Development Research
2019-01

Contemporary Economic and Social Policy for Inclusive Growth

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Foreword and Acknowledgements

Throughout Asia, rapid, sustained economic growth has lifted hundreds of millions of people out of poverty. Regional and global economic architecture facilitates rising trade and investment in Asia and the world. Technology accelerates change in striking ways: it drives faster global economic integration, improves access to information, and increases the ability to organize and act collectively. At the same time, Asian countries struggle to manage these changes. Poverty, rising inequality, injustice, lack of access to natural resources, conflict, and urbanization are among the challenges that threaten the region's sustainable development. Weak government institutions, poor policy decisions, a lack of political will, and resource constraints impede many Asian governments' ability to tackle these issues.

In order to improve Asia's growth prospects, especially for inclusive growth, countries must manage current regional trends. These trends include urbanization, regional disparity, persistent gender discrimination, aging populations, rapidly advancing technology, and increased connectivity. In order to push economic growth forward, Asian countries must approach these trends with new strategies. This volume will explore the government and policy approaches of selected Asian countries that have driven economic growth by responding to emerging challenges and capitalizing on new opportunities.

The Korea Development Institute (KDI) and The Asia Foundation (TAF) collaboration on Asia-Asia dialogue and research began in 2010. This partnership has contributed fresh research on the Asian experience and shapes the evolving discourse on Asian-led development.

This publication and the partnership between KDI Center for International Development and TAF rests largely on the vision and leadership of KDI's Visiting Senior Fellow, Dr. Chang Jae Lee, and

TAF's Senior Director of International Development Cooperation, Ms. Anthea Mulakala. We especially recognize and thank Dr. Nicola Nixon, Director of Governance and editor of this volume, for her extensive work with authors to help share their experiences. We would also like to thank individuals working at KDI and TAF who provided invaluable assistance: Ms. Yoon-Jung Kim, Mr. Wooyong Jung, and Ms. Mina Hyeonmin Kim from KDI, and Mr. Jongbeom Choi, Ms. Ryeong Im Kim, and Ms. Aejung Noh of TAF for coordinating, researching, editing, and providing logistical support to the authors and editors. Finally, from BlueSky International, we thank Ms. Leila Whittemore, Ms. Laura Pierson, and Ms. Suzan Nolan for their meticulous editorial work and excellent coordination of the publication process.

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Abbreviations

EUR	Euros
GB	Gender Budgeting
GBP	British pound sterling
GDP	Gross domestic product
HKD	Hong Kong dollars
KDI	Korea Development Institute
KRW	Korean won
NGO	Nongovernmental organization
SDG	Sustainable Development Goal
TAF	The Asia Foundation
UN	United Nations
UK	United Kingdom
USD	United States dollars

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Introduction

By
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The Asia Foundation

> Asia's dramatic economic growth and technological progress mask daunting development challenges. Left unaddressed, these challenges jeopardize Asia's gains and undermine its future prospects. Asia is at a critical economic, political, and social juncture, and the changes taking place will determine how the region develops into the future.
> *David Arnold, President, The Asia Foundation, 2016*

Over the past two decades, Asian societies saw abrupt changes in their political, social, and economic spheres. Rapid and sustained economic growth lifted hundreds of millions of people out of poverty. Well over half of Asia's residents are now middle class and Asia is the engine of economic growth across the globe. This tremendous growth and its impact, however, are by no means uniform. The extent and type of change varied within and between countries, and many populations did not reap the same benefits as others.

Significant pockets of poverty still exist throughout the region. In fact, two-thirds of the world's poor live in Asia. Recent data suggest that more than 800,000,000 Asians exist on less than USD 1.25 a day and 1,700,000,000 live on less than USD 2 (Kuroda, 2013). Life in Asia is especially challenging for populations living in the margins of ever-expanding mega-cities, isolated rural areas, areas affected by conflict, and groups that are marginalized and excluded due to biased government systems and services or social prejudices.

The fast pace of political, social, and economic change in Asia is particularly striking and often presents additional challenges. Technology facilitates or accelerates many changes, often too quickly to fully understand their impact. For example, the economic sphere saw a reduction in the role of agriculture, rapid urbanization, greater industrialization, and, in some areas, growth in the service sector. Wage labor has become the most common form of employment in many Asian countries, yet regular wages often cannot provide basic needs. Other challenges continue to emerge. Asia faces demographic crises with lower birth rates and ageing populations.

Inequality is a critical issue globally, and, with high concentrations of wealth and power increasingly evident in Asia, inequality also takes center stage in the region. Today, profound inequalities in wealth, income, and welfare exist across Asia. Speaking to the Organisation for Cooperation and Development (OECD) in 2013 on Asia's challenges, towards the end of his tenure as President of the Asian Development Bank, Haruhiko Kuroda characterized the challenge this way:

> In many countries, the richest 1 percent of households account for close to 10 percent of total consumption and the top 5 percent account for more than 20 percent. The Gini coefficient, a measure of inequality, has increased in much of the region: taking developing Asia as a single unit, the Gini coefficient has increased from 39 to 46. And the gap is not only in income. Inequality of opportunity is prevalent and is a crucial factor in widening income inequality. For example, school-age children from households in the poorest income quintile are up to five times more likely to be out of primary and secondary school than their peers in the richest quintile; infant mortality rates among the poorest households were 10 times higher than those among the affluent households; in South Asia, women's [labor] force participation is only 40 percent that of men's; and in Central and West Asia, girls' primary and secondary school enrolment levels are 20 percent lower than those of boys. For developing Asia as a whole, 1.7 billion people (45 percent of the population) lack access to sanitation (Kuroda, 2013).

Across Asia, rising inequality negatively impacts many people's opportunities, income-earning capacity, health, and well-being. In *Capital in the Twenty-first Century,* the French economist Thomas Piketty suggests that growing inequality between rich and poor is the normal state of affairs in market-based economic systems. Tracing trends back three centuries, Piketty argues that periods in which inequality decreases are the exception rather than the rule (2014). Piketty's argument further complicates the idea of addressing the inequality challenges in Asia.

Increasing social, economic, and political disparities in Asia result in large social costs across the region. In social and political terms, inequality harms "education and occupational choices, damaging trust and eroding social cohesion, undermining the quality of governance and increasing pressure for inefficient populist policies" (Huang, Morgan & Yoshino, 2019, p.12). Asia also suffers from pervasive gender inequalities. Concerning South Asia, but broadly applicable to the whole region, UNICEF observes, "Girls are systematically disadvantaged across the region as structural inequalities and the low status of women affect their rights" (UNICEF, 2015). In other words, traditional Asian patriarchal social norms limit women's decision-making within their families and local communities; they also hinder women's broader participation in the economy, politics, and governance. Those normative structures also support significant levels sexual abuse, harassment, and of violence against women.

Within social structures, for both men and women, "inequality is frequently associated with rent seeking, which has a corrosive effect on morale, societal solidarity, and fairness" (Huang, Morgan & Yoshino 2019, p.12). Inequality in income distribution also negatively impacts the stability of the political settlement by excluding lower-income populations from political decision-making. This also weakens social trust by reducing the legitimacy of the government in the eyes of citizens and can potentially lead to political instability. Inequality fuels ongoing unrest and conflict throughout Asia and calls into question the region's overall stability.

Asia's economic and social growth has also negatively impacted the environment. High levels of air and land pollution and reduced access to clean water are some of the most obvious effects of the region's rapid growth. Asia's cities are now the most polluted in the world, and Asia, itself, is "the world's largest source of greenhouse gas emissions" (Huang, Morgan & Yoshino, 2019). Asia not only generates incredible volumes of its own plastic waste, but, in the past two years, many countries in the region have also become the recipients of waste from other nations, compounding an already significant problem.

The causes behind inequality, in Asia and elsewhere, are complex. The primary agents of growth in Asia – new technology, globalization, and market-oriented reform – can also increase inequalities. For example, while improvements in technology may have improved productivity, "they have also affected income distribution by altering the rate of return on assets, favoring capital over labor, as well as skilled labor over unskilled labor" (Acemoglu, 1998). Automation can remove the need for low-skilled workers, and technological progress can also increase the need for highly skilled labor; this increases the skills gap between laborers and reduces opportunities for lower skilled workers.

Additionally, social policies can play a significant role in either increasing or reversing trends in the distribution of wealth and job opportunities in the region. High inequality may encourage populist responses from governments which, while these reactions provide short-term benefits, can be detrimental to long-term growth and ineffectually address inequality. Poor policy responses may have a similar impact; in the long term, they can exacerbate inequality and weaken economic growth.

For instance, current social protection services that hope to reduce poverty levels and inequality among people with disabilities, women, low-skilled workers, and others account for only 6.9 percent of government spending across Asia, compared with approximately 20 percent in more advanced economies (Bernabe, 2017). Similarly, some Asian government policies keep wages deliberately low to maximize profits, and, as a result, individuals and families are unable to escape from poverty. Additionally, fiscal policies in many Asian countries rarely generate sufficient income for governments to deliver services that target inequalities.

Generally speaking, challenges in the labor market involve finding a balance between flexibility and risks for low-skilled workers. Improving human capital involves greater and more equitable access to quality, affordable education. The implementation of progressive taxation –

associated with lower income inequality – can also positively address income inequality. The ADB argues, however, that policy frameworks across Asia tend to disproportionately allocate benefits to the wealthy.

More inclusive growth in Asia requires sophisticated, participatory, and evidence-based policy responses to specific inequality drivers in each local context. Many Asian countries struggle to represent the voices of their citizens in government. Therefore, successful policies should be based on strong contextual evidence, research, and data. Policy frameworks should also effectively prioritize actions that can be implemented with limited government resources. This is because of broader governance weaknesses, including poor public services, weak institutions, and widespread corruption. The region's diverse political systems and institutional cultures make addressing governance challenges especially difficult.

With the current volume, the Korean Development Institute and The Asia Foundation aim to overcome some of Asia's governance difficulties by providing systematic evidence for and analysis of a number of contextual policy challenges. Policies that are based on systematic evidence and analysis produce better outcomes. By focusing on a series of specific policy challenges in Mongolia, Hong Kong, Timor-Leste, Malaysia, and Korea, the volume aims to advance contemporary discourse on economic and social policies for inclusive growth within those countries and across Asia by providing local information, insights, and recommendations. This will hopefully encourage dialogue and learning among Asian experts and scholars.

The volume begins as Koenig and Long examine how Mongolia's rapid urbanization and the dominance of Ulaanbaatar, the capital city, have contributed to rising inequalities in the city and across the nation (Chapter 1). The chapter builds on the ways in which other Asian countries have addressed the problem of urban primacy and provides potential strategies for equitable economic development in Mongolia. For secondary cities, such as Darkhan and Erdenet, the authors call for greater fiscal autonomy from the local governments and infrastructure investment. Moreover, the authors argue that, within Ulaanbaatar, the residents' "right to the city" and the effective coordination of administrative units is crucial to decentralized and localized approaches to urban planning.

In Chapter 2, Wong, Lau, and Kong examine various challenges for social investment in Hong Kong. Public expenditure, an aging population, and economic slowdown threaten serious setbacks in the region's inclusive growth, and the authors suggest that the Government of the Hong Kong Special Administrative Region should leverage private capital by promoting investment in social enterprises (SEs). The authors note, however, that SEs in Hong Kong have little commercial attractiveness and organizational capacity and suboptimal risk-and-return ratio, and investors generally lack social investment awareness and understanding. The chapter recommends the need to create an enabling policy environment for SEs, increase the accessibility of social investment, and enhance its return-risk ratio.

In Chapter 3, Flora Brytes Ximenes proposes areas of improvement for gender budgeting practices in Timor-Leste. Gender budgeting (GB) is the process of changing budgetary decision-making to reduce gender inequality and analyzing the impact of those changes. The Timor-Leste government's commitment to GB is reflected in Timor-Leste's 2015 Public Financial Management reform, which introduced a performance-based budgeting system to increase government accountability. To achieve greater momentum, the author writes about the necessity of coordination between government departments, participation among stakeholders, including parliamentarians and civil society organizations, and measures to tackle cultural prejudices against women.

Joon Han observes, in Chapter 4, that a major stumbling block for inclusive growth in South Korea derives from intergenerational disparities attributed to the nation's seniority-based employment system. Han illustrates how the seniority-based employment system increases labor-market rigidity when it creates few job openings for young people. Han also addresses the disadvantages young women face in the labor market. Despite a series of inclusive-growth policies, the author notes that the government failed to produce structural labor market reforms that create more opportunities for young people. Han concludes by calling for active government mediation between businesses and labor unions.

In the final chapter, Shafenaz Farouk examines the sustainability of universal healthcare coverage (UHC) in Malaysia (Chapter 5). The Malaysian government has made considerable progress in UHC, but ongoing demographic and epidemiological changes pose new challenges for healthcare costs. Additionally, the nation's current healthcare financing system, which is reliant on public and private funding, cannot develop a sustainable system of UHC. With lessons drawn from healthcare financing models in Singapore, Taiwan, and France, the chapter provides four key considerations to improve UHC implementation: providing healthcare services to the disadvantaged, combining public and private sources of healthcare funding and provisions to accommodate all socioeconomic groups, encouraging a personal responsibility for health, and piloting new initiatives before nationwide implementation.

Contemporary Economic and Social Policy for Inclusive Growth portrays not only a broad view of Asia's social and economic inequality challenges, but also presents specific and diverse cases across Asia. The authors believe policies can make a difference in changing inequality landscapes and hope their policy recommendations will serve as a reference that contributes to a more inclusive and sustainable Asia.

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CHAPTER 1

Urban Primacy and Equality: Experiences from Asia and Lessons for Mongolia

By
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1. Introduction

A significant body of evidence supports a correlation between the processes of urbanization and economic development (Henderson, 2002). The relationship between urbanization and *inclusive and equitable economic growth*, however, appears more complicated. While the diversity, energy, and capacity concentration generated by urbanization can unleash economic potential, some evidence suggests that rapid urbanization also can generate and worsen inequality. By 2050, according to United Nations (UN) projections, 68 percent of the world population will live in urban areas (United Nations, 2018). While research shows that urbanization generally leads to decreasing levels of poverty, data also demonstrate the intertwining of Asian urbanization with rising inequality – notably, the rise in Gini coefficients across Asia.[1] This linkage clearly indicates that efforts to promote more equitable and inclusive growth need to account for the ways that urbanization shapes

1 A higher Gini coefficient indicates greater inequality. Examples of this correlation appear in a range of countries, including Bangladesh, Sri Lanka, Nepal, and China, all of which saw a sharp rise in the Gini index from 1990 to 2005 (Yeung, 2011).

economies, and which strategies for urban management can most effectively reduce inequality.

One of the key demographic trends linking Asian urbanization and inequality has been the emergence of dominant cities, or large urban agglomerations with disproportionate economic, political, and cultural influence. This phenomenon has manifested in city types such as mega-urban regions (MURs),[2] and primate (or dominant) cities.[3] The emergence and continued growth of these dominant urban areas contributes directly to rising rates of inequality. This happens both internally and regionally, as inequality increases within these major cities while secondary cities and rural areas fail to keep pace.

Effective efforts to promote equitable and inclusive growth need to recognize this feature of Asian urbanization and respond to it. This requires efforts to spread the benefits of urbanization more widely within major cities, while also ensuring that disadvantages do not bear most heavily on the most marginalized citizens. In addition, these efforts require systems that allow secondary cities to thrive and keep pace. This paper focuses on how these factors have played out in Mongolia with the increasing dominance of the capital Ulaanbaatar. Drawing on research and lessons from around the region on urbanization, dominant cities, and equitable and inclusive growth in Asia, we will discuss potential strategies in Mongolia that would combine promotion of competitive secondary cities with "smart" decentralization in Ulaanbaatar

2. Ulaanbaatar and the Opportunities and Challenges of Asia's Dominant Cities

Ulaanbaatar's dominance has grown since Mongolia transitioned to democracy and a market economy in 1990. Its population has increased

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2 A mega-urban region is defined as an urban agglomeration that has spread beyond metropolitan boundaries of major cities with zones of intense interaction between urban and peri-urban settlements (Ginsburg *et al*., 1991).

3 A primate city is defined as dominant city in terms of population, diversity of functions, and degree of national influence (Jefferson, 1939).

rapidly since the 1990s, to the point that a city designed for 500,000 residents now shelters at least 1.3 million (Capital City Statistics Office, 2016).[4] More than half of Ulaanbaatar now consists of 'ger areas'[5], large unplanned settlements with poor access to services that house almost 60 percent of the city's population. The pace of migration, with more than 25,000 migrants arriving annually (Capital City Statistics Office, 2016a),[6] remains high despite recent efforts to dissuade in-migration. The second tier of cities in Mongolia, including urban centers such as Darkhan and Erdenet, have populations of less than 100,000. While these cities have also grown, in absolute numbers Ulaanbaatar still attracts the largest number of new residents.

This trend has caused inequality to increase both between Ulaanbaatar and other regions of the country and among the capital's residents themselves. Regional income disparities demonstrate this: for example, in 2014 salaries in Ulaanbaatar stood at some 30 percent higher than those in the Western region of the country (Erdenechimeg, 2014). Disparities also appear in standards of living within the city, where residents of the 'ger areas' have limited access to basic services compared to those residing in apartment blocks. Most 'ger area' homes do not have piped water or connections to central heating service, and roads remain mostly unpaved (Koenig & Norovsambuu, 2018).

