

Synthesis of Findings and Policy Implications

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1. Introduction, Approach, and Data Sources

The economic crisis triggered by the flotation of the baht in July 1997 has had serious implications on Thailand's development path. Economic growth turned negative in 1998 for the first time in Thailand's recent economic history, -10.0 percent at current estimates (Table 1). Exports slumped by almost seven percent as private firms faced serious problems obtaining credit, and the real estate and construction sectors ground to a halt.

	1997	1998e	1999p
GDP at current prices (bn. baht)	4,675	4,604	1,155 ^(Q1)
Real GDP at 1988 prices (bn. baht)	3,056	2,768	714 ^(Q1)
Real GDP growth (%)	-1.8	-10.0	3 to 4
Consumption growth (%)	-1.2	-12.0	5.5
Gross domestic investment (% GDP)	33.2	21.4	22.0
Gross national saving (% GDP)	31.1	34.1	31.0
CPI inflation (percent)	5.6	8.1	0.5
Export growth in US\$ (%)	3.8	-6.8	5.1
Fiscal expenditures (FY)			
• Level (bn. baht)	925.0	782.0	800.0
• Growth (%)	9.7	-15.5	2.3

Source: NESDB

Notes: e = estimated; p = projections

The two-fold nature of the economic crisis – deteriorating long-term competitiveness (as evidenced by the export and economic growth slowdowns), combined with a financial sector meltdown and macroeconomic instability (as evidenced in somewhat higher inflation and problems in the financial sector), especially in the foreign exchange sector – means that the social sector has been and will be affected through *three* main channels.

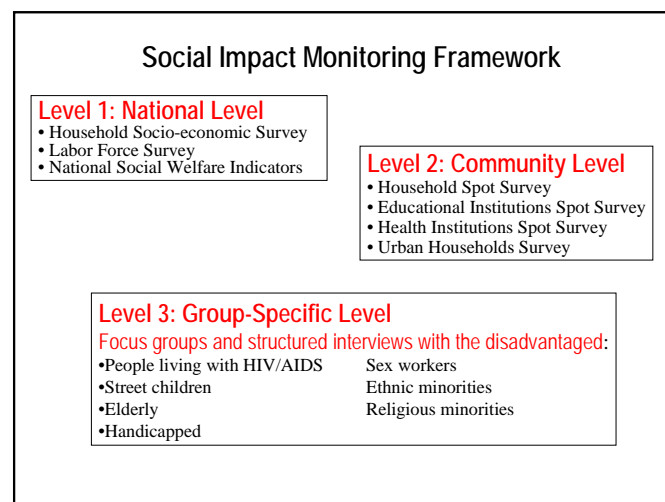
First, the impact of the economic recession on jobs and on incomes, especially critical in the absence of a comprehensive social safety net system.

Second, the impact of the loss in value of the currency on prices of key medical and

teaching supplies and services, and on consumer inflation in general.

Third, the impact of government budget cuts, undertaken as part of the International Monetary Fund-supported recovery program, on social services and on poverty programs (nominal government expenditures fell by 10.3 percent in FY 1997/98).

The social challenges and impacts of the current economic crisis have been examined within a framework consisting of three levels of observation – national, community, and group-specific – focused to some extent on the poor and the vulnerable. The framework encompasses data regularly gathered by the National Statistical Office (NSO), as well as spot survey and focus group information that could be generated periodically by the National Economic and Social Development Board (NESDB).



National-level data on trends in population, and household income and expenditure contained in the biennial Socioeconomic Survey (SES) have been analyzed based on comparisons between the 1996 and 1998 surveys (in particular the first two quarters of 1996 compared to the first two quarters of

1998). Analysis was done at national level, and at disaggregated levels when households are divided into sub-groups such as region, urban and rural, community, sex, age-group, education background, marital status, household size, dependency ratio, indebtedness, socioeconomic class, sector of production, and work status. Basic analysis of incomes and expenditure trends, as well as more sophisticated welfare analysis, was carried out.

Complementing the SES comparisons is an analysis of data obtained from the Labor Force Surveys (LFS) in 1996, 1997, and 1998. Both the low and high season rounds of the LFS in 1996 and 1997 will be compared to those for 1998, providing an instrument for calculating the employment, wage, and sectoral impacts of the crisis.

As part of the research exercise, small-scale household surveys (SPOT-HH) were carried out in districts hit hardest by the economic crisis. These high-impact districts were chosen based on their high level of absolute poverty, or on a combination of unemployment and the inability to meet basic minimal needs. Twenty poor districts were chosen from the five regions of Thailand, including Bangkok. These surveys can be redone periodically by the NESDB in future monitoring of the social sectors.

A survey of poor urban households (in the first half of 1998), supported by the Urban Community Development Office (UCDO), was utilized to examine the position of the urban poor.

Small-scale surveys of public health (SPOT-PH) and educational institutions (SPOT-ED)

were also carried out in the same high-impact districts as the spot survey of households. The objective of these institutional surveys was to measure the impact of the crisis (i.e. the difference between 1997 and 1998) on the use and quality of public health and education services in poor or high unemployment districts. Surveys were conducted in primary, lower secondary, and upper secondary schools, and in health centers and district hospitals.

Very small-scale, focused, and localized research was also carried out on specific disadvantaged groups (FOCUS). Among the broad group of the poor, these are the people most likely to be hurt by the current crisis because of their greater poverty and unprotected position in society. These disadvantaged persons are most likely to be found in urban settings. Focus-group discussions have been conducted with small samples of the following vulnerable, at-risk, or disadvantaged groups: The indigent elderly; HIV/AIDS sufferers; the handicapped; street children; sex workers; an ethnic minority; and a religious minority.

This synthesis report draws together the major findings from all the various surveys with regard to the impact of the crisis on Thailand's social sectors. While the general messages appear to be clear, care must be taken in interpreting the results from the different sources as they may differ in coverage, in definitions, and in time frame. The source of the data for each major finding is indicated in parenthesis.

2. Crisis Impact on Employment, Income and Indebtedness

2.1 Unemployment

Unemployment increased following the crisis as employment fell. In 1998 there was a substantial fall in employment following the onset of the economic crisis: 853,000 persons (-2.8 percent) in the dry season (February 1998) and 1,024,000 (-3.1 percent) in the wet season (August 1998).

