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Case studies of policy coherence initiatives in developing Asia

Edited by: Phu Huynh and Aurelio Parisotto
August 2012

Department of Policy Integration
Regional Office for Asia and the Pacific
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Huynh, Phu; Parisotto, Aurelio

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Preface

The International Labour Organization (ILO) is devoted to advancing opportunities for women and men to obtain decent and productive work. It promotes rights at work and encourages decent employment opportunities, enhanced social protection and strengthened dialogue processes in handling work-related issues. As countries in the Asia-Pacific region continue to recover from the global economic crisis, the ILO Decent Work Agenda and the Global Jobs Pact provide critical policy frameworks for strengthening the foundation for a more inclusive and sustainable future.

Increasingly, the role of integrated and coordinated policies is being recognized around the world as essential for ensuring sound economic, employment and social development outcomes. At the 15th Asia and the Pacific Regional Meeting in December 2011, representatives of governments and employers’ and workers’ organizations from the Asia-Pacific member States of the ILO agreed on a key policy priority of “working to ensure that decent work and full employment are at the heart of policies for strong, sustainable and balanced growth and inclusive development”.

Given the importance of moving to such a new growth model, the ILO Regional Office for Asia and the Pacific commissioned a series of case studies that examine policy coherence initiatives in developing Asia. This paper highlights four national efforts towards greater coherence and coordination, ranging from more institutional cooperation in poverty reduction programmes to integrated macroeconomic and social protection policy responses to the global economic crisis. Each case study features lessons learned that other countries can consider when pursuing similar initiatives.

This paper is part of the ILO Asia-Pacific Working Paper Series, which is designed to enhance our understanding of decent work issues, stimulate their discussion and encourage knowledge sharing and further research that will promote decent work in Asia and the Pacific.

Alcestis Abrera-Mangahas
Officer-in-Charge
Regional Office for Asia and the Pacific

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Acknowledgements

This paper is a compilation of four case studies that highlight initiatives towards greater policy coherence and coordination in developing Asia. The case studies were conceptualized and coordinated by Gyorgy Sziraczki, Director of the ILO Country Office for Viet Nam and formerly Senior Economist of the ILO Regional Office for Asia and the Pacific, Aurelio Parisotto of the ILO Department of Policy Integration and Phu Huynh of the ILO RO-Asia and the Pacific. Komara Djaja, University of Indonesia and formerly of the Indonesia Coordinating Ministry of Economic Affairs, prepared the Indonesia case study on coordination of macroeconomic policies and poverty reduction programmes. Pushkar Bajracharya, Tribhuvan University, conducted the Nepal case study on integrating employment targets into the national development plan. Fernando T. Aldaba, Ateneo de Manila University, and Alvin P. Ang, University of Santo Tomas, led the case study on coherence and convergence in social protection programmes in the Philippines. Nguyen Ngoc Anh, Development and Policies Research Centre, and Nguyen Thang, Centre for Analysis and Forecasting, co-authored the Viet Nam study on coordinated macroeconomic, employment and social protection policy responses to the global economic crisis of 2008–09. Extensive peer review and comments by Sukti Dasgupta, Kee Beom Kim and Andrea Salvini of the ILO helped in finalizing the case studies, and their contributions are gratefully acknowledged.
Abstract

Recognizing the relationship between macroeconomic, employment and social protection policies and their link to poverty reduction and inclusive development, some countries in developing Asia have pursued various initiatives towards greater policy coherence and institutional coordination in recent years. These varied efforts include better alignment of national poverty reduction programmes in Indonesia, the integration of employment targets into the national development plan in Nepal, convergence in social protection programmes in the Philippines and coordinated macroeconomic, employment and social protection policy responses to the global economic crisis of 2008–09 in Viet Nam. Strengthening the coherence of policies and programmes is a complicated and arduous challenge. Various factors can be instrumental in the process, including strong political will and leadership, broad stakeholder engagement and support, rigorous research, information and analysis, and integrated monitoring and evaluation.

About the authors

Komara Djaja, University of Indonesia and formerly of the Indonesia Coordinating Ministry of Economic Affairs, prepared the Indonesia case study on coordination of macroeconomic policies and poverty reduction programmes.

Pushkar Bajracharya, Tribhuvan University, conducted the Nepal case study on integrating employment targets into the national development plan.

Fernando T. Aldaba, Ateneo de Manila University, and Alvin P. Ang, University of Santo Tomas, led the case study on coherence and convergence in social protection programmes in the Philippines.

Nguyen Ngoc Anh, Development and Policies Research Centre, and Nguyen Thang, Centre for Analysis and Forecasting, co-authored the Viet Nam study on coordinated macroeconomic, employment and social protection policy responses to the global economic crisis of 2008–09.

The responsibility for opinions expressed in articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them, or of any products, processes or geographical designations mentioned.
### Abbreviations and acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>4Ps</td>
<td>Pantawid Pamilyang Pilipino Programme (Philippines)</td>
</tr>
<tr>
<td>AusAID</td>
<td>Australian Agency for International Development</td>
</tr>
<tr>
<td>GDP</td>
<td>gross domestic product</td>
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<tr>
<td>ILO</td>
<td>International Labour Organization</td>
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<tr>
<td>NMDP</td>
<td>National Medium-Term Development Plan (Indonesia)</td>
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<tr>
<td>NPC</td>
<td>National Planning Commission (Nepal)</td>
</tr>
<tr>
<td>PNPM Mandiri</td>
<td>National Programme for Community Empowerment (Program Nasional Pemberdayaan Masyarakat, Indonesia)</td>
</tr>
<tr>
<td>RIM</td>
<td>Rapid Impact Assessment Survey</td>
</tr>
<tr>
<td>SDC</td>
<td>Social Development Committee (Philippines)</td>
</tr>
<tr>
<td>TKPK</td>
<td>Coordinating Team for Poverty Reduction (Tim Koordinasi Penanggulangan Kemiskinan, Indonesia)</td>
</tr>
<tr>
<td>TNP2K</td>
<td>National Team for Acceleration of Poverty Reduction (Tim Nasional Percepatan Penanggulangan Kemiskinan, Indonesia)</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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Overview

Phu Huynh and Aurelio Parisotto

Policy coherence and coordination is critical to ensure that broad macroeconomic policies support—and do not undermine—efforts to create productive employment and to strengthen social protection coverage. In turn, sound employment and social protection policies, based on the principles of decent work, can be instrumental in driving economic growth, combating poverty and addressing inequalities. Cooperation and dialogue among ministries of labour, finance and planning, central banks, workers’ and employers’ organizations and other stakeholders must underpin the work they do to formulate and implement coherent policies.

There is no uniform definition of policy coherence. At a basic level, it can entail the shepherding of various institutions, systems and actors involved in the policy process to collaborate and work together. A further distinction is made between policy consistency—avoiding policies that conflict with each other in achieving a given objective—and policy coherence—the “systematic promotion of mutually reinforcing policy action across government departments and agencies creating synergies towards achieving the defined objective”\(^1\). In a simplified approach, this paper refers broadly to policy coherence in all three senses.

Policy-making is a complex process. It has numerous dimensions, due to the many goals that have to be pursued in parallel. Sometimes it implies striving for a second-best option in order to balance conflicting requirements and placate the interests of diverse constituencies. Policy-makers may operate in an uncertain and evolving environment, with limited information and far from perfect knowledge of the impacts and trade-offs associated with a given policy option. They may need to set and promote inflexible targets to facilitate monitoring and strengthen accountability, or they may prefer to retain flexibility to allow for a revising of implementing procedures in light of changing circumstances.

This paper presents four case studies on policy coherence from developing Asia that examine the design or implementation of a major policy initiative that addressed a significant employment or social protection gap. The studies have assessed the successes and challenges of each intervention in relation to the scope of broader macro policies, the structure of underlying institutional arrangements and the political economy. Specifically, the four case studies cover the systematic efforts to better align national poverty reduction programmes in Indonesia, the integration of employment targets into the national development plan in Nepal, convergence in social protection programmes in the Philippines and coordinated macroeconomic, employment and social protection policy responses to the global economic crisis of 2008–09 in Viet Nam. Although the selected policy initiatives are varied, reflecting the uniqueness of each country context and policy challenge, the case studies highlight good examples, insights and lessons that can be adopted by other countries.

The case studies also illustrate some common trends that have taken shape in Asia in recent years. First, they provide a glimpse of an ongoing shift in policy emphasis towards greater balance between economic and social objectives. After focusing mainly on economic growth for many years—with public spending on social protection in Asia among the lowest in the world—governments in the region are showing greater focus and urgency towards addressing long-standing employment and

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social deficits.\textsuperscript{2} Policy frameworks have been broadened to encompass employment and social targets – and not just economic variables, with greater attention to synergies.

Second, the interest of top political leadership to achieve the employment and social objectives, as noted in all four case studies, is another indication of the compelling policy shift. Existing administrative and governance structures do not fit the new policy model, and thus bureaucracies and institutions are adapting and reorganizing their systems and processes towards greater coherence and coordination. In some instances, such as in Indonesia, a special unit or department has been created with the responsibility of reporting to the top political leadership and is in charge of overall coordination. This has been essential to overcoming institutional boundaries and the fragmented interests of ministries and related constituencies.

Third, the new direction towards greater balance in policy-making was amplified by the global economic crisis of 2008–09. Although millions of Asian workers and their families escaped extreme poverty in recent decades, the crisis underscored the continued uncertainty and risks they face, with many of those families remaining quite exposed to any kind of economic, social and environmental shock. Thus, it is important to have social protection systems that work as an automatic stabilizer during an economic slowdown as well as established policies and schemes that can be rapidly scaled up in a counter-cyclical manner. A key insight from the Viet Nam case is the necessity of preserving fiscal space during bouts of economic prosperity that can then be used to bolster the economy during crisis periods. Furthermore, given a fragile recovery from the crisis, macro policies in support of employment and social protection should be sustained until the recovery is firmly rooted, with the aim of fiscal sustainability over the medium and long terms.

Fourth, governments continue to adopt new approaches to the policy process that help strengthen the quality of outcomes. The case studies all highlight the invaluable practice of engaging workers’ and employers’ organizations, the academic community and technical experts during policy design, which is a marked and positive contrast to the past approach of the Asian developmental state. In addition, there are some signs of a shift towards greater evidence-based, social policy-making, with more reliance on rigorous data and analysis, quantitative targets and independent research studies. Where technical resources are limited, there have been interventions to strengthen important policy-making institutions. For Indonesia and Philippines (and Nepal going forward), the issue of decentralization will require further strengthening of technical capacity and coordination at the decentralized levels as well.

Finally, international organizations have a significant role in the policy coherence drive, especially where national capacities are weak. The development partners primarily engage in the process through technical assistance in conducting research and analysis, convening policy dialogue among stakeholders and contributing to the monitoring and evaluation process, which can also bring the added potential for greater transparency. To be more effective, development partners must embed coherence of economic and social policies into their own objectives and to align their strategies towards harmonized development assistance and partnership.

\textsuperscript{2} Public spending on social protection in Asia and the Pacific was only 5.3 per cent of GDP, compared with 25.1 per cent in Western Europe, 16 per cent in North America, 13.6 per cent in North Africa and 10.2 per cent in Latin America and the Caribbean. See: International Labour Office: \textit{Building a sustainable future with decent work in Asia and the Pacific: Report of the Director-General} (Geneva, 2011), p. 18, http://www.ilo.org/wcmsp5/groups/public/@ed_norm/@relconf/documents/meetingdocument/wcms_151860.pdf (accessed 1 Aug. 2012).
1. Indonesia: Policy coherence in poverty reduction measures
Komara Djaja

1.1 Introduction and background

Since the Asian financial crisis in 1997–98, Indonesia has achieved steady economic progress and continued improvements in living standards. Gross domestic product (GDP) growth has averaged 5.3 per cent each year since 2000, reaching 6.2 per cent in 2010 and 6.5 per cent in 2011. From 2000 to 2010, per capita income increased from US$773 to US$1144, or by 4 per cent on average annually. These positive trends have taken place despite the fragile recovery from the 2008–09 global financial and economic crisis.

Macroeconomic growth trends and stability have driven Indonesia’s efforts in addressing poverty. In the past decade, the national poverty rate decreased significantly, from 23.4 per cent in 1999 to 13.3 per cent in 2010 and 12.5 per cent in 2011. The absolute number of people living below the poverty line, however, is still large, at 31 million in 2010 and 30 million in 2011. There also has been a general deceleration in the pace of poverty alleviation in the country over the past few years. As well, the number of households living just above the poverty line that remain vulnerable to falling into poverty has increased in recent years, underscoring the persistent challenge of strengthening protection from economic and social crises and shocks.

Now in his second term (which began in 2009), President Susilo Bambang Yudhoyono has initiated several strategic policy initiatives to improve the well-being of more Indonesians. The National Medium-Term Development Plan 2010–14 stipulates that the ultimate objective of the country’s national development agenda is the achievement of a better life for all Indonesian citizens. Four strategies – pro-growth, pro-job, pro-poor and pro-environment – have been instituted, with the expected outcome of improved welfare across the country’s population and hence a reduction in the number of poor people.

This chapter describes the concerted effort of the Indonesian Government to eradicate poverty. Specifically, it looks at the macroeconomic policy framework and Presidential Decree 15/2010, which represents the high-level drive towards better coordination and integration of institutions, policies and programmes aimed at addressing the long-standing poverty challenge. The chapter also includes analysis of the situation, an assessment of the policy coherence initiative and useful lessons learned.