More equitable growth in Mongolia requires strategies that address both regional disparities as well as the gaps in living standards within Ulaanbaatar. In an economy like Mongolia's, driven by extractive industries, this inequality poses political as well as economic problems: mining appears to benefit only the few, creating challenges for effective economic management while increasing distrust in government, thus undermining its legitimacy and efficacy.

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4 Estimates range as high as 1.5 or 1.6 million, but 1.3 million is the official figure.

5 'Gers' are felt tents that are the traditional dwelling for nomadic Mongolian herders; they are also a common type of dwelling in Ulaanbaatar's unplanned settlements. Most 'ger areas' display a mix of gers and detached houses.

6 In many years the number exceeds 25,000: 25,196 arrived in 2016, but in 2014 the figure was 31,356 and in 2010 it rose to 39,701, according to official statistics from the Municipality of Ulaanbaatar (Capital City Statistics Office, 2016a).

The basic challenge that Mongolia faces is not unique in Asia. Urban expansion and demographic trends have led to larger and more dominant cities across the region, including the rise of primate cities. Across Asia, it seems that once a city reaches this level of power relative to other urban areas, it starts to develop at a rate that no other city in the country can match, due to the size of its market and public budgets, the diversity and skills of its workforce, and its influence on politics, among other factors. This phenomenon, observed by urbanists in the early 20th century (Jefferson, 1939), continues to inform contemporary discourse on urbanization.[7] Current thinking links the ideal size for cities to context, accounting for relative economic scale, national geography, and comparative size with neighboring cities (Desmet & Rosse-Hansberg, 2014).

Primate cities have long played a part in Asia's urbanization story, with the earliest examples emerging during the colonial period as outlets for the export and distribution of goods produced in the hinterlands (Karayalcin, 2004; Reed, 1954). In contemporary Asia, urban dominance in a country or economy no longer manifests in the emergence of new primate cities, but rather in the formation of mega-urban regions (MURs), urban agglomerations of at least 10 million inhabitants (Rodrigue, 2017).[8] "Primate cities" and "MURs" offer useful descriptors for Asia's urbanization patterns, characterized by the emergence of a limited but growing number of large and dominant urban centers; these have continued to increase their share of national populations, even as they face challenges managing the large and often sprawling settlements that ensue (Jones & Douglass, 2008).

These dominant cities play a key role in the region's development. They generate higher incomes and wealth at the top end of the economy, even more so than other cities (Richardson, 1987), while the companies they house often prove more competitive at certain stages of development

7 See for example "The Optimal Distribution of Population Across Cities" by David Albouy, Kristian Behrens, Frédéric Robert-Nicoud, and Nathan Seegert (2017) or Podolyak (2014).

8 By 2013 Asia had developed at least 7 MURs with total populations over 20 million. By 2020, China will have more mega-urban regions than any country in the world.

(Overman & Venables, 2005). These advantages start a positive economic cycle: businesses in close proximity to each other innovate through shared learning and competition; a concentration of domestic and foreign capital investment drives new economic activities (Hausman & Rodrik, 2002). Other advantages cited include more sophisticated and significant government structures with higher spending levels and superior public services, including healthcare (Henderson, 2002), and potential for socio-economic mobility demonstrated by lower poverty rates (World Bank and International Monetary Fund, 2013, p.88). Increasingly, however, these concentrations of wealth and power have reached a scale that decreases the marginal returns of further growth, while increasing the negative impacts of rapid urbanization (Kim, 2008). Many of the region's leading cities struggle to provide inhabitants equal access to essential services, including housing, water supply, sewerage, utilities, marketing services, transport, and recreational facilities.[9] In addition, job creation also often struggles to keep pace with in-migration, leading to the growth of unemployment and the informal economy (Daniels, 2004).

In Mongolia, the informal economy does provide cheap products and services, but informal businesses also suffer from low profit margins, unreliable wages, unsafe working conditions, and low savings, among other challenges (Turner & Koenig, 2015). Ulaanbaatar also manifests the major environmental challenges of rapid urbanization (Kamata *et al.*, 2010), with air pollution the most frequently cited of these (Hincks, 2018; UNICEF, 2018). In January 2018, Ulaanbaatar neighborhoods saw airborne levels of PM2.5 particles that exceeded the World Health Organization safety level by a factor of 133 (Kuo & Davaasharav, 2018). Overall, one can see that these various challenges of rapid urbanization disproportionately affect the poor and other vulnerable groups, directly contributing to rising inequality.

The economies of countries with primate cities and MURs may also face rising national and regional inequalities. In fact, some researchers

9 There is a significant literature on the challenges facing Asia's megacities; examples include Singh (2015); Qiu (2012); Kotkin *et al*. (2014).

have suggested that excessive scale in a primate city can have a significant negative impact on equitable economic growth. There are two ways that this happens. First, if a city expands to the point that it cannot meet infrastructure and service needs of its population, this leads to the negative impacts discussed above which can create significant economic inefficiencies. Secondly, if it over-concentrates the country's population, then it essentially begins extracting resources from the rest of the country while luring talent to the city — creating a 'parasitic city' that propels imbalances and inequality (Lipton, 1993; Nash, 1977; Williamson, 1965). The optimal size for a city is therefore a very complicated concept, and some researchers have tried complex economic modeling to determine it (Albouy *et al.*, 2017); but in fact optimal size depends on a range of factors, including level of development, geography and other country-specific conditions (Desmet & Rosse-Hansberg, 2014). It will certainly rest in part on the country's urbanization and development management strategies. A strategy centered on reducing inequality may lead to a different idea of optimal city size than a strategy purely focused on promoting gross domestic product (GDP) per capita.

3. Promoting Inclusive Equitable Growth in Urbanizing Mongolia

In Mongolia, as inequality has grown both within Ulaanbaatar and between the capital and the rest of the country, clear challenges have emerged for those wishing to promote inclusive economic growth. Any such strategy will have to stimulate more equitable distributions of wealth and opportunity across these double disparities. Addressing the capital/country gap in particular will require a concerted effort to invest in and promote secondary cities. Examples and lessons from around Asia indicate some of the measures that can assist this effort.

Investing in Secondary Cities

Investment in secondary cities offers a critical strategy for eliminating some of the regional income disparities and inequalities caused by the rise of dominant urban centers (Henderson, 2002). As massive cities and metropolitan areas grow, inefficiencies start to arise based on a lack of space for new infrastructure and the costs of public services. The required amount of per-person investment in public services increases, making infrastructure gaps too costly to close. It also appears likely that at a certain scale, the socio-economic advantages dominant cities offer migrants begins to decline relative to secondary (Christiaensen & Todo, 2014; Christiaensen & Kanbur, 2016), especially when factoring in health risks associated with such urban challenges as pollution, crime, stress, and traffic. In many large Asian cities, a reliance on informal and irregular work, combined with high cost of living, can limit the financial benefits for migrants. This may explain why some research has shown that the growth of secondary towns has generated the greater share of poverty reduction linked to urbanization, rather than the growth of primate cities (Ravallion, Chen & Sangraula, 2007). Investment in secondary cities therefore offers a credible strategy, as dominant cities demonstrate increasing rates of inequality and persistent levels of poverty (Christiaensen & Kanbur, 2016).

Depending on the country context, secondary cities can range in size from a thousand to several millions, and are generally defined as those cities that perform vital governance and production functions at a sub-national or regional level. In Mongolia, the two cities that would most clearly qualify under this heading are Erdenet and Darkhan, both with populations of more than 75,000 people. Mining wealth may offer some potential for driving the development of certain other regional centers as well, but currently Mongolian cities in the next tier have only 30-40,000 residents. There are a number of ways to categorize secondary cities. From an economic standpoint, they may serve as hubs for trade, as links to the rural economy, and as centers for specific industries or resources, often promoted as such by government policy (Hausmann and Rodrik, 2003). Different spatial categories also exist, including sub-national centers serving as regional government and economic capitals, satellite or feeder towns clustered around metropolitan areas, economic trade corridors that link to transportation routes, and sometimes even autonomous cultural centers (Cities Alliance, 2014). In Mongolia, Erdenet would qualify as an industry-specific city that developed around a mine and became a regional center, while Darkhan emerged in the 1960s and 70s both as a center of industry and as part of the Russian transportation corridor that developed during the period of close relations with the Soviet Union.

Understanding the nature of a given secondary city can help guide policies for promoting and strengthening these urban centers, as they require specific and unique strategies to push back against the focus on dominant-city investment. National governments tend to prioritize primate cities, in part due to a proximity bias (if such cities also serve as capitals), but also because of economic advantages and investment rewards (Davis & Henderson, 2003; Iimi, 2005).[10] In addition, secondary cities do face challenges in raising capital and local taxes, and in attracting the investment needed to supplement public-sector efforts to build infrastructure and create more dynamic economies. The prioritization of dominant cities can often result in transportation-network priorities and plans that advantage the largest cities, and in public-finance decisions that benefit larger cities at the expense of secondary cities where investments can sometimes lag. A range of strategies could help promote secondary cities. Two that seem most relevant to present-day Mongolia are fiscal decentralization and targeted investment in infrastructure.

A. Fiscal Decentralization

Strengthened local-government powers in generating revenue and planning local budgets can limit the overconcentration of wealth and power in dominant cities. A number of countries have taken this course, with varying degrees of success. In Vietnam, the reforms of the early 1990s included a fiscal decentralization policy. These changes allowed local governments to keep locally collected revenue (fees, local taxes), provided for shared tax revenue and profits from state-owned enterprises (SOEs), and permitted conditional transfers to balance local budgets. These increased revenue powers and responsibilities correlate with

10 Some national governments have exacerbated the overconcentration of population in dominant urban centers through efforts to promote industry (Iimi, 2005), the Pearl River Delta area in China offers one example.

greater control of local expenditures (Morgan & Trinh, 2016). With the Philippines Local Government Code, passed in 1983 and amended in 1991, local governments took on similarly devolved service-delivery responsibilities, while increasing and diversifying locally-raised and -sourced revenues (UN-Habitat, 2011). This initiative, when combined with liberalization of markets, has helped cities such as Cebu, Davao, Bacalod and others grow into regional centers; their expanding economies have not eliminated the dominance of Metro Manila, but have potentially limited it and allowed more wealth to accumulate outside of the capital (Balisican, Hill & Piza, 2008).

Ultimately, increased fiscal decentralization must also coincide with devolution of managerial responsibilities and powers in local urban environments. First, the Mongolian economy and governance structure remains highly centralized, offering very little discretion to secondary cities on funds management, and limiting their incentives to generate more revenue themselves. Their urban planning itself often takes place with direct and often directive intervention from central government. In general, the Mongolian central government classes sub-national governments according to their fiscal 'deficit' or 'surplus' and subjects local spending to strict controls. This can both undermine the quality and equity of service delivery at the local level, and limit the usefulness of local engagement in budgets and spending priorities.

B. Investment in Infrastructure

A number of efforts in diverse countries and contexts have used infrastructure to promote secondary-city growth and deconcentrate major urban centers. Specifically, transportation investments that increase the mobility of goods, labor, and capital between urban centers can create more opportunities for secondary cities to thrive. For example, Thailand made a concerted effort to deconcentrate Bangkok by investing in industry and transportation networks around several regions. The Eastern Seaboard Development Project (ESDP), started in the 1980s, offers one example. It focused on reviving the railways and building new networks to underdeveloped areas east of Bangkok, while using tax-related incentives to attract industry (Buurman and Rietveld, 1999). These policies have driven economic development in the region, including in the manufacturing and tourism sectors, and boosted the growth of secondary cities in the region, such as Pattaya and Chonburi. Infrastructure-driven approaches, however, do come with significant challenges. In the case of the ESDP, these investments have done more to reduce regional income disparity than to shift population distribution; in many ways, the ESDP has become a system linked to the Bangkok MUR, as opposed to an incentive for moving away from the metropolis (Buurman and Rietveld, 1999). Secondary cities will always struggle to compete with the attractions of major cities, and their capacity to do so going forward will depend upon quality of life arguments. Ultimately, efforts to avoid negative conditions of rapid urbanization (traffic, pollution etc.), limit increases in cost of living, and provide infrastructure that keeps ahead of growth will determine whether secondary cities become viable centers of alternative urban growth.

Both Darkhan and Erdenet face significant infrastructure constraints limiting their success in attracting business and more migrants. The poor quality of the road linking Darkhan to Ulaanbaatar, for example, places a major constraint on the city that the government has sought to improve by securing a concessional loan from the Asian Development Bank (Asian Development Bank, 2018). In addition, the lack of critical infrastructure — such as well-planned landfills, adequate low-cost housing, and other issues — limits the ability of these secondary cities to provide a higher quality of life than Ulaanbaatar. All of these concerns will require infrastructure investment in order for these cities to thrive.

In tandem with legal and administrative changes that allow more fiscal autonomy, and a corresponding investment in infrastructure, secondary cities also need effective urban management and leadership at the city level. These cities would have to come up with viable strategies to promote growth and deliver on high quality of life in order to attract human resources and investments now directed to Ulaanbaatar. Sound urban and economic planning and high-capacity officers in these cities will prove fundamental to the success of such long-term investments.

4. Inclusive Growth in the Dominant Urban Center - Ulaanbaatar

No matter how much investment goes into secondary centers, the pull of the major cities of the world remains, and whether we term them primate cities or MURs, we can expect their growth to continue (Douglass, 2017). Moving such cities toward greater equality therefore remains central to inclusive and equitable growth efforts. Ulaanbaatar is a city essentially divided into 'ger areas' and 'apartment areas', each of which offers an entirely different experience of urban life. The city has higher indicators of economic inequality (Gini coefficient of 0.34) than the rest of the country (0.28).[11] Of all the potential strategies for addressing inequality in Ulaanbaatar, two appear most relevant and have the potential to alter current urban development approaches: first, engaging with and promoting the "right to the city", and second, effectively balancing decentralization with coordination across administrative units.

A. The "right to the city"

This concept has gained traction among international actors and stakeholders in regions around the world. While its definition continues to evolve, it comprises at least two main assumptions: (1) that all city dwellers should have access to the benefits of urban life and urban resources, and (2) that they should also have the power to participate in shaping the city through decision-making and planning (Right to the City Platform, 2016). This concept alters the perception of cities as geographical or administrative territories, seeing them rather as spaces for citizen use and ownership. Comprising government, city, and community levels, this approach to urban planning urges cities to find better ways to reflect the needs, desires, identities, and expectations of their residents.

Given its still-evolving status, the "right to the city" lacks a full legal and institutional framework in most contexts, but it remains linked to a range of actions and policy options. In some cases, we see movement

11 Poverty Profile: 2016. National Statistics Office and The World Bank. Main results of 2016 Household Socio-Economic Survey.

towards limiting the proliferation of gated communities and reversing trends that privatize public space.[12] Such actions bolster the right of access to city spaces for all residents, including the socio-economically disadvantaged. In practice, the implementation of the right to the city has focused mostly on inclusive planning, including efforts to distill public voices on city development into policy and decisions. Efforts to increase participatory planning and budgeting, to engage citizens in discussions about their communities, and to provide choices on the use of public urban assets (such as parks and public spaces) all form part of this movement.

In Ulaanbaatar, these concepts speak to the need to involve residents of the *ger* areas in setting the future direction of the city. Public and policy discussions often view these settlements as a problem to be solved, without adequately engaging or investing in their residents. Such engagement calls for targeted and concrete policies that include marginalized communities in local planning, and increased efforts to consult all residents on decisions that affect the development of their communities. These kinds of strategies are more likely to generate need-based decisions, not to mention innovative, inclusive and creative solutions to improving urban life — avoiding an over-concentration on city improvements that tend to favor the wealthy.

B. Well-coordinated Decentralization

A tension sometimes appears at the heart of efforts to promote decentralization and so reduce inequality within cities. This arises from the fact that without careful management, greater power and fiscal autonomy within a city can benefit wealthier areas with a larger tax base. At the same time, overly-centralized decision-making often creates policies more likely to benefit wealthy or middle-class people, with whom decision-makers interact more frequently and have more familiarity. Overcoming these biases, which constantly affect urban planning and investment, requires broader engagement of all urban communities, coupled with more empowered sub-municipal institutions and effective coordination. The challenge lies in developing and balancing all three elements.

12 This push has even been observed in some cities in China (Yan, 2016).

At its core, this approach calls for thoughtful and clear functional assignments. There is no one correct model for handing over specific functions or powers to local government entities, but in general the ones to pass down will allow for local variation within an overall urban system. If this system permits space to target or adjust a service or a plan to local resident needs, local authorities should have the means to consult their communities, and then to manage that responsive planning or implementation. On issues such as energy provision, major transportation infrastructure, or systems requiring efficiency across multiple areas of a city, this kind of decentralization will prove less effective. With this division of labor in mind, the municipal level can then spend less time on implementation or management of certain services, and more time monitoring and coordinating developmental actions across all jurisdictions of a city.

Identifying the discretionary powers of local administrative units — articulated within city-level frameworks and budgets that promote equity and set standards for meeting basic service needs — can allow space for truly responsive urban governance. However, these administrative structures need to operate in tandem with effective citizen engagement. Cities should develop cultures of participation that involve citizens in planning and vision at their local level, allowing input into local investments, monitoring of service delivery, and so on. Through such citizen participation, from initial assessments to evaluation, citizens can work with sub-municipalities to ensure that services target the needs and demands of all residents within the community.