The unemployment rate rose sharply in the year after the crisis. From levels essentially unchanged between 1995 and 1997, unemployment in February 1998 rose from about two percent to 4.5 percent, and in August 1998 from one percent to 3.4 percent. There were 1.5 million unemployed in February 1998, and 1.1 million unemployed in August 1998. (Table 2, LFS)

Table 2: Employment and unemployment –1991-1998 (August)

	1991	1992	1993	1994	1995	1996	1997	1998
Total Labor Force	32,143	32,906	32,845	32,582	33,002	32,750	33,561	33,353
Total Employed	31,138	32,385	32,153	32,095	32,575	32,232	33,162	32,138
Total Unemployed	869	456	494	423	375	354	293	1,138
Unemployment Rate	2.7	1.4	1.5	1.3	1.1	1.1	0.9	3.4
Male Participation Rate	82.9	83.3	82.1	79.8	78.4	78.6	78.0	77.5
Female Participation Rate	66.5	67.4	66.0	62.3	61.2	61.2	60.3	59.3

Source: Labor Force Survey, National Statistical Office

Construction Industry

Employment suffered its greatest loss in the construction sector, which lost some 942,000 persons by the dry season of 1998 (-32 percent), although serious decline in this sector had already begun in the urban areas before the crisis (34 percent fewer employed between the 1996 and 1997 dry seasons). Construction employment was

down by 34 percent in August 1998, one year after the start of the crisis. Employment in the commercial and manufacturing sectors suffered losses due to the crisis that are considerably less severe than in construction. In August 1998, employment in commerce was down by 137,000 persons (three percent) and in manufacturing by 73,000 (2.4 percent). (Table 3, LFS)

Table 3: Employment by sector – 1996-1998

	February			August		
	1996	1997	1998	1996	1997	1998
Agriculture	12,146	11,938	11,640	16,127	16,691	16,472
Manufacturing	4,967	4,996	4,923	4,334	4,292	4,189
Construction	3,125	2,984	2,042	2,172	2,021	1,280
Commerce	4,452	4,603	4,742	4,342	4,601	4,464
Services	4,100	4,400	4,728	4,094	4,342	4,584
Others	1,308	1,346	1,338	1,163	1,215	1,141

Source: Labor Force Survey, National Statistical Office

Service Sector

The services sector, on the other hand, has generated employment following the beginning of the crisis. Employment in services was up by 242,000 (5.6 percent) in August 1998. Services had absorbed approximately one-fifth (19 percent) of overall losses in employment one year after the crisis started. In addition, the income and expenditure shares of those households in the services sector increased at a greater rate than their population share, suggesting that efforts to encourage this sector to spend may produce positive results on overall demand. (LFS).

Region

Rural areas in the Northeast were the hardest hit. One year after the crisis, employment in rural areas had been hit harder than in the urban areas. By the wet season of 1998, the non-municipal areas had lost 848,000 employed persons (3.2 percent) and the municipal areas had lost 176,000 (2.6 percent). The Northeast suffered the greatest loss of employment (650,000 persons), followed by Bangkok (143,000), the North (115,000), the Central region (93,000), and the South (24,000). (LFS)

In the rural areas, the number of jobs in the non-farm informal sector has declined, causing a shift of workers into the agricultural sector. The long-standing trend in movement of wage or own account workers from farm to off-farm activities has therefore been reversed. (LFS)

There is no evidence of change in the number of workers in the informal sector in urban areas following the onset of the economic crisis. This means that the shift from informal sector business activities to on-farm activities has occurred in the villages and sanitary districts. It probably involves little migration. (LFS)

Education Level

The crisis overwhelmingly struck those employed persons whose education had not gone beyond primary school. Two million of

these persons had lost employment from August 1997 to August 1998, down eight percent. Income shares of households headed by primary school graduates or less also fell. For those with secondary or higher education, the number of employed people continued to increase, despite the crisis. This group increased by one million, rising 12.2 percent by August 1998. On average, the income shares of households headed by those with upper secondary schooling and above continued to rise. (LFS)

There was a sharp increase in the levels of unemployment among university graduates in August 1998 as new graduates arrived in the labor market. More than half of the unemployed graduates from universities had never had a job before. (LFS)

The urban unemployed were concentrated in the lower education groups. Sixty percent of the unemployed in poor urban households have only primary school education or less. (UCDO)

2.2 Wages and Business Incomes

The total nominal wage bill in the private sector in 1998 was about 1 1/4 billion baht lower than in 1997, falling back to little more than the levels of 1996. The loss of real income per income earner reached 21 percent by the wet season of 1998, declining further from the fall of 17 percent in the previous dry season. Nevertheless, the economic crisis resulted in a reduction in the gap between male and female real earnings and real wages by about 5.5 percent by the wet season of 1998. (LFS)

Because of the flow of unpaid or wage workers into the agricultural sector from the non-farm informal sector, there has been some reduction in the real wages of agricultural workers in 1998. (LFS)

The greatest impact of the crisis has been on business income. Those most affected have been own account and unpaid family workers in the informal sector. The impact

of the economic crisis was at first most severe on small informal enterprises employing six to 10 persons, reducing employment by about 25 percent. By the wet season of 1998, the crisis had spread to medium-sized firms in the formal sector. (LFS)

2.3 Incomes

Incomes: First Half 1996 – First Half 1998

Total per capita income for the country increased in real, as well as nominal terms, from the first two quarters of 1996 to the first two quarters of 1998 (Table 4). Overall real per capita income rose in both the rural and urban areas between two and three percent. In the Central and Southern regions, rural income increased significantly above average, by 13 percent and six percent respectively. It must be emphasized that the period concerned was from the first two quarters of 1996 to the first two quarters of 1998. Given the great decline in GDP in 1998 (of an estimated 10.0 percent), there is no doubt that incomes and welfare fell between 1997 and 1998; but household data cannot be obtained for this period. (SES)

Region	Mean Per Capita Income (Baht)		
	1996(2Q)	1998(2Q)	% Change
Whole Kingdom	2,731.26	3,377.17	23.6
Bangkok	6,171.34	8,216.70	33.1
Vicinity	4,927.90	6,463.45	31.2
Central	2,902.75	3,499.57	20.6
North-East	1,827.33	2,088.90	14.3
North	2,347.98	2,735.11	16.5
South	2,517.04	2,910.92	15.6

Source: calculated from SES data, NSO
Note: Nominal per capita incomes

On average, household incomes increased in all regions and communities across the country. Per capita nominal income at the national level increased between 1996 and 1998 by around 24 percent, about the same rate of the period 1994-1996. However, the

rate was higher in Bangkok and Vicinities, where incomes increased by 33 percent. (SES)

Higher levels of education were the most important reason for increases in national nominal per capita incomes. This was particularly evident for households with education levels higher than lower elementary. Education level advances accounted for 33 percent of the increase in national per capita income. Some 61 percent of university graduates were better off in 1998 than in 1996 and enjoyed an average welfare increase of 11,723 baht per month. (SES)

However, while per capita nominal income increased in most household groups, certain groups faced declining nominal incomes. Households that experienced per capita nominal income declines included: households headed by younger persons, divorced persons, and widows, and those households of a larger size. (SES)