1.2 Macroeconomic policy coordination

A well-managed and coordinated macroeconomic policy framework is essential for poverty reduction efforts and achieving national development goals. The main objectives of the macroeconomic policies in Indonesia are: i) achieve high economic growth; ii) maintain macroeconomic stability; and iii) work towards a more equitable society. In the current era of reform and the context of greater public

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1 This chapter is an edited version of a background paper prepared by Komara Djaja of the University of Indonesia and formerly of the Coordinating Ministry of Economic Affairs of the Republic of Indonesia.

2 CEIC Global Database, referencing Badan Pusat Statistik (BPS-Statistics Indonesia).


participation, the aim of Indonesia’s macroeconomic policies increasingly has been recognized as inclusive growth.

In Indonesia, three institutions are responsible for designing and implementing the macroeconomic policies: the Ministry of Finance, the Ministry of Development Planning (or the National Development Planning Agency) and Bank Indonesia, which is the central bank of Indonesia. Each year, a few months before the Government must submit the annual budget to the Parliament, these three institutions collaborate, discuss and determine the budget and other macroeconomic assumptions and targets, such as the economic growth target, the Bank Indonesia’s interest rate, the exchange rate, inflation targets, the oil price and subsidies, for example. The reference point for planning these macroeconomic targets is the National Medium-Term Development Plan (NMDP).

1.2.1 Monetary policy

As stipulated in Law 23/1999, which was amended in Law 6/2009, Bank Indonesia has the mandate to maintain stability of the monetary system, manage the payment system and oversee the banking sector. In addition to conducting monthly Board of Governor’s meetings, Bank Indonesia has the authority to invite government ministers to a joint forum in which they and the monetary authority exchange information, assess the latest economic situation and discuss strategic policy issues. Those who regularly attend that forum are the Coordinating Minister for Economic Affairs, the Minister of Finance and the Minister of Development Planning. Depending on the topic of discussion, others will include the Minister of Agriculture when there is an alarming domestic food crisis or the Minister of Mining and Energy when the Government is considering an increase in the fuel price.

Inflation targeting is a critical element of monetary policy management, and controlling inflation is also very important for poverty alleviation. A large portion of poor households’ expenditure is allocated for staple foods, which accounts for almost 20 per cent in the weighted general price index. Thus, low price inflation is desirable not only for monetary stability but also for poverty reduction efforts. Because inflation has a direct impact on the purchasing power of poor households, the regional offices of Bank Indonesia with other related parties (the Ministry of Trade and local government counterparts, for example) intensively monitor the local and regional inflation rates, along with such other economic and monetary indicators as credit expansion, sector performance and regional GDP.

1.2.2 Fiscal policy

Indonesia’s fiscal policy is also aligned and coherent with the four strategic goals outlined in the NMDP. The 2011 government budget, for example, aimed to support: i) high-quality economic growth through, among other areas, infrastructure development; ii) social security through more accessible education and health care; iii) public empowerment through the National Programme for Community Empowerment (PNPM Mandiri) and the Family Hope Programme, among others; iv) bureaucracy reform; v) state apparatus and pensioner wealth improvement; vi) more effective subsidy

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6 In recent years, the inflation rate has fluctuated widely in Indonesia. Due to international food price surges, it reached 11.1 per cent in 2008. The Government then decided that the administered price (the price of strategic commodities, such as fuel, gas and electricity and public transport, among others) should be kept low. As a result, the inflation rate was only 2.8 per cent in 2009. Increasing pressure on food prices in 2010 lifted the inflation rate to 7 per cent, although the strong rupiah and the policy decision to not increase the administered price eventually lowered the inflation rate to only 3.8 per cent in 2011. Source of end-of-period consumer price inflation data: BPS-Statistics Indonesia: Trends of selected socio-economic indicators of Indonesia, op. cit.
budget allocation; and vii) punctual loan interest payments. In particular, the pro-poor strategy closely related to the first three objectives.

Despite the global economic crisis, Indonesia has maintained prudent fiscal management in recent years. There has been a strong commitment to fiscal consolidation aimed at reducing the debt-to-GDP ratio, diversifying the government debt profile and reducing reliance on international capital markets. Maintaining a manageable fiscal deficit has been a priority in order to ensure fiscal sustainability. Indeed, Indonesia’s budget deficit relative to GDP has been relatively low compared with other countries: 1.6 per cent in 2009, 0.7 per cent in 2010 and 2.1 per cent in 2011.

1.3 Strategic coherence in poverty reduction

The NMDP 2010-14 is the overarching national policy framework that integrates the macroeconomic policy objectives and the goal of improved welfare for the Indonesia people. It includes three explicit quantitative forecasts: i) annual GDP growth of 6.3–6.8 per cent during the 2010–14 period; ii) an open unemployment rate of 5–6 per cent; and iii) a poverty rate of 8–10 per cent by the end of the five-year period.

To achieve the poverty reduction targets outlined in the NMDP 2010-14, Presidential Decree 15/2010 was issued, which underlined the need for integrated and coordinated interventions. To accelerate poverty reduction, the Decree called for: i) well-designed, systematic and comprehensive steps and approaches; ii) integrated coordination among all actors (government, private sector and communities) in policy formation and implementation; iii) proper targeting, planning, programme harmonization, monitoring and evaluation and budget effectiveness; and iv) strengthened institutions at the national, regional and local levels.

Additionally, the President stipulated that the Government establish a National Team for Acceleration of Poverty Reduction (Tim Nasional Percepatan Penanggulangan Kemiskinan, or TNP2K). The objective of the TNP2K is to harmonize all poverty reduction programmes and activities across ministries and institutions and to guide and direct their implementation. The TNP2K reports directly to the President of Indonesia and consists of relevant ministers and representatives from communities, the private sector and other stakeholders appointed by its Chairman, the Vice-President of Indonesia. The TNP2K is assisted by the Executive Secretary who reports to the Chairman of the TNP2K and is responsible for: i) developing policies and programmes; ii) setting targets; iii) building and maintaining a database of information; iv) monitoring and evaluation; v) conducting analysis; and vi) providing technical and administrative support to the TNP2K. The TNP2K is also supported by various working groups that help coordinate and guide the implementation of the poverty reduction programmes.

Given the country’s drive towards decentralization and greater local autonomy, Presidential Decree 15/2010 also stipulated that to better harmonize poverty reduction efforts at the provincial and district or city levels, a Coordinating Team for Poverty Reduction (Tim Koordinasi Penanggulangan Kemiskinan, or TKPK) should be established. At the provincial level, the vice governor chairs the TKPK and reports to the governor. At the district or city level, the vice mayor chairs the TKPK and

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8 ibid.
reports to the mayor. The tasks of the TKPK are almost similar to those of the national TNP2K, but the scope is limited to the provincial and district or city levels.

In harmonizing and coordinating poverty reduction interventions across ministries and agencies, the TNP2K regrouped all poverty reduction programmes into four main clusters:

- **Cluster I: Integrated social assistance for poor households or families.** The main objective is to help poor families escape the poverty trap specifically by increasing their access to basic services, such as health, education, clean water and proper sanitation. The programmes under Cluster I:
  a) Conditional Cash Transfer Family Hope Programme (Program Keluarga Harapan, or PKH);
  b) Assistance for School Operation (Bantuan Operasional Sekolah, or BOS);
  c) Scholarship for the Poor (Bantuan Siswa Miskin, or BSM); and
  d) Assistance for Community Health Programme (Jamkesmas); and
  e) Rice for the Poor Programme (Raskin).

- **Cluster II: Poverty reduction instruments through community empowerment.** The main objective is to increase the living standards of communities and expand the capacity and develop opportunities of the poor. The Cluster II programmes entail:
  a) National Programme for Community Empowerment – Core (Program Nasional Pemberdayaan Masyarakat, or PNPM Inti), which consists of:
     i. PNPM Mandiri–Rural;
     ii. PNPM Mandiri–Urban;
     iii. Programme for Regional Social-Economic Infrastructure Development ; and
     iv. Accelerated Development for Backward and Special Regions.
  b) National Programme for Community Empowerment – Supporting (PNPM Penguatan), which is essentially the PNPM but based on an economic sector approach to support poverty reduction, such as in agriculture, small industry, trade and services.

- **Cluster III: Poverty reduction through empowerment of micro-enterprises.** The main objective is to increase the availability of and access to financial resources. There are two programmes under Cluster III:
  a) Micro-credit for People (Kredit Usaha Rakyat, or KUR); and
  b) Micro-credit for Collective Enterprises (Kredit Usaha Bersama).

- **Cluster IV: Coordinating Team for Enhancing and Extending the Pro-People Programme.** This is a new policy initiative in which either the Government is involved directly in producing some basic services needed by the poor or indirectly through regulation or price intervention. There are six related poverty programmes in this cluster:
  a) Programme for Inexpensive Housing for the Poor;
  b) Programme for Affordable Public Transport;
  c) Programme to Provide Clean Water;
  d) Programme to Increase the Availability of Electricity for the Poor;
  e) Programme to Increase the Welfare of Fishermen; and
  f) Programme to Increase the Welfare of Urban Poor Communities.
1.4 Initial achievements and outcomes under the TNP2K

Although further tracking and evaluation of programme outcomes will be essential in the coming years to ensure progress towards the national poverty alleviation targets, the preliminary results of the programmes now coordinated by the TNP2K are promising. The following highlights some of the achievements.

The Conditional Cash Transfer Family Hope Programme (Program Keluarga Harapan, or PKH) under Cluster I began in 2007 and supports chronically poor households who meet one of the following conditions: have a child aged 6–15 years; have a child younger than 18 years who has not completed primary school; have a child aged 0–6 years; or have a pregnant or lactating mother. Cash transfers are made to households on the condition that certain health and education obligations are met. The Ministry of Social Affairs is the implementing agency, and the post office manages the transfer of funds.

In 2011, the PKH assisted around 1.1 million recipient households across 25 provinces. The programme’s administration has improved significantly; for example, through the use of an online system to verify targeted recipients, and the frequency of the disbursement of payment has increased to four times each year. Other administrative and technical innovations include the use of savings accounts through the post office to facilitate the payment process.

The Rice for the Poor Programme (Raskin), also under Cluster I, provides rice subsidies to poor households. In 2011, the programme serviced about 17.5 million households and provided 15 kg of rice to each household, at 1,600 rupiah per kg for the 12-month period.

The National Programme for Community Empowerment (PNPM Mandiri), under Cluster II, began in 2008 to expand the capacity and self-determination of the poor, who directly plan, implement and manage the programme. Each PNPM Mandiri programme consists of four components: community development, community block grants, strengthened local governance and partnership, and technical assistance for programme management and development. In 2011, the PNPM Mandiri was operational in 6,622 subdistricts, with a total budget allocation of 15 trillion rupiah.

The main activities cover access to transportation, health infrastructure (clean water, proper sanitation and public health facilities), education (school buildings, equipment and teaching materials) and other public works. The PNPM Mandiri not only has increased local participation, including of women, in the development process but also has instilled a sense of belonging and ownership within the community so that the maintenance of public facilities built up under the programme is more likely to be sustained.

1.5 Conclusions and lessons learned

Indonesia’s efforts in macroeconomic policy coherence and institutional coordination aimed at greater impact on poverty reduction during the 2010–14 period are still ongoing. The results of these broad initiatives, particularly measures stipulated under Presidential Decree 15/2010, thus cannot yet be measured fully. Nonetheless, the good chance of success is predicated on various principles which the

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Indonesian Government adopted and that provide lessons in policy coherence initiatives for other countries in the region.

1.5.1 High-level political will and commitment

Political will and commitment from the top level of the Government has been critical for mobilizing support for the implementation of NMDP 2010-14 and the initiatives under Presidential Decree 15/2010. With it, all involved actors have had both a clear mandate and a mechanism to execute the overarching poverty reduction strategy.

A week after the new Government was established in 2009, the President instructed the Ministry for National Development Planning to design the medium-term development agenda. A series of consultations were conducted that involved ministries and other actors, including the private sector, think tanks and civil society groups. The draft NMDP 2010-14 was then discussed and adopted by the Parliament. The NMDP 2010-14 provides an overall development framework with explicit poverty reduction targets. From this platform, President Yudhoyono issued Presidential Decree 15/2010 to better integrate and coordinate measures to achieve the poverty reduction goals.

1.5.2 Institutional coordination and oversight

It is essential that one institution is clearly responsible for overseeing the coherence initiative and is strategically mandated to carry out this function. Under the first term of President Yudhoyono (2005–09), the responsibility for overseeing the national poverty alleviation efforts were assigned to the Coordinating Minister for People’s Welfare – despite the important links between economic policy and poverty reduction. Separately, macroeconomic issues were overseen by the Coordinating Minister for Economic Affairs.

With President Yudhoyono’s second term (2009–14), institutional changes were made to strengthen the coordination and impact of the poverty agenda. As stipulated in Presidential Decree 15/2010, the country’s Vice President is the Chairman of TNP2K and is now responsible for overall coordination of all the national poverty alleviation efforts. The First Vice Chair of the TNP2K is the Coordinating Minister of People’s Welfare and the Second Vice Chair is the Coordinating Minister for Economic Affairs. With this structural change, the push from the very top of the Government will likely be more effective and strengthens the mandate for the coordinating agency (the Office of the Vice President) to ensure coherence of all relevant activities across the many line ministries associated with poverty reduction.

Under the TNP2K, the Office of the Vice President is also responsible for coordinating all government expenditures related to the poverty reduction efforts. This arrangement should reduce overlapping tasks and budget allocations among the line ministries. Monthly meetings have been established in the secretariat of the TNP2K, and any emerging issues are reported directly to the Vice President, who also has the authority to convene non-regular meetings as needed.