Ulaanbaatar's goals of an optimum balance between coordination and decentralization, as well as creating a culture of participation, remain works in progress. Major constraints have included capacity gaps at the city's lowest sub-municipal administrative unit, the *khoroo*. *Khoroos* lack political autonomy due to limited financial resources and discretion in local planning or service delivery. Higher-level officials in the city often cite the lack of human-resource and administrative capacity as a reason for refusing to allocate more powers to this governance unit. This perceived barrier might make capacity-building at the *khoroo* level the logical if not essential starting point for localizing urban planning and service delivery. Ulaanbaatar has begun to invest in this capacity through the training of more than 3,200 *khoroo*-level officials and employees between 2015-2018 (The Asia Foundation, 2018); it has also developed its first-ever training framework for more systematic capacity-building throughout the city administration (The Asia Foundation, 2019).[13] Ensuring effective training, delivered in a standardized way, should supply a key step towards improved municipal performance, but it can also strengthen the role of local administrative units in delivering services and responding to local needs. Finally, it provides an opportunity to develop the leadership, planning, monitoring, evaluation and other skills that could facilitate greater decentralization in the future.

5. Conclusion

The Asian experience with rapid urbanization has often included a trend towards the growth of dominant cities. These massive cities clearly affect politics, economies, and overall development in ways that we have only begun to understand. Efforts to promote equitable growth in the region must directly take on some of the complexities of cities and urban development.

In Mongolia, the presence of a primate city that houses approximately half of the national population offers a major challenge. Rising inequality has undermined government legitimacy, fueling a continued in-migration to Ulaanbaatar that in turn challenges quality of life for residents. More equitable development requires clear strategies for investing in secondary cities, as well as continued progress in the governance of Ulaanbaatar itself.

In order for Darkhan and Erdenet to drive more equitable regional growth in Mongolia, they will need investments in infrastructure and greater fiscal autonomy, combined with concerted efforts from the national government to help them thrive. Within Ulaanbaatar, efforts to strengthen *khoroo*-level governance capability offer the best path towards a more decentralized and localized model of urban governance. These kinds of changes will require significant reforms to laws governing administration in Mongolia, and a wide recognition of the need to

13 This initiative is supported by the Asia Foundation and the Swiss Agency for Development Cooperation as part of the Urban Governance Project. More information can be found at https://asiafoundation.org/publication/urban-governance-project-in-mongolia/.

empower those governing the country’s cities. Those empowered local units need, in turn, to believe in and activate all their citizens, regardless of socio-economic status. Such direct engagement, responding to articulated citizen needs through sound urban planning, will do much to introduce a more inclusive and ultimately equitable development trajectory to Mongolia. This significant change will require discussion and deliberation, and a shift in the culture of Mongolian urban planning and management. We hope this paper makes a small contribution to that discourse.

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CHAPTER 2

Harnessing the Power of Social Enterprises through Government Investment and Collaboration with the Non-governmental Sector

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1. Introduction

Hong Kong is unquestionably an affluent city, but its affluence encompasses a wide range of social problems that have remained unresolved for years – poverty, inequality, homelessness, prevalent chronic disease and mental illness, and so on. To make sure the rising tide of economic development lifts all boats and that growth becomes truly inclusive, the Government of the Hong Kong Special Administrative Region (GOV HKSAR) urgently needs to divert more of the city's resources into solving its social problems.

According to the World Economic Forum (2015), "inclusive growth" refers to "output growth that is sustained over decades, is broad-based across economic sectors, creates productive employment opportunities for a great majority of the country's working age population, and reduces poverty" (Samans *et al.*, 2015, p.1). This requires effective allocation of resources toward satisfying the needs of underprivileged groups and tackling social problems at the bottom of the pyramid. No country can achieve inclusive growth without financial challenges, however. In Hong Kong, public expenditure on social welfare, health, and education has surged despite the persistence of numerous problems. The combination of an aging population and an economic slowdown may result in a structural fiscal deficit by year 2029 (Financial Services and the Treasury Bureau, 2014), further constraining public resources for alleviating social problems. In this context, the government would need to sustain such public expenditures while leveraging private capital for inclusive growth.

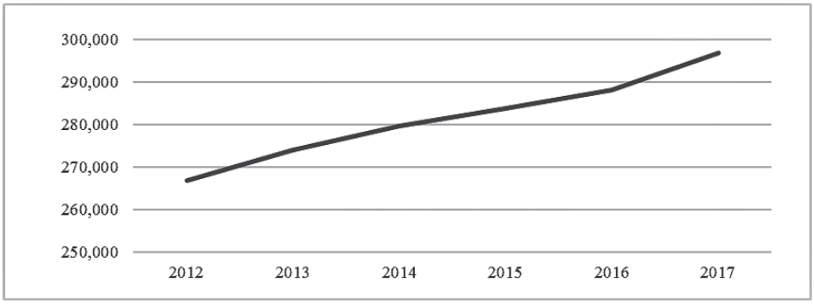
To this end, there is some evidence that social enterprises (SEs), where capital serves as an investment towards both financial and social returns, can serve as an effective channel for diverting private capital. In Hong Kong, however, the potential of private social investment has remained far from fully tapped. As the chapter argues, this arises from a combination of supply and demand factors, ranging from the investment readiness and organizational capacity of SEs to the perceived risk-return-ratio for investors and their lack of awareness and understanding of social investment.

We start with a review of the challenges of inclusive growth in Hong Kong. The succeeding section discusses the promise of SEs and the reasons why private social investment has proven inadequate in Hong Kong. Based on these findings, we formulate policy recommendations in the final section.

2. The Challenges of Inclusive Growth

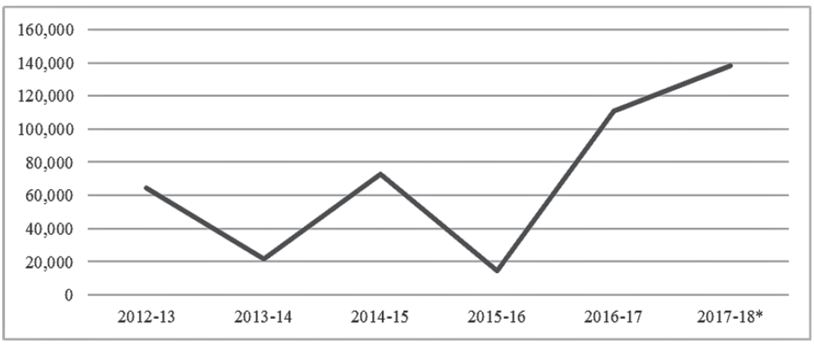
At first glance, Hong Kong has plenty of resources to address the challenges of inclusive growth, starting with a vibrant economy over the past few years. From 2012 to 2017, the real gross domestic product (GDP) per capita has grown from HKD 266,871 to HKD 296,944, which is an 11.2 percent increase in half a decade (Figure 2-1) . The Treasury also witnessed a budget surplus of HKD 111 billion in year 2016-17, with a record-breaking estimate of HKD 138 billion in 2017-18 (Figure 2-2). Self-evidently, the city showcases strong economic performance and exceptional financial strength.

Figure 2-1 GDP per capita, Hong Kong (2012-2017) (constant 2010 HKD)



Source: World Bank (2018).

Figure 2-2 Hong Kong Government Budget Surplus (2012-2018) (HKD billion)



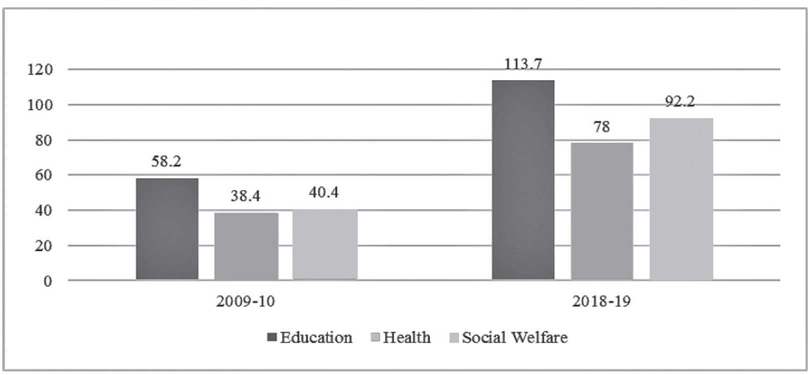
Note: Estimate from the HKSAR Government Budget 2018-2019.

Source: Census and Statistics Department (2016); GOV HKSAR Budget (2018).

Despite the economic abundance, severe social problems such as poverty, inequality, and ill-health have continued to prevent Hong Kong from achieving inclusive growth. According to the Census and Statistics Department, the poverty rate has hovered around 20 percent since 2010, with more than 30.5 percent of the poor in the oldest cohorts (HKSAR Government, 2018a). In the same year, the Gini Coefficient of the city hit a decade high at 0.54 — much higher than Singapore (0.42) and South Korea (0.34) — suggesting a staggering disparity of income between the top and the bottom of the pyramid (Census and Statistics Department, 2017). The growing prevalence of chronic disease burdens the city as well: the percentage of people with chronic health conditions grew significantly from 19.2 percent in 2013 to 28.4 percent in 2018, a phenomenon largely related to the aging population (Census and Statistics Department, 2018).

Worse still, there are reasonable grounds for believing that the current fiscal strength of the Hong Kong government will not prove sustainable. Public expenditures have surged in Hong Kong, with healthcare, education and social welfare roughly doubling over the past 10 years (Figure 2-3). According to the long-term fiscal planning report published by the Financial and Treasury Bureau in 2014, the percentage of the elderly in the total population will double from 13.7 percent in 2012 to 30.2 percent in 2041; this would result in a decline of 4 percent in the working-age population and an increase of 304 percent in aggregate government expenditure on healthcare and social services (i.e., social welfare and education), from HKD 421 billion in 2014 to HKD 1,700 billion in 2041[1] (Financial Services and the Treasury Bureau, 2014).

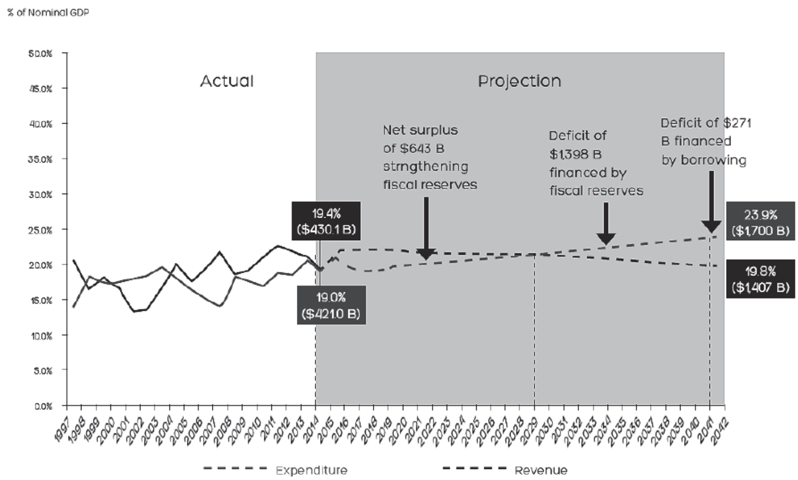
Figure 2-3 Hong Kong Public Expenditure on Healthcare, Education and Social Welfare (HKD billion)



Source: Research Office, Legislative Council Secretariat (2018).

1 The projection is under the no service enhancement scenario, where recurrent education expenditure as a percentage of nominal GDP would actually drop from 3 percent in 2014 to 2.8 percent in 2041 due to the expected decline in total population for the age group of 3 to 21.

| Figure 2-4 | FSTB Projection on Hong Kong's Revenue and Expenditure in Base Case Scenario



Source: Financial Services and the Treasury Bureau (2014).

The rising elderly dependency ratio and a continued deceleration of GDP growth mean that the Hong Kong government would run into a structural deficit in fiscal year 2029-2030 (Figure 2-4).

While different forms of tax increase, including salary and profit taxes, could help finance the rising public expenditures and maintain the fiscal balance, this may prove less effective in fostering inclusive growth. The simple and low-rate tax system of Hong Kong has received official recognition as a competitive edge for business (InvestHK, 2017). It remains uncertain whether altering it by imposing new taxes or raising current rates would influence the city's economic competitiveness and growth. Therefore, it seems worth exploring alternative ways to foster inclusive growth that would not require a significant tax hike.

In this context of financial challenges, we would propose that the government, while finding ways to sustain its public expenditures, explore means of leveraging private capital through policy initiatives that foster inclusive growth.

3. Social Enterprises: A Promising Sector for Incubation

One way of leveraging private capital for inclusive growth would be to catalyse private social investment — that is, to invest capital in SEs in the service of social missions, in addition to profit-making. In light of the public funding gap, SEs appear as a promising channel for translating private capital into social impact. The current evidence suggests, however, that Hong Kong private social investment remains inadequate, thus limiting the development of SEs and their diversion of private resources to the pursuit of inclusive growth. The present section reviews this evidence and some of its possible causes.

A. Social Enterprises as a Force that Fosters Inclusive Growth

Since the 1990s, SEs have played a significant role in driving inclusive economic growth across the world. Originating in Western Europe and the United States, SEs offer a unique business model that provides goods, services or job opportunities to underserved communities such as the elderly and disabled (Defourny & Kim, 2011).

Like traditional businesses, SEs can take different shapes and forms. Building on Miller's typology (Miller, 2010), Yuen and Chan (2018) developed an analytical framework that situates SEs as creators of social value in four economic domains, namely (1) production/making, (2) distribution/exchange, (3) consumption/use, and (4) surplus allocation (p.68). We can point to a few examples of each type among the numerous active Hong Kong SEs.

In the domain of production/making, SEs may improve employment opportunities and inclusion for marginalized groups. Happy Veggies is a work-integration social enterprise (WISE) that provides employment opportunities to hearing- and speech-impaired people (Yuen & Chan, 2018). Regarding distribution/exchange, SEs may reduce transaction costs for better allocation of resources. As a facilitator of community-supported agriculture (CSA), GroundWorks connects local farmers with consumers who seek out organic farming and natural products, and explores the use of community currency to facilitate transactions (Yuen & Chan, 2018). With respect to consumption/use, SEs may provide affordable products to consumers shunned by "traditional" businesses, also known as the "bottom of the pyramid." Agent of Change sells daily necessities such as cooking oil, rice, and personal hygiene products at affordable prices to grassroots consumers by collaborating with suppliers (Evans, 2015). Two social property companies, Light Be and Good House, provide low-income tenants with decent accommodation at an affordable rent by connecting them to conscientious property owners (SIE Fund, 2019a; Yuen & Chan, 2018). In relation to surplus allocation, SEs may reinvest their profits into operation or allocate them to certain stakeholders (e.g., cooperative members) or to charity uses. Some draw upon the United Kingdom model of community-interest company (CIC) and specify the upper limit of the dividend ratio in their articles of association. Examples include La Parole, a French restaurant that contributes its profits toward speech therapy for children from low-income families; and Dialogue Experience, which contributes one-third of its profits to Dialogue in the Dark Foundation, supporting education and career development for the disabled (Yuen & Chan, 2018).

All these examples demonstrate the potential of SEs, where capital deployment can generate both financial return and social impact simultaneously.

B. Inadequacy of Private Social Investment in Hong Kong

Unlike charities, SEs aim to create profits while achieving social impact, thereby attracting private capital to grow their businesses and, from a macro perspective, fuel inclusive growth. However, a majority of the SEs in Hong Kong currently face challenges in attracting private investment. As a result, only 5.2 percent of the SE respondents reported themselves in the stage of "scaling up" in a research study conducted in 2014 (Center for Entrepreneurship, CUHK & HKCSS – HSBC Social Enterprise Business Centre [CUHK & HKCSS], 2014).[2]

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2 This research entailed a questionnaire survey about the SE landscape sent to 419 SEs and SE units between 22 July and September 21, 2013. The final tally included 187 completed questionnaires with 174 valid responses, 80 collected through e-survey and 94 via mail, e-mail, or fax. The valid response rate was 41.5 percent.

The pattern of SE start-ups in Hong Kong reveals a significant factor behind their sluggish development: the lack of private social investment. In the aforementioned study (CUHK & HKCSS, 2014), 74.7 percent of the SE respondents raised their initial capital with grants and donations, whereas only 43.1 percent acquired it through self-investment or private investment. Among the grant and donation initial funding group, 57.5 percent received their capital from government funding schemes, far more than from charitable organizations and foundations (10.3 percent) or business donations (7.5 percent); this demonstrates a significant dependence on public capital for SE development in general. Furthermore, charitable organizations had the leading role in creating new SEs. Among the survey respondents, 75 percent were established by and affiliated with registered charities, in contrast to 14 percent started by private for-profit sponsoring organizations and 11 percent with no organizational sponsors. All these numbers point to a limited role for private capital in the current ecosystem of SE.

