty traps.

### **Unemployment rate**

The open unemployment rate here refers to the percentage of the labour force aged 15 and above who did not engage in any work for the past six months. IHLCA 2010 report

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<sup>24</sup> IHLCA report defined labour force participation as those who are working or available for work, for a given age group. It excludes the following population groups: those unable to work for health reasons; those doing unpaid domestic work fulltime; full-time students; full-time religious personnel; those who are physically or developmentally delayed and unable to work; those living on a pension or retired and others who are not seeking employment. The study looked at the participation rates for the past six months which is the same method used for employment rate.

revealed that open unemployment rate is extremely low in Myanmar at around 1.7% which is close to 2004/2005 IHLCA level of 2%. The poor slightly tend to be unemployed than the non-poor, at 2.4% and 1.4% respectively, and urban unemployment is three times that or rural unemployment at 3.5% and 1.1% with little difference between males and females.

The “seven-day” unemployment using Time Rate of Unemployment (TRU)<sup>25</sup> is also found very low in Myanmar at 2.5% in 2010, down from 3.1% in 2005. Surprisingly, the relationship between poverty and “7-day” unemployment is very similar to the relationship between poverty and “6-month” unemployment. The poor/non-poor breakdown is 3.7% and 2.1% respectively, with levels for the poor virtually identical between 2005 and 2010. In summary, there is an association between poverty and open unemployment and between poverty and the Time Rate of Employment in Myanmar.

**Underemployment** in Myanmar also stood at around 37% of the working population in 2010, somewhat above its 2005 level of 34%. This trend appears to be a significant phenomenon in Myanmar with pronounced seasonal variation although this may not be closely associated with poverty. However, this finding complements the view that poverty has much more to do with low returns to work than lack of work. In fact, employment-to-population ratio in Myanmar stands above average. According to IHLCA 2010 report, this ratio has increased from 54.3% in 2005 to 57.1% in 2010, which is noticeably higher in rural than urban areas by 10.1%.

## **(2) Major national anti-poverty policies and goals**

As stated earlier, successive governments has made attempt to improve the living condition of the people to lift them out of poverty, but no proper implementation has never taken due to various reasons. Prime Minister U Nu during the parliamentary era tried to implement soft socialist politics in Myanmar and announced his ambitious *Pyidawtha* Program that was aimed to benefit the majority of the people promising to provide each family in the country with a house, a car and a monthly income of about US \$200 (quite high salary at that time). In terms of economic data, the program was deemed successful, but in overall it failed because U Nu’s ruling party split and the high expectations could not be met (Tinker 1957: 104-105).

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<sup>25</sup> TRU is the unemployment rate in the seven days prior to the administration of questionnaires, on the assumption that those in casual or precarious employment are less likely to be employed over such a short period than those in more formal employment.

Then in 1962, Ne Win introduced “Burmese Way of Socialism” on the basis of a philosophy the new sole party professed to build up an economic system in which the exploitation of man by man was strictly curbed and “self-interest and self-seeking” were not the dominating motives of economic growth. He adopted isolation policy (inward looking) and gradually the country became on the brink of collapse resulting in the 1988 crisis and military coup de’ tat. The country then was designated as one of the Least Developed Countries (LDCs).

The successive ruling government (SPDC) in 1988 then introduced a free-market economy and abandoned the socialist ways that opened a new Myanmar. However, it was not successful again due to internal political conflict coupled with mismanagement of the economy and the imposition of Western sanctions. The government did not even recognize the country as “poor” and no significant poverty reduction plan existed.

### **Initiatives by the New Government**

The new government has made a number of reform initiatives since it took office in March 2011. The first and most significant initiative of the new government is the appointment of Dr. U Myint as Chief Economic Advisor. The most important economic decision taken was the setting of Myanmar Kyat rate at 818 per US dollar (previously fixed at about 1:6 officially). Currently UNDP and Ministry of National Planning and Economic Development are initiating the study for “Regional Development Potentials and Strategies in Myanmar” which is likely to take at least a year.

One year after that workshop<sup>26</sup>, President Thein Sein announced a “second wave of reforms” and a five-year National Plan in which the main targets are a 7.7 percent annual average GDP growth and a triple increase in per capita GDP.<sup>27</sup> The last goal is an attempt to “fulfill the basic needs of our people to witness a real income growth.” The official title of the program is “**Rural Development and Poverty Reduction Strategy**” which mainly aims to reduce the poverty levels to 16% from the current level of 26% by 2015 in line with the target of UN Millennium Development Goals (MDGs). However, Myanmar has not yet developed a separate poverty reduction strategy

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<sup>26</sup> Conference held in Naypyidaw in May, speakers included Myanmar cabinet ministers, economists and educators as well as international figures like Joseph Stiglitz and officials from Asian countries.

<sup>27</sup> Myanmar ranks in the bottom quarter of the UN’s global poverty ranking and average GDP per capita in 2011 was just 700 US \$ (IMF report).

document like other countries apart from implementing some safety net measures to address poverty.

In order to do that, the government emphasized on “Rural development and poverty alleviation” and national programs have been rolled out in the context of eight priority areas to achieve the program objective: (1) agriculture, (2) livestock and fisheries, (3) rural productivity and cottage industry, (4) micro savings and credit enterprises, (5) rural cooperatives, (6) rural socio economy, (7) rural renewable energy, and (8) environmental conservation. National level discussions are underway for the formulation of regional development plans and programs for the 14 states and regions. In terms of coverage in the whole country, a total of 330 townships and 82 sub-townships have been identified for the poverty alleviation program<sup>28</sup>. Timeframe for the implementation is planned from July 2011 to December 2015.

Department of Rural Development (DRD) is an administrative organization for the implementation of the program. DRD has drawn up a 4-year microfinance and rural livelihood planned from 2012-2013 to 2015-2016 Fiscal Year according to an official from DRD.<sup>29</sup> About 15 millions US\$ is planned to be disbursed to clients for the whole country. The rural livelihood program is also emphasized on assisting small-scale enterprises and one-village-one-project approach is aimed. DRD has planned to implement livelihood support program in 60 villages of 31 townships with capital disbursement of about 9 millions US\$. However, it’s only under the planning stage and fund has not been secured from any sources.

The government has invited private companies, NGOs, INGOs and social organizations to cooperate with the government to accomplish the program. It has reached agreement with UNDP for more aid and better aid coordination. The government is relying on UN agencies and international donors both bilateral and multilateral aid. The World Bank has also announced its commitment to provide 85 million US\$, for the first time in two decades. There has not been public estimate of the amount Myanmar would require to achieve its poverty alleviation targets. It is assumed that it would need in “multiple billions” of dollars.

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<sup>28</sup> There are about 330 townships, 2,891 wards/sub-townships, and 64,817 villages in 14 states/regions.

<sup>29</sup> U Soe Ko Ko, Director General of Department of Rural Development on June 4, 2012, a letter presented to LIFT/UNOPS.

### **(3) Analysis on the effectiveness of government-led anti-poverty policies and challenges**

Unlike the previous military governments, the new government led by President Thein Sein, commonly described him as “reform-minded” is well-positioned to address poverty issue in the country and recent reshuffling in the key ministries (e.g number of technocrats added in the government) further indicated the sincerity the government in pursuit of economic and political reforms which are long overdue. Various workshops and consultations with Myanmar experts and international institutions have been actively undertaken by the government to tackle the country’s poverty during the past one and seven months. But the actual implementation of its “Rural Development and Poverty Strategy” has yet to be taken. Therefore, it is too early to make overall assessment of the effectiveness of its poverty policies at this stage. For example, Director General of Department of Rural Development has stated on June 4, 2012, as mentioned above, the government is in the early stage of planning and sources of funding has yet to be sought.

As the majority of the population work in the agricultural sector, it is critically important to understand the condition of farmers and pay serious attention to them. According to a new study by ADB, agriculture in Myanmar accounts for 36 percent of the GDP and provides 25-30 percent of exports by value. It’s a welcoming sign that the government places emphasis on bottom-up approach in addressing poverty. The most significant reform taken by the new Myanmar government is the introduction of Microfinance Law, passed on November 30 2011. This law paves way for non-governmental organizations and private sector to provide low-interest loans to debt-ridden farmers. For example, organizations like LIFT<sup>30</sup> is now offering small loans ranging from 60 to 600 US dollars to the agriculture sector. The previous military government could offer only eight US dollars per acre to farmers through Myanmar Agricultural Development Bank (MADB) which is the only official source of rural credit. After the new government took office in March 2011, the amount of credit loan has been increased to 20,000 Myanmar Kyats (23 US\$ at current rate) per acre and further doubled to 40,000 Kyats (46 US\$). However, the actual cost per acre for paddy cultivation (from soil preparation to harvesting and processing stages) amounts to at

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<sup>30</sup> LIFT donors (Livelihood and Food Security Trust Fund) include Denmark, the European Community, the Netherlands, New Zealand, Sweden, Switzerland and Britain.

least over 110 US\$. As a result, most farmers are still relying on private and informal money lenders who charge interest rates as high as 20 percent per month. Another concern for farmers is that land cannot be used as collateral loan as all types of land in Myanmar are owned by the government as stipulated in the 2008 Constitution. Therefore, access to credit is still the most pressing issue Myanmar farmers encountering. However, with the passing of land law in March 2012 that allows land to be used for collateral loan raises hope for farmers, along with microfinance law. It must be noted that the success in the rural areas specifically in the micro credit service will demonstrate success of the government's reform agenda as a whole.

It can be assessed that the strategy that has been seen in the past few months is a sound policy of the new administration. If this momentum is maintained and proper implementation of policies and laws recently introduced takes place, there are hopes that millions of Myanmar people can escape from poverty. However, proper political settlement especially for the ethnic groups and sound macroeconomic policy are keys to ensuring the success of poverty alleviation program and accelerating the current transition progress.

Many challenges lie ahead that the government has to struggle with. The poor households do not gain much from whatever little human and physical capital. Access to credit is still extremely limited and there is a lack of social capital. External factors hinder poor households to generate adequate income. There is still a deep mistrust of the government and the general mindset of the people towards the government can be said wait-and-see-attitude. Historically, the Myanmar kings and successive governments gave high hopes to the people but were not beneficial to the people. Like previous rulers, the new government has also given great hopes to the people. Some Myanmar watchers question whether history will repeat itself. The new government also recognizes that the people need immediate improvement of their lives. Industry Minister Soe Thein, a close confidant of the President, explained that "if we reform quickly, people will feel the tangible dividends of democracy. But if they get nothing, they'll feel the former government and the new government are the same. That is why we want to push reforms very quickly."<sup>31</sup>

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<sup>31</sup> <http://in.reuters.com/article/2012/06/26/myanmar-idINDEE85P02O20120626> (accessed 26 June 2012)

But quick reforms can be also dangerous. Recently, the ADB, World Bank and IMF have re-engaged with the government. Foreign companies appear to be flocking into the country soon, but the much-awaited Foreign Investment Law has not been passed as expected due to complaints from domestic businesspeople.<sup>32</sup> Some experts warn that a serious policy mistake might foment instability which could be exploited by opponents of reform. The country simply lacks trained personnel encountered by all government departments –also insufficient staff offices, the same trend in the private companies (both local and foreign) and international development agencies.

#### **(4) Some suggestions**

Myanmar has made a considerable progress in reducing poverty over the past few years. As the new government is pushing its reform agenda ahead, an inclusive **national poverty reduction strategy** is needed that would benefit the larger population from the development process. Poverty reduction has been reduced from 32 percent in 2005 to 26 percent in 2010, but the poverty level in the 14 states and regions differ widely that indicate spatial and social exclusion. Thus, the national poverty reduction strategy needs to pay serious attention particularly to mountainous and border areas (mainly ethnic areas such as Chin State) where poverty levels are much higher than other regions in the country, that are high risk of falling into poverty.

**Microfinance** for the purpose of rural credit services can be a solution for poverty reduction in Myanmar as has been witnessed in the past activities carried out by UN agencies and non-governmental organizations. There is a need to increase the amount of credit loan the government is currently offering for agriculture sector as well as the expansion of coverage, and effective implementation of the Microfinance Law is required in order for different organizations to smoothly engage in rural credit service provision.

**Social protection**<sup>33</sup> in Myanmar has been undertaken by the previous governments but the coverage of social assistance is minimal, not inclusive and limited to government agencies. Spending on social protection is needed to enhance human development. Currently, private organizations do not have the system of pension and gratuity. The

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<sup>32</sup> The new Foreign Investment Law is likely to be passed when the parliament reconvenes in October 2012.

<sup>33</sup> IHLCA survey did not cover social exclusion.

Social Security Law has been passed on August 31, 2012 that spells out many good things covering a much larger working population than the previous 1954 Social Security Act. However, there will be a need to provide assistance also to workers in the informal sector among others. The government also needs to take measures for employees in the private sector for its social protection program that would also address minimum labour wages. It must also be noted that social protection mechanism ensure no community or individual are excluded from social service regardless of ethnicity and religion.