1.5.3 Clear objectives and targets

In general, all programmes require clear goals, objectives and targets for the medium term (approximately five years), which can then be translated into an annual work plan. The NMDP 2010-14 established medium-term quantitative targets regarding economic growth (annual GDP growth of 6.3–6.8 per cent during 2010–14), unemployment (5–6 per cent by the end of 2014) and poverty
reduction (decrease in the poverty rate to 8–14 per cent by the end of 2014). This framework is the reference point for the development strategies of all ministries. Each year, the Ministry of Development Planning translates the NMDP into a work plan and the Ministry of Finance produces a corresponding budget. All issues related to development policies, especially for poverty alleviation, consequently can be synergized and then operationalized into a coherent work plan for implementation.

1.5.4 An integrated system of monitoring and evaluation

A structured monitoring and evaluation system is very important to track the progress towards the declared goals. Because poverty reduction is one of the top priorities of the current Government, monitoring and evaluation activities are conducted rigorously and regularly. First, there is the Presidential Working Unit of Supervision and Control of Development, which has the major role in tracking the targeted performance and achievements of the line ministries as well as the TNP2K. All off-track targets and problems that the ministries encounter are reported directly to the President.

In addition, the Deputy for Monitoring and Evaluation, within the Ministry of Development Planning, also monitors the development targets, including those related to poverty reduction. These efforts are conducted in coordination with the monitoring efforts of the TNP2K Secretariat, which set up a Monitoring and Evaluation Task Force for tracking progress on poverty reduction. The academic and donor communities, such as the Asian Development Bank, the Australian Agency for International Development (AusAID), the European Union, the Japan International Cooperation Agency and the World Bank, have been involved in these activities.

1.5.5 Coherence with macroeconomic policies

An important thrust of a poverty reduction strategy is sustained economic growth, and thus macroeconomic policies, both monetary and fiscal, must be coordinated with the poverty alleviation goals. A conducive macroeconomic environment, including low inflation, enables greater economic and employment growth, which leads to a reduced level of poverty. The Coordinating Minister for Economic Affairs is responsible for ensuring economic policy coherence and also serves as the Second Vice Chair of the TNP2K; in the first week of every month, a coordination meeting takes place. Monthly economic indicators are presented by BPS-Statistics Indonesia (the national statistics office), the government budget by the Minister of Finance and strategic development issues by the Minister of Development Planning. The regular meetings provide a mechanism for discussing policy issues, including those related to the economic climate and poverty, and to exploring coordinated and effective strategies.

Although economic growth is essential, it alone is not enough to eradicate poverty. The quality of growth matters, and thus a pro-poor and inclusive development approach is needed. Fiscal policy and the allocation of resources towards key sectors are critical. In the past few years, central government expenditures have been apportioned to support the pro-poor policy agenda. Notably, allocations for public services have totalled approximately two thirds of the central government expenditures, followed by the education sector (around 10–12.6 per cent). Housing and public facilities and the health sector accounted for around 3 per cent and 2 per cent, respectively. Social investment in employment creation, health, education and other social services is integral for supporting and protecting the poor, especially from economic crises and social shocks.

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13 Directorate General of Budget: *Regulation of the President of the Republic of Indonesia Number 5 of 2010 Regarding the National Medium-Term Development Plan (RPJMN) 2010-14*, op. cit.
References


2. Nepal: Integrating employment targets into national development policies

Pushkar Bajracharya

2.1 Introduction and background

2.1.1 Socio-economic context

Despite engaging in planned development since the 1950s, Nepal has not overcome multifarious development challenges, including persistent poverty, deprivation and high underemployment. Development has not been inclusive, fuelling a sense of discrimination, regional imbalances and a deepening social divide. These problems have led to violent conflicts and other forms of resistance, aggression and civil disobedience.

Over the past two decades, the poverty rate has fallen from 41.8 per cent in 1996 but remained high at 25.2 per cent in 2011.² Moreover, the decline has been attributed to high levels of migration and remittances, which reflect the limitations of the domestic economy. Large disparities in other social indicators are also prominent when comparing the various geographic regions and socio-economic groups. Inequality as measured by the Gini index increased from 35.2 in 1996 to 43.8 in 2003 before falling to 32.8 in 2010.³ Given that inequality is considered one of the most significant drivers of the recent political conflict, it is important that a new growth strategy is adopted that is more inclusive and opens up economic opportunities for excluded groups, especially for people in rural areas and small towns, women, the less skilled and other socially disadvantaged groups.

2.1.2 Labour market context

Creating and promoting productive employment is integral not only for reducing poverty and inequality but also for sustaining and promoting peace and security. Fostering employment growth is difficult even during peaceful times and thus considerably more arduous in a post-conflict situation, such as in Nepal. There are various challenges in promoting quality employment opportunities, which also characterize Nepal’s labour market:⁴

- The labour force participation rate in 2008 was 83.4 per cent, a slight decline from 85.8 per cent in 1998–99, with economic activity among women (80.1 per cent) notably lower than for men (87.5 per cent). The participation rate among youth (aged 15–24) declined considerably, from 81.5 per cent to 75.5 per cent during the same period, reflecting in part their increased access to education.

- In 2008, a majority of Nepali workers were employed in the agriculture sector (73.9 per cent) compared with industry (10.8 per cent) and services (15.3 per cent). Employment is characterized

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¹ This chapter is an edited version of a background paper prepared by Pushkar Bajracharya, Professor of the Faculty of Management of the Tribhuvan University in Nepal and Honourable Member of the National Planning Commission from 2009 to 2011.
³ World Bank: World Development Indicators, op. cit.
by high vulnerability and informality. In 2008, 81.9 per cent of all workers were engaged as own-account or contributing family workers (91.2 per cent for women and 71.4 per cent for men). An alarming 96.2 per cent of all workers were concentrated in informal employment.

- The unemployment rate in Nepal was low in 2008, at 2.1 per cent, although considerably higher in urban areas (at 7.5 per cent) and particularly among urban youth (at 13 per cent). The bigger challenge, however, has been the almost ubiquitous prevalence of underemployment and labour underutilization. An estimated 30 per cent of Nepal’s labour force is underutilized. Given a lack of decent job opportunities and the past situation of violent political conflict, more and more jobseekers are migrating for work. There are an estimated 2 million or more Nepali migrants working internationally, with 200,000 others leaving the country each year to work abroad.

- Youth unemployment and underemployment are increasingly serious issues that emanate from several factors. These include the lack of relevant skills and education, false expectations of salary and wages, a decreasing willingness among the youth to work in the agriculture sector and increasing desire to migrate for urban job opportunities. The inability to engage youth could undermine social stability and lead to serious political challenges.

- Nepal also faces the challenge of low levels of education and skills among its workforce and the need to boost its low labour productivity. The literacy rate for the population aged 15 and older was only 60.3 per cent in 2010, with significant gaps between women (48.3 per cent) and men (73 per cent). Although there has been progress in primary education, net enrolment in secondary education remains abysmally low.

In this challenging labour market and post-conflict scenario, national policies and strategies in Nepal must promote stable, inclusive and remunerative job opportunities that both reduce unemployment and underemployment and help mitigate the regional and social disparities that often stoke dissension and conflict. This will depend to a large extent on improvements in the investment climate and providing the incentives and opportunities for enterprises to invest productively and hire workers. However, the investment climate in Nepal worsened during the recent political conflict and remains hindered by poor infrastructure (particularly in power and transportation), restrictive and unclear business and labour regulations and inadequate access to credit, among other constraints.

Promoting job-rich growth is essential to reducing poverty and inequality and building social cohesion. Thus while formulating the current (and twelfth) Three-Year Plan (for 2010–13), the National Planning Commission decided to centralize employment creation as a priority goal. This chapter first provides an assessment of the process to mainstream the employment strategies and targets into the Three-Year Plan 2010–13 and then draws out some insights from that experience.

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5 Labour underutilization defined as either unemployed, working less than 40 hours a week while wanting to work more but unable to do so for involuntary reasons, or working but where skills are mismatched. See: National Planning Commission and ILO: *Labour and social trends in Nepal 2010*, op. cit.


2.2 Overview of the twelfth Three-Year Plan 2010–13

The goals of the current Three-Year Plan are to improve the living standards of all Nepali people, reduce poverty to 21 per cent of the population and achieve the Millennium Development Goals by 2015 – all through sustainable and regionally balanced economic growth, decent and gainful employment opportunities, reduced economic inequalities and the elimination of social exclusion. The Plan’s primary objectives are to enable people to feel improvement in their livelihood and quality of life by supporting poverty alleviation and establishment of sustainable peace through employment-centric, inclusive and equitable economic growth. The macro strategies of the twelfth Plan include:

1. **Achieve employment-centric economic growth that is sustainable, inclusive and geared towards alleviating poverty through joint efforts of the Government, private and community/cooperative sectors.** Priority will be given to developing more employment-generating sectors, including the agriculture, tourism, industry and trade sectors.

2. **Develop physical infrastructure to support both the future federal structure of the nation and regional economic development.** While developing physical infrastructure, support to economic growth and promoting regional balance must be considered.

3. **Emphasize inclusive and equitable development to achieve sustainable peace.** An inclusive and equitable development strategy will be adopted to uplift the living standards of the excluded groups – the Dalits, the Madhesis, the Adibasis/Janajatis, women, people with disabilities, people living in remote geographical areas and poor people – from discriminatory practices that prevail within the society.

4. **Contribute to socio-economic and social services.** To speed up the development momentum, strategies will be adopted that strengthen the provision of economic and social services from the Government, the private sector, cooperatives and non-government organizations.

5. **Make development works results oriented by ensuring governance and effective service delivery.** Strategies must emphasize people's participation, transparency, accountability and the elimination of corruption through the establishment of a rules-based State.

6. **Strengthen economic growth and stability by developing the private and community/cooperative sectors and mainstreaming industrialization, trade and service sectors as part of the national development endeavour.**

The emphasis given to employment is clear not only from its strong inclusion in the goals and the objectives of the Plan but in the articulation of the first strategy in particular. The following section outlines the objectives and employment targets that were included for the first time in Nepal’s planning history (Tables 1 and 2).

Objectives of employment generation:

1. Create decent employment and self-employment opportunities within the country.
2. Create a healthy, safe and decent working environment through the development of cordial labour relations.
3. Reduce unemployment by developing enterprising, competent and skilled human resources who are capable of competing in both the domestic and international labour markets.
4. Increase the contribution of foreign employment to poverty reduction by maximizing the benefits and minimizing the risks.

5. Eliminate the worst forms of child labour as a matter of priority while striving for elimination of all forms of child labour.

Table 1: Projected employment generation and labour force growth during the twelfth Three-Year Plan, by economic belts and development regions

<table>
<thead>
<tr>
<th>Eco-belts</th>
<th>Projected employment generation</th>
<th>Projected labour force growth</th>
<th>Employment generation as % of labour force growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
<td>2012</td>
<td>2013</td>
</tr>
<tr>
<td>Mountain</td>
<td>8,600</td>
<td>9,073</td>
<td>9,572</td>
</tr>
<tr>
<td>Hills</td>
<td>127,951</td>
<td>134,989</td>
<td>142,413</td>
</tr>
<tr>
<td>Tarai</td>
<td>230,990</td>
<td>243,695</td>
<td>257,098</td>
</tr>
<tr>
<td><strong>Regions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eastern</td>
<td>96,279</td>
<td>101,575</td>
<td>107,161</td>
</tr>
<tr>
<td>Central</td>
<td>124,487</td>
<td>131,333</td>
<td>138,557</td>
</tr>
<tr>
<td>Western</td>
<td>72,736</td>
<td>76,736</td>
<td>80,957</td>
</tr>
<tr>
<td>Mid-Western</td>
<td>41,501</td>
<td>43,784</td>
<td>46,192</td>
</tr>
<tr>
<td>Far-Western</td>
<td>32,538</td>
<td>34,328</td>
<td>36,216</td>
</tr>
<tr>
<td>All Nepal</td>
<td>367,541</td>
<td>387,756</td>
<td>409,083</td>
</tr>
</tbody>
</table>


In terms of sectors, priority was given based on the key criteria of high employment elasticity (such as the trade sector) and the potential to generate larger shares of total employment (such as the agriculture sector).