Although it is probably the largest and most rigorous study of its kind in Hong Kong, this 2014 study may not provide the most up-to-date information. One should also note that recent years have seen some signs of increasing private capital participation in social investment. As of 2017, 301 organizations operated 654 SEs in Hong Kong; while 147 of them (48.8 percent) were tax-exempt charitable organizations under section 88 of the Inland Revenue Ordinance, 154 of them (51.2 percent) were not. This private share of the SE sector had increased from 123 organizations (47 percent) in 2016 and passed beyond the 50 percent milestone for the first time (The Hong Kong Council of Social Service, 2016; 2017; 2018). In another recent survey of SEs with at least five years' registration in the Social Enterprise Directory, 41 percent of the respondents had private capital as their primary funding source, while 32 percent and 27 percent had non-governmental organization(s) and government sources respectively (Leung *et al.*, 2018).[3] According to a

3 This research entailed a questionnaire survey where 417 SEs were identified as the population and 130 SEs were selected by stratified random sampling and invited for interview. 22 SEs accepted the invitation in the end and in-depth interviews based on a questionnaire consisting of 43 questions were conducted with the owner/founder or separate Asian Venture Philanthropy Network report (Mohan, Harsh & Modi, 2017), although Hong Kong's open and liberal investment environment has attracted both foreign and domestic capital for social investment, such investment volumes remain low. The report also notes that early-stage social enterprises, in particular, face a sizeable shortage of capital given the underdevelopment of angel investing and high-engagement philanthropy. In short, while private investment in SEs appears to have grown, it remains insufficient to bring about prosperity in the sector.

C. Barriers that Hinder Private Social Investment

Major actors in the ecosystem that drive private social investment include social entrepreneurs on the one hand, who supply products and services that create and deliver social and financial value, and social investors on the other, who require that SE solutions garner both social and financial returns. However, both groups must overcome challenges in the social investment space of Hong Kong before they can unleash the full potential of private social investment in growth and meeting social needs.

To begin with, social entrepreneurs confront difficulties in increasing the supply of investible opportunities, owing to concerns about the investment readiness and organizational capacity of SEs.

- *Lack of "investment-ready" proposals from SEs*

In Hong Kong, SEs with a minimal level of commercial attractiveness appear to be in the minority. The CUHK and HKCSS study (2014) estimated that 67.3 percent of the SEs were unprofitable after deducting all the subsidies from the government, sponsoring organizations, or other donors; 37.1 percent of the respondents reported some level of financial loss. Moreover, the scale of SEs remains generally small: 80.6 percent of the SEs reported an annual turnover of less than HKD 3 million, with 45.1 percent below even HKD 1 million. 60.3 percent had fewer than 10 employees whereas only 2.9 percent had more than 100.

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key manager of each of the SEs.

This lack of profitability becomes a fatal defect in attracting private social investment, and the lack of scale may exclude certain private investors with large investment profiles, even where such small SEs prove capable of turning a profit.

● *Limited organizational capacity for attracting social investment*

The lack of human capital and quality incubation and acceleration services remains as a significant ecosystem challenge for Hong Kong SEs (Mohan, Harsh & Modi, 2017). In addition to capital and operational expenses, SEs may face different costs associated with the creation and demonstration of impact, as suggested in a 2010 Australian study which identified significant "impact costs" faced by SEs, including costs associated with capacity-building and demonstration of impact (Burkett, 2010).

Faced with their insufficient organizational capability and the extra financial burden, SEs may hesitate to take on impact capital; this may lead to a preference for more easily-accessed grant capital, as has occurred in Southeast Asia where the growth of the impact-investing industry remains limited (Global Impact Investing Network and Intellecap, 2018).

As for social investors, the current paucity of impact-investing capital in Hong Kong compared with other financial sources such as grants and donations suggests relatively weak incentives (or perceived ones) for allocating capital towards social investment.

● *Perceived suboptimal risk-return-ratio*

In making investment decisions, investors will examine the risk and return of a project: the higher the return and the lower the risk, the better the investment. While no systematic study to date has compared the risk-return-ratio of SEs to those of traditional Hong Kong enterprises, the prevalence of unprofitability as cited above suggests that the risk-to-return ratio of Hong Kong SEs will not prove attractive.

Indeed, Nicholls and Schwartz (2014) observed that, compared with the prospective returns, even when adjusted for negative externalities, the perceived risks of social investing in general still remain far too high for investors. These cited risks cover a wide range, including (1) investment risk, since many SEs are still relatively immature; (2) team risk, given the sector's inexperienced management; (3) product risk, in light of the paucity of proposed financial products; and (4) liquidity and exit risk, because without developed secondary markets, this novel marketplace offers no way to identify or test exit routes.

● *Lack of awareness and understanding of social investment*

RS Group, a family office in Hong Kong, published a survey report in early 2018 about sustainable investment (RS Group, 2018), including social investment; RS Group has itself invested in Light Be, the social property company mentioned above. More than 20 percent of the survey respondents cited lack of market awareness and understanding of sustainable investment as a primary challenge inhibiting growth in Hong Kong. In fact, given its short history and limited development in Hong Kong, most investors remain naturally unaware of SE — and one cannot, of course, invest in something outside one's awareness.

To summarize, the limited development of private social investment in Hong Kong seems due to a combination of supply and demand factors: the investment readiness and organizational capacity of SEs, as well as the perceived risk-return-ratio and lack of awareness and understanding among investors. These market barriers can pose further challenges to efficient mobilization and deployment of private capital for promoting inclusive growth.

4. Three Ways to Promote Private Investment in Social Enterprise

With inadequate private social investment identified as a significant hurdle to the growth of the SE sector in Hong Kong, how might one go about promoting it? While some policies already exist that could serve this purpose, the Hong Kong government could tap many other policy tools to address the supply and demand issues outlined above. In a policy note about government support to the SE sector, published by the World

| Table 2-1 | Different Stages of Social Enterprise Policy Framework and Results

Category	Early Stage	Emerging	Growing	Mature
Country Example	Kenya, South Africa	Colombia, Egypt, India	Canada, Chile, Italy, Malaysia, Poland, Thailand	South Korea, United Kingdom, United States
Recognition	No Legal form for SEs	No legal form for SEs	Legal form for SEs created or in process of creation	Legal form for SEs created
Support	No policies or regulation for SEs Small-and medium-sized enterprise policies available	Political will to support SEs or social innovation Small-and medium-sized enterprise policies available	Policies and regulations for SEs	National strategy or policy for SEs with large range of tools and programs to support them
Enablers	Some private organizations (e.g., universities, foundations) support SEs	Growing number and variety of organizations supporting SEs	Supporting organizations are forming networks	Supporting organization includes public agencies and forms a connected ecosystem

Source: Agapitova, Sanchez & Tinsley (2017).

Bank (Agapitova, Sanchez & Tinsley, 2017), the United Kingdom (UK) appears as a reference point for the mature policy framework, the top of a four-stage "ladder": early stage, emerging, growing, and mature. Table 2-1 gives an overview of examples and policies pertaining to each stage.

This typology would situate the SE policy framework of Hong Kong in the "emerging" column. Although SEs possess no recognized legal form, the 2012 establishment of the Social Innovation and Entrepreneurship Development Fund (SIE Fund), which provides a wide range of supports for SEs, reveals a clear political commitment to cultivating the SE sector. Moreover, different enablers for SEs have emerged in new social realms such as universities, civil society, and the investment sector. For instance, the Chinese University of Hong Kong has established the Yunu Social Business Centre to cultivate young social entrepreneurs; initiatives such as Social Enterprise Summit have emerged in civil society to promote social entrepreneurship; investors such as RS Group have become active in promoting the integration of social elements into investment.

The SIE Fund currently offers three major kinds of support, namely (1) direct financing for innovative ventures, (2) capacity-building, and

(3) research. As of March 2019, the SIE Fund has funded 147 innovative ventures that work on poverty elimination and social inclusion (SIE Fund, 2019). Through various capacity-building initiatives, such as training programmes and impact incubation, the fund also seeks to nurture social entrepreneurs and facilitate cross-sector collaboration. Nevertheless, to further leverage private capital for social ventures rather than solely relying on public resources, the government should go beyond the existing paradigm and employ bolder and more specific strategies.

A. Policy Recommendation 1: Creating an Enabling Policy Environment

First, the government should improve the profitability of SEs by creating an enabling policy environment. A major difficulty that every SE faces is that their social impacts do not capitalize into financial return. A more socially-friendly public procurement policy would give SEs a competitive edge in bidding for public contracts. This would then improve their financial performance, a major pain point in attracting private social investment. Including social impact in the assessment criteria for public procurement, for example, would effectively leverage the mission of SEs, generating more cash flow and enhancing their profitability. In other words, public procurement could serve as a policy tool to boost demand for the services that SEs provide (Agapitova, Sanchez & Tinsley, 2017).

The Social Value Act enacted in 2013 in the UK has promoted the participation of SEs in public services contracts and delivery (Department for Digital, Culture, Media and Sport, 2018). It requires that commissioners consider wider social, economic, and environmental benefits at different stages of the public procurement process, including consultation, service design, tendering, and post-procurement management. Complementary initiatives include the Commissioning Academy, which builds public-sector commissioner capacity in outcome-based commissioning, and the Masterclass Programme, which develops the commercial skills of voluntary sector organizations along with their capacity to bid for public service contracts (Agapitova, Sanchez & Tinsley, 2017). The benefit-cost methods developed by the Washington State Institute for Public Policy offer another example, estimating the benefits and costs of improved social outcomes in dollar terms across policy areas such as education, healthcare and criminal justice (Washington State Institute for Public Policy, 2018).

B. Policy Recommendation 2: Enhancing the Accessibility of Social Investment

Second, the government could enhance the accessibility of social investment: in its early development stages, investors typically do not possess the knowledge or experience necessary for making effective decisions about it. The participation of an experienced intermediary or the creation of a specific financial instrument for social investment could largely reduce the friction of investing in SEs. For example, the use of social impact bonds (SIBs) in procuring social services allows investors to avail themselves of an experienced intermediary who manages the whole process. With SIBs, investors provide upfront capital for a social project, and can earn interest along with the returned principal if the project achieves the specified social outcomes – effectively, investors take on the risk of project failure for a potential return. In this process, the intermediary could provide information and professional recommendations on the expected return of a social project and help manage its performance once the investment is made. This makes the role of investors easier as they need only provide capital, and would more effectively leverage such private capital to finance SEs.

In the UK, the Centre for Social Impact Bonds aims to catalyze the development of SIBs at scale (Government of the United Kingdom, 2017). Apart from providing expert guidance and information, it launched the GBP 20 million Social Outcomes Fund in 2012 and the GBP 80 million Life Chances Fund in 2016 to promote the local development of SIBs. The Centre created the Government Outcomes Lab in partnership with the Blavatnik School of Government at the University of Oxford, aiming to provide practical, in-person support and advice for the development of SIBs. The complicated and bespoke nature of the instruments poses a hefty transaction cost to all the participating parties, including the commissioner, investors and intermediary. Though it might seem resource-intensive on the government's part, the technical assistance offered by the Outcomes Lab thus alleviates the financial and operational burden on these stakeholders, helping in turn to scale the instrument at the national level.

C. Policy Recommendation 3: Improving the Return-risk Ratio of Social Investment

Finally, the government could utilize various policy instruments to improve the risk-return-ratio of social investment. Here we might draw on a similar issue facing developing countries, where a low level of risk-adjusted return also discourages investors; such countries have employed various instruments under the broad umbrella of blended finance — officially defined as "the strategic use of development finance for the mobilization of additional finance towards inclusive growth in developing countries" (Organization for Economic Cooperation and Development, 2018, p.13) — to improve the risk-return profile of individual investments and thus attract private commercial capital for development purposes. It appears that a number of these tools could also encourage private social investment in Hong Kong.

For example, blended finance funds with a layered structure (i.e. structured funds) could effectively reduce the risk of private social investment. Structured funds allocate risks and returns differently across investors. Investors in the senior tranche would have the highest priority in receiving returns, followed by investors in junior tranches, with those in the first-loss position the last in priority. Risk is then highest in the first-loss position and lowest in the senior tranche. This "waterfall structure" allows the government or donors — usually comfortable with grant-making without expecting any financial return — to mitigate the risk borne by private investors by taking the first-loss position.

Typical examples of blended finance fund include the Microfinance Initiative for Asia (MIFA) and the Global Energy Efficiency and Renewable Energy Fund (GEEREF) (Organization for Economic Cooperation and Development, 2018, pp.103-5). MIFA is a USD 175-million private-public fund dedicated to refinancing Asian microfinance institutions. Its capital structure has two principal tiers: the equity first-loss C shares (USD 50 million), held by the European Union, the

German Federal Ministry for Economic Cooperation and Development (BMZ), and the International Finance Corporation; and Mezzanine B-shares (USD 55 million), A-shares and senior notes (USD 70 million), held by private investors. GEEREF, on the other hand, is a so-called "fund-of-funds", financing private equity funds that facilitate the transfer of renewable and clean energy technologies to developing countries. Within a capital structure similar to that of MIFA, private commercial investors account for the senior shares (EUR 110 million), whereas governments take the junior positon (EUR 112 million). In both cases, the funds mobilize private commercial capital to invest in social or sustainable projects by ensuring the participation of public developmental capital. The Hong Kong government might offer a similar structured fund to stimulate private SE investment. By taking the first loss position, perhaps alongside other donors who support the development of SEs, the government could attract private investors to inject capital into the fund and effectively provide additional SE finance.

Guarantees offer another useful blended finance instrument; they oblige the guarantor to pay an agreed-upon amount of a loan or other financial instrument in case of re-payment failure. As with structured funds, the provision of credit guarantee services reduces the risk of creditors lending to SEs. This can particularly help promising SEs lacking tangible collateral for borrowing. While the government may charge a below-market-rate premium for the guarantee so as to attract private investors, this concession may not prove necessary if there is a discrepancy between the risk perceived by investors and the actual risk. The Korea Credit Guarantee Fund (KODIT), a public financial institution established in 1976, offers an example of such guarantee provision for SEs. In Aug 2018, KODIT announced its goal of doubling its guarantee fund for SEs to KRW 100 billion (USD 89.76 million) within one year and increasing it to KRW 500 billion within five years (*Yonhap*, 2018).

5. Conclusion

In the midst of Hong Kong's affluence, numerous inclusive growth challenges bar its way toward becoming a truly affluent, happy, and vibrant city. While the upcoming structural deficit has clouded the vision of inclusive growth, SEs have shown potential in diverting private capital to its pursuit. Private social investment, however, has remained underdeveloped in Hong Kong, as SEs generally lack a minimal level of commercial attractiveness and investors typically lack social investment understanding and know-how. Here is where the government can assume an active role.

To catalyse private social investment, we have proposed three areas for government policy measures. First, the government should create an enabling policy environment for SEs. Foreign experience suggests that the social mission of SE can translate into a competitive edge if the government takes social and environmental impacts into consideration in procurement policies. Second, the government should enhance the accessibility of social investment. The creation of suitable financial instruments and the participation of experienced intermediaries, as demonstrated in the case of SIBs, can make social investment dramatically easier for private investors. Finally, the government should enhance the return-risk ratio of social investment to attract private investors. The strategic use of blended finance, such as structured funds and credit guarantees, has proven effective in drawing in private capital for inclusive growth. We believe that proper implementation of these recommendations could divert private capital more effectively, translating it into social impact and filling the investment gap for realizing the vision of inclusive growth.

Ultimately, a vibrant SE sector can effectively complement government action in two ways. First, it enables growth to be more inclusive, as it enhances social inclusion across several economic domains as we noted in discussing the typology of SEs. Second, it leverages private capital to address growing social needs that challenge the fiscal health of the city. Hong Kong has everything to gain by fostering an enabling environment for SEs to emerge and thrive.

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CHAPTER 3

Gender Budgeting for Inclusive Growth in Timor-Leste

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1. Introduction

The Organisation for Economic Cooperation and Development (OECD) defines inclusive growth as economic development distributed in a just and equitable manner across society, creating opportunities for all citizens (Organisation for Economic Cooperation and Development, 2013; 2014). In Timor-Leste gender inequalities remain significant across all dimensions of the public and private spheres. These inequalities manifest in pervasive domestic violence, notable maternal and child mortality, some of the world's highest fertility rates, inadequate basic water and sanitation, and significant gender gaps in school attendance and literacy level (Government of Timor-Leste, 2014, p.11). Despite a broad understanding of these issues, the Timorese government has not channeled sufficient public funds to address them. The reasons for this are complex and involve a range of political, institutional, technical, and capability hurdles.

One tool that could address at least some of those challenges is Gender-Responsive Budgeting (GRB), or simply gender budgeting (GB) — an analysis of the impact of the public spending in reducing gender disparities. This process changes budgetary decision-making and priorities to ensure that fiscal policies and resource allocation create equitable outcomes for women, men, boys, and girls (Sharp & Broomhill, 2013). A significant body of recent literature has demonstrated that reducing social inequalities contributes more broadly to inclusive growth and the empowerment of women and girls (Sharp & Broomhill, 2013).

Three factors have aided efforts to implement gender budgeting in Timor-Leste over the past few years: (1) political will and leadership from the top that drives a gender-equality agenda; (2) the existence of a technical system and capabilities for gender-responsive planning and budgeting; and (3) an enabling environment that provides oversight, both from government institutions, such as Parliament, and from civil society. A comprehensive reform agenda to address inequalities requires strengthening all three foundations. This is best done by replicating Timor-Leste's keystone approach: rather than adapting GB tools and processes from another setting, program leaders tailored their approach and tools to the country's specific context. They began by recognizing the concerns and processes of Timor-Leste ministries and planning specialists and then progressed in tandem with the Timor-Leste government. This attention to institutional concerns and developments resulted in a nationally owned process.

This paper argues that a firmer groundwork for progress will require improving the GB systems and capacities of relevant government institutions, while addressing key knowledge gaps in government program design and budget allocation. More specifically, actual levels of capital expenditure need additional attention in the form of gender impact assessments. I argue that tailoring such assessments to the Timor-Leste institutional context increases the likelihood of their adoption — so that they may, in and of themselves, generate some of the reform momentum sorely needed in this policy area.

