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Protecting the Disadvantaged in a High Growth Economy: Safety Nets in Thailand

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Protecting the Disadvantaged in a High Growth Economy: Safety Nets in Thailand

Abstract

Thailand has relied on rapid economic growth as the principal strategy for poverty reduction. The strategy has resulted in an impressive reduction of poverty in the country. However, regional asymmetry in growth as well as in poverty reduction persists, and the benefits of growth have not trickled down to the poorest groups in Thai society. In partial response to this concern, the government have introduced various cash and in-kind transfer programs targeted to the poor. Few studies have assessed the effectiveness of these programs. This paper fills this gap.

The main finding is that the total level of public spending remained modest over the past five years despite proliferation of new programs, and most programs suffered from serious deficiencies. The paper argues for changes in the rules governing allocation of resources across the provinces, and also for changes in the design of specific programs. The paper also argues the need to prune existing programs, and allocate resources to a few programs that can really reach the poor effectively.

**Protecting the Disadvantaged in a High Growth Economy:
Safety Nets in Thailand**

by

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1. Introduction

1. Thailand has relied on rapid economic growth as the principal strategy for poverty reduction. The strategy has resulted in impressive reduction of poverty in the country. The incidence of poverty has fallen from around 60 percent in the early 1960s to less than 20 percent in the early 1990s. However, two concerns remain. First, despite the overall dramatic reduction in the absolute number of the poor and the incidence of poverty, regional asymmetry in growth as well as poverty reduction is a problem: poverty is now a rural phenomenon, concentrated in the North and the Northeast; together these areas account for about 70 percent of the Kingdom's incidence, depth and severity of poverty.¹ Second, the persistently high inequality (the highest level in the region) and its upward trend is a source of concern, especially because the highly skewed income distribution is observed in the more developed Central and Bangkok regions as much as in the less-developed Northeast.²

2. The behavioral response of the poor to the above developments has been migration to the cities, especially to the Bangkok region. The rapid increase in migrants to the Bangkok region has put an excessive pressure on the urban infrastructure. The associated coping strategies of the poor have included a reliance of private transfers and remittances.

3. In partial response to the above concerns and developments, the Government of Thailand has introduced a number of targeted programs. Some of these are broadly targeted; others are narrowly-targeted. The programs also differed in their primary objective. Some are intended to stem migration to the cities. Though not directly poverty-targeted, some programs were *expected* to produce incidental beneficial impacts on the poor. In addition, the scope and objectives of the programs themselves have changed over time.

4. The main objective of this paper is to assess the effectiveness of some of the programs targeted to the poor. It begins with a brief account of the role of private transfers in Thailand (section 2). It then provides a descriptive account of some of the major programs and the temporal changes in their design and outreach, including some quantitative magnitudes of government spending on the programs to the extent data permitted (section 3). The next two sections evaluate pure transfer programs (section 4) and income

¹ The Bangkok region, with 16 percent of the population, produces about one-half of GDP and nearly two-thirds of industrial output. It accounts for only 2 percent of the Kingdom's poverty incidence. By contrast, Korea provided the same share of GDP as Thai industry but employed nearly 30 percent of the labor force against only 16 percent in Thailand—See the background papers to the *East Asian Miracle*.

² See D. Chotikapanich (1994) *Techniques for Measuring Income Inequality: An Application to Thailand*. Avebury, England.

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generation programs (section 5). The last section offers a few recommendations for a reorientation of poverty-targeted programs.

2. Private Transfers in Thailand

5. As in other East Asian economies, private transfers are pervasive in Thailand. Following massive migration from rural areas to the cities (Bangkok region in particular), the role of remittances as a source of household income may have increased in the recent period. The only source of data to analyze private transfers is the Socio-Economic Survey (SES) conducted by the National Statistical Office. Unfortunately, the questions in this survey have been so framed that information on public and private transfers was mixed. Consequently it has not been possible to disentangle and estimate the value of all types of private transfers (cash and kind). Such receipts include annuities or disability payments as well as assistance payments from government or other agencies and comprise transfers from private sources as well as from the government.

6. Notwithstanding the above problem, some limited analysis of private transfers is still possible. Private transfers comprising remittance and contributions from family members living away from home, assistance payments from other persons outside the household, and such in-kind transfers as food and rent-free dwelling can be pulled together. The share of private transfers in total expenditure thus defined are ranked by *per capita* expenditures in Table 1a and by *total* household expenditures in Table 1b. When ranked by per capita expenditures, private transfers amounted to 8 to 10 percent for all deciles. The magnitudes are, as can be expected, lower in the urban metropolis (Bangkok). However, when ranked by total household expenditures, private transfers are more significant for the lower deciles than for the upper deciles. Private transfers amount to one-fifth of total household expenditure for the lowest expenditure decile. The observed importance of private transfers in Thailand is consistent with evidence for other East Asian economies such as South Korea (Kwon, 1993).

Table 1a. Private Transfers (Cash + In-kind) as a Percent of Household Expenditures, 1992
(deciles ranked by *per capita* expenditure)

Deciles	Thailand	North	Northeast	Bangkok
1	9.8	9.2	12.6	5.1
2	10.2	10.6	10.1	7.4
3	10.3	9.8	12.5	4.5
4	8.6	9.7	11.0	5.9
5	7.8	9.0	10.9	8.4
6	6.8	9.6	12.3	7.9
7	8.3	8.2	10.3	8.9
8	8.4	11.2	9.3	8.0
9	9.2	8.9	12.8	8.1
10	7.9	10.2	8.5	6.1

Table 1b. Private Transfers (Cash + In-kind) as a Percent of Household Expenditures, 1992
(deciles ranked by *total* expenditure)

Deciles	Thailand	North	Northeast	Bangkok
1	20.3	22.7	22.2	9.7
2	13.3	15.1	13.9	10.2
3	10.6	11.9	15.0	10.3
4	10.5	9.7	12.3	9.3
5	8.8	11.8	9.7	11.8
6	8.0	9.7	11.3	7.5
7	8.9	9.9	8.9	9.0
8	7.6	9.1	13.2	7.4
9	8.5	6.5	7.4	6.3
10	5.9	8.1	7.6	3.2

Source: Computed from Socio-Economic Survey, 1992; National Statistical Office.

3. Publicly supported Poverty-targeted Programs: An Overview

7. Three types of programs have been in operation in the country. The first of these are *pure transfers*, cash and in-kind. **Cash transfers** include (a) direct cash assistance to needy families in poverty whatever the reasons (disability, too many children, HIV-infected member in the family), (b) monthly per diem of B.200 to old people without support, after due means-testing, and (c) a community fund of B.12,500 in villages, to be administered by the village welfare committees, to be used to help members of the village as needed. The community village funds are augmented with private donations. While there is no legal requirement, recipients of assistance from village funds are encouraged to reimburse the amount, especially if the amounts are given for income-generating activities. All the pure transfers are administered by the Department of Public Welfare. In addition, the Department of Public Welfare also runs homes for the disabled and orphanages, which account for approximately a fifth of the department's budget. The overall budget of the department has been increasing; the budget for 1995 was about 10 percent higher than for the previous year. Nongovernmental organizations help the ministry in various ways; the ministry in turn subsidizes the operations of NGOs.