Table 2: Employment elasticity and projected employment generation by sector

<table>
<thead>
<tr>
<th>No.</th>
<th>Sector</th>
<th>Employment elasticity</th>
<th>Projected employment generation</th>
<th>% of total projected employment generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Trade</td>
<td>7.09</td>
<td>139,712</td>
<td>12.0</td>
</tr>
<tr>
<td>2</td>
<td>Manufacturing and mining</td>
<td>6.83</td>
<td>109,487</td>
<td>9.4</td>
</tr>
<tr>
<td>3</td>
<td>Hotels and restaurants</td>
<td>3.21</td>
<td>41,688</td>
<td>3.6</td>
</tr>
<tr>
<td>4</td>
<td>Power</td>
<td>2.55</td>
<td>60,516</td>
<td>5.2</td>
</tr>
<tr>
<td>5</td>
<td>Real estate and renting</td>
<td>2.29</td>
<td>21,730</td>
<td>1.9</td>
</tr>
<tr>
<td>6</td>
<td>Health</td>
<td>0.99</td>
<td>26,023</td>
<td>2.2</td>
</tr>
<tr>
<td>7</td>
<td>Other social services</td>
<td>0.94</td>
<td>27,262</td>
<td>2.3</td>
</tr>
<tr>
<td>8</td>
<td>Agriculture</td>
<td>0.63</td>
<td>615,888</td>
<td>52.9</td>
</tr>
<tr>
<td>9</td>
<td>Education</td>
<td>0.61</td>
<td>59,482</td>
<td>5.1</td>
</tr>
<tr>
<td>10</td>
<td>Transport</td>
<td>0.60</td>
<td>28,929</td>
<td>2.5</td>
</tr>
<tr>
<td>11</td>
<td>Financial intermediation</td>
<td>0.59</td>
<td>7,003</td>
<td>0.6</td>
</tr>
<tr>
<td>12</td>
<td>Public administration and defence</td>
<td>0.58</td>
<td>17,790</td>
<td>1.5</td>
</tr>
<tr>
<td>13</td>
<td>Construction</td>
<td>0.17</td>
<td>8,792</td>
<td>0.8</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>0.59</td>
<td>1,164,380</td>
<td>100.0</td>
</tr>
</tbody>
</table>


The Plan stipulates provisions for those who may be left out through an employment guarantee scheme. To this end, a legislative act was drafted, which the National Planning Commission approved, and is waiting for Cabinet approval and submission to the Parliament.
2.3 Analysis of the initiative to mainstream employment into the Three-Year Plan

2.3.1 Policy design

The employment targeting included in the current Three-Year Plan and the related policies involved a rigorous and drawn-out process. First, the National Planning Commission (NPC), the highest policy-making body of the Government, initiated the process in the last year of the previous Three-Year Plan (2007–10). The Prime Minister chairs the NPC, which has three official members: the Chief Secretary, the Finance Secretary and a Member Secretary from the secretariat. At the initial stage, a number of internal meetings were organized involving the NPC, the NPC secretariat and the ministries. In those meetings and on the basis of thorough analysis that included the mid-term review of the eleventh Plan and an assessment of the development status and needs, the NPC formulated the longer-term vision, goals and objectives of the next Plan. They declared the mission as “employment-centric inclusive growth”, and thus from the very outset the twelfth Plan incorporated employment orientation as the primary focus and way to address the fundamental challenge of poverty in the country.

To refine the draft strategy and policy further, meetings and discussion forums were organized with political parties, the private sector, trade unions, international development partners and civil society groups. The former vice chairs and the former members of the NPC were also consulted for their valuable inputs. After additional improvements to the proposed policy, based on those consultations, the draft policy was validated by the political parties (the United Communist Party of Nepal (Maoist), the Nepali Congress, the Nepal Communist Party (United Marxist Leninist) and the Madhesi Party Groups) and other fringe parties. They all supported the proposed policy and confirmed the need for employment-oriented inclusive growth.

The discussions then were taken to various parts of the country to determine the specific needs of people at the local level. The NPC formed groups to coordinate those discussions in five locales: Dhankuta (the Eastern Development Region), Hetauda (the Central Development Region), Pokhara (the Western Development Region), Surkhet (the Mid-Western Development Region) and Dhanagarhi (the Far-Western Development Region). At the regional level, representatives of political parties, the private sector, civil society groups and trade unions were consulted, along with local experts, government officials and others.

The policies and strategies were finalized and presented to the NPC and then to the National Development Council, the highest body responsible for looking after national development issues. After approval from the National Development Council, a detailed working strategy was devised to translate the mission and goals into action. The strategy contained three specific tasks: i) formulate employment targets and policies and strategies for achieving those targets; ii) estimate skill-wise

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8 The National Planning Commission is the highest policy-making body, operating as a think tank to advise the Government. It was established in 1956 to implement development plans. Its tasks are mainly to draft national development plans and policies in coordination with responsible ministries, to monitor development activities and coordinate agencies in respect to the development work. A 2010 Cabinet decision limits the number of members to seven. The NPC is assisted by a secretariat, which is headed by the Member Secretary of the NPC.

9 In terms of local bodies, Nepal is administratively divided into five development regions (Eastern, Central, Western, Mid-Western and Far-Western) with 75 districts, each with a development committee, and 3,913 villages that have a development committee. There are also 58 municipalities.

10 The National Development Council is the highest development body in the country, headed by the Prime Minister. Its members include ministers, members of the Parliament, representatives of the political parties, economists, experts and people with distinctions, journalists, chairs from the constitutional bodies and NPC members.
demand and the supply of human resources; and iii) design employment guarantee schemes and draft a legislative act for their implementation.

The first task was carried out in two parts. With ILO assistance, a study was initially commissioned to review and analyse the employment situation and feasible employment targets and then the strategies to achieve them. In the second part, employment generation through the programmes and activities of various ministries under the twelfth Plan period were estimated. The report on employment targets and strategies was shared with all ministries to validate and, if necessary, to revise the targets. Through consultation, the final targets were adopted, taking into account the amount of proposed investment and the potential demand and supply of the labour force, among other factors.

For the second task, a study of skill levels was commissioned, with the assistance of the United Nations Development Programme (UNDP), to estimate the demand and supply of human resources. The report was prepared in collaboration with various public and private sector agencies. To ensure validity, a meeting of representatives of relevant government agencies, the private sector and civil society groups provided useful comments, which were incorporated into the estimation process.

Finally, to undertake the third task related to employment guarantee schemes, a committee was set up comprising representatives of government agencies under the leadership of the NPC. With ILO assistance, the committee facilitated several meetings to discuss the implications of the proposed strategies. The drafted strategies were further discussed with government agencies, and an associated Act was drafted. The NPC forwarded it to the Cabinet for first approval and then to the Parliament for final approval.

The employment targets and policies and the estimates of human resource and skills estimations were incorporated into the twelfth Three-Year Plan and were reviewed and further revised and finalized after discussing with the ministries, the NPC secretariat and the NPC members. A group of experts also peer reviewed the Plan. The final version was approved by the NPC, becoming the guiding national development framework for the period from 2010 to 2013.

The task of developing the twelfth Plan was not limited to the design stage but also required close monitoring, assessment and evaluation. For those elements, the NPC devised an Internet-based strategy to monitor the development process and included employment indicators commensurate with the proposed strategies.

2.3.2 Actors and institutions

As noted, the NPC led the design of the twelfth Plan in consultation with all relevant stakeholders. While the primary actors were the ministries and other government agencies, the private sector was represented by the Federation of Nepalese Chambers of Commerce and Industries, the Confederation of Nepalese Industries and the Nepal Chamber of Commerce and civil society was represented by the four federations of civil society groups. Other actors included technical experts, trade union and political party representatives, government officials, members of Parliament, and ex-members and the vice-chair of the NPC. Additionally, there were discussions with representatives of international organizations and the donor communities.

11 The NPC created three internet-based monitoring tools: Poverty Monitoring and Analysis System (PMAS) to monitor national impacts of development activities, District Poverty Monitoring and Analysis System (DPMAS) to monitor the district-level impact and PPIS to monitor project and programme achievements.
In the course of that process, the NPC members realized a need for a permanent body to assess, review and design policies and strategies and arrange implementing mechanisms – a one-off exercise would not be adequate, given the challenges persistent in the country and the enormity of the task. Up to the seventh Plan period (1985–90), there was a human resource unit within the NPC; but such structures to look after human resource issues at the NPC subsequently were eliminated. The NPC thus created a division of human resource planning and management, headed by a joint secretary.

2.3.3 Constraints and challenges

Various constraints were encountered also during the process, which included political instability, rapid change in government and leadership, poor coordination among agencies, lack of technical capacity and resources, and paucity of relevant data and information. Of them, political instability proved to be the biggest challenge. Between the initial drafting and finalization of the policies, for instance, there were three changes in the Government, making it arduous to sustain the interest of any particular political group and to rally support and approval.

The basic political agenda after the signing of the Comprehensive Peace Agreement in 2006 remained the restoration of peace and the drafting of a new constitution. Despite the need and usual rhetoric emphasizing socio-economic development, moving development priorities forward (including poverty alleviation, employment creation and economic growth) has not yet been feasible and will continue to be difficult.

Due to the continuous political change, garnering support from political parties – despite their agreement to the proposed policies and strategies – has been difficult. For example, although the political parties initially approved of the process and despite their consent in all the earlier meetings, the United Communist Party of Nepal (Maoist) boycotted the National Development Council meeting after the inaugural session. Its withdrawal reflects the kind of political challenges that emerged during the policy design.

The NPC, as the lead agency for plan and policy formulation and monitoring, could readily convene all ministries. However, coordination was still difficult, and in many cases, relied on the personal influence of the top leaders, underscoring the importance of institutionalizing and systematizing the process. Another difficulty emanated from the institutional mandates and confusion in the role and functions of each ministry. For example, although employment generation fell within the scope of the Ministry of Labour and Transportation, the Ministry of Youth and Sports considered youth employment within its mandate, the Ministry of Women and Children considered female employment under its responsibility and the Ministry of Local Development claimed local employment opportunities under its agenda.

2.4 Conclusions and lessons learned

In spite of the difficulties, the Government pulled through with its policy initiative to instil inclusive employment creation into its development agenda. The analysis of that process turned up the following four themes of insights.

2.4.1 Role of leadership and institutionalized processes

Carrying out such a major policy initiative as formulating the national three-year development plan to prioritize inclusive employment generation was only possible through the commitment of truly visionary and dedicated leaders (political, intellectual or otherwise), who took initiative and delivered.
Based on their example of stewardship, support from stakeholders and technical and financial resources were more easily mobilized.

However, changes in the Government generally tend to shift key human resources and actors as well as affect the continuity and sustainability of the policy design efforts. Thus, although the role of leadership is critical, it is also important to develop processes, systems and institutional memory regarding policy formulation. This emphasis on institutionalization of systems to affect proper policy development and execution is even more crucial when leaders may be less visionary or strong.

2.4.2 Broad stakeholder consultation and ownership

In adopting and integrating employment as the central theme of the national development policy, strategies should be designed with adequate stakeholder consultation, participation and ownership. This process helps to strengthen the design of the policy by drawing in alternative perspectives and approaches and reaching a common understanding and consensus. It also contributes to sensitizing stakeholders to better understand the practical implications of the policy. Consultation should be in a representative manner throughout the entire policy process, from the initial conceptualization of the policy to its final dissemination.

The strategies and policies of the twelfth Three-Year Plan were prepared through in-depth consultations with the political parties, the government bureaucracy, the private sector, civil society groups, trade unions and independent experts in Kathmandu and all other parts of the country. The idea to design the twelfth Plan as employment centric was first defined and then tested among the diverse groups and improved, based on their suggestions. The assistance of experts was sought out to research relevant employment issues and to devise the targets and strategies. Their inputs were reviewed during further discussions with stakeholders before being finalized and incorporated into the twelfth Plan.

It is feasible to mobilize resources and attract commitment from all agencies if stakeholders have a sense of involvement and ownership. Policy design alone is not adequate and must be developed in a way that can be actually carried out and the goals realized. Implementation is always a difficult task, and operational strategies defined by stakeholders are essential to facilitate efficient and effective implementation. To this end, there is a need to achieve sound coordination among all involved agencies.

2.4.3 Sound data and analysis in design and monitoring

A policy or strategy, including one that integrates employment targets and concerns, should be supported by rigorous research studies and analysis. Policy design should be done in an integrated and comprehensive manner and be based on reliable data and information that reflects the real potential and feasibility of implementing the targets and strategies. A strong monitoring mechanism must be established that defines specific indicators for the policies, programmes and activities. Monitoring should be done against the defined benchmarks on a regular basis so that continued improvements can be adopted to ensure attainment of the goals. A robust statistical information system is integral to this process.

The lack of proper data and information during the process of formulating the twelfth Plan was a serious constraint, particularly because many of the initiatives were conducted for the first time. Even in the case in which a routine exercise was carried out, data systems were not updated in a timely way; sometimes basic information was not available. Hence, the process required a number of
estimations to be made and validated by more robust processes, involving various technical experts. The NPC mobilized the Central Bureau of Statistics to provide technical support on data tabulation and analysis. Coordination with the Central Bureau of Statistics was achievable because it is an agency under the NPC – otherwise, it would have been very difficult.

### 2.4.4 Addressing capacity and resource constraints

Such a major policy integration initiative as the development of the twelfth Plan requires significant capacity and resources. However, national institutions, including the NPC (despite its role as the government think tank), did not have adequate technical capacity and expertise. Thus, the initiative had to not only rely on independent technical experts but also consider ways to strengthen the capacity of primary institutions to be equipped at least with some basic technical expertise to conduct the kind of exercise accomplished during the policy design.

Moreover, there are significant budgetary resource requirements needed in such a policy coherence exercise. In Nepal, a paucity of resources to conduct in-depth analysis of the issues was a significant constraint. The gaps were overcome by mobilizing the international development partners, including the ILO and UNDP. Their support in obtaining technical expertise was critical.
References


3. Philippines: Towards convergence in social protection policies and programmes

Fernando T. Aldaba and Alvin P. Ang

3.1 Introduction and background

Considering the country’s low economic growth, slow structural transformation, persistent large fiscal deficits, large share of vulnerable employment and high poverty rates, policy coherence has become a crucial approach in government service delivery in the Philippines. The relatively weak past performance of the economy in terms of reducing poverty and vulnerability is seen as an outcome, at least in part, of an uncoordinated approach to addressing the social issues.

Previous government efforts to reduce poverty and vulnerability were compromised by a lack of policy and institutional coordination in the social protection sector, with several departments undertaking disparate and ineffective programmes. There also has been little spending on social protection programmes; government expenditure on social welfare, social safety nets and labour market programmes has been relatively smaller than in other countries of the region. In addition, what was attempted had a narrow base of beneficiaries, limited reach, inadequate resources and sometimes overlapping coverage.

