Poverty Profile

Executive Summary

Kingdom of Thailand

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Japan Bank for International Cooperation
Chapter 1 Poverty in Thailand

1-1 Poverty Line

The definition of poverty and methods for calculating the poverty line have generated much discussion over the past few decades in Thailand, and various approaches have been developed. The World Bank, for instance, developed a poverty line in 1974. It was calculated based on the food poverty line (the income level required to satisfy an average calorie requirement), adding the income required for the minimum non-food requirements (such as shelter, clothing and medicine). Two poverty lines were calculated using this methodology, one each for urban and rural populations. In 1985, the World Bank adjusted the previous poverty line according to the price level, and adopted the “Head Count Ratio”, thereby presenting the proportion of the population whose income fell below the poverty line.

The World Bank methodology received some criticism. First, the method was based on the assumption that the calorie requirement per person was identical regardless of the person’s age and sex, which was somewhat unrealistic. Second, the difference in food prices by region was not taken into account, and third, the consumption pattern has changed significantly over the past 20 years, as the demographic structure of the country changed. In 1998, Kakwani and Krongkaew proposed a new poverty line based on the World Bank methodology, but taking into account the above considerations. The National Economic and Social Development Board (NESDB) adopted this new income poverty line as the official poverty line, and while the discussion surrounding the issue of the poverty line has not reached a clear conclusion, major donors and research institutions have been using the official poverty line for measuring poverty.

1-2 Trends of Poverty Incidence and Income Disparity

The number of the poor declined steadily in Thailand up until the mid 1990s, as the country recorded a high rate of economic growth. Poverty incidence declined from 32.6 percent in 1988 to 11.4 percent in 1996, and the number of poor decreased from 17.9 million to 6.8 million. However, income disparity has been widening since the 1970s, and the gap in Thailand has been more severe than most of its neighboring Southeast Asian countries. The main reasons behind this trend are the regional and sectoral inequalities of formal sector employment opportunities, and the limited access to secondary education and vocational training by the poor.

1-3 Regional Disparities in Poverty

Poverty incidence is higher in four regions (Northeast, North, South, and Central) compared to Bangkok and its vicinity. The number of the poor is highest in the Northeast, followed by the South and the North regions. Thailand has distinct types of communities, which show differences in poverty level. Poverty incidence in villages is higher than municipal areas and sanitary districts in all regions.

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2 Sanitary District is one type of the special municipal / local authorities that operated in a semi-autonomous manner, which have been discontinued after the reform of local administrations in 2000. The National Statistical Office (NSO) is now using ‘Municipal Areas’ and ‘Non-Municipal Areas’ as the two categories of the community types.
1-4  Depth and Severity of Poverty

Both poverty gap and squared poverty gap improved from the late 1980s to the early 1990s when the economy was growing. However, both indices worsened slightly after the 1997 economic crisis. During the period before the crisis, the number of “ultra poor” (defined as the population whose income is less than 80 percent of the official poverty line level) declined significantly, and the rate of decline was considerably faster than that of the “marginally poor” (the population whose income lies between 80 percent and 100 percent of the official poverty line) and the “near non-poor” (the population whose income is between 100 percent and 120 percent of the official poverty line). However, the number of ultra poor has increased after the 1997 crisis, and is growing much faster than the number of the marginal poor and near non-poor.

1-5  Profiles of the Poor

Profiles of the poor in Thailand can be summarized as follows:

- Poverty is concentrated in the Northeast, North, and South regions.
- Majority of the poor live in villages, and are engaged in farming. However, the poor do not rely solely on farm income, and tend to derive most of their income from off-farm sources.
- Poor households tend to have larger family sizes.
- Average education attainment level tends to be lower among the poor, which restricts the poor from accessing high wage employment opportunities.
- The poor have little landholdings, if any.
- The poor have limited access to basic social services such as water and sanitation.
- The heads of poor households are more likely to be elderly, retired workers, or disabled. This implies that the coverage of social security services is not sufficient.