8. The principal **in-kind transfer** of relevance to the poor is the low-income card program administered by the Ministry of Health. Its basic purpose is to provide free medical services to the poor. Individuals with an income level below 2,000 per month and households with less than 2,700 per month are entitled to low-income cards. About 20 percent of the population received low-income cards; the proportion remained more or less constant since the inception of the program in 1984. Means-tests are done by village headman every three years. In addition, another voluntary health insurance scheme, known as the "health card" program was also introduced. The health cards are to be purchased by households at 500 baht, which entitles them to unlimited visits to primary clinics and, upon referral, to higher level hospitals. Only about 8 percent of the population is covered under this scheme. Comprehensive free health care exists for all civil servants.

9. Another in-kind transfer worth noting is the school lunch program. A meal worth five baht is provided to children belonging to poor families at preschool level and primary level. The children belonging to poor families are identified by school administration. The program is administered by the Department of Education.

10. Income-generation programs are intended to provide temporary incomes to the poor. A program of public works—known as Rural Job Creation Program (RJCP) (public works) or sustainable incomes (credit programs)—operated for 12 years from 1980 to 1992. Another program of infrastructure development known as Green Esarn Program (GEP) also operated during 1988-92.³ A program initiated recently (1993) by the Department of Community Development is Poverty Alleviation Project (PEP). Its main purpose is to advance interest-free loans to poor households to start income-generating activities. An amount of 280,000 baht is given to each village. From this fund, households with incomes less than 5,000 baht per person per year can borrow without interest. Approximately each household is advanced a loan of 10,000 - 15,000 baht. During 1995, an amount of 2.8 billion baht was advanced to village funds to support income-generating activities.

11. The third type of programs are broader developmental programs; their benefits percolate to the entire rural population, including the poor. The Tambon Development Program, which replaced the RJCP, is now the principal rural development program. It is aimed at solving multiple problems of rural areas (drinking water, irrigation water, roads, employment generation). It includes a public works component. A unique feature of this program is that once funds are allocated to a province, the spending priorities and projects are determined entirely locally; it is thus a heavily demand-driven program. To this extent, the share of spending on public works program varied across provinces, depending upon the preferences of provincial decision makers.

12. Thailand has many other programs broadly targeted at rural development, benefiting the poor and the nonpoor. This paper's focus is on programs directly targeted to the poor only. Table 2 lists six major programs that are either narrowly or broadly targeted to the poor.

³ In 1992, the programs were replaced with a different rural development program known as Tambon Development Program (TDP).

Table 2. Public Spending on Poverty-Targeted Programs
(In million baht at current prices)

Program	1990	1995	1996 (budget)
Cash Transfers			
<i>A. Poverty-targeted:</i>			
1. Assistance to needy families	41.2	81.3	90.9
2. Subsistence to the elderly	71.0	441.0	534.5
<i>B. Other 1/</i>			
3. Women	54.4	216.4	218.4
4. Children and youth	189.9	339.0	378.0
In-kind Transfers			
5. Health subsidies for the underprivileged 2/	1509.0	7114.0	..
a. Poor (low income card + other poor)	..	3191.0	4187.0 3/
b. Government Officials	..	376.5	..
c. Other categories	..	3546.5	..
6. School lunch programs	..	1835.2	2130.0
7. Housing programs	460.7	2411.9	3002.1
Income-generation programs			
<i>A. Poverty-targeted:</i>			
8. Poverty Alleviation Program	300.0	926.6	1345.1
9. Rural Job Creation Program	3260.0
<i>B. Other 1/</i>			
10. Tambon Development Program	..	1909.0	5000.0
Total Expenditure			
<i>A. Poverty-targeted:(1,2,5a,6,7,8 & 9)</i>	5641.9	8887.0	11289.6
As a share of GDP (%)	0.26	0.21	0.24
As a share of government expenditure (%)	1.84	1.29	1.39
<i>B. Other 1/ 4/ (3,4,5b,5c & 10)</i>	244.3	6387.4	5596.4
As a share of GDP (%)	0.01	0.15	0.12
As a share of government expenditure (%)	0.08	0.93	0.69
<i>C. Total</i>	5886.2	15274.4	16886.0
As a share of GDP (%)	0.27	0.37	0.36
As a share of government expenditure (%)	1.92	2.23	2.09

Table continued...

Sources: DPW (MoLW) Annual Reports (1994, 1995 draft); Progress report on Tambon Development Program. MoI, MoPH, BoB.

Notes:

1. These programs are broad-based rural development programs expected to benefit the poor (and the nonpoor) in the long run.
 2. Includes various categories, (i.e., government servants, children, elderly, and monks).
 3. For low-income card only.
 4. Government has a number of programs that are of developmental nature, but these are not directly targeted to the poor. A list of these programs along with the budget provisions for FY96 is given in Appendix A.
13. Government spending as a percent of GDP on programs directly targeted to the poor was modest (0.2%), and the level remained unchanged since 1990. When all other broadly targeted rural development programs are included, the spending is projected increase to 0.3 percent of GDP in 1996. As a percent of the central government budget, expenditure on poverty-targeted programs - even when narrowly and broadly targeted programs are combined - never exceeded 1 percent until 1995. The low public spending levels observed in Thailand is consistent with evidence for other East Asian countries. This level stems from a tradition of placing the onus of social assistance on the community, and also from the Confucian ethic that emphasized close solidarity within the family (Kwon, 1995).
14. With rapid urbanization, however, this role of the family and community self-help is probably on the decline, as is evident from the relatively low levels of private transfers in the Bangkok region. The role of government in the provision of social assistance may change as the country is further urbanized.

4. Cash and In-kind Transfers: Targeting and Effectiveness

15. *Cash transfers.* As noted in previous sections, three cash transfers are important: (a) subsistence allowance for the elderly poor, (b) cash assistance to needy families, and (c) assistance to set up a revolving village fund. The total subsidy of the Public Welfare Department has increased from 325.7 million baht in 1993-94 to 632.4 million baht in 1994-95.⁴

16. A means-tested **subsistence allowance** of 200 baht per month is given to the **elderly poor**. The allowance amounted to 32⁵ percent of the poverty-line income threshold in 1995. Table 3 shows that the relative share of the northeast in recipients (and total allowance) has increased in 1995 compared with 1994. In 1995, the northeast accounted for 42 percent of total transfer, compared with northeast's share of 32 percent in the country's population, and approximately 58 percent (1992) of the country's population below the poverty line (Medhi). The share of the Central region in the transfers is 23 percent, whereas it accounted for only 8.5 percent of the country's population below the poverty line in 1992. While the geographical distribution of the transfer resources is in the right direction, there appears to be considerable scope for raising the share of the Northeast by further regional reallocation of transfer funds.