This chapter describes the current efforts of the Government towards rationalizing and coordinating the social protection programmes. These efforts have placed social protection within the general framework of macroeconomic improvement and poverty reduction under the Philippine Development Plan 2011–16. The various government agencies, both at the national and local levels, use the term “convergence” to describe the current initiatives towards policy and programme coherence.

3.1.1 Economic and labour market context

In the macroeconomic context, annual GDP growth since 1990 has averaged 3.8 per cent, which is among the lowest of countries in the Association of Southeast Asian Nations (Figure 1). The industrial sector accounts for only 32.6 per cent of the Philippine economy, which is lower than in Viet Nam (41.1 per cent), Malaysia (44.4 per cent), Thailand (44.6 per cent) and Indonesia (47 per cent). Fiscal deficits have averaged more than 2 per cent each year since 2000, higher than in both regional neighbours of Indonesia and Thailand. This has led to limited budgetary resources for competing social services and insufficient allocations spread out among all sectors.

The Philippines labour market is characterized by high unemployment (6.9 per cent in April 2012) and underemployment (19.3 per cent in April 2012), reflecting the challenges of the economy to generate adequate decent jobs that can support a youthful population and rapid labour force growth. A significant share of employment is highly informal, with limited security. More than 40 per cent of all workers are engaged as own-account or contributing family workers, a decline of around 10 percentage points during the past decade. Real wages have lagged considerably behind labour productivity growth and actually contracted by an average of 1.3 per cent each year from 2000 to

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1 This chapter is an edited version of a background paper prepared by Fernando T. Aldaba, Ateneo de Manila University, and Alvin P. Ang, University of Santo Tomas.
2 World Bank: World Development Indicators (2012).
3 International Monetary Fund: World Economic Outlook Database (April 2012).
5 Ibid.
2010. This trend reflects periods during which substantial nominal wage increases were offset by even higher price inflation. Given high unemployment and underemployment, pervasive job-related informality and low earnings in the labour market, international labour migration has been integral for Filipino jobseekers and the economy.

**Figure 1: Real GDP, 1990–2011 (annual average % change)**

Note: Myanmar covers only 1998–2011.
Source: International Monetary Fund: World Economic Outlook Database (April 2012).

### 3.1.2 The poverty and vulnerability context

Various government efforts and programmes have not brought down significantly the level of poverty in the past decade. The national poverty incidence in the Philippines declined, from around 33 per cent in 2000 to 24.9 per cent in 2003 before increasing to 26.5 per cent in 2009, despite modest economic growth. Moreover, the number of individuals living below the poverty line increased, from 19.8 million in 2003 to 23.1 million in 2009. Since the early 1990s, the Philippines overall has underperformed in comparison with other peer economies in South-East Asia, such as Indonesia, Thailand and Viet Nam, in terms of poverty reduction trends. In addition, surveys show an even larger proportion of the population who identify themselves as poor; the incidence of self-rated poverty has been around 51 per cent in the past seven years. The high poverty level threatens relative gains towards achieving the Millennium Development Goals related to employment and decent work and jeopardizes the achievement of others, such as related to education, health and the environment.

Filipino families contend with various risks and vulnerabilities every day. These include poor-quality or a lack of employment, low income and consumption, high mortality and morbidity, inadequate access to education, child labour, malnutrition and hunger, social exclusion, discrimination, conflicts and natural disasters. Both poor and non-poor households are vulnerable to a subset of these risks. Thus people living just above the poverty line may become temporarily poor after being hit by any one type of risk, while the already poor will become trapped in destitution. Social protection must adequately respond to both situations of transient and chronic poverty. Research indicates that even if there had been some progress in terms of improved household income levels, around one fifth of

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8 World Bank: World Development Indicators (2012).
families (or two thirds of the poor) are chronically poor and consistently had incomes below the poverty line during the 2004–08 period.\textsuperscript{10}

\textbf{3.2 Convergence of social protection programmes}

Cognizant of the serious challenge of poverty and vulnerability, the Government, together with the support of multilateral agencies, began in 2006 to evaluate its poverty alleviation and social protection programmes. The researchers found that programmes were weakly executed and lacking coordination among implementing and cooperating agencies and other stakeholders, such as local governments and civil society and non-government organizations. An Asian Development Bank study in 2009 found additional and significant weaknesses – the lack of local government capacity to implement poverty reduction programmes and deficient targeting.\textsuperscript{11} Furthermore, the high poverty levels are aggravated by the country’s vulnerability to various risks brought about by the weak global financial system, climate change and internal conflicts related to long-running insurgencies due to issues of inequality and social justice. Using the findings of the evaluation studies, the Government started a process of streamlining and harmonizing efforts towards poverty alleviation and social protection.

The current core strategy for poverty alleviation is the expansion of income and economic opportunities and, critically, the growth of quality jobs that can raise aggregate productivity. Increasing incomes and economic opportunities requires a sound macroeconomic framework that focuses on a healthy fiscal balance, price stability and a supportive investment climate, which is also part of the government strategy. By basing its poverty reduction strategy on an integrated macroeconomic, employment and income policy, the Government now aims through the Philippine Development Plan 2011–16 to build up assets and capacities, provide protection against all types of risks, strengthen the freedom to participate and engage in community building and to develop meaningful governance systems and institutions to ensure that interventions and processes are effectively and efficiently implemented.

The Philippine Development Plan 2011–16 is operationalized along this framework. It recognizes the need to integrate social protection interventions into the broader poverty reduction and macroeconomic framework. A 16-point platform of governance enumerates how the Government is to respond to the challenge of poverty. Emphasis is focused on transformational leadership that is anchored on providing better education and health services as key measures of good governance.\textsuperscript{12}

\textbf{3.3 Analysis of the initiative towards programme convergence}

With more than 200 social protection and poverty alleviation programmes, many of which were redundant or ineffective, streamlining became urgent and sensible, given the resource constraints of the Government. In particular, about 21 agencies were implementing 65 programmes that were underfunded, leading to weak targeting, leakage to non-poor beneficiaries and minor programme impact.\textsuperscript{13} Additionally, although poverty is multidimensional, the programmes and interventions were typically one dimensional and needed to be better integrated to maximize their impact.


\textsuperscript{11} Asian Development Bank: \textit{Poverty in the Philippines: Causes, constraints and opportunities} (Manila, 2009).


3.3.1 The road towards convergence

In 2006 and with funding from UNDP, the National Anti-Poverty Commission conducted a study on social protection, the report of which is entitled *Looking into Social Protection in the Philippines: Towards Building and Implementing an Operational Definition and a Convergent Framework*. In the study, various definitions were explored, and current social protection programmes were classified under those components. During the process of refining its sector-reform agenda in 2007, the Department of Social Welfare and Development recognized its crucial role in streamlining and coordinating social protection. The Department thus initiated discussions on social protection and formed a subcommittee on social protection within the Philippines Development Forum, the Government’s primary mechanism for facilitating substantive policy dialogue among actors involved with the country’s development agenda.

Consequently, the Philippines Development Forum (in 2007) established a subcommittee to streamline the Government’s social protection framework and strategy into a coherent (or convergent) approach. The inputs of this subcommittee led to the formation of a small working group among the implementing agencies. The recommendations of the working group were then presented to the Technical Board of the Social Development Committee (SDC) and eventually to its Cabinet Committee. This led to the formalization of the social protection definition and strategic framework in the same year.

The social protection definition and framework became more critical at the onset of the global economic crisis in 2008–09. In 2009, the Development Academy of the Philippines was commissioned to assess the country’s social welfare and protection programmes. That assessment found several challenges: social protection programmes have a narrow base of beneficiaries; poor and informal sectors have limited access, weak bargaining power and influence on local officials and service providers; and programmes are redundant, limited in reach, uncoordinated, inadequately funded and short-lived. The researchers recommended the harmonizing of the social welfare programmes in order to avoid overlaps and improve targeting of both areas and beneficiaries and to coordinate poverty reduction efforts with social protection strategies.

In response to the results of the 2009 study by the Development Academy of the Philippines, the Department of Social Welfare and Development, the National Economic and Development Authority and the Social Security System co-led the formation of an operational framework to harmonize all social protection programmes. The framework was approved by the SDC Cabinet Committee in October 2009. Subsequently, the SDC created a Subcommittee on Social Protection, which has

14 This initiative was carried out under the National Sector Support for the Social Welfare and Development Reform Project, which was funded by the World Bank.

15 The Philippines Development Forum also serves as a process for developing consensus and generating commitments among stakeholders, including multilateral and bilateral development partners and donors, towards critical actionable items of the Government’s reform agenda. The lead multilateral organization in the Philippines Development Forum is the World Bank.

16 The SDC-approved definition of social protection: “Social protection constitutes policies and programmes that seek to reduce poverty and vulnerability to risks and enhance the social status and rights of the marginalized by promoting livelihood and employment, protecting against hazards and sudden loss of income and improving people’s capacity to manage risks.” Specific components within the definition include: labour market interventions (measures aimed at enhancing employment opportunities and protection of the rights and welfare of workers), social insurance (instruments that mitigate income risks by pooling resources and spreading risks across time and classes), social welfare (preventive and developmental interventions that seek to support the minimum basic requirements of the poor) and social safety nets (stop-gap mechanisms or urgent responses that address the effects of shocks on specific vulnerable groups).

expanded membership beyond the SDC to include government agencies, such as the Social Security System, the Government Service Insurance System, the People’s Credit and Finance Corporation, the Philippine Health Insurance Corporation, local government leagues and two non-government organizations involved in social protection activities.\(^{18}\) The SDC also set up regional versions of this institutional innovation.

The subcommittee was tasked to design a five-year social protection plan and approach for its operations. The plan had to be aligned with the poverty reduction strategy and overall development objective of “inclusive growth”, as articulated in the Philippine Development Plan 2011–16. The Department of Social Welfare and Development was appointed as lead agency and secretariat of the subcommittee, and conducts monthly meetings to monitor and report on progress towards the goal of converging poverty reduction and social protection programmes.

### 3.3.2 Internal convergence strategy

The Department of Social Welfare and Development initiated the first steps towards institutionalizing convergence by focusing on its social safety nets and social welfare programmes. First, it adopted a harmonized social protection system under the convergence of its three main programmes (the Kapit Bisig Laban sa Kahirapan – Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS), the Self-employment Assistance – Kaunlaran Integrated Programme (SEA-K) and the Pantawid Pamilyang Pilipino Programme (4Ps)).\(^{19}\) The Department also developed a manual for its field offices that outlines all the strategies for converging the three programmes at the local level. Finally, an enhanced targeting mechanism was institutionalized through the National Household Targeting System, which has served as the core basis for identifying programme beneficiaries.

Throughout the internal convergence process, the Department of Social Welfare and Development was guided by several core principles. First, the strategic linking of flagship programmes is essential to provide better and more effective programme delivery and services. Second, the empowerment of local government units, non-government organizations, other service providers and intermediaries, poor households and other partners will help ensure effective implementation. Third, each project should be seen as an entry point to other projects and, hence, operationalization of the convergence strategy should lead to the complementarity of approaches and strategies, resulting in greater programme impact. Finally, operational efficiency is critical because convergence should reduce duplication and lead to harmonized systems; it should also create implementing mechanisms that can cover targeting, reporting systems, data and knowledge sharing and management, and monitoring and evaluation.

### 3.3.3 External convergence and coordination

As the Department of Social Welfare and Development developed its internal convergence strategies, external collaboration and coordination were improved among the national agencies. In particular, the adoption of the conditional cash transfer programme 4Ps as a core social protection and poverty

\(^{18}\) The two non-governmental organizations are Social Watch and PATAMABA (National Network of Informal Workers).

\(^{19}\) The three main programmes are: 1) The Kapit Bisig Laban sa Kahirapan – Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS) which aims to reduce poverty by empowering the poor to participate meaningfully in development and making development initiatives responsive to the needs of citizens by making local governance processes and systems more participatory, transparent and accountable; 2) Self-employment Assistance – Kaunlaran Integrated Programme (SEA-K), which is a community-based capability-building and livelihood assistance programme directed towards the poor and disadvantaged that involves the provision of non-collateral, non-interest-bearing capital assistance to the economically entrepreneurial poor; and 3) the Pantawid Pamilyang Pilipino Programme (4Ps), which is a poverty reduction programme that provides conditional cash grants to poor households with children aged 0–14 years and with pregnant and lactating mothers, to build human capital through investments in health and education.
alleviation strategy naturally strengthened the institutional partnership between the Department of Social Welfare and Development and the Department of Education and the Department of Health to deliver a package of programme interventions. In addition, collaboration and coordination with the Department of Public Highways and the Department of Environment and Natural Resources have supported various cash-for-work initiatives under 4Ps.

Given the country’s governance structure, localization of the convergence strategy has been an essential part of the overall strategy. This has been a common effort led by three agencies – the National Anti-Poverty Commission, the Department of Social Welfare and Development and the Department of the Interior and Local Government – with the municipality serving as the centre of the localization programme. The Government has targeted 609 municipalities in the poorest regions and with the largest concentrations of people who are poor in densely populated provinces. The initiative will aim to build local government capacity to reduce poverty and to create a system for providing incentives for better-performing local government units to fund their poverty reduction programmes, strengthen project coordination and advocate for the use of measurable indicators in planning and monitoring their progress towards poverty reduction. The municipalities are required to undertake the Community-Based Monitoring System survey, which is a local census of households in the community that generates poverty data and which complements the National Household Targeting System as a comprehensive poverty monitoring tool.