### **Social development**

The spending on education in Myanmar is very low with less than 1 percent of the national GDP. The new government has proposed to jump in spending on health and education sectors,<sup>34</sup> but a concrete improvement has yet to be seen. Although primary school enrolment rate is deemed high enough, low enrolment in high school and tertiary levels indicate lack of skilled labour and well-educated human capital. As the quality of teaching in public schools is very poor compared to the private schools, children of poor households do not have equal access to good education, in view of promoting inclusive growth. Capacity building of teachers as well as teaching methods from primary to tertiary levels should be an important task for the new government to cope up with in coming months and years.

President Thein Sein and Aung San Suu Kyi have emphasized job creation for Myanmar people in light of western governments easing sanctions. Lack of well-trained staff is currently encountered in the country both for the government and the private sectors. Therefore, capacity building of government staff and vocational training for young Myanmar need to be emphasized. Foreign companies/firms can play in this role to fill the gaps.

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<sup>34</sup> <http://in.reuters.com/article/2012/02/02/myanmar-economy-idINDEE8110DW20120202>



KIHASA International Workshop 2012

Poverty Reduction Policies in Selected Asian Countries: Trends, Strategies and Challenges

## **Indonesia**

*By.* **Athia YUMNA**



## Background

Indonesia experienced a remarkable economic growth during 70's to mid 90's. As a result of two decades of growth, welfare and social indicators significantly improved. Poverty declined sharply from 40.1% in 1976 to 11.3% in 1996, although actually poverty reduction strategy was not explicitly included in the government's development agenda at that time. Other social indicators such as life expectancy, infant mortality rate, primary school enrolment, and basic infrastructure provisions – such as water supplies, electricity, roads, as well as health and education facilities – rose considerably. Government strategy on agricultural extensification and intensification, labour-intensive industry, and large basic services investment – thanks to the oil boom in the 70's and 80's – had been considered to give positive contribution to those improvements.

However, a good story about the growth which was translated into the poverty reduction was ended when the Asian Financial Crisis (AFC) hit Indonesia hardly in 1997-1998. Poverty had risen again significantly to 21.4% in 1998 and 23.4% in 1999, respectively. Most important lesson learned from the AFC is that the poverty reduction effort that relies heavily on the growth without sufficient social protection system will be very vulnerable against shocks and fail to protect people falling into poverty. At that time, the government with support from several international agencies initiated a social safety net programmes (*Jaring Pengaman Sosial, or JPS*) covering food security, health, nutrition, education, and labour-intensive employment in response to crisis. Even though the programmes have been successfully reduced the adverse impact of the crisis towards the poor, several weaknesses in program implementation and targeting fail to bring a maximal outcome of such programmes.

The economic turmoil led to political and economic reform which resulted in positive political and economic changes few years after the crisis. Indonesia achieved lower-middle-income status in 2004 when its per capita gross national income (GNI) (as a basis of classification) reached \$1,070. In 2011, GNI per capita was \$2,940. In 2010, Indonesia ranked 108 out of 169 on the Human Development Index and 100 out of 138 on the Gender Inequality Index. The poverty rate has been fallen down steadily for the last decade from the peak 23.4% in 1999 to 12.5% in 2011, a reduction by 10.94 percentage points in a ten year period which implies an average reduction in poverty rate by only 0.91 percentage point per year during the period. Compared to the average

reduction of poverty rate before the crisis which reached 1.44 percentage point per year, hence the pace of poverty reduction since the crisis was much slower than the pre-crisis period.

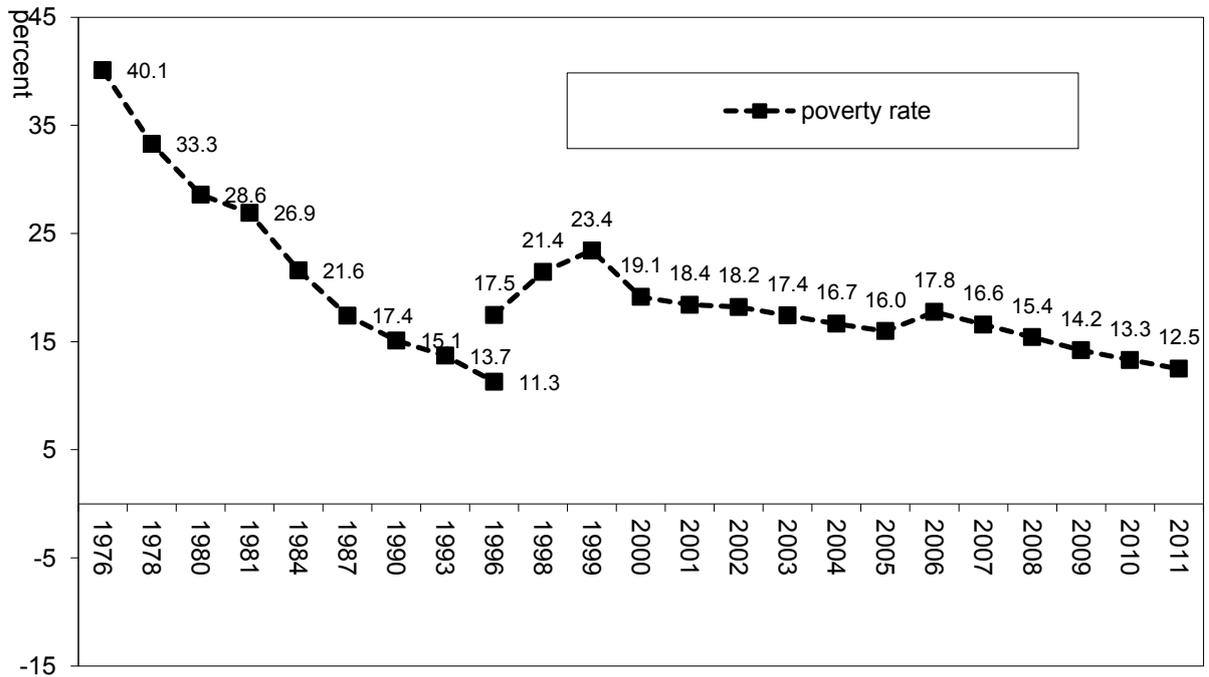
Having said that, this paper tries to elaborate the poverty reduction policies that have been put into practice in Indonesia, to review its trends and strategies, as well as to analyse challenges to poverty reduction efforts. The rest of the paper is organised as follows. Next section presents the poverty profile and trends followed by section on each poverty strategies and challenges. Last section provides policy relevance and implication.

### **Poverty Profile and Trends**

National Statistic Bureau, later called Statistics Indonesia in this paper, employed a basic need approach concept to identify the poor. This approach sees poverty as economic incapability to meet basic needs, i.e. food and non-food, measured from the expenditure/consumption. An individual is considered to be poor if her/his expenditure per capita is below the poverty line. The national poverty line definition used by Statistics Indonesia is the nominal expenditure of minimum food consumption equal to 2,100 kilo calorie per capita per day plus minimum non-food consumption. Food basket consumptions include 52 commodities such as staple foods, fish, meat, egg, vegetable, fruit, etc. and non-food basket components cover housing, clothes, education, and health.

A first poverty data for Indonesia is backdated to year 1976. Period of 1976-1996 could be seen as pro-poor growth era for Indonesia. The poverty significantly fell down about 28.8 percentage point in 20 years, from 40.1% in 1976 to 11.3% in 1996, the lowest ever rate of poverty before the crisis. However, the calculation method was revised in 1998 and backdated to cover the 1996 data. Using the new method, the poverty rate in 1996 was 17.5% and risen sharply in 1998 and 1999 to 21.4% and 23.4%. The poverty continuously fell down for next six years before rose again in 2006 due to a reduction on fuel subsidies. Since then the poverty was consistently decreasing but in slowly speed. The latest headcount poverty rate in 2011 was 12.5% (Figure 1).

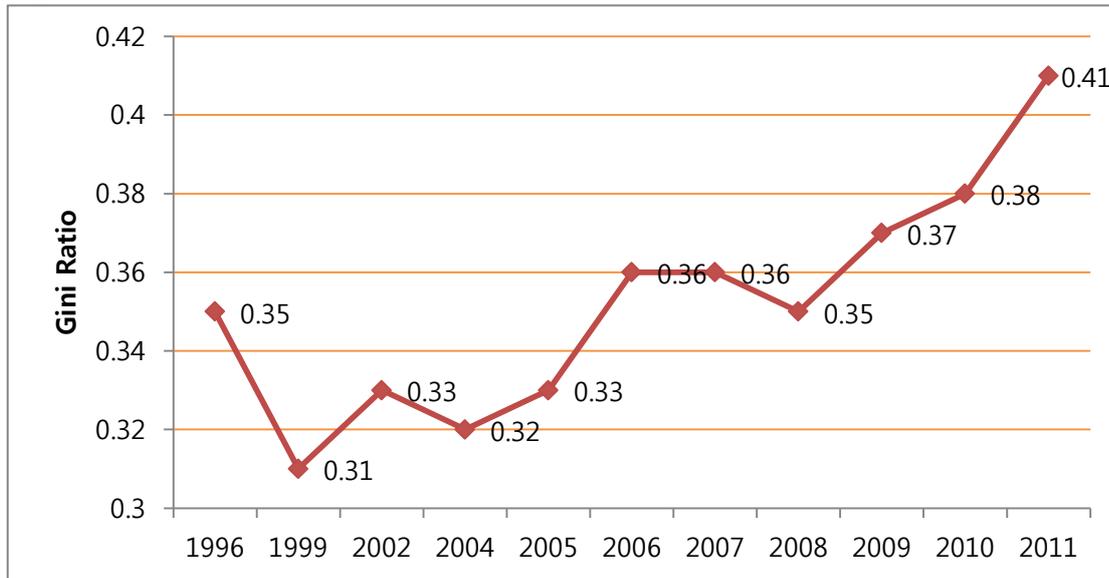
**Figure 1. Poverty Trends (1976-2011, %)**



Source: Statistics Indonesia (various years)

Although the poverty incidence has been fallen down since the crisis, the opposite trend prevails for inequality. Figure 2 presents an evidence of increasing inequality as in Gini Ratio during 1999-2009. The latest Indonesia Gini ratio for 2011 was the highest Gini ratio since the crisis, even the highest ever in history indicates that the increasing span of distribution among the poorest more than the increase of span of distribution among the richest.

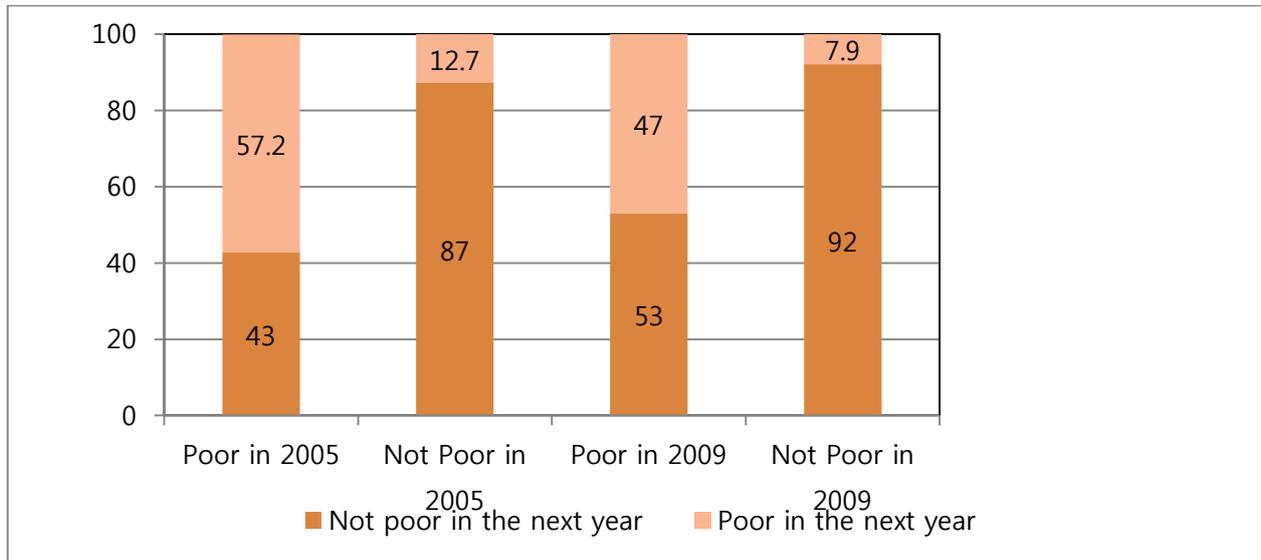
**Figure 2. Gini Ratio (1996-2011)**



Source: Statistics Indonesia (various years)

A distinct feature of poverty in Indonesia is a substantial number of vulnerable people who will be falling into poverty when negative shocks occur as these near-poor people have only slightly higher per capita expenditure than the poor one. The percentage people live below the national poverty line in 2011 was only 12.5% but the number of poor population is more than doubled if taking into account the vulnerable. Furthermore, the simultaneous movements between those who move out and those who move into poverty also show an intriguing phenomenon (as in Figure 3). For example, only 57.2% of the poor in 2005 who were also poor in 2006, and there was 12.7% not poor people in 2005 who became poor in 2006. The figure for 2009-2010 is fairly shows the same condition.

