

United Nations Development Programme

Project Document

Strengthening Capacity in Poverty Monitoring, Policy Formulation and Evaluation

Summary

The objectives of this project are to assist and strengthen the capacity of the Economic Planning Unit, Prime Minister's Department of Malaysia, (i) to better monitor trends and patterns in poverty by defining a new poverty threshold (ii) to improve poverty policy formulation by broadening the range and details of poverty measures in the Ninth Malaysia Plan and (iii) training government staff and other stakeholders in the construction, analysis and interpretation of poverty measures.

Although the incidence of poverty is low in Malaysia, pockets of poverty continue to exist with high incidences of poverty among specific ethnic groups and localities. Hence a more target-specific approach is required to address this situation. At the same time, there is a need to review the measurement of poverty used in Malaysia, which has not changed much in terms of methodology and concepts since first formulated in the 1970s. A key output will be a new poverty threshold for Malaysia, which will be used by all implementing agencies to identify target groups differentiated by urban/rural areas, states and population sub-groups. It will also be used in developing poverty maps to identify areas with high concentration of poor households. Target-specific policies and strategies designed to help eradicate absolute poverty will be developed and included in the Ninth Malaysia Plan, 2006-2010.

August 2004

Table of Contents

Part Ia. Situational Analysis	1
Part Ib. Strategy	4
Part II. Results Framework	8
Part III. Management Arrangements	12
Part IV. Legal Context	13
Signature Page	
Budget	
Annexes	
Annex 1	Terms of Reference
Annex 2	Project Schedule

Part Ia. Situation Analysis

Growth with equity

Poverty eradication remains high on the national policy agenda in Malaysia and is especially evident in the statements made by Prime Minister Datuk Seri Abdullah Ahmad Badawi. The efforts by Malaysia to reduce poverty have as its ultimate goal the establishment of a united Malaysian nation. The guiding philosophy of development remains, growth with equity, as embodied in all major long and medium term of Malaysia plans from the New Economic Policy (NEP), 1970-1990, to the Vision 2020.

To achieve national unity, two major strategies were utilized, predicated upon the premise that firstly, national unity was unattainable without greater equity and balance among the ethnic and regional components of Malaysia. Participation in national development and in the sharing of the benefits of economic growth; and national unity are essential. The two-pronged strategy of the NEP aimed at:

- a. Reducing absolute poverty with the intention of eventually eradicating it, by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race;
- b. Restructuring society to correct economic imbalances so as to reduce and eventually eliminate the identification of race with economic function.

In addition, the above strategies were to be achieved in a context of sustained economic growth - deemed necessary to provide increased employment opportunities for the poor. This fundamental stance has remained an integral component of major policies succeeding the NEP, namely the National Development Policy (NDP) 1991-2000, the National Vision Policy, 2001-2010 and Vision 2020, signifying the great importance that the Government attaches to it.

Poverty eradication targets

The ultimate objective of public policy is to totally eradicate poverty and improve the lives and well-being of all. At the operational level, the immediate objective has been to progressively reduce the incidence of poverty. In line with that objective, the target during the NEP period was to reduce the incidence of poverty in Peninsular Malaysia from 49.3 per cent in 1970 to 16.7 per cent in 1990. Subsequently, under NDP, the target was to reduce the incidence of poverty to 7.2 per cent by the year 2000. In addition, a target was also set for reducing the incidence of hardcore poverty, defined as those below half of the poverty line income, to 0.3 per cent by 2000. Under the current Eight Malaysia Plan, 2001-2005, the target is to reduce the incidence of poverty to 0.5 per cent by 2005.

Another policy objective has been to reduce relative poverty, or income inequality. In the NEP years, the focus was on the reduction of the gaps among ethnic groups, rural and urban dwellers, and income groups. Under NDP and NVP, reducing intra-ethnic income gaps also became an objective, but progress has been slow.

Poverty eradication strategies

Key poverty-reducing strategies have been to provide opportunities for the poor to be gainfully employed and/or to engage in higher-paying jobs or activities. An aim has been to increase incomes above the national poverty line income. Less emphasis has been placed on welfare handouts as a means of dealing with poverty, except for segments of the hardcore poor who are unable to find gainful employment, such as the aged and handicapped.

Achievements

Malaysia has made great strides in reducing poverty, with the incidence of poverty declining from 49.3 per cent in 1970 to 16.5 per cent in 1990 and 5.1 per cent in 2002, and the number of poor households declined to 267,900. However, poverty remains consistently high in the rural areas with 11.4 per cent, compared to only 2.0 per cent in 2002 in the urban areas.