Among segments of the population that suffered income losses, decreases in income were especially pronounced in the urban Central region, the rural North, and the urban South. With the South, Central and Northeast regions witnessing severe reductions in real income by 18 percent, 10 percent and seven percent respectively, it is clear that outside of Bangkok the urban population fared far worse than both the rural and Bangkok population with respect to income loss. (SES)

The results indicated that movements to Bangkok and other municipal areas resulted in about 14 percent of the increase in national per capita incomes. This is fully consistent with the Harris-Todaro migration model that postulates that migrants continue to move to the urban areas despite the fact that many may be unemployed. However, such a trend, although leading to higher levels of average per capita incomes for those migrants, may be expected to increase

congestion and related social problems in Bangkok and other urban areas. (SES)

The total urban population share increased from 27.34 percent to 28.45 percent. Meanwhile, the population share of the North fell from 19.4 percent to 18.5 percent, and that in the Central region from 18.6 percent to 18.2 percent. Correspondingly, the population share of Bangkok rose by 1.4 percentage points, from 9.3 percent to 10.7 percent. The implications of this with regard to migration need to be considered. (SES)

Incomes: Late 1997–Late 1998

Poor rural household incomes declined in this period. In late 1997, average household monthly income was 11,340 baht. By late 1998, household nominal income fell by 13 percent to 9,840 per month. Adjusted for inflation, real income loss was about 18 percent. Rural households felt worse off, perceiving higher prices for consumption goods, but slightly lower prices for their own produce. Farming households feel that consumer prices have risen noticeably, but have fallen slightly for their produce, including rice, since the crisis. They feel the cost of agricultural inputs has risen markedly, but that the price of farm labor has risen only slightly. Nearly four-fifths of households report that 1998 has been more difficult for them economically than 1997. More than half (58 percent) report their income has decreased. (SPOT-HH)

Nearly two-thirds (64 percent) of poor urban households report that their income has decreased since the onset of the economic crisis. The average decrease is 3,871 baht per month, a fall in real income of about 14 percent from the pre-crisis average for these poor urban households. Nearly half (47 percent) of households specifically blame the flotation of the baht and the ensuing crisis for their current reduced income. Another 29 percent indicate that they have a reduced salary or less or no work at present compared to before the crisis. Seven percent point to a significant fall in the number or purchasing power of their usual customers,

and an equal proportion of responses blame the higher cost of living for their current situation. (UCDO)

Coping Mechanisms

Although incomes have risen overall, generally households are economizing by spending less. Overall, real expenditures fell by 1.04 percent across the board, and fell somewhat more in rural areas than in urban. In addition, households devoted less of their real income to expenditures. Interestingly, this so-called economizing was accounted for by male-headed households. Female-headed households on average increased their expenditure levels relative to changes in income levels. (SES)

Most migrants are non-agricultural and only half remit money to their families of origin. Two of five migrants have reduced their remittances since the crisis. There is about one migrant for every three households (0.32 person per household). The average value of these remittances is 1,742 baht per month, approximately 18 percent of average monthly household income. About 24 percent of female-headed households receive remittances, compared to only 16 percent of male-headed households. Over half of money remitters (52 percent) are sending the same amount home one year after the crisis. On the other hand, 41 percent are sending less or no money. Only one percent claim to be sending more money following the crisis. (SPOT-HH)

2.4 Indebtedness

The number of Thais living in indebted households increased dramatically. The population living in indebted households increased from 52.0 percent to 60.3 percent (Table 5). This reflects an increased number of households borrowing in order to maintain expenditure levels in the face of declining incomes. (SES)

Table 5: Incomes and population shares, by household indebtedness: 1996(2Q) and 1998(2Q)

Indebtedness	Mean Per Capita Income		Population Share	
	1996(2Q)	1998(2Q)	1996(2Q)	1998(2Q)
Total	2,731.26	3,377.17	100.00	100.00
No debt	2,719.90	3,350.94	48.00	39.70
Debt	2,749.03	3,395.39	52.00	60.30

Source: calculated from SES data, NSO

Rural poor households saved little and borrowed from the informal money markets. Some 40 percent of households declared having no savings at all. Of those that do, 51 percent have less than 5,000 baht and 70 percent less than 10,000. Some 57 percent of households normally borrow money during the year, 70 percent borrow to purchase agricultural inputs. Twelve percent of borrowing households did so to defray the educational costs of their children, and an equal proportion (12 percent) for daily needs. Only 41 percent of households borrowed money in 1998, compared to the 57 percent that declare they usually borrow each year. (SPOT-HH)

The cost of informal sector borrowing rose in the year after the crisis. Informal sector moneylenders raised their charge by about seven percent (4.1 percent to 4.4 percent per month), above general price inflation (five percent) during the same period. Rural households did not perceive a significant rise in the cost of formal capital. (SPOT-HH)

Indebtedness and borrowing from informal sources are common in poor urban households. Over half (55 percent) of urban poor households have acquired debt. Of those in debt, 27 percent of responses indicate that families have borrowed to

defray daily consumer expenses, a direct result of the current crisis. Another 12 percent have acquired debt in order to educate themselves or their children, but only a small number (two percent) indicate they have borrowed to afford medicines or medical care. Households tend to borrow from private moneylenders or savings groups, rather than from formal sector banks, finance companies, or governmental agencies. Only 17 percent of household responses indicate recourse to formal financial sector institutions, such as commercial banks, finance companies, or government banks. (UCDO)

The average debt owed by these households is 72,142 baht, equal to 5.7 months of income. The debt generates an average monthly debt service of 3,809 baht, roughly equal to the drop in income due to the crisis. Interest rates paid by households borrowing from informal sector sources range from 10.7 percent to 12.1 percent per month, or about 128 percent to 145 percent annually. Interest rates from formal financial sources are considerably less, 2.8 percent monthly from commercial banks and 3.2 percent from finance companies. (UCDO)

Coping Mechanisms

Households within the Urban Community Development Office's network are increasingly failing to repay their loans. By January 1999, 71 of the 203 organizations found themselves in arrears on credit repayment, an increase from 33 organizations from one year earlier. Total value of the overdue credit rose from 10.38 million baht to 21.51 million baht, an increase of 107 percent in one year. (UCDO)

3. Crisis Impact on Welfare and Inequality

3.1 Welfare

Despite the crisis, the economic welfare of the average Thai household improved between the first half of 1996 and the first half of 1998. Economic welfare increased, because a rise in household income outweighed changes in prices. While price changes reduced the welfare of the average household by 776.37 baht per month, income rose by 1,682.33 baht, yielding a net welfare increase of 905.97 baht per month. (Table 6, SES)