3.3.4 Constraints and challenges

Despite the concerted efforts, constraints and challenges towards the achievement of full programme and policy convergence remain. First, a coherent strategy for labour market interventions and social insurance has not yet taken off. These social protection programmes currently cater mostly to formal sector workers, and approaches for extending them to informal sector workers are still being studied. Labour market institutions like trade unions, workers’ cooperatives and employers’ associations could make a major contribution within this strategy. Second, institutional boundaries and mandates in terms of project implementation among agencies are still a concern, and defining specific roles for the local government units vis-à-vis the national agencies is another great challenge. Additionally, finding and mobilizing resources for convergence has been a daunting task. Specific operational issues, as enumerated below, must still be addressed for a successful convergence strategy:

- Social protection is still perceived as a purely national programme by many local implementing units. Mechanisms to mirror the convergence happening at the national level must be cascaded to the local government level, and local social protection committees should also be established. Although national directives point to the Social Development Committee and the Human Development and Poverty Alleviation Cluster in the Cabinet as the core coordinating mechanisms for convergence and programme delivery, there is no single authority to ensure oversight at the local level.

- The National Household Targeting System data have created some confusion, particularly in local government units that have objectively identified their poor through the Community-Based Monitoring System or their own system. Further efforts are needed for national and local agencies to reach full consensus on the specific targeting methodology and tools to be used in their poverty and social programmes.

- Convergence of resources requires the support of the Department of Budget and Management and the Commission on Audit, which are the financial agencies in charge of disbursing the budget and auditing expenditures. Total national government spending on social protection was 17 billion
pesos (or 0.3 per cent of GDP) in 2007. In response to the rapid rise in food and fuel prices in the first half of 2008, government spending on social protection increased more than 3.5 times, to 62 billion pesos (or 0.8 per cent of GDP) in 2008.20 In addition to programme financing, budget allocations are also needed for coordinating and harmonizing, given the costs and human resources required.

- Given the resource constraints of the Government, other stakeholders must also be involved. Greater integration of non-government organizations and the private sector in the planning and implementing of social protection strategies and programmes at the local level is needed. They could also contribute financial and human resources in the delivery of programmes.

- Social protection should also be seen as only one strategy for alleviating poverty. Other complementary initiatives are required, including coherence with a more inclusive macroeconomic growth strategy.

3.4 Conclusions and lessons learned

The efforts in the Philippines to streamline and harmonize the social protection programmes are incomplete, and significant challenges lie ahead. However, the underlying strategy of programme convergence provides some initial lessons along the following five themes as the country moves towards sustainability of the initiative at the operational and local levels.

3.4.1 Strong political will and leadership

Progress thus far has required tremendous political commitment and leadership from the most senior members of the Government. Since the beginning of his term, President Benigno Aquino III has fully supported the programme coherence initiative, and his commitment has helped to foster cooperation from government agencies and also support from a range of development partners. Support from transformational leaders also has led to greater budgetary mobilization and a credible approach in ensuring legitimate fund utilization. Along with the top leaders within the Department of Social Welfare and Development, political support from senior officials of the National Economic and Development Authority, the National Anti-Poverty Commission, the Department of the Interior and Local Government and the Department of Budget and Management has made a difference.

In addition to the SDC Subcommittee on Social Protection, convergence for poverty reduction has been institutionalized at the Cabinet level through the recent formation of the Human Development and Poverty Reduction Cluster. The President’s designation of Department of Social Welfare and Development Secretary as the chair of the cluster was an indication of the political importance of the social protection programme convergence initiative.

3.4.2 Institutional partnership and local coordination

Although political leaders and individual personalities are important, a lead agency (or a group of lead agencies) that initiates, advocates and sustains reforms towards programme harmonization and coordination is critical. The Department of Social Welfare and Development recognized early on the need to rationalize the social protection system and began to champion this effort in collaboration with the National Economic and Development Authority and the National Anti-Poverty Commission.

20 Rosario G. Manasan: Reforming social protection policy: Responding to the global financial crisis and beyond, op. cit.
As well, institutionalized mechanisms for convergence are important. Through the Philippine Development Forum, the Social Development Committee and the Human Development and Poverty Clusters, national coordination and dialogue have successfully taken place to initiate programme coherence. Institutional collaboration and coordination were also critical in establishing a common monitoring and evaluation system and to build sustainable processes.

Convergence of social protection and poverty reduction programmes can only be successful when coordination takes place at the operational level. Thus, local governments need to have a prominent role in ensuring greater programme effectiveness. The importance of coordination with local governments is widely recognized as a critical challenge going forward; it ultimately can affect the success of the overall convergence initiative.

### 3.4.3 Common understanding and strategy among stakeholders

Any major policy or programme coherence initiative necessitates a common understanding among stakeholders of what the effort is all about, what is required to achieve the objectives and the ways in which each party can support the initiative. Once this awareness has been attained, stakeholders must have a common commitment to the convergence agenda – they must provide the necessary institutional and policy support. As institutional support is provided for the initiative and the design and implementation of programmes, convergence should follow.

In the Philippines, the process towards a common definition of convergence, framework and strategy took more than three years. A core group of agencies initiating the coherence reform was important in sustaining this process, and institutionalized processes and mechanisms are now in place to refine the strategies and eventually to monitor and evaluate their implementation. More importantly, clearly defining the various roles of stakeholders – for example, local government, non-government organizations and the private sector – in this process was crucial for programme sustainability at the ground level. In addition, their inclusion in the official government development plan and institutional framework recognized their important contributions, thus making the social protection programmes a practical public–private partnership.

### 3.4.4 Mobilizing multilateral support

The international development partners and donor community should have a major role in the programme convergence initiative if they make concerted efforts to align and harmonize their own assistance with the policy coherence initiative. In this regard, the Philippines Development Forum provided the venue for dialogue and discussions among the Government, the international development partners and other stakeholders on the possibilities of convergence. UNDP and the World Bank, for example, were instrumental in supporting projects and assessment studies at the initial stages. Additionally, the development partners, such as the Asian Development Bank, AusAID, the Millennium Challenge Corporation, UNFPA, UNICEF, the World Food Programme and the World Bank, continue to provide financing and technical assistance, including to the SDC Subcommittee on Social Protection.

### 3.4.5 Rigorous research and analysis

Research studies that provide sound evidence and analyses are also needed to convince stakeholders of the need for policy or programme coherence and for outlining clearly the various alternative options and mechanisms for their implementation. The initial study conducted by the National Anti-Poverty Commission in 2006 provided the impetus for programme harmonization. Subsequently, the
2009 study by the Development Academy of the Philippines and other research were influential and contributed significantly to moving the agenda forward.

Importantly, the strategies used in the convergence initiative were the results of studies that carefully reviewed and assessed past implementation, particularly in the area of programme targeting. Lessons on the target leaks in programmes have fostered substantial government support for the use of the National Household Targeting System, which is slowly being accepted as the national tool to target the poor and the beneficiaries of the programme, in coordination with the Community-Based Monitoring System.
References


4. Viet Nam: Policy coordination and coherence: From resolution 30 to a long-term National Employment Strategy

Nguyen Ngoc Anh and Nguyen Thang

4.1 Introduction and background

Due to substantial economic reforms over the past 20 years, Viet Nam has created a growing and dynamic private sector and attracted significant foreign direct investment inflows. The reforms have led to high economic growth rates, a sharp reduction in poverty and Viet Nam’s ascension to lower middle-income status (Table 3). The transition from a low-income to middle-income country, however, presents a number of questions related to the sustainability of the model of growth and distribution of the benefits from economic development, including how patterns of poverty and vulnerability will change in the coming years. Increasingly, employment generation and social protection are even more vital for Viet Nam to sustain its economic growth and its broader socio-economic development goals.

<table>
<thead>
<tr>
<th>Table 3: Macroeconomic and employment indicators, 1990–2010</th>
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<tr>
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<tr>
<td>GDP per capita (PPP) (2005 international $)</td>
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<tr>
<td>Average GDP growth (%), previous 5 years</td>
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<td>Poverty rate at $1.25 a day (PPP) (% of population)</td>
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<tr>
<td>Income inequality (Gini index)</td>
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<td>Employment-to-population ratio (ages 15+)</td>
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<tr>
<td>Vulnerable employment rate (% of unpaid family workers and own-account workers in total employment)</td>
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</table>

Note: “n.a.” = not available; “*” represents a break in data series and therefore not strictly comparable with previous years.
Source: General Statistics Office of Viet Nam; World Bank: World Development Indicators (2012).

Social protection reforms are high on the political agenda in Viet Nam, and the Government has mandated the Ministry of Labour, Invalids and Social Affairs to develop a reform strategy for the period 2011–20, with the objective of developing a comprehensive and inclusive social protection system. Reforms are not just directed at particular social protection policies, however, but aim to encompass the entire social protection system.

During the past few years – as a result of the 2008–09 global economic crisis, the importance of employment and social protection have been emphasized. The contagious impacts of the crisis have been felt worldwide. Most countries experienced a fall in aggregate demand that led to economic hardship and high unemployment. The ILO estimates that from 2007 to 2009, the global number of unemployed people increased by around 27 million, plateauing in 2010 and 2011, despite a recovery in global economic growth.¹

¹ This chapter is an edited version of a background paper prepared by Nguyen Ngoc Anh, Development and Policies Research Center, and Nguyen Thang, Center for Analysis and Forecasting.

² Major challenges include the design of employment policies and social protection measures, given the large number of poor and near-poor people as well as the highly dualistic labour market and large informal sector.

Like many other developing countries, Viet Nam was seriously affected by the crisis initially. The worsening macroeconomic situation in late 2008 and early 2009 prompted the Government to respond quickly. To weather the adverse impacts of the global crisis, the Government announced a large fiscal stimulus package that included social protection and employment promotion measures designed to support the most vulnerable members of the society. Overall, Viet Nam has weathered the global economic crisis relatively well. The GDP growth rate bounced back, from 5.3 per cent in 2009 to 6.8 per cent in 2010 and 5.9 per cent in 2011, but has not yet returned to its pre-2008 levels.

The global economic crisis also underscored the complexity in the design of integrated economic, employment and social protection policies. Economic and social policies affecting employment have different objectives and are not always aligned. Especially if stimulus packages are designed for the short term, measures to support the real economy and social programmes are tightly constrained by macroeconomic and public finances. These policy packages may result in zero-sum gains of limited positive impact on employment in the long term. For example, stimulus spending through various social protection and emergency employment programmes may worsen the fiscal situation of the country, leading to employment contractions in subsequent years. Additionally, economic measures may target financial stability objectives, with adverse effect on employment in the short term, which can be further exacerbated by long-term fiscal austerity plans.

Social protection is most needed in times of economic disruption and crisis, but the financial resources required to fund social protection are constrained during economic downturns – tax revenues are lower than expected due to the general economic slowdown while there is increased demand for government spending in areas other than social protection. On the other hand, if the fiscal stimulus package supports social protection measures, it may contribute positively to advancing social protection reforms. From a political economy perspective, the global economic crisis offers an opportunity to re-think the model of growth and its implications for employment and decent work by creating a sense of urgency for developing a coherent long-term economic, employment and social protection strategy.

This chapter consists of analysis of the interplay between the macroeconomic policy package adopted to address the global economic crisis, social protection reform and employment promotion in Viet Nam. It highlights instances in which macroeconomic policy and social protection measures reinforced each other as well as instances in which a lack of policy coherence led to missed opportunities to help address Viet Nam’s socio-economic challenges. The remainder of the chapter provides analysis of the interplay between the fiscal stimulus package and the social protection- and employment-promotion agenda, followed by insights learned from Viet Nam’s experience.

4.2 Impact of the global economic crisis and the policy response

Through deeper integration into the regional and global economy, Viet Nam has benefited substantially from increased trade and international investment; at the same time, however, it has

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4 Viet Nam is not alone in taking these actions. Rescue packages in other countries included such measures as writing off bad assets in the banking system, cutting taxes, investing in infrastructure and paying out more social security benefits. Central banks around the globe adopted a lax monetary policy, drastically cutting interest rates to levels not seen in many years and even using unconventional monetary tools to expand liquidity in the banking system.

5 CEIC Global Database, referencing the Viet Nam General Statistics Office.

6 This chapter uses the term “social protection” to refer to the entire system of protective measures that assist individuals, households and communities to better manage risks and economic shocks and that provide support to the critically vulnerable. Among the major risks covered are illnesses, accidents, death, unemployment and old-age insecurity.
become more vulnerable to external shocks and crises.\textsuperscript{7} With a high export-to-GDP ratio, Viet Nam is particularly exposed to any negative shock to world trade, most particularly to a fall in demand in Europe and the United States.\textsuperscript{8} Similarly, the country’s reliance on foreign direct investment and oil revenues means that volatility in global capital markets and commodity prices also impacts its economy.

Up to the first half of 2008, Viet Nam was relatively unaffected by the financial turmoil. After the financial and economic environment worsened in the final quarter of 2008 and first quarter of 2009, both exports and foreign direct investment inflows were severely affected. Through the first ten months of 2009, Viet Nam’s exports declined by 13.8 per cent compared with the same period in 2008.\textsuperscript{9} There was also a slowdown in the inflows of foreign direct investment in 2009 due to the tightening of the global credit markets. As a result, in the first quarter of 2009, industrial production grew by only 2.1 per cent year on year (after increasing by more than 16 per cent in the first quarter of 2007 and 2008), while GDP growth moderated to only 3.1 per cent.\textsuperscript{10} This was the lowest rate of quarterly growth in many years, and to date, the crisis recovery still appears uncertain (Figure 2).