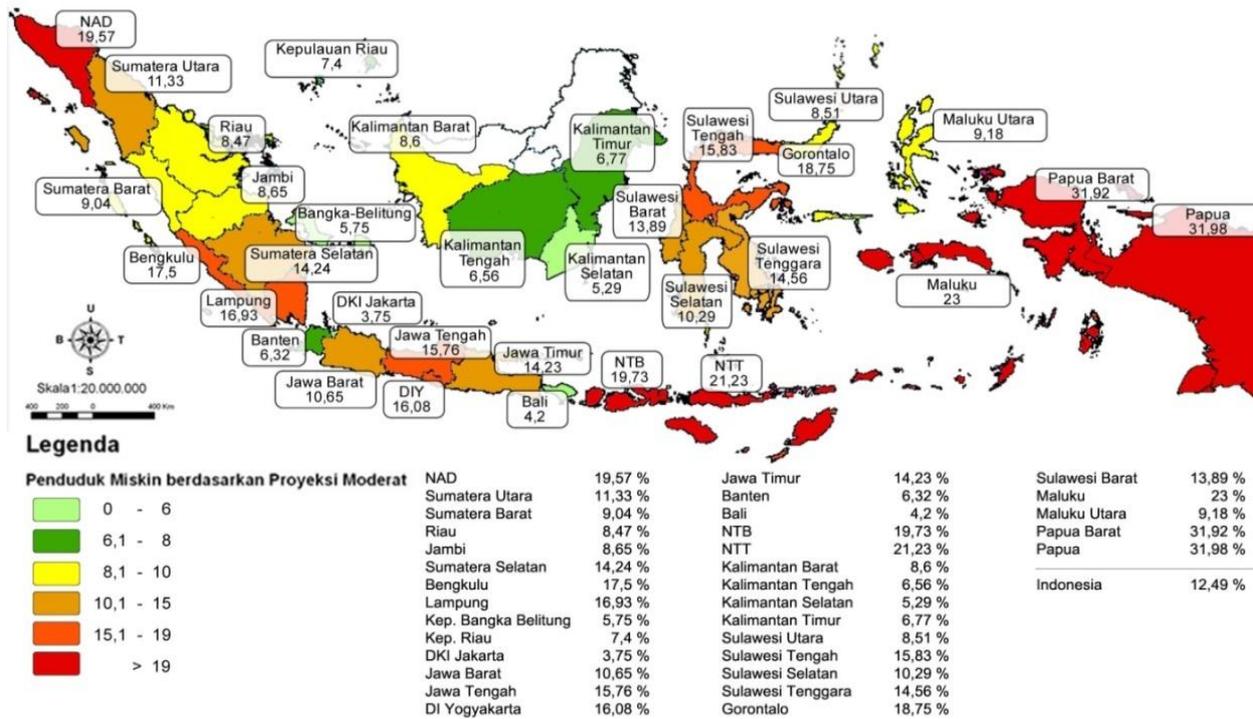
**Figure 3. Poverty Dynamics (2005-2006 and 2009-2010, %)**



Source: SMERU (forthcoming)

Another distinct characteristic of poverty in Indonesia is disparity between regions. This is actually not fully surprising given the heterogeneity of Indonesia in terms of geographical condition, ethnic, local language, and so on so forth. Among 33 provinces in Indonesia, there are some provinces that their poverty incidence remain significantly high (more than 25%) for the last two decades, e.g. Papua, Maluku, and Nusa Tenggara. However, in terms of the number of poor people, only about 10% of Indonesia’s poor live in these regions, while about 60% of them live in the most densely populated islands of Java and Bali (Niimi and Chatani, 2012).

Figure 4. Poverty Disparity between Regions, 2011



Source: Statistics Indonesia (2011)

While there has been significant progress in reducing monetary poverty, Indonesia lags behind its neighbours in reducing other dimensions of poverty, especially health and education indicators. More than 50% of the labour force has only a primary school education or less, and Indonesian health indicators such as infant and maternal mortality rates are among the worst in Southeast Asia. A wide gap between regions as well as rural urban in non-monetary poverty indicators also occur. Table 1 exhibits the rural-urban gap in the monetary poverty is 6.6 percentage points, while the gaps for several non-monetary poverty measures are two to five times higher (Suryahadi *et al.*, 2011).

Table 1. Rural-Urban Gap in Multidimensional Poverty and Deprivation, 2009

Indicator	Definition	Rural (%)	Urban (%)	Rural-Urban Gap (% point)
Under-5 Mortality Rate (in 2007)	Number of death per 1,000 live births among under-5 children	60.1	37.8	22.3

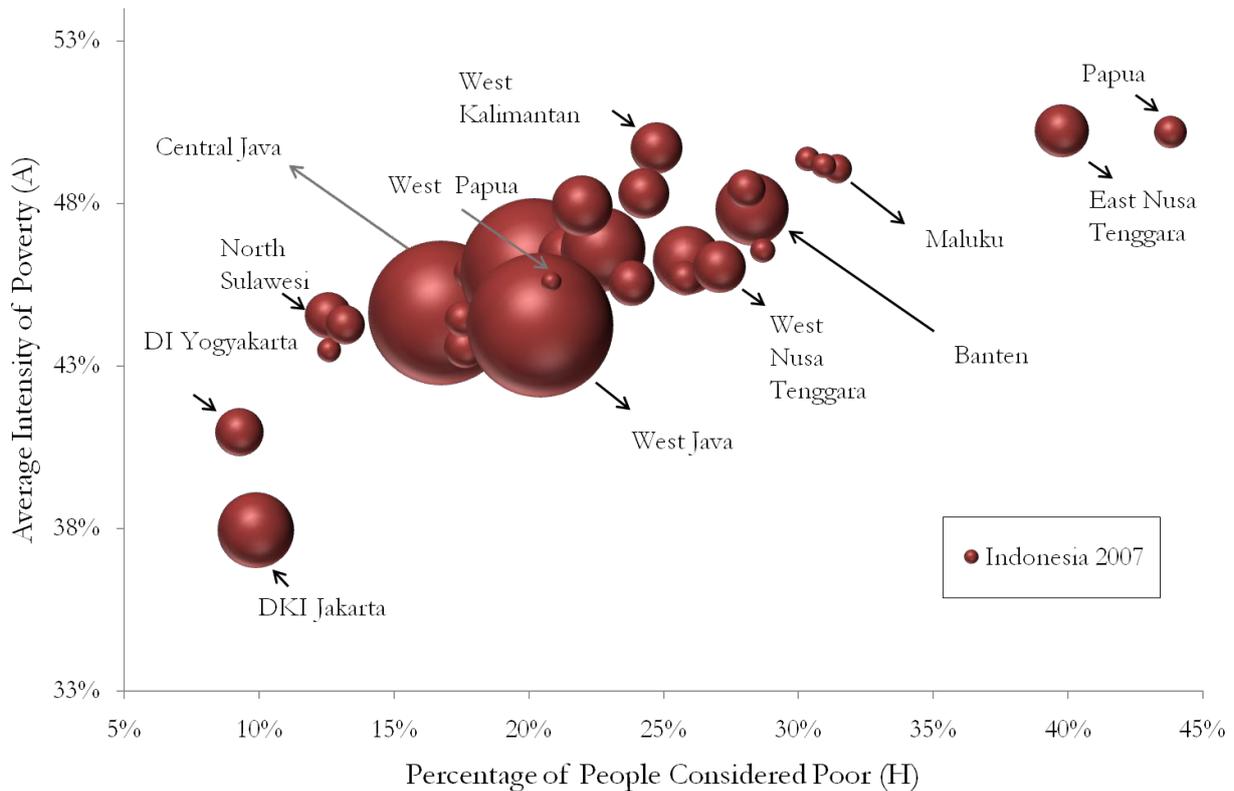
Lack of sanitation (toilet)	Percentage of population living in a house without a proper toilet	50.4	15.1	35.4
Poorly educated of household head	Percentage of population living in a household in which the household head has not completed nine years of basic education	83.7	50.5	33.2
Lack of access to clean water	Percentage of population living in a household without access to a clean and protected source of drinking water	56.5	30.6	26.0
Poorly educated youth	Percentage of population living in a household in which members aged 18-24 years have not completed nine years of basic education	40.7	16.0	24.7
Unhygienic floor	Percentage of population living in an earth-floor house	15.8	5.0	10.8
<b>Monetary Poverty</b>	<b>Percentage of population below the official poverty line</b>	<b>17.4</b>	<b>10.7</b>	<b>6.6</b>

Source: Suryahadi *et.al* (2011)

Using three non-monetary poverty measures on health, education, and living indicators, Alkire (2012) depicts an index of multidimensional poverty for regions in Indonesia (Figure 5). As predicted earlier, like the monetary poverty, disparity among regions in Indonesia in terms of multidimensional poverty does exist. Province like Papua, Maluku, and East Nusa Tenggara has very high percentage of poor people (incidence of multidimensional poverty) as well as average intensity of people's poverty. While

province in Java Island, such as Jakarta and DI Yogyakarta, has a low incidence of multidimensional poverty and quite low average intensity of poverty.

**Figure 5. Regional Disparities in MPI**



Source: Alkire (2012)

### Poverty Reduction Strategies

#### a) Major national anti-poverty policies

Despite an impressive reduction of poverty incidence during the period 1976-1996, poverty reduction was not a top priority in the development agenda during Suharto era. Nevertheless, a number of pro-poor programmes were carried out in that high-growth period. Leith *et al.* (2003) lists that several departments had programmes aimed at poverty reduction. For example, Department of Home Affairs had experimental savings and loans projects, Department of Social Affairs implemented a programme on increasing welfare of the poor and needy, as well as Department of Agriculture had a program aiming to increase income of small-scale farmers. Furthermore, in the late 1990's, the government initiated poverty reduction efforts towards some programmes such as 1) Presidential Instruction on Disadvantaged Village, 2) Disadvantaged Village

Infrastructure Development Programme, 3) Urban Poverty Reduction Programme, 4) People's Prosperity Savings and People's Prosperity Business Credit, 5) Small-Farmers and Fishermen Income Expansion Project, and 6) Subdistrict Development Programme. Then, crisis hit the country very hard and obviously hit the poor even hardest. The poverty incidence strikingly escalated to more than 20% just after the crisis. To alleviate the impact of the crisis, especially for the poor, social safety nets programme was initiated in 1998/1999 under supervision of some international agencies, mainly World Bank. The social safety net involved four-pronged strategies: (i) ensuring the availability of affordable food, (ii) improving household purchasing power through employment creation, (iii) preserving access to critical social services, particularly health and education, and (iv) sustaining local economic activity through regional block grants and the extension of small-scale credits. It was hoped that the implementation of the JPS programs would prevent or at least significantly reduce the worst effects of the crisis (Sumarto, Suryahadi, and Widyanti, 2002).

Successive government after the crisis had evolved some social safety nets into broader social protection programmes with restructuring national budget after fuel subsidies reduction. A saving from fuel subsidies reduction have been channeled into targeted social protection and poverty reduction programmes, named the Fuel Subsidy Reduction Compensation Programme (PKPS-BBM). Though Indonesia's budgetary allocation to social and human development priorities as proportion to gross domestic products (GDP) are among the lowest in the Southeast Asia region, the PKPS-BBM has made the government enabled to move forward to a more progressive public spending regime (Sumarto, Suryahadi, and Bazzi, 2008).

Other important milestone of poverty reduction strategies is the initiative to prepare and launch the first national grand strategy on poverty reduction strategy paper (SNPK). It took about three years to finish the strategy paper in 2004. The SNPK is formulated using a right-based approach. Poverty is no longer considered mainly a problem of lack of income and the poor have no voice in the development process. The SNPK integrate multidimensional problems include the vulnerability to moving into and out of poverty and the inclusion of the poor in the decision making process that affect their lives. The right-based approach ensures the poor to the social, cultural, economic, and political rights to overcome their poverty problems as well as the relationship of the government and their people. The state, i.e. the government, parliament, military, and all state institutions, oblige to respect, protect, and fulfill the

basic rights of the poor systematically (Suryahadi *et al.*, 2012). On the other hand, the SNPK also aware that the poverty should become a multi-stakeholders' concern not only the government and the poor. Multi-stakeholders include all development actors, i.e. central and local government, parliament, private sector, civil society, academicians, and international agencies.

A blue paper like the SNPK would not have an impact to the poverty alleviation if it is not integrated into the development planning agenda of the government. The Government of Indonesia is pretty much concerned about this matter. The poverty reduction was put in the National Medium-term Development Plan (RPJMN) 2004-2009's top ambitious priority, i.e. reducing the poverty incidence rate to 8.2% by the end of 2009. However in fact, the actual rate of poverty incidence in 2009 was still as high as 14.2% due to several internal and external factors. The main one was the global commodity and fuel prices surge in 2008. Therefore, the current National Medium-Term Development Plan (RPJMN) 2010-2014 revise the poverty rate target from 14.2% in 2009 to 12%-13.5% in 2010 and 8% in 2014. The current RPJMN consider five main weaknesses of the past poverty reduction agenda include: 1) limited coverage and quality of the social protection schemes, 2) wide welfare disparities between provinces, 3) low access of the poor to the basic services, 4) vulnerability of the poor to the negative impact of external forces such as globalization and global crisis, and 5) vulnerability of the poor to the climate change.

