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THE SOCIAL IMPACT OF FINANCIAL CRISIS IN EAST ASIA
Evidence from the Philippines, Indonesia and Thailand

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Abbreviations and Acronyms

APIS	Annual Poverty Indicators Survey
AusAID	Australian Agency for International Development
BULOG	National Logistic Agency of Indonesia
DSWD	Department of Social Welfare and Development
GDP	Gross Domestic Product
IMF	International Monetary Fund
NESDP	National Economic and Social Development Board
OECF	Overseas Economic Cooperation Fund
UNCAP	United Nations Collaborative Action Plan
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Fund

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Executive Summary

The improvement in living standards and poverty reduction experienced by many countries in East Asia during the past two decades was brought to a halt by the recent financial and economic crisis. The crisis has affected the life of several million people in the region. The speed and severity of the impact has varied from country to country and also within each country not everyone has been affected in the same way. Thailand, Indonesia and Korea were among the first to suffer the impact starting in mid-1997. Indonesia is the worst hit. A delayed impact has been felt in Malaysia and the Philippines.

As reliable information becomes available, the social impact of the crisis appears to have been much less homogeneous and universal than initially forecasted. Thanks to the sharp devaluation of the East Asian currencies, the economic situation of some groups, many of whom were relatively poor before the crisis, has improved. The most vulnerable households seem to be the urban households that depend on a fixed income in sectors closely linked to the financial formal economy. Rural households, on the other hand, appear to be better protected to the extent that the impact is cushioned by their agricultural activities. Given that poverty was concentrated in rural areas before the crisis, the 'old poor' do not appear to be shouldering a disproportionate burden of the crisis.

Most of the household-level evidence on the impact of the crisis comes from Indonesia and Thailand. In Indonesia, data from different sources indicate that average per capita household expenditure in urban areas fell by about 40 per cent over the past year, while the median declined by only about 6 per cent, suggesting that is was primarily the non-poor who reduced their consumption levels. By contrast, mean per capita household consumption in rural areas remained unchanged, thus reflecting the positive impact of the crisis on some rural groups. The picture emerging in Thailand is similar: per capita income declined by about a fifth as a result of the crisis, but increases in prices of agricultural products helped cushion the adverse impact on rural households. However, the income distribution among farmers worsened as a result of the crisis, suggesting that many did not benefit from the improved rural terms of trade. Through work-sharing, the impact of the crisis on the labour market takes the form of an informalisation process instead of open unemployment. The main difference between the impact of the crisis in Indonesia and Thailand lies in the fact that the agricultural sector in Indonesia was able to absorb most of those who were laid off in Jakarta and other urban areas and moved back to rural areas. The same cushioning phenomenon did not occur in Thailand where, starting in the early 1990s, agriculture became more mechanized after the sector adjusted to increased costs of agricultural labor. In Thailand, most of the people who returned to rural areas either remained unemployed or employed in the informal sector outside agriculture.

The Philippine economy has withstood the regional crisis better than most market economies in East Asia and the social repercussions of the financial crisis have been less severe than in Indonesia and Thailand. There has been no need thus far for the government to recapitalize private banks and the majority of large corporations remain current on their domestic and foreign obligations. Unemployment rose sharply early in 1998, but by mid-1998, it was only marginally higher than a year earlier, while consumer price inflation was contained at around 10 percent, up from 6 percent prior to the crisis. Nevertheless, there have been some signs of deterioration of people's well-being.

In sum, we find that the social impact of the crisis is not small but is not as devastating as initially forecasted in the early stages of the crisis. The impact is heterogeneous in terms of who has been affected, in terms of dimensions of well-being that have changed, and in the ways that people have responded. Overall, it appears that many of the social problems encountered existed prior to the crisis and the crisis worked as a magnifying glass to make them more visible. Although short-term measures are needed to mitigate the immediate effects of the crisis on people's living conditions, the most effective strategy is to

maintain a long-term strategic vision on social issues, in order to maintain the human development achievements of the past, further expand their coverage, and increase their quality and sustainability. Further improvements in well-being of the poor in East Asia can be achieved through more equitable processes of economic growth and social development that can reach those groups that have traditionally been excluded from the benefits that people in the region enjoyed during the 'miracle' years. Fostering human development and enhancing social safety nets for the poor appear to be the top priorities in all countries.

1. Introduction

The present review focuses on the social impact of the financial crisis in three countries of East Asia: the Philippines, Indonesia and Thailand. The primary objectives are to summarize the extent and characteristics of the effects of the financial crisis on people's well-being and to identify the channels through which the crisis has affected different segments of the population differently. The effort is constrained by data limitations since only now reliable data are becoming available. The information we use comes from different sources: nationally representative household and labor force surveys; ad hoc surveys; participatory studies; government statistics; and many World Bank internal and external documents. Whenever the data allow it, we will compare the impact of the crisis across the three countries. Two factors, however, make such comparisons problematic: (i) the extent and quality of information available varies from country to country; and (ii) even when the data could be used for appropriate comparisons, they have so far been analyzed independently for each country.

Conceptually, five main channels through which the financial and economic crisis can exert adverse social impact may be identified: labor markets, prices, assets, credit, and government budget. First, unemployment is rising due to business failures or retrenchment; alternatively, many firms are cutting wages, reducing employee benefits, or shortening working hours. Second, prices of imported goods or items with high import content are escalating. Third, asset values are lost due to the collapse of stock and real estate markets, and lifetime savings are lost due to banking failures. Fourth, diminished collateral for loans along with high interest rates is limiting access to credit for investment or consumption. Fifth, government revenue is down, while a good deal of public expenditure is being diverted toward the restructuring of financial institutions and debt servicing. Finally, the demand for migrant workers throughout the region is declining, thereby hurting countries that rely on overseas labor markets for employment of their surplus labor and for worker remittances.

The review is structured as follows. In Section 2 we describe both the gains in social development that accompanied the economic growth of East Asian countries during the miracle years and the social challenges that existed in the region before the beginning of the 1997 financial crisis. In Section 3 we summarize the findings on of the social impact of the crisis in the Philippines, Indonesia and Thailand. Section 4 reviews the World Bank's strategy and efforts to help governments mitigate the adverse social consequences of the crisis and in re-initiate the economic growth process. Finally, in Section 5 we address the lessons that we have learnt from the East Asia crisis in terms of data gathering and information management.

2. East Asia Before the Crisis: Gains in Social Development and Existing Challenges and Vulnerabilities

Regional Overview

Income. Table 2.1 illustrates the very high growth rates experienced by East Asian countries in the last three decades.

Table 2.1. Income Growth in East Asia 1965-1995

	Real GDP per capita (1995 PPP Dollars)		Growth Rate	Growth Rate	Growth Rate
	1965	1995	1965-1980	1980-95	1990-95
Korea	1528	13269	6.8 (7.4)	7.5 (7.5)	6.5 (6.6)
Malaysia	2271	9458	3.6 (5.6)	4.2 (4.1)	6.0 (2.1)
Thailand	1570	6723	4.6 (4.4)	6.4 (5.5)	6.8 (6.3)
Indonesia	817	3346	4.8 (5.1)	4.4 (4.5)	5.4 (4.8)
Philippines	1736	2475	2.9 (2.8)	-0.4 (-0.4)	0.1 (0.1)
Vietnam	n.a.	1308	-0.8 (n.a.)	4.7 (n.a.)	5.8 (n.a.)
Singapore	2678	15191	8.5 (9.3)	6.5 (6.6)	7.4 (6.8)

Note: GDP per capita figures are in 1995 purchasing power parity (PPP) dollars. For Vietnam, growth rates are for the periods 1965-75 and 1986-1995, and 1990-1995 rather than 1965-80, 1980-95 and 1990-1995. Numbers in parentheses are growth rates in real GDP per capita from the Penn World Tables. Numbers without parentheses are average annual growth rates in real GDP per country from the national accounts, expressed in local currencies.
Source: *Everyone's Miracle?* World Bank 1997.

These consistently high rates of economic growth translated into quantifiable welfare improvements, primarily because growth has largely been inclusive -- the poor have shared the benefits. Table 2.2 and Table 2.3 below outline the achievements in poverty reduction and improvements in social indicators during the two decades prior to the crisis.

Table 2.2. Poverty in East Asia, Summary Statistics: 1975–95

Economy	Number of people in poverty (million)			Head-count Index (percent)			Poverty Gap (percent)		
	1975	1985	1995	1975	1985	1995	1975	1985	1995
East Asia	716.8	524.2	345.7	57.6	37.3	21.2	n.a.	10.9	6.4
East Asia (exc. China)	147.9	125.9	76.4	51.4	35.6	18.2	n.a.	11.1	4.6
Malaysia	2.1	1.7	0.9	17.4	10.8	4.3	5.4	2.5	1.0
Thailand	3.4	5.1	0.5	8.1	10.0	1.0	1.2	1.5	1.0
Indonesia	87.2	52.8	21.9	64.3	32.2	11.4	23.7	8.5	1.7
China	568.9	398.3	269.3	59.5	37.9	22.2	n.a.	10.9	7.0
Philippines	15.4	17.7	17.6	35.7	32.4	25.5	10.6	9.2	6.5
Papua New Guinea	n.a.	0.5	1.0	n.a.	15.7	21.7	n.a.	3.7	5.6
Lao PDR	n.a.	2.2	2.0	n.a.	61.1	41.4	n.a.	18.0	9.5
Vietnam	n.a.	44.3	31.3	n.a.	74.0	42.2	n.a.	28.0	11.9
Mongolia	n.a.	1.6	1.9	n.a.	85.0	81.4	n.a.	42.5	38.6

All numbers in this table (except for Lao People's Democratic Republic) are based on the international poverty line of US$1 per person per day at 1985 prices.
Source: *Everyone's Miracle?* World Bank 1997.