With regard to hardcore poverty, the overall incidence was reduced from 3.9 per cent in 1990 to 1.0 per cent in 2002. For urban and rural areas, the incidences of hardcore poverty was reduced from 1.3 and 5.2 per cent to 0.4 and 2.3 per cent, respectively.

Part 1b. Strategy

As the overall incidence of poverty continuously decline to a single digit figure, efforts to further reduce poverty become more challenging, particularly in reaching the more remote areas that contain the pockets of poverty. Yet at the same time with increasing urbanization and demographic shifts, including within households, the adequacy of current poverty measures has been questioned. Many of these were devised when Malaysia was an agricultural society. So another challenge is to redefine them.

(i) Concepts and measurements of poverty

An important prerequisite in the fight against poverty is agreement on the definition and measurement of poverty. The Government has taken the lead in this task, following consultations with various experts and groups. It has recently decided that poverty measurement in Malaysia has to be reviewed in order to make it a more relevant, detailed and accurate accounting of the poverty situation in Malaysia. The current measurement is based on the methodology developed in 1977 and it has not changed since, even though the economy and the nation's demography, as well as the people's standard of living has undergone major changes. In addition, the current measure does not make a distinction between urban and rural areas and between different states within the Peninsula where prices for food vary considerably. There is merely a different poverty line income (PLI) for Peninsular Malaysia and the eastern states of Sabah and Sarawak.

Three basic concepts pertaining to poverty have been adopted by government to circumscribe and underpin programmes: these are absolute poverty, absolute hardcore poverty and relative poverty. Absolute poverty has been defined as a condition in which the gross monthly income of a household is insufficient to purchase certain minimum necessities of life. Those necessities include a minimum food basket to maintain household members in good nutritional health and other basic needs, such as clothing and footwear, rent, fuel and power, transportation and communications, health care, education and recreation. A PLI was established and used, based on the basic costs of the items mentioned above and periodically revised in line with movements of CPI. Absolute hardcore poverty has been defined as a condition in which the gross monthly income of a household is less than half of PLI. That definition was introduced in 1988 to enable more accurate targeting of poverty readjustment projects towards the hardcore poor.

With regard to relative poverty, this concept is linked to the notion of income disparity between groups. Thus, a group whose mean income is less than another has been defined as being in relative poverty. Under that definition, it is possible to define a group (e.g., rural dwellers) as being in relative poverty to another group (e.g., urban dwellers), even though their mean income exceeds PLI. In Malaysia, relative poverty has been measured by using income disparity ratios of income groups (top 20 and bottom 30), ethnic groups and urban and rural dwellers. In addition, the Gini coefficient and several other measures have also been utilized.

There is an urgent need to review the range of poverty measures used, the definitions and methodology used in constructing them for a more effective and policy formulation monitoring. Hence a key output of this project will be a new poverty threshold.

(ii) Improving capacity for poverty analysis and policy development

The formulation of poverty reduction policies, strategies and programmes in Malaysia is led and coordinated by the Economic Planning Unit (EPU), Prime Minister's Department, as an integral part of the process of formulating the national development plans. The multi-tiered process involves village leaders at the grass-roots level, the Federal, State and local levels of the public service machinery (including the National Development Planning Committee, which is chaired by the Chief Secretary to the Government), the Cabinet and, at the very top, Parliament. At the same time, it has also been made broad-based, incorporating not only inputs from the parties mentioned above but also those of the universities, NGOs and individual experts. The main focus of the exercise has been on the achievements and shortcomings of existing policies, strategies and programmes, and the identification of remedial and new policies, strategies and programmes;

It is expected that once the incidence of poverty has reached single digit figures, the task of reducing it further will be more difficult as well as more costly. The fact that the incidence of hardcore poverty could only be reduced by 1 per cent over the four year period between 1990 and 1993 (from 4 to 3 per cent) is an indication of that likelihood. The difficulty will be greater because those who comprise the remnant group will be people who have not been able, for various reasons, to take advantage of the opportunities provided by government programmes and the

continually expanding economy, to better themselves. Hence, the greatest development challenge in poverty eradication is reaching these pockets of poverty and the marginalised groups in both the urban and rural areas, the hard core poor among the minorities in Sabah and Sarawak as well as the *Orang Asli* living in 840 villages throughout Peninsular Malaysia where poverty is still more than 50 per cent for those living in the most remote areas. A survey of nine minority groups in Sabah and Sarawak found the incidence of poverty among the poorest to be at 70 per cent. Poverty is also high in the northern and east coast states in Peninsular Malaysia as well as in Sabah which registered the highest poverty incidence among all states, at 16 per cent. Rural households headed by the elderly, that is 65 years and above, and female-headed households registered high incidence of poverty at 28.6 per cent and 25.7 per cent, respectively.