1-6  Impact of the Economic Crisis on Poverty

The 1997 economic crisis caused the incidence of poverty in Thailand to rise from 11.4 percent in 1996 to 12.9 percent in 1998, and 15.9 percent in 1999. Poverty incidence in the municipal areas declined approximately 19 percent from 1996 to 1999, whilst villages and sanitary districts recorded an increase in poverty of 44 percent and 52 percent respectively. While the crisis began in the financial sector in Bangkok, its impact was more severe in the rural regions. The reduction of employment opportunities in the modern sectors caused the migration of the labor force from Bangkok and its vicinity to the rural regions, resulting in an excess of labor supply for non-farm employment above the demand. Real wages declined significantly in the rural regions, which led to a severe decline in the incomes of low-income households, who tend to rely more on non-farm income. The above suggests that there is a mechanism in Thailand that automatically links urban unemployment to poverty and income disparity in the rural regions.
Chapter 2  Government Policy and Actions for Poverty Reduction

2-1  National Development Plans and Poverty Reduction Policies

As regional disparities and income inequality became evident while the economy continued to grow, these problems gained recognition by the Thai government. The Eighth National Development Plan (1997-2001) and the forthcoming Ninth National Development Plan (2002-2006) both include the above problems as major issues to be addressed by the nation. The 8th National Plan gives priority to areas such as human resources development, reducing regional disparities and income inequality, decentralization, participation and community rights, and the rehabilitation of the environment. The Plan also focuses on the needs of the poor, and aims to reduce the poverty incidence below 10 percent by 2001. In 1997, the government revisited the Plan in view of the economic crisis. The following three areas were highlighted as the key areas of intervention in terms of social development: 1) alleviation of urban unemployment, and employment creation in the rural areas to absorb the migrants from the urban centers; 2) assistance to those affected by the crisis (social welfare, education, and health); and 3) prevention and alleviation of social problems such as drugs and crimes, and promotion of social values.

2-2  Macro Economic Management

Economic Growth and Poverty Reduction: Economic growth averaged 7.6 percent per annum over the period 1977 to 1996. As the crisis hit the country, economic growth declined to minus 1.7 percent in 1997, which was the first negative growth recorded in 40 years. The growth rate declined further to minus 10.2 percent in 1998, but then began to show signs of recovery, turning back into a positive growth rate in 1999.

The steady reduction of poverty in Thailand from the 1960s until 1997 was primarily gained through the economic growth led by industrialization. A one percent increase in real GDP reduced the poverty rate by 1.4 percent during the above period. However, as previously mentioned, regional disparities and income inequality did not narrow during the economic boom, which indicates that economic growth was a necessary but not a sufficient condition for poverty reduction. The remaining challenge for the Thai government is to construct a steady economic growth framework accompanied with poverty reduction and income redistribution.

Industries and Labor Market: Thailand’s economy has been shifting towards a structure led by manufacturing and service sectors. Industrial sector’s share of GDP declined after the crisis, but began to increase again after a short period. On the contrary, GDP share of the agricultural sector showed a temporary increase after the crisis, but later moved back into a declining trend. The agricultural sector faces a number of constraints for sustaining its growth, such as the shortage of suitable land for cultivation expansion, limited supplies of water, slow enforcement of land reform, and limited investment for research and development of agricultural technologies. The unemployment rate averaged 2.9 percent during the 1960s to 1990s. During this period the proportion of the labor force in the agriculture sector declined, while the commerce, transportation, and service sectors showed an increase.

The impact of the 1997 crisis was most significant in the construction industry where the number of jobs were drastically reduced. The agricultural sector played a relatively minor role in absorbing the
excess labor supply resulting from the crisis, as the sector had gone through the process of mechanization during the 1990s thereby reducing the labor demand. The unemployment rate rose the most in the villages of the Northeast region, whereas the increase in underemployment was highest in Bangkok. Wage disparity by community type also widened after the crisis, as the difference in average monthly wages between municipal areas and villages grew from 62 percent in the pre-crisis period, to 75 percent after the crisis.