Poverty. Gains in rural productivity and wages, movements of workers to higher productivity sectors and rising urban wages have all contributed to rapid declines in headcount poverty: from 60

percent in the 1970s to 21 percent in the 1990s. This helped to keep the absolute number of poor from increasing despite fairly high population growth. The number of poor more than halved between 1975 and 1995, from more than 700 million to less than 350 million.

Social Indicators. Life expectancy at birth, infant mortality, and literacy have all improved substantially. These achievements are even more impressive when compared with social developments in other regions or developed countries during their decades of industrialization.

Table 2.3. Social Indicators in East Asia, 1970–95

Country	Life expectancy at birth		Infant mortality rate (per 1,,000 live births)[a]		Primary net enrollment (percent)		Secondary net enrollment (percent)	
	1970	1995	1970	1995	1970	1995	1970	1995
East Asia	59.4	68.8	76	34	n.a.	n.a.	n.a.	n.a.
Taiwan, China	69.0	74.8	69	6	n.a.	> 99	75.0	87.4
Korea	60.6	72.0	46	10	> 99	> 99	45.4	93.4
Malaysia	61.6	71.8	45	12	84.1	88.7	25.5	55.9
Thailand	58.4	69.0	73	35	78.6	88.2	18.2	34.9
Indonesia	47.9	63.7	118	51	75.6	> 99	13.0	55.0
China	61.7	69.4	69	34	75.9	> 99	34.7	50.7
Philippines	57.2	66.5	71	39	> 99	> 99	40.4	75.5
Papua New Guinea	46.7	58.5	112	68	30.8	70.0	3.7	13.3
Lao PDR	40.4	52.8	146	104	n.a.	60.0	n.a.	15.0
Vietnam	49.36	67.5	111	42	n.a.	91.0	n.a.	45.0
Mongolia	52.70	66.4	102	55	n.a.	n.a.	n.a.	n.a.

Source: Ahuja and Filmer (1996), Educational Attainment in Developing Countries, *Journal of Educational Planning and Administration*, 3: 229-54, for net enrollment rates; World Bank data for life expectancy and infant mortality.

a.: includes only those countries presented in the table.

Three major social vulnerabilities pre-existed the onset of the financial crisis, although they were masked by the improvements in standards of living that came with sustained economic growth: (1) persistent pockets of poverty; (2) rising inequality; and (3) lack of social safety nets.

Persistent Poverty. About 350 million people lived in poverty in 1995. Moreover, many non-poor people lived just above the poverty line so that either a slight increase in the poverty line and/or a slight reduction in household resource availability would produce a considerable increase in the number of poor. Within each country, reduction of poverty has not been uniform across social, economic and ethnic groups and geographic regions. Data from many countries reveal that the poor tend to live in rural areas, have less education and live in households headed by farmers. Ethnic minorities are often in a disadvantaged position.

Rising Inequality. Table 2.4 illustrates the changes in inequality within the East Asia region, as measured by the Gini coefficient of the percapita income distribution. Inequality has been increasing fast in Thailand and China and, to a lesser extent, in Hong Kong and Taiwan. It clearly declined only in Malaysia and Singapore and stayed more or less the same in Indonesia, Korea, and the Philippines.

Table 2.4. Rising Income Inequality in East Asia

Country	Time Period	Gini Coefficient	
		First Year	Last Year
Taiwan, China	1985-1995	29.0	31.7
Korea	1970-1988	33.3	33.6
Malaysia	1973-1989	50.1	45.9
Thailand	1975-1992	36.4	46.2
Indonesia	1970-1995	34.9	34.2
China	1985-1995	29.9	38.8
Philippines	1985-1994	29.0	31.7

Source: Everyone's Miracle?, World Bank 1997.

Lack of Social Safety Nets. East Asian countries relied largely on high growth, a stable macroeconomic environment and widespread public provision of health and education services for social protection. Formal safety nets were limited in scope and coverage, reflecting cultural values that attach a stigma to transfers. Only Korea had an unemployment insurance scheme, which was introduced in 1995. Large informal safety nets and limited formal ones supplemented household risk reduction strategies. Both structural changes, which will continue to expand the formal sector, and demographic changes, which will result in a rapidly aging population with different epidemiological profiles and health care needs, will strain informal, family-based mechanisms of household protection, and will increase demand for formal, government-mandated schemes.

Below, we describe the gains in social welfare obtained in the last two-three decades and the major social challenges that characterized the Philippines, Indonesia and Thailand in mid-1990s.. For each country, we focus on four social processes: *poverty, employment and social protection, education* and *health.* Much work has been done in the past to review the gains in social development achieved in East Asia during the last two decades of sustained growth. More recent research has highlighted the existence of major social vulnerabilities in East Asia before the onset of the financial crisis. For this reason, the discussion in the following section is kept brief. The interested reader is encouraged to read the following World Bank's reports: *The East Asian Miracle: Economic Growth and Public Policy* (1993) and *Everyone's Miracle? Revisiting Poverty and Inequality in East Asia* (1997).

PHILIPPINES

Poverty

Gains. In contrast to the preceding decade the incidence of poverty declined between 1985 and 1995 (Table 2.2). Recent data suggests that the incidence of poverty has declined further in 1997 (Table 2.5).

Table 2.5. Poverty Incidence In The Philippines

Indicator	Total			Urban			Rural		
	1991	1994	1997	1991	1994	1997	1991	1994	1997
% of Families	39.9	35.5	32.1	31.1	24.0	18.5	48.6	47.0	44.4
% of Population	45.3	40.6	37.5	35.6	28.0	22.5	55.0	53.1	51.2

Source: Family Income and Expenditure Surveys, 1991, 1994, 1997. Data for 1997 are preliminary.

Vulnerabilities. Although impressive, the rate of poverty reduction has been lower than in many of the other countries in the East Asia region. The Philippines is the only country in the region whose

absolute number of people living below the poverty line increased between 1975 and 1995 (from 15.4 to 17.6 million people).

The mid-1990s also witnessed a significant increase in income inequality with the Gini coefficient increasing from 0.45 to 0.50 between 1994 and 1997 (Table 2.6). Three factors help explain the observed increase in inequality: (i) the income of the richest ten percent grew faster than the incomes of the rest of the population; (ii) "core" poverty in rural areas seem to have been largely untouched; and (iii) urban-rural differences in standards of living widened.

Table 2.6. Indicators of Income Inequality

Indicator	1988	1991	1994	1997
Ratio of Average Urban to Rural Income	2.1	2.2	2.1	2.44
Gini coefficient of income	0.44	0.47	0.45	0.50

Source: Family Income and Expenditure Surveys, 1991, 1994, 1997. Data for 1997 are preliminary.

The Philippines also fares below the norm for the East Asia region with respect to other socioeconomic parameters, including lower national savings and investment, higher import duties, more rapid population growth, inadequate infrastructure, and an inefficient bureaucracy and judicial system (World Bank 1998c).

Employment And Social Protection

Gains. Economic growth in the Philippines has been relatively steady, since the late 1980s, with a brief interruption in 1991-92. Key factors in the growth of the Filipino economy were the renewed dedication to macroeconomic stability and export-oriented growth on the part of the government. Economic growth led to tangible benefits for Filipinos in the form of reduced unemployment and underemployment.

Vulnerabilities. To date, the Philippines has not been in a position to put into place a comprehensive formal social safety net. While some elements of such a safety net do exist, such as severance pay and pensions, coverage is incomplete and often difficult to enforce. Other key elements, such as unemployment benefits, are completely absent. The focus of the Government remained on economic growth supplemented by targeted poverty alleviation measures, which primarily took the form of improving access to quality education and health services, as well as targeted programs and projects under the Department of Social Welfare and Development and the National Anti-poverty Commission.

Education

Gains. The Philippines achieved near universal primary education enrollment by 1970 and by 1995, the net secondary enrollment rate has increased to 75.5 percent from less than 50 percent in 1980. Among the countries in the East Asia region, educational achievements at the secondary and tertiary level in the Philippines are second only to Korea.

Vulnerabilities. These successes, however, mask a long-term deterioration in access to and quality of education. Moreover, the national figures obscure wide regional differences. Only two thirds of Filipino children who enter first grade complete the entire elementary cycle, compared to 97 percent of Korean children. The national average also masks variations between urban and rural areas: completion rates range from nearly 100 percent in Manila to barely 30 percent in the poorest provinces. In addition, the school system is socially regressive. Children from poor families have little choice but to go to the public schools. Wealthier families send their children to private schools, where the quality tends to be

better than in the public system. Furthermore, parents must contribute one-third of the costs of their child's education, which is proportionately a greater burden on poorer households. For many years, the Philippines failed to capture the benefits of education, such as productivity growth, poverty reduction, and social development. Slow-growth and import-substitution policies failed to generate jobs, and 4 million Filipinos went abroad to look for employment. The new emphasis on export-led growth, however, has increased the demand for skilled labor, and made the issue of the deteriorating quality of education visible.