2. Gender Inequality in Timor-Leste

Timor-Leste's Constitution prohibits gender discrimination, while the national Strategic Development Plan (2011-2030) aims to "value, protect, and promote" human dignity and women's rights in "a gender-fair society" enshrined in national law and culture (Asian Development Bank, 2014).

The SDP has identified several goals in this respect, and has adopted gender mainstreaming as a strategy for achieving equality by 2030 (Asian Development Bank, 2014b, p.48). In practice, while the country has made progress in some areas, its strong patriarchal culture and customary laws reinforce strict gender roles and limit the full participation of women and girls in political, social, and economic life. Timor-Leste ranked 124th out of 149 countries in the 2018 World Economic Forum's Global Gap Report, a significant drop since 2012 when it placed 68th. High rates of poverty;[1] low levels of educational attainment; limited access to justice, financial services, assets, and property; the prevalence of domestic violence; and malnutrition, and inadequate water and sanitation all pose major challenges for women and girls throughout the country (Government of Timor-Leste, 2014, p.12). The next section outlines some of those challenges in more detail.

A. Women and Education and Vocational Training

Despite increased enrolment rates for both girls and boys, especially at the compulsory basic education[2] level, repetition and dropout rates for girls remain high. Barriers to increasing school participation for girls in general, along with vulnerable groups such as girls with disabilities and orphans, reflect multiple factors: language barriers,[3] distances to school,[4] adolescent fertility, family obligations,[5] poor infrastructure,

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1 The Asian Development Bank (2019) indicates that although Timor-Leste's national poverty rate has fallen from 50.4 percent in 2007 to 41.8 percent in 2014 (Timor-Leste Survey of Living Standards), it remains the highest among countries in the Pacific.

2 In Timor-Leste, basic education refers to compulsory primary and presecondary education.

3 Tetum and Portuguese are the classroom languages. However, this excludes many children who can only communicate in their birth tongues, i.e. local dialects

4 Timor-Leste's Country Gender Assessment (2014) found that 60 percent of students spend more than one hour to commute each way to school (Asian Development Bank, 2014a).

5 Timor-Leste's Country Gender Assessment (2014) found that almost half (49 percent) of girls and more than half (68 percent) of boys spent much of their time helping parents with farming, herding, and fishing (Asian Development Bank, 2014a).

including inadequate water and sanitation facilities, and disability access. Assessments have found that only 33 percent of schools have proper sanitation facilities and good drinking water (Asian Development Bank, 2014a, p.13). The financial burden also limits the enrolment of girls in schools. Despite a compulsory and free-of-charge system from preschool to secondary levels, costs associated with sending a child to school (such as stationery, books, and uniforms) remain an issue (Asian Development Bank, 2014a, p.15). Additionally, fewer girls than boys attend or complete tertiary studies. Timor-Leste's Demographic Health Survey (2016) found that 22 percent of women age 15-49 have never been to school in their entire lives (General Directorate of Statistics - GDS/Timor-Leste, Ministry of Finance/Timor-Leste & ICF, 2018).

Furthermore, technical and vocational education and training (TVET) play a significant role in workforce development and addressing skills shortages. In Timor-Leste, the Ministry of Education implements vocational education at the secondary level, with a focus on increasing literacy; meanwhile, the Secretariat of State for Vocational Training and Employment Policy (SEFOPE) carries out vocational training at the higher education level. Although the government has approved a national TVET plan (2011-2030) with equity in gender participation as a requirement, gender disparities continue to exist in both enrolment and program type. The majority of women concentrate in programs such as administration, tourism, and hospitality, in comparison with men in construction and other technical skills, limiting women's career opportunities to compete in a growing labor market (Asian Development Bank, 2014a, p.24).

B. Women and Health and Well-being

Maternal and child mortality rates in Timor-Leste have dropped[6] as a result of recent government investment in the health sector labor force, antenatal care visits, health infrastructure, and the overall health system

6 Maternal mortality rate has dropped from 557/100,000 live births (DHS, 2010) to 218/100,000 (DHS, 2016) and the under-5 child mortality rate has lowered from 64/1,000 live births (DHS, 2010) to 41/1,000 (DHS, 2016). (General Directorate of Statistics - GDS/Timor-Leste, Ministry of Finance/Timor-Leste & ICF, 2018).

(Government of Timor-Leste, 2014, p.22). However, large inequalities persist in women's health care access, reflecting place of residence, wealth, and educational level. For instance, women living in extreme poverty have no access to either antenatal or postnatal care.

Furthermore, despite the reduction in the national fertility rate from 5.7 to 4.2 higher rates continue in rural areas, at an estimated 4.6 children per woman — ranked as the highest in Asia and the Pacific (General Directorate of Statistics - GDS/Timor-Leste, Ministry of Finance/Timor-Leste & ICF, 2018). Lack of access to and understanding of contraceptive methods — in turn a reflection of poor educational access — help maintain high rural fertility.

Undernutrition rates remain higher among young women and girls, since cultural norms often prioritize men in food allocation. Forty-one percent of girls aged 15 to 19 years have a low body mass index and 21 percent are anemic. In fact, malnourished women have a greater risk of obstructed labor, of dying from postpartum hemorrhage, and of experiencing other illnesses (Asian Development Bank, 2014a, p.31). Lack of access to clean drinking water and suitable sanitation remains one of the factors contributing to malnutrition and child and maternal mortality rates; policy should therefore treat it as a gender-priority issue.

While the government has put various social protections in place to relieve the Timorese citizens from extreme poverty, improve welfare, and ensure women's participation in the national development process, these policies are not distributed in an equitable and just manner. Since 2002, a number of social welfare payments were established for male and female veterans, the elderly, the disabled, and vulnerable families, including single-headed families and those with large numbers of children. Veterans receive the highest benefit (ranging from USD 1,380 to USD 9000 per year). However, while women played critical roles in the struggle for independence, they represent only a quarter of recognized combatants receiving veteran's pensions. The government also provides pensions for the elderly (USD 360 per year) and the disabled aged over 18 (USD 360 a year). By contrast, the Bolsa da Mae (Mother's Grant) for poor and vulnerable households with children provides only USD 40 to USD 240 per year (Asian Development Bank, 2014a, p.82). The Bolsa da Mae program aims to relieve poverty, promote full participation in basic education, and increase access to primary health care services; however soft qualification conditions exist that exclude many families and the benefit amount is too small to affect household welfare. A 2015 World Bank Group (2015, p.1) study found that an increase in the average monthly grant could significantly help the government alleviate extreme poverty.

C. Gender-based Violence and Access to Justice

The government of Timor-Leste has claimed action against gender-based violence as a priority, backed up by a legal and policy framework that includes the Penal Code, the Law Against Domestic Violence (2010), the National Action Plan (NAP) against Gender-Based Violence (GBV), the Zero-Tolerance Policy on Gender-based Violence in Schools, and a protocol titled "No to Sexual Harassment in the Public Service". Yet the country still has some of the highest rates of reported violence against women in the world. The Timor-Leste Demographic Health Survey (DHS, 2016) found no reduction in the prevalence of domestic violence compared to DHS 2009-10: 19 percent of never-married women, 40 percent of currently-married women, and 42 percent of divorced, separated, or widowed women have experienced physical violence at some time in their life since the age of 15 (General Directorate of Statistics - GDS/Timor-Leste, Ministry of Finance/Timor-Leste & ICF, 2018; National Statistics Directorate - NSD/Timor-Leste, Ministry of Finance/Timor-Leste & ICF Macro, 2010). Nationally, 34 percent of women age 15-49 have experienced either physical violence, sexual violence, or both (General Directorate of Statistics - GDS/Timor-Leste, Ministry of Finance/Timor-Leste & ICF, 2018, p.301). A study undertaken by The Asia Foundation found that 59 percent of ever-partnered women have experienced some form of physical and/or sexual intimate partner violence (double the global average of 30 percent). Sixty-five percent of all cases before the courts pertain to domestic violence. Women with disabilities and those of diverse sexual orientation experience higher rates of violence. Violence is considered normal: 80 percent of women and 79 percent of men believe a husband is justified in hitting his partner (The Asia Foundation, 2016).

Access to high-quality and essential services, such as safe rooms (*fatin hakmatek*) and shelters (*uma mahon*)[7] for victims/survivors of domestic violence, remains very limited, with insufficient facilities and health personnel/medical examiners. Currently, safe rooms operate in only five of the 12 municipalities and the special autonomous region of Oecusse. Extragovernmental sources often underwrite such services, with funding primarily from donors such as Australian Aid and management by nongovernmental organizations (NGOs). Churches and local women's NGOs (namely FOKUPERS,[8] Casa Vida, and ALFeLa[9]) run most of the shelters.

Moreover, access to justice remains limited for victims of gender-based violence. Distances to the nearest court, economic dependency on perpetrators, language barriers, and low literacy rates all hinder victims from seeking formal legal remedies. The weak capacities of judiciary and police officers also contribute to restricted access to the judicial system. For instance, although a National Vulnerable Persons Unit (NVPU) exists, the inadequate capacity of its personnel and limited facilities make it less than effective. Without more systemic measures against domestic violence, Timorese women and children cannot fully enjoy their individual human rights and freedoms or fully participate in the development of the country.

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7 Fatin Hakmatek provides a temporary accommodation (three-day maximum) and safety, care and medical treatment for victims of domestic violence, sexual assault, child abuse, abandonment, and/or human trafficking. Uma Mahon provides long-term accommodation (more than two nights) and intensive care, psychosocial assistance, reintegration services and life-skills training to victims/survivors of gender-based violence.

8 FOKUPERS is a non-profit organization that was established in 1997 in order to address gender-based violence and human rights violations against women and children, particularly those committed at the time of the Indonesian occupation of Timor-Leste. Today, it has expanded its services to include victim services, non-gender-based early childhood education, advocacy, and women's empowerment.

9 ALFeLa (*Asistensia Legal ba Feto no Labarik*) is a non-profit organization that provides free legal assistance to women and children in Timor-Leste.

D. Human Rights of Women

Women's sexual and reproductive health rights hold a key place in human-centered development. Women require access both to information regarding sexual and reproductive health and to impartial, comprehensive and evidence-based healthcare, including family planning and contraceptives. An estimated quarter of currently-married women have unmet needs for family planning, and the desired fertility rate of 3.5 children exceeds the actual rate of 4.2 (General Directorate of Statistics - GDS/Timor-Leste, Ministry of Finance/Timor-Leste & ICF, 2018, p.93).

Furthermore, although the National Parliament has approved two major land laws[10] that outline men's and women's equal rights to land ownership, it has failed to provide security for such rights, particularly for adolescent mothers and poor and vulnerable widows (Government of Timor-Leste, 2014, p.12). In Timor-Leste, 80 percent of land is acquired by inheritance under customary law, restricting women's access to and control over land. If women had the same opportunities and resources — especially access to land and property — it would reduce their economic dependency on their partners, ultimately contributing to a reduced rate of domestic violence, as well.

Women in Timor-Leste also have limited access to financial services, credit, and loans, especially in rural areas. Notwithstanding the recent improved access to credit, banks and financial institutions continue to prefer larger clients who bring smaller transaction costs and greater collateral availability. This has disproportionately affected women (Government of Timor-Leste, 2014), who often run small enterprises with limited collateral.

The issues outlined above are of course complex and difficult to address. Evidence from the Asia-Pacific region (Kanwa, 2016) suggests that gender budgeting efforts can have a significant impact on reducing inequalities.

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10 Law on the Expropriation for Public Purposes/Utility, and Law on the Special Regime for Definition of Ownership of Immovable Property.

3. International Commitments to Gendering the Budgeting Process

The United Nations (2015b) has emphasized that achieving Sustainable Development Goal No.5 (Gender Equality) entails, among other objectives, ending all forms of violence and exploitation and the unequal division of unpaid care and domestic work; it also means providing equal access to education, health care, and reproductive rights, decent work, and representation in political and economic decision-making processes. This paper defines gender budgeting (GB) as an approach that uses fiscal policy and public financial management (PFM) instruments to promote gender equality and the empowerment of women and girls (Stotsky, 2016).[11] GB initiatives work by providing evidence of the differential impact of policies on men and women or boys and girls. It then becomes possible to influence evidence-based changes in budgetary decision-making (Sharp & Broomhill, 2013). GB analyses often provide information on the short- or long-term consequences of budgetary measures that foster inequalities, allowing governments to weigh up the broader costs and benefits. They also provide options for improved allocations (International Monetary Fund, 2017).

GB takes a number of different forms. A more macro approach focuses on the government's expenditure policies, budgetary allocations, and tax policies, while more micro approaches look in detail at specific PFM practices at different stages of the budget cycle (budget formulation, approval, execution, monitoring, and evaluation) with the aim of introducing new, more gender-responsive practices (Stotsky, 2016; International Monetary Fund, 2017).

Gender Budgeting began in Australia in 1984 and was taken up in a number of other countries shortly afterwards; the Beijing Platform of Action specifically recognized it in 1995 (arts. 345, 346 and 358) (Sharp & Broomhill, 2013; UN Women, 2015). In 2000, the United Nations

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11 There are a number of different definitions of gender budgeting; the OECD terms it "integrating a clear gender perspective within the overall context of the budgetary process through special processes and analytical tools, with a view to promoting gender-responsive policies" (Organization for Economic Cooperation and Development, 2016).

(UN) General Assembly called upon governments worldwide to incorporate GB into their budgetary practices. As a result of this global momentum, by 2008, the governments of 90 countries had actively used GB approaches (Sharp & Costa, 2015).

Timor-Leste has signed on to several international frameworks committing to budgetary policies that advance gender equality and women's empowerment. These include the Beijing Platform for Action (BPfA), Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW), Addis Ababa Action Agenda,[12] the Busan Partnership for Effective Development Co-operation (2011)[13] and the 2030 Sustainable Development Goals (SDGs).[14] Sustainable Development Goal 5, Indicator 5.c.1 (endorsed by 193 member states, including Timor-Leste) stresses transparency and strengthened government accountability for public resource allocations (United Nations, 2015b).[15] The Timor-Leste National Parliament passed a resolution in 2015 committing to the SDGs and requesting the necessary alignment of the planning and budgeting system. Meanwhile, the government has directed all agencies to reflect the SDGs in their annual plans and budget requests (Government of Timor-Leste, 2017c).

Policy Reform in Timor-Leste

In more practical terms, the Timor-Leste government's adoption of GB approaches commenced with the roll-out of the public financial management (PFM) reforms in 2015. In this reform process, the government has focused on broader objectives of PFM, such as

12 Endorsed by the General Assembly in its resolution 69/313 of 27 July 2015 (see paras 30, 53 and 115) (United Nations, 2015a)

13 Outcome Document: Busan Partnership for Effective Development Co-operation. Fourth High-level Forum on Aid Effectiveness, Busan, Republic of Korea, 29 November – 1 December 2011 (see Para 20 (a) (b) (c)).

14 Target 5C: Adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels (United Nations, 2015b).

15 Indicator 5.c.1: "proportion of countries with systems to track and make public allocations for gender equality and women's empowerment" (United Nations, 2015b).

medium-term expenditure policies, national statistics, capital budgeting, fiscal rules, and tax policies; the recently approved Gender Budgeting policy paper targets all these practices (Government of Timor-Leste, 2017a). Using the existing budgetary reform process as a foundation – the Timor-Leste Roadmap for Budgetary Governance Reform (2017-2021) – the Gender Budgeting policy paper clarifies institutional responsibilities and provides detailed guidance on the process of mainstreaming gender in the complex PFM reform. In this way, it bolsters more effective government budgeting to address inequalities, where adequate technical and institutional capacities exist or can be built.

As noted above, the Timor-Leste government has begun work on enabling policies and laws targeting gender equality. It has recognized the potential benefits of these policy reforms and the mainstreaming of gender; it understands, for example, that more effective resource allocations will improve service delivery (Bosnic & Schmitz, 2014). A study from the World Bank (2006) also states that inequalities often weaken prospects for overall prosperity and growth, underscoring the value of gender-responsive budgets and equity in resource allocation (World Bank Group, 2006). Obviously, however, all of these commitments call for institutionalization and effective implementation in order to become meaningful.

4. Institutionalization and Institutional Politics

The Timor-Leste GB initiative has been initiated by the ad hoc Secretariat of State for Equality and Inclusion (*Sekretaria Estadu ba Igualdade no Inkluzaun*, SEII),[16] the central agency advocating for the gender equality agenda. This agency began as an advisory office to the Prime Minister in 2002 and transformed into an independent governmental body in 2007. With a strong support from UN Women in the past years,

16 Between 2007-2018, the name of the secretariat has changed many times, from the Secretariat of State for the Promotion of Gender Equality (SEPI) to the Secretariat of State for Support and Socio-Economic Promotion of Women (SEM), then the Secretariat of State for Gender Equality and Social Inclusion (SEIGIS) and SEII.

SEII has advocated for gender-sensitive policies and laws (Government of Timor-Leste, 2014, p.9), resulting in the enactments outlined above. Despite efforts to strengthen gender mainstreaming in the budget processes, largely speaking it has not succeeded with more significant changes in budgetary allocations or fiscal policies. This reflects in part its lesser status in the hierarchy of Timorese government institutions: the power to influence budgetary processes sits with key Ministries such as the Office of the Prime Minister and Ministry of Finance, not subordinate institutions with advisory mandates. It is also more difficult for a Secretariat to coordinate with other ministries — an essential for effective GB outcomes. Although SEII holds its portfolio directly from the Prime Minister, and serves as a member of the Council of Ministers and an observer to the Budget Review Committee, this position gives it little to no influence in ensuring that all ministries allocate enough resources to address gender inequalities.