**Rural and Regional Development:** The Thai government has been striving to develop rural areas and reduce regional disparities by supporting productive activities, infrastructure development, employment creation, and the provision of basic social services. In addition, the government is in the process of developing strategies for the agriculture sector and rural development, with assistance from donor agencies. Rural development remains as one of the key long-term strategies for poverty reduction in Thailand, in view of the fact that the majority of the poor reside in rural areas.

**Infrastructure Development:** Infrastructure development in the rural areas is an important aspect of poverty reduction, as it is necessary for improving access to basic social services and promotion of economic activities. However, infrastructure, including roads, telephones, water and sanitation facilities, are not adequately developed in rural villages. Donors have committed support to important infrastructure projects, such as regional roads, which may assist the economic growth of the poor regions.

### 2-3 Government Programs for the Poor

Government poverty reduction programs implemented prior to the crisis include small-scale low interest loans targeting poor households, cash transfers (targeting elderly and poor households), and in-kind transfers (free medical service and school lunch program). After the 1997 crisis, government programs were strengthened and new funds were established with donor support, in order to cater for the poor and unemployed who suffered from the crisis. These supports were provided mainly through the following three programs: 1) Social Investment Project (SIP) supported by the World Bank, Asian Development Bank (ADB), and Japan; 2) Social Sector Program Loan (SSPL) supported by ADB; and 3) Economic Recovery Social Sector Program Loan (ERSSPL) supported by Japan.

The poverty reduction programs of the government (and in some instances supported by donors) require further improvement in a number of areas, including targeting, sustainability of poverty reduction, and the size and efficiency of the programs. Allocation of the national budget towards poverty reduction programs has been relatively low in Thailand (1.6 percent of the total public expenditure in 1995), however, the allocation has increased after the crisis. As the economy recovered and unemployment rate declined in 2000, some suggest that the budget may be reduced. Careful consideration is required based on a thorough assessment.

### 2-4 Human Development

**Education:** The Thai government has devoted efforts over the years in the education sector, focusing on areas such as labor force skills development, access to basic education, education quality improvement, curriculum and structural reform, and skills improvement. As a result, Thailand has achieved near universal primary education attainment, improvement of education attainment by girls, and establishment of an effective non-formal education program. The government’s financial allocation towards education has been around 20 percent of the annual national budget since 1992, and
the government’s high commitment towards the sector has not been affected by the crisis. In recent years, expenditure towards pre-primary, primary and lower secondary schools have been high compared to the other levels.

Since the late 1970s, the government has focused on reducing regional disparities and improving attainment at the secondary level, through construction of secondary schools and the provision of various financial support programs. As a result of these efforts, and also as the importance of secondary education gained recognition widely across the nation, secondary education attainment rate rose significantly in the 1990s. However, the attainment rate is still relatively low, at 74 percent for lower secondary, and 50 percent at higher secondary level in 1998.

The 8th National Plan states that compulsory schooling will be extended from 9 years to 12 years. The 1997 constitution provides every citizen with the right to receive 12 years education at the state’s expense. The new education law of 1999 includes provisions for educational system reform and expansion of secondary education, and emphasizes decentralization and improvement of educational quality. In recent years, low-wage, low-skill, low-technology sectors, which were the driving force of the country’s economic development, have lost the competitive advantage against other countries. The education sector is, therefore, facing a new challenge as to how it can develop human resources that contribute to long-term economic development. For the education sector to match the technological advancement, a clear long-term vision is required to develop human resources with analytical and problem solving skills that also match the demand of the labor market.

