EMERGING ECONOMIES TRANSITION

Towards Asia's Sustainable Development

THE ROLE OF SOCIAL PROTECTION



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OECD

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PREFACE

Before 1997, several East and South East Asian economies had enjoyed three decades of steady income growth, resulting in significant declines in poverty and accompanying improvements in the social well being of the population. The financial crisis that started in 1997 brought the growth process to a sudden halt. The difficult economic and social situation provoked by the crisis forced the authorities in a number of countries to implement quickly a wide range of macroeconomic and structural reforms. At the same time, there were perceptions that governments had not been well prepared to deal with the social problems that followed the 1997 crisis. Subsequently, demands for "safety net" programs to contain the social costs of economic downturns emerged and became more prominent.

The OECD became involved in the issue of developing social protection in Asia, when a number of Member countries argued that the Organisation should broaden its outreach work, just as it has in response to the problems that European transition countries experienced in moving from centrally planned to market economies. Subsequently, the OECD commissioned a paper on the issue of income security for employees in developing countries, presented to a joint World Bank/ILO/Japan Institute of Labour Conference held in Tokyo in October 1999. Analysis of issues related to the Asian crisis was also undertaken by the OECD Development Centre, including in the Sixth International Forum on Asian Perspectives in July 2000. The OECD also undertook a Review of Labour Market and Social Safety Net Policies in Korea, an OECD Member country, in 2000.

The OECD also organised a conference on social safety nets and governance capacities, held in Darwin in July 1999. Subsequently, the Development Centre (DC), the Directorate for Education, Employment, Labour and Social Affairs (DEELSA) and the Centre for Co-operation with Non-Members (CCNM) jointly organised a further workshop in Paris on 9-10 April 2001. The workshop provided an in-depth assessment of safety net and broader social protection issues in Asia in the light of national experiences and policy-oriented work conducted by international organisations involved in this area. Its main purpose

was to advance practical policy debate on the role of social safety nets to support the region's economic recovery and its long-term social development.

This publication brings together the papers prepared for the 1999 Darwin Seminar as well as those presented in Paris in April 2001. The papers have been prepared by researchers in Indonesia, Malaysia, the Philippines and Thailand. The 2001 workshop also benefited from contributions from policy-makers in these countries, as well as from Korea, Japan and Australia. In addition, the Asian Development Bank, the International Labour Office and the World Bank contributed to this dialogue.

This study is published on the responsibility of the Secretary-General of the OECD.

INTRODUCTION

Peter Whiteford [1]

Background - The Social Dimensions of the Asian Crisis

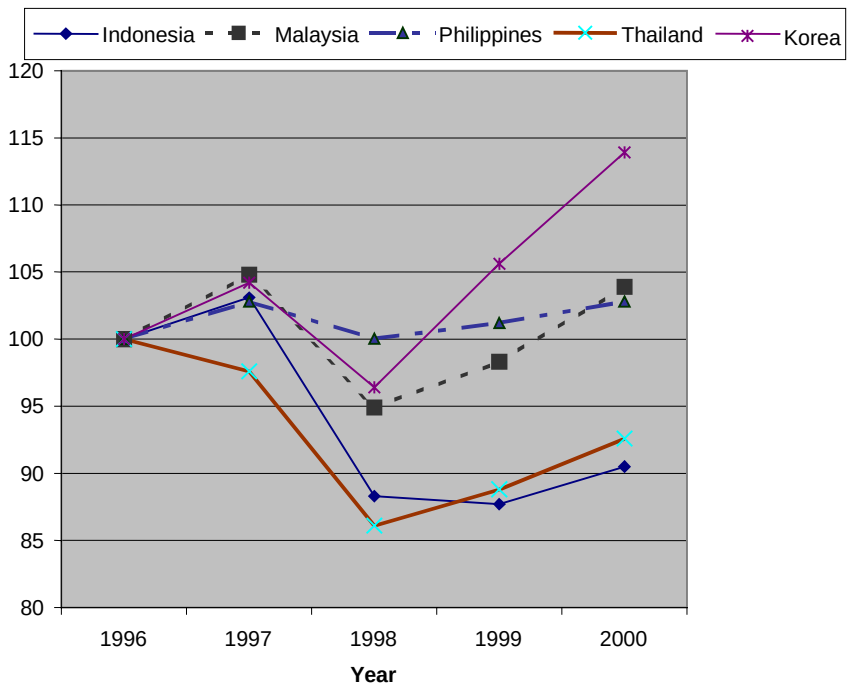
The Asian crisis followed the floating of the Thai baht in July 1997. According to Knowles, Pernia and Racelis (1999):

> There is now a near-consensus that the Asian financial crisis largely stemmed from structural problems in the banking and corporate sectors, rather than from weak macro-economic fundamentals. These problems had to do with inordinately high levels of financial leverage, weak supervisory and regulatory frameworks, and excessive risk-taking by both lenders and borrowers, leading to high rates of non-performing loans. This made banks and corporations highly vulnerable to unexpected capital outflows. A sudden loss of confidence that spawned widespread panic, resulting in massive capital withdrawal, quickly unravelled the financial systems of several Asian economies. (Knowles, Pernia and Racelis, 1999, page 1.)

The crisis then spread to the Philippines and Malaysia. The Indonesian rupiah was devalued in August 1997, and the South Korean won depreciated significantly after November. Indonesia, South Korea, Malaysia, the Philippines and Thailand experienced nominal currency depreciations of more than 50% between August 1997 and early 1998.[2]

The economic impact of the crisis was severe, as shown in Figure 1. Real per capita GDP fell by 16% in Indonesia, 12% in Thailand, 10% in Malaysia, 8% in South Korea and 3% in the Philippines (Barro, 2001). Growth in per capita incomes resumed from 1998, except in Indonesia where growth was not renewed until 1999. Nevertheless, even by 2000, real per capita incomes remained below their pre-crisis levels in all of these countries, apart from Korea, with Indonesia and Thailand being most severely affected.

Figure1. Trends in real incomes per capita, South East Asia, 1996 to 2000



These impacts were further transmitted into other economic and social outcomes, as shown in Table 1. Inflation rates jumped in all five countries, most markedly in Indonesia. Unemployment rates increased in all countries as real output growth at first declined and then turned negative. The largest increase in unemployment occurred in Korea (from 2.6% to 6.8%), although in relative terms the increase was greatest in Thailand. However, even in Korea, the unemployment rate was an inadequate indicator of labour market impacts (*e.g.*, the female labour force declined sharply). As pointed out by Martin and Torres (2000), Korea has a more dualistic labour market than any other OECD country,

with very high levels of self-employment and of unpaid family labour. Similar situations prevailed in other South East Asian economies before the crisis. Employers and own account workers were even higher proportions of the non-agricultural labour force in Indonesia (37.8%), the Philippines (25.7%) and Thailand (23.4%), and unpaid family workers ranged from between 4 to 5% of the non-agricultural labour force in the Philippines and Malaysia to between 10 to 11% in Indonesia and Thailand (ESCAP, 2001).

Table 1. **Selected Economic and Social Impacts of the Asian Financial Crisis, 1997 to 1999**

	Indonesia	Malaysia	Philippines	Thailand	Republic of Korea
GDP growth rate					
1997	4.7	7.54	5.19	-1.68	5.01
1998	-13.2	-7.50	-0.59	-10.17	-6.69
1999	0.23	5.42	3.32	4.16	10.66
Inflation rate					
1997	6.6	2.7	5.9	5.6	4.5
1998	58.5	5.3	9.8	8.1	7.5
1999	20.5	2.8	6.6	0.3	0.8
Unemployment rate					
1997	4.7	2.5	8.7	0.9	2.6
1998	5.5	3.2	10.1	4.4	6.8
1999	6.6	3.4	9.7	3.0	6.3
Employment in construction					
1997-1998	15.8	-5.9	-2.0	-36.7	-21.3
1998-1999	-3.0	-3.1	-4.4	-2.4	-13.0
Employment in manufacturing	-9.8	-4.7	-0.6	0.5	-6.5
1997-1998	15.9	4.3	1.1	4.9	2.8
1998-1999					
Real earnings per worker					
1997-1998	-34.2	-	-	-9.4	-9.3
1998-1999	10.5	-	-	0.1	11.1

Sources: Asian Development Bank, 2001b.

The strongest labour market impact of the crisis occurred in the form of declining real earnings, which occurred in all countries (Edwards, 2001), with the impact being particularly large in Indonesia, as shown in Table 1. The labour market impact of the crisis was not evenly distributed. The largest employment impact was felt in construction, followed by manufacturing. In contrast, employment expanded in agriculture and services in most countries. Youth employment opportunities were most adversely affected by the crisis, followed by those with relatively little education, and by women. Urban populations were generally harder hit than rural populations. Significant

changes in migrant labour and remittances occurred across the region. The number of Indonesian overseas migrants increased nearly four-fold, while remittances to Indonesia increased by 170%. In contrast, the number of Philippine migrant workers expanded by only 1%, while remittances to the Philippines declined by 14%. Malaysia, Korea and Thailand succeeded in repatriating many illegal migrants to their home countries. (For a more detailed discussion, see OECD, 1999.)

These economic impacts were also reflected in trends in poverty, as well as in education, health, and the environment. As shown by Braga de Macedo, Fukasaku and Hiemenz (this volume), following the crisis there were increases in the level of poverty, measured using international poverty lines, in Indonesia, Malaysia and Thailand. However, the increases in poverty were not as great as initially projected, and poverty rates also appear to have fallen since 1998 or 1999. It is worth emphasising, however, that while the proportion of the population with incomes below $1 per day is now quite low in South East Asia, the proportion with incomes below $2 a day remains very high in Thailand (around 30%), the Philippines (44%) and Indonesia (roughly 60%) (ADB, 2001a). Income inequality showed divergent trends, with available information suggesting that it increased in Thailand Korea and the Philippines, but decreased in Indonesia (Knowles, Pernia and Racelis, 1999). Knowles at al (1999) also point out that the impact of the crisis is likely not to have been most severe on the very poor in the region for a number of reasons. First, the economic impact was greatest on urban populations, who generally did not include the very poor. In addition, the currency devaluations tended to have benefited the agricultural sector, where most of the poorest groups can be found.

The crisis also decreased health care expenditure and utilisation (Edwards, 2001; Knowles et al, 1999). Budget cuts reduced subsidies for drugs and medical supplies and eventually led to an increase in costs and prices of health treatments. Other sources of income (user fees, charitable contributions) also declined. Serious shortages of drugs occurred in Indonesia and the Philippines. Household expenditure on health care declined sharply in Thailand and Indonesia, and to a lesser extent in the other countries. Significant numbers of clients shifted from private to public health providers in all countries. Immunisation coverage was maintained in all the countries studied, except in the Philippines. Maternal mortality rates increased, except in Korea, although they have subsequently improved, apart from in Indonesia (Asian Development Bank, 2001).

In summary, the financial crisis had wide-ranging and in some cases severe effects on the economies of South-East Asia. As noted in the Preface to this Volume, a number of OECD Member countries proposed that the social

protection issues raised as a result of the crisis required analysis and policy dialogue. Amongst other activities, a conference on social safety nets and governance capacities was held in Darwin in July 1999, and the Development Centre, the Directorate for Education, Employment, Labour and Social Affairs and the Centre for Co-operation with Non-Member Economies jointly organised a workshop in Paris in April 2001. This Volume brings together the papers prepared for both meetings. As will be seen, the proceedings combine a number of papers on the specific experiences of different countries affected, as well as perspectives from other policy makers and from international organisations.

Overview of this Volume

The first part of the Volume is intended to provide a discussion of background and longer-term issues. The main conclusions of the chapter by Richard Kohl are that East Asian experience shows that globalisation is potentially consistent with poverty reduction and egalitarian growth. The impact of globalisation varies, depending on the strategy adopted and on domestic institutions and governance. Where globalisation has tended to increase inequality and poverty it has most often been where inappropriate strategies have been adopted in the face of weak domestic institutions and governance and large distortions, or in the face of adverse world economic conditions. In those cases, globalisation has often magnified pre-existing inequalities and rigidities leading to greater poverty and inequality. The paper also discusses the policy implications of these arguments for the speed and sequencing of liberalisation, which must be tailored to the circumstances of individual countries and the nature of the world economy at the time. Ideally asset redistribution, such as land reform, would be desirable, but is often politically difficult. The second-best solution is to create wider access to productive resources and other supply-side policies, such as infrastructure investment in rural areas and agriculture. Attention needs to be paid to preparing vulnerable groups to face increased competition. Capacity building is an essential pre-requisite for sustainable, pro-poor globalisation. The shift from a smaller role of the state to greater market provision and allocation must be done with care. Education policies are particularly important, with both educational investment (and development strategy) building from the bottom up, and education policy needs to target universal education. Labour market flexibility is important, but research is needed on how to achieve balanced labour market reform. Finally, changes in OECD and multilateral policies that give greater market access and allow for greater domestic trade capacity building are important and OECD policies affecting agricultural and labour-intensive imports need to be reformed in light of their effects on pro-poor development.

The next four chapters present papers that were originally presented at the OECD workshop in Darwin in 1999. It is particularly important to note that they have not been updated to reflect the significant changes that have affected the region since then, particularly in Indonesia and the Philippines. However, these Chapters are useful in giving detailed accounts of the longer-run development of the role of government in social policy in the region. Geoff Forrester sets out the historical origin of the Indonesian State's commitment to social services and outlines developments under the Soeharto New Order. The chapter discusses the emergence of two sets of policies to promote welfare in Indonesia, following the fall of President Soeharto in May 1998. The first of these is the concept of the "people's economy" and the second the significant devolution of power to regional governments. Shafruddin Hashim discusses the constitutional foundations and the institutions of governance of Malaysia. This chapter identifies the commitment to a healthy and growing private sector as the primary form of social safety net adopted in Malaysia. It is argued that the underlying institutions of governance were not fundamentally challenged, because Malaysia did not experience the crisis as severely as other countries in the region. Ron May's chapter outlines developments in politics and government structures relevant to social welfare in the Philippines over the period since the 1950s. Emphasis is given to the social commitments of the Aquino and Ramos administrations, particularly the Social Reform Agenda adopted in 1994. Mathana Phananiramai and Kevin Hewison review constitutional arrangements and political structures in Thailand. The chapter notes that since 1997 substantial financial resources have been allocated for social services and education and health care, but there are many impediments to effective administration in these areas.

Part 2 of the Volume turns to recent country-specific experiences in implementing social safety nets. Sudarno Sumarto and Asep Suryahadi note that designing and implementing social safety net programmes in 1998 to respond to the first serious economic shocks in years was a new experience for Indonesia. In pre-crisis Indonesia, formal social protection programmes hardly existed and most social protection was achieved through informal arrangements. Hence, when it became apparent that Indonesia was the worst hit country in the Southeast Asian region by the crisis, the government had no alternative but to create new social safety nets instead of expanding existing ones. The purpose was to safeguard real income and access to social services for the poor and the vulnerable. To the government's credit, some programmes went from the early design stage in July 1998 to reaching millions of recipients in a matter of months. Unfortunately, the findings of this study revealed that programme implementation often suffered from the problem of under-coverage, as a large number of the poor were simply not covered by the programmes. At the same time, all programmes faced the problem of leakage, since a large proportion of

programme benefits went to the non-poor. These problems point to the difficulties in designing and implementing any programme that provides cash or in-kind transfer in a developing country as large and diverse as Indonesia. Nevertheless, the two years of Indonesian experience with the SSN programme provides useful lessons for designing and implementing social safety net programmes, particularly in the context of developing economies. Bambang Widianto provides a commentary on this chapter.

Norma Mansor and Halimah Awang discuss Malaysia's experience following the crisis. Following the Asian financial crisis, the Malaysian government strengthened a number of existing social programmes to deal with adverse social effects. However, there is growing concern for a sound operational and effective social safety net system not just to address immediate problems but more importantly to enhance the ability of the system to meet long term future financial commitments. Other factors, such as high inflation rates, increasing numbers of older people due to increasing life expectancy, and changes in employment and social structures raise more concerns about the ability of the present social safety net to provide for future generations. This paper is therefore aimed at examining the social security system in Malaysia and to recommend reforms that would further strengthen the social safety net in order to protect the Malaysian public from being left behind in the development process.

The chapter by Celia Reyes focuses on the social safety nets that the Philippine government implemented to mitigate the adverse social impacts of the Asian crisis. These programs include food subsidies, public employment programs and credit-based livelihood programs. The paper argues that these programs need to be reformed to improve coverage and remedy leakages to the non-poor, and in order to ensure cost-effectiveness and sustainability. A community-based monitoring system that not only could provide information on the impacts of crisis on vulnerable groups, but also early warning signals of impending crisis needs to be institutionalised on a nation-wide basis. This could provide the necessary information for identifying eligible beneficiaries for targeted programs.

According to Amara Pongsapich, in the years leading up to economic crisis, many social reform programs were gaining momentum in Thailand. Due to the crisis, one of the most serious problems has been rising unemployment and underemployment in both urban and rural areas. While the impact of the crisis has been one of the important factors influencing political and social reforms, the crisis has also been an impetus for further social reforms. This paper examines the social safety nets programs implemented during the economic

crisis, in order to assess the adequacy of policy formulation for social safety nets in Thailand, to assess the efficacy of social safety nets programme implementation; and to recommend measures to strengthen the responsiveness of social safety nets to short-term emergencies as well as long-term concerns.

Part 3 of the Volume provides the views of some of the main international organisations involved in the social protection debate in Asia, and also includes papers from policy-makers from other countries in the Asia-Pacific region. Isabel Ortiz discusses the Asian Development Bank's perspective on the reform of social protection systems in the Asia and Pacific Region. The paper outlines the relevant social and economic characteristics of the region and discusses the components of a comprehensive social protection strategy. Existing systems are analysed, and ways of determining country-specific priorities are discussed. The paper also discusses the political economy of reform, and sets out criteria for evaluating the adequacy of social protection interventions. The paper argues that well-designed social protection systems will not only have good social and political effects, but also promote economic development. This can be achieved by increasing the productivity of the labour force, helping labour markets to allocate workers to their most productive uses, facilitating investment in human capital, and encouraging farmers and the informal sector to undertake more entrepreneurial activities. Critical priorities in Asia and the Pacific are the design of affordable programs for this excluded majority and creation of sufficient economic activity to absorb all the young new entrants into the labour market.

The chapter by John Blomquist, Juan Pablo Cordoba, Marijn Verhoeven, Patricia Moser and Cesar Bouillon summarises the results of a broader study carried out for APEC Finance Ministers by the World Bank, the International Monetary Fund, the Asian Development Bank and the Inter-American Development Bank. The study is a detailed analysis of responses to the financial crisis in a number of Asian and Latin American countries (Chile, Indonesia, the Republic of Korea, Mexico, Peru, the Philippines and Thailand). This paper provides an edited version of this Report, in particular focusing on the lessons to be learned from Asian experiences. The paper examines safety nets in the context of the policy environment, and focuses on the need for pre-crisis planning. The paper draws lessons on the choice of safety net instruments and discusses the importance of transparency and accountability in programme eligibility, administration and budgeting. Detailed annexes summarise common safety net targeting methods, highlight the advantages and disadvantages of the main safety net programme types, and describe the safety net policy responses of the Asian study countries. Mukul Asher provides a commentary on the chapter by John Blomquist and his colleagues and also on the chapter by Isabel Ortiz.

Ian Chambers and Anne Drouin focus on issues relating to the public financing of social protection in Asia. The countries covered include the PR of China as a transition economy, the Kingdom of Thailand as a middle-income economy and the Lao P.D.R. as a least developed country. The paper argues that the level of public resources allocated to social protection is too limited in the region in general. It also argues that there are likely preconditions to be met so as to achieve an efficient allocation of resources for social protection. These are closely linked to the development of existing capacities of institutions and human resources in charge of administering social protection programmes. The role of local administrations must be strengthened to enforce the mandatory registration of workers under social security schemes – thus raising social security income – to assess the needs for social protection of the population, and to administer social protection programmes. Finally the paper raises the issue of the vulnerability and limitations of social protection programmes as a result of globalisation. It argues in favour of an increased role of regional forums and institutions to arrange programmes that would collect resources at the regional level and redistribute resources across countries.

The chapter by No Dae-Myung discusses the challenges facing Korean society as the result of the crisis, in particular the policy for social integration through work. After the 1997 financial crisis, Korea had to face disastrous social consequences, including high unemployment and poverty rates. All actors of Korean society saw that it was necessary to respond to this situation by defining a new approach to social policy based on dialogue between the various social partners. This dialogue has taken the form of a new partnership between civil society organisations (CSOs) and government. It has led to major reforms in the social insurance and social assistance systems and to the establishment of two programmes to promote employment, the Public Works Programme (PWP) and especially the Programme of Social Integration through Work (SIW). Although the results of the former have proved disappointing, a great many hopes are placed in the latter, with dialogue between civil and governmental authorities being put at the heart of the system for combating poverty and exclusion. Nevertheless, many questions remain about the future of CSOs and their independence from the government.

Kerry Flanagan and Angela Braniff look at the Australian Government's experience of implementing a social coalition to achieve broader social policy goals. The social coalition promotes collaboration and partnership between all tiers of government (the 'public' side of the partnership), community leaders, individual members of the community, and the business community. These partnerships are premised on enhanced engagement of the broader community to help develop and deliver government programs and services. The chapter argues that government needs to be involved but not do it all. The paper briefly

outlines Australia's social protection system, the pressures for change and the broader responses to those pressures. It examines what partnerships mean and how they are being pursued. It gives some examples of current major initiatives to illustrate this approach.

The final section of the Volume includes contributions from the OECD that attempt to summarise some of the debate about social protection in Asia, and draw out some of the main conclusions as a guide to future policy discussions. Peter Whiteford and Michael Förster review the arguments put forward for enhanced social protection by researchers, advocates and policy makers in Asia, as well as the positions of the major international institutions. The Chapter's objective is to identify what might be meant by a "social safety net" in order to clarify the policy and administrative issues involved. The literature reviewed tends to be somewhat confusing, as different participants in this debate apparently envisage social programmes that differ quite markedly in scope and duration, as well as in levels of spending required. It is by no means clear that a consensus has emerged in regard to the reforms needed to improve social protection in the future. Nevertheless, both the Asian Development Bank and the World Bank talk in terms of "social protection" rather than "social safety nets". Both these organisations as well as others emphasise the importance of forward looking policies, that contribute to the creation of programmes that anticipate future social needs, and not simply to react to crises after they have occurred.

Finally, the chapter by Jorge Braga de Macedo, Kiichiro Fukasaku and Ulrich Hiemenz notes that while there are increasing signs that the crisis economies are on the road to recovery, uncertainty remains high about the sustainability of policy reform, as social conflicts and civil unrest continue to unfold in some countries. This concluding chapter warns against some pitfalls in comparative development, due to unavailable data, inadequate analysis and the neglect of culture. The chapter also highlights several major findings regarding the social consequences of the Asian economic crisis, with main focus on poverty, and discusses ways of sustaining development and social protection in East Asia.

Notes

1. I would like to thank Jean-Pierre Garson for his support throughout this project. I am also grateful to Peter Scherer who organised the 1999 Workshop in Darwin. Thanks go to Mayrose Tucci for her assistance at the April 2001 Workshop, Victoria Braithwaite for helping with this publication, and particularly to Pauline Allison for her assistance in preparing and managing the workshop, and in producing this publication.

2. Other economies – Singapore, Taiwan and later Japan – were affected but not to the same extent; China was relatively unaffected.

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PART I

BACKGROUND ISSUES

GLOBALISATION AND INEQUALITY IN SOUTHEAST ASIA[1]

Richard Kohl

What is Globalisation? [2]

Before discussing the impact of globalisation on East Asia, it is important to define the term. Globalisation can be defined as the greater integration of domestic economies into the world market economy. This includes three components. Exogenous technological changes and policy reforms, whether domestic or multilateral, serve to reduce barriers to international transactions and increase openness to international flows. Since 1980 policy reforms have been much more important than technological changes; transportation costs have changed little outside of air transport, however costs of communications and information have fallen dramatically, along with improvements in the quality and diversity of services available. The other component is internal market reforms, which increase the role of markets in allocation, such as deregulation and privatisation. While not narrowly "global", in developing countries internal market reforms have quite often accompanied external liberalisation, such as in the context of shifts in development strategy or structural adjustment programmes, and have synergies with external reforms which can multiply the impact of the global market on the domestic economy *e.g.* capital account and domestic financial liberalisation.

Global Factors Affecting Inequality

There are a number of characteristics of the current period of globalisation that are likely to have affected growth and distribution within and across developing countries, particularly through the mechanism of world factor price equalisation. For East Asia, two are relevant. First, trade in manufactured goods, and within that intra-industry trade and trade and intermediate goods, have

become much more important than 30 years ago. More and more developing countries (DCs) have shifted away from exchanging manufacturing imports for primary commodity exports, and now export manufactures – often through integration into global production networks. This has presented and continues to present both challenges and opportunities. On the plus side, international trade is not a zero-sum game and can create dynamic benefits for all through specialisation. In the East Asian context, the rapid growth of regional integration has provided growth opportunities and access to capital, technology, markets and know how. In recent years, this has occurred largely through production networks, especially in the electronics industry, through large flows of FDI, subcontracting and outsourcing. On the other hand, DCs trying to move up the value-added chain face greater competition from a greater number of countries ahead of them, and those competing in the same market niche. Middle-income countries also face increasing competition from "below" with the increased integration of China, India and other populous countries since 1980, and more recently the integration of the poorer countries of East Asia – Cambodia, Laos, Vietnam – into the regional and global market. Pressure from below has particularly affected the second round of developers in East Asia, that is the middle-income countries of Southeast Asia.

The second factor concerns the relative mix of different equilibrating flows in the world economy – labour migration, capital flows and trade in goods, technology transfer. While in fact labour migration has played a more important role than commonly acknowledged in mediating the relationship between globalisation and inequality in East Asia, it is still relatively much less important compared to capital (K) and goods flows and technology transfer (TT), especially when compared with the late 19th century.[3]

Again, this has potentially positive and negative aspects. Greater integration of world financial markets has increased access to capital flows, and in fact these flows, after a dip in the 1980s, in the 1990s reached levels not seen since the turn of the century. While largely biased towards the richest developing countries, in fact much of Southeast Asia (SEA) has been able to take advantage of this opportunity, as discussed below. On the other hand, capital inflows and FDI in particular have moved away from investment in primary commodities and government securities into capital-intensive manufacturing and high-wage services like finance, insurance, and real estate. There is also a growing body of literature which suggests that it may bring with it skill-biased technology, be complementary to skilled labour, or both, regardless of the sector of investment. Taken together, these factors appear to be contributing to widening skill differentials in many countries, both within the OECD and in middle-income countries.[4]

The Integration of East Asia into the Global Economy

East Asian countries followed similar development paths over the last 30 years. Viewed simplistically, this can be divided into the three stages, with the timing of when each stage began and ended varying across countries in the region. In the first stage, the emphasis was on import substitution, with high barriers to external trade and capital flows to foster the development of domestic industry. This was often accompanied by industry policies targeting key industries, such as directed credit or tax subsidies. As elsewhere, these policies tended to have a bias against agriculture and in favour of urban sectors, and were likely to be capital-intensive; for both reasons they were pre-disposed to widen existing inequality in predominantly rural societies.

The second stage was what one might call partial globalisation in which countries pursued a mixed package of both export promotion and import substitution (IS). Most countries in SEA shifted to this mixed strategy over the course of the 1970s.[5] Export incentives were used to offset the negative incentives derived from import protection and other industrial polices. Import barriers tended be high in many areas though overall mixed in terms of coverage and rates; while some tariffication of quantitative barriers occurred, as discussed below, the shift in strategy did not result in much in terms of tariff cuts until the next stage began in mid to late 1980s.

In this second stage there were several important difference between the first round of industrialisers – the Northeast Asian (NEA) economies – and the second the Southeast Asian or ASEAN economies.[6] The NEA economies focused on developing industries in which they would have future comparative advantage. By contrast, SEA countries targeted developing industries in which they had a current comparative advantage. Since three of the NEA were islands, and even Korea was already fairly industrialised, the agricultural and natural resources sectors were already small; they targeted moving directly into the production of low-skilled labour intensive goods, especially textiles. SEA countries, given their endowment in natural resources, particularly agriculture, initially focused on commodity exports, and then moved up into resource and low-skilled labour-intensive manufactures.[7]

Throughout the region the rapid growth which occurred in these first two stages of development were largely factor intensive, depending on high domestic investment rates and a rapid expansion of the labour force.[8] Within this pattern, another difference between the two sub-regions was in their use of external capital. NEA countries tended to rely much less on external capital inflows in general and FDI in particular; Korea in particular was largely closed to FDI until the 1990s. SEA countries were initially able to use the foreign exchange

resources from primary commodity exports to finance development of manufacturing, often combined with implicit taxes and foreign exchange policies transferring resources from rural to urban sectors. However they increasingly made use of external capital,[9] even prior to the second stage, *i.e.* in the 1960s, SEA countries encouraged FDI, though often limited to certain sectors or to minority holdings. Similarly, because the regional economy was much more developed, SE Asia benefited from greater trade and investment links with the East Asian region as a whole.[10]

As is well known, these policies led to the so-called East Asian miracle – steady rapid growth in the 1970s led by strong exports. Real GDP growth averaged 7.1 and 8.6% annually, respectively, in SEA and NEA, and exports were even higher, including an average rate of over 20% in Korea. Real value-added manufacturing grew at double-digit average annual rates in all countries except the Philippines.[11] Agriculture expanded at an average of over 4% in SEA though in Thailand this was largely a result of a rapid growth in the supply of arable land as government policies encouraged pushing back the frontier. Thus despite the rapid growth in manufacturing, SEA remained largely agricultural with more than half of the labour force in agriculture except in Malaysia, where it was still over 40%; as of 1980 manufacturing exports accounted for only 22% of total merchandise exports for SEA, as opposed to 64% in NEA.

The third phase of development was characterised by a move towards full globalisation in the form of substantial liberalisation of external accounts, though the shift was largely confined to SEA until the 1990s. Unlike the policy of liberalisation that drove globalisation in other developing regions, in SEA this generally did not occur in the context of balance-of-payments crises and was not part of the framework of structural adjustment programmes negotiated with the Bretton Woods institutions.

The primary motivation for the policy shift was largely set by domestic strategic and developmental considerations rather then the need to adjust; particularly in SEA, the motivation was concern over the ability to sustain high growth rates. While EA did not suffer from the debt crisis of the early 1980s to any where near the extent of Latin America[12] or Africa, growth did slow down due to adverse commodity price movements, and rising oil prices casting doubt on the ability to sustain high growth rates based primarily on agricultural (or oil) exports. (Since NEA growth was not reliant on this base, there was much less motivation to change policy, so opening was delayed until the 1990s.) Policymakers felt it necessary to shift development strategy away from vulnerable commodity exports and towards (higher value-added) manufacturing. Much greater capital investment, combined with access to technology, was felt to be the key to implementation of this strategy. Despite

the already very high savings rates in the region policy makers moved to increase access to external capital flows and technology transfer, particularly in the form of FDI.

At the same time, world market conditions changed which both increased the pressures for these changes and facilitated them. On the one hand, greater bilateral trade frictions with OECD countries and pressures from those countries to subscribe to GATT rules on export subsidies, effectively eliminating them as a policy if SEA countries wished to maintain access to OECD markets. On the other hand, companies in Japan, Korea and Taiwan began to look for lower cost production sites in the face of domestic currency appreciation, rising domestic wages, and labour shortages and greater bilateral trade friction with the United States. This created a push towards FDI and outsourcing into the rest of Asia. Thus much of the shift in the structure of SEA exports, especially into electronics, took place through the creation of regional production networks whether through FDI or sub-contracting and outsourcing, taking advantage of this "push" factor.

As a result of these factors the extent, pace and sequencing of liberalisation in this third phases of development generally was more gradual in EA than what was occurring roughly contemporaneously in much of Latin America and the formerly centrally-planned economies; there were no big-bangs as occurred in Argentina or Poland. Greater integration focused largely on conforming with international trade regimes, gradual consolidation and reduction of tariffs, and encouraging FDI in potential export sectors. At least initially this was accompanied by much less internal market liberalisation. In fact, much of the region continued to simultaneously pursue IS-based industrial policies, with SEA shifting into second generation goods (from consumer goods to heavy industries)[13] and in NEA from heavy industries to knowledge and skill-intensive sectors.

The timing of the shift to the full globalisation varied across SEA, but in general began in the mid 1980s and accelerated sharply after 1990.[14] Trade liberalisation was done in stages, first through tariffication of non-tariff barriers and then tariff reductions: average tariffs remained at around 28% between 1980 and 1985, falling to 24.4 in 1990, and 16.1% in 1995. Deregulation of FDI inflows specifically targeted increasing export capacity: "All the [SEA] economies linked the most attractive set of incentives and the least restrictions on ownership and operations to the extent of export orientation".[15] This was often combined with some domestic liberalisation, particularly of interest rates and other financial market measures to help promote capital investment.

The result of these changes was a substantial increase in capital flows and exports, and a resumption of high growth rates. GDP growth in SEA rebounded from 3.7% in the first half of the 1980s to 7.2% in the second half. For the same period, exports recovered from 1.8 to 13.1%. Average annual inflows of FDI into SEA grew steadily in the 1980s and then accelerated in the 1990s, averaging 2.9% of GDP in the latter decade.

The rebound in growth and exports corresponded to a substantial shift in economic structure and the composition of exports. During the 1980s the composition of exports in SEA began to shift from natural resources to manufactures, with this trend accelerating in the second half and even more so in the 1990s. The share of manufacturing in total merchandise exports went from 26% in 1985 to 48% in 1990 and 69% in 1997. Within this shift the composition of manufacturing exports changed from unskilled labour (textiles, toys, garments) or resource-intensive goods (wood and paper products) to skilled labour-intensive goods, especially electronics and electrical goods; by 1995 the share of electronics in exports had reached 50, 45, 40 and 35% in Malaysia, the Philippines, Korea and Thailand, respectively. This tended to increase the demand for skilled labour, a trend that was reinforced by substantial FDI and capital inflows into domestic services like finance, insurance and real estate. While manufacturing already accounted for most NEA exports, the shift into higher value-added sectors was equally pronounced as the whole region moved towards greater integration.

This pattern of development, reliance on much greater capital and FDI flows, and shifting into skill intensive manufacturing and service sectors, accelerated through the 1990s, ending with the regional crisis of 1997. The crisis led to a brief but substantial recession in most countries followed by much slower growth rates. While increased unemployment was largely avoided thanks to very flexible labour markets, there was a substantial increase in poverty and inequality in the region. In reacting to the crisis, government policies regarding integration varied widely, so that integration into the global market has become much more differentiated within the region – Malaysia in particular has introduced a number of policies reversing integration into the world economy.

Explaining the Variance in Inequality and Poverty

Explaining Poverty Reduction

Poverty declined steadily and sharply throughout the region over the last 30 years. By the mid-1990s, poverty rates were quite low in the middle-income

countries of East Asia (Table 1). Poverty had all but disappeared in Thailand, and in other countries remaining poverty was found in structural pockets and relatively unresponsive to broad economic growth or general structural policies.[16] These improvements were reflected in other measures of human development: for East Asia as a whole, between 1970 and 1995 life expectancy increased by 13 years and infant mortality dropped by over 50% (Table 2). The generally good performance for most countries within the region on poverty over the last thirty years can be explained by the rapid growth common to all countries in the region; lessons for poverty reduction can be derived from the East Asia globalisation experience compared with other regions, and I will return to this below, but not from a cross-country perspective.[17]

Patterns of Inequality

The performance on inequality, as measured by Gini coefficients, was much more mixed (Table 3). As of the early 1970s countries in the region clustered around three levels of inequality: Indonesia, Korea and Taiwan had relatively low levels, with Ginis in the low 30s; Thailand and Hong Kong in the middle, in the low 40s; and the Philippines and Malaysia around 50. Through the mid 1980s inequality remained roughly unchanged in the first group and Hong Kong, and fell in both of the highest countries, the Philippines and Malaysia. Beginning in the mid 1980s, inequality trends began to converge, increasing in the countries where it had been low and stable (Hong Kong, Taiwan, and Indonesia) and continuing to fall in the Philippines and Malaysia. Throughout the period inequality rose in Thailand, albeit much more slowly during the boom years of the 1990s. As a result of these trends, Gini levels converged between Hong Kong, the Philippines and Malaysia in the mid 40s, joined by China at slightly lower levels, with Thailand rising to Latin American levels.

To what extent did globalisation cause these trends, or were other factors responsible? Any explanation of the relationship between globalisation and inequality in EA must be consistent with four observations. One is a tendency for levels in SEA to converge; Korea and Taiwan do not fit into this pattern, as post-war WWII land reform seems to have permanently lowered inequality levels absolutely and relative to most other countries. A second observation is that the first phases of globalisation up until the mid-1980s appear to be largely correlated with the stable or declining inequality. Third, the third phase of development that began in the mid-1980s – "full" globalisation – appears to be correlated with rising inequality, especially after 1990. Finally, inequality rose steadily in Thailand except during the period of most rapid globalisation, 1990-1997.

Table 1. **Poverty Indicators in Asia**

	Percent of Population Below Poverty		
	1975	1985	1995
East Asia & Pacific	*57.6*	*37.3*	*21.2*
Indonesia	64.3	32.2	11.4
Malaysia	17.4	10.8	4.3
Philippines	32.4	25.5	10.6
Thailand	8.1	10	<1
Vietnam	n.a.	74	42.2
Cambodia	-	-	-
Lao PDR	n.a.	61.1	41.4
China	59.5	37.9	22.2

1. Poverty numbers come from Table 5.1 in World Bank (1998) and are based on the international poverty line of USD 1/day per person and are at 1985 prices

Source: World Bank (1998), and World Bank, World Development Report various issues.

Table 2. **Human Development Indicators**

	Life Expectancy			Infant Mortality Rate	
	1970	1995	1998	1970	1995
East Asia	*59.4*	*68.8*		*76*	*34*
Indonesia	47.9	63.7	65.6	118	51
Malaysia	61.6	71.8	72.2	45	12
Philippines	57.2	66.5	68.6	71	39
Thailand	58.4	69	68.9	73	35
Vietnam	49.36	67.5	67.8	111	42
Cambodia	-	-	53.5	-	-
Laos	40.4	52.8	53.7	146	104
China	61.7	69.4	70.1	69	34
Taiwan (China)	69	74.8		69	6
Korea, Rep.	60.6	72	72.6	46	10

Source: UNDP, Human Development Report and World Bank (1998).

Table 3. **Changes in Inequality in Asia**

Thailand		Indonesia				Malaysia			
			Urban	*Rural*	*Total*		*Urban*	*Rural*	*Total*
1975	42.6	1976	35	31	34	1970	50.5	46.9	51.3
1980	45.3	1978	38	34	38	1976	51.2	50.0	52.9
1985	50.0	1980	36	31	34	1979	50.0	48.2	50.8
1988	49.3	1981	33	29	33	1984	46.6	44.0	48.0
1990	51.3	1984	32	28	33	1987	44.9	42.7	45.6
1992	53.1	1987	32	26	32	1989	44.5	40.9	44.5
1994	51.8	1990	34	25	32	1990			44.6
1996	51.1	1993	33	26	34	1995			46.2
1998	50.8	1996	36	27	36	1997			47.0
1999	53.0	1997	na	na	38	1998			46.8
		1998	na	na	37				
Change									
70s-mid 80s	7.4		-3.0	-3.0	-1.0		-3.9	-2.9	-3.3
mid-80s-mid 90s	1.1		4	-1	3				-1.8
70s-mid 80s	8.5		1	-4	2				-5.1

Philippines		Rep. of Korea				China		Hong Kong	
			Urban	*Rural*	*Total*				
		1970	34.55	29.45	33.2	1980	32.0	1971	40.9
1971	49.4	1971			36.0	1982	28.2	1973	39.8
1985	46.1	1976	41.18	32.73	39.1	1983	27.2	1976	40.9
1988	45.7	1980	40.5	35.55	38.9	1984	25.7	1980	37.3
1991	45.0	1982	37.05	30.61	35.7	1985	31.4	1981	45.2
1994	42.9	1985	36.94	26.69	34.5	1986	33.3	1986	42.0
1997	46.2	1988	34.96	28.95	33.6	1987	34.4	1991	45.0
		1990	32.39	29.91	32.26	1988	34.9		
		1993	30.63	31.01	31.0	1989	36.0		
		1996	28.9	30.88	29.54	1990	34.6		
						1991	36.2		
						1992	37.8		
						1995	41.5		
						1998	40.3		
Change									
70s-mid 80s	-3.3		2.4	-2.8	1.3				1.1
mid-80s-mid 90s	-3.2		-8.0	4.2	-5.0		15.8		3.0
70s-mid 80s	-6.5		-5.6	1.4	-3.7				4.1

Source: Thailand, 1975-88 from Suganya and Somchai (1988) and consistent series for 1990-98 from Isra (1999a); Indonesia from Table 3.3 in Feridhanusetyawan (2000) and drawn from Central Bureau of Statistics, Booth (2000) and World Bank (2000b); Malaysia from Table. 6 in Zin (1999) and 1990-97 as quoted in Yusuf (1999); Philippines from World Bank, Deinenger and Squire Inequality data set and WDR; China from Ying (1995, and taken from Deinenger and Squire data) and 1998 from WDR; Korea, HK and Taiwan from Deininger and Squire data set, and for recent Korean numbers from Moon (1999).

Before continuing, it is important to note that there are few empirical studies for East Asia or elsewhere that actually trace the mechanisms by which individual components of globalisation – trade and capital flows, technology transfer,

migration – affected the (derived) demand and returns to different factors of production, and therefore wage and income inequality. Moreover, it is questionable the extent to which partial equilibrium studies would resolve the issue. A general equilibrium (GE) approach is really appropriate as even individual forms of globalisation affect growth and distribution through several different mechanisms, yet GE models have their own flaws which make them less than well-suited to the task.[18] Thus in this section we largely infer that globalisation had certain effects on output and exports, derived factor demand, and therefore inequality, but this is based on casual inference and not on formal model-based empirical studies – clearly more research is needed.

In general, it appears that a consistent explanation of inequality in EA shows that domestic factors have been much more important in determining inequality than the way that countries integrated themselves into the global economy. Or to rephrase this, globalisation has had an impact on inequality, but its effect has been largely mediated by the nature of domestic institutions and governance. Three factors have been important: (1) the initial distribution of assets – education and land, or more generally access to productive resources; (2) government education policy, or the ability of skill supply to respond to changes in demand; and (3) government policy towards rural sectors and agriculture.

Explaining Inequality in First (IS) Phase of Development

In the first (IS) phase of development, the determinants of inequality depended somewhat on initial asset inequality – factor (1), and primarily on factor (3), rural and agricultural policy. In specific, it was the extent to which government encourages growth in rural areas and agriculture. Two sets of policies were key; those which fostered linkages between urban and rural sectors, and those which acted to transfer resources from rural to urban sectors (or vice-versa), *i.e.* the net transfer from agriculture to urban areas.

In the case of asset distribution, factor 1, there was a substantial difference between NE and SEA. In the case of Korea and Taiwan, land distribution was highly equal thanks to substantial land reform took place after WWII in the context of United States occupation and the discredited status of land-owning elites (in Korea) or foreign invasion, in the case of Taiwan. Combined with substantial investments in rural infrastructure and an egalitarian educational policy, this created close urban-rural links which allowed rural residents to benefit from the growth in manufacturing, such as through the expansion of off-farm employment opportunities.

In SEA land reform did not occur, and land tended to be much less equally distributed than in NEA, though, as Panagestu (2001) has noted: "The four countries had some sort of ensuring access to land for rural households or land reform policies with mixed success".[19] In Malaysia and Thailand, the authorities pursued a policy of pushing back the frontier and giving new land to the poor, but this policy was not too successful in raising incomes.[20] More important than land distribution was the mix of policies between those designed to increase the productivity and return to agriculture, versus policies designed to tax agriculture to subsidise urban areas. The policy mix was most favourable to agriculture in Malaysia and to a lesser extent Indonesia. In Malaysia the agriculture and rural programmes included provision of basic infrastructure, regional and land development and rehabilitation, provision of institutional and agricultural support services and subsidies.[21] In Indonesia, oil revenues were used to provide basic social services, fund rural infrastructure, and support agriculture, including the rice self-sufficiency policy,[22] and the development of a number of other cash crops such as palm oil through credit schemes. Not only did this help improve equity but it also avoided Dutch disease problems which have tended to hollow out non-oil sectors in other oil exporters; in Indonesia this helped the agriculture sector to survive when oil prices collapsed.

By contrast, Thailand maintained a tax on rice exports that was not abolished until 1985 transferring resources from rural to urban sectors. In the absence of any counter flows – Thailand did not have an explicit rural development plan until 1982 – this resulted in increasing urban-rural disparity. Moreover in Thailand the rural-urban income differential was the largest, and the importance of this was reinforced by the fact that Thailand began with the largest share of the population in agriculture in the region, around 70%.

Explaining Inequality Under Partial and Full Globalisation

In the second and third phases of development, partial and full globalisation, the primary determinant of inequality was factor (2), government educational policy, in relation to industrialisation strategy. In the second period, or the phase of "partial" globalisation, the shift to export-led growth through unskilled labour-intensive manufactures implied a shift in the population from rural to urban areas and increased demand for low, as opposed to unskilled, labour. In line with the classic Kuznets-type model, this could have caused rising inequality by widening the traditional urban-rural income gap and putting upward pressure on urban wages.

In the event, the Kuznets-type result did not occur, as there was an almost universal improvement in inequality within the region. This can be explained by

the fact that most countries pursued educational and developmental policies that matched labour supply and demand. Education policy in East Asia built from the bottom up, *i.e.* universalising primary education before expanding secondary. In SEA this matched the initial shift in labour demand created by the movement from agriculture to export-led growth based on low-skilled labour intensive manufactured goods. Taken together, this meant that the demand and supply for labour were fairly evenly matched, so that globalisation resulted in increased employment and a rise in wage levels, but no widening of wage differentials. This was facilitated by relatively flexible labour markets, ease of migration from rural to urban areas, and a lack of labour rights. In NEA during this period, changing labour skill demand and education supply were also synchronised, but differently as NEA countries targeted moving up the value-added chain, they also expanded secondary education to meet anticipated demand. The average level of secondary enrolment in these countries reached 50% in 1975, a level not reached for all four SEA countries until 1995.

In the third period, the phase of full globalisation growth tended to be concentrated in the modern or capital intensive sectors like electronics or high wage services like finance, insurance and real estate and was located largely in and around urban areas. In general, this increased the relative demand for skilled labour and urban labour, creating pressures for wage and regional inequities to widen. The extent to which these pressures militating for greater inequality were realised in individual countries depended on the extent and speed with which SEA countries were able to increase education accomplishment, or more specifically to universalise secondary education and increase the supply of skilled labour. Table 4 shows the wide variance of secondary enrolments across the region, from 30% in Thailand[23] to 70% in the Philippines, as of 1990. There is a nearly 1:1 mapping between the progress in this area and inequality performance. It is not surprising that in the 1990s inequality increased in those countries were skill supply didn't adjust – Malaysia, Indonesia and Hong Kong; stabilised in laggard Thailand as supply caught up with demand; and actually improved in Korea where nearly universal secondary enrolment was achieved by 1995.

Of secondary importance were changes in overall domestic labour supply, the strength of rural-urban linkages, and migration. The reversal in the heretofore secular increase in inequality in Thailand was largely due to the extremely rapid expansion of secondary enrolments in the early 1990s. However this was reinforced by a slowdown in labour force growth and the closing of the frontier, leading to an economy-wide boom in wage levels and a huge transfer of labour from rural to urban areas. Thailand, which has always had the highest share of the population in agriculture in the region (70% in 1980 and 65% in 1990) transferred 20% of the population from rural to urban areas in the first five years

of the 1990s. Internal migration also played an important role in Malaysia the share of the population in agriculture declined from 36 to 18% between 1985 and 1995. It also relied heavily on immigration: in 1995 there were an estimated 2 million foreign workers of whom 15% were unskilled workers.[24]

In sum, equitable globalisation was achieved when East Asian countries were primarily rural and resource exporters and policy supported rural areas and agriculture. As industrialisation advanced and production and exports shifted into manufacturing, equitable globalisation occurred to the extent that education policy met or, better yet, anticipated changes in labour demand.

Table 4. **Educational Attainment in East Asia, by Level, 1970-95**

	Primary					
	1970	1965	1980	1985	1990	1995
Indonesia	80	86	107	117	115	113
Malaysia	89	95	93	101	94	103
Philippines	108	109	112	107	111	114
Thailand	81	84	99	96	99	87
Avg. 4 SEA	*90*	*93*	*103*	*105*	*105*	*104*
Hong Kong, China	117	120	107	105	102	94
Korea, Rep.	103	107	110	97	105	95
Singapore	106	110	108	108	104	95
Avg. 3 NEA	*109*	*112*	*108*	*104*	*104*	*95*
Japan	100	100	101	102	100	103
	Secondary					
	1970	1975	1980	1985	1990	1995
Indonesia	16	20	29	41	44	52
Malaysia	34	46	48	53	56	59
Philippines	46	54	64	64	73	78
Thailand	17	25	29	31	30	54
Avg. 4 SEA	28	36	42	47	51	60
Hong Kong, China	36	49	64	71	80	73
Korea, Rep.	42	56	78	92	90	101
Singapore	46	52	60	62	68	73
Avg. 3 NEA	41	52	67	75	79	82
Japan	87	92	93	95	97	103
	Tertiary					
	1970	1975	1980	1985	1990	1995
Indonesia	3	2	4	7	9	11
Malaysia	..	..	4	6	7	12
Philippines	..	16	24	25	28	29
Thailand	3	3	15	19	17	20
Avg. 4 SEA	3	7	12	14	15	18
Hong Kong, China	7	10	10	14	19	26
Korea, Rep.	7	9	15	34	39	52
Singapore	6	8	8	14	19	34
Avg. 3 NEA	7	9	11	21	25	37
Japan	18	26	31	28	30	41

Source: World Bank.

The Political Economy of Globalisation: Why do Some Countries "Globalise" Better?

The previous sections have explained what policies EA, and individual countries within EA, pursued to achieve pro-poor globalisation. This leaves the question why, politically, these countries were able to pursue these policies? After all, the importance of egalitarian investments in education has been an essential component of all development theory for years, and yet is usually not adopted. Why in East Asia? Research on the political economy of globalisation is very preliminary and so at best we can offer only a few tentative hypotheses as to why some countries within East Asia pursued better globalisation than others.

Successful policy cannot be explained by the democratic nature of the political regimes in the region, in contrast to the emerging conventional wisdom that democracies, or more generally governments which are political accountable, are more likely to pursue pro-poor policies.[25] In fact, the cases of pro-poor growth in non-democratic governments in East Asia (and more recently Uganda and Ghana in Africa) and widening inequality in newly democratic Latin American countries show that political accountability is neither necessary nor sufficient for pro-poor growth, as much as it may inherently desirable in its own right; it is clearly essential for human development more broadly defined.[26]

So, what explains the fact that several East Asian countries pursued pro-poor growth policies? I would suggest that political regimes in EA tended to be concerned about the welfare of the rural population, which has less often been true in other developing regions. There are three reasons for this. First, the majority of the population, particularly in SEA, was at least initially in rural areas. Second, in most countries urban groups and rural elites were not sufficiently large or powerful to dominate the political economy as they did in many other countries. In many developing regions factor endowments – natural resource abundance – and IS development strategies combined to generate economic dualism (IS strategies tended to favour urban areas, and were capital and skill-intensive).[27] Dualism in turn tended to result in highly unequal distributions of assets and the associated distorted distributions of political power that tend to accompany it.[28] With the partial exception of Indonesian oil, EA suffered much less from economic dualism and the associated political distortions. Similarly, the more equal land distribution meant that there rural elites were weaker and less interested in maintaining a large, rural supply of unskilled rural labour; in Korea and Taiwan they had been eliminated.

Finally, and perhaps most important, in both Malaysia and Indonesia there were specific cultural and historical circumstances which favoured pro-rural policies.

In the case of Malaysia, the ethnic rioting of 1969 led to the introduction of the National Economic Policy (NEP) which was a key pillar in an overall commitment to pro-poor growth.[29] In Indonesia, motivation for pro-agricultural policies – rice self-sufficiency – was provided by the need for massive rice imports in 1971 when domestic production was hit by drought, and more general concerns over maintaining political stability, given the background of the bloody repression of the Communist movement only a few years earlier. This explanation also seems to fit with the one country where inequality rose steadily – Thailand. Thailand lacked the political history of the 1960s, and in fact was relatively peaceful and homogenous; while at the same time was the most "dualistic" in the region in terms of having the highest urban-rural differential.

These three factors seem to also explain lack of a strong policy response to rising inequality in the 1990s, the very success of globalisation in transforming themselves into more urbanised and industrialised economies has changed the political coalitions generating policy. If this interpretation is correct, it suggests, as many critics of globalisation have done, that globalisation itself is affecting political outcomes in developing countries. As James Robinson (2000) has stated

> …Globalisation may change relative prices, induce changes in the distribution of assets, and alter, or be used to alter, the political equilibrium in ways that affect inequality. The last effect is the most pernicious in that it implies that if globalisation increases inequality for either of the first two reasons, it may simultaneously alter the political equilibrium in ways which stop the state from compensating for these effects. The idea that globalisation bundles these various forces together in a unique way which both increases inequality and removes the ability of the state to compensate for this is at the heart of the critique of globalisation. (Robinson, 2000)

Robinson himself discounts the idea that globalisation has an important feedback mechanism on domestic bargaining power and politics, and therefore policy and institutions. Other evidence confirms this; a Development Centre study by Charles Oman (2000) on FDI finds that, contrary to the widely held view that greater capital mobility increases its bargaining power relative to labour and domestic governments, leading to a "race to the bottom" in terms of

tax incentives and deregulation, FDI actually tends to be associated with stronger domestic governance frameworks. Moreover, advocates of rapid and broad liberalisation have argued that the principal obstacles to pro-poor growth are corruption and rent seeking by vested interests operating in non-competitive markets. Thus liberalisation not only has the possibility of allowing for dynamic growth and allocative efficiency, but also can create the political conditions for growth. In much of Central and Eastern Europe, liberalisation was explicitly seen as key to creating the political foundations of bourgeois democracy by allowing an entrepreneurial middle class to emerge.

The experience of Southeast Asia may serve as a counter-example. The "crony capitalism" which is widely cited as key characteristic of the region may have been as much a consequence of globalisation as a cause of the crisis by shifting power to urban elites who can generate rents from greater access to the global economy.

It is not clear what lessons can be drawn for other countries from the East Asia experience. Similar histories of ethnic divisions and rural unrest as in Malaysia and Indonesia have not resulted in pro-poor policies in other countries. Additional research is needed to understand why and when authoritarian and democratic regimes pursue pro-poor globalisation strategies, and how to empower the poor politically within both kinds of systems. More generally, we need to study the interaction between globalisation and liberalisation on economic policy, good governance as well as the distribution of rents, through their effects on the size and strength of domestic political actors. Case studies of successful globalisers of all political types seem indicated.

The Effects of Globalisation on Inequality: Conclusions and Policy Implications

The experience of East Asia shows that globalisation is potentially consistent with poverty reduction and egalitarian growth. This does not necessarily mean, as some authors (Dollar and Kraay) have suggested, that globalisation does not have any effects on inequality or poverty. Rather, it suggests that the impact of globalisation varies, depending on the one hand on the strategy of globalisation adopted and on the other hand on the nature of domestic institutions and governance, or more broadly its transformation gap. Particularly important are the educational system, the distribution of (or access to) land and human capital, and labour market institutions. Where globalisation has tended to increase inequality and poverty it has most often been where inappropriate strategies have been adopted in the face of large transformation gaps *i.e.* weak domestic institutions and governance and large distortions, or in the face of adverse world

economic conditions. In those cases, globalisation has often magnified pre-existing inequalities and rigidities leading to greater poverty and inequality.

The policy implications of these conclusions can be summarised in eight points:

- The speed and sequencing of external and domestic liberalisation must be tailored to the particular circumstances of individual countries, based on their "transformation gap" *i.e.* the existence of market distortions *vs*. their capacity to transform the economy. Countries faced with large distortions, *e.g.* highly unequal asset distributions or weak transformative institutions, may need to liberalise more gradually and sequentially, placing greater emphasis on strengthening domestic governance and capacity building. On the other hand, some liberalisation must proceed to provide opportunities for growth, create winners to provide political support for reform, and in many countries, to undermine corruption, cronyism and rent-seeking. The specific balance between these considerations can only be judged on a case-by-case basis.

- Strategies for successful globalisation must be conditioned on the nature of the world economy at the time, which is historically determined and changes over time. Southeast Asian countries accelerated their globalisation during a period in which the challenges and opportunities had changed substantially from those faced by Northeast Asia. On the one hand, there were tremendous opportunities for attracting FDI from Japan, Korea and Taiwan, especially in electronics, which had developed rapidly. On the other hand, these countries faced greater competitive challenges from China, Vietnam, *et al.* and less room for manoeuvre in terms of trade policy as the United States and other countries increased the role of GATT rules in regulating world trade, as well as greater bilateral measures to control access to their domestic markets.

- Globalisation tends to increase income inequality where asset distributions are highly unequal. In agricultural exporters with relatively equal land distributions, trade liberalisation has induced export booms, which have largely improved inequality and poverty, whereas in countries with unequal distributions the converse has often occurred. Ideally asset redistribution, such as land reform, would be desirable, but this is often politically difficult. The lesson from SEA is that the second-best solution is to create wider access to productive resources and other supply-

side policies, such as infrastructure investment in rural areas and agriculture, where most of the poor are found. This cannot be done naively – the correlation between extra spending and better outcomes is generally weak – quality and distribution are more important. In general, greater attention needs to be paid to preparing vulnerable groups to face increased competition that comes with globalisation.

- Successful globalisation requires stronger transformative capacity in the form of domestic institutions, particularly those involved in restructuring through investment and reallocation of resources: education and training, labour markets, financial markets and entrepreneurial capacity, and infrastructure. Where these transformative institutions are weak, capacity building is an essential pre-requisite for sustainable, pro-poor globalisation. It cannot be viewed as a "complementary" policy in the way that sauce complements a steak, it is an equally essential part of the policy "meal". Capital account liberalisation and domestic financial market liberalisation are particularly demanding in terms of strong domestic governance and institutions and they needs to be the last step in any sequencing of liberalisation, attendant upon creation of appropriate governance.

- The shift from a smaller role of the state to greater market provision of services and allocation of resources must be done with care. The state played a key role in successful globalisation in EA, and not simply in providing framework conditions unless this is understood in a very broad sense. The state must ensure that proper governance of markets exists, especially in competition policy and transparency. As the experience of agriculture in EA in the 1970s showed, the state may need to continue to play a role where market institutions are weak or under development, such as in the provision of key infrastructure and credit; this lesson has been confirmed recently in some African countries where state withdrawal from supply inputs or marketing of agricultural products has not been filled by market institutions. Again, the extent of the state role must be balanced against concerns about corruption and rent-seeking.

- Education policies are particularly important for equitable globalisation. In both Latin America and East Asia much of the variance in inequality across countries is directly attributable to

the degree of equality in education and educational policy. Educational investment needs to match derived demand for labour skills based on a country's world market niche and comparative advantage especially as development leads to shifts in skill demand. Both educational investment (and development strategy) must build from the bottom up (primary→secondary→tertiary), as opposed to emphasising tertiary education and capital-intensive sectors in an attempt to leapfrog stages of economic development. Education policy needs to target universal education *i.e.* an equal distribution of human capital and avoid creating a "missing middle"– bimodal distributions where the proportion of the population with secondary education is small.

- Labour market flexibility is important to ensure that employment shifts in response to global markets occurs smoothly and with minimal unemployment or increase in wage differentials. However labour market reforms to increase flexibility were found to be frequently associated with greater wage inequality, and so must be done with extreme care; more research is needed on how to achieve balanced labour market reform.

- Changes in OECD and multilateral policies that give greater market access and allow for greater domestic trade capacity building are important. EA, particularly NEA, benefited from a more open OECD markets and less restrictions on state intervention in trade, even if nominal tariff rates were higher. The current emphasis in multilateral agreements on a level playing field simply doesn't acknowledge underlying differences in trade capacity. While certainly trade capacity building is key (and the subject of a Development Centre project) OECD policies affecting agricultural and labour-intensive imports need to be reformed in light of their effects on pro-poor development.

Notes

1. This paper summarises the findings of the papers and proceedings of the OECD conference on Poverty and Income Inequality in Developing Countries: A Policy Dialogue on the Effects of Globalisation, Paris 30 November – 1 December 2000. It draws heavily on the papers covering Southeast Asia by Feridhanusetyawan, Hasan et al., Phongpaichit and Sarntisart, and especially the regional summaries by Pangestu and Jomo. It has also benefited from extensive discussion with my colleagues at the Development Centre, Ulrich Hiemenz and Ki Fukasaku. As usual any remaining errors are the responsibility of the author.

2. Much of this section is drawn from Kohl and O'Rourke (2000) "What's New about Globalisation".

3. A number of factors have tended to limit migration, and within that favour skilled over unskilled labour. OECD immigration policy has simultaneously discouraged flows of unskilled workers while encouraging inflows of skilled workers, and is likely to continue to do so as skill shortages persist in OECD countries.

4. Mark Pearson, Tony Atkinson, Robinson and others have all cautioned against relying on skill-biased technological change as the major explanation of widening inequality, precisely because many countries with similar technology and openness are not experiencing the same trends in inequality. See Förster and Pearson (2000) and Robinson (2000).

5. For example Malaysia already has such a policy by the beginning of the decade, focusing on textiles, garments and electronics assembly. The early start, like the package of pro-poor policies centred around the NEP (discussed below) was again a reaction to the riots of the late 1960s and the recognition that IS policies were having limited linkages to domestic sectors and the poor.

6. All references to NEA are for Hong Kong, Korea and Singapore; Taiwan is excluded because it is not available in the WDI database used for this exercise. SEA refers to Indonesia, Malaysia, Philippines and Thailand.

7. Thus Pangestu notes: "In Southeast Asia, the emphasis was on developing export oriented industries in accordance with their comparative advantage, be it unskilled labour or resource intensive. In Northeast Asia, there was a much greater degree of government intervention to identify strategic sectors with future comparative advantage."

8. Gross domestic investment to GDP averaged 26 and 32.6% annually in SEA and NEA, respectively. The comparable figures for labour force growth were 3.1 and 4.0%.

9. External debt to GDP ratios rose from 13, 22 and 27% in 1975 for Thailand, Malaysia and the Philippines to 35, 58 and 73% by 1983. Korea, by contrast,

went from 40 to 46% over the same period, and Indonesia had even lower levels given its reliance on oil revenues.

10. See Pangestu, p. 53.

11. The Philippines grew at much slower rates in general.

12. Debt was nonetheless a problem; Korea went through a sharp correction in the early 1980s, and debt GDP ratios reached high levels in Malaysia and the Philippines by 1986.

13. For example, Malaysia began to develop heavy industries like cars and steel.

14. Indeed, in some countries *e.g.* the initial reaction was greater controls on external transactions, especially imports, and increased support for IS policies.

15. See Pangestu, p. 34.

16. Near poverty does remain a problem, however.

17. For example, Pangestu (2001) notes that growth, as opposed to decreased inequality, accounted for 70% of the decline in poverty in Indonesia between 1978 and 1984.

18. A good example is international capital flows. For those individual countries with greater access to world capital flows, capital inflows should be increasing labour productivity (L), wages and the wage share in national incomes, therefore improving income inequality. On the other hand, capital flows are quite likely to be complementary to skilled L, especially as a large share are targeted towards investment in manufacturing itself, or in high-wage service sectors, (unlike in the late 19th century) and therefore acting to widen wage inequality, though not necessarily income inequality. This is over and above any effects of embodied skill-biased technology transfer. Capital flows today have two other potential effects: increasing the bargaining power of capital vs. L over rents, changing domestic (financial) asset prices and their distribution, and affecting the probability of financial crises and contagion effects. While the mix and impact of capital flows is already the subject of extensive study (see the studies by Soto (2000) and Soto and Reisen (2001) on the mix, Oman (2000) on FDI) more micro research is crucial to trace out all the different links to domestic inequality, especially changes in asset prices, capital gains and the distribution of financial assets where almost nothing has been done. Moreover greater capital inflows were often a result of capital account liberalisation occurring simultaneously with domestic financial liberalisation and privatisation, so that the effects are difficult to entangle. Since the effects of capital flows and other aspects of globalisation are dynamic, CGE models do not well capture this.

19. However land distribution was much more equal than in comparison with Latin America or mineral exporters in other developing regions.

20. Malaysia did not redistribute cultivated land, but developed large tracts of new land and then distributed holdings of economic size to landless for cultivating

high value crops and by using modern techniques. In Thailand, more land was not accompanied by policies to increase agricultural productivity, and the policy itself was not sustainable once the supply of new land was exhausted in the 1980s.

21. Pangestu, p. 66.

22. The programme included production subsidies, rice price stabilisation, and high protection.

23. As Phongpachit and Sarntisart (2000) have argued, up until 1990 the emphasis was on primary and tertiary education, so that levels of secondary education achievement were much lower than elsewhere in South East Asia – around 10% by the end of the 1980s.

24. These were largely from Indonesia and Bangladesh.

25. The logic is that since they are likely to be more responsive to the needs of the majority of the population, which tend to be in the be found below mean income levels. In this case the political system can be used to achieve redistribution, either through taxes and transfers, or targeted supply-side policies.

26. That said, democracy is clearly intrinsically important on its own terms. Sen (1997, 1999) and others have argued persuasively that political freedom must be included in any broad notion of human development.

27. Birdsall *et al.* (2000), Leamer *et al.* (1999) and others have argued that natural resource abundance leads to skewed educational policy. More generally, Bourguignon and Morrisson have argued that dualistic (often natural resource dependent) economies face substantial needs to transform, weak capacity to transform, and a balance of political forces biased against such transformations *e.g.* Zambia.

28. On the implications of economic dualism for inequality, see Bourguignon and Morrison. Several recent World Bank Research studies have highlighted how difficult achieving pro-poor growth is when starting from highly unequal distributions of asset and incomes, with the political implications being among the most important obstacles.

29. The NEP was a package of policies favouring poorer Malays, who predominately lived in rural areas. In actuality, it was an affirmative action plan for the native Malay (Bumiputera) population that focused on re-balancing inequities in access to education and asset ownership. While this programme had many aspects, probably the most important were preferential treatment in the agriculture programmes discussed above – most Bumiputera lived in rural areas – and positive discrimination in education. By the end of the NEP in 1990, the proportion of Bumipeteras receiving secondary education was similar to that of non-Bumipeteras (Pangestu, 2001, p. 62).

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ACCESSING ESSENTIAL SERVICES: REFORMING THE ROLE OF GOVERNMENT IN INDONESIA

Geoff Forrester

> "Whereas regional development, as an integral part of national development, is implemented through regional autonomy and the management of national resources in such a way as to permit the strengthening of democracy, the better functioning of the regions…the provision of services to the people and growth, which will raise the overall welfare of the people…" Part (b) of the preamble to the new law on Fiscal Balance between the Central and Regional Governments.

The Origins of the Indonesian State's Social Service Commitment

The preamble to the 1999 law on fiscal balance between the central and regional governments, a brief excerpt from which is quoted above, endorses a number of concepts integral to modern concepts of good governance and good management: democracy, the promotion of a "civil society", improved efficiency, openness and accountability. The excerpt from the preamble quoted above also affirms values with deeper roots in Indonesian society. It restates a profound commitment to the people and their welfare, which has its origins in the basic building blocks of Indonesian State ideology.

In 1959, then President Sukarno restored the 1945 Constitution as the basic law of the Indonesian State. It remains the Constitution of Indonesia today. The 1945 Constitution was originally an emergency document, finished hurriedly in response to the rapid Japanese collapse in 1945. It nevertheless contains some key doctrines and concepts that remain fundamental to Indonesian perceptions

of the nature of Indonesian society and the role and responsibilities of the Indonesian State towards "the people".

The preamble to the 1945 Constitution includes the guiding doctrine of Pancasila (Five Principles), devised by Sukarno just before independence as a means of emphasising the basic principles that would bind the highly diverse Indonesian community together. Although it was abused in the Soeharto era, Pancasila survived as a widely accepted, unifying set of principles.

Two of the principles establish an obligation on Government and Indonesians to promote equity and the people's welfare. The fifth principle is the most direct: "social justice for all Indonesians." The second imposes a broader goal for Indonesians collectively: "a just and civilised humanity". These two principles, and the social justice principle in particular, are near universally accepted guideposts for Indonesians and the Indonesian Government in approaching issues of welfare and equity. In a robust democratic environment in the future, Pancasila and the social justice principles will remain a potent reference point in debate in Government, Parliament and society about welfare and equity.

The 1945 Constitution itself is brief and lacking in detail. It develops the theme of the responsibility of the State for equity and the welfare of the people in two articles in one brief Chapter, as set out in Box 1.

Box 1: Responsibility of the State for Equity and Welfare

"Chapter XIV. Social Welfare

Article 33

1. The economy shall be organised as a common endeavour based upon the principles of the family system.

2. Sectors of production that are important for the country and affect the life of the people shall be controlled by the State.

3. The land, the waters and the natural riches contained therein shall be controlled by the State and exploited to the greatest benefit of the people.

Article 34

The poor and destitute children shall be cared for by the State."

Source: 1945 Constitution of Indonesia.

Perhaps because of its brevity and lack of clarity, this chapter of the Constitution has not been used to develop a comprehensive framework for delivering welfare and social justice. Rather, elements have been referred to in narrow, specific contexts. Article 33(1) has been the basis for central Government support for the co-operatives movement, which continues to be channelled through a Department of Co-operatives. Article 33(2) was the basis for the State's control of much economic activity until the 1980s, when the Government pursued deregulation, the private sector began to prosper and foreign investment began to flow. It was also the justification for the continuing control by the State of the plantations and the resource industries, including the oil industry, which were confiscated from the Dutch in the 1950s. Article 33(2) has been relied on by opponents of the privatisation policies of the Habibie Government. The opponents of liberal approaches to foreign investment use article 33(3) to argue that foreign investment in mining, for example, is inconsistent with the Constitution.[1]

Equity and Welfare in the Soeharto New Order

In 1959, President Sukarno reinstated the 1945 Constitution, which has remained the basis of the state since then. On its minimal framework, President Soeharto created a highly centralised, autocratic system of government which lasted from 1965, when Soeharto assumed power, to 1998, when he resigned amidst a popular revolt.

President Soeharto dominated the whole government. The 1945 Constitution gives supreme power to the People's Consultative Assembly (MPR), which elects the President. The Parliament (DPR) is the major component of the MPR. Soeharto made himself supreme by creating a totally compliant DPR and MPR. He did this by first building a Government party, Golkar, and ensuring that it won every DPR and provincial election held while he was President. For good measure, he controlled totally the only other two political parties allowed to exist. He was unanimously elected president six times under this system.

The President has the right under the Constitution to exercise enormous power by means of presidential decisions, decrees and regulations. Soeharto used this right heavily. A subservient DPR never used its constitutional right to challenge such regulations and decrees. The DPR never produced a single piece of legislation of its own. It obediently adopted the legislation put to it by the Soeharto Government.

Soeharto came from the Army and he used the Armed Forces throughout the New Order to maintain power and instil order. The Armed Forces exercised

control by using force whenever necessary. The Armed Forces also established a 'territorial' network across the country, which paralleled the civilian administrative structure down to the village. Thus governors, bupatis and camats each have a military counterpart. Each village has a sergeant. The territorial network was used both to gather intelligence about potential unrest and dissent and to assist in crushing it.

Under Soeharto, the Armed Forces developed substantially the concept of its 'dual function' in society. Under the concept of the 'dual function', not only do the Armed Forces have a responsibility for defending the country from external attack. They play the pre-eminent role in protecting the integrity of the state from subversion and internal attack. Armed Forces representatives sit in Parliament and the provincial and local assemblies. A number of ministers have always come from the Armed Forces. The military occupy senior positions in the bureaucracy. Many governors and bupatis[2] are military.

During the New Order, the military developed their own businesses as way of supplementing budget appropriations, providing better facilities for officers and soldiers and their families and enriching thirty years of military leaders. On the whole, however, the military did not intervene in economic policy making, which was left to civilian experts and Soeharto. Only in his last years did Soeharto increasingly dispense with expert advice in favour of crony advice, one reason for the depth of the economic crisis in Indonesia.

The Cabinet was entirely subservient to Soeharto. Not a single minister in 32 years challenged him publicly or resigned. He appointed and dismissed the governors of the 27 provinces without taking into account the views of provincial assemblies, which in any case comprised only representatives of the military and the three parties he so closely controlled. Occasionally Soeharto even intervened in appointments of bupatis, the rank of local government official below the governor of a province.

Soeharto also intervened in decisions about the placements of all senior and some middle ranking military officers. The longer he ruled, the more deeply he came to control and manipulate the system. By the beginning of the Asian economic crisis in 1997, he was the only political figure from the 1960s still standing on Indonesia's political stage.

The New Order successfully controlled public dissent up until its last two months. The three political parties allowed to exist seldom stepped outside the limits on political activity and expression imposed by Soeharto. Where they attempted to do so, those responsible were deposed and silenced, as happened to Megawati Soekarnoputri in 1996. The press was muzzled. There was no

freedom of expression. Muslim radicalism was crushed whenever it appeared. Independence movements in several provinces were brutally treated. The only NGOs and social organisations allowed operate were those supportive of the regime. The few critical NGO groups lived largely underground.

The Soeharto New Order was accepted for much of Soeharto's 33 years in power because it rescued Indonesia from a deep economic crisis in the mid-1960s and delivered unparalleled economic prosperity. Up until the 1997 crisis, the New Order achieved an impressive economic transformation. Indonesia went from an economic "basket case" in 1965 facing the severest political and economic crisis to being a potential "Asian tiger".

Indonesia successfully brought to an end a highly destructive hyperinflation in the first years of the New Order. It became self-sufficient in rice in the mid-1980s. Per capita GDP grew from USD 230 in 1970-1975 to USD 1 080 in 1990-1996.[3] In the same period, Indonesia developed from a farming society to have a large manufacturing sector and a strong, modern services sector. Manufacturing passed agriculture in terms of contribution to GDP in 1991.

The benefits of growth were felt throughout Indonesian society. During the New Order period, poverty reduced significantly and economic welfare indicators improved strongly as the following statistics indicate:

- The percentage of Indonesians living below the poverty line fell from 50 to 60% in the mid 1960s to 15.1% in 1990-1996;
- In the mid 1960s almost 70% of Indonesians received no schooling; by the 1990s this figure had fallen to 3%;
- Daily calorie intake for Indonesians rose by 40%, protein by a third, in the same period;
- Access to safe water rose from 11% to 62%;
- Infant mortality halved, and life expectancy rose from 49 to 65 for the population as a whole during the New Order.

Income distribution improved during the thirty years of the New Order. The lowest quintile's share of income rose from 6.8% to 8.4%, while the highest quintile's share fell from 52% to 43.1%. And yet public discussion in Indonesia of the results of growth focus not on this overall improvement but on the enormous gaps which had emerged by the mid-1990s between the super rich and the poor.

This significant improvement in welfare was achieved under a highly centralised system of administration and an increasingly autocratic power structure. At the heart of Government were the ministers and their ministries. They decided overall expenditure and made policy and expenditure decisions for the whole country.

Indonesia's present system of local government was uniform across the country and reached down to the village. Control of this network was highly centralised in the Department of Internal Affairs in the capital. The governor and the administrative structure in each province – the bupatis, camats[4] and lurahs[5] – were the employees and agents of the Department of Home Affairs. They were shadowed by Armed Forces 'territorial' staff at every level of government down to the village.

The representative offices of the central ministries in each province and kabupaten (the Kanwil and Kandep respectively) supported governors and bupatis with the specific programmes of their individual ministries. Expenditure on health and education was funnelled out of central government budgets to the population at large through the Kanwil/Kandep and the rural and urban networks of the central ministries. The Ministry of Health, for example, operated a widespread network of local health clinics called Puskesmas and Posyandu.

In the early years of the New Order, the Government also made small, annual grants to villages. This programme was refined and grew to become a series of highly targeted poverty reduction programmes. They include the Backward Villages Programme (IDT) which began in 1993 to channel funds into 28 223 villages, or 43% of the total number of villages in Indonesia. The PKS programme targets 11.5 million poor in the remaining non-disadvantaged villages. The Social Welfare Programme, inaugurated in 1997, targets the very poorest across society with a variety of specific forms of assistance. These programmes have been centrally generated, but feature heavy consultation at the local level and detailed tailoring to specific local needs. Much of the assistance goes directly into the hands of recipients.

In its 33 years, the Soeharto New Order achieved a remarkable degree of success in improving social welfare in Indonesia. The irony is that it achieved this success despite its increasing corruption and authoritarianism, which eventually would ensure that Indonesia suffered most in the economic crisis that swept East Asia from mid-1997.

The True Impact of the 1997-1999 Crisis

At the macroeconomic level, Indonesia is undoubtedly the country most severely affected by the Asian financial crisis. GDP shrank 13% in 1998, and could contract again in 1999.

From late 1997, the international community reacted vigorously to the growing risk of disorder and the prospect of a social disaster in the wake of a projected enormous increase in the number of poor in Indonesia. The international community channelled substantial assistance to Indonesia, both in the form of financial assistance to stabilise macroeconomic variables and funding for social safety net (SSN) programmes to soften the expected social impact of the crisis.

The international community's commitment to SSN programmes is set out in several Letters of Intent agreed between the Government of Indonesia and the IMF.[6] The main elements of these programmes are the distribution of affordable essentials (sembako), labour-intensive work programmes and cheap credit for small and medium business.

At the heart of the planning of these programmes is the highly centralist National Development Planning Board (BAPPENAS). Implementation and programme delivery lie in two sets of hands. Central Government departments and their branches (Kanwil/Kandep) have responsibility for the design, and in many cases the delivery, of programmes, *e.g.* the Ministry of Co-operatives in respect of loans to small business. Provincial Governments as such have a lesser responsibility for the programmes. There is no routine way in which input from religious leaders or NGOs can influence programme design or implementation.

The creation and implementation of SSN programmes over the past 12 months has given rise to controversy on four grounds:

- the number of people below the poverty line is not the 40-50% predicted in 1998, but is in fact 14% (Poppele, Sumarto and Pritchett);
- SSN programmes have been criticised for eroding the adaptive capacity of recipients and creating a "beggar mentality" (Jellinek, Rustanto, and Hum);
- Indonesia's public sector has not been able to implement the programmes quickly, efficiently and equitably (Financial Times, March 16 199); and
- there are allegations of major political abuse of the programmes.

The most significant issue so far is the suggestion that the crisis has not been as severe as was feared or argued by donors and the Indonesian Government. The Indonesian Bureau of Statistics, the Department of Manpower and the ILO produced increasingly gloomy projections in the second half of 1998, suggesting that up to 80 million Indonesians could fall below the poverty line as a result of the crisis, an increase in one year of 30%. Unemployment could rise to 20 million, or 22% of the workforce. There were similar projections of a significant drop in school enrolments.

These projections were wrong. In a report prepared for the World Bank, three researchers made the following observations:

> …"Preliminary findings suggest that, indeed, the Indonesian crisis has affected the life of many Indonesians. This is no doubt one of the most serious crises that Indonesia has faced in 30 years. However, the impact has been very heterogeneous and has been less dramatic than early predictions suggested. While many households are enduring shocks, others are benefiting. Each of the numbers cited above are off, by roughly an order of magnitude." (Poppele, Sumarto and Pritchett, 1999).

Then who and how many were affected? The number of those under the poverty line is more likely to have risen only to about 28 million, nowhere near the 80 million predicted. The percentage of those under the poverty line was therefore closer to 14% and far from the 40% feared. The modern economy bore the brunt of the 13% contraction in the economy in 1998, and urban dwellers, some of them relatively well off before the crash, suffered most as jobs in the construction, retail and financial services sectors disappeared.

The rural economy, which had been seriously affected by a drought in 1997, recovered strongly with the excellent rains in 1998, delivering an excellent harvest in 1998 and again in 1999. In a booklet published earlier this year, Mubyarto quotes old Javanese farmers as dismissing claims from younger Indonesians about the seriousness of the 1997-1999 crisis. For them, the "bitterest" periods were the Great Depression, the Japanese Occupation, the Revolutionary War 1945-1949, and the crisis of the 1960s:

> …"This is nothing. This is still normal times. This is not a crisis." (1999, p.1)

Also of some embarrassment to donors and the Indonesian Government was the evidence of successful coping with the crisis among the Javanese who were expected to suffer the most in the crisis. Instead of widespread malnutrition and suffering, the Jellinek, Rustanto and Hum (1999) study found "an unprecedented upsurge in the small-scale sector". Indonesia's informal sector was picking up the slack resulting from the problems in the modern sector and the steep rise in the price of imports. This group, moreover, found that poorly designed and panicked assistance could weaken the adaptive mechanisms of communities and create a beggar mentality.

Poppele, Sudarno and Pritchett (1999) concluded in similar vein that assistance needed to be better targeted because the impacts of the financial crisis were not as generalised and widespread as originally thought. The conclusions about targeting from both these reports underline the value of the New Order programmes which targeted the most needy, and ensured the close involvement of recipients in the identification of needs and the design and implementation of assistance where assistance is genuinely needed.

Finally, the SSN programmes have been seriously abused. A senior BAPPENAS official admitted in April that half of the funds had not been disbursed as intended, a problem to which there is no easy solution in current circumstances in Indonesia (Kompas, 24 April 1999). In short, much of the flood of assistance provided Indonesia in response to the 1997-1999 crisis may have been wasted in panicked, poorly designed and corruptly delivered help.

Equity and Welfare in the 'Reform Era'

The economic crisis, which rocked Indonesia from August 1997, led not only to the fall of President Soeharto on 21 May 1998. It began a long, uncertain and shaky transition to a more democratic and fairer Indonesia. The fall of Soeharto also enabled a renewed focus on the people's welfare, from which have emerged two sets of policies for the promotion of grassroots welfare and economic equity. The first relates to the concept of the 'people's economy'. The second relates to a revolutionary redistribution of power and funding away from the centre to almost 350 regional governments.

The Concept of the 'People's Economy'

The concept of the 'people's economy' had its origins in the concern in the late Soeharto period about the massive concentration of wealth and privilege in the hands of a small number of individuals. The concept was initially called

'Pancasila economy'. The reference to Pancasila harked back to the two welfare and equity principles of the Pancasila. It also used the legitimacy of Pancasila to provide cover for ideas that carried an implicit criticism of Soeharto economic policies. The main proponent of the concept was Professor Mubyarto, a development economist at the University of Gadjah Mada in Yogyakarta.[7]

As a member of the expert staff of the Co-ordinating Minister for Economic and Financial Affairs, Mubyarto proposed in late 1997 the inclusion of the concept of 'the people's economy' in the Draft Guidelines of State Policy (GBHN) being prepared for the inevitable re-election of President Soeharto in the March 1998 People's Consultative Assembly (MPR) session. The President's daughter, Tutut, soon confronted Mubyarto. She argued that she too was of the "people". Twenty-five references in the draft GBHN to the 'people's economy' were reduced to seven, as the Soehartos reacted to the implicit criticism of their and their cronies' dominance of the Indonesian economy.

The concept did not die, however. As part of its 'reform' rhetoric, the Habibie administration took up the concept and developed the theme of 'economic democracy' and the 'people's economy' as part of its stated goal of eliminating the gross inequities which emerged in the Soeharto period. The Habibie administration's commitment to these concepts was expressed in Decision XVI of the People's Consultative Assembly (MPR) of 13 November 1999. MPR decisions constitute basic State policy and rank ahead of legislation, presidential decisions and regulations.

MPR Decision XVI begins with the observation that "the implementation of the mandate on economic democracy as meant in Article 33 of the 1945 Constitution has not been realised". The Decision emphasises that the thrust of the concept of the "people's economy" is not welfare, but ensuring a "bias with better opportunities and support for and development of the people's economy, encompassing co-operatives and small- and medium-scale enterprises as the main pillar of national economic development".[8]

In practice, Decision XVI was abused by the Habibie administration and the Minister for Co-operatives to channel funds into vote-buying in the 1999 elections. Mubyarto, however, has a clear view of how this "bias" should properly function. He would like to see strong anti-monopoly laws, agricultural extension work and subsidies for rural development and inputs to rural production. Assistance can also usefully be channelled into road improvement and the infrastructure of inter-island trade.

Professor Mubyarto was behind Decision XVI, and remains a vigorous proponent of the 'people's economy'. The concept will not disappear with the

1999 elections and the next MPR session. In fact, the concept could well be endorsed in the new MPR as a key part of the new Government's policy framework.

Restructuring Government and Devolving Power

The fall of Soeharto has opened up a second reform front, which could change dramatically the highly centralised pattern of government which has existed in Indonesia since the 1950s.

The Habibie administration's strong desire for reform of the political and financial relationships between the centre and the provinces was reflected most obviously in the passing in April 1999 of two new laws, one on revenue sharing between the centre and the regions and the second on regional government. The laws demonstrated the strong commitment inside the Habibie Government to a fundamental shift away from the highly centralised and undemocratic system of regional government that has operated under the New Order.

Behind the legislation is a concern to prepare Indonesia better for the challenges of globalisation by modernising government structures that have not changed for decades. This major transfer of powers away from the centre is intended to allow the national government to concentrate on "strategic policy" formulation at the national and global levels.[9] Another goal, strongly supported by the donor community, is improved efficiency in government.

Yet another goal is the democratisation of the regions and their relations with each other and the centre. The regions outside Java believe that their entrepreneurial spirit and the scope for them to do business have been stunted by the excessive control exercised both by the capital and by officials in the regions who act totally as agents of the centre. It comes as no surprise that the law emerged from a Government where the President, the Minister for Internal Affairs and the senior official involved, M Ryaas Rasyid, were non-Javanese for the first time in decades. Nor is it a surprise that the Government party, Golkar, did well outside Java in the 7 June elections. The new laws have a natural appeal in the regions.

The legislation is genuinely radical for Indonesia. Over half the powers of the central government will be transferred to regional government at both the provincial and, most importantly, at the sub-provincial-kabupaten/city-level. This means that central powers will be redistributed to about 350 entities.

Implementation will take up to two years. The central and provincial governments must repeal old legislation and regulations inconsistent with the new themes of "decentralisation" and "deconcentration" of power away from the centre to the regions. Whether the new legislation is ultimately enacted in the form it was adopted by the present DPR (Parliament) will also depend heavily on the sentiment in the new Parliament elected on 7 June 1999 and on the views of the President. At this stage, however, Indonesia has legislation on its books that promise to radically change the nature of government in Indonesia by transferring a major block of powers to the regions and fostering autonomy at several levels of administration.

The New Law on Regional Government

The new law creates "autonomous regions" at both the provincial level and at the sub-provincial level of kabupaten (districts) and cities. It gives more powers to the kabupaten and cities than to the provinces, thereby loosening up significantly the iron control of the centre and provincial governors on local government.