\textbf{Figure 2: Real GDP, Sep. 2007–Mar. 2012 (% change, year on year)}

\begin{figure}[h]
\centering
\includegraphics[width=0.5\textwidth]{gdp_graph.png}
\caption{Real GDP, Sep. 2007–Mar. 2012 (% change, year on year)}
\end{figure}

Source: CEIC Global Database, referencing the Viet Nam General Statistics Office.

With the fall in exports and lower economic growth, the labour market was expected to be heavily affected, with job cuts and higher underemployment resulting. Due to weak labour market information systems, data on the impact of the crisis on labour markets and employment are limited. According to the Labour Force Survey conducted by the Viet Nam General Statistics Office, unemployment actually fell slightly in 2009, to 4.6 per cent from 4.7 per cent in 2008.\textsuperscript{11} These figures contrast with findings from the Rapid Impact Assessment (RIM) surveys carried out by the Viet Nam Academy of Social Sciences (in collaboration with Oxfam GB and the World Bank) to assess the impact of the global economic crisis on Viet Nam. The first RIM survey conducted in early 2009 found that job losses were widespread in industrial zones (both in the North and the South), although some

\begin{itemize}
\item [7] Although the country has witnessed strong domestic consumption growth in recent years, Viet Nam’s economy continues to be driven by high external trade and increased foreign direct investment. See: N.A. Nguyen et al.: “Current global crisis, fiscal stimulus package and implication for Vietnam”, in Public Policy Review, Vol. 6, No. 4, Apr. 2010, pp. 769-90.
\item [8] The share of exports of goods and services in GDP was 78 per cent in 2010. See: World Bank: World Development Indicators (2012).
\item [9] Viet Nam General Statistics Office.
\item [10] ibid.
\item [11] ibid.
\end{itemize}
The Government quickly responded to counter the negative effects of the global crisis by reversing the course of the monetary tightening and fiscal austerity implemented in 2008. In December 2008, the Government introduced Resolution 30/2008/NQ-CP on Imperative Measures to Counter Economic Slowdown, Maintain Economic Growth and Ensure Social Protection and Security (hereafter Resolution 30) to deal with the economic slowdown. Resolution 30 was the country’s key response to the global economic crisis and was followed by a series of other resolutions, decrees, circulars and programmes that completed its implementation.

The aim of Resolution 30 was to cushion the impact of the global economic crisis and raise aggregate demand in the economy through a mix of accelerated government spending, tax cuts, public sector investments and social protection measures. Resolution 30 essentially covered two broad policy areas: monetary and fiscal policy and social protection policy. The following summarizes the social protection policy measures as stipulated in Resolution 30:

1. Immediate implementation of disaster and emergency relief for affected areas.
3. Public housing programme for the poor.
4. Implementation of an unemployment insurance scheme as stipulated by the Law on Social Protection.
5. Increase in the National Food Security Reserve (by purchasing rice).
6. Continued social transfers for public sector low-income wage earners.
7. Improved execution of poverty-reduction programmes and credit programmes for poor households, students and other eligible applicants through the Bank for Social Policy and support for ethnic minorities, as according to Decision No. 134/2004/QĐ-TTg by the Prime Minister.
8. Increased mobilization of resources for vocational and skills training for rural workers, especially the poor.

In terms of fiscal policy, the stimulus package was initially announced at the equivalent value of US$6 billion and was later revised up to almost US$8 billion. The package included a number of components including tax breaks and public investment for infrastructure, social transfers and lower interest rate-subsidized loans. For example, the stimulus package provided a one-off cash transfer of 200,000 dong per person for the poor on the New Year holiday, a reduction of 30 per cent on corporate income taxes, an extension of nine months for paying 2009 taxes, a temporary refund of 90 per cent of value-added tax for exported goods, personal income tax exemption for the first six

12 The inconsistency between the Rapid Impact Assessment Surveys and the national Labour Force Survey demonstrates the difficulties of measuring employment in Viet Nam. Most workers are in the informal sector, based mainly in agriculture in rural areas. A metric like the unemployment rate therefore is less useful in an economy such as Viet Nam in which most workers do not have a formal employment contract, do not receive a wage or do not work fixed hours. As a result, it is not too surprising that the labour market effects of the global recession did not show up in the official unemployment statistics. For further discussion, see: H.C. Nguyen et al.: *Vietnam labour market and informal economy in a time of crisis and recovery 2007-09: Main findings of the Labour Force Survey (LFS)* (Hanoi, 2010).
14 The Government aggressively loosened its monetary policy stance by cutting the base lending rate from 14 per cent per year to 7 per cent within a few months. The ceiling lending interest rate (1.5 times the base rate) was lowered accordingly, from 21 per cent to 10.5 per cent for productive activities. Lending interest rates for credit cards and consumption are negotiable and fluctuated between 12 per cent and 15 per cent.
months of 2009 and a 4 per cent interest subsidy extended to longer-term loans of up to two years for investment in agriculture and other productive activities. Through the Viet Nam Bank for Social Policies, the Government offered loans at preferential interest rates to households in 61 poor districts. In particular, loans of up to 5 million dong, interest free for two years, were offered to buy livestock or develop handicraft production.15

Details of the fiscal stimulus package are summarized in Table 4. The Government’s policy approach to maintaining economic growth comprised four broad components: i) supporting key sectors (primarily small and medium-sized enterprises); ii) stimulating investment; iii) reducing poverty and ensuring social stability; and iv) adopting a flexible approach to monetary and fiscal policy.16 Relative to other countries in the region, Viet Nam’s stimulus package as a share of GDP was high at 8.8 per cent, but trailed China (12 per cent), Singapore (10.7 per cent) and Malaysia (10 per cent).17

Table 4: Viet Nam’s fiscal stimulus measures

<table>
<thead>
<tr>
<th>No.</th>
<th>Policy measures</th>
<th>Amount (Dong) (billion)</th>
<th>% of total</th>
<th>% of government expenditure</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Interest subsidy for small and medium-sized enterprises</td>
<td>17 000</td>
<td>11.7</td>
<td>3.0</td>
<td>1.0</td>
</tr>
<tr>
<td>2</td>
<td>State development investment</td>
<td>90 800</td>
<td>62.4</td>
<td>15.9</td>
<td>5.5</td>
</tr>
<tr>
<td>3</td>
<td>Tax holidays and exemptions</td>
<td>28 000</td>
<td>19.2</td>
<td>4.9</td>
<td>1.7</td>
</tr>
<tr>
<td>4</td>
<td>Other spending for social security and economic downturn prevention</td>
<td>9 800</td>
<td>6.7</td>
<td>1.7</td>
<td>0.6</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>145 600</strong></td>
<td><strong>100</strong></td>
<td><strong>25.5</strong></td>
<td><strong>8.8</strong></td>
</tr>
</tbody>
</table>

Source: Government of Viet Nam: Report of the government to the National Assembly (Hanoi, 2009).

4.3 Assessment of coherence in the crisis response

This section focuses on the issue of policy coherence among the stimulus package, employment and social protection and investigates the policy process in three typical stages: i) planning and design; ii) implementation; and iii) monitoring and evaluation. The discussion on the planning and design stage examines whether the policy design was participatory, if the government solicited inputs from various stakeholders and whether or not the policy response was timely. The analysis of the implementation stage examines whether the Government mobilized adequate resources, whether the Government successfully coordinated the various agencies and stakeholders in responding to the crisis, whether the major programmes and policies that formed the Government’s response were coherent and whether the policy worked as intended. Finally, the section on the monitoring and evaluation stage explores the mechanisms for receiving feedback and whether changes and modifications were made to improve performance.

Experience shows that engineering a good stimulus package that is timely, well targeted and fiscally sustainable is not an easy task. In Viet Nam, however, it appears the Government chose an effective mix of stimulus measures:

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16 The lack of transparency in Viet Nam’s fiscal accounting makes it difficult to determine the exact size of the stimulus programme. It is unclear how much of the stimulus package was new financing and how much has actually been spent.

• The rapid loosening of monetary policy, together with the first phase of the interest rate subsidy scheme, acted as a “mass bail out” for the stalled banking and credit sector; exemptions and deferrals of tax payments succeeded in preventing a more severe economic downturn.

• The interest rate subsidy kept credit flowing to the economy at a time when banks could have opted to sit on their liquidity and avoid taking risks. It also allowed the refinancing of private sector debts that had been acquired at very high interest rates, which could have led to numerous defaults or bankruptcies in a context of falling inflation. The interest rate subsidy scheme likely had a positive impact (although difficult to quantify) on the labour market.

• The stimulus package contained strong elements of social protection and employment support. The social assistance with direct cash transfers for the poor a Tet (New Year) bonus and housing support and employment-generation schemes targeting small and medium-sized enterprises (4 per cent interest rate subsidy package targeted specifically at the labour-intensive sector) proved to be well thought out.

• Labour-intensive industries like tourism were also supported, with hotels and restaurants given a 50 per cent reduction in value-added tax payments.

• Micro-level targeting interventions included:
  i) Troubled firms were offered 12-month interest-free loans to pay salaries, make social insurance contributions or provide severance pay to laid-off workers.
  ii) Approximately 900,000 low-income civil servants, including teachers and nurses, received an unconditional cash grant of 360,000 dong in 2009.
  iii) Four million poor households received an unconditional cash grant via the Ministry of Labour, Invalids and Social Affairs and local governments.
  iv) Workers retrenched in 2009, including those who returned from overseas because they had been laid off, were entitled to borrow money at a low interest rate from the National Fund for Employment Generation to start a micro-enterprise or to undertake vocational training.  

At the provincial level, the local government concentrated on providing critical labour market information to workers and to the central Government as well as vocational training and re-training for laid-off workers. In Ho Chi Minh City, the municipal authority dedicated city funds for training courses for laid-off workers and for supporting enterprises to provide re-training for their workers.

4.3.1 Design stage

Instead of relying on a master plan or even a new law to tackle the global economic crisis, the Government resorted to a flexible, nuanced and gradual approach. The response started with internal consultations and a government resolution. Government officials from all ministries and agencies met for two days in early December 2008 to review the yearly socio-economic development plan and assess the impact of the crisis on the national economy. Realizing that the crisis could have material and other serious impacts on the domestic economy, the Government adopted Resolution 30, which was followed by numerous supporting legal documents, including government decrees (such as the Decree on Unemployment Insurance), Decisions by the Prime Minister (such as Decision 16/2009/QD-TTg on taxation to promote investment and consumption or Decision 131/QD-TTg on the interest rate subsidy) and ministry-level circulars and decisions (such as Circular 27/2009/TT-

BTC by the Ministry of Finance on income tax collection or Circular 02/2009/TT-NHNN by the State Bank on the eligibility for the interest rate subsidy).

Subsequent to issuing Resolution 30, government consultations with various stakeholders including non-government organizations, academics and international development partners, took place in various forms, such as through the media, policy research papers, workshops and conferences. All of these provided inputs into the detailed design of the stimulus package. Notably, the consultations led by the National Industrial Relations Commission brought together representatives from the private sector, trade unions and the central Government and generated a proposal to allow enterprises to delay paying unemployment insurance for six months.¹⁹

In comparison with practices in other countries where the economic stimulus package needed approval by the parliament, the package in Viet Nam took the form of a government resolution. Although resolutions do not have as high a level of legal validity as laws, in the Viet Nam context, Resolution 30 has a number of features that are worth extolling.²⁰ First, by design, Resolution 30 combined several policies into one package: monetary, fiscal and social protection. By integrating those policies into one general framework, the Government increased the chances of better outcomes from the greater policy coherence.

Second, a resolution can be issued quickly without having to go through time-consuming procedures, which in this case was prudent because the law-making agenda of the National Assembly was already full. Although it does not have the same high legal status as a law, a resolution assigns specific roles and responsibilities to ministries and agencies and provides detailed instructions and guidance for implementing. At the time of an economic crisis, timely policy actions are critical. Thus Resolution 30 allowed for a prompt government response to counteract a quickly worsening macroeconomic environment.²¹

Third, policy-making in the form of a government resolution can build consensus on the urgency for action among top policy-makers and delivers a strong policy statement to the wider community. This is particularly important because ministries and agencies may have different focuses and may follow targets and objectives that contradict each other. For example, in the area of social protection, Resolution 30 required the Ministry of Finance, the Ministry of Agriculture and Rural Development, the Ministry of Labour, Invalids and Social Affairs and the Government Committee on Ethnicity to work with each other on the Programme of Rapid Poverty Reduction for 61 poor districts. Following Resolution 30, the Government issued various other legal documents, such as decisions by the Prime Minister, government decrees and ministry circulars. In this way, Resolution 30 provided an overarching framework for policy coordination among ministries, agencies and other parties and ensured a certain level of policy coherence.