The Government has recently announced that the hard core poor in this country must be completely eradicated in 5 years, i.e. by 2009. All parties have been called to intensify efforts towards achieving this target and the EPU has been tasked to improve the database to identify the poor in both the rural and urban areas. To improve policy analysis and planning more focused studies will need to be carried out on the profile of the poor and the hardcore poor to facilitate identification of more target-specific anti poverty programmes. In addition, identifying suitable approaches in overcoming the problems of the poor, who do not comprise one homogenous group, is a big challenge. The many sub-groups among the poor such as the hardcore poor, single parent, women or female-headed families, elderly people, the handicapped and indigenous communities, each having unique problems which, therefore, have to be dealt with differently if the problems are to be overcome.

The evaluation of progress made in poverty reduction has been carried out mainly through periodic Household Income Surveys, conducted by the Department of Statistics, which have provided information on household income and the incidence of poverty.

The output of this component is enhanced capacity in the EPU in poverty analysis, preparation of poverty mapping, understanding poverty trends (incidence, depth, severity), other dimensions of human poverty (nutrition, health and education levels etc.) the dynamics of poverty over time (who is getting out of poverty? who is getting into poverty? who remains in poverty?) and refining the poverty reduction policies, strategies and approaches in order to attain the national poverty eradication goals. There is also a need to enhance capacity in poverty measurement and diagnostics in the Department of Statistics in particular in making these statistics an important input for policy making.

(iii) Improving capacity for poverty monitoring and evaluation

The implementation of poverty programmes is carried out by various ministries through their operating agencies at the State and sub-State levels, based on approved policies and programmes as well the support of implementation guidelines. The task of coordinating and monitoring the implementation carried out by the Implementation Coordination Unit (ICU), Prime Minister's Department through a multi-tiered set of multi agency coordinating and monitoring

committees. At the apex was the Working Committee for National Development which was chaired by the Chief Secretary to the Government, which in turn reported to the National Development Council, chaired by the Prime Minister. In 1995, as part of a bigger reorganization of ministerial functions, the ICU's function in this area was reassigned to the Ministry of Rural Development.

The Government has recently reassigned the task of coordinating and monitoring the implementation of poverty eradication programmes to ICU. At the apex of the multi-tiered monitoring structure remains the Working Committee for National Action chaired by the Chief Secretary to the Government, which in turn reports to the National Action Council, chaired by the Prime Minister.

The evaluation and impact assessment of poverty reduction programmes are carried out by the implementing agencies by commissioning studies as the need arose. Periodic Household Income Surveys, conducted by the Department of Statistics also provide information on household income and the incidence of poverty. The findings of those surveys and studies are used as inputs for the next round of the planning process.

For greater impact it is crucial to ensure that government interventions and programmes to reduce poverty are a properly coordinated multi-agency and multi-pronged effort. Hence the output of this component will be an effective poverty monitoring and evaluation tool including development of monitoring indicators including accurate quantitative and qualitative poverty indicators for both the urban and rural areas.