⁴The department spends a small amount of 10 million baht on hill tribe development. The data for 1994-95 shown in Table 2 exclude the amounts disbursed for village revolving funds; hence do not add up to 632.4 in baht.

⁵ The poverty-line threshold for 1995 was calculated using the inflation rate for 1993-95.

Table 3. Subsistence Allowance to the Elderly, 1994 and 1995.

Region	October 1993 - September 1994			October 1994 - September 1995		
	No. of recipients	Amount (mi. bht)	Region's share (%)	No. of recipients	Amount (mil. bht)	Region's share (%)
Central	26,896	64.6	24.3	42,305	101.5	23.0
North	27,533	66.1	24.8	41,270	99.1	22.4
Northeast	41,359	99.3	37.3	77,192	185.3	42.0
South	15,062	36.2	13.6	23,113	55.3	12.6
	110,850	266.2	100.0	183,880	441.3	100.0

Source: Department of Public Welfare.

17. In the northeast, 1.1 million persons were estimated to be above 60 years of age in 1995. The recipients of subsistence allowance amounted to 6.8 percent of elderly population. Considering that the poverty ratio for the northeast in 1992 was 22 percent, the prevailing coverage is very limited. It is very unlikely that *all* the needy elderly are covered. At the provincial level, village welfare officials were instructed to identify no more than 3 to 5 elderly persons for assistance. It is possible that the neediest are being selected, thus minimizing "inclusion errors". It is also possible that some of the neediest may not have been included (thus suggesting the possibility of "exclusion errors") since an implicit "rationing" is clearly in operation at the provincial level. The potential for such exclusion errors (and rationing) may be expected to be higher in the relatively poorer villages with a large number of elderly poor.

18. Another cash transfer is **assistance to needy families**. In 1993-94, 14.5 million baht of cash assistance was provided; the amount has increased to 81.3 million baht in 1994-95. According to the directives of the Department of Public Welfare, the identified needy family may be given 2,000 baht but no more than thrice a year. As with the scheme of subsistence allowance for the elderly, identification of needy families is done by village welfare committees. Though no studies exist on targeting efficiency of transfers in Thailand, field visits suggest that in general, the neediest families are being selected. However, in reality, the assistance amounted to no more than 687 baht per family per annum, in 1993-94 or about 10⁵ percent of poverty line (annual) income threshold in 1993-94. A small quantum of assistance to a few families is unlikely to make a significant difference to severity of poverty in the country, while it is certain to strain the administrative machinery (and raise unit costs of delivery) at the provincial level.

19. The third cash transfer is a contribution to a revolving **village fund**. This is a new program. A village welfare committee is being set up in every village, and an amount of 12,500 baht is given as the state's contribution to that fund. About 45,000 village welfare committees have already been set up. The sharp increase in total quantum of "subsidy" spending by the Department of Public Welfare in 1995 over 1994 is largely due to this new program. The fund resources are to be used to help poor members of the village in dire need (such as expenses of immediate hospitalization).

⁵ The poverty line threshold for 1995 was calculated using the inflation rate for 1993-95.

20. Considerable discretion exists at the village level as to the (a) purpose the fund resources are used, (b) how much borrowers are actually reimbursed, and (c) how much private charities are mobilized to augment the resources of the fund. Because this is a new program, experience as well as data on its actual functioning are unavailable. Nonetheless, it is to be expected that in relatively prosperous villages, the fund's resources can be augmented with private charities, and the fund's resources are used not merely as emergency cash relief but more generally as seed-money for income-generating programs. By contrast, in the relatively poorer villages (where the incidence and depth of poverty are higher), it is difficult to augment the resources of the fund; the demands on the fund are also likely to be large; and reimbursements low. The fund is most likely to be ineffective and inadequate in relatively poorer villages where the need is arguably great.⁶

21. Cash transfers in Thailand amounted to no more than 0.02 percent of GDP in 1995. At the micro (village) level, both evidence and field visits confirm that while those being assisted are poor (and thus well identified by the local authorities), many of the poor are excluded because of the overall meager resources being spent on cash transfers, and an informal rationing on the number of recipients in force at the village level. The level and outreach of cash transfers for the poor is so small that any "incentive costs" (such as adverse effects on labor supply) are unlikely to arise.

22. *In-kind transfers.* The two principal in-kind transfers are (a) low-income card for health care, and (b) school lunch program. While the policy for subsidizing the health care of low-income families has been in operation since 1975, the school lunch program has been introduced recently.

23. *Low-income card for free health care.* The Ministry of Health provides three categories of assistance: (i) Low income Card (now called Social Medical Welfare Card), (ii) free medical care to those who do not have such a card but claim inability to pay (social workers interview and determine their eligibility and extent of exemption from fees), and (iii) free care to veterans, monks, village leaders, etc. Low-income cards are given after means-tests administered by village headmen. At present, the criteria for eligibility are: income level of 2,000 baht per month for individuals and 2,800 baht per month for households. The level of income used in defining the poor under the Free Medical Care Program for Low Income (FMCLI) is set at about 4.4 and 4.0 times above the 1988 and 1990 poverty lines respectively. Civil servants enjoy health benefits as part of their fringe benefits. In addition, the Government also introduced a voluntary health insurance scheme known as the "health card scheme"; both preventive and curative care are offered to those who buy the card (now priced at 500 baht/year). For the non-poor and for workers in the formal sectors, comprehensive health insurance schemes exist.

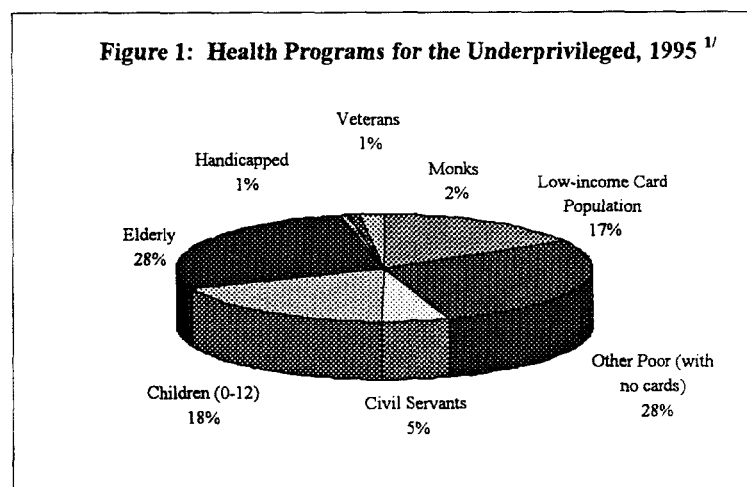
24. In 1984, the FMCLI program covered 10.2 million persons nationwide. People receiving the low-income cards accounted for about 20 percent of the total population, and 88 percent of the population below the 1981 poverty line. As of 1992, about 22 percent of the population and 84 percent of the poor were covered under the plan. The low-income card coverage declined marginally to about 20 percent and 18 percent respectively in 1993 and 1995. The program is funded from general tax revenues. The other categories entirely funded from general tax revenues include free medical benefits for civil servants, children under age 12, veterans, elderly and monks (see Table 4). Among these categories it is difficult to provide numbers exclusively for the poor and the non-poor since there is a lot of overlap. It is interesting that the amount spent on "low income card population" is lower than those not covered under any program (which include poor as well as non-poor), and for the elderly (see Figure 1).