The representative assemblies, which currently exist in all provinces and kabupatens and cities, will continue to function. There were elections on 7 June 1999 for these assemblies as well as for the national Parliament. The elections were largely free and fair. Early results showed that the new assemblies would be politically diverse. In a majority of cases, power will shift to the opposition parties.

These assemblies will not be subservient to the centre or to their governors, bupatis and mayors, as happened throughout the New Order. The situation from now on will be the reverse of the past. The new laws give them much enhanced powers, which they will use. They will elect and can discipline their executives – the governors, bupatis and mayors. The only proviso is that the choice of governor, as the representative of the President in a province, must be the subject of consultation with the President.

Regions at both the provincial and kabupaten/city level will exercise control over an extraordinary range of powers. Article 7 of the law defines their powers as everything other than the following powers retained by the central government: foreign affairs, national defence, the court system, monetary and fiscal affairs, religious affairs, national development planning and control at the macro level, national economic institutions, the public service, human resources development, the efficient use of natural resources, strategic high technology, conservation and national standards.

"Decentralisation" is the term given by the new law to this handing over of powers not retained by the centre. The necessary funds, infrastructure and human resources must accompany the surrender of these powers. The centre can also delegate to the governor at the provincial level powers that remain the centre's but are exercised on its behalf in another process termed "deconcentration". The delegation of these powers must also be accompanied by the provision of resources from the centre. An example is the police.

The province and the governor, who heads each province, lose a great deal of authority under the new law. The Governor is the president's representative in the province. He exercises certain functions delegated to him under the "deconcentration" rubric. The province is responsible for matters of a cross kabupaten/city nature. The province also exercises functions on behalf of kabupaten/cities that are not yet able to undertake them. Otherwise, it is the 320 kabupaten/cities[10] that exercise most of the powers surrendered by the centre: public works, health, education and culture, agriculture, communications, trade and industry, investment, co-operatives, and manpower. The regions, whether provinces, kabupaten or cities can group together for common endeavours. They can borrow. They can develop co-operative arrangements with foreign countries.

The law also provides for an administrative structure below the kabupaten/city, which mirrors the present structure. Kecamatan remain the administrative unit below the kabupaten/city. They are divided as at present into kelurahan, which in turn comprise villages. The kecamatan and kelurahan are headed by officials, a camat and lurah respectively. They exercise functions delegated from the bupati/mayor.

The new law gives a special place, however, to villages, which are at the bottom of the government structure. While camats and lurahs are not supported by representative bodies, the village has its own representative body. Villagers also elect a village head directly. Villages exercise the powers they have traditionally exercised from their ancestors, together with any functions delegated from the bupati/mayor. The law in fact restores a good measure of authority to villages.

The new law gives wide authority to the assemblies at the provincial and kabupaten/city level over the powers surrendered by the centre or delegated to these levels under the law. The assemblies select the governor, bupati or mayor. They prepare annual budgets. The governor, bupati or mayor must be accountable to the relevant assembly once a year. The relevant assembly can dismiss them.

The legislation establishes a Regional Autonomy Advisory Council to advise the President on the creation, merging or abolition of regions, fiscal balancing between the centre and the regions and on the capacity of the regions to carry out he functions surrendered to them. It is a high level body, comprising key national government ministers and regional representatives selected by regional assemblies.

The only major limitation on the regions is the constant reiteration in the law of the inviolability of the unity of Indonesia. Those formulating this quite radical law clearly had to reassure legislators and others that the granting of these wide powers directly to kabupaten and cities and the loosening of central control at all levels would not precipitate separatist movements across the country. For example, the president can dismiss a rebellious governor, bupati or mayor. Governors, bupatis, mayors and even village heads must all swear loyalty to the unitary Indonesian State, Pancasila and the 1945 Constitution.

The New Law on Fiscal Balance between the Central and Regional Governments

Equally radical is the law on Fiscal Balance between the Central and Regional Governments, which complements the law on Regional Government. It was adopted by Parliament at the same time in April 1999. The purpose of the new law is to achieve "a system of financing government, in the context of the unitary state, which shares finances between the central and regional governments and distributes finances evenly among the regions in a proportional, democratic, just and transparent way, taking into account the potential, condition, and needs of a region consistent with its duties, the division of authority and the arrangements for exercising that authority, including the management and supervision of finances."[11]

The first draft of the law was very tentative and did not commit the central government to specific transfers of funding to the regions.[12] The absence of specific commitments on funding reflected the concerns of the IMF and the central agencies in Jakarta not to weaken the centre. In the face, however, of strong pressure on the Habibie Government from the provinces outside Java in the early months of 1999, the final version of the law ceded a major share of the central government's finances to the regions. In its present form, it will drive a revolutionary restructuring of government.

In addition to revenues generated locally, regions – both provinces and kabupaten/cities – receive funding from the centre in several forms. The basic source of central revenue are General Allocations, which are set at 25% of

domestic revenues in the central government's annual budget. Each Annual Budget must stipulate the total of General Allocations. 10% of these General Allocations go to provinces, the remaining 90% to the sub-provincial level – kabupaten/cities. General Allocations are set for provinces and kabupaten/cities on the basis of ratios that take into account the needs and economic potential of each region.

This commitment of 22.5% of central government revenues into the hands of the kabupaten/cities reflects a fundamental shift of financing away from the centre and the province. There are likely to be major adjustments in funding and allocation of staff and resources. The central government can also provide Special Allocations to a region, but the regions must allocate counterpart funding. The Special Allocations are meant to assist the financially weakest regions. In addition, the central government must provide funding to provinces to cover the "deconcentration" functions, such as police, delegated to the Governor. Central government departments can also fund specific tasks at the regional and village level. The relevant agency must provide the necessary funds.

The most significant source of funds for the resource rich provinces and kabupaten/cities will be the sharing of revenue from specific economic activities. Until now, provinces and kabupaten/cities have received nothing directly from any of the following sources. Under the new arrangements, they will receive the shares shown in Table 1.

Table 1. **Centre/Region Revenue Sharing**

	Source	% to Source Regions	% to Centre
1	Property Taxes	90	10[1]
2	Property Transfer Tax	80	20
3	Revenue from Mines, Forests and Fisheries	80	20
4	On-shore Oil Revenue	15	85
5	Gas Revenue	30	70
6	Reforestation Funds	40	60

Note: 1) In addition, 10% of the revenue from property taxes and 20% of property transfer tax revenue which accrue to the centre must be re-shared out among all kabupaten and cities – Paragraph 6(4) of Article 1(1) of the Law on Fiscal Balance between the Central and Regional Governments.

Source: Paragraphs 6 and 8(4) of the Law on Fiscal Balance between the Central and Regional Governments.

The law establishes a Secretariat for Balancing Finances between the Centre and the regions (SBPKPD). The law is silent on its composition, but the intention is that it becomes the technical body, staffed by civil servants, which will service the Regional Autonomy Advisory Council established under the companion Regional Autonomy law.[13]

Implementation of the New Laws

Both pieces of legislation allow up to two years for the laws to come into effect. This amount of time is needed to develop new systems for

- determining financial transfers between the centre and the regions;
- establishing exactly the powers to be exercised by provinces and the kabupaten/cities;
- preparing the civil service for the major changes which the laws will impose;
- repealing all existing laws and regulations inconsistent with the new laws; and
- developing a whole new body of regulations and administrative structures to make the new laws work.

For example, the Government must devise around 350 formulae for sharing revenue with the 29 provinces and the around 320 kabupaten/cities which will exist by the end of this year. In addition, the Government must devise formulae for sharing the revenues in Table 1 with the regions. These revenues must be shared both with the relevant province and with all the kabupaten/cities in that province, with the biggest share going to the kabupaten in which the production is actually located.

This seems an impossible task for a country still struggling through an uncertain political transition. A timetable is already in place to ensure its effective implementation. On 28 April 1999, the ministers and agencies involved in implementing the laws gathered for their first meeting. They have a timetable of four six month periods in which to make all the necessary preparations. In this current first six months, they must identify all the areas requiring new regulations in order to implement the laws. They must also identify and repeal all laws and regulation inconsistent with them. They must also formulate up to

1 000 new regulations in several ministries and across all regional governments to implement the new legislation.

The second six-month period will be taken up with an intensive study of the institutional adjustments that must be made in the central and regional governments to give effect to the legislation. The Government will have to determine which functions will be transferred to the regions. Some may have to be abolished or merged. In the third six-month period, personnel of agencies whose functions are to be transferred to the regions will be reallocated from central government departments to regional governments. In the fourth and final six-month preparatory period, the Government will finalise all the necessary financial adjustments consequent on the new laws. It is hoped, however, that the 1999-2000 Budget will provide some early indicators of outlays to the regions.

The new funding arrangements will require intense negotiation and an enormous effort collecting and analysing data. It will require clarity about central government receipts from mining, oil, gas and other extractive industries, which have hitherto been totally non-transparent. It will require the negotiation and determination of ratios for sharing General Allocations among the provinces and kabupaten/cities. It will also require a significant reduction in the number of civil servants in the employ of the central and regional governments. The Government hopes that the economy will have recovered sufficiently in two years to allow generous termination packages to those who must go.[14]

What the New Laws Mean

The past lack of transparency about the level of direct and indirect central government expenditures in the regions makes it difficult to assess the magnitude of the changes necessary. Ministry of Finance figures for expenditure on salaries and goods and services per province, compiled for the first time for the 1999-2000 budget, give some indication, however, of the adjustments that will have to be made.

The regular budget for the 1999-2000 financial year totals USD 4.9 billion. Of this amount, 45.3% of salary can be attributed to the provinces. This includes the staff of the Kanwil/Kandep and the centralised ministries like Health and Education and Culture, which deliver services in the regions. The figures for expenditure on goods and services show that 22.4% can be attributed to the regions. In addition, the development budget totals USD 4.4 billion in 1999-2000. Overwhelmingly, this is expended in the regions but through central government agencies.

Both sets of figures seem to suggest that 25% of Central Government revenue of itself will not be enough to cover existing activities in the regions. Subventions larger than envisaged and major adjustments in the distribution of staff and resources will be necessary to match the devolution of powers envisaged in the laws. If the laws are implemented as designed, they could nevertheless achieve a dramatic decentralisation of power and authority over key areas of services – health, education, agriculture and communications – vital to the welfare of the mass of Indonesians. The health and education functions, for example, already operate through a highly decentralised delivery network, but authority and decision-making have been centralised until now in Jakarta. Decisions about the location of schools and health posts and about needs and the nature and quality of the services to be provided could henceforth be made at a much lower level in the government structure, and hopefully in accordance with local wishes. Decisions are more likely to reflect local wishes when local communities have a genuine voice in the provincial, kabupaten and village assemblies envisaged under the regional government law.

The new laws aim to bring greater openness and transparency to regional government. There should also be a much greater measure of democratisation of institutions, consistent with the strong emphasis in the legislation on the devolution of powers to the lowest levels of authority and the balancing of the executives at each level with democratically elected representative institutions down to the village level. This democratisation of society from the village up, if realised, would compel government at all levels to pay attention to the needs of a much wider span of society.

Resource rich provinces will be major beneficiaries of the new arrangements on revenue sharing, particularly those with highly profitable mining operations like Irian Jaya and East Kalimantan. Foreign investors will have to pay as much attention (if not more) to regional authorities as to the central government. Resource rich provinces and kabupaten will be able to offer their own packages of inducements to foreign investors. Strong provinces will be able to negotiate on a more even playing field with the capital.

The laws permit regional governments to raise additional revenue from their own sources. This could be used counterproductively. In the 1997 crisis, the Government eliminated a wide range of local charges and levies in order to reduce production and distribution costs and make Indonesia more competitive for investors. Research has shown that the abolished levies have been replaced by new “quasi-taxes”. Investors fear that regional governments will impose levies and charges regardless of existing agreements and commitments from the Central Government. If this happens, investors could go elsewhere.

Implementation of the reforms will not be easy. They will be hampered by the poor quality and lack of experience of the civil servants called on locally to run this radically different system of government. Another danger is the emergence of a new kind of localised corruption if central and local controls on local government and local representative bodies are weak. Local universities and NGOs lack the experience and knowledge to scrutinise effectively the financial and budgetary data produced their local administrations and assemblies.

There is also a justifiable concern about the lack of financial resources of the poorest regions. This fear is the reason the legislation gives the Central Government the capacity to intervene and fund specific programmes in the autonomous regions down to the village level. This special assistance and Central Government General and Special Allocations are unlikely to be large enough to compensate for the paucity of local or resource-related revenues. And in the present economic crisis, the Central Government may not have the resources to continue the targeted poverty reduction programmes developed over the New Order period, which have demonstrably worked. In these circumstances, the poorest provinces may well continue to languish and fall behind as long as their own locally generated income is minimal and the centre cannot provide substantial assistance to compensate.

The Political Prospects of the New Laws

Despite uncertain times, the Government is pushing ahead with enacting the legislation. The driving force is a group of strongly committed figures in the government and the civil service who have a clear vision of a more efficient and more equitable division of power and finances between the central government and the regions. In other parts of the bureaucracy in Jakarta, however, there are concerns about the laws and the powers they give the regions – and take away from Jakarta. Some concerns are valid, such as the fear that the power to borrow will be abused by inexperienced and corrupt regional governments. There will not be a sufficient pool of educated or experienced individuals and NGOs able to exercise an independent watch on the operations of the regional governments.

More generally, there is a concern that many regional governments will simply not be able to exercise their responsibilities properly or effectively. For example, most regional governments will not have financial management systems able to handle the new devolved financing. It will be many years before the new, decentralised system visualised in the legislation will be operating effectively. In the immediate future, several central ministries can therefore be expected to mount a rearguard effort to slow or stop the transfer of powers of staff, funds and functions to the regions.

For the next six months at least, Indonesian policy on local government and the relationship between the centre and the regions will drift. We must await the emergence of new political alliances before there is any clarity about the degree of commitment in the next Government to the radical new legislation now in place. During this period, there will be uncertainty and opposition to the new legislation from some quarters in Jakarta. In the words of one senior official, however, “the legislation may be revised (by a new government), but decentralisation is here to stay”.

Notes

1. These arguments have been ignored and foreign investment has been permitted in areas covered by Article 33(3).
2. A bupati is the administrative head of a kabupaten, the administrative unit immediately below the province.
3. These and the following statistics are from Indonesia Social Indicators at www.worldbank.org.
4. A camat heads a kecamatan, the administrative unit under the bupati.
5. A lurah heads a kelurahan, the administrative unit under the camat.
6. See Government of Indonesia Letters of Intent of 29 July, 11 September and 13 November 1998 and 16 March 1999 at www.imf.org.
7. The following material draws on an interview with Professor Mubyarto at BAPPENAS 31 May 1999.
8. Article (a) of MPR Decision XVI of 13 November 1999.
9. Interview 28 May 1999 with M. Ryaas Rasyid, Director-General for Public Administration and Regional Autonomy, Department of Internal Affairs, Jakarta.
10. The number will increase slightly to around 320 when the provinces of Maluku and Irian Jaya are split in the near future and consequent new kabupaten are formed.
11. Paragraph 1(1) of the Law on Fiscal Balance between the Central and Regional Governments.
12. The following material is drawn from the law itself and from discussions with officials of the Ministry of Finance, Jakarta.
13. M. Ryaas Rasyid, above.
14. M. Ryaas Rasyid above.

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GOVERNANCE AND SOCIAL POLICY IN MALAYSIA

Shafruddin Hashim

The landscape of governance in Malaysia has been shaped by history, geography, economics, and the ethnically plural and regional composition of society. The first order question would seem to be the need to constitute and sustain an infrastructure of governance to manage and resolve the dynamic and competing needs generated by the multifaceted diversity within such a society.

The Malaysian constitution was designed to achieve this. In brief, it provided for a constitutional monarchy, federal and parliamentary structure of government within a context of democracy. The constitution provides for a strong central government and the manner by which the centre conducts its affairs with the States conditions the 'federalness' of the Malaysian nation. What the constitution provides must necessarily function within the real context and process of public life. While these formal provisions provide the foundation for institutional construction, institutional durability and credibility is constantly tested by the political process generated by this multifaceted diversity.

Background and Setting

Malaysia comprises thirteen states from two major geographical regions: eleven states (Perlis, Kedah, Kelantan, Trengganu, Johore, Negeri Sembilan, Selangor, Pahang, Perak, Penang and Melacca) of Peninsula Malaya and two states (Sabah and Sarawak) of Borneo Island.

Historically, the states of Peninsular Malaya with the exception of Penang and Malacca had similar origins and traditions as Malay States that centred on the institution of the Sultanate upon which British rule was founded. Three separate political and administrative units covering Peninsular Malaya were established: the Unfederated Malay States (UFMS) of Perlis, Kedah, Kelantan, Trengganu and Johore; the Federated Malay States (FMS) of Negeri Sembilan, Selangor, Pahang and Perak; and the Straits Settlement States (SS) of Penang and

Melacca. The UFMS and FMS states were indirectly governed and administered with the former being more 'indirect'. The Strait Settlement States, however, defined as Crown colonies, were directly governed and administered. Centralisation and uniformity of rule were frequently pursued but not evenly achieved. Sabah and Sarawak had been taken over as British colonies only in 1946. Before this, since 1881, Sabah had been under the control of the North Borneo Chartered Company and made a British protectorate. Sarawak, since 1841, was under the personal control of the *White Raj* established by Sir James Brooke and it was made a British protectorate also in 1881. Until the Japanese occupation (1941-1946) Sabah and Sarawak were ruled privately as a company and a personal domain respectively.

Ethnically, the primary division in Peninsular Malaya is between the majority indigenous Muslim Malays and minority non-Malay Chinese and Indians. This makes for a clearly defined plural society. Ethnic differences and divisions cut right across state boundaries with variations in the ethnic concentration between states with Trengganu having the highest Muslim Malay concentration of above 94% and Penang having the highest non-Malay Chinese concentration of above 53%. Political party alignments have generally followed these ethnic differences and divisions.

In the Borneo states of Sabah and Sarawak the ethnic picture is more complex, unique and confined within each state with the Muslim Malay and Muslim non-Malay indigenous groups in the minority. In Sabah, indigenous Muslim and non-Muslim ethnic groups make up about 57% of the population with 7% Muslim Malays, 10% Muslim Bajaus, 20% non-Muslim Kadazans, 3% non-Muslim Muruts and the rest other indigenous. The Chinese make up about 15% and the rest others. In Sarawak, indigenous Muslim and non-Muslim ethnic groups make up about 70% of the population with 20% Muslim Malays, 7% Muslim Melanaus, 29% non-Muslim Ibans, 9% non-Muslim Bidayuhs and 5% other indigenous. The Chinese make up about 29% and the remainder other ethnic groups. Not only is it different between Sabah and Sarawak but also each is different from the situation in the states of Peninsular Malaya. This ethnic composition, together with the geographical separation, is territorially specific and confined to each state creating a society more 'regional' and 'federal' rather than 'plural' compared to that in Peninsular Malaya.

The states are also economically at different stages of development with dissimilar economic structures having been involved with different type and nature of economic activities. Several states, located on the western Peninsula Malaya, are generally more economically developed and with a higher per capita income compared to the states of eastern Peninsula Malaya and Sabah and Sarawak. However, since independence Malaysia's overall economic

growth and expansion has been exceedingly good measured against other developing countries.

The differential and uneven impact of history, geography, economy, and ethnicity have produced states with dissimilar political and administrative traditions, economic structures and activities, stages of development and ethnic composition. However, this multifaceted diversity and the degree to which it is territorially defined is not the same for all states but is greatest in Sabah and Sarawak.

This multifaceted diversity and the institution of the Sultanate were the bedrock upon which the federal device was placed in 1957 for the Federation of Malaya. Federalism in Peninsular Malaysia

> …may be attributed to the existence of political distinctions bounded by the political role of the Sultans and their States and the powerful loyalties, especially among Malays, attracted by the Sultans and the States. It may also, by extension, be attributed to the different patterns of social, cultural, and communal development in the various States and the differences in their economic activities and levels of economic development. (Shafruddin, 1987).

The institution of the Sultanate was and remains crucial to Malay identity. This, together with Islam, the Malay language and culture were and remain the sources and symbols of Malay authority and legitimacy. The federal device could therefore be seen chiefly to mollify the Malays, by preserving the nominal authority of the Malay Sultans, in the context of non-Malay challenges.

The federal design adopted in 1957 was redesigned in 1963 so as to federate the three new states of Sabah, Sarawak and Singapore (which left in 1965) with the states of the Federation of Malaya. The essential organisational core of the Federation of Malaya was retained but, significantly, the three new states were given more rights and powers compared to the states of Peninsular Malaysia. These rights and powers were accorded to protect these states' special interests and rights. Although the 1963 federation was not devised as an ethnic federation, the inclusion of Sabah and Sarawak, with more rights and powers and state-based ethnic uniqueness, brought with it a territorial dimension. This gives the appearance of a partial ethnic federation *vis-à-vis* Sabah and Sarawak. This image has increasingly become more focused with the current rising assertion of State rights especially in Sabah.

Formal Institutions of Governance

The Malayan Independence Constitution of 1957 and later the Malaysian Constitution of 1963 provided for a scheme of government based on constitutional monarchy, federal structure and parliamentary democracy. The provision for a constitutional monarchy underlined the importance of the institution of the Sultanate and remains an assertion and continuous reminder of the Malay origins of the Constitution. The royal head of each of the nine Malay states was and remains the symbol of authority, if not the focus of loyalty. The Supreme Monarch, the *Yang DiPertuan Agong*, is elected from among and by the nine royal heads of the Malay states by rotation on the basis of precedence. A Governor is appointed for each of the four states without a royal head. The practice of constitutional monarchy has not been devoid of controversy, generated by the tussle between the hereditary and the elective components of government – a tussle in which the elective component has emerged increasingly ascendant.

The Constitution provided for a federal structure of government with a strong central government equipped with powers, especially over constitutional amendments and the declaration of emergency, which it had frequently and liberally used. This, together with the Courts' decision on the use of such powers, serves to emphasise the constitutional dominance of the Centre. Through the taxing powers provided by the Constitution, the central government controls the richest and most productive revenue sources as well as major areas of expenditure. Large-scale Central financial transfers to States are inevitable and constitutionally provided for to fulfil the latter's expenditure commitments that cannot be fulfilled from their own revenue base. States are financially dependent on the Centre although the level of dependence is uneven among the States thus indicating the difference in their fiscal capacity.[1] Table 1 indicates the Central and State Governments' revenue position.

The central government has been provided with the constitutional powers to pursue national development planning. It alone is financially capable of shouldering this task. The five-year national development plan is the primary instrument used through which centre-state financial relations are also shaped and States financial weakness and dependence underlined.[2] This not only emphasises central perspectives but also determines which State should get what, when, and how. Table 2 indicates the Central Government's development allocation to States that it controls and expends at the State level.

The elective legislative component comprises of the two Houses of Parliament at the Centre and a single House State Legislative Assembly (SLA) at the State level. The practice of regular, periodic and free elections has been maintained to

sustain Parliament and the SLAs which, with minor exceptions, have been in the firm grip of the Alliance (before 1969) and *Barisan Nasional* (BN – after 1969) coalition controlled Central and State governments. This firm grip, especially over Parliament, was and is based on control of a two-thirds majority since Independence. The Constitution has been frequently amended by Parliament to meet immediate purposes, usually at short notice and without due deliberations. The effectiveness of Parliament as a forum for public accountability or for the review of public policy appears low. According to Means (1991: 295), the prime role of Parliament has been to provide the ceremony and ritual that symbolise the base of popular public support which the government has been able to muster at the previous election.

Table 1. **Central and State Government Revenue**

Government	Revenue	1997		1998 [1]		1998 [1]	
		RM Million	*% Change*	*RM Million*	*% Change*	*RM Million*	*% Change*
Central	Total Revenue	65 736	12.8	55 054	-16.3	47 160	-14.3
	Total Tax Revenue	53 628	13.5	43 170	-19.5	36 318	-15.9
	Total Non-Tax Revenue	12 108	10.0	11 884	-1.9	10 842	-8.8
All States	Total Revenue	9 799	2.9	9 356	-4.5	n.a.	n.a.
	Revenue From States Own Sources	8 221	n.a.	7 708	-6.2	n.a.	n.a.
	Total Tax Revenue [4]	1 607	n.a.	1 711	6.5	n.a.	n.a.
	Total Non-Tax Revenue [5]	6 002	n.a.	5 482	-8.7	n.a.	n.a.
	Other Reimbursement [6]	n.a.	n.a.	515	n.a.	n.a.	n.a.
	Central Government Grants and Allocations [7]	1 541	n.a.	1 592	3.4	1 729	3.7

Notes: 1. Estimated. 2. Comprising direct taxes (all income taxes, etc.) and indirect taxes (export, import and excise duties, sales and service taxes). 3. Comprising licences, permits and dividend from Petronas (National Petrol Corporation). 4. Comprising direct taxes (taxes on land, mining, drainage, irrigation and forestry) and indirect taxes (entertainment and miscellaneous). 5. Comprising licences, permits, royalty, service fees, sale of goods, rental on government property, return on investment, fines and compound. 6. Reimbursement from the Central Government to State Governments on expenditure incurred implementing Central Government projects. 7. Comprising constitutional grants (road maintenance, capitation and revenue growth grants) and administrative grants).

Source: Malaysia, Ministry of Finance, Economic Report 1998-1999, pp. 94-105.

Table 2. **Central Government Development Allocation**[1]
by State, Seventh Malaysia Plan, 1996-2000

State	Seventh Malaysia Plan Allocation			
	Original	*%*	*Revised*	*%*
Johore	3 914.2	5.8	5 012.0	5.6
Kedah	3 106.8	4.6	4 385.5	4.9
Kelantan	1 890.5	2.8	2 506.0	2.8
Melacca	1 144.2	1.7	1 521.5	1.7
Negeri Sembilan	2 177.3	3.2	2 864.0	3.2
Pahang	3 099.0	4.6	4 117.0	4.6
Perak	3 107.8	4.6	4 117.0	4.6
Perlis	803.2	1.2	1 432.0	1.6
Pulau Pinang	2 324.2	3.4	2 416.5	2.7
Sabah	4 255.4	6.3	6 533.5	7.3
Sarawak	4 714.8	7.0	6 444.0	7.2
Selangor	6 389.8	9.5	7 428.5	8.3
Trengganu	2 422.8	3.6	3 490.5	3.9
Federal Territory	6 262.4	9.3	7 339.0	8.2
Multi-State [2]	21 887.6	32.4	29 893.0	33.4
Malaysia	67 500.0	100.0	89 500.0	100.0

Notes: 1. The allocation of development expenditures by the Central Government to be controlled and expended at the State level. 2. Multi-state projects are those where beneficiaries are nation-wide.

Source: Malaysia, Mid Term Review of the Seventh Malaysia Development Plan, Economic Planning Unit, April 1999, p. 139.

The Executive has become increasingly centralised with the increase in the size, complexity, capacity and aspirations of government. The Prime Minister, especially Dr. Mahathir Mohamad, is active domestically and internationally and in almost all matters. The status and place of the PM has been summarised in the following description:

> After 16 years in power, Mahathir has engineered a near-complete dominance of the executive over other branches of governance, with himself at the apex. Unlike Britain where a Prime Minister is the first among equals, the Malaysian premier is simply first.[3]

The central and state administrative systems have their own distinct bureaucracies, each of which is responsible for performing the administrative tasks within its respective constitutional sphere. Attempts to ‘nationalise’ or

'federalise' the bureaucracy have not been completely and uniformly successful. Political and administrative traditions were different in states that were originally UFMS, FMS, SS or Crown colonies. As a result, they have differed in resistance and resilience with respect to central authority. What emerged are federalised bureaucracies in States of the former FMS and SS, and the non-federalised bureaucracies in States of the former UFMS, and in Sabah and Sarawak. Consequently, the Centre's administrative penetration of States is uneven. Centre-State administrative relations are characterised by the uneven Central administrative dominance over and penetration of States.[4]

The Centre's administrative dominance is also manifested in its responsibility for the major areas of activities including education, health, housing and other essential services. The organisation and functioning of administration necessary to implement policies and deliver these services bear the imprint of Central priorities in terms of objectives, structure, personnel and funding. The States and Local authorities also participate in the delivery of such services. Privatisation of such services appears to be increasing. Elements of the social safety net regime have been put in place in an *ad hoc* manner, so that it has not been developed in a systematic and focused fashion.

The Centre's administrative dominance has been further emphasised by its dominant role, especially that of the Prime Minister's Office, in national development planning and implementation, especially with the formulation and implementation of the New Economic Policy (NEP) directed at the 'restructuring of society'. Through this, the Central bureaucracy has expanded in size and role, being involved in economic planning, public policy initiatives and direct management of large sectors of the economy. All these are oriented towards affirmative action in favour of *bumiputra* (that is, non-immigrants ethnic groups) rather than towards improving universal welfare.

In Peninsular Malaysia the system of local government ranging from Municipality, Rural Boards and Town Boards, were imposed by the British and are both complex and fragmented. Primarily established as an organ of the State Government, it is bereft of any indigenous origins and does not address the requirements of the non-indigenous groups. Elections were introduced for some local governments in 1951. The Independence Constitution of 1957 placed responsibility over local government under State Governments. However, State powers over local government was somewhat reduced with the establishment, for the purpose of uniformity and co-ordination of local government affairs, of the National Council for Local Government (NCLG) in 1960, following the Amendment to the Constitution (Article 95A). The Centre and States are represented in the NCLG and both Central and State Governments (but not of Sabah and Sarawak whose representatives do not have the right to vote) are

bound by its decisions. In Sabah and Sarawak the system of local government is similarly complex and fragmented. By the late 1960s the system of local government was complex and fragmented, ranging from the Federal Capital of Kuala Lumpur, 3 Municipalities, 37 Town Councils, 37 Town Boards, 7 District Councils and 289 Local Councils. These Local Councils were fully elected and with an elected chairman and financial autonomy, although their effectiveness in generating revenue on their own was low. The non-financially autonomous local authorities received annual general grants from the State Governments.

The system of local government lacked roots, generated an uncomfortable level of corruption, financial impropriety and maladministration that frequently descended into bankruptcy, and was hampered by the interplay of party politics. In 1965 elections to local authorities were suspended in view of the Emergency because of Indonesian Confrontation. These elections have not been reinstated despite the recommendation of the Nahappan Report (Report of the Royal Commission of Enquiry to Investigate into the Workings of Local Authorities in West Malaysia) released in December 1971. In 1966, with the amendment of the Local Government (Election) Act of 1960, State Governments were empowered to abolish or take over local authorities. In 1973 the Central Government enacted the Local Authorities (Temporary Provisions) Act. This provided the State Governments with the power to appoint members of local authorities and establish Boards of Management for these authorities. The Local Government Act of 1976 laid down a definite Central Government policy to restructure local authorities so as to reduce the number of authorities. Within three years the 374 local authorities were reduced to 12 Municipalities and about 90 district Councils, with the District Officer or another civil servant as the chairman of each local authority and members being appointed. To improve the finance of local authorities, the Act empowered them to raise loans and obtain private financing, and increased Central Government allocations through grant aid and the launching grant. Sabah and Sarawak have been excluded from this restructuring exercise.

In each State, local government comes under the State's chief civil servant, the State Secretary. At the Central level, initially the Department of Local Government and subsequently in 1964 the Ministry of Local Government and Housing was responsible for local government affairs. The NCLG was and remains responsible for Centre-State co-ordination of these affairs, although it meets infrequently and exerts a minimum of influence. Malaysia explicitly and openly abolished the electoral basis of local government, and the initial institutional potential for decentralised participation in both local and national decision making has been displaced by Central control of local institutions.

Politics and Policy

Politics and the basic priorities of public policy have been conditioned predominantly by ethnic considerations. Since Independence the UMNO[5] dominated Alliance (before 1969) and BN (since 1969) multi-ethnic coalition have monopolised power at both the Centre and State levels with minor exceptions (*Parti Islam se Malaysia* (PAS) in Kelantan and *Parti Bersatu Sabah* (PBS) in Sabah). The federal system, by providing opportunities for a party at the State level made possible the exceptions of Kelantan and Sabah. These exceptions apart, the tendency in the federal system is towards increasing centralisation. Centralisation and ethnicity appear therefore as dominant themes, despite nascent class issues, and tendencies of governance in Malaysia.

All the Prime Ministers and Deputy Prime Ministers have been concurrently Presidents and Deputy Presidents of UMNO respectively. UMNO was centrally and tightly organised and it would seem that the reconstituted UMNO of 1987 and after is now firmly in the personal grip of the party President. The restructuring objectives of the NEP (the New Economic Policy, which institutionalised affirmative action in favour of *bumiputras*) were crafted essentially by and within UMNO and implemented as the solution to the problems of a multi-ethnic society.

The twin policy pillars of the NEP were the eradication of poverty and the eradication of economic function being identified with ethnicity. These twin objectives were to be achieved over a twenty- year framework (1970-1990) with the ultimate goal of national unity. In effect it amounted to a massive restructuring and re-engineering of Malaysian society to boost economic growth and effect a large-scale redistribution of the nation's wealth, much in the direction of poor rural Malays and other indigenous ethnic groups collectively defined as *bumiputra*. The entire population fell either side of the *bumiputra /non-bumiputra* divide in a diversity of social and economic contexts. Ethnically based targets and quotas were the very hallmark of social and economic policies and indicators. Indeed, NEP goals became the very measure of the nation's success. Similarly, the National Development Policy (NDP), which replaced the NEP in 1991, was singularly focused on the Prime Minister's 'Vision 2020', an ambitious concept to guide the Malaysian development process over three decades.

Potential centres of independent power, including the constitutional monarchy, the courts, Parliament and opposition parties, have not been able to mount and sustain a constructive challenge. Those NGOs that are concerned with public issues of corruption, human rights, democracy, environment and an independent judiciary are considered interlopers, and have been variously described as

'negative', 'thorns in the flesh', 'enemies', or 'saboteurs' (Means, 1991, p. 194). Recently the government proposed to control NGOs by requiring those registered as businesses to submit annual reports so as

> …to ensure that NGOs do not abuse their status to carry out social or political activities under the guise of running businesses.[6]

NGOs continue to struggle for responsibility and for a role in public life within a democracy viewed increasingly as having a distressing tendency to get out of control. But they are circumscribed from taking an advocacy role. Some have become merely the vehicles for policy justification and delivery rather than active participants in policy formation.

Politics and policy are largely ethnically determined. In spite of the federal system, they remain in the firm control of the Central Executive, although there are occasional challenges. This provides the leadership, especially the Prime Minister, with the freedom to decisively craft public policy. Since independence, Malaysia has experienced vigorous and an almost continuous economic growth and expansion despite some periods of slow growth and recession. This has facilitated the politics of the allocation of scarce resources and has helped political leaders to sustain and perhaps strengthen public confidence in the legitimacy of their rule despite episodes of domestic opposition and conflicts.

The Economic Crisis of 1997 and Policy Response

The basis of any policy response to a complex social and economic crisis, in addition to a firm political base, is the values and assumptions of the political leadership to order and structure the choices that must be made. No one has been more influential in shaping those social and political values in the Malaysian leadership over the past two decades than the Prime Minister, Datuk Seri Dr Mahathir Mohamad. The economy lies at the very heart of the public policy process that he drives. Describing Mahathir's political ideology, Khoo Boo Teik emphasises that:

> Philosophically, Mahathir has always been something of an idealist who believed that attitudes, value systems, and ethics were what made and shaped races and nations. In practice, he has been a determined economist, almost an economic determinist, for whom politics or

> psychology or ideology led nowhere without economics. From his view, whereas Malay nationalism had to redeem itself through Malay parity in the Malaysian economy, Malaysian nationalism must project itself on to the global economy…(Khoo Boo Teik, 1995, pp. 329-30).

Grand social and economic engineering did not however begin with the Mahathir era. The New Economic Policy or NEP had been introduced at the beginning of the Razak era eleven years earlier, itself a direct policy response to the ethnic and social unrest which had culminated in the violence of 13 May 1969.

National economic aspirations continued as the driving force beyond the NEP era into the NDP, which was based on an even grander vision of the nation's future. This was first promulgated before the national business elite, on the occasion of the inaugural meeting of the Malaysian Business Council on 28 February 1991. The agenda laid out was a far-reaching thirty-year programme aimed at propelling the country into developed nation status. In view of the sustained annual economic growth rate necessitated by such a scheme (around 7-8%) over such an extended period this 'Vision 2020' concept, as it soon became known, was bold and ambitious – perhaps even audacious. The scale and thrust of Vision 2020 emphasises the centrality of economic planning to the Malaysian policy process. Notwithstanding an ongoing development planning process in terms of continuing five-year development plans, both the NEP and Vision 2020 schemes sought to marshal the policy process into time-frames extending over decades. They both emphasise the centrality of macro-economic planning.

The Central Government's policy machinery is largely formulated in the five-yearly series of National Development Plans. The current Seventh Malaysia Plan 1996-2000 has just undergone its Mid-Term Review, released in April 1999. Perhaps more telling than any other format, the assumptions and revisions within its financial allocations represent the Central leadership's policy responses to the current economic crisis.

Since the Mid-Term Review's (MTR) release comes subsequent not only to the economic crisis but also to the sharp reversals in financial policies and the departure of the former Finance Minister and Central Bank chiefs of last August/September, its data and revised allocations provide the clearest picture yet as to crisis' impact in policy terms. Notably, the MTR[7] revises up sharply the original plan's Development Spending allocation, from MR$ 67.5 billion to

MR$ 89.5 billion. Approximately a third is to be disbursed on multi-state projects with a further 8.2% allocated to the Federal Territory providing a hefty 41.6% allocation to the Centre. The 16.9% of the revised allocation that went to the states of Kelantan, Melaka, Negri Sembilan, Pahang and Perak maintained these states' proportional revision. However the generally poorer and more bumiputra concentrated states of Kedah, Perlis, Trengganu, Sabah and Sarawak all saw both real and proportional increases at the expense of the much wealthier, urbanised and industrialised states of Johor, Penang and Selangor which had proportional reductions. Though development spending was sharply boosted (almost by a third of the original allocation and in half the time frame) the proportional revisions directed to the poorer states represent a clear fiscal stimulus. This increased expenditure appears all the more dramatic against a recessionary backdrop of stringent fiscal tightening.

Emphasising the dominance of economics in social planning the Prime Minister told Parliament when introducing the Mid-Term Review that poverty eradication and Malaysia's bumiputra policy had been hit but "the decisive non-conventional policies have shown good results and I see the road to economic recovery very clearly".[8] In a keynote address titled "Managing the national economy during the crisis" at the National Institute of Public Administration,[9] Tun Daim Zainuddin.[10] specifically referred to the additional MR$ 22 billion development allocation. He stated that Malaysia's hope of becoming a developed nation would be dashed if actions to recover from these losses were not taken urgently and efficiently, and thus stressed the urgency with which project implementation had to be expedited to make recovery more robust. Emphasising the centrality of long term economic planning, he referred to the NEAC's initiatives with respect to the banking recapitalisation agency, Danamodal Nasional Bhd., and asset management firm, Pengurusan Danaharta Nasional Bhd. Both are huge consumers of public or quasi-public resources, and deemed central to reflating the national economy.

It follows from the foregoing that since the beginning of the NEP era the dominant thrust of Malaysian public policy has been social and particularly ethnic restructuring. As the *bumiputra* were economically well behind, the policy focus was sharply on poverty redress through a more balanced ethnic mix, particularly in employment. A relatively pragmatic approach has recognised that sustained high levels of economic growth continuing over decades, in hand with economic restructuring among ethnic groups, is the most stable way to achieve this.

The Malaysian grand agenda has been targeted at sustaining high economic growth rates. Other areas of public and social policy are subsumed by this objective. During periods of rapid growth the scheme of things works

exceedingly well. With the exception of the occasional cyclical downturn (as in the mid-1980s) when some pragmatic adjustments were made, the continuing high growth scenario was not only the ultimate aim of policy-making but also the very assumption it was based upon. The significance of the mid-1997 economic crisis is that it challenged the very goal and basis of Malaysian public policy. That the problem was as much regional and global as it was national only heightened the sense of crisis. Referring to billions of Ringgit in outstanding corporate debt Daim went so far to describe it as "the worst crisis we've faced since the Second World War".[11] Mahathir was prompted to write two new books on the subject.[12]

As the above suggests, the main strategy was to maintain growth rates at all cost and the MTR is part and parcel of this process. The revisions to the development allocations also indicate a continuing emphasis on restructuring national wealth on a federal and ethnic basis. The picture seems to suggest that even in the realm of social policy, the grand agenda still holds sway.

The restructured high growth economy, combined with an equally idealised vision of Asian values, are the ultimate twin pillars of the social safety net. Referring to Indonesia, Mahathir pointedly remarked that:

> Twenty-four million Indonesians are unemployed [and that] means absolutely no money because there is no safety net.[13]

With regard to Asian values, Mahathir argued that:

> In times of hardship, Asians must rely more than ever on their family and on community support. If you lose your job, there is only the family to fall back on. And to pull ourselves out of the crisis, we must work harder than ever before, showing more willingness than in recent years to sacrifice immediate personal rights and focus first of all on fulfilling our responsibility towards the group, whether the corporation, the community or the nation.[14]

For the past thirty years, Malaysian public policy has promoted redistribution between ethnic groups on the basis of their collective needs. Yet at the level of individual need, as the above makes very clear, the approach to social policy is absolutely residualist. Echoes of Spencer, Radcliffe-Brown and Friedman are to be found in this conception of how the individual's needs are to be properly

met. The private market (or, should it fail, the family) must provide all in times of hardship. Perhaps a degree of community support is permissible , but generally this is assumed to take the form of communal support. The lesson for the Malaysian central leadership seems to be that the private market must never be allowed to fail, as it is this that provides the ultimate social safety net.

The question now arises as to what responses and resources directed at the social and individual level did the crisis bring forth. Again in terms of revised resource allocations the MTR provides the clearest image of social provision. The Social Development Allocations cover three areas; Housing, Health and Other Social Services.[15] The combined Social Development Allocation originally totalled MR$ 9 524 800 million and was revised up MR$ 2 192 800 to MR$ 11 717 6, an increase of 23%. Most of the increases are spread across the various components generally in line with the aggregate increase. The allocation for rural housing falls sharply while allocation for low cost housing almost doubled. This suggests recognition of the housing needs of the urban poor to be more pressing. For housing programmes as a whole, the allocation was revised (up from MR$ 3 585 million to MR$ 4 282 million).

As with other areas of social development spending, Health Services received an increased allocation. The overall amount rose from MR$ 2 650 million to MR$ 3 420. No major shifts in health policies seem evident as a response to the economic crisis, other than the recognition that larger numbers of patients were returning to public health care and that infrastructure needed upgrading as a consequence. Though not mentioned in the Revised Allocations the increased expenditure on hospital buildings might also be viewed as a means of further fiscal stimulus, particularly with a slump in the construction industry. Interestingly, the aggregate increase for all Social Development Programmes, totalling just over MR$ 2 billion, is only about one-tenth the increase in the revised allocation for development to the States and Multi-State purposes referred to above. The emphasis remains on project based development spending.

The Mid Term Review does specifically acknowledge the need for corrective measures in relation to poverty redress and income distribution worsened by the crisis but only in rather bland terms. It promised that:

> …primary attention will be paid to extending social programmes, particularly the provision of basic services and amenities to reduce the possible negative effects of the economic slowdown on the poor and low-income group.[16]

The incidence of poverty outlined in the MTR shows steady declines across all areas including hardcore rates, urban and rural rates in both real and percentage terms. The overall incidence (including non-citizens) fell from 9.6% to 6.8% over the review period with hardcore poverty (estimated at half the poverty baseline) falling from 2.2% to 1.4%. However it was noted that non-citizens comprised 15% of the total poor in 1997 sharply up from 11% in 1995. No doubt many of this category include immigrant workers who were the most deeply affected. The issue of reliability of data also arises, particularly in relation to non-citizens as indeterminate numbers are residing and working illegally which is no basis for accuracy. Furthermore, mixed within the non-citizen component are affluent expatriate professionals, which may distort the picture. One must also anticipate the data may look relatively benign as mass round-ups of illegal immigrant workers and their families lead to large numbers of deportations. These were the people who bore the brunt of the crisis.

With respect to hardcore poverty, the MTR estimated that overall it fell from 2.2% to 1.4% over the review period and that it was estimated to fall even further to 0.5% by 2000. Recently, after the inaugural meeting of the Cabinet Task Force on Rural Development, the Deputy Prime Minister announced that the remaining 70 000 households would be lifted out of this category with the provision of low-cost housing and an economic starter in the form of shares in the government trust fund.[17] The MTR has, indeed, almost doubled the Seventh Malaysia Plan's allocation for low-cost housing, and provision for the share scheme has also been revised upwards.

The share scheme referred to is the Amanah Saham Bumiputra (ASB)-PPRT loan scheme specifically designed for *bumiputras* only. The conditions of the scheme were reviewed and a four-year grace period for loan repayment introduced. The hardcore poor participating in the scheme each receive a MR$ 5 000 interest-free loan to participate in the ASB scheme which entitles shareholders to annual dividends and bonuses, usually at quite a premium to more general market rates. The MTR allocated a further MR$ 100 million specifically for the Orang Asli indigenous people. Efforts will focus on the Program Pembangunan Masyarakat Setempat involving 11 villages across 10 Peninsular districts. This scheme intends to integrate all PPRT income-generating projects and new housing provision, attitudinal change programme, direct welfare assistance and basic amenities supply. To provide ongoing sources of income the Government is encouraging the Orang Asli community to venture further into commercial agriculture, particularly oil palm cultivation. Generally, diversification into oil palm cultivation has been strategic since the decline of the local currency forced import substitution raising the demand and international pricing of the commodity.

Though rural based development agencies such as the Federal Land Development Authority (FELDA) and the Rubber Industry Smallholder Development Authority (RISDA) were exhorted to intensify their efforts towards eradicating hardcore poverty, particularly in the poorer states of the Federation, no new allocations were provided in the MTR. In addition to the (ASB)-PPRT scheme, the MTR has also provided additional funding to NGOs, in particular Amanah Ikhtiar Malaysia (AIM). In the review period the Government had provided the AIM with an interest-free loan of MR$ 200 million primarily so that the AIM could expand its activities of providing interest-free loans to the hardcore poor into Sabah and Sarawak. The MTR revised up this allocation to AIM by a further RM$ 100 million. Recognising the need for further rural assistance the MRT also increased provision by MR$ 200 million for rural infrastructure facilities such as schools, clinics, water and electricity supply.

For the urban poor, the MTR also provided an additional RM$ 200 million for a micro-credit programme enabling loan assistance to petty traders and hawkers in urban areas. Much of this allocation will be channelled to the foundation Yayasan Tabung Ekonomi Kumpulan Niaga, which will manage the fund. The MTR emphasises that:

> …the implementation mechanism for urban poverty redress will be strengthened so as to ensure that related programmes by various local authorities, state religious councils and non-governmental organisations are properly co-ordinated to ensure greater impact (1999, p. 86).

The Central Government views hardcore poverty as highly manageable and seems optimistic that even the economic crisis has not derailed its aspirations to eradicate this problem by the close of the millennium. Though some additional financing was directed to the area subsequent to the crisis, the amounts in relation to general development expenditure do not appear to be substantial. Generally the Central Government does not concede that any massive boost in social sector spending is necessary. Indeed, the Deputy Prime Minister, Abdullah Ahmad Badawi recently announced to Federal Parliament that the World Bank had actually offered Malaysia USD 435 million in loans for the social sector but the Government only wanted USD 60 million. Badawi did however on this occasion confirm that Malaysia had accepted the offered loan facility of USD 276 million for the education sector and a further USD 100 million for the Y2K problem.[18]

Education and training, and in particular training in the field of information technology, has been a major national priority for some years. The Prime Minister recognised in his Forward to the MTR:

> …the importance of human resources in the push for productivity-led economic growth, the supply of skilled manpower will be increased, access to education and training facilities improved and labour market mechanisms strengthened (1999, p. x).

Translated into financial priorities and allocations the MTR increased provision for Education and Training from MR$ 9.9 billion substantially up to MR$ 15.9 billion. As a proportion of the entire Development Allocation this represents an increase from 14.8% to 17.8%.[19] This suggests that the priority attached to education has increased since the crisis.

In a situation of marshalling scarcer resources, the post-crisis climate has emphasised issues of co-ordination as well as those of prioritising, with a greater emphasis on the avoidance of duplication and disparity. The shift to more integrated schemes for poverty eradication suggests a change in administrative style. Nevertheless, the focus remains on rapid economic development, and the main priority in social policy is to facilitate this.

The very style of assistance seeks to encourage entrepreneurship even at the most elementary level of assistance. The loan schemes very much emphasise the need for individuals and communities alike to participate in the market economy. Even the poorest of the poor should become shareholders in Malaysia Inc. As these schemes are largely ethnically defined and based, their ethnic and communal tones remain inescapable.

Conclusions

Governance in Malaysia is in the firm grip of a political leadership derived from its control of the dominant UMNO, the core of the ruling multi-party coalition, and the formal institutions of rule. This political centre has become more dominant in relation to the states of the federation. This provides the political leadership with a firm basis to embark on grand and visionary policy exploration towards the restructuring of a multi-ethnic society within which economic growth is central. In this scheme of things a healthy, rapidly expanding and vibrant private sector driven economy is the ultimate social safety net. Not surprisingly, the need for a social safety net regime *per se* is not

seen as a priority on the policy agenda. Access to basic but scarce resources, an acceptable quality of life, and equity seems to be significantly determined by ethnic and to a lesser degree regional considerations.

The efficacy of the infrastructure of governance in Malaysia is now being tested by challenges generated by the current crisis. Economically, socially and politically, it has not been as adversely affected as most other countries in the region. The institutional framework of governance was not directly challenged by the consequences of the July 1997 economic crisis. Nor did Malaysia experience the severe consequences of the pervasive social dislocation experienced elsewhere. The 'robust' policy response, having settled the divergences and turmoil within the political leadership, is directed at protecting the gains achieved under the NEP and propelling the nation towards the goals of Vision 2020. On the economic front the policy response has been one of state-sponsored intervention to sustain private sector activities, while public/social policy has sought to ameliorate the impact of the crisis at the individual and group levels with an *ad hoc* bundle of concessions and relief. It would seem that the immigrant population, particularly the illegal immigrants, bore the brunt of the consequences of the economic crisis. Political leadership, patronage, ethnicity and regionalism, and the habits of centralisation continue to structure the nature and content of policy responses.

Notes

1. For a discussion on Centre-State financial relations see Shafruddin, 1987, Chapter 2.
2. For a discussion see, Shafruddin, 1987, Chapter 3.
3. *Far Eastern Economic Review (FEER)*, 9 October 1997, p.12.
4. For a discussion see Shafruddin (1991), Chapters 4-6.
5. The United Malays National Organisation (UMNO) led the Barisonal Nasional (BN) multi-party coalition (originally The Alliance), which dominated and continues to dominate the political process.
6. *The Straits Times (TST)*, 8 May 1999.
7. *Mid Term Review of the Seventh Malaysia Development Plan (MTR)*, Table 5-2, p. 139.
8. TST, 23 April 1999
9. *The Sunday Times*, 25 April 1999. Daim declared that the crisis set Malaysia back 5 years.
10. The former Finance Minister (1984-1991) and executive director of the National Economic Action Council (NEAC) set up in November 1997 to respond to the financial crisis
11. *FEER*, 19 February 1998, p. 15.
12. *The Way Forward* and *A New Deal for Asia*.
13. *FEER*, 2 July 1998, p. 17.
14. Excerpted from Mahathir Mohamad, *A New Deal For Asia*, and quoted in *The Sunday Times*, 30 May 1999, p. 44.
15. *MTR*, Table 12-4, p. 373.
16. MTR, p. 61.
17. Kuala Lumpur aims to wipe out hardcore poverty by year 2000. *TST*, 7 May 1999, p. 41.
18. *TST*, 8 April 1999.
19. *The Star*, 28 April 1999. An additional RM$226 million was allocated for public sector expenditure.

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GOVERNANCE AND SOCIAL SAFETY NETS IN THE PHILIPPINES

R. J. May

Introduction

In the 1950s the Philippines was one of the best performing of the Asian economies. By the early 1980s, it was – largely due to the excesses and economic mis-management of the Marcos regime – on most economic and social indices one of the worst performing. President Marcos was removed from office in the People Power Revolution of 1986. The incoming administration, headed by President Corazon Aquino, secured the enactment of a new constitution, intended to give expression to 'people power', and set about an ambitious programme of social and economic adjustment which placed emphasis on agrarian reform, labour-intensive employment generation, improved education, and poverty alleviation. In 1986 and 1987 GNP growth rates, which had averaged 5.6% between 1966 and 1980 but fallen to -1.9% over the period 1981-1985, recovered, to a healthy 5.7% in 1987, averaging 5.5% from 1986-1989. But political instability (primarily a series of attempted *kudeta* by rebel military factions) and several natural calamities (including a major earthquake in northern Luzon in 1990, a particularly severe typhoon in the Visayas, and the eruption of Mt Pinatubo in 1991, which contributed to a continuing power shortage), resulted in a renewed decline in GNP growth, which fell below 1% in 1991.

Following a change of presidency in 1992, there has been a steady improvement in economic performance (CDP growth rising from 2.1% in 1993 to 5.8% in 1996), accompanied by an overarching policy of economic liberalisation. Gains in per capita income, however, have been limited by the Philippines' population growth rate of around 2.3% per annum, one of the highest in Asia. While the Philippines did not escape the effects of the Asian financial crisis of 1997-98 – which were compounded by an El Niño related drought – it weathered the downturn better than some of its previously faster-growing neighbours, and

appears to be making an early recovery (with CDP growth forecast at 4.7-5.3 for 1999-2004).

The post-Marcos governments of the Philippines inherited not only a poorly performing economy but also serious problems of income distribution and poverty, exacerbated by internal armed conflict and natural calamities, and a generally low level of institutional capability. These problems were reflected in the policy agenda of the Aquino administration, and the objectives of social equity, poverty alleviation and people empowerment were highlighted in the *Philippines 2000* vision of President Aquino's successor, Fidel Ramos, and spelt out in the Ramos administration's Social Reform Agenda of 1994. In the field of poverty alleviation, the stated objectives of *Philippines 2000* were to reduce the incidence of poverty (currently defined as an annual per capita income of 11 000 pesos [USD 289]) from 39.9% of the population in 1991 to 30.0% in 1998 and to raise per capita incomes to at least USD 1 000. In pursuit of their policy goals the Aquino, Ramos and (since 1998) Estrada administrations have initiated a plethora of programmes and projects, which involve the participation of NGOs, people's organisations (POs), the private sector generally, and overseas donors and institutions. This paper, after outlining the structures of governance within which policies are pursued, provides an overview of the major policy initiatives relevant to the provision of social safety nets, and, within the limits of the data available, looks at the effectiveness of institutional structures and policies to date.

Structures of governance

The Republic of the Philippines is a unitary, democratic country, with four levels of government: national, provincial, municipal and communal *(barangay)*. 'Highly urbanised cities' (*i.e.* cities with a minimum population of 200 000 and a specified minimum income) rank alongside provinces, while smaller 'component cities' are equivalent to municipalities. The constitution also makes special provision for autonomous regions in Muslim Mindanao and the Cordilleras (the latter region containing a large proportion on the country's 'cultural communities'). All units of government below the national are referred to in the Philippines as 'local government units' (LGUs). There is also a structure of administrative regions.

In the early years after independence in 1946, a measure of formal decentralisation was introduced with the passage of the *Local Autonomy Act*, the *Decentralisation Act* and other legislation, but while decentralisation generally enhanced the roles of local elite, governance remained centralised. LGUs were supervised through the Office of the President and, as well as exercising some local functions, acted as agents of the national government in the provision of

services and implementation of national policies. During the Marcos regime (1966-1986) there was a nominal commitment to decentralisation. The 'martial law constitution' of 1973 'guaranteed and promoted' the autonomy of LGUs; a system of 'barangay democracy' was introduced by presidential decree; and a Local Government Code was enacted in 1983. In practice, even though the Philippine State remained fairly weak, government was centralised and political patronage networks were used to ensure the compliance of local officials.

Following the People Power Revolution of 1986, the drafting of a new Local Government Code commenced, with a view to substantively recognising people empowerment. The new Code was enacted in 1991. The Local Government Code of 1991 provided for a substantial decentralisation of responsibility for the delivery of basic services in health, education, social welfare, agriculture, public works, and environment and natural resources, with a corresponding increase in the allocation of funds to LGUs. LGUs were also given additional regulatory and licensing powers. In line with its commitment to 'people empowerment' the new Code also provided for enhanced participation in local governance by NGOs and POs and the private sector generally. Amendments to the Code in 1995 strengthened the decentralisation of the system.

The national government

At the national level, the government of the Republic of the Philippines is presidential, with a popularly elected president and vice president, and a bicameral legislature. The presidency is restricted to a single six-year term. The president, as chief executive, has control of all departments, bureaux and offices, and, subject to the approval of a congressional Commission on Appointments, appoints heads of departments and senior service officers. He/she is assisted by an appointed cabinet. The president must sign all legislation into law, though legislation vetoed by the president may become law if supported by a two-thirds vote in both houses. The president also has the power to veto particular items in appropriation, revenue and tariff bills.

The Congress comprises a 24-member Senate, elected on a national franchise, and a House of Representatives, of not more than 250 members. Of the latter, most are elected from roughly equally sized electoral districts, but 20% of seats are reserved for members elected through a party-list system of registered national, regional, and sectoral parties or organisations.[1] As in any presidential system, tensions between the executive and the legislature may pose an obstacle to the enactment of policy programmes (as was the case, to some extent, during the Aquino presidency). However, with weak political parties, and personality and local loyalty factors important in the election of members, patronage plays

an important part in national politics in the Philippines (progressive Filipinos often refer to their political system as one of 'elite democracy'), and the president can exercise a strong role in policy formulation. Since at least 1995 there have been generally harmonious relations between the executive and the legislature.

At present there are twenty-one departments. Those most closely involved in the provision of a social safety net are the departments of Social Welfare and Development (DSWD) [headed by the then vice president, Gloria Macapagal – Arroyo], Health (DOH), Education, Culture and Sports (DECS), Labour and Employment (DOLE), and Agrarian Reform (DAR).

The provinces

The Philippines is divided into 78 provinces. Each province is headed by an elected governor and vice governor and has a legislature *(Sangguniang Panlalawigan) composed* of elected members from the province's municipalities and component cities, the president of the provincial barangay federation, the president of the provincial youth federation, and three sectoral representatives (for women, industrial and agricultural workers, and other sectors [indigenous cultural communities, the poor, the disabled]). While the vice-governor presides over the *Sangguniang, the* governor appoints all officials and employees whose salaries derive from provincial funds. Under the Local Government Code of 1991 the provincial governor has become a person of significant power and authority, and an important link between the national government and the municipalities.

Municipalities

Below the provincial level are municipalities. There are 1543 municipalities, whose function, as defined by the Local Government Code of 1991, is to serve 'primarily as a general purpose government for the co-ordination and delivery of basic, regular and direct services and effective governance of the inhabitants within its territorial jurisdiction'.

Mirroring arrangements at the provincial level, each municipality is headed by an elected mayor and vice-mayor, and has its own legislature *(Sangguniang Bayan).* The *Sangguniang is* composed of elected members from the municipality's barangays, the presidents of the municipal league of barangays and youth federation, and three sectoral representatives. The vice mayor presides over the *Sangguniang* while the mayor exercises 'general supervision and control over all programmes, projects, services, and activities of the

municipal government'. Although 'responsible to the sangguniang bayan for the programme of government', the mayor has always been a powerful local figure in Philippines politics, and the Local Government Code of 1991 gives the municipality, and its chief executive, extensive powers.

Cities

As noted, there are two categories of city: highly urbanised cities and component cities. Both are described, like municipalities, as serving 'as a general purpose government'. Each city is headed by an elected mayor and vice mayor; the latter presides over a legislative assembly, the *Sangguniang Panlungsod*, whose composition mirrors those of other local assemblies. The mayor, as chief executive, has powers parallel to those of other chief executives of LCUs. There are 65 highly urbanised cities. These are independent of provincial authority and exercise equivalent functions and responsibilities. Component cities (of which there is a large number) come under the supervision of the province. They are more urbanised than municipalities, but are similar to municipalities in structure and function.

Barangay

The barangay is the basic political (and historical) unit in the Philippines system. It is essentially a local community (of at least 2 000 people, or 5 000 in 'highly urbanised cities', though special provisions may be made in indigenous cultural communities). In the words of the Local Government Code of 1991, 'the barangay serves as the primary planning and implementing unit of government policies, plans, programmes, projects, and activities in the community, and as a forum wherein the collective views of the people may be expressed, crystallised and considered, and where disputes may be amicably settled'. There are around 45 000 barangays for the Philippines' population of 74 million.

The chief executive of the basic unit is the *punong barangay*, and each barangay has a legislative body *(sangguniang barangay)* comprising the punong barangay, seven elected members and the chair of the local youth organisation. The Local Government Code also provides for a barangay assembly, composed of all residents of the barangay aged over fourteen years, which is required to meet at least twice per year to consider semestral reports of the sangguniang and discuss problems affecting the barangay. The assembly may also initiate legislation. Formal provision is also made for local dispute settlement.

Autonomous regions and the NCR

The Philippines constitution of 1986 provided that autonomous regions be created in two parts of the country which had been subject to local insurgencies. These are Muslim Mindanao (defined in terms of the thirteen provinces and nine cities which the Moro National Liberation Front (MNLF) had claimed as the traditional Muslim homeland (Bangsa Morol) and the Cordilleras (defined in terms of five provinces and one city of northern Luzon which contained a substantial proportion of indigenous cultural communities). Each autonomous region was to have legislative powers in a range of areas (including ancestral domain, family and property relations, regional planning, economic and social development, and education), under the general supervision of the president.

Two Autonomous Regions had been set up in Muslim Mindanao during the Marcos regime, following the Tripoli Agreement of 1977, butt as a result of the plebiscite associated with their establishment, only a small part of the area claimed by the MNLF voted to become autonomous. As a result of continued migration into Mindanao, there were, by the 1970s, only five provinces that had a Muslim majority. The MNLF, which had opposed the plebiscite and boycotted the subsequent elections, consequently rejected the autonomous regional government, which were thus never effective. Despite the good intentions of President Aquino, this story was repeated in 1987 when a new Autonomous Region of Muslim Mindanao was established. In 1996 bilateral negotiations between the Philippines government and MNLF chair Misuari resulted in the creation of a Southern Philippines Council for Peace and Development (SPCPD) and a Special Zone of Peace and Development (SZOPAD) covering the (now) fourteen provinces and the cities earlier included in the Bangsa Moro. Misuari, having returned to the Philippines, was appointed to chair the SPCP1) and was subsequently elected governor of the ARMM. However, a new plebiscite is due to be held in 1999, and with a widespread feeling in Muslim Mindanao that the ARMM/SPCD arrangements have done little to improve conditions in what is one of the poorest parts of the Philippines, the pattern established in 1977 and 1987 seems likely to be repeated.

In the Cordilleras, too, a plebiscite in 1990 was rejected in four of the five provinces, and a further plebiscite in 1998 produced a similar result. Instead, a Cordilleras Administrative Region has been established, with limited autonomy.

The National Capital Region (NCR), Metro Manila, comprises eight highly urbanised cities and nine municipalities. During the later years of the Marcos presidency, Imelda Marcos presided over Metro Manila as governor and head of a Metro Manila Commission. Authority has since been restored to the mayors of the constituent LGUs, but a public corporation, the Metro Manila Development

Authority (MMDA), 'performs planning, monitoring and co-ordinative functions and in the process exercises regulatory and supervisory authority over the delivery of metro-wide services within Metro Manila'. The NIMDA is directed by a council comprising the constituent city and municipal mayors and the presidents of the Manila leagues of vice mayors and councillors, and is headed by a governor, appointed by the president, who holds cabinet rank.

Administrative regions

In addition to these political divisions, the Philippines has twelve administrative regions (Regions I to XII), which are used as the basis for policy planning and implementation in a wide variety of contexts. The NCR, the ARMM, the CAR and a newly created CARAGA Region in eastern Mindanao, are also used as administrative planning regions. National government departments usually maintain an office in each region.

Popular participation in governance

The Philippines has a vibrant civil society and a vast array of NGOs and POs, many of them associated with the (Catholic) church or the left-wing National Democratic Front. These flourished even under martial law; after 1986 they proliferated in the context of people empowerment (even though many are small and transient). At all levels of local government the appropriate level of youth organisation and three sectoral representatives are included in the local *sangguniang.* Local development councils exist at all levels of local government and formulate, co-ordinate and monitor local development plans and projects. They are mandated to draw 25% of their membership from NGOs and POs. NGOs, POs and sectoral representatives are also represented on the relevant pre-qualification, bids and awards committee, and local school boards, health boards, and peace and order councils.

A 1996 rapid field appraisal of decentralisation reported 'a positive trend towards more popular participation in local governance', amongst other things through spontaneous *ad hoc* mechanisms. Other field surveys have suggested that provisions for representation of accredited NGOs and POs have not always been activated, that local development councils and other special bodies are often ineffective, and that local youth councils are frequently dominated by the children of the political elite (see Turner 1999). Popular consultation played a major role in the formulation of the SRA, and NGOs and POs are actively engaged in its implementation and evolution (though it is interesting that a 1996 World Bank study [Subbarao *et al.* 1996: 40, 47] found that livelihood and

credit programmes administered by the DSWD were often more effective than those administered through NGOs).

Supervising and financing local government

Authority to exercise 'general supervision' over LGUs resides with the president, but is delegated through the Department of Interior and Local Government (DILG). The mission of DILG as described in 1994 is: "To promote peace and order, ensure public safety, strengthen local government capability and institutionalise people empowerment to establish peaceful self-reliant and progressive communities within a just social order."

All LGUs have exclusive powers to raise revenue from specified taxes, fees and charges. Provinces may levy taxes on property transfers and on specified business operations; municipalities are allocated taxes on a different list of businesses; barangays also may tax a specified range of (smaller) business operations and may levy a community tax based on individual incomes. All may charge for services provided. LGUs may also raise loans, accept ODA, and participate in certain joint-venture business operations. The larger part of LGU funding (currently around 60%), however, comes from unconditional block grants from the national government. Through an Internal Revenue Allotment (IRA), LGUs receive 40% of specified national taxes (the Local Government Code of 1991 doubled the LGUs' share from 20%). In 1999 this amounted to around USD 2.5 billion. Of the total allotment to LGUs, provinces receive 23%, municipalities 34%, cities 23%, and barangays 20%. In view of the new allocation of governmental responsibilities, the 1991 Code increased the share going to barangays.

Each LGU's allocation is based on population (50%) and land area (25%); 25% is shared equally. This rather crude formula has been criticised for failing to adequately reflect the particular needs and capacities of LGUs, especially since, it is claimed (contrary to the views of most LGUs), the amount transferred to LGUs substantially exceeds the cost of devolved functions. LGUs also receive a 40% share of 'National Wealth' (consisting of revenue of mining, forestry and fisheries); this is allocated to provinces (20%), component cities (45%) and barangays (35%). Special purpose funds may also be paid to LGUs from a National Assistance to Local Government Units (NALGU) fund, usually, it seems, at the expense of payments from the IRA. (In 1999 DILG Secretary Ronaldo Puno was being sued by the president of the League of Provinces over restrictive conditions placed on the use of (IRA-financed) development funds by the DILG.)

The exploitation of taxable capacity is a longstanding problem in the Philippines and, it seems, one that occurs at local as well as national level. LGUs have been accused of not being 'innovative' in their approach to revenue raising. There have also been complaints from LGUs that national departments and agencies have developed programmes, nationally, for LGU implementation, without adequate financial support ('unfunded mandates'), and that the national government has sometimes withheld IRA allocations. In December 1998 the president issued an executive order establishing a Programme for Devolution Adjustment and Equalisation to address 'the current shortfalls encountered by LGUs in the implementation of devolution-related programmes, projects and activities'; to establish 'a fund allocation system and equitable distribution schemes' to cover the cost of devolution, and to set up a 'performance incentives system and counterpart schemes for LCUs to enhance their devolved functions and services'. In 1999 the World Bank contributed USD 100 million to LGUs in the Philippines, through a Local Government Finance and Development Project, to improve the capacity and capability of LGUs.

Identifying the needy

In a comprehensive study of poverty in the Philippines, Arsenio Balasacan concluded:

> The majority of the poor are in rural areas and households whose incomes are derived mainly from agriculture are among the poorest. Urban poverty is partly a spill-over of low household incomes and poverty in rural areas where extreme poverty encourages migration to urban areas.... The rural poor tend to belong to relatively young age groups, have a large family and low educational attainment. Moreover, the poor families in agriculture are characterised by a high level of underemployment, an inadequate access to or use of modern technology (partly because of lack of access to credit), a high dependence on incomes in agriculture and little access to social services, including health care and family planning services (Balisacan 1992: 125 140).[2]

The high level of underemployment in agriculture is a reflection of small farm size and often unfavourable location. Balisacan's emphasis on the rural genesis of poverty, however, does not deny the very visible incidence of urban poverty and the need for social safety nets in urban areas.

In recent policy discussion in the Philippines, the target groups for anti-poverty measures are identified in terms of 'Basic Sectors' – farmers, fisherfolk, urban poor, indigenous peoples, youth, students, the elderly, the disabled, victims of disasters. Not all of those in each of these categories, however, would qualify as 'the poorest of the poor', and, of course, these categories overlap.

In setting an overall target for poverty reduction, the Ramos administration sought to reduce the absolute level of poverty (defined in terms of the percentage of the national population below a given income – in 1999 11 000 pesos) from 39.9% in 1991 to 30.0% by 1998. Subsequently, attempts have been made to integrate non-income indicators (including minimum basic needs [MBN], human development [HDI], and sustainable development measures) into the poverty measurement. The 'Philippine MBN Approach' provides a checklist of 33 indicators covering survival needs (health, nutrition, water and sanitation, and clothing), security needs (income and livelihood, shelter, peace and order/public safety), and 'enabling needs' (basic education and functional literacy, participation in community affairs, and family psycho-social care). Beginning in 1995 provinces and cities were asked to disaggregate their poverty incidence targets to local levels. The SRA lead convenor reported in 1998 that, 'Tighter targeting mechanisms are being studied to enable government to track actual poverty levels across geographic areas and over time, and to make decision-making more responsive to the needs of the poor.... The challenge for LGUs is to identify and segment the basic sectors who represent the poor in their localities in order to formulate and implement more basic programmes' (Social Reform Council 1998: 595-96). Using the MBN checklist, barangay volunteers survey all households in their area. This provides the basis for a MBN Community-Based Information System, which is used as a basis for future planning and action.

Lacking more disaggregated data, Table 1 shows poverty incidence by region, giving some indication of the variation in poverty across the country.

Poverty, of course, is not the only indicator of the need for a social safety net. Victims of disasters and calamities are specifically recognised under the SRA. Apart from recent earthquakes and the eruption of Mt Pinatubo, the Philippines is susceptible to typhoons (the islands experience, on average, around twenty typhoons per year), and to the effects of El Niño induced droughts and La Niña related floods; the impacts of such natural disasters tend to fall most heavily – but not exclusively – on poor communities.[3]

Armed conflict between the Armed Forces of the Philippines (AFP) and the Leftist New People's Army, and between the AFP and the Muslim separatist insurgents have also resulted in the displacement of large numbers of people,

particularly within the ARMM. In the first seven weeks of 1999 alone, 27 600 families (around 138 000 people) were reportedly displaced by armed conflict (this compares with a total number for 1997 of 20 470). In general, insurgency has tended to be a more serious problem in areas where land ownership is concentrated, and the number of landless rural workers and small farmers is consequentially high. The Philippines government, together with international organisations, has also provided assistance to former MNLF guerrillas through its Emergency Livelihood Assistance Programme (ELAP) and its Technical Skills and Development Authority.

A third group, overseas Filipino workers (OFWs) are unlikely to show up in measures of poverty, but OFWs experiencing difficulties overseas, or on their return to the Philippines, have been the subject of a number of specifically targeted welfare measures, notably through the Overseas Workers Welfare Administration (see, for example, May and Mathews 1998).

Table 1: **Poverty incidence by administrative region, standardised**

Philippines	100
NCR	5
Region I	100
II	123
III	58
IV	69
V	152
VI	98
VII	144
VIII	178
IX	152
X	162
XI	108
XIII	148

Source: Balisacan 1998: Table 4, standardised.

Establishing social safety nets

The Philippines has not adopted a formal 'social safety net' programme, but successive governments have specifically committed themselves to poverty alleviation and social justice. Following the overthrow of the Marcos regime, the government of President Corazon Aquino took office with a strong commitment to 'people empowerment' and social and economic reform, directed in large part at poverty alleviation. In the new constitution of 1986, Sec. 9 of the 'Declaration of Principles and State Policies' (Art II) declared:

> The state shall promote a just and dynamic social order that will … free the people from poverty through policies that provide adequate social services, promote full employment, a rising standard of living, and an improved quality of life for all.

The Aquino administration's Medium Term Development Plan 1987-1992 defined the government's objectives as: elimination of structures of privilege and monopolisation of the economy; decentralisation of power and decision-making, and reduction of unemployment and mass poverty, especially in rural areas. Major initiatives of the Aquino administration included its ambitious Comprehensive Agrarian Reform Law of 1988, the Local Government Code of 1991, and the Urban Development and Housing Act of 1992. In addition, a 'Programme to Refocus Orientation on the Poor' (PRO-Poor), targeted at the Lowest Income Municipalities, sought to prioritise the poor (otherwise referred to as the 'Basic Sectors') in the provision of government services, particularly social services. Over the period 1986-1989 real national government expenditure on social services rose at an average annual rate of 10%, compared with an average annual rate of 3% in 1980-1985. At the end of President Aquino's term, however, there was a general feeling that achievements in addressing the major social and economic problems inherited from the Marcos regime were limited.

Aquino's successor, President Fidel Ramos, continued to pursue the goals set by President Aquino. In his first State of the Nation address in mid-1992 Ramos announced that he would combat poverty through: improved delivery of basic social services; better access to productive assets, livelihood and other economic opportunities; and capability building for communities and POs to enable them to participate more effectively in local development and governance. A Presidential Commission to Fight Poverty (PCFP) was established to co-ordinate the government's poverty alleviation initiatives, and to formulate a National Strategy to Fight Poverty, employing a minimum basic needs approach. At about the same time, a Presidential Council for Countryside Development (PCCD) was created by executive order. Twenty of the poorest provinces (subsequently referred to as 'Club 20') were prioritised for specific programmes to 'improve their human development indices, encourage entrepreneurship and investments, facilitate delivery of basic services and accelerate installation of support infrastructure' (Social Reform Council 1998: 590).

In June 1994, after an extensive process of public consultation the government adopted the Social Reform Agenda (SRA), aimed in large part at 'putting the marginalised Basic Sectors back in the centre of human development'. Shortly after this, during a Social Reform Summit, a Social Reform Council (SRC) was

established under an executive order to act as 'the SRA's policy-making body' (*ibid*.: 591). The SRC was chaired by the president and included relevant cabinet secretaries and Basic Sector representatives. Eighteen months later, in March 1996, a second summit, the National Anti-Poverty Summit, brought together public servants from national and local levels, members of Congress, and representatives from the business sector, NGOs, and Basic Sectors to discuss the substance and direction of the government's anti-poverty policies. As an outcome of this, to the objectives of social equity, economic prosperity, and democratised governance ('responsible and responsive governance by democratising structures and processes to allow meaningful participation of key stakeholders in policy- and decision-making'), was added an environmental dimension: ecological security through sustainable development. The 'enhanced SRA' was renamed the Integrated National Action Agenda on AntiPoverty (INAAAP).

Within the framework of the SRA, the Ramos administration identified nine 'flagship programmes', in the fields of: Agricultural Development; Fisheries and Aquatic Resource Protection and Management; Recognition, Respect and Protection of Ancestral Domains for Indigenous Peoples; Socialised Housing; Workers Welfare and Protection; Comprehensive and Integrated Delivery of Social Services; Livelihood; Expansion of Credit; and Institution-Building and Effective Participation in Governance. Each of these served, in effect, as an umbrella for a variety of existing and newly created programmes.

The Flagship Programme on Agricultural Development was aimed at empowering farmers and landless rural workers by securing ownership or access to land and providing support services for higher productivity, ecologically sound farming practices, and the organisation of co-operatives. A major component of this programme is the Comprehensive Agrarian Reform Programme (CARP) established under the 1988 legislation of the Aquino administration.

The Flagship Programme on Fisheries and Aquatic Resource Protection and Management sought to raise the income and productivity of small and marginalised fisherfolk – a group particularly vulnerable to natural disasters (including pollution) and to competition from large commercial operations; to promote sustainable aquatic development, and to increase fisherfolk participation in policy-making (the latter has included the deputising of small fisherfolk as fish wardens).

The Flagship Programme on Recognition, Respect and Protection of Ancestral Domains for Indigenous Peoples covers an estimated 12 million 'indigenous peoples and migrant dwellers in upland ecosystems'. A significant element of

this programme is the system of registering ancestral domain claims, through the Department of Environment and Natural Resources (DENR). By 1997, 117 Certificates of Ancestral Domain Claim had been issued under this scheme, covering some 49 400 beneficiaries and 1.6 million hectares; by June 1998 the area covered had risen to 2.5 million hectares. The recognition of ancestral domain claims has been complemented by several programmes designed to support integrated social forestry and upland agriculture among indigenous communities. Another significant element of this programme was the enactment in 1997 of the *Indigenous Peoples Rights Act*, which, amongst other provisions, recognises the ancestral land rights of indigenous people; this legislation is currently being challenged in the Supreme Court following a petition from the mining industry.

The Flagship Programme on Socialised Housing builds on reforms instituted during the Aquino administration, which sought to provide a policy framework for a 'comprehensive and continuing urban development and housing programme envisioned to prioritise the provision of decent housing to the poorest of the poor', through public housing and home lending for low-income households. In 1992 it was estimated that there was a deficit of 3.7 million housing units in a population approaching 70 million. Under the Urban Development and Housing Act of 1992 more than 55 000 households had been provided with resettlement sites, and some 943 000 housing units had been constructed by the end of 1997. Under an enhanced National Shelter Programme local government units were encouraged to involve themselves in housing projects, targeting the lowest 30% of income earners. Among a number of local programmes within this umbrella programme have been the Smokey Mountain Development and Reclamation Project (under which Manila's notorious waste dump has been converted to commercial, industrial and residential use, with the relocation to public housing of almost 3 000 squatters who previously lived by scavenging at Smokey Mountain) and the Pasig River Rehabilitation and Squatter Relocation Project (under which, in association with the cleaning up of Manila's major waterway, some 17 000 mostly urban poor families located along the Pasig and its tributaries and subject to regular flooding have been relocated). Other significant measures have included the decriminalising of penalties for squatting, and consultation with urban poor groups on issues of urban demolition (though such measures have not prevented forcible 'slum clearance').

The Flagship Programme on Workers Welfare and Protection specifically targets workers in small-scale enterprises, labour-intensive work, and sub-contracting, particularly in the informal sector. It covers wages, working conditions, job security, and safety. A Work and Technology Improvement in Small Enterprises (WISE) programme also provides awareness-raising seminars

and training in entrepreneurship, which is supplemented by a Project on Business Counselling and Alternative Credit aimed at (prospective) entrepreneurs, farm workers and displaced industrial workers.

The Flagship Programme on Comprehensive and Integrated Delivery of Social Services (CIDSS) was described in 1998 as 'government's main mechanism in responding to the unmet minimum basic needs (MBNs) of poor families and communities nation-wide, using innovative approaches such as community organisation, focused targeting, convergence of services and total family approach .... [and] directed at consolidating and strengthening community-based structures and inter-agency co-ordination towards accelerated access to basic services by the sectors'. The DSWD is the principal implementing agency but the programme also involves the DOH, DECS, DILG, LGUs and the Basic Sectors. Subjects identified for particular attention within this programme have included minimum health and nutritional needs of the Basic Sectors in SRA convergence areas [see below] (in part through the Doctors to the Barrios Programme), community-based health awareness campaigns, and community-based non-formal education projects in rural and urban poor communities.

The Flagship Programme on Livelihood sought to improve employment and livelihood opportunities in poor communities through the provision of income generating activities for poor and marginal groups, promoted through labour - intensive public works programmes, credit and loan guarantees, and training programmes. Subbarao *et al.* (1996: 37) comment that, 'During both the Aquino and Ramos administrations, livelihood programmes became the cornerstone of provincial poverty alleviation schemes'. Under the PCFP, livelihood programmes were seen as 'the principal means of eradicating poverty in the poorest provinces'. *Kabuhayan* centres (for the co-ordination of employment-creating public works and livelihood projects) had been established in all regions by 1997, with an additional 1 613 centres in selected provinces, cities and municipalities.

The Flagship Programme on the Expansion of Credit seeks to address the specific financial needs of the poor, primarily through specialised microfinance arranged through the Credit for the Poor Programme and training in credit management. In the early 1990s credit ostensibly for livelihood programmes was administered primarily through NGOs. In 1994 some 17 000 NGOs, mostly small and highly localised, were registered with the Security and Exchange Commission for this purpose. A People's Credit and Finance Corporation (PCFC) has been the principal agency for extending credit to the poor, providing some P 704 million to almost 70 000 borrowers up to early 1998, much of this through a Grameen Bank Replication Programme. (The 'Grameen bank replicators' have been supported by a Rural Micro-Enterprise Finance

Project, funded by the ADB and IFAD.) This financing is additional to lending to some 140 000 co-operatives of farmers, fisherfolk and urban poor by the government's Land Bank, and a number of targeted credit programmes through national government departments and agencies. [In 1998 the National Credit Council, in the course of a rationalisation programme, identified 110 separate government credit programmes. In 1999 President Estrada announced that the government would set up a Poor People's Bank in every province.]

The Flagship Programme on Institution-Building and Effective Participation in Governance is aimed at improving the capabilities of LGUs, NGOs and POs to participate in government, through training and technical assistance. Sixty-nine university-linked institutes for local government administration are associated with the programme.

Under the SRA/INAAAP, the primary responsibility for poverty reduction resides with local government units (LGUs). The 1996 Summit extended coverage of the SRA to all provinces and cities, but identified as priority areas the 'Club 20' provinces, 5th- and 6th-class [*i.e.* the poorest] municipalities nationwide (representing 81% of all municipalities) and the SZOPAD in Mindanao; Sulu-Palawan. The stated purpose of localising the SRA/INAAP was to more effectively gear it to the needs of particular areas and particular sectors, and better identify and resolve gaps in the 'policy-programme interface'; this was described as a process of 'convergence'. As of October 1996 national government agencies and LGUs had identified 1 399 'convergence areas' in 680 5th- and 6th-class municipalities, on the basis of 'the relatively large concentration of particular sectors, poverty incidence and inadequacy of existing development initiatives to address the poverty situation'. Six types of convergence area were identified: Agrarian Reform Communities (ARCs) for farmers and landless rural workers; Coastal Communities in Priority Bays and Lakes (CC/PBLs) for fisherfolk; Certificate of Ancestral Domain Claim (CADC) Areas for indigenous peoples; Urban Areas, Resettlement Sites and Growth Centres (UARGCs) for the urban poor; Disaster Victim Resettlement Sites (DVRS) for victims of disasters and calamities; and Comprehensive and Integrated Delivery of Social Services (CIDSS) Areas for all sectors.

In April 1998 the lead convenor of the SRA reported to President Ramos that, by the end of 1995 the SRA had been localised at the provincial level in all the 20 priority provinces and that the majority of these provinces had localised the SRA at the municipal and barangay level. In the other (then) 57 provinces 'the status of localisation varies'. Most had adopted provincial SRAs, prioritised convergence areas, established targets for local poverty reduction, set up institutional mechanisms, and strengthened the participation of Basic Sectors. But 'progress has been slow in installing MBN [minimum basic needs], and in

generating resources for local anti-poverty programmes' (Social Reform Council 1998: 595).

Under a 'Performance Contract System', key officials in the Philippines are required to submit 'performance contracts' setting out specific targets in their areas of programme responsibility; these serve as a basis for their performance evaluation by the DILC. Heads of national departments, as 'SRA flagship champions' or as cabinet officers for regional development, and provincial governors, as 'anti-poverty champions', are subject to this system, which is currently being extended to municipal and city mayors. Poverty reduction targets and programmes are specifically designated as an element of performance.

There is also a 'comprehensive resource-tracking mechanism' (initiated under an administrative order) which enables the government to monitor the utilisation of SRA resources by geographical allocation (province and municipality), by outputs or physical accomplishments (key performance indicators by province or municipality), and 'to the extent possible' by sectoral recipients (magnitude of resource/ programme beneficiaries) (Social Reform Council 1998**:** 606).

Shortly before the end of President Ramos's term in office, Congress enacted the *Social Reform and Poverty Alleviation Act (RA 8425)*. The new legislation created a National Anti-Poverty Commission (NAPC) to replace the SRC, and established a People's Development Trust Fund to fund microfinance services for the poor. In 1999 a Technical Working Group was established, under the DOLE, to assist the NAPC.

In June 1998 Ramos was succeeded in the presidency by Joseph Estrada. President Estrada was elected on a populist, 'pro-poor' platform and committed his administration to maintaining and enhancing the anti-poverty initiatives of the Ramos administration, reducing poverty incidence from 32.2% in 1997 to 25-28% by 2004. In announcing his government's Medium-Term Philippine Development Plan, 1999-2004 (formulated after a series of multi-sectoral consultations and public discussions), President Estrada said that the plan would adopt a 'growth-with-equity' strategy, focusing on agricultural modernisation and food security, and the implementation of labour-intensive infrastructure projects in the countryside.

The Estrada administration established a National Food Security Agenda, with LGU participation; national and provincial councils on food security monitoring were being set up in early 1999. In mid year former Agriculture secretary William Dar was appointed presidential adviser on food security; some see this as evidence of the priority placed on the subject by President Estrada, but others

see the move as a further – potentially damaging – fragmentation of the Agriculture ministry. (See, for example, Amanda Doronila in *Philippine Daily Inquirer* 9 June 1999.)

In March 1999 Socio-economic Planning Secretary Medalla announced government plans to focus on social services over the next five years, as part of its poverty eradication policy. This will include a substantial increase in the allocation for socialised housing (a target of P 400 billion, raising the share of the total housing allocation going to socialised housing from 18 to 80%) and provision of 'humane relocation' for squatter families. It is also planned to restructure housing administration (at present there are eight government agencies involved in the provision of housing services). Agrarian reform is also to receive additional funding. The Plan envisages new governance and institution-building measures – including a reduction in the size of the public service.

Private safety nets – remittances from overseas foreign workers (which in 1999 are forecast to reach USD 6 billion) as well as private domestic transfers – are also important in the Philippines.