Finally, due to the flexible approach taken by the Government, extensive consultations took place between the Government, the international development community, academia, the media and the public. Through them, the Government gained knowledge to create an effective stimulus package, both in terms of boosting domestic demand and targeting the right sectors. For example, the National

¹⁹ ibid.
²⁰ Nominally, a government resolution in Viet Nam is similar to a government decree. In practice, however, a government resolution provides a general direction to address a particular issue and the detailed provision is elaborated by lower-level legal documents, such as ministerial circulars.
²¹ Usually the implementation of laws in Viet Nam is characterized by delays due to the practice of issuing decrees to elaborate on the laws and circulars to elaborate on the decrees. Resolution 30 went beyond the mandate of the Government in some instances, such as allowing budget advancements that did not have to be repaid within the fiscal year or allowing some outlays that were higher than the amount originally approved by the National Assembly.
Assembly directly requested input from academic research institutions on the stimulus package. As a result, a number of policy research papers were written and shared among the research and policy community, which increased the interaction between policy-makers and the academic circle. In one case, under an official arrangement between the Viet Nam Academy of Social Sciences and the Economic Committee of the National Assembly, a seminal policy research paper on the design and implementation of the fiscal stimulus package was prepared and helped shape the policy.22

4.3.2 Implementation stage

An unemployment insurance scheme, as an automatic stabilizer which can be an effective and important measure to counter an economic slowdown, was a critical policy intervention promoted by Resolution 30. An unemployment insurance system had not been established before 2008, although one was being developed when the crisis hit. Following Resolution 30, which included unemployment insurance as part of the stimulus package, the Government issued Decree No. 127/2008/ND-CP elaborating on the unemployment insurance scheme and implementation of the Law on Social Protection.23 The unemployment insurance scheme covers private sector workers employed by firms with 10 or more workers, and public sector workers on permanent contracts. To apply for unemployment insurance, workers must have worked at least 12 months in the 24 months preceding their unemployment insurance application. Contributions come from employers, employees and the Government; benefits are equivalent to 60 per cent of previous earnings and continue for 3–12 months, depending on the duration of contributions.24

Over the first two years of its operation, the unemployment insurance scheme operated relatively well. In the first 18 months, the Government received 373,087 applications and paid benefits to 294,763 unemployed workers. In 2009, 5.4 million workers contributed to the scheme, and 7.1 million workers participated in 2010.25 This latest figure represents around two in five wage workers in Viet Nam.26

Although the unemployment insurance system was a positive development, its timing was not ideal. Decree No. 127/2008/ND-CP stipulated that to be eligible for unemployment insurance, a worker must have contributed to the scheme for at least 12 months (Article 15). Although the regulation came into effect in January 2009, this requirement meant that unemployed people were only eligible to receive benefits for the scheme from 2010. Thus, when the crisis hit in 2009, the unemployment insurance scheme was only collecting contributions and not disbursing any benefits. This highlights a lack of coherence between trying to stimulate the economy in response to the crisis and the implementation of the social protection policy. Now that the scheme is in place, however, it will provide valuable assistance to wage earners in the event of future economic shocks.

Additionally, the effectiveness and equity of the scheme was hampered by its coverage. While excluding workers at firms with less than ten employees, it is also was not open to the majority of workers who are non-wage workers. Even though the number of informal workers has fallen in recent

26 The proportion of eligible workers participating in the unemployment insurance scheme is likely higher because a portion of those counted as wage workers by the national Labour Force Survey are employed at enterprises with less than ten employees or had not been working for 12 of the previous 24 months.
years, Viet Nam would still benefit from increased support systems for such workers.\textsuperscript{27} Along with social protection measures, it is important to look at the number and quality of jobs created when designing a stimulus package. Putting aside the negative impacts, the crisis itself presented an opportunity for engineering an employment strategy that will lead towards better-quality jobs. Although one of the elements of the stimulus package was to preserve jobs and create employment, the package did not specify a particular target of jobs that should be created. Without having a specific target, it is difficult to monitor the effectiveness of the stimulus package on employment. The stimulus measures did indeed positively impact employment levels, particularly through the 4 per cent interest rate subsidy, but their magnitude was small and tended to be short term.\textsuperscript{28}

In the medium term, the impact of the stimulus package had other implications for the macroeconomic context. Although the stimulus package undoubtedly contributed to Viet Nam’s resilience during the initial stage of the economic crisis, it was arguably also a factor in the country’s more recent macroeconomic instability. Even though the economy began to recover in the third quarter of 2009, the Government still ran a large budget deficit of 6 per cent of GDP in 2010, and the level of public debt rose significantly during this period, to 35 per cent of GDP in 2011.\textsuperscript{29}

Inflation dropped from 23 per cent in 2008 to 7 per cent in 2009, but it increased again in 2010, to 9 per cent and then spiked in 2011 to 19 per cent.\textsuperscript{30} In addition, GDP growth has not recovered to pre-crisis levels; in fact, it moderated in 2011 to less than 6 per cent.\textsuperscript{31} Although not directly related to the global economic crisis, the current account deficit ballooned in this period, exerting pressure on the exchange rate (forcing a number of sharp devaluations) and reducing foreign reserves to an estimated two months of export coverage.\textsuperscript{32}

In response to rising prices and the growing current account deficit, the Government quickly reversed course in 2011, tightening monetary policy to bring down inflation and reduce the pressure on the exchange rate.\textsuperscript{33} The change of policy has had the desired effect, with inflation falling to 10.5 per cent in June 2012 – but at the price of economic growth, which some analysts are forecasting to fall to 5 per cent, the lowest since 1999.\textsuperscript{34}

The recurrent symptoms of macroeconomic instability hamper the investment climate, hurt workers’ real wages and point to shortcomings in Viet Nam’s current economic growth model. The yet-unreleased National Employment Strategy 2011–20 recognizes this and, among other issues, aims to

\textsuperscript{27} J. Cling et al.: \textit{The informal economy in Vietnam: Study for the ILO} (Hanoi, ILO, 2010). Viet Nam does have a voluntary social security scheme for workers in the informal economy. For further information, see: SPF Country Brief: Viet Nam, http://www.socialsecurityextension.org/gimi/gess/RessFileDownload.do?jsessionid=59e3c128deea485953e15a6c300356e04ec165a31151cc0c7f1eb2894b10e6f.e3aTbhuLbNmSe3eNai0?ressourceId=19804 (accessed 1 Aug. 2012).


\textsuperscript{29} International Monetary Fund: \textit{World Economic Outlook Database}, op. cit.

\textsuperscript{30} ibid.

\textsuperscript{31} ibid.

\textsuperscript{32} International Monetary Fund: \textit{World Economic Outlook Database}, op. cit; and World Bank: \textit{World Development Indicators}, op. cit.

\textsuperscript{33} The Government introduced a comprehensive macroeconomic stabilization package widely known as Resolution 11 in February 2011 as well as a large-scale long-term programme in October 2011 on economic restructuring that focused on three areas: public investment, the banking sector and the state-owned enterprise sector.

move towards a new model of growth that is more sustainable and addresses both economic and job-related informality.

4.3.3 Monitoring and evaluation stage

Monitoring and evaluation of the stimulus package has proven to be difficult, although attempts were made by the National Assembly. The fiscal stimulus package, despite its budgetary requirements, was not subject to National Assembly approval due to it being a government resolution with no proper built-in monitoring and evaluation mechanism. The National Assembly only later received government reports on the progress and results of the package. Thus, monitoring and evaluation is likely the weakest part of the stimulus package from the Government’s side.

However, the World Bank, along with other donors, helped fill the gap with a Rapid Impact Monitoring programme. This is a biannual monitoring survey conducted by the Academy of Social Sciences to track the impact of the global economic crisis on various sectors, from enterprises to poor households. It has contributed towards the execution of the stimulus package and the coherence between macroeconomic policy and social protection policy during the economic downturn. The November 2009 report (based on surveys carried out in August and September) concluded that a number of areas of the stimulus package could be improved. Some businesses, particularly those in financial trouble, were struggling to access the preferential 4 per cent interest rate loans, in part due to the slow approval process and the lack of necessary financial records. The report also argued that a form of exchange rate devaluation, possibly a fully flexible exchange rate, is needed to help exporters, including foreign enterprises that could not benefit from the stimulus package’s preferential interest rate loans. Finally, the report recommended that the Commune People’s Committees and/or trade village associations should be included in the loan-making process to ensure that the appropriate enterprises are chosen for preferential loans.

4.4 Conclusions and lessons learned

Viet Nam weathered the global economic crisis relatively well. The Government’s economic stimulus package deserves praise for its responsiveness and the manner in which it targeted vulnerable groups; the package proved important in maintaining strong economic growth during the global economic crisis. The social protection measures in the stimulus package were critical – from the long-planned unemployment insurance scheme to the cash transfers for poor households. Viet Nam’s crisis response underscores useful insights, outlined within the following four themes.

4.4.1 Intra-governmental coordination and coherence

Governance arrangements that improve the inclusiveness of policy formulation and strengthen monitoring and evaluation are critical. Coordination across government ministries and agencies would likely improve macroeconomic policy, employment outcomes and the social protection reform process. The Government conducted a two-day meeting in December 2008 that involved all ministries and agencies to discuss and assess the impact of the crisis. These discussions highlighted the potential consequences not only for the domestic economy but also across economic sectors and segments of society. The Government consequently formed and issued Resolution 30, followed by numerous supporting legal documents to operationalize its implementation.

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Resolution 30 also helped to build agreement on the importance for coordinated action among the top policy-makers. Having an overarching and cross-cutting policy platform is essential given the diverse mandates of different ministries and agencies. For example, Resolution 30 mandated the Ministry of Finance, the Ministry of Agriculture and Rural Development, the Ministry of Labour, Invalids and Social Affairs and the Government Committee on Ethnicity to coordinate efforts to implement the Programme of Rapid Poverty Reduction for 61 poor districts.

4.4.2 Stakeholder partnership and support

In addition to better governmental coordination, the Viet Nam case highlights the importance of engaging other stakeholders in the policy process. This is especially relevant given that outside technical expertise can strengthen the policy design and monitoring stages to produce better outcomes. During the early phases of the crisis, the Government consulted widely with stakeholders, including non-government organizations, the international development community, academia and others. This process helped substantially in determining the sectors that the stimulus package should support.

For example, the Viet Nam Academy of Social Sciences, through an official partnership with the Economic Committee of the National Assembly, developed a prominent research paper that helped to shape the design of the fiscal stimulus package. Tripartite consultations led by the National Industrial Relations Commission and involving the business sector and trade union representatives helped in planning the unemployment insurance scheme in ways to protect both vulnerable enterprises and workers during the crisis. In terms of monitoring the crisis impacts, the World Bank and other development partners were instrumental in supporting the Government through the Rapid Impact Monitoring programme, which entailed a biannual monitoring survey conducted by the Viet Nam Academy of Social Sciences.

4.4.3 A sound labour market information system

Formulating a coherent policy that integrates macroeconomic, employment and social protection concerns requires a strong system of data and other information, particularly in the context of an economic crisis. Although the statistical systems that regularly monitor national accounts and key macroeconomic indicators are often well developed, including in Viet Nam, a rigorous information system that can report on rapid changes in the labour market is just as critical. Such a system, based on reliable data from regular labour force and enterprise surveys, can help policy-makers to reach better policy outcomes.

At the beginning of the global crisis, Viet Nam’s labour market information system, which included the Labour Force Survey conducted by the General Statistics Office, was limited in its ability to track short-term changes in the labour market and immediate consequences of an external shock. The Rapid Impact Monitoring programme was integral to filling some of the gaps. Nonetheless, further investment in the national labour market information system was needed. With the support of the ILO and other partners, Viet Nam now implements a quarterly labour force survey and has established a National Centre for Labour Market Forecast and Information within the Ministry of Labour, Invalids and Social Affairs.
4.4.4 A long-term perspective towards greater coherence

To respond to an immediate crisis, a coherent macroeconomic, employment and social protection policy is an imperative. The process, however, must not only focus on addressing the short-term challenges but also aim to meet long-term objectives by entrenching coherence at both the policy and institutional levels. Macroeconomic, employment and social protection issues are often managed separately in Viet Nam. Agencies responsible for macroeconomic management, such as the State Bank of Viet Nam, the Ministry of Planning and Investment and the Ministry of Trade and Industry, often neglect employment, poverty and distributional concerns in macroeconomic policy formulation and oversight. Meanwhile, agencies focused on social development, such as the Ministry of Labour, Invalids and Social Affairs and the Social Affairs Committee of the National Assembly do not adequately participate in the design and oversight of macroeconomic policies.

Despite the overarching framework of Resolution 30, the introduction of the unemployment insurance scheme was mistimed, increasing savings in the economy when boosting demand should have been the goal. As well, the size of the stimulus package arguably contributed to higher inflation and a large current account deficit, necessitating a subsequent swift reversal in macroeconomic policy and significant monetary tightening. In 2011 and facing continued macroeconomic instability, the Government issued Resolution No. 11/NQ-CP on inflation control, macroeconomic stabilization and social protection and in which social security was treated as a priority.

Policy-makers recognize that macroeconomic volatility is damaging to employment growth and poverty reduction but time will tell whether the necessary institutional measures are adopted to address the situation. There is clearly a need for capacity building and institutionalizing a mechanism for coordination in the policy process, from analysis to design to implementation and monitoring. In Viet Nam, these issues are now addressed in a draft policy document – the National Employment Strategy 2011–20. The draft policy underlines a long-term approach that combines a new model of economic growth rooted in employment promotion, with stronger social protection institutions and a higher degree of coordination in the design, monitoring and evaluation of social and economic policies through approaches that are both inter-ministerial and tripartite.
References


Case studies of policy coherence initiatives in developing Asia

Recognizing the relationship between macroeconomic, employment and social protection policies and their link to poverty reduction and inclusive development, some countries in developing Asia have pursued various initiatives towards greater policy coherence and institutional coordination in recent years. These varied efforts include better alignment of national poverty-reduction programmes in Indonesia, the integration of employment targets into the national development plan in Nepal, convergence in social protection programmes in the Philippines and coordinated macroeconomic, employment and social protection policy responses to the global economic crisis of 2008-09 in Viet Nam. Strengthening the coherence of policies and programmes is a complicated and arduous challenge. Various factors can be instrumental in the process, including strong political will and leadership, broad stakeholder engagement and support, rigorous research, information and analysis, and integrated monitoring and evaluation.