The main challenges facing the education system in the Philippines are to redress the inequities between regions and income levels and to link investments in education to employment opportunities and productivity gains more effectively. This will require improving the readiness of poor children for school, redressing inequities in access to textbooks and experienced teachers, and repairing the physical plant of the school system. The Government has already begun implementing a decentralization program, which is intended to redress these inequities, in part, by leveraging more resources for the education sector. Additional resources, from the private sector, or wealthier local government units, would free up existing government resources that could be targeted to poorer areas.

Health

Gains. There have been considerable gains in the health status of Filipinos over the last decade, although these gains have been modest given the economic growth and the level of development in the country. For example, infant mortality declined by 40 percent between 1970 and 1993, compared to a regional average of 55 percent.

Vulnerabilities. The infant mortality rate is currently around 35 deaths per thousand live births, and the child mortality rate (under-5) is 49 per thousand. Child indicators are ahead of Indonesia, but behind those achieved in Thailand and Malaysia. In particular, there are large provincial differences in health status, and a resurgence of some serious diseases, notably tuberculosis, a large proportion of which can be attributed to unplanned urbanization and industrialization. Maternal mortality rates have remained high at over 200 per 100,000 births.

INDONESIA

Poverty

Gains. Over the past twenty-five years, Indonesia has had an outstanding record of reducing poverty among its inhabitants. The number of Indonesian people living on US$1 dollar a day (in 1985 dollars) dropped from 87.2 million in 1970 to 21.9 million in 1995. The poverty rate declined by 82 percent during that period. A great deal of Indonesia's successful reduction of poverty lay with policies that promoted long run growth. Rapid growth in per capita incomes – 4.8 percent on average over 30 years – more than offset any increases in the poverty rate coming from changes in the income distribution. Indeed, measures of inequality in Indonesia remained virtually unchanged for twenty-five years. In contrast, in many other East Asian countries, reductions in poverty rates from increased growth were often substantially offset by changes in income inequality.

Vulnerabilities. Poverty rates are not uniform across the country – in 1990, poverty incidence ranged from 1.3 percent in Jakarta to 46 percent in East Nusa Tenggara. Furthermore, there is some anecdotal evidence that inequality was increasing prior to the crisis.

Employment And Social Protection

Gains. Over the past decade, Indonesia has relied upon high growth rates to keep unemployment low and absorb new entrants into the work force. Market oriented reforms in the 1980s, such as deregulation of key industries, helped the employment and productivity recover after an economic downturn in the early 1980s. In the early 1990s, Indonesia began to undergo long-term changes in the structure of labor supply and demand. Population growth slowed, but rapid growth in the labor force continued, bolstered by increased participation by women in the work force. There was a shift in the composition of labor demand from unskilled to skilled labor. In addition, income growth has been accompanied by an increasing formalization and industrialization of the economy. Labor market tightening, as well as a rapid increase in the minimum wage between 1989 and 1999, contributed to a rise in real wages.

Vulnerabilities. The introduction and subsequent rapid increases of the minimum wage has not only contributed to a small reduction in labor demand, but also to an increase in Indonesian labor costs relative to other East Asian countries. The main challenges of the Government prior to the crisis were to improve industrial relations between workers and employers and to foster employment creation, through deregulation of labor-intensive industries and improvements in educational quality.

Education

Gains. Investing in education has been one of the cornerstones of Indonesia's development policy, and, as a result, the education level of the population has increased substantially. In the early 1970s, 74 percent of the population had less than a primary education; today, that figure is 34 percent. This expansion has enabled workers to increase their earnings by moving from lower-paid to higher-paid jobs across regions. Gender differentials, moreover, have narrowed more rapidly than in all but a few countries around the world.

Vulnerabilities. Even before the crisis, however, the government of Indonesia faced important challenges it needed to overcome in order to prepare its labor force and society for the next stage of economic development. These challenges included: (i) an unsatisfactory quality of education throughout the system; (ii) the inability of the poor to afford the basic nine years of education; (iii) negative institutional incentives that impeded the efficient and equitable distribution of educational goods; and (iv) a public post-basic education system unresponsive to the rapidly changing demand of the labor market (World Bank 1998b)

Health

Gains. Between 1969 and 1994, the Government of Indonesia expanded the access to health care through publicly-provided health care facilities. Indonesia has made tremendous progress in improving the health of its inhabitants over the past 30 years. In 1967, the infant mortality rate was 124 per 1,,000 live births. By 1996, this rate had dropped to 49 per 1,,000 live births. An Indonesian child born in 1967 could expect to live 46 years on average. By 1996, an Indonesian child could expect to live for nearly 65 years on average.

Vulnerabilities. Prior to the crisis, the improved health and increased per capita income of Indonesians created a new set of challenges to the health care system. As income levels have risen, demands for more and better quality health care have increased. Meanwhile, the changing health profile of Indonesians placed new financial pressure on the health system. In particular, chronic ailments, such as cardiovascular disease and cancer, whose treatment and prevention are more costly, are becoming more prominent as the population ages. In addition to a changing health profile, the Indonesian health system is in the process of decentralizing the administration, planning, management and financing of health care

from the central government to the provincial and *kabupaten* governments. More and more, the provision of health care services and training of health professionals will be undertaken by the private sector. The challenges of decentralization will be to ensure that there are efficiency and quality gains, that rural areas are not left behind, and that efficient management systems are put in place at all levels.

THAILAND

Poverty

Gains. Thailand has made good progress over the past decade in reducing poverty, reflecting the rapid growth of the economy. According to the new poverty lines developed by the National Economic and Social Sector Board, the Thai Government planning agency, the overall incidence of poverty fell from 33 percent in 1988 to 20 percent in 1992 and to 11 percent in 1996.[1] During this period, the number of absolute poor fell by half, from 17.9 to 6.8 million people (World Bank 1999c).

Vulnerabilities. The process of economic growth and poverty reduction in Thailand during the past two decades has been accompanied by increasing socioeconomic inequities. Between 1975 and 1992, inequality increased between urban and rural areas, between well-educated workers and those with little education, and between households of different socioeconomic status. During this period, the poverty rate for households headed by individuals with no education fell by 38 percent. In contrast, the poverty rate for households headed by individuals with a lower elementary to junior secondary education was reduced by 60 percent. Between 1988 and 1992, the income share of the top 20 percent of households rose from 55 to 59 percent of GDP, while the bottom 20 percent fell from 4.5 to 3.8 percent. Consequently, while Thailand had substantially lower income inequality than other countries in the Region in the mid-1970s, it now has the most unequal distribution in East Asia. A 1996 World Bank poverty report indicated that the increase in inequality was largely due to the skewed distribution of formal sector jobs across regions and sectors, and to the limited access of the poor to secondary and vocational education (World Bank 1996).

Employment And Social Protection

Gains. Before the onset of the financial crisis, the Government of Thailand made the first steps in establishing an integrated social protection program with a social safety net, social security, and labor programs. The Social Security Office is responsible for four social security programs – workers' compensation, maternity, medical care/injury, and death, and is planning to introduce old-age pensions in 1999.

Vulnerabilities. Before the crisis began there was no unemployment insurance or effective social security in place. Close to 85 percent of workers, poor and unemployed are currently not covered by the existing social security system and are forced to rely on informal safety nets. The current social security system also suffers from an unclear benefit structure and a lack of a coherent policy direction. The clear priority in the pre-crisis context was to continue fashioning the existing social safety net into a more integrated whole, while filling in the gaps.

Education

Gains. In the 1970s and 1980s, Thailand succeeded in providing all children with access to good quality primary education.

[1] The new poverty lines apply improved methods of poverty measurement that incorporate detailed data on spatial price differences among provinces, which are a major improvement over the aggregated poverty lines introduced by the World Bank in the 1970s.

Vulnerabilities. Expansion of opportunities at lower and upper secondary levels, and in post-secondary education, however, proceeded more slowly. In the early 1990s, Thailand's enrollment ratios at these levels lagged far beyond those of their competitive neighbors. Less than 40 percent of the Thai workforce have completed secondary school, and about 80 percent have completed the primary level. Serious issues of curriculum relevance and quality also received increasing attention. At the tertiary level, science and engineering programs were weak, and graduates failed to meet labor market standards. A productivity gap emerged between Thailand and other newly industrializing nations which led to a decline in Thailand's export share of labor-intensive goods.

Beginning in the early 1990s, the government began to address issues of access and quality in secondary and higher education. Enrollment rates began to rise. Programs to improve the quality of science, mathematics and foreign language instruction in teacher education colleges and secondary schools were launched. Thailand's long-term challenges are to continue the expansion of the secondary and higher education system and improvements in quality. Critical to meeting this challenge will be an expanded role for the private sector in employment training, and the direct provision of education.

Health

Gains. The health system evolved into a relatively sophisticated mix of public and private provision and financing. Thailand has kept pace with its neighbors in reducing infant mortality, improving immunization rates, and increasing life expectancy. The AIDS epidemic hit Thailand very hard, with prevalence among some groups reaching 50 percent or more. However, the Thai AIDS control campaign has attained international recognition as the first in the developing world to halt the growing incidence of new cases of HIV and to sustain a steady decline.

Vulnerabilities. Gains have been very costly to achieve relative to other East Asian countries. Thailand spends roughly 6 percent of GDP on health care compared to less than 3 percent for Indonesia, the Philippines and Malaysia which have made proportionate gains in health status. Nor have the gains been equitably distributed. Some 40 percent of the Thai population do not have access to adequate health care, primarily in rural areas. The difference in access is reflected in health indicators. A 1997 World Bank study found that the infant mortality rate in the North, Northeast, and South were twice the rate in Bangkok. The same study found that in Bangkok there was one physician for every 938 people, compared to one physician for over 7,300 people in all other areas (World Bank 1997b). The primary challenges that existed before the crisis, and the source of future health improvements in Thailand, were to improve access for the poor and to reallocate resources towards rural areas. This might be achieved by rationalizing the various financing schemes, which all have different benefit structures, and by generally improving the efficiency of the health sector.