The effectiveness of structures and policies

Given this impressive array of policy initiatives, many dating back at least to the latter half of the 1980s, and of mechanisms for monitoring and accountability, it might be expected that the Philippines has gone well down the road to providing an adequate set of social safety nets. The impressionistic evidence suggests otherwise. As one measure, aggregate poverty data for the Philippines (Balisacan 1998) suggests that, after increasing between 1988 and 1991, since 1991 poverty incidence has declined, as has the poverty gap, but the shifts have been slow and discontinuous. And (at least up to 1997) the fall in poverty has lagged behind the record of poverty reduction in the Philippines' ASEAN partners. As shown in Table 2, most of the reduction has been in the extent of urban poverty, with rural poverty decreasing much less. Income inequality has fluctuated and then increased. Absolute numbers of poor, moreover, have increased. In part this has reflected a modest overall GDP growth and a high rate of population increase. But these do not provide an adequate explanation.

Looking to institutional structures, Turner (1999) concludes a recent review of decentralisation in the Philippines with the assessment that the decentralisation programme has proceeded steadily, if not always smoothly, and there are certainly indications that real gains have been made in promoting local autonomy and enabling local governments to run more of their own affairs in

co-operation with NGOs and the private sector. He cites supporting evaluations from noted Philippines scholars Brillantes, Tapales and Rood, and (with qualifications) from the annual rapid appraisal reports on implementation of the Local Government Code.

In the early years of implementation, at least, the process of transition was hampered by lack of adequate guidelines, and there was considerable antipathy and suspicion on both sides. National government agencies (and especially the roughly 70 000 national staff who were devolved to LGUs) were generally reluctant to decentralise; agencies frequently doubted the ability of LGUs to maintain standards in the devolved services, and staff were apprehensive about job security. On the LGU side, local officials suspected that devolved staff would remain loyal to their nation agency origins. From both sides there were accusations of nepotism and corruption. Although such attitudes appear to have diminished over time, there remain some lingering doubts and suspicions. Particular resentment is often expressed at the tendency of some national agencies to develop programmes, to be funded and implemented at local level (the 'unfunded mandates'), without proper consultation with LGUs; the implementation of the MBN Approach is sometimes cited in this context. Some local officials also complain that large nationally organised NGOs attempt to impose programmes upon them.

Table 2: **Trends in poverty and inequality in the Philippines, 1985 to 1997**

Year	Poverty rate (%)			Income inequality
	Philippines	Urban areas	Rural areas	Gini coefficient
1985	44.2	33.6	50.7	0.447
1988	40.2	30.1	46.3	0.445
1991	39.9	31.1	48.6	0.468
1994	35.5	24.0	47.0	0.451
1997	32.2	-	-	0.496

Source: National Statistical Office, Manila.

Beyond the issue of decentralisation are broader institutional questions, summarised by a UNDP resident representative in the Philippines as, 'a complex institutional environment, bureaucratic inertia, agency overlaps, competition for scarce resources', and corruption (Sarah Timson, reported in *Business World* (Philippines) 25 March 1999). A recent world survey of corruption placed the Philippines high on the list (but below Indonesia, Thailand, Malaysia and China). This is despite the existence of a range of anti corruption agencies and legislation, including a recently enacted *Anti-Red Tape Act.* Indeed, at a May 1999 World Congress on Governance, in Manila, an

Asian Development Bank official suggested that the Philippines anti-corruption mechanisms had become 'too diffuse', with too many agencies involved, with overlapping functions and inadequate funding (Robert Beschel, reported in *Manila Times* 2 June 1999). As observed by another UNDP official at the same meeting, decentralisation in the Philippines, while to some extent increasing the transparency of government, has created greater opportunities for corruption (G.S. Cheema, reported in *Manila Times* 3 June 1999). Such statements have been corroborated by a recent study by President Estrada's economic advisers, who concluded that 20% of government funds for projects ended up as kickbacks *(Philippine Daily Inquirer* 10 June 1999). By comparison, the European Court of Auditors estimates the proportion of the European budget lost to 'fraud and other irregularities' at about 5% per year. (See *Canberra Times* 17 March 1999.)

Looking more specifically at the efficacy of social safety nets, assessment is rendered difficult by the vast array of potentially relevant policies and programmes. Evaluation is further complicated by the rate at which such policies and programmes have lapsed, or been terminated or amended, and new policies and programmes introduced, and the not uncommon gap between policy rhetoric and policy substance. In addition, because the process of decentralisation is fairly recent, and ongoing, the necessary information is often unavailable or hard to find.

A 1996 World Bank study, entitled 'Selected Social Safety Net Programmes in the Philippines: Targeting, Cost-Effectiveness, and Options for Reform' (Subbarao *et al.* 1996), sought to review the impact of three programmes – a generalised food subsidy, wage employment programmes, and livelihood creation programmes – on the poor. Although dated 1996, the report was based on Bank missions in 1993 and 1994, before the implementation of the SRA and the major devolution of 1995. Nevertheless, some of its findings are relevant to later social safety net provisions. On the food (rice and corn) subsidy programme, administered through the National Food Authority (NFA), Subbarao *et al.* concluded (1996: 23): 'NFA's food subsidy programme has had little effect on the poor's consumption and nutrition, and this low impact was achieved at high cost. In 1991-1993 five regions accounting for 61.9% of food poverty received only 29.4% of NFA rice, while the NCR and Region III – the two wealthiest regions in the country (2.8% of food poverty) – received 34.5%. On labour-based public works programmes, the report's finding was less conclusive (partly due to poor documentation), but Subbarao *et al.* did note in passing that, 'The concept of targeting is loosely applied.... wage policies are not designed to reach the poor' (*ibid.*: 35). On livelihood (employment creation) programmes, the report's conclusion was that they 'served near-poor and non-poor households more than ultra-poor households' and were concentrated in

more developed regions (for example, Western and Central Mindanao, with 15% of the ultra-poor received only 3.7% of loans), that loan repayment rates were unsatisfactory, and that 'lack of income and employment sustainability undermined the rationale for continuing the programmes' (*ibid*: 47, 38, xiii-xiv). A study by the Center for Advanced Philippines Studies (1993) also found fictitious names on programme records, and observed (p.32) that 'a great number of participants... are related to, or associated with, a government official who can influence the selection of participants'. Overall, the study concluded (1996: 49) that while the Philippines government was to be commended for its efforts, 'weaknesses have surfaced in the management of these programmes; few actually reach the poorest groups'. Moreover, while the amount transferred was small, the public cost of administering the programmes was high.

A number of the deficiencies identified in social safety net programmes by Subbarao *et al.* have subsequently been addressed by changes in programmes or by decentralisation to LGUs. Some, however, remain. Despite improved targeting provisions, there is still evidence that programmes do not always reach the most needy, and that a disproportionate share of funding goes to less poor areas. The SRA lead convenor observed in 1998 that progress had been slow in installing MBN and in generating resources for local anti-poverty programmes (Social Reform Council 1998: 595). Factors relevant to this included lack of leadership support, area-specific factors (geographic size and topographic conditions), and lack of funds, especially at the municipal level (*ibid*.: 598). In respect of the last factor, there have been a number of calls for revision of the IRA allocation formula, which, it has been argued, leaves areas of highest poverty incidence with least funds. Social Reform Council (1996: 606-607) also suggested that there had been 'slow fund movement for demand-driven components of several programmes (*e.g.*, credit, and livelihood) due to poor technical capability in project development and packaging among target beneficiaries'. The use of NGOs as service deliverers has been seen as one way of addressing these problems. However, the comment of Subbarao *et al.* (1996: 37-38), in reference to credit programmes, may be worth bearing in mind: 'While their grassroots approach and commitment to serve the poor are commendable, it is important to ensure that commitment is matched by competence'. Finally, the Social Reform Council (1996: 599) has pointed to what appears to be an enduring feature of governance in the Philippines: 'a proliferation of human development initiatives', working through separate policies, structures, systems, and implementation procedures, causes 'a marked degree of confusion and duplication of activities at local levels'.

Notes

1. For the first three terms after the ratification of the 1986 constitution, these seats were filled (in accordance with constitutional provisions) not by elected party-list candidates but by appointed sectoral representatives (from labour, peasant, urban poor, indigenous cultural communities, women. youth, 'and such other sectors as may be provided by law, except the religious sector').

2. Balisacan's 1992 paper derives from a 1992 study of rural poverty in the Philippines, supported by the Asian Development Bank. He has subsequently published an analysis of urban poverty (Balisacan 1994), which however focuses more on broad policy directions than on assessment of particular policies.

3. For a detailed analysis of responses to natural and man-made disasters, see Citizens' Disaster Response Center (1992).

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GOVERNANCE AND SOCIAL POLICY IN THAILAND

Mathana Phananiramai and Kevin Hewison

Background

Until the economic crisis erupted in July 1997 Thailand's economy had experienced almost four decades of uninterrupted growth. The period from 1986 to 1997 was one of unprecedented economic boom. Thailand achieved some of the highest growth rates in the world, with real per capita GDP increasing by 150% between 1980 and 1996 (see Figure 1). These growth rates were indicators of the industrial transformation of the country. Thailand's international economic position has been reoriented from that of primary commodity exporter to a manufacturing base (see Figure 2).

Thailand's economic success in these years was well known, and it attracted enormous foreign investment (see Figure 3), especially from East Asia (Jansen, 1997). The economic boom brought rapid change. Confidence brimmed, employment opportunities grew, absolute poverty declined, although wealth inequalities increased, and fabulously wealthy magnates were created. The driving force for change was industrialisation. The country's industrial revolution has taken it through two broad phases characterised by import-substitution industrialisation (ISI) and export-oriented industrialisation (EOI).

This industrial revolution grew, in part, from a political revolution. General Sarit Thanarat's government came to power after coups in 1957 and 1958. Establishing an authoritarian political system, Sarit's government, with World Bank and U.S. support, decided to make Thailand progressive and 'civilised'. The private sector had the lead role in industrial development, with the state limited to infrastructure development (Hewison, 1989).

Manufacturing expanded through incentives for foreign and domestic investment. While the export-oriented agriculture remained dominant, development plans and investment promotion laws directed resources to industry. Local manufacturers gained protection, and foreign manufacturers

were able to establish behind protective barriers (Hewison 1985: 280-1). Manufacturing's contribution to GDP rose significantly during the ISI period (see Figure 2).

Despite success, ISI came under attack, especially from technocrats wanting a more export-oriented strategy. Despite this, under pressure from domestic business, protection for import-substituting manufacturing increased through the 1970s and into the 1980s (Phongpaichit and Baker 1995: 144-5). It was only the impact of an economic downturn in the mid-1980s – with its indication of problems in manufacturing policy, and for the state's fiscal and monetary position – that saw EOI fully established (Hewison 1987: 61-9).

The IMF had been called in and implemented stabilisation and structural adjustment programmes, and urged increased liberalisation (Hewison, 1987). But it was the recognition that commodity prices were not going to salvage growth that brought devaluation and the fuller adoption of EOI (Phongpaichit and Baker, 1996: 65-6). The devaluation made Thailand's manufactured exports more attractive, and especially for manufacturers from Japan and the East Asian NICs. A foreign investment boom began. The boom pulled the domestic market along. While this was especially noticeable in Bangkok, urban centres nationwide experienced an investment spurt.

Figure 1: Per Capita GDP, 1980-96
(in 1988 prices)

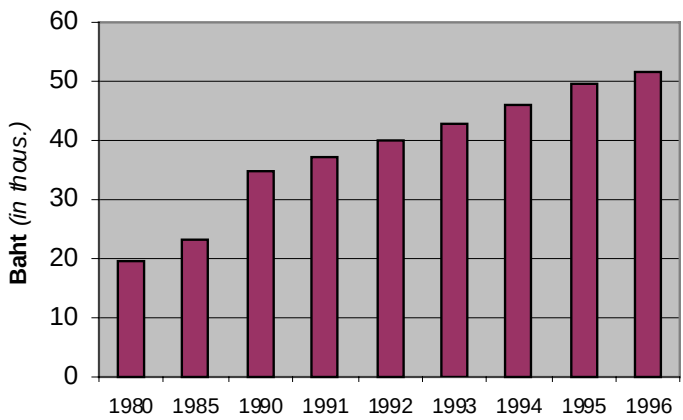


Figure 2: Percentage Contributions to GDP, 1960-95 (Selected Years)

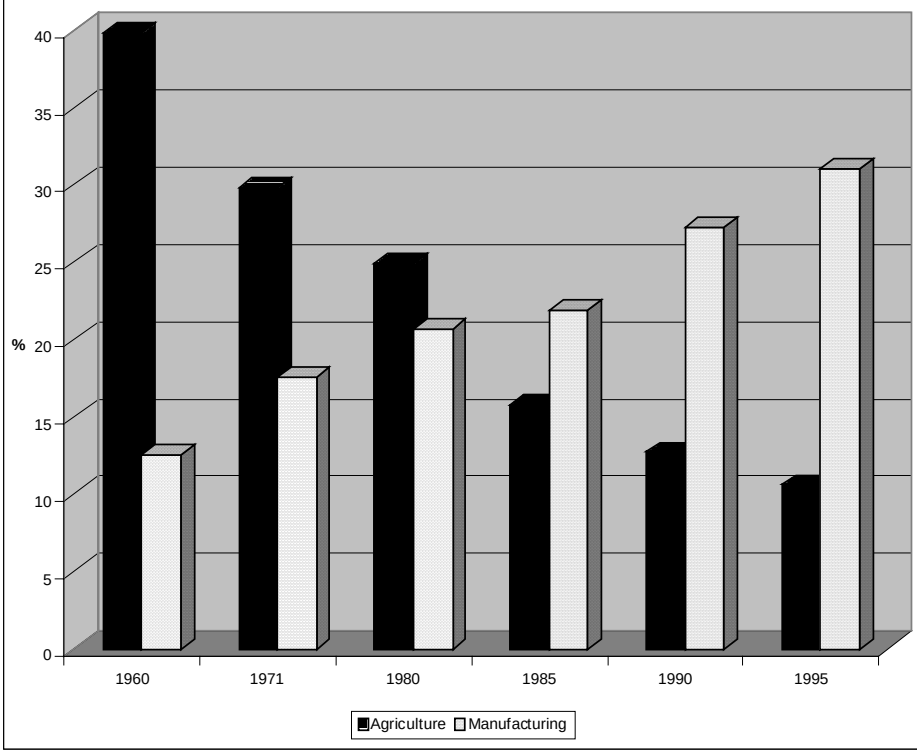
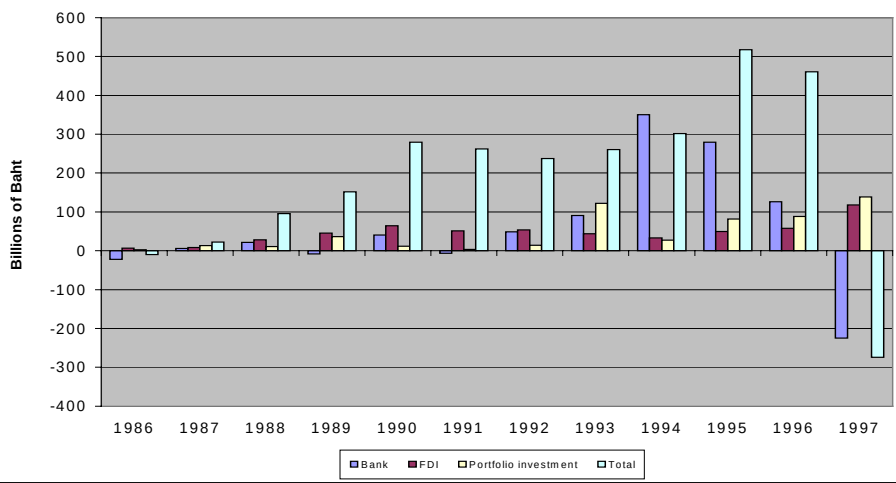


Figure 3: Flows of Private Financial Capital, Selected Data, 1986-97



The results were remarkable. Exports expanded rapidly, investment rocketed, and the economy was transformed. In 1960 agriculture accounted for almost 40% of GDP, most exports, and employed the bulk of the population. However, industrial growth has seen manufactures expand from 1% of total exports in 1960 to 80% by the mid-1990s (Kaosa-ard, 1998: 3-4). In 1960, agriculture accounted for the employment of 82% of the economically active population. By 1997, just 48.4% were employed in agriculture, either full or part-time (Economic Section, 1998:9). It is noteworthy that women's labour played a significant role in Thailand's industrial transition, as they moved from unpaid family labour into the paid workforce.

By the mid-1990s Thailand was undergoing a remarkable socio-economic transformation – a capitalist revolution – but at a pace that far outstripped similar transformations in Western Europe and the United States As the economic base has expanded, economic activity has become more diverse, demanding a greater range of human resource skills and a more complex division of labour. Thailand is now an economy and society immeasurably more diverse and complex than it was a decade ago or so ago.

This transformation has coincided with a political reformation. While the details of this cannot be explained here, it is worth noting that until the end of the 1970s, Thailand's system of government was best described as authoritarian. The country had experienced long periods of military rule since 1932, and while there had often been space for political opposition, this was routinely narrowed by the military and the civil bureaucracy. However, during the 1980s and 1990s, while these conservative and authoritarian forces remained strong, there has been a transformation to a system where the constitution appears more significant, elected civilian politicians rule, and civil society has flowered. Indeed, the media and various non-governmental groups have played significant roles in challenging each of these governments, pointing to corruption and abuses of power.

A significant outcome of this transformation has been a change in the relationship of the bureaucracy to society, mediated through parliament. Under authoritarian regimes, if parliament existed, it had little influence on policy. This was left to the bureaucracy, and in economic matters, to technocrats. Throughout the 1990s policy making has increasingly become the arena of elected ministers. While some argue that this has weakened and politicised policy making, it has also given parliament the potential to exercise greater scrutiny. When combined with the expansion of civil society, this allows the opportunity for increased transparency in the future.

By 1996 Thailand had had three general elections since the May 1992 uprising against a short-lived military-dominated government. That elected governments have come and gone without military intervention is an achievement that should not be underestimated. The large voter turnouts for elections and the great competitiveness of campaigning suggest that there is a continuing support for and legitimacy attached to the electoral process. It is also noteworthy that the 1997 constitution was developed through an extensive public consultation process that allows an enhanced role for citizens and an increased significance for regions and localities.

Many social indicators show significant improvements. As shown in Table 1, there have been improvements in the degree of access to safe water, reduction in child malnutrition rates and improvements in immunisation rates. Infant mortality rates have fallen, but less significantly.

Even with such remarkable change, there is a darker side. Absolute poverty has been reduced through the economic boom, as indicated in Table 2. While the Table indicates significant reductions in the incidence of poverty, it needs to be remembered that these rates are based on almost unrealistically low incomes. For example, in 1996, the poverty line was drawn at just 737 baht or less than USD 30 per month. There has been no significant narrowing of income inequalities (Hewison, 1997: 110-4). The Asian Development Bank (ADB) has recently reported that, despite great strides in poverty reduction, Thailand remains one of the least egalitarian societies in the world (reported in *Nation*, 2 September 1999). Compounding this, there has been considerable urban bias in infrastructure and other development, which has been especially concentrated in the Bangkok region. Industrialisation and the commercialisation of agriculture have been accompanied by a rapid deterioration of the environment.

This bias is also seen in politics. Elections have seen the role of money politics and pork barrelling become significant. This is often exacerbated by the role of 'dark influences' (wealthy gangsters) who have great influence over elections and politicians. In this there is a polarisation between the city and its business, middle and (to a lesser extent) working classes, and the countryside, still dominated by relatively poor agriculturists. Bangkok voters tend to blame their rural counterparts for electing corrupt governments, and are likely to see the logic of the electoral system stacked against the emergence of efficient and clean government. In addition, despite gains, the stability of parliamentary government remains to be fully established.

There were significant welfare and income gains during the boom, and government schemes expanded. These gains are, however, threatened by the current recession. Although informal sources of security, such as family,

relatives, friends and other traditional institutions remain important for the majority of Thai people, their importance is declining. Formal systems, such as the social insurance or welfare programmes, have become increasingly important as more people come to rely on them. The government of Thailand has played an important role in the formal system, either as provider, financial supporter or as regulator, and its role, along with people's expectations seems to increase over time.

Table 1. **Thailand - Basic Social Data**

Indicator	1980-85	1990-95
Total population *(million)*	51.1	58.2
Total fertility rate *(births/woman)*	3.0	1.8
Poverty *(% of population)*		
- national	n.a.	13.1
- urban	n.a.	10.2
- rural	n.a.	15.5
GNP per capita *(USD)*	810	2 740
Consumer price index (1990=100)	81	120
Food price index (1990=100)	79	133
Public expenditure *(% of GDP)*		
- Health	n.a.	1.4
- Education	3.0	2.6
- Social security and welfare	0.6	0.6
Access to primary education *(% m/f)*	90/88	97/95
Access to safe water *(% of population)*		
- rural	45-55	72.3
- urban	60-70	88.6
Child malnutrition *(% under 5 years)*	36	13
Immunisation rates *(% under 1 year, DPT/measles)*	47/22	93/86
Life expectancy at birth *(m/f years)*	63/67	67/72
Infant mortality *(per 1 000 live births)*	44	35

Source: World Bank.

Table 2. **Poverty in Thailand by Region**
(percentages below the poverty line)

Region	1988	1990	1992	1994	1996
North	32.0	23.2	22.6	13.2	11.2
Northeast	48.4	43.1	39.9	28.6	19.4
Central	25.2	20.5	12.1	8.4	5.9
South	32.5	27.6	19.7	17.3	11.5
Bangkok	3.8	3.3	1.9	0.6	0.3
Bangkok Suburban	8.7	3.0	1.7	1.6	1.0
Total	**32.6**	**27.2**	**23.2**	**16.3**	**11.4**

Source: NESDB cited in Bangkok Post, 21 April 1998.

While the most spectacular impact of the economic crisis was on business, it has also had dire and broader social consequences, as a process of 'de-development' has occurred, threatening social welfare. Ironically, in the political sphere, the economic downturn, once a cause for military intervention, appears to have reinforced moves to political reform as 'good governance'. Decentralisation and the strengthening of civil society have been emphasised.

This paper will assess aspects of state welfare approaches and the challenges posed by the economic recession. This includes specific attention to the roles and functions of the government in providing social safety nets through an discussion of the budget allocated for social services and welfare, the budgetary process, the programmes, the implementing agencies, and programme efficiency and effectiveness.

Government: Structures and Services

Thailand, never colonised, is a unitary state and a constitutional monarchy. Under the 1997 constitution it has a bicameral legislature, a multi-party system and universal suffrage. Elections are held at least every four years, with the last being held in 1996. The legal system is based on civil law with some common law influences.

Constitutional arrangements

While Thailand's constitutions have seldom been seen as more than documents granting legitimacy to authoritarian government, the 1997 constitution has broken new ground. Sometimes called the 'people's constitution', is the first ever constitution where the drafting process involved wide-ranging and significant consultation and participation.

This 1997 constitution states that the people have the right to receive basic social services and that the government has a duty to provide these. It is fair to say that this reflects a rising expectation that such services are a state responsibility. It is expected that as more people, including the indigent, are aware of their rights, the pressure on the government to provide an effective social safety net will increase. As the constitution also encourages decentralisation and more participation from other civic organisations, the role of the government as provider of basic social services is also expected to change significantly.

Under chapter 3 of the 1997 Constitution, which states the rights and liberties of the Thai people, three basic social services are considered as rights, namely,

education, quality health services and support to achieve a reasonable livelihood. The relevant articles are:

Article 43:

Every person shall enjoy an equal right to obtain at least 12 years of basic education, for which the state shall provide quality education without charge.

Article 52:

Every person shall enjoy an equal right to standard health care services. The indigent person shall receive health care services from public providers without charge in accordance with the provisions of law.

The state shall provide adequate and effective health care services by promoting participation from local and private organisations as far as possible.

The state shall instantly prevent and suppress harmful contagious diseases in the interest of the public and without charge.

Article 53:

Children, youth and household members shall enjoy the right to receive protection from violence and unfair treatment.

Children and youth without a custodian shall have the right to receive support from the state in accordance with the provisions of the law.

Article 54:

Persons aged over 16 who do not earn sufficient to live a reasonable life shall have the right to receive state support in accordance with the provisions of the law.

Article 55:

The handicapped and disabled shall have the right to receive public facilities for convenience and other support from the state in accordance with the provisions of the law.

Chapter 5 of the constitution, which lays out the basic principles for state policies and people's rights, are translated into state provisions as follows:

Article 80:

The state shall protect and develop children and youth, promote the equality of men and women, and promote and strengthen family and community.

The state shall provide for the welfare of the elderly, the poor, the handicapped, the disabled and the indigent to ensure a standard livelihood and self-reliance.

Article 82:

The state shall arrange and promote public health to ensure that all persons shall receive standard and effective health care.

Article 86:

The state shall assist people of working age to obtain employment, provide for labour protection, especially for women and child labour, administer the labour relations system, social security and the setting of fair wages.

Administrative structures

With a population of over 60 million, the country is administratively divided into 76 provinces (*changwat*), nearly 800 districts (*amphur*), roughly 7 000 sub-districts (*tambon*), and more than 60 000 villages (*muban*). In addition, there is a municipal system of administration for urban areas (*tetsaban* and *sukhaphiban*). There are special administrative structures for Bangkok and Pattaya.

This administrative structure was basically in place a century ago, as part of a 'nationalist project' to make Thailand a modern nation-state. While each level

of government includes structures that are meant to allow for participation or election, the history of administration has been one of centralisation, hierarchy and rigidity. Regional and local diversity was seen as undermining the 'project', threatening unity and order. Hence, only limited local and community participation in national governance has been permitted, and this has been reinforced by strong central control over budgets and restrictions on financial autonomy.

For the whole of this century it has been the Ministry of Interior, supported by the army, that has controlled provincial administration. The basic structure of provincial administration is shown in Figure 4, where the direct line from Bangkok-based ministries over all levels of sub-national government is clear. It should be noted that the Ministry of Interior is the most powerful amongst the ministries, being responsible for the appointment of the most senior personnel at all levels. This includes each provincial governor (*phuwa ratchakan changwat*) and district administrator (*nai amphur*), as well as approving the appointments of sub-district heads (*kamnan*) and village heads (*phuyaiban*).

While each level of government has had elected assemblies added to the administrative structures, it is fair to say that, with the exception of the national parliament, these local assemblies have been weak and dominated by the governor and district administrators. None of these local assemblies has any representation at the national level, except through the centralised hierarchy. Few have more than advisory powers, even at the levels they operate. In addition, their powers to tax and raise revenue are usually limited.

The power of the Ministry of Interior is reinforced through its departments responsible for police, local administration, community development, lands, public works, accelerated rural development, and town and country planning. However, at the provincial and local levels, the power of the Ministry derives from the fact that the governor is responsible for the supervision of all district and municipal administration, giving this appointed official considerable power over all local government.

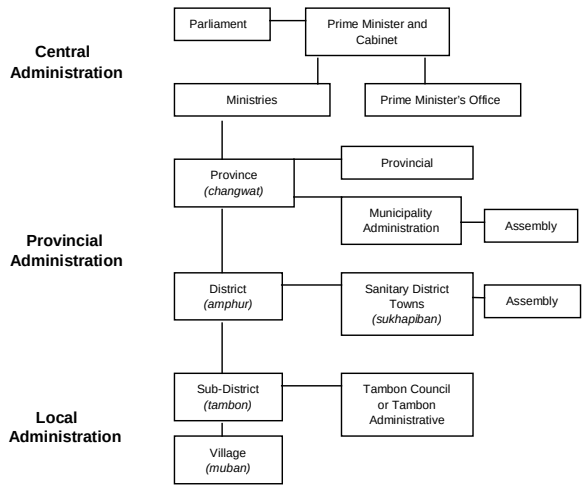
While there has been considerable rhetoric regarding decentralisation and deconcentration, real reform has been slow. As noted above, there have been elected assemblies established at various levels of government. Obviously, the national parliament is the most significant, and most powerful. The electoral system changed with the 1997 constitution, and now involves elections for both the Senate and Assembly. These arrangements should enhance the power of parliament over the bureaucracy. But, as noted, there are still significant problems of corruption and money politics. MPs tend to respond to their

provincial constituencies through the pork barrel. This does not enhance or promote local-level involvement in national politics.

At the sub-national levels, the various assemblies have had limited impact to date. However, while not ignoring the tremendous power of the Ministry of Interior, the emphasis on decentralisation promises a gradual shift in the balance of power to elected bodies.

The provincial assembly has between 24 and 48 members (depending on the size of the province's population) elected for four years. Its responsibilities are mainly in the areas of development planning, the approval of development funds, and support to lower levels.

Figure 4. **The Administration of Thailand**



The elected municipal assembly will vary in size according to the population of the municipal area. The 12, 18 or 24 representatives are elected for a period of five years. The assembly has considerable scope to establish elected control over administration, but remains under the purview of the Minister of the Interior. A *tetsaban* is essentially responsible for all aspects of municipal administration and services, although the level of responsibility will vary according to the size and financial capacity of the area. *Tetsaban* have the capacity to raise revenue through taxation, fees and charges.

Smaller urban areas are organised for administrative purposes as *sukhaphiban* (usually translated as 'sanitary districts'). These are responsible for local works

and services. These administrations are divided according to their incomes sources, and while both types of *sukhaphiban* have an elected members on the *sukhaphiban* committee, the lower income *sukhaphiban* have less independence from local officials than their wealthier counterparts. Even so, centrally appointed officials tend to dominate *sukhaphiban*. The capacity to raise revenue is often very limited.

In terms of policies regarding decentralisation, much emphasis is placed on the *tambon* (sub-district) level of administration. While the village has an elected head, it is the *tambon* that is the lowest level of elected representation where development planning is undertaken.

If a *tambon* has income of less than 150 000 baht a year, it will have a *sapha tambon* (sub-district council). This is made up of appointed representatives (*kamnan* – as president – all *phuyaiban* in the *tambon*, the *tambon* doctor/health officer) and one elected representative from each village in the *tambon*, elected for four years. This gives the balance of power to appointed representatives, but the fact that village heads are meant to be elected suggests that the *tambon* council can be seen as the most basic democratic assembly in the country.

If the *tambon* has in excess of 150 000 baht a year, it will have a *tambon* administrative council (TAO or *sapha kan borihan suan tambon*). It is made up of appointed representatives (*kamnan*, all *phuyaiban* in the *tambon*, the *tambon* doctor/health officer) and two elected representative from each village in the *tambon*, elected for four years. This gives the balance of power to elected representatives, who also elect the president of the council. This council represents a real grassroots attempt to limit the power of unelected officials in local administration. While a recent innovation, it is anticipated that this council will eventually drive decentralisation. The impact it has had on the financing of local government is assessed in the following section.

Sources of Local Government Revenue

Sources of local government revenue can be classified into four categories:

Tax revenue

This revenue can be further classified into locally collected and centrally collected taxes. The former includes taxes on building and land, land development, signboards and slaughterhouses. The later includes surcharge taxes (VAT, excise, and alcohol) and shared tax (motor vehicles).

Non-tax revenue

These revenues include user charges, fees and fines, and income earned from property.

Grants or subsidies from the central government

These are divided into general grants, specific grants and special grant. Special grants are mainly for education. General grants are annual transfers from the central government that can be used for any purpose by local government without conditions. Such grants are usually determined by the size of the population in each locality. Specific grants are allocated to support projects with special purposes, usually according to government requests. Examples are grants for special projects on education, health, environmental improvement and other development activities.

Other disposable receipts

Revenue generated by local government through such items as savings, loans, and the like.

Figures comparing the sources of revenue for each local administration category, for fiscal year 1995 and 1997, are provided in the Annex.

In 1995 the total revenue of local governments was 57 230 million baht or about 7.6% of the central government revenue. This revenue was comprised 64.9% from tax revenue, 9.4% from non-tax revenue, 16.5% from grants and 9.2% from savings and loans. Grants from the central to local governments were about 1.25% of central government revenue. In 1997 the total revenue was 93 349 million baht or about 11% of the central government revenue. Due to the impact of the economic crisis in 1997, the proportion of grants and non-tax revenue increased, while the proportion of tax revenue decreased from 1995. Grants constituted about 2.5% of the central government revenue.

In 1995, the Bangkok Metropolitan Authority (BMA) and other municipalities received about 40 and 31%, respectively, of the total revenue for local administrations. However, since 1996, the importance of the role of TAO in local administrations has increased significantly. In 1997, this newly established local administration received about 29% of the total revenue for local government; a level comparable with that received by the BMA.

The share of each revenue source in total revenue varies by the type of local administration. Grants for the more developed regions or localities are less significant compared to those for the less developing regions. For example, in

1997, 75% of the BMA revenue was tax revenue, and it did not receive any subsidies from the central government. Pattaya, municipality and sanitary district administrations rely more on subsidies. In 1997, almost 40% of their budget was subsidised by the central government.

In general, local government administrations have a narrow tax base and only limited surcharges can be made on top of national tax. Thus, if local governments are expected to perform more services and become more autonomous, broadening the tax base seems necessary. However, this would also require a strengthening of local government capacity in tax collection.

Services

The centralised and hierarchical structure of government is also seen in the delivery of essential services to the populace. In rural areas, basic services are the responsibility of the various line agencies of central ministries. The structure of this delivery is organised at regional, provincial, district and sub-district levels. While more detailed discussion is provided below, brief examples of service delivery can be mentioned.

The Ministry of Public Health (MOPH) provides services at each of these levels, ranging from large provincial hospitals to smaller district hospitals, with clinics at the sub-district. While MOPH's services are far cheaper than those of the private sector and usually of good quality, health expenses continue to be a major concern for the poor. MOPH also provides training for village health workers. The Ministry of Education provides relatively inexpensive education down to the village level. However, the quality of government schooling is not always high. Rural water and sanitation is the responsibility of a plethora of agencies, which while uncoordinated, have performed reasonably well, although services remain basic, and most villagers continue to rely on their own resources. Rural housing is also a family responsibility. Other basic infrastructure (roads, electricity) is provided by state agencies, and there is wide coverage. One area where the government has been unable to expand coverage significantly is in telecommunications.

In urban areas, while line agencies remain significant, many of these services are the responsibility of municipal authorities, and it is fair to say that coverage is better than in rural areas, and includes services not available to rural people. This can involve solid waste management, sewerage, and housing. In large urban centres, government social welfare services are better than those in rural areas.

The provision of social welfare

The authors of a recent report to the World Bank (1999a: 3) argue that, prior to the crisis, Thailand had not developed any 'comprehensive and dedicated set of social protection and anti-poverty programmes…'. While the authors noted that there were some good reasons for this, it is also true that Thailand had developed a range of programmes to assist the disadvantaged. This section outlines these, beginning with a discussion of budgetary processes. It then turns to a discussion of education and health.

Budgetary processes and government expenditure by function

The Bureau of the Budget (BOB) is responsible for preparing the annual budget that is submitted to Cabinet for their approval, and for controlling the expenditure of government agencies according to approved plans. In order to co-ordinate the budget of different government agencies, an ad-hoc committee, composed of representatives from the BOB, the Office of the Prime Minister; the Fiscal Policy Office (Ministry of Finance), the Bank of Thailand, and the Office of the National Economic and Social Development Board (NESDB) is established. The committee's role is to estimate yearly government revenue and the spending required to allow each agency to perform its mandated tasks. The Committee's assessments of the social and economic environment are discussed prior to the Committee setting an upper budgetary limit for each department. The Committee's estimates are then used by each agency as a guideline in preparing its annual budget. After going through a series of discussions and negotiations between BOB and each department, the BOB finally combines the budget of each agency and submits this to the Cabinet, and the National Council, respectively, for approval.

The budget of each department is approved according to the projects it submits to the national level, and this is allocated to the implementing agencies of the department in each region and province. Since these sub-national allocations can affect voting patterns, it is usually in the interest of members of the Assembly to assert their influence; and in fact, to some extent, they can influence allocations.

At the implementing phase, transfer across lines of expenditure or even across projects remains possible, with BOB approval. While some pre-auditing is used to control budget spending by government agencies, post-auditing to check whether the budget has been spent according to laws and regulations is most common. At present, BOB does not have the capacity to monitor and evaluate the use of budget by its outputs or outcomes. Hence the BOB does not have sufficient information to assess effectiveness, and inappropriate or outdated

projects are not uncommon. The bureaucratic system has also continued to expand to include much functional duplication within and between departments. These are a source of significant inefficiencies in the public sector. This budgetary process applies only to budget from general tax revenue, and does not include expenditures out of loans. The decision to borrow, and the allocation of loans, can be approved by the Cabinet without going through the screening processes of the National Council.

To illustrate budget outcomes for the provision of social services and welfare, expenditure by function, for the 1997 and 1998 fiscal years is provided in Table 3. It can be seen that, in 1998, 40% of the government budget was allocated to agencies in the broad social services arena. About a quarter was for education, and the remainder of the social services budget being allocated to health, social security and welfare, housing and community amenity affairs and services, and religious, cultural, and recreation affairs and services.

According to Tinnakorn and Sussangkarn (1996) the proportion of the budget for social security and welfare to GDP in Thailand is low when compared with international standards. The proportion is about one third of the average proportion of countries with similar per capita income, population and economic structure. However, the expenditure in this category includes only the formal social security system. This proportion will rise as the social security system expands to cover more people. In a country like Thailand where poverty incidence is still relatively high, many essential services are often provided directly rather than through a formal social security system.

Table 3. **Budget Expenditures Classified by Functions**
(in million baht)

Sector	FY 1997		FY 1998		Change (97-98)
	Amount	*%*	*Amount*	*%*	*%*
General Governmental Services	192 302.3	20.8	172 198.9	20.7	-10.4
Community and Social Services	374 663.2	40.5	357 022.1	43.0	-4.7
- Education Affairs and Services	202 864.0	21.9	206 944.5	24.9	2.0
- Health Affairs and Services	68 124.8	7.4	64 071.2	7.7	-6.0
- Social Security and Welfare Affairs and Services	39 065.9	4.2	34 047.6	4.1	-12.8
- Housing and Community Amenity Affairs and Services	51 680.7	5.6	39 538.3	4.8	-23.5
- Religious, Cultural, and Economic Services	268 561.2	29.0	215 397.0	26.0	-19.8
Recreation Affairs and Services					
Miscellaneous/Unclassified Items	89 473.3	9.7	85 382.0	10.3	-4.6
Total	**925 000.0**	**100.0**	**830 00.0**	**100.0**	**-10.3**

For example, in addition to the budget allocation for community and social services through projects proposed by state agencies, several revolving funds have been established to provide loans to the poor at reduced interest rates. Such funds are usually established for a specific purpose, with an initial endowment from government. In 1997, initial or additional funds of 22 111 million baht were made to 25 revolving funds. In 1998, another 20 816 million baht was allocated to 14 new and existing funds. The name of the Fund usually conveys its objectives. For example, the Fund for Farmer's Assistance, the Revolving Fund for Relieving the Debts and Land Acquisitions for Farmers and the Poor, the Fund for the Disabled Persons, the Skill Development Fund, the Primary School Lunch Fund, the Education Loan Fund, the Revolving Fund for Women's Occupational Promotion, the Revolving Fund for Housing Welfare, and the Revolving Fund for Health Care. The management of such funds is not always transparent, and as these funds target the poor, default rates can be high.

Government Social Service Programmes

Education

In 1999, the government allocated 208 275 million baht, or about one-quarter of its total budget to education. More than 80% of this budget is allocated to departments that provide educational services at subsidised prices. Public agencies that take part in producing educational services are various departments in the Ministry of Education (MOE), the Ministry of University Affairs (MUA) and local government administrations. The level of subsidisation varies by the level of education.

Primary education is compulsory, hence it is considered the government's duty to provide quality primary education to all. As the result, the tuition fee in public primary schools is very low and is free for those who cannot afford to pay. In addition to highly subsidised tuition fees, textbooks and other equipment, uniforms, milk and lunch are provided for the poor.

The most important government agency managing public primary school is the Office of the National Primary Education Commission (ONPEC) in the MOE. ONPEC is in charge of all public primary schools in rural areas, except in very remote areas where schools are under the control of a special branch in the Police Department. Public primary schools in urban areas are under local government administration. Universities with Education Departments establish their own demonstration schools teaching primary and secondary education. Demonstration schools are under the jurisdiction of MUA and highly subsidised.

The quality of schools varies greatly. Entry to good schools is very competitive and may require additional payments by students and parents. Hence, it is unlikely that children from poor families will be able to enter. The children of the poor generally attend the lowest quality primary schools, but it is fair to say that access to primary education remains open to the poor.

A similar picture emerges for post-primary education, except that the level of subsidy declines, and hence students and parents incur a higher cost. In order to increase the opportunity for the poor to continue with education beyond primary level, revolving funds have been established to provide cheap loans for education for those in need. While it is clear that the poor, and especially those in rural areas, have much less opportunity to attend secondary school, this is beginning to change.

Different departments in the MOE and public universities under the control of MUA produce different branches of educational services. Secondary education is the responsibility of the Department of General Education, vocational education the Department of Vocational Education, and so on. Beyond primary education, the role and the share of private institutions increases and seems to be expanding.

Since subsidisation in terms of charging low tuition fees applies to all students regardless of their economic background, places in high quality schools and universities are limited. Hence admission is very competitive and children of the poor in rural areas have a lower chance of being admitted. Revolving funds for education, to some extent, relieve the burden of education for the poor. However, it is not usually sufficient since poor families not only cannot afford the cost of education, but also need the labour from their children to earn additional income to support the families. Therefore, to let their children to go to school continues to incur too high an opportunity cost for many poor families.

The Department of Non-Formal Education of MOE, the Department of Skill Development, and the Department of Public Welfare in the Ministry of Labour and Social Welfare provide education and training programmes for youth or adults who missed the regular education track. The training is usually provided with no or minimal charge, and other assistance, such as accommodation and living allowances in some cases. The quality of this education is highly variable.

Thus it can be seen that the state has attempted to provide subsidies to education, some of which have been aimed at increasing the participation of the poor and access to education for all. This strategy has achieved considerable

success. Most Thais now have 4-6 years of basic education, and illiteracy has been all but eliminated. Thailand achieved this through the expansion of the state education system.

However, as the country's industrial base has changed, and as it is increasingly subject to the forces of globalisation, MOE has not been able to adjust. This has gradually impeded its ability to provide the type of quality education required. Dhiravegin (1989) has identified a number of problems. MOE is a very big organisation with 14 departments taking charge of different branches of education and training. Each has its own schools and training institutions across the country. The Office of the Permanent Secretary's (OPS) which is the only department with regional and provincial offices, is meant to co-ordinate the works of all departments, but in practice, each is relatively autonomous. OPS is unable to exert control on plans and funding, since each department deals directly with the BOB in negotiating funds.

The result is that each department tends to expand its work and empire, causing duplication. Moreover, since all departments, except OPS, do not have regional and provincial offices, co-ordination at the provincial level is difficult. Further, it is clear that, to date, schools and institutions have had to follow the policy of the central administration rather than be responsive to needs in each locality. As a result, some curricula are irrelevant to the people's lives and the benefits of education are not evident. MOE is also subject to political interference. The largest group of personnel in MOE is schoolteachers who live and work in the community where the school is located. Hence they have significant influence in the community and can privilege some political parties. Politicians can also reward and punish MOE officials since high level officials, such as the Permanent Secretary, Deputy Permanent Secretaries, the Director-General and the Deputy Directors-General of all departments are appointed by the Minister. Because of this inter-dependency, the merit system in appointments and promotions is difficult to maintain, causing low morale among hard working officials.

Although several years have passed since Dhiravegin's study, these problems remain. These arise from the structure of the organisation and the bureaucratic system that are resistant to change. The further the schools are away from the central authority, the worse they tend to be; and the poor still have difficulty gaining access to *quality* education and training.

The ADB and Thai government have recently begun to address some of these issues in the context of a $500 million social sector loan. Further reforms, to make the education system more community responsive are planned (World Bank, 1999c: 14). In addition, the government's early retirement scheme will

see almost 15 000 officials leave MOE, providing an opportunity for restructuring (*Nation*, 2 and 3 September 1999). There remains much to be achieved.

Health

There are many programmes that provide health-related security for the poor. However, only three programmes, each requiring substantial government subsidies and involvement, are considered here.

Social Insurance Under the 1990 Social Security Act. The programme covers employees in establishments with at least 10 employees (about 5.6 million employees were covered in 1996); and four health-related benefits are included: sickness unrelated to work, maternity benefits, disability and death benefits. The insured receive free medical care and income compensation for these events. The programme is financed by the state, the employee and the employer in equal proportions, and is administered by the Social Security Office of the Ministry of Labour and Social Welfare. In 1996, the government contributed 5 077.8 million baht to the fund and paid 526 million baht on administrative costs.

Health Card. Designed to help near-poor rural residents to have better access to health care, each health card covers card holders and their families not exceeding 5 persons. The benefits are free medical care, necessary preventive care and rehabilitation services with a registered public provider. The cost per card per year is 500 baht, and the government subsidised at least another 500 baht per card. The programme is under the administration of the Health Insurance Office, Office of the Permanent Secretary, Ministry of Public Health (MOPH). As of June 1997, approximately 2.425 million cards were issued, which would have covered about 9.7 million persons.

Free Health Care Programme. MOPH provides free health care for the poor through several channels. Free health cards are issued to any single person whose monthly income is less than 2 000 baht or to any family with a monthly income less than 2 800 baht. Cardholders and their family members are entitled to receive free health care from a registered public health care provider, usually at the health centre nearest to their residences. Only in emergencies, and by referral, can health care be from other providers. The free health card is also issued to those over 60 years old, community leaders, health volunteers and the disabled persons. Benefits of this card are similar to those of the free card. As of June 1997, 3.14 million free health cards, 4.65 million cards for the elders and 0.34 and 0.91 million cards for community leaders and health volunteers respectively had been issued. No card is issued to children aged under 12 years

old, but in principle, they can also receive free health care from public providers. Those without the card may still receive free health care from public providers if they can prove that the charge is beyond their ability to pay.

These programmes are designed to provide health security to people of different income levels. The free health care programmes are for the poor, and the government picks up almost all the cost. The health card programme is for the near poor, and the government subsidises more than 50% of the cost. The social insurance programme is for private employees in formal sector with medium to low incomes, and the government subsidises about one-third of the cost.

It appears that the subsidies provide the poorest group with the highest percentage subsidy. However, in money terms, the amount of subsidy per person is lowest in the free health care programmes (about 231 baht per year per family), and highest in the social security programme (about 774 baht per year per employee). Thus, the quality of health care received by persons under different programmes differs substantially and access to health services can, in many situations, be subject to long waiting times.

Despite recent examples of corruption in purchasing, the MOPH has been one of the best public organisations in Thailand. MOPH's effectiveness derives from a strong organisational structure and high quality officials (Chandarasorn, 1989). Unlike MOE, the MOPH's Office of the Permanent Secretary (OPS) has considerable control over its regional and provincial network and the authority to co-ordinate its different departments. Most of the services provided by MOPH are delivered through regional, provincial and district hospitals, health centres and the provincial health office which are under the OPS; while other departments perform largely technical supporting functions. The OPS is responsible for planning, using the reasonably sound data collected from its regional and provincial network. In 1998, among eight departments and offices in the MOPH, the OPS received 76% of the ministry total budget. Contrast this with MOE's OPS with only 2.6% of the ministry's total budget. Hence, local-level co-ordination in MOPH is quite effective.

While the MOPH is one of the most effective ministries in reaching the poor and disadvantaged, budget allocation to the regions remains a problem. An example is the health card and free health care programmes under the Office of Health Insurance, under the supervision of OPS, MOPH. It receives a global budget from the BOB, and then allocates them to public health providers under its supervision. It remains unclear whether this programme really reaches the poor. Studies have shown that the programme is biased towards affluent regions (Phananiramai and Siriserikul, 1997). They show that in 1992 the budget allocated to the north-east (the poorest region) per case was just 162 baht, but in

the central region (the wealthiest) was 222 baht. Another study found that the programme could provide free medical care to only 28% of the poor, whereas 20% of funds actually went to the non-poor (cited in Siriserikul, 1998: 78). Difficulties assessing income, a lack of co-operation, abuse of power among the screening committee, a time consuming application process, and the unwillingness of the poor to apply are among factors contributing to the problems. Such problems with means-tested programmes are not, of course, unique to Thailand.

Other Social Security and Social Welfare Programmes

Two further departments are significant actors in social security and social welfare. These are the Social Security Office (SSO) and the Department of Public Welfare (DPW), both in the Ministry of Labour and Social Welfare.

In addition to providing social security related to health care, the social security programme for private employees also provide old age security and child allowances. Employers and employees contribute equally to the old age security fund, while the child allowance is entirely funded by the state. Unemployment benefits are still not included in the programme, but employees who are laid-off are meant to be entitled to compensation, ranging from 30-300 days of salary, depending on length of service. Government and state enterprise employees are entitled to receive a pension or gratuity upon retirement, providing certain conditions are met. Pensions and gratuities for retired officials are funded from general tax revenue. But these programmes (social security and government pensions) cover only a small proportion of the elderly. Most continue to rely on their children, own savings or on welfare. The fear of being alone and indigent is very real for many of the aged poor.

The DPW is the principal agency providing basic relief to the needy. Among the responsibilities of DPW are promoting the well being of the people and helping them having sufficient ability to earn a livelihood. Its functions and assignments can be classified in three categories. First, programmes to provide assistance to the needy include help to certain target groups such as deserted children and youth, the elderly, the disabled, certain groups of women, victims of disasters, landless families, the destitute and hill people. Assistance is provided in the form of supplies for alleviating immediate need (*e.g.* food and accommodation), paying visits and offering advice, arranging foster homes for neglected children, strengthening family relations, and welfare homes. In addition, the DPW provides occupational training for certain groups, such as women (to divert children of poor families from sex-related employment), the disabled and hill people (to increase their productivity and self-reliance).

Second, the DPW is also charged with strengthening social security by working to prevent the emergence of social problems. Activities in this category are very broad indeed. DPW has conducted several community development projects, such as self-help land settlements and hill people development. The former had the objective of helping rural people move to new agricultural land, therefore reducing urban migration, and especially to Bangkok. Assistance is provided for moving costs, equipment and technical assistance to start a new occupation. Because of the importance and volume of work related to self-help land settlements a division was established to handle it. Hill people were known for growing opium. In order to encourage them to grow other cash crops, technical and other assistance was provided. Two divisions were set up to study and handle the problems related to hill people. Although these two functional lines are less significant nowadays, land-settlement and hill people programmes continue to consume 23% of the DPW budget. The DPW has an extensive network around the country. There are public welfare offices in each province and in some districts. The department also encourages and gives support to establish village social welfare centres. The objective is to extend its social services to needy people at the grassroots level. Again, in addition to direct provision of basic social services, various development projects have been carried out through these offices and centres.

Third, DPW has also initiated, supported and controlled funeral assistance associations throughout the country. The objective is to relieve the burden of funeral costs. In addition, DPW operates several public pawnshops with very low interest rates to provide immediate relief for the poor who need cash urgently.

The DPW is also meant to support and promote the participation of non-governmental organisations (NGOs) in addressing social problems. In 1999, 135 organisations received state subsidies of 87.6 million baht through the DPW.

The village social welfare centres (VSWC) are not under DPW control, but are under village heads. In fact, village heads play a crucial role in identifying persons who need assistance at the village level. But even with this assistance, often assistance does not reach the truly poor. Implementation of the programme that provides living allowance to the elders will serve as an example. Since 1994, this programme has given 200 baht (300 baht in 1999 with the help of the Miyazawa Fund) a month to the poor elderly. Each year, officials provide a list of eligible elder entitled to such allowances. In practice, a committee chaired by village head usually gives the list. The DPW conducts some spot checks, but there remain several problems. The elderly living in villages without a VSWC are automatically excluded. Due to budgetary

constraints, a limit of 4-5 persons per village is chosen, meaning that the most needy are not always targeted. Studies have shown that the proportion of the elderly who received the allowance to the needy elderly is lowest in the north-east and highest in the central region. Again, there is a bias against the poor (Phananiramai, McCleary and Chalamwong, 1998).

It should also be noted that the older DPW welfare programmes are not always viewed favourably by those meant to benefit from them. They are often seen as paternalistic, uncaring and poorly funded and equipped. For some programmes, force was sometimes used to implement resettlement plans, especially against hill people and other minorities (Hewison, 1994).

The DPW has been established since 1940. Economic and social conditions have changed enormously since then. Hence, new and innovative methods to extend public welfare are necessary. Therefore, the DPW has created many new social services and activities, while continuing with its customary functions. Once established, a programme, and the division that is responsible for it, is rarely phased out. A lack of effective monitoring and evaluation in state organisations is the root of this problem. At present, the department is divided into 15 official divisions plus seven internal divisions. A study by Juree Vichit-Vadkan (1989: xiii) described these divisions as 'being accustomed to protect their function, guard their resources, extend their own domains, and lack of co-ordination.' This leads to inefficiencies and ineffectiveness. In 1999, 36% of the budget is paid out as wages and salaries to permanent and temporary government employees, 24% for supplies, utilities, equipment etc., and just 38% for direct subsidisation. It thus appears that the administrative cost for these assistance programmes is rather high.

Non-Governmental And Other Organisations

In addition to state support, NGOs and international organisations have given considerable support to social welfare. It is not possible to provide detailed information regarding the history of the involvement of these organisations in this paper, although some brief comments will be made in each of the sections below. Nor is it possible to provide funding information for the plethora of agencies involved; such a list would inevitably be misleading given that accurate and detailed figures are scarce for NGOs.

Non-Governmental Organisations

Religious philanthropy has long been a feature of Thai society, reinforced by missionary activities and immigrant Chinese welfare organisations since the mid-nineteenth century. However, with the exceptions of these organisations

and the Thai Red Cross, it is only in the second half of this century that welfare and development NGOs have expanded significantly. Indeed, it has only been since the early 1980s that government suspicion of NGOs has been reduced. The 1980s and 1990s have seen an explosion in the number of NGOs operating (Pongsapich and Kataleeradabhan, 1997).

In 1989, when a comprehensive survey was conducted, there were some 12 000 foundations and associations, of which more than 44% were in the broad welfare area (Pongsapich and Kataleeradabhan, 1997: 79). This number has certainly grown substantially in the decade since this survey. Most of these organisations are small. The proliferation of NGOs is an indication of a perceived neglect or failure by government to meet welfare and development needs, especially in rural areas and in dealing with disadvantaged and minority groups. There are a number of umbrella organisations operating in the social development and welfare area. Some of these are briefly discussed here, based on the profiles provided by Pongsapich and Kataleeradabhan (1997).

National Council of Women of Thailand (NCWT)

With a pedigree back to 1943, the NCWT came into being in 1956, becoming an NGO in 1975. Amongst other things, the NCWT operates to promote the safety and welfare of women, including raising living standards. It has representation on a number of government planning and policy agencies. While the NCWT has become more oriented to development activities, most of its member organisations are welfare-oriented. It has about 120 member organisations.

Council of Children and Youth Development Organisations (CCYDO)

Set up in 1984 at a meeting of children and youth NGOs, the CCYDO's member organisations are principally interested in the welfare of children and youth. Activities range from charity (in food and shelter) to orphanages and work with the disabled. There is also some emphasis on street children, child workers and child prostitutes. The Council has about 60 member organisations.

National Council of Social Welfare of Thailand (NCSWT)

Established by the DPW in 1960, the NCSWT has over 500 members. The Council is closely linked to the royal family and government departments, and receives state funding. It raises the profile of welfare issues and promotes social development activities that are usually in line with government policies.

Thai Volunteer Service Foundation (TVS)

Formed by 19 development NGOs in 1980, TVS has been one of the mainstays of the NGO movement for rural and community development. It has about 40 member organisations, and focuses on sustainable development activities rather than charity. It supplies well-qualified volunteers for development NGOs, and often organises training for these organisations.

Local Development Institute (LDI)/Foundation (LDF)

These organisations grew out of a Canadian initiative to establish a funding mechanism for local development NGOs that did not require these organisations to act through the government. NGOs apply to LDI to fund their activities. Generally these activities involve grassroots approaches to sustainable development.

NGO Co-ordinating Committee on Rural Development (NGO-CORD)

Formed by 106 development NGOs in 1985, NGO-CORD now has more than 220 member organisations. In corporatist fashion, the establishment of NGO-CORD was encouraged by the NESDB to act as a peak body for the mushrooming development NGOs. This does not mean, however, that NGO-CORD is a quasi-government organisation. It has carefully protected its independence, while actively co-operating with the government in, for example, drawing up national development plans. There are also a number of regional NGO-CORDs.

Primary Health Co-ordinating Committee (PHCC)

Established by health professionals, who were often close to the MOPH, this 22-member organisation began in 1982 as an umbrella and co-ordinating group for NGOs working in rural and community health.

The Impact of NGOs

Assessing the impact of NGOs operating in the welfare and development areas is a task made difficult by the large numbers of NGOs, many very small, and the fact that evaluations tend to be of project or activity effectiveness rather than of the role of NGOs in a sector or as a group. Nevertheless, some general observations can be offered.

Formal welfare remains a state responsibility. However, religious organisations continue to make significant contributions, and the presence of temples and mosques in almost all communities is an important support for local people. In addition, NGOs have made a particular impact in areas neglected by government, in advocacy, and in challenging government strategies. Until recently, the most visible NGOs have been those involved with rural development. Their heritage can be traced to the 1967 establishment of the Thai Rural Reconstruction Movement (Callahan, 1998: 97). In the 1980s development NGOs worked mainly at the village level, evolving development strategies they saw as alternatives to state strategies. The feeling was that the government had been ineffective, and did not reach the poorest rural areas. NGO activities were limited in scope, but did gain recognition, and being in line with changes in international development best practice, began to be supported by international agencies, donors, and eventually, some state agencies. In fact, the 8th National Economic and Social Development Plan reflects the inputs of development NGOs and their activities over the last two decades. This change has had and will continue to have a rural welfare impact. A recent trend has been for some development NGOs to become involved in advocacy, supporting sustainable development and environmental issues affecting poor farmers and fisherfolk.

Other NGOs have operated in welfare areas, including education and health. Health NGOs have been effective in working with MOPH, especially at the local level, where relations between health officials and NGOs have often been close. In addition, health NGOs have played an important advocacy role in developing community-based HIV/AIDS strategies. Advocacy has also been important in addressing issues sometimes neglected by state agencies. An example has been the support provided to ethnic minorities, often developing out of welfare and development activities.

As in other countries, NGOs have been effective because they are able to avoid bureaucratisation and are ‘grassroots’ organisations. However, in Thailand, NGOs have not been seen to replace or fill gaps vacated by government. While NGOs have an uneasy relationship with government, they have not rejected government. Rather, they have tended to demand better government service for the poor and disadvantaged. This has been an effective approach.

International Organisations and Bilateral Assistance

Bilateral and international support for welfare and development emerged from counter-insurgency programmes in the 1950s. Since the early 1960s, virtually all assistance has been disbursed with co-ordination by the Department of

Technical and Economic Co-operation (DTEC). Particularly important in early years were volunteer programmes, such as Peace Corps) began in the 1960s (Pongsapich and Kataleeradabhan, 1997: 53). While their role has declined over the past few years, organisations including the UN volunteers, United States Peace Corps and Australian Volunteers Abroad remained active in the 1990s.

Multilateral international assistance has come from UN agencies and international financial institutions. UN agencies have been active since the 1950s. Agencies include UNDP, ESCAP, ILO, UNICEF, UNFPA, FAO, and WHO. Their operations include studies, technical assistance, local development programmes, and financial assistance to state agencies and, recently, NGOs. The effectiveness of this assistance has been variable.

International financial institutions (IMF, ADB and the World Bank) have a long history of involvement, with the World Bank having had a pivotal role in establishing the country's development strategy since 1957. The World Bank and ADB have been heavily involved in rural and urban development activities, including health, education, sanitation, water, roads, agriculture and other infrastructure activities. By the nature of their operations, these activities have most often been implemented by state agencies.

Bilateral assistance became oriented to rural welfare and development during the counter-insurgency period, responding to the view that poverty was a cause of rural discontent. As counter-insurgency declined, a fuller range of bilateral assistance developed, although rural development and education and training continued to be emphasised. As Thailand developed in the 1990s, some countries (for example, the United States, Canada and Australia) began to wind down their assistance. The effectiveness of bilateral funding has been variable, and it is difficult to assess overall results. Where there have been assessments – for example, of USAID's large programme – these have been cautiously positive (see Muscat, 1997).

Virtually all bilateral funds are disbursed with the co-ordination of the DTEC, which maintains a strong but conservative influence on the kinds of projects funded, and has traditionally directed funds to government agencies. Bilateral funding for NGOs has generally had to be organised through special 'windows', such as support to LDI. Less reliant on DTEC are international NGOs like OXFAM, SCF, CARE and World Vision. These NGOs tend to provide funds to partner organisations, and emphasise community, rural and social development. This funding declined during the economic boom.

Impact Of The Economic Crisis

The 1997-1998 Asian financial economic meltdown was signalled by the Bank of Thailand's expensive venture to shore up the baht. This effort failed, and the baht was devalued on 2 July 1997. The contraction of the economy that followed was spectacular. Whole business empires collapsed, with bankruptcies doubling in 1998, and thousands of companies closing in 1998, and hundreds more in 1999. The impact has been widespread. More than two years since the crisis first hit, there have now been a number of assessments of its impact, some contradictory. Some of these assessments have been utilised in the following brief summary of welfare impacts.

The downturn has had a major impact on Thais. The social consequences have been significant. Many of the income and other gains of the boom decade have been rolled back. A massive restructuring of Thailand's business class is taking place, and national pride has been seriously dented. After decades of expansion, the economy contracted by 1.3% in 1997 and 9% in 1998. Some forecasters believe that the economy has reached bottom, and predict 2-4% growth for 1999. Even if this proves correct, the impact of the crisis will continue to be felt for some time to come. Some of the impacts to date may be summarised here.

The impact on employment has been marked. In 1998, official unemployment approaching two million (about 5.4% of the labour force) was the highest ever recorded (World Bank, 1999b: 7). The crisis saw employment in private firms decline substantially, and together with increased unemployment, it was the informal sector (own account workers) and the public sector where percentage shares of employment expanded. Employment figures also indicate that workers in all sectors saw their paid hours reduced (Kittiprapas, 1999: 29, 35).

In education, the impact of the crisis is unclear. While it has been reported that more than 45 000 students dropped out in 1997, a record, with 69% at the primary level (*Bangkok Post*, 18 February 1999), the World Bank questions this. The Bank reports that enrolments increased and dropout rates declined, but noted a slowing of the rate of increase in the former (World Bank, 1999c: 9). However, it agrees that the crisis pushed increased numbers of poor children out of school earlier, and that dropout rates between primary and secondary school increased. It is noteworthy that despite falling real incomes, average family expenditures on education increased during the crisis period (World Bank, 1999c: 8, 11).

The World Bank estimates that the crisis has meant that a further million people have dropped below the poverty line. Seasonally adjusted per capita incomes declined by almost 14% in the year after August 1997. The poverty index rose

from 11.4% in 1996 to 13% in 1998, with the greatest increases being in the poorer southern and north-eastern regions (World Bank, 1999a: 15).

The impact of the crisis on the poor has been significant. Initially, people laid off from the service and industrial sectors, returned to rural areas, but this appears to have been transitory. However, rural incomes have been reduced and remittances from off-farm family members have been substantially reduced. Recent surveys show that salaries declined by 600-2 000 baht per month, while remittances have been substantially reduced or ceased altogether. It is noted that the poor have seen incomes reduced by up to 25% while the cost of living has risen by as much as 40% (*Nation*, 26 September 1998, 22 March 1999). The World Bank (1999b: 7) has estimated that in the year to February 1998 average money wages declined by 6% in real terms. In addition, there has certainly been a flow of people, seeking increased income or new employment, into more dangerous occupations, including the sex industry.

According to the World Bank (1999c: 15-8), there has been little discernible impact on health. Government budgets have declined, and much of the decline has been in health education and promotion, suggesting that there may be longer-term impacts. It is noticeable that demands on the health sector appear to have increased as people have shifted from private to public suppliers, while family spending on health declined steeply (World Bank, 1999b: 8; 1999c: 18-9).

As well as an increase in demand for government services, the recession has meant a considerable increase in demand for the services of NGO welfare agencies. In 1998 demand for such assistance exceeded the capacity of many agencies. There was considerable debate as to how best to attend to the needs of the poor during the crisis.

The early IMF organised response to the crisis was highly focussed on economic and fiscal targeting. However, as the crisis deepened, and domestic criticism of this approach heightened, more attention was given to ‘social safety nets’. The government, World Bank and ADB, together with bilateral agencies, developed six strategies to address welfare issues, while ‘avoiding the kind of benefits schemes that could distort … labour markets’ (Government of Thailand, 1998: 1). These were:

i) expansion of short-term state employment;
ii) skills upgrading for new entrants to the labour market;
iii) increased funding to primary education to increase its attractiveness;
iv) small loans to the unemployed for establishing businesses;

v) payments to the poor;
vi) set up a public compensation fund for unpaid severance payments; and
vii) a social sector investment programme (SSIP).

The SSIP has involved a range of mechanisms designed to direct funds to rural areas, through loans, infrastructure funding and the like. The Social Investment Fund (SIF) has been given considerable prominence (see World Bank, 1999c). It was meant to finance about 11 000 small projects over three years, and aimed to: (i) improve the access of poor communities to basic infrastructure; (ii) services and employment through the creation of community-level physical and social capital assets; and (iv) advance the decentralisation process by enhancing local decision-making and implementation capacity. These projects were to be in four areas: (i) community economy; (ii) community welfare and safety; (iii) natural resource preservation and management and environmental and cultural protection; and (iv) community capacity building and networking.

The programme has, however, experienced problems with the disbursement of funds, which has been slow, and there have been shortcomings in quality control and monitoring. NGOs have been particularly critical of the programme.

The recession has challenged aspects of the existing welfare system. For example, existing funds have been hard pressed by increased demand for services. One important debate that developed during 1998 involved the state contribution to Social Insurance under the 1990 Social Security Act, as discussed above. There was considerable pressure on government, reportedly from the IMF and World Bank, to reduce the state's contribution as it was considered to distort the labour market. A sub-committee advised the government to continue with the scheme (*Nation*, 9 May, 13 November 1998).

Similar debates have been seen in a number of sectors, with NGOs and other civil society organisations engaging in successful advocacy efforts (World Bank, 1999c). These organisations have also played an important role at the community level, including providing social protection. This has seen increased allocations for programmes such as HIV/AIDS, care of the elderly, enterprise development, and environmental protection (World Bank, 1999c).

To establish these safety net strategies and in order to reflate the economy it was necessary for the government to significantly expand its deficit targets and provide tax incentives (Government of Thailand, 1999: 2). The problem for the government has been that while it has usually appeared to have the will to assist the poor, with limited resources, it has faced huge demands in the business – especially from finance – sector. If one examines recent World Bank (1999a

and 1999c), it is clear that, despite rhetoric regarding 'social safety nets', the emphasis has remained on economic management issues. Indeed, there is a tendency to adopt a 'social capital' approach while de-emphasising government welfare activities.

Directions

Under the 1997 constitution, rights and responsibilities are established regarding access to basic social services in education, health care and the necessities of a reasonable livelihood. The government allocates substantial resources to the provision of these services. However, there remain many impediments to the state's ability to perform its roles and functions effectively and efficiently. The system is highly centralised in its decision making, lacks co-ordination and is subject to considerable duplication of services. The system remains hierarchical and top-down, lacking sufficient stakeholder participation. The current budgetary process is cumbersome and lacks effective monitoring and evaluation mechanisms, further contributing to inefficiency. Inappropriate political interventions have further reduced the effectiveness of the civil service.

Hence, pressure to reform public administration is growing. But, reform is slow as there is only a limited commitment from those inside the system and the pressure from outside is not yet unavoidable. The economic recession has, while putting pressure on the welfare system, has also produced a new impetus for change and improved governance.

One urgent agenda that needs immediate implementation is to accelerate the process of promulgation of organic laws for decentralisation and strengthening local administration. This long overdue process is just beginning to gain momentum and requires considerable political will to drive it forward. While decentralisation and strengthening local administration will be welcomed, the creation of diverse partnership networks outside the public sector is also important. In the area of social services provision, the government must be more target specific and administration should certainly be more decentralised.

A global trend towards public sector contracting out is unlikely to be resisted in the current economic climate, despite considerable public pressure opposing such measures. While there are debates regarding the efficiency gains from these processes, there are services in Thailand that can be effectively delivered by the private sector, and there will be pressure to contract these out. Efforts will also need to be made to move from simple output targeting in the budgetary process to encompass quality indicators that are subject to effective monitoring and evaluation. Undoubtedly a more efficient and cost-effective production and

distribution of social services is needed to achieve an effective coverage for the poor and disadvantaged. However, the approach taken will undoubtedly be the subject of considerable domestic debate.

At the same time, however, the welfare gains that will eventually flow from an economy with renewed growth cannot be ignored. If these gains are to be sustained in the next growth period, the state will need to learn from the lessons of the past and ensure that the gains are more effectively distributed to all sectors of society. This may involve higher state allocations to welfare spending, but in a more carefully targeted, transparent and efficient manner.

Annex Table 1. **Revenue (Million Baht) Generated by Local Governments, Fiscal Year 1995**

Revenue Type	Bangkok		Pattaya		Municipality		Sanitary Districts		Provincial Admin.		Tambon Admin.		Total	
	Baht	*%*	*Baht*	*%*	*Baht*	*%*	*Baht*	*%*	*Baht*	*%*	*Baht*	*%*	*Baht*	*%*
1. Tax Revenue	16 533.3	73.0	124.0	36.9	8 505.1	48.7	4 067.7	61.7	7 894.4	77.6	-		37 124.5	64.9
1.1 Local Collected	3 761.1	22.7	67.5	54.4	1 470.9	17.3	601.4	14.8	58.6	0.7			5 959.5	16.1
1.2 Surcharge Taxes	9 233.9	55.9	41.6	33.5	4 742.2	55.8	2 315.3	56.9	6 895.5	87.3			23 228.5	62.6
1.3 Shared Tax	3 538.3	21.4	14.9	12.0	2 292.0	26.9	1 151.0	28.3	940.3	11.9			7 936.5	21.4
1.4 Other Tax													-	
2. Non Tax Revenue	2 554.8	11.3	22.6	6.7	1 499.8	8.6	470.6	7.1	820.4	8.1	-		5 368.2	9.4
2.1 Charges, Fees, Fines	384.7	15.1	14.5	64.2	470.5	31.4	183.0	38.9	233.9	28.5			1 286.6	24.0
2.2 Property Income	1 744.7	68.3	6.7	29.6	739.8	49.3	225.1	47.8	520.2	63.4			3 236.5	60.3
2.3 Others *	425.4	16.7	1.4	6.2	289.5	19.3	62.5	13.3	66.3	8.1			845.1	15.7
3. Grants	-	-	180.3	53.7	6 511.6	37.3	1 558.8	23.7	1 211.9	11.9	-		9 462.6	16.5
3.1 General			1.5	0.8	725.9	11.1		-	108.0	8.9			835.4	8.8
3.2 Specific			178.8	99.2	5 601.2	86.0	1 225.7	78.6	1 103.9	91.1			8 109.6	85.7
3.3 Others **				-	184.5	2.8	333.1	21.4		-			517.6	5.5
4. Savings and Loans	3 561.4	15.7	9.0	2.7	961.8	5.5	493.9	7.5	248.2	2.4			5 274.3	9.2
Total Revenue	22 649.5	100.0	335.9	100.0	17 478.3	100.0	6 591.0	100.0	10 174.9	100.0	-		57 229.6	100.0
(%)		39.6		0.6		30.5		11.5		17.8		-		100.0

Notes: *Tax from natural resources. ** Grants for education.

Source: The Ministry of the Interior.

Annex Table 2. **Revenue (Million Baht) Generated by Local Governments, Fiscal Year 1997**

Revenue Type	Bangkok		Pattaya		Municipality		Sanitary Districts		Provincial Admin.		Tambon Admin.		Total	
	Baht	*%*	*Baht*	*%*	*Baht*	*%*	*Baht*	*%*	*Baht*	*%*	*Baht*	*%*	*Baht*	*%*
1. Tax Revenue	21 129.3	76.8	15.1	39.9	11 108.9	49.0	4 857.4	52.3	4 426.3	68.1	9 038.0	33.4	50 675.0	54.3
1.1 Local Collected	4 840.8	22.9	73.7	64.0	1 931.6	17.4	652.3	13.4	373.3	8.4	1 105.1	12.2	8 976.8	17.7
1.2 Surcharge Taxes	12 056.1	57.1	22.3	19.4	6 245.9	56.2	2 740.3	56.4	2 975.7	67.2	7 740.1	85.6	31 780.4	62.7
1.3 Shared Tax	4 232.4	20.0	19.1	16.6	2 931.4	26.4	1 464.8	30.2	1 077.3	24.3			9 725.0	19.2
1.4 Other Tax											192.8	2.1	192.8	
2. Non Tax Revenue	2 764.2	10.0	32.9	11.4	1 936.0	8.5	617.1	6.6	533,6	8.2	7 813.5	28.9	13 697.3	14.7
2.1 Charges, Fees, Fines	344.6	12.5	19.2	58.4	592.2	30.6	242.1	39.2	88.7	16.6	6 098.3	78.0	7 385.1	53.9
2.2 Property Income	1 974.1	71.4	11.6	35.3	1 054.9	54.5	309.2	50.1	367.6	68.9	842.4	10.8	4 559.8	33.3
2.3 Others *	445.5	16.1	2.1	6.4	288.9	14.9	65.8	10.7	77.3	14.5	872.8	11.2	1 752.4	12.8
3. Grants	-	-	115.4	40.0	8 501.0	37.5	3 284.5	35.3	1 422.8	21.9	7 778.9	28.8	21 102.6	22.6
3.1 General			64.5	55.9	5 112.6	60.1	796.4	24.2		-	7 519.9	96.7	13 493.4	63.9
3.2 Specific			48.6	42.1	3 159.8	37.2	2 441.3	74.3	1 413.7	99.4	207.3	2.7	7 270.7	34.5
3.3 Others **			2.3	2.0	228.6	2.7	46.8	1.4	9.1	0.6	51.7	0.7	338.5	1.6
4. Savings and Loans	3 636.1	13.2	25.0	8.7	1 143.2	5.0	535.5	5.8	113.2	1.7	2 420.8	8.9	7 873.8	8.4
Total Revenue	27 529.6	100.0	288.4	100.0	22 689.1	100.0	9 294.5	100.0	6 495.9	100.0	27 051.2	100.0	93 348.7	100.0
(%)		29.5		0.3		24.3		10.0		7.0		29.0		100.0

Notes: *Tax from natural resources. ** Grants for education.

Source: The Ministry of the Interior.

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PART II

IMPLEMENTING SOCIAL SAFETY NETS: RECENT ASIAN EXPERIENCES

INDONESIA'S EXPERIENCE WITH SOCIAL SAFETY NETS: LESSONS LEARNED AND FUTURE PROSPECTS

Sudarno Sumarto and Asep Suryahadi [1]

Introduction

Prior to the East Asian economic crisis, Indonesia had achieved considerable progress in improving social conditions as the result of a rapid economic growth coupled with investment in social and agricultural infrastructure. Poverty – by any standard – fell dramatically. For example, between 1970 and 1996 the proportion of the population living below the official poverty line fell from 60% to 11%, *i.e.* a reduction by almost 50%. In fact, Indonesia was considered to be one of the most successful countries in the world in the endeavour to reduce poverty. Also, there were substantial educational and health gains that occurred in the two decades prior to the late 1990s. Similarly, infant mortality rates fell, and the provision of basic infrastructure facilities – water, roads and electricity – expanded significantly.

Beginning in mid 1997 Indonesia was severely hit by a currency crisis, which by the first half of 1998 had already developed into a full blown economic and political crisis. This crisis forced Indonesian households to adjust to the first serious economic contraction in decades. Throughout 1998 real economic growth was –13.7%.[2] This was a sharp turn around from the high growth of the previous three decades, which averaged over 7% annually. During this crisis period, the Indonesian people witnessed the value of their currency fall to as low as 15% of its pre-crisis value in less than one year. This depreciation caused domestic prices to skyrocket (particularly food prices), which led to mass rioting in the capital Jakarta and a few other cities, and in May 1998 these events culminated with the fall of the New Order government which had been in power since the mid 1960s.

The social impact of the crisis has been substantial and it is still evolving after more than three years. An estimate indicates that the national poverty rate

increased from 15.7% in February 1996 to 27.1% in February 1999.[3] During the period, the number of urban poor doubled, while the rural poor increased by 75%. Another study shows that the poverty rate increased by 164% from the onset of the crisis in mid 1997 to the peak of the crisis in the end of 1998.[4] In the labour market, even though the open unemployment rate only slightly increased from 4.7% in August 1997 to 5.5% in August 1998, real wages fell by around one third during the same period.[5] One year later, real wage growth turned positive in most sectors, but the unemployment rate continued to increase to reach 6.4% in 1999.[6]

To mitigate the social impact of the crisis, the government of Indonesia established a series of new and expanded social protection programmes. These programmes – which are widely known as the JPS programmes (an acronym of *Jaring Pengaman Sosial* or 'Social Safety Net' referred to in the text also as SSN) – were launched in early 1998, but many of the programmes did not start until the second half of the year. It was hoped that through the implementation of these social safety net programmes, the worst impacts of the crisis such as widespread hunger, malnutrition, poverty, unemployment, and children dropping out of schools could be prevented or at least reduced.[7]

The Indonesian Social Safety Net Programmes

Pre-Crisis Social Safety Nets

It is important to note that before the crisis Indonesians had never relied on government safety net programmes. The country has neither the economic apparatus nor the political mechanism required to deliver large scale, widespread, transfer programmes. Social spending was largely focussed on 'social services', with the family and communities providing 'social insurance'. Indonesia did not have a social safety net system like the one that exists today. Exceptions to this are social security schemes mandated for employees in medium and large enterprises (Jamsostek), the public service (Taspen), the military (Asabri), and health insurance for employees (Askes).[8] In addition, there were also subsidised health schemes. As events evolved during the crisis, however, these schemes proved ineffective as social protection for the majority of the population, simply because they excluded most of the population, particularly the poor. Indeed around 65% of Indonesia's workforce are found in the informal sector where compulsory social security schemes can not be applied.[9] Establishing the social safety net in Indonesia starting in 1998 was therefore more of a case of casting a new net rather than expanding an existing one.

Traditional Coping Strategies

It is important to understand that people were not merely passive victims of the crisis. They found ways to cope with the impact of these events using their own initiative, and also by relying on their families, friends, communities, and also (to varying degrees) by accessing government programmes. A survey in December 1998 asked about how they had coped with the crisis. The results revealed three main strategies: reducing expenditures, borrowing, and attempting to raise incomes.[10] In reducing expenditures, non-necessities were cut most frequently – clothing (68%) and recreation (53%) were the most frequently cited. Then followed necessary expenses, such as reducing the quality of foods (52%) and reducing transportation expenses (48%). Another 38% of the poor and 22% of non-poor were even forced to reduce the quantity of food consumed. A second option for the poor was to maintain necessary expenditures by borrowing or selling assets. The most frequent means to achieve this was to borrow from others, a method adopted by almost a third of the poor (and a quarter of the non-poor) during the crisis. The third option was trying to raise incomes. In a flexible labour market, this can be achieved by taking additional jobs, working longer hours, or increasing the number of members of the family who are working.

Social Safety Net Programmes as a Response to the Crisis

At the onset of the Indonesian crisis, an important concern raised was whether achievements that had been made in the social sectors and poverty reduction over the previous decades could be sustained. Furthermore, there were warnings about looming severe social impacts of the crisis.[11] This prompted the Indonesian government to react rapidly and institute a number of interventions aimed at safeguarding real incomes as well as access to social services for the poor.

There were several new social safety net programmes launched.[12] These programmes were intended to help protect the traditionally poor as well as the newly poor due to the crisis through four strategies: (i) ensuring the availability of food at affordable prices for the poor, (ii) supplementing purchasing power among poor households through employment creation, (iii) preserving the access of the poor to critical social services, particularly health and education, and (iv) sustaining local economic activity through regional block grant programmes and the extension of small scale credit. Table 1 recapitulates the areas and major programmes of the newly established Indonesian social safety net. The programmes launched were designed by the central government and were intended to have the following characteristics: quick disbursement, direct

financing to beneficiaries, transparency, accountability, and participatory. At least as shown by some anecdotal evidence, these objectives were not always achieved.[13] A brief description of each major programme is discussed below. This is followed by a discussion on the targeting methods of the programmes in the next sub-section.

Table 1. **Areas and Major Programmes of the Indonesian Social Safety Net**

Safety Net Area	Programme
Food security	OPK programme: sales of subsidised rice to targeted households
Employment creation	"Padat karya": a loose, uncoordinated, collection of several 'labour intensive' programmes in a variety of government departments
	PDM-DKE: a 'community fund' programme that provides block grants directly to villages for either public works or revolving credit funds.
Education	Scholarships and block grants: provides ▪ Scholarships directly to elementary (SD), lower secondary (SLTP), and upper secondary (SMU) students ▪ Block grants to selected schools
Health	JPS-BK: a programme providing subsidies for ▪ Medical services ▪ Operational support for health centres ▪ Medicine and imported medical equipment ▪ Family planning services ▪ Nutrition (supplemental food) ▪ Midwife services

Sale of Subsidised Rice (OPK)

This programme is the main component of the government effort to maintain food security, particularly for the poor and the newly poor because of the crisis, which may have been hindered by both falling real income and food price escalation. This programme is popularly called the "OPK" programme, an acronym of *Operasi Pasar Khusus*, which literally means 'special market operation'.[14] Under this programme, each eligible household is allowed to purchase 10 kilograms of rice per month at a highly subsidised price of Rp. 1 000/kg.[15] For comparison, the average market price for medium quality rice in the second half of 1998 was around Rp. 3 000/kg.[16] Originally, only households in the lowest category of official classification were eligible to participate in the

programme.[17] But coverage was expanded to include the second lowest category during the course of the year.

Since this programme tries to ensure that the poor can afford to buy rice, which is the staple food for most Indonesians, it is probably the most critical component of the JPS programmes. One impact of the crisis was a shooting up of prices, particularly those of food, which made basic necessities practically out of reach for the poor, at least in the very short run before their nominal incomes could expand to keep pace. The provision of cheap rice for the poor, therefore, was deemed essential in avoiding widespread hunger, which might exacerbate the already chaotic political and economic situation of the country at that time.[18]

Employment Creation

This programme is popularly known as *padat karya* (which means, as an adjective, 'labour intensive') programme. *Padat karya* is not a single programme but a large set of activities under the category of employment creation. These programmes were created as a response to the threat of burgeoning unemployment because the economic contraction had forced many firms to either lay off workers or shutdown completely. In accordance with the urban nature of the crisis, the initial geographical targets for the first round of *padat karya* 'crash programmes' in the fiscal year 1997-1998 were directed to urban areas plus some rural areas which experienced harvest failures.[19]

Following on these 'crash programmes', in fiscal year 1998-1999 there was a proliferation of "padat karya" programmes, where there were 16 different programmes which fell into the 'employment creation' category.[20] These programmes can be classified into four types. First, some programmes were a redesigning of ongoing investment and infrastructure projects into more labour intensive type projects and modes of contracts. Second, other programmes gave block grants to local communities (such as the *Kecamatan* Development Programme, Village Infrastructure Project, and PDM-DKE Programme). These funds were directed to poorer areas, and had 'menus' for the utilisation of the funds that included the possibility of public works with a labour creating effect. A third set were special labour intensive works carried out by sectoral ministries (*e.g.* the Manpower Ministry that re-trained laid off workers). These programmes included both rural and urban areas and industries such as the forestry industry. A fourth type of programme, was a 'food for work' programme', typically launched by international donors and NGOs in drought stricken areas.

Scholarships and Block Grants to Schools

At the earlier stage of the crisis there was a worry that the crisis may force parents to withdraw their children from schools as a way to cope with falling incomes and rising costs, hence triggering a large increase in school drop out rates. This alarmed the government, which led it to establish an education funding support programme. The programme was started in the academic year 1998-1999 and there is a plan to end the programme in the year 2003.

This programme has two components, one is scholarships for students from poor families to enable them to stay in schools, and the other is block grants to schools to help them continue operating.[21] The scholarships provide cash of Rp. 10 000, Rp. 20 000 and Rp. 30 000 per month for primary, lower secondary, and upper secondary school students respectively. These amounts generally cover the cost of school fees and can be used for that purpose or to cover other expenses.

This programme was intended to reach at most 6% of primary school students, 17% of lower secondary school students, and 10% of upper secondary school students nation-wide, including students from religious schools. Because the programme was targeted, it is expected that the coverage will be higher in some districts and lower in others. In addition to the scholarship grants, the poorest 60% of schools on each district were targeted to receive a block grant.

Health

There was a concern early in the crisis that the falling real incomes and the increasing costs of medical services due to the crisis might force poor and new poor households to abandon modern medical services. This threatened to reverse significant gains made in the area of health over the last two decades. To prevent such a reduction in the provision of health services, the government established the JPS programme, known as JPS-BK (JPS *Bidang Kesehatan* or 'Health Sector JPS') programme. Through this programme it was hoped that the poor would not be forced to stop using modern medical services even though they could no longer afford them. Programme activities included providing subsidies for medicines and imported medical equipment, operational support funds for community health centres, free medical and family planning services, and supplemental food for pregnant women and for children under three years old.

Method of Targeting

In general, the targeting for JPS programmes was based on a combination of household and geographic targeting. Table 2 summarises the targeting of major JPS programmes. The targeting for some programmes used a household classification created by the National Family Planning Co-ordinating Agency (BKKBN). In this classification, households are divided into four socio-economic status groups: 'pre-prosperous household' ("*keluarga pra-sejahtera*" or KPS), 'prosperous I household' ("*keluarga sejahtera* I" or KS I), KS II, and KS III. The KS I to KS III categories are often lumped together as the KS or 'prosperous' category.[22] Originally, eligible recipients for some JPS programmes were only KPS card holders, but for some programmes eligibility was extended to include KS I households as well (*e.g.* the OPK programme). The sale of subsidised rice and the health programmes explicitly used this BKKBN household classification for targeting. The selection of recipients in the scholarship programme was also supposed to take into account their BKKBN household status.

The *padat karya* programmes consisted of quite diverse programmes and although specific programmes were targeted to areas (*e.g.* suffering drought), the lack of co-ordination meant that there was little or no systematic geographic targeting of the set of programmes overall. Within programmes there were a variety of disagreements about desired characteristics of intended participants, but typically the beneficiaries were not chosen according to fixed administrative criteria. Hence, to the extent that there was targeting, it was primarily through self-selection. Only those who were willing to work should have been able to receive the benefit. This self-selection mechanism has the advantage over administrative criteria of allowing individuals to choose to participate or not and creates the possibility of being more flexible to unobserved household shocks than administrative criteria.

Although there were a variety of *padat karya* programmes, all the programmes were established with the objective that the wages would be paid as a benefit to the poor and to newly unemployed workers. While these programmes should be available only for those who were already unemployed and were willing to receive the wage rate, it is well known that the level of the wage is critical for achieving good targeting outcomes in employment programmes.[23] If this target is achieved, most, if not all, of the jobs will go to the poor.