Implementing sound policies and tailored investments requires in-depth understanding and knowledge, not only among technical experts but also the leadership of the national women's machinery and parliamentarians. GB actions and analysis of the Annual Action Plan should prioritize institutionalization of knowledge. Despite the guidance of UN Women in past years, SEII has had no mechanism in place for tracking gender-policy budget allocation and implementation, and can only see the government's budgets and plans in nearly-finalized form, after their preparation by line Ministries and review by the Ministry of Finance. For instance, although the government has ratified the NAP against GBV and Maubisse Declaration for the second time, the first phase of policy implementation produced little impact. Even worse, although the government ratified the NAP on Gender Private Sector (2014-2017) in 2014, no implementation at all took place within the expiration timeframe. This occurred in part because this policy was developed by the Secretariat of State for the Support and Promotion of the Private Sector (SEAPRI) in collaboration with SEII, with support from ILO, Irish Aid, and New Zealand Aid; SEAPRI itself was subsequently dissolved in 2015 with a reshuffle in government structure.

However, in its capacity as the national women's machinery, SEII might notionally have carried out the implementation of this NAP with the support from UN Women, International Labour Organization (ILO), and other key stakeholders; by the same token, it could have moved on the NAP on the Rights of People with Disabilities (2014-2018). This shows that although political will matters, these cases underscore that gender policy implementation also requires a technical system and oversight capacities in place. The widespread view that GB is the responsibility of SEII alone, despite the absence of coordination and execution tools, also immeasurably reduces its effectiveness.

After several years of experimenting with a range of externally-supported initiatives, the Timor-Leste government embarked upon a more nationally-owned and -driven approach to gender budgeting through the PFM reform. In February 2015, a reshuffle in leadership produced a new head of the government who advocated strongly for gender equality and social inclusion. This Prime Minister, Dr. Rui Araújo, introduced gender budgeting in the Budgetary Governance Reform agenda; some of his initiatives included the development of a gender budgeting policy note and the integration of gender marker in the national planning and budgeting system. This government reshuffle was also seen as a symbolic transition of power from the older generation (veterans of the resistance) to a younger one.

Dr. Araújo established a Unit for Planning, Monitoring and Evaluation (UPMA) within his office, allowing for political control of the General Budget preparation process and implementation, along with monitoring to ensure real impact on citizen's lives. UPMA has led the development of a "Budgetary Governance Reform Roadmap" that lays out a strategy to strengthen the links in the process from planning through accountability on a medium-term basis. In addition, the Australian Governance for Development (GfD)[17] program has supplied UPMA with technical

17 The GfD program supports reform of key laws, policies and systems important to economic development and service delivery in Timor-Leste, via advice and technical support. GfD takes on two core approaches: investment in advisers and grant partners, and a focus on empowering local advisers. To date, GfD has employed 75 national advisers on its staff, all based at central government agencies. (The author extracted this from a power point presentation given by the GfD program leader at the GfD Planning and Reflection Workshop with all stakeholders (such as the Government of Timor-Leste, development partners, civil society and assistance, in keeping with their expertise in national-scale planning. This support has enabled UPMA to identify key enabling drivers for effective GB implementation, such as operational tool development and individual and institutional capacities, including parliamentary oversight and engagement with civil society.

With strong advocacy on gender budgeting from the head of the government, SEII[18] can now work with UPMA to oversee and support planning and monitoring systems for policies and programs. Notwithstanding challenges — such as the limited availability of sex-disaggregated data, the weak coordination mechanism of the Gender Working Group[19] across governmental bodies, and the incomplete legal frameworks for addressing gender inequalities — the Timorese government now has a sophisticated institutional structure and series of mechanisms for addressing gender inequalities, in which donors and development partners could support in strengthening the implementation (Corner, 2012).

5. The Shift to Performance-based Budgeting

Implementing complex PFM reforms while incorporating a gender perspective has thrown up some capacity challenges for the Timor-Leste government. The first step in the PFM reform process, from 2015 onward, introduced a performance-based budgeting system undertaken by UPMA. This involved developing and using specific program

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nongovernmental organizations) held on 28 May 2019.

18 Over the past few years, UN Women has encouraged SEII to focus on amending Decree Law no. 22/2015 on the creation of a Unit of Planning, Monitoring and Evaluation (UPMA), in the belief that this would prove the most effective government instrument for addressing gender inequalities.

19 Currently, Timor-Leste has a three-level government coordination mechanism across line ministries: interministerial, national and municipality gender working groups. In theory, these oversee and enhance government coordination, resource allocation, gender mainstreaming strategy, and monitoring for implementing gender commitments in ministries, secretariats of state, and municipal administrations. In addition, Timor-Leste has specific interministerial working groups that oversee and monitor the National Action Plan against Gender-Based Violence and National Action Plan on UNSC Resolution 1325.

classifications to change the focus of the annual budget process from input-based to results-based. The importance of this reform cannot be understated; it facilitated an important shift towards greater government accountability for the spending of public money. It also provided a key opportunity for evaluating the impact of programs and spending on different groups, including women and girls. Moreover, it provided a clear entry point for tools and technical expertise related to gender budgeting.

The creation of UPMA in the Prime Minister's office in 2015 and the roll-out of PFM reform have allowed gender reform an entry into the budget process. Since 2017, SEII has worked with UPMA to integrate gender perspectives in PFM reform, resulting in gender-responsive planning and monitoring instruments and tools. These include gender markers, which help track the proportion of funds earmarked for promoting gender equality. Gender markers cover three classifications:

(1) Principal (P): the program's principal expected result, and the reason for it existence, is to reduce gender inequalities;
(2) Significant (S): gender equality is an important and intended result, but not the principal reason for undertaking the program. In addition to other expected results, the program aims for a positive impact on advancing gender equality and/or the empowerment of women and girls (gender mainstreaming); and
(3) Not Targeted (NT), where the program does not intend to reduce gender inequalities between women and men.

The Gender Marker has been integrated into the State's Financial Management Information System (FMIS), the '*Dalan ba Futuru*'[20] system, and the line ministries' Annual Action Plan (2019). Crucially, the government has also set aside funds to support implementation of the gender marker system in the PFM reforms, with UPMA and SEII introducing a national Gender Program in the Annual Action Plan. This requires key line ministries (such as Ministry of Health, Ministry of Education, Ministry of Social Solidarity and Inclusion, Ministry of

20 A new national online software for planning, budgeting and reporting system developed by UPMA. It will also become accessible to the public in the coming years.

Defense, Ministry of Interior, and others) to allocate budgets for gender policy implementation, such as the aforementioned NAP-GBV, the Maubisse Declaration, and NAP-UNSCR 1325 — addressing gender-based violence, women's economic empowerment and women, peace and security, respectively. By securing funding for these initiatives, the government demonstrates an important commitment to reform. UPMA and SEII have also developed result-based, gender-sensitive indicators during this phase to measure the impact of budgets on gender equality and the empowerment of women and girls.

The Timor-Leste example provides a useful illustration of policy and institutional gender budgeting reform frameworks constructed at macro and meso levels. The government has also prioritized strengthened individual and institutional capacities for implementing these frameworks. The SEII and UPMA have taken active part in this both at the national and municipality levels to ensure the translation of reforms into actions. At present, they chiefly deliver training on ex-ante, pre-budgeting tools; as the capacity of these bodies develops, they plan to proceed with post-budgeting tools focused on gender impact assessment. Ultimately, this will give special attention to evaluation and accountability in gender equality programs. UPMA and SEII will also undertake a macro-level budget analysis to understand different impacts on women, men, girls, and boys.

The Budgetary Governance Reform Roadmap[21] targets policy papers on medium-term expenditure and fiscal rules as high priorities for this year, as well as the enactment of a new procurement law. As stated in the Gender Budgeting policy note, SEII will provide technical support to UPMA and the Ministry of Finance to further the implementation of gender budgeting in the broader PFM reform.

Such a change in the system will assist the government to generate significant sources of data informing policy and implementation decisions; these will contribute to service improvements that in turn reduce gender inequalities in all sectors. However, persistence and consistency will

21 Some of the priorities in support of reform include adopting the principle of open, transparent, and inclusive budgeting, human capital development to support the country's long-term development process, and improving service delivery for all citizens.

prove vital. As Welham *et al.* (2018) have noted, budgetary reform requires annual maintenance and refinement in order to become embedded in the budget cycle; since Timor-Leste typically performs its budgeting annually, more strategic elements of the cycle will require repeated efforts over several years to effect change.

Despite all these initiatives, effective gender mainstreaming as a strategy for addressing gender inequalities remains an enormous challenge. A number of gaps persist that hinder greater impact for these efforts. These include limited dialogue between gender civil society organizations (CSOs), government, and parliamentarians; weak coordination mechanisms among government institutions; and limited resources, and key skill and knowledge gaps in government program planning and budget allocation. Whether within or outside the government, such hurdles present different levels of difficulty, with some more easily resolved than others. They include the institutional and individual capacity constraints within implementing government bodies, the need for greater stakeholder participation in government policymaking on this issue, and the challenge of addressing broader social and cultural attitudes and prejudices towards women.

A. Weak Institutional Coordination

Despite the important step forward of the Gender Markers, weaknesses persist in coordination across different government departments, limiting their effectiveness at present. Timor-Leste's current online planning and budgeting system, called *Dalan ba Futuru* (the road to the future) contains large standardized programs that, given their cross-institutional character, cannot receive the '*Not Targeted*' gender marker. This results in falsely inflated figures on the diffusion of GB. The current system puts the percentage of gender-responsive government programs in the 2019 state budget at 59 percent (Government of Timor-Leste, 2019), which is simply not the case. The system requires further work so that it can overcome this falsity, and perhaps facilitate some of the institutional coordination needed to improve its data quality.

While that coordination remains weak, according to conversations with the State Secretary for Equality and Inclusion about her first 100 days (June 2018-September 2018), the Council of Ministers has recently approved SEII's request to review all laws and policies for gender responsiveness prior to their approval by the Council. One best practices that can be replicated by other line ministries is, for instance, that of the Ministry of Legislative Reform and Parliamentary Affairs (MRLAP); it has hired a gender specialist and draws support from the Governance for Development program for national-scale reforms in order to ensure that gender is taken into consideration in all government laws, policies, plans, and budgets. Another best practice would copy the Ministry of Public Works (MOP) and the Secretariat of State for Vocation and Training and Employment (SEFOPE); both have established a gender unit to oversee the implementation of the government's national gender commitment. Additional measures for effective coordination, budgeting, and gender targeting [might] include a government-led Gender Working Group,[22] the SEII/UN Women informal gender coordination group (including participation from relevant CSOs), and gender specialists providing technical support for GB and human resource development for line ministries. The Gender specialist(s) will work closely with planning and budgeting bodies and gender working groups (Government of Timor-Leste, 2017a).

Successful gender budgeting thus depends on effective coordination among leading institutions and other entities throughout the budget and execution process. Coordination should involve collection and data exchange, training, clear instructions, and guidelines for implementation, monitoring, and consultation throughout the budget cycle. Additionally, planning and budgeting officials require their own coordination: in practice, the person who developed the program becomes the planning officer while the person who entered the budget into the online planning system serves as the finance officer.

22 This resolution adapts the working groups created in 2011 to the new administrative reality, derived from the process of deconcentration of competencies to the municipalities (Government of Timor-Leste, 2017b).

B. The Need for Greater Participation

To date, government-led actions have paid insufficient attention to engaging parliamentarians and civil society organizations in budgetary reform. Such engagement provides the government with an opportunity to increase accountability and transparency around budgeting processes, and to strengthen them by incorporating broader viewpoints. Despite the establishment of a Women's Parliamentarian Group (GMPTL) and the ratification of Parliamentary Resolution No. 12/2010 on Gender-Responsive Budgeting, parliamentary oversight of the State budget from a gender perspective has remained limited in practice. A more comprehensive gender budget statement and a macro-level gender analysis could provide parliamentarians with better information and improve their oversight role.

According to the government's own GB policy note, CSOs play a vital role in holding them accountable for gender equality financing, evaluating the program performance, and providing information on impact of government policies and public expenditure (Government of Timor-Leste, 2017a). Yet to date, little effort has gone into that engagement from either side.

Arguably, the government of Timor-Leste could do more to foster stakeholder engagement and cooperation between stakeholders around budgetary transparency. A strong engagement from UN Women during this budgetary reform process could enrich GB implementation, given their expertise in this area. In 2016 and 2017, with support from UN Women, *Rede Feto*[23] produced a state budget analysis from gender perspectives; however, this did not continue in the years that followed. The government could also usefully make mandatory ex-ante impact assessments to inform their policies and budgetary decisions, through a strong collaboration between relevant stakeholders — UPMA, Ministry of Finance, SEII, Rede Feto, and others.

To date, the government has taken a top-down, technical approach to GB and gender mainstreaming more broadly, and has not effectively

23 Rede Feto is a network of women's organisations promoting gender equality and women's empowerment in Timor-Leste through advocacy, networking, and capacity-building.

fostered the involvement of civil society. At the same time, CSOs rarely seem able or inclined to undertake some of the more technical analyses needed, such as the gender impact of macro-level budgetary decisions. There are exceptions, however. The NGO, La'o Hamutuk conducts an excellent general analysis of the budget with relevant breakdowns (La'o Hamutuk, 2019).

The gender marker system itself offers opportunities for greater engagement. The online planning systems remains in a beta-testing phase, leaving space to actively monitor potential problems and making adjustments that might improve its accuracy and effectiveness. Government and civil society could hold a fruitful conversation on the aims of the system and the results achieved by both gender-sensitive and gender-specific programs. SEII and UPMA (for example) could then channel those opinions to the Office of the Prime Minister and the Council of Ministers to facilitate improvements in planning and budgeting for the next year.

6. Conclusion

The Timor-Leste case illustrates a successful first phase in Gender Budgeting reform. The government has demonstrated sufficient political will and leadership to dedicate institutional and financial resources to improved gender responsiveness in government policies and systems. Effective gender mainstreaming requires the allocation of state budgets from the planning and budgeting processes through implementation and the reporting period. After several recent cycles of ineffective gender budgeting — with small allocations for gender actions, spent without substantial results — genuine mainstreaming of gender perspectives at the national level began instead with the public financial management reform process.

Timor-Leste also illustrates the importance of local context. In this case, the design of simple gender-responsive tools and adequate training for planning and budgeting officials proved necessary to support GB in the PFM reform. That said, GB reforms in Timor-Leste still have a long way to go before they demonstrate their real effectiveness via their impact on the lives of women and girls. Government accountability for gender quality and empowerment commitments will remain paramount. Achieving economic development while reducing poverty in an equitable manner in Timor-Leste will continue to pose enormous challenges; it will require the government to conduct appropriate analysis and design, and commit capital toward addressing current gender gaps in all sectors (political, economic, social, and cultural), at all levels in the country. Crucially, the government must take into consideration citizen needs, resources, constraints, and opportunities as determined by socio-cultural constructs, including gender (Holvoet, 2006). Failure to do so will lead to ineffective and inefficient policies.

Finally, the longer-term challenge remains: changing cultural attitudes toward women and their role in the country. Many reformers generally associate gender itself with "women's issues" and consider women as vulnerable victims of a male-dominated society. This attitude in fact proves counter-productive to achieving gender equality in Timor-Leste. Continued socialization and education about gender concepts and gender budgeting, both across the government and in the broader community, are vital to a gradual change in mindset: valuing women as agents for peace and inclusive development.

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CHAPTER 4

Generation as a Dimension of Inclusive Growth in an Ageing South Korea

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1. Introduction

As income inequality has continued to rise in the Republic of Korea, the incumbent South Korean government has made efforts to reduce it, with little success. Although inclusion and justice have become key values for the government, its efforts to make society more inclusive and fair have not yet achieved many positive outcomes. In this paper, I argue that one major problem with the Korean inclusive growth policy is that it fails to address or decrease intergenerational disparity. I will analyze publicly-available data to demonstrate the extent of these disparities and discuss their relationship to hiring and retention practices.

An important contributor to intergenerational disparity in the South Korean labor market arises from a still-prevalent seniority-based employment system that favors older male workers. The system has had the unintended effect of limiting new recruitment from young college graduates as the Korean population ages.

Although the seniority-based employment system played an instrumental role during Korea's rapid economic growth period between 1960-1995 (Cho, 2003), since the early 1990s, it has only widened the economic gap between generations as economic growth slows and the population ages. As a consequence, the unemployment rate for young people between the ages of 15 and 29 has risen steadily, and the proportion of nonregular workers[1] in this group has also increased (Baak, Kim & Jang, 2018). The government should work harmoniously with both business and labor to provide more job opportunities to young people, specifically by making the labor market more open and flexible.

In this paper, I examine how the seniority-based employment system in South Korea strengthens labor-market rigidity, which serves the interests of senior organized workers while restricting job openings for young people. I take a closer look at the situation of young women, since they face additional disadvantages in labor market, such as gender bias and career longevity interrupted by maternity leave. I next review the current government's efforts to reduce inequality and point out its failure to restructure the labor market to create more opportunities for young adults. I conclude by recommending active government mediation between business and organized labor in order to create a more open labor market.