3. The Social Impact of the Crisis

Regional Overview

The new and more specific data that is becoming available on the situation in individual countries has highlighted the complex impacts of the crisis. While the macroeconomic situation is slowly improving, the region still faces a precarious external environment, and the social impact of the crisis is still unfolding.

Labor Market Developments. Official unemployment figures show a rising trend in all East Asian countries.

The figures in Table 3.1 hide other developments in labor markets. The informal sector has absorbed some of those made redundant from formal sector positions, squeezing income margins at the same time. In some instances workers have accepted lower wages in the formal sector in exchange for job security – as in the Philippines and Korea. Data for Thailand demonstrates that average real wages fell by 6 percent between February 1997 and February 1998. The decline was greater in urban areas (8.3 percent) with construction workers experiencing the largest decline (15 percent).

Table 3.1. Unemployment Rates

	1997	1998/99
Thailand	1.2% (Aug)	3.6% (Aug '98)
Korea	3.2% (Feb)	8.7% (Feb '99)
Philippines	7.7% (Jan)	9.0% (Jan '99)
Indonesia	5.1% (Feb)	6.4% (Feb '98)
Malaysia	2.5% (Dec)	3.4% (Dec '98)

Source: Official Government statistics reported.

The incidence and severity of the unemployment impact varies across countries by region and by skills level. In general much of the increase in unemployment has been concentrated in cities and urban areas – although some traditionally poor areas have also experienced increases. Unemployment in Thailand has been concentrated in the Bangkok metropolitan area, for example, but the rural Northeast has also experienced substantial increases. In other countries such as Indonesia, Korea and the Philippines the unemployment impact in rural areas is smaller than that in urban areas.

Those most affected by unemployment and falling wages have tended to be the lower skilled and less educated and those working in small and medium sized firms. In Thailand businesses employing less than five people provided for 20 percent of the reduction in total employment and those employing between six and 10 people for 25 percent. Similarly, in Korea businesses employing fewer than ten people contributed more than 60 percent of the lay-offs, and job losses were mostly among those whose work was marginal (temporary and daily workers). Gender biases in different sectors of the workforce may have had differential employment effects; for example, construction tends to be male dominated, while the majority of the people working in textile industries are women.

Incomes and Poverty. Recent data in Indonesia and Thailand reveal the crisis has had an heterogeneous impact on household incomes and welfare. In Indonesia the largest impact appears to be in urban areas where per capita expenditures fell by 34 percent on average compared to 13 percent in rural areas. In Thailand, on the other hand, initial effects were strongest in the traditionally poorest regions and the rural Northeast has seen greater increases in poverty than Bangkok. In Indonesia median per capita

expenditure has decreased by only 1.5 percent compared to 24 percent for average household expenditure, indicating that in proportional terms it is the better off who decreased their spending most. In Thailand, in contrast, the largest decreases in real income per worker were for those with elementary education or less. In Korea urban household consumption declined by nearly 20 percent in the second quarter of 1998 compared to the same period in 1997 – the biggest quarterly fall in 35 years, while in Malaysia, welfare declines appear more widespread, leading to poverty increases in both urban and traditionally poor, rural states.

The heterogeneity in impact on incomes has meant that the effect of the crisis on aggregate poverty incidence may be smaller than initially feared – in the order of an additional 2-3 percentage points in 1998 in Indonesia and Thailand. This hides, however, significant differences in the location of the poverty impact and the incidence of hardship. In Korea, however, preliminary estimates are that the crisis has led to an increase in urban poverty by as much as 180 percent between 1997 and 1999 with the average headcount for urban poverty in 1998 estimated to be 19.2 percent.

Education and Health. Overall, parents do not seem to be taking young children out of primary school in Indonesia and Thailand. Some groups, however, are experiencing significant adverse changes. Enrollment rates have dropped for older children in Indonesia – particularly among low income groups. In Thailand a large share of dropouts are occurring at the transition from lower to upper secondary school. In Indonesia there is a decline in the share of children using health services and receiving Vitamin A. Nevertheless, most health indicators of child health are showing improvements. Given the irreversible nature of changes in education and health on human capital, monitoring these sectors remains a priority in all countries

Social Dynamics, Crime and Domestic Violence. Evidence suggests important consequences for the social dynamics within affected households, communities and countries. Anecdotal evidence in some countries points to increased pressures within families and on women who are often the first targets of company redundancies. Although conclusive data are not yet available, preliminary data suggest that the crisis has shifted traditional patterns of migration within, and between countries, creating various localized pressures. In some countries the crisis has also contributed to rising social tensions in the context of slowing growth, rising unemployment and mounting political tensions.

The struggle for survival is leading to increasing criminality in the communities. Stress and conflicts erupting within households over allocation of diminishing resources are also becoming common. In Jakarta, the number of divorce applications increased from 1,713 in October 197 to 2,590 in February 1998 (Baillie 1998). The unemployed may turn to illegal activities in frustration, as has been reported among slum dwellers in Bangkok (Robb and Zhang 1998). In Mindanao, communities have reported that crime has risen since the crisis began. In one community, a curfew has been introduced for the first time in response to increased crime. Rising prostitution of women and children, as well as increased numbers of street children, drug peddling, and domestic violence have been reported in the Philippines. In Bangkok, attacks against debtors by "loan shark" who had not been repaid have also been reported (Robb 1998).

PHILIPPINES

Limited Impact. The recent slowdown in economic activity and uncertain prospects for robust recovery threatened to reverse the relatively favorable poverty trends in the nineties could be adversely affected. Several factors, however, have contributed to limit the adverse consequences. First, private consumption held up strongly through much of 1998, with per capita consumption growing by 1.7 percent during the first three quarters and slowing down only during the fourth quarter. Second, continued growth of worker remittances helped to maintain consumption. Finally, although the sharp fall in agricultural

output in the first half of 1998 and typhoon related damage in the fourth quarter have hurt the rural poor, the drought consequences of El Nino appear to be over.

Nevertheless, it may only be a matter of time before the crisis impacts more strongly. While the rains have come in abundance now, experts fear that a prolonged rainy season, i.e., La Nina, could be detrimental to crops. This would not only raise food prices, but also reduce incomes of those who work in agriculture. At the same time, a sustained recovery in non-agricultural GDP is not assured: data through the third quarter point to continued weakness in manufacturing and construction. As manufacturing output declined in the second quarter, the expansion of non-farm employment came to a stop; in the third quarter it actually declined. In addition, the rate of open unemployment has increased to 9.6 percent in October 1998, from 7.9 percent a year earlier. The annual round of wage adjustment implemented in February 1998 remained moderate, and below inflation. The real minimum wage therefore adjusted to the deteriorating labor market situations, and labor absorbed downward adjustments in real income. Informal sector real wages have probably also dropped. While one cannot be precise about the intensity with which these factors will play out it would be prudent to prepare for the contingency of further deterioration in their impact on the poor.

Employment Generation. As GDP decelerated, so did employment generation. The number of establishments in 1998 resorting to closure more than doubled compared to 1997 and the number of workers affected also went up (see Table 3.2). Between October 1997 and 1998, 350,000 jobs were created, but they proved insufficient to absorb the wave of new entrants into the labor force (about 1 million a year).

Table 3.2. Establishments Resorting to Closure/Retrenchment and Workers Affected (January to November 1997 and 1998)

	1997	1998
No. of establishments	1,155	2,786
% yoy	7.0	141.2
Closure	338	347
Retrenchment	804	724
Rotation	48	39
No. of workers retrenched	62,724	81,002
% yoy	56.1	29.1
Closure	39,176	47,023
Retrenchment	19,843	29,773
Rotation	3,705	4,206

Source: Philippines Quarterly Update. Fourth Quarter 1998. World Bank. Philippine Resident Mission.

Public Expenditure. The optimistic scenario that the Philippines was facing before the onset of the financial crisis[2] and the economic changes that were brought about by the crisis[3] created a fiscal environment for 1998 and 1999 characterized by growing disparities between expected and actual revenues, and therefore between authorized expenditures and resources to fund them. In an attempt to contain the fiscal deficit, the authority had to cut as much as 15 percent of the 1998 appropriation for national government departments. The social sectors, however, have been comparatively protected (see Table 3.3).

[2] Before July 1997, the Philippines was on its sixth year of accelerating growth. The preparation of the 1997 budget was based on a 7% GNP growth forecast and resulted in ambitious expenditure commitments.

[3] As the financial crisis unfolded in the second half of 1997, tax and duty collection of the government began to deviate from target.

Table 3.3. Allocation of National Government Department Expenditures in the Social Sectors

1999	1998	1997	1992
43.5%	.44.0%	39.1%	32.9%

Source: *Philippines Social Expenditure Priorities*. 1998. World Bank, Report No. 18562-PH.

Even if lighter than in other sectors, the fiscal difficulties have exacerbated long-standing structural problems in the social sectors. Some of the most important ones are: inefficient procurement, poor deployment of teachers, severe under-funding of textbooks and school maintenance, public health programs, creeping re-nationalization of devolved hospitals, and proliferation of low quality universities and colleges.

INDONESIA

Expenditure Levels. Between 1997 and 1998 there has been a substantial decline in real purchasing power as measured by percapita levels of household expenditures. Reductions in expenditure of those in the upper parts of the income distribution account for a large part of the decline. The precise magnitude of the change, the extent of differences between urban and rural areas, and the implications for poverty rates depend critically on assumptions about prices and on where one draws the poverty line. Estimates that incorporate province-specific inflation rates (based on National Statistics prices from 44 urban provinces) suggest that overall, the proportion of households below the poverty line below the poverty line has risen by about 25 percent, with a larger increase in urban than rural areas. However, estimates that allow for a higher level of inflation in rural than urban areas (as it is indicated by more desegregated survey data), suggest that the rise in poverty is considerably larger, and that rural households have experienced more change than urban households (Frankenberg, Thomas and Beegle 1999).

The crisis has hit the middle and upper income groups especially hard: while average real household expenditures plunged 24 percent, median household expenditure (i.e., the expenditure level of the family at the mid-range) has only dipped 1.5 percent (see Table 3.4 below). Welfare losses are largest on Java, both in urban centers and rural areas with close urban links. In contrast, many rural areas off Java with export crops are benefiting from the sharp rupiah depreciation. In general, households have reduced their expenditure on non-essential goods or purchases that can be delayed. Comparisons of household budget allocations between 1997 and 1998 reveal that in both urban and rural areas there has been a substantial and significant increase in the proportion of the budget spent on food and, especially on staples (primarily rice). The changes have been largest for the poorest.

Table 3.4. Monthly Household Per Capita Expenditures: 1997, 1998 and Changes - Real 1997 Rupiahs (',000)

	Mean 1997	Change in 1998		Percent Change	
		Mean	Median	Mean	Median
Urban	319	-108	-7	-33.9%	-5.0%
Rural	194	-26	-2	-13.4%	-1.6%
All	246	-60	-2	-24.4%	-1.5%

Source: Frankenberg, E., D. Thomas, and K. Beegle. 1999. *The Real Costs of Indonesia's Economic Crisis: Preliminary Findings from the Indonesia Family Life Surveys*. Labor and Population Program Working Paper Series 99-04. Santa Monica: RAND (processed), Table 2.1.

Poverty. Poverty incidence in 1997 was estimated to be 11.0 percent, i.e., around 22 million Indonesian people lived below the poverty line before the onset of the crisis. Table 3.5 reports the estimates of the incidence of poverty using different assumptions about inflation and different data

sources. In order to calculate the fraction of households that in 1998 were below the level of expenditures that implied 11 percent poverty rate in 1997 it is necessary to deflate 1998 nominal expenditures to 1997 "real" terms. Table 3.1 reports the estimates of the incidence of poverty using different assumptions about inflation and different data sources. The overall poverty level is estimated to have increased between 3 percent and 9 percent. Since the use of information from official sources seems to be the most appropriate approach to deflation (despite it assumes equal inflation in urban and rural areas), poverty is generally believed to have increased by 3 percentage points to approximately 14 percent in 1998, bringing the number of people living below the poverty line in Indonesia to almost 30 million.

Table 3.5. Povery Calculations Using Alternative Assumptions About Inflation and Different Expenditure Data

IFLS expenditure data				
	Deflation by province specific CPI from BPS		**IFLS deflation**	
	1997	**1998**	**1997**	**1998**
All	11.0	13.8	11.0	19.9
Urban	9.2	12	9.2	15.8
Rural	12.4	15.2	12.4	23
"100 Villages" expenditure data				
	Deflation by province specific CPI from BPS		**IFLS deflation**	
All	11.0	14.4	11.0	18.6

Source: Poppele, J., S. Sumarto and L. Pritchett. 1999. *Social Impacts of the Indonesian Crisis: New data and Policy Implications*. SMERU Report.

Assets. Results form the *Kecamatan Crisis Impact Survey* (a subjective, expert respondent survey of three government officials in each of Indonesia's 4025 *kecamatans*), support the finding that urban areas have generally been hit harder than rural areas. Of the 20 hardest hit areas, 14 are urban, while of the 20 least hit areas, 13 are rural. Table 3.6 reports the proportion of *kecamatans* in each provincial area reporting that the fraction of people "selling assets to meet basic needs" was "worse". Within nearly every province and each region or island this was consistently higher for urban than rural areas (Poppele, Sumarto and Pritchett 1999).

Employment, Wages and Social Protection. By 1998, a slightly higher fraction of men and a considerably higher fraction of women were working than in 1997. The changes are similar in urban areas and rural areas. However, the increase in the proportion working mostly reflects the entrance of unpaid family workers. If we consider only work for pay, there have been substantial increases in the employment rates of men and women in their late teens and early 20s. In contrast, older men are exiting the labor force. The average number of hours worked per week (among those working) has changed little between 1997 and 1998. However, real wages have been reduced dramatically. The decline in wages has been larger in urban areas than in rural areas, and somewhat larger for men than for women.

Table 3.6. Fraction Of Kecamatan in Each Area (Province, Urban, Rural) Reporting "People Selling Assets to Meet Basic Needs" as a Coping Mechanism was "Worse"

Province	Total	Urban	Rural
DI Aceh	65.6	93.3	62.0
North Sumatra	49.2	68.6	43.8
West Sumatra	52.7	75.0	43.9
Riau	37.2	61.1	30.9
Jambi	32.2	53.9	25.5
South Sumatra	28.4	50.0	26.6
Bengkulu	25.8	57.1	16.7
Lampung	43.9	75.0	36.3
Average	**41.9**	**66.8**	**35.7**
Jakarta	88.4	88.4	
West Java	83.2	87.5	82.5
Central Java	73.8	81.6	72.4
DI Yogya	65.4	84.2	59.0
East Jawa	76.7	86.0	75.4
Average	**77.5**	**85.5**	**72.3**
Bali	56.9	66.6	53.9
NTB	72.1	77.8	71.2
NTT	54.0	73.3	51.4
East Timor (Timtim)	40.3	46.2	38.7
West Kalimantan	33.6	100.0	26.7
Central Kalimantan	55.2	87.5	50.0
South Kalimantan	70.2	84.6	68.4
East Kalimantan	71.4	85.7	66.6
Average	**56.7**	**77.7**	**53.4**
North Sulawesi	28.0	35.3	26.4
Central Sulawesi	29.0	44.4	26.6
South Sulawesi	38.6	58.9	33.1
Southeast Sulawesi	51.6	55.5	51.0
Maluku	30.0	42.9	26.1
Average	**35.4**	**47.4**	**32.6**

Source: Sumarto, Wetterberg and Pritchett. 1998, Table 2

Table 3.7. Changes in Employment Patterns by Gender and Residence

	Men			Women		
	1997	1998	Change	1997	1998	Change
Working						
Rural	89.0	92.6	3.6	67.0	80.9	13.9
Urban	85.5	88.7	3.2	59.5	69.6	10.1
Working for pay						
Rural	75.2	73.1	-2.1	33.5	33.2	-0.3
Urban	73.3	72.9	-0.4	39.1	41.9	2.8
Hours per week						
Rural	32.6	34.7	-2.1	31.6	28.7	-2.9
Urban	42.5	43.0	0.5	39.2	41.3	2.1
Median daily real wage						
Rural	4,940	4,063	-877	2,778	2,238	-608
Urban	9,523	6,656	-2,867	6,429	4,104	-2,302

Source: Frankenberg, E., D. Thomas, and K. Beegle. 1999. *The Real Costs of Indonesia's Economic Crisis: Preliminary Findings from the Indonesia Family Life Surveys*. Labor and Population Program Working Paper Series 99-04. Santa Monica: RAND (processed), Table 3.1.

Social protection in Indonesia is limited to requirements for severance pay. However, due to the collapse in the value of the rupiah and unhedged private debt, more than half of all private companies are insolvent and workers who were laid off, or were left temporarily without pay, often did not receive severance entitlements. Indonesian society has relied heavily on informal family and community safety nets during periods of drought or economic misfortune. Qualitative research reveals that the poor are relying both on these safety nets and on informal sector activities, which have become more competitive, to cope with the crisis.

Education. In order to strengthen quantitative information on the effects of the financial crisis on education, the Government and the World Bank conducted a survey of 600 schools in five provinces in October 1998. While the survey results do not show overall enrollment declines on the order of 20-24 percent, as was often quoted in the press during the early phases of the crisis, they indicate significant effects on certain groups and regions. The results suggest that it is the poorer teenagers, especially in Indonesia's cities, led by Jakarta, who are bearing the educational brunt of the economic crisis. Overall, changes in primary school enrollments have changed relatively little in the past year (the 1.6 percent decline does not deviate significantly from the pattern of the past few years). For older students, however, the survey found that the situation is much worse. Overall, enrollment in junior secondary school fell by 1.6 percent, but the decline in urban areas was 6.3 percent. Jakarta saw a decline of 8.6 percent (Table 3.8). The declines are particularly large in the poorer areas of Jakarta where the number of boys enrolled in the first grade of junior high school fell by 14.4 percent and the number of girls fell by 19.4 percent (World Bank 1999b).

Table 3.8. Percentage In the Number of Students Enrolled from 1997 To 1998

	Primary schools				Junior secondary schools			
	Rural	**Urban**	**Jakarta**	**Total**	**Rural**	**Urban**	**Jakarta**	**Total**
All	-1.7	-1.1	-0.1	-1.6	0.0	-6.3	-8.6	-1.6
Boys	-1.3	-1.3	-0.4	-1.3	-0.3	-7.0	-8.9	-2.0
Girls	-2.1	-0.9	0.2	-1.8	0.2	-5.5	-8.2	-1.2

Source: Filmer, D., H. Sayed, B. Jiyono, N. Suwaryani and B. Inriyanto. 1998. *The Impact of Indonesia's Economic Crisis on Basic education: Findings from a Survey of Schools*. Mimeo, Table 3.

Health. The depreciation of the rupiah has raised prices of drugs, vaccines, contraceptives, and other medical supplies. Analysis of IFLS2+ data indicate that between 1997 and 1998 spending on health has declined substantially although the price of health care has risen. For children, overall use of health services has decreased substantially. Almost all of such decline can be attributed to a reduction in use of community health posts, i.e., monthly activities sponsored by volunteers from the community and attended by staff from nearby government clinics. The use of government clinics has also declined significantly, while use of private and traditional services has changed little. Children from the poorer and middle-income households are switching out of use of public providers. Children of middle-income households are also switching out of use of private providers, but children from the higher-income households are increasingly relying on private care. Despite the decrease in use of health care and changes in health facilities, evidence on several measures of health status suggests that children are better off in 1998 than in 1997.

Migration. Both urban and rural *kecamatans* reported a greater than usual in-flow of males who returned to their district because they lost their jobs elsewhere. There does not seem to be a consistently higher number of return migrants to rural areas than to urban areas. In contrast, there has been a smaller increase in the number of women that have returned to the *kecamatan* compared to the previous year. In addition, the data showed less out-migration than in-migration (See Table 3.9).

Table 3.9. Change in Migration Behavior

	In-migration		Out-migration	
	Males	Females	Males	Females
Urban	2.65	3.48	3.73	3.93
Rural	2.63	3.50	3.82	3.99
Total	2.63	3.49	3.80	3.98

Note: The figures are the average of 5 possible values ranging from 1 (largest increase) to 5 (largest decrease).
Source: *Kecamatan* Rapid Assessment Survey. 1998. Raw data.

THAILAND

Baht Depreciation. The 1997 baht devaluation did not bring in the expected benefits for export and economic growth. This is largely due to the fact that currently the Thai economy relies heavily on a high proportion of import content. Unlike in the 1980s, the export-oriented manufacturing sector has been shifting away from labor intensive and into more capital intensive, and therefore import-dependent, medium high technology. Nevertheless, some sectors did gain from the baht depreciation, including for example, agricultural exports (i.e., rice and tapioca), services (i.e., tourism), and some labor intensive manufacturing using local materials (i.e., leather and handicraft products) (Kittiprapas 1999). Prices of major crops have increased during 1996/97-1997/98. Although some farmers may have benefited from higher crop prices, the poorer groups – usually landless and unskilled workers with limited resources and employment opportunities – tend to be the hardest hit from the economic crisis due to the reduction in labor demand, a rise in the cost of living and cuts in public and social services.

Falling labor demand and wage declines. Unemployment figures from the November 1998 Labor Force Survey indicate that 1,463,000 people were unemployed and 989,,000 were underemployed (working less than 20 hours a week). When seasonally adjusted, unemployment rose to 5.3 percent of the current labor force in the wet season of 1998 from 3.1 percent in the dry season. The large fluctuations are due to large changes in agricultural sector employment between the wet and dry seasons. Analysis by Kakwani and Pothong (1998) using labor force surveys from 1992 to 1998 shows that the seasonally adjusted unemployment rate increased from 1.5 percent of the labor force in February 1997 (dry season) to 3.1 percent in February 1998, and to 5.3 percent in August 1998. Underemployment also increased.

Considering the characteristics of the unemployed, Kakwani (1998) estimates the majority of them to be in the age range of 20-29 years, and having elementary or lower secondary level of education. The estimation also indicates significant increases in unemployment rates among elementary educated as well as university educated (Kakwani 1998). A survey conducted by the National Statistical Office shows that that most of the unemployed are low skilled: 73 percent of the unemployed former workers have education primary or lower, while those with university and vocational degrees/diplomas are only 7.5 percent (Table 3.10).

While unemployment has increased moderately, declines in real income have been significant. Seasonally adjusted per capita income declined by 11.5 percent between August 1997 and February 1998, and by a further 2.4 percent by August 1998. The decline in per capita income that can be attributed to the crisis, estimated econometrically shows that in the absence of the crisis, per capita income would have been 19.2 percent higher in February 1998 than it was, and 24.8 percent higher in August 1998.

Table 3.10. Characteristics of People Looking for Jobs at Government-Run Job Centers

Education		Age		Occupation		Region	
Elementary	9.7%	**15-24**	21%	**Clerks**	38.5%	**Bangkok**	39.0%
Middle/High School	18.9 %	**25-34**	55.7%	**Technicians**	24.0%	**Northeast**	23.5%
Professional School	32.0 %	**35-44**	18.3%	**Merchants**	9.2%	**Central**	16.8%
University Degree	38.5 %	**45-60**	44%	**Professionals**	7.6%	**North**	10.5%
				Transportation	5.2%	**South**	9.9%
				Services	5.2%		
				Agriculture	1.0%		

Source: Thailand Development Research Institute. 1998. *The Impact of Thailand's Economic Crisis on Laid-off Workers*

Burdens on the Rural Sector and Migration. The impact of the crisis has been felt the hardest in traditionally poor areas: rural areas and the Northeast saw the greatest declines in per capita income and increases in unemployment. For example, in rural areas the decline in seasonally adjusted income between February 1997 and August 1998 was 19 percent, and the corresponding decline for urban areas was 8 percent. The nature of the Thai labor market is crucial to understand the impact of the crisis. One hypothesis, which needs to be explored further, is that due to the integration between regions, the economic crisis that hit Bangkok first was transmitted to areas such as the rural Northeast through return migration of workers employed in Bangkok along with a drying up of the remittances that these workers sent home. Field investigations show that the marginal productivity of the workers who returned to their villages is practically zero.[4] They are usually being maintained by rural households until economic recovery will allow them back in the urban sector. Therefore, the burden of the crisis in terms of supporting those who have been laid off seems to be borne mostly by rural households (Chomthongdi 1999).

Impact on Poverty and Inequality. Analysis conducted by NESDB using the 1996 and 1998 socioeconomic household surveys shows that the sustained decline in poverty reduction has been interrupted. Poverty incidence increased from 11.3 percent in 1996 to 12.7 percent for the first half of 1998 (an additional one million Thais have been pushed below the poverty line). The impact has varied across regions. In Bangkok and its vicinity, poverty incidence is very low, and has increased only slightly. The Northern and Western regions actually saw a decline in poverty, and moderate increases were recorded in the Central and Eastern regions. The largest increase in poverty incidence was in the Northeast, traditionally the poorest region in the country, where it increased from 19.3 percent to 22.7 percent. Rural Thailand saw the largest increase in poverty. There was a small increase in inequality with the Gini coefficient increasing from 0.50 in 1996 to 0.506 in the first two quarters of 1998. The income share of the richest quintile increased from 55.3 percent in 1996 to 56.2 percent in 1998, while the income share of all the other quintiles declined.

Impact on Education. A UNICEF survey conducted in 46 elementary, lower secondary and secondary schools in the Northeast and the North found that the increases in the drop-out rates at the elementary level were relatively small. The patterns, however, are of concern as the largest number of drop-outs occurred at grade 7 and grade 10 transition levels to lower secondary and secondary respectively. The relatively low level of drop-outs may be explained in part by the Ministry of Education's

[4] The majority of unemployed persons used to work before (89.6%). Although a large share of former workers is from the agricultural sector, non-agricultural sectors in total contain the largest share (64.2%), their main previous occupation being that of craftsman/laborer (68%). Because of mismatch of skills, it seems unlikely that the agricultural sector would be able to immediately absorb laid-off non-agricultural workers from Bangkok and other urban centers.

instructions in mid-1997 that allowed students to stay enrolled even if they were unable to pay the school fees.

Public Expenditure. The drop in government revenue that followed the economic contraction adversely affected expenditure in a number of crucial areas. Although the government budget cuts in 1998 have been made under the IMF advise that priority programs such as education, health and social services should be protected from the cut, the percentage cuts for these programs are significant, particularly for social services, which received the highest percentage cut in fiscal year 1998 (Kittiprapas. 1999). The appropriation for education declined by 9.0 percent and public health by 15.2 percent over the FY98 budget submitted to the Parliament in the month prior to the onset of the crisis. These cuts in the government budgets for education and health and delays in disbursing approved funds has affected a number of public programs. In both the education and health sectors there have been significant shifts from private to public providers as people seek to reduce expenditures. As a results, public schools and health facilities are strained, and private institutions are struggling to survive (Asian Development Bank 1998).

4. The World Bank's Response to the Social Crisis

Regional Overview

The World Bank's strategy to address the social impact of the crisis has been based on two clusters of activities, each with a short-term and a long-term perspective.

- *Social Sectors*: this first cluster comprises activities in the social sectors, covering education, health and food security.
- *Employment*: the second cluster addresses issues of poverty alleviation, employment creation and income maintenance.

In addition, in recognition of some of the underlying structural non-financial causes of the social crisis, the Bank supported *civil society*, by designing and implementing all its lending and non-lending activities in a participatory manner, with maximum transparency. Here too there is a short-term and long-term perspective. Schematically, the Bank's approach is illustrated as in Table 4.1.

Table 4.1. The World Bank's Response to the Social Crisis

Sectors/Activities	Short-Term	Long-Term
Cluster 1: Education, health, food security	Combat hunger, malnutrition, disease, school dropout	Strengthen sectoral policies and programs
Cluster 2: Employment creation; income maintenance	Targeted interventions: public work programs, cash and in-kind transfers; price subsidies	Improve labor market conditions; social insurance/pension reform; safety nets
Supporting civil society; institutional reform	Community participation; NGO-partnerships; participatory process; transparency	Regulatory and institutional reform; anti-corruption; governance

PHILIPPINES

A Strategy for Social Protection. Perhaps the most distressing part of the experience of other countries in the region, which have experienced severe recession for more than one year, is that they were caught off-guard, in terms of both not knowing who was affected most, and not having suitable safety net programs to cushion the crisis impact. Thailand, Indonesia and Korea hurriedly put in place programs of social protection and safety nets which included existing programs extended to cover the vulnerable population, and, a few new programs. The Philippines can take advantage of the experience of these countries by identifying those policies and programs that are likely to be most effective from its existing portfolio, and plan to expand them as needed.

Maintaining Stability of Essential Food Prices. A participatory study on the socioeconomic impact of the financial crisis as of February 1998 found that in many localities people were facing much higher prices for food long before this could be detected in official statistics (also reflecting the early impact of El Nino). It is important to monitor the food situation carefully, in view of the of La Nina's potential impact. The poor spend a larger portion of their income on food than do the non-poor. The bottom 25 percent of the population spends, for example, 21 percent of its income on rice and another 8 percent on corn and other cereals. The top 25 percent of the population spends only 5 percent of its income on rice and 3 percent on corn and other cereals. In relative terms, therefore, a given increase in the price of basic foods, particularly rice, would reduce the real income of the poor more in percentage terms. The groups that are likely to be most affected by sharp increases in the price of food are the urban poor

and near-poor, and, the asset-less poor in rural areas, usually. landless laborers and small farmers, fishermen and forestry workers.

The primary food policy instrument in the Philippines is the price stabilization carried out by the National Food Authority (NFA). By selling rice at lower-than-market price, the NFA is expected to moderate domestic price increases. During 1998, the NFA succeeded, through the distribution of large imports (1.6 million tons), in moderating the increase in rice prices caused by El Nino. If the financial crisis intensifies, and concurrently, the impact of La Nina is severe, it may become necessary not only to import and distribute more rice than normal, but also to target the rice to the poor, including those who have newly become poor. Geographical targeting, income-based targeting of food coupons, as well as targeting by subsidizing the lower qualities of rice (self-targeting), are all options to be considered. Indeed, this may be an opportunity to test out a more targeted food distribution system which could replace the current costly and poorly targeted one.

Maintaining Purchasing Power of Poor Households. Labor intensive public works programs can create productive assets and transfer income to the poor if designed well. Many of the countries in crisis today are implementing employment programs as a safety net measure. The Philippines has more than two decades of experience with labor-based works programs, but there is little evaluation of this experience in terms of cost effectiveness and whether they actually reach the poor. For employment programs to work as a safety net, the wage rate should be set below the market rate so that workers are not attracted out of other productive activities. They should have a high labor content and be situated in areas experiencing stress. The issue of program location is critical. If the crisis intensifies in the non-agricultural sectors, the immediate and the largest impact on incomes will be mainly in urban areas, as appears to be the case in Indonesia and, to a lesser extent, in Thailand. The latest LFS data seems to indicate that this might be the case in Philippines as well. If on the other hand, the effects of La Nina are significant, then there would be need for locating such programs in affected rural areas as well.

Maintaining Public Expenditures for Health and Education. A sharp fall in income not only affects current consumption but also future income earning capacity by impeding the education and harming the health of those affected. Despite the initial cut of as much as 38 percent of the 1998 appropriation, the social sectors have been comparatively protected: the share of social services in National Government expenditure is expected to rise to 44 percent in 1998 from 39 percent in 1997 and 32 percent earlier in the decade. This trend should continue in the 1999 budget.

In education, there has been a delay in placing textbook orders, which should be remedied, and the textbook appropriation in the 1999 budget should be increased. The school construction program should be put back on track. In the health sector, the decrease in the coverage of public health programs (malaria control, shistosomiasis, and TB control), and immunization programs should be reversed. At the same time, it is equally important to restrain expenditures in certain areas. Any new hiring of teachers should be put off until all possibilities for teacher redeployment are exhausted. All new funding for state universities should be vetoed, and an immediate review of policies regarding State Universities and Colleges and the poorly targeted scholarship programs should be reviewed. The re-nationalization of two devolved hospitals and upgrading of five others should be cancelled and the resources reallocated to primary health programs.

Livelihood and Microfinance Programs. Public resources being scarce, other instruments are also necessary to reach out to the poor. Microfinance can be one of them. Microfinance programs that have the greatest outreach and that reach the poorest segments of the population tend to be those that are neither administered by, capitalized by, nor otherwise controlled by governments. But in the Philippines, there are over 100 credit programs (livelihood programs) run by the Government, providing credit at extremely low interest rates so that recipients consider them one-time grants, resulting in a high default rate. Only a few are known to reach the poor and the ultra -poor, the DSWD's Self-Employment

Assistance Program, and the Grameen Bank replication program run by the Department of Agriculture. Even these, however, have problems: in the former, loan size is too small, and loans are often viewed as grants; in the latter, costs are very high. At the same time, a few NGOs have successfully run micro-credit programs, although their outreach is quite small. The Government therefore needs to evaluate which programs are most efficient at reaching the poor, and how they may be expanded.

Monitoring the Crisis. The Philippines has already fielded a national survey—the APIS (Annual Poverty Indicators Survey)—to capture the impact of the crisis on households. The analysis of such data will provide the Government and the donor community with the first really sound evidence on the extent of the impact, the characteristics of the households affected, their location and other characteristics, and even some data on the coping mechanisms they are using (special questions were built into the APIS questionnaire for this purpose). Complementary data will also be available from the regular labor force surveys. If the analysis of these two sources reveals the need for more detailed investigation into certain groups or areas, further work will need to be undertaken, including participatory assessments and other qualitative investigations.

INDONESIA

Over the past 18 months, the turmoil that has characterized Indonesia has led the World Bank to redirect virtually the entire program and resources in support of the government's efforts to hold the economy and the country together. The Government of Indonesia, supported by the Bank and other donors, has developed a three-pronged response to the social impacts of the crisis: (i) maintaining food security; (ii) expanding employment and income generation opportunities; and (iii) preserving access to critical social services.

Maintaining Food Security. Food security was threatened with the coincidence of the 1997/98 El Nino years and increased food prices caused by the rupiah depreciation. Food prices soared by 93 percent the first 8 months of 1998 and the price of rice nearly tripled. To address the ongoing food security problems the Government has shifted from general rice subsidization to a newly-initiated targeted "cheap rice" program, providing 20 kgs of rice per poor family at a price of US$0.10 per kg. The Bank has played a central role in assisting the Government to monitor the social impact of the food situation and to coordinate an effective response. This role will continue to focus on: (i) close monitoring of the adequacy of food availability; (ii) assistance with the design and delivery mechanism improvements in the targeted rice subsidy program; (iii) effective transition to private participation in food commodity imports and more competitive domestic trade; (iv) reforming BULOG, and (v) protecting purchasing power of consumers.

Expanding Employment and Income Generation Opportunities. During the early stages of the crisis, the Bank assisted the Government in initiating labor intensive works programs in urban and rural areas through re-allocations of funds in nine existing sector investment projects. The Government has since expanded such programs, using grant aid and national budget funds, thus reducing the need for any further direct Bank financing. The Bank worked with the Government to develop a crisis response project, the *Urban Poverty Project*, which is designed to generate employment and income opportunities in the poorest urban communities on Java. In addition, the Ban has expanded the geographical coverage of the first year implementation of the *Kecamatan Development Project*, which is designed to achieve the same objectives in poor rural areas. Recent studies of the crisis have provided information upon which the targeting of employment and other income generating programs can be improved. The Bank team is working with the Government now to apply this new information to next fiscal year's poverty relief programs.

Preserving Access to Critical Social Services. For education, the Government has adopted a four-part strategy: (i) protecting the overall education budget and increasing it for basic education; (ii) keeping

children in school and preventing deterioration of quality; (iii) monitoring crisis effects and program impacts; and (iv) increasing efficiency through decentralizing responsibilities. Two loans were approved in April in the Education Sector. The *Sulawesi and Eastern Island Basic Education Project*, a US$47.9 million loan and US$11.7 million equivalent credit, aims to mitigate the effects of the crisis in seven provinces by maintaining enrolment rates and transition rate from primary to junior secondary for the poor, preventing further deterioration of education quality by ensuring that schools can meet essential operational and maintenance costs; and realizing efficiency gains where ever possible. The *Sumatra Basic Education Project*, a US$54 million loan and US$14.8 million equivalent credit, ahs parallel objectives for the provinces of Sumatera Utara, Riau and Bengkulu. In the health sector the Government has moved to protect budget allocations for essential drugs, vaccines and contraceptives and for basic health services with special attention to community health programs including nutrition initiatives. The heterogeneous nature of the crisis suggests that a national campaign aimed at problems such as general malnutrition would be ineffective.

The Bank was a driving force behind the large "keep children in school" effort putting together a coalition of donors and ministries and reallocating funds within loans within a very short time before schools opened in July 1998. The Bank has advocated protection of basic education and the health budgets and conditioned adjustment loans on those provisions. Health projects were amended to help finance the purchase of contraceptives and high priced medicines. In addition, the Bank has mobilized efforts to monitor and assess crisis impacts in both education and health sectors.

THAILAND

In the months after the crisis hit, the Thai government took several decisions that underscored the priority accorded to the social reform agenda, including the passage of a new constitution which introduced far-reaching reforms to the political system; the revision of the 8th National Economic and Social Development Plan focused on people-centered development to better respond to the crisis; and the establishment of the widely-representative National Social Policy Committee under the chairmanship of the Prime Minister. The main Government and donor-supported investments aimed at providing social protection for the unemployed and vulnerable can be grouped into four areas.

Employment Programs. As the lay-offs increased and economic contraction accelerated, the Government with the assistance of international agencies (World Bank, ADB, OECF-Japan) focussed on job creation and budget support for vital services benefiting the poor and unemployed. The ADB's $500 million *Social Sector Program Loan* provided balance of payments and budget support aimed at improving health, education and employment services. The $460 million *Social Investment Project*, funded by the Bank, OECF, AusAID and the UNDP, finances the expansion of selected Government programs to create jobs and provide services to the poor and unemployed and a new Social Investment Fund to support community capacity-building and an Urban Development Fund to provide infrastructure loans to municipalities. Specific initiatives include: temporary, labor-intensive civil works programs (e.g., school repair, road, small dam and weir construction; rural industrial promotion; rehabilitation and expansion of small-scale irrigation projects); the expansion of vocational and skills training programs for the unemployed and new labor market entrants; occupational and income generating promotion; foreign worker supervision; promotion of overseas employment; loans for employment promotion; the establishment of an employment information system and a one-stop service center to help laid-off workers in the areas of severance pay, social security, placement and counseling services, training and low interest loans. The subsidy for urban bus and rail fares is being maintained to protect urban low-income workers.

Protection and Targeting of Public Expenditures. The Government has also sought to protect social sector expenditures during the period of fiscal restraint and target of publicly-financed programs to

those least able to pay. Allocations to key programs targeted to the most vulnerable groups were maintained or increased. Financing for scholarship and loan programs to minimize student dropouts and low-income health cards was increased and coverage expanded. The number of children receiving school lunches increased and operational budgets for teacher training and instructional materials were protected. Maternal and child health activities are also protected. Immunization and prevention programs are being extended. Responsibility for resource management is being decentralized to universities and vocational schools. The increases in planned spending in the current fiscal year will be allocated heavily towards social expenditures. In addition to job training and labor-intensive projects, the budgetary allocation to the secondary education loan program will be increased; the school lunch program will be significantly expanded; opportunities for the unemployed to become entrepreneurs though expanded small loan facilities and training programs will be strengthened.

Income Security Schemes. Thailand relies on unemployment assistance benefits, notably severance pay requirements, as opposed to an unemployment insurance scheme. Prior to August 1998, employers were required to pay laid-off workers with a minimum of three years' service a severance equal to six months of wages. As of August 1998 and as a result of the crisis, the maximum severance pay requirement for employees with more than ten years of service was increased from six to ten months. The extent to which severance requirements are being implemented during the crisis is open to question. The Government is establishing a public compensation fund to ensure that workers dismissed from firms facing bankruptcy receive adequate cash severance support which will be financed by fines imposed for violation of the Labor Protection Act.

Community Capacity Building. A critical and innovative element of Thailand's response to the social impacts of the crisis is support for decentralization and community development. The Government has viewed the crisis as an opportunity to advance reforms towards decentralization, better governance, community empowerment and the forging of broad development partnerships with civil society. This innovative approach is aimed at rebuilding and consolidating social capital eroded by economic growth and to strengthen the unofficial, community-based "safety net." Civil society organizations have played an increasingly important role in providing social protection at the community level. The Thai government as well as donors have allocated an increasing proportion of their budgets to civil society organizations to implement programs including HIV/AIDS prevention and treatment, care of the elderly, small and medium enterprise development, and environmental protection. In response to the crisis, many new community-level initiatives have been supported by Government as well as donors. In September 1998, Government, with the assistance of the World Bank, UNDP, and AusAID, launched the Social Investment Fund which provides grants to community-based organizations to undertake investments designed and implemented by the community. Under the Thailand-United Nations Collaborative Action Plan (Thai-UNCAP), numerous United Nations agencies have undertaken community-led activities in pilot areas with special attention to crisis impacts. Several bilateral donors have grant programs which fund community-based activities, such as AusAid's Small Activities Scheme, the Canadian International Development Agency's Canada Fund and New Zealand's Small Projects Fund.

5. Monitoring the Social Impact of a Macroeconomic Shock: Lessons From The East Asia Crisis

Why Monitoring? The importance of high-quality monitoring systems has been emphasized since the very beginning of the East Asia crisis. The success of the statistical services of the affected East Asian countries in providing information on socioeconomic development indicators during the period of steady and sustained economic growth, created trust in their capacity to provide the information that policy-makers would need to address the many dimensions of the crisis. Contrary to expectations, however, the existing statistical countries failed to provide quick and structured information on recent changes in individual, household and community welfare and revealed serious shortcomings as the financial crisis unfolded and translated into a broader, social crisis.

The role of monitoring information systems is to provide decision-makers in the affected countries as well as in donor organizations with high-quality information on the many social changes that are occurring in the East Asia region. This information is necessary for the design and implementation of effective policy responses. Poverty monitoring arrangements should accomplish several objectives. First, monitoring should provide an overall picture of *who, where, when* and *how* the crisis has affected and continues to affect people's lives in East Asian countries. Second, monitoring should report on especially vulnerable "hot spots" and high risk groups (i.e., drought-induced spot famines, the urban poor, women and children). Third, monitoring should individuate the coping strategies that the poor use during crisis and recovery. Fourth and most important, monitoring should provide the empirical information needed by planners to assess which programs contribute most effectively to reducing poverty. This involves creating the ability to monitor, not only the evolution of the crisis, but also the impact of various instruments and to establish their cost-effectiveness. This capability needs to be able to compare across programs.

Monitoring Framework. There are three major problems with monitoring systems as currently structured: (i) national statistical agencies are effective in collecting information on economic variables but not on social variables, such as education and health; (ii) monitoring activities usually are not cost-effective, since they tend to be sector-specific. Multi-purpose information-gathering instruments would be both more useful and more efficient; (iii) despite the availability of large numbers of data sets, most information is not available quickly enough to provide timely feedback to policymakers on what is happening on the ground. By the time much of the data is compiled, analyzed and published, it is at least one or two years out of date.

Since the poverty situation during a crisis is highly unstable, effective monitoring systems need to include both new data-gathering arrangements and new instruments of analysis, which can provide faster and more frequent information than was made available before the crisis. The scope and scale of the task of monitoring the social impact of the crisis in East Asia are more than can be managed by single governments or development agencies and require a concerted effort that systematizes the monitoring activities of each institution within a common, broader monitoring agenda. Although governments, development agencies and civil society have conducted several data-gathering and poverty-assessment activities in each country, two facts impede an effective coordination between monitoring efforts: (i) an overall knowledge framework is lacking; and (ii) communication of new information is not systematic.

What is needed is a monitoring framework that distinguishes between two components with complimentary objectives: (1) Short-term monitoring is aimed at policy interventions needed in the near term. It provides a first-cut picture of the extent and evolution of the crisis in each country by focusing on a limited number of socioeconomic indicators on a regular basis. (2) In-depth monitoring is aimed at medium and long-term planning and policy design. It provides a comprehensive description and

understanding of the consequences of the crisis on people's lives by enriching the core database with additional, more detailed and more wide-ranging information.

Short-Term Monitoring. Short-term monitoring is made possible by information on changes in people's standards of living as captured by either some basic core indicators or qualitative scaling by local experts. This information needs to be reliable, geographically desegregated and frequently available. There is a trade-off between the usefulness of core statistical indicators and the resources and time necessary to collect them. Some of these indicators (listed in the Table 5.1 below) are available only bi-annually or yearly, but others can be made available on a quarterly basis with limited additional resources. Priority should be placed on (i) monitoring the *irreversible effects* of the crisis, such as increased child malnutrition, loss of employment (especially for adults), school drop-outs and sale of land and other assets; and (ii) identifying the *most vulnerable groups* in each country, such as ethnic minorities, disabled populations, illegal migrants and workers in the informal sector.

Table 5.1. Short-Term Poverty Monitoring Indicators

Category	Core Indicators
Poverty/Command over resources	• Expenditure/Income • Wages • Employment/Unemployment
Food security	• CPIs: rice, cooking oil, kerosene
Health/Nutrition	• Availability and cost of essential drugs • Birthweight • Immunization rates • Wasting
Education	• School drop-out rates • Enrollment rates
Safety nets	• Number of people applying for public safety nets programs

In-Depth Monitoring. In order to capture important compositional effects, additional quantitative and qualitative information on the crisis and its consequences is needed in a systematic way. On the one side, complementary indicators, which comprise all available and reliable empirical estimates of the changes in standards of living, help estimate the social impact of the crisis in much greater depth. Econometric and statistical analyses are also needed for the optimal use of the data. On the other side, social analysis (beneficiary and participatory assessments) and qualitative information (provided by NGOs, the press and civil society in general) help understand the crisis in its complexity by focusing on dimensions that are not easily captured by quantitative studies, such as ethnic conflicts, gender discrimination, physical and social isolation, and personal vulnerability. At this stage, results from different sources need to be compared and integrated.

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