⁶Information gathered from field visits, though limited, confirms the buoyancy of fund resources and its use for income-generation in one prosperous village, and the fund's woeful inadequacy in one of the poorest villages.

Table 4. Health Program for the Underprivileged 1995

Category	Total expenditure billion baht
Low-income Card population	1.18
Other poor (with no cards)	2.01
Civil servants	0.38
Children (0-12)	1.30
Elderly	2.00
Handicapped	0.05
Veterans	0.05
Monks	0.14
Total	7.10
As percent of GDP	1.7%

Source: Computed from data provided by Ministry of Health.



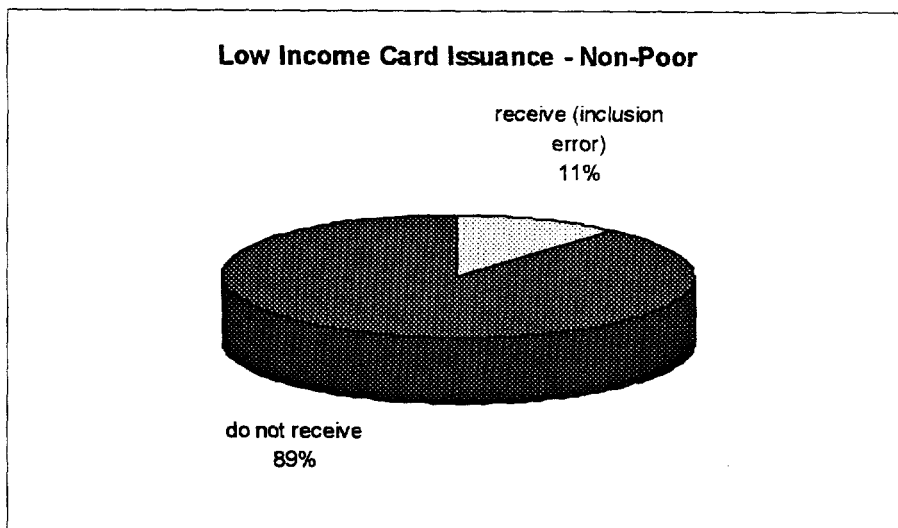
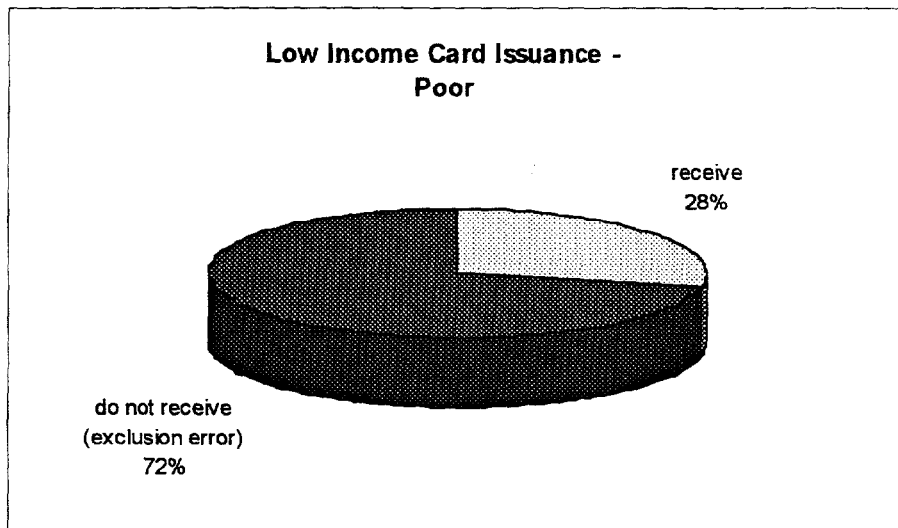
Source: Ministry of Public Health

1. Total expenditure for the Health Programs was Baht 7.1 billion. The disaggregated expenditures for various groups are derived by combining MoPH data on the utilization of various medical facilities by these groups with information (also from MoPH) on total expenditure for different facilities

25. Since health care cannot be denied to anyone -- able or unable to pay for it -- it is to be expected that the category of "other poor" may include many who are able but unwilling to pay. For instance, in a 1988 survey of about 14,400 households in 36 provinces, about 11 percent of those who received the cards had incomes above the threshold income levels for eligibility. The inclusion and exclusion errors are shown in Figure 2. It suggests that "inclusion" errors (i.e., inclusion of non-poor households in the low income card program) are not very high, but the exclusion errors -- deserving households not being covered under the low income card program -- are very high. The 1988 survey found that only 28 percent of the deserving households actually received the card.

Figure 2: Low Income Card Issuance - Exclusion and Inclusion Errors, 1988

<u>Exclusion Error</u>		
<i>Very Poor</i>		
Sample	receive	do not receive (exclusion error)
62.4	17.7	44.7
(100.0%)	(28.4%)	(71.6%)
<u>Inclusion Error</u>		
<i>Non Poor</i>		
Sample	receive (inclusion error)	do not receive
37.6	4.3	33.3
(100.0%)	(11.4%)	(88.6%)



Source: Computed from Manopimoke,(1996)

26. Table 5 provides the distribution of total expenditures for all of the "underprivileged" classes, and for civil servants. It is clear that the monetary value of care (per capita expenditure as well as subsidy) provided by the government to the poor is very low, compared with the amount for civil servants. Available studies of health care use suggest that only about one-third of low-income card holders actually used the cards, and per capita visit was no more than 0.5 -- 1 per annum⁷. In the relatively poorer province of Khon Kaen, only about 23 percent of low-income card holders actually used it.⁸ To this extent, there appears to be no moral hazard problem. However, the low magnitude of transfer, coupled with presumably the low quality of care at public hospitals (Bennette S, 1994), explain why, despite heavy spending by the government, the poor do not seem to be well served by health care subsidy.

Table 5. Population Coverage and Expenditure on Programs Financed from General Tax Revenues, 1994.

Category	Free medical care for the poor, elderly, children aged 0-12, and handicapped	Civil servants medical benefit scheme
Population coverage (percent)	44.5	9.5
Per capita expenditure (baht)	317	1500
Per capita subsidy (baht)	164	916
Per capita administrative cost (baht)	153	584
Administrative cost as percent of total expenditure (%)	48.3	40.0

Source: Computed from Sanguan Nitayarumphong (1995).

27. *School lunch program.* The second important in-kind transfer program is the school lunch program. This program was initiated recently. It is targeted to children in preschool, primary, and lower secondary levels. Not every child at these levels is covered; school authorities are expected to "screen" children of poor families, submit a list to the department, and obtain necessary funds. For every lunch provided, a sum of five baht is given to the school. A sum of 1.8 billion baht is budgeted for 1995; it is expected to increase to 2.1 billion baht in 1996.

28. The funding for the current year's demand is based on the last year's actual; so not every child identified as belonging to a poor household actually gets a free lunch immediately. Sometimes the waiting period to get on the list lasts a year. Also, once on the list, there appears to be no mechanism for graduating out of the list. The actual administration of the program also leaves much to be desired. Often, school authorities, after deducting the cost of administration (which may vary from one to two baht), give away the balance of the amount to a student who then buys lunch outside the school. For three to four baht, a child can hardly get a nutritious meal. At current prices, the cost of a nutritious lunch for a preschooler is estimated to be 8 to 10 baht. Thus if the objective is to provide at least one nutritious meal to every child attending the school, it is not clear whether the program is serving that purpose.

⁷ Anuwat Supachutikul, 1995.

⁸ Information provided by the Provincial Health Ministry officials.

5. Income-generation programs.

29. *Public works programs.* The Rural Job Creation Program (RJCP) was in operation from 1980 to 1992. The program's principal objective was to create jobs for rural people in the slack season: it was hoped that such a policy would stem seasonal migration of labor to the cities. Various scholars analyzed the program in depth. The most unique feature of the program was to let villagers themselves select the projects to be funded; the program thus brought "demand-drivenness" to the functioning of administration. Over time, the program was transformed from small-scale, labor-intensive activities that created temporary jobs nationwide, to capital-intensive construction activities that created much fewer jobs but on a permanent basis (Medhi, 1993). This is not unusual; in many countries the number of labor-intensive projects decline after a point when the program would cease to be one capable of providing seasonal employment on a large scale.⁹ The program was altogether abandoned in 1992; it was replaced by a broader rural developmental program known as the Tambon Development Program (TDP).

30. The TDP shifted the emphasis to participatory rural development. Its aim was to give each Tambon a sum up to 5 million to be used for developmental activities. The funds were to be channeled out of a special budget from the central government. Four activities were particularly focused: drinking water development, irrigation water development, career development for youth, and construction of public utilities. The component "construction of public utilities" resembled in some sense the previous RJCP program, although unskilled labor was used in all programs. Interestingly, even under the TDP program, the proportion of spending on construction of public utilities gradually declined from 74 percent in 1992 to 21.6 percent in 1995. The relative shares of each activity by region are shown in Table 6. Overall, northeast has received the highest share in total spending.

31. All four activities create employment, though as one might expect, the ratio of unskilled labor to total cost does vary across programs and across provinces. To know how much employment was created, and at what cost, project-specific data were analyzed. The data belonged to 257 randomly selected projects from all four regions. Of these, only 104 projects absorbed *unskilled labor* (see Table 7). The distribution of sample projects by type of activity and by region are also shown in the same table.

32. Amount of unskilled labor absorption and relevant details are shown in Table 8. Three findings are worth noting. First, the cost per job created was generally lower in the North and Northeast than in the South. Second, there is much variation in the cost per job created across the four types of activities and regions. Yet some patterns do emerge. The cost per job created in public facilities (with the exception of Central region) and in irrigation infrastructure (with the exception of Southern Region) was lower than in other activities. This trend is in line with evidence for other countries.¹⁰ Third, in all activities and in all regions, the program wage was equivalent or higher than the minimum wage. However, the market wage rate was much lower than the minimum wage particularly in the Northeast. As a result, the program wage was higher than the region (province)-specific market wage by about 30 percent in the Northeast. Clearly the reservation wage of unskilled labor is much lower than the statutory minimum wage in the Northeast; the opposite is true in the South, where the market wage was higher than the minimum wage. The program

⁹For example, the celebrated Maharashtra Employment Guarantee Scheme in India began as a labor-intensive public works program; with the passage of time the scheme organizers found that the shelf of labor-intensive projects were quickly getting exhausted. For cross-country experience of public works programs, see *Social Assistance and Poverty-Targeted Programs: A Sourcebook* (1996), Poverty and Social Policy Department, The World Bank.

¹⁰Op. cit.

wage was also lower than the market wage, though by a small percentage (8 percent), in the South. The broad conclusion is that at least in the Northeast, the employment creation through this program was not cost-effective because the program wage was higher than the ruling market wage for unskilled labor. Moreover, more employment could have been generated at a lower program wage. In addition, an opportunity to self-target the program to the poor was perhaps lost, to the extent that the higher than market wage attracted the nonpoor to the program.

Table 6. Summary of Approved Projects and Outlay, September 1995, for Tambon Development

Region	Total approved projects		Drinking water		Irrigation development		Career development for youths		Public utilities	
	No. of Projects	Amount (mil in bht)	No. of Projects	Amount (mil in bht)	No. of Projects	Amount (mil in bht)	No. of Projects	Amount (mil in bht)	No. of Projects	Amount (mil in bht)
Central	2081	416.6	655	131.2	741	145.3	94	20.8	591	119.3
North	1884	441.4	365	76.1	874	214.4	67	12.3	578	138.6
Northeast	3109	791.8	778	175.9	2052	547.4	95	20.8	184	47.7
South	1151	259.2	310	66.1	350	79.8	71	16.3	420	96.9
Total	8225	1909.0	2108	449.3	4017	986.9	327	70.3	1773	402.7

Source: Progress Report on Tambon Development Program, Ministry of Community Development.

Table 7. Public Works under the Tambon Development Program: A Summary

	Number	Percent
Total No. of Public Works Projects	257	100
of which:		
North	64	25
Northeast	50	19
Central	88	34
of which:		
BMR	16	6
South	55	21
Total No. of Public Works Projects	257	100
of which:		
Type 1 (Water for Household)	75	29
Type 2 (Water for Irrigation)	70	27
Type 3 (Occupational Promotion)	46	18
Type 4 (Public Facilities)	66	26
Total No. of Public Works Projects	257	100
of which:		
Projects which have created Unskilled Jobs	104	40
Projects which have not created Unskilled Jobs	153	60
Wages Used for Different Regions ^{1/}	Min. (baht)	Avg. (baht)
North	110	75
Northeast	110	83
South	110	117
Central	110	118
Bangkok	135	125

Source: Data provided by the Ministry of Interior, Technical Services and Planning Division

1. Avg. Wage taken from Labor Survey.

33. *Poverty Alleviation Program.* This is a credit-based livelihood program initiated by the Department of Community Development. The main aim is to advance interest-free loans to households with an income level lower than 5,000 baht per annum; these funds are to be invested in income-generating activities. A minimum of 5,000 baht is loaned to each household that comes up with a project proposal; the village committee examines the proposals and decides if it is a good project. If found viable, the household gets a loan. The program began in 1993 and is currently operating in 673 villages; it is to be extended to 11,608 poorest villages throughout the country. During 1995, nearly 1 billion baht was loaned out; more (about 1.3 billion baht) is to be lent during 1996 as the program is extended to other villages.

Table 8. Public Works in Thailand: Costs and Labor Intensity ^{1/}

	Person days of unskilled employment created (persons)	Total cost of project (baht)	Unskilled wage bill as ratio of total cost (percent)	Input and materials as ratio of total cost (percent)	Cost per person day of employment created (baht)	Comparison of unskilled wage with minimum wage (percent)	Comparison of unskilled wage with average wage (percent)
North	10,420	7,048,803	16.4	69.4	676	0.0	46.1
of which:							
(1) Water for household use	1,380	1,136,995	13.4	83.5	824	0.0	46.1
(2) Water for irrigation	3,707	1,316,238	31.7	61.3	355	0.8	47.3
(3) Occupational promotion	1,641	1,987,972	9.1	59.6	1,211	-0.3	45.8
(4) Public facilities	3,692	2,607,598	15.5	74.8	706	-0.4	45.6
Northeast	5,698	5,086,792	12.3	81.6	893	-0.1	31.6
of which:							
(1) Water for household use	1,535	1,770,610	9.6	82.3	1,153	0.3	32.1
(3) Occupational promotion	1,908	1,037,116	20.2	74.2	544	0.0	31.7
(4) Public facilities	2,235	1,978,789	12.4	82.2	885	-0.5	31.1
Central	7,967	6,369,343	11.9	72.3	799	-0.3	-6.9
of which:							
(1) Water for household use	3,103	2,078,682	8.5	80.8	670	-0.3	-6.9
(2) Water for irrigation	1,554	1,183,989	14.1	78.4	762	-1.8	-8.3
(3) Occupational promotion	2,057	2,210,407	12.6	65.3	1,075	0.8	-5.9
(4) Public facilities	1,253	896,265	15.2	62.0	715	-0.6	-7.2
Bangkok Metropolitan Area	879	1,252,574	9.8	71.0	1,425	8.4	17.2
of which:							
(1) Water for household use	240	402,018	8.1	90.9	1,675	0.0	8.1
(4) Public facilities	639	850,556	10.6	61.6	1,331	14.1	23.3
South	6,158	6,105,396	11.5	80.4	991	2.8	-3.2
of which:							
(1) Water for household use	2,056	2,215,325	10.5	80.6	1,077	2.4	-3.6
(2) Water for irrigation	122	543,963	2.5	97.3	4,459	0.0	-5.9
(3) Occupational promotion	2,220	2,299,274	11.2	78.8	1,036	4.2	-1.9
(4) Public facilities	1,760	1,046,834	18.9	74.5	595	1.8	-4.2

Source: Raw data provided by the Ministry of Interior, Technical Services and Planning Division.

1. Of the total sample of 257 projects, only the projects (104; 40%) that have an unskilled labor component have been chosen for this analysis.

34. The above program is receiving much attention and resources, and it is planned to be extended countrywide; thus a careful assessment is warranted. An evaluation is planned for 1996. The statistical wing of the department has collected very limited information on household incomes in 32 randomly selected program villages and 32 nonprogram villages. Unfortunately, information on loan repayment was not collected; so we have information only in gross incomes of households participating in the program in program villages, and nonparticipants in (control group) nonprogram villages. Though information on repayment is not available, it is reported in the interim performance report published by the ministry that the repayment record in 1994 and 1995 (for loans advanced in 1993) has been very poor (from 0.02 to 3.1 percent of loans advanced in different regions). To this extent, not much information has been missed in the data collected. The chief merit of the collected data is that it is a panel -- every household's income is tracked for two successive years after the commencement of the project. How do assisted households compare with the unassisted (control) households?

35. In comparing the households enrolled in the program with control-group households (not in the program) in the nonprogram villages, 20 percent of the incremental income from the former group was deducted toward loan repayments. The growth in net incomes (net of repayments) are then compared with incomes of the nonparticipants in nonprogram villages. Both program and nonprogram villages are located in the *same* province, so that both sets of villages could be presumed to be roughly the same in terms of agroclimatic factors and the average size of incomes. The observed differences between the two sets of households may largely be attributable to program participation.

36. The change in incomes of participant and nonparticipant (control group) households are shown in Table 9A for 1993-94; in Table 9B for 1994-95; and in Table 9C for 1993-95. Four findings emerge:

Table 9. Income Growth Rates among Participants and Control Groups by Region
9A. 1993-94

Real Growth Rate		Negative (percent)	0%-10% (percent)	11%-30% (percent)	31%-100% (percent)	Greater than 100% (percent)	Total (percent)
Total	Program	52.5	5.9	7.4	12.0	22.1	100.0
	Control group	72.7	3.6	3.4	3.8	16.5	100.0
of which:							
Center	Program	44.0	6.0	7.0	9.5	33.5	100.0
	Control group	76.1	4.3	5.1	4.0	10.5	100.0
Northeast	Program	36.1	6.5	8.5	21.6	27.3	100.0
	Control group	73.6	1.6	2.1	3.0	19.7	100.0
North	Program	63.0	8.7	9.1	9.2	10.0	100.0
	Control group	73.8	6.0	4.5	4.3	11.4	100.0
South	Program	63.4	1.3	4.0	7.5	23.7	100.0
	Control group	67.8	3.1	2.8	4.2	22.1	100.0

Source: Computed from raw data provided by the Ministry of Interior, Community Development Department.

Table 9B. 1994-95

Real Growth Rate		Negative	0%-10%	11%-30%	31%-100%	Greater than 100%	Total
		(percent)	(percent)	(percent)	(percent)	(percent)	(percent)
Total	Program	39.5	7.3	16.8	14.3	22.1	100.0
	Control group	47.6	4.9	10.9	6.1	30.6	100.0
of which:							
Center	Program	18.1	5.6	23.3	18.6	34.4	100.0
	Control group	42.4	6.5	7.2	5.1	38.8	100.0
Northeast	Program	30.1	8.0	23.5	23.2	15.2	100.0
	Control group	44.4	4.9	6.3	8.5	35.9	100.0
North	Program	57.2	10.2	10.4	7.1	15.1	100.0
	Control group	69.4	6.7	8.5	5.8	9.6	100.0
South	Program	43.5	3.9	12.9	10.8	28.9	100.0
	Control group	27.2	1.4	23.0	3.8	44.6	100.0

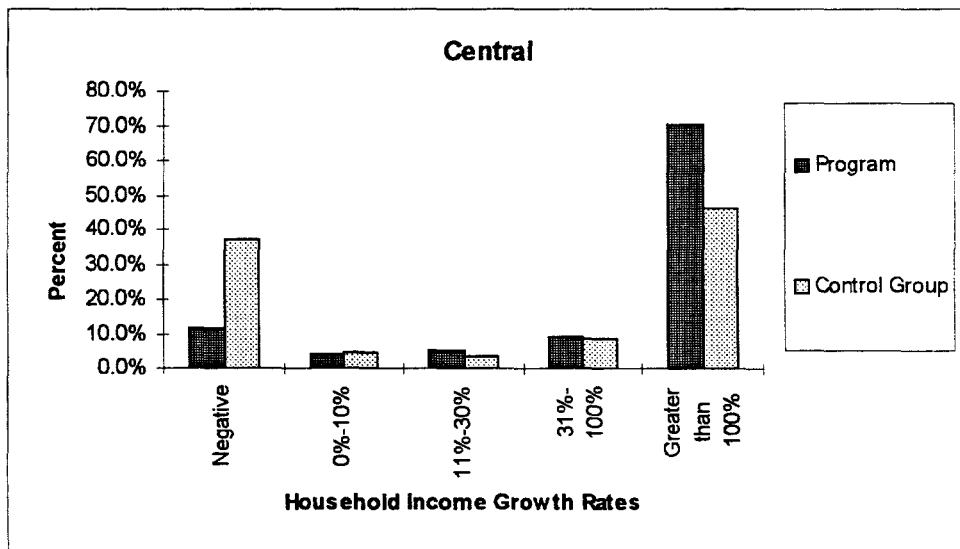
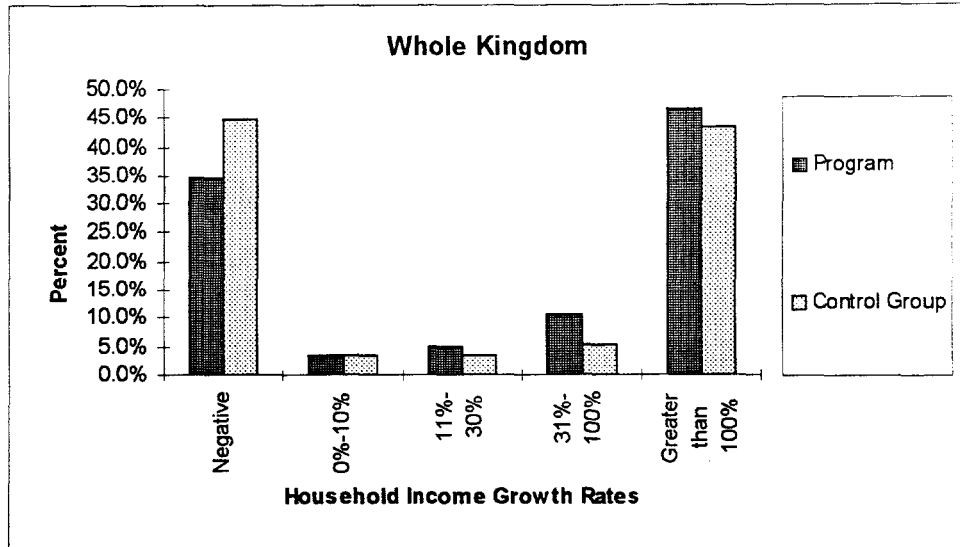
Source: Computed from raw data provided by the Ministry of Interior, Community Development Department.

- The households registering negative income growth are higher in the control group than for participants in all four regions (see Figure 2), clearly reflecting the positive impact of the program (see Table 9). The results are similar for the following year (i.e., 1994-95; see Table 10). Yet, it is also worth noting that as much as 50 percent in 1993-94 and 40 percent in 1994-95 of even the participant households registered negative income growth, reflecting the overall very limited success of the poverty alleviation program.
- In general, the failure rate is lower, and success rate higher, for participants in the Northeast than in other regions for both the years following the program. One reason for this superior performance of participants in the Northeast is they start with a low base (many with zero incomes). Nevertheless, the finding suggests that untapped potential for income growth exists among the poor in the Northeast to a much greater extent than elsewhere.
- Has growth in incomes been sustained for all households, (i.e., did all households register a positive income growth in *both* years following the program)? This is not the case, as Table 10 shows. Of the total assisted households (2217), whereas 40 percent registered a positive income consistently in both years, 31 percent sustained a negative income growth in *both* years. The remainder registered gains in one year and losses in another. These numbers suggest that sustainability¹¹ of income growth remains an important problem of the program.
- Again, in the Northeast¹² the proportion of households registering a sustained positive income growth is somewhat higher, and the proportion with sustained negative income growth lower than in other regions. The Central region has the lowest proportion of loss-makers among program participants, whereas the South has the lowest proportions of loss-makers among the control group.

¹¹ The complete life of the program is five years. Future studies should perhaps look at the program's complete life to answer further questions about its sustainability.

¹² It is also worth noting that the average base income of the households in the Northeast was lower than all the other regions.

Figure 2. Income Growth Rates Comparison among Participants and Control Groups by Region, 1993-95



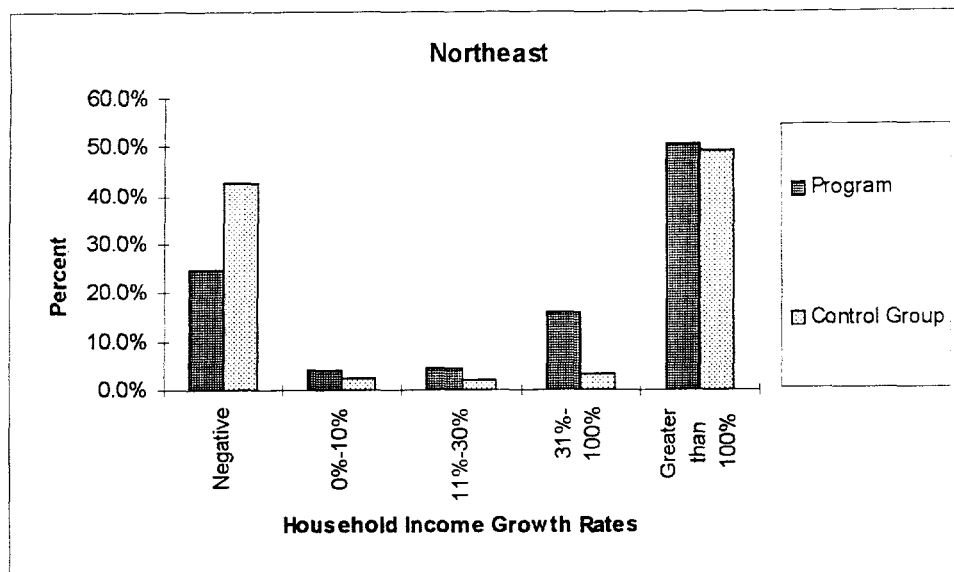


Table 10. Sustainability of Incomes of Participants and Control Group 1993-95

Total PHH: 2217	Total CHH: 1888	Gain in 1994 (percent)		Loss in 1994 (percent)	
		Gain in 1995	Loss in 1995	Gain in 1995	Loss in 1995
Total	Program	39.1	8.4	21.4	31.1
	Control group	20.3	7.0	32.2	40.6
of which:					
Central	Program	46.7	9.3	35.1	8.8
	Control group	17.4	6.5	40.2	35.9
Northeast	Program	54.2	9.7	15.9	20.2
	Control group	19.9	6.5	35.7	37.9
North	Program	27.9	9.1	14.8	48.2
	Control group	16.5	9.8	14.1	59.7
South	Program	31.4	5.2	25.0	38.3
	Control group	27.7	4.5	45.1	22.8

Source: Computed from raw data provided by the Ministry of Interior, Community Development Department.

Notes:

Total PHH stands for Total Households in the Program Villages with Households with Average Income of less than 5000 baht per annum. Total CHH stands for Total Households in the Control Group Villages with Households with Average Income of less than 5000 baht per annum.

6. Conclusions and Recommendations.

37. *Direct transfers.* The current level of public spending on direct transfers for the poor is extremely small. However, more spending is not necessarily going to ensure that the poor are protected in times of need, unless changes are introduced in the method of financing of transfers. Currently, each province is getting resources roughly proportional to its population size. To the extent provinces -- even within the Northeast -- differ a great deal in the incidence and depth of poverty, the allocation rule for resources across provinces ought to consider the distribution of poor population among the provinces as the criteria, and not just population per se. Thailand has a good network of grassroot level administrators and nongovernmental agencies capable of estimating provincial (and village) level numbers of the indigent. Resources, then, need to be dovetailed with the need as perceived at the grassroot level.

38. It is not clear that the village fund transfers can serve the intended purpose in the villages inhabited by predominantly poor. Those villages will have very little private resources to augment the government contribution. Ironically, the poorest villages are often short-changed. Here again, a policy differentiated by village (provincial) intensity of poverty is called for. The current uniform allocation rule (of 12,000 baht for every village no matter whatever the incidence and severity of poverty) is not very helpful for predominantly poor villages.

39. As for *in-kind transfers*, serious re-thinking is needed if the low-income card is to serve the poor in need. At present, the incentive to stay without a card seems to be larger than to get the card -- a clear reflection of the failure of the program as a whole. Much has to do with the referral system. Besides, the transfer (the value of services rendered annually with a medical card) is so small and the transaction cost for the poor to obtain the card so large (which include provincial-level patronage of village headmen) that it is not surprising the poor stay away from the program. These conditionalities have to change. In particular, low-income cards need to be issued not as a patronage by local level administrators (the present practice), but on the basis of a clear identification of the beneficiaries with specific attributes (i.e., after proper means-tests). Besides, the card-holders (as much as others who pay for health care) should be allowed to choose their care-providers. That can happen only if the primary health care quality is improved. That issue is no doubt a broader sectoral question, but unless it is addressed, the poor's reluctance to use the card will continue.

40. Like the low-income card program, the school lunch program leaves much to be desired. Currently, it is only a waste of resources. But the program can be improved. First, it needs to be targeted to poor children only; the nonpoor children are also served a meal, but parents pay for it (such programs -- where some parents of poor children don't pay and others do -- exists, for example, in USA). Second, the transfer amount -- 5 baht -- is not sufficient for a healthy meal. It should be raised, without necessarily raising the overall cost, provided cost-recovery is introduced from the nonpoor parents.

41. As for *income-generating programs*, clearly the public works component in the TDA is not acting as an employer of last resort. Indeed, employment is being generated in the private sector at a much lower cost. It is more a developmental program than an antipoverty program. Whether its design can be changed or not depends on the ability to maneuver the wage rate. One solution appears to be the contracting out of jobs to the private sector (contractors) who then could pay the market wages (instead of the higher minimum wages). This practice will also ensure that the program is not distorting the labor market.

42. A credit-based livelihood program appears to have some potential in the Northeast. Here again, program changes are needed. Thus it is not entirely clear whether every poor household needs to be included in the program. Some households may simply not have entrepreneurial abilities for launching informal

sector activities. If everyone is to be included, then appropriate training needs to precede enrollment into the program. Also, the fact that a third of the assisted households incurred losses consecutively in two years following the initiation of the program suggests that the choice of the program has not been done after due market tests. At present, the aim seems to be to simply distribute interest-free loans in the hope they will solve the problems of the poor. Cross-country experience suggests that more is required -- pretesting the market demand, offering program-specific training, and providing marketing outlets for the produced output. None of these activities are currently pursued as a part of the design of the program. The program is in need of revamping if it is to serve the poor as well as contribute to the growth of informal sector activities.

43. Finally, a few general recommendations are in order. First, the country has at present many programs. Indeed, every year a new program seems to be introduced. There appears to be a need to prune existing programs, decide on a few that can really reach the poor effectively, and stick to those programs. Second, whenever a program is introduced, appropriate monitoring framework should be in place. At present, the income-generating programs do not seem to have a critical database on loan repayments and incremental net incomes. Building an appropriate database for assessing the effectiveness of programs is a high priority. Database on SES also needs to be improved. In particular, it is important to clearly identify the transfers currently in the economy -- both private and government. In addition, households currently on government-sponsored income-generation programs need to be identified in the questionnaire on "source of income". Third, the allocation of resources to poverty-targeted programs across different regions needs to be sensitive to the regional differences in incidence and depth of poverty.

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**Annex A. List of Other Developmental Programs with Budget Provisions
FY96**

Program	FY 1996 budget (million baht)
1. Office for Committee to Assist Farmers and the Poor	11.6
2. Program for Adjustment in Structure and Production in Agriculture	2398.0
3. Program for Adjustment in Structure and Production	624.2
4. Program for Construction of Paddy Storehouse	76.1
5. Program for Support of Farmer Assn.	110.1
6. Mutual Fund to Aid Farmers	8,000.0
7. Program for Education Loans	3,000.0
8. Land Arrangement to Assist Farmers	137.6
9. Road Construction using Labor Intensive Technique	1,218.6
10. Welfare Program for Children & Youth	378.0
11. Welfare Program for Women	218.4
12. Program for Electricity Generation from Solar Energy for Villages Lacking Electricity	45.9
13. Program for Interest Compensation to BAAC	670.9
14. Public Electricity for Villages	100.0
Total (Nontargeted):	16,989.4

Source: The Bureau of the Budget.

**Annex B. Income Growth Rates among Participants and Control Groups by Region
1993-95**

Real Growth Rate		Negative	0%-10%	11%-30%	31%-100%	Greater than 100%	Total
		(percent)	(percent)	(percent)	(percent)	(percent)	(percent)
Total	Program	34.6	3.4	4.9	10.5	46.6	100.0
	Control group	44.6	3.5	3.5	5.2	43.2	100.0
of which:							
Center	Program	11.4	4.0	5.3	9.1	70.2	100.0
	Control group	37.3	4.3	3.3	8.7	46.4	100.0
Northeast	Program	24.8	4.2	4.4	16.1	50.4	100.0
	Control group	42.8	2.4	2.2	3.2	49.4	100.0
North	Program	53.5	4.4	7.4	9.8	24.9	100.0
	Control group	64.0	6.0	5.4	6.0	18.6	100.0
South	Program	38.9	0.6	1.7	6.4	52.4	100.0
	Control group	26.8	1.4	3.1	4.9	63.8	100.0

Source: Data provided by the Ministry of Interior, Community Development Department.