Intended Outcome as stated in the Country Results Framework			
Improved and targeted pro-poor policies and programmes designed to eradicate poverty and reduce inequality			
Outcome indicator as stated in the Country Programme Results and Resources Framework, including baseline and target			
<ul style="list-style-type: none"> • New poverty-reducing policies for Ninth Malaysia Plan • Improved tools and capacity for poverty monitoring, including ability to target the poorest households, with EPU staff trained to handle and analyse new poverty measures 			
Applicable Strategic Area of Support (from SRF) and TTF Service Line (if applicable)			
Partnership Strategy			
International consultant/s to work alongside national experts and UNDP staff to ensure skill transfer and capacity building.			
Project title: Strengthening Capacity in Policy Formulation, Monitoring and Evaluation for Poverty Eradication in Malaysia.			
Intended Outputs	Output Targets for 2004/2005	Indicative Activities	Inputs
i. Development of (a) new poverty measure for Malaysia which meets the basic principles underlying the poverty line, such as consistency and specificity, and is relevant for current planning purposes (b) technical guidelines on methodology of new poverty measures. ii. Poverty profiles based on the new measure. iii. Development of a new set of policies and strategies to eradicate poverty based on new poverty measures for incorporation in Ninth Malaysia Plan iv. Enhanced capacity to undertake poverty analysis, preparation of poverty mapping, understanding poverty trends, and refining the poverty reduction policies, strategies and approaches to attain the national poverty eradication goals. v. Enhanced capacity in poverty measurement and diagnostics in the Department of Statistics, particular in making these statistics an important input for policy making vi. Poverty monitoring and evaluation model.	(i) Formulation of, and agreement on new poverty measure by end October 2004 to be proposed to Government (ii) Development of poverty profiles for selected areas (iii) An effective poverty monitoring and evaluation tool developed (iv) Detailed analysis of new poverty measures for inclusion in Ninth Plan (v) Training conducted of government staff in poverty measures	<ul style="list-style-type: none"> • Discussions and meetings with relevant agencies/stakeholders • Evaluate HIS and HES survey data • Review in depth existing methodology for preparing poverty measures • Review good practices in poverty measures of other countries • Preparation of training materials for capacity building 	Data and information from the relevant ministries and agencies.

Part III. Management Arrangements

The Distribution Section, Economic Planning Unit (EPU) is the Executing Agency for this project and the Director General of EPU will serve as chair of the National Steering Committee (NSC). The NSC will consist of nominated representatives from the relevant ministries and agencies including Ministry of Health, Statistics Department, Ministry of Rural and Regional Development, Implementation and Coordination Unit of the Prime Minister's Department and the EPU. In addition, a Technical Working Committee will be established to look at the technical details.

The Distribution Section of EPU will be responsible for reporting on project result and finance. In addition, the Government of Malaysia through EPU will provide the following in-kind contribution :

- The National Project Director
- Appropriate officers to be attached as counterparts to the Consultants
- Access to all relevant data and information required to undertake the study
- Office facilities for consultants and use of office support facilities (eg computers, fax, stationery, photostat machine, telephone, local transport)
- Facilities for convening meetings

UNDP will identify and recruit most suitable Consultant/s.

Part IV. Legal Context

This Project Document shall be the instrument envisaged in the Supplemental Provision to the Project Document, attached hereto. The host country implementing agency shall, for the purpose of the Supplemental Provisions to the Project Document, refer to the Government cooperating agency described in the Supplemental Provisions.

“The following types of revisions may be made to this project document with the signature of the UNDP principal project representative only, provided he or she is assured that the other signatories of the project document have no objection to the proposed changes:

1. Revisions in, or addition of, any of the annexes of the project document [with the exception of the Standard Legal Text for non-SBAA countries which may not be altered and the agreement to which is a pre-condition for UNDP assistance].
2. Revisions which do not involved significant changes in the immediate objectives, outputs or activities of a project, but are caused by the rearrangement of inputs already agreed to or by cost increases due to inflation; and
3. Mandatory annual revisions which re-phase the delivery of agreed project inputs or increased expert of other costs due to inflation or to take into account agency expenditure flexibility.”

Audit Requirements

As with all nationally executed projects, the project must be audited periodically. The objective of the audit is to provide the UNDP Administrator with the assurances that UNDP resources are being managed in accordance with:

- a) The financial regulations, rules, practices and procedures prescribed for the project:
- b) The project document and work plans, including activities, management and the project implementation arrangements, monitoring, evaluation, and reporting provisions
- c) The requirements for execution in the areas of management, administration and finance.

While the Government is responsible for ensuring that the audit requirements are met, the project may be subject to audit by the auditors of UNDP, and UNDP shall have right of access to the relevant records.

The Auditors for the project will be appointed as directed by the National Steering Committee. The Government must ensure that the audit is performed in accordance with the generally accepted standards and ensure that the audit report is duly reviewed and will reach UNDP Headquarters via the UNDP Malaysia office by 30 April of each year.

The Government auditors i.e. the Auditor-General's Office will conduct the audit. The Government must ensure that the audit is performed in accordance with generally accepted standards and ensure that the audit report is duly reviewed and will reach UNDP Headquarters via the UNDP Malaysia office by 30 April of each year.