**Health:** Thailand’s health indices have improved significantly during the past 30 years as a result of the government’s efforts. Vaccination rate is above 90 percent, and contraceptive prevention rate of married women is above 75 percent. Government expenditure covers approximately half of all health related expenditures. About 60 percent of the public expenditure on health is allocated towards the operation of public health facilities. Approximately 74 percent of the total population is covered by health insurance, and public health programs such as family planning and vaccination are provided free to the public.

There were pessimistic expectations that the effectiveness, affordability, financial feasibility, and equality of the public health services may worsen as the result of the crisis. On the demand side, there were concerns that household expenditure towards health service may be reduced, and that new health and medical problems may emerge due to the effects of unemployment, low income and low expenditure. (such as children’s nutrition, drug addicts, AIDS, etc.). However, studies reveal that the impact of the crisis in the health and medical sector was not significant. As the country recovers from the crisis, the government must regain the medium and long-term vision, and reflect the lessons learnt from the experiences during the crisis, in order to improve the equality, accessibility, and implementation efficiency of various services.

2-5 **Good Governance**

A new constitution was promulgated in October 1997. The new constitution has several unique strengths, including aspects of the rule of law and human rights, accountability mechanisms, transparency, participation and decentralization. Furthermore, the constitution lays out a broad range of individual liberties, including political rights and social rights. Decentralization and delegation of authority to the Provinces, Tambon and village levels is an important step in the country’s efforts towards poverty reduction.
Partnerships for Poverty Reduction

3-1 Partnerships

Partnerships among the government, donor organizations, civil society and the private sector in the area of poverty reduction became stronger and more diverse after the 1997 crisis. At the policy level, loans from international financial institutions have been provided to support various structural reforms. At the program level, both technical assistance and loans have been provided to strengthen existing government programs in the areas of poverty reduction, health and education.

The importance of involving civil society in the formulation and implementation of national policies was clearly stipulated in the 1997 Constitution and the 8th National Plan, and hence the government has been putting its effort to strengthening local communities. Poverty reduction programs are also increasingly putting more emphasis on community level initiatives.

3-2 Donor assistance for Poverty Reduction

Aid flow to Thailand was declining from the late 1980s to the 1990s, as the Thailand economy was growing rapidly. However, donors increased contributions after the 1997 economic crisis, as they provided emergency aid for economic recovery and assistance to vulnerable groups. Bilateral assistance during 1997 and 1998 was primarily focused on the social sector (excluding education and health), followed by economic infrastructure, health, and education. Three years after the crisis, and as the economy shows signs of recovery, there is a need for a poverty reduction strategy with a long-term vision.

Education, agriculture and rural development, small and medium enterprise development, and regional development are commonly recognized by the donor organizations as key areas of intervention for poverty reduction. In addition, some donors have begun to provide support in areas that are more directly linked to poverty reduction. For example, ADB has been working with the government on poverty assessment and the review of existing poverty reduction programs. The World Bank identifies areas such as poverty monitoring, better targeting of the poor, and preparation of the poverty study, as part of its assistance strategy.

3-3 Poverty Reduction Programs of Civil Society Organizations

**NGO Activities:** NGOs are actively involved in areas where government support is not sufficient. Efforts are being made in formulating partnerships among the NGOs, and between NGOs and the government. The role of NGOs is important especially in the rural villages where poverty incidence is high. For example, the rural microfinance programs implemented by NGOs provide valuable services to the rural poor. NGO’s contribution in the area of employment generation activities is also significant in poor villages.

**Social Capital:** The informal safety net provided by communities, relatives, and households plays an important role in Thailand. For example, studies indicate that wealthier households continued to provide financial and in-kind support to poorer households and relatives throughout difficult times during the crisis. There is also evidence that the formation of community groups aiming at improving
economic conditions expanded during the crisis. One such example is the number of informal savings groups that increased nation-wide during the crisis. The participation rate in existing savings groups also rose. However, the pressure that the crisis placed on the informal social safety net may have tested its capacity to the limit. In the future, efforts may be required to develop formal safety net programs to support or complement these existing informal safety nets.