2. Seniority-based System Limits Employment Opportunity for Youth

The seniority-based employment and human resource-management system has characterized both private and public organizations in East Asian societies during the second half of the 20th century, from the 1950s through the 1990s. South Koreans call it "yon-kong-je (年功制)" and "yon-kong," a Korean term referencing the period of time that an employee has worked for an organization, i.e., career longevity. The seniority-based system grants employees rights and privileges based on their length of service. In other words, how long an employee has

1 There are two broad categories of workers under South Korean labor law: regular and nonregular. Regular workers are full-time employees with permanent employment terms. Non-regular workers come in four main types: (i) part-time employees; (ii) fixed-term employees; (iii) workers dispatched from manpower agencies; and (iv) in-house contractor employees who work for a service recipient but who are not subject to direct control and supervision by that recipient (Yulchon, 2017).

worked for an organization determines his/her rank in the organizational hierarchy, as well as salary or income levels, giving employees incentives to stay longer in their workplaces. Pioneered by Japan, this system has a broad diffusion in East Asia and is closely linked to the convention of permanent employment, in contrast to the contract- and merit-based system prevalent in western countries (Brinton, 1993).

Researchers have often viewed the seniority-based system in East Asia as a result of combining an organizational model based on bureaucratic hierarchy (Weber, 1947) with East Asian Confucianism that emphasizes age as a primordial element of social order (Tu, 1996). In terms of its historical origin, scholars of Japanese employment relations explain that Japanese firms introduced seniority-based system during the early 20th century in order to deal with worker mobility and industrial unrest (Gordon, 1988; Brinton, 1993). Following Japan's lead, South Korean firms adopted the seniority-based system, but it only became prevalent in the country after industrialization and the emergence of large firms during the 1960s (Lee, 1983; Shin, 1992).

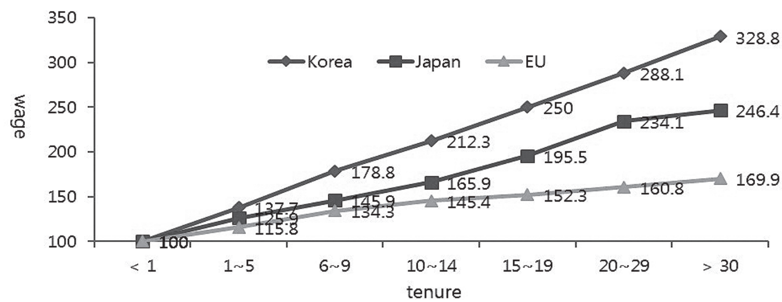
Rapid economic growth since the 1960s in Korea generated a continuous demand for labor in the modern industrial sector, first met by young migrant workers from the agricultural sector and then secured by the entry of the baby-boom generation into the labor market (Amsden, 1989). Human-capital investment through an expansion of the practical- and higher-educational systems, helped upgrade the quality of the workforce (Lee, 1997). The seniority-based employment system helped firms motivate these large groups of qualified employees to commit themselves to their workplaces and to work hard (Shin, 1992).

During South Korea's rapid growth period, between 1960 and 1995, the seniority-based system functioned smoothly; the individual employee's career development and income growth could be linked to the firm's growth, which aggregated in turn into national economic growth (Kuznets, 1988). Positive prospects for future prosperity provided favorable conditions for the seniority-based system. Newly-hired employees could motivate themselves with a vision of future, long-term prospects for higher status and income, despite lower current or starting wages or salaries. This allowed firms to benefit from the seniority-based system, because they could secure committed and loyal young workers at relatively low cost by postponing rewards (Bae, 1997). Because of this win-win situation – made possible by rapid economic growth, both employees and firms preferred the seniority-centric option. According to a survey conducted by the South Korean Ministry of Labor in 1994, 89 percent of firms surveyed responded that they had adopted the seniority-based system (Ministry of Employment and Labor, 2016).

However, things began to change as the business and demographic environment shifted in the 2000s. Since then, economic growth has slowed while uncertainty in the global market has increased and the South Korean population has begun to age. While the annual gross domestic product (GDP) growth rate in Korea remained higher than 10 percent until the early 1990s, it has declined since 1999, remaining lower than 3 percent through the 2010s, not least because two major global financial crises happened at the end of the 2000s (Kwon, 2018). In addition, the number of elderly South Koreans, aged 65 or more, rose to account for 7 percent of the entire population in 2000, and to 14 percent in 2017 (Ahn, Kim & Ryuk, 2017). Over the same time period, South Korean businesses became increasingly risk-averse and concerned with cost-saving (Chang & Shin, 2006). In order to adapt to such changes, firms have made efforts to save on labor costs, but the current seniority-based employee system limits their options, for two principal reasons.

First, the seniority-based system implies ever-increasing pay with increasing length of service. Figure 4-1 shows how wages vary with tenure for South Korea, Japan, and European Union (EU) countries.

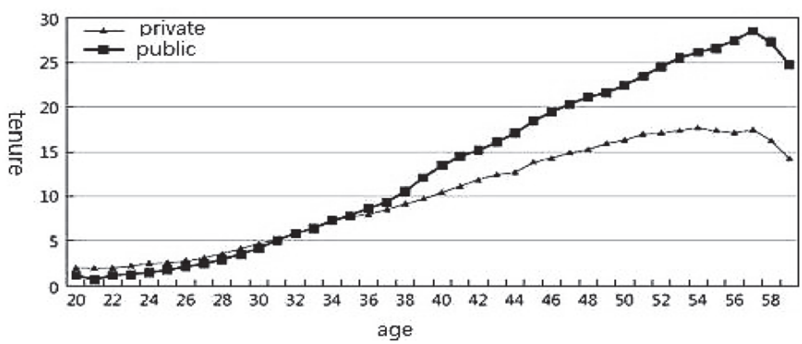
| Figure 4-1 | Tenure and Wage for South Korea, Japan, and European Union



Source: Korea Labor Institute (2015, p.24).

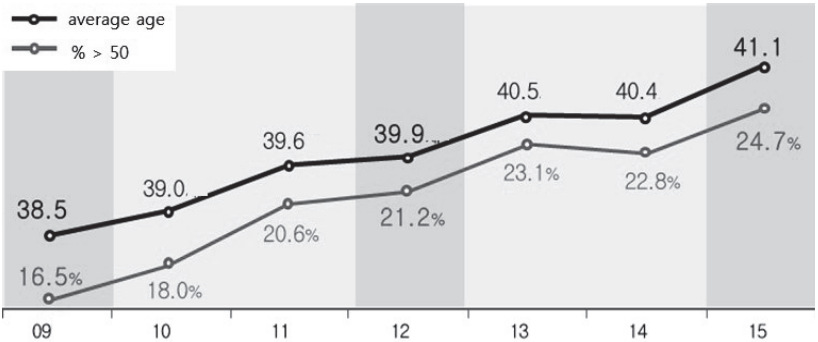
Although wages increase with tenure for all the societies, in Korea the effect of tenure on wages is the strongest and almost linear. Employees who have worked more than 15 years receive on average 2.5 times their starting wage. Furthermore, the public sector outpaces the private sector in retaining older workers, particularly after age 40 (Figure 4-2). Thus, a large cohort of aging baby-boom employees hired during the rapid-growth period receives higher pay based on seniority. Over time, the percentage of employees aged 50 or more has increased, as has employees' average age: between 2009 and 2015, the average age of employees increased from 38.5 to 41.1, and the percentage of employees over 50 increased from 16.5 percent to 24.7 percent (Figure 4-3). Moreover, transaction-cost economics explains the existence of an internal labor market, with the job ladder within a given firm defined by the concept of firm-specific skills. According to the theory, the longer you stay and work in the same firm, the more you will develop skills useful for that firm, but not necessarily for others (Williamson, 1985). Not only do firms therefore want to retain workers, but older workers with higher seniority and more firm-specific experience opt to stay rather than move to other organizations since they enjoy a wage premium under the seniority system and moreover become less attractive to other employers. Added together, all these facts place a high burden on Korean firms as the proportion of older workers increases, since firms have to pay more for them.

| Figure 4-2 | Age and Tenure for Private and Public Sectors, South Korea



Source: Author compiled from Korea Labor Institute (2015, p.22).

| Figure 4-3 | Percentage of Employees over 50 versus the Average Age of all Employees, South Korea

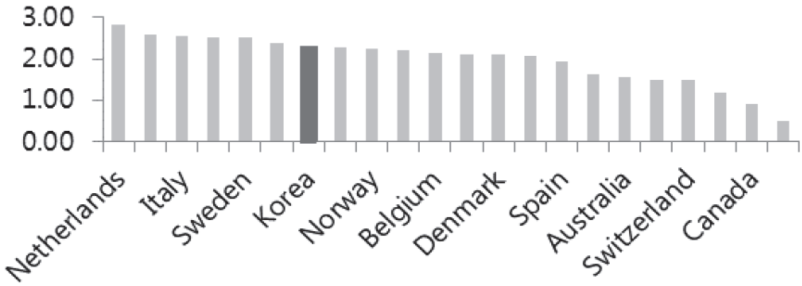


Source: Ministry of Employment and Labor (2017).

A second limitation arises because tight regulation of employee protections coupled with a retirement age set at 60 by the government have made it more difficult for firms to adapt to the changing environment. Heavy labor-market regulation arose after 1987, brought about by pressure from strong unionized labor in big firms. Measured by a composite index among Organisation for Economic Development and Cooperation (OECD) countries, South Korea ranks relatively high in terms of employee protections (Figure 4-4). Additionally, the Korean government raised the retirement age from 55 to 60 in 2013. The revised Act became effective in 2016 for public organizations and large firms with more than 300 employees, and starting in 2017, it also applied to firms with fewer than 300 employees (Choi & Bae, 2018).

This means that companies must keep older workers and their salaries and benefits for five "extra" years beyond what firms may have planned prior to 2013. At the same time, the demands on firms to increase outlays in order to fund private employee pensions have grown in a drive to supplement Korea's national pension system (Thomson Reuters, 2014). According to projections by the Korean Economic Research Institute (2014), a research institute for the Federation of Korean Industries, the estimated number of employees affected will increase from 407,000 in 2017 to 872,000 in 2020. Such a large increase mainly reflects the aging of the baby-boom generation. Although baby boomers have begun to

Figure 4-4 South Korea Ranks 7th Among OECD Countries for Protection of Permanent Workers Against Dismissal (2013)



Source: Author compiled from Organization for Economic Development and Cooperation (2013).

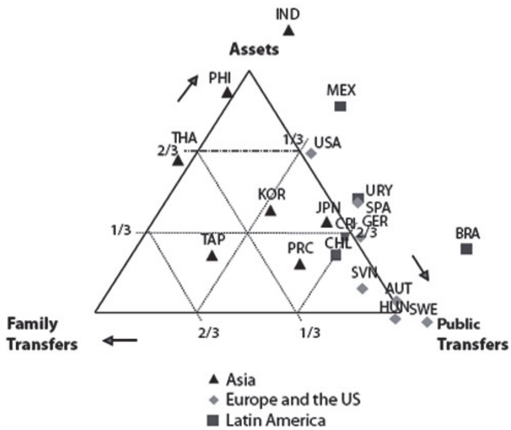
reach retirement age, it will be a while before their retirements will relieve economic pressure on firms and create more job openings for younger workers.

Until the middle of 1990s, the general perception in Korea was that children and other family members were supposed to support aging parents. However, recent survey results show that South Koreans now generally think that public pensions and personal savings should cover post-retirement living costs (Kim *et al.*, 2017), which they mostly do, in fact. Figure 4-5 shows the relative importance of the three sources of old-age support—assets, private transfers from family, and public transfers—in Asian, Latin American, and European societies, based on national transfer account (NTA) data. Any of the three vertices of the triangle represents exclusive reliance on one source. For South Korea, personal assets are the most important source of support, supplying more than half, while public transfers cover nearly 33 percent and family transfers provide less than 20 percent.

It is worth mentioning here that male workers disproportionately enjoy the benefits of seniority-based employment in Korea. Female workers often suffer from career disruptions following marriage or because of maternity and/or parenting leave. Such absences affect career longevity; thus women are more likely to be excluded from the internal market and seniority benefits (Kim, 2017; Kim, 2018).

With aging employees and tight regulation on employment, the

| Figure 4-5 | Sources of Support for the Elderly in Selected Asian, Latin American and European Countries



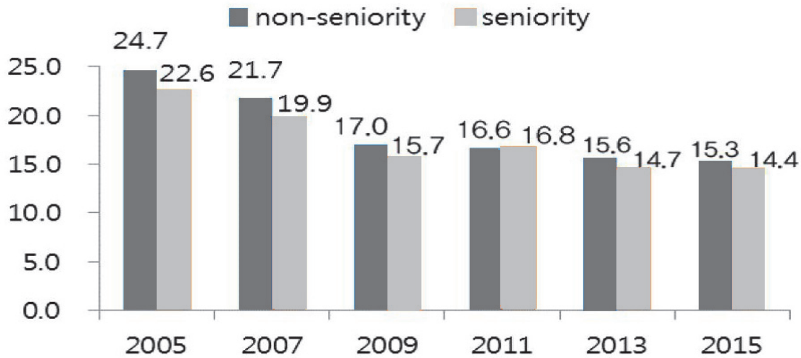
Note: AUT = Austria (2000); BR = Brazil (1996); CL = Chile (1997); CR = Costa Rica (2004); GER = Germany (2003); SPA = Spain (2000); Hu = Hungary (2005); IND = India (2004); JPN = Japan (2004); KOR = Republic of Korea (2000); MX = Mexico (2004); PHI = Philippines (1999); PRC = People's Republic of China (2002); SWE = Sweden (2003); SI = Slovenia (2004); THA = Thailand (2004); TAP = Taipei, China (1998); USA = United States (2003); UY = Uruguay (2006).

Source: Lee & Mason (2011, p. 9).

Korean labor market has become increasingly rigid. In order to make it more adaptive to changes, firms and government have made efforts to reform the seniority-based system and/or substitute a merit-based system, such as a performance-pay or a job-function-based system. However, such efforts have had only limited success and have not supplanted the seniority system. Hybrid systems mixing elements of seniority and merit have proliferated, but the seniority principle has survived. According to a survey of firms conducted by the Ministry of Labor, firms using the seniority-based system declined from 72.2 percent in 2009 to 65 percent in 2015, but still account for more than half of those surveyed (Ministry of Employment and Labor, 2016).

Under pressure from aging employees and the requirements of seniority, and with their hands tied by heavy governmental regulation, firms appear to have become increasingly reluctant to hire new graduates. Figure 4-6 shows the decreasing percentage of young employees (under 30) in firms from 2005 to 2015; the percentage of young employees not

| Figure 4-6 | Percentage of Employees Under 30: Comparison Between South Korean Firms With and Without Seniority Systems

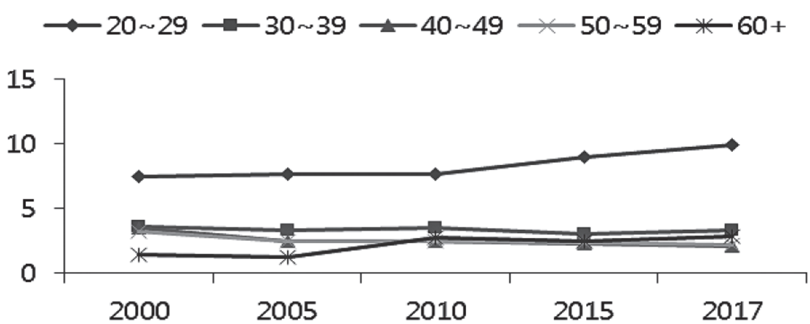


Source: Author's analysis of data from Korean Labor Institute's Workplace Panel Survey (WPS) between 2005 and 2015. Industry and firm size are statistically controlled in the analysis.

only declines over time, but is lower in firms using a seniority system. Such a decrease may indicate that the rewards for seniority coupled with an aging labor force that is only beginning to retire, together with a rigid labor market, strong labor unions, and a sluggish global economy, have greatly restricted the chances of young people getting regular jobs (Higo & Klassen, 2017; Kim & Klassen, 2015).

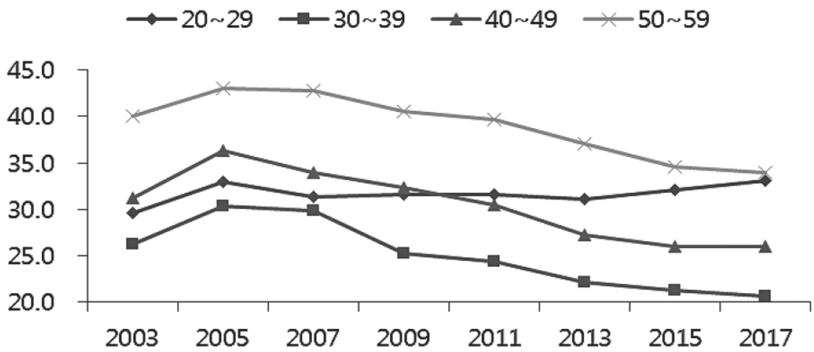
Furthermore, figures 4-7 and 4-8 show the unemployment rates and proportion of nonregular workers for each age group respectively. Both figures show that opportunities for young people between 20 and 29

| Figure 4-7 | Unemployment Rates by Age Group, South Korea (2000-2017)



Source: Korean Statistical Information System (2019).

| Figure 4-8 | Proportion of Nonregular Workers by Age Group, South Korea (2000-2017)



Source: Korean Statistical Information System (2019).

have weakened in terms of quantity and quality. While unemployment declines or stagnates in other age groups, the youth unemployment rate has risen since 2010. While the proportion of nonregular workers has decreased for other age groups, it has increased for young people.