Terms of Reference**Review of the Concept and Measurement of Poverty****I Background**

The Government of Malaysia has decided that there is a need to review the current concept and measurement of poverty in Malaysia. Poverty is measured both in absolute and relative terms in Malaysia. In the absolute approach, the methodology used, first developed in 1977 is based on a certain minimal living standard specified in terms of nutritional level, clothing and footwear and other non-food expenditure such as rent; fuel and power; furniture and household equipment; medical care and health expenses; transport and communications; and recreation, education and cultural services. The PLI is updated using the Consumer Price Index to reflect the price changes. However, no distinction is made between urban and rural areas although different PLIs are used for Sabah and Sarawak to reflect the higher cost of living in the East Malaysian states.

Although the Malaysian economy has undergone major structural changes since the 1970s there has been little change in the methodology used in measuring PLI over the past 30 years. With marked improvements in the standard of living of the people, expenditure patterns of families have also changed. In addition, there is a need to have different measurement for the urban and rural areas as costs differentials are significant now. Hence, many consider the current measure to be seriously out of date. The new measurement developed will be an important tool for Malaysia's continuing effort to eradicate poverty and improve further the standard of living of the people.

II Objectives of the Study

The main objective of this work is to develop an appropriate concept and measurement of poverty in Malaysia which incorporates improvements in methodology and concepts.

III Scope of Work

In line with the objective of the study, focus will be given to the following areas:

- (i) To re-examine and evaluate the current concept and measurement of poverty in Malaysia;
- (ii) To suggest an appropriate approach or methodology in defining and measuring poverty and develop the new measurement;
- (iii) To develop the poverty measurement to reflect urban, rural and regional differences; and
- (iv) Based on (ii), construct and evaluate the poverty profiles in Malaysia across subgroups of society in the various sectors, ethnic groups and regions in Malaysia.

IV The Expected Output and Timeline

The expected output will be as follows:

- a. development of new measurement of poverty in Malaysia which meets the basic properties, among which are:
 - i. measures individual need;
 - ii. takes account of economies of scale in household consumption;
 - iii. adjusted for differences in costs of living across areas and regions;
 - iv. satisfies consistency requirement to enable comparisons of poverty situations across regions;
 - v. reflects the consumption patterns of the population; and
 - vi. consistent over time.
- b. an analysis of the poverty profiles in Malaysia based on the new measurement showing the incidence of poverty, poverty gap measure, severity of poverty, and other relevant poverty measures;
- c. recommendations on improvements to poverty data collection and analysis in particular the Household Income Survey and the Household Expenditure Survey;
- d. technical notes on methodology and models used; and
- e. counterpart training and workshop for technology transfer.

The Government of Malaysia has decided this work should be done with urgency and would like to see its completion by end of October 2004. The Consultant is expected to start work second week of August 2004 till end of October 2004 and produce the following reports:

- a. Inception Report – to be submitted after one week of the study;
- b. Interim Report – to be submitted by end of September 2004
- c. Draft Final Report – to be submitted by second week of October 2004, incorporating comments of steering committee and workshop discussions.
- d. Final Report – to be submitted by 31 October 2004

ANNEX 2

PROJECT SCHEDULE

This is an indicative work flow and detailed timing will be confirmed at the First National Steering Committee in consultation with key Ministries and EPU.

OUTPUT TARGETS FOR 2004		INTENDED OUTPUT	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
(vi)	Formulation of new poverty measurement by end of October 2004 to be proposed to Government	vii. Development of (a) a new measurement of poverty in Malaysia which meets the basic principles underlying the poverty line, such as consistency and specificity	X	X	X									
		(b) technical notes and methodology.	X	X	X									
(vii)	Development of poverty maps for selected localities;	viii. Analysis of poverty profile based on the new measurement.	X	X	X									
(viii)	An effective monitoring and impact evaluation system developed	ix. Development of a new set of policies and strategies to eradicate poverty for incorporation in Ninth Malaysia Plan			X	X	X							
		x. Enhanced capacity in poverty analysis, preparation of poverty mapping, understanding poverty trends, and refining the poverty reduction policies, strategies and approaches to attain the national poverty eradication goals.						X	X	X				

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OUTPUT TARGETS FOR 2004	INTENDED OUTPUT	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	xi. Enhanced capacity in poverty measurement and diagnostics in the Department of Statistics in particular in making these statistics an important input for policy making						X	X	X				
	xii. Poverty monitoring and evaluation model.									X	X	X	X