The greatest regional welfare gain was in Bangkok, which increased average household welfare by 1,828.61 baht per month. The smallest regional gain was in the immediate vicinity of Bangkok, with an increase in welfare of only 518.94. The average household in municipal areas gained 1,472.92 baht per month, while those in

rural areas increased on average by 781.12 baht. Sanitary districts showed the least increase in welfare, with a gain of 556.40 baht per month. (SES)

Region/Community	Total Effect	Income Effect	Price Effect
Whole Kingdom	905.97	1,682.33	-776.37
Bangkok	1,828.60	3,611.84	-1,783.24
Vicinity	518.94	1,865.01	-1,346.07
Central	708.43	1,449.61	-741.18
North-east	599.39	1,150.22	-550.82
North	825.89	1,407.02	-581.13
South	1,338.84	1,952.22	-613.37
Urban	1,181.84	2,600.77	-1,418.93
Municipal Area	1,493.82	3,071.92	-1,578.10
Sanitary District	554.74	1,653.72	-1,098.98
Rural (Village)	781.12	1,266.69	-485.57

Source: calculated from SES data, NSO

Region	Pop. Share	Household (%)		Average Impact (baht)		Household Size
		Worse off	Better off	Worse off	Better off	
<i>Whole Kingdom</i>	100.00	40.64	59.36	-3,099.93	3,648.84	3.74
		100.00	100.00			
Bangkok	11.94	54.90	45.10	-3,890.45	8,790.57	3.35
		16.13	9.07			
Vicinity	3.53	52.81	47.19	-4,131.57	5,723.29	3.49
		4.59	2.81			
Central	18.92	40.42	59.58	-2,699.06	3,019.89	3.61
		18.81	18.99			
North-east	32.51	37.15	62.85	-3,292.63	2,899.81	4.09
		29.72	34.43			
North	20.03	38.03	61.97	-2,105.58	2,625.25	3.45
		18.74	20.91			
South	13.07	37.34	62.66	-3,346.62	4,130.52	3.94
		12.00	13.79			

Source: calculated from SES data, NSO; Note: The highlighted values are column percentages.

However, more than two of every five Thai households were worse off in the first two quarters of 1998 than in the same period of 1996, and their average welfare loss was substantial. Some 41 percent of all Thai households suffered a welfare loss between 1996 (2Q) and 1998 (2Q), equivalent to 6.6 million households. The greatest concentration of these households – 29 percent or nearly two million households – was in the Northeast, the lowest (four percent) in Bangkok's vicinities. Bangkok contained about 17 percent of the total, with 55 percent of its households experiencing a decline in economic welfare. The national average loss of welfare was 3,108.41 baht per month, but Bangkok and its vicinity suffered higher than average losses of 3,890.45 and 4,131.57 baht, respectively. The South and Northeast were about average, while the Central region and the North were below average in welfare loss. (SES)

While 41 percent of all households in Thailand experienced welfare loss between the first two quarters of 1996 and the corresponding period of 1998, only 35 percent of farm households did so. When agricultural households experienced welfare loss, the magnitude of the decrease was relatively low (2,343 baht per month). On the other hand, household heads employed in the clerical, sales and services, and production and construction sectors all experienced higher than average proportions of welfare loss (42 percent to 45 percent). (SES)

The strongest welfare impact was on professional, technical, and managerial household heads, whose average decrease in welfare was 6,196, about twice the national average. On the other hand, those in this category that experienced welfare gain between 1996 and 1998 realized an average increase of 10,551 baht per month, about three times the national average for gainers. (SES)

Household heads with less education were more likely to suffer welfare loss, but the average loss of the better educated short of university education was greater. Over half of household heads (54 percent) with upper elementary education and an equal proportion of those with vocational, technical, or teacher training experienced loss of welfare between 1996 and 1998. The average loss for those with elementary education was 3,882 baht per month, while that for the others was twice as great (7,664 baht). While only 48 percent of household heads with upper secondary education suffered welfare loss, their average loss was 9,412 baht. This was about three times the national average impact for those suffering welfare loss. (SES)

Price Changes

There was a negative price effect due to price increases in foods other than rice, fish, seafood, meat, fruits, and vegetables. The collective price rise of other foods was equivalent to extracting 211.73 baht each month from the average Thai household. This negative price impact was much stronger in Bangkok and Vicinity than in other regions. By expenditure groups, the strongest impact occurred among all urban quintiles and the highest rural quintile. (SES)

Increases in the price of rice adversely affected Thai households. The economic welfare impact of an increase in rice prices was equivalent to removing approximately 111 baht per month from the average Thai household. This loss of welfare was slightly higher than average in the vicinity of Bangkok and the Northeast, about average in the North and Central regions, and slightly lower in the South. The impact tended to be greater in urban households than in rural areas, particularly among the lower expenditure groups. (SES)

Rising costs of housing and household goods also reduced welfare significantly. The average household loss of welfare throughout Thailand was 89.30 baht per

month. The impact on households in Bangkok (417.44 baht) and the Bangkok vicinity (201.87 baht) was much greater than that of the other regions, which ranged from 20 to 70 baht. The impact on urban households (242.69 baht) was over 12 times that of rural households (20 baht).

Households in the upper expenditure groups suffered considerably more than others, especially in urban areas. (SES)

3.2 Inequality

Per capita income inequality steadily improved from 1992-1996, but worsened again in 1998 following the crisis (Table 8). The level of income inequality in 1998 (Gini coefficient of 0.51) has moved back towards the level it was in 1994 (Gini of 0.52). In 1996, the Gini had fallen to 0.50. The

worsening income inequality can be explained largely by the widening income gap in urban areas, where the households in the top quintile (20 percent) increased their nominal income shares. However, the gap was seen to narrow in rural areas. (SES)

Time Period	Gini Index
1992	.5313
1994 (first half)	.5207
1994	.5179
1996 (first half)	.4977
1996	.5114
1998 (first half)	.5136

Source: calculated from SES data, NSO

Note: the higher the Gini, the greater the level of inequality

4. Crisis Impact on Households

4.1 Gender

Men and women in the labor force were at first affected equally by the crisis, with both groups suffering a loss of employment of about 2.8 percent in the dry season of 1998. Women, however, suffered greater loss of employment (-3.8 percent) in the wet season of 1998 than men (-2.5 percent), when there were about 450,000 fewer men and 570,000 fewer women employed than in the previous year. However, male and female unemployment rates increased almost identically during the year following the crisis. During 1998, male unemployment increased by about 500,000 and female unemployment by around 300,000. In percentage terms, the levels of unemployment were almost identical. (LFS)

Participation rates for women continued to fall faster than those for men. For six years prior to the crisis, the labor force participation rate had been falling steadily for both men (from 84.3 percent in August

1991 to 78.7 percent in August 1997) and women (from 72.3 percent in August 1991 to 64.8 percent in August 1997). The economic crisis does not appear to have affected this decline, participation rates fell further in August 1998 (to 78.1 percent for men and 63.2 percent for women), or the significantly more rapid decline of participation rates for women. (LFS)

Overall, shifts in income and population shares indicate that female-headed households appear to have been less affected by the crisis. The population living in female-headed households increased by 1.1 percentage points, from 19.9 percent to 21.0 percent. However, the expenditure shares of these households rose by 2.08 percentage points. (SES)

However, increases in real income were greater in households with male heads. Overall, per capita income in male-headed households increased in both the urban and rural sectors. In the urban areas, this

increase was nearly five per cent. Per capita incomes in female-headed households fared far worse in the urban areas, declining over four percent. This trend was also witnessed in the rural setting, also certainly less dramatic. In the rural areas, per capita income for male-headed households increased two per cent and decreased a tenth of a percent for female-headed households. This fact, coupled with evidence that female-headed households have increased their expenditures on food and non-food items as compared with male-headed households, suggests that female-headed households have felt the impact of the crisis worse than male headed households. (SES)

Female-headed households were more likely to suffer loss of welfare, but their loss was less on average than that for male-headed households. Some 44 percent of female-headed households were worse off in 1998 than in 1996, while this was true of 40 percent of male-headed households. However, the average male-headed household suffering loss of welfare lost 3,505 baht per month, while the decrease for female-headed households was 2,046 baht. (SES)

Urban poor households headed by women were in worse shape. Fifty-four percent of the unemployed are women, 47 percent are men. Average income for household income earners is 5,756 baht per month. Men earn on average 6,338 baht per month, about 26 percent more than women at 5,037 baht. (UCDO)

Households headed by women appeared to maintain expenditure levels, even in the face of relatively lower income increases, indicating that such households moved further into debt. (SES)

4.2 Age

Persons under the age of 30 were more affected by employment declines. The earliest and most severe impact of the employment crisis fell on younger workers,

those under 30. In the dry season of 1998, there were about 800,000 fewer employed in this age group than before the crisis. This trend continued through the wet season of 1998.

For young persons under 30 – one-third of the labor force – unemployment increased by about 506,000 persons by the wet season of 1998. Among those over 30 – two-thirds of the total labor force – the number of unemployed only increased by 339,000. Those 50 or over experienced little unemployment from the crisis. (LFS)

In urban areas, nearly three-quarters (72 percent) of the unemployed are 40 or below, with a disproportionately high rate among those aged 13 to 20. (UCDO)

There was no evidence of employment changes among the young. However, very young workers aged 13 and 14, a potential source of educational dropouts, do not seem to have increased or decreased as a result of the crisis, with little difference between boys and girls. (LFS)

Households headed by younger or much older persons were more likely to experience a reduction in economic welfare, but the greatest average loss occurred in the prime working age. (SES)

Household heads aged 21-30 years or 51-60 years suffered disproportionate welfare loss by 1998. More than half (52 percent) of households in the younger group suffered an average welfare loss of 3,550 baht per month. Taken all together, household heads between 21-30 years old lost an average of 288 baht. While 45 percent of households with heads between 51-60 years old suffered the next highest proportion of welfare loss, it was the 31-40 year old heads, 41 percent of whom experienced decreased welfare, that suffered the greatest average loss of all – 3,856 baht per month. (SES)

4.3 Household Size

After the crisis, Thais tended to live in larger households, especially in Bangkok and the Northeast. The average national household size increased from 3.65 to 3.74 from 1996 to 1998, with the size in Bangkok increasing from 2.9 percent to 3.35 percent, and in the Northeast from 3.99 percent to 4.09 percent. (SES)

However, changing household size had only a minor negative impact on nominal per capita incomes. An increasing average household size from 3.65 persons to 3.74 persons led to lower per capita incomes of around four percent. (SES)

Overall, the national dependency ratio remained fairly constant. However, the dependency ratio in the North fell from 0.75 to 0.70 and in the Northeast from 0.82 to 0.75. In Bangkok, the ratio increased from 0.46 to 0.54, and in the South from 0.85 to 0.99. Considering the increase in household size in Bangkok, this indicates migration from the North and the Northeast to Bangkok and a possible increase in the numbers of young people becoming economically active, and of child labor. (SES)

Small households were more vulnerable to welfare loss. While the magnitude of loss in household welfare increased with greater household size, the per capita impact tended to be lower. Some 58 percent of one-member households experienced welfare decline, but this proportion dropped with the addition of each new family member, so that only 32 percent of five-member households were worse off in 1998. On a per capita basis, the trend ran counter to this progression, with one-member households suffering a loss of 1,192 baht per month and a five-member household losing only 998 baht per member. (SES)

Households with more dependents were less vulnerable to welfare loss, but the magnitude of their loss tended to be greater.

Some 48 percent of households with no dependents suffered a net welfare loss after the crisis, but the proportion fell to 36 percent of those with the highest ratio of dependents to active members (1.5 or more). However, households with the most dependents experienced the greatest average welfare loss, equivalent to 5,065 baht per month or about 60 percent higher than the national average. (SES)

4.4 Other Characteristics

Agricultural households were relatively insulated from economic difficulties, but more than two households of every five in clerical activities, sales and services, and production and construction were worse off following the crisis.

There was a shift from agriculture and manufacturing households towards trading households, no enterprise households, and others. The population share of households headed by persons in agriculture and manufacturing activities decreased respectively from 52.3 percent to 48.4 percent and from 3.7 percent to 2.9 percent. The population share of households headed by persons in trading activities and in the others category, increased respectively from 12.1 percent to 13.4 percent and from 26.2 percent to 28.6 percent. (SES)

Indebted households were more likely to suffer a welfare loss between 1996 and 1998. In 1998, 44 percent of Thai households – some 7.4 million families – were in debt. About 53 percent of these households had experienced welfare loss between 1996 and 1998, compared to only 43 percent of those without debt. These households suffered an average welfare loss of 3,441 baht per month, about 11 percent more than the national average and about 700 baht more than those suffering loss but without debt. (SES)

Divorced and separated household heads were more likely to suffer welfare loss, but the magnitude of loss experienced by

married heads was much greater. Some 55 percent of households headed by divorced or separated persons were worse off in 1998, with an average loss of 208 baht per month. The greatest average loss – 3,526 baht – occurred among the 40 percent of married households suffering net welfare decrease. Nearly half (47 percent) of never-married household heads experienced welfare loss after the crisis (2,457 baht). (SES)

Changes in the economic welfare of government employee households was strongest. About 1.4 million Thai households were headed by government employees. On average the changes in economic welfare of these households was strongest, i.e. 6,636 baht per month for worse off households and 9,669 baht per month for better off households. These were more than two times the national impact on worse off and better off households. (SES)

4.5 Urban/Rural Divide

The rural areas have seen large reductions in non-food expenditures and increases in food expenditures. Overall, rural per capita non-food expenditures declined 6.2 percent. The second and third quintiles witnessed the most drastic reduction at 9.0 and 8.7 percent respectively. Reduction in these two quintiles matched expectations as the poorest quintile generally supports far less non-food expenditures, and thus has less room to cut back. Food expenditures, on the other hand, are up across the board in the rural areas, averaging just above two percent for the first four quintiles. Clearly, the rural areas, especially in the lower three quintiles, witnessed changing spending patterns, with more going towards food and less towards non-food items. (SES)

However, the urban areas witnessed decreases in food items expenditures across all five quintiles, as well as reductions in non-food expenditures in four of the five quintiles. (SES)

While food expenditures in the rural areas increased, the real per capita food expenditures in the urban areas witnessed an opposite trend and decreased quite substantially. The largest of these reductions occurred in the fourth and fifth quintiles, the wealthiest of the urban population. The fourth quintile decreased nearly 15 percent, while the fifth decreased nearly 12 percent. This suggests that even the most well off urbanites were not immune to the crisis, and changed their expenditure patterns, most likely purchasing less expensive domestically produced items. The first three quintiles also decreased by 7.2, 4.1 and 8.1 percent. While it is difficult to guess if any of these lower groups actually decreased their consumption of foods, it is likely that the first and second quintile – the poorest urbanites – changed their consumption patterns to cope with tighter budgets. (SES)

Non-food per capita expenditures were down for four of the five quintiles in the urban areas. This was most dramatic with the urbanites, falling in the first two quintiles by five and six percent respectively. Given that those in these quintiles are the poorest of the urban population, any decrease in non-food coupled with a decrease in food expenditures signals that these groups have been significantly affected by the crisis. (SES)

Some 35 percent of the 9.7 million Thai households better off economically in 1998 are found in the Northeastern region. On the other hand, only nine percent of these households are found in Bangkok and three percent in the Bangkok Vicinity. However, of the Bangkok households gaining welfare, their average increase of 8,791 baht per month is well over twice that of the national increase of 3,648 baht. Other regions with strong welfare increases on average were Bangkok Vicinity and the South. (SES)

A higher percentage of urban households than rural households were worse off in 1998. Over half (52 percent) of urban

households experienced a decline in economic welfare compared to 36 percent of rural households. The average welfare decrease of households in municipal areas (4,016 baht) was about 30 percent higher than the average decrease in sanitary districts and rural areas. The welfare decline was strongest for households in the upper three urban and the top rural expenditure quintiles. (SES)

Coping Mechanisms

The most common response among rural households is to reduce expenditures. The general household reaction to the increased cost and reduced availability of credit is to reduce expenditures. About one-third (35 percent) of households respond that they are spending less by spending only on essential items. (SPOT-HH)

Nearly half (49 percent) of responses indicate that urban household members have acted to find new work, get a second job, work harder, or add a part-time position to

their existing workload. Another 18 percent of responses indicate household members have attempted to invest in a small business. Some 24 percent combine these responses with the attempt to reduce expenditures to necessities only. Over half of households (56 percent) indicate their current income is insufficient to cover their expenditures. The average amount of monthly income shortfall is 3,001 baht. This is 78 percent of the average drop in household income over the previous year, suggesting that before the crisis this group of households tended to cover their expenditures. (UCDO)

Urban households demonstrate considerable length of residence in the same community. The average length of residence is 19 years and only 12 percent of households have been in place less than five years. The economic crisis has not yet caused an exodus of the surveyed families toward other urban communities or toward rural areas. (UCDO)

5. Crisis Impact on Basic Education

Household welfare losses from price rises in education were minor. Price inflation in education resulted in an average household loss of welfare equal to 12 baht per month. Bangkok and Vicinity suffered the greatest impact, with losses of 24 baht per month. The average impact on urban households was about five times that of rural households. The negative impact of education costs was lowest in the North and Northeast, where it ranged from five baht to eight baht per household per month. (SES)

However, large numbers of primary-school age children appear not to be in school, and school administrators do not seem to be taking effective measures to address the problem. School administrators do not recognize any problems with school leavers at the primary level. All primary schools

interviewed (99 schools) reported few dropouts in the previous year, and most expected no significant problems in the future. Although there may be strong disincentives for school administrators to report accurately, the perception that dropouts were not a problem at the primary level is surprising. Despite the almost complete lack of reports of primary school dropouts, the transition rate from Grade 1 to

Grade 2 among the surveyed primary schools was only around 90 percent, and from Grade 5 to Grade 6 around 94 percent. (SPOT-ED)

This worrying picture of declining primary school enrolments is confirmed by nationwide statistics, where the Grade 6 completion rates have ranged from only 75 percent to 80 percent since the early 1990s.

There appear to have been no major changes since the onset of the crisis. (SPOT-ED)

A significant increase in the numbers of school leavers was reported by surveyed schools at both the lower and upper secondary school levels in both School Year (SY) 1997/98 and 1998/99. This resulted largely from increased financial and social problems of families, which were likely exacerbated by the economic downturn. Applications for school loans at the upper secondary level increased across the board over the past three years, especially between SY 1996/97. The male share of these school leavers was around 60 percent; but this ratio had been constant over the past three years. (SPOT-ED)

Budget allocations varied widely among the sampled schools. While overall budgets at the sample schools slightly increased from Fiscal Year 1996/97 to Fiscal Year 1997/98, some 40 percent of schools reported budget cuts averaging 27 percent, apparently unrelated to local needs and equity considerations. Non-government supplementary budgets fell by 35 percent from 1997 to 1998 as donations from parents, local communities, and other sources dropped following the economic crisis. (SPOT-ED)

Many schools reported problems with the timeliness and reliability of budget disbursements, especially with regard to the school milk and teaching materials budgets. Sixty-one percent of the schools surveyed reported that budget cuts and disbursement delays had a negative impact on the quality of education. The major cause cited was the

lack of teaching materials due to lower budgets. (SPOT-ED)

Coping Mechanisms

Schools demonstrated effective coping strategies to deal with budget and non-budget cuts. Schools surveyed utilized a wide range of imaginative coping mechanisms to handle budget cuts or delays, and the financial problems of students, many of which involved better use of resources. (SPOT-ED)

These included soliciting donations, waiting for next year's budget or delaying projects, converting unused areas into classrooms, and paying suppliers in installments.

The capacity of schools to undertake such activities provides very positive feedback on the feasibility of decentralization of educational management. As decentralization of education management moves forward, an incentive system that rewards efforts to increase efficiency with which resources are utilized could be an effective policy measure in this regard. (SPOT-ED)

At the household level, all expenditure classes maintained or increased nominal spending on education to ensure continued education of their families. Households did not cut education expenditures as a coping mechanism. Overall, per capita monthly education expenditures increased from 183 baht in the first two quarters of 1996 to 226 baht in the same period of 1998. (SES)

6. Crisis Impact on Basic Health

Overall, the health impacts of the crisis are relatively minor. Price inflation in health care resulted in an average household loss of welfare equal to 10 baht per month. (SES)

There has been a 14 percent rise in the number of health complaints seen in public facilities, but the increase is in proportion to the rise in the number of outpatients (15 percent). There has been a 30 percent jump

in the number of complaints relating to the muscular or skeletal system. About two-thirds of public health facilities report there has been an increase in patient requests for psychological counseling since the crisis. (SPOT-PH)

There has not been an increase in the number of patient referrals from health centers, indicating that new complaints are on the whole less serious than before the crisis. (SPOT-PH)

Maternal and child health care is being adequately maintained, and the health status of these groups has generally not deteriorated since the crisis. The number of children under the age of five visiting health centers has increased by 22 percent, and their visits by 14 percent since the crisis. This rise in visits after the crisis indicates that the target group of vulnerable children is increasing its use of governmental facilities, along with the poor. Deliveries of babies in district hospitals increased eight percent, and previous levels of pre-natal or post-natal visits by women have been maintained. (SPOT-PH)

However, anemia in pregnant women increased by 22 percent, which may indicate a switch to less nutritious foods. There was only a four percent increase in the number of babies born weighing less than three kilograms, but 39 percent of babies were already below this weight before the crisis. The lack of a rise in the incidence of malnutrition among children indicates the quality of their food intake since the crisis has been maintained thus far. (SPOT-PH)

Seventy-two percent of health centers and district hospitals claim that their budgets for medicines and drugs in 1998 were either cut, delayed substantially, or were insufficient to meet increased public use of the facilities. Nearly four-fifths of health facilities claim that official budget cuts have lowered the quality of health care they provide. Most of this quality loss has been due to insufficient medicines and medical supplies. Health

centers and district hospitals rely on non-governmental funds to compensate for reduced operational budgets, but private donations fell 36 percent and receipts from medical sales dropped 21 percent during the year following the crisis. (SPOT-PH)

The use of public health facilities is up significantly. This involves both new free card-holders, as well as persons switching from private facilities. Health centers and district hospitals report a rise of 15 percent in outpatients and 11 percent in outpatient visits since the beginning of the crisis. This increase occurred in all regions. One-third of the public health facilities interviewed reported that the use of public sector facilities was on the rise due to users of private facilities switching to public facilities to reduce costs of health care. (SPOT-PH)

Distribution of new low-income health cards accounts for about two-thirds of new users of public health facilities. Health centers and district hospitals report a 272 percent increase of low-income (free) health cards between 1997 and 1998. These new cards account for two-thirds of the outpatients visiting public health facilities. (SPOT-PH)

Coping Mechanisms

Household expenditures on health care drop dramatically nationwide. Between 1996 and 1998, average household medical expenditures according to the socio-economic survey dropped by 41 percent, 35 percent in urban settings and 46 percent in rural areas. The fall was entirely in medical services, which dropped 47 percent on average over the two years. (SES)

There was no change on balance in medicinal purchases. Urban households increased expenditures on medicines and supplies by 23 percent, but rural households decreased average household medicinal purchases by 11 percent. The fall in outlays for medical services is striking and involves all urban and rural income levels. Female-headed household cut outlays on medicines and supplies by 10 percent, while male-headed

households increased their expenditures by four percent. There has been a strong move away from private health services to self-medication to reduce costs. (SES)

Budget cuts have stimulated a variety of coping strategies on the part of health

facilities. To compensate for the reduced supply of medicines, they have coped by reducing the amount and variety of drugs supplied to patients, preferring to give only small amounts of essential medicines. (SPOT-PH)

7. Crisis Impact on Vulnerable Groups

Cuts in governmental and NGO budgets and programs impacted the most on disadvantaged groups. Private donations to NGOs have fallen greatly since the crisis. The majority of agencies working with disadvantaged groups, both private and public, have continued to support their clients, but need increased governmental support to maintain quality care. Some government programs for disadvantaged groups, especially in health and education, have suffered budget cuts as a result of the crisis. An example is the medical assistance from the Ministry of Public Health to the Foundation for Handicapped Children, which has been reduced by one third. (FOCUS)

The number of street children and cases of child abuse have risen greatly, but the root causes of these problems are not well understood. NGOs report the number of street children and cases of child abuse rose 10 percent to 15 percent after the crisis. Not enough is known about the exact number and location of street children. The social origins of street children and their reasons for taking to the streets are still not adequately known. Existing programs focus

on the symptoms, not the causes, of street children and child abuse. (FOCUS)

Stress in the family from economic difficulties is a contributing factor to a number of social problems. There is inadequate research directly applicable to programs aimed at alleviating stress in the family. Stress in the family unit is a contributing factor to a number of problems involving vulnerable groups: HIV/AIDS sufferers, the handicapped, street children, the elderly, and sex workers. (FOCUS)

Drug abuse among youths has increased. Sixty-eight percent of school administrators (117 of 200 schools reporting at all levels) reported an increase in drug-related problems, partly as a result of the crisis, but also reflecting a longer-term trend towards more social problems. (SPOT-ED). About two-thirds (63 percent) of health facilities and nearly half of households (45 percent) report that drug use among youths in the community rose significantly since the beginning of the crisis. (SPOT-HH, SPOT-PH).

8. Policy Implications

The policy implications of the assessment of the social challenges faced by the crisis are summarized under four broad headings.

8.1 Developing Information and Dissemination Activities

A number of key improvements need to be made to the information base on social issues and its dissemination in order to enhance policy-making:

- Overall, the social management information systems of the respective government agencies in the social sector need to be improved and developed – with a whole range of improvements being required: Timeliness, reliability, quality, coverage, periodicity, coordination, etc.
- Data on unemployment need to be clarified, better understood, and gathered in a more systematic statistical manner, and used more effectively as a tool to enhance market flexibility and plan labor-related policies.
- Information on school dropouts and absenteeism rates needs to be improved and acted upon.
- Information on education and health expenditures gathered in the Socioeconomic Survey should be developed, coded, and analyzed more.
- A number of health indicators gathered by the Ministry of Public Health do not appear to be comparable with international data, such as child and maternal mortality rates.
- Certain education-related data, such as literacy rates, are not produced in a systematic manner.
- Other social sector indicators, such as crime rates, suicide rates, alcoholism, drug abuse, etc., if they exist, are not updated or reliable.
- Improved education programs and awareness building activities regarding drug abuse are needed.

In particular, the NESDB should devote resources to maintaining an up-to-date set of social development indicators, and to carrying out a comprehensive analysis of social sector issues on a regular basis. This would include the use of macroeconomic data, as well as community and institution surveys, and focus group meetings with vulnerable groups.

8.2 Maintaining Social Development Indicators

As a part of the research exercise, a set of basic national-level social indicators were developed, with particular emphasis on indicators tracking the status of the poor and vulnerable. This data is currently gathered through line ministries and NSO surveys and can be assembled and published regularly by the NESDB. The recommended list of such indicators is presented below; they are intended to provide the basis for continual social sector tracking by the NESDB.

The indicators are roughly graded in terms of the time that it is expected to take for the social impacts of economic changes to be represented by changes in the respective indicator. Short-term indicators will rapidly reflect changes in social conditions, whereas long-term indicators will reflect changes over a longer time frame.

In addition to monitoring the short, medium, and long term trends in the social sector development of the country, the indicators are also useful in comparing Thailand's social situation with that in other developing countries worldwide. Concerted efforts need to be made to ensure the timely gathering and processing of at least the key indicators. In this process, it is also important to coordinate efforts with the economic well-being project being carried out by the NESDB monitoring and evaluation units.

Table 9: Key social indicators matrix – by area and by time frame		
Short-term	Medium-term	Long-term
Health Indicators		
1.2 Infant mortality rate (per 1,000)	1.1 Life expectancy at birth	
1.7 Pregnant women suffering from anemia (%)	1.3 Child mortality rate (per 1,000)	
1.10 Children with birth weight less than 2.5 kgs. (%)	1.4 Mortality rate of children from childhood diarrhea disease (CDD) (per 100,000)	
	1.5 Mortality rate of children from acute respiratory infection (ARI) (per 100,000)	
	1.6 Maternal mortality rate (per 100,000)	
	1.8 Pregnant women receiving TT inoculation (%)	
	1.9 Women delivering in gov. health institutions (%)	
	1.11 Children suffering 1st, 2nd, and 3rd degree malnutrition (%)	
Education Indicators		
2.5 Gross enrollment rates in primary school (6-11 years)	2.10 Completion rate for primary school	2.1 Literacy rates in rural areas (15-50 years)
2.6 Gross enrollment rates in lower secondary school (12-14 years)	2.11 Completion rate for lower secondary school	2.2 Labor force with primary education or less (%)
2.7 Gross enrollment rates in upper secondary school (15-17 years)*	2.12 Completion rate for upper secondary school	2.3 Labor force with lower secondary education or less (%)
2.8 Transition rate to the first grade of lower secondary school*		2.4 Average educational years (20-59 years)
2.9 Transition rate to the first grade of upper secondary school*		
Poverty and Employment Indicators		
3.1 Percentage of absolute poor in population	3.5 Labor force participation rates (%)	
3.2 Poverty depth ratio	3.6 Employed persons as percent of labor force (%)	
3.3 Share of lowest quintile in national wealth	3.7 Ratio of average wage in non-municipal areas to municipal areas (%)	
3.4 Gini index of individual household welfare	3.8 Ratio of average female to male wage rates (%)	

Source: Brooker Group consultants

8.3 Improving Targeting

The social impact analysis above indicates a number of likely groups that are particularly disadvantaged by events such as the economic crisis. Further analysis of specific target groups using the existing data and welfare methodology presented in the research exercise could help to define the groups that need to be targeted.

Serious targeting should be considered for the following groups:

- The large numbers of primary school age children not in school.
- Households with lower education levels.
- Certain groups of female-headed households.
- The new urban poor created by construction industry declines, industrial layoffs, and without the option to return to a home in the provinces.
- Those groups more likely to be unemployed - younger, less educated and newly graduated persons.
- The populations in various vulnerable groups, such as: those afflicted with AIDS, those orphaned children, street children, the elderly, and drug addicts.

8.4 Tracking Process Reforms

There is a strong need to track the processes of social sector programs and reforms, rather than focusing on monitoring key indicators.

Emphasis should be placed initially on maintaining access, and then on improving quality once universal access to basic health, education, and social services is achieved.

The most serious question of access arguably involves the large numbers of primary school age children that are not in the education system or do not graduate from primary school. Reform of the scholarship and loan programs to ensure that school age children at all levels stay in school should be the first priority.

The extensive reforms in all social sectors under the ADB SSPL project need to be systematically tracked and evaluated.

Perhaps the most serious weakness both in planning and evaluating policy reforms and programs is the lack of adequate databases at the provincial and local community levels. Without this information base, it is very hard both to track reforms, to target expenditures sensibly, and to monitor the progress made in social sector programs.

8.5 Supporting Decentralization/Community Development

Interviews with numerous institutions, communities, and households confirm that the targeting of vulnerable groups and the implementation of policies to help them can be greatly facilitated by involving local communities and institutions.

The effectiveness with which local communities can identify and solve their own problems, as seen in the imaginative coping mechanisms in local responses to the crisis, can be encouraged by the public sector. This can play a significant role in meeting the new paradigm of the Eighth National Social and Economic Development Plan of “people-centered” development and in decentralizing the development process.

8.6 Redistribution Measures

Generally, two classes of measures could be employed to reduce the hardship of worse-off households – Negative Income Taxes (NIT) that pay a cash sum to households, and Means-Tested-Benefits (MTB) that provide benefits in kind.

In the case of NIT, the benefit is mostly paid in cash and the payment is easily targeted at the worse-off households. The cash payments will allow households to spend the extra income on any goods they consider will increase their economic welfare. But the use of NIT is weakened by the fact that the government may not want households to

spend the money on certain goods that are considered a luxury, or that are considered undesirable, such as cigarettes and whisky. Moreover, the provision of cash in hand might lead some people to reduce their work hours, which could have a long-term impact on labor productivity.

For MTB, households are paid in kind to ensure that the assistance genuinely improves the lot of the recipients, such as the provision of food, housing, health care and education. Subsidies in these areas can also be considered MTB measures. MTB is weakened by a targeting problem, as some

better-off households may also be able to benefit under the scheme.

The problem with subsidies in the present climate is a constraint on government budgets, and the vast sums of money that would be required. For example, to insulate households for one month against the inflationary effect (19.96 percent) of the two years between 1996 and 1998 on the price of rice, it would cost the government 1,807.6 million baht (16.31 million households multiplied by 110.83 baht per household, which is the amount the price of rice has risen over the two years).