Considering the other weaknesses regards to the issue of coordination, as pointed out in Suryahadi *et al.* (2012), the current RPJMN also focus on institutionalisation of poverty reduction programme which now under the National Team for Accelerating Poverty Reduction (TNP2K). This team is established based on the Presidential Regulation No. 15/2010 and headed by the the Vice President. Three main tasks of TNP2K are: 1) formulating the poverty reduction policy and programme, 2) coordinating the poverty reduction activities among ministries and institutions, and 3) monitoring and evaluating progress of the poverty reduction programme.

#### b) Major Anti-poverty programmes

The government has formulated the concept of major poverty reduction programmes in three different cluster based on the beneficiaries segmentation—very poor, poor and near poor. The first cluster is social assistance program which aims to fulfill the poor basic needs—in food, health, education, clean water, and sanitation—as well as to

decrease their life burden, and to enhance the poor’s life quality. The second cluster is the empowerment program which has objectives to enhance capacity and income of the poor as well as to get the poor involved in the development process based on empowerment principles. The third cluster is the small and micro enterprises’ (SMEs) empowerment which aims to give an access and to enhance the economy of the SMEs. The details can be seen in Figure 6.

**Figure 6. Three Clusters of Major Anti-poverty Programmes**

Cluster I	Cluster II	Cluster III
<p style="text-align: center;"><b>Social Assistance</b></p> <p>Aim: reduce economic cost burden of the poor</p>	<p style="text-align: center;"><b>Community Empowerment</b></p> <p>Aim: increase the poor’s income &amp; affordability</p>	<p style="text-align: center;"><b>Micro-enterprises Empowerment</b></p> <p>Aim: increase savings &amp; business sustainability of SMEs</p>
<p><b>Main Instruments:</b> Raskin, Jamkesmas, PKH, scholarship for the poor.</p> <p><b>Other Instruments:</b> Social assistance for disabled, elderly, children, etc.</p> <p><b>Targets:</b> 18.5 million the near poor, poor, and very poor households.</p>	<p><b>Main Instruments:</b> PNPM Mandiri (PPK, P2KP, PPIP, PISEW, etc.</p> <p><b>Targets in 2009:</b> 6,408 <i>kecamatan</i> in 465 <i>kabupaten/kota</i></p>	<p><b>Main Instruments:</b> Credit for the People (KUR)</p> <p><b>Targets in 2009:</b> IDR 20 trillion for 4 million microcredit recipients</p>

Cluster One: Social Assistance

Poverty reduction programme as in Cluster One is actually an evolution of some basic services investment in the Suharto era and a modification of social safety nets programme during the crisis. The social assistance programme in Cluster One aims to protect food security, education, health, and employment of the poor households. The table 2 below provides details on programme description, objectives, target group, as well as responsible ministries and implementer institutions.

<i>Program Name</i>	<i>Program Description</i>	<i>Objectives</i>	<i>Target Group</i>	<i>Responsible Department/Ministry/Organizations</i>
Food subsidy ( <i>Raskin</i> )	In-kind transfer (food subsidy). Includes 15kg of rice per month at subsidised price of Rp 1,600 per kg. a reduction of about 68% of the market price (currently Rp 5,000 per kg).	To maintain food security of poor households, or keep their consumption level from falling below the poverty level.	Since 2006, the programme has used poverty data (PSE05 module) provided by Statistics Indonesia, making those below the poverty line and vulnerable to poverty eligible. Before 2006, targeting was based on National Family Planning Agency data: those categorised as 'Pre-prosperous' and 'Prosperous' were eligible. Beneficiaries: 17.5 million poor households.	National Logistics Agency (Bulog) at central level Village officials at local level
<b>Unconditional Cash Transfer (BLT)</b>	Cash transfer for poor households in times of economic shock.	Distributed after an economic shock (for the case in 2005 and 2008, the shock was fuel subsidy reduction), the programme is meant to keep the welfare status	Those categorised as poor (including chronic) and near poor. The programme covered only 15.5 million in the first round in 2005; complaints and Statistics Indonesia's updating of poverty data increased this number to 19.1 million poor households in 2008 (beneficiaries are different to	Targeting by Central Statistics Bureau Implemented by Ministry of Social Affairs Distributed locally via the

<i>Program Name</i>	<i>Program Description</i>	<i>Objectives</i>	<i>Target Group</i>	<i>Responsible Department/Ministry/Organizations</i>
		of vulnerable households from falling into poverty, or poor households from falling further into poverty.	those in Raskin as a different type of targeting is used).	post office system
<b>Conditional Cash Transfer (PKH)</b>	Cash to women classified as from chronically poor households. The allowance is given on the condition that households take care of their children's health and education.	Improve the demand for education & health services. In the long term, the programme aims at cutting the intergeneration transfer of poverty from parents to their children.	Only those categorised as chronically poor with children under five or of primary and junior high schoolage and/or chronically poor pregnant mothers access the programme. Beneficiaries: 816,000 chronically poor households in 2010, scaled up to 1,116,000 in 2011.	Targeting by Central Statistics Bureau Implemented by Ministry of Social Affairs Distributed locally via the post office system
<b>Health Insurance for the Poor (Jamkesmas)</b>	Provision of free basic medical services with referral system to public	To help poor households cover the costs of basic health	Individual targeting based on household welfare condition: chronic poor, poor and near poor.	Ministry of Health at central level.

<i>Program Name</i>	<i>Program Description</i>	<i>Objectives</i>	<i>Target Group</i>	<i>Responsible Department/Ministry/ Organizations</i>
	hospitals for the poor.	services and referral schemes provided by public health centres or hospitals or midwives.	Beneficiaries: 76.4 million poor people.	Health centres in sub-districts, hospitals in districts and provinces
<b>BOS (School Operational Assistance).</b>	General subsidy for all students at elementary and junior secondary school.	To ease people's burden of paying school tuition fees for primary and junior high school and to help children complete 9 years of compulsory basic education	All primary and junior secondary schools receive the grant conditional on their willingness to be audited. At the household level, all households with primary or secondary school-age children may be eligible regardless of their welfare status. The programme also provides specific allowances to support students from poor households. Beneficiaries: 27.6 million primary students and 9.6 million junior secondary students.	Ministry of Education at central level. School administration at local level
<b>Social Assistance for Abandoned</b>	Provision of cash transfer of Rp300,000 (around \$33.30) per person per	To provide basic living allowance for abandoned elderly	Scaled up from 2,500 beneficiaries in 6 provinces in 2006 to 10,000 in 28 provinces in 2010 and targeted 13,250	Ministry of Social Affairs at central level

<i>Program Name</i>	<i>Program Description</i>	<i>Objectives</i>	<i>Target Group</i>	<i>Responsible Department/Ministry/ Organizations</i>
<i>Elderly Jaminan Sosial Lanjut Usia, or JSLU)</i>	month.		beneficiaries in 2011.	District Social Office at local level
<i>Child Social Welfare Programme (Program Kesehatan Sosial Anak, or PKSA)</i>	Provision of cash transfer to children in need.	To ease the burden of children with special needs (example: street children)	Targets include street children; abandoned children; abandoned infants; disabled children; children with special needs; and children in trouble with the law (e.g. crime suspects, children in jail and children in court). Beneficiaries: 147,321 children in 33 provinces in 2010.	Ministry of Social Affairs at central level District Social Office at local level
<i>Social Assistance for Abandoned Disabled Jaminan Sosial Penyandang Cacat, or</i>	Provision of cash transfer of Rp300,000 (around \$33.30) per person per month.	To provide basic living allowance for abandoned disabled	Targeted 17,000 disabled people in 2010.	Ministry of Social Affairs at central level District Social Office at local level

<i>Program Name</i>	<i>Program Description</i>	<i>Objectives</i>	<i>Target Group</i>	<i>Responsible Department/Ministry/ Organizations</i>
JSPACA)				

## Cluster Two: Community Empowerment

Similar to some components in the Cluster One, the root of Cluster Two was backdated to the community empowerment programme during the Suharto era and during the crisis. Presidential Instruction on Disadvantaged Village and Village Infrastructure Programmes were implemented in the mid 90's before the financial crisis, while empowerment programmes in the crisis era was extended into a number of programmes, such as Sub-district Development Programme, Urban Poverty Reduction Programme, etc. Those empowerment programmes were scattered in different ministries and institutions. Then in 2006, the President Susilo Bambang Yudhoyono (SBY) launched a new policy on modification of the community empowerment programmes under the umbrella of the National Programme for Community Empowerment (PNPM).

The community empowerment programmes is divided into two parts (Suryahadi et al. 2012):

- 1) The Core PNPM (PNPM Inti), is the area based community empowerment programmes. The programmes include:
  - (a) Sub-district Development Programme (PPK)
  - (b) Urban Poverty Reduction Programme (P2KP)
  - (c) PNPM-Disadvantaged and Specific Area (P2DTK)
  - (d) PNPM-rural infrastructure (PPIP)
  - (e) PNPM-socioeconomic infrastructure (PISEW)
- 2) The Supporting PNPM (PNPM Penguatan), is the area and sector-based community empowerment programmes, include:
  - (a) PNPM-rural agribusiness development (PUAP)
  - (b) Direct Cash Transfer for Agricultural Investment (BLM-KIP)

## Cluster Three: Microenterprise Empowerment

This cluster aim to empower the poor and the near poor who have an occupation or business that already fulfills their basic needs but still need to improve their well-being. Microenterprises has been proved to be a cushion for the poor to survive and recover from the 1997 crisis (Harvie, 2003). In addition, there is a huge number of Indonesian people who rely on 43 million microenterprises in 2009, accounting for more than 50% of national GDP (TKPK, 2009). The programme's main objective is to increase access of the poor to the inexpensive capital so they can develop their business and in turn improve their welfare.

Numerous massive credit programmes has been existed since the Suharto era, include the Small Enterprise Development Programme, Agricultural Loan Programme (BIMAS), and small credit programme through the Bank Rakyat Indonesia. After the crisis, the government launched several similar programmes, like microcredit programmes under various ministries and 2004's microcredit scheme without substitute collateral.

In 2007, the government launched a microcredit loan programme, called People's Business Credit (KUR), for microenterprise and small-medium-sized enterprises (MSMEs). The government provides a subsidized guarantee scheme at amount 70% in which the government pays the premium. The target of this microcredit program is the micro-enterprises and cooperatives which have feasible business but they are not bankable because of lack of collateral. Moreover, this microcredit is also gives an access to community groups which have been empowered in the previous program. Until August 2009, nationally the KUR has been poured to more than 2 million businessmen/women with the amount of IDR15.3 trillion.

### **Poverty Reduction Challenges**

- 1) Insufficient productive opportunities for the poor
- 2) Weak human capabilities
  - ✓ unequal access to education, health, and other basic services
  - ✓ unequal access to infrastructure & productive assets (credit, land)
- 3) Lack of comprehensive social protection system
- 4) Social exclusion as a new form of poverty

### **Policy Recommendations**

- 1) Get rid of labour market distortions by labour law reform regards to minimum wage, severance pay, and outsourcing
- 2) Further investment in social infrastructure to strengthen the human capabilities of the poor and the vulnerable
- 3) Reform agenda on comprehensive and integrated social protection system

- 4) Incorporating some forms of social exclusion into poverty reduction programmes



KIHASA International Workshop 2012

Poverty Reduction Policies in Selected Asian Countries: Trends, Strategies and Challenges

## **Philippines**

*By.* **Girlie E. AMARILLO**



## POVERTY PROFILE

The Republic of the Philippines is an island country with an area of 299,404 square kilometers composed of 17 regions, 80 provinces, 1,493 municipalities, 137 cities, and 41,968 barangays. While China has the largest population with 1.3 billion people followed by India with almost 1.2 billion people, Philippines hit more than 92 million people according to the latest survey from NSO. The NSO said that based on the 2010 Census of Population and Housing, the Philippines population, which is 92,337,852, is higher by 15.83 million compared to the 2000 population of 76.51 million. Meanwhile on [GeoHive.com](http://GeoHive.com) we are on Top 12 countries with largest population reaching an estimated population of 99 million.

The Philippines is a republic with a presidential form of government wherein power is equally divided among its three branches: executive, legislative, and judicial. One basic corollary in a presidential system of government is the principle of separation of powers wherein legislation belongs to Congress, execution to the Executive, and settlement of legal controversies and interpretation of law to the Judiciary (Official Gazette of the Republic of the Philippines). As of 2010, Benigno Simeon Aquino III as the 15<sup>th</sup> President of the Republic of the Philippines, "has come to stand for Filipinos' reinvigorated passion to build a nation of justice, peace, and inclusive process." (Philippine Gazette)

The GDP as of 2010 was about 188.7 billion US dollars (Global Competitive Report of World Economic Forum), and the real GDP growth rate is 7.6% (indexmundi.com). As compared to other Southeast Asian countries, the population density and the population growth rate are high, whereas the per capita GNI (Gross National Income) is relatively low. As for its economy and trading structure, the Philippines acts as an "assembly factory" which imports parts from foreign country and exports products such as electronic and electrical equipment. The primary industry is the service sector, which center around trade and private services, and the manufacturing sector follows. (Japan Bank for International Cooperation, 2008).

Currency - Philippine Peso (PHP)

( Exchange rate as of September 14, 2012, BSP).

1USD = PHP41.678000

1KRW = PHP 0.0372994374

## Demographics / Ranking in the World

Human Development Index (United Nations) – ranked 102 out of 180 countries

Education (ranking out of 142 countries based on Global Competitive Report 2011 – 2012 of the World Economic Forum)

Quality of primary education – 110th

Primary education enrollment (net % - 91.7) – 81th

Secondary education enrollment (gross % - 82.5) – 81th

Tertiary education enrollment (gross % - 28.7) – 75th

Quality of the educational system – 61th

Quality of math and science education – 115th

Literacy Rate (United Nations, 2011) – 84th out of 187 countries

Published by Branding survey Location Branding 2012 of Public Affairs in

Yahoo.com, the following findings are very interesting to know;

If the Philippine capital city of Manila were in a grocery shelf along with 15 other Asian cities, it would be the least likely to make it to the shopping basket.

This was revealed in a recent regional location [branding survey](#) released by online journal Public Affairs Asia and public relations firm Ogilvy.

The Philippine capital ranked last among the 16 Asian cities in the report, which assesses attributes mostly related to business and tourism.

These include economic growth, quality of life, security, infrastructure, environment and tourist opportunities, among others.

Manila got an average score of 5.6 out of 10 points, based on a survey of 300 senior communicators.

The city's score compares with that of Jakarta at 5.9 points.

"The reputation of these two South East Asian nations is impeded by poor infrastructure, fears over safety, concern about corruption and regular word of mouth accounts of poor visitor experiences," the report said.

The city-state of Singapore topped the list with 9.7 points, followed by the city-state of Hong Kong and Sydney in Australia both with 9.5 points; Tokyo in Japan, 9.2 points; and Melbourne in Australia, 8.8 points.

Joining Manila in the bottom five are Jakarta in Indonesia with 5.9 points; the Indian cities of Delhi, 6 points, and Mumbai, 6.1 points; as well as Ho Chi Minh in Vietnam, 6.6 points.

"Cities were selected primarily on the basis of gross domestic product and include the capital cities of the region's leading nations," the report said.

This, as it stressed that effective branding of Asian cities and nations will likely be an important factor for future development in the region.

Location branding is considered "very important" for nations by 57 percent of respondents and for cities, by 54 percent of respondents.

The report added that the negative issues impacting a location brand cannot be addressed by government alone.

"Public, private and third sectors need to engage to tackle the negative effects of rapid urbanisation," the report said.

It noted, however, building a positive brand value involves more than hurdling negative perceptions through campaigns.

"Building an iconic location brand needs a well-honed narrative which marries marketing and messaging with real-life experiences which reflect the brand position," the report said

### **Poverty in the Philippines**

Based on Republic Act 8425, otherwise known as the Social Reform Agenda and Poverty Alleviation Act of 1997, the poor refers to individuals and families whose income fall below the poverty threshold as defined by the government and/or those that cannot afford in a sustained manner to provide their basic needs of food, health, education, housing and other amenities of life.

As defined by the National Statistical Coordination Board (NSCB), the “poor” has a monthly income below P7,017 for a family of five (2009)—the minimum amount necessary to meet basic needs, including those for food, housing, education and health. Within this bracket is another group called the “subsistence poor” with monthly family incomes below P4,869: barely enough to meet basic food needs (Shahani 2011).

IBON Foundation reported that “The poorest 10% of Filipino families have a monthly income of about PhP2,700, the next poorest 10% around PhP4,200 and the next poorest 10% around PhP5,400, according to the latest 2006 Family Income and Expenditure Survey (FIES)”.

As of 2009, the latest official poverty statistics show that the Philippines is home to 23.1 million poor Filipinos (3.9 million families) or 26.5 percent of the population (NAPC). Some 10.8 million Filipinos are food poor, meaning they cannot even afford food that would meet the minimum nutritional requirement (DSWD).

The poor are concentrated in rural areas (74.8 percent) and in agriculture while 25.2 percent are said to be in urban areas (Balisacan, 2006), and have less access to basic services, lower levels of education, and larger families among others.

According to the National Anti-Poverty Commission (NAPC), fisher folk have the highest poverty incidence followed by farmers. They are followed by children and then by senior citizens (2000) and women (2003). It also states that “In terms of magnitude, poor children comprised the largest among the sectors at 13.4 million in 2006, followed by poor women at 11.6 million and urban poor at 6.3 million”.

Educational attainment by the poorest households is said to be low with less than five percent of household heads had some college education, around sixty percent had completed only primary school, had some primary education or none at all (NAPC).

Limited access to water supply and sanitation facilities among the marginalized is also shown in the 2008 Annual Poverty Indicators Survey where only 14.6 percent of the poorest 30 percent had access to in-dwelling water facilities, while more than half of the richest 70 percent (52 percent) had access to these facilities.

Data from NAPC sourced from the 2008 National Demographic and Health Survey, reports that poorest families have the highest fertility rates at an average of more than five births. It also reports that the mean number of children born to women aged 40-49 years among the poorest households was six children.

### **Growth and Poverty**

Real GDP growth averaged 5.4 percent during 2003 to 2006 and 4.3 percent during 2006 to 2009, or well above population growth. But according to the Department of Social Welfare and Development (DSWD) as reported by NAPC, poverty incidence rose from 24.9 percent of the population in 2003 to 26.4 percent in 2006, and inched up further to 26.5 percent in 2009. This suggests that the gains from growth have eluded the bottom quarter of the population.

### **Human Development**

Progress has also been slow in achieving key MDG targets in the critical areas of education and health. In particular, universal primary education and targets for maternal and reproductive health are not likely to be achieved by 2015. Declining infant immunization rates also remain serious threats to children's survival. Based on DOH administrative data, the proportion of one-year olds immunized against measles slid back to 79.2 percent in 2008 from 82.7 percent in the previous year.

### **Government's Anti-Poverty Programs**

Jose Eliseo Rocamora, head of NAPC, states that "The scale and depth of poverty in the Philippines demands a massive set of programs. We are the only country in Asia where the absolute number of poor people actually increased from 1990-2005. A multidimensional approach grounded in economic growth and its distribution will therefore be needed to effectively reduce poverty." He agrees that the participation of all stakeholders – local governments and government agencies, the private sector, civil society, and the poor themselves, is vital.

The most important component of the anti-poverty program is providing the poor with direct interventions across sectoral and geographical lines is, in terms of budget allocations. The programs under this strategy include Pantawid Pamilya, a conditional cash transfer program; subsidized PhilHealth coverage for indigents; a cash transfer program for poor senior citizens; and various hunger mitigation programs.

Direct Service Delivery which includes the provision of the full requirements of basic education, health and nutrition, shelter, water and sanitation for the poor that can help build their assets is also one of the strategies of the program.

The components of the strategy include addressing critical educational needs to ensure that resources are devoted towards basic education so that we will achieve universal enrollment (100 percent participation rate) in basic education by 2016. Aside from focusing on “critical bottlenecks” – school facilities, textbooks, and the provision of training and scholarship programs for poor but deserving underprivileged students, 12-year basic education was also implemented that there is a strong focus on the education sector in the country (NAPC). A Universal Philippine Health Insurance Program (PhilHealth) coverage for all Filipinos was expanded “in order to provide the poor with financial protection against illness and make the public health system more sustainable.”

The provision of water infrastructure to ‘waterless’ municipalities is also an important aspect of this program. The government targeted to provide infrastructure to 483 municipalities that have less than 50 percent service coverage in terms of sustainable water sources.

According to DSWD, Community-Driven Development (CDD) approaches have been proven to be effective in empowering communities, especially the poor, to participate in governance to ensure that their needs are properly addressed and that resources are allocated and used for these needs. At the same time, CDD supports poor LGUs in local development. “Through participatory processes, LGUs become more effective leaders in addressing the needs of the community while community members are empowered to participate in governance and demand social accountability from their leaders.” To enhance the socio-economic skills of poor families to establish and manage sustainable community-based micro-credit organizations for entrepreneurial development, Self-Employment Assistance Kabuhayan (SEA-K), a capability-building program established by DSWD in coordination with LGUs, was enhanced. This is to enable the poor “to have access to credit, promote entrepreneurship, enhance their understanding of the value of honest work, pay debts, have social responsibility and increase their income.” (NAPC). The Kapit-Bisig Laban sa Kahirapan – Comprehensive and Integrated Delivery of Social Services or Kalahi-CIDDS, another poverty alleviation program of the DSWD that uses community development approach provides resources to poor

rural municipalities for public goods investment and promotes people's participation in governance.

Development and integration of new programs that reduce socio-political and environmental vulnerabilities, like The Payapa at Masaganang Pamayanan (PAMANA) Program, were also implemented by the Office of the Presidential Adviser for the Peace Process. Necessary resources are funded to undertake community-driven development, sustainable livelihood, tenure improvement, and livelihood- and employment-generation in areas affected by armed conflict.

With approximately 3 million unemployed Filipinos in the country, or an unemployment rate of 7.4 percent, and with some 12 million underemployed, employment generation programs are also yet to be provided. However, annual employment increases at only slightly more than 1 million new jobs a year projected by the Department of Labor and Employment is barely enough to provide jobs to new entrants in the labor force.

### **Asset Reform**

NAPC states that the goal is to provide access to productive resources and asset reform (agrarian reform; distribution of ancestral domain titles; fisheries and aquatic resources reform; low-income housing and urban land reform). This also involves completing the land distribution covered by the Comprehensive Agrarian Reform Program (CARP) within five years and the remaining 4.2 million hectares (out of the targeted 10 million hectares) of ancestral domain land under the Indigenous People's Rights Act. Around 3.4 million hectares are already in the pipeline for distribution. As coconut farmers are said to be among the poorest of the poor in rural areas, support for households dependent on coconut is also provided by efforts in promoting productivity growth in coconut areas. Furthermore, NAPC head Rocamora said that of the remaining 1.102 million hectares CARP should cover by 2014, coconut farms represent the largest percentage at 350,000 hectares, one-third of which are large, private agricultural lands. This distribution of CARPable coconut lands will be supported by an industry development plan and a road map crafted with the help of civil society. A comprehensive program for developing coconut lands can be financed by coco levy funds. Some 27 percent of San Miguel Corporation stock (or 753 million shares), valued at roughly Php 56.5 billion, has been declared "owned by government in trust for all the coconut farmers."

## **Social Protection**

The government has a responsibility to promote the rights and welfare of the poor, protect them from abuse and exploitation, provide opportunities for the poor so that they can participate and benefit from economic growth and development. Social protection policies are therefore needed to enable the poor (as well as the non-poor) to minimize the impact of exposure to risk and change their behavior in a way that helps them exit poverty and lower their vulnerability.

Social Protection is generally defined as a set of interventions aimed at supporting the poor and other members of society in managing risk. In the Philippines, as defined by the government, social protection constitutes policies and programs that seek 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 typically includes social assistance and welfare service programs for the most vulnerable groups with no other means of adequate support, including single mothers, the homeless, or people with disabilities, child protection, pensions for the elderly, social insurance and safety nets for cushioning the impact of shocks and poverty, and labor market policies to promote employment, the efficient operation of labor markets and protection of workers.

By way of Social Development Committee (SDC) Resolution No. 2 series of 2009, the inter-agency Social Protection Sub-Committee (SPSC) was established under the National Economic and Development Authority (NEDA) SDC to oversee the mainstreaming of the social protection program and identify the agencies in charge of implementing specific social protection programs. The SPSC is chaired by the Department of Social Welfare and Development (DSWD) and includes the Departments of Health (DOH), Education (DepEd), Labor and Employment (DOLE), and Interior and Local Government (DILG), among other agencies that implement social protection programs.

In October 2009, the government adopted a social protection strategy and framework which aims to address risks affecting the poor, disadvantaged, and vulnerable. The strategy employs government programs and interventions that are anchored on building partnerships and collaboration among different stakeholders

to mobilize resources and forge participatory governance from the national to the local level.

The NEDA-SDC Cabinet Level Meeting in October 2009 adopted a Social Protection Strategy which identifies mitigation measures and programs addressing multi-dimensions of risks affecting the poor, disadvantaged and vulnerable with the overwhelming goal of achieving an improved quality of life for all. The Philippine Development Plan 2011-2016 however, identifies the lack or absence of appropriate social protection intervention, resulting in households adopting coping strategies that erode human capital. Furthermore, the PDP characterizes the current social protection system as fragmented and uncoordinated, consisting of inadequately funded and short-lived programs. The launch of Conditional Cash Transfer (CCT) program and the National Households Targeting System for Poverty Reduction (NHTS-PR) were steps towards improving the effectiveness and efficiency of the social protection interventions, yet further work is needed to consolidate social protection programs and complement these with CCT.

#### Conditional Cash Transfer (CCT)

Pantawid Pamilyang Pilipino Program (4Ps) is DSWD's major contribution to poverty reduction. It encourages families to invest in human development so that their children can have better chances of lifting themselves out of poverty. It is a conditional cash transfer program that provides incentives for poor families to invest in their future by ensuring that mothers and children avail of healthcare and that children go to school. 4Ps is aimed at reducing inter-generational transmission of poverty and the impact can thus be seen only in the long term. At the same time, CCT also provides relief from current poverty; additional cash that poor households receive allows them to cope with short-term or everyday cash flow problems. Such extra cash received on a bimonthly basis is especially important for poor households that have irregular or seasonal income. The goal also of the program is to help keep 5.6 million of the poorest children healthy and in school.

Now called Pantawid Pamilya (2Ps), it's design has benefited from lessons from other countries that used conditional cash transfer programs as a strategy on social protection towards poverty alleviation. As of December 07, 2011, there are 2,236,691 poor households listed as Pantawid Pamilya beneficiaries. CCT provides cash grants to households with children 0-14 years old and/or pregnant mothers, on the

condition that these households make investments in the human capital of their children. Health and nutrition conditions require periodic checkups, growth monitoring, and vaccinations for children 0 – 5 years of age; twice a year intake of de-worming pills for children 6 – 14 years old, pre- and post-natal care for pregnant women and attendance of parents in family development sessions where responsible parenthood is discussed. Education conditions include day-care and school enrollment, attendance equivalent to 85 percent of school days for children 3 – 14 years old. Both conditions are meant to improve the poor household's economic prospects to help them move out of poverty (DSWD).

### **National Household Targeting System for Poverty Reduction (NHTS – PR)**

Executive Order 867 signed on March 8, 2010 adopts the National Household Targeting System for Poverty Reduction (NHTS – PR) as tool for identifying the poor who shall be recipients of social protection programs. It uses an internationally accepted mechanism which uses observable and verifiable characteristics of households as criteria for classifying households as poor, which reduces opportunities for discretion in choosing beneficiaries. It complements official statistics that provide poverty estimates at the regional, provincial, and municipal levels produced by the National Statistics Office (NSO) and National Statistical Coordination Board (NSCB). The targeting system enables the government to provide assistance directly to the poor, and avoid spreading scarce resource to the members of the population who are not poor or vulnerable.

NHTS – PR is implemented nationwide. As of July 01, 2011, the NHTS – PR has surveyed and assessed some 10.8 million households. Of these, 5.2 million households were identified as poor.

Targeting system is conducted in five steps:

1. Geographic targeting – geographically targeting poor areas using Family Income and Expenditure Survey (FIES) produced by the National Statistics Office (NSO) identifying the poorest provinces and Small Area Estimates (SAEs) produced by the National Statistical Coordination Board's (NSCB) in ranking municipalities/cities by poverty incidence.
2. Household survey – collection of data through household assessment with the following strategies: a) Saturation (complete enumeration) for all municipalities with poverty incidence of 50% and above and b) Saturation

(complete enumeration) only in pockets of poverty for municipalities/cities by poverty incidence; information gathering uses the household assessment form (HAF), a two-page questionnaire with 34 observable and verifiable variables

3. Proxy Means Test (PMT) – a statistical model that estimates the income of households based on the proxy variables included in the household assessment form
4. Classification of households as poor or non-poor – comparison of estimated income of a household to the poverty threshold per province (using official poverty thresholds computed by the NSCB) to determine if its poor or non-poor; households with estimated income that fall below the poverty threshold of their province are then classified as poor
5. Validation – a process of assessing the list of poor and non-poor households nationwide; the preliminary list of poor households is posted in municipalities/barangays to identify erroneous entries where a Local Verification Committee (LVC) is organized to resolve all the complaints/appeals received during the validation period

## Reviews

Critiques of the CCT program however expressed opposition on the said program. One party-list solon who signed the manifesto against the CCT said in a report that the program might go to waste if it feeds the “wrong kind of hunger,” referring to gambling habits and other vices of some “irresponsible parents.” Protest on the doubling of the CCT fund “at the expense of health, education, power, palay procurement and irrigation which suffered significant cuts.” was also conveyed.

[“Not only does the P21-billion dole-out offer an empty promise of alleviating poverty](#), it further contributes to the country’s worsening financial health with its added burden of multi-billion loans from international financial institutions,” read the joint statement by militant lawmakers from Bayan Muna party-list, Anakpawis party-list, Gabriela party-list, ACT Teachers party-list and [Kabataan party-list](#). While the Senate Majority is all out support for the CCT, [Sen. Franklin Drilon](#) noted that there should be [“full accounting”](#) of the measure “to make sure the program succeeds in reducing poverty.”

Sen. Francis “Chiz” Escudero likewise had second thoughts on the measure by stating that [“overstretched hospitals need cash transfers as much as the poor do.”](#)

“The poor’s greatest fear is sickness and hospitalization. So even if you give him P1,400 a month, a minor bout with flu will wipe this out. So he’d rather prefer a facility that can he can go to in his time of need.”

Cash transfers or some would call it “dole-outs”, are typically frowned upon in the Philippines but according to the DSWD, “as gleaned from the various definitions of social assistance and safety nets, they can actually be justified under certain conditions (i.e. severe poverty and vulnerability) and can be important tools for poverty alleviation and social protection. DSWD also argues that CCT is not dole-out because conditional cash grants are given only to households which comply with the program’s conditions. Beneficiaries sign an Oath of Commitment, thereby establishing a “social contract” where they agree to take a number of concrete steps to improve their lives and those of their children. Failure to comply with certain conditions will cause beneficiaries to not receive the benefit corresponding to the conditions. DSWD also states that the program does not encourage indolence/mendicancy among beneficiaries since the conditional cash grant only augments the household income and assists parents to support their household’s basic needs. Furthermore, the amount is not enough to support a family and will therefore not lead productive members of the household to stop working or stop looking for work. The assistance is also temporary as beneficiaries are expected to graduate from the program after five years. The program’s family development sessions also teach beneficiaries about responsible parenthood (parenting duties, obligations) and how to supplement their household’s income through backyard gardening, handicraft making, etc.

Rappler.com reports that the World Bank believes the Philippines is in a better position to attain the Millennium Development Goals (MDGs) in three years due to the government's Conditional Cash Transfer (CCT) program. On a survey of 1,418 households who were covered by the CCTs, the bank reported that around 64% of mothers are receiving prenatal care compared to the 54% previously recorded. Mothers receiving postnatal care also increased to 36% from the initial estimate of 27%. The survey also showed that after the CCTs, the enrollment rate in day care centers increased to 76% from 65%; elementary, 98% from 93%; and regular attendance rate in elementary and high school, 96% from 91%. Children who were availing of health services also increased - children having their weight monitored increased to 33.3% from 16%; taking de-worming pills, 63.3% from 55.3%; and taking Vitamin A, 80.6% from 74.9%.

## **Convergence**

Convergence calls for the synchronization of all interventions of the government and the private sector in identified geographical areas to ensure that reforms in terms of poverty alleviation, among others are achieved. It aims to (1) maximize resources by reducing duplication of efforts and enhancing operational efficiency, and (2) enhance local skills, knowledge, and collaborative action between stakeholders for sustainability of outcomes. It enhances partnership with NGOs, people's organizations and civil organizations.

## **Good Governance**

Good governance is an essential precondition for sustainable development. It promotes strategic management of limited resources in a manner that is open, transparent, accountable, equitable and responsive to people's needs. It promotes transparency and accountability in the delivery of public goods and services.

J.E. Rocamora states that a bottom-up budget process will undercut existing circuits of patronage. "Inter-agency planning on poverty programs within the Human Development and Poverty Reduction Cabinet Cluster will shift decision-making away from areas where patronage syndicates might be operating. Thus, the political economy at the local level can be changed if local officials figure more directly in the planning, service delivery and implementation of antipoverty programs. With these measures, we hope to build pathways to free the poor from the grim and implacable realities of persistent poverty."

## **Conclusion**

With a high economic growth reported (6.4% in first quarter, 5.9% in second quarter and first semester growth of 6.1% for 2012), the National Economic and Development Authority (NEDA) said the Philippines still has a long way to achieving a significant reduction in poverty. Rappler.com reports that NEDA Director General Arsenio M. Balisacan believes the country has made significant progress in reducing the scores of the poor. He said, "I always like to maintain that you need to grow on a sustained basis to see the impact of this growth on poverty. You see growth but don't count on it too much"

According to Balicasan, the growth does not really translate too much in the lives of ordinary Filipinos. He said if the country's population growth of 1.9% will be taken out of the growth, actual growth in the second quarter was only 4%. Balicasan also said that to reduce poverty, sustaining higher growth of about 6% to 7% in the next 5 to 10 years is needed. He also added that this high growth must also be accompanied by benign inflation or low commodity prices to allow the poor to benefit from economic growth.

Furthermore, the NEDA chief said that to be able to meet the expectations of the international community, who now tout the Philippines as Asia's bright spot, the country needs to improve low- and high-hanging fruits in development and economic growth. He said that for one, the government must make sure that its fiscal house is in order. He also noted that this is usually where many countries enjoying high economic growth fail. For him, the government must invest more in infrastructure and reduce the costs of doing business to place the country within the radar of both foreign and domestic investment.

"There are some low-hanging fruits and high-hanging fruits that we need to address. There are (even) low-hanging fruits (that can help us) make a significant improvement (in doing business) and send the message that we are serious in our business of putting the Philippines on the map," Balisacan said.

## List of Used Acronyms

CARP	Comprehensive Agrarian Reform Program
CCT	Cash Conditional Transfer
CDD	Community-Driven Development
DILG	Department of Interior and Local Government
DOLE	Department of Labor and Employment
DSWD	Department of Social Welfare and Development
FIES	Family Income and Expenditure Survey
GDP	Gross National Product
GNI	Gross National Income
HAF	Household Assessment Form
Kalahi-CIDDS	Kapit-Bisig Laban sa Kahirapan – Comprehensive and Integrated Delivery of Social Services
LGU	Local Government Unit
LVC	Local Verification Committee
MDGs	Millennium Development Goals
NAPC	National Anti Poverty Commission
NEDA	National Economic and Development Authority
NHTS-PR	National Households Targeting System for Poverty Reduction
NSCB	National Statistical Coordination Board
NSO	National Statistics Office
PAMANA Program	Payapa at Masaganang Pamayanan
PhilHealth	Philippine Health Insurance Program
PMT	Proxy Means Test
SAEs	Small Area Estimates
SEA-K	Self-Employment Assistance Kabuhayan
SDC	Social Development Committee
SPSC	Social Protection Sub-Committee
2Ps	Pantawid Pamilya
4Ps	Pantawid Pamilyang Pilipino Program

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*Related Materials:*

IBON Foundation

Conditional Cash Transfers and the Persistence of Poverty [pdf file]

National Budget 2011: Neglecting Government Responsibilities [pdf file]

Japan Bank for International Cooperation

Philippine Poverty Profile [pdf file]

National Anti Poverty Commission (NAPC)

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**KIHASA International Workshop 2012**

**Poverty Reduction Policies in Selected Asian Countries: Trends, Strategies and Challenges**

## **Cambodia**

***By.* Bunkheang CHENG**



## INTRODUCTION

After multiple decades of civil war and conflict, Cambodia has endeavored to rebuild its economic and social welfare infrastructure since the country emerged as a new democratic and open society in 1993. The economy continues to be restored by private sector investments and its social development process is technically and financially supported by international donors and local development partners. Cambodia received total 5 billion USD in Official Development Assistance (by the time of the study), making it one of the most aid dependent countries in the world (Ear, 2007). Since then, annual foreign aid has continually risen to the level of exceeding 1 billion USD for 2009 alone (Reaksmey, 2008). Over the last decade, Cambodia has developed its economy quickly with the average rate of more than 9% due to strong growth rates in garment industry, agriculture, tourism and construction (Hang, 2010).

In spite of economic progress, Cambodia remains one of the poorest countries in the region and income growth unevenly distributed (Council for Social Development, 2002). Whereas urban areas have seen a standard of living upgrade, progress is considerably more modest in rural areas where the poor experience difficulties in access to basic services. Water and sanitation are limited especially in rural areas; only 41% has access to safe drinking water (Murphy, Sampson, McBean, and Farahbakhsh, 2009). Addressing rural poverty is a government priority given that approximately 80% of the total population lives in rural areas (UNDP Cambodia, 2009); therefore, many social protection programs initially targeted in rural areas.

Recognizing that delayed social welfare policies mainly around poverty reduction can jeopardize the development process, Cambodia has begun to create national frameworks and social protection programs aimed at helping the poor. The *National Social Protection Strategy for the Poor and Vulnerable 2011-2015* was launched in 2011 to develop a comprehensive, integrated and systematic social protection plan for poor and vulnerable populations (Royal Government of Cambodia, 2011a). In this policy, social protection interventions consist of social safety net of social welfare services that seek to improve and expand access to health, nutrition and education services in order to protect individuals and households against consequences from disasters, shocks and impoverishing situations.

One such program is the Health Equity Fund (HEF) which is intended to increase accessibility to health care for the poor (Ministry of Health, 2011). This program adheres to a selective approach of social protection. Selective welfare seeks to identify needy groups rather than offer protection to the general population or universally and require some type of means-testing for eligibility (Matthews and Erickson, 2008). This selective approach was acknowledged by the Cambodian government when designing its social protection policies due to limited budgets, insufficient resources and facilities, implementation competence and weak coordination between relevant ministries and institutions (Royal Government of Cambodia, 2011a). Selective welfare is not only limited within health sector policies, but also in employment-related programs. The Cambodian Labor Law in 1997 set minimum wage levels for all working sectors; however, only workers in the textile, garment and footwear industries are under this jurisdiction and ensured a minimum wage currently set at \$61 USD<sup>35</sup> per month. The same ministry also instituted the National Social Safety Fund in 2008 which provides mainly private sector employees with employment injury coverage; health insurance; and pension coverage (World Bank and ASEAN, 2009). All of these policies reflect a selective framework for social protection rather than a universal one.

Selective social protection programs run the risk of excluding some poor and vulnerable groups. Selective programs generally utilize ad-hoc identification procedures whose accuracy are not guaranteed (World Bank, 2009a) and eligibility requirements and assessments may differ greatly from one program to another. An alternative approach to address this issue is development of a common identification procedure (World Bank, 2009a). Hence Cambodia's *Identification of Poor Households Program (ID-Poor)* was implemented jointly between the Ministry of Planning and German International Cooperation (GIZ) to create a standardized identification procedure that promotes sharing of poor household data or eligibility information across multiple social protection programs.

This paper examines the implementation of the *Identification of Poor Households Program (ID-Poor)* and its roles in developing rural social protection programs in Cambodia. This paper is structured into four sections. Section 2 provides a national profile related to poverty and an overview of national strategies. Section 3 focuses on

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<sup>35</sup> Source: <http://www.prake.org/home/salary/minimum-wages/minimum-wage-rate-of-cambodia>

the overall procedures of the Identification of Poor Households Program and presents a case study demonstrating the link between the identification program and a health sector program. Section 4 offers a critique of this targeting mechanism. Lastly the paper ends with a conclusion.

## 1. OVERVIEW OF POVERTY REDUCTION IN CAMBODIA

### 2.1. National Poverty Profile

Cambodia's poverty—in no ways different from those in low income countries—is largely associated with inadequate opportunities, insecurity, exclusion and vulnerability (Council for social development, 2002). Poverty in Cambodia is calculated by a food poverty and non-food allowance. Derived from the Cambodia Socio-Economic Survey (CSES), the food poverty allowance or food expenditure refers to the total amount spent for the food basket comprised of a daily minimum food energy requirements per capita (2,100 kcal); while non-food allowance is calculated from the non-food consumption of individuals whose total consumption in within 10% above or below the value of the food poverty allowance. In the *Poverty Profile and Trends in Cambodia in 2007*, food poverty lines were 1,965 Riel in rural areas and 2,274 Riel in urban areas (with 4,100 Riel=1 USD). Non-food allowances were 402 Riel in rural areas and 430 Riel in urban areas. In total, the overall poverty lines were 2,367 Riel in rural areas and 2,704 Riel in urban areas. Based on this measurement, 30.1% of the overall population lived below the poverty line in 2007; there were however rural and urban rate differences with higher rates in rural areas (34.7%) than that in urban areas (21.9%) (World Bank, 2009b). See Table 1 for national, urban and rural area poverty rates.

Table 1: Poverty Estimates

	1994	2004	2007
	Index (%)	Index (%)	Index (%)
<b>Poverty line</b>			
National	39.1	34.7	30.1
Urban	36.6	24.7	21.9
Rural	43.1	39.2	34.7
<b>Food poverty line</b>			
National	20	19.7	18

Urban	19.6	14.2	12.7
Rural	21.9	22.2	20.8

Sources: - World Bank, 1993/1994, *A poverty profile of Cambodia*

- Ministry of Planning, 2004, *A poverty profile of Cambodia*

- World Bank, 2007, *Poverty profile and trends in Cambodia*

By maintaining macroeconomic stability, the Gross Domestic Product (GDP) per capita saw an increase from 229 USD in 1993 to 783 USD in 2010 (Hang, 2010). The decline in poverty during the period 2004-2007 reflected substantial and statistically significant growth in real per capita household consumption. Consumption increased in real terms by 10.7% among the poorest and 11.5% among the next poorest quintiles (Ministry of Planning, 2004).

## 2.2. Poverty Reduction Strategies

The present day democratic Cambodian government developed poverty reduction strategies in a number of policy papers, including the first Socio-Economic Development Plan (1996-2001) which later become the National Strategic Development Plan (2009-2013), National Poverty Reduction Strategy (2003-2005), Health Strategic Plan (2008-2015) and most recently the National Social Protection Strategy (2011-2015). In line with United Nations' Millennium Development Goals (MDGs), the core objective is to reduce poverty from 30.1% in 2007 to 19.5% by 2015 (World Bank, 2006).

To this end, various governmental bodies in cooperation with donors and NGOs have introduced an assortment of anti-poverty and social protection programs—particularly to improve rural livelihoods; strengthen capabilities; reduce vulnerability and reinforce social inclusion (Royal Government of Cambodia, 2002). In the area of improving rural livelihoods, the primary goal is to increase income by ensuring ownership of land and housing, access to natural resources and access to markets (Royal Government of Cambodia, 2002). For strengthening capabilities, government policies prioritize health and nutrition that affect poor Cambodians. The Health Strategic Plan 2008-2015 seeks to increase health care access by implementing a pro-poor health financing system that includes fee exemptions for the poor through an expansion of health equity funds, in combination with other forms of social assistance mechanisms (Ministry of Health, 2007). It seeks to lessen vulnerability of poor households by providing quality health services with equity

and without discrimination. In addition, the National Social Protection Strategy (2011-2015) complements that program by seeking to ensure that poor and vulnerable groups will have increased protection against chronic poverty and hunger, shocks and social exclusion through cash transfer, in-kind and psychosocial supports and adequate social care (Royal Government of Cambodia, 2011a).

### **2.3. Drawbacks with Current Poverty Reduction Efforts**

The criteria and procedures for targeting anti-poverty and social protection programs vary widely; there is no commonly accepted definition to determine eligibility, nor common method to assess eligibility to access these programs (World Bank and ASEAN, 2009). Many organizations or institutions depend on patchy and ad-hoc procedures when providing selected, targeted programs or services (Royal Government of Cambodia, 2011a) and their procedures can create target errors. Exclusion is one type of error in which intended beneficiaries are not able to benefit from the intervention (Hoddinott, 1999). The other is the error of inclusion in which an intervention reaches individuals who were not intended to be beneficiaries. Undeniably, existing social protection interventions in practice exclude some poor and vulnerable groups (World Bank and ASEAN, 2009) as well as the inclusion of non-poor households. Further efficiencies are lost as some protection programs do not necessarily focus on the poorest geographic areas. Lastly with the myriad of players, efforts have been largely fragmented and coordination weak among service providers (Royal Government of Cambodia, 2011a).

Even though the phenomena of errors and inefficiencies are typically everywhere in poverty reduction strategies, policymakers should investigate methods that are most effective. In developing any social protection programs, efficient allocation of resources is essential for making an intervention effective and to link the poor or the poorest to assistance programs (World Bank and ASEAN, 2009). Targeting often helps make an intervention cost-effective because one can avoid wasting resources on the non-poor, which would occur in the absence of targeting (Ministry of Planning and World Food Program, 2002). On the other hand, a standardised and systematic method of identifying target groups and target areas could serve to reduce duplication of effort and improve coordination among service providers (Royal Government of Cambodia, 2011b).

An innovative and effective method to bridge this gap has been developed and put into practice which will be subsequently described.

## **2. STANDARDIZING ELIGIBILITY: IDENTIFICATION OF POOR HOUSEHOLD PROGRAM (ID-POOR)**

### **3.1. Overview of the Program**

The *Identification of Poor Households Program (ID-Poor)* was launched in 2006 to identify households who are poor and to assess their level of poverty for eligibility of services. This new tool for equitable development in Cambodia serves rural poor only at this time. The program was a joint venture between the Cambodian government and technical and financial supports from German International Cooperation (GIZ). The Ministry of Planning implemented the 1<sup>st</sup> phase from 2007 to 2009 and current plans are to continue the program until 2015.

Identification has two main objectives:

- 1) Household targeting – use data to directly target services and development assistance to poor households and individual members in order to help lift them out of poverty and to protect them from shocks (e.g. serious illness and crop failure) which may deepen their poverty; and,
- 2) Geographical targeting – data can also be used to calculate comparative poverty levels of districts, communes, villages, in order to identify priority areas for assistance.

Through this identification process, it is expected that there will be less burden on communities and households who previously had many organizations conducting disparate assessments for services; data will be disseminated regularly to facilitate systematic development planning particularly over wide geographic areas, and there will be an increased cost-effectiveness given less duplication of efforts and effective delivery of targeted services.

### **3.2. Procedures of the Identification Implementation**

#### **- Coverage Areas**

Based on the procedures set by the Ministry of Planning, the ID-Poor Program wishes to determine which households are poor and identify geographic priorities.

The purpose of identification of individual households is to directly target protection programs and development assistance to the poorest households in a village in order to address social issues. Given that the majority of poor households reside in rural areas, implementation of this program focused only on rural areas. According to the latest data in 2012, the identification process has been completed in almost all rural villages across the country, even though it is initially based on selective or prioritized rural villages. Many of these areas have substantial numbers of various service providers as well (Royal Government of Cambodia, 2011b). The Ministry of Planning considered it vital to select areas in which there are sufficient services available to justify the effort and cost of implementation and to maximise the prospect of benefits for conducting such identification of poor households.

Besides the Ministry of Planning, who is the lead identification implementer, a number of NGOs were mandated to conduct this poor household identification in their respective target areas. In 2007 and 2008, University Research Co., LLC, (URC) implemented the procedures in Banteay Meanchey, Battambang and Pursat provinces. During the same period, Reproductive Health Association of Cambodia (RHAC) conducted identification in Sihanoukville, Kompong Chhnang and Kompong Cham. Identification by these NGOs was completed with their own financial resources (Ministry of Planning, 2012). In total, URC and RHAC conducted identification in 1,322 villages in 2007-2008. Presently, households in 17,306 rural villages throughout Cambodia have been assessment by the ID-Poor Program (Ministry of Planning, 2012).

Table 2: Summary of identification effort between 2007 and 2011

<b>Year</b>	<b>Number of assessed villages</b>	<b>Number of assessed households</b>
2007	713	124,768
2008	2,490	501,328
2009	3,435	618,680
2010	6,441	1,353,210
2011	4,227	763,249
<b>Total</b>	<b>17,306</b>	<b>3,361,235</b>

Source: [Database](#) by Ministry of Planning, 2012

#### - **Coordination Structure of the Implementation**

According to the national guideline, the implementation is structured and managed at two main levels, the national and sub-national.

- National Level: Based in the Ministry of Planning, staffs from the Ministry and GIZ technical advisers are responsible for management and coordination of identification of poor households in Cambodia, providing guidance and training and other materials to the sub-national levels.
- Sub-national level: the implementation process is directly under the Provincial Departments of Planning (PDOP) and Provincial Local Administration Unit (PLAU) who works closely with districts, communes and village-level implementers. These two actors help coordinate and guide activities of the Provincial and District Facilitation Teams (PFTs and DFTs), as well as to monitor implementation at the commune and village levels. PFTs and DFTs are responsible for training commune and village-level implementers of the Procedures, and for providing guidance and support during implementation.
- Capacity building to complete the assessments is made through a cascade approach. Trainers from the national level train PDOP and PLAU staff, PFTs and DFTs. In turn, PFTs and DFTs train commune representatives and commune-level trainers. These commune-level trainers are then responsible for training Village Representative Group members in the technical aspects of implementation of the Procedures.

#### - **Implementation Process**

Based on the national guideline, the identification process in each village is carried out by a Village Representative Group (VRG), with the support and supervision of a Planning and Budgeting Committee Representative Group (PBCRG), the Commune Council, and representatives from the District Facilitation Team (DFT). The whole process in a province is coordinated by the Provincial Department of Planning, in cooperation with the Provincial Local Administration Unit. The Ministry of Planning provides trainings at the provincial level, monitors implementation and gives on-going technical support (Ministry of Planning, 2008a).

Table 3 below illustrates the 7 steps during the identification procedure

Step 1	<p>Establish and train the Planning and Budgeting Committee Representative Group (PBCRG) which is responsible for the implementation process in their communes.</p> <ul style="list-style-type: none"> <li>• PBCRG formed from members of the existing Planning and Budgeting Committee in each commune</li> <li>• Some PBCRG members become trainers of Village Representative Groups VRGs</li> </ul>
Step 2	<p>Establish and train Village Representative Groups (VRGs)</p> <ul style="list-style-type: none"> <li>• Conduct First Village Meeting to select members of VRG</li> <li>• Commune-level trainers train VRGs, conduct interview practice</li> </ul>
Step 3	<ul style="list-style-type: none"> <li>• Compile List of Households in the Village for Identification of Poor Households</li> <li>• Conduct household interviews</li> <li>• Count scores, prepare Draft Household Poverty Categorisation List</li> <li>• Discuss special household circumstances in VRG and modify classifications of some households as required</li> <li>• Hold Commune Review Meeting to check Draft Household Poverty Categorisation List</li> <li>• Prepare First Draft List of Poor Households and publicly display in village</li> </ul>
Step 4	<ul style="list-style-type: none"> <li>• Display First Draft List of Poor Household in publicly display in village</li> <li>• Conduct Village Consultation Meeting</li> <li>• Receive villager complaints and suggestions</li> <li>• Prepare the Final Draft List of Poor Households, publicly display, submit to Commune Council</li> </ul>
Step 5	<ul style="list-style-type: none"> <li>• Commune Council reviews Final Draft Lists of Poor Households for each village, and coordinates the resolution of any outstanding complaints</li> <li>• Commune Council approves Final List of Poor Households prepared by the VRG</li> <li>• Commune Council sends all relevant documents to Provincial Department of Planning for data entry</li> <li>• Commune Chief stamps and signs Equity Cards, and VRGs distribute them to poor households (after data entry and photography in Steps 6 and 7)</li> </ul>
Step 6	<p>Entry of data into Database of Poor Households</p> <ul style="list-style-type: none"> <li>• Data entered by Provincial Department of Planning</li> <li>• Key data entered: details of all poor Household members, Household</li> </ul>

	poverty category, Household photographs
Step 7	Photography <ul style="list-style-type: none"> <li>• Photography Teams photograph Poor Households for Equity Cards</li> <li>• Equity Cards printed, Provincial Department of Planning distributes them to Commune Councils for distribution to villagers</li> </ul>

*Source: Implementation Manual on the Procedures for Identification of Poor Households, Ministry of Planning, 2008a*

The above process involves substantial villager participation and consultation. They elect the Village Representative Group, some villagers become members of the Village Representative Group, are informants in interviews, attend a Village Consultation Meeting to discuss the First Draft List of Poor Households, and can make suggestions or objections relating to the composition of the first and final draft List of Poor Households.

**- Questionnaire and Scoring of Poor Households**

The questionnaire contains a number of scoring questions which are weighted according to the perceived strength of their relationship to poverty. The standard questionnaire for identification of poor households comprises a set of scoring and non-scoring questions which are used as a guide by Village Representative Group (VRG) members to decide what poverty category to assign a household to. The following factors are covered in the questions:

<b>Scoring questions</b>	<b>Non-scoring questions (special circumstances)</b>
<ul style="list-style-type: none"> <li>• Housing – roof, wall, floor area, general condition</li> <li>• Productive land area in hectares / fishing equipment/other income source</li> <li>• Animal raising (including fish raising for sale)</li> <li>• Borrowing rice (indicates ability or inability to meet own food needs)</li> <li>• Ratio of dependent household</li> </ul>	<ul style="list-style-type: none"> <li>• Unexpected problems or crises which caused household to lose income, produce less food, sell assets, or borrow money in last 12 months</li> <li>• Number of children aged 6-11 years who missed school for at least 1 month in the last 12 months</li> <li>• Special household situation (disabled, sick, elderly, divorced/widowed with young children, no adults, other)</li> </ul>

members to productive members <ul style="list-style-type: none"> <li>• Electronic assets</li> <li>• Means of transportation</li> </ul>	
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Source: *Implementation Manual on the Procedures for Identification of Poor Households*, Ministry of Planning, 2008a

#### - Scoring System

When the scores for each answer are added up, the final score is used to allocate households to different categories. These categories, according to the Implementation Manual, are interpreted below (Ministry of Planning, 2008a):

- **Poor Level 1:** with score range from 59 to 68, is the poorest category. This category is the proportion of households approximately corresponds with those under the food poverty line in the Cambodia Socio-Economic Survey.
- **Poor Level 2:** with score range from 45 to 58, is the next poorest category. It is represented by the proportion of households as those between the food poverty line and the poverty line in the Cambodia Socio-Economic Survey.
- **Others:** a household falling into this category, with score range from 0 to 44, is considered to have an average living standard or is better off, and will not be included in the List of Poor Households.

Table 4: Summary of identification results between 2007 and 2011

Year	% of Level 1 Households	% Level 2 Households
2007	16.9	17.2
2008	14.3	14.7
2009	14.7	16.1
2010	13.5	15.9
2011	9.8	13
Average	13.78	15.38

Source: [Database](#) by Ministry of Planning, 2012

On average across assessments from 2007-2011, 13.78% were categorized as Level 1, 15.38% into Level 2, and the remaining in “Other” category. To date, around 950,660 households have been identified as poor in both levels and were issued Equity Cards (ECs) (Ministry of Planning, 2012). Equity Cards include information such as the name of village/commune/ district /province; name, sex and year of birth of household head; poverty level and household photo. These Equity Cards help to raise the awareness of poor households and enable them to demonstrate eligibility to access services and assistance (Royal Government of Cambodia, 2011b); conversely cards help service providers quickly verify identity and status in order to provide services (World Bank and ASEAN, 2009). Data of poor households of identified villages shall remain valid until the Ministry of Planning disseminates new updated data. If the data of poor household has not been updated, the data shall be valid for a period of 4 years (Royal Government of Cambodia, 2011b). During this validity period, service providers can decide to provide services or not. If service providers find that some household members who are in the *List of Poor Households* are actually well-off, these organizations or institutions should note down the household code, name and sex of household head, name of spouse, and the province, district, commune and village details from the household’s Equity Card in the *Report on Irregularities of Household Members Seeking to Receive Services*.

### **3.3. Results from Phase 1 Poor Household Identification Process**

The initial phase was viewed as a success hence this program received strong supports from the government. Accordingly, it became a national policy by a Sub-Decree dated 23 December 2011 to officially mandate standardized procedures for identification of poor households. The Sub-Decree will increase implementation throughout Cambodia and to encourage social service providers to use of the available data (Royal Government of Cambodia, 2011b). The promotion and promulgation of this program into the Sub-Decree on Identification of Poor Households will boost efficiency by providing a legal basis to actively discourage duplication of effort in conducting identification of poor households. This legal framework also encourages enhanced cooperation and participation from other relevant organizations and will ensure sustainable funding for implementation as stipulated in the following provisions.

*Article 2: “this Sub-Decree aims to regulate identification of poor households, in order to provide data to be utilized in poverty reduction activities.”*

Article 6 and article 7: *“relevant ministries and institutions at national and sub-national levels must cooperate with the Ministry of Planning to facilitate and implement the identification of poor households. Ministry of Planning, the implementation agent, provide technical guidance to all government and non-government stakeholders taking part in this process”*

Article 19: *“Funding for the process of identifying poor households is obtained from the portion of the national budget allocated to the Ministry of Planning and other sources.*

Since the program started, the annual operational cost has been between 2.5 and 3 million USD which was primarily funded by German International Cooperation (GIZ), Australia Agency for International Development (AUSAID) and United Nations’ Children Fund (UNICEF) with a small amount provided by the government who will gradually increase its funding share (Ministry of Planning, 2012). From 2015, the Cambodian government is committed to finance 100% of the ID-Poor program (Ministry of Planning, 2012). That is a positive move by the government to ensure the on-going implementation of this procedure and future updates to the household database.

During the initial implementation phase, the Ministry of Planning found the following three challenging areas (Ministry of Planning, 2008b).

- Implementation of the program during the rainy season was a hindrance. It was difficult for personnel to access rural and remote areas. Household informants were often not at home at the time of the survey which necessitated multiple attempts to complete an interview.
- The implementers’ capacity and ability were limited due to their level of education and training sessions were conducted over a short period. The trainees asserted that they were well trained about the questionnaire and procedures, but when they actually conducted interviews, they reported having difficulty and sometimes did not understand the questionnaire themselves.
- The complete process was more complex, time-consuming and costly than expected. The identification procedures required a high degree of participation by and consultation with villagers themselves. In part this was

due to a key emphasis of promoting ownership of the ID-Poor Program and to maximise the implementation conducted by government structures and village representatives, in order to build local capacity and enhance sustainability.

### **Case Study: Linking the ID-Poor Program and the Health Equity Fund (HEF)**

*The Health Equity Fund (HEF) offers a fee-waiver mechanism to improve access to health care services for the poor by paying the provider on their behalf (Ministry of Health, 2009). HEF is coordinated by a 3rd party payer, termed a HEF operator, which can be an NGO or designated public health center. HEF operator uses pre-identification and post-identification procedures to determine eligibility for receiving a benefit package allowance which may include hospital user fees, transportation cost and food.*

*The HEF seeks to work closely with the ID-Poor Program; and these two mechanisms are seen as an important accelerator to effectively reduce poverty and help the poor in a fair and equitable manner (World Bank, 2009a). The Ministry of Planning is of the opinion that sufficient services in any area identified as having a high concentration of poor households are key to rationalize the effort and cost of implementation and to promote the recognition from local communities towards the benefits of conducting identification of poor households (Royal Government of Cambodia, 2011b). All areas covered in the poor household identification are areas in which Health Equity Fund (HEF) are operating. Individuals with an Equity Card are exempted from paying for all of the costs of their hospitalization and other medical services and are reimbursed for any expenses they may have incurred for transportation and food during their stay in the hospital (World Bank and ASEAN, 2009).*

*By shouldering the health expenditure for the poor, HEF provides improved access to health services for the poor; protects this vulnerable group from excessive health expenditures; and reduces dependence on debt and asset sales to pay for health costs (Ministry of Health, 2007). In March 2009, there were 50 HEF operational centers in place, covering about 3,168,883 people in Cambodia (World Bank and ASEAN, 2009). The HEF is managed cooperatively by the government, its development partners, and local NGOs and its 2008 cost of US\$1.4 million was financed through the regular government budget and additional support from development partners (World Bank and ASEAN, 2009). The HEF is one example of how the ID-Poor Program can support the effective targeting of services.*

### 3. POLICY SUGGESTIONS FOR THIS IDENTIFICATION MECHANISM

While the ID-Poor Program seems to be an equitable tool in the poverty reduction process and its successful implementation resulted in creation of a Sub-Decree to legitimize its status, it is still premature to assume that this current procedure will effectively and inclusively target the poor for social protection programs. Several outstanding questions remain: Will the collected data be reliable?; Will organizations cooperate to use these available data instead of their own targeting mechanisms?; and, are there differences in who is served or receives assistance with this standardized process? These questions remain as well as further steps mentioned below which should be taken into considered in order to ensure effective poverty reduction process.

- The Ministry of Planning should plan to develop procedures and a questionnaire for identification of poor households in urban areas and the data of the poverty level can be available and used other service providers.
- The ID-Poor Program should be integrated into the mandate of commune councils and their support structures in the Ministry of Interior in order to ensure the sustainability and to provide empirical information about the poverty situation in villages. Policy-makers who are concerned with decentralization and deconcentration need to take this process into consideration when allocating responsibilities and resources among sub-national authorities. By working closely with the commune authority level, the mobility of poverty and identification can be controlled and updated on a regular basis (Ministry of Planning, 2008b).
- Promoting the use of ID-Poor data among other government and non-government agencies in any assistance programs. In addition to Health Equity Fund which currently is the only program that is closely linked, other sectors would benefit from utilizing this standardized process. The Ministry of Education, Youth and Sports still uses its own ad-hoc mechanism via the school management committee to select children to eligible for school support (World Bank and ASEAN, 2009). That practice also happens with relation to access to micro credit and other subsidy programs. All of these mechanisms

should be harmonized or eliminated given existence of the poor household database (Royal Government of Cambodia, 2011b).

- The government should also consider expanding social services and promoting the utilization of Equity Cards (ECs) in order to widen assistance opportunities for the poor. Assistance programs like education scholarships, micro credit, social land concession and vocational trainings could benefit by inking with the ID-Poor Program. After the poor households are identified, social protection programs by public and private providers can effectively move them out of poverty cycle.
- Further develop online data sharing and improve the accuracy of future updates of the ID-Poor data by incorporating information provided by service providers. The Ministry of Planning should take an active role in working with concerned stakeholders to encourage a wide use of these services (Ministry of Planning, 2008b). However, the ministry has to take the issue of privacy into serious consideration, what information can be shared with other concerned organizations and the manner in which it is shared.

#### **4. CONCLUSION**

Overall, Cambodian economic growth is crucial to the creation of opportunities and evidence suggests that while the poverty rate is declining, relying on economics alone is insufficient. Poor and vulnerable groups may not have the ability to benefit from economic growth for a number of reasons. Effective poverty alleviation requires a targeted orientation of development activities towards the poor. The ID-Poor Program seeks to replace ad-hoc identification systems with a standard system that more systematically determines households in need of services and areas of geographic priority. The Cambodian government intends to make ID-Poor Program the primary targeting methodology across all social protection programs, while still allowing for the use of complementary methodologies where their use is justified. To date, the ID-Poor Program implementation has been met with positive support. Targeting the poor can lead to more efficient use of existing development resources and hasten the poverty alleviation pathway. The Ministry of Planning seeks to encourage other organisations and institutions to use this standardized and coordinated way to target social protective services and assistance to the rural poor.

In the meantime, promoting widespread use of the collected data in ID-Poor Program can benefit service providers and beneficiaries. Utilization by partner organisations of standardised procedures for identification, involving commune councils and ensuring the participation of local people in the process, will also help increase transparency of the process and the accuracy of the results, and subsequently acceptability to local people and to data users. While the program seems promising, empirical evidence to demonstrate that the standardization of this process effectively and efficiently reduces poverty and accelerates the development process in Cambodia is yet to be determined.

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