In the scholarship programme, scholarship funds were first allocated to schools so that "poorer" schools received proportionally more scholarships. In each school, the scholarships were then allocated to individual students by a school committee, which consisted of the principal, a teacher representative, a student

representative, the head of parents' association as the representative of community, and the village head. The scholarship recipients were selected on a combination of administrative criteria (which included a number of factors, such as household data from school records, the family BKKBN status, the size of the family, the likelihood of the student to drop out) and the committee's decision.[24]

Table 2. **Targeting Mechanism in JPS Programmes**

Programme	***Targeting***	**Fiscal Year 1998-1999**	**Fiscal Year 1999-1900**
Food Security (OPK)	Geographic	None	None
	Household	BKKBN list	BKKBN list with flexibility
Community Empowerment Funds (PDM-DKE)	Geographic	Pre-crisis data	Updated with Bappenas regional data
	Household	Local decision making	Local decision making
Employment Creation (Padat Karya)	Geographic	None, various ministries	Urban areas, based on employment
	Household	Weak self-selection	Self-selection
Scholarships and block grants to schools	Geographic	Old data on enrolment	Poverty data updated to 1998
	Household	School committees following criteria	School committees following criteria
Social Welfare (JPS-BK)	Geographic	BKKBN pre-prosperous rates	Updated pre-prosperous estimates to 1999
	Household	BKKBN list	BKKBN list with flexibility

School students in all but the lowest three grades of primary school officially were eligible. In principle, students selected to receive the scholarships were supposed to be from the poorest backgrounds. As a guidance, scholarships were to be allocated to children from households in the two lowest BKKBN rankings at first. If there were a large number of eligible students so that not all of the poor students could receive a scholarship, then additional indicators were used to identify the neediest students. These additional indicators included living far from school, having physical handicaps, and those coming from large or single parent families. Also, a minimum of 50% of scholarships, if possible, were to be allocated to girls.

In the health programmes, the free medical and family planning services programme was implemented by giving 'health cards' to eligible households. Eligibility in this programme was also based on the BKKBN household status.

A health card given to a household can be used by all members of the household to obtain free services from designated hospitals, clinics, and health care centres for medical and family planning purposes, including pregnancy check up and birth delivery services.

Implementation of Social Safety Net Programmes[25]

In this section we present the results of an analysis on the coverage and targeting effectiveness of seven major social safety net programmes implemented in the fiscal year 1998-1999. The programmes evaluated here are the subsidised rice programme, the employment creation programme, primary school scholarships, lower secondary school scholarships, upper secondary school scholarships, free medical services, and nutrition (supplemental food) programmes.

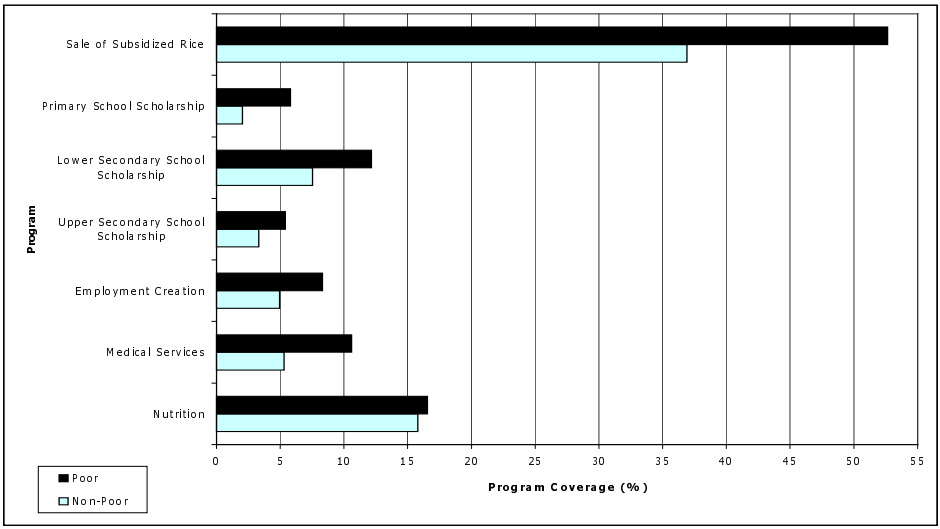
The data used were collected through the JPS module of the 1999 National Socio Economic Survey (SUSENAS) by Statistics Indonesia (BPS). The period evaluated in the survey is the six months prior to the time of the survey in February 1999, except for the medical services programme which is the three months prior to the survey. In the analysis, the samples in each district are grouped into quintiles of per capita expenditure, where the first quintile (Q1) is classified as poor, and the second to fifth quintiles (Q2-Q5) as non-poor. This means that the focus of the analysis is on the targeting within district by asking the question of whether the households which are relatively poor within the district (*i.e.* the bottom 20%) received the benefits in that district.

Programme Coverage

Figure 1 summarises the national level coverage among the poor and non-poor of all the programmes analysed in this study. The sale of subsidised rice programme stands out as the programme with the highest level of coverage. More than a half of all poor households in Indonesia reported receiving the benefits of this programme, while more than a third of non-poor households also reported receiving the benefits. The second highest coverage is found in the nutrition programme. Around 16% of both poor and non-poor households reported receiving the benefits of this programme. Meanwhile, two programmes with the lowest coverage are primary and upper secondary school scholarship programmes. In both, only around 5% of poor students reported receiving the scholarships. Overall, these results indicate a large degree of 'undercoverage' simultaneously with a large degree of 'leakage' in the JPS programmes. 'Undercoverage' is defined as proportion of the poor which is not covered by a

programme, while 'leakage' is defined as proportion of benefits which goes to the non-poor.

Figure 1. **National Coverage of Various JPS Programmes**



The coverage of the subsidised rice programme indicates that nationally 40% of over 50 million households in Indonesia are estimated to have received the benefits of this programme during the six months evaluation period. However, the distribution of programme benefits does not seem to be specifically directed toward the poor. The coverage of this programme among the poor was 52.6 %, while coverage among the non-poor was relatively high at 36.9 %.

The implied number of households who reported having received the benefits of the subsidised rice programme is 20 200 235. This is twice the official reported number of beneficiaries of this programme, which was 10 354 445 households in February 1999. This discrepancy indicates two things. First, while the official report indicates the number of beneficiaries in a certain month, the SUSENAS data indicate the total number of households who ever received the programme benefits during the six months evaluation period. The data show that almost a half of the recipients reported to have only bought rice under the programme once or twice in six months, indicating that the delivery of benefits was irregular in most areas. Second, and more importantly, while the official report reflects the number of eligible households, the SUSENAS data reflect the actual number of beneficiaries. The implication of this is that while the rice allocated to an area was based on the number of eligible households, it had to be allocated

to a much higher number of households, implying a lower amount of rice for each recipient than stipulated in the programme guidelines.[26]

In the employment creation programmes, the data indicate that 5.6% of households have at least one member who participated in a *padat karya* programme. Programme coverage among poor households is 8.3% compared to 4.9% among non-poor households. On average, each participating household claimed to have spent 27 man-days in *padat karya* programmes during the 6 month evaluation period, or an average of 4.5 man-days per month. The type of activity conducted most was repairing roads, and 64% of programme participants reported having been involved in this activity. Other activities included repairing irrigation, which was done by 35% of participants, cultivating unused land (14% of participants), repairing flood plain (12% of participants), and other activities (16% of participants) with many participants being involved in more than one activity.

The significant participation of non-poor households in *padat karya* programmes probably has to do with the level of wages offered by these programmes. The average daily wages received by the participants of *padat karya* programmes was Rp. 6 073. While this is significantly lower than the average daily wages in the construction sector, which according the 1999 National Labour Force Survey (Sakernas) was Rp. 13 755, it was comparable to the daily wages in the food crop sector which averaged at Rp. 6 350. The level of wages received and the average working day of participating household imply that each programme participant on average received benefits of around Rp. 27 500 per month from the programme.

For the scholarship programme, the targeted coverage of this programme is 6% for primary level students, 17% for lower secondary students, and 10% for upper secondary students. If the 6% target of coverage at the primary level is achieved and all the scholarship recipients are students from poor households, then we should expect the programme coverage to be 30% among the poor and zero coverage among the non-poor. The data indicate that nationally 4% of all primary school students in the country received the scholarships.[27] This means only 67% of the 6% target was achieved. Further, Figure 1 shows that programme coverage among the poor students was only 5.8%, far less than the 30% target possible with "perfect targeting". This compares to 3.6% coverage among the non-poor students.

With regard to the lower secondary school scholarship programme, if the 17% target of this programme is achieved and all recipients are students from poor households only, then we should expect 85% programme coverage among poor students with none of the non-poor students receiving a scholarship. The data

show that in reality the national coverage of this scholarship programme is 8.4%, which is only about a half of the 17% target. The actual programme coverage among the poor students is only 12.2%, far below the 85% target with "perfect targeting".

With regard to the upper secondary school scholarship programme, if the 10% target of this scholarship programme is achieved with "perfect targeting", then we should expect 50% programme coverage among poor students and no coverage among the non-poor students. The data show that the national coverage of this scholarship programme is only 3.7%, much less than the 10% target. Meanwhile, the programme coverage among poor students is only 5.4%, only around a tenth of the 50% target with "perfect targeting".

In terms of the level of scholarships, data indicate that 78% of the primary school scholarship recipients reported receiving the exact amount of Rp. 10 000 per month as officially stipulated. 6% of recipients claim to have received less than Rp. 10 000 per month, which may indicate that the schools already deducted school fees from the scholarships. However, 16% of recipients reported receiving scholarships valued at more than Rp. 10 000 per month. This may indicate one of two things. First, schools gave the scholarships to a smaller number of students than the scholarship allocation, so that each student received a higher amount than stipulated. Second, some of these students received scholarships from more than one source. Unfortunately, this cannot be verified from the data.

77% of the recipients of the primary scholarship programme reported receiving the exact amount of the scholarships, *i.e.* Rp. 20 000 per month. 11% claimed to have received less while 12% claimed to have received more. In contrast to primary and lower secondary scholarships, 85% of upper secondary scholarship recipients claimed to have received less than the stipulated amount of Rp. 30 000 per month. Only 6% of recipients reported receiving the exact amount, while the remaining 9% claimed to have received higher amounts.

The medical services programme, as explained in the section II, is implemented through the distribution of health cards to eligible households. It has been mentioned that the card can be used by all members of an eligible household to obtain free services from designated public hospitals, community health centres, or village clinics for medical or family planning purposes, including pregnancy check up and birth delivery services. However, households that owned health cards did not always use their cards when the household members visited designated providers. The data show that 11% of the population were given health cards, among whom 31% experienced an illness in the 3 months prior to the survey, but only 50% of them sought medical care. Of those who went to a

public hospital, only 60% used their health cards, while for those who used community health centres the figure was 52%, for those who used the services of the village midwife the figure was 12%, and for those using other health facilities, 31% used their health card

We cannot be certain, but one possible reason for health cardholders not using their card is to obtain better services from the providers. Among those who have health cards and seek medical services in public hospital, the average out of pocket expenses for those who used the health cards is Rp. 41 312, while those who chose not to use their health cards on average spent Rp. 2 972 338. This indicates a very large potential saving from using a health card. Hence, there must be a strong reason for not using the cards. Perhaps people chose not to use their health cards because they wanted better medical treatment. This would be a plausible explanation in the event of a serious illness. The amount of money involved however is considerable. The average amount spent by health care card holders who sought treatment in a public hospital without using their health card (Rp 2 972 338) is higher than the average amount spent by those in a public hospital who were not eligible for a health card (Rp 2 561 291).

Due to the prevalence of the non-use of health cards, the calculation of coverage of this programme is only applied to individuals in the sample who experienced an illness, visited a provider to treat the illness, and used the health card in the past three months.[28] The data indicate that of all the people who underwent medical treatment, 6.3% of them used health cards to obtain free services. Among the poor only, the proportion of those who used health cards is 10.6%, while among the non-poor 5.3% also used health cards to get the benefits of this programme.

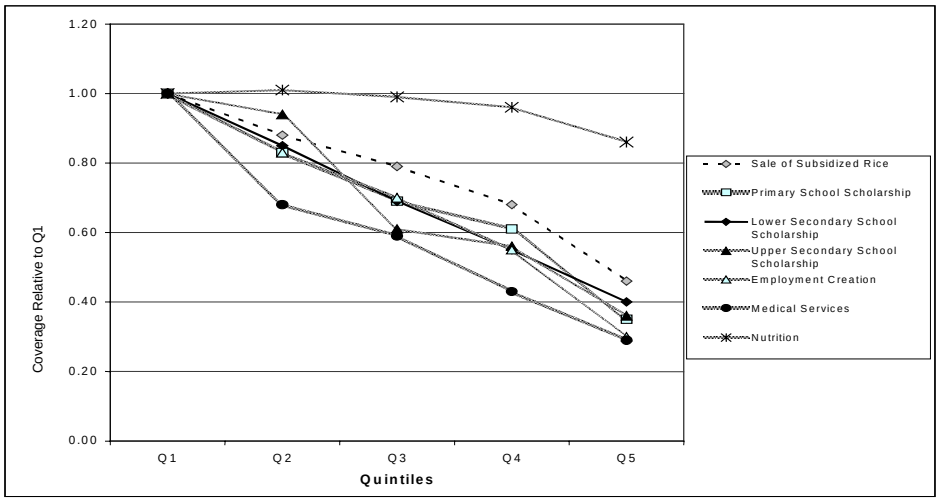
The coverage of supplemental food for pregnant women and for children under three was 15.9%. 16.5% of the poor in this category received the benefits of this programme, while the coverage among the non-poor is only marginally lower at 15.8%.[29] Of those who received supplemental food, 55% reported receiving both food and vitamins, 31% reported receiving food only, while the remaining 14% claimed to have received vitamins only.

Programme Targeting

In terms of targeting, Figure 2 shows the coverage of the programmes across quintiles of per capita expenditure relative to the level of coverage at the poorest quintile. Hence, a steeper curve indicates a sharper targeting across per capita expenditure. It turns out that the best and worst targeting are both found in the health programmes. The medical services programme has the sharpest targeting,

while the nutrition programme has the least effective targeting. In the medical services programme, coverage dropped sharply in the second quintile and then dropped gradually from the third to the richest quintile. Actually, the coverage of the employment creation programme in the richest quintile was almost as low as that in the medical services programme, but the drops in the programme coverage across quintiles were more gradual. There was also a notable drop in the coverage of the upper secondary school scholarship programme from the second to the third quintile.

Figure 2. **Programme Coverage of Various JPS Programmes Relative to Q1**



In the sale of subsidised rice programme, almost a quarter of households in the richest quintile still receive programme benefits, which is almost half of the level of coverage at the poorest quintile. The proportion of households at the richest quintile who participated in a *padat karya* programme is 30% of the participation at the poorest quintile. For other programmes, coverage at the highest quintile relative to coverage at the lowest quintile is 35% for primary school scholarships, 40% for lower secondary school scholarships, 37% for upper secondary school scholarships, 29% for medical services, and 86 % for the nutrition programme.

Multiple Coverage

As there were many social safety net programmes in place at the same time, the participation of households in multiple programmes is worth investigating. Table 3 shows the distribution of households by the number of social safety net programmes in which they participated.[30] The table shows that even though there are relatively many social safety net programmes established by the government, they still entirely left out 32% of households in the poorest quintile. On the other hand, the programmes have given benefits to 21% of households in the richest quintile.

Table 3. **Distribution of Households by the Number of JPS Programme Participation and Quintile of Per Capita Expenditure**

No. of Programmes	QI	QII	QIII	QIV	QV	Total
0	32.1	42.4	51.6	62.5	78.7	53.5
1	47.2	43.8	38.7	32.1	19.3	36.2
2	16.9	11.8	8.7	5.0	1.9	8.8
3	3.4	1.8	0.9	0.4	0.1	1.3
4	0.4	0.2	0.1	0.0	0.0	0.1
5	0.0	0.0	0.0	-	-	0.0
6	0.0	0.0	-	-	-	0.0
7	-	-	-	-	-	-

Among households that participated in the social safety net programmes, the large majority participated in only one programme. Very few households participated in more than three programmes and none participated in all seven programmes. Among the poorest 20% of households, 17% received benefits from two programmes and 3.4% received benefits from three programmes. Meanwhile, among the richest quintile households, those who received benefits from the social safety net programme mostly participated in only one programme and less than 2% participated in more than one programme. However, among the second richest quintile households, the proportion of those who received benefits from more than one programme is still substantial, *i.e.* more than 5%.

Regional Heterogeneity

Over the last thirty years Indonesia has been administered through a heavily centralised form of government. As a result, all of the key social safety net programmes were designed by the central government. Even when the programmes allowed for local decision making, the structure and scope of those local decisions were carefully specified in centrally drafted programme guidelines. Despite this, there were huge variations across regions in how widely and how well the programmes were implemented.[31]

This sub-section presents estimates of district level coverage among the poor as well as the non-poor of two JPS programmes. Figure 3 represents the coverage of the subsidised rice programme, *i.e.* the programme that has the highest coverage. Figure 4 presents the coverage of medical services programme, *i.e.* the programme that has the sharpest targeting. Each dot in Figures 3 and 4 represents a district, of which there are more than 350 throughout Indonesia.

From Figure 3, two conclusions immediately emerge about the district level coverage of the subsidised rice programme. First, coverage among the non-poor is highly positively correlated with coverage among the poor (the correlation is 0.92). Districts that have low coverage among the poor also have low coverage among the non-poor, and *vice versa.* This means that within districts, the benefits of this programme have been distributed almost proportionately between the poor and non-poor. Only very few districts specifically favour the poor in the distribution of OPK rice. Second, the range in the level of coverage across districts is very wide, almost continuously from near zero to almost 100% coverage. This suggests that the resources distributed through this programme have varied widely across districts.[32] Some districts have received a lot of resources, while others have received very little.

Meanwhile, Figure 4 demonstrates that the medical services programme also faced difficulties in reaching the majority of the poor. Most districts have achieved coverage among the poor of less than 10% and very few districts have coverage among the poor higher than 20%. Nevertheless, compared to other JPS programmes, the medical services programme seems to have achieved better targeting of programme recipients. In most districts, coverage among the non-poor remains under 10%, even in those districts where coverage among the poor increased to 30%.

Budget, Benefits, and Beneficiaries

Implementing the social safety net programmes was a costly exercise, particularly for a country suffering from an economic crisis. On the one hand the government faced shrinking revenues as the tax base was eroded by the crisis, and on the other it had to deal with the severe social impact of the crisis. However, the government had no alternative as the social costs from doing nothing to lessen the impending social impact of the crisis were anticipated to outweigh the financial costs of the SSN programme. Hence, the government implemented the social safety net programmes with a budget that was partly supported by foreign loans.

Figure 3. **District Level Coverage of the Subsidised Rice Programme**

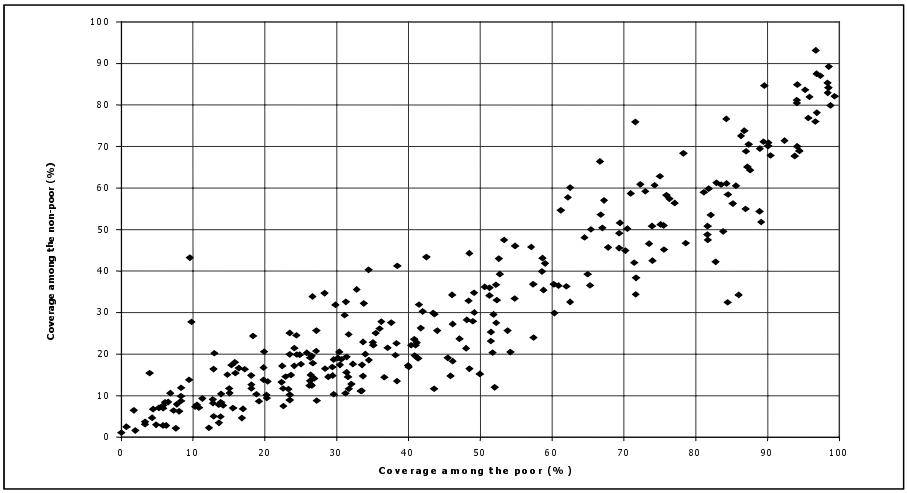


Figure 4. **District Level Coverage of the Medical Services Programme**

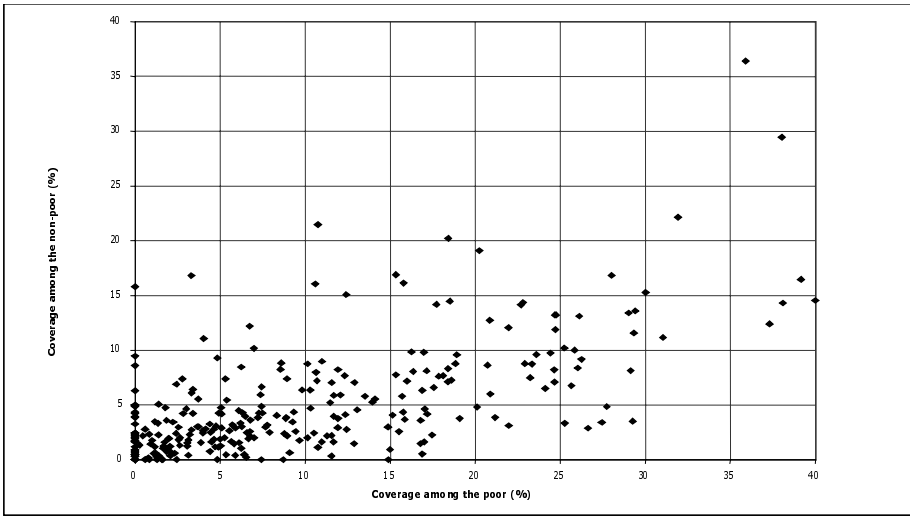


Table 4 shows the budget allocation of the social safety net programmes during the fiscal year 1998-1999 to 2000. The total budget continued to decline over time both in terms of the absolute amount as well as in terms of the proportion from the total budget. This reflects three things. First, financing constraints continued to be a major problem in implementing these large-scale programmes. Second, over the course of time it became apparent that the social impact of the crisis was not as catastrophic as earlier predicted. Hence, the government could afford to downsize the overall programme. Third, as lessons were learned, the government became more selective in choosing the programmes it wanted to continue and dropped the ones that were considered non-essential or ineffective.

Table 4. **Budget Allocation of the Social Safety Net Programmes**
(Rp. Billion)

Programme	1998-1999	1999-2000	2000*)
Sale of Subsidised Rice	5 450	6 235	2 232
Scholarship and School Block Grant	1 138	1 251	667
Employment Creation	2 066	1 000	441
Health (JPS-BK)	1 043	1 030	867
Other Programmes	5 123	2 357	1 255
Total Social Safety Net Programmes	14 820	11 873	5 462
Total Government Budget	263 888	212 699	183 069
Percentage of Social Safety Net Budget	5.62	5.58	2.98

Note:*) In the year 2000 the government changed its fiscal calendar from April-March to January-December. Hence the transitional fiscal year 2000 was only for a 9 month period from April to December.

As indicated by the budget allocation, the sale of subsidised rice continued to be the programme that was deemed as the most essential by the government. When in the fiscal year 1999-2000 the overall budget for the social safety net programme was reduced from Rp. 14.8 to 11.9 trillion, the budget allocated to the sale of subsidised rice programme was in fact increased from Rp. 5.5 to 6.2 trillion. Hence, the proportion of budget allocated to this programme increased from 37 to 53% from the total budget of the social safety net programmes. Similarly, the budget allocation also indicates that the government viewed the scholarship programme and the health programme as essential. On the other hand, the employment creation programme, which received a relatively large budget in the first year, was downsized substantially in the subsequent years.

The budget allocation was based on assumptions of the number of targeted beneficiaries, the size of benefit for each recipient, and the costs associated with delivering the benefits to the recipients. Despite the best planning efforts, sometimes assumptions made in Jakarta did not hold true when the programmes were implemented. Table 5 shows the benefits and the estimated number of recipients of some social safety net programmes as of February 1999.

Table 5 shows that the sale of subsidised rice programme has the highest number of recipients (more than 20 million households). The next highest number of recipients is in the employment creation programme with around 3.5 million people and the nutrition programme with around 3 million people. Meanwhile, the smallest number of recipients is found in the upper secondary scholarship programme with fewer than 250 000 students.

Table 5. **Benefits and Beneficiaries of the Social Safety Net Programmes**
(as of February 1999)

Programme	Monthly Benefit (Rp)	Estimated Number of Recipients
Sale of Subsidised Rice	20 000	20 198 550
Primary School Scholarship	10 000	1 184 660
Lower Secondary School Scholarship	20 000	874 793
Upper Secondary School Scholarship	30 000	238 588
Employment Creation	27 500	3 496 075
Medical Services	-	1 744 691
Nutrition	-	3 183 642

Note: Monthly benefits are based on programme guidelines, except for employment creation, which are the actual benefits. Estimated numbers of recipients are individuals, except for sale of subsidised rice, which represents the number of households.

The actual benefit delivered to each recipient of the sale of subsidised rice programme is estimated to be smaller than the designated amount, given that the number of actual recipients is much higher than the number of officially eligible households and many recipients did not receive the benefits regularly. Most of the primary and the lower secondary school scholarship recipients received the designated amounts of Rp. 10 000 and Rp. 20 000 per month respectively. The recipients of the upper secondary school scholarship, however, mostly received Rp. 25 000 per month, lower than the designated Rp. 30 000 per month. The monthly benefit of the employment creation programme of Rp. 27 500 is calculated as the average daily wage times the average number of working days per month of the programme participants.

The value of the medical services programme benefit cannot be estimated from the available data. The survey asked the costs of the services paid by programme recipients, however, they only include the out of pocket expenses of the programme recipients. The value of the medical services performed is not included in these costs as they were provided free of charge. Similarly, the value of the benefit received by participants from the nutrition programme cannot be estimated due to the same constraint.

Problems and Adjustments

The Varieties of Targeting Experiences

Targeting of beneficiaries in social safety net programmes requires detailed administrative guidance as well as community involvement if it is to be both

effective as well as socially and politically acceptable. The previous section discusses the issues of benefit incidence and targeting in the JPS programmes, suggesting several useful lessons, in particular, about the ways in which targeting did, or did not, have the desired effect.

OPK (Food Security). The experience of the sale of subsidised rice programme revealed that centrally planned administrative guidelines often proved socially unacceptable at the community level. In its first year, the eligibility of households to receive OPK rice was based on lists of families classified according to "welfare" status by the family planning agency. However, almost as soon as the programme began, observers noticed that local leaders responsible for implementation of the programme did not adhere to the list of eligible households, but rather distributed the rice to a much larger group. As a result, while each eligible household was theoretically entitled to 10 or 20 kg of rice, in many cases they received lower amounts, while other households, which were not officially eligible, also received allocations.

The quantitative findings from SUSENAS data confirm anecdotal reports from field studies that there have been pressures from villagers to distribute the OPK rice more widely rather than following strictly the allocation criteria. Many more households received rice than were on the eligibility lists, and they received substantially less than the official entitlement. The magnitude of those, even in the top quintile, receiving the programme benefits suggests powerful pressures for uniformity.

There are three main arguments made by village heads to justify this practice. First, the official list is not an accurate list of those who are in need, as due to the crisis, many households that formerly were not poor are also now in need of assistance. Second, even if the list is accurate, the distinctions drawn are too fine: the differences between those households who are entitled and those who are not does not justify one group receiving 10 or 20 kgs of rice while the remainder receive nothing. Third, village heads and community leaders argue that the targeted distribution of this central government benefit is inconsistent with the spirit of community solidarity and self-help (*gotong-royong*). If everyone is expected to contribute their labour to community projects, then everyone should also benefit from windfall outside assistance.

These arguments are quite compelling and raise important questions about the structure of 'optimal' targeting. It may well be that communities know better than the central government and that the official classification may not capture

those who truly need the rice within any given community. Hence it is possible that some of what is recorded as going to those who are "non-eligible" is not really mis-targeting, but is a justifiable correction of the official eligibility criteria. However, it is also possible that local social pressures have led to uniform or equal distribution simply as the only allocation that is perceived to be 'fair'. The danger is that this may result in a simple 'equal' distribution which, given the fixed total amount of rice available, results in a lower benefit for the poor.

In fiscal year 1999-2000, the procedures for determining eligible households were expanded to allow for local flexibility and the addition of households to the list, combined with procedures for publicising such a list (for example, through discussion at a local open meeting). This is intended to allow necessary local flexibility while at the same time preventing a completely uniform distribution.

Padat Karya. (Employment creation schemes). In practice, there were several problems with the targeting of these programmes. First, the programmes were not rigorously held to a minimum wage, and in many cases the wage levels were increased (or the daily hours reduced for the same payment) to attract workers. In some regions, the wage rate was set higher than the prevailing local wage rate, thus inducing those already working to switch jobs or take additional jobs. Second, there is some anecdotal evidence that participants were not actually required to work. Field investigations uncovered evidence of "ghost workers," who were present on the records as being paid for the day but not present on the site. Third, field reports also indicate other shortcomings in the selection of beneficiaries, such as favouritism in giving jobs to family and friends of local officials.[33]

PDM-DKE (Community fund for public works or revolving credit schemes). The community fund scheme component of the social safety net programme permitted maximum freedom at the local level with regard to the use of funds. Decisions about who benefited were left entirely in the hands of the lowest level village governing body known as the Village Community Resilience Institution (LKMD). Since the official guidelines on targeting are sufficiently general, almost any decision can be justified as consistent with the programme. There is nothing intrinsically wrong with this type of targeting, and it may well be that community consensus at the local level is the best targeting mechanism of all. However, since the PDM-DKE community fund has been implemented as a 'crisis' programme, these 'community' decisions were often taken by local officials without adequate time for a proper public information campaign, training of programme implementers, and community consensus building. When the rapid period for implementation is combined with local institutions

with little accountability or legitimacy — such as the LKMD — this has frequently lead to targeting decisions that are the source of great controversy. Unfortunately, there is very little statistical data on the targeting of the PDM-DKE programme.[34] However, from various field studies it is clear that the results have been mixed.[35] In some locations, communities are very satisfied with the programme, which appears to have reached the poor reasonably well. But in many other locations, the local community has never heard of the programme. In such cases the funds have gone quietly into the pockets of those connected to the local LKMD, such as local officials or their relatives who received 'loans' with zero interest and no fixed repayment schedule.

Scholarships. The data from SUSENAS suggest that the targeting of scholarship programmes have been far from perfect. At least according to a classification based on per capita consumption expenditures, many children from the middle quintiles and even some 'rich' children have received scholarships. These findings on coverage and targeting in the scholarship programmes raise complex issues and reveal several difficulties with targeting. Scholarship recipients are supposed to be chosen by school level committees comprising school officials as well as parent and community representatives and it appears that these procedures were followed in the vast majority of cases. Therefore, the evidence that the recipients do not match 'poverty' as it is typically measured, *i.e.* by per capita consumption expenditures from household surveys, could be interpreted in two ways. The discrepancy could mean either that the survey criteria of identifying the needy could be improved, while the local committees using local knowledge are more effective, or it could mean that the targeting procedures have either not been followed or are an inadequate method of identifying the most needy. These alternative explanations cannot be distinguished with the data at hand. This highlights the difficulties of *ex post* evaluation of programmes, which must be done both on process and on outcomes. Moreover, this suggests caution in over interpreting any single piece of evidence (such as standard targeting and "benefit incidence" calculations). All evidence needs to be taken into account when assessing programme performance including internal government reports, and both qualitative and quantitative independent reports.

Interaction with Community Efforts and Sectoral Programmes

During the crisis, one important if under-acknowledged function of the JPS programmes has been to sustain funding for health and education facilities for those most in need. This, however, is a temporary measure. An 'exit strategy' is needed to reduce dependency on the JPS programmes and reorient efforts to the

overall sectoral agenda, but it should be done in a manner that does not jeopardise the funding received indirectly through the JPS programmes.

Furthermore, it is important to understand that poorly designed JPS programmes can weaken those 'informal' safety nets provided by the family and the local community, as well as undermining existing programmes and institutions. The facts are: (i) people have mainly relied on themselves, their families, and their local communities and groups to cope with the crisis; (ii) the portion of the budget allocated for JPS programmes has been relatively small and, aside from the food security programme, only small numbers of people have actually benefited, and (iii) the benefits received by programme participants typically only constitute a small fraction of total household expenses. This means that it is important that the formal JPS programmes do not undermine the much larger and more important existing "informal" safety nets.

Micro-credit. An example of the conflict between ongoing efforts and JPS programmes is in the area of micro-credit. Many believe that providing the poor with access to credit can be an important means of economic empowerment enabling them a sustainable escape from poverty. Long experience has taught several lessons about how to implement a micro-credit programme successfully: (i) credit should be at cost recovering (if not 'market') interest rates, (ii) repayments should be maintained, (iii) credit through a group guarantee of repayment is a useful way of ensuring repayment and also saves on administrative costs – but these groups should be formed around pre-existing groups or groups with a natural social affinity.

Some programmes, such as the PDM-DKE, have attempted to strengthen the local economy through the operation of credit schemes. This programme, however, does not specify a fixed interest rate, so that in many locations the interest rate has been zero. The programme has lent to groups that have been formed just to receive this credit, and the repayment terms have not been specified – in fact, in many cases there were no repayment terms.

Many local groups, which have been working for years to build sustainable micro-credit programmes, are sharply critical of the new JPS programmes providing micro-credit, because these programmes have undermined their own efforts. Borrowers who have been told for years of the necessity of high interest rates, group solidarity, and timely repayments suddenly see others in the community (and not always the worst off) receiving much larger amounts of credit with none of those features.[36]

Employment creation. Another example is the impact of labour creation programmes on community self-help activities (*gotong royong*). In most communities in Indonesia people are expected to contribute a certain amount of

time per year to activities which benefit the entire community. Some of the employment-creation programmes have paid people for activities that are traditionally carried out for free by the communities as part of *gotong royong*. Many fear that this undermines future community ventures as people would either expect them to be done by the government or they expect to be paid.

Some Lessons Learned from the Indonesian Experience

The two-year Indonesian experience with the JPS programme provides very useful lessons for designing and implementing social safety net programmes, particularly in the context of other developing countries. Below is a list of six lessons learned.

First, the Indonesian experience shows that the capacity of the government or donors to respond to shocks with effective geographic targeting was hampered by a lack of up to date, complete, and accurate data. This is why reliable information is vital. Static administrative targeting is unable to catch newly poor or shocked households. When the crisis hit Indonesia, there were conflicting projections and differing assessments over the probable social impact, and there was no well-designed, publicly accessible real-time information system that could assist efforts to address the needs of either the traditionally poor or the newly poor resulting from the crisis. Such a system, complemented by data from other organisations, NGOs, and donors could play a key role in combating the negative effects of the crisis.

Second, designing and implementing large social safety net programmes in a crisis situation at the central government level requires institutional commitment, supported by clear objectives and simple design. Implementation in the regions depends upon the capacity of local government and local community groups. At this level, clear targeting criteria and a reliable decision-making process are crucial to the effectiveness of the programme.

Third, although a simple design is important, there must still be some allowance for local flexibility in countries of the size and complexity of Indonesia. The OPK programme is an example of a crisis initiative that worked well. It had a simple design using the National Logistics Bureau distribution channels to provide rice at subsidised prices to those with a National Family Planning Agency ‘poor card’. But pressure at the local level for a ‘fairer’ distribution of the rice was overwhelming, since the ‘almost poor’ or the ‘newly poor’ families had no entitlement to the subsidised rice. It appears that the emergence of flexibility during the implementation of this programme actually improved targeting and in April 2000 the programme design was changed to take this into account.

Fourth, most long-term poverty alleviation measures or development strategies are unsuitable as social safety nets, especially in an emergency or crisis. This is especially true of micro-credit. Not only new businesses unlikely to be successful during a crisis but the expansion of credit in an 'emergency' fashion can undermine the slow, patient and painstaking groundwork that successful micro-credit programmes require. Further, once people perceive that the credit is a 'transfer' rather than a 'loan', the programmes are quickly abused through the widespread allocation of credits to powerful local individuals, as is the case in Indonesia with some of the agricultural credit schemes.

Fifth, one lesson to emerge from the employment creation programmes in Indonesia is that in order to be effective wage rates should be set below the prevailing market rate. This will allow for the element of 'self selection' since only those in serious difficulty will be willing to work for the low wages being offered.

Sixth, a notable feature of the coverage and targeting of the various JPS programmes in Indonesia has been the heterogeneity of performance both across programmes as well as across regions. Three factors have presumably contributed to this: (i) different types of programme design, (ii) variation in the scale of budget allocations across programmes and regions, and (iii) local or regional capacity in programme implementation. In addition, other factors such as active monitoring and supervision by communities may also enhance performance of a programme in a particular region.

Conclusions

The Indonesian social safety net programmes were intended to protect both the traditionally poor and the newly poor who were unable to cope with the impact of the crisis without external assistance. The programmes were based on four strategies: (i) ensuring the availability of food at affordable prices for the poor, (ii) supplementing purchasing power among poor households through employment creation, (iii) preserving access to critical social services, particularly health and education, and (iv) sustaining local economic activity through regional block grant programmes and extension of small scale credits.

The success of individual programmes can be summarised as follows: the subsidised rice programme secured the highest coverage, while the upper secondary school scholarship programme had the lowest coverage. In terms of targeting, the medical services programme has the sharpest targeting, while the nutrition programme has the least targeting. It is also important to note that the findings of this study apply to a given period of time. Programme performance may change – either improve or worsen – across time.

As a result of our analysis of the relative success of meeting the programme objectives, the following two key conclusions can be drawn. First, when a crisis hits a country without a history of effective social security programmes, people will rely on traditional coping strategies such as families, friends, communities and their own individual initiatives. These informal coping mechanisms are often insufficient to mitigate the worst affects of a crisis and spending on formal social safety nets during a time of crisis must rise. The future direction of social safety nets in Indonesia will continue to be key challenge.

Second, in many cases the target groups of beneficiaries have been largely missed by the programmes, both in terms of low coverage and being only loosely targeted in practice. All programmes were plagued by the problems of how to target the beneficiaries and how to deliver benefits effectively to the intended target groups. Except for the subsidised rice programme, there was a serious problem of undercoverage, as a large number of the poor were simply not covered by the programmes. At the same time, all programmes faced the problem of leakage, since a large proportion of programme benefits went to the non-poor.

Some Thoughts on Future Directions

The social safety net programmes in Indonesia were established due to the crisis. As the crisis will ultimately end, the question emerges regarding the future. Will these programmes be simply terminated, or will they be maintained as part of a national strategy to provide social protection for the poor?[37]

Before the crisis Indonesia did not have any social safety net programmes, at least none like those that exist now. Hence, initially Indonesia was ill-prepared to deal with the social problems, which emerged. There is a need to learn from this experience: Indonesia should maintain and develop social safety net programmes although on a much smaller scale and scope and with sufficient flexibility so that these initiatives can be expanded quickly when the need arises.

In addition, the modernisation of the Indonesian economy, increasing urbanisation and formalisation of the labour force, the declining birth rate, and increasing life expectancy will all exert increasing pressure on the informal social protection system. Weaker informal protection mechanisms must be balanced by stronger formal measures, including social safety nets.

Consequently, the attempts which are now being considered in Indonesia to reform the system of social protection are timely.[38] However, it is important to

note that there is no simple answer to the question of the extent to which Indonesia can afford social protection programmes. Some 65% of the Indonesian work force are engaged in the informal sector where there is no record of earnings or potential for tax revenue. Hence, the goal of establishing 'unemployment insurance' and 'social security' to cover such workers remain problematic, and it will take some time for Indonesia to establish formal sector social protection programmes. Nevertheless, Indonesia should start preparing for a period of transition, from a situation where these risks are handled informally through the family and the community to where these are tackled through formal structures.

Drawing on the last three decades of remarkable achievement in poverty reduction and recent experience with the implementation of social safety net programmes, Indonesia's social policy strategy should at least include the following elements: (i) the promotion of an economy free of favouritism and one conducive to labour intensive activities, with fair access and fair returns on assets (labour, land, natural resources, capital), (ii) public expenditure on the "essentials" – investment in human beings (health and education) and in basic infrastructure to create a suitable physical environment where the poor can be productive (roads, irrigation, water, urban services), (iii) public expenditure on well-designed community development programmes which encourage growth in underdeveloped regions.

We have learned that the adoption of these three measures will help the poor and the vulnerable to cope with risk and enable them to cope better with shocks. In addition, the government should also provide some basic income assistance to the small group of chronically poor, *i.e.* those who lack earning power such as widows, orphans, and the physically disabled. As for the much larger group who are occasionally and unexpectedly subject to life's vicissitudes (losing a job, ill health), such individuals need a temporary hand – not a safety net but a safety trampoline that provides them with a temporary cushion but propels them back into productive activity.

This paper has examined Indonesia's expenditure on social safety nets during the crisis. This expenditure was an important part of the government's 'crisis expenditure' and the programmes have been subject to a great deal of public scrutiny. In sharp contrast other larger 'crisis expenditure' initiatives, however, have not received the same level of scrutiny. The Indonesian government spent 30 times more on bailing out the financial sector than it did on social safety nets, while five times the social safety net expenditure was spent on a general energy subsidy that demonstrably did not benefit either the poor or the hardest hit households.[39]

As Indonesia is presently embarking upon a major decentralisation process, with power and authority being devolved from the centre to the regions, the precise financing arrangements for future poverty reduction measures and social safety net programme and the respective roles to be played by central and regional governments all need to be clarified.[40]

One of the challenges for independent researchers and civil society in Indonesia is to ensure that the questions discussed above stay firmly on the government's agenda.

Notes

1. The authors would like to thank John Maxwell and John Strain for helpful comments and discussions, Wenefrida Widyanti and Daniel Perwira for research assistance and BPS for providing access to data.
2. See Cameron (1999).
3. See Pradhan *et al.*, 2000. The estimates of poverty by Pradhan *et al*. 2000 are almost 5% higher than the official government estimates. The estimates by Pradhan *et al.* which use the 'welfare consistent' approach however are accepted by the World Bank and the broader Indonesian academic community in this field.
4. See Suryahadi *et al.*, 2000.
5. See Feridhanusetyawan (1999) and Manning (2000).
6. See Suryahadi (2001).
7. The funding for these social safety net programmes came from both state budget and foreign loans provided by the World Bank, Asian Development Bank, and bilateral donors, either directly through project support or indirectly through programme loans which provide budget support.
8. See McLeod (1993), Purwoko (1999).
9. Even with their limited coverage, there appears to be widespread dissatisfaction with the present social security schemes due the lack of transparency and accountability of the management, and low rate of return.
10. BPS and UNDP (1999).
11. See Poppele *et al.* (1999).
12. See Suryahadi *et al.* (1999).
13. See for example *Tim Dampak Krisis* SMERU (2000).
14. The programme was introduced in July 1998 in Jakarta area and then quickly expanded all over the country.
15. The benefit was increased to 20 kilograms and then changed again to between 10 and 20 kilograms.
16. See 'Recent Volatility in the Rice Market: Results of a SMERU Rapid Appraisal in Central and East Java', *SMERU Newsletter*, No. 01, November 1998.
17. The official classification was created by the national family planning organisation (BKKBN) and discussed in the next sub-section.
18. Since the amount of rice was substantially below total consumption, in practice the programme served as equivalent to an income transfer. However, since the

price was fixed in nominal terms, the magnitude of the income transfer was scaled to the needs for food. In this sense the programme can be seen as a combination of income transfer and food security.

19. These 'crash programmes' were launched in December 1997 and lasted until the end of the fiscal year in March 1998.

20. In the fiscal year 1999-2000, however, *padat karya* programmes were cut back to only two programmes: the 'Public Work Sector *Padat Karya* Programme' and the 'Special Initiative for Unemployed Women Programme'.

21. The scholarships were not intended to pull children who had already dropped out of school before the crisis back to school.

22. A household is defined as a 'pre-prosperous' household if it fails to satisfy one of the following 5 conditions: (i) all household members are able to practice their religious principles, (ii) all household members are able to eat at least twice a day, (iii) all household members have different sets of clothing for home, work, school, and visits, (iv) the largest floor area of house is not made of dirt, and (v) the household is able to seek modern medical assistance for sick children and family planning services for contraceptive users. Suryahadi *et al.* (1999) find that there is a lack of correlation between this official classification and a consumption based measure of poverty. They find that while only 15 % of the 'prosperous' households were 'poor', 75 % of the 'pre-prosperous' households were 'non-poor'. On the other hand, 46 % of the 'non-poor' households were 'pre-prosperous' and 38 % of the 'poor' households were 'prosperous'.

23. Ferreira *et al.* (1999) argue that a relatively low wage rate ensures that only those in need apply, and that as many people as possible can be employed. A low wage rate also protects the incentive to take up regular work when available.

24. Extensive monitoring that has been done on the programme finds, however, that the parent representative played only a minor role in validating the implementation of the criteria and decision of the school officials.

25. This section is drawn from Sumarto *et al.* (2001).

26. This is confirmed by qualitative study in *Tim Dampak Krisis* SMERU (2000).

27. The programme guidelines stipulate that students in the lowest three grades of primary school are not eligible for the scholarships. The data on primary school scholarship recipients, however, show that the proportion of the first to third graders who received the scholarships is very significant and only slightly less than the proportion of the fourth to sixth graders who received the scholarships. Therefore, the analysis on the primary school scholarship programme in this study is based on all students.

28. This includes both in-patients and out-patients. The calculation of this programme coverage, however, does not include the use of health cards for family planning and birth delivery services.

29. It seems that there is no relationship between receiving supplemental food and ownership of health card. Of those who received supplemental food, only 17 % reported owning a health card.

30. The Table is limited to the seven programmes evaluated in this study.

31. These regional variations in performance are certain to grow the policy of expenditure decentralisation (which began in January 2000) allow for greater autonomy at the district level.

32. Another possible explanation is that districts that have a very low coverage have actually received similar resources to those districts with a high coverage, but those resources have been diverted from the programme objective. However, this cannot be confirmed from the available data.

33. Sumarto *et al.* (2000).

34. This is partly because public information about the programme was so poor that attempts in household surveys to ask about the programme mostly failed to generate any recognition.

35. See *Tim Dampak Krisis* SMERU (2000)

36. The operating manual of the PDM-DKE was later revised to create higher interest rates and fixed repayment periods for the revolving fund for economic activities.

37. Social protection programmes include all actions that are aimed to (i) assist individuals, households, and communities to better manage risk, and (ii) provide support to the chronically poor (World Bank, 2000a).

38. To redress past problems in social policy implementation the government is now working to improve both the planning and the implementation process in this area. This effort is being co-ordinated by the Office of the Vice President. The Vice President will be supported by a Steering Committee or Task Force on Poverty Reduction chaired by the Co-ordinating Minister for the Economy. The committee will be comprised of members from other ministries, central government institutions, civil society groups, parliament, and donors. The initial agreement for this task force was signed between Indonesian government and the UNDP in February 2001.

39. These are relevant and important comparisons. As argued in World Bank (2000b), these and other government initiatives should be judged by the extent to which they contribute to raising the broad standard of living of Indonesians, especially the poorest.

40. At the CGI meeting in October 2000 the government proposed the following strategy: ‘the central government can set the criteria by which the provinces will select the poor areas to receive funds and create incentives which will reward provinces for allocating the funds to the poor areas within their jurisdiction’.

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COMMENTS

Bambang Widianto

Introduction

I would like to focus my discussion on the lessons drawn from the paper presented by Sudarno Sumarto and Asep Suryahadi, especially on the question of what should be Indonesia's future strategy for social protection. The discussion will be not only in terms of short-term programmes aimed at dampening the worse effects of future shocks on the very poor, but also on the question of whether Indonesia can or should do more in developing a formal social security programme.

Findings from the Study

I would like to begin with a brief summary of their main findings as this will motivate my discussion on the lessons from Indonesia's experience with Social Safety Net (SSN) programmes. The authors' paper is a very good one. Their main concern was to measure two fundamentally important outcomes of the programmes – the percentage of poor households covered by SSN and effectiveness in targeting recipients. In this context, they reviewed coverage and targeting effectiveness of the major SSN programmes including the sale of subsidised rice, the nutrition programme, employment creation, the school scholarship programme, and micro-credit programmes. For the purposes of their study, the authors exploited a rich data set from the Social Safety Net module of the 1999 SUSENAS or National Socio-Economic Survey. They found that the sale of subsidised rice stands out as the programme with the highest level of coverage. More than half of all poor households (defined by them as the percentage of the population in the lowest quintile of per capita expenditure) reportedly received the benefits of the programme. The second highest coverage is found in the nutrition programme (for example child feeding), with 16% of households reportedly received benefits. Two programmes with the lowest

coverage are primary and upper secondary school scholarships. In both programmes only 5% of poor households received benefits of this programme.

In terms of targeting, the authors found that about a third of non-poor households also received subsidised rice and about 16% received benefits from the nutrition programme. Overall, the sharpest targeting was observed in medical services programme and the worst in the nutrition programme. Even in the sale of subsidised rice, they found that coverage at the highest quintile was still quite high with almost a quarter of rich households receiving subsidised rice. A fair conclusion drawn from these results was that there was a large degree of under-coverage of the poorest households and large extent of 'leakage' to non-poor households, based on their definition of poor.

I have several general comments on the study. First, it may not be appropriate to define the poor simply as those in the lowest quintile of per capita expenditure. The study itself noted that a more appropriate figure for poverty numbers is 27% of the population. Moreover, a well established fact about Indonesia's distribution of household per capita expenditure is that a large proportion of the population – as much as 40% – are clustered slightly above the poverty line even pre-crisis. And it does not take much of an economic shock to push many of them below the poverty line, at least temporarily. These households are therefore extremely vulnerable to poverty. Perhaps more important from a social perspective, many of these households in the second lowest quintile (and maybe even some in the third quintile) perceive themselves to be poor. The bottom line is that measuring success in terms of coverage and targeting to the lowest quintile may be somewhat biased. Therefore, so-called leakage into the second lowest quintile is probably not a bad thing as these households are in reality poor and most certainly vulnerable during the crisis.

Another comment is that in analysing leakage it would have been useful to know the value of the benefits leaked to non-poor households. The paper presented the percentage of non-poor households that received benefits, but not the value of these benefits. It may turn out that the actual value of the benefits received by non-poor households were less than their proportion. I understand this is difficult to do from the data but is nevertheless important in discussions of proper targeting of vulnerable groups.

Finally, there was little discussion on reasons for under-coverage of certain programmes such as school scholarships and particularly the role of self-selection to join some programmes. In addition, there was a lack of recommendations for improving targeting of programmes.

Lessons from Indonesia's Experience

I would like to turn to my discussion on some of the major lessons drawn from this study. The first important lesson is that in designing SSN programmes, and given scarce budgetary resources, it is important to focus on a few simple programmes that have clear and measurable criteria to determine recipients, can be quickly dispersed using existing delivery mechanisms, has an exit strategy, and delivered at the lowest possible cost. As noted by the authors, the subsidised rice programme is one example of a crisis initiative that worked well. It had a simple design using the National Logistics Bureau distribution channels to those with a National Family Planning Agency poor card.

In contrast, establishing new job creation programmes proved to be less effective in alleviating the worse effects of the crisis. These types of programmes are typically hobbled with start up problems and delays and have a high non-wage component and so the costs of delivery are much higher than most other crisis initiatives. Also, if the wage is set too high, non-poor households typically capture the benefits of the programme. The lesson here is that an employment creation programme should be viewed as a low priority crisis initiative. If government's decide to include work programmes in SSN, then the wage has to be set sufficiently below the market rate in that locality so that recipients are self-selective. Also, the non-wage component should be kept at a minimum and there must be a clear exit strategy when the worst of the crisis is over.

A second lesson is that in designing and implementing crisis initiatives, a clear distinction should be made between short-run initiatives aimed at alleviating the worse effects of the crisis on the poor and those programmes aimed at reducing structural poverty. In times of crises, scarce resources need to be devoted to crisis initiatives like subsidised rice programmes. Initiatives such as retraining workers made unemployed due to cyclical factors or providing subsidised credit to small and medium enterprises are not suitable strategies and Indonesia's recent experience shows these programmes have very questionable benefits during a crisis and are typically plagued by problems of high leakage.

Finally, and perhaps most important, the study shows that the local community must participate in the implementation of programmes and implementation must provide sufficient flexibility to local conditions. In the second year (or year 2000) of the programme the government made some significant adjustments that provided for greater participation by the community, especially in identifying recipients. This improved targeting of the subsidised rice programme to include the 'newly poor' or 'almost poor' families that had no entitlement under the initial criteria devised by the central government and

based on less timely and reliable data.[1] This experience shows that the local community is better placed to identify the needy groups. It also tells us that we need to reassess the ways in which we identify the vulnerable groups and that any future system will have to involve local community participation in targeting recipients.

In this regard I would like to touch on an issue that did not come out of the study. This is the topic of good governance in poverty alleviation programmes. Often the difference between a successful and an unsuccessful scheme is a function of the way in which the programme is implemented, rather than the programme's design. In the past, our governance structure resulted in a top-down decision-making process, with Bappenas, the line ministries and donor agencies playing a central role in design, implementation and monitoring of the programmes. This often produced unsatisfactory outcomes. To redress this the government is now working towards improving transparency and accountability in the planning and implementation process.

The new approach to planning delineates design, implementation and monitoring tasks among different institutions at different levels of government. Co-ordination of the decision making process is now under the responsibility of the Vice President, supported by a steering committee or task force on poverty reduction headed by the Co-ordinating Minister for the Economy and comprising members from other Ministries, central government institutions, civil societies groups, Parliament, and donors. Day to day operations will be carried out by a secretariat to the task force. Line ministries, local governments and community groups will carry out implementation of programmes. There will be a stakeholder's forum consisting of non-government and government representatives. This forum will monitor the programme and provide solutions to problems that are identified. The forum will also include a public complaints committee in its secretariat. This mechanism will also be extended at the local government level as well.

This new structure has several advantages over the previous one. First, devolving project design and implementation to local governments ensures greater citizen participation in the process. Second, separation of powers and responsibilities between Bappenas, line ministries, and local government's improves "checks and balances", transparency and accountability in the process.

An earlier model of this was the schools scholarship programme, whereby local communities identified the needy group and implemented the programme and a local stakeholder forum was created to oversee implementation. While no doubt some of the benefits are captured by the middle-class, it is still superior in terms

of effective targeting of the poor and improving transparency in the process than if it was implemented by the central government.

Future Strategies

I would now like to turn to the study's question of what should be the shape of Indonesia's future national strategy to provide social protection. Should this strategy be limited to SSN programmes or should we extend it to include longer-term programmes such as social security insurance?

Indonesia will experience more crises in the future, either induced through economic shocks or natural disasters. In many cases the informal social security net will be sufficient. In severe economic crises, these informal systems will be insufficient for many of the poor and near poor. There are longer-term issues of social protection. As our economy continues to transform into a modern one, with greater urbanisation, formalisation of the work force, declining family sizes and increasing life expectancy greater strain will be placed on the traditional social security system. There is now is a growing realisation that in the future we may need a formal social security system to support a weaker traditional one.

I would like to highlight what I think are the major issues in this regard. First is the selection of appropriate programmes for our short-run and long-term poverty reduction objectives. The second issue concerns coverage and targeting of social protection programmes. The final issue is how to deliver these programmes and the costs.

In selecting appropriate programmes we need to first distinguish between short-run and long-term objectives of our poverty reduction strategy. On a number of occasions in the past we had inadvertently used programmes with a longer-term focus on poverty reduction for short-term objectives. One example mentioned earlier was the government's programme of retraining newly unemployed workers. In this regard, Indonesia will need to select those SSN programmes proven to be effective, like the subsidised rice programme, and continue to maintain them on a very much smaller scale for the time being but with more effective targeting. Keeping programmes that have been proven to be effective means that when another crisis comes we will be better prepared to provide assistance to the most vulnerable groups.

There is a large menu of longer-term social protection programmes such as labour market interventions, education policies, unemployment insurance, pension programmes, disability and social funds, and crop insurance. Not all of

these are appropriate to all countries all the time or always affordable. In considering long-term programmes we need to identify the target groups (elderly, children etc) and provide programmes that reduce the risk of these vulnerable groups falling into long term poverty. In designing programmes we also need to consider consequences for long-term economic efficiency and growth. It is well established that economic growth is the single most important factor for reducing long-term poverty. With high economic growth comes greater opportunity for employment, improved incomes and welfare. Higher economic growth also improves revenues in the national government budget and this in turn provides funding for targeted poverty reduction programmes. One controversial social protection programme is the government's minimum wage legislation. Advocates of a vigorous implementation of this legislation say that it is used to reduce poverty of unskilled workers. But, there is some evidence that big increases in minimum wages pre-crisis were beginning to have an adverse impact on employment opportunities of those it was intended to help, youth, unskilled workers and especially women in certain regions.[2] Minimum wage legislation should be designed in a way that it does not adversely impact employment growth for vulnerable households.

This leads to the second issue involving coverage and targeting of programmes. Indonesia has a large population of over 200 million people. Of the estimated working population of almost 100 million, about half are classified as working in the informal sector. Thus, coverage of many types of formal social protection programmes will be limited in Indonesia. For example, putting aside issues of cost for the moment, it would be impossible to implement a universal pension programme or unemployment insurance among all workers particularly those in the informal sector. Yet, poverty is far more prevalent among informal sector workers and their families than those operating in the formal sector. Education and nutrition programmes for the poor are more manageable if targeted and could improve the longer-term welfare of this group. In other cases moving towards market-based risk management mechanisms are often preferable. Crop insurance for farmers is one possibility for minimising the risks of poverty for many farmers and their families arising from natural disasters.

The third issue is who and how to deliver programmes. There are several pension programmes provided and delivered by the government. TASPEN covers public servants, ASABRI covers military personnel and JAMSOSTEK provides a pension and health plan for workers in the private, formal sector. JAMSOSTEK covers about 10 million workers in the formal sector. These workers contribute about 5% of their income to this programme. Workers can draw on these funds in times of adversity. The programme also provides health benefits. JAMSOSTEK is now considering whether to expand services to include unemployment insurance of some form. There are many complicated

issues related to this programme. The first issue concerns the fiscal sustainability of the programme. As it stands, employee contributions at 5% of their incomes remain far too low to be feasible in the long term. The design and implementation of unemployment insurance by JAMSOSTEK or the government needs to guard against creating poor incentives that distort individuals' decisions about unemployment. The second issue is the involvement of the private sector in providing and delivering pension and other insurance programmes. Is it feasible to permit the private sector to provide pension programmes? If not, is it still feasible to allow the private sector to deliver the government's JAMSOSTEK pension programme; that is, open up JAMSOSTEK to competition?

The last issue I would like to raise is one of funding social protection programmes like pension and unemployment insurance. Should these be fully funded by employees, fully funded by the government like in many developed countries, or shared funding by both the government and employees? Indonesia is certainly constrained in all these aspects. The long-term fiscal costs of the crisis are only beginning to be fully realised and expenditures in the state budget will be severely constrained for many years to come. Competing priorities including development spending probably rules out a fully government funded social protection programme, and may even limit partial government funding beyond what is already in the state budget. In this context private sector involvement and initiatives in the delivery of market-based risk management programmes will be important.

Summing-up

The paper presented by Sudarno Sumarto and Asep Suryahadi on Indonesia's SSN programme is a good one and an important contribution to improving SSN coverage and targeting. Perhaps even more important is their concern for the long-term development of a formal social security programme for Indonesia to support the traditional one. In my discussion I raised three broad issues that policy makers in Indonesia need to consider. Given our scarce fiscal resources we are limited in what form of programme we can have over the medium term. Importantly, we need to ensure that programmes are well targeted to the vulnerable, financially feasible and sustaining and that other non-budgetary instruments such as minimum wages do not unnecessarily create distortions that affect the vulnerable. Ultimately private sector initiatives and delivery will be an important component of a social security programme in Indonesia.

Notes

1. Initially the government identified the poor according to whether the person held a National Family Planning Agency poor card. At the time this was the best available information about the poor. But early on in the crisis we learnt that a large proportion of the very poor was not captured by this system. This was one motivation for giving greater discretion to community leaders in identifying the poor.

2. For example, Manning (1996) observed that between 1990 and 1995 minimum wages were growing faster than market wages and were particularly close to average market wages for unskilled workers, especially female and youth workers in particular regions outside Jakarta. This raised concerns that minimum wages were beginning to bind for these workers with the risk that this could reduce the demand for their labour in the future. Rama (1995) also presented statistical evidence that minimum wage increases were slowing employment growth in the manufacturing sector.

THE ROLE OF SOCIAL SAFETY NETS IN MALAYSIA: TRENDS AND PROSPECTS

Norma Mansor and Halimah Awang

Introduction

Social Security involves protecting people from economic and social distress caused by sickness, occupational injury, invalidity, maternity and old age. This is to prevent a large segment of the population from falling into a state of poverty. Social insurance has become an important responsibility of modern governments, particularly governments in high growth economies. However, the shape of social security measures and institutions of countries are greatly influenced by local cultural patterns and political history.

The Malaysian social security programmes evolved from the British colonial practices and from the national economic development plans, which are primarily aimed at poverty eradication. Before World War II the Chinese and Indian immigrant labourers who came to Malaysia (then Malaya) had their own informal social security relationship, depending on their own clans, ethnic groupings or employers for their basic survival. Lack of concern by the British Colonial government forced the labourers to organise themselves, which led to the establishment of the Indian Immigration Commission in 1907 and the Labourer Code Enactment in 1911. These were responsible for looking into the working and living conditions of immigrant workers. Before 1945 the British colonial administration totally ignored the welfare of the workers. However, spurred by the strong trade union movement along sectoral and occupational lines, the Employees' Provident Fund (EPF) was established on the 1st of October 1951.

The main objective of the EPF as a statutory body was to provide certain benefits for the aged upon retirement. This fund was created prior to the establishment of employees' fund groups, which were mainly for miners and

plantation workers. The members of EPF include private and non-pensionable public sector employees. The EPF not only covers employers and employees, but also other contributors and provides its services to the nation as a whole in capital formation for government investments.

The era of the New Economic Policy (NEP) from the 1970s has had a significant impact on social security development in Malaysia. The NEP brought about two major objectives, the first being to eradicate poverty and the second to build the Malaysian society based on equality by restructuring the inter-ethnic economic imbalances. Primary focus was given to rural development as more than 70% of the population were then poor and lived in rural areas. Developing the agriculture sector was part of an effort to raise the income level of the rural sector. The Malaysian government spent heavily to improve infrastructure, develop human resource, provides better housing and better health care. The government spent in the range of 27% to 31% of development expenditure on anti-poverty programmes. Subsequently, poverty has been reduced, a restructuring of ownership and employment has occurred, and the quality of life of the Malaysians as a whole has been improved. The implementation of the NEP was deemed a success for the government of the day, as both economic and social issues were simultaneously addressed through this policy.

The Employees' Social Security Organisation better known as SOCSO was set up in 1971. SOCSO's main aim is to provide benefits to employees in the case of invalidity and employment injury that includes occupational diseases. It also acts as a compensatory organisation, whereby in the event of a mishap SOCSO provides monetary security for beneficiaries and employees. However, SOCSO covers only certain employers and employees. The Social Security Act of 1969 states that all industries employing five or more employees are to make mandatory contributions to SOCSO. Employees in the earning capacity of RM 2 000 and below are covered by the Act. However, once covered the employee remains covered even though the employee has reached the income bracket of more than RM 2 000.

The 1997 crisis, however, exposed some inadequacies in this existing social safety net. The open market economy, which started with the export of tin and rubber in the colonial period had exposed Malaysia to world economic conditions. The externally dependent economy was most affected by currency fluctuations and uncertain demands for Malaysian exports. Also, Malaysia is at a stage of development where it relies heavily on imported intermediate and capital goods. As a result the fall in value of the Ringgit adversely affected the cost of importing goods.

The slowing of the economy contributed to the deterioration in employment. Retrenchments and rising numbers of unemployed and inactive persons will lead to growing poverty and a rapid deterioration of social conditions. The Malaysian government has tightened some policies regarding retrenchment and termination in response to the crisis. The Employment Act 1955 was amended on 1st August 1998 to prevent inappropriate retrenchment, to promote fair labour practices, and to avoid unlawful dismissal (Mansor *et al.*, 2000).

Some existing programmes were strengthened in response to the crisis, including those helping retrenched workers who had entered the informal sector. One of the government schemes to promote self-employment and self-reliance, the Amanah Ikhtiar Malaysia, is a revolving fund of RM 300 million, introduced in 1996. The programme aids the hardcore poor to engage in small businesses. A total of RM 289.8 million in interest free-loans has been disbursed to 54 856 participants. The success of the programme is reflected in the 100% repayment. Another programme to assist small traders and the informal sector is the Yayasan Tekun Nasional, which has disbursed loans to 2 890 entrepreneurs amounting to RM 8.7 million (Budget Speech, 1999). Thus, there is no total loss of income for some of those retrenched. Theoretically, however the informal sector cannot be expected to provide a full insulation, as it is a reasonable presumption that businesses in the informal sector would also suffer as the formal sector falters.

Other programmes reviewed were the venture capital financing scheme and Graduate Entrepreneurs Scheme – both schemes aimed at developing entrepreneurs. Other financial schemes available to entrepreneurs are the Islamic Financing Scheme, the Incubator Financing Scheme and the General Financing Scheme by Bank Pembangunan Malaysia (Malaysian Development Bank). The funds are also available through Amanah Ikhtiar Malaysia Scheme, the Small-Scale Entrepreneur Fund and the Economic Business Group Fund, which includes assistance for women entrepreneurs. The funds are expected to assist about 12 000 petty traders and small businessmen either to set up or expand their businesses. In addition, institutions such as MARA, State Economic Development Corporations (SEDC), Perbadanan Usahawan Nasional Berhad (PNS), UDA Holdings Sdn. Bhd. (UHSB) also provide similar programmes.

However, the growing concern for a sound operational and effective social safety net system is not just to address these immediate problems, but more importantly, the ability of the schemes to meet their long term financial commitments. In addition to declining economic growth, other factors that have emerged such as high inflation rates, increasing numbers of older people due to the increase in life expectancy, and changes in employment and social structures

raise more concerns on the ability of the current social safety net to provide for future generations. This paper is therefore aimed at examining the social security system in Malaysia and to recommend policies that would further strengthen the social safety net in order to protect the Malaysian public from being left behind in the development process.

Social Security Measures in Malaysia

In considering these mechanisms, the Malaysian demographic profile should be noted. The population of Malaysia is about 23 million and is expected to double by 2027. The average growth rate is 2.6% for the period spanning 1991-2000 (Statistics Department, Malaysia), but over a shorter period 1995-2000 Malaysia has among the highest average growth rates in Southeast Asia. Life expectancy has increased considerably from 64.3 years for males in 1975 to 68.8 years in 1991 to 71.3 in 1999 while that for females the increase is from 68.7 years in 1975 to 73.4 years in 1991 to 74.8 years in 1999 (Ministry of Finance, Malaysia, 1992 & 2000-2001). Unemployment rose from 2.7% in 1991 to 3.2% in 1998. Mounting unemployment and erosion of real incomes have brought about an increase in poverty from 6.8% in 1997 to 7.5% in 1999 (Ministry of Finance, Malaysia 2000-2001).

Currently, there are a number of social security schemes and institutions in Malaysia, varying in scope, size, as well as in their underlying philosophies. The main schemes include:

- The Employees' Provident Fund (EPF) established in 1951 is a compulsory savings scheme with the main objective to provide retirement benefits for its members. The rate of contribution between 1952 to July 1975 was 5% of the monthly income each for the employer and employee. Currently it is at 11% for the employee and 12% for the employer. From 1964 the government made it compulsory for all employers to contribute to this fund. The EPF Act 1951 has now been replaced by the EPF Act 1991. Over the years the EPF has grown to be the largest provident fund in the country in terms of coverage and size, and therefore the bulk of this paper is devoted to discussing it.

- Employment injury compensation under the Workmen's Compensation Ordinance of 1952 is an employer's liability scheme. Employers are required to insure their workers with private insurance and the contingencies covered are for employment injury and occupational diseases. The scheme is

applicable to private sector manual workers irrespective of earnings and for non-manual workers, the wage limit is RM 500 per month. There is a wage ceiling of RM 400 per month for public sector employees. Workers who are covered by the Employee's Social Security Act 1969 are automatically excluded.

- Sickness and maternity benefits under the Employment Ordinance 1955 is a non-contributory scheme that requires employers to pay sick leave and maternity allowance and grant maternity leave. The ordinance does not provide for medical care. The scheme excludes employees of government, statutory bodies, and local authorities, domestic servants, and seamen.

- Employment injury and invalidity pensions under the Employees' Social Security Act 1969 (SOCSO) is the only scheme that follows the internationally accepted social security norms. They are based on social insurance principles and the pooling of risks. SOCSO provides protection to eligible employees through two schemes, namely, the Employment Injury Scheme implemented in 1972 and the Invalidity Pension Scheme introduced in 1974.

- The old age pension scheme under the Government Pension Ordinance 1951 is a non-contributory scheme applicable to employees of the government, semi-government agencies, local authorities and statutory bodies. The pension scheme provides financial security after the age of retirement, as well as for the dependants of those who die in service or after retirement. This scheme also provides compensation to officers who are forced to retire or who die due to injuries or sickness while performing their official duties. An employee can be pensionable or non-pensionable, but is automatically placed on pensionable establishment after completing 10 years of service. Until then an employee has to contribute to the EPF. Contributions to EPF both by the employer and employee cease on being placed on pensionable service. A permanent officer who is appointed on or after 12 April 1991 can opt for the Employee Provident Fund Scheme before he/she is confirmed in his/her appointment.

- The old age benefit scheme under the Armed Forces Fund Act 1973 provides superannuation benefits to servicemen who enlisted on or after August 1972 and who are not eligible for pensions. The

scheme is funded by contributions of 10% of total employee's salary and 15% of salary from government consolidated funds.

- Other social security schemes, health and social assistance programmes whose scope and coverage are rather small are the Teachers Provident Fund (TPF) and the Malaysian Estates Staff Provident Fund. Although the TPF had accumulated a total of 80 000 contributors, the fund is slowly phasing-out as teachers are now treated like civil servants. The majority of teachers stopped contributing in 1972 and have withdrawn all their contributions.

- Coverage of medical care is provided through national health services at government hospitals, health centres and clinics. However, the long waiting period before one gets medical treatment could discourage patients from going to government hospitals. Also, the recent proposal to privatise health care raises some concern about its viability.

- Social assistance and support (material and financial) for disadvantaged groups including the hardcore poor, disabled persons, and the elderly is the responsibility of the Department of Social Welfare, of the Ministry of Unity and National Development. In this scheme, the elderly, aged 60 years and above, and who do not have permanent income, and either living alone or with families are assisted by the Social Welfare with a financial aid of RM 70.00 per month. Table 1 shows the number of elders being assisted through this scheme on state by state basis.

The government has introduced several schemes to support the self-employed, such as, as mentioned earlier, the Amanah Ikhtiar Malaysia (AIM) which has been set up to help the hardcore poor to venture into income generating activities through micro-credit facilities. There are also a number of foundations for poverty eradication formed by various states such as the Yayasan Basmi Kemiskinan Selangor and Yayasan Basmi Kemiskinan Kelantan (Foundation for Poverty Eradication of Selangor and Kelantan). The main objective of these foundations is to alleviate poverty in the respective states through assistance for housing and education.

Very recently, the government introduced a scheme for the agricultural sector by approving RM 500 million allocations to help small holders, including FELDA settlers to cope with low prices of palm oil and rubber. The scheme provides a RM 1 000 incentive to oil palm small holders for every hectare replanted with the same crop and RM 1 100 for the replanting of rubber and

other forest trees. This scheme mainly aims to encourage the replanting of oil palm and help boost its prices. The RM 500 million is also to assist small holders to increase their earnings through intensive agriculture and cash crop programmes.

Table 1. **Assistance for Elderly by States**

States	1995	1996	1997	1998	1999
Johor	1 036	892	862	816	836
Kedah	932	948	902	866	875
Kelantan	1 409	1 706	1 403	1 323	1 344
Melaka	641	639	610	566	541
Negeri Sembilan	822	1 004	911	936	951
Pahang	828	815	894	926	1 120
Perak	777	826	2 537	2 547	790
Perlis	444	456	391	351	350
Pulau Pinang	601	645	641	643	605
Selangor	849	910	890	771	750
Terengganu	1 090	975	1 144	786	1 029
Kuala Lumpur	575	570	566	568	588
Labuan	45	43	42	44	41
Sabah	n.a	n.a	n.a	n.a	4 083
Sarawak	n.a	n.a	n.a	n.a	n.a
Total	**10 049**	**10 429**	**11 793**	**11 143**	**13 903**

Source: http://www.kempadu.gov.my/jkm/statictic_papar.html

General Information and Mechanics of the EPF

At the end of June 2000, the EPF accounted for RM 172 507 million or 85.6% of the total resources of pension and provident funds in Malaysia. This was generated by contribution from 9.7 million members. Members of the EPF consist of private and non-pensionable public sector employees. The total membership from 1995 to 1999 is shown in Table 2 showing an increase of 4.15% from 1998 to 1999. However, the proportion of active members dropped from 52.1% in 1997 to 50.1% in 1999 largely due to the economic crisis. (For more detailed breakdown, refer to Appendices A and B).

Table 2. **EPF Membership from 1995 to 1999**

Members *(Million)*	1995	1996	1997	1998	1999
Total	7.78	8.05	8.27	9.16	9.54
Active	3.99	4.18	4.31	4.66	4.78
Inactive	3.77	3.87	3.96	4.50	4.76

Source: http://www.kwsp.gov.my/kwsp/english/body_statistic.html

Unlike the Government Pension Scheme, which pays out a pension to members of the civil service, the EPF is based on the concept of individual savings in a fund sustained by contributions from employees and employers. Mandatory contributions constitute the amount of money credited to individual member's account based on the monthly wages of an employee. Table 3 shows the upward trend in the contribution rates for employees and employers since its inception in 1952.

Table 3. **Contributions Rates to Employees Provident Fund**

Year	Employee	Employer	Total
1952 – June 1975	5%	5%	10%
July 1975 – Nov 1980	6%	7%	13%
Dec 1980 – Dec 1992	9%	11%	20%
Jan 1993 – Dec 1995	10%	12%	22%
Jan 1996 – Dec 1999	11%	12%	23%

Source: http://www.kwsp.gov.my/kwsp/english/body_statistic.html

The EPF guarantees a minimum dividend of 2.5% annually. Dividends are paid annually into member's account at a rate declared by the EPF subject to the returns from investments made in the approved financial instruments. The dividend rate per any given amount is calculated by dividing the net income by the total accumulated contributions and multiplying by 100. For the year 1999, the EPF declared a dividend of 6.84% or 3.84% higher than the inflation rate of 3%. Annual dividend rates from 1952 to 1999 are as shown in Table 4 indicating an upward trend up to year 1987 but fluctuates between 6.70 to 7.70% for the period 1995 to 1999.

With effect from November 1, 1994, every member is provided with three accounts, namely, Account I, Account II, and Account III. Savings in all three accounts can be fully withdrawn when a member is deceased, incapacitated or leaves for permanent residency outside the country. EPF members who are still serving in the public sector and have been placed on a pensionable establishment can withdraw their EPF contributions. The amount that can be withdrawn is the employee's share of contributions including dividends. The Government's portion inclusive of dividends will be returned to the Pension Trust Fund. Another option provided to all members of the EPF (except public sector pensionable employees) is an annuity scheme. The scheme, which was introduced recently, allows members to purchase an annuity plan from insurance companies approved by the Minister of Finance. The scheme gives members a guaranteed regular pension income from age 55 for the rest of their lives.

Funds in Account I which constitute 60% of monthly contribution are for retirement purposes and cannot be withdrawn until a member reaches the age of 55 years. The scheme also allows members with more than RM 55 000 in their Account I to invest a portion of their savings in fund management companies approved by the Ministry of Finance.

Table 4. **EPF Dividend Rates 1952-1999**

Year	*% per annum*
1952 – 1959	2.50
1960 – 1962	4.00
1963	5.00
1964	5.25
1965 – 1967	5.50
1968 – 1970	5.75
1971	5.80
1972 – 1973	5.85
1974 – 1975	6.60
1976 – 1978	7.00
1979	7.25
1980 – 1982	8.00
1983 – 1987	8.50
1988 – 1994	8.00
1995	7.50
1996	7.70
1997 – 1998	6.70
1999	6.84

Source: EPF Annual Report 1999.

30% of monthly contributions are credited into Account II. Funds in Account II can be withdrawn for the following purposes:

- Age 50 years withdrawal – members can withdraw the entire sum from this account at age 50 as pre-retirement savings.

- Housing withdrawal – members can withdraw their savings once to buy or build a house. Withdrawal to reduce or settle the balance of housing loan is allowed once every three years since the last withdrawal until members reach the age of 55.

- Children's education withdrawal – members can withdraw savings in Account II to pay fees for children pursuing degree and post-degree courses. Withdrawals can be made once a year for each

child subject to the availability of funds in the member's Account II.

- Computer purchase withdrawal – members are allowed once to withdraw a maximum of RM 3 500.00 subject to the balance in member's Account II to purchase personal computers. The RM 3 500.00 cap also applies to joint applications between a member and his/her spouse.

Account III constitutes 10% of member's monthly contributions. Monies in this account can be used for paying medical expenses in critical illnesses. This facility is also available to a member's spouse, children, parents and siblings. The amount allowed for withdrawal is all the savings in Account III or the cost of treatment.

Strengths and Weaknesses of the EPF Scheme

The various types of withdrawals that can be made reflect the sensitivity of the EPF in catering to the different needs of its members, in line with changing social and economic trends and national development. This refers to the withdrawals from Account II for purposes of buying or building a house, reducing the balance of housing loan, paying children's tertiary education fees, and purchasing a computer. Since the economic crisis there has been an increasing number of withdrawals to reduce existing housing loans because of the high interest rates imposed by the banks.

In view of the rising cost of tertiary education both in the public and private universities, the option to withdraw EPF savings for payment of tuition fees and purchase of computers to some extent helps to reduce the burden on parents during times of hardship. This is especially crucial to members who are in the middle- and lower-income groups and were likely to be affected by the crisis. Though it was only implemented last year, it shows the concern by the government on the importance of college education and accessibility to information and communication technology.

Savings in Account III are solely for paying medical expenses of critical illness for members, their spouses, children, parents and siblings. This is again seen as a positive move by the government in view of the rising number of incidence of chronic diseases and the increasing costs of medical treatment and hospitalisation.

In its efforts to provide facilities that can assist members to utilise their savings for retirement, the EPF implemented periodical payment withdrawal in 1994 and an annuity scheme in 2000. Under the periodical payment withdrawal scheme, members upon reaching the age of 55 can withdraw their savings monthly until all the savings are withdrawn. The annuity scheme is an insurance scheme that enables members to receive monthly payments at the age of 55 for the rest of their lives. The annuity can provide security for longevity that is very much needed with the increasing trend in life expectancy.

Except for the annuity scheme, however, the practice of EPF is not based on social insurance principles. The compulsory monthly contributions both by the employer and the employee are paid in one lump sum plus accrued interest when defined contingencies such as death or invalidity occur. Unfortunately, neither death nor invalidity can be predicted, sometimes it occurs long before an adequate amount has been accumulated in the fund to help those dependants including non-working spouses and young children who are left to go on with their lives.

The options given for pre-retirement withdrawals are meant for good causes, but if not properly planned and managed by members may have serious implications on their future. One major concern is with regard to the issue of adequacy of savings in Account II, constituting 30% of total employee's contribution. Withdrawals from Account II can be made for housing, pre-retirement at age 50, purchase of computer, and tertiary education.

The rapidly expanding educational opportunities, work participation in modern sector employment and increasing freedom in the choice of marriage partners have resulted in the postponement of marriage among Malaysian women. Mean age at first marriage of Malaysian women has risen from 18.5 years in 1947 to 24.6 years in 1991 (Department of Statistics, 1995), and assuming that the upward trend continues, the future scenario will have implications on family formation and the ability to finance their tertiary education. The worry is that the Account II funds will be exhausted long before members' children reach the age for admission to institutes of higher learning. By that time, the age of members would have exceeded 50 years and without careful planning they could have withdrawn the entire savings in Account II under the housing and age 50 withdrawals.

The dependency ratio (the number of children below age 15 plus number of persons aged 65 and above divided by number of persons between the ages of 15 to 64) in Malaysia has been on the declining trend over the years. This ratio dropped from 84 in 1975 to 66 in 1991, to 64.2 in 1995 and 59.6 in 1999 (Ministry of Finance, Malaysia). However, the decline was contributed solely

by the drop in the number of children in the 0-4 age group. Demographic trends in Malaysia suggest that while the proportion of persons aged over 65 years has remained constant at 4% of the total population over the last decade, the increase in life expectancy means that the aged are on average living longer. This will increase the share of the elderly in the total population in the next few decades and will require financial and old age support for a much longer period. These pressures will be even greater if the present retirement age remains at 55 years. Table 5 shows that the highest number of withdrawals in 1999 was for housing purposes, representing an increase of 25.59% from 1998, followed by the retirement withdrawal scheme and age 50 withdrawals.

Another criticism of the scheme is that the dividend rates declared by the EPF over the years were considered low by many quarters, as can be observed by the many letters of complaint that appeared in the media from time to time. As can be seen from Table 4 that the highest dividend paid out was 8.5% during the years 1983-1987. The low dividend rate was especially felt when compared with the dividend rates declared by other national investment institutions. This reflects the investment objectives of the EPF and perhaps the limitation imposed on the EPF as a pension fund to ensure that members' savings are always safeguarded. Investments in Malaysian Government Securities remained the largest investment component accounting for 31.97% of total EPF funds. The increasing size of members' funds and the instability of the country's financial markets resulting from the economic downturn pose a huge challenge to the EPF in channelling its investment activities.

Table 5. **Withdrawal of the EPF by Schemes**

Withdrawal Schemes	1995		1996		1997		1998		1999	
	No	*Amount (Rm)*	*No*	*Amount (Rm)*	*No*	*Amount (Rm)*	*No*	*Amount (Rm)*	*No*	*Amount (Rm)*
Death	13 757	156 199 620	16 301	180 122 278	19 161	209 958 515	18 301	255 919 848	18 495	255 909 977
55 Years	56 048	1 111 179 407	75 901	1 480 161 777	78 072	2 246 886 892	96 226	3 571 359 175	72 719	1 985 793 719
Incapacitation	2 385	55 839 485	2 469	49 547 010	3 030	67 009 324	3 391	106 148 620	4 437	134 068 094
Leaving Country	1 487	66 231 285	1 575	50 583 038	1 789	63 381 018	3 646	128 374 931	63 231	119 832 135
50 Years	31 940	386 558 058	50 068	557 373 737	57 089	842 488 005	72 718	1 286 664 113	66 615	925 724 020
Low Cost Housing	11 091	50 345 257	11 400	47 048 212	11 624	54 089 435	16 223	84 649 717	12 256	62 235 437
Non Low Cost Housing	58 499	535 261 768	63 258	596 681 543	74 914	769 037 427	87 236	917 468 158	147 701	1 513 948 207
Reduction/ Redemption of Housing Loan	30 969	610 572 351	22 739	440 663 997	22 440	491 904 350	59 791	1 399 888 419	45 783	933 782 456
Village House	3 675	28 695 015	2 488	17 798 662	2 942	24 341 867	3 968	30 294 938	4 263	33 851 457
Annual Dividend	1 495	10 909 925	2 966	15 379 000	1 666	15 480 319	1 337	11 611 579	870	1 215 249
Re – Election	5 001	2 386 443	7 755	3 603 956	4 697	2 403 331	1 644	2 398 091	2 758	1 312 235
Medical (1)	747	3 186 420	643	4 752 053	1 520	6 838 846	3 263	15 108 146	4 728	19 789 655
Periodical Payment (1)	111	8 648 490	163	8 201 000	175	5 724 105	175	3 425 547	177	3 009 779
Total	**217 205**	**3 026 013 524**	**257 726**	**3 451 916 263**	**279 119**	**4 799 543 434**	**367 919**	**7 813 311 282**	**444 033**	**5 990 472 420**
Member's Investment Scheme (2)	-	-	2 065	33 546 219	42 193	626 70 7170	48 442	621 430 178	91 269	1 117 469 005
Additional Death Benefits	11 188	48 667 376	13 246	62 675 882	13 984	72 049 541	14 638	79 018 212	14 691	78 835 469
Additional Incapacitation Benefits	2 782	25 783 773	2 393	21 947 015	2 622	27 586 475	3 018	36 026 743	4 516	58 007 322
Total	**13 970**	**74 451 149**	**15 639**	**84 622 897**	**16 606**	**99 636 016**	**17 656**	**115 044 956**	**19 207**	**136 842 791**

Source: EPF Annual Report 1999.

Table 6. **Percentage of Amount Withdrawn**

A	55 Years	(27.94%)
B	Non Low-Cost Housing	(21.30%)
C	Members Investment Scheme	(15.72%)
D	Reduction / Redemption of Housing Scheme	(13.14%)
E	50 Years	(13.02%)
F	Death	(3.60%)
G	Incapacitation	(1.89%)
H	Leaving Country	(1.69%)
I	Low Cost Housing	(0.88%)
J	Village House	(0.48%)
K	Medical	(0.28%)
L	Periodical Payment	(0.04%)
M	Re-election	(0.02%)
N	Annual Dividend	(0.02%)

Source: EPF Annual Report 1999.

General Information and Mechanics of SOCSO

The Employees' Social Security Act of 1969 is administered by the SOCSO and covers the contingencies of employment injury including occupational diseases and invalidity. A person employed under a contract of service or apprenticeship is covered by the Act. An employee earning a monthly wage of RM 2 000 or less has to contribute to SOCSO. Once an employee is covered, he/she is always covered even if his/her monthly earnings exceeds RM 2 000. The contribution rate for employees is 0.5% of wages for coverage under the Invalidity Pension Scheme, while employers pay 1.25% of wages for the Employment Injury Insurance and 0.5% for the Invalidity Pension Scheme.

The Employment Injury Insurance Scheme provides an employee with protection for accidents that occur while travelling, arising out of and in the course of employment, and occupational diseases. Benefits provided include medical benefits, temporary disablement benefit, permanent disablement benefit, constant attendance allowance, dependant's benefit, funeral benefit, rehabilitation benefit and education benefit. The Invalidity Pension Scheme provides 24-hour coverage against death or invalidity of a worker who has made at least 24 monthly contributions within a period of 40 consecutive months preceding the notice of invalidity received by SOCSO. Full pension is 50% of wages, plus 1% for every 12 contributions over and above the basic 24 contributions subject to a maximum of 65%.