3. Inequality between Baby Boomers and Millennials in an Aging Labor Market

As the South Korean ages and the proportion of elderly increases, the issue of inter-generational inequality becomes increasingly important and acute. Diverse approaches exist for addressing this topic. Here I espouse the economist, John E. Roemer's idea of inter-generational justice from an equality-of-opportunity viewpoint (Roemer & Suzumura, 2007): if economic opportunities afforded to successive generations are significantly fewer or less financially rewarding, one can say that such differences threaten inter-generational justice or equity.

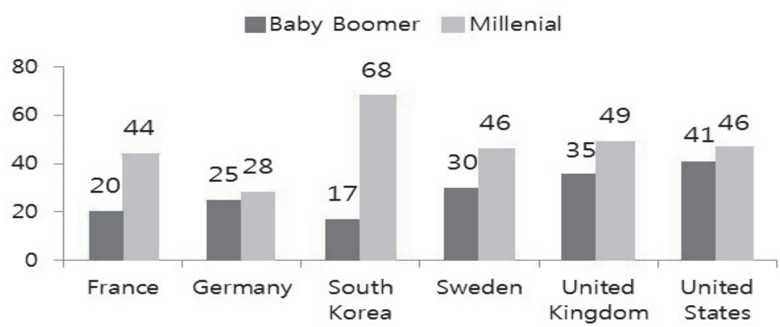
The seniority-based system and its consequences that I have discussed above have strong implications for inter-generational justice. The opportunities given to the baby-boom generation, those who have just reached their 50s and 60s, differ greatly from those enjoyed by millennials, the offspring of baby boomers (Park & Park, 2018). Inequality between the two generations is not confined to South Korea. A report on United States millennials published by Pew Research (2010) emphasizes that millennials are likely to be more educated but certainly economically inferior to preceding generations. We can say that exactly the same applies to Korea's younger generations, with the difference that South Korea experiences much greater inter-generational inequity (Cho, 2015).

Although millennials in OECD countries are uniformly more educated than their parents, South Korea shows the largest generation gap in education (Figure 4-9). While only 17 percent of the country's baby-boom generation graduated from college (the lowest in the data set), 68 percent of its millennials hold college degrees, the highest among the comparison group. A 51-percent difference exists in higher education degrees between the two Korean generations.

While Korean millennials are much more highly educated than baby boomers, their returns from higher education do not match their investment in education. South Korean unemployment rates for older adults aged 55-64 and youth aged 15-29 are 3.7 percent and 10.3 percent respectively, making the youth unemployment rate 2.8 times higher than for older adults (Table 4-1). Although the absolute level of unemployment of South Korea is in the middle of the OECD comparison group, the ratio between youth and adult unemployment rate in Korea is among the highest.

The fact that South Korean millennials are more educated but less

| Figure 4-9 | Inter-generational Gap in Percentage of People with College Degrees: A Cross-Country Comparison



Source: Organization for Economic Development and Cooperation (2018).

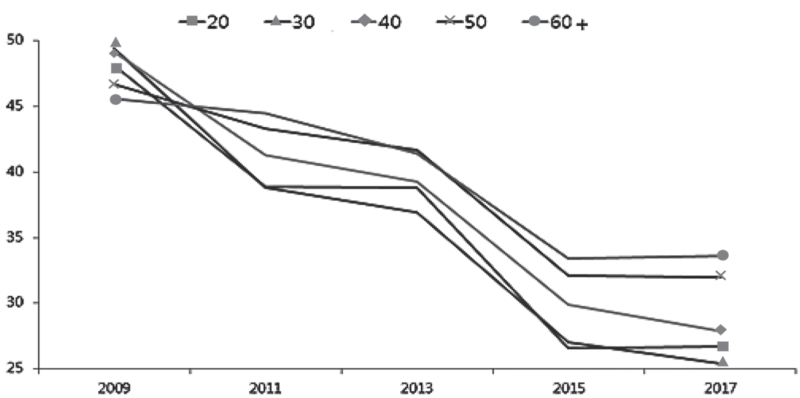
| Table 4-1 | Inter-generational Comparison of Unemployment Rate Among Countries (2016)

	55-64 (A)	15-29 (B)	Ratio (B/A)
Austria	5.6	12.6	2.3
Canada	6.3	11.6	1.8
France	9.4	22.3	2.4
Germany	3.7	6.8	1.8
Japan	2.8	4.7	1.7
Korea	3.7	10.3	2.8
Mexico	3.4	6.9	2.0
Great Britain	4.3	12.1	2.8
USA	4.4	9.2	2.1
OECD	5.8	11.9	2.1

Source: Organization for Economic Development and Cooperation (2018).

employed than baby boomers suggests that millennials might well be more dissatisfied with their achievements and less optimistic about the future. Figure 4-10 shows the perceived prospects for upward inter-generational mobility, as derived from an annual social survey conducted

| Figure 4-10 | Percentage of South Koreans Having a Positive Expectation for Upward Inter-generational Mobility, by Age-group and Year (2009-2017)



Source: Author compiled from Korean Statistical Information System (2019).

by Statistics Korea with sample size larger than 10,000 done from 2009 to 2017. The numbers represent the proportion of positive answers to the question, “Do you think your children will be better off materially than you are?” Since 2009, the perception of positive prospect for upward inter-generational mobility has consistently declined for all age groups.

How do Korean millennials feel or think about disparities between themselves and baby boomers? According to a poll conducted by Gallup Korea in August 2016, 55.2 percent of millennial respondents agreed that baby boomers are responsible for youth unemployment and hardship, while 31.8 percent of baby boomer respondents thought themselves responsible (Seoul Broadcasting Station, 2016).

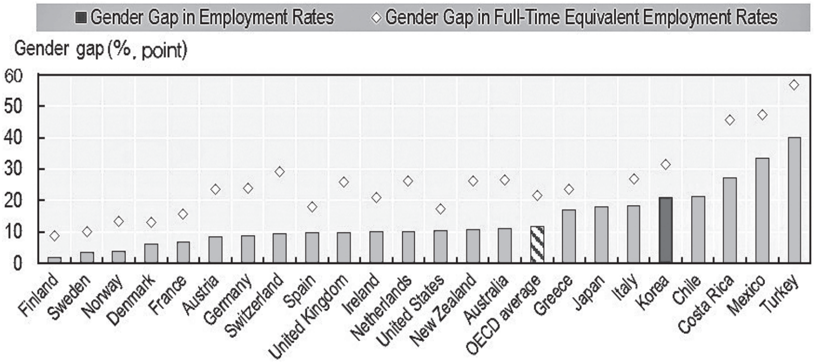
4. Intersectionality of Gender and Generation in Korea

Intersectionality refers to how interlocking systems of power affect the most marginalized in society (Choi & Bae, 2016). Korea has been known for the persistence of its patriarchal structure, which permeates every corner of society. I hold that the Korean generational and gender gaps inform and reinforce one another.

For example, a male employment rate of 75.7 percent and female rate of 54.9 percent in Korea, equates to a 20.8 percent gender gap, while the OECD gender-gap average is almost half that, at 11.8 percent (Figure 4-11). Furthermore, while the employment rate for Korean men is higher than the OECD average, the full-time equivalent employment rate for Korean women falls well short of the men’s rate. In fact, the South Korean gender gap is comparatively larger than that of most European countries and even Japan.

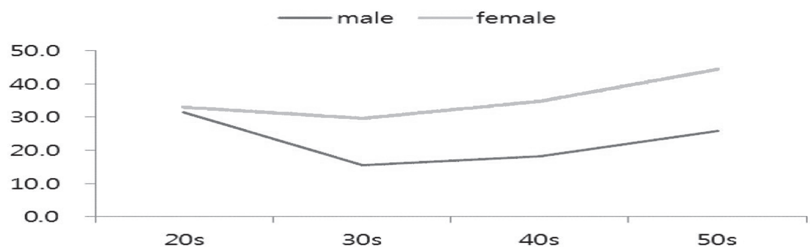
Given the size of the employment gender gap in Korea, we might ask how it varies across generations? Figure 4-12 suggests that the percentages of nonregular workers among men and women in their 20s do not differ very much. However, the percentage of nonregular workers shows a marked gender difference for older age groups. For workers in their 30s to 50s, the gender gap ranges between 15 percent and 20 percent. Figure 4-13 also shows a smaller wage premium for men in their 20s and a monotonic increase for older age groups. For workers in their 50s, the

| Figure 4-11 | Gender Gaps Between Men (column) and Women (diamond) in Employment Rates and Full-time Equivalent Employment Rates, South Korea (2014)



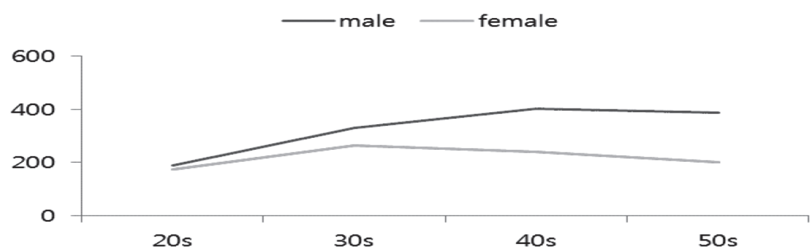
Source: Author compiled from Organization for Economic Development and Cooperation (2018).

| Figure 4-12 | Gender Gap in Percentage of Nonregular Workers by Age Group, South Korea (2016)



Source: Korean Statistical Information System (2019).

| Figure 4-13 | Gender Gap in Average Monthly Wage (in KRW 10,000) by Age Group, South Korea (2016)



Source: Korean Statistical Information System (2019).

male monthly wage nearly doubles that of women workers. Taken together, figures 4-12 and 4-13 show that inequality in the Korean labor market reflects interlocking gender and generation gaps.

5. What is the Problem with South Korea's Inclusive-growth Initiative and How Could It be Fixed?

The current Korean president, Moon Jae-in, came to power in the 2017 presidential election, which followed the impeachment and democratic ouster of former president Park Geun-hye. Progressive and liberal in orientation and experienced as human-rights lawyer, Moon has very actively implemented inclusive-growth policies. Under the slogan of a "human-centered economy", his government has worked hard to remedy income disparity, provide more and better jobs, and seek work-life balance. These initiatives center on the idea of income-led growth, a variant of the wage-led growth advocated by Keynesian economists and the International Labor Organization (ILO).

During 2018, the Korean government implemented many pro-labor policies. It raised the minimum wage and restricted the work-week to 52 hours. It also encouraged firms to convert nonregular workers into regular ones, and hired many new civil servants. In response to worries that such measures would burden weak and/or small shop owners, the government enacted supportive measures for small employers, such as direct subsidies for employees and tax benefits.[2]

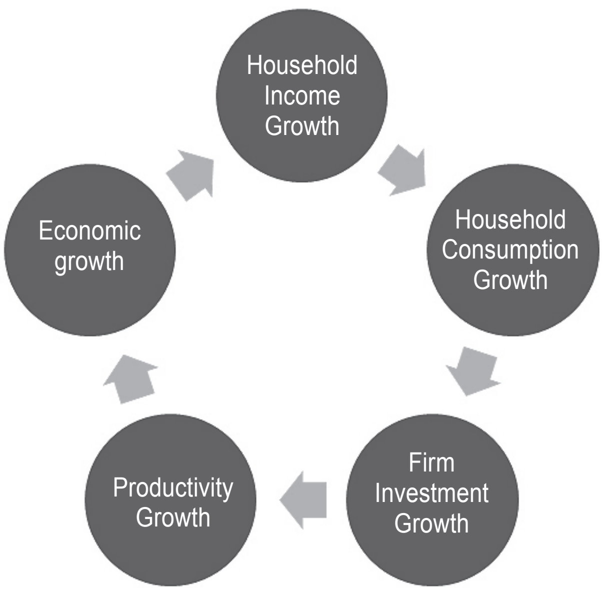
Although one and half years may not be long enough for conclusive evaluation of government policies, as of mid-2019 I can offer a tentative evaluation. Pro-labor policies taken by the government under the name of "income-led growth" have generated far fewer desired and far more unanticipated outcomes. The unemployment rate has not improved from 2018's 4.0 percent, and the youth unemployment rate also remains flat at 10.0 percent (K-Indicator, 2018). Income inequality as measured by the Gini index (or the ratio between top and bottom 10 percent of

2 For the official government account of inclusive growth policies, visit http://www.korea.kr.

households) did not improve very much; some critics have argued that the Gini has actually worsened because of the income-led growth policies (*Kyung-Hyang Daily*, 2018). Critics argue that the bottom 10 percent's income has declined over the last year, in spite of government policy efforts to help them. The government has responded that this apparent decline reflects sampling errors in the annual household income survey, asserting that the sample was disproportionately drawn from low-income older households. Public debate over income inequality led to the August 2018 resignation of Sookyung, Hwang, the general director of Statistics Korea (*Donga Ilbo*, 2018).

"Income-led growth" policies follow the logic that increased overall household income will eventually increase total market demand and fuel economic growth (Figure 4-14). Critics, such as Yonsei University economics professor Sung Tae-Yoon, argue that if too heavy a burden is placed on employers, they will decrease new investment and eventually harm job creation and income generation (*Maeil Economic Daily*, 2018).

| Figure 4-14 | Logic of Income-led Growth



Source: Author.

In mid-2018, the Korean government responded to its critics by claiming that it was too early to evaluate overall policy outcomes (*Kyung-Hyang Daily*, 2018).

Determining whether the government or its critics are correct in their assessments lies beyond the scope of this paper. The fact that the gap between millennials and baby boomers did not narrow, but rather widened, implies that the government failed to remedy the crucial aspect of inequality in Korea: inter-generational inequity. The government failed to keep its promise to increase the supply of jobs, although it did punish employers for unfair and discriminatory recruitment practices (Kang, 2019; Son, 2018). However, correcting the wrongs of the past cannot by itself make the future right. While the government did try to remedy youth economic hardship through direct cash benefits (Yoon, 2019; Kim, 2017), this remains only a temporary fix and not a long-term solution.

Reducing economic hardship and providing more jobs for youth calls for a structural reform of the labor market, while—crucially— replacing the seniority system with a more adaptable and flexible one. Human-resource experts, such as Lee Jangwon at the Korean Labor Institute (KLI), suggest that job type or function should provide the criteria for promotion and compensation rather than seniority (Lee, 2015). Giving up the seniority-based system not only means changes in pay scales, but also means reducing the burden of aging employees. If such changes can dovetail with lighter protections against layoffs, youth job creation could accelerate. However, accomplishing such reforms will prove a much more formidable task than those already tackled by the current government. There are two reasons for foreseeable difficulties.

First, employment-system reform cannot depend simply on forced governmental action. Each firm must decide what kind of employment system to adopt. All that the government or public agencies can do is to provide incentives, or adopt new employment systems themselves and provide a good example. However, even the government cannot readily replace its own seniority-based system due to a second obstacle: any such effort would very likely face severe resistance from those with vested interests.

In particular, protected regular workers in large firms would probably not consent to any move to weaken or get rid of seniority. Furthermore, left-wing union leaders and intellectuals have an ideological distaste for flexible labor practices, which they associate with a business-friendly system of too-easy layoffs. Those on the left may not like the seniority-based system, but they like the more flexible alternatives even less. Consequently, replacing the seniority-based system requires a hard-to-achieve consensus among interested parties, especially labor unions (Lee, 2015). Although a difficult and formidable task, timely replacement is essential for securing jobs for young people and accomplishing inter-generational justice in the relatively near term, without having to wait years and years for the mass of baby boomers to retire. Replacement – or any other solution – can only take place through concerted social action and cooperation among all the parties involved, including firms and labor unions whose support and help will prove critical.

The local government of Kwang-ju, a city in southern Korea, formulated and executed an experiment along these lines in 2018. Following the German success story of Volkswagen's Auto 5000 project (Dougherty, 2006), the "Kwang-ju-type Job Program" tried to combine investment from firms, wage cuts from unions, and generous support from the government in order to achieve job creation and work-sharing. Local officials succeeded in inviting Hyundai Motors and its union to participate in negotiations. However, the effort eventually failed because neither labor nor business wanted to make a final concession and accept the government's offer (*Yonhap*, 2018).

So far, the Korean government has mainly focused its inclusive growth initiative on improving the situation of those currently employed. As discussed above, this has had unanticipated negative market repercussions. The government has not made serious efforts to create jobs or to improve the situation of the unemployed, especially youth and women. Considering the large inter-generational and gender economic disparities at work, any further inclusive-growth efforts will prove futile if the government, business and labor do not recognize these challenges and cooperate. While Kwang-ju's recent experiment did not succeed, both local and national governments need to redouble such efforts in tandem with business and labor. Together they should aim for structural labor-market reforms, making it less seniority-based and more flexible, so that the status quo of unionized older labor does not prevent younger workers and women from entering the workplace and prospering.

6. Conclusion

This chapter has examined why and how inter-generational justice or equity has become a thorny issue in South Korea's rapidly aging society. Baby boomers who took jobs during a rapid economic growth period now clog the labor market because of a seniority-based system that has grown rigid, making it difficult for young people to enter the workforce during a period of slow growth that in turn hinders job creation. Although the seniority system served Korea's economic growth and proved favorable to most workers in the past, it has become a burden to businesses and disproportionately privileