Report No. PID6999

Project Name	Malaysia-The Social Protection Project (+)
Region	East Asia & Pacific
Project ID	MYPE60943
Borrower	Malaysia-Ministry of Finance
Implementing Agencies	The Economic Planning Unit, Ministry of Health, Ministry of Rural Development, Ministry of National Unity and Social Development, Ministry of Education
Date of PID Preparation	October 23,1998
Appraisal Date	December 1, 1998
Projected Board Date	January 21, 1999

I. Country and Project Background

Malaysia's development record over the past decades has been impressive. The Malaysian economy, a mixture of private enterprise and a soundly managed public sector, posted remarkable growth in real per capita GDP over the past decades. This growth translated into significant progress in all sectors, with a substantial reduction in poverty.

During the last quarter of a century, the poverty rate (using the poverty line of $2 international dollars at 1985 prices) decreased from slightly over half the population to 7.8 per cent. Hard core poverty, defined as households with incomes 50 per cent below the poverty line, and concentrated in rural areas was reduced from 7 per cent in 1985 to about 1-2 per cent in 1998. Growth being the prime engine for poverty reduction notwithstanding, the government also pursued a number of targeted anti-poverty policies whose efficiency has generally been favorably assessed.

Since the late 1970s and early 1980s, a variety of social assistance programs have been administered by the Ministry of Rural Development (for the rural poor), Ministry of National Unity and Social Development (for children, elderly, handicapped etc. in both urban and rural areas), and the Ministry of Education (for students from low-income households). A common characteristic of these programs is that they emphasize one-shot grants and loans rather than current transfers, given that the philosophy of the Malaysian government is against open-ended (cash) welfare that may encourage idleness and dependency. These programs are in general, well-run and have contributed to poverty reduction, even if the modest size of spending on these programs (0.3 per cent of GDP in 1997) means that while they were significant at the margin, they have by no means been the key instrument for poverty reduction. This situation however, must be reviewed for the medium term, given that changing demographic trends and consumption patterns (as a result of increasing affluence) may necessitate a more substantial and formalized social safety net to compensate for weakening informal systems of support.

In addition to social assistance, the social protection framework also includes labor policies affording protection to workers through a severance pay requirement, working conditions standards, and a workmen's compensation fund for invalidity and disablement benefits. There is no unemployment insurance scheme because the Government is concerned about the disincentives for work that such a scheme may bring. There are several pensions schemes of which the primary ones are the: (i) Employee Provident Fund covering almost the entire work force of 8 million, half of which are currently active contributors; (ii) Pension Trust Fund responsible for pensions paid to retired civil servants; and (iii) Armed Forces Fund covering pensions to retired military personnel.

Malaysia’s effective fiscal policy coupled with its strong financial and institutional framework have helped buffer the immediate impacts of the financial crisis. Nevertheless, as the crisis unfolds, the social impacts are becoming increasingly significant. The ringgit has shown considerable volatility since July of 1997, depreciating by 55 percent. The rate of growth in real GDP has decreased from 7.8 percent in 1997 to a projected negative 4.8 percent in 1998.

Preliminary data indicate that the adverse social impacts of the crisis will be substantial. Assuming a real GDP decline of 5 per cent in 1998 which translates into a drop in real per capita income of about 7.5 per cent, the poverty headcount will rise from about 5 to 6.5 per cent, resulting in an additional 300,000 persons joining the ranks of the officially poor. The poor will also be negatively impacted by the price effect of the crisis, given that food prices have risen faster than other components of the CPI, and food accounts for almost 45 per cent of expenditures of the lowest quintile versus only 35 per cent for an average household. The economy has gone from full employment (the unemployment rate fell to 2.5 per cent of the work force in 1997), to an unemployment rate of 4.5 per cent in mid-1998 that is expected to reach 6.5 per cent (about 520,000 people) by the end of the year. Wage rates are expected to be flat or falling. Inflation has increased from about 3 per cent last July to 7.8 per cent in mid-1998. Health and education utilization data indicate a substantial switch in demand for services from the private to the public sector. As public revenues have declined, cutbacks in Government spending have begun to affect services, despite efforts to protect programs providing essential social services. Protecting these programs will be critical not only for the rural poor (the traditional target group), but also for the "new" urban poor. The implication of today’s greater urbanization and "formalization" of the Malaysian economy is that a much greater share of people who have been adversely affected by the crisis are likely to be in the urban areas, and the traditional cushion of "reverse migration" (going back to the countryside), while still feasible for some, will by no means be available to all urban laborers who may be retrenched.

In view of these circumstances in July 1998, the Government announced a National Economic Recovery Plan to bring the economy back on a positive growth path. One of the six strategic objectives of the National Economic Recovery Plan is to continue the country’s equity and socio-economic agenda which had been instrumental during the past two decades, in maintaining social stability in the country. In line with this objective, the Government has proposed a plan of action to mitigate the adverse social impacts of the crisis which threaten to reverse the gains made in the past. The Government has approached the Bank for help in strengthening this plan and implementing it through a Social Protection Project. Specifically, this Project will have to be developed on a rapid timetable in order that it is able to support the Government’s compensatory and fiscal stimulus measures in the near term, aimed at protecting the poor and vulnerable groups from the emerging adverse social impacts of the crisis.

II. Project Objectives

The project has two main objectives. The major objective of the project is to support the National Economic Recovery Plan strategy for ameliorating the adverse impacts of the economic crisis on the poor and near poor through maintaining their welfare and access to as well as use of, essential social services, particularly by those groups located in the three poorest states (Kelantan, Trengganu and Sabah). Essential social services are broadly defined to include basic health services which are predominantly used by the poor, social assistance to the needy (the hard core poor, school children from poor households, disadvantaged groups including indigenous peoples), as well as financial assistance (i.e., micro-credit) to the poor for employment/income generating activities. Given that there is no unemployment insurance and hardly any family-related transfers in Malaysia, these essential social services are de facto, the social safety net in Malaysia. A second objective of the project is to strengthen the monitoring of poverty over time as well as of the effectiveness of programs designed to reduce poverty and to mitigate the adverse impact of the crisis, particularly those supported by the project.

III. Project Description

The project consists of six independent components. The four primary components support carefully selected on-going government programs developed within four line Ministries and consist of: The Rural Development and Poverty Alleviation Component; The Social Support for Poor Students Component; The Health and Population Services Component; and The Social Assistance for Disadvantaged Groups Component. In addition, a Poverty Monitoring and Impact Assessment Component supports the Social Protection Project’s institutional strengthening objective. Finally, Project Management Component has been designed to support the operation of the Project Management Office, and its responsibilities for oversight and monitoring of disbursements, financial management as well as special account management and training, procurement oversight and training, project reporting, and support to the Project Steering Committee.

A. Rural Development and Poverty Alleviation (Ministry of Rural Development)

(i) Integrated Poverty Village Development Program (US$ 22.76 million). This sub-component will support in the poverty districts, income generation activities, housing rehabilitation, and in-situ community development for villages with a high percentage of hard core poor.

(ii) Rural Infrastructure Program (US$145.68 million). This sub-component will finance labor intensive, community-based projects to: (i) improve the quality of village roads linking villages in poverty districts to market centers; and (ii) provide electric power to villages in remote areas.

(iii) Early Childhood and Preschool Education Program (US$33.14 million). This sub-component will support the construction and upgrading of preschools in villages located in the poverty districts, as well as the pre-service and in-service training of teachers for the preschools.

(iv) Rural Micro-Credit Program (US$14.77 million). This sub-component will provide funding to the Amanah Ikhtiar Malaysia (an NGO) to expand its rural micro-credit program.

(v) RISDA Smallholder Revitalization Program (US$19.00 million). This program will promote grouped retapping and improved technology transfer for abandoned urban periphery rubber holdings as well as under-tapped areas in poverty districts

B. Social Support for Poor Students (Ministry of Education)

(i) Supplementary Nutrition Program for Primary School Children (US$65.92 million). This program will provide a rice-based meal and milk to primary school children from poor families whose household income is below Rm 750 per month.

(ii) Textbooks Loan Program (US$55.34 million). This program will finance the purchase of textbooks which are loaned out to primary and secondary school children from poor families whose household income is below Rm 1,000 per month.

C. Health and Population Services (Ministry of Health)

(i) Rural Community And Health Clinics Program (US$32.37 million). This will support the construction and equipping of community health clinics in poverty districts.

(ii) Rural Water And Sanitation Program (US$15.57 million). This program will provide safe drinking water supplies and sanitary latrines for rural households in poverty districts.

(iii) Essential Drugs Program (US$55.07 million). This sub-component will finance the purchase of essential drugs for public hospitals and health clinics (in both rural and urban areas) used primarily by low income groups.

(iv) Surveillance Of Communicable Diseases (US$1.79 million). This sub-component will strengthen the control of communicable diseases, particularly in the Orang Asli (indigenous people) community.

(v) Family Planning Services (US$1.23 million). This sub-component will finance the purchase of contraceptive supplies, production and distribution of IEC materials, and the training of health professionals in related family planning skills.

D. Social Assistance for Disadvantaged Groups (Ministry of National Unity & Social Development)

(i) Support for NGOs (US$28.48 million). This sub-component will support capacity building measures of NGOs that work in coordination with the Ministry's efforts to deliver social services to disadvantaged groups. It also provides support to small grants scheme for NGOs providing economic and social services to the poor and near poor.

(ii) Support for Women (US$17.37 million). This sub-component will finance the construction and operation of Women's Service Centers which provide training and counseling services, and temporary shelter to abused women.

E. Poverty Monitoring and Impact Assessment (Economic Planning Unit and four line Ministries)

(i) Poverty Monitoring (US$0.82 million). This sub-component will finance: (i) an enhanced household income survey during the first quarter of 1999 to collect information on how the crisis has impacted families over the past 12 months; and (ii) capacity building measures for the Department of Statistics and the Economic Planning Unit on monitoring poverty across time.

(ii) In-depth Impact Evaluations (US$0.71 million). This sub-component will finance an in-depth assessment by the Economic Planning Unit of three major anti-poverty programs supported under the project.

(iii) Beneficiary and Participatory Assessments (US$0.38 million). This sub-component, to be implemented by the four line ministries, will fund qualitative beneficiary and national participatory (baseline, mid-term and final) assessments to monitor the impact of the programs supported by the project, as well as the crisis impacts being addressed by the Project.

F. Project Management (US$0.09 million)

This component will support the operation of the Project Management Office, and its responsibilities for oversight and monitoring of disbursements, financial management as well as special account management and training, procurement oversight and training, project reporting, and support to the Project Steering Committee.

IV. Project Implementation and Monitoring

Executing Agencies: (i) Ministry of Rural Development will execute the Rural Development and Poverty Alleviation component; (ii) Ministry of Education will execute the Social Support for Poor Students component; (iii) Ministry of Health will execute the Health and Population Services component; (iv) Ministry of National Unity and Social Development will execute the Social Assistance for Disadvantaged Groups component; (v) the Economic Planning Unit, Department of Statistics and the four line ministries will execute the Poverty Monitoring and Impact Assessment component; and (vi) Implementation Coordination Unit under the Prime Minister's Department, will execute the baseline, mid term and final National Participatory Assessments.

Project Management: A Project Management Office attached to the Economic Planning Unit, will carry out day-to-day project coordination with the Economic Planning Unit sections concerned, and with the Project Implementation Units in each of the four line ministries. Specifically, the Project Management Office will oversee project finances, accounting, and project procurement as carried out by each implementing agency, contract for regular audits, collect/compile reports on the quantitative and qualitative assessments, and prepare quarterly monitoring reports on Project implementation for the Project Steering Committee, and the World Bank. Project Implementation Units have already been established in the Ministry of Education and the Ministry of Health for externally-funded projects. In the case of the Ministry of Rural Development and Ministry of National Unity and Social Development, new Project Implementation Units will have to be set up.

Project Oversight: The Government will appoint a Project Steering Committee to: (i) oversee project implementation as carried out by each implementing agency; and (ii) based on feedback from the household income survey, in-depth impact evaluations as well as beneficiary and national participatory assessments, make mid-course adjustments and/or reallocation of Project resources, as appropriate. The Deputy Director-General, Macroeconomic Policy of the Economic Planning Unit, will serve as the overall Project Director and chairperson of the Project Steering Committee. Members of the Project Steering Committee will include representatives of the Ministry of Finance, the Accountant General's Office, the Implementation Coordination Unit, the four line ministries, and at least two non-government institutions. The Project Management Office will report to the Project Director, who in turn, will report to the Project Steering Committee. Finally, an Advisory panel comprising government and non-government experts will be appointed to assure the quality of the poverty monitoring (quantitative and qualitative) reports and therefore, their usefulness for guiding the Project Steering Committee in resource reallocation decisions.

Accounting, Financial Reporting and Auditing Arrangements: Four special accounts will be operated corresponding to each of the implementing agencies/ministries. These will be opened under the authority of the Ministry of Finance which will exercise overall supervision over the system including authorizing the establishment of the accounts, approving signature authority and receiving copies of the withdrawal and replenishment applications for ex post review. The implementing units will have responsibility for payments out of the individual accounts and for the preparation of the withdrawal and replenishment requests. The Project Management Office will contract independent auditors to conduct periodic accounting and financial audits of the implementing agencies.

Monitoring and Evaluation Arrangements: The Project components will be monitored at the level of the implementing agencies on a program by program basis. For each program , the internal efficiency, output, and outcome indicators will be collected by the implementing agencies and reported to the Project Management Office for review and checks before preparing quarterly reports to the Bank. Project wide indicators (i.e., budget and spending levels of the four ministries, regional targeting coefficient, effective use of quantitative and qualitative monitoring instruments) will be compiled by the Project Management Office based on examination of government financial reports, independent technical field reviews, and findings of the beneficiary and participatory assessments

V. Project Financing

The total cost of the project including contingencies for the entire project is estimated at US$510.483. This includes: US$106.02 for the Health and Population Services Programs; US$235.35 for The Rural Development and Poverty Alleviation Programs; US$121.26 for the Social Support for Poor Students Programs; US$45.85 for the Social Assistance for the Disadvantaged Groups Programs; US$1.91 for the Poverty Monitoring and Impact Assessment component; and US$.09 for Project Management

The Project Management Component expects co-financing from UNDP and the Asia Crisis Fund (Australia). OECF will be approached for co-financing of selected line agency programs.

VI. Sustainability

A key criterion for selection of programs for Project financing is the requirement that they are existing programs with established budgetary mechanisms to assure maintenance and operation of the assets created. The hard core poverty program for e.g., has been in existence since the early 1980s. Many other programs (essential drugs, social welfare for disadvantaged groups, supplementary nutrition for school children, family planning services) are financed through annual operating budgets whose funding will resume from general revenues when the economy stabilizes in the mid term. During project appraisal, institutional capacities to manage and maintain the assets to be financed by the Project (village roads, safe drinking water systems, medical equipment, etc.), will be carefully assessed.

VII. Lessons Learned from Past Operations

The Project incorporates lessons from similar programs in other crisis-affected countries. These lessons include: 1. focusing on [Note: Lessons learned from completed and ongoing projects financed by the Bank and other development agencies.]heTheTselected, established government programs facilitates effective implementation and supervision (Bank financing is directed at four sectoral programs); (ii) upstream agreement on procurement and financing accounting practices prevents implementation delays; (iii) allowing for flexibility in project design and ability to reflect emerging implementation experience based on continued monitoring of both the performance of Project interventions and evolving crisis impacts; (iv) tapping institutional capacity of all agencies as well as community groups (based on comparative advantage) for cost-effective and speedy delivery of services; and (vi) the importance of high standards of transparency and accountability and the need for rigorous supervision to assure good governance as well as to resolve bottlenecks quickly (critical for rapid disbursement and near term impact).

VIII. Poverty Category
Program of Targeted Intervention (PTI)

IX. Environmental Aspects

The Project is assigned a "B" environmental classification because the only sub-component with significant environmental implications is the village roads program. This sub-component involves the upgrading of village roads and/or their link to existing rural roads and rural growth centers. The environmental impact however, is expected to be minimal. First, the village roads will retain existing alignments and would essentially improve surfacing (track to gravel or gravel to tar) which might involve some widening. It will not, however, involve heavy earthworks, forest cutting or major distortions to drainage systems. Second, no new roads will be built into remote areas as the connections will be from village to village, and to higher designed road systems. There is therefore, minimal risk that they would encourage destruction of pristine conservation areas or vulnerable environments like head watershed areas. Given the minimal adverse impacts described above, there is no need for a full environmental assessment. The Project will, however, require that the Ministry of Rural Development provide the Bank, their Village Roads Design Guide for review and approval by the Bank.

X. Program Objective Category
To be determined.

XI. Contact Point:

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Note: This is information on an evolving project. Certain activities and/or components may not be included in the final project.

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Annex

Because this is a Category B project, it may be required that the borrower prepare a separate EA report. If a separate EA report is required, once it is prepared and submitted to the Bank, in accordance with OP 4.01, Environmental Assessment, it will be filed as an annex to the Public Information Document (PID) .

If no separate EA report is required, the PID will not contain an EA annex; the findings and recommendations of the EA will be reflected in the body of the PID.