Membership of SOCSO has been increasing over time, both in terms of the number of employees and employers. At the end of 1999, total membership of SOCSO was 8.6 million, while the total number of registered employers was 385 916, of whom 267 197 were active employers (SOCSO, Annual Report, 1999). This represents a substantial increase compared with 7.4 million employees registered in 1995 and 274 017 number of employers and 196 002 active employers. The number of accidents while travelling, and the number deaths reported have also increased over the same time span. In 1999 there were 18 309 number of reported accidents while travelling compared with 14 721 in 1995, and the number of deaths reported in 1999 was 984 compared with 828 in 1995. However, the number of industrial accidents reported declined from 114 134 in 1995 to 92 074 in 1999.

One major drawback of SOCSO lies in the procedure for administering claims. Until the claim is finalised, a worker receives nothing from his/her employer or the insurance company, and the delay following the accident often lasts a very long time. By the time the process is finalised, a significant percentage of the money is absorbed by the cost of administration.

Issues of Concern and Policy Recommendation

Roughly two-thirds of all employed persons are covered under the EPF, the government pension or related provident fund schemes. The rest of the employed population is still not covered by any retirement scheme. These include the self-employed and informal sector dwellers. In fact, all the above schemes are applicable only to urban and industrial workers. Agricultural workers, who form 16% of the workforce, are not included in the scheme. This suggests that while there is a huge amount of resources available that could be tapped, there are still a large number of employed persons who have to depend on their own savings for their old age. Hence, there is a need for a universal social security scheme for all contingencies covering both urban and rural, and industrial and agricultural workers. This is important to be considered in order to enhance the progress achieved in bringing a higher standard of living to rural and agricultural workers. As described earlier there are programmes to assist these groups but these programmes are on an *ad hoc* basis and rather sporadic in nature. Some of these recent initiatives taken by the government are in response to the 1997 crisis. We are proposing a more systematic and comprehensive scheme. However, the scheme should be of a co-operative kind, whereby the workers and the government should contribute.

Not all workers retrenched during the economic crisis received termination benefits or benefited from the Voluntary Separation Scheme. There is no

unemployment insurance or benefit in Malaysia that provides a cushion during the transition period, or during the time a worker is laid off before getting other employment. Also, workers may not be contributing because of unemployment, a shift to self-employment, a shift to economically inactive status, disability or other reasons.

The economic crisis that caused an abrupt and massive loss of jobs is usually followed by a fall in the aggregate demand for goods and services. To prevent the economy from sliding further, we propose a fund be created, to which the government with the partnership of employers and employees should contribute. The existing EPF should be improved to provide for this new partnership, and to handle any problems such as further retrenchments or job losses. Currently, a retrenched person is given 60% of the monthly income for a maximum period of 1½ years. If after that period, that person is still unemployed a Social Aid Fund or unemployment allowance should be set up by the Federal Government to pay the retrenched person an amount not more than 50% of monthly income. This could stimulate the economy and at the same time prevent further social deterioration of retrenched workers.

The issue of the retirement age has long been debated in Malaysia. The current age of 55 will no longer be able to sustain the financial requirements as life expectancy increases. As mentioned earlier, the increasing average age for marrying and employment as a result of better educational opportunities will have implications for family formation. Hence, we propose an increase in the retirement age to 65 years. In line with increasing life expectancy and retirement age, EPF should review the age-50 withdrawal scheme if that is for the purpose of preparation for retirement plans. Assistance for children's education should be widened to include loan facilities for members who have insufficient funds in Account II after withdrawals for housing.

Appendix Table 1. **Number of Employers**

	Number of Employers	*Growth (%)*
1994	235 929	5.73
1995	256 114	8.56
1996	276 417	7.93
1997	296 299	7.19
1998	297 792	0.50
1999	301 191	1.14

Appendix Table 2. **Number of Employers by Sector**

		Number of Employers				
	Sector	*1995*	*1996*	*1997*	*1998*	*1999*
1	Agriculture, Forestry, Hunting & Fishing	10 023	9 616	9 258	9 338	
2	Agricultural Products Requiring Substantial Processing	3 560	3 383	2 953	3 070	
3	Mining & Quarrying	939	906	614	573	
4	Manufacturing	14 089	14 143	14 147	13 312	
5	Construction	12 614	13 277	13 457	13 230	
6	Electricity, Gas, Water & Sanitary Services	11 394	13 473	15 547	14 703	
7	Commerce	19 729	21 012	21 608	20 411	
8	Transport, Storage & Communication	5 499	5 730	5 997	5 578	
9	Services	178 267	194 877	212 718	217 577	
Total		**256 114**	**276 417**	**296 299**	**297 792**	

Appendix Table 3. **Growth of members and total savings**

	Number of members	Growth *(%)*	Total Savings	Growth *(%)*
1994	7 277 353	4.87	83 437 130 334.92	17.31
1995	7 756 261	6.58	96 923 534 728.12	16.16
1996	8 050 738	3.80	113 491 705 064.01	17.09
1997	8 274 966	2.79	129 477 743 882.31	14.09
1998	9 157 708	10.67	145 325 654 441.25	12.24
1999	9 157 708	4.20	163 380 438 296.68	12.42

Appendix Table 4. **Growth of active members and total savings**

	No. of members	Growth *(%)*	Total Savings	Growth *(%)*
1994	3 757 173	4.74	60 309 945 267.29	15.41
1995	3 993 147	6.28	70 264 425 604.30	16.51
1996	4 180 577	4.69	83 724 481 276.67	19.16
1997	4 306 973	3.02	96 669 126 375.02	15.46
1998	4 659 414	8.18	107 788 959 637.31	11.50
1999	4 784 174	2.68	119 328 368 584.53	10.71

Note: All the above data are compiled from various EPF Annual Reports.

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THE ROLE OF SOCIAL SAFETY NETS: TRENDS AND PROSPECTS IN THE PHILIPPINES

Celia M. Reyes

Introduction

This chapter focuses on the social safety nets that the Philippine government implemented to mitigate the adverse social impacts of the East Asian crisis. The chapter describes the different social safety nets operating in the Philippines, and discusses selected issues relating to these safety nets. Safety nets encompasses all informal, family-based arrangements (private safety nets), and all social security programmes and poverty-targeted interventions by the government (public safety nets). They include all cash and in-kind transfers. Social safety nets are those instruments that are specifically aimed at mitigating potential adverse effects of reform measures, economic crises, disasters or civil strife on the poor. They are designed to assist individuals, households and communities to better manage risks and ensure economic security. Existing programmes can be broadly categorised into food subsidies, public employment programmes and credit-based livelihood programmes.

Impact of the Asian Economic Crisis

Poverty trends before the Crisis

The incidence of poverty among households in the Philippines was on a downward trend over the 1990s. From a high of 39.9% in 1991, it went down to 31.8% in 1997 (see Table 1). Poverty was greater in rural areas, with 44.4% of the households considered poor in 1997. This is markedly higher than the 17.9% poverty incidence in urban areas. Poverty reduction has been greater in the urban areas than in the rural areas. Between 1991 and 1997, urban poverty rates decreased by 13.2% compared to the reduction in rural poverty of 4.2% over the

same period. However, with the population growing at over 2% per year, the number of poor families declined by only 270 thousand families from 4.78 million in 1991 to 4.51 million in 1997 (Table 1).

Table 1. **Poverty Measures by Area**

Poverty Measures and Area	1985	1988	1991	1994	1997	1998
Poverty Incidence, (Philippines)	44.2	40.2	39.9	35.5	31.8	40.6
Urban	33.6	30.1	31.1	24.0	17.9	26.0
Rural	50.7	46.3	48.6	47.0	44.4	53.9
Poor Families, Philippines	4 355 052	4 230 484	4 780 865	4 531 170	4 511 151	5 838 970
Urban	1 250 397	1 198 555	1 847 582	1 521 882	1 208 436	1 781 255
Rural	3 104 655	3 031 929	2 933 286	3 009 288	3 302 715	4 057 715
Poverty Threshold, (Philippines)	3 744	4 777	7 302	8 885	11 319	12 420
Urban	4 365	5 893	8 327	9 831	12 577	13 800
Rural	3 353	4 094	6 276	7 946	10 178	11 168

Sources of basic data: Family Income and Expenditure Surveys, 1991, 1994, 1997;1998 figures are estimates from Reyes (2000).

Economic Impact of the Crisis

The Asian financial crisis that started in July 1997 adversely affected the economy. Foreign portfolio investment flowed out of the country. The peso-dollar exchange rate dropped from P 26.40/$1 in June 1997 to P 42.70/$1 in January 1998. Interest rates went up considerably, and the industry and services sectors suffered. Firms, particularly those in the construction sector, which relied on dollar-denominated loans, were severely affected. Unfortunately, one of the worst episodes in recent times of the *El Niño* drought phenomenon also occurred during the first quarter of 1998, significantly affecting agricultural production. Thus, the combined effect of the Asian financial crisis and the *El Niño* led to a contraction of the domestic economy in 1998. Figure 1 shows the growth rate of real Gross Domestic Product over the last ten years.

The economic slowdown severely affected the household sector. Table 2 shows the average incomes by decile in 1997 and 1998. All deciles experienced declines in real incomes and the percentage declines are greatest for the lower income groups. Consumer prices also went up.

Declines in income and increases in prices curtailed the purchasing power of households. Moreover, the revenue shortfalls experienced by the government due to lower economic activity and greater expenditure on debt servicing has forced government to constrain spending for basic services at below programmed levels. This was very inopportune because it came at a time that the population's demand for publicly provided goods and services was higher.

Figure 1. **GDP Growth Rates, 1985 - 1999**

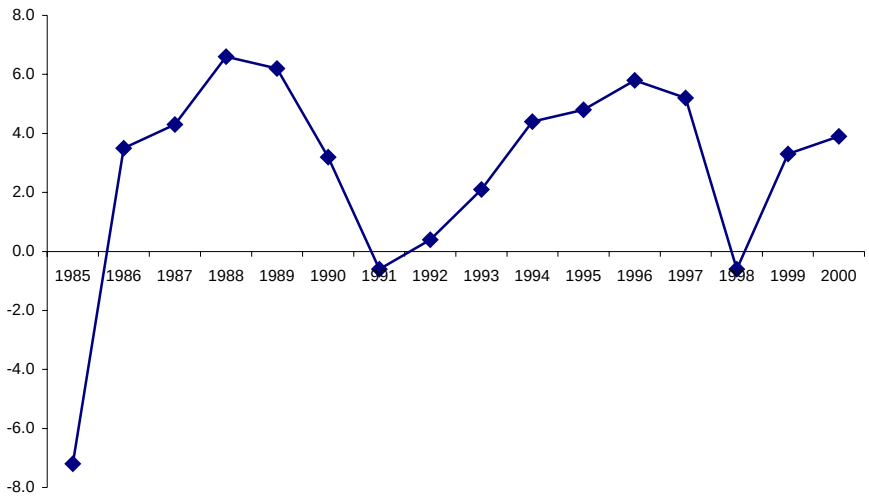


Table 2. **Per Capita Nominal and Real Income by Per Capita** Income Decile, 1997-1998

	Nominal		Real	
	1997	*1998*	*1997*	*1998*
1st Decile	4 616	3 785	3 699	2 765
2nd Decile	7 021	6 203	5 626	4 531
3rd Decile	9 116	8 244	7 304	6 022
4th Decile	11 415	10 518	9 147	7 683
5th Decile	14 234	13 292	11 406	9 709
6th Decile	17 905	16 907	14 347	12 350
7th Decile	22 878	21 800	18 332	15 924
8th Decile	30 298	29 335	24 277	21 428
9th Decile	43 259	43 120	34 663	31 498
10th Decile	112 297	117 842	89 982	86 079
Total	**27 303**	**27 105**	**21 877**	**19 799**

Source: Family Income and Expenditure Survey 1997 and Annual Poverty Indicators Survey 1998.

Social impact of the crisis

To cope with reduced incomes, higher prices and reduced availability of public goods and services, households employed various coping mechanisms. Based on a study done by Reyes *et al.* in 1999, a range of coping mechanisms was used. Household members took on jobs in the informal sector, such as retail selling, and households changed their consumption patterns, for example, substituting cheaper food items and doing away with snacks. Some children were transferred from private schools to cheaper private schools or public schools, and some children dropped out of school due to high out-of-pocket expenses even for public schools and some found work to augment family income. Household members tried to save on unnecessary expenses to be able to allocate a greater proportion to food expenses. When possible, they walked rather than ride in jeepneys or buses. Some households gave reduced priority to spending on health.

Because of the measures that households employed to cope with the crisis, there were negative consequences on the welfare status of the affected households. In the absence of official poverty statistics for 1998, Reyes (2001) estimated the poverty rate to have risen to 40.6%. The incidence of urban poverty is estimated to have gone up to 26%, while rural poverty incidence is estimated to have increased to 53.9%.

The increase in poverty was also evident in the other social indicators. The prevalence of malnutrition, based on proportion of children 0-5 years old who are underweight, rose from 8.4% in 1996 to 9.2% in 1998. Education, which is highly valued in the Philippines, was also not spared. At the secondary level, the drop-out rate increased from 9.8% in school year 1996-1997 to 10.8% in school year 1999-2000. Participation rates in private secondary schools also fell below the rate in the pre-crisis period.

Safety Nets in the Philippines

While huge amounts of foreign assistance went to Thailand and Indonesia, very little went to the Philippines to address the social impacts of the crisis. The limited response to the crisis was partly due to the lack of timely information on the social impacts of the crisis. When one looked at the economic indicators, it seemed at that time that the Philippines was the least affected. Real GDP still managed to grow by 5% in 1997 and contracted by only 0.5% in 1998, while the economy of Thailand contracted by 1.3% in 1997 and 8.2% in 1998. Indonesia's growth decelerated to 4.7% in 1997, and the economy contracted by 19.5% in 1998. Another reason for the lack of adequate response was the lack of

fiscal resources to implement safety nets. After posting fiscal surpluses from 1994 to the first half of 1997, the national government started to run deficits, which continues to the present.

Private safety nets helped households cope with the adverse impacts of the crisis. Households borrowed to finance consumption, mostly from informal sources, which included relatives and friends, "5-6" lenders, and traders. Reyes *et al.* (1999) noted a proliferation of informal credit sources in some areas because of the increased demand for quick credit. From Luzon to Mindanao, the same groups of individuals were identified as the most popular sources of credit. The same interest rates of anywhere from 10% a month to 20% a week were reported. Loans are usually paid either on a daily or weekly basis. Loans provided by traders to farmers, for instance, are settled at harvest time when the farmers sold their produce to them.

Compared to the situation before the crisis, however, informal lenders became more choosy and wary because of what they perceived as the diminished paying capacity of borrowers. Barangay officials attested to this condition. They said that many credit providers complained about delinquent borrowers. For this reason, some informal creditors chose not to lend at all.

When credit was not accessible or available, people resorted to selling assets to raise cash. To cope with their financial problems, about 17% of households surveyed reported having sold some assets in the last 18 months. About 20% of them sold real property, specifically land. Appliances and jewellery were the two other assets often sold. 43% of the urban poor who sold assets sold their jewellery. In farming communities, 77% of those who sold assets sold animals such as carabao, cattle, hogs and goats. The most compelling reason cited for the disposition of properties was to augment household income. Additional reasons included: payment of school fees, payment of health services including medicine, and payment for loans. Only 3% claimed to have sold some asset to provide capital for productive activities. The sale of assets, particularly, constrained the income-earning capacity of households.

Government did respond to the social impacts of the crisis. Programmes that were implemented sought to address the loss of jobs, the decline in real incomes and the loss of purchasing power. These programmes, however, were very much limited in scope and coverage. The efficacy of some of these interventions is difficult to assess, particularly for new programmes, owing to the absence of information on beneficiaries and on the impacts of the programmes.

Public employment programmes

The regional financial crisis and the abnormal weather pattern affected adversely the employment situation in the Philippines. Firms resorted to retrenchments, temporary layoffs and reduced working hours as demand slackened and costs of production went up. Workers in the agricultural sector, meanwhile, had to contend with higher underemployment due to the drought. Although massive layoffs were not noted, the crisis and the drought hampered the economy from absorbing new entrants to the labour force. This contributed to a higher unemployment rate, which was considerable even before the crisis.

To address the concerns of displaced workers, the Department of Labour and Employment (DOLE) embarked on the Rural Works Programme. This programme was designed to provide temporary wage employment for displaced workers through placement in public works projects. It also sought to harness the skills of the displaced workers in community based works, and to co-ordinate and collaborate with local government units (LGUs), non-government organisations (NGOs), people's organisations (POs) and other organised sectors in mitigating the effects of the unemployment problem.

The DOLE works in partnership with the LGUs, NGOs, POs, socio-civic organisations, organisations of producers, trade unions and other organised groups of workers. The partnership scheme is in pursuit of the government's objective of strengthening the linkages and co-ordination among government units, the private sector and the civil society particularly the poor in the formulation and implementation of the social reform and anti-poverty programmes.

The DOLE and the partner-proponent adopted a 60-40 cost-sharing arrangement in the implementation of the programme. The DOLE under its GATT Adjustment Measures Programme will subsidise 60% of the wage of the beneficiaries based on the mandated Regional Tripartite Wages and Productivity Board while the remaining 40% will be shouldered by the partner-proponents. In implementing this programme, the DOLE chose as target sites those areas with high unemployment brought about by the economic crises and the *El Niño/La Niña* phenomena, and where there is willingness of the community and proponents to participate in the programme and there is a Public Employment Service Office (PESO). The PESO is a multi-service facility that provides information and assistance to the clients, and is designed to link skills with jobs.

Projects eligible for funding under the programme include: (i) economic/productive infrastructure projects, including the rehabilitation of

farm-to-market roads, irrigation canals, and construction or reconstruction of wooden bridges and post-harvest facilities, and water pumps; (ii) social infrastructure projects, including repair and maintenance of common public facilities, cleanliness, beautification and eco-tourism projects; and (iii) agro-forestry projects, including communal planting, replanting reforestation and seeding. Recruitment and selection of the displaced workers were done through the PESO. Only those workers who registered with and passed the screening process of the PESO were employed in the project.

The Rural Works Programme started in August 1998 through DOLE Administrative Order No. 185. The programme was pilot tested in Mindanao in November 1998. The DOLE had allocated P 7.3 million for the pilot implementation of the programme in the Mindanao regions. Barely two months after its inception, about 33 proponents, mostly LGUs, participated in the programme. This encouraged DOLE to expand the programme in Luzon and Visayas regions in December 1998, infusing an additional P 12 million for the programme.

Three barriers were identified in the course of implementing the programme. First, seasonal factors and the weather hindered the phase and timing of work. Work schedules sometimes overlapped with agricultural activities, particularly during planting, cultivation and harvesting. Frequent heavy rains caused delay in the implementation of rural works projects, particularly in the Mindanao regions. The second problem was the insufficiency of funding. For instance, as of September 1999, the proposed projects were estimated to require P 28 million from DOLE as its 60% counterpart. The third problem was the peace and order situation. For instance, in Region XII, some of the projects were temporarily suspended due to the unstable situation in the area.

For the period January to December 1999, the DOLE Regional Offices (DOLE-ROs) released P 18.7 million, mostly to LGUs to fund their share, the 60% of the labour costs of the 228 projects. About 32% of the spending was used to fund 82 economic infrastructure projects generating employment for 3 336 workers. 28% went to 60 productive infrastructure projects providing jobs for 2 904 workers; 27% for 59 social infrastructure projects absorbing 2 452 workers; 8% for 9 agro-forestry projects giving jobs to 546 workers; and the remaining 6% went to other projects generating employment to 625 employment. Thus, a total of 9 863 workers were provided temporary employment in 1999 for a total of 155 937 person-days. These workers were drawn from various trades such as farm labourers, general labourers, masons, welders, and carpenters, although others were unemployed.

Assessment

The Rural Works Programme was effective in terms of providing employment to displaced workers. The cost-sharing scheme in the implementation of the infrastructure projects contributed to the strengthening of linkages between the DOLE and the partners, particularly the LGUs. The scheme also enabled the LGUs to maximise utilisation of their available resources in addressing infrastructure bottlenecks. The scheme also ensured the partner's commitment to the successful implementation of the project.

The legally mandated daily minimum wage as basis for the payment of the workers' wages as stipulated in the programme guidelines was not applicable for LGU-initiated projects. The LGUs adopted the wage rate mandated by the Department of Budget and Management (DBM). DOLE experience suggests the need to have different wage rates for LGU and private entity-initiated projects. Thus, DOLE suggests that for LGU-initiated projects, the wage rates should not be higher than the mandated DBM rate. For the private entity-initiated projects, the wage rates should not be lower than the minimum wage rates set by the Regional Wage Boards. However, since this is intended to be a safety net for the poor, the wage given to workers in this programme should be lower than the legal minimum wage. This would ensure that only the poor would apply.

Some of the funded projects were completed through private contractors, thus, affecting the placement of displaced workers. It was the contractors who made the selection of workers for contracted-out projects. To maximise the selection and placement of displaced workers, contracted-out projects should be discouraged and direct implementation by the proponent should be encouraged, in order to ensure employment of displaced workers. Alternatively, contractors could be required to hire from the eligible job applicants. In all of the projects, all workers employed were males. The programme has not been made accessible to women workers, primarily due to the nature of jobs available. To accommodate women workers, projects that do not involve highly manual works should be encouraged.

Social Security System Assistance Measures

While it does not provide unemployment benefits, the Social Security System (SSS) adopted several measures to enable members to secure loans as well as to ease repayment burdens. More relaxed terms in the availability of salary loans enabled SSS members to have easy access to the loan programmes of SSS. Effective September 1, 1998 members who had paid at least 36 monthly contributions could qualify for a one-month salary loan. Moreover, the interest

rate was reduced from 10% to 6%, with the interest charge incorporated in amortisation payments and not deducted in advance. The SSS also designed an emergency loan programme for separated members. Under this facility, separated members could avail themselves of emergency loans of up to P 12 500 at a 6% annual interest rate, free of service charge. The budget allocation for this loan facility was increased from P 200 million to P 300 million due the influx of loan applications. A total of 21 219 workers were assisted, with over P 230 million of loans granted.

In accordance with the Housing Loan Condonation Act of 1998, SSS condoned penalties for overdue housing loans running from May 8, 1998 to May 9, 1999. To qualify for the amnesty, borrowers were required to pay their arrears and restructure their loans to prevent foreclosure proceedings against them. At the end of 1998, SSS had condoned P 34 million penalties and total collections of P 291.3 million with 17 600 members availing themselves of the programme. Condonation of penalties for salary, educational, and calamity loan delinquencies was also adopted by the SSS. This facility followed the procedure outlined above. However, the available period was from September 1 1998 to March 31, 1999. As of October 1998, a total of P 5 million had been collected from over 1 830 members who had accessed the programme.

In assessing these initiatives, it can be noted that only those workers who are members of the Social Security System are eligible for assistance. These are workers who are employed in the private sector. However, most of the workers in the informal sector and many of the self-employed, including farmers, would not be members of SSS. These are the ones who are most vulnerable to economic crises and shocks.

Enhanced Retail Access for the Poor (ERAP) Sari-Sari Rolling Stores

In line with its objective of establishing safety nets to cushion the poor from economic adversities, the government carried out various measures including food assistance programmes to those affected by the crisis and the drought. These included the setting up of *sari-sari* stores selling basic food commodities at lower prices, and the selling of rice at discounted prices by the National Food Authority (NFA) rolling stores in targeted poor municipalities.

The idea of a rice rolling store was conceived as a way of providing low cost rice to the remote areas in the country. This was pilot tested in the rural areas of South and Central Mindanao in July 1998. Having received wide acceptance from the public, the NFA then extended the programme by accrediting existing *barangay* stores to sell basic food commodities at a lower market price. Called

ERAP Sari-Sari Stores, the programme also aimed to enhance entrepreneurial capabilities and generate employment in the depressed and/or remote areas of the country.

During the Marcos administration, the NFA had already started a similar programme (*Kadiwa* stores). However, due to the effects of the Asian crisis and the thrust of the Estrada Administration relating to the plight of the poor, the NFA formally launched the ERAP *Sari-Sari* store as a pro-poor programme with a three-pronged approach: availability, accessibility and affordability. The *sari-sari* store catered to households' needs for basic commodities like sugar, coffee, cooking oil, milk, sardines and noodles. The commodities were customised to the demand of small consumers considering brands, size and packaging. Tag pricing was based on the prevailing market rate of the commodity but the ERAP *sari-sari* store sold at a lower price. NFA targeted one ERAP *sari-sari* store for each *barangay.* As of December 15, 2000, there were 10 258 ERAP stores in the country. The location of the stores considered accessibility to the consumers, specifically in the depressed and remote *barangays.* Interested owners of existing *sari-sari* stores sought accreditation. In the ERAP *sari-sari* store programme, the NFA accredited *barangay* stores owned and operated either private individuals, co-operatives, or organisations to sell basic food commodities at subsidised prices. On the other hand, the ERAP rolling stores are owned and operated by the NFA using vans. As of December 15, 2000, 262 rolling stores were fielded nation-wide serving 380 797 customers in 265 cities/municipalities and 1 454 *barangays.*

Rice Subsidy Programme

The Rice Subsidy Programme (RSP) of the NFA was one of the initial steps taken by the government as early as January 1998. The main objective of the programme was to provide affordable and quality rice to the subsistence poor or those families living below the food threshold. Priority was also given to those families with at least five members and with moderately and severely malnourished children. Target areas were the two depressed *barangays* in poor (based on income of the municipality) municipalities.

Pilot testing was conducted in these areas for three months, after which the full implementation of the programme officially started on April 1998. There were two phases in the implementation of the rice subsidy programme. The recipient provinces under Phase I were Antique, Iloilo, Sorsogon and Surigao del Norte. Three municipalities in each of these provinces were identified. Existing rice retailer stores (such as NFA retailer stores and other co-operative stores) were identified by Municipal Social Welfare and Development Officer and

Department of Social Welfare Development workers as rice retailers for the RSP. The beneficiaries were given rice discount cards to be used in purchasing rice. The cards were non-transferable to other families and could be used only by immediate members of the family. The subsidy was P 2.50 per kilo regardless of the variation in the prevailing price of rice.

The second phase of the programme (Enriched Rice for Anaemia Protection-ERAP) focused on the distribution of iron-fortified rice. The mechanics used in Phase I were employed. However, due to budgetary constraints Phase II focused only on Sorsogon and Surigao as the baseline provinces.

These programmes, although designed to assist the poor, appear not well-targeted. Anyone could buy from the ERAP stores. There is some attempt at self-targeting by selling commodities and brands that are popular with the poor, but these are also consumed by the lower middle class. In the case of the rice subsidy programme, the eligible beneficiaries are those whose incomes are below the food threshold. In the absence of data on household incomes, the selection of beneficiaries was left to the programme implementers.

Credit Programmes

The most extensive safety nets of the government were its credit-based livelihood programmes. When the Asian financial crisis broke out, there were 86 directed credit programmes operating in the Philippines, which were being administered by different departments, agencies, government financial institutions, government-owned and controlled corporations, and non-bank financial institutions. These programmes were directed towards agriculture, rural sector, low income and poor communities, disadvantaged groups, small and medium enterprises, and other priority sectors.

Some communities were recipients of the DSWD-CIDSS self-employment assistance programme. For example in Dulong, Misamis Oriental, CIDSS provided financial assistance to housewives for their livelihood programmes. Seed capital of P 200 000 was given to the community, which was divided into two groups called the Strugglers and Strivers, each with 25 members. Each member was given capital of P 4 000, which could be used for any livelihood project – selling fish or vegetables, putting up a *sari-sari* store, assisting their husbands in the farm operations. The money was to be repaid in instalments without interest within two years. To increase the repayment rate, both groups required their members to make daily repayments of P 84. Half of the amount was credited as the member's forced savings. The money was deposited in the bank and the group expected to return the seed capital to the DSWD after two

years. The community was optimistic that once they learned the value of paying and saving, they would be able to sustain the programme even after the DSWD pulled out.

The programme beneficiaries were appreciative of this DSWD effort as they were able to help augment family income. It was, however, noted that the DSWD's requirement of depositing the daily collection in the bank instead of immediately rolling it over to other members of the community, slowed down the community's effort to evolve a sustainable livelihood credit facility. It was estimated that through a process of daily amortisation rollover, the group could get an additional benefit of a P 4 000 loan every two days.

Studies by Lamberte *et al.* (1998) showed that credit programmes administered by government financial institutions, which consist of the Land Bank of the Philippines and the Development Bank of the Philippines were more effective in reaching target borrowers, and efficient in terms of cost recovery, relative to the Government-Owned and controlled corporations, non-bank financial institutions, and non-financial government institutions. The latter agencies generally performed fairly well in terms of outreach but they did so very inefficiently. Credit programmes run by the different government departments and line agencies were found to be even more inefficient. This was attributed to the supplementary nature of such programmes, which made performance standard setting and independent assessment difficult.

Since the loans were either interest-free or carried subsidised rates, the programmes did not recover operations, administrative, and other costs. These made the programmes unsustainable or dependent on budget donations and allocations. The indirect mode of credit delivery was found to be more effective. This involves the use of conduits, especially those that are closely connected to end-borrowers, such as community-based and group-lending methods. Llanto *et al.* affirmed the effectiveness of the targeting mechanism used by micro-finance institutions in identifying poor clients. However, small financial base, huge investments in training clients, weak institutional capacity, and lack of a viable and extensive delivery system constrain the MFI's reach.

The popularity of informal lenders as sources of credit among cash-strapped households stems from the ease in acquiring and repaying the loan. Unlike formal lenders, there is usually little or no collateral required and very little or no paperwork involved in applying for an informal loan. This feature becomes even more important during a crisis when the collateral base usually collapses.

On the aspect of repayment, the amortisation is usually on a daily basis, which perfectly matches the income stream of the usual borrowers such as those

engaged in retail trade, and the daily paid workers. In the case of farmers, traders are popular credit sources, again because of the "no-collateral" requirement and the repayment scheme. Farmers are able to pay their loans at harvest time. Thus, traders are only too willing to lend because they can accept produce as payment.

Issues

It is apparent from the programmes discussed above that the safety nets currently being provided could be better targeted and improved in design. Some of the most vulnerable do not have access to these programmes.

The Asian financial crisis highlighted the vulnerability of workers and the lack of adequate safety nets particularly for those in the informal sector. Government services and benefits like housing, medical insurance, loan facilities, and housing have long been withheld from the informal sector. Workers from the informal sector as well as those from the rural, farm and non-farm sectors who constitute the majority of the Philippines' labour force are the most vulnerable, as they do not have the mantle of protection from state services like social security, health insurance, and housing. The Department of Labour and Employment is discussing with the Social Security System the possibility of allowing members of the informal sector to avail themselves of benefits usually available only to those in the formal sector.

Leakages for some of these programmes are substantial. Some mechanisms should be employed to improve targeting. For instance, self-targeting through commodity selection, geographical targeting or means-based tests could be employed. In its anti-poverty programmes, the government has utilised various forms of targeting. In the Social Reform Agenda during the Ramos Administration, priority was given to 20 "poor" provinces. These provinces were chosen mainly on their performance in selected human development indicators. However, only 11% of the poor (based on the income-based measure of poverty) are actually in these 20 provinces.

The government then adopted 5th and 6th class municipalities in all provinces as its priority areas. Programmes were focused in these areas. However, the class of the municipality is based on the income of the municipality, not the income of its residents. The income of the municipality comes from the taxes, *e.g.* real property tax, and other fees it collects. There are 6 classes of municipalities, with the 6th having the lowest income. Thus, there is no one-to-one correspondence between the "poverty" of municipalities and the poverty incidence of the population residing in those areas. In fact, disparities in terms

of "poverty incidence" have been noted across *barangays* (village) in a municipality. In fact, for some of the programmes, focus has been in two depressed *barangays* in these 5th and 6th class municipalities.

Under the Estrada administration, targeting has shifted to the 100 poorest families in each province or city. The intention was to pick groups of 20 poorest families in the province and provide them with integrated delivery of services. The difficulty was in identifying these poorest families. While the national surveys provide information on poverty incidence down to the provincial level, there is no information at the sub-provincial levels that could provide data on who are the poor.

There have been some efforts by various groups to institutionalise a community-based monitoring system (CBMS). This entails a household survey that would collect information on the minimum basic needs of the families. The Presidential Commission to Fight Poverty under the Ramos Administration pilot-tested this and implemented it in 20 000 *barangays.* This monitoring system drew from the experiences of the Department of Social Welfare and Development, and the MIMAP Project, among other groups. Unfortunately, the system had some weaknesses, including the design of the questionnaire and the list of indicators. Moreover, the new administration did not pick it up. Potentially, the CBMS could provide the data for identifying eligible beneficiaries at the local level. This could be very useful in reducing, if not eliminating leakages.

It is also ironic that the demand for social safety nets is highest during times of economic crises. This is also the time when government's capacity to respond is severely curtailed. During the 1997-1998 crisis, affected individuals turned to publicly provided goods and services. Thus, some people withdrew their children from private schools and transferred them to public schools. Some of the sick went to public health centres and hospitals instead of private health care providers. However, the economic downturn resulting from the Asian financial crisis and the *El Niño* also reduced significantly the revenues of the government. Thus, the government was forced to reduce its spending. It tried to protect the social sectors by exempting the basic social sector spending from the 25% mandatory reserve. Nevertheless, it was difficult to meet all the needs at that time. For instance, public health centre suffered from inadequate supply of medicines. But more importantly, the government was not in a position to provide for new assistance. Thus, it could not provide for "new forms of scholarships" (*e.g.* financial assistance to pay for transport and food costs of students going to public schools) to avert dropouts.

With this experience, it might be worth considering setting up a social fund. The government can add to this fund in times of fiscal surpluses and non-crisis periods. This could then be used to finance safety nets in times of crises. Multilateral donors could play an important role in setting up a regional social fund to supplement the national social fund.

Concluding Remarks

There are a range of existing social safety nets in the Philippines, consisting mainly of food subsidy programmes, public employment programmes, and credit-based livelihood programmes. Nevertheless, these are limited in coverage and have substantial leakages. To ensure cost-effectiveness and sustainability, these programmes have to undergo improvements in design and targeting. Since administrative costs of targeting could be substantial, self-targeting should be utilised more. When self-targeting is not possible, approaches to make targeting lest costly should be promoted. A community-based monitoring system that not only could provide information of the impacts of crisis on vulnerable groups but also early warning signals of impending crisis needs to be institutionalised at a nation-wide basis. This could provide the necessary information for identifying eligible beneficiaries to targeted programmes.

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SOCIAL SAFETY NETS: PROGRAMMES AND PROJECTS IN THAILAND

Amara Pongsapich [1]

Introduction

July 2, 1997 marked the date when the Government of Thailand announced a change in the exchange regime to a "managed float" system, abandoning the 13-year-old peg to a basket of currencies dominated by the U.S. dollar. In the years leading up to economic crisis, many social reform programmes were gaining momentum in Thailand. Due to the crisis, one of the most serious problems has been rising unemployment and underemployment in both urban and rural areas. While the impact of the crisis have been one of the important factors influencing political and social reforms, the crisis has also been an impetus for further social reforms.

This Chapter examines social safety nets programmes implemented in Thailand during the economic crisis and discusses whether appropriate programmes can be identified for further support to meet long-term impacts. The objective of the Chapter is to assess the adequacy of policy formulation for social safety nets in the country, to assess the efficacy of social safety nets programme/project implementation, and to recommend measures to strengthen the responsiveness of social safety nets to short-term emergencies as well as long-term concerns.

The Social Policy Framework and Social Protection Schemes

The Eighth Plan which is a human-centred development plan, the Constitution which gives strong support for the basic rights of the people, and the economic crisis have all lead to long-term social policy reform with special emphases in three areas, *i.e.*, labour and social welfare, education, and health. The objectives are:

- To alleviate the crisis impacting on the social sector, especially for the poor, the disadvantaged and vulnerable groups;

- To restructure social infrastructure and the Thai economy to be competitive in the international market, and

- To improve the efficiency of social services.

- In essence, the social policy framework constitutes the following policies:

Labour and social welfare sector

- Provide assistance to the retrenched and unemployed by establishing assistance centres for the retrenched and expand social security benefits;

- Provide protection to the poor in the informal sector and rural areas by improving the efficiency of poverty alleviation programmes;

- Support training investments in the private sector; and

- Promote competitiveness in the labour market.

Education

- Reduce the school drop-out rate;

- Review human resource policy to support new human resource management schemes independent of government administration;

- Improve education quality and management systems at all levels to respond to the needs of society and community through decentralisation processes; and

- Promote participation of the private sector in education and training services.

Health

- Provide protection to low-income people;
- Give priority to maternal and child health activities;
- Improve efficiency in health services by increasing the number of health personnel in rural areas and establish a pilot autonomous hospital project.

Social protection may be in the form of universal coverage or specific group coverage. In Thailand currently there is no programme that provides universal coverage. Protection provided at present includes for sickness, disability, old age, health care, survivors, children and women, the socially excluded, housing facilities, and unemployment. Assistance can be in cash or in kind, direct or indirect, or directed to specific groups, with or without obligations, and either full or partial support. Social protection may be in the form of social insurance, social welfare, or social assistance. After the economic crisis, benefits from social insurance and social security programmes were expanded. Many short-term programmes have also been established to help relieve the burden on those affected.

Social protection schemes include (1) social security or social insurance, (2) social services, social assistance, and (3) social safety nets. Since social safety nets programmes provide support for people in crisis, programmes may overlap with other categories.

Social Security or Social Insurance and Related Schemes

Government programmes include protection for employees of government and government enterprises. Social security or social insurance schemes are provided for employees in the private sector, but managed by a government agency. Contributions to the social security fund come from employees, employers, and the government. The largest social protection scheme for the private sector is the provident fund established by government decree. Another fund is in the form of co-operatives, also with a separate law. Three large funds are the Civil Servants' Pension Scheme, the Social Security Fund, and the Provident Fund, all of which are established under separate laws. In general, workers of government enterprises are provided with social protection schemes by separate enterprises. Government enterprises without their own schemes have to follow the general government enterprise scheme.

Social protection programmes in the formal sector include civil servants' scheme, benefits for employees of government enterprises, and social security schemes. Civil servants and employees of government enterprises are eligible for quite generous benefits in terms of pensions and compensation, as well as health care and services for self and family members. Children's education is also an attractive benefit. Pensions for civil servants are for life, while compensation for employees of government enterprises vary from agency to agency. Compensation can be as high as for 30 months depending on the length of service with the agency.

For non-government and non-government enterprise employees, two laws providing unemployment protection are the Social Security Act and the Labour Protection Act. The two laws together provide unemployment benefits in the following forms. The Social Security Act 1990 identified unemployment benefit as one of seven benefits for workers. They are sickness, disability, death, childbirth, old age, child welfare, and unemployment. However, subsidiary law and details of the contribution and benefits in case of unemployment have not been drawn up. This is the only benefit category not yet completed.

The Labour Protection Act 1998 and related Acts provided protection for those not employed through four mechanisms:

- The Workmen's Compensation Fund, where employers contribute to the fund, to provide compensation for employees in case of sickness, disability or death caused by injury at the work place. Termination of employment due to work place injuries is also covered. This fund is not included in the Social Security Act because it had been in operation already when the Social Security Act was promulgated.

- Severance pay is provided to employees upon termination of employment, in addition to other categories of money that the employer agrees to pay the employee according to Section 5 of the Labour Protection Act 1998.

- The Provident Fund includes contributions by both employers and employees as a protection in case of retirement, death, termination of employment, or termination of membership of the fund. As the Provident Fund Act 1987 states that Provident Fund is voluntary and not required of all firms, many firms have not established a Provident Fund. The Provident Fund is a legal entity separate from the operation of the firm itself. The firm must register the fund

with the Ministry of Finance and must hire a person from the list of qualified financial institutions as a manager.

- The Employee Welfare Fund was established to provide welfare for workers terminated from employment because of death or other reasons. The Labour Protection Act requires that the Ministry of Labour and Social Welfare establish an Employee Welfare Fund. Employees must be members of the Employee Welfare Fund unless the employer establishes a Provident Fund for the firm. Both employers and employees are required to make contributions to the Fund. In other words, workers should be protected by either the Provident Fund or the Employee Welfare Fund in case of termination of employment.

Social Services and Social Assistance

Social service programmes in the areas of education, health, and social welfare in Thailand have been designed to serve specific target groups with specific problems. Compulsory education has been provided by law. But children still need food, clothing, and school supplies to go to school. The National Education Act 1999 aims to provide 12 years education universally. Because of the economic crisis, 9 years of compulsory education is being enforced at the moment. The 12-year requirement will follow subsequently. Primary health care services have been provided to people in both urban and rural areas. Very poor people can have health care services from government hospitals and health centres, but services may be slow and not fully adequate. There is an attempt currently to draft a health insurance scheme to provide universal coverage. Social assistance programmes in Thailand have been provided for specific groups with specific problems. There is no universal coverage of social assistance. Furthermore, social assistance programmes per head have been very small and not adequate. The concept is to provide temporary assistance only. Assistance programmes include sickness or health care, assistance to people with a disability, the elderly, women, children, the unemployed, minority people, and the poor.

Social Safety Nets

The definition of social safety nets adopted in this Chapter indicates that a crisis condition is the main criterion used to identify social safety nets programmes and projects. In this report, focus will be put on the 1997 economic crisis only. Social Safety Nets programmes are those announced by the Government,

including the Unemployment Mitigation Plan announced in August 1998. Government agencies were given a mandate to implement programmes and projects, either projects already in existence or new projects to help abate the social impact of the crisis. However, government policies in the first year after the crisis were to reduce spending. Social safety nets programmes were then slow to be implemented. Only after the government received loans from the World Bank, the Asian Development Bank, the OECF (now JBIC), and the Miyazawa Plan were social safety nets programmes more actively implemented. Emergency social safety nets programmes that the government implemented during the crisis came from 3 loan programmes in addition to the government budget. These are discussed in turn.

The World Bank Social Investment Project

The Social Investment Project is financed by loans from the World Bank and the Overseas Economic Co-operation Fund of Japan (OECF) – Japan (now called Japanese Bank of International Co-operation or JBIC), technical assistance grant from UNDP, AUS/AID, and the Government counterpart fund. The primary objectives of the programme are twofold. First is to respond to the crisis through the rapid creation of employment opportunities and the provision of essential social services to the unemployed and the poor. The second objective is to use the crisis as an opportunity to support bottom-up service delivery through financing locally identified and managed development initiatives, and through promoting decentralisation, local capacity-building, and community development.

There are two channels for implementation. Channel 1 supports existing government programmes designed to provide jobs and priority basic social services to the unemployed and poor. Channel 2 provides two windows, the Social Investment Fund (SIF) set-up to finance small-scale sub-projects, and the Regional Urban Development Fund (RUDF) designed to provide long-term credit financing at market rates to participating local governments. Both the SIF and RUDF are managed by units in the Government Savings Bank.

Asian Development Bank Social Sector Programme Loan

The ADB Social Sector Programme Loan (SSPL) has three main objectives. The first is to mitigate the short-term adverse impacts of the current crisis, in particular for the most vulnerable groups and the unemployed. The second is to initiate structural reforms to enhance the competitiveness of the Thai economy through the development of human resources, and the third is to reduce

inefficiencies in the provision of social services. The programme includes specific reform measures and activities to address key policy priorities and systemic issues in the labour market and social welfare, education and health sectors. In the formulation of the programme, specific attention was paid to gender and poverty issues. The ADB / SSPL loans covers 3 subsections within the social sector, *i.e.*, employment and labour, education, and health. Projects supporting employment and labour include vocational training, promotion of agricultural new theory projects, support for homeworkers, and establishment of a database on unemployment. Education and health programmes include scholarship, milk and lunch support for pre-school children, and health cards for the poor.

Social Sector Programme Loan from the Miyazawa Plan

In 1998, the Government launched another loan package to stimulate economic recovery. The objectives of the loan package are three-fold. First is to stimulate the economy through public works and job creation to reduce unemployment. The second objective is to support projects that help reduce the social impact of the economic crisis. The final objective is to support infrastructure for future development.

Since one of the objectives of the Miyazawa Plan is to stimulate consumption and the economy, generation of work opportunities for the unemployed is one criterion used for loan provisioning. There are a number of examples of employment generation programmes resulting from this plan. These include the employment of new graduates in work related to data collection and data management to increase efficiency in the labour market, exploration of possibilities for sending workers abroad, training programmes, and programmes to increase computer proficiency among the unemployed.

Taking the amount allocated from the World Bank Social Investment Project Channel 1 of 11 120 million baht, the ADB Social Sector Programme Loan for employment creation of approximately 1 766 million baht and the Miyazawa job creation projects of 22 908 million baht; the total amount is 35 794 million baht. One needs to keep in mind that this is a very rough approximation only.

Social Safety Nets Projects

In this section, four groups of social safety nets projects will be reviewed: (1) the Unemployment Mitigation Programme and social service/assistance projects (2) The Social Investment Project of the World Bank, (3) the Social Sector

Programme Loan of the Asian Development Bank, and (4) the Miyazawa Plan Loan.

The Unemployment Mitigation Programme and Social Service/Assistance Projects

Table 1. **Spending on Unemployment Mitigation Projects, 1997-2000**
(million baht)

Measures	Government budget	Loan
Thai help Thai through social assistance	2 062.92	974.27
Job creation in rural areas	29 974.64	1 053.23
Repatriation of illegal workers	377.01	-
Promotion of Thai workers working abroad	418.96	-
Employment promotion in industry	15 683.90	616.37
Promotion of new agricultural methods	2 708.58	777.00
Career and occupational guidance	2.89	852.00
Job creation in communities	-	576.98
Temporary employment of graduates	-	2 054.66
Total	**51 228.89**	**6 886.51**

Some measures are designed to reduce immediate hardship of the unemployed by providing essential goods at subsidised prices, while others provide small loans for those who want to start their own businesses. These measures are used as guidelines in asking co-operation from other Government agencies.

The implementation of the Thai Help Thai Scheme faced difficulties at first. One was lack of an overall plan to integrate the nine measures and implement them in a unified manner. The second difficulty was lack of funds. Most of the government agencies were faced with budget cuts in 1998 and it was not possible for some of the projects to be launched. The third difficulty was lack of proper analysis and clear understanding of the crisis. The crisis came suddenly and the Thai Help Thai Scheme was introduced as an emergency mitigation plan. Better analysis and planning would have resulted in a more responsive programme.

The same projects could be classified either as social services or social assistance. Here, they will be presented together but separated into the areas of education, health, and social services and assistance. Table 2 shows projects under the responsibility of the Ministries of Labour and Social Welfare, Public

Health, and Education. In terms of budget allocations, some projects have multi-funding sources. The budgets are too complex to untangle completely, and figures are given to provide readers with some sense of magnitudes only. School lunch and milk programmes are included under education. Projects under the Ministry of Interior are not included here. The reason the tables are provided is to show the degree of overlap and the availability of large numbers of small safety nets projects. Budgets are presented for the three years 1998 to 2000. If figures for these years are not available, figures for the adjacent triennium are used instead and are specified as such in the table.

Table 2 includes projects under the administration of Ministries of Labour and Social Welfare, Public Health and Education, which cover most social safety nets projects. The Table includes projects supported by regular annual budget allocations, whih need to be requested more than one year in advance. Emergency funds are allocated later during the year and are not included in Table 1.

In addition to the regular budget, in 1999, an emergency budget was provided. Emergency budget allocations for social safety nets programmes by the Ministry for Labour and Social Welfare are summarised in Table 3.

The Ministry of Public Health also allocated emergency funds for the Health Cards Program for the Poor through community leaders and village health volunteers. Funding was as follows: 412.25 million baht in 1998, 452.74 million baht in 1999, and 452.78 million baht in 2000, for a total over 3 years of 1 317.77 million baht. For the Ministry of Education, the only project that received an emergency budget is the student scholarship fund with support from the ADB loan for 1998 and 1999. The budget allocation for student scholarships for 1998 was 886.20 million baht and for 1999 was 520.00 million baht. In addition there is also a budget for pre-school children in urban areas through the Department of Local Administration at 7.30 million baht and supplementary food for pre-school through the Community Development Department at 20.50 million baht.

Table 2. **Social Safety Nets Projects of Ministries of Labour and Social Welfare,** Public Health, and Education (Regular Budget 1997-1999)

Project	Agencies	Target Group	Budget/Fund *(million baht)*	Benefits
Ministry of Labour and Social Welfare				
Social Security Fund	Social Security Office	Workers / self-insured persons	Contribution – 48 630 Benefits – 5 030	Compensation in case of sickness, maternity, invalidity, non-work-related death, old age pension, and child allowance
Workmen's Compensation Fund	Social Security Office	Employees	Contribution - 5,572 Benefits -5 021	Compensation in case of death, injury, sickness and loss of organs due to work-related conditions
Employee Welfare Fund	Dept. of Labour Protection and Welfare	Employees	200 m. baht Government subsidy in year 2000 b.funds from fees collected from neglect to follow the Act	Savings plus interest for voluntary leave/ death; -others, based on service rate and length.-30 times daily wages for retrenched if employers' inability to pay.
Overseas Workers Aid Fund	Dept. of Employment	Overseas job seekers	151	Death, disability, not-passing health exam, abandon by employers, adversities in foreign land, waiting time to start work, to be indicted
Credit Loans for Overseas Job Seekers	Dept. of Employment	Labour with external debt	Budget to compensate interstates difference of 3% to debtors	To receive compensation for 3% inter-states difference within 90.000(baht) credit
Worker's Fund	Dept. of Labour Protection/ /Welfare	Labour with non-bank debts	200	Loans to relieve workers' debts from outside the system
Construction Workers and Their Families	Dept. of Labour Protection/ Welfare	Employees and their families	12	To help raise quality of life of employees and families.
Skill Development Fund	Dept. of Skill Development	New labour force entrants. Laid off labour	370	Short-term loan for training and raising the skills level
Revolving Fund for Women	Dept. of Public Welfare	Rural women	52.	No-interest 15,000 baht loan per group to be repaid within 2 years
Social Services for Children without families	Dept. of Public Welfare	Children	980	Counselling, financial and material support; child support for foster families; government institutions

Table 2. **Social Safety Nets Projects of Ministries of Labour and Social Welfare, Public Health, and Education** (Regular Budget 1997-1999) *(cont.)*

Project	Agencies	Target Group	Budget/Fund *(million baht)*	Benefits
Ministry of Labour and Social Welfare (cont.)				
Services for Disadvantaged Women	Dept. of Public Welfare	Women and girls	691	Protection / welfare occupational training alternatives to prostitution
Services for Older Persons	Dept. of Public Welfare	Elderly persons	2 502	Elderly homes and monthly allowances
Services for People with Disabilities	Dept. of Public Welfare	People with Disability	1 078	Rehabilitation centre, monthly allowance, job-creating/ employment services
Services for Hill People	Dept. of Public Welfare	Hill people	925	Occupation, education, social, public utility development
Families/ Communities services	Dept. of Public Welfare	People in distress	718	Temporary shelters, occupational training, fund and loans for job-creation
Services for Disaster Victims	Dept. of Public Welfare	Disaster victims	406	Relief fund cost of funeral, health care, construction materials, immediate services
Emergency Loan (Pawnshop)	Dept. of Public Welfare	General public	12,818	Assist the poor / needy
Services for the Destitute	Dept. of Public Welfare	Beggars	279	To provide physical, mental and occupational rehabilitation services
Services for HIV-Infected Person	Dept. of Public Welfare	HIV-infected persons	184	Vocational grant, living allowance, government homes for HIV-infected children
Village Welfare Centre (also included in Table 6)	Ministry of Labour and Social Welfare	Disadvantaged and people in distress	859 (total)	Revolving fund and loan; total 68,708 villages have been supported.

Table 2. **Social Safety Nets Projects of Ministries of Labour and Social Welfare, Public Health, and Education** (Regular Budget 1997-1999) *(cont.)*

Project	Agencies	Target Group	Budget/Fund *(million baht)*	Benefits
Ministry of Public Health				
Voluntary Health Card	Health Insurance Office, MOPH	General Public	5 800 (for 1999, 1 200m. baht came from ADB loan)	Family of 5 pays 500 baht per year with 1 000 baht government subsidy; Care provided by pre-identified hospitals without charge.
Low Income Health Card	Health Insurance Office, MOPH	Families with income less than 2,800 b/m; single with less than 2,000 b/m; elderly, invalids, veterans, religious leaders, AIDS patients	22 293	Cardholders receive health care services without cost from government health care establishment.
Ministry of Education				
Compulsory Education	Min. of Education	Pre-elementary to high school students	78 127 (1999-2001)	Education fees and supplies
Education Loan	Min. of Education	Students in all levels	35 443	Education fees and expenses
School Lunch Project	Min. of Education	Pre-elementary, malnutrition students	7 635.54	Lunches
School Milk Project	Min. of Education	Pre-elementary (grades 1-4) students	26 191.00 (1999-2001)	Milk

Source: Working Group to Prepare National Report on Strengthening Policies on Social Safety Nets established by the Ministry of Labour and Social Welfare on 18 October 2000.

Table 3. **Emergency Budget Allocations for Social Safety Nets, Ministry of Labour and Social Welfare, 1999**

Agency	Project	Allocation *(Baht million)*
Office of the Permanent Secretary	Database for Unemployment	12.54
	International Loan Office	1.91
	Total	14.45
Department of Employment	Data Base on Unemployment and Social Welfare	15.90
	New Occupation for Unemployed	31.86
	Entrepreneurs in SMEs	3.40
	Training on Industrial Discipline for Workers	30.16
	New Overseas Labour Market	5.33
	Total	86.67
Department of Skill Labour Development	Employment of New Graduates	10.75
Department of Labour Welfare and Protection	Welfare for HIV/AIDS patients	20.00
	Employment of Home-based Workers	1.00
	Monitoring and Evaluation of Home-based Workers and Networks	1.26
	Total	22.26
Department of Public Welfare	Assistance to Retrenched and Unemployed Workers	400.00
	Traditional Thai Weaving	69.20
	Children of the Unemployed	30.00
	Employment of New Graduates and Accountants	250.10
	Improvement of Quality of Life of Rural Families	50.31
	Total	799.61
	Grand Total	**933.74**

Private Sector and Civil Society Projects

Historically, civil society organisations have played a crucial role in philanthropic activities in Thailand. Recently, as the country became more democratised and more economically developed, the roles of civil society groups have been seen more fully in the areas of religion, ethnic/cultural diversity, community development, advocacy and environmental conservation. The degree to which civil society organisations can function for the benefit of the people depends in part on the Government; whether the Government wants to control strictly the activities of these organisations or to give them opportunities to promote the empowerment of the people. Yet the Government cannot really control the activities of civil society organisations. This is because of their large numbers, their wide scope of activities and their strength as political pressure groups. Their connection with grassroots groups gives them mass support. The loosening up of fear for "national security" has led to the

recognition of diversity, dynamism, and the complexity of social groups. Changing from "governing" to "governance" allows the government to relax its control and allow different groups to emerge. These groups can respond to the needs of diverse groups more satisfactorily than the government. With limited resources, most governments now realise the importance of civil society organisations.

The Government can neither ignore the existence of these organisations nor reject requests and/or demands from influential members of this sector. During the 6th National Development Plan (1986-1991), the Government recognised the role of civil society organisations and an NGO-GO Co-ordinating Organisation for Development (NGO-COD) was established. In 1994 the National Committee on Social Welfare was established with the Minister of Labour and Social Welfare as the Chair and eighteen members with at least ten from civil society groups. Both organisations are to have networks in the sub-regions and provinces. While NGO-COD operates mostly at the sub-regional level with members totally from the NGO sector, the Social Welfare Committees operate at the national and provincial levels with the provincial governors as the chairs of the provincial committees where at least three representatives from local civil society groups are included. In addition, activities of NGO-COD groups are more development and advocacy-oriented in nature while activities of the social welfare organisations are social welfare in orientation.

Other activities of civil society groups include advocacy work in carrying out awareness campaigns regarding the causes and effects of the crisis. They also co-operate with the media in bringing crisis issues to the attention of the public. Activities of advocacy groups on issues related to the crisis cannot be enumerated and quantified. But their impact has certainly been felt when pressure groups demonstrated against the authorities on different occasions such as the UNCTAD meetings in Bangkok and ADB meetings in Chiangmai. In addition, outcomes are also seen in the form of activities of the Forum of the Poor and election-related campaigns.

Table 4 attempts to assemble social safety nets projects supported by the private sector through civil society groups or through government agencies. They are not all-inclusive but should be sufficient to provide readers with overall picture of the types and magnitudes of social safety nets support provided from different sources.

Table 4. **Social Safety Net Projects in the Private Sector**

Project /Programme	Agencies	Target Groups and Condition	Budget *(million baht)*
Provident Fund	Employers	Employees pay 3-15% of wages; employers not less than employee but not more than 15%	-
International Support Group	Dept. of Public Welfare	Provide development and welfare assistance for people in crisis	16.08
Support to social welfare organisations/NGOs	Dept. of Public Welfare	Support civil society organisations providing assistance to the poor/ vulnerable groups	138.71
Vocational Training	ILO/IPEC	Support children and youth activities through Council for Children and Youth Development	0.68
Training in Agriculture for Youth	Shell International / Thailand	Support agricultural activities for youth through Council for Children and Youth Development	2.27
Vocational Promotion for Rural Youth	Dept. of Public Welfare	Support rural youth in 9 NE provinces through Council for Children and Youth Development	0.35
Project to Support Returned Poor Families	Toyota (Thailand)	Support children and families through Foundation for Child Development	1.00
Voice of the Disadvantaged Project	Network of Foundation for Child Development	Support children in crisis through advocacy activities to convince senate and people's representative groups	0.10
Royal Lunch Programme	Council of Social Welfare	Lunch and immediate needs are provided for the poor affected by the crisis on weekdays.	2.00
Local Development Project / Skills Training for New Graduates	Education for Development Foundation	Training for children to graduate from compulsory education for children in 19 provinces	-

Source: Working Group to Prepare National Report on Strengthening Policies on Social Safety Nets established by the Ministry of Labour and Social Welfare on October 18, 2000.

Community-based Projects

Since the crisis, the Government has established greater numbers of community level organisations. The Community Development Department of the Ministry of Interior has supported community organisations through the promotion of activities for different target groups. Specifically, more concerted support for women's development groups, child development centres, and vocational groups has materialised at the village level since early 1970s.

The Ministry of Interior has adopted a strategy to promote the concept of a Self-Sufficient Economy. The strategy was designed based on His Majesty the King's New Theory on integrated agriculture introduced earlier in 1994, and once again in the speech His Majesty the King delivered on December 4, 1997 a

few months after the crisis. The speech provided the Thai people with a vision and hope for an alternative means of livelihood that does not rely heavily on the world market and economic system. Since then, the concept of self-sufficiency through integrated agriculture and community enterprises has received a great deal of interest from the public and many Government agencies working in rural areas. In urban areas, statistics from the Urban Community Development Office have also shown an impressive trend in the growth of urban community networks and members.

Table 5 gives budgets and projects of the Ministry of Agriculture and Agricultural Co-operatives as well as the Ministry of Interior, specifically the Department of Community Development. Information on housing projects is not included here since it is not considered to result directly from the crisis. Funds from Social Investment Funds and Miyazawa Plan are treated separately and are not included in this table.

Table 5. **Social Safety Nets Project for Community Strengthening**

Project	Agencies	Target Group and Condition	Budget (million baht)
Farmers Rehabilitation and Development Fund	Ministry of Agriculture and Agricultural , Co-operatives	Agricultural group not less than 50 members are supported in forms of grants and loans	1 833.62 (1999-2000)
Poverty Alleviation Project	Dept. of Community Development	Revolving fund of 280,000 baht per village is provided for households with income less than 15,000 baht per person.	1 967.20
Community Enterprise – Production Credit -Vocational Group	Community Development Dept.	Same as 2.	Production credit 149.27 Vocational Group 86.61 (1997-1999)
Village Welfare Centre	MoLSW	Revolving fund or loan of 12,500 baht per village, allocated to 68,708 villages	858.85 (total)

Source: Working Group to Prepare National Report on Strengthening Policies on Social Safety Nets established by the Ministry of Labour and Social Welfare on October 18, 2000.

Social Safety Nets Projects Funded by Bilateral/Multilateral Loans

The World Bank Social Investment Project

The Social Investment Project (SIP) has two channels. The first "Social investment through ministerial programmes" constituted USD 150 million to be

combined with funds from OECF to support short-term activities to generate income for laid-off workers who need immediate assistance. The budget was allocated to existing social welfare programmes. The second channel "Social investment through community development funds" comprises about USD 150 million and is to be used for community strengthening. Two funds have been set up (1) the "Social Investment Fund" (SIF), and (2) the Regional Urban Development Fund (RUDF). SIF has been allocated USD 120 million and is a grant for local and community organisations to implement development projects. RUDF with USD 30 million is a revolving fund to be loaned to municipalities for capital investment projects. Both SIF and RUDF are channelled through the Social Fund Office of the Government Savings Bank. The time frame for the second channel is forty months, and its objectives are to support community empowerment and long-term activities.

The SIF menu of eligible investments covers five main categories: community economy, community welfare and safety, natural resource management and cultural preservation, community capacity building and networking, and emergency community welfare for the vulnerable groups. Specifically relevant to vulnerable groups are: Menu 2: Community Welfare and Safety where local organisations draft proposals to support different target groups, and Menu 5: Emergency Community Welfare for Vulnerable Groups where community organisation networks submit proposals for vulnerable groups when emergency needs arise. Menu 5 was established in March 1999, to be terminated at the end of 1999. It was designed to respond to the urgent needs of poor communities and the increasing demands on organisations struggling to assist them. The programme finances social assistance transfers through community organisation networks to those most vulnerable, thereby strengthening the coping capacities of groups most severely affected by the crisis. While maintaining the fundamental objectives and principles of the SIF, this initiative expands the ability of the Fund to respond to immediate priority needs.

The OECF loan, amounting to USD 141.87 million, has been assigned mainly for employment promotion through "new job creation". There are two programmes: (1) small irrigation improvement, and (2) tourist facility improvements. For the first programme, the Royal Irrigation Department (RID) proposed 585 projects with a budget of 2 010 million baht to be carried out in 66 provinces creating construction jobs of 2 694 000 person-days. The second programme aimed at supporting tourism-related employment and has a proposed budget of 2 948 million baht.

The Asian Development Bank

In addition, the Thai Government also put into place a social sector loan with assistance from the Asian Development Bank, focusing particularly on maintaining and improving conditions in the areas of labour, education and health. The Development Policy Letter drawn up between the Government of Thailand and the Asian Development Bank was signed in March 1998. The amount of the 15-year loan was set at USD 500 million as part of the IMF loan. Funds were transferred in two instalments, with USD 300 million going to the financial sector but only USD 200 million being allocated to the social sector. The objectives of the ADB loan are to alleviate the crisis impacting on the social sector, to restructure social infrastructure and the Thai economy to be competitive in the international market, and to improve efficiency in social services.

Loan from the Miyazawa Plan

The Miyazawa loan of 53 000 million baht (USD 1 450 million) was distributed in 1999 after the Government was strongly criticised for not helping the poor at the time when they most needed it. The loan consisted of USD 600 million from the World Bank, USD 600 million from JEXIM and USD 250 million from OECF. The objectives are to relieve the burden on the poor and provide social infrastructure for future development. Six strategies are adopted for implementation: (1) job creation to reduce adverse social impacts caused by the crisis, (2) to improve the quality of life of the people, (3) to support infrastructure for future development, (4) to improve capacity for export competitiveness, (5) to support the development of economic zones and border areas, and (6) to improve efficiency in government administration.

Summarising Government Budget and Loan Schemes

If one were to calculate overall financial allocations for social safety nets programmes/projects three years after the crisis, the figures in Table 7 will give an approximate picture of the investment. Figures are calculated from earlier tables where budgets are given. In case of government budgets, annual budgets for 1998, 1999, and 2000 are used. In cases where figures for these years are not all available, either 1997 or 2001 figures are used for the third year. If figures are available for only 1 or 2 years, then only the years available are used. Again, it must be emphasised that these are approximations only. The attempt here is to try to identify the orders of magnitude of the amounts used to reduce the impact of the economic crisis.

It is possible that funds from loans are allocated to different ministries in 1999 under the category Emergency Central Funds. Figures for loans are the amount allocated and not actual disbursements, since many programmes/projects are ongoing and cannot be assessed at this stage. During the crisis, the government allocated tax revenues as well as borrowed from multilateral banks. The amount of funds borrowed for social sector programmes totalled more than 78 120 million baht. The issue to examine is whether the 78 120 million baht was necessary and if so, whether the amount required should be sought for future social safety programmes/projects.

Table 6. **Social Safety Nets Loan Funds from the World Bank, the Asian Development Bank, and the Miyazawa Plan**

Project	Agency	Target Group	Budget (million baht)
World Bank Social Investment Project			
Social Investment Project Channel 1	various	The unemployed	11 120
SIF (Social Investment Fund) Channel 2 Community economy Community welfare and safety Natural resource and cultural conservation Community Capacity-building and networking Emergency community welfare support	Government Savings Bank	Community organisations	6 000
Asian Development Bank Social Section Programme Loan			
Unemployment and labour	various	unemployed	2 589.61
Education programmes	MoEd. MoInterior, MoUniv.Aff.	Students in all levels	1 793.80
Health programmes	MoPH, CDD, MoInterior	Poor people	1 220.50
Miyazawa Plan			
Employment creation	various	various	22 908.00
Reduce social impact/ improve quality of life	various	Community projects	11 220.00
Support infrastructure for future development	various	various	19 441.00

The figures in Table 7 are sufficient, however, to show that government budgets for social safety nets programmes/projects need to be re-examined. The Ministry of Labour and Social Welfare has many social safety nets programmes/projects to support different disadvantaged and vulnerable groups. Similarly, figures for the Ministry of Public Health include the two health card

programmes only. The Ministry of Education reported social safety nets support under the compulsory education scheme, loan programme, and lunch and milk programmes. Student scholarships are funded by the ADB loan for 1998 and 1999. For the three years, the above figures show that approximately 23% of the social safety nets budget came from loans that need to be repaid. Financial allocations for the upcoming fiscal years will have to be made with careful scrutiny. The Budget Bureau, the Ministry of Finance and concerned agencies will have to make plans based on the new government policies on social safety nets.

Table 7. **Estimated Financial Support for Social Safety Nets Programmes/Projects in 1998/1999/2000 (million baht)**

Programmes/Projects	Government annual budget	Government Emergency Fund (1999) /Loans	Total
Unemployment Mitigation Plan	51 228.89	6 886.51 (some possibly came from loans)	58 115.40
Projects under Ministry of Labour and Social Welfare	22 839.62	933.74 (some possibly came from loans)	23 773.36
Projects under Ministry of Public Health	26 893.18	1 317.77 (not included 1200 million ADB loan)	28 210.95
Projects under Ministry of Education	147 396.52	-	147 396.52
Projects under private / civil society organisations	138.71	22.48 (non-loan)	161.19
Projects in community strengthening	6 072.64	-	6 072.64
World Bank Loan			
Channel 1--employment		11 120.00	17 120.00
Channel 2--Social Investment Fund		6 000.00 (allocated)	
ADB Social Sector Programme Loan		8 000.00 (allocated)	8 000.00 (allocated)
Loan under Miyazawa Plan		53 000.00 (allocated)	53 000.00 (allocated)
TOTAL	254 569.56	87 280.50	341 850.06

Social Reforms and the Crisis

Since the crisis, the Government has been instrumental in establishing greater numbers of community level organisations. The Community Development Department of the Ministry of Interior has supported community organisations. The new role of civil society organisations is seen in the management of the

Social Investment Fund (SIF), which was launched in late 1998 with World Bank financing. Its objective is to both address the impacts of the crisis and to accelerate the empowerment of communities. The Social Investment Fund represents the first occasion when the Thai Government has channelled significant funds directly to civil society organisations. This was a significant step forward. In addition to alleviating the social and economic problems of vulnerable sectors of Thai society, the SIF attempts to transform the crisis into an opportunity. The ultimate aim is to build on the available social capital to support highly desirable reforms towards decentralisation, better governance, community empowerment, and the forging of broad development partnerships involving civil society. In order to receive the grants, communities go through the sub-project proposal procedures, management and administration, and sub-project monitoring, thus resulting in a learning process that strengthens the community in the long run.

The SIF menu of eligible investments covers five main categories: community economy, community welfare and safety, natural resource management and cultural preservation, community capacity building and networking, and emergency community welfare for vulnerable groups. Menu 2: Community Welfare and Safety where local organisations draft proposals to support different target groups fits well with social safety nets programmes which aim at providing support for vulnerable groups. Similarly, Menu 5: Emergency Community Welfare for the Vulnerable Groups allows network of community organisations to submit proposals for vulnerable groups when emergency needs arise. Menu 5 was designed to respond to the urgent needs of poor communities and the increasing demands on organisations struggling to assist them.

The Social Investment Funds have been providing social assistance through community organisation networks to vulnerable groups and, thereby, strengthening the coping capacities of groups most severely affected by the crisis. The initiative was unconventional and new management styles had to be introduced. The Social Investment Fund Office passed the test and has been able to convince government agencies that new initiatives are necessary to respond to immediate priority needs of disadvantaged and vulnerable groups.

Perhaps the economic crisis was a blessing in disguise because more Thai people became willing to listen, think and act in order to rectify mistakes and shortcomings from the past. This allows for social discourse and exchanges that in themselves are novel and healthy for Thai society. Currently, such discussion groups and networks operate and intersect. Civil society organisations and movements are progressing, albeit through trial and error, which altogether is a good learning experience for those involved.

The scope, diversity, plurality and complexity of civil society organisations have also increased. Again, it is a healthy sign as long as the different groups adhere to the principles of the rule of law, transparency, accountability, as well as the public good and public interest. The major role of civil society groups in Thai society is to represent divergent interests and voices so that stakeholders can voice their concerns and inputs in the social process as well as in the policy and decision making process. Such new groups include CIVICNET, GREENNET, TRADENET, the 8th Plan Civil Society Group, the Business Group for Thai Society, the Centre for Philanthropy and Civil Society, the Woman and Politics Network, as well as numerous pre-existing NGO-COD members, private organisations, the Social Welfare Council, the Women's Council and professional associations that have served to strengthen Thai society in different ways.

The economic crisis in Asia and specifically in Thailand has shown clearly how lack of transparency, corruption and mismanagement can have disastrous consequences. International banks and financial organisations now require that good governance be practised by borrowing countries. The World Bank, the Asian Development Bank, OECD, and JICA, specifically mentioned this expectation clearly. All operations and project implementation procedures need to have accountability, predictability, transparency, and the participation of all concerned stakeholders. This means that civil society organisations need to become involved in public activities to ensure that all four components of good governance take place.

The requirement for "good governance" by lending institutions is being received without objection and criticism, even when it appears to be Western in concept and values, as if these are universal and need not be questioned. Yet, there seems to be a need to disseminate the ideas to everyone in every community in the country. During the past year, workshops and seminars have been organised to familiarise people with the concept. At the same time, a few specific incidents demonstrated the effective spread of the concept. Discussion on corporate governance was aimed at the financial and business sector that was the culprit for the economic disaster. Lack of transparency, nepotism and cronyism, and corruption are the most obvious reasons. But for long-term, in order for Thailand to move ahead to become a well functioning civil society, both corporate governance and good governance in general are needed.

The economic crisis that impacted on Thai society has been part and parcel of the social development process-taking place during the past few years. While Thai society gropes for new directions in the midst and in the aftermath of the economic crisis, a tacit belief emerges among many sectors in Thai society that the fundamental restructuring of the social sector is as much needed as the

restructuring of its financial sector. The attempt at reforms in education is a case in point. More importantly, public sector people are more open and willing today to allow space for the third sector to share their views, exchange experience and to co-operate on a trial basis. The term partnership among different sectors is in vogue and trendy. Many attempts to co-ordinate and bring about this type of partnership have been done in the last two years. However, the road ahead for true partnership is still a long way away. To forge meaningful partnerships, a shift in mindset is a critical first step to be taken by all parties. Pre-existing mutual mistrusts and suspicions need to be discarded. Each party must come to the table as free agents without pre-existing baggage. To date, much lip service has been paid to fostering partnerships. Although certain programmes and projects have been carried out to bring different parties and sectors together, such as during a civic assembly at the provincial level, the evolution of such partnerships by natural processes is still lacking. Further initiatives are still needed to make such an intervention yield fruitful results in the future.

The implementation of the loan schemes from the World Bank, the Asian Development Bank and the Miyazawa Plan is being monitored by the public and may prove to be test cases of good governance. In the initial stages when the loans were made available, implementing agencies were not aware that the public would closely monitor the implementation of the funds. Since they are loans, the people are conscious that their children and future generations will be the ones to pay back the loans with interest. These are good reasons why good governance should be adopted in the implementation of the loans. In any case, initiatives to make good governance a normal practice in all levels of Thai society remain a challenge in the near future of Thailand.

Conclusions

Social Safety Nets Measures

A number of short-term measures were introduced in response to the crisis**,** including the Unemployment Mitigation Policy. However, it is not quite clear how effective these different projects have been. It is clear that better planning could have lead to more satisfactory outcomes. The economic crisis came as an unexpected phenomenon, but after three years, there is no excuse for lack of better preparation and planning. The long-term measures in the health and education sectors are the result of earlier policies introduced prior to the crisis. Universal coverage for education and health has been discussed earlier and became more concrete when the crisis took place. The crisis merely confirms

that education and health services with universal coverage are alternative long-term measures to help reduce the impact of the crisis.

In terms of future social welfare and assistance policies, a more comprehensive study is needed to develop recommendations for social welfare coverage in different areas for different groups. Universality should be used for the disadvantaged and vulnerable groups who need to have full coverage. What constitutes full coverage needs to be identified.

Efficiency and Effectiveness of Social Safety Nets Programmes

Preliminary monitoring and evaluation studies are being carried out for different programmes/projects. More systematic and serious evaluation of social safety nets programmes is necessary. Performance indicators will certainly help identify areas where improvement is required. The social security programme is one area where information on effectiveness of coverage and compensation is adequate to take care of the unemployed in case of emergencies. It is also necessary to assess whether the package is fair for all categories of clients (age, gender, income, family status, etc.) It is also necessary to assess whether existing social protection programmes and existing laws are adequate. For the employed, the question is whether the Labour Protection Act adequately provides unemployment protection for retrenched workers. The difficulty may lie in the implementation of the law. It is known that severance pay and provident fund/employee welfare benefits are not provided for employees in all cases. Many firms are not following the law in providing severance pay to terminated employees. Many firms do not have a Provident Fund and do not register with the Employee Fund.

Strength and Weaknesses of Social Protection Programmes in Thailand

Before the crisis, it was mistakenly felt that social protection in Thailand was adequate. In the formal sector, the Social Security Act and the Labour Protection Act provided a framework for protection. Limited protection was provided, in order to minimise costs for employees, employers, and government. As a result coverage and compensation were limited also. During the boom period everyone was complacent and did not prepare for the worst. At the same time, some believed that traditional safety nets mechanism were available to provide the necessary support if and when necessary. The crisis proved that neither the formal safety nets nor the traditional family safety nets were adequate to provide support for the retrenched, the unemployed and the poor.

During the crisis, great efforts were made towards economic recovery with the objectives to bring back confidence and economic stability, stimulate the economy, and alleviate impacts of the economic crisis. Insufficient attention was focused on social issues. It is now time to systematically review the situation and make comprehensive plans for social safety nets programmes for the country. This should expand to include all social protection programmes, poverty eradication programmes, and social development programmes.

Recommendations

Improvement of Programme/Project Design and Implementation Plan

Past experience indicates that programme/project planning was haphazardly drawn up. There was no database that could be used for consultation for planning. Most projects were implemented without proper feasibility studies, needs assessment, or assessment of human resources and institutional capacities. Training programmes were implemented without assessment of training needs and did not effectively lead to employment. Most projects were implemented in a top-down manner. Complex projects involving many agencies faced delays because of lack of co-ordination at different stages of implementation. There was no community participation in project design. There was no targeting of beneficiaries and/or target groups. Many projects benefited people in the community who were not the really poor. Retrenched, disadvantaged and vulnerable groups did not benefit. Beneficiary satisfaction studies do indicate that projects identified as beneficial, for example, the lunch and supplementary food projects for children, were those targeted directly at the disadvantaged, *i.e.*, children, the elderly, people with disability.

Feasibility and Sustainability of Programmes/Projects

Some projects are not economically feasible and not sustainable. Yet, they may be socially appropriate and necessary. An example is voluntary health card project. The cost of health care per card is 2 138 baht, but the card is sold to the people at 500 baht per card and government subsidy is continuously required. The Ministry of Public Health, therefore, is in the process of designing different health service and assistance programmes. A universal health insurance scheme is being scrutinised very critically. During the last election, the main political party succeeded in winning the election by using improved health services as one of its election promises.

On the other hand, many unfeasible and unsustainable projects have to be abandoned. Fishery promotion for returned migrants where fish seedlings, feed, and equipment are given proved unsuccessful when returned migrants had no intention to adopt fish farming as an occupation. Another example is projects promoting short-term employment in the form of daily wages. These projects only provide jobs for a few days and the problem of unemployment is not solved. These types of projects need to be redesigned with the aim of providing "productive" employment. Finally, all training projects also need to be redesigned to ensure post-training employment. This is to avoid wastage in terms of resources, be it human, financial, or time.

Improved Targeting

Programmes have no agreed targeting criteria. Identification of the poor in quantitative terms by using the poverty line concept has been criticised by many. In practical terms, the question of how the poor perceive themselves and what constitutes poverty are questions needing further exploration. There is no database on the poor. Poverty is a dynamic process. Identification of projects that will respond to the needs of the poor has also proven to be difficult. Scholarship projects were criticised for not reaching those who really needed them. However, when targeted to students whose parents' income was less than 120 000 baht per year, an evaluation indicated that 90% of students granted scholarships came from families with income less than 50 000 baht per year.

Similarly, in training projects, identification of trainees requires careful planning. Computer training projects proved not to be appropriate and did not respond to the needs of those targeted, *i.e.* the poor and unemployed graduates. Instead of providing training services for the retrenched and unemployed, regular students became trainees instead. Voluntary health cards ended up with general public and not the poor. Graduate volunteer projects did not focus on poor graduates and turned out to have regular graduates instead.

Improved Management

Past experience indicates that inefficiency in management caused delays in implementation and in meeting the needs of the people. The following factors should be considered to improve management.

- Preliminary assessment of projects funded under Miyazawa Plan indicates that small projects tend to respond to the needs of the poor and are more effectively managed. They are localised and are

usually better-targeted. At the same time, larger projects of 5 million baht or more are not responsive to the needs of poor and have neither been managed efficiently nor effectively.

- Many government agencies are not prepared to implement projects and feel that the crisis-eradication projects are not part of their regular job description. Lack of eagerness in project implementation is generally observed. Many decisions are made centrally and have caused delay in implementation.

- Successful projects are those involving local organisations. An example is a safety nets project implemented at a housing project targeted to benefit 230 000 households or 1 million people. In this project, people participated in all stages of implementation, starting from project design, implementation, and evaluation. The project proved to be of benefit to the targeted population.

- Successful projects in terms of management efficiency usually have decentralised and networking relationships, with equally dispersed responsibility. Some projects have uneven distribution of responsibility and proved to be less successfully managed.

- Many projects respond to needs identified by central authorities. A database on unemployed villagers proved successful in collecting information, but was ineffective since the data were not used locally to help match the unemployed with jobs available.

Monitoring and Evaluation

Most monitoring and evaluation activities involve "input evaluation" of the disbursement of funds, but little attention has been given to monitoring outputs and outcomes. Moreover, most monitoring and evaluation reports are quantitative in nature, and include information on the number of people in training projects, budgets, and number of target groups. Qualitative monitoring and evaluation in terms of achievement of objectives, beneficiary satisfaction, and implementation processes is lacking. Monitoring of implementation processes to provide feedback information for improvement in project management has proven to be important and may lead to more successful implementation strategies. Monitoring and evaluation of projects funded by the Social Investment Funds lead to the restructuring of the Social Fund Office towards a more decentralised decision-making process at all stages. Initially, projects were approved from SOFO in Bangkok and funds were disbursed from

Bangkok. Criticism of delays in implementation and disbursement of funds lead to the establishment of Regional SOFOs and Regional Executive Committees to help in decentralising the process and to reduce the number of steps required.

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PART III

IMPROVING SOCIAL PROTECTION IN ASIA: STRATEGIES AND POLICIES

REFORMING SOCIAL PROTECTION SYSTEMS IN ASIA AND THE PACIFIC: A PERSPECTIVE FROM THE ADB

Isabel Ortiz

With half the world's population, at 3.1 billion, more than 900 million poor, and about 40% of the population below 19 years-old, the development challenge of the Asia-Pacific region is to achieve sufficient sustainable growth to secure the inclusion of the poor and the young new entrants in the mainstream of development. However, growth alone is not a sufficient condition for generating inclusive societies. Populations, households and individuals face various risks that can plunge them into or towards poverty, and thus societies will have to take steps to reduce their vulnerability and to cope with the effects when risks occur. Risks may include natural disasters, civil conflicts and economic downturns of which the 1997 Asian financial crisis is the most recent example, to idiosyncratic household reversals, which take the form of crop failures, unemployment, illness, accident, disability, death, and old age all affecting incomes and threaten the future of the household and its members. Development interventions may themselves create new vulnerability and risks through involuntary effects such as less affordable goods and services, temporary job loss, loss of common property, displacement and loss of community support networks and social capital. Whilst vulnerability can affect everyone, the poor and the near poor are particularly at risk since they have fewer assets, reserves, or other opportunities, to fall back on.

There are many risk reduction mechanisms, formal and informal, public and private sector delivered. Social Protection presents a variety of instruments to deal with the diversification of most of these risks. The long-term solution of vulnerability depends on good social and economic development decisions that address the structural causes of vulnerability. Development policies should therefore (i) involve proactive interventions to reduce vulnerability and support populations to overcome poverty; and (ii) try not to alter existing informal family and community based mechanisms to cope with risk given that these provide a level of social protection to the population. However, as urbanisation

and industrialisation gradually undermine the effectiveness of traditional and informal protection mechanisms, new public and/or private systems need to be put in place to reduce risks to the population.

With these considerations in mind, the Asian Development Bank (ADB) has developed a definition of social protection based on labour markets and small-scale agriculture, which links with the ADB's overarching goal of reducing poverty in Asia and the Pacific. Social protection[1] is defined as the set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labour markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income. Accordingly, the proposed definition of social protection contains five components:

- **Labour market** policies and programs designed to facilitate employment and promote the efficient operation of labour markets,

- **Social insurance** programs to cushion the risks associated unemployment, health, disability, work injury, and old age,

- **Social assistance and welfare service** programs to provide a floor to the most vulnerable groups with no other means of adequate support,

- **Micro and area-based schemes** to address risk and vulnerability at the community level; and

- **Child protection** to secure healthy and productive development of the future Asian workforce.

Of the five components, the three first (labour markets, social insurance and social assistance) are included in any social protection strategy anywhere in the world. Given the characteristics of the Asia Pacific population, two new components have been added to support children and communities. In the region Developing Member Countries (DMCs), 60% of the population lives in rural areas, 30% is poor and 40% children and youth. Asia is a young, rural, poor continent: social protection programs and policies should be built to respond to Asia's needs. Households in the formal sector will be reached by structured social insurance, labour market policies and universal child protection programs. Those in the informal sector are more likely to be reached by other labour market policies, social assistance, child protection, micro-insurance, social funds, and other community-based programs.

When implemented properly, these policies and programs can make a major contribution to the ADB's overarching mission of reducing poverty. Social Protection, as an integral part of Social Development, one of the three pillars of the ADB Poverty Reduction Strategy[2], aims to assist individuals to break the cycle of poverty and enhance its DMCs' quality of growth by investing in human capital, increasing productivity, and reducing citizen's vulnerability to risks.

Characteristics of the Asia-Pacific Region

The Asia Pacific region does not have adequate protection systems in place to reduce the impact of shocks on its population; as a result, risks will continue to have devastating implications for poverty, inequality and the prospects of long term growth. Social protection schemes should be planned on the basis of a thorough assessment of needs across the entire range and the costs of meeting them in the short, medium and long-term in a sustainable manner. Demographic trends have important implications for this process. The Asia Pacific region is still experiencing the effects of the demographic explosion; the total population is 3.1 billion, of this 40% are children and youth. The demographic transition has started in Asia; there is a progressive decrease in the amount of infants and a progressive increase of the elderly. However, the major issue in years 2000-2015 is the predominance of children and the young new entrants into the labour market: In 2000, 30% of the population is below 14, the figure reduces to 25% of the total population in 2015, still remarkably high. If we consider the international definition of children (0-18), the population group represents as much as 40% of the total population in 2000, steadily declining to 34% in 2015.[3] This has clear implications for education, health, population policies, child protection and labour market policies for the realisation of human potential and the creation of opportunities for self-reliance in order to transform the vicious cycle of poverty into a virtuous cycle of growth and human development.

In contrast to the developed regions and the industrialised countries in Asia, persons over the age of 65 are only about 5.5% of the total population of Developing Asia. This percentage is expected to rise gradually to 7.2% by 2015 as fertility rates fall and life expectancy increases. East Asia has a more pronounced ageing pattern compared to the other three Asian sub-regions due to the effects of ageing in China, where the proportion of the population aged 65 and over is expected to reach 9.3% by 2015, or nearly 132 million people. At present, older people in Asia reside primarily in rural areas, but with urbanisation trends the percentage of older people living in rural areas is expected to decrease. Moreover, it is anticipated that the decrease in the

percentage of older persons living in extended families will leave more elderly living alone thus forcing them to look for assistance for housing and living standards from Governments and NGOs. Policy makers need to plan for labour market and other social protection changes, including adjustment of pension ages, and development of social assistance and social insurance schemes, well in advance because of the time-lag between policy decisions and their gradual implementation. The considerable size of the workforce combined with decreasing fertility rates could indicate that the Asian countries will face serious old age challenges in 25 to 30 years, as the dependency ratios will be negatively affected. However, old-age policies should not be precipitated but carefully evaluated; the fact that most of the population remain children and working age people allows many policy design options.

More than 60% of the population in Asia lives in rural areas. *Inter alia*, most of the poverty in the region is rural-based, although urban poverty is increasing. Around 900 million, or 30% of the developing Asia-Pacific population, are poor. More women than men live in poverty; and poverty is increasingly a condition found among older persons. Social divisions of a class, caste, ethnic or racial nature are often intensified by differing poverty levels; and recently arrived immigrants tend to be poorer than others. Further, the high levels of poverty in Asia are a constraint to expand traditional social protection instruments given that these products are not affordable neither attractive to the poor. The priorities of the poor are sustaining the source of livelihood, food, shelter, clothing, avoidance of natural disasters, and the health of the breadwinner – and not, for instance, social insurance.

Modernisation has been accompanied by a process of social mobility, migration, urbanisation, and disintegration of family and community networks; household informal safety nets are no longer adequate – modernisation requires the provision of social protection systems to the workforce to ensure higher productivity gains, increased domestic demand and economic growth. Globalisation, while increasing the opportunities for growth, will also increase the risks of future macro-economic shocks. As unemployment and poverty result from economic downturns, issues regarding the adequacy of social protection and assure future progress in social development are being brought to the forefront of the region's development agenda.[4]

The Components of Social Protection

Labour Markets

The focus on labour adjustments and the efficient operation of labour markets recognises that, as economic development proceeds, employment will become the major source of economic support for the majority of workers and their families. Improving labour market operations is an important element of strategies to reduce poverty, facilitate human capital development and address gender discrimination. It will also help allocate a country's human capital resources to their most productive uses, enhancing general economic welfare and encouraging growth and development.

Labour market improvements to enhance social protection include the following:

- **Labour market assessments** describing demographic trends, labour absorbing sectors, unemployment, migration flows, the size/causes of the informal sector, may assist in identifying the country needs and development options;

- **Active labour markets programs** include (i) direct employment generation (*i.e.* SME promotion, public works), (ii) labour exchanges or employment services (*i.e.* job brokerage, counselling) linking supply with demand of labour, and (iii) skills development programs, labour training and re-training;

- **Passive labour market policies** include (a) unemployment insurance, (b) income support, and (c) an appropriate legislative framework that strikes a balance between economic efficiency and labour protection. An appropriate legislative framework will include provisions on issues such as minimum age, maximum hours and overtime, labour contracts, industrial relations, special protection appropriate for new mothers, and anti-discrimination provisions to protect women and minorities. Internationally recognised labour standards, when ratified, are also part of the legislative framework of a DMC. With regard to the Core Labour Standards, no explicit ratification is needed for them to be part of the legislative framework of a country. The Core Labour Standards consist of (a) freedom of association and the effective recognition of the right to collective bargaining, (b) the abolition of all forms of forced or compulsory labour, (c) the elimination of

discrimination in respect of employment and occupation, and (d) the elimination of child labour. All Asian and Pacific DMCs,[5] by virtue of being member of the International Labour Organisation (ILO), are held to respect, promote, and realise the fundamental Core Labour Standards.

- **Safeguards:** appropriate steps should be taken to ensure that procurement of goods and services, contractors, subcontractors, and consultants, comply with the country's labour legislation (*e.g.*, minimum wages, safe working conditions, social security contributions, etc.) as well as with the Core Labour Standards.

Box 1. Social Protection: Intended Clientele/ Targeted Vulnerable Groups

Labour Market Programs	Population in working age, being either wage or non-wage employees (formal or informal), employed, unemployed or underemployed
Social Insurance	The ill/sick, elderly, widows, disabled, pregnant mothers, unemployed eligible to the insurance schemes
Social Assistance and Welfare Services	The mentally and physically disabled, ethnic minorities, substance abusers, orphans, single-parent households, refugees, victims of natural disasters or civil conflicts; and the ill, sick, elderly, widows, disabled, pregnant mothers and unemployed non-eligible to insurance schemes
Micro and Area-based Schemes	Rural and urban communities at risk
Child Protection	Children and youth (0-18 years)

Social Insurance

Participating in labour markets exposes workers to several kinds of risks. Reducing these risks allows workers who have lost one job to search for a good alternative, removes barriers that might otherwise discourage workers from acquiring education and training for themselves and helps assure that the health and education of their children are not sacrificed in an economic downturn. Social insurance programme mitigate those risks by providing income support in the event of illness, disability, work injury, maternity, unemployment and old age:

- **Unemployment** insurance to deal with frictional (sometimes structural) unemployment;
- **Work injury** insurance to compensate workers for injuries or diseases that are work related;[6]
- **Disability/Invalidity** insurance, normally linked to old-age pensions, to cover for full or partial disability resulting from work or non-work activities;
- **Sickness/Health** insurance, to protect workers from diseases;
- **Maternity** insurance, to provide benefits to mothers during pregnancy and post-delivery lactating months;
- **Old-age** insurance, to provide income support after retirement; and
- **Life/Survivors** insurance, normally linked to old-age pension, to ensure that dependants get a compensation for the loss of the bread-winner;

As countries develop, some form of government intervention is needed to deal effectively with these risks. Family resources, even those of an extended family, are no longer sufficient to deal with the individual risks. A wide variety of approaches are available for structuring and operating social insurance programs. They may be contributory, in that eligibility is based on the payment of premiums each year, or non-contributory; handled either by public sector or private sector institutions. Where managed by the private sector, however, government retains a major role in overseeing and regulating their operation. Traditionally, private insurance companies have had difficulty providing products affordable to low-income groups because of problems associated to high transaction costs, adverse selection and moral hazard.

Most countries have evolved towards a multi-pillar mixed public-private system that contained two basic elements: (i) public programs to assure minimum income to the aged, unemployed and other vulnerable groups and (ii) private programs that encourage voluntary supplementation by individuals. In the case of old-age pensions, a second intermediate pillar is added: public or private programs that provide retirement benefits scaled to individual contributions. The design of a particular social insurance intervention involves selecting the approach that seems most appropriate, considering the country's stage of development and its social traditions. It is also important to strike the proper balance between the social gains from improved protection and the economic losses than can occur if a system becomes too generous.

Social Assistance

Social assistance and welfare services provide a floor of protection to those who cannot qualify for insurance payments or would otherwise receive inadequate benefits. Social assistance programs are designed primarily to enhance social welfare by reducing poverty directly. Programs targeted on younger persons can also promote longer-term growth and development, however, by encouraging greater investment in human capital.

Social Assistance, sometimes called Social Safety Nets, to support the poor and vulnerable, may include among others:

- **Welfare/Social services** to highly vulnerable populations, institutionalised or community-based, such as the physically or mentally disabled, orphans, substance abusers, etc,
- **Cash or in-kind transfers** to vulnerable groups, for instance, food stamps, family allowances;
- **Temporary subsidies**, such as energy life-line tariffs, housing subsidies, or support of lower prices of staple food in times of crisis;
- **Safeguards:** Attention should be paid to possible short-term negative impacts of policy reforms involving increased prices and/or loss of entitlements to the poor; in those cases, adequate mitigation measures should be envisaged to ensure no adverse effect on the poor/vulnerable. Infrastructure should be handicapped-friendly to allow disabled populations to benefit from public investments.

Micro and Area-Based Schemes

Micro and area-based schemes provide the same sort of social protection to small-scale agriculture and the informal sector that the more traditional social insurance programs supply to the urban labour force. Micro-insurance offers the option to insure the poor from their main risks at affordable prices. Crop insurance programs can provide the protection necessary to encourage the adoption of new and innovative farming techniques, thereby removing an important barrier to economic development in rural areas. Together with well-designed risk reduction initiatives such as disaster management, and community-based support programs such as social funds, they can reduce

vulnerability at the community level and promote more sustainable rural livelihoods.

Micro-insurance: This refers to voluntary and contributory schemes for the community, handling small-scale cash flows to address major community risks; often such schemes are in fact of a local character and have a very small membership. The primary aim of many of these schemes is to help their members in meeting the unpredictable burden of out-of-pocket expenses, such as a hospital emergency, death, and funeral expenses. In recent years various groups of workers in the informal economy have set up their own micro-insurance schemes. These schemes are independently managed at the local level and sometimes the local unit links into larger structures that can enhance both the insurance function and the support structures needed for improved governance. Such schemes may operate within the context of a micro-credit scheme, which has already had experience with the collection of contributions and administration of payments.

Box 2. The SEWA Micro-insurance Scheme, India

The Self-Employed Women's Association (SEWA) is a registered trade union working mainly with women in the informal sector. Since, its struggle has been to ensure that the minimum wage is obtained, to provide legal recourse where necessary, and to ensure democratic representation at every level of the organisation. Membership in the trade union is almost a quarter of a million. They are mostly often hawkers and vendors, home-based workers and labourers. The scheme covers health insurance (including a small maternity benefit component), life insurance (death and disability) and asset insurance (loss of damage to housing unit or work equipment). SEWA members can choose whether to become members of the scheme (at present, approximately 14% of all SEWA members are insured). The asset and health components come as a package and life insurance is an option. The total premium is approximately Rs. 60 (or USD1.5) per annum for the combined asset and health insurance package and an additional Rs. 15 provides life insurance as well. Premiums and benefits are presently being restructured. Membership and claims processing is done through the SEWA Bank, along with considerable field presence and grassroots organising from SEWA Bank staff and SEWA Union staff. Mobile services are also available for premium collection (which are normally associated with micro-finance deposits and loan repayment collections).

Micro-insurance is an emerging topic with high potential. Micro-insurance offers the possibility of providing social insurance at affordable prices, expand coverage by having a realistic understanding of the problems that community face, and promote community involvement. Options for the future include the pooling of different existing organisations, private-public partnerships, and an assessment of the role of reinsurance. A second approach is to devote more effort to the marketing of micro-insurance, as a large percentage of the target

population is still not well informed of the benefits of being insured. Linked to this is the need to strengthen the credibility of micro-insurance. Subsidisation of micro-insurance is undoubtedly a promising way to expand its coverage, but this is entirely dependent on the capacity and will of the state and/or donors to finance it.

Agricultural insurance is a form of protection that could be available to the farming communities. It is a financial mechanism in which the uncertainly of loss in the farms is minimised by pooling large number of uncertainties that impact on agriculture so that the burden of loss can be distributed. The loss may be due to a number of natural perils like storms, floods, drought, hail, frost, earthquakes, volcanic eruptions, plant pests and diseases, etc. The risks of loss can be spread either temporally or spatially. With reinsurance, the risks can be further spread across national boundaries. Thus, during natural disasters of widespread proportion when the nation's finances are at their ebb, other countries share in the national burden. Agricultural insurance could be re-examined as an effective tool for the development of the rural economy when implemented as part of a package of support services in the rural areas, cautiously accompanied by adequate reinsurance mechanisms.

Social funds have evolved recently in other parts of the world as mechanisms to channel public resources to particularly pressing social needs. Community-based Social Funds are agencies, typically managed at the local level, empowering communities, NGOs and local governments, which provide finance for small-scale projects, normally infrastructure schemes and livelihood programs to community groups. They provide direct poverty relief and encourage skill development while contributing to a community's social capital.

The 1997 financial crisis and the growth of countries undergoing economic transition have led to an increase in social funds and social fund-style projects in Asia. The use of social fund methodology based within local government, as a means of promoting good local governance and piloting decentralised management and financing of small infrastructure is now a feature of some countries in Asia.

Disaster Preparedness and Management is essential to assist communities in risk coping and mitigation. The Asia Pacific region is world's area where most people are injured, affected and homeless as a result of disasters. Victims of catastrophes are usually assisted by relief programs; however, given the important economic and human loss caused by disasters; the critical issue is to invest on disaster preparedness. Different countries in Asia and the Pacific have established disaster management centres for assessing hazards, planning risk reduction and monitoring programs, providing emergency assistance, and

strengthening local level risk reduction capacity. Two principal trends have developed over the past decade in disaster management: (i) improved hazard forecasting activities through computer models on climatic behaviour; and (ii) an increased focus on local vulnerabilities given that community-based preparedness is the best mechanism to reduce loss of human life and the scale of damage.

Box 3. Post-conflict Poverty Reduction and Community-building: The SZOPAD Social Fund, Philippines

The SZOPAD (Special Zone of Peace and Development) Social Fund, for $15.33 million, was approved in 1998 following the September 1996 agreement between the Government and the MNLF (Moro National Liberation Front) to end the long-running conflict in Mindanao. The objective of the Fund is to increase access of the poor, and those affected by the conflict, to economic and social infrastructure, services and employment opportunities, and to strengthen the capacity of local governments and communities to manage development. The Fund covers the 14 provinces and 9 cities in the Special Zone and prioritises the poor, MNLF combatants, Lumads (indigenous peoples) and communities affected by the armed conflict. The Fund provides grant finance to local government, NGOs and community groups for small-scale social and economic infrastructure including rural access roads, rural water supply and sanitation, small-scale irrigation schemes, communal clinics and schools. The maximum eligible scheme size is $250 000. Financing is also available for education and health supplies, equipment and essential medicine. The Fund duration is three years, with a possibility for a roll over, expansion or replication. The Fund was established by Executive Order in October 1997 as an independent legal entity, principally to avoid political interference; the Fund has a policy-making Board of Directors and an Executive Committee, appointed by the President, responsible for approving schemes proposed by local organisations. The salaries of Fund staff were set above prevailing government rates in order to attract competent and motivated individuals and reduce risk of corruption. Streamlined procurement and disbursement rules and regulations have been agreed to speed-up implementation.

Child Protection

Given that children and youth constitute 40% of DMC populations, investing in child protection is of profound significance to the development of the region. The realities of child deprivation are alarming in Asia and the Pacific, which holds three quarters of the world's stunted underweight children. Lack of adequate protection can result in under-nourishment, poor health, and intellectual underdevelopment, which can lead to being less productive adults. Educating children and youth is essential to allow social mobility and better job prospects, and an indispensable instrument to help DMCs maintain their international competitive advantage, raise productivity, and continue economic growth. Additionally, as defined in the United Nations Convention on the

Rights of the Child, society through good governance must provide measures to ensure that the child is protected from all forms of abuse and exploitation, such as child labour, child prostitution, or the adversities faced by the girl child, street children, children with disabilities, and children under armed conflict. Investment in children is a key factor in poverty reduction and economic growth but it is usually a small proportion of national budgets, despite ample evidence that the small investments currently made bring considerable future benefits to society as a whole.

High child/adult dependency ratios indicate the need to provide social protection for the young, such as

- **Early child development** to ensure the balanced psychomotive development of the child through basic nutrition, preventive health, and educational programs;
- **School feeding programs**, scholarships, or school fee waivers;
- **Waiving of fees** for mothers and children in health services;
- **Street children** initiatives;
- **Child rights advocacy/awareness programs** against child abuse, child labour etc;
- **Youth programs** to avoid social anomie in teenagers, criminality, sexually transmitted diseases such as HIV/AIDS, early pregnancies, and drug addiction;
- **Family Allowances**, either means-tested cash transfers or coupons/stamps for basic goods and services (*i.e.*, food, clothing) to assist families with young children to meet part of their basic needs

Social Protection Systems in Asia and the Pacific

Most Asia and Pacific DMCs have some form of institutionalised social protection system (Table 1), however, most of the programs are ineffective due to: (i) limited coverage, serving only a portion of the formal sector (often the wealthiest segments of society), (ii) insufficient funds, and incorrectly distributed among programs; (iii) inadequate instruments, often copied from developed countries but not appropriate to serve specific in-country needs and (iv) factors restricting access to statutory social protection schemes, such as legal restrictions, administrative bottlenecks and problems with compliance.

Recent events underscore the need for greater attention to social protection issues in the Asian and Pacific region. The countries affected by the Southeast Asia crisis have discovered that inadequate and underdeveloped social protection systems have exposed their working populations to excessive risk, increased the incidence of poverty, and threatened to undermine longer-term human capital investment efforts. Transition economies are discovering that the comprehensive social protection systems they traditionally maintained have become too expensive to sustain, are poorly designed for a market economy, and create barriers to further economic development.

In considering the demands for social protection within Asian sub-regions it is important to identify the circumstances faced by their vulnerable groups. Table 2 summarises the social protection priority issues by sub-region. The countries of East and Southeast Asia are still recovering from the regional financial crisis and high levels of unemployment, and need substantial investments in social protection to overcome poverty and reduce social risk and vulnerability. The transition economies, Central Asian Republics, People's Republic of China, Vietnam, and (to a lesser extent) Cambodia and Lao People's Democratic Republic, are restructuring and consolidating their systems to a market-oriented society; existing state-funded and state-controlled social protection schemes are being dismantled, reformed to adjust to reduced budgets, and made more flexible to labour market changes. South Asian countries (Bangladesh, India, Pakistan, and in a lesser degree Sri Lanka) have large proportions of the rural population living in poverty with high levels of illiteracy, and state-funded social protection schemes exist only nominally and are supplemented by some limited programs operated by NGOs. The region needs substantial investments in social protection and human development targeted to children and the informal sector and truly vulnerable groups. The Pacific region presents a variety of experiences, with some countries having developed social protection systems and others still to do so. A common trait to all countries in the region is the need to address child and youth priorities, extend coverage to poorer communities, improve governance, and promote institutional development. In general, all sub-regions have reduced expenditure on social protection schemes in the last decade in an attempt to balance budgets and achieve macroeconomic stabilisation. Since the Asian Crisis, the effect has been to increase poverty, insecurity, and social exclusion for many vulnerable groups.

ADB has developed different types of social protection interventions over the years, either as stand-alone loans or as components of other loans where social protection is not the primary objective. Since 1985, where social protection projects were only about 1% of the total ADB lending, the portfolio has been expanding. In 1998-2000, it represented 13% of the total ADB lending volume (14% by number of loans). This significant increase is due to the support to

safety nets interventions after the Asian Crisis. The demand for rapid social support projects will hopefully not be necessary in the future – instead, ADB should concentrate on developing more comprehensive and effective social protection systems to assist DMCs to reduce poverty and vulnerability. The trend, however, reflects an important increase in lending in the sector. Social protection is an emerging sector that needs to be properly addressed. An analysis of the areas served shows that ADB has mostly invested in labour markets (39.5% of the social protection portfolio, by volume), followed by micro and area-based schemes to protect communities (27.5%), and child protection interventions (19.5%). Social insurance and social assistance had a lesser share of the portfolio (6.5 and 7% respectively, by volume). As social protection took on a new urgency at ADB, the need for more effective co-ordination strategies became clear. In October 1998, an interdepartmental working group (IWG) was formed to explore options for ADB's future interventions in social protection. The ADB Social Protection Strategy was approved by the ADB Board of Directors in 2001.[7]

Determining Country Specific Priorities

Given the broad variety of reform priorities and possible interventions (labour markets, social insurance, social assistance, area-based schemes, and child protection), this paper sets the parameters to prioritise investments, based on the principles of reducing poverty and vulnerability; strengthening country focus; enhancing strategic alliances and partnerships with development agencies, private sector, and civil society; and taking a long-/medium-term approach to promote effective social protection systems in Asia and the Pacific. Well-developed social protection systems are large and complex undertakings that can become an integral part of the fabric of a society and have important implications for social and economic development. Social protection priorities are different in the variety of Asian and Pacific DMCs. The selection of interventions will require an evaluation of the country needs, available resources, institutional capacity, and the political economy of reform. Once a set of specific social protection interventions has been chosen for a DMC, project design should attend to the following principles: coverage; targeting of vulnerable population groups; sustainability, good governance, and optimal delivery mechanisms; and an integrated approach to social protection, as described in the following section.

Table 1. **Social Protection Programs by Country**

Country	Labour Market Programs					Social Insurance				Social Assistance	Micro and Area-Based Schemes				Child Protection
	Active		Passive												
	Labour Exchanges	Training	Employment Generation	Unemployment Insurance	Labour Standards (a)	Old Age, Disability, Death	Sickness, Maternity (b)	Medical Care (c)	Work Injury		Micro-insurance	Agricultural Insurance	Disaster Management	Social Funds	Family Allowances
Developed Regions															
Japan	●	●	●	●	●	●	●	●	●	●		●	●		●
Australia	●	●		●	●	●	●	●	●	●			●		●
New Zealand	●	●		●	●	●	●	●	●	●			●		●
Canada	●	●	●	●	●	●	●	●	●	●		●	●		●
United States	●	●	●	●	●	●	●	●	●	●		●	●		●
European Union	●	●	●	●	●	●	●	●	●	●		●	●		●
Developing Asia															
East Asia															
Cambodia			●		●								●	●	
China, PR		●	●	●	●	●	●	●	●	●			●		
Indonesia		●	●		●	●			●	●			●		
Lao PDR		●			●										
Malaysia		●			●	●			●	●			●		
Philippines	●	●	●	●	●	●	●	●	●	●	●		●	●	
Thailand	●	●	●		●	●	●	●	●	●		●	●	●	●
Vietnam		●			●	●	●		●	●		●	●		
South Asia															
Bangladesh		●	●	●	●		●	●	●		●	●	●	●	
Bhutan															
India		●	●		●	●	●	●	●	●		●	●		
Maldives															
Nepal		●	●		●	●			●	●			●		
Pakistan		●	●		●	●	●	●	●	●			●		
Sri Lanka		●	●		●	●			●	●		●	●	●	

Table 1. **Social Protection Programs by Country** *(cont.)*

Country	Labour Market Programs					Social Insurance				Social Assistance	Micro and Area-Based Schemes				Child Protection
	Active		Passive												
	Labour Exchanges	Training	Employment Generation	Unemployment Insurance	Labour Standards (a)	Old Age, Disability, Death	Sickness, Maternity (b)	Medical Care (c)	Work Injury		Micro-insurance	Agricultural Insurance	Disaster Management	Social Funds	Family Allowances
Central Asia															
Azerbaijan		●		●	●	●	●	●	●	●					●
Kazakhstan		●		●	●	●	●	●	●	●					●
Kyrgyz Republic		●		●	●	●	●	●	●	●			●		●
Mongolia	●	●	●	●	●	●	●	●	●	●		●		●	●
Tajikistan		●	●	●	●	●	●	●	●	●				●	
Turkmenistan		●		●	●	●	●	●	●	●					●
Uzbekistan		●	●	●	●	●	●	●	●	●				●	●
Pacific															
Fiji Islands					●	●			●				●		
Guam					●										
Kiribati					●	●			●						
Marshall Islands						●							●		
Micronesia, Federated States of						●									
New Caledonia					●										
Papua New Guinea		●			●	●			●				●		
Samoa					●	●			●				●		
Solomon Islands					●	●			●				●		
Vanuatu						●									

Notes: (a) DMCs by virtue of being a member of the ILO are held to respect and promote the fundamental core standards (1) freedom of association; (2) freedom from forced labour; (3) elimination of discrimination at the work place; and (4) prohibition on child labour. (b) Sickness and Maternity refers to cash benefits for sickness and maternity; countries must provide both benefits to be included. (c) Denotes that medical care and/or hospitalisation coverage are provided in addition to cash benefits and maternity benefits.

Source: International Social Security Association and United States Social Security Administration: Social Security Through the World, 1999; ADB consultations with DMCs.

Table 2. **ADB Social Protection Priorities by Sub-region**

Sub-region	Vulnerability Issues	ADB Social Protection Priorities
Central Asia and Mongolia	Since the transition in the early 1990s populations have experienced a steep decline in living standards, greater vulnerability. Unemployment rose due to SOE reform and insufficient economic activity. Coverage of social services is good but benefits are inadequate due to lack of funds. Human development remains high due to earlier achievements – high levels of education and women development. However, the next generation will show much lower standards unless immediate action is taken.	– Given the large increase on poverty, SP should target interventions to priority areas (*i.e.*, children, rural communities) and generally adjust earlier SP systems to reduced budgets and decentralised management. – Labour markets: low demand for labour will persist unless economic activity is created – microenterprise development and other employment generation programs are feasible due to high education levels; on the other hand, labour markets need to be more flexible. – Due to poverty incidence, social insurance reforms based on linking contribution to benefits are not priority at this stage.
East and South East Asia	Generally, growth has led to important reductions in poverty, however growth alone does not ensure sustainable poverty reduction. New vulnerable groups emerge – unemployed because of economic shift/downturns, migrants, the new urban poor, youth, etc. Limited investments in SP have resulted in precarious conditions for the population – children and rural areas still need of support. Major vulnerabilities by sub-area include:	Different investments in SP are needed in the variety of countries of the large East Asia region. Common to all: – labour market interventions to increase productivity in this growth-oriented area while raising working standards; deal with redundant workers in SOEs, – child protection, – micro and area approaches to protect communities, and – developing comprehensive and effective SP systems. – Specific priorities by sub-area are:
Indonesia, Malaysia, Philippines Thailand	Informal safety nets, once the major support of populations in Southeast Asia, are disappearing due to modernisation and migration patterns. 40% are children and youth. Child labour is prevalent and the informal sector remains large. Investments in all SP areas are much needed; programs exist nominally but are under-budgeted and coverage is low. Short-term social safety nets were prominent during the crisis and generated a public debate on SP.	– Southeast Asia has developed labour training and initiated some labour services – given demographic trends, they should be continued. – Child protection and micro and area based approaches are also critical investments to deal with a large informal sector, particularly in countries where poverty is a major priority such as Philippines. – Safety nets developed during the crisis should be converted into longer-term formal comprehensive SP systems. – Projects targeted at women and girls remain priority.
PRC, Cambodia ,Lao PDR, Vietnam	In the PRC, SOE reform is a pressing issue that will require significant investments in labour markets and social protection; most welfare provision comes through SOEs and public service. In the Mekong and inner rural PRC, poverty is prevalent. Labour laws are generally rigid and needs to be made flexible.	– The transition economies need labour markets interventions and reforms. – Comprehensive and effective social protection systems should be built in parallel with SOE reforms and rural development to ensure enhanced welfare provision. – In the Mekong transition economies and inner rural PRC, where poverty is prevalent, micro and area- based approaches and child protection are needed.
Pacific	Generally the Pacific has done little to develop comprehensive SP systems. As much as 50% of the population is below 19 – a challenge is to deal with youth unemployment.	– Labour market policies to reduce labour rigidities while ensuring fair working conditions, employment generating activities and child protection are general priorities in the region.
South Asia	The area suffers from very high levels of poverty and populations are highly vulnerable to all types of risks, from lifecycle to natural disasters. Poverty reduction should be the first priority; about 70% of the population live in rural areas, 45% of the population are children and youth below 19. Child labour is prevalent; life expectancy and woman development is low. The formal sector is very limited; formal SP systems reach a small portion of the population.	– Child protection interventions – Projects targeted at women and girls. – Micro and area-based approaches to protect communities (urban and rural); financial intermediation (microfinance) has been generally successful in the area and should be expanded to areas such as micro-insurance. – Labour markets: Public works have been popular and labour market interventions should be expanded. – Formal SP policies such as insurance programs (*e.g.*, pensions) are not priority at this stage.

Legend: PRC = People's Republic of China, Lao PDR = Lao People's Democratic Republic, SOE = state-owned enterprises, SP = Social protection

Social protection strategies will vary from one country to another as a result of differences in needs, institutions, and available resources. Country preferences will also be influenced by the political support and social consensus needed to implement reforms. An analysis of these four factors determines the social protection priorities of a country.

Country Needs

The main objective of social protection is to reduce poverty and vulnerability. A summary **vulnerability and risk profile** will help to determine the country-specific social protection needs. A description of major risks to the population, demographic structures, levels of urban-rural population, poverty, and the size of the formal sector influence the type of social protection mechanisms that are feasible and appropriate. Where population projections[8] show a significant number of children and new entrants into the labour market in the near future, social protection should address the needs of the young. Where population growth rates are low or negative, there is a rapidly ageing population and the child/adult dependency ratios are low, social protection systems should address the priorities of the elderly. Where the most acute problems may be others – *i.e.*, migrant workers, victims of disasters, or any other vulnerable population group – social protection planning should accommodate the specific country needs. The results will differ from one DMC to another.

A summary **labour market analysis** should further help determine country priorities, not only in social protection but also in the selection of other development interventions, by revealing employment patterns. The size of the formal and informal sectors; the sectoral distribution (population engaged in agriculture, industry, and services); rural and urban active population; evolution of real wages; the role of women in the labour force; working conditions; compliance with national and international labour laws and standards including the reported existence of child or bonded labour and violations to other Core Labour Standards – all will provide additional information to help determine the country priorities. In some countries, the priority attention will be to assist unemployed or underemployed working age population to find employment opportunities; or to fight child labour. In others, the rural areas may have been forced to shoulder a disproportionate burden of the country's social problems, and strengthening rural systems may be a priority. Labour absorption is essential to avoid poverty. The country labour market analysis should evaluate which sectors/sub-sectors and geographical areas have a demand for labour and identify which areas may have an unmet supply of labour, to identify the right mix of public policies. Labour market analysis is a key element in the strategic link between economic growth and poverty reduction, and the analysis should

provide recommendations to ensure efficient and inclusive development patterns.

A summary vulnerability profile, supported by a summary labour market analysis, is essential to determine country-specific needs. The country social protection needs assessment with a rational prioritisation of the country's top social protection needs, based on quantitative evidence gathered in the vulnerability profile and labour market analysis, to ensure a rational and well-demonstrated prioritisation of possible development interventions. Collaboration with other agencies – including ILO, World Bank, UNICEF, World Health Organisation (WHO), United Nations High Commission for Refugees (UNHCR), and the Red Cross/Red Crescent – is essential to ensure coherent views an avoid repetition of surveys, profiles, or analyses.

Available Resources

The level of resources available for social protection will also influence a country's social protection choices. Many existing social protection systems and programs are under-budgeted, receive random funding, or have mis-targeted benefits. Where allocated public funds are limited and the country needs large, public programs should be targeted to those most in need. An evaluation of the effectiveness of current programs and resources to reduce poverty and vulnerability in the country will immediately point the need for reforms. If a country lacks the fiscal resources to achieve the development of a comprehensive social security system with significant coverage, it should opt to concentrate on poverty reduction and improvements in the labour force through the combination of labour market policies and programs, child protection, micro and area-based schemes, social assistance, and minimal social insurance benefits.

Social expenditures reviews are a key instrument to determine fund allocations intra and inter-sectorally, showing the administrative costs of social protection, the relative weight as compared to other social expenditures, the distribution of funds among social protection programs; the benefit incidence and effectiveness in reaching vulnerable and poor populations; and last, but not least, distribution issues – who is paying and who benefits. The matching of the social expenditure review with the country needs assessment will provide the key to the needed social protection reforms. Social expenditure reviews, in line with the public expenditure reviews developed by governments and aid agencies, particularly ILO and World Bank, will thus be critical in assessing the effectiveness of current allocations to reduce poverty and vulnerability and discussing the options for social protection reform.

Existing Institutions

Where social protection programs already exist, conscious decisions will have to be made about whether reform efforts should build on the existing institutions or whether new institutions should be created. Societies almost always have at least some form of formal social protection institutions, but the institutions that exist may be very weak or cover only an extremely small fraction of the population. Where the existing institutions are neither very large nor very important, they may not impose serious constraints on the reform process. Where they are large, however, their influence cannot be ignored. Existing institutions influence policies about the structure and philosophy of social protection in several ways. They form a point of reference for comparing alternatives. Where the current approaches are generally viewed favourably among the population, the political path of least resistance will be to build on and extend them. The country's institutional history, including the relative credibility of the public and private sectors and the extent of previous government social protection commitments, inevitably affects the scope and character of any new intervention. Given that existing institutions have staff and stakeholders who are likely to protect themselves, large government bureaucracies are not dismantled easily and private concerns that are profiting from the existing arrangements will resist change. A good stakeholder analysis of old and new providers and recipients of social protection may facilitate discussions during country programming and project design, by making the trade-offs transparent. Reforming social protection policies is likely to be easier – and the odds of success are correspondingly higher – if the new approach preserves an important role for the existing institutions.

The decision whether to invest in social protection will require an understanding of the country-specific institutional capacity to deliver reforms, including (i) the efficiency and coverage of existing social protection programs, and (ii) the possible roles and risks involved in using public, market-based, and civil society/NGO mechanisms for new social protection programs. Before embarking on reforms, the institutional prerequisites of different social protection approaches need to be taken into account. The risks involved in engaging the public and private sectors need to be assessed to ensure that the proposed reforms will effectively reduce poverty and vulnerability, the main objective of a social protection system. For instance, market-based companies often find disincentives to serving the poor; unless a proper public-private arrangement is envisaged, the poor will likely remain uncovered. Pension reform projects often involve development of privately funded mechanisms to encourage the development of sophisticated financial market institutions, but they can function effectively only if the domestic capital market has already reached a minimum level of development; where the preconditions for advance

funding are absent, provident funds or basic pay-as-you-go approaches may be important transition measures to ensure that the objectives of a social protection system are accomplished. Targeted poverty and social assistance interventions that rely on formal means-testing operate on the assumption that institutions have the sufficient capacity to collect, process, and store information; investments should ensure that either this capacity is built or other institutional arrangements are found. The sub section on *Sustainability and Good Governance*, within this document, provides more details on different institutional options.

The Political Economy of Reform

The potential gains must be balanced against the likely losses from reforming a social protection system. This will involve a careful review of the conditions under which benefits are provided and the ways in which subsidies are constructed or abolished, the relationship between the value of the assistance offered and prevailing wages or prices, the affordability of the services provided, the incentives established in the programme for delaying taking benefits and/or returning to work as quickly as possible, and the balance between the costs and benefits of new regulations. Reforms that may encounter large resistance need more intense consultations with relevant stakeholders.

Successful programs are those supported by the serious political commitment of the country's leadership. Social protection systems normally reflect the country's social architecture. To be effective, social protection strategies should be articulated in an integrated manner and discussed with all relevant social players as reforms are an opportunity to rethink the country's social contract. This, however, is often not the case, and reforms are precipitated by crises that have exposed or exacerbated flaws in existing policies. The experience of the transition economies and countries affected by the Asian Crisis has shown that governments should not be asked to pursue policies that will require a consensus that has not yet formed within the society. A social protection agenda should be framed taking into account DMCs national policies and priorities as well as ADB's overarching goal of reducing poverty, ensuring that social protection is integrated with other development activities and into ongoing country dialogue.

Strategic Principles for Social Protection Interventions

Once one or a combination of social protection policies within the five different components (labour markets, social insurance, social assistance, micro and area

based approaches, and/or child protection) have been selected in a determined DMC, the design of the specific programme selected should attempt to balance several trade-offs to effectively reduce poverty and vulnerability and promote human development. The assessment should focus on the following considerations: (i) the program's coverage and benefits, (ii) its effectiveness in targeting vulnerable groups and specific gender issues, (iii) the sustainability of the programme (except perhaps for certain temporary interventions motivated by an economic crisis) and the adequacy of its institutional arrangements, and (iv) the program's integrated approach. Investments in programme design may not to be worthwhile where the programme does not contribute to reduce poverty and vulnerability, sustainability is open to question, coverage is likely to be limited, and population groups in need are not served.

Coverage

Expanding access to social protection programs should be the main objective of the formal social protection agenda of Asian and Pacific DMCs. In most DMCs, both public and private sectors have failed to provide effective social protection to the population. The rate of expansion will vary across countries in the region and depend on the financial and institutional resources available. **Coverage gaps** occur due to statutory exclusions, poor enforcement, or the lack of attractive benefits despite high contributions for particular groups.

Statutory Exclusions. Labour market regulations and standards and contributory social insurance programs designed for universal coverage in the medium/long term, have serious coverage gaps in the Asian and Pacific region. These programs normally cover the larger enterprises in the formal sector. Smaller employers, particularly in industries that compete with the informal sector, are often excluded from many of the provisions, as are household workers, daily labourers, farmers, fishermen, and many urban self-employed. The informal sector thus operates outside the scope of regulations, with low and unstable levels of income, and poor working conditions. The result of the statutory exclusions is that many of the most vulnerable people are not protected.

The first **priorities for the poor and the informal sector** are strengthening prospects of survival and improving incomes, rather than investing scarce resources in social insurance schemes. The poor normally have shorter lives due to hardship – only 5% of the Asia and Pacific population are over 65. Additionally, old people in the informal sector who are fortunate enough to live beyond that age do not retire but are likely to remain economically active as long as they can, to support themselves and help their families survive. Efforts

to expand coverage should start by addressing the needs of the poor and informal sector clientele: improvement of their productive potential and their employment and income-generating capacity, improvement of the household's welfare, and mitigation of risks that keep households in poverty. A major area of development for informal sector groups in both urban and rural areas is micro-insurance for health care, death of the breadwinner, and short-term risks, through voluntary schemes established by mutual benefit societies, co-operatives, and similar organisations, or civil society groups that rely on trust engendered through occupational groupings or community solidarity.

Even where most formal employees and self-employed people are covered according to the statute, the reality may be quite different due to poor enforcement. Lax enforcement often has the same impact as a statutory exclusion. Where enforcement is lacking or lax, labour market regulations are likely to have little impact even for those who are nominally covered. Poor enforcement can also undermine the protection offered under contributory social insurance, since benefit entitlements usually depend to some degree on how contributions have been collected. A close link between contribution payment and subsequent benefit entitlement helps to insulate a contributory programme from the financial consequences of poor enforcement, but does this by reducing benefits and restricting protection. Effective enforcement requires institutions that have the necessary statutory authority to establish liabilities and enforce collections. These institutions must also have adequate operating budgets, the willingness and ability to use their resources and authority to enforce the law, and the political support necessary to sustain the enforcement effort. For this reason, assessing social protection coverage necessarily involves assessing the effectiveness of the implementing institutions.

Market-based schemes have often found servicing low-income communities unattractive, as compared to the higher returns received from servicing higher income groups. The poor have discontinuous income and are more prone to risk; thus the higher transaction costs are unattractive to insurance companies and customers. Efforts should be made by governments to arrange public-private partnerships that offer low-income communities access to social protection services.

Adequacy of Benefits. Many systems in the Asian and Pacific region are under-budgeted or receive erratic yearly funds so that the benefits they provide do not achieve their intended social objective. Often, the transaction costs are larger than the benefits provided. It is critical that social protection systems are built to effectively provide protection given available resources. On the other hand, benefits should not be so generous that they generate disincentives. Continuity and predictability about the conditions under which benefits are to

be provided and the approximate amount to be made available is also necessary in order to realise the social gains promised by social protection programs.

Box 4. Expansion of Social Protection Coverage in Japan

Since the 1880s, when Japan's Meiji revolution modernised the country, mutual aid societies were formed to protect workers in leading industrial and mining companies. However, poverty was a widespread phenomenon in rural areas; after World War I and the Great Depression, the economic crisis raised the levels of rural household poverty. In the 1920s, the Japanese government asserted that poverty was a sign of backwardness and that modernisation required the eradication of poverty. The main social protection policies on which Japan based its poverty reduction strategy were (I) labour markets, mostly wage and employment policies; and (ii) social insurance, focusing on health. The Japanese embraced the principle of full employment as a value to be preserved in a stable society and labour market imbalances were seen as a national problem. As Japan developed and industrial restructuring was needed, the Government supported firm's skills upgrading and training programmes to preserve employment and find alternative production suitable for the changing market. In 1922, the Diet (the Japanese Parliament) passed the first health insurance law, modelled on the German sickness funds. The lack of adequate and affordable medical care had been a focal point of the peasants' protest, as many farmers suffered from starvation, malnutrition, and infection diseases associated with poor living conditions. In the 1930s, the Japanese community health insurance scheme was supported by a 50% government subsidy, with a planned reduction of the subsidy as society modernised. Local societies were required to provide primary health care but left free to set contribution rates and decide on optional additional benefits. Most provided maternity benefits while a few also opted for funeral grants. Societies built clinics and employed medical staff. These societies eventually numbered 10 000 and formed the basis of the Japanese national health scheme – full insurance coverage was achieved in 1961. At the end of the twentieth century, Japan had accomplished the lowest infant mortality rate and highest life expectancy in the world. The success of the Japanese experience suggests some good development practices – the first being that poverty reduction requires political commitment and active government budgetary and technical support. It is interesting to note also that employment and primary healthcare were the first social protection priorities.

Targeting Vulnerable Population Groups and Gender Issues

Where formal systems do not have sufficient human and financial resources to cover identified needs, the priority will be to target available resources to vulnerable groups. Progressively, comprehensive social protection systems will be developed but, in the short term, resources will be channelled to those most in need. Matching the results of the social expenditure reviews and vulnerability analysis will show the need to either pursue the development of a formal social protection system or concentrate scarce resources into priority needs. When the vulnerability analysis shows high child/adult dependency ratios and children exposed to risks, the country's social protection system should target children.

When most vulnerable people live in the rural areas, resources should be decentralised and programs be put in place to target these priority population groups. A distribution analysis, as pointed out in the following section, should ensure any proposed social protection programme achieves its targeted objectives.

Special consideration should be paid to gender issues. Although half of the population are women, they receive much less assistance and opportunities than do men. Many poverty reduction and social development programs are focused on households and do not consider intra-household differences. Assets and labour are normally distributed in a different and unequal manner between men and women, boys and girls within a same household. Unless particular attention is paid to women's unique problems and life patterns when social protection policies and programs are developed, approaches that might appear to be gender-neutral may actually disadvantage women. Positive discrimination maybe needed to ensure women's development in Asia and the Pacific. For example, labour market reforms must go beyond a purely traditional agenda to adequately address such special concerns of women as a higher incidence of home work, competing demands from household responsibilities, and the particular needs surrounding child bearing. In child protection, the benefits of investing in the girl child are large – educated girls become more responsible and better-informed mothers. Social insurance programs need to be designed to take into account the longer life expectancies of women in most societies; the additional implications for women of the risk of loss of support due to death, abandonment, or divorce; and the less stable earning patterns commonly found among women.

The most vulnerable populations are often not reflected in household surveys – migrant workers, orphans, the homeless, victims of disasters, refugees, nomads and marginalised indigenous groups. These groups may require special attention owing to both extreme poverty and social exclusion. As with women, they may be seriously disadvantaged by programs that appear otherwise to be uniform and fair, owing to the effects of labour market discrimination and alternative cultural traditions. Special outreach strategies are normally required for those.

Sustainability and Good Governance

The design of any social protection scheme is directly linked to an analysis of how it can be financed and how it can best be delivered. There is no prescription or preferred social protection model, as the structure and operations will change from country to country depending on the available financial and institutional resources. Social protection interventions should include assessments of how to

ensure efficient and sustainable operations to deliver the proposed coverage of social protection needs.

Financing Sources. The variety of social protection programs (labour markets, social insurance, social assistance/welfare services, micro and area-based schemes, and child protection) may be financed through budgetary support, income-related contributions, charitable donations, or a mix of all these. Enforcement of revenue collection may result in higher tax collections, particularly in countries with young demographic pyramids. Higher tax revenues can in turn support the promotion of statutory programs. In addition to encouraging adequate tax collection, there is merit in systems in which individuals co-finance services, contributing individually or though community-based arrangements. This is the case for social insurance, micro and area-based schemes, social funds, and selected labour market and child protection programs. However, most programs, particularly those targeted to lower income groups, require a degree of public support. Financing from charitable or aid organisations is discontinuous and does not allow sustainable social protection programs. Such financing may help to fill the gaps on a temporary basis only. In social insurance programs, accumulated savings/contributions can be invested in financial markets.[9] Diversification of income sources is desirable to spread risks and ensure the overall sustainability of the program.

Potential financial commitments under a programme need to be evaluated to be sure that they can be borne from the resources likely to be available, including the program's contingent liabilities.[10] Will insurance premiums cover projected losses? Will sufficient resources be available to cover operating costs once a facility has been created for delivering social services?

Redistribution Issues. Financing issues are directly linked to distribution aspects. The design of any social protection programme should carefully evaluate its distribution impacts to (i) ensure that vulnerable and poor benefit; and (ii) above all, avoid regressive redistribution issues, *e.g.*, building systems with public resources that mostly benefit upper income groups. Since the main objective of a social protection system is to support vulnerable populations to overcome their exposure to risks, it results in more equitable societies. Financing social protection systems implies some transfer of resources, either from taxed citizens to those outside the formal sector, or from the working age generation to younger and older people. Even when building contributory social insurance schemes, the normally expensive transition costs are passed to the public sector and thus financed by taxpayers. This does not imply that the purpose of a social protection system is merely income redistribution – the purpose is to build mechanisms that assist individuals to overcome vulnerability; for this, a degree of redistribution and support is needed.

Identifying the adequate mix of financing resources to ensure, if needed, adequate redistribution and support to vulnerable populations should be assessed after careful cost-benefit evaluation of the proposed social protection program.

Social protection success depends on the effective administration of adequately designed programs. Common operational problems among agencies include corruption, cronyism, and favouritism; inadequate information processing, storage and retrieval systems; and organisational cultures that are hostile to customer service. Good governance is crucial for sound macroeconomic management, progressive taxation, and equitable allocations of funds for social development. The impact of basic social services is reduced by governance defects such as inadequate budgets and wasteful, inefficient, and unresponsive administrations. The poor suffer most due to poor access, low bargaining power, and little influence on local officialdom and service providers. The effects of such deficiencies in governance are exemplified by the highly unsatisfactory coverage in social insurance schemes. These schemes have been in force for decades in many countries but have failed to reach those most in need of protection. Fundamental governance issues that should be considered when designing any social protection scheme include identifying (i) the most appropriate social protection system to serve all citizens, (ii) the most suitable institutional arrangements for the administration of schemes, and (iii) the best way to achieve operational efficiency.

Institutional Structure. Often, public social protection programs do not have sufficient human and financial resources to cover identified needs. Most DMCs need to allow flexible and innovative institutional arrangements, bringing all possible development partners together under well-regulated sectoral policies, government's administrative oversight to ensure good governance and affordable services. The four main social protection delivery mechanisms are (i) public-based, normally best to achieve expansion of coverage; (ii) market-based, normally best for efficient delivery for the formal sector of the economy and voluntary schemes for higher income groups; (iii) NGOs and charitable institutions, normally good to target low-income communities; and (iv) a mix of these. However, each mechanism has important limitations. The public sector should not crowd out the potential role of the private sector in delivering social protection. Instead, the public sector should concentrate its efforts to serve areas and populations that are not covered by the private sector. Decentralisation of public programs offers the great potential to improve effectiveness of social programs and bring decision making closer to communities. The private sector is often not attracted to lower income groups and/or remote areas because the associated transaction costs are high and returns low. Private-public partnerships can be agreed between governments and private companies to

secure inclusion of those excluded from any form of protection. Where NGOs are already significant providers of social protection programs, they can be encouraged to continue. However, NGOs often have limited and discontinuous funding and their presence is scattered, and normally not broad enough to ensure equal expansion of coverage, limiting their ability to reduce vulnerability. A mixed delivery system may be best to diversify risks and address social protection priorities.

Avoiding excessive administrative charges is a major challenge for certain kinds of social protection programs. Administrative charges siphon away resources from the intended beneficiaries, needlessly increasing the cost of social protection and reducing society's capacity for providing protection. In addition to the threat they pose to programme integrity, inefficient and unresponsive government bureaucracies often cause excessive administrative costs. The result is administrative resources wasted due to duplicative and inefficient service delivery structures.

Cost-Effectiveness. The development of social protection programs may be affected by the different viewpoints on the positive and negative links between social protection and economic development. It is easier to calculate the costs borne by taxpayers or contributors in the short term than to assess the advantages gained from each program. Expenditures on children and youth through education, health, and training programs are all investments in future generations, critical for long-term growth and poverty reduction. Evaluating the cost-effectiveness of social protection programs requires an impartial assessment of the following issues: (i) the cost of the programs (as a percentage of gross domestic product and total public expenditure), including contingent liabilities as a result of possible government guarantees to the programs; (ii) performance (the percentage of vulnerable targeted groups covered by the programs, the percentage of benefits going to poor and non-poor groups, and the extent to which the benefits are adequate to servicing identified needs); (iii) administrative cost (the administrative cost as a percentage of the total cost, and how the cost compares with other programs); (iv) long-term social benefits; and (v) feasible options to improve cost-effectiveness, including the cost to society (determining who pays for reforms and which groups benefit from the proposed reform agenda). Careful attention should be paid to the comparative value of social protection interventions against other necessary social development programs (*e.g.*, health, education, and rural development programs). Social protection programs should be developed after careful evaluation of the country-specific priorities to reduce poverty.

Integrated Approach to Social Protection

Social protection should be seen as one of several measures that work together to promote socially inclusive human development, reduce poverty, and support enhanced productivity and growth. Close collaboration is needed to ensure that social protection and other development policies are consistent and mutually supportive. Many problems of existing social protection programs are due to lack of cohesion in social and economic planning or inconsistencies between different parts of the social protection system. For instance, serious difficulties in the labour market may lead to proposals for early retirement on advantageous terms as a part of the solution to over-employment in public enterprises, but without sufficient consideration of the long-term implications for pension funds. Another example of malpractice could be social protection interventions displacing necessary health and education investments. Integrated and co-ordinated national policies on social protection must be established. Sound policy formulation in social protection requires less emphasis on short-term priorities and the creation of medium- and long-term social development plans. Close co-ordination in policy formulation is vital when several government departments and agencies are involved.

Consulting institutions such as DMC's National Social Protection Co-ordination Commissions, with responsibility for strategic planning and co-ordination, can facilitate the formulation of an overall strategy for strengthening social protection. If non-existent or ineffective, such bodies can be created. This integrated planning machinery should include government, external funding agencies, and civil society groups in order to achieve consensus on priorities, objectives, and the necessity for encouraging pro-poor sustainable growth and social development. The role of ministries of finance and national planning authorities is crucial in working out balanced views on realistic and affordable priorities with the ministries directly responsible for the management and development of programs. Dialogues on these matters can improve mutual understanding of the wide range of issues involved, and the right sequencing of reforms. Aid agencies could provide necessary advice and help generate a consensus. Integrated planning is complex but essential for policy cohesion and the efficient use of resources. Controversial issues, including the extent of redistributive policies, changes in policies on subsidies in particular sectors, and increases in pension ages should be settled through this process. This participatory approach is critical to ensure

Conclusions

Asia and the Pacific is a largely young, rural, and poor region: social protection programs and policies should be built to respond to its needs. The region is still experiencing the effects of the demographic explosion and 40% of its population is below 19. The region's population is 3.1 billion, half of the world's total, and of this, 900 million people are poor. About 60% of the total population live in rural areas and most of the population belongs to the informal sector. The majority of DMCs have some form of institutionalised social protection system; however, most social protection programs have low effectiveness due to limited coverage, insufficient funds, and inadequate instruments. Most employees in the informal sector are unable or unwilling to contribute a relatively high percentage of their incomes to financing social protection benefits that do not meet their priority needs. In general, the informal sector prioritises immediate needs, such as health, employment or the source of livelihood, shelter, food, clothing, and survival from natural disasters, rather than traditional social security schemes such as old-age insurance. A host of other factors restrict access to statutory social protection schemes, including legal impediments, administrative bottlenecks, and problems with compliance. Reforming existing social security systems to extend protection to the majority of citizens in the Asian and Pacific region is a critical priority.

Reforming national social protection systems is a major topic in all world regions; however, the motivations for reform and approaches taken differ dramatically from one country to the other. In much of Asia and the Pacific, the debate is dominated by concerns about expanding coverage and identifying financing mechanisms to fight poverty and serve the vast majority of the population, 40% of which are children and youth, who remain unprotected. In transition economies, adjusting programs and institutions to reduced budgets under a market economy is the priority. Many Latin American reforms are motivated by a desire to insulate social protection systems from political interference. Finally, the reform debates in North America, Japan and Western Europe tend to focus disproportionately on dealing with the costs of ageing societies. Policy-makers should be aware that country priorities differ substantially, and the problems/solutions of one region are not applicable to others.

Given the broad variety of reform priorities and possible interventions (labour markets, social insurance, social assistance, area-based schemes and child protection), the paper sets the parameters to prioritise investments, based on the ADB principles of promoting a strong country focus; enhancing strategic alliances and partnerships; and taking a long-term approach to promote effective social protection systems in Asia and the Pacific – although short-term safety

nets maybe needed in cases of crisis/emergency. The selection of country priorities will require an evaluation of the country needs and available resources, including optimal delivery mechanisms. Specifically, and evaluation of: (i) country needs, (ii) available resources, (iii) existing institutions, and (iv) the political economy of reform. The proposed social protection policies should complement each other and help countries to accomplish their international commitments for poverty reduction and social development (*e.g.* International Development Targets, Basic Social Services 20:20, UN Conventions and international laws).

Once the country priorities have been identified, specific social protection programs should ensure adequate: (i) coverage, (ii) targeting vulnerable population groups, (iii) sustainability and good governance, and (iv) an integrated approach to social protection. Under this perspective, social protection programs may include:

- Restructuring current expenditures to priority programs;

- Improving labour market operations to reduce poverty, facilitate human development, address gender inequalities, remove obstacles to job creation and create an enabling environment for economic activity;

- Rethinking pension reform, and insurance/non-banking financial services, to ensure that, additional to market-based mechanisms and sustainability aspects, they are designed to balance equity considerations, addressing issues such as expansion of coverage and provision of adequate benefits to the population;

- Expanding the role of micro-finance to include new issues such as micro-insurance and re-insurance;

- Considering the development of social funds projects in Asia and the Pacific;

- Designing projects that empower communities;

- Developing disaster preparedness programs among them to secure less vulnerable and self-reliant communities;

- Considering an increase of child protection programs;

- Collaborating closely with other relevant bilateral and multilateral institutions.

Welfare systems have not been a priority for most DMC policy-makers in the Asia and Pacific region; social protection has been largely neglected, or at best addressed with inadequate resources. However, a closer look at economic history shows that the most advanced economies of the region – Japan; Hong Kong, China; Republic of Korea; Singapore; and Taipei, China – built development policies through active public or public-private interventions in medical care, social and housing assistance, minimum retirement levels, and education. Investing in social protection was an essential part in the modernisation programs of these wealthier societies at the early stages of their development. Precisely, higher levels of social security allowed high productivity gains in the workforce, expanded domestic demand, and increased economic growth. Social protection is a logical extension of ADB's overarching objective to reduce poverty because the benefits of economic growth will not automatically reach to all poor. Lack of adequate social protection may actually put a severe limit on future economic growth. In children, malnutrition and poverty damage health, cause death, harm reproduction, reduce intelligence, and lower productivity and opportunities for the future adult, a high tax on future economic development. Social protection is an economic need in the Asia and Pacific region.

The new century starts with profound changes. Globalisation is shifting trade, capital, technology and information flows, changing values and social structures. The increased opportunities resulting from access to new ideas, goods, services, and technology are also accompanied by increasing risks. Interdependence may lead to possible economic shocks and downturns; if no social policies and safety nets are in place, countries may experience mounting unemployment, poverty, marginalisation, and political conflict. Most of the political opposition to globalisation is due to the absence of adequate transitional compensation systems, which makes implementation of reforms very difficult given that populations may have to pay the costs of reform in the short term. Globalisation requires the development of effective social protection systems in both developed and developing countries. The world's forward-looking development agenda gives social protection a primary role to sustain growth and well-functioning markets.

Notes

1. “Social safety net” and "social security" are sometimes used as an alternative to “social protection.” The ADB Working Group found that in describing the range of concerns with which this paper is dealing, the term “social protection” was the more common in international usage. The term “social safety net” appears to have a less precise meaning; some people use it to mean the whole set of programs and policies discussed in this strategy, others use it to refer only to welfare targeted programs to the poor. On the other hand, the term "social security" seems to be used to refer to the comprehensive mechanisms and coverage in OECD countries, and less applicable to new areas such as community an area-based schemes.

2. Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank, approved on 9 November 1999.

3. Source of data: medium variant projections, from *UN Population Prospects*, New York, 1999. The period 2000-2015 has been selected given (i) the International Development Targets (2015) and (ii) the ADB Long-Term Strategic Framework.

4. See the Asia Pacific Economic Co-operation (APEC)'s *Social Safety Nets in Response to Crisis: Lessons and Guidelines from Asia and Latin America*, draft prepared by APEC member countries, the IADB, IMF, WB and ADB, and submitted to the APEC Finance Ministers in January 2001.

5. With the exception of the Kingdom of Bhutan, Cook Islands, Maldives, Marshall Islands, Federated States of Micronesia, Nauru, Samoa, Tonga, Tuvalu and Vanuatu.

6. These programs should be accompanied by adequate preventive programs for safety at work and occupational health

7. ADB, 2001. *Social Protection Strategy*, Manila.

8. Care has to be taken with the assumptions used in projections. Arguments can be easily manipulated by developing models that either magnify or minimise issues (*e.g.*, ageing). As a rule, ADB discourages high or low scenarios and advises to carefully evaluate medium term variant projections.

9. Relying on capital market returns to help finance pension costs can reduce the size of the contributions needed, but as illustrated by the recent economic crisis, can also introduce greater variance in the amount of protection offered.

10. Many social insurance programs, including those operated directly by the government and those operated by the private sector under a government mandate, incorporate some form of minimum guarantee by the government – the guarantees may be of minimum incomes, minimum benefits, or the financial solvency of private financial intermediaries. The guarantees may be either explicit in the law or implicit in the way the political system operates. In either case, they create contingent liabilities, which come due if the social protection programs fail to supply the guaranteed degree of protection. Analyses of social protection policies too often ignore the size and expected cost of these contingent liabilities, and may result in costly reforms.

SOCIAL SAFETY NETS IN RESPONSE TO CRISIS: LESSONS AND GUIDELINES FROM ASIA AND LATIN AMERICA[1]

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Introduction

Recent economic crises highlight the importance of effective social policies to cushion the impact of adverse economic developments. In particular, during recent crises many Asian (1997–1999) and Latin American (1994-1995, 1999) countries have suffered significant increases in the proportion of people in extreme poverty, without jobs or access to essential services, loss of physical assets among the poor, as well as rising rates of malnutrition and school dropouts among poor children. These conditions tend to aggravate chronic poverty and may lead to irreversible losses in human capital among the poor and vulnerable, undermining an economy's ability to sustain growth. This experience underscores the need to draw lessons that could help guide policy formulation and implementation of social safety nets more generally.[2]

In response to this need, in their September 1999 Memorandum to APEC Leaders, APEC Finance Ministers stressed the importance of social safety nets in addressing the distress suffered by the most vulnerable members of society. They expressed support for the international financial institutions to incorporate this approach into poverty reduction efforts. The Finance Ministers support the view that social policies must ensure that all members of society have the chance to benefit from the globalised economy and well-functioning markets. The Finance Ministers want to establish guidelines on the implementation and use of safety nets in responding to crises, taking into account recent country experiences.

To promote these views, APEC Finance Ministers established a Working Group to identify policies and instruments to strengthen social safety nets in their countries. The Working Group was chaired by Mexico and the United States and comprised staff from the World Bank, International Monetary Fund, Asian Development Bank, and Inter-American Development Bank. The report of the Working Group is based on responses to a questionnaire administered to seven APEC countries (Chile, Indonesia, the Republic of Korea, Mexico, Peru, the Philippines and Thailand) and follow-up missions to all but one of these countries.[3]

The safety net guidelines complement recent and ongoing efforts undertaken in other contexts, including the analysis in the World Development Report, the Asian Development Bank's Social Safety Net initiatives, the Inter-American Development Bank initiative on Social Protection for Equity and Growth and the preparation of Poverty Reduction Strategy Papers, among others. Of direct relevance to this exercise is a study being undertaken by the APEC Human Resources Development (HRD) Working Group on short-term policies to deal with the Asian financial crisis, as well as the recent Development Committee paper on managing the social dimensions of crises. In addition, at the Auckland APEC meeting an inventory was produced of ongoing social safety net programmes and activities of various international organisations and donors.

This Chapter provides an edited version of this Report, in particular focusing on the lessons to be learned from Asian experiences. The remainder of the Chapter is organised as follows. Section II examines safety nets in the context of the policy environment, while Section III focuses on the need for pre-crisis planning. Section IV presents lessons on the choice of safety net instruments. Section V discusses the importance of transparency and accountability in programme eligibility, administration and budgeting. Section VI summarises conclusions and provides key guidelines. Three annexes follow the main text: Annex I summarises common safety net targeting methods, Annex II highlights advantages and disadvantages of the main safety net programme types, and Annex III briefly describes the safety net policy responses of the Asian study countries to recent crises.

Guidelines on the Policy Environment

When a crisis occurs, restoring macroeconomic stability is a prerequisite for economic growth, which is required for reducing poverty in the medium term. Sound macroeconomic policies and the promotion of good corporate and financial sector policies in the private sector help prevent recurrent crises that can result in drastic declines in the living standards of the population.[4]

However, some crises do occur as a result of external shocks. Thus, there is a need to protect and assist vulnerable social groups – not only from the effects of the crisis but also from the adjustment costs of stabilisation.[5] As a first step, the mix and sequencing of crisis-response policies must be adjusted to take into account their social impact. But, it may not be feasible to adequately offset the adverse impact on the poor in this manner, because these policies have to be consistent with the macroeconomic framework to avoid curtailing the permanent benefits of equitable and sustainable growth policies. Social safety nets are a means of easing this tension between stabilisation and social protection goals.

In addition to easing the transition to stable policies, publicly provided safety nets are an integral part of the effort to manage social risks more generally. Crises tend to exhaust the capacity of individuals and households to cope independently with adverse social and economic consequences. Family and community risk sharing and other informal arrangements may deteriorate and become less effective in the face of large covariant shocks. Households may be forced to rely on short-term coping mechanisms such as taking children out of school and increasing the time spent in the labour market by children and women, selling productive assets, and reducing the nutritional intake of household members. Government can play a critical role in managing these risks by providing a social safety net that assists individuals and households to cope with short-term poverty and its by-products, yet that fits within a diverse set of risk management instruments, including public, market-based, and informal arrangements.

A social safety net comprises policies and programmes that provide short-term income support and access to basic social services to the poor during economic crises and possibly other adverse events. These have to be country-owned and designed. In many cases, these programmes are the same as those that address chronic poverty and structural unemployment. The goal is to design them in a manner that recognises that although the problems are similar – poverty and unemployment – the causes and duration may differ. As a result, relative to programmes addressing chronic poverty and unemployment, social safety net programmes that focus on immediate relief from the effects of crisis may assign a higher weight to redistributive goals, as opposed to protecting against lifecycle contingencies. A key ingredient is flexibility in times of crisis, *e.g.* by relaxing eligibility requirements of existing programmes so that they reach more poor households.

Social safety nets are part of a larger social policy framework that includes health care, education, social insurance and labour protection, among others. In times of crises, therefore, public response cannot be limited to social safety net

programmes. A broader set of social programmes including, for instance, basic education and nutrition programmes, should be protected from budget cuts. Peru and Mexico have opted to publish a list of programmes that are to be protected from budget reductions during a crisis.[6]

Social safety nets are designed to help individuals and families cope with the consequences of economic shocks and provide support to the poor. They are directed primarily to those poor who are most adversely affected by temporary shocks to income and general well-being.[7] A typology of the major social safety net programmes includes cash and in-kind transfers, price subsidies, social services fee waivers, supplemental feeding and nutrition programmes, public works programmes, and microfinance programmes, as well as social insurance programmes (in particular, pensions and unemployment benefits) that can also reach the poor.[8]

The economic distortions associated with safety nets should be recognised in the initial design of the programmes. The disincentive to work stemming from income transfers, for example, should be factored into programme design in order to strike a balance between the need to provide protection to the poor and the desire to maintain economic efficiency in the long run. For transfer programmes, design features might, for example, include targeting beneficiaries among the poorest and most vulnerable and limiting the duration of benefit receipt. In 1998, the Korean authorities initially hesitated to broaden the coverage of unemployment benefits out of concern for labour market disincentive effects. However, social safety nets can also support labour market reform by providing benefits to those forced to switch jobs to facilitate enterprise restructuring. Setting the wage rate below the prevailing remuneration of unskilled labour can prevent an undue disincentive effect from public works programmes. Generalised commodity subsidies, on the other hand, create substantial distortions, which can be reflected in waste, shortages, and smuggling of subsidised items.

Although budgetary constraints inevitably limit the scope of anti-poverty programmes in general, and safety nets in particular, these programmes should be protected in the wake of a crisis. Even under the best of fiscal circumstances, governments are limited in what can be spent on social programmes and safety nets. Yet it is precisely during a crisis when spending on safety nets should be protected and even increased. The budget for safety nets should be based on an average of spending projections over the medium term, with more spent during crises and less during expansions. Poverty alleviation programmes should be designed to expand (and contract) benefits and coverage automatically as the need arises (and dissipates). In this way, these programmes act as automatic fiscal stabilisers (see Box 1). However, in practice, lags in the implementation

of social safety nets in the Asian countries implied that the associated economic stimulus was largely pro-cyclical and coincided with expanding economies.

Channelling more resources to social protection programmes in times of economic crises can be achieved by shifting budget resources away from other, less critical, purposes to social safety nets or, if resources are available, by increasing the budget within a sustainable macroeconomic framework. Foreign financing or drawing down accumulated surpluses can provide additional resources. In Korea, for example, the unemployment insurance fund had sizeable surpluses that facilitated financing the broadening of coverage. The low initial level of public debt in the Asian countries also contributed to their ability to expand social safety nets. Recently, some countries have created fiscal stabilisation funds that can be used during crises.

Recent country experiences support this notion of maintaining or increasing social spending during crises. Spending on social protection programmes in Korea and Thailand rose by 1% of GDP and by almost 4% in Indonesia during 1998-1999, reflecting the relative severity of the social impact and the use of untargeted social safety net instruments in Indonesia in the wake of the financial crisis. The increased spending was achieved by relaxing the initial fiscal targets in response to the assessments of the social impacts of the crisis as well as the increase in financial support made available by international financial institutions. In Thailand for example, the education budget for 1999 was set at the previous year's real expenditure level, and the subsidised student loan fund was doubled to $400 million. The spending increase was instrumental in mitigating the social cost of the crisis and accelerating economic recovery. Foreign involvement has also led to some delays, however. It has taken time to agree with multilateral organisations and donors on a package of measures and programmes. Further lags resulted in Thailand because its budget implementation procedures were substantially different from those required for the disbursement of foreign funds.

Therefore, social safety nets should be in place before a crisis occurs. Permanent, rather than *ad hoc*, social safety nets can more effectively protect the poor from the adverse effects of crises without compromising longer-term goals. During good economic times, social safety net instruments help to alleviate poverty among the chronically poor and those suffering from the effects of non-economic shocks. Recent experience has demonstrated that social effects can become manifest very quickly after the onset of crisis. Within the space of a year after the initial signs of the Asia Crisis became evident, Korea experienced a 4.3% increase in the unemployment rate translating into 1.5 million jobless individuals. The headcount poverty ratio jumped from 3% in the last quarter of 1997 to 7.5% in the third quarter of 1998 among households

headed by workers in urban areas.[9] In Thailand, the headcount index increased by 1.4% to 12.7% of the active labour force between 1996 and 1998, implying that nearly 1 million people had been pushed below the poverty line as a result of the crisis.[10] These experiences suggest that adequate planning is necessary before a crisis hits.

Box 1. Automatic Stabilisers in the Asian Countries

Theory

In addition to their primary role as instruments to assist the poor, social safety net programmes can function as part of the automatic stabilisers to the economy, providing a stimulus through higher spending during bad economic times and contracting during good times. A means-tested cash transfer operates in this way, as a declining economy would result in more people being eligible for the cash transfer and the subsequent cash injection. As the incomes of people improve with the economy, fewer people qualify for the transfer and spending automatically decreases.

Practice

In the Asian crisis countries, however, safety nets in practice behaved pro-cyclically. Except for Korea, none of the crisis countries had unemployment insurance or social safety net programmes that automatically reacted to the changing social needs. The few transfer programmes that did exist, such as the Livelihood Protection Programme in Korea (see Box 4) and the village-wide Inpres Desa Tertinggal (IDT) in Indonesia, were very small. Further, the large dependence of governments for revenue from consumption and trade taxes and excessively narrow tax bases, reflecting the widespread use of tax incentives and exemptions, provided only limited automatic stabilisation.

Consequently, the Asian countries' fiscal response to the crisis was largely improvised and discretionary. As the crisis deepened, countries reduced the budget surplus by increasing spending on social programmes and safety nets. However, it took time to establish largely new social safety nets programmes, many of which were new. A long tradition of tight fiscal management as well as governance concerns further lengthened the delays. The lag in implementation meant that the poor were not served as quickly as possible and the resulting economic stimulus coincided in some countries with an expanding economy, spurring pro-cyclical demand pressures.

Lesson

Properly designed and in place before crisis, social safety nets can be an important automatic fiscal stabiliser. In addition to contributing to macroeconomic stability, such safety net programmes are also less prone to the type of political pressures that make the reversal of temporary tax cuts or increased spending difficult after the crisis.

Pre-Crisis Planning

The availability of timely and reliable information on the poor and vulnerable groups is critical for the design and implementation of social safety nets. The lack of instruments and information on vulnerable population groups may leave governments with few alternatives to protect them (see Box 2). As governments move quickly to implement new programmes or expand existing programmes, they must have the capacity to evaluate the success of their policy actions. On-going collection of disaggregated data on the vulnerable population subgroups is needed to regularly update information and to assess national and local progress in meeting social goals. In addition, information on programme outreach, management costs, and impact should be routinely collected for the use of managers and policymakers.

The study countries exhibited a range of information capacities. Most have data analysis and planning agencies within the government, and periodic national surveys are conducted which assess poverty and socio-economic status. In some countries, available data have been used to target safety net programmes. In Indonesia, for example, the eligibility for several programmes including the OPK rice subsidy was based on the family planning agency's household database. In addition, the government in Indonesia conducts the annual National Socio-economic Survey (SUSENAS). In Mexico, the Centre for Population Studies (CONAPO) constructed an index of marginality based on census data that is instrumental in the implementation and targeting of the PROGRESA programme.

However, it is important to note that these national-level instruments are often insufficient for effective targeting during a crisis. Crises are frequently accompanied by significant income and resource shifts among households (both upward and downward) as different population groups are affected. Relying on static pre-crisis assessments of poverty can fail to capture the dynamics of poverty during the crisis and miss important segments of society in need of assistance, such as the new poor. For example, Indonesian data had to be supplemented with information obtained through rapid appraisal methods conducted by social sector workers at the district and village level in order to develop initial targets for health and nutrition crisis-related programmes. This suggests that a system of ongoing data collection should be in place together with the frequent evaluation of the effectiveness of existing safety nets programmes to monitor and refine targets.

Poverty alleviation programmes should be designed to expand and contract automatically as the need arises. For instance, any programme that requires

qualification will expand or contract as the number of individuals and families that meet the criteria changes. At a minimum, good pre-crisis planning requires:

- Assessment of risks and target populations, together with an analysis of the channels through which the poor may be affected by a crisis. Pre-crisis planning begins with a fundamental assessment of risk and vulnerability to determine which segments of the population would suffer most in the event of an economic crisis. It is impossible to insulate all people from the effects of crisis, and it is preferable to recognise this fact and make the difficult choices beforehand. Equity issues must be highlighted, including explicit consideration of possible gender imbalances. Mexico is developing a comprehensive model of risk assessment and response to different types of crises, including natural disasters.

- **Formulation of a strategy to prevent irreversible losses in human capital.** During economic crises, malnutrition may rise and children may drop out of school, limiting their ability to emerge from poverty in the future. This, in turn, may reduce longer-term economic growth. Programmes that seek to limit irreversible damage to human capital, such as the scholarship programme put in place in Indonesia in the wake of the crisis, are important components of social safety nets.

- **Identification, or if necessary, the design and creation of new instruments and financing.** Pre-crisis planning also involves a determination of the available programme instruments and financing mechanisms for the most effective programmes. Unemployment benefits and food stamp programmes, for example, will automatically expand and cover households adversely affected by economic crises. With other programmes, such as public works, a decision needs to be taken to broaden coverage in response to a crisis. Plans for the adaptation of these latter types of programmes should be developed before a crisis hits. Moreover, financial planning, including identification of potential sources of crisis financing, should also precede the onset of a crisis. In the short run, variations in the financial constraints faced by sub-national governments may be an obstacle for establishing efficient and equitable social safety nets at the sub-national level. But, with adequate planning, design and implementation of social safety nets can be decentralised, enabling differentiation in accordance with local needs. Ongoing

programmes and expenditures should be prioritised to ensure that the most important social safety net activities are protected and enhanced, as necessary. Sources of data and systems for monitoring rapid socio-economic changes in target groups should be established. The planning in this phase may also include determination of a broad set of indicators and levels to trigger discussion of targeted safety net mobilisation.

Box 2. The Evolution of Price Subsidies in Indonesia

When the financial crisis struck Indonesia in 1997, in part due to the lack of immediate alternatives, the system of generalised subsidies was utilised as a safety net. Total subsidies amounted to 3% of GDP in 1997–1998. Petroleum subsidies accounted for half of the total, food subsidies for 40% (primarily rice, soybean, wheat flour, soybean meal, and fishmeal) and subsidies for electricity, medicines and fertilisers made up the balance.

In early 1998, an attempt to limit the fuel subsidy was met with violent protests, forcing the government to partially roll back planned price increases. Largely due to increasing world fuel costs, the system of subsidies ballooned to 4.2% of GDP in 1998–1999. A successful reduction in the fuel subsidy occurred in October 2000, with the poorest consumers compensated through a combination of public works programmes, micro-credit and cash assistance.

By August 1998, the government replaced the generalised rice subsidy with a targeted subsidy on lower quality rice (the OPK programme). On the basis of indicators constructed from a national survey, each village and urban community is assigned an allocation of subsidised rice, which is distributed among households by community councils. As of mid-2000, eligible households receive up to 20 kilograms of rice per month at a cost of Rp 1 000 per kilogram (the market price is around Rp 3 000). The OPK programme currently reaches about 13 million families.

Even with the increased targeting, several issues common to the implementation of general subsidy programmes have arisen in connection with the OPK programme, including:

Distribution. The transport and sale of the subsidised rice are often left to the village-level officials, who often lack the necessary skills and resources, especially in outlying areas. This has led to cost inefficiencies and delays in the distribution of rice.

Leakages. Some communities decide to distribute their allocations of rice to a larger number of households than intended by the programme. As a result, target families often receive significantly less than 20 kilograms of rice per month.

Corruption and governance. Although systems of redress are in place, instances have emerged of officials using their distribution power for political and financial gain. Suspect distribution decisions by community councils have also been reported.

Sources: SMERU (December 1998), Gupta and others, (2000a), APEC questionnaire templates.

– **Determination of an exit strategy.** The last phase in planning is to determine how the safety net programmes will be scaled back once the crisis conditions have abated. In some cases this will be automatic, such as in the case of unemployment benefits and food stamp programmes mentioned above. For programmes designed only to respond to a crisis, however, there is the danger that the

programme can become an entrenched feature of the government bureaucracy, with crisis-level administrative staff and budgets prevailing in normal times. Clear programme reduction rules should be established. In Korea, a gradual phasing out of major public works projects is envisaged between 2000 and 2003 as the unemployment rate stabilises toward a goal of 4%. In both Indonesia and Thailand, the governments are evaluating which safety net programmes to maintain within their regular budgets after the foreign funds for social safety nets come to an end.

Choice of Instruments

A country's ability to mitigate the effects of crises on the vulnerable depends largely on the available financing and the number and type of safety net programmes it has, as well as the appropriateness and adaptability of these programmes for the relevant target populations. This implies that at least some programmes that are part of the social safety net during crisis are a permanent element of social policy. The programmes then must serve multiple functions: social safety net programmes introduced during the pre-crisis period must systematically address the needs of the poor in good economic times and they must be adaptable in terms of benefits and coverage to combat the more pronounced effects of crisis. In this way, social safety net programmes can be viewed in a larger risk management framework. In times of economic crises, the question then becomes which programmes to adapt and how. The choice of instruments should also reflect administrative and financial constraints and the economic costs of such instruments.

The following principles should guide the design and implementation of social safety net instruments:

- **Provide adequate protection to the poor.** Social safety nets need to assist the existing poor whose ability to cope is reduced by crisis and economic adjustment, as well as those households who have become poor as a result of the loss of income earning opportunities due to economic crises. If permanent anti-poverty programmes with adequate coverage exist, these can be used to assist the existing poor. Assistance for the new poor may be delivered through expanded existing programmes. However, if these new poor are substantially different from the existing poor, it may be necessary to establish new programmes. For example, the "new poor" from a crisis may result from lay-offs in the formal

sector, while the chronic poor largely reside in rural areas and work in the informal sector. Different programme instruments may be required for the two groups.

- **Promote efficient targeting.** The coverage of social safety nets should not exclude poor households that are in need of assistance (errors of exclusion), nor include households that are not needy (errors of inclusion) (see Annex I for more details on targeting mechanisms and their efficiency). Both types of errors, if too large, will undermine the ability of the social safety nets to provide adequate protection to the poor. Some leakage of benefits to the non-poor is inevitable, and in general a balance needs to be found between the efficiency of the targeting mechanism and the cost of administering social safety nets. In select cases, non-poor households may receive social safety net benefits in order to increase support of the politically powerful middle class for social safety nets and economic reform measures. In Indonesia, for example, middle class households were a main beneficiary of the generalised subsidies after the outbreak of the financial crisis. But, the decision to cover the non-poor should be approached with great caution because of the fiscal cost of providing income transfers to the non-poor and the risk of eliciting claims from other population groups. Moreover, the elimination of generalised subsidies may prove to be difficult even after the crisis has abated. This can, as with Indonesian fuel subsidies, lead to inefficiencies and pro-cyclical fiscal stimuli.

- **Avoid creating a culture of dependency.** Programmes should be designed with careful attention to the incentives they create among beneficiaries. Safety net programmes with overly generous benefits or insufficient limitations on programme participation can reduce the incentives to participate in the labour force. The temporary nature of benefits for individual recipients should be announced from the start of programmes and participants should be encouraged to remain active in their search for new employment opportunities as is done in the Livelihood Protection Programme in Korea or the job-training programmes in Chile.

- **Encourage consistency with economic incentives and overall targets of fiscal and macroeconomic policy.** Income transfers may provide disincentives to work, and thereby lower the prospects for growth in the medium term. However, the impact of

such disincentives has to be weighed against the cost of loss of human capital from inadequate social safety nets. This trade off is likely to tilt more toward preventing adverse labour market effects in the case of permanent instruments than that of temporary arrangements. The budgetary cost of the social safety net programme should not be so high that it fuels inflation or crowds out spending that is crucial for securing high-quality economic growth, such as expenditure on infrastructure in rural areas, water and sewage, and basic education and primary health care.

With adequate planning, social safety nets consistent with the above principles can be put in place. Selection of instruments should start with consideration of existing programmes, including public pension schemes. Adequate pre-crisis planning will permit identification of the best of these programmes and allow time to develop new programmes as needed.

In principle, a well-targeted cash transfer programme could provide a comprehensive social safety net by itself. It would be a permanent public programme, and would automatically expand during crises and contract during regular times, when it would address chronic poverty and the effects of other risks faced by the vulnerable. Cash transfers have many advantages, including consumer choice and greater transparency of budgetary cost. If accurate information on individual income and assets is available and it permits an accurate assessment of need, a means-tested transfer would also limit errors of inclusion and exclusion.

The main disadvantage of cash transfers is that the benefit may reduce the incentive of recipients to participate in the labour market. Such adverse labour supply effects can be minimised by reducing benefits gradually as family income rises and by limiting the length of eligibility for benefits – although this may reduce the targeting efficiency. In Korea, participants in the means-tested livelihood programme are required to undergo training and job counselling to encourage their re-entry in the labour market. A clustering of incomes around a narrow range, such as in Indonesia, implying a large change in the number of beneficiaries with a small change in the threshold, can add to design and administration problems of means-tested cash transfers.

In addition, under certain circumstances, cash transfers may not be used for poverty-reducing activities or human capital enhancement. Cash transfers, which are often transmitted to household heads, may not be used for health care, children's needs, or other uses for which public funds were intended. Also, it may be physically difficult and costly to deliver cash to the needy, especially in the absence of information on personal identification or a developed banking or

postal infrastructure to facilitate transactions. Finally, cash transfers may not be favoured for political reasons. In many Asian countries, for example, there is strong resistance against providing direct cash benefits in favour of helping the poor to engage in economically useful activities, such as infrastructure development.

In practice, social safety nets will typically comprise a variety of programmes and targeting methods, including cash transfers, public works programmes and human development programmes. A variety of safety net instruments such as in-kind transfers, targeted subsidies and other targeted human development programmes may be preferable to cash transfers alone. Examples of such non-monetary benefits include delivery of subsidised items to targeted households at preferential prices, providing targeted households with coupons that can be used for discounts on purchases, and cards or vouchers that give access to education and health care services at zero or reduced rates, such as the health care card in Thailand. The new Livelihood Protection Programme established under the Minimum Living Standards Security Act in Korea combines means-tested cash transfers and in-kind transfers linked to participation in public works and job training (Box 3).

Safety net instruments must be chosen for the given target population and for the type of risk to be addressed. For example, public works programmes cannot effectively provide support to children and people with certain disabilities. Moreover, some instruments may be preferred for certain subgroups of a specific target population. Targeted human development programmes that link receipt of health care or education to a cash transfer or subsidy can be effective methods of addressing potential losses in human capital resulting from crisis conditions, especially for children.

Together with the choice of programme instruments, the targeting method must be determined. While means testing may be a preferred method, many countries lack the capacity to implement it effectively due to lack of accurate information on individuals and households. As a result, many programmes must rely on indirect targeting mechanisms. A variety of indirect targeting methods exist, including proxy means testing, categorical and geographical targeting, community-based targeting, and self-targeting through public works programmes or subsidisation of items perceived to be of lower quality and consumed disproportionately by the poor (see Annex I).

If adequate pre-crisis planning has not been possible, safety net programmes should concentrate on existing programmes and should employ simple targeting methods that can be adapted quickly to increased utilisation during crises. In this context, without much pre-crisis planning, countries in Asia have mainly

relied on new social safety net programmes to assist their populations in the wake of the financial crises. In Latin America, on the other hand, extensive use has been made of existing antipoverty programmes and, in some cases, social security arrangements, although these programmes were not always easily adaptable to protect target groups during crises. In Indonesia, Korea, and Thailand, public works programmes were set up to provide income for the unemployed. Korea also made use of its existing social security arrangements, in particular by expanding the coverage and duration of the unemployment insurance.

Box 3. Korea's Livelihood Protection

Korea's pre-crisis system of livelihood protection provided income support to 1.2 million people who were unable to work. In 1998, with the rapid increase in the numbers of unemployed, the government developed the Temporary Livelihood Protection Programme, expanding eligibility and coverage to an additional 310 000 people able to work but unable to support themselves or their families. Eligibility is based on a minimum income and assets tests (largely self-reported), and provides four main benefits:

- Up to 79 000 won ($70) per month in direct cash benefits;
- Tuition fee waivers for middle and high school children of the unemployed;
- Lunch subsidies to elementary, middle, and high school students of the unemployed; and
- A 50% reduction of the family medical insurance premium for one year.

The different benefits are administered by various ministries at national and local levels, and co-ordinated at the national level by a multi-sector Unemployment Committee. On average, three-quarters of the benefits are provided by the central government. Local governments provide the remainder.

The Minimum Living Standards Security Act legislated in 2000 replaces the Temporary Livelihood Protection and the income support programmes. Beginning in October 2000, food, clothing, housing, education, and healthcare are subsidised through cash and in-kind transfers for those households who do not meet the minimum (income-based) living standard, with benefits linked to participation in labour programmes such as public works and job training for those able to work.

Source: Korean Ministry of Health and Welfare, Moon, Lee, and Yoo (1999).

Other issues that should be considered in the design of social safety net instruments include:

- **Governments should avoid assigning too many objectives to social safety net programmes.** Multiple objectives have been the source of difficulties in transforming existing social security

programmes, because the goal of rapidly providing benefits to the most vulnerable conflicts with the insurance objectives of these programmes. For example, rules regarding minimum contribution periods resulted in a six month lag in unemployment insurance entitlement among workers in smaller enterprises in Korea, and the benefit amount also depends on the contribution period and recent salary level.[11] In Thailand, public works programmes have been focused more on producing infrastructure or other physical outputs than providing cash benefits to the poor unemployed.

- **A system of social safety nets instruments should be carefully designed so as to minimise distortions in existing social protection and insurance programmes.** Chile found that the number of applications for disability pensions and long-term sick leave under the formal social insurance programme greatly increased during the 1998 economic crisis, ostensibly due to the fact that formal unemployment insurance was not available. In addition, persons under the privatised pension scheme opted for early retirement to smooth income during the crisis, but with a significant reduction in the overall value of early retirees' long-term pensions.

- **For the most vulnerable segments of society, safety net programmes should promote human capital development, employment opportunities and improvements in living conditions in addition to providing short-term assistance**. The Scholarships and Grants Programme in Indonesia is intended to help promote human capital development in the face of the financial crisis. The programme covers school fees and other expenditures of primary and secondary school students from poor economic backgrounds through the scholarship programme and provides direct financial support to the poorest schools through the grant component. Thailand's Social Investment Fund supports demand-driven community projects that create employment or provide social services such as job training, health and education. All of these programmes are geared to the most vulnerable and have objectives beyond immediate cash assistance.

- **Social safety nets should complement family and community based coping mechanisms as well as private sector programmes.** In Thailand, for example, the activities of religious organisations provide a sort of last resort safety net. Government

interventions should avoid crowding out non-government protection mechanisms.

Transparency and Accountability

Transparency and accountability in the design and implementation of programmes and in the use of resources are critical to the effectiveness of social safety net programmes. Government credibility is an important element in overcoming crises. The political and social costs of ineffective, non-transparent or corrupt programmes can be significant, leading to far-reaching popular disaffection with the national or local governments in an already tense setting.

The clear allocation of responsibilities for the design and administration of social safety net programmes among the central government, local governments, and private sector organisations is a necessary condition for programme administration to be effective and accountable. In Asia, the initial reaction to the financial crisis was to implement highly centralised social safety nets. However, it was recognised early – especially in Indonesia and Thailand – that the best information on target groups and how to reach them was available at the local level, and that local governments could be more accountable to the poor. Both countries are decentralising their social safety nets, with Thailand adopting a community orientation toward its social safety nets.

However, lack of administrative capacity and weak governance at the local level may be an obstacle to decentralisation of social safety net programmes. Since adequate capacity at the sub-national level is a prerequisite for decentralisation without jeopardising the protection of vulnerable groups, and building of such capacity takes time, it is important to start the process as quickly as possible and in advance of a crisis. It is not clear whether sufficient attention was paid to local capacity building for the implementation of social safety nets in the seven countries considered here. Without adequate governance, local administrators may not distribute resources either fairly or effectively. Equity in programme delivery has been an issue in the rice-subsidy in Indonesia, for example (see Box 2).

Governments should co-ordinate social safety net programmes across ministries and departments at all levels to minimise inefficient overlap and administrative waste. Social safety nets should avoid having multiple programmes with similar objectives that target the same populations. This multiplication of programmes creates confusion that limits the effectiveness of the government's efforts, wastes resources and dilutes responsibility and accountability. Rationalisation of existing programmes based on risk and vulnerability assessment, availability

of financial resources, incidence of benefits, and assessment of programme quality should be undertaken to lessen potential overlap and identify programme deficiencies.

Programme objectives, eligibility criteria and rules of operation should be made explicit and publicly available. Governments should disseminate programme information through the local media, including newspapers and radio broadcasts, to educate the general public about the programmes available and their qualifying requirements. For example, the social funds operating in Mexico and Peru advertise programme objectives, eligibility criteria, and procedures, and Chile is experimenting with linking beneficiaries of micro-enterprise programmes through the Internet. There are also several examples of the media (national and local newspapers and radio stations) disseminating information on safety net programme availability and budget allocations.

Transparency will be enhanced if governments adopt stringent reporting and budgeting standards. In this respect, countries can adopt the IMF's principles of the Code of Good Practices on Fiscal Transparency. Fiscal transparency can make a major contribution to the cause of good governance. It leads to better-informed public debate about the design and results of fiscal policy, makes governments more accountable for the implementation of fiscal policy, and thereby strengthens credibility and public understanding of macroeconomic policies and choices. The principles that should govern fiscal transparency are: clarity of roles and responsibilities; public availability of information; open budget preparation, execution, and reporting; and independent assurances of integrity.

Strong budget institutions are necessary to ensure that resources assigned to social safety nets ultimately reach the target population groups. The definition of priorities for government spending should take place during budget preparation and approval and not during budget execution. Haphazard or across-the-board budget cuts during the course of the fiscal year mean that resources will not be assigned to their most efficient use. This implies that: i) budget appropriations should reflect government priorities; ii) the budget needs to be consistent with available resources in order to avoid promised funds not reaching priority programmes; iii) budget coverage should be comprehensive, including not only all government agencies, but all funds that use public resources; and iv) budget information needs to be sufficiently detailed, timely, reliable, as well as publicly available to allow accountability.

Periodic evaluation of the effectiveness of social safety net programmes in meeting programme goals should be given high priority. Evaluation results can help to identify where and how social safety net programmes should be

modified. These analyses can also feed into the pre-crisis planning process discussed above. Many APEC countries have carried out some form of programme monitoring and evaluation, but these efforts have not always been timely or sufficiently comprehensive. A good example of useful monitoring are the efforts of Indonesia's Social Monitoring and Early Response Unit (SMERU) which provided capacity for rapid field assessments of poverty, socio-economic status and individual safety net programmes, and in addition helped to channel relevant information to policymakers and civil society during the crisis. The Thai government utilised an independent private evaluator to assess the programmes operated under the Miyazawa Initiative, and the same firm will evaluate the Social Investment Fund. Dissemination of the results of impact evaluations could help raise awareness of the cost-effectiveness of the social safety net and to increase the accountability and political support for successful programmes.

The involvement of NGOs, community groups, and religious organisation can be promoted to enhance efficiency and accountability, provided their capacity to implement social safety nets is adequate. The private sector can play an effective role in the provision and monitoring of safety net programmes. In addition, these groups and organisations may serve to increase the political representation of the poor relative to the rest of the population. Often, the poor have a limited political voice with which to help protect programmes important to them while programmes benefiting middle or upper income groups continue to absorb critical public resources.

The scholarship programmes in Thailand and Indonesia rely on the private sector, NGOs and civil society to implement or monitor programme activities to reinforce timely implementation, transparency and public accountability. Also, in Indonesia and Thailand public works programmes have generally been implemented by private contractors. These funds have allowed governments to execute programmes rapidly and have generally maintained high standards of transparency, as most receive foreign funds. For example, the donors providing crises assistance for the health and education sectors in Indonesia have developed and funded an external monitoring system to ensure resources are provided to the appropriate households. The system is managed and administered by an international and several national NGOs, allowing greater responsibility for targeting beneficiaries at the local level, but with independent national oversight. Care must be taken however, to ensure that all resources of social investment funds are included in the budget and that these funds are not used merely to circumvent otherwise desirable government bidding procedures.

In some cases, lack of capacity and accountability of NGOs have limited their role. Increased co-ordination both among NGOs and between NGOs and the

government (and other civil society groups) will help realise the potential of non-government entities to be effective partners in social safety net provision. NGOs have been given a significant, but not a dominant role in the delivery of publicly funded social safety nets in Indonesia, Korea, and Thailand. In Indonesia, NGOs have multiplied in the wake of the financial crisis. In Asia (especially in Thailand), governments are trying to maintain the traditional strong presence of the private sector in providing social assistance. However, the proliferation of NGOs and lack of co-ordination have created problems in Indonesia. In fact, the Community Recovery Programme, which channels foreign and other funds to NGOs, has delayed the disbursement of a second tranche of resources until the viability and direction of applicants can be more reliably determined. NGOs that have successfully implemented programmes at the local level may face difficulties in replicating these programmes nation-wide. Improved co-ordination, focus, and increased stakeholder involvement can help increase and solidify the role of NGOs in the social safety net.

Conclusions

This Chapter draws lessons from the experiences of seven APEC countries that could help guide policy formulation and implementation of social safety nets more generally. Whereas the countries in Asia often relied on improvised responses and new programmes to assist the population in the wake of the recent financial crisis, many Latin American countries have made use of existing anti-poverty programmes. From these varied experiences, the following major lessons emerge:

- The availability of timely and reliable information on poor and vulnerable groups is critical for the design and implementation of social safety net programmes;

- Pre-crisis planning can contribute to the design of effective safety nets. Planning will include an assessment of risks and target populations together with identification of programme instruments, financing and a strategy for reducing or phasing out programmes after the crisis;

- Ideally, safety net instruments should be in place before a crisis occurs. It is essential that the programmes are targeted; provide adequate protection to the poor; avoid creating a culture of dependency among beneficiaries; and are consistent with economic incentives and overall targets of macroeconomic and fiscal policy;

- Social safety nets should build on existing public programmes and mechanisms for targeting and delivery. In practice, safety nets will typically comprise a variety of programmes and targeting methods. Major social safety net programmes include: cash or in-kind transfers, price subsidies, public works, fee waivers for social services, supplemental feeding and nutrition programmes, targeted human development programmes and micro-finance programmes, as well as social insurance programmes that can reach the poor;

- If adequate pre-crisis planning has not been possible, social safety nets should concentrate on existing programmes employing simple targeting methods that can be adapted quickly to increased utilisation during crisis;

- Transparency and accountability in the design and implementation of programmes and in the use of resources are critical to the effectiveness of social safety net programmes. Public information on the different programmes and the eligibility criteria should be made available as well as periodic and independent programme evaluations;

- Social safety net programmes should be co-ordinated across implementing ministries and departments as well as different government levels to avoid inefficient overlap and administrative waste;

- The building of adequate administrative capacity at the local level should precede decentralisation;

- During crises, proportional cuts in social spending in general and safety nets in particular should be avoided. If possible, spending should be maintained or increased and key programmes should be protected; and

- The involvement of NGOs, community groups and religious organisations can be promoted to enhance efficiency and accountability, provided their capacity to implement social safety nets is adequate.

ANNEX 1: TARGETING OF SOCIAL SAFETY NETS

The design of targeting mechanisms should be guided by three objectives. First, targeting should limit the leakage of benefits to the non-poor (minimise errors of inclusion) while ensuring that the poor actually benefit (minimise errors of exclusion). Second, targeting should take account of economic incentives and be consistent with overall fiscal objectives. Third, when possible, the choice of targeting mechanism should foster political acceptance of the broader economic reform agenda. Tradeoffs are involved with all of the objectives and a perfect mechanism that achieves all of them under all circumstances does not exist. Several different mechanisms are commonly used.

- **Means-tested targeting.** Means testing provides benefits to households or individuals with incomes below a threshold. It requires collection and verification of household income information, which can be costly. Also, households tend to underestimate income, especially from self-employment or the informal sector. When establishing individual specific and observable income criteria is not possible, the poor have to be targeted indirectly.

- **Categorical and geographic targeting.** Benefits are directed to population groups that are likely to be poor on the basis of readily observable socio-economic and demographic characteristics that are correlated with poverty (*e.g.*, age, number of children, unemployed status, and geographic location). Categorical and geographic targeting are associated with relatively low administrative and economic costs, but tend to include the non-poor. Efficiency increases with the proportion of poor members in the category or geographic region, and may be further increased in combination with community-based targeting.

- **Community-based targeting.** Benefits are allocated by a local authority or committee that is empowered to make decisions about who should receive programme benefits. Often an existing decision-making structure is used, for example the village heads in

Thailand; in other cases new structures are formed, such as joint committees of parents and officials in Indonesia to decide which children should receive school scholarships. There is little evidence on how well community-based targeting works. There are hypotheses that local structures are likely to lead to more accurate and flexible targeting, but such community involvement may overburden the capacity of those charged with the new task, generate conflict over control of resources, or result in resource capture by local elites.

- **Proxy means testing targeting.** Benefits are provided to households based on multiple indicators at the household level that correlate with welfare and can serve as a proxy for income. These indicators are used to construct a score that determines whether a household should receive support. The method can be less expensive than means testing and less subject to underreporting, but the effectiveness of the overall mechanism depends on a strong correlation between easily observed household and individual characteristics with income.

- **Self-targeting.** Self-targeted benefits are available to all but are used disproportionately by the poor. Examples of self-targeted programmes include public works programmes that pay less than minimum wage and price subsidies for basic staple items that are consumed more by the poor (*e.g.*, coarser varieties of rice or wheat). Self-targeting obviously requires less information than other targeting mechanisms, and programme and administrative costs can be low. However, substantial leakage of benefits to the non-poor can occur depending on, for example, the perceived quality of the subsidised commodity by the general population.

Annex Table 2. **Social Safety Net Interventions in Response to Crisis**

Intervention Type (Typical Programmes)	Beneficiaries	Common Targeting Methods	Advantages	Disadvantages
Cash Transfers (family allowance, poor unemployed and elderly assistance, disability assistance)	– Poor families, women and children – Working poor including informal sector – Disabled – Poor elderly – Other vulnerable groups	– Means and proxy means and/or – Categorical	– Do not distort prices – Transfers are fungible, can directly meet critical household needs	– Can distort incentives to labour market participation – Transfers are fungible, subject to unintended household uses – Implementation is information intensive
Public Works (labour-intensive, usually infrastructure development projects)	– Poor unemployed and under-employed including informal sector – Poor agricultural workers during off season	– Self selection (by setting programme remuneration below the minimum wage) and – Geographic	– Can be implemented or adapted quickly after crisis onset provided capacity exists – Programme size can be easily reduced once the crisis is over – Needed infrastructure is created or maintained	– Can distort incentives to labour market participation – Substantial leakage to non-poor depending on programme design and targeting methods – Difficult to administer, trade-off between infrastructure development and poverty alleviation objectives
Unemployment Assistance (unemployment benefits, severance payments)	– - Formal sector unemployed	– Coverage determined by eligibility and employer/employee contributions	– Provides immediate assistance to eligible beneficiaries in the event of a crisis – Has automatic counter-cyclical financing characteristics	– Can distort incentives to labour market participation – Difficult to adapt quickly due to qualification and contribution requirements – Biased to urban formal sector
Wage Subsidies	– - Formal sector unemployed, working age youth, usually poor	– Targeting by firm type, industrial category, firm size, and/or age of the worker	– Can be implemented quickly after crisis onset – Can reach individuals with variety of skills and experience	– Substantial negative incentive effects for employers – Biased to urban formal sector

Annex Table 2. **Social Safety Net Interventions in Response to Crisis** *(cont.)*

Intervention Type (Typical Programmes)	Beneficiaries	Common Targeting Methods	Advantages	Disadvantages
Commodity Price Subsidies (food, energy, housing)	– Poor and extreme poor families, especially the urban working poor	– Self-selection (by subsidising only basic staples)	– Potentially low administrative costs, depending on delivery mechanism – Can be implemented or expanded quickly after crisis onset	– Distorts commodity prices and use – Substantial leakage to non – poor depending on commodity consumption patterns – Often biased to urban populations – Difficult to remove once established due to interest group pressure
Targeted Human Development (conditional transfers such as school attendance or preventative health care receipt linked to cash transfers)	– Poor students – Poor families with access to health services	– Geographic and/or – Categorical and/or – Means or proxy means and/or – Community (together with one of above)	– Can improve school attendance and/or health care use – Supports income of the poor – May promote human capital development	– Effectiveness influenced by existing education/health infrastructure – Extensive monitoring and compliance costs
Service Fee Waivers (school fees, scholarships, health care)	– Poor students – Poor families with access to health services	– Geographic and/or – Categorical and/or – Means or proxy means and/or – Community (together with one of above)	– May promote human capital development	– Effectiveness influenced by existing education/health infrastructure – Limited evidence of long-term impact on school attendance or health
Food and Nutrition (school feeding, supplemental feeding and nutrition for young children and women)	– Small children, pregnant and lactating mothers – Children attending schools in poor communities	– Geographic – Means or proxy means – Self-targeting	– Can be effective in alleviating hunger, increasing school attendance for poor children – May promote human capital development	– Limited beneficiary group – Resource intensive – Substantial benefit leakages depending on targeting method – Often biased to urban populations
Microfinance (micro-enterprise credit, seasonal rural, and emergency credit for the poor)	– Poor micro-entrepreneurs – Poor women	– Means and proxy means and/or – Geographic and/or – Individual project quality	– Promotes physical capital accumulation in poor communities – May increase household income – Benefits of public resources may be enhanced by multiplier investment effect	– Limited beneficiary group – Administratively costly – Biased to rural populations – Limited application to economy-wide crises because of pro-cyclical demand for microcredit
Social Funds (small scale infrastructure development, micro-enterprise support, community-based social services)	– Poor families, women and children – Poor unemployed and under-employed	– Geographic	– May promote human and physical capital accumulation in poor communities – High degree of community involvement in project selection and implementation	– Difficult to implement or adapt quickly after crisis onset – Often biased to rural populations

ANNEX 3: POLICY RESPONSE OF STUDY COUNTRIES TO RECENT CRISES

Table 1. **Social Safety Net Characteristics of Case Study Countries**

		Indonesia	Korea	Thailand	Chile	Mexico	Peru
GNP per capita[1]		$580	$8 940	$1 960	$4 740	$4 400	$2 390
Poverty[2]		18	19	13	23	30	37
Social spending[3] (percent of GDP)	Social security and welfare spending	0.9	1.9	0.8	7.3	2.9	6.8
Social assistance programmes	Cash transfers	✔	✔	✔	✔	✔	
	Public works	✔	✔	✔	✔	✔	✔
	In-kind transfers	✔		✔		✔	✔
	Unemployment assistance		✔	✔	✔	✔	
	Wage subsidies		✔		✔	✔	
	Food subsidies	✔				✔	✔
	Energy subsidies	✔				✔	✔
	Housing subsidies		✔	✔	✔	✔	
	Conditional transfers					✔	
	Fee waivers	✔	✔	✔		✔	
	Food and nutrition	✔	✔	✔	✔	✔	✔
	Microfinance	✔		✔	✔	✔	✔
Social Insurance	Retirement pension	✔	✔	✔	✔	✔	✔
	Unemployment insurance		✔		✔[4]	✔	
	Health insurance	✔	✔			✔	✔
	Disability insurance/benefits	✔	✔	✔	✔	✔	
Largest budget category		Fuel subsidies	Public works	Public works	Pension	Conditional transfers	Public works

Sources: APEC questionnaire templates, World Development Indicators 2000, UNDP Poverty Report 2000, K. Subbarao (1997).

1/ World Development Indicators 2000, for the year 1999. 2/ Percent of population below national poverty line, most recent year 1997–1999. (UNDP Poverty Report 2000). 3/ Public expenditure on social security and welfare includes compensation for loss of income to the sick and temporarily disabled, payments to the elderly, the permanently disabled, and the unemployed; family, maternity, and child allowances; and the cost of welfare services, such as care of the aged, the disabled, and children. It excludes expenditures on important safety net categories, including subsidies and public work programme costs. Shown for most recent year, 1997–1998. (World Development Indicators 2000). 4/ Unemployment insurance legislation is pending.

Indonesia

Context

Traditionally, there has been a limited system of social protection in Indonesia. As in Thailand and other Asian economies, there was a belief that poverty alleviation would automatically follow with economic growth, and that the need for formal safety nets was minimal. Thus, many protection policies are aimed at increasing economic participation through work programmes and micro-credit schemes. The crisis has led to a radical expansion of some existing programmes and a new emphasis on strengthening social safety nets.

Indonesia has no unemployment insurance system *per se*. The provident fund serves as a sort of unemployment insurance programme in that workers can withdraw their accumulated savings if they are unemployed for six months. There is also a limited severance pay scheme financed by employers.

The system of social assistance is limited mainly to those incapable of work. There are four main areas of assistance: i) subsidies; ii) public works programmes; iii) micro-credit programmes; and iv) supplementary health and education programmes.

Response to the crisis

The government has responded quickly to address the deteriorating social conditions resulting from the crisis. It has redirected the available budget toward critical programmes and, with the help of donor funding, created new initiatives. The government is focusing on three objectives in the near term: i) maintaining food security; ii) expanding employment and income generation opportunities; and iii) preserving access to critical social services.

Maintaining food security

Table 2 shows selected planned expenditures on social protection during fiscal 1998-1999. Overall, 7.4% of GDP was to be allocated to major social protection programmes. The majority of these funds were allocated to subsidy programmes such as the OPK (rice subsidy) programme. In fact, over Rp 5 trillion is dedicated to rice subsidies alone, highlighting the priority placed on food security. To ameliorate the effects of the drought and price increases, the government imported over 5 million tons of rice prior to the end of April 1999,

and sold the imported rice to the poor at a subsidised price. The largest single category of subsidies is fuel, on which nearly 3% of GDP was to be spent by the government.

Income and employment generation

The second panel of Table 2 indicates that over Rp 9.6 trillion was to be spent on employment generation activities. The largest component was the local government-initiated INPRES programmes. The government has expanded labour-intensive public works by reallocating budget funds for the next two years. In the first quarter of 1998, a programme of

Table 2. **Indonesia: Selected Planned Government Expenditures on Social Protection, 1998-1999**

	In Billions of Rp	Percent of GDP
Subsidies	58 810	6.18
Food	13 840	1.45
Rice	5 140	0.54
Wheat flour	3 450	0.36
Other food	5 250	0.55
Fuel	27 530	2.89
Electricity	8 470	0.89
Medicine subsidies	880	0.09
Other subsidies	8 080	0.85
Employment generation	9 680	1.02
Local government (INPRES)	4 260	0.45
Ministry of manpower	2 000	0.21
Ministry of public works	1 000	0.11
Other	2 430	0.26
Supplementary block grants	230	0.02
Primary	170	0.02
Junior secondary	60	0.01
Junior secondary scholarships	470	0.05
Supplementary lunch programme	260	0.03
Transfers to village health centres	1 000	0.11
All programmes	70 462	7.40

Source: BAPPENAS, World Bank.

Rp 33 billion was initiated for urban and semi-urban areas, intended to create about 4 million workdays of employment equivalent to 80 days of employment for 54 000 people. For 1998-1999, the Government allocated Rp 600 billion for

labour-intensive infrastructure in rural and urban areas, and another Rp 500 billion for labour-intensive forestry.

In addition to these measures, a new programme was created, known as the Pemberdayaan Daerah dalam Mengatasi Dampak Krisis Ekonomi (PDM-DKE, "Empowering Regions to Overcome the Impact of the Economic Crisis"), which is a combination job creation and micro-credit initiative. This programme is designed to provide grant and revolving credit funds to poor and unemployed groups to improve infrastructure while generating employment. The programme was budgeted to spend Rp 1.7 trillion (USD 850 million) in 1998-1999, covering all areas of Indonesia. Implementation will proceed in co-operation with NGOs and CBOs, and will be partly financed by the World Bank, the ADB and bilateral agencies. Project selection at the village level is undertaken by Village Activity Implementation Teams (TPKd/k), as is determination of loan terms for micro-credit activities.

Other donor-financed projects will be an important addition to the government's employment programmes. The Urban Poverty Project was developed by World Bank and the government to provide employment and income opportunities in the poorest urban communities in Java. The Kecamatan Development Project (KDP), funded by the World Bank, helps communities to select and support their own infrastructure investment priorities. Funds are targeted to the poorest sub-districts in the country. It is estimated that the KDP will benefit 7–10 million rural Indonesians.

Maintaining access to critical services

Spending on supplementary block grants to schools, scholarships, and the supplementary lunch programme make up another Rp 960 billion in 1998-1999, as shown in Table 2. These funds include a "stay in school" campaign launched by the government through mass media advertisements and a programme to generate community support for local initiatives to maintain school enrolment. Block grants will be given to the poorest 40% of primary and junior secondary schools to compensate for cost increases. Finally, a national scholarship programme will target children at risk of dropping out of junior secondary school. Transfers to village health centres for critical health services and nutritional support for mothers and infants rounds out the selected expenditures, totalling Rp 1 trillion.

NGO involvement

Non-governmental organisations (NGOs) are involved in administering many of Indonesia's social assistance programmes in a variety of sectors such as micro credit, community health, child and family welfare, and adult literacy. For example, a group of five NGOs is helping to facilitate the Padat Karya Desa programme and NGOs are integrally involved in the new Community Recovery Programme (CRP). The latter programme is composed of national NGOs, forums, networks and associations from throughout Indonesia and is intended to establish an effective non-government mechanism that can respond to needs identified by poor communities most affected by the crisis. It is funded by various multilateral and bilateral donor agencies as well as the government. It supports NGOs and community groups who are implementing social safety net programmes. A National Council manages the CRP and local community groups submit project proposals for CRP consideration. The CRP gives priority to activities connected with guaranteeing food supply, providing basic social services, creating employment opportunities, and increasing income.

Republic of Korea

Context

Korea has one of the most developed social safety net systems in Asia, a part of which was developed in response to the recent financial crisis. Most of Korea's programmes have been instituted over the past 15 years. The system of safety nets consists of three main components: i) social insurance programmes including unemployment insurance, pension schemes, and medical insurance, some with special provision for the poor; ii) public assistance programmes focusing exclusively on the poor and vulnerable; and iii) social services programmes such as supplemental feeding programmes and occupational training for those with disabilities.

Response to crisis

The crisis led the government to adopt a series of rapid measures to mitigate adverse impacts. The negative effects on jobs and income were perceived to be much more severe than the consequences for education and health care, resulting in a focused effort to address unemployment. Social protection expenditures were increased threefold, from 0.6% of GDP in 1997 to nearly 2% of GDP in 1999. The government responded through three safety nets

instruments designed to help the unemployed, the indigent, and the elderly, including an expansion of unemployment insurance coverage, large increases in public works programmes, and further development of social assistance for the poorest.

Unemployment insurance

Korea, the only East Asian crisis country with formal unemployment insurance, expanded its nascent unemployment insurance programmes from firms with more than 30 employees to all firms. It also included temporary and daily workers, shortened the required contribution period before eligibility, and extended the duration of unemployment benefits. This expanded the eligible workforce from 5.7 million workers at the beginning of 1998 to 8.7 million at the end of the year. Beneficiaries increased tenfold, from around 18 000 in January 1998 to 174 000 in March 1999, still only 10% of the unemployed workforce in March 1999. In addition, the government established the Wage Claim Guarantee Fund to help ensure that workers would receive wages and retirement allowances in the event of firm bankruptcy.

Public works

Since most of Korea's jobless did not benefit from the 1998 accelerated expansion of unemployment insurance, the government introduced a temporary public works programme in May 1998, enrolling 76 000 workers. By January 1999 the programme was providing 437 000 temporary jobs, though the number of applicants was still higher at 650 000. By the first quarter of 1999, around 2.5 times more people benefited from the public works programme than from unemployment insurance.

Table 3. **Korea: Selected Government Expenditures on Safety Nets, 1999**

	In Billions of Won	Percent of GDP
Public works projects	2 100.0	0.48
Livelihood protection	1 438.7	0.33
Training and support for the unemployed	373.6	0.08
Temporary livelihood protection	489.5	0.11
Living costs for poor	368.2	0.08
Reserve fund	100.0	0.02
All programmes	4 870.0	1.11

Source: APEC questionnaire, Moon and others.

Table 3 shows selected expenditures on safety nets programmes. The largest single expenditure item in 1999 was for public works projects, totalling some 2 100 billion Won. While Korea has adopted public works as a cornerstone of short-term relief efforts from the crisis, there is ongoing debate as to the general effectiveness of public works in helping the broad range of the unemployed, such as white-collar workers. In addition, in order to reach the unemployed as quickly as possible during the crisis, projects were implemented at times in an *ad hoc* manner without adequate planning, often requiring adjustments in programme rules. For example, wages offered to public works participants have been reduced several times since the introduction of the programme in 1998 because some workers were leaving their jobs to receive the higher wages available through the programme.

Livelihood maintenance

In May 1998 the government introduced a temporary livelihood protection programme with enough funding to cover an additional 750 000 beneficiaries who were not eligible for assistance under the main livelihood protection programme. The budget for both the Livelihood Protection programme and the temporary programme was over 1 928 billion Won in 1999, amounting to 0.44% of GDP as shown Table 3. The government also introduced a means-tested non-contributory social pension for 600 000 elderly people.

Although the government's crisis response was notable, public spending on health care and education was not increased in line with the overall budget, and real spending either fell or remained constant. But within the smaller envelope for health care, spending on primary care was protected.

The government's efforts are now focusing on consolidating social safety nets, reducing income disparities, and creating the basis for a competitive and knowledge-based economy in the future. Policies to achieve these objectives include a law guaranteeing a minimum standard of living to take effect in October 2000. Under it, all Koreans living under the poverty line will be entitled to receive income support from the government for living, education, and housing. Nearly 2 million poor people are expected to benefit, four times the current number.

Thailand

Context

Thailand has had a wide range of social assistance programmes in place to transfer income to the poor or help them generate income (see Table 4 for selected social safety net spending). The major antipoverty programmes fall into three main categories: i) cash transfers, including a family allowance and a social pension allowance to supplement the pensions of the elderly poor; ii) in-kind transfers, including subsidised medical services, housing programmes, and a school lunch programme; and iii) income generation programmes.

Responding to the crisis

On the eve of the crisis, the social protection system lacked several components common to developed countries, including unemployment insurance, a pension scheme for the private sector, and large-scale transfer programmes for the poor. To alleviate the negative impact of the crisis, including unemployment, the government allocated additional funds for strengthening the country's social safety nets during 1998. In addition, the government undertook several reforms in official safety net programmes while attempting to maintain the informal safety net emphasising self-reliance and self-help. The reforms occurred in four key areas:

Employment and income maintenance programmes

The Ministry of Labour and Social Welfare, in co-operation with other agencies, formulated an Action Plan for the Alleviation of Unemployment Problems, outlining several measures, including employment generation in rural areas, training for the unemployed, and encouragement of Thai workers abroad. Many of these measures are being implemented.

The main employment generation programme is the Tambon Development Programme. Administered by the Office of the Prime Minister, this programme includes two main components: a public works component intended to provide rural infrastructure and generate employment, and a land reform programme. The Tambon Development Programme is not targeted specifically to the poor. However a second intervention, the Poverty Alleviation Programme (PAP), is intended specifically for the needy. The PAP is a micro-credit programme, providing interest-free loans to poor households for income-generating

activities. Households with incomes less than 5 000 baht per person per year can borrow funds without interest. Even before the crisis, PAP was quite active. By 1995, a total of nearly 2.8 billion baht had been advanced to support income-generating activities in over 10 000 villages.

Table 4. **Thailand: Selected Government Expenditures on Safety Net Programmes, 1999–2000**
(millions of baht)

	1999-2000	2000-2001
Income generation	20 587.2	11 771.7
In-kind transfers	12 538.1	14 942.6
Low income health card	9 820.8	11 246.2
School lunch programmes	2 364.6	2 546.4
Housing	352.7	1 150.0
Cash transfers	1 687.7	2 338.7
Total	34 813.0	29 053.0
Percent of GDP	0.74	0.62

Source: Bureau of the Budget, Thailand.

Loans from international donors set up and expanded job creation mechanisms targeted to the poor. A USD 500 million Asian Development Bank Social Sector Programme Loan provided budgetary support for key social programmes and policies in order to mitigate the immediate social impacts of the crisis. The USD 426 million Social Investment Project (SIP), co-financed by the World Bank, OECF-Japan, AusAID and UNDP, supported programmes to create jobs and provide services to the poor and unemployed. In addition to expanding selected government job creation programmes already in existence, the project sets up two funds: i) the Social Investment Fund that supports community capacity-building and micro-credit projects; and ii) the Regional Urban Development Fund that provides small infrastructure loans to municipalities. After initial delays, disbursements have increased significantly. As of end-July 1999, USD 56 million had been disbursed primarily for the implementation of small-scale civil works. More than 53 000 people have attended training courses developed by the Ministry of Labour and Social Welfare.

In April 1999, the government launched a fiscal stimulus package worth about 1% of GDP financed by the World Bank, JEXIM, and the OECF (the Miyazawa package). Half of this package is aimed at generating employment and broadening the social safety net. Through end-July 1999, 35% of the funds had been disbursed, generating temporary employment for more than 1.5 million people.

Protection and targeting of public expenditures

The main in-kind transfer programme targeted to the poor is the Low Income Health Card programme. The programme offers health cards at a modest charge, entitling families to receive a package of health services at public facilities. The means tests for the cards are done by village headmen once every three years. About 20% of the population were covered by Health Cards in 1998.

Although overall budget appropriations for social services declined beginning in 1997 and this trend continues through 2000, allocations for key programmes for the most vulnerable were maintained or increased. Expenditures for the Health Card programme, maternal and child health, school lunch programme and teacher training and materials were protected. The budgetary emphasis on job training and labour-intensive projects that characterised safety nets expenditures in 1998 and 1999 will be reduced in 2000, with a slight increase over previous years for in-kind and cash transfers (see Table 4).

Income security schemes

The Labour Protection Act increased the minimum severance pay for long-serving workers who are laid-off and a public compensation fund is being established to ensure severance support in cases of employer bankruptcy. In addition, medical, maternity, invalidity and funeral benefits were extended to workers in firms with at least 10 employees. Social security benefits were extended to the unemployed from 6 to 12 months, and then to 18 months and the tripartite contribution rate was reduced by one-third. And in late 1998, an old-age pension system and a publicly-funded child allowance scheme were established for the private sector.

Community capacity building

The government will increasingly support decentralisation and community development as articulated in the 8th National Economic and Social Development Plan. The government and donors have increased allocations to civil organisations to implement a variety of social programmes, including HIV/AIDS prevention, care of the elderly, small and medium enterprise development, and environmental protection. An example is the creation of the Pattana Thai Foundation to channel over 40 million baht in government funds to: i) conduct pilot projects to support communities in establishing civic forums; ii) set up community learning centres for social service development; and iii) planning monitoring, and evaluation.

Notes

1. The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They do not necessarily represent the views of the institutions with which the authors are associated, nor the views of the countries mentioned in the paper.

2. The discussion of safety nets here is in connection to the response to economic crises. Safety nets may also be used to protect specific population groups from other covariate shocks, such as natural disasters or conflicts, or idiosyncratic shocks such as illness, disability, unemployment or the death of family income earners, as well as to assist those who are chronically poor for reasons unrelated to shocks.

3. Missions comprising World Bank, IMF, ADB and IDB staff visited Indonesia, Korea, Thailand, Chile, Mexico and Peru.

4. In addition, countries consistently adopting sound macroeconomic policies enjoy lower debt burdens, better market access and credibility and, in some cases, may have access to liquid assets saved prior to the crisis.

5. Not all poor households lose from economic reforms. For example, households involved in the production for export may gain from a devaluation of the exchange rate. Similarly, net producers of food (*i.e.*, households producing more than they consume) may benefit from the liberalisation of food prices.

6. Effective budget management is required for protecting these programs, as funds may be redirected to other uses depending upon the discretion of government agencies to modify allocations between programs.

7. Poverty is a multi-dimensional problem that often involves much more than a lack of income. Dimensions of poverty 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. Social safety nets should typically target the poor and the various dimensions of poverty, but the definition of poverty is necessarily country-specific.

8. It should be noted that some policymakers and analysts consider social insurance programs as distinct from safety nets, the latter also interpreted as social assistance. In this document social insurance and assistance programs are considered together, with particular attention to their adaptability to support the poor during economic crises.

9. Moon, Lee, and Yoo (1999).

10. World Bank (January 1999).

11. Later, the minimum contribution period was shortened to three months.

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THE ROLE OF MULTILATERAL INSTITUTIONS

COMMENTS ON PAPERS BY:

Isabel Ortiz and John Blomquist et al.

Mukul Asher

The representatives of the Asian Development Bank (ADB), and the World Bank (WB) must be congratulated for taking a comprehensive view of social protection issues and strategies, covering not just the financial and fiscal issues, but also a variety of programmes for coping with short-term as well as long-term risks. The inclusion of disaster relief issues which affect populations in its member countries rather frequently and often with great severity in the paper by Ortiz is particularly welcome. I hope the ADB will assist its member countries in setting up national disaster management relief organisations and in capacity building in this area.

There is much in the two papers that is unexceptional. As the framework and strategies suggested in the two papers are to be applied to a heterogeneous set of countries, prioritisation has not been indicated. My comments therefore are in the spirit of constructive suggestions to further refine what the two presenters themselves regard as "work in progress".

It is essential that the thinking on the research and policy side, which they represent, will be not just communicated but also reflected in the operational and programme side. In particular, their emphasis that there is no ready-made strategy of social protection applicable to every situation or every country will be reflected in the operational practices and policy advice of these institutions.

While the ADB paper prefers the term "social protection", the WB paper prefers the term "social safety nets". It would be useful if the two institutions

standardised their use of the term. My personal preference is to use the ADB's term social protection because it is more neutral and broader.

It would be useful if in both the papers, the short-term and long-term arrangements are explicitly recognised. Thus, disaster-relief, or temporary employment provision during a crisis, financed from the budgetary resources or borrowing are of short-term nature. The provident and pension funds, with or without social insurance features, on the other hand imply a financial contract lasting 75 years or more, and therefore require different governance and institutional structures. The short-term nature however need not imply that there is no continuous need. Thus, as disasters strike frequently but in different areas and in different forms, there is however a continuing need for national level disaster management organisation.

The ADB paper needs to explicitly recognise mandatory savings, particularly exemplified by the provident funds, existing in its member countries. These cannot be regarded as social insurance as there is no risk pooling involved. What mandatory savings in the provident funds do is to permit income-consumption smoothing over a lifetime, and not risk pooling.

It is also essential to not over-emphasise the nominal nature of a particular formal arrangement, but to examine its real economic impact. Thus, a national provident fund that invests all of its funds in government bonds and the interest on which is not market-determined is more similar in its impact to a notional defined-benefit, pay-as-you-go system of some welfare states such as Sweden, than it is to a fully funded defined-contribution system implied by the label. In retirement programmes, the devil is indeed in the design details and in the implementation

Both the papers may consider incorporating design and financing issues relating to co-ordination between the federal, provincial (or state), and local levels of government. If, for example, the financial burden is at one level, but the programme design and regulations with implications for overall financial costs are the responsibility of another level of government, potential adverse incentives and moral hazard problems may arise.

Both the papers are quite comprehensive as it is, so I hesitate to suggest another aspect for inclusion. But it seems that there is increasingly close connection between health care financing and social protection. This applies to both public health, and private preventive and curative health care. The livelihood of those in the informal sector is particularly adversely affected by the recurrence of ill

health. The issue of long-term care for the old-old also needs to be explicitly recognised.

The ADB paper uses demographic data till the year 2015. I would strongly urge that this analysis be not limited to such a short period for institutional reasons (the ADB, in line with the other multilateral institutions, has adopted a goal of reducing poverty by half by 2015); and that absolute numbers of the elderly be considered as well. Thus, both individual and population ageing will be rapid after 2015; and by 2030, about 250 million in China, and around 180 million in India will be above 60 years of age. These are staggeringly large numbers, which should not be ignored. The rapid pace of ageing will mean that many Asian countries will have a demographic profile of high-income countries at a much lower level of per capita income than the current high-income countries. Thus, Asian countries will have less time and fewer resources to adjust to the challenges of the ageing population.

If a significant proportion of the work force in the low and lower-middle income countries continue to be employed in agriculture, then it is essential that efforts to change the production function in agriculture through rural innovations be supported. The private sector funding arms of the ADB and WB may consider setting up a separate fund for this as a part of their social protection strategies.

The World Bank paper emphasises the need for macroeconomic stability. This is unexceptional, but the difficult issues revolve around the nature and quality of adjustment, the time period over which it is to occur, the ownership of the programme, and burden sharing. During the 1997 East Asian economic crisis, all of the above issues were significant, and they underline the need for flexibility on the part of the international financial institutions, and for social cohesion enhancing growth strategies.

Finally, while the social protection issues in each region are indeed different due to different starting points, levels of development, and philosophy and cultural traditions, this does not imply that dialogue with other regions, such as Latin America, which have undertaken social protection reforms, should not be encouraged. The longer the East Asia thinks that its Confucian character (even though such characterisation of the whole region, let alone for all of Asia, is rather simplistic and inaccurate and therefore counterproductive) makes it immune from explicitly developing appropriate social protection strategies in general, and social security institutions in particular, the more difficult the ageing issue will become. Globalisation has made social protection strategies more, not less, essential.

In conclusion, both the papers are quite comprehensive and they recognise the complexities and the need for trade-offs in formulating and implementing social protection policies. It is to be hoped that they can persuade their operational and programme departments to take into account the complexities when they advise the borrowing countries, and that policymakers and others in the developing member countries will give social protection issues the priority they deserve.

MANAGING ACROSS LEVELS OF GOVERNMENT – WITH PARTICULAR REFERENCE TO THE CASES OF PR CHINA, THAILAND AND LAO PDR [1]

Ian Chambers and Anne Drouin

Introduction

When referring to social protection, the definition of the term must be carefully addressed. The meaning can be very broad indeed, bearing in mind that benefits can be provided in many different ways and through different channels. According to the ILO World Labour Report 2000,[2] social protection is defined to include not only public social security programmes but also private or non-statutory schemes with a similar objective to social security schemes including publicly-financed social assistance programmes.[3] Social security is in turn defined as the protection which society provides for its members through a series of public measures. These may include:

- programmes intended to offset the absence of substantial reduction of income from work resulting from various contingencies (notably those accounted for in the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102);
- wide-scope subsidised healthcare programmes; and
- measures aimed at providing benefits for families with children or dependants.

The financing of social protection is normally provided through the allocation of public taxation revenues, earmarked social security contributions, revenues from the investment of social security funds and sometimes through external funds donated by third parties, such as international financial institutions. Public social protection expenditures are normally disbursed through various channels

of administration ranging from the central to the village level institutions or their representatives.

In Asia, there is a vast diversity in the types of systems providing social security benefits, in the contingencies covered and also in the coverage of the populations. A few countries in the region have national provident funds. The main contingencies covered are employment injury, old age, invalidity and survivors' pensions. Few countries in the region have unemployment benefit programmes (other than severance pay legislation) but some form of short-term sickness and maternity benefit provisions exist in the majority of cases. In countries where new social security schemes are developing, such as in Thailand, Lao PDR and Vietnam, the intentions of the law are oriented towards the eventual universal coverage of the population allowing alternative mechanisms of social insurance to be put in place. The objective in these countries is to provide a basis for improving the well-being of workers and their families by initially prioritising provisions aimed at wage employees in the formal economy. It is felt that such a gradual approach should ensure a sound basis to develop national capacities to meet the needs for social protection of the population.

This paper focuses on the considerations surrounding the public financing of social protection in Asia with particular reference to three typical countries where ongoing developments are taking place. The countries covered include the PR of China as a transition economy, the Kingdom of Thailand as a middle-income economy and the Lao P.D.R. as a least developed country. The paper argues that the amount of public resources allocated to social protection is too limited in the region in general. It posits that there are likely preconditions to be met so as to achieve an efficient allocation of resources for social protection. These are closely linked to the development of existing capacities of institutions and human resources in charge of administering social protection programmes. The role of local administrations must be strengthened to enforce the mandatory registration of workers under social security schemes – thus raising social security income – to assess the needs for social protection of the population, and to administer social protection programmes. Finally the paper raises the issue of the vulnerability and limitations of social protection programmes as a result of globalisation. It argues in favour of an increased role of regional forums and institutions to arrange programmes that would collect resources at the regional level and redistribute resources across countries.

A Balanced Financing of Social Protection

There is an apparent necessity for additional resources to be raised or re-allocated for the purposes of social protection. In the early 1990s, social security expenditure accounted on average for less than 1% of GDP in about half of the countries of Asia, including Bangladesh, Fiji, India, Malaysia, Philippines and Thailand. Since then, the proportion of social expenditure to GDP has slightly increased but generally remained low, notably in relation to other regions of the world. Despite larger budget allocations towards social protection programmes, the relatively low share of GDP spent on social protection may be explained by the fact that real GDP growth was around 7% annually until the Asian crisis, whereas real social security expenditure grew by only 2.6% annually. This implies that social development was evolving at a slower pace than economic development. This is especially relevant for the cases of the Republic of Korea, Malaysia and Thailand. The limitations underlying the slower pace of social development can be largely attributed to the lack of legislative provisions and public infrastructures.

Planning of the extension of social protection measures and capacities require careful consideration of the needs of the populations and the available mechanisms to meet such demands. The ILO normally prioritises social insurance as the most viable approach to build up self-sustained long-term social protection. Such an approach should be complemented by state-financed social assistance, namely through 'social safety nets', targeting the destitute and excluded groups. As long as social insurance measures are not available and applicable to the majority of the population, the burden on governments to deliver social assistance will remain very high, especially in times of economic crises. Also, countries where national priorities strictly aim at providing transfers and support to the needy at the expense of providing safeguard measures to those who may not be in need but whose earning capacities face potentially precarious conditions, the number of the poor is observed to grow. This has been the inevitable case of thousands of workers who became unemployed as a result of the crisis and who then became in need of social assistance, as there was no available social insurance protection available in most cases.

Financing of social protection must be planned through carefully determined comprehensive national strategies that embrace the entire needs of the population and aim at preventing poverty as well as to assist those already in poverty. An assessment of gaps between needs and the available social protection should be based on a thorough knowledge of needs and existing mechanisms. A sound review of the current situation likely requires inputs from local level administrations, enterprises, workers' representatives and other

community groups that are likely to have a better knowledge of the specific realities faced by the population. National priorities for the provision of social security and social assistance can then be better designed with a close co-ordination with national employment and economic polities. At all times, public consensus should be sought to adopt policies that reflect the desires and necessities of society, including what it can afford and what is needed as a minimum through public programmes, and respecting the roles played by existing individual and private initiatives (*e.g.* extended family support).

Recent experiences in the aftermath of the Asian financial crisis of 1997 have shed much light on the deficiencies of the present systems in place. Policy and administrative reviews have concluded in many cases that the further development of social protection must be first based on a build-up of national and local capacities to deliver social protection

Financing social assistance

The main sources of financing available for supporting social assistance are state budget allocations. Some least developed countries benefit from significant assistance from the international donor community. The scope of social assistance normally reflects political priorities and its effectiveness is *de facto* relatively enhanced in populations where local governments are more active or able than others. The financing of social assistance is normally limited, and hence universally provided social assistance is rarely found in developing countries. Programmes normally determine specific target groups whose needs are not addressed otherwise. In-kind and cash benefits are usually provided to those who have passed a means-test. The cost of administration of such programmes is usually very high. The ILO normally favours the provision of 'categorical' social assistance benefits whereby entitlements are determined in reference to objective sets of criteria that may be based on obvious physical, age or regional characteristics.

The role of the State is determinant, as social assistance programmes are dependent on the willingness of the politicians who are responsible for approving budgetary allocations on a yearly basis. The monitoring of social assistance programmes should be determined by reference to objective indicators that are readily available, such as the percentage of persons receiving protection in relation to the total number of persons in need. Benchmarks should be determined and public administrators made accountable for performances that do not meet the minimum standards set by such threshold. The actors involved should involve those policy makers as well as administrators. Due

consideration must, however, be given to the development of sufficient administrative capacities to meet such benchmarks.

Financing social insurance

The personal coverage of social security schemes in Asia normally refers to workers in wage employment first, as their earnings capacity is easier to track. Thailand, the Philippines, the Republic of Korea have been planning extensions of the mandatory coverage of their schemes to self-employed groups in the population. This is a difficult task as the cost of administration increases as smaller size enterprises and self-employed workers are covered.

The financing of social insurance usually relates to the capacity to pay contributions by workers and by employers. Some national social security schemes in the region receive government subsidies, *e.g.* in Thailand the Government pays one-third of social security contributions on behalf of insured workers. The provision of such Government subsidies to social security schemes is usually justified when the coverage is nearly universal. It is, however, discouraged in countries where the coverage is still less than maximal as this implies a cross-subsidisation from the non-covered groups of the population who contribute to some extent to the government revenues through different taxation, *e.g.* value-added taxes being paid by every consumer. Using state budget revenues for social security financing may be inappropriate especially as most countries draw public income from sources other than personal income taxes, *e.g.* import duties and excise taxes, business license fees. Government contributions are however required in case of contributions representing the employer share for public workers.

The definition of benefit provisions ought to take into account actuarial considerations so as ensure the long-term financial sustainability of social security. The role of the State should extend beyond the scope of policy making to include the regulatory and monitoring of the performance of social security schemes. The State should be the ultimate financial guarantor of social security schemes, which makes it responsible for adopting benefit provisions that are financially sustainable. In countries where individualised approaches to social security exist, *e.g.* where provident funds are found, the State should be responsible to provide minimum benefit guarantees in case of a poor investment performance or bad management of the provident funds. Also, provisions should be made to provide some minimum form of income transfers towards the most vulnerable groups of workers, *e.g.* women in precarious employment situations with less than maximal working careers who may not have an

opportunity to raise sufficient savings to have a decent benefit protection through their own savings.

In view of the limitations of national social security programmes in covering the majority of the working population, community administrations should be encouraged to stimulate voluntary social insurance arrangements, but with a linkage to national social security, at least for the purpose of financial guarantees and for technical expertise. The funding reserves of social security schemes should be according to regulated provisions encouraging the build-up of operational contingency reserves – *e.g.* at a maximum of 2-3 times annual expenditure during stable times – and pensions funds.[4] Such regulations should however discourage over-accumulations of reserves.

Limitations of income redistribution through social protection

Social assistance measures are useful means to channel resources towards those in need but their effectiveness directly depends on the availability of sufficient resources and effective delivery mechanisms. In Asia, redistribution of income through social assistance programmes has proven to be of limited effectiveness. This is partly explained by the relatively small amounts of resources made available as a result of the small size of the Government – in terms of Government income as a percentage of GDP.

The provision of social insurance can be developed in gradual stages with a clear recognition that it should start on a sound basis with reasonable expectations, notably in terms of the effective coverage of the population. Public support for social insurance is crucial. Its financing provisions must give due recognition to the understanding of what can be afforded and what can be promised in relation to delivery mechanisms. Financing of social security is hardly feasible for population groups whose earnings are difficult to determine and monitor. The involvement of locally-based organisations and administrations should be instrumental in developing arrangements for the purpose of such population groups, including informal, agricultural and home-based workers.

There are pre-requisites for the efficient use of financial resources for social protection. They refer to practical elements surrounding the environments of social protection schemes, which can be summarised as follows:

- the collection of contributions should cover a large proportion of the income earnings base;

- endorsement by the public and the corporate sector should be secured through intensive public information campaigns and accessible social protection administrations;

- schemes should be operating free of political pressures through tripartite management that is accountable on the basis of clearly defined performance indicators and benchmarks;

- measures should be introduced against corruption, including lax corporate governance;

- the administration of social protection should rely on well-trained staff at all levels of administration;

- there should be public reporting of performance; and

- an efficient legal system allowing timely responses is required to ensure the efficient administration and delivery of the social protection.

Decentralisation of policy and financing of social assistance and social insurance

Managing the financing of social protection in the People's Republic of China

The reform of the social security system for the urban population of China will necessarily develop in parallel to the restructuring of medium and large size state-owned enterprises (SOEs) within the next three years. The measures adopted and proposed as a matter of priority are expected to increase social stability. The reform of social security addresses mainly the needs of urban populations whilst it is expected at this stage that the Government should encourage self-help approaches for the rural populations. The situation of the main statutory social protection programmes can be summarised as follows:

Social insurance for the urban labour force

Social insurance is provided on a mandatory basis to the urban labour force, although actual coverage only amounts to 44%. Provisions include pensions in case of old-age, invalidity, death, unemployment cash benefits (UI), medical

insurance (MI) and maternity benefits. The Government is responsible for the deficits of municipalities where the collected contributions do not suffice to meet the benefit promises. This is for the payment of old-age pensions to retired SOE officials who previously relied on their respective enterprises to look after their social protection and housing needs throughout their active and retired lives. The municipal Labour and Social Bureaux (MOLSS) are responsible for policy and the administration of social insurance. The large pool of migrant workers is usually excluded from protection under the social insurance schemes.

Re-Employment Centres' Support Programme for Laid-off Urban Employees

This is an enterprise-based and temporary programme to provide support to laid-off worker. The labour contracts of laid-off workers remain valid for approximately three years during which a compensation is paid and support is provided to find new employment. The UI system and the local Government budgets are supposed to cover 2/3 of the associated costs. All Re-employment Centres should cease to operate by 2003. This implies a significant and difficult shift of the burden of unemployment to the municipally-operated UI schemes. The administration is co-ordinated between the SOEs and the municipal Labour and Social Bureaux (MOLSS).

Minimum Urban Living Standard Subsidies Scheme

Introduced in 1998, this social assistance programme is expected to provide financial assistance of last resort to urban residents living below the locally set poverty line. Cash benefits are modest and below flat-rate social insurance benefits, whilst the provision of health care is not standardised. This scheme was expected to bridge the gap left by bankrupt enterprises whose workers and dependent retirees and families were left to account for their own social protection needs. This scheme is contested in various areas of China as not providing sufficient nor timely benefits to those in needs. Adaptations of this scheme are found in some rural areas, notably where farmers are found demonstrating against the authorities because of low earnings and high local taxes. The municipal bureaux of the Ministry of Civil Affairs are in charge of this scheme. Policy co-ordination with the MOLSS programmes could be improved.

Rural pensions, medical insurance and social assistance

The Ministry of Civil Affairs assumes most of the responsibility for supervising social security provisions for the rural population with the support of Village Councils. There are great variations across localities, with some areas without any infrastructure. Benefits are voluntary and provided only on the basis of prior contributions paid by individual rural residents. Pensions cover around 85 million persons, *i.e.* 9.5% of the rural population, and medical insurance is provided to 20% of them. Rural Co-operative Medical Insurance was initiated in the 1970s at which time it experienced a good degree of success and covered most of the rural population. Reforms have later more or less banished such co-operatives. Social assistance is normally provided in the form of relief in case of natural disasters and is financed through *ad hoc* central and territorial budget allocations. Provisions for the poor also exist but their extent varies greatly and their application appears subjective in some cases.

These social security schemes are highly segmented according to the allocation of governmental responsibilities. The financing and management is highly decentralised and depends to a large extent on the economic conditions found at the local level. As a result, recent economic progress has led to increasing income gaps between eastern coastal cities and rural areas and less developed regions of western China. The problems are exacerbated by the growing migration of the young labour force of rural areas to work in coastal cities leaving large numbers of dependants behind. The municipal authorities of the western and rural areas have as a result fewer sources of income from workers and a heavier burden to provide social security benefits to the dependants of workers gone to the east.

Role of the central state

The role of the Central State is largely for the formulation of policies that serve as guidelines and set limits for developing specific regulations at the provincial level. These are intended mainly to maintain a certain degree of uniformity across the country. The overall redistribution of social protection resources across provinces and generations is very difficult to achieve because of the limited pooling of funds that takes place at local administrative levels. It must resort to alternative sources of financing to cover deficits incurred by local social security schemes. The Central Government supervises financial and demographic developments throughout the provinces. There is limited co-operation between the policy-making and monitoring of social security schemes (under the supervision of the Ministry of Labour and Social Security) and social assistance programmes (under the supervision of the Ministry of Civil Affairs).

Role of provincial administrations

The provincial authorities decide on the final benefit design provisions within the boundaries set by the guidelines provided by the Central Government, including financing provisions. For example, the contribution rate for public pensions cannot be set above 20% of earnings without prior approval by the Central Government. There is a limited pooling of social security resources. In some provinces, 5% of the contribution income collected by the municipal Labour and Social Bureaux is transferred to the provincial administration for the purpose of redistributing income revenues towards municipalities where benefit expenditure is higher than the amount of contributions collected. The provincial authorities oversee the administration and reporting of financial situations and requests of cities for central allocations of 'redistributed income'.

Role of municipal administrations

Municipalities administer the actual social security schemes: register enterprises and their workers, inspect them, collect contributions, receive benefit claims, pay benefits, provide public information, and hear appeals. This is where most of the administrative burden is found. Municipal Labour and Social Bureaux determine the financial management of social security schemes. They work in close co-operation with enterprises as some social security schemes, notably for the provision of unemployment insurance benefits, must provide one-third of the resources needed to support enterprise-based social security initiatives, *e.g.* re-employment centres. Municipal bureaux must also work in close co-operation with local fiscal authorities who are the financial guarantors of social security schemes in first instances. They must also transfer taxation resources to social assistance programmes. When local finances cannot meet the local demands for social protection, requests for transfers from the provincial and central government are presented. This represents a major drawback of the Chinese approach to social protection financing.

Role of rural administrations

These are mostly involved with voluntary social insurance schemes and social assistance programmes, notably in cases of natural disasters. Only 10% of the rural population are covered by some form of pension scheme, and less than 20% by medical insurance schemes. Recent experiences indicate that they lack financial resources to meet the needs of rural populations. Social security provides somehow inadequate protection as there is no financial guarantee in

case of bad investment experiences and it provides limited support for those not contributing or doing so at low levels.

The provision of social protection largely depends on fiscal resources of the local governments that are in themselves very limited due to the low incomes of their resident populations. Over time, this has led to the introduction by localities of a vast spectrum of *ad hoc* taxes charged to the few productive units, notably agricultural farmers. Where personal income levels are the lowest, the level of resources available for social protection is obviously lowest whilst social protection needs are the highest. Local governments incapable of meeting the basic social protection needs of their populations must present a request for receiving subsidies by way of extraordinary budget allocations granted by provincial and central governments.

Given the often-limited provincial budgets and national state budget, needs for social assistance cannot all be met. At the national level, those allocations are usually determined in relation to priorities for maintaining social stability at the local level. The main purpose of social protection financing thus prioritises allocations towards regions where social stability is not guaranteed.

Overall financing of social security follows a bottom-up approach in the PR China. In addressing the query whether this is the best approach for a country as vast as China, one must understand the advantages and disadvantages of the current approach versus other options. The current approach puts much of the burden of financing social protection on local administrations where the pooling of social security funds is done. If in deficit, local fiscal resources should bridge the financial gap. This inevitably leads to the drainage of financial resources for other economic development at local level. This also implies inequitable and inadequate social assistance, as localities where fiscal resources are relatively limited cannot afford to meet social assistance needs. The localities where resources are most limited are likely the ones where the need for social transfers is the greatest. For social insurance, the issues are relatively similar but slightly less critical in principle as there are some earmarked funds, although very small in size, channelled to the higher levels of administration for redistribution towards social security schemes in difficulties.

Managing the financing of social protection in the Kingdom of Thailand

In Thailand, the scope of social protection is limited, as the national social insurance measures have mainly been developed since the introduction of the Social Security Act of 1990. Public welfare programmes are numerous but their actual reach is limited in view of the limited financial resources allocated.

Subsidised public health care plays a significant role, as the official figures estimate that 70% of the population benefits from some form of insured or subsidised health care. Those figures, however, are not confirmed by the results of socio-economic surveys that indicate that such a percentage is at 45-50% of the population. The quality of the subsidised health care is also sometime contested.

Recently, the efforts of the newly elected Government have been significant in planning to introduce a universal health care system whereby patients only pay 30 baht per medical visit (equivalent to around USD 0.70). Such a universal health care system is initially to be piloted for two years. There has been significant scepticism raised in relation to the sustainability of public financing to maintain universal health care in future. Several options are under consideration. For the initial years, the aim is to rationalise other Government expenditures and to channel savings towards the universal health care system. Also, the current expensive medical insurance scheme for civil servants and retired public servants – operating on a pure pay-as-you-go basis – will be merged with the statutory national social security scheme. This should result in significant State Budget savings that can also serve to finance partially the cost of universal health care.

Public financing of social security in Thailand is also provided through the payment of one-third of the contributions paid on behalf of insured workers under the Social Security Scheme. The coverage of the latter is mandatory for all enterprise workers in firms of 10 and more employees. However, the level of compliance in registering is limited to 42% (1999) in medium size enterprises of 10-99 employees, although it is significantly higher at 91% in large enterprises employing 100 and more workers.

Box 1 summarises the main forms of social protection in Thailand. Overall social expenditures in Thailand are characterised by a large proportion of social insurance benefits paid to public sector workers and private workers of large enterprises of 100 employees and more. Other public transfers are mainly for the purpose of education. Thai society prioritises the welfare of children to a large extent.

The Central Government retains most of the control of the decisions for the policy setting and financing of social welfare programmes. Central government authorities control administration, but they rely on the available support for benefit delivery at the local level that is sometimes found associated with political groups. These are assumed to know better the local needs for social welfare where government infrastructures are insufficient. There is, however, a sign of important changes as in 2000 the Parliament of Thailand adopted

legislation that foresees the decentralisation of up to 35% of the public budget to local level *Tambon* Administrations. This is scheduled for implementation over a period of 10 years, so as to ensure that local capacities are able to administer such budgets for the purpose of social assistance.

Overall, the management of social expenditures is constrained in Thailand because of the limited infrastructure for the delivery of social protection. For social welfare, this means that there is insufficient capacity to monitor, report on and administer the delivery of benefits. For social insurance, this means that there are too few local branch offices to ensure that the extension of the mandatory social security coverage of the population is enforced and supported by the public. Recently adopted reforms, however, are expected to remedy this over-centralisation of the management of social protection. Care must be taken in ensuring that the local capacities exist before resources are channelled to local communities. There is evidence that it may be better not providing resources to localities without the capacities and mechanisms in place to ensure appropriate governance. In this respect, one may refer to the recent experience observed in relation to occupational social welfare programmes providing pools of funds to local committees. Many localities targeted by these programmes, although providing limited funds (*e.g.* THB 100 000), have had mixed experiences as there was a lack of understanding of the purpose of such funds and entrenched politically-biased behaviours tended to distort the use of the funds. This set a limit to the efficiency of decentralising social protection financing.

Box 1: Social Protection Programmes in Thailand

Social Insurance

Workmen Compensation benefits
Short-term benefits provide cash support in case of sickness, maternity benefits and death
Long-term pensions are provided in case of invalidity and old-age as well as to the survivors of deceased insured persons
Child allowances are provided

Public Health Care & Social Assistance

Public Assistance Scheme of Health Cards for the Poor (including Programme of Low-Income Cards for the Unemployed)
Programme of Voluntary Health Cards at 500 baht
Programme of health Cards for the Elderly
Programme of Assistance to HIV/AIDS patients
Special Programme for the Very Poor and the Needy

Civil Servants' Schemes

Civil Servants' Medical Benefit Scheme
Civil Servants' Pension Scheme
Military Benefit Scheme

Social Assistance (welfare) cash benefits

Social Welfare for Vulnerable Groups (mainly for persons with disabilities and the elderly)
Welfare Programme for Children and Youth
Welfare Programme for Women
Welfare Programme for the Needy
Fund for Workers[5]
Office for Committee to Assist Farmers and the Poor
Revolving Fund to assist Farmers and the Poor
Poverty Alleviation Program
Programme for Interest Compensation to BAAC

Social Assistance in-kind benefits

Education Loan Programme for the Student Loans Scheme
Scholarship Fund
Social Investment Fund (partly financed through external international resources)
Lunch Programmes for Children
Urban Poor Development Program
Alleviation of Congested Community
Housing Assistance Program
Housing Development Program

Managing the financing of social protection in the Lao People's Democratic Republic

The Lao People's Democratic Republic is characterised as a least developed country according to the World Bank classification. The capacity of the State to deliver social protection is largely limited due to limited government resources, ethnic disparities, the non-monetarised economy outside of the capital Vientiane and other large cities. The current poor state of the economy is largely attributed to the consequences of the war that ended more than 25 years ago and the policies of the centrally planned economy.

Most of the current social protection expenditure is provided through international donor support, mainly for health and educational purposes. Priority is given to develop institutional capacities through reinforced education. Statutory social protection programmes are nearly non-existent with the exception of the social security scheme for public servants. They contribute 6% of their wages and the State Budget covers the remaining costs of social security benefits. The scheme is expensive and the benefit protection provided is limited. In December 1999, the Prime Minister of Lao signed Decree 207 foreshadowing the introduction of a mandatory and contributory social security scheme for enterprise workers in the private and state-owned sectors. Its operations are scheduled to begin in June 2001. Originally, pressure for introducing such a scheme came from the corporate sector as they were threatened by the European Union of having their exports limited on grounds that they do not provide decent work conditions to their workers. This represents the beginning of social insurance in Lao PDR.

It may be difficult at this stage to foresee any more public financing of social protection in Lao PDR in view of the limited public finances available and restricted public infrastructures. The ILO has advised that the development of social protection should follow a gradual approach closely linked to the development of the economy, namely outside of the capital city of Vientiane. Close co-operation with village administrations should be sought as they often hold a better knowledge of the needs and realities of local populations and the potential capacities to deliver social protection to them.

Conclusion: Public Financing of Social Protection as a Necessity for a Sustainable Social and Economic Development

The role of the State in the financing of social protection is often limited by practical considerations. In most East Asian economies, the development of institutional capacities for the assessment of the social protection needs of the

populations should be prioritised. This is necessary so as to raise additional resources for the purpose of social protection. In addition, it would be reasonable to re-allocate larger proportions of government expenditures towards social protection programmes.

Alternatives should give due consideration to the delivery of self-financed social security through employer and employee contributions. The gradual phasing-in of social insurance measures should allow the development of sustainable infrastructures able to deliver social protection and redistribution of income to persons facing specified 'social risks'. In Asia, the limitations on social security programmes are largely explained by the poor governance of governments in general and limited capacities of governmental human resources.

Given the low level of social protection expenditures in most countries of Asia, where less than 10% of GDP is spent for all forms of social protection, the ILO encourages countries to carefully plan increasing the amount of resources available for social protection financing. A typical strategy could pursue the following practical lines:

- A thorough assessment of social protection needs through the active participation of reinforced local administrations and public consultations.

- A review of existing social assistance and social insurance programmes and the causes of inefficiencies.

- Where the basic structure of existing programmes is considered adequate, improvements should build on the further development of such programmes (as opposed to introducing costly new programmes).

- Where there is a deficient basis for the provision of social protection, the national strategy should foresee the introduction of sustainable social programmes that meet the needs of the populations, both in the near and long term future, and that are in line with institutional capacities for benefit delivery.

- The strengthening of the human resource capacities of local administrations.

- A concerted national approach should be monitored on a regular basis through the use of publicly accepted indicators of performance and clear accountability.

- Financing of social protection programmes should prioritise approaches that allow for some degree of income redistribution across regions, income groups and generations.

As a final comment in relation to the financing of social protection, reference is made to the impact of globalisation on the provision of social protection. National governments are inevitably facing limited capacities to protect their populations in view of the movements of capital across borders and often linked to prospects of stability and the provision of cheap production costs. There is an apparent necessity to reinforce international and regional ties to develop mechanisms that could eventually foresee the financing of social protection through transfers of resources beyond national borders. This necessity was recently raised by some official of Thailand envisaging the introduction of a statutory unemployment insurance scheme.

Notes

1. The selected countries refer respectively to Asian cases of a transition economy, a middle-income country and a least developed country.

2. See ILO: *World Labour Report 2000 – Income Security and Social Protection in a Changing World*, Geneva, 2000.

3. 'Social assistance' refers usually to the same measure as 'social welfare', 'public welfare' and 'social safety net'.

4. Pension fund reserves should be allowed to grow to larger proportions, as a ratio of annual benefits' expenditures, during the period following implementation of a pension scheme until it reaches a mature stage, 30-40 years after its implementation. In the early years of operations, few retired insured persons qualify for the receipt of a pension. The number of retired grows as the scheme has been in operation for a longer period, and workers have had the opportunity to accumulate more contribution credits giving them the right to larger pension s to be paid out of the pension reserve fund.

5. This is associated with the Employee Assistance Fund to provide subsidies to laid-off workers not receiving the legally mandated severance pay (1998).

THE EMERGENCE OF THE PARTNERSHIP BETWEEN GOVERNMENT AND CIVIL SOCIETY ORGANISATIONS (CSOS) TO COMBAT EXCLUSION

- THE CHALLENGE OF THE POLICY FOR SOCIAL INTEGRATION THROUGH WORK (SIW) IN KOREA –

Dae-Myung No

The 1997 financial crisis and its social impact

At the end of 1997, Korean society faced a major economic and social crisis, with foreign debt rising to USD 159 billion and the number of unemployed increasing by nearly one million. To cope with this crisis, small and medium-sized businesses had no choice but to resort to mass lay-offs, drastically disrupting the lives of employees. During the 1998-2000 period, Koreans underwent a crisis of unprecedented proportions. This crisis had a serious social impact, resulting in an unemployment rate of 8.4% in the first quarter of 1999, *i.e.* 1.7 million jobless. Workers who had been unemployed for one year no longer had any means of subsistence, which caused the poverty rate to peak at 11.5% at the end of March 1999. In 1998, 65% of the poor were not only under the poverty threshold, but also outside the social safety-net system (as against 39.6% in 1999). These developments, which would have lasting repercussions, made it urgent to develop effective social policies to combat this new form of exclusion.

Given the violent reactions of the unemployed and of those excluded from the social safety-net system and the continual pressure from associations and trade unions for a new social policy, the government decided to reform the general social safety-net system in the following three ways:

- by strengthening and broadening social insurance and unemployment insurance in particular;
- introducing a new social assistance system; and
- establishing a Korean workfare system.

To implement this reform, the competent authorities chose to develop a partnership relationship between the government and civil society, which despite their divergent interests were able to reach an agreement. The government was obliged to choose civil society organisations (CSOs) as the main actor because of pressure from public opinion, while these organisations needed to find common ground with the government in order to become involved in the reform and introduce measures that they believed would create jobs.

Table 1. **Unemployment and poverty rates in Korea between 1997-2000**

Year and quarter		Unemployment rate	Number of unemployed	Poverty rate
1997		2.6	556	-
1998	1	5.6	1 179	9.9
	2	6.8	1 481	10.7
	3	7.4	1 597	11.9
	4	7.4	1 587	11.5
1999	1	8.4	1 749	11.5
	2	6.6	1 435	10.7
	3	5.6	1 220	9.1
	4	4.6	1 011	8.1
2000	1	5.1	1 092	8.6
	2	3.8	840	7.2
	3	3.6	809	-

Source: National Statistical Office, "Statistical Report on Economically Active Population, Employment, Unemployment rate", 1997-2000.

It is interesting to observe how much the role of CSOs and the social partners has changed. Before 1998, they showed no interest in co-operating with government to combat unemployment. In the midst of the economic crisis, CSOs confined themselves to providing emergency assistance to unemployed workers and their families, while the trade unions were engaged in a violent struggle against mass lay-offs and the structural adjustment policies backed by the government, but which were having dubious results. Neither CSOs nor the trade unions had previously sought to improve the situation of the unemployed and the excluded. The CSOs only became associated with the choice of reforms gradually, as they became aware of the seriousness of the situation and the need to become actively involved. These organisations have succeeded in:

- mobilising and federating several hundred organisations that were combating unemployment and poverty in the field;
- building a partnership relationship with the government;

- launching a new policy of Social Integration through Work (SIW) by providing assistance for the creation of social enterprises.

Thus, despite the considerable tension between the authorities and CSOs because of differing opinions on economic policy, the government agreed to the reform proposed by CSOs. This concluded the first stage of a constructive dialogue between the two main actors and marked the beginning of a new partnership.

The Social Safety Net in Transition

The general social safety net system and its shortcomings.

To meet the basic needs of the unemployed and to respond favourably to public opinion, the government committed itself to reforming the social safety net system by broadening it and reorienting the social assistance system towards a Korean workfare system.

The reform of the social insurance system is based on the following policies:

- changing, in the light of social and economic needs, its four different component systems: the pension, unemployment, sickness and industrial accidents systems;

- extending the mandatory unemployment insurance system to all enterprises with more than one employee;

- lengthening the duration of benefits.

The social assistance reform known as "The 1999 Guaranteed Minimum Income Act"[1] provided for the following measures:

- the extension of social assistance to everyone with financial resources below the official poverty line, even if they did not have a physical or mental disability;

- an increase in the amount of benefits in line with changes in the standard of living;

- help for disadvantaged persons, especially those in SIW programmes, to find jobs either on the ordinary job market or in the third sector.

Despite the gradual improvement of the social safety net system, there are still gaps and not all expectations have been met. Many of the unemployed, the elderly and those without qualifications or skills remain trapped in the vicious cycle of poverty.

Table 2. **Structure of the Social Safety-net System in Korea**

Social insurance	Sickness		
	Industrial accident		
	Pension		
	Unemployment		
Vocational training			– Long-term unemployed
Temporary public work programmes		←	– Poor persons without social assistance
Social integration through work			
Social assistance	Benefits + SIW		
	Benefits		

Two groups are excluded from the system, *i.e.* the long-term unemployed and disadvantaged persons with no financial resources. This is because the long-term unemployed are not entitled to unemployment insurance and no longer have the minimum means of subsistence, despite the fact that it is even more difficult to find a stable job during a recession. Furthermore, because of the very strict criteria governing entitlement to social assistance (GMI) – the amount of monthly income, the existence of a family member able to provide for the needs of the household, type of housing and car – part of the disadvantaged population was excluded.

Because there was already a large budget deficit, the government's room for manoeuvre was limited. It was therefore urgent to shift the emphasis of the social protection system towards assisting the excluded and strengthening the policy for social integration through work with the help of civil society institutions. This involved the following:

- redirecting temporary public work programmes towards SIW;
- establishing a genuine partnership with CSOs;
- helping companies providing work experience and training to develop programmes of social integration through work.

The emergence of partnerships in Korea

The role played by CSOs in formulating the objectives and content of social policy is now recognised. Increased resources have been raised for combating poverty and exclusion and for a more caring society, not only through the action of CSOs at local level, but also through the policy for social integration through work and the creation of the Public Works Programme (PWP).

The Public Works Programme and civil society organisations

Based on the policies of the New Deal in the United States in the 1930s and the Community Work Schemes in France in the early 1980s, the government created the Public Works Programme, which enabled three million unemployed to hold temporary jobs between 1998 and 2000.

Table 3. **The Public Works Programme in Korea between 1998 and 2000**

		Budget (hundred million won)		Participants (thousands)	
		Target	Result	Target	Result
Total (A+B)	Total	50 778	-	2 677	-
	1998	10 444	9 252	400	438
	1999	25 926	22 988	1 560	1 515
	2000	14 408		717	
Central government programme (A)	Total	20 859	-	1 082	-
	1998	3 470	2 689	122	99
	1999	10 451	8 097	636	520
	2000	6 938		324	
Local government programme (B)	Total	29 919	-	1 595	-
	1998	6 974	6 563	278	339
	1999	15 475	14 891	924	995
	2000	7 470		393	

This programme was widely criticised as being ineffective and of no use in helping the unemployed find jobs, and it did not live up to the expectations and hopes that it had raised. Despite its large budget, it did not succeed in creating stable jobs during this three-year period. However, the unemployed benefiting from the programme did receive a minimum subsistence income. The CSOs learned the lessons of this experience. Since 1999, the government has entrusted them with managing approximately 10% of SIW schemes provided that they do not create profit-making activities. This type of "outsourcing" has enabled CSOs to strengthen their local activity base while maintaining closer contact with the unemployed and the disadvantaged.

Because of its temporary nature and the disappointing results achieved, the future of this type of programme is uncertain. A new dialogue might be initiated between the government and CSOs, which are always concerned with helping disadvantaged persons.

The policy of Social Integration through Work (SIW) and civil society organisations

Given the ineffectiveness of the Public Works Programme, another alternative for the disadvantaged and long-term unemployed has been developed. The GMI is the last resort, and is mainly provided to persons whose income is equal to or lower than 120% of the poverty line, those benefiting from Social Integration through Work policies and some of the poor excluded from the social insurance system.

SIW is an important pillar of the GMI, helping those recipients of unemployment benefit who wish to work. But it is also a prerequisite for receiving this type of benefit. Participation in the programme is therefore mandatory. The SIW programme comprises the following:

- vocational training opportunities;
- jobs in work-experience enterprises;
- assistance for the creation of micro-enterprises.

Although the SIW programme provides the different opportunities mentioned above, it ultimately has two different aims:

- first, to encourage and assist beneficiaries to enter the labour market. To this end, vocational training and micro-enterprise creation programmes under the supervision of the Ministry of Labour are made available to benefit recipients;
- second, to create community-based jobs in work-experience enterprises. The SIW Programme began by creating work-experience enterprises in all regions (there are some 200 in 2001); GMI recipients were then sent to these enterprises, which are strictly non-profit, to enable them to receive vocational training and assistance for the creation of social-purpose enterprises. The Ministry of Health and Social Security administers these programmes.

Table 4. **Development of Work-Experience Enterprises in the SIW Programme in Korea**

	1999	2000	2001
Number of work-experience enterprises	20	70	200
Number of participants	-	3 000	20 000*

Note: * forecast for the year 2001.

This second programme enables CSOs not only to participate in the social assistance system, but also in the general social safety net system. Thus, the SIW policy has paved the way for fresh dialogue between the public and private sectors and between central government and CSOs.

Common features and differences between the Public Works Programme and Social Integration through Work

The SIW and Public Works Programmes, which are managed by different ministerial bodies, have much in common yet are very different. In addition to the fact that they share the same purpose, *i.e.* job creation, both are programmes for social integration through work based on the development of non-profit activities. CSOs are also associated with the monitoring of both programmes and play an important supervisory role.

The difference between these two programmes is the method that they use to create jobs. Thus, SIW is a more stable programme that has activities at the local level and has greater potential for creating stable jobs. It also promotes the development of jobs in work-experience enterprises and promotes dialogue between the public and private spheres through more active support given to CSOs by providing them with relatively adequate financial resources.

In this regard, the SIW programme offers good prospects to CSOs. However, there are still problems to be solved, in particular those concerning the risk of CSOs being institutionalised through, for example, their financial resources being controlled or the loss of their independence.

Provisional conclusions

What explains this sudden co-operation between the government and CSOs? The fact is that each had an interest in establishing a partnership relationship with the other. For the government, there was no choice but to propose active

job creation measures, since the necessary adjustment made developing the labour market more difficult. However, it could not create jobs in the public sector since it was laying off large numbers of civil servants, so it had to rely on the third sector. This is why the active participation of associations as the main actors in the creation of community-based jobs was necessary. For CSOs, it was important to create jobs at the local level through policies for Social Integration through Work, but it was just as vital to improve people's quality of life. To this end, they relied on the third sector to develop employment. This is why they thought it was necessary to build up co-operation with the government, and it was this co-operation that made it possible to create jobs while ensuring the proper functioning of CSOs by enabling them to survive financially.

Has this partnership between the public and private sectors in Korea produced positive results? Today, significant positive results can be seen. For example, the partnership has filled gaps in the assistance extended to those excluded from the social safety-net system, provided neighbourhood services to disadvantaged persons, launched SIW programmes and, lastly, built a more caring community. This partnership will not last forever and is still fragile in that the interests of these actors may diverge in the future. It is a type of agreement that might not survive the economic recovery.

To maintain this type of co-operation, CSOs require the following from government:

- adequate financial and institutional support;
- recognition of their autonomy of management;
- dialogue before policies are decided.

For its part, the government requires the following from CSOs:

- transparent functioning;
- a positive attitude to dialogue;
- reasonable demands.

Today, although social policy in Korea has shown surprising dynamism and is based on a certain degree of consensus, many questions remain to be answered regarding the institutionalisation of CSOs and the financial support that they receive, which is still inadequate.

Notes

1. The Guaranteed Minimum Income (GMI) is an income supplement based on the difference between the poverty threshold and the total amount of resources.

PROMOTING PUBLIC AND PRIVATE PARTNERSHIPS FOR BETTER SOCIAL POLICY – AN AUSTRALIAN PERSPECTIVE

Kerry Flanagan and Angela Braniff

Introduction

In Australia, renewed attention is being given to a general notion of partnerships that are premised on enhanced engagement of the broader community to help conceive, develop and deliver government programmes and services.

Recognising the limitations of government acting alone, the Australian Federal Government is basing its social policy firmly in the framework it calls the social coalition. The social coalition promotes collaboration and partnership between all tiers of government (the 'public' side of the partnership), community leaders, individual members of the community, and the business community. The Australian Prime Minister has described the social coalition as "a partnership of individuals, families, business, government, welfare and charitable organisations, each contributing their unique resources and expertise to tackle disadvantage at its source." [1]

This paper looks at the Australian Federal Government's experience of implementing what it terms the social coalition to achieve broader social policy goals. It argues that government needs to be involved but not do it all. The paper briefly outlines Australia's social protection system, the pressures for change and the broader responses to those pressures. It examines what partnerships mean and how they are being pursued. It gives some examples of current major initiatives to illustrate the Federal Government's approach.

Background

The Australian Context

Australia has a population of 19.3 million. As many transition and developing countries are doing now, it has moved from being a nation whose wealth was mainly derived from the rural and mining sectors to one that is industrialised, and now moving to a 'technology' and 'service' base with the majority of the population living in urban settings. With this has come significant change in the composition of the workforce – higher school retention rates, and therefore a later start in the workforce, a decline in 'blue collar' jobs (particularly affecting the full time workforce participation rate of men), an increase in the number of women working, more part time and casual work, and more movement between jobs.[2]

Fewer children are being born, and the population is ageing. Family separation is increasing and 46%[3] of marriages now end in divorce.

As a result of these changes, many of the social support structures that helped families and communities weather change and bad times – such as the extended and nuclear family and supportive neighbourhood structures (the 'informal' safety net) – are under significant stress or no longer exist. Many of Australia's formal safety net structures are also overburdened, as its increasingly individualised society turns to the state for help, rather than to their family or a supportive local community.

Some view this emerging scenario as "a new type of poverty – the poverty of human relationships"… where people are "materially well-off but socially poor." Where "markets and governments have become more prominent, they have taken over many of the things people used to do for themselves".[4] Part of the response to these changes has been to seek to re-establish partnerships between government and business, welfare and charitable organisations, but as well redefine the partnership between government and individuals, families and the local communities within which they live.

These developments should not be lost on Asian countries as they too move to much more complex economies and changes in the traditional role that families and communities have played in providing an informal safety net. While Australia has had strong formal safety net arrangements (for the aged since 1909), and there is high community support for them, they have not been enough, of themselves, to ameliorate the impacts of a rapidly changing society. Being able to maintain strong family and community support networks while

introducing more formal safety net arrangements is a challenge that Asian countries will need to tackle.

Australia's social protection system

As part of describing the context in which Australia is promoting public and private partnerships for better social policy, a short description of Australia's social protection arrangements follows.

There are two long-standing values on which the Australian social protection system is based. One is the recognition of government and community responsibility to assist those in need. The other is that private provision outside the social assistance system is to be encouraged as far as possible, with social assistance seen primarily as a safety net.

In Australia, the social protection system is shared, in varying degrees, by the three levels of government – federal (or national), state and local. The Federal Government is responsible for the delivery of social assistance payments covering disability, sickness, unemployment, public old-age pensions, family, maternity, invalidity and survivor's benefits.[5] The States and Territories provide more direct infrastructure such as public housing administration, emergency housing and workers compensation. Local government tends to focus on very local issues such as roads, but many allow concessional payments on electricity and water provision for people who are receiving social assistance.

Australia's social assistance system, largely administered at the federal level, differs from that of most other developed countries. The primary focus of Australia's system is protection against poverty. In most other OECD countries, the primary principle is one of income maintenance across an individual's life-cycle, although many have poverty relief as an important additional objective. Australia's social assistance payments are not intended as income replacement, but are more modest payments made in particular circumstances to those in need. 'Need' is measured by satisfying certain qualifications (such as age or disability) and by meeting income and assets tests. The rates of payments are standard throughout Australia and are not based on former earnings. Social assistance is provided from ongoing tax revenues (a PAYGO system). It is more highly redistributive than many of the social insurance systems that prevail in most other countries and in terms of spending on old age public pensions it is also one of the most affordable of the schemes in OECD countries.[6]

Social assistance and related programmes is provided through the Federal Department of Family and Community Services (FaCS). Expenditure is estimated to be $55.1 billion for 2000-2001. This amount is equivalent to about

a third of total Federal Government expenditure. It is expected that there will be pressure for further increases in social security spending over the next 20 to 30 years, partly due to continued population ageing and also because of policy commitments to maintaining and improving the real level of payments. This is another driver to promoting public and private partnerships – in order that formal safety net payments are supported and supplemented to the greatest degree possible by seeking input from other partners.

Partnerships

The 'New' Approach to Public/Private Partnerships – the Social Coalition

Governments are increasingly seeking the involvement of the wider community to conceive, develop and deliver government programmes and services. By harnessing the considerable expertise of the wider community the Government hopes to achieve "a balance between excessive involvement and regulation by government, which may stifle community capacity and people's ability for self-reliance".[7] The social coalition approach can provide:

- opportunities for creative and diverse business and community sector input into the policy and implementation process;
- higher trust in government through an open collaborative approach to policy making. Higher trust can create a more productive economy;
- opportunities for greater social networking and the creation of further partnership opportunities;
- resource effectiveness by ensuring all the available resources and perspectives are brought to bear on social policy issues; and
- a broader strategic role for Government as a facilitator, connecting the community sector, the business sector and individuals to worthwhile and often much needed local issues or projects.

What Makes for a Good Partnership?

Ideally partnership principles are developed by the participating organisations. However, central themes for government/private partnerships in Australia are fairly consistent. These themes:

- are collaborative, often long-term relationships;
- are innovative, flexible and bring mutual benefits; and
- combine resources and talents to achieve mutual goals.

Partners need to:

- understand their own organisation's objectives;
- understand what is expected from each partner;
- understand what resources are required from each other;
- understand what can be achieved from the partnership;
- understand the anticipated time frame to achieve the agreed goals;
- be open with one another;
- contribute towards stronger more robust communities by the development of creative solutions to specific local and regional problems; and
- provide opportunities to network and strengthen the links between organisations in a community.

However, it needs to be remembered that 'collaboration and partnership' can also have disadvantages. Reaching agreement with several partners often takes a long time, "…partnerships are good in theory but incredibly difficult in practice." "Many funding regimes say that they encourage innovative partnerships. Yet policy-makers often find it hard not to impose a standard model "…. "partnerships tend to reflect the criteria of funding regimes rather than genuine local conditions".[8]

Some Public/Private Relationships are not Partnerships

In recent times, there has been an increasing move to use the private sector to deliver government services through detailed contracts – what is termed a 'purchaser/provider' relationship.[9] Examples would be the 'Job Network' where private for profit providers are contracted by government to assist people to find jobs. Another would be where church groups are contracted to deliver services to people with disabilities, or aged care facilities. Very often the lines are

blurred with 'not for profit' service deliverers – some of their business may be highly profitable, in order that they can use the proceeds to fund other community or charitable initiatives. Because these relationships are contractual in nature, they are not seen as partnerships. They are mentioned, first of all to distinguish them from the concept of 'partnership', but also because a 'partnership' between government and private organisations can often occur at the same time as they have a purchaser/provider relationship. This can of course set up a whole range of issues that need to be taken into consideration. For example, if a major church group is approached by government to help conceive and develop a new programme, and the same organisation also wishes to contract to deliver the new programme, there could be a possible conflict of interest. Managing these sometimes complex and 'different' relationships with the same groups can be a challenge.

Partnerships between Levels of Government

As mentioned above, the social protection system is delivered by all three levels of government. Achieving good social policy outcomes means that governments themselves need to look at better integration of services and payments, often through better partnership arrangements.[10]

As the Federal Government has the major taxation powers, it has been able to influence social policy outcomes by tying the provision of some revenue to the States to achieving particular things, for example minimum standards of education for Australian children.[11] However, Australia has recently restructured its taxation system, which will mean, over time, that the Federal Government will have less capacity to influence what States do. As the three levels of government can often be from different political parties, partnering to achieve good policy outcomes can be difficult, but it can be done if governments are prepared to focus on getting the best outcomes for individuals, their families and the communities in which they live.

An example would be the partnership around good social policy for youth. At the Federal Government level, a social assistance payment is made to youth looking for work, as is assistance for them to train for and to find work. However, if they have complex issues that need to be dealt with, such as homelessness because of family breakdown, or substance abuse problems, State governments provide programmes in these areas. As well, there can be a role for local councils, for example in allowing homeless shelters and drug treatment clinics to be located in their council area.

Another example is the 'Playford Partnership' involving all three levels of government and private sector input to develop renewal strategies for the local

council area as well as maximise the provision of services through an integrated approach to service planning and delivery. The Playford area in South Australia has faced compounding disadvantage over the last 20 years; the partnership will apply for 5 years and will facilitate a whole of government approach. It is being implemented under the Playford Partnership Charter, which has been agreed and signed by all parties.

Partnerships between Government and 'For Profit' Business

In the past Australia has often placed regulatory requirements on business, or has subsidised business to employ less productive workers, such as those with some level of disability. Business has argued that the costs of regulation and compliance reduce profitability and therefore their ability to create jobs – they have long sought to be left to operate in an unencumbered way in a free market economy.

However, global pressure is forcing companies across Australia, particularly large corporations, to re-think their environmental and social responsibilities to gain a competitive edge and long term sustainable future. Influencing this trend are demands for disclosure, more competitive labour markets, increased customer interest, increased scrutiny of potential investors and attracting and keeping excellent people.

Many large business organisations consider corporate social responsibility actions as increasingly part of a well rounded management strategy and seek to align community involvement with employee values for generating improved employee loyalty, productivity and corporate reputation. Importantly, community involvement and related activities do not cause financial loss even though they are a business cost. Stakeholders are influenced by a socially responsible profile and a recognition that this has a role to play in the success of the firm.

Rather than imposing requirements, the Federal Government is instead taking a facilitating and encouraging role with business to work in partnership to achieve better social policy outcomes. A major way this is occurring is through the Prime Minister's Community Business Partnership, which is described in more detail below.

While Australia does not have the same level of philanthropy as the United States for example, again government is taking a renewed interest in fostering philanthropic effort. It has recently granted further tax breaks, and has provided funding for co-ordinators to work in local communities to encourage philanthropic giving for community priorities.

Around 95%[12] of the business sector in Australia is 'small business' – with a firm size of less than 20 people. Many of these businesses often have close ties with their communities. Governments will often fund community development officers to work with businesses in their local communities to foster partnering opportunities.

Over the last twelve months Australia has seen the emergence of informal business groupings examining issues such as partnerships and corporate social responsibility (the Australian Corporate Citizenship Alliance in New South Wales and Victoria; the Australian Institute of Corporate Citizenship, Philanthropy Australia). Other organisations have placed partnership development and corporate social responsibility firmly on their agenda including the Business Council of Australia, the Centre for Corporate Public Affairs, the Brisbane Institute and Cranlana. This growing interest in the topic is a strong indicator that the issue is firmly on the Australian agenda.

Partnerships with the 'Not for Profit' Sector – Non Government Organisations

In Australia, Non Government Organisations (NGOs) have long had both a purchaser/provider relationship and an advising relationship with governments in the social policy area because, in a broad sense, they are pursuing better social policy outcomes too. Very often NGO secretariats have been funded by government. The 'partnership' can sometimes become strained if NGOs feel that the government is taking the wrong path. A balance needs to be found in publicly expressing a point of view that may differ from government policy. The relationship with NGOs is changing somewhat and it is now more common for them to be part of a more broadly based advisory body, where issues are thrashed out in private, rather than government having a unilateral issues based relationship with them (for example with groups representing people with disabilities).

How Partnerships are Being Pursued

There is no formula for the partnerships that are emerging in Australia, except that most of them are based on the principles set out in the Section above. They are occurring in a range of different ways, such as:

- seeking **ADVISERS** from the business and community sectors to help work on policy solutions through membership on task forces and reference groups. This is a very common approach.

- positioning government as a **FACILITATOR**, which encourages businesses and communities to seek out partnerships to support their goals rather than set-up government as the sole solver of problems. As a facilitator the government can also "help partners develop their objectives, map their resources and action plans",[13] energise and mediate as appropriate.

- **SHOWCASING** locally developed solutions, good ideas and best practise community business partnerships to promote business involvement. It is important to be mindful of the differing level of participation and expertise that small, medium and large businesses will have.

- continuing to **FINANCIALLY CONTRIBUTE** to projects that demonstrate community business support (this is already quite common).

- **BROKERING** partnerships with a range of possible partners from the business, non-government sectors and other layers of government. This is more of a 'frontier' area for government, and efforts are being made to increase skills in this area. Greater opportunities for this approach are expected to be more at the local government level.

- **ENCOURAGING** the mutual responsibility principle; socially responsible investment; triple bottom line reporting; business community partnerships; corporate volunteering and corporate/government forums on a range of social responsibility activities. In encouraging accountability, disclosure and transparency on the business, environmental and social impact on the community, government must raise public awareness to persuade more active voting within large members groups such as financial institutions about their choice of investment.

The Public/Private Partnership in Practice – Some Case Studies

The Federal Government has noted that it is not in the business of creating new programmes, but new relationships, not new institutions, but new connections. The partnerships that it is establishing now take different forms:

- some are very localised and some are national;

- some have been formed to enrich policy and programme advice;
- some have the government contributing funding; and
- others have placed the Government in the facilitator role.

Welfare Reform

In October 1999, the Minister for Family and Community Services announced the Government's intention to review the Australian welfare system. In developing a report, an independent reference group was established. It drew on a wealth of community input including submissions and consultations with members of the community and key interest groups.

The Reference Group's report identified five key pillars to take income support away from simple benefit contributions to a new climate of participation. The Group recommended that individualised service delivery, a simpler income support structure, incentives and financial assistance, mutual obligations and social partnerships were the important features of reform. By using an independent group drawn from the community, the government expected that these directions also reflected a wider community view that those who receive support should contribute something back to the community.

Mutual responsibility is a key underpinning of the Government's approach to welfare reform. In being willing to provide a formal safety net in times of need and to assist people to participate as fully as possible, the community, through government, is asking individuals to make every effort to help themselves – the concept of mutual responsibility. This concept is also being extended to business – they are expected to take some responsibility for the community within which they operate.

In the Government's response to the concept of strengthening social partnerships, initial key strategies to progress the recommendations include:

- encouraging companies to identify and generate opportunities for people with disabilities, older workers, parents returning to work from income support and other groups;
- promoting an increase in business and community partnerships in local regions in order to expand economic and social participation; and

– working to establish a broader framework within which businesses and communities can co-operate to develop a participation culture.

Stronger Families and Communities Strategy

The Stronger Families and Communities Strategy seeks to strengthen the informal safety nets of families and communities alongside reform of the social protection system itself. Funding is being provided to strengthen family and community capacity. For example, research shows that strong communities are characterised by strong leaders and by the level of the communities themselves to identify and pursue opportunities – the level of volunteer activity is another sign of a strong community. Thus, programmes to train and develop community leaders, particularly non-traditional leaders such as women, increasing the skills of volunteers and promoting the continuing expansion of volunteer effort are being implemented. As well, connecting communities so that they can learn from each other – an initiative called 'Can Do Communities' has also been developed. This form of partnership involves government in providing initial funding for family and community strengthening with the longer term aim of withdrawing from this partnership when community and family capacity has been re-established.

This Strategy seeks to recognise that communities, with some level of initial government assistance, are best at identifying their own problems and designing their own solutions. Rather than having a programmatic response, with little flexibility to respond to local needs, communities are being encouraged to suggest what will work to build capacity. These local initiatives are being drawn together through an advisory process that draws on business and community leaders to work with government to identify and recommend the best way to implement this strategy. At a national level there is the National Partnership group which agrees frameworks, overall policy direction and national goals for the Strategy. A State and Territory Advisory Group has been set up in each State and Territory. These groups have a much better 'grass roots' view of which communities need assistance, and how to fit families initiatives in with other programmes that are being delivered by other levels of government. Each of them has developed a local targeting framework and provides advice on the relative merits of different proposals and areas of need.

The involvement of the social coalition in advising and decision making processes of government to a much greater extent than in the recent past does provide some challenges. While the expected outcome would be a strategy that is better informed and better designed as a result of business and community involvement, it provides more complexity, and can slow down the decision making process. For communities that submit funding proposals, waiting for

some time to know whether they have been successful can be problematic. As well, these advisory groups are often formed by a wide cross section of the community, and people can bring very different views to the table. As stated above, forming a 'partnership' within these advisory groups can take time.

A number of initiatives have been announced under the Stronger Families and Communities Strategy. Examples are:

- The Bridgewater/Gagebrook Urban Renewal Incubation Project. The Federal Government will be funding the development of a new information and research database for this enormously successful urban renewal project that has revitalised the local area. It is hoped communities across Australia will be able to use the information provided to develop similar projects.

- Strengthening Indigenous Communities Pilots. Funding will be provided to conduct a pilot project aimed at increasing indigenous social and economic participation in the Wadeye community (Northern Territory) in partnership with that community. The project will support the expansion of the women's centre and associated family and parenting support programmes.

- Isolated Families Early Intervention Project. This project will work with community and government partners to provide practical support to socially and geographically isolated families following the birth of a new child. Based in the Women's' & Children's' Hospital, North Adelaide, the project is intended to service both the city and rural and remote areas of the state.

- Food Share Australia. Federal Government funding will allow this already successful community project to expand into regional New South Wales. Under the Food Share project participants buy food at a reduced rate in exchange for doing voluntary work in the local community.

The Community Business Partnership

The Prime Minister has often called on the business sector to increase its philanthropic contributions and give more back to the community that nurtures it. In 1998, the Government established a Business and Community Round Table to identify and clear the way for business to increase its contribution to the community. However, more recently through the establishment of the Prime Minister's Community Business Partnership, mutual responsibility for business

is more than just philanthropy, it is about long term business sustainability. Business sustainability is achieved by recognising that business activity has significant impacts environmentally and socially on the community.

The Prime Minister's Community Business Partnership is a significant Australian Government initiative that seeks to develop and promote a culture of corporate and individual social responsibility in Australia. With the Prime Minister as Chair and the Minister for Family and Community Services as Deputy Chair, the Partnership is made up of eleven prominent business and community leaders. The Partnership is set up to play an important role in working with business, community and government to encourage more collaboration between sectors providing a source of innovative and creative approaches for building capacity within the community.

Achievements include:

- presentation of the annual Prime Minister's Awards for Excellence in Business and Community Partnerships;

- a $51 million package of taxation measures to encourage greater corporate and personal philanthropy in Australia;

- national communication strategies;

- publication of *Corporate Community Involvement: Establishing a Business Case* and yearly publications of *Top 20 Partnerships* in Australia identified in the annual Awards;

- commissioning the *Shareholders Deliberate* to examine how shareholders and Boards of Directors can balance the duty of companies to deliver the shareholders with broader corporate social responsibilities; and

- the Centenary of Federation *Pilotlight* which hopes to inspire and engage the business sector more actively in partnerships, research into the current giving situation and a stock-take on triple bottom line reporting in Australia.

Recognising how partners have combined their talents and resources to achieve common goals and to strengthen community ties is a key objective of the Prime Minister's Community Business Partnership Awards. Each year state and territory and national award finalists and winners are showcased, and attract many interesting and varied partnerships from large, medium and small business and community organisations. Notably, it is not the financial contribution of business that binds these partnerships, but the commitment from each other to address a real need within their region. Partnerships are varied. They can generate support for people with disabilities, indigenous people, mature age workers, the elderly and youth by providing facilities, leadership, training, mentoring, work skills and experience and a positive focus within the community. Some examples follow:

- A three-way partnership in Greenacres metropolitan Adelaide showcases one of the most disadvantaged areas in Australia. This partnership brings together a public affairs consultant, a small hotel and the primary school. The idea is to give local children opportunities to get experience performing and entertaining in many locations, all over Australia. The activities boost the students' self esteem, skills, confidence, community involvement, understanding of the wider world and of work. The business partners say the project has given them a greater understanding of the impact of disadvantage on children's and families' lives and the satisfaction of making a difference.

- The Sydney Leadership programme – a partnership between a very large business, the National Australia Bank and the Benevolent Society takes 30 participants from diverse backgrounds through a 12-month learning programme. The partnership is based on the firm belief that supporting the development of local leaders is crucial to making communities stronger. The bank and the society combine management expertise, intellectual capital and funding to ensure the programme's success.

- In Victoria, the medium business winner in the Prime Minister's Community Business Partnership Awards was the partnership between Sunicrust Bakeries in the provincial city of Ballarat, and

the City's Uniting Church Outreach Centre. This is an absolutely outstanding regional connection between business and the community which provides a daily meals programme for disadvantaged people and people without cooking facilities.

- In Brisbane, the partnership between Fiber Glass International and Mission Australia provided hands-on experience and training for 55 unemployed young people to build an Olympic class yacht for people with disabilities. The boat offered an opportunity for athletes to enter the Paralympic Games for the first time. Significantly 85% of graduates from the project moved into employment or further training and Mission Australia has been able to use the partnership to build a business network, its public profile and capacity to enter into further business partnerships.

- The Euraba Paper Mill was selected by the Prime Minister as the national winner. It is an example of how effective partnerships can make a positive impact on communities and the quality of life of those involved. The Mill produces handmade paper from waste cotton rags and other natural fibres and aims to provide employment opportunities, training and technical skills and in particular a sustainable alternative to inter-generational welfare dependence for the local community.

Initiated by Aboriginal Arts and Cultural Practices students at a Boggabilla education institution in association with the Toomelah Co-operative Society, this partnership facilitates Indigenous involvement in an area that was once described as the 'ghetto' of Australia. Previous Federal Government support had done little more than contribute welfare benefits. The new partnership highlights how communities are best at developing solutions to their problems. The new employees have gained valued work skills and experience and more importantly the self-esteem to become more self-reliant.

Government as broker – one-off projects

On behalf of government the Federal Department of Family and Community Services brokered a deal with the U.S. multinational company Proctor and Gamble and the Save the Children Fund in a campaign to raise USD 1 million per year for at least three years. The money raised is being dispersed to projects that benefit disadvantaged and vulnerable children in Australia. Proctor and Gamble were motivated by the Community Business Partnership award process (mentioned above). The Department's role was to broker contacts and opportunities to assist the project to get off the ground. This is quite a different

role for government – it is much more in the realm of philanthropic organisations.

Government learning from business – employee community volunteering

Government is one of the major employers in Australia. Mirroring the business sector in seeking to forge employee-community partnerships, the Federal Department of Family and Community Services has adopted an employee community volunteering scheme. As lead agency in promoting volunteering effort, particularly in this the International Year of Volunteering, it has also sought a commitment from other Federal agencies to support employees to work in the community as volunteers. The Department's Workplace Agreement has provision for two days paid leave for employees to provide volunteer services to approved community groups. An option of direct payroll deductions for employees wanting to donate funds regularly to charities is available.

Conclusion

The partnership philosophy recognises that change is taking place at a rapid pace and that there are new and creative ways of tackling problems if they are worked on together. Engaging a wide range of stakeholders to conceive, develop and deliver government services and programmes is seen as a means of ensuring better quality and more effective outcomes. For governments, partnerships also provide a means of diffusing criticism of 'government policies and programmes.'

As well, governments are also keen to foster, facilitate and encourage partnerships that they ultimately may not be part of. This is particularly true of the work that is being done of strengthening business/community partnerships. Increasing the resilience of communities is seen as a means of reducing pressure of the formal safety net. The message is very clear that businesses need to be good corporate citizens in Australia.

Because Australia has three levels of government, with varying responsibilities in the social protection system, this is an area where partnership to achieve integrated and holistic responses to need is critical. At the local level, communities themselves often observe how fragmented and wasteful effort to achieve the same outcome can be when three levels of government (and even different agencies at the same level of government) are involved. Breaking down these 'programme stovepipes' to get better social policy needs to continue.

Some of the lessons of promoting public/private partnerships for better social policy outcomes in Australia will be relevant to Asian countries in the region as they develop more formal safety net arrangements. Ensuring that government is only one of the partners in assisting countries to be resilient as rapid change occurs is critical. But partnerships are not 'effort free' – they demand commitment, a level of trust and time. If countries are willing to put in that effort, the benefits can be very worthwhile. In Australia creating successful partnerships is seen as a major way of developing a more productive, caring and creative society.

Notes

1. Prime Minister, 2000.
2. Australian Bureau of Statistics (ABS) data.
3. ABS 'Marriages and Divorces' 1999, cat 3310.0 p 121.
4. Latham, 2000, p 1.
5. While most payments are social assistance payments, payments are also made to low income working families to assist with the costs of raising children, and to enable them to continue to participate in paid work, for example, assisting with childcare costs.
6. Flanagan, 1999. Both the World Bank (in *Averting the Old Age Crisis*, 1994) and a 1998 OECD publication (*Retirement Income Systems: the Reform Process Across OECD Countries*) noted that Australia's public pension spending as a proportion of GDP was among the lowest of OECD countries, even projecting out to 2050.
7. Government's Welfare Reform Package, 'A New Partnership' fact sheet, 2000.
8. Jupp, 2000, p 24, 27.
9. However there is experimentation in the way these contractual arrangements are implemented with recognition that governments often ask too much in the way of accountability mechanisms from community organisations. Trials of shorter grant agreements and simplified accountability measures helps build mutual trust. Community organisations are changing too, with many turning into large 'social enterprises' and being far better able to cope with bigger service delivery, applications for government grants and contracts and accountability demands.
10. Australia has a national or federal level of government, charged under a constitution with functions such as defence and regulation of trade. The second tier comprises six States and two 'Territories'. There are around 730 local governments.
11. At present the Federal Government seeks to specify the high level goals it wants to achieve through negotiated agreements. 'Commonwealth/State Agreements' are in place not only for education and health, but also public housing, aged care, disability services and homelessness services.
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PART IV

CONCLUSIONS – WAYS FORWARD

THE DEFINITION AND DEVELOPMENT OF SOCIAL SAFETY NETS: WHAT FORMS OF SOCIAL PROTECTION?

Peter Whiteford and Michael Förster

Introduction

Even before the 1997 financial crisis, there had been increasingly forceful demands for social protection programmes, articulated by different cross-sections in different Asian societies, including non-government organisations (NGOs). Following the worsening of economic conditions after 1997, there were perceptions that governments had not been well prepared to deal with the social problems that had since become obvious. Subsequently, demands for "safety net" programs to contain the social costs of economic downturns emerged and became more prominent. These issues became the subject of debate and analysis by international organisations, such as the International Monetary Fund, the World Bank, the Asian Development Bank, the International Labour Office and United Nations agencies. They also became prominent in debate in regional groupings, such as ASEAN and APEC.

While economic circumstances have subsequently improved, the debate about social safety nets has continued and deepened. As will be discussed below – and will also become obvious from other contributions to this volume – there are various ways of defining what is a "social safety net". Different countries have developed differing safety net policies and programmes in reaction to the crisis. The forms and scope of these programmes differ. The World Bank and the Asian Development Bank also appear to have further developed their social protection strategies in the last year (World Bank, 2001; Asian Development Bank, 2001).

Given the differing circumstances of the societies affected by the crisis, the multiplicity of international organisations, and the diverse views of different agents (institutions, policy makers, researchers, activists and lobby groups), it is

hardly surprising that the debate on the need for social safety nets has not produced a single definition of what constitutes a "safety net". One objective of this Chapter is to attempt to clarify what constitutes a "safety net". The paper starts by discussing existing forms of social protection, including social security programmes, in these four countries. The paper then discusses the case for social safety nets. This is followed by a comparison of the definitions of safety nets put forward by a range of commentators, as well as international organisations. The paper then identifies a range of issues that may need to be considered and analysed in further work on the development of social safety nets. The paper also briefly discusses some of the lessons that might be offered by OECD countries' experiences with social safety net policies.

Existing Social Protection Systems

Before turning to a review of the social safety nets debate, it is important to bear in mind the broader context. (Annex Table 1 contains a range of background data on the population, societies and economies of these countries.) As is well known, many Asian societies have relied on traditional safety nets provided by families or communities. For example, the traditional form of social security in Indonesian village communities is based on the principle of *gotong rayong*, which is the term used for a mutual aid system, in which there is no employer-employee relationship or payment in cash. Planting and harvesting rice, building houses, construction and repair of irrigation canals, or community festivals are examples of activities carried out under this principle. Traditionally, older people were looked after by their families, including extended families. An indigent person could usually expect to receive food and shelter from more prosperous relatives, but would generally assume the role of a servant in exchange. Sons would also be held responsible for their parents' welfare in old age. In a broadly comparable way, welfare in Thailand has been provided by families, communities and religious organisations. As a Buddhist society, Thailand adhere to the concept of "opendhan" (literally 'giving to others') and thus will help their own family and friends and approach support agencies only when they do not have access to resources from their informal network.

The role of the family in social protection in Asia is also effected through household living arrangements. For example, according to the World Bank (1994), more than 90 % of older people (over 60 years) in the Philippines and Thailand, 82% in Malaysia and 76% in Indonesia live with their children or family, compared to 13 % in the United States, and only 7% in Australia. The World Bank (1994) also estimates that 83% of older people in Malaysia, 63% in

Indonesia and 45% in the Philippines receive income transfers from their family.

Given the greater role played by families and communities, governments in South East Asia provide a relatively smaller share of social protection compared to OECD countries. Table 1 provides data on the level of taxes and non-tax revenues, as well as on total spending, and spending on social protection purposes. Some care should be taken in interpreting these figures, however, as Indonesia and Malaysia have provident funds, where contributions and lump sum payouts may not be counted as part of government taxing or spending.

Overall, in 2000 the level of taxation ranges from 9% of GDP in Indonesia to nearly 14% in the other three countries. In all cases, however, the level of non-tax revenues is quite significant, particularly in Indonesia and Malaysia. Generally speaking, the level of total revenues appears to have fallen over the 1990s, as has the level of government expenditures, except in Thailand. In 2000, all governments had fiscal deficits, which had increased over the decade. The total level of government spending was well below the level in most OECD countries, where it ranges between 30 and 57% of GDP, excluding Korea and Mexico, where it is around 17% of GDP (OECD, 2001).

Similarly, the level of government social spending is well below the OECD average. In these Asian countries, government health spending is highest in Malaysia, but it is still only 1.6% of GDP. With the exceptions of Korea, Mexico and Turkey public health spending in OECD countries ranges between 4 and 8% of GDP. In the case of education, Malaysia, the Philippines and Thailand have levels of public spending comparable to those in OECD countries, although the level in Indonesia is extremely low. Social security spending in these countries is a small fraction of the OECD average, again excepting Mexico and Korea.

Nevertheless, over time each of these four countries has developed social security systems of varying levels of coverage and generosity. The main features of these systems are summarised in Boxes 1 to 4. Table 2 shows the year of introduction of the main forms of social security benefits. Three of the four countries – Indonesia, Malaysia and the Philippines – introduced social security schemes for old age, disability and death in the 1950s, with Indonesia and Malaysia introducing work injury compensation before this. Thailand introduced a social security system most recently in 1990s, although it was 1998 before some of the main programmes were actually implemented.[1] From Table 3 it can be seen that all social security taxes or contributions range from around 4 % of gross wages in Thailand to 24 % in Malaysia, with Indonesia and the Philippines both being around 12 %. In contrast, social insurance contributions

in OECD countries (where they exist) range between 14 % of gross wages (the United Kingdom, Ireland) to more than 50 % (France, Italy and the Netherlands) (Palacios and Pallarrès-Miralles, 2000. p. 34).

Table 1. **Government Finances and Expenditures**
Selected Asian Economies

	Indonesia	Malaysia	Philippines	Thailand
Taxes (% of GDP)				
1990	17.8	17.8	14.1	17.7
2000	9.0	13.8	13.7	13.9
Non-tax revenue (% of GDP)				
1990	1.0	6.9	2.1	1.2
2000	6.9	4.3	1.4	1.4
Total government expenditure (% of GDP)				
1990	19.6	27.7	20.4	13.9
2000	17.0	23.9	19.4	17.4
Fiscal Balance (% of GDP)				
1990	-0.8	-2.9	-3.7	4.8
2000	-1.2	-5.8	-4.2	-2.2
Government health spending (% of GDP)				
1990	0.3	1.5	0.7	-
2000	0.3	1.6	0.4	1.3
Government education spending (% of GDP)				
1990	1.0	5.5	3.1	-
2000	0.9	5.9	3.6	4.5
Social security and welfare (% of GDP)				
1990	-	1.0	0.2	-
2000	-	0.8	0.6	0.8
Government housing/community (% of GDP)				
1990	1.3	0.0	0.1	-
2000	3.2	0.4	0.2	0.69

Source: Asian Development Bank, 2001.

Table 4 shows characteristics of social security schemes in the mid-1990s, although the data are far from comprehensive. The proportion of the labour force and of the working age population who are contributors to social security programmes is very low in Indonesia (under 10%) and high in Malaysia – nearly half of the labour force. The figures for Thailand of around a quarter of the labour force covered refer to the situation after 1998. In OECD countries, in contrast, the ratio of contributors to the labour force ranges between 79% in Ireland and 98% in Switzerland, and as a proportion of the working age

population, the ratio is from 61% in Spain to more than 90% in Iceland, Japan, Switzerland and the United States (OECD, 1999).

Public pension spending is low in these countries, apparently at around 1% of GDP, although the figures for Malaysia and Indonesia are complicated by the fact that benefits paid out by the provident funds in these countries are lump sums rather than pensions. (In OECD countries, spending on "old age pensions" ranges between 3% of GDP in Australia to more than 10% of GDP in Austria, France, Germany, Italy and Switzerland (OECD, 1998).) Malaysia has by far the highest level of accumulated pension reserves, reflecting both the much higher coverage levels and the higher contribution rates applying.

Figures for the ratio of pensioners to contributors and to the population over 60 should be treated with caution.[2] Indonesia appears to have many more pensioners per contributor than the Philippines, but this probably reflects the fact that the Philippines has many more contributors overall, while the figures for Indonesia refer to one scheme only. It is interesting to note that in the case of Indonesia that while contributors to pension schemes are only 7% of the working age population, recipients are 39 % of the population over 60. This may reflect the fact that pension contributors and recipients are among the relatively privileged groups in society, who are more likely to survive to older ages. In the Philippines there are actually more pensioners than there are people over 60, presumably reflecting higher life expectancies and effective retirement before the age of 60 years. The proportion of the total population who are pensioners is 6.2% in the Philippines and under 3 % in Indonesia. Among OECD countries, in contrast, the lowest share of pensioners in the total population is around 8% in Ireland. Even so, this is an outlier, with the second lowest ratio being 13% in New Zealand, with 11 OECD countries having more than one in five of their total population as pensioners (OECD, 1999). This reflects both the much higher share of older people in OECD countries and the high share of children in these Asian societies.

In summary, all four countries have formal social security mechanisms, but only Malaysia has a system that covers a sizeable proportion of the working age population. The system in Thailand, in particular, is very new in origin. While it appears to have expanded in scope very rapidly – and faster than anticipated – it will still be many years before it is able to offer significant protection to those actually retired. Except in Malaysia, the levels of contributions are also very low. None of these systems appear to have provision for unemployment, although they do have provision for redundancies. Moreover, the generally low level of coverage means that social protection measures are of most relevance to those who are relatively privileged in the labour force, either civil servants or

employees of relatively large-scale enterprises. Again, Malaysia is an exception because coverage is beginning to approach levels in some OECD countries.

In addition to the traditional safety nets outlined earlier and these formal social security mechanisms, all four of these Asian countries have supported social development goals and poverty reduction strategies. For example, the 1986 Constitution in the Philippines assigned to the State a central role in poverty alleviation and the promotion of individual and social welfare. The 1997 Constitution in Thailand also endorsed Government responsibility for basic social services, viewed as universal citizen rights. The 1945 constitution in Indonesia also contains a State obligation to promote social justice for all Indonesians. The National Economic Policy and the National Development Plan in Malaysia also endorses the goals of social development, equity and social needs fulfilment, although the Malaysian government gives greater emphasis to privately provided social protection. The other pillar of social protection in these countries has of course been the commitment to economic growth as the primary means of reducing poverty. Until the 1997-1998 crisis this approach seemed to be remarkably successful

Table 2. **Social Security Programs by Type, Selected countries, 1999**
Programme by Year of Introduction

	Indonesia	Malaysia	Philippines	Thailand
Old age, disability and death	1951	1951	1954	1990/1998
Sickness	-	1951	1954	1990
Health	1957	1951	1969	1990
Maternity	1977		1977	1990
Work Injury	1939	1929	1974	1972
Unemployment	-	-	-	Pending
Family Allowances	-	-	-	1998

-: No program listed in source.

Source: Social Security Administration, Social Security Programs Throughout the World - 1999.

Table 3. **Social Security Taxes**
Selected countries, 1990s

	% of gross wage			All social security taxes	All social security taxes as % of total labour costs
	Pension tax:				
	Employer	Employee	Total		
Indonesia	4.0	2.0	6.0	12.7	11.5
Malaysia	12.5	10.5	23.0	24.3	21.3
Philippines	4.8	3.3	8.0	11.9	11.1
Thailand	-	-	-	4.1	4.0

-: No information in source.

Source: Palacios and Pallarrès-Miralles, 2000. p. 78.

Table 4. **Social Security Programs by Characteristics**
Selected countries, 1990s

	Contributors/ Labour force (%)	Contributors/ Working age population (%)	Pensioners/ Contributors (%)	Pensioners/ Population 60+ (%)	Pensioners/ Total population (%)	Public pension spending (% of GDP)	Reserves of pension funds (% of GDP)
Indonesia	8.0	7.0	38.0	39.4	2.6	-	2.8
Malaysia	48.7	37.8	-	-	-	1.0	55.7
Philippines	28.3	13.6	9.7	116.9	6.2	1.0	11.2
Thailand	(25.0)	-	-	-	-	-	-

Notes:

-: No data in source. For Indonesia, the figures for contributors as a % of the labour force and the working age population include the JAMSOSTEK, TASPEN and ASABRI schemes. The ratio of pensioners to contributors refers only to the TASPEN scheme. For Malaysia, the scheme is a provident fund, so there are no pensioners as such. For the Philippines, the figures for contributors refer to the SSS scheme and the GSIS scheme. The ratio of pensioners to contributors refers to the SSS scheme only. Figures for Thailand refer to the late 1990s, but for other countries to the middle 1990s.

Source: World Bank, http://www.worldbank.org/pensions, 2001; Palacios and Pallarrès-Miralles, 2000.

BOX 1. SOCIAL SECURITY IN INDONESIA

Indonesia has social security systems covering (i) civilian employees of government and state enterprise employees, (ii) members of the armed forces, and (iii) private employees. These provide lump sum cash benefits at retirement age, death benefits and funeral benefits, health care services, employment accident and occupational disease benefits and compensation in the case of permanent invalidity or death. The schemes for Government civilian employees and the Armed Forces also provide pensions for members, widows, widowers or orphans. There is also an assistance scheme for victims of natural disasters and social unrest, and those who lack the capacity to earn a living *e.g.* invalids, orphans and addicts.

JAMSOSTEK, the scheme for private employees is largest. Coverage is mandatory for establishments with 10 or more employees or a monthly payroll of Rp. 1 million. Coverage is being extended gradually to smaller firms and casual/seasonal workers. *JAMSOSTEK* also covers employees of participating state enterprises. *JAMSOSTEK* is financed solely from contributions from employees and employers. Monthly contributions to the Provident Fund from employers are 3.7% and from employees are 2%. Term insurance is funded by employer contributions of 0.3% of earnings. Health care benefits are funded by employer contributions of 3% for single employees and 6% for employees with families; employment accident compensation is financed by employer contribution ranging from 0.24 to 1.74% of earnings. Employee contributions amount to 2% of earnings, and employer contributions range from 9.24% to 13.74%, depending on accident risk and whether single or with a family.

Lump sum retirement benefits are paid at age 55, equal to accumulated contributions with interest. Disability benefits are payable for those under 55 with a total incapacity for work. The disability benefit is the lump sum equal to total employee and employer contributions plus accrued interest. Term insurance provides death benefits to heirs of the employee who dies before the age of 55. The accumulated retirement lump sum is also payable to the heirs from the provident fund. Medical benefits for employees and families include care through Community Health Centres, general practitioners, in-patient hospital care, maternity care, dental and eye care and emergency care.

The *TASPEN* system for government civilian and state enterprise employees provides a lump sum plus a burial allowance payable to an individual at retirement age (generally 56) or to the employee's heirs. If the employee ceases employment before retirement age, the cash value of the insurance is payable. The scheme is financed by employee contributions of 3.25% of monthly earnings. The monthly pension is the equivalent of 2.5% of the basic salary per year of service. A monthly pension is payable to widows, widowers or children. This pension scheme is financed primarily from the State Budget, but partly from employee contributions of 4.75% of earnings. Government employees, pensioners and their dependants are also covered for health care. The range and scope of benefits and contingencies covered under the Armed Forces Social Insurance, as well as financing arrangements are the same as for *TASPEN*.

Large state companies and some multinationals provide private retirement plans. Before 1992 most were defined benefit lump sums. Following 1992 reforms these must be converted to pension plans, with a maximum of 20% payable as a lump sum. Formal social security coverage has expanded substantially over the past 30 years. Around 13.7% of the labour force were covered in 1993-94 (not including the armed forces), equivalent to 29.2% of those in paid employment.

Source: Updated from Stanton and Whiteford, 1998.

BOX 2. SOCIAL SECURITY IN MALAYSIA

Retirement income is provided through several different systems:

The *Employees' Provident Fund (EPF),* which was established in 1951 as a publicly managed mandatory savings scheme, provides the main source of retirement income.

The EPF, a fully funded defined contribution scheme, compulsorily covers all private sector employees aged 16 and over earning up to a maximum of RM2000 a month. Agricultural workers and casual employees are excluded from compulsory or voluntary coverage. Teachers and members of the armed forces are covered by separate schemes. Public sector workers are covered by the EPF in their first 10 years of public sector employment, then become eligible for coverage by the Government Pension Scheme.

Current employee contribution rate is 11% of earnings (up to a maximum of RM2000 a month); employer contribution is 12%. Contributions are distributed among three separate accounts: retirement (60%), housing/age 50 withdrawals (30%); medical (10%). Members may withdraw up to 20% of the balance of their retirement account in excess of RM50, 000 to invest with EPF approved fund management institutions.

Retirement benefits are payable at age 55 (normal retirement age). A lump sum withdrawal of the balance of funds in the member's housing account is permitted at age 50. At age 55, members may withdraw all or part of accumulated contributions and interest in their retirement account as a lump sum, or alternatively as an annuity. The amount of retirement benefit is entirely dependent on member's accumulated contributions and interest in the Fund at the time the benefit is paid. If neither lump sum nor annuity is withdrawn at age 55 members may withdraw interest on account balances (*e.g.* if still employed). All benefits are usually paid tax-free.

Company pension schemes are common among larger or foreign-owned firms. The majority are defined benefit plans, usually funded entirely by employers but some take the form of employers providing additional contributions to the employee's EPF account. Benefit amounts range between 50 and 100% of pensionable salary (defined as the average monthly salary over the last year or two of service) per year of service. The benefit is paid in the form of a lump sum on retirement at age 55, with the benefit usually reduced by the amount of the employee's EPF savings represented by the employer's EPF contributions. In the case of early retirement (usually age 50 for men and 45 for women), retirement benefits provided through tax-approved plans must be transferred to the employee's EPF account. Late retirement, usually not beyond age 60, may be permitted on a discretionary basis by the employer.

The Ministry of National Unity & Community Development provides a monthly allowance of RM50 to homeless or destitute people over age 60 without families to support them.

The EPF provides the main source of retirement income and covers around half the workforce. Those not covered include agricultural workers (around one third of the work force), and casual workers. In addition, retirement benefits provided by the EPF seem relatively modest.

Source: Updated from Stanton and Whiteford, 1998.

BOX 3. SOCIAL SECURITY IN THE REPUBLIC OF THE PHILIPPINES

The *Social Security System* (SSS) is a publicly managed social insurance scheme, which compulsorily covers the majority of the private and self-employed workforce.

Contributions are paid on covered earnings - up to a maximum of P10 000 per month (1997). Employees pay 3.33% and employers 5.07%. Self-employed pay 8%. A tax-free retirement pension is payable on retirement at age 60 to members with a minimum of 120 monthly contributions. Members with fewer than the minimum number of contributions at age 60 may either continue to contribute until the minimum number has been paid or receive a lump sum (contributions plus interest).

Retirement benefit is an earnings-related lifetime monthly pension, the amount calculated on the number and amount of contributions, years of membership and dependent children. Current average pension is around 60% of pre-retirement earnings. CPI adjustment of pension amounts is on an ad hoc basis.

As well as retirement income, SSS also provides disability, survivors and dependants' pensions. Members may obtain loans at concessional rates from the SSS for such purposes as home purchases, investments and education. Employer contributions to the SSS are tax deductible, employee contributions are not.

The *Government Service Insurance System* (GSIS) covers public sector employees, and provides the same range of benefits as the SSS plus compulsory life insurance coverage. Contribution rates for employees are 9% on monthly salaries up to P10, 000 and an additional 2% on earnings above P10, 000. Employer contribution is 12%. Included in this amount for both employees and employers is a life insurance contribution of 2%. The Retirement Benefit is based on a formula including years of service and average monthly salary in the last three years of service, up to a maximum of P10, 000 a month. It is payable from age 60 to those with at least 15 years of service. A portion of the benefit, representing 60 monthly pension payments, may be taken as a lump sum. Those retiring between 3 and 15 years' service receive a lump sum Separation Benefit.

Occupational pension plans, usually provided by larger employers in the private sector, are mainly the defined benefit type, with pensions related to final salary and length of service. They are not normally integrated with the SSS pension.

A government-run provident fund, the *Home Development Mutual Fund* (Pag-IBIG), has been set up to encourage saving over the longer term, to provide funds for housing, medical and educational purposes and also an additional source of retirement income. Membership of the Fund is compulsory for all middle to high-income earners, with voluntary membership open to other employees and self-employed people.

There is no state social assistance program providing payments to low income people who have no other means of support. Low-income elderly people who lack family support may receive 'in-kind assistance' from the Department of Social Welfare and Development.

Source: Updated from Stanton and Whiteford, 1998.

BOX 4. SOCIAL SECURITY IN THAILAND

In 1954 the *Social Insurance Act* was passed, which provided a legislative basis for the introduction of old age, invalidity and survivor's benefits as well as sickness, maternity and family allowances. However, enforcement of the *Social Insurance Act* was first delayed and then the military government that took power in 1956 decided to shelve it indefinitely. The second attempt in 1972 led to the introduction of the *Employees' Compensation Scheme*. The *Labour Relations Act* requires employers to pay a lump sum benefit on dismissal or compulsory retirement. Since 1983 governments have encouraged private firms to set up provident funds for retirement pensions or compensation for termination of employment. Since 1987 all funds operate under the *Provident Fund Act*. Employees contribute a minimum of 3 % and a maximum of 15% of earnings. Employers must at least match employees' contributions. In 1996 the average contribution rate for both employers and employees was 5 to 6% of earnings. Enterprises providing private pension plans are usually foreign owned companies and large local corporations. They typically provide a benefit of 0.5 to 1 % of final pre-retirement salary for each year of service. The scope of provident funds is still limited and participation is voluntary. However, until recently they represented the only form of retirement saving plans.

The *Social Security Act* was gazetted on 2 September 1990. It provides a legal basis for social security based on social insurance principles. The scheme was to be implemented over a period of six years starting with the provision of health care, sickness benefits, disability pensions, maternity benefits, and funeral grants in establishments with 20 or more workers. After three years, it was proposed to extend the scheme to cover enterprises with 10 or more workers and in the fourth year to extend it, on a voluntary basis, to the self-employed. The Act also provided for the introduction of retirement, family welfare and unemployment programs at a later stage, allowing the government to decide when the country would be ready to meet these financial demands. Civil servants are not covered by the Act as they already enjoy a wide range of benefits. The Act also established the *Social Security Office* (SSO) to administer the scheme and set up a special *Social Security Fund* to which government, employers and employees were to make equal contributions, initially at the rate of 1.5% of wages of employees covered by the scheme. An additional 3 % matched contribution will be required when the family welfare benefits and old age pensions are phased in.

The social security public pension scheme was introduced in 1998 and it will be 15 years before it pays its first full pension. The provisions of the Act stipulate that partial pensions are payable from the tenth year onward. Employees retiring in the first nine years of the scheme's existence will be paid a benefit in a form of a lump sum. Employees will be entitled to old age pension on retirement at the age of 55. The scheme covers all enterprises with 10 or more employees except employees in agriculture, forestry and fishery, employees of private schools and public servants. Social security programs introduced in the first phase of the *Social Security Act* implementation covered about 4.8 million workers, or under 10% of the population. It appears that the scheme covers around 8 million members of the workforce (about 25%).

Source: Updated from Stanton and Whiteford, 1998.

The case for social safety nets

In the first instance, it is clear that the main motivation for current interest in social protection or social safety nets arises from the impact of the Asian financial crisis. These impacts are described in detail in Edwards (2001) and Knowles, Pernia and Racelis (1999). Perhaps what is most important about these impacts is that they show that while economic growth may be a prerequisite to poverty reduction and social development, it is not possible to assume that growth will be always sustained. In addition, the impact of the crisis in some countries suggests that the substantial social development gains achieved over many years could be significantly reduced in a much shorter period of time (Holzmann, 2001; World Bank, 2001). As noted by Yusuf (2000), the crisis forced a searching re-evaluation of the approach to development that had been broadly accepted as workable until shown to be problematic in a globalising world. Put another way, this suggests that the anti-poverty effectiveness of economic growth alone may be more "fragile " than was considered before the crisis.[3]

The case for developing social safety nets goes beyond the immediate effects of the crisis, however. The arguments are explored in a great deal of detail by a number of organisations. These include the World Bank (2001) in its *Social Protection Sector Strategy: From Safety Net to Springboard. T*he Asian Development Bank, has also devoted considerable attention to these issues, particularly in the papers on Strategies for Improved Social Protection in Asia at the *Asia and Pacific Forum on Poverty* held in Manila in February 2001 (http://www.adb.org/Poverty/Forum/default.htm) and in the chapter by Isabel Ortiz in this volume. The issues are also discussed at length in the background papers prepared for the United Kingdom's White Paper on *Eliminating World Poverty*, particularly, *Social Protection Concepts and Approaches: Implications for Policy and Practice in International Development* (Norton and Conlin, 2000) (see http://www.globalisation.gov.uk).

According to Norton, Conway and Foster (2001), there has been increased attention to social protection issues within development debates in the 1990s. This has reflected the influence of globalisation in the 1990s, which has increased opportunities for all including the poor but is perceived by some as also increasing insecurity. Changes in development practice have also been important, with increasing emphasis on working holistically on public policy and government budget issues to achieve sustainable reductions in poverty. Increasing interest in issues of citizenship, governance and rights has also been noted as a feature of development debates. According to Norton et al. (2001) there is evidence that the provision of protection against risk from exposure to markets is a fundamental part of the bargain between workers and the state that

accompanies structural reform. They also argue that evidence suggests that states that rely more upon their citizens for revenues (rather than donors) are more successful at converting economic growth into human development improvements.

Apart from these paradigm changes, there are also concerns that in dealing with poverty it is necessary to have a forward looking approach to deal with future problems and challenges (Asher, 2000; Holzmann, 2001; Ortiz, 2001). For example, the need for social protection programmes is likely to become more important in Asia over the medium to longer term, as a result of the demographic transformations affecting many Asian countries. These changes are likely to accentuate the vulnerability of some groups, and at least in part may undermine traditional social assistance institutions, particularly the family and local communities.

At the moment, Asia is overwhelmingly a young, populous and rural continent (Ortiz, 2001). More than 60% of the Asian population live in rural areas. The urban population accounts for 58% of the total in Malaysia, 59% in the Philippines, 40% in Indonesia and just over 20% in Thailand, in contrast to level of 75% or more in many OECD countries. Roughly 40% of the Asian population are currently under the age of 18 years. This suggests that in the immediate future it is desirable to concentrate on issues relevant to workers, families and their children, including education, child protection and health and labour market policies.

However, projections suggest that between 1990 and 2030 the population over the age of 60 in a number of South East Asian countries will more than double. In Indonesia the increase will be from 6.4 to 14.1 percent of the total population, in Malaysia from 5.7 to 14.5% of the population, in the Philippines from 5.3 to 13.5%, and in Thailand from 6 to 18% of the total population. While a much smaller group, the “old old” (over 75) will increase at a much faster rate, increasing the share of the most vulnerable, particularly older women.

The process of urbanisation may also weaken traditional safety nets, as communities become more distant and less solidaristic, and as children move away from their parents to take jobs in cities. Changing family patterns and reduced numbers of children per family may reinforce these concerns, and as older people live longer the potential costs of family support may rise. At the same time, average family size is projected to fall in these countries, reflecting both smaller families and an increased proportion of women who have no children. Currently, there are larger differences between the labour force participation rates of men and women in many Asian countries than there are in most OECD countries, although Thailand appears to be an exception. Increasing

labour force participation rates of women may put other pressures on traditional safety net approaches.

Historically, higher national incomes have lead to increased demands for social protection. This is likely to be the case in the area of health care, where there also likely to be increased health demands, as Asian patterns of morbidity converge with those of richer societies. Globalisation and economic restructuring are also likely to create new challenges as well as opportunities for Asian societies. More open economies will also be more open to global economic trends and external shocks. More flexible labour markets may be necessary for employment generation, but can be accompanied by increased insecurity. The growth of employment in manufacturing and in services will have complex implications for future levels of income inequality. Moreover, rapid economic growth while effective in reducing absolute poverty may raise concerns about relative poverty, for example, particularly among the elderly, unless there are mechanisms to help them share in the increased prosperity.

In summary, the arguments put forward to support the need for attention to social safety net issues encompasses a very wide range of complex concerns. There are both short-term issues arising from the Asian crisis, prospective but still immediate issues relevant to Asian societies over the next 10 to 15 years, and longer-term social and economic challenges.

What are safety nets?

These challenges can potentially be met in a range of ways. An obvious set of questions is why the solution might involve developing “safety nets”, and what is a “safety net”?

As a starting point, it is worthwhile to remember that the term “safety net” is a metaphor. The expression immediately conjures up the image of a person on a tightrope or a trapeze, potentially in danger of serious injury if not for the safety net that is available to break a possible fall. The metaphorical aspect of safety nets is quite important, since metaphors may mislead as well as illuminate, and one metaphor leads to another. Thus, for example, some have referred to the need for “springboards” (Holzmann, 2001). In other cases, it has been argued that safety nets should not be seen as hammocks but as trampolines. It has also been asked whether what is required are safety nets or safety ropes (Sumarto, Suryahadi and Pritchett, 2000). The metaphor used here is that of those climbing a cliff, who want some mechanism to stop them from falling too far, rather than something that stops them just short of the ground. Similarly, others have argued that what is required are preventative rather than palliative

measures (fences at the top of cliffs, not ambulances at the bottom, for example).

This discussion suggests that there is potentially at least some confusion or disagreement about what sorts of safety nets are desirable or feasible. This in turn relates to the potential scope of social protection offered by safety nets. The scope of a scheme, its coverage and generosity have implications for the budgetary costs of a scheme, the effects – positive or negative, if any - of a scheme on economic performance, the administrative capacities required to implement a scheme, and the political acceptability of the safety net.

In OECD countries, for example, the term safety net is often used to describe the social assistance schemes that provide a guarantee of minimum resources to citizens or residents who lack sufficient income from other sources.[4] As noted by Eardley, Bradshaw, Ditch, Gough and Whiteford (1996), in the first study of social assistance policies on an OECD-wide basis: "Such forms of protection are often described as constituting a "safety net", through which people should not have to fall. By implication, if people without access to other sources of help fail to be caught by the safety net, they are likely to face poverty or some other manifestation of unmet need…"(p. 15).

Subsequent OECD studies defined social assistance as means-tested or targeted benefits, in cash or in kind, which have eligibility criteria designed to target the receipt of benefits on individuals or households clustered in the lower segment of the income distribution, or below some threshold which approximates a similar target. The main aims of social assistance policies are, in the broadest terms to prevent extreme hardship among those with no other resources; and to reduce to the extent possible, social exclusion. This latter goal gives rise to two particular concerns: minimising any disincentives to paid employment; and promoting independence and individual responsibility (OECD, 1998).

The use of the term "safety net" will therefore usually imply to an OECD audience a fairly restrictive programme, limited to a narrow proportion of the population, mainly designed only to assist the very poor, and therefore targeted in some way. However, this image of a residual programme intended to alleviate severe poverty is not necessarily what is intended by all those contributing to the current debate on social safety nets in Asia. For example, the metaphor of safety ropes used by Sumarto, Suryahadi and Pritchett (2000) is more suggestive of the need for a social insurance scheme than a social assistance programme.

The debate on social safety nets in Asia is marked by a divergence of definitions of what constitutes a safety net. The more restrictive approach that is usually

implicit in OECD perceptions is also characteristic of the approach suggested by some economists with the International Monetary Fund. For example, in a paper on ways to deal with the social impacts of privatisation programmes it is argued that "the basic purpose of social safety nets is to mitigate the short-term adverse effects of macroeconomic and structural policies on the consumption of the vulnerable. Protection mechanisms have taken many forms, including the targeting of subsidies … the provision of severance payments and temporary employment to job losers, and the adapting of existing social security arrangements" (Gupta, Schiller and Ma, 1999, p. 3).

This explicitly time limited definition of safety nets is illustrated in Figure 1, taken from Gupta, Schiller and Ma (1999). This shows a social safety net as being required only during the period from "A" to "D". Once employment again increases past its pre-privatisation level, then this formulation suggests that the safety net can be dispensed with. Having said this, the authors do allow for situations where some job losses are either permanent or enterprises are non-viable, although in these cases they recommend policies to facilitate the redeployment of laid-off workers.

The ASEAN task force on safety nets also adopted a definition of safety nets that implies a restrictive approach:

> "… the task force will consider developing projects to share experience and best practice on the design and implementation of the following, among others: social security systems for persons working in the informal sector, services for school dropouts and street children, workfare (emergency work relief) programmes, micro-finance and self-employment programmes, maternal and child health services, psycho-social care for affected families, disaster victims/displaced communities, and assistance for the elderly and disabled."
> http://www.asean.or.id/function/pl_socsn.htm)

While this listing is quite wide-ranging, each of these possible programmes is fairly narrow in scope (with the possible exception of the first.)

The World Bank in its website on safety nets also appears to take a somewhat restrictive definition. This defines safety nets as follows. "Safety Nets are programs that protect a person or household against the adverse outcomes of

chronic incapacity to work (chronic poverty); and a decline in this capacity from a marginal situation that provides minimal means of survival with few reserves (transient poverty)." http://www.worldbank.org/poverty/safety/index.htm. As discussed below, however, other analysis of the World Bank suggests a broader approach to the issues.

Other actors have approached these issues with apparently different definitions. For example, at their 1998 meeting in Kuala Lumpur, APEC Economic Leaders noted that intensified efforts to address the social impacts of the Asian financial crisis should be a matter of high priority, and they decided that concrete actions aimed at strengthening social safety nets should be formulated.[5] Box 5 summarises the subsequent plan of action endorsed by APEC Human Resource Development Ministers at their meeting in 1999.

As a preamble to this plan of action, Ministers noted:

> We recognise the importance of having effective safety nets in place before a crisis develops and urge the design of effective and inclusive labour market systems and social safety nets, as well as gender sensitive mechanisms to assess the performance of such programs. Attention must be directed to addressing the needs of the most vulnerable populations, including women and youth, the elderly, the disabled, migrant workers and indigenous people and recognising the particular cultural, economic, and institutional situations in different economies. Care must be taken to balance the equity component of social safety nets with the need for labour market efficiency, adaptability, and individual empowerment. In addition, we recognise as a priority the dignity of work, and the need to avoid dependency. (APEC Human Resources Development Ministerial, Washington, D.C., July 27 - 29, 1999)

It can be seen that the action plan suggested that work on social safety nets should include the issues of unemployment and social insurance, as well as pensions, and programmes to enhance employability among other concerns. Clearly, this is a much broader agenda than is implied by the ASEAN work programme, for example.

The Asian Development Bank and the World Bank also appear to take a broadly based view when discussing their social protection strategies. It is also significant that these are referred to as social protection strategies rather than safety net strategies. According to Ortiz (2001), "the overarching mission of the Asian Development Bank is to help its developing member countries (DMCs) achieve accelerated and irreversible reductions in poverty. Social protection, as an analytic concept and lending activity, is an integral component of that mission by reducing risks to the population and making growth more equitable"(2001, p. 1). Ortiz (2001) sets out five main areas or pillars of this social protection strategy. These include (1) labour market policies and programmes; (2) social insurance programmes; (3) social assistance and welfare services for those with no other means of adequate support; (4) micro and area based schemes to cushion risks, and to reduce risks and vulnerability at the community level; and (5) child protection. Potentially, at least, this listing of programmes would correspond to the domain of social protection policy as understood in many OECD countries.

The World Bank's approach to these issues is set out in its recent Social Protection Sector Strategy, as well as by Holzmann and Jorgensen (2000) and Holzmann (2001). Part of this approach is that sustainable poverty reduction needs a forward-looking approach, and one based on an understanding of the dynamics of poverty. It appears that a forward-looking approach implies a positive plan to develop social protection strategies, rather than an approach based on reactions to crises or shocks. Holzmann (2001) specifically contrasts the approach of the World Development Report (WDR) 2000 with the WDR 1990. In 1990, social safety nets were seen as an addendum to anti-poverty strategies, and understood as reactive in response to economic crisis and structural adjustment. In 2000 in contrast social protection is a primary element in the Bank's anti-poverty strategy, along with opportunity and empowerment. It is also important to note that in the social risk management framework, it is emphasised that social protection should be viewed as a springboard out of poverty. Holzmann (2001) also notes that this approach will involve Social Sector Reviews (SSR). These reviews will (1) identify the scope and structure of a country's social sector; (2) monitor the necessity, appropriateness and capability of social sector programmes to reduce poverty; and (3) evaluate the economic effectiveness of social sector programmes that are publicly financed.

BOX 5. THE APEC APPROACH

PLAN OF ACTION

The Ministers responsible for human resources development in APEC, meeting in Washington, D.C., July 28 and 29, 1999, reaffirm our commitment to the principles of our Joint Ministerial Statement and direct the Human Resources Development Working Group to:

Facilitate and co-ordinate an ongoing exchange of information on labour market systems and social safety net issues, and effectively disseminate such information to APEC member economies.

Identify and demonstrate more effective ways to work in co-operation with labour, business, and civil society, as appropriate, and consistent with APEC guidelines, in considering employment policy and labour market systems, social safety nets, workplace practices, and other aspects of human resources development.

Ensure effective communication with other APEC fora, in particular the Finance Ministers' process, so that the human resource aspects of the financial crisis are given priority, that policies developed to address the crisis take into account the fiscal policy frameworks of member economies, and that labour market programs avoid employment disincentives and ensure broadly shared prosperity.

Restructure the HRD Working Group to improve its co-ordination among the education, skills development, business, and labour activities, and to reflect Ministers' priorities.

We call for the following action items on labour market policy, social safety nets, and workplace security to be implemented by the HRD Working Group.

Action Items

The HRD Working Group will develop a program of work for capacity building and exchange of information in the areas of labour market systems, social safety nets, and building the workplace of the 21st century …

B. Issues for work on social safety nets should include:

- unemployment or social insurance;
- pensions;
- income support systems for people not covered by formal plans; and
- programs to enhance employability, empower individuals, and mitigate social assistance dependency

2. In developing and implementing the program of work, the HRDWG should regularly consult with other regional and international organisations and representatives of government, labour, business, and civil society.

3. The HRD Working Group will develop a project to share expertise on measures to monitor and evaluate labour market programs. This project should bring together experts from governments and regional and international organisations to improve the capacities of ministries to assess the performance of the programs.

Source: APEC Human Resources Development Ministerial, Washington, D.C., July 27 - 29, 1999.

To sum up, it is apparent that the term "safety net" is used by many organisations in the Asian context in ways that may not correspond to the way that it is used in some OECD countries. In itself, this is not necessarily problematic, except to the degree that it causes confusion or misinterpretation. Nevertheless, there would appear to be a case for clarifying the terms of the debate in order to avoid future misinterpretations. It is also notable that the World Bank and the Asian Development Bank tend to use the term "social protection" to describe their strategies. This expression does appear to be more accurate in terms of the ambitions of these strategies, and it seems reasonable to conclude that it would be desirable to use this term rather than "safety net".

Analysing and assessing the distributional consequences of social programmes – the lessons of OECD experience.

In analysing the advantages and disadvantages of different approaches to social protection, it may be useful to consider some of the lessons offered by the experience of OECD countries. This section provides a brief overview of recent OECD studies of the distributional consequences of social programmes in OECD countries.

In providing monetary and in-kind social programmes, all OECD Member countries' governments redistribute resources and income among citizens in their societies. It should however be noted that, in general, the prime objective of the vast majority of social programmes is not redistribution from richer to poorer households but redistribution of particular risks. They redistribute across age groups, *e.g.* from the adult population to the young (educational programmes) and the elderly (public pensions); across gender; from childless families to families with children (child and family programmes); from those who work to those who do not (unemployment programmes). Social programmes which are specifically and explicitly targeted to low-income groups – social assistance type payments – represent a minor part of the social budget in OECD countries (some 3 % on OECD average in 1997).[6]

In most OECD countries, with the notable exceptions of Australia and New Zealand, most benefits from social programmes are not based on the resources or incomes of a person or his/her family, but on other conditions, such as the presence and number of children, availability of paid employment or other circumstances. In many cases, the levels of benefits depend on earlier employment records, although most countries embed poverty-alleviating minimum levels in their schemes (*e.g.* minimum pension benefits). In addition, continuing pressure on public budgets during the past two decades lead to a

reduction in the generosity of some social programmes in many OECD countries.

Overall, in most OECD countries the prime aim of neither public pensions (for the elderly) nor family and unemployment benefits (for the working-age population) is to redistribute resources to poorer income groups. While the analysis of distributive patterns of old-age pensions confirms this for most of the countries, unemployment benefits and family cash benefits do play an important role in redistributing resources to lower income groups among the working-age population. Moreover, this redistributive impact has strengthened over the past ten years, for two reasons: first, in a majority of OECD countries, the shares of total transfers going to the poorer part of the working-age population increased. Second, those benefits constitute an increasing part in the budget of low-income households in all OECD countries.

The experiences of a number of OECD Member countries and country groupings regarding the distributional role of benefits during an economic transformation can be also considered to be relevant. Those countries underwent quite different economic developments in the 1990s. In Ireland, the 1980s were a period of fiscal crisis and mass unemployment that was followed by a decade of an economic boom. This rapid growth led to a substantial widening in earnings inequality but did not result in a more unequal distribution of household incomes. In Finland, the early 1990s were characterised by a deep recession following the break-up of the USSR. Although unemployment tripled during a few years, both inequality and poverty were kept at an internationally very low level. The Visegrad countries (Hungary, Poland, the Czech and Slovak Republics) who recently became Member countries of OECD had to cope with a substantial increase of inequality and poverty following the first phase of economic transition in the first half of the 1990s.

One of the main lesson to be drawn from those country experiences is that a well-established and universal social protection scheme can cushion the negative effects of a macro-economic shock, not only in the short run (example Finland). In the absence of such a social protection scheme, short-term measures to tackle negative effects of economic crises on household welfare are, however, necessary. This will mean a targeting of scarce available resources to those most in need. In some cases, as has been argued above, a strict targeting will not be possible, and the experience from the OECD Member countries that went through a profound economic transition (Hungary, Poland, the Czech and Slovak Republics) might be helpful. The introduction of a “soft” targeting by excluding just the richest households from benefit receipt in the area of family allowances helped to keep expenditures relatively low and to protect the most vulnerable at the same time.

A possible strategy for the development of sound social safety nets in the Asian region might therefore be to combine a short-term approach with the installation of targeted cash and in-kind programmes with a long-term approach to build up a more universal social protection scheme.

Conclusions - Questions in Developing Social Protection

Clarifying definitions and concepts is of course only the beginning of any task of analysis and policy development. There is clearly a wide range of further questions that will arise for those responsible for developing social protection strategies in Asia.

Some specific questions can be suggested for consideration. First, what are the priorities for different societies and how can they be defined? Is there evidence that some processes of developing social priorities work better than others? Sequencing issues are likely also to be important. Do some social programmes come before others? What are the institutional requirements for introducing social protection programmes? Are there complementary institutions? How can developments be made sustainable?

It is worth noting that in all OECD countries social protection involves many different institutions, partners within and outside government, and at different levels of government. Thus, financing and administrative issues are important to consider, particularly across levels of government and regions. Similarly, ways to enhance partnerships and assess the role of non-government organisations and the for-profit sector are of interest.

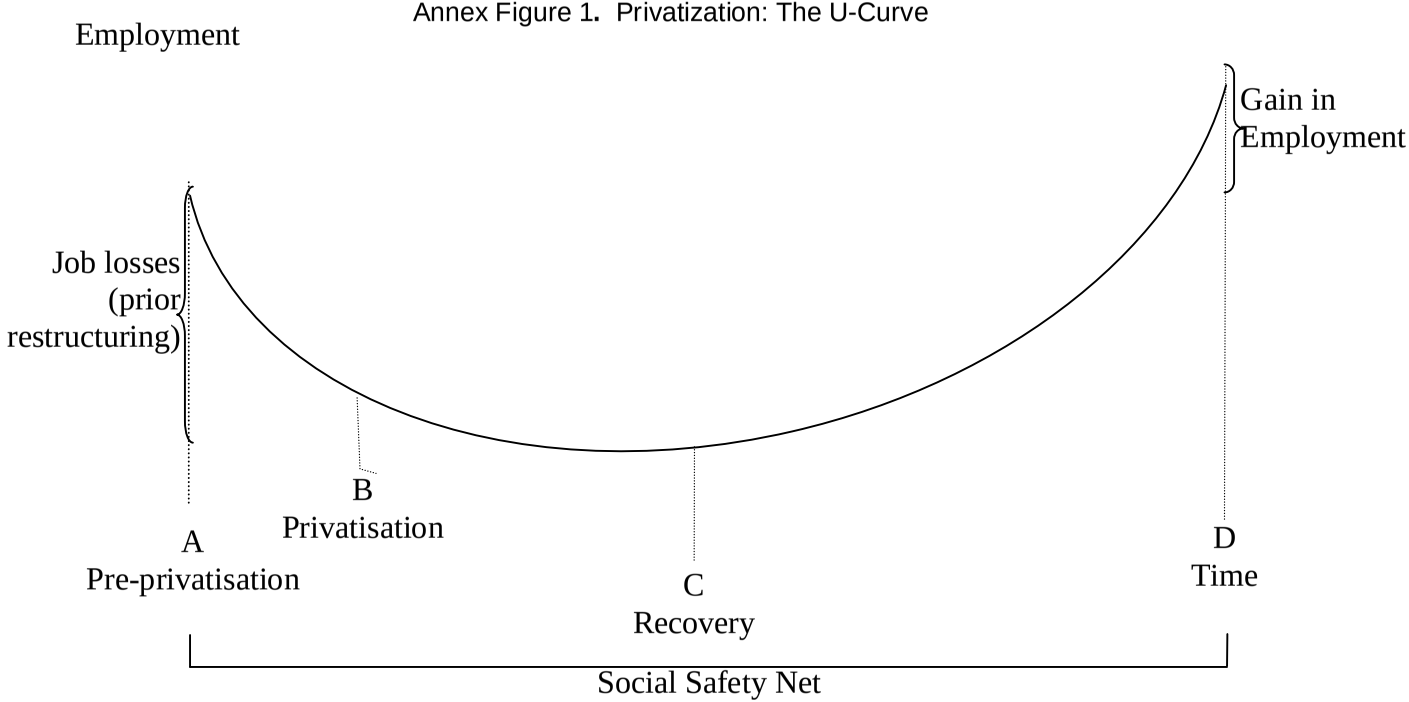
Proper evaluation of the effectiveness and efficiency of different programmes and projects is crucial to the future improvement of policies and to achieving better outcomes. As noted earlier, the World Bank's social protection strategy involves Social Sector Reviews that identify the scope and structure of a country's social sector, monitor the necessity, appropriateness and capability of social sector programmes to reduce poverty, and evaluate the economic effectiveness of social sector programmes that are publicly financed. This form of analysis is well known in many OECD countries, and it seems reasonable to argue that OECD countries could make a valuable contribution in this area. One publication cannot answer all the potential questions about the development of a social protection strategy. This can only be achieved through ongoing policy dialogue. How can OECD countries contribute to this dialogue? The best way to make this contribution appears to be continuing sharing of information and experiences.

Annex Table 1. **Main Economic and Social Indicators**
Selected Asian Economies

	Indonesia	Malaysia	Philippines	Thailand
GDP per capita 1999 PPP US$	2 857	8 209	3 805	6 132
Population (million) 2000	210.5	23.3	78.4	62.4
Population growth rate (%) 1995-2000	1.6	2.4	2.2	1.0
Total fertility rate, 1999	2.6	3.0	3.5	1.9
Average household size, 2000	-	4.52	5.00	3.7
Population - % under 15	30.8	34.1	37.5	26.7
% 65+	-	-	-	-
1990	3.9	3.7	3.5	4.3
2000	7.6	6.6	5.5	8.1
Life expectancy at Birth, 1999				
Female	68	75	71	71
Male	64	70	67	67
Infant Mortality Rate (per 1000 live births),				
1990	63	16	42	38
1999	42	8	31	28
Economically Active Population (% of working age) 1999				
Female	34	37	53	68
Male	85	83	91	90
% of EAP in Agriculture				
Female	42	15	27	50
Male	41	21	47	52
Non-agricultural employment:	(1992)	(1990)	(1993)	(1990)
% Employers and own account workers	37.8	15.6	25.7	23.4
% Unpaid family workers	9.7	4.8	4.0	10.9
Urban population (% of total)	40.2	57.3	58.6	21.6
Gini coefficient	0.31	0.49	0.49	0.44
% of population below:				
$1 a day	15.2	-	-	<2
$2 a day	66.1	-	-	28.2
Human Development Index, 1999	0.677	0.774	0.749	0.757

Source: Asian Development Bank, 2001; UNDP, 2001.

Annex Figure 1. Privatization: The U-Curve



Source: IMF, Privatization, Social Impact and Social Safety Nets, May 1999.

Notes

1. It is possible that the "late development" of formal social security systems in Thailand reflects the fact that it was the only one of these countries not to have been colonised at some time by a European power.

2. For example, the figures differ markedly from those given in *Averting the Old Age Crisis* (1994), also by the World Bank.

3. This in turn may reflect the well-known problems of poverty headcount measures. If a sizeable proportion of the population is just above the poverty cut-off then relatively small changes in income may result in a large change in the estimated numbers in poverty. This suggests the need for poverty sensitivity measures to complement headcount and poverty gap estimates.

4. Examples of social assistance schemes include cash transfers in many OECD countries, but also free meals/milk for schoolchildren, health cards, targeted public employment, unemployment assistance, or safe housing for women and children experiencing domestic violence. The minimum living guarantee for urban residents in China is an example of a general scheme of cash social assistance in an Asian country. Typically, target groups for social assistance schemes include elderly people unable to save and without families, poorly functioning families. The disabled and the severely ill, and others unable to participate in labour markets.

5. This involves co-operation between the World Bank, the Asian Development Bank, the IMF, the Inter American Development Bank, and - where appropriate - public and private institutions. Examples of subsequent initiatives include two special regional projects supported by the Asia-Europe Meeting (ASEM) Trust Fund and co-ordinated by the World Bank Social Policy and Governance Unit. The first project "Lessons towards the New Social Policy Agenda" aims to draw specific policy lessons from the 1997 to 1999 East Asia socio-economic and financial crisis taking explicit account of the European social policy history and experience. A second project "Better Monitoring of Social Spending and Indicators for Social Policy Makers" supports efforts to strengthen information systems and indicators in social policy.

6. OECD, 2001.

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SUSTAINING SOCIAL PROTECTION IN EAST ASIA

Jorge Braga de Macedo, Kiichiro Fukasaku and Ulrich Hiemenz

Introduction

Before the financial crisis hit the region in 1997, several high-performing East Asian economies had enjoyed three decades of steady income growth and attained a remarkable improvement in the well being of the population. Meanwhile, a number of new social issues, such as rapid ageing of the population, migrant workers, income inequality, regional and gender disparities and ethnic conflicts, as well as environmental concerns were beginning to attract political attention in many parts of the region prior to the onset of the crisis.[1] It was, however, the 1997-1998 crisis itself that triggered a serious debate within these countries regarding the sustainability of social protection and more broadly the future of Asian societies. Indeed Asian scholars questioned whether the so-called Asian values were an asset or a liability.[2]

No wonder. The financial crisis quickly translated into a drastic contraction in production and employment in Indonesia, the Republic of Korea (hereafter, Korea), Malaysia, the Philippines and Thailand, the five hardest-hit countries. The fall in real GDP in 1998 over 1997 ranged from 13.1% in Indonesia to 0.6% in the Philippines, while the rise in open unemployment rates was most conspicuous in Korea (from 2.6 to 6.8%) and Thailand (from 0.9 to 4.4%). Such shocks had severe adverse social consequences, bringing the question of social protection to the fore – as a common reform agenda of the region.

Three years after the crisis, there are increasing signs that these crisis economies are getting on the road to recovery, albeit to varying degrees. Yet, uncertainties remain high about the sustainability of policy reform, as social conflicts and civil unrest continue to unfold in some of these countries, most notably in Indonesia. Against the backdrop of these developments, this concluding chapter warns against some pitfalls in comparative development, due to unavailable

data (D), inadequate analysis (A) and the neglect of culture (C). It is also intended to highlight several major findings regarding the social consequences of the Asian economic crisis, with main focus on poverty, and to discuss ways of sustaining development and social protection in East Asia.

One response from this policy challenge involves adapting budgetary procedures to the fact that the mechanism of social security common in OECD countries and described, *e.g.*, in Braga de Macedo (1996, especially chapter IV) involves a mix of revenue and expenditure. The adaptation would make social affairs ministers share some of the strategic dominance in the budget process usually assigned to finance ministers, thereby helping horizontal co-ordination with purely "spending" ministries. This is one area where a comparative development perspective (taking due account of the D, A and C pitfalls noted above) can help policy dialogue about institutional change. Since such institutional perspective, drawing on the OECD and EU experience with peer pressure, did not feature in the seminar discussions, we address it first.

Institutions

The most frequent institutional mix for social protection in the OECD countries: is a universal compulsory public system, financed through a payroll tax and general tax revenue on a pay-as-you-go basis.[3] In addition, the peer pressure mechanisms practised in the OECD and the EU are an effective way to deal with growing international interdependence. The medium-term strategy contained in the 1993 *White Paper on Growth Competitiveness and Employment* and in subsequent documents does not contain clear arguments for and against tax reform, including social security reform. One reason may be that taxing and spending powers, as well as the design of budgetary procedures, remain with member States. This is why the principle of no bail-out by the Community or by each other contained in article 103 of the Treaty on European Union is the basis of budgetary discipline for all 15 states and not just the 12 members of the Euro system. The treaty stresses budgetary procedure because the public-sector annual budget helps markets, social partners and taxpayers see the size of the public sector relative to private initiative, and therefore deals with high and rising public debt from below.

European integration will be sustained if policy rules exist to protect the interests of present and future taxpayers. But institutions oriented to the avoidance of excessive future taxation will not take hold unless voters appreciate the unsustainability of current policies. The convergence criteria for the Euro and the 1996 Stability and Growth Pact can be seen in this light.

Without them, the economic regime remains fragile and subject to policy reversals.

Social partners and taxpayers must understand that spending and borrowing by the Government tend to be higher than what would be socially desirable. There are two reasons for this bias. Spending may be excessive because the marginal cost of financing is not fully accounted for. Debt finance may be excessive because the interests of future taxpayers are underrepresented. A high share of open-ended expenditures (transfers to households, interest payments on public debt and government wage bill) increases the bias. Because they create entitlements, open-ended expenditures make it difficult to sort out the effect of economic cycles and the effect of discretionary policy decisions.

Appropriate procedures must include contingent reductions in expenditure and increases in revenue due to uncertainty in forecasting both sides of the budget. On the whole, appropriate budget procedures ensure that the authority representing the collective interest in the efficiency of public finance dominates over spending agencies, including those responsible for open-ended expenditures. The institutional requirements involve the parliament and the court of auditors, both at the national and at the union level, in addition to the independence of the central bank in matters of monetary policy. Basically, an effective multi-annual fiscal adjustment strategy on the part of each Member State is necessary.

Strengthening market institutions also requires devising ways of monitoring the implementation of internal market measures, including financial services, as well as the co-ordination of the implementation of structural measures contained in the White Paper. Structural measures, including tax measures, for removing the obstacles to growth, competitiveness and employment will certainly be part of the process of institutional change for development.[4]

As Von Hagen and Harden (1994) have stressed, the annual public-sector budget must be the locus of conflict resolution. Institutions determine fiscal policies to the extent that they determine strategic roles and advantages. Therefore, they create or destroy opportunities for collusion among groups. Budgetary procedures will be appropriate if they facilitate effective and accountable conflict resolution. On the contrary, if the process leads to non-decision or if conflict resolution is removed from the budget, budgetary procedures are not appropriate and fiscal convergence will be impaired. The budget becomes a mere record of prior commitments and off-budget items spread, compounding the inefficiency of the budget process.

A multi-annual fiscal adjustment strategy can thus be seen as a commitment technology that helps to remedy budget illusion. The commitment will not be credible, however, if appropriate budget procedures are not followed. In countries that need to introduce a stable and broadly based tax system that does not encourage widespread evasion, as an important component of structural adjustment, there will be additional uncertainty on the revenue side. In fact, appropriate budget procedures have been successful in bringing some EU economies closer to a sustainable fiscal stance because they ensure that the authority representing the collective interest in the efficiency of public finance dominates. The analysis carried out by Von Hagen and Harden (1994) for EU members was applied to EU applicants by Branson, Braga de Macedo and Von Hagen (2001).

This implies the strategic dominance by the Prime Minister or the Minister of Finance over spending ministries. It is to be understood that spending ministries include those responsible for transfer payments. Yet the revenues from social security contributions do not suffice in general to make the minister responsible as true a representative of future taxpayers as the Minister of Finance. The tradition of financing unemployment benefits with a payroll tax, thereby de-linking them from contributions, brings important distortions to the labour market, as argued *e.g.* by Lucena and Braga de Macedo (1996, p. 81). This tradition may be related to the belief that its revenues should be earmarked for social insurance transfers. In addition to complicating the design of the optimal tax, this tradition also makes it more difficult for budgetary procedures to sustain social security policy. Overcoming this tradition would also help social affairs ministers to share the strategic dominance usually assigned to the finance minister. If this is a prerequisite for sustaining social protection in the OECD area, surely it will also be required in East Asia.[5]

Globalisation, crisis and poverty

Conceptually it is useful to distinguish four *direct* channels through which the crisis affects negatively the well being of individual households. First, a sharp contraction in production reduces the demand for labour, which results in a reduction in real wage rates and/or an increase in unemployment. Second, a bout of high inflation during the crisis and its aftermath dents real household expenditure.[6] Third, higher import prices as a result of real currency devaluation reduce the purchasing power of household income. Fourth, a substantial loss of property incomes (dividends, capital gains and rents) reduces total household income. Such direct effects of the Asian economic crisis are difficult to measure empirically, as necessary hard figures are often lacking.

In addition, the welfare of poor households will further deteriorate *indirectly* through the government's lower spending on education, health care and other social services as a consequence of economic downturns. However, it is even more difficult to predict the social impact of lower government spending on education and health care.

Despite conceptual and technical difficulties, national authorities in the crisis countries and several international and regional organisations have carried out a number of assessments on the nature and extent of the social impact in the aftermath of the financial crisis.[7] Having reviewed the results of some earlier assessments, Booth (1999) concludes that the initial fear over the immediate impact of the crisis in the form of mass poverty and destitution was an exaggeration, though poverty incidence increased substantially in all crisis-hit countries but more dramatically in some countries than others. She also points out that the increase in the head-count incidence of poverty was due largely to the effects of a high rate of inflation in Indonesia, while a surge in open unemployment was the main factor behind the increase in poverty in Korea, Malaysia and Thailand (*Ibid*. p.21).

Annex Table 1 and 2 present the latest available data on head-count incidence of poverty in the five crisis countries. Poverty incidence is defined here in two ways. One definition used in Annex Table 1 is the percentage of total population below international poverty lines ($1.08 per day and $2 per day at the 1993 PPP, respectively) for all five countries except Korea, where the national poverty line ($7.94 per day at the 1993 PPP) is applied. Another definition used in Annex Table 2 is the percentage of total population below each country's official poverty line. Distinction is also made between urban and rural areas where appropriate data are available. As regards these two definitions, it is important to note that the international poverty lines provide a useful benchmark as an indicator of global progress in alleviating poverty. These indicators are, however, inappropriate to assess individual countries' situations that are not affected by international price comparisons.

From these tables there are three general observations that deserve special attention:

- All five countries have made great strides in alleviating *extreme* poverty (as indicated by the lower international poverty line) over the last ten years. The 1997-1998 economic crisis has arrested and reversed temporarily such overall trend.

- The decline of *relative* poverty (as indicated by the upper international poverty line) has been much slower than that of

extreme poverty. Three years after the crisis, the proportion of the "near-poor" stays at very high levels in Indonesia (over 60%) and the Philippines (45%), followed by Thailand (30%).

- The rise in poverty during the crisis, as measured by each country's official poverty line, differs considerably among the countries concerned: the poverty ratio doubled in Indonesia (1996-1999) and Korea (1996-1998), while it rose moderately in Thailand (1996-1999). On the other hand, this ratio actually *declined* in Malaysia (1995-2000).

Evidence thus far indicates that the social impact of the crisis was substantial, and more importantly, the impact on poverty was much more severe in some countries than others. Such country differences are due to several factors. One reason is that workers displaced from the formal industrial sector were absorbed in agricultural and (informal) service employment. In other words, much of the adjustment took the form of lower real wages. In the case of Malaysia, it has been pointed out that migrant workers bore the brunt of the adjustment burden more than domestic ones (World Bank 2000, p.117). Another reason was that as in the case of Thailand, agricultural exports have received a positive boost from real currency devaluation, which has contributed to supporting rural household income.

A word of warning about the poverty indicators available, which evokes again the D, A and C pitfalls mentioned above. The indicators at hand can not fully capture the social consequences of the Asian economic crisis, because the poverty phenomena are dynamic in nature. For example, a large number of households that fell below the poverty line during the crisis may have moved up to the non-poor status later on. Such cases of 'transient poverty' are not well understood.[8] More importantly, the financial damage incurred on poor households (*e.g.*, lost educational opportunities) may be irreversible, affecting their children negatively over their life spans.[9]

Social Protection and Domestic Governance

The 1997-1998 economic crisis made one thing clear to every Asian citizen: informal, family-based mechanisms on which traditional societies rely as the main form of social protection can not cope with those nation-wide shocks that bring down a great number of households simultaneously. This bitter experience underscores the need to establish more formal mechanisms for managing risk and protecting the poor and vulnerable in society. Four ASEAN country studies commissioned by OECD and the one submitted by a Korean expert highlight

that all five crisis countries have been trying to adapt existing institutions to evolving social conditions and establishing new ones, in order to cope with the social impact of the crisis.

Annex Table 3 summarises the latest information available on four major areas of social protection (social assistance, social insurance, employment and community-based schemes) in five East Asian countries. Given the complexity of policy developments, this table should be seen only as an illustrative list of key programmes put in place in these countries.[10] Nonetheless, it can be recognised that the shape of individual country's social protection regime is greatly influenced by cultural and value patterns and policy developments in the past years.

A case in point is that of Malaysia, where there is no unemployment insurance or benefit that provides a safety net for displaced workers at the time of the crisis. Provision of social assistance in the form of cash transfers is also targeted only to a particular vulnerable group. On the other hand, the country has instituted since 1951 a compulsory saving scheme, called the Employees' Provident Fund, with a view to providing uniform retirement and other benefits for roughly two thirds of total employees (excluding agricultural workers and casual employees). Similarly, Korea attaches high value to the importance of work incentives: provision of social assistance is conditional upon the acceptance of vocational training and community-based jobs – the programme called "social integration through work (SIW)".

By contrast, sales of subsidised rice and public work programmes have constituted two central pillars of social protection in Indonesia and the Philippines during the crisis. This is presumably because the incidence of poor households is widespread, especially in remote rural areas. In the case of Thailand, a wide range of social insurance, welfare and assistance programmes has been decentralised to the community level.

With respect to policy formulation and implementation of social protection, improvements are required in coverage, targeting and monitoring, as follows:

- Under-coverage has been recognised as a serious drawback to East Asia's social protection regimes. Workers in the informal sector as well as those in the rural area constitute the majority of the workforce that are the most vulnerable and are often excluded from public social services.[11]

- The design and choice of targeting mechanisms require further study, taking into account individual countries' particular

situations: trade-offs are evident in terms of economic incentives, fiscal objectives and political acceptability. A recent policy paper submitted to the APEC Finance Ministers recognised this point well (Blomquist *et al.* 2001, Annex 1).

– Involvement of civil society organisations (CSOs) in programme implementation and monitoring is essential to enhance the efficiency and coverage of social protection policy. The question remains about how best to establish a good working partnership between the government and CSOs.

More generally, there is the case for reconsidering the basic approach to social protection beyond the 'policy patchworks' in coping with the social impact of the crisis. This is because two longer-term policy challenges that are common to many East Asian economies cast a shadow over the sustainability and workability of social protection schemes in the region. One is a demographic challenge to the health of public finance as a consequence of a rapidly ageing society, and the other a globalisation challenge to cope with greater labour mobility and household income inequality.[12]

As regards the social impact of demographic changes, which requires the reform of social security, "solutions must be incentive-compatible and promote growth".[13] (de Lucena and Braga de Macedo 1996, p.75). Given East Asia's strong attachment to work incentives, it is important to "avoid creating a culture of dependence" (Blomquist *et al.* 2001, p.11). Concerning the social impact of globalisation, there is an urgent need for taking a forward-looking approach to social protection policy – an "approach which moves from ex-post poverty to ex-ante vulnerability considerations; an approach which presents SP as a safety-net as well as a springboard for the poor" (Holzmann 2001, p.4).

Summing-up

Overall, seminar participants shared the view that social protection policy is a governance agenda that East Asian countries can not duck in pursuit of sustainable development. To sum up the seminar discussions, we recapitulate a few policy questions, beginning with three pitfalls in comparative development, unavailable data (D), inadequate analysis (A) and neglect of culture (C). The first step towards improved governance could then be captured by the acronym DAC.

Collecting necessary data and information itself poses a major task in the countries and regions that have different cultural backgrounds. Nonetheless, it

serves to enhance local capability for better analysis and policy formulation.[14] Consensus has emerged among participants in this seminar that much more investment is needed to improve information gathering and assimilation in the area of social protection.

Even taking the DAC acronym into account, a major difficulty in coping with the social impact of the crisis is related to the question of targeting and monitoring due to the fact that poverty is multi-faceted and dynamic in nature: the poorest, transient poor, near poor, new poor etc. Obviously there is no 'one-size-fit-all' solution in this respect, and a case-by-case approach is required according to each country's socio-economic context.

Finally, many experts and government officials argued during the seminar that the government alone can not cope with the social impact of the crisis. Due to the scale and speed of the impact, involvement of civil society groups and NGOs is necessary to enhance the efficiency and coverage of social protection programmes. Similarly, the role of the private sector should also be properly identified to supplement public services, depending on the development of market institutions (private pension schemes, manpower and training services etc.). In other words, much remains to be done to ensure that social protection in East Asia is sustained and continues to promote the long-term development of Asian societies, especially those hardest hit by the 1997-1998 financial crisis.

Annex Table 1. **International Poverty Line and Poverty Incidence: Five East Asian Countries**

(Percent of total population below respective international poverty lines)[a]

	Indonesia		Korea, Rep.	Malaysia		Philippines		Thailand	
	$1/day	$2/day	$7.94/ day	$1/day	$2/day	$1/day	$2/day	$1/day	$2/day
1990	20.6	71.1	46.4	0.5	22.7	19.1	53.5	12.5	47.0
1991	-	-	38.4	-	-	19.8	55.0	-	-
1992	-	-	31.0	-	16.2	-	-	6.0	37.5
1993	14.8	61.6	26.1	-	-	-	-	-	-
1994	-	-	21.2	-	-	18.4	53.1	-	-
1995	-	-	16.8	-	13.3	-	-	-	-
1996	7.8	50.5	12.7	-	11.5	14.8	46.5	2.2	28.2
1997	-	-	-	-	6.0	12.1	45.2	-	-
1998	-	-	23.2	-	9.3	14.5	47.4	3.9	33.2
1999	12.0	65.1	17.5	-	8.1	13.0	46.1	4.3	32.2
2000	10.5	63.3	13.3	-	6.1	12.0	44.8	3.7	30.6
2001[b]	8.9	60.5	11.5	-	5.2	11.3	43.9	3.2	28.5
2002[b]	7.5	57.8	9.5	-	4.0	11.0	43.2	2.6	26.7

Notes:

a) The poverty lines are set at %1.08 and $2 per person per day (at $1993 PPP) for Indonesia, Malaysia, the Philippines and Thailand, except the Republic of Korea, for which the national poverty line is equivalent to $7.94 per person is used. Estimates for all countries except Malaysia are based on surveys of household consumption, while those for Malaysia are based on income surveys.

b) World Bank projections.

- data not available.

Source: Data taken from Asia Recovery Information Centre (Poverty and Social Indicators, last updated 28/5/01) Available from: http://aric.adb.org

Annex Table 2. **Official Poverty Line and Poverty Incidence: Five East Asian Countries**
(Percent of total population below each country's official poverty line)

	Indonesia			Korea, Rep.[a]	Malaysia			Philippines			Thailand		
	National Average	Urban	Rural	National Average	National Average	Urban	Rural	National Average	Urban	Rural	National Average	Urban	Rural
1994	-	-	-	-	-	-	-	40.6	28.0	53.1	-	-	-
1995	-	-	-	-	9.6	4.1	16.1	-	-	-	-	-	-
1996	11.3	9.7	12.3	9.6	-	-	-	-	-	-	11.4	-	-
1997	14.7	12.1	16.3	-	-	-	-	37.5	22.5	51.2	12.9	1.5	17.2
1998	23.5	19.4	26.1	-	-	-	-	-	-	-	15.9	-	-
1999	-	-	-	-	6.0	-	-	-	-	-	-	-	-
2000													

a) Data on urban and rural incidence are not available.

- Data not available

Source: See Annex Table 1.

Annex Table 3. **Major Areas and Programmes of Social Protection: Five East Asian Countries**[*]

Areas	Indonesia	Korea	Malaysia	Philippines	Thailand
1. Social Assistance	Sale of subsidised rice Scholarships and block grants to school Subsidies for health care	Social benefits under the 1999 GMI Act[b]	Social benefits provided by the Ministry of National Unity & Community Development [e]	Rice subsidy programme	Social services [j] Education subsidies and free lunch Health Insurance for low-income families
2. Social Insurance	Limited social insurance schemes [a]	Social insurance system (under reform)[c]	Employees' provident fund (EPF)[f]	Social security system (SSS, GSIS, etc)[h]	Provident fund/ Employee Welfare fund Social security fund Civil servants' pension scheme
3. Employment	Public work programmes	Vocational training Temporary public work programmes Social integration through work (SIW)[d]	Micro-credit and other schemes of assisting the poor, small traders and agriculturers	Rural works programme managed by Department of Labour and Employment	Unemployment mitigation programme
4. Community-based Schemes	Community empowerment funds (*e.g.,* public works)	SIW at the local level		ERAP *sari-sari* rolling stores [i]	Community-based development and welfare projects

Notes:

1) Programmes to provide a minimum standard of living to the poor through subsidies for food, school and health care services.
2) Programmes to manage the risks associated with old age, unemployment, health, disability and work injury.
3) Programmes to create and facilitate employment.
4) Programmes to address the need for social protection at the community/local level.

* This table summarises information available on social protection programmes in five crisis counties and should be seen as illustrative rather than exhaustive.

a. Only available for employees in medium and large enterprises (Jamsostek), the public service (Taspen) and the military (Asabri).
b. The Guaranteed Minimum Income is an income supplement based on the difference between the poverty threshold and the total amount of resources.
c. Reform aimed at extending the coverage and lengthening the duration of benefits.
d. SIW programmes comprise vocational training schemes, jobs in work-experience enterprises and assistance for creating micro-enterprises.
e. A monthly allowance of RM 50 to homeless and destitute people over age 60 without families to support them.
f. A compulsory savings scheme whose aim is to provide uniform retirement and other benefits for its members. Similar schemes are available for government employees, the military and teachers.
g. Social insurance schemes relating to work injury, occupational diseases and invalidity.
h. GSIS – Government Service Insurance Scheme.
i. Enhanced retail access for the poor – a rolling store "sari-sari" is to provide low-cost rice and other basic commodities to remote areas.
j. Various social assistance projects run by the Ministry of Labour and Social Welfare.

Sources: Compiled by the authors from Mansor and Awang, No, Ortiz, Pongsapich, Reyes, Sumarto and Whiteford and Förster in this volume.

Notes

1. See, for example, ADB (1997), Jomo (2000), Pangestu (2000), Kohl (2001) in this volume, and World Bank (1993).
2. Yamamoto (1999), quoted in Braga de Macedo and Chino (2000, p. 113)
3. This section is adapted from Lucena and Braga de Macedo (1996).
4. Braga de Macedo (2001b) provides evidence to the effect that openness favours better governance and therefore faster institutional change in developing countries.
5. In Braga de Macedo (1996), the case of China is also dealt with.
6. For example, the annual rate of consumer price inflation in Indonesia shot up from 6.2% in 1997 to 58.5% in 1998 and stayed over 20% in 1999.
7. See among others ADB (1999), Booth (1999) and World Bank (1998, 2000). See also country case studies in this volume.
8. See Holzmann (2001, p. 20) for further discussion.
9. See World Bank (2001, pp. 162-165) for further discussion.
10. See individual references for a detailed account of five country cases.
11. In the case of Korea, the 'errors of omission' are large, as 65% of the poor were outside of the social safety nets in 1998 (No 2001, p.3) See also Adema, Tergeist and Torres (2000) on Korea's social protection policy.
12. Reform issues beyond the 1997-1998 economic crisis were discussed in Krueger and Yoo (2001) and Braga de Macedo (2001a) for the Korean economy.
13. See Lucena and Braga de Macedo (1996, p.75). One example of such solutions was mentioned above in p.5.
14. See Braga de Macedo (2001b) for more general discussion on the inter-relationship between globalisation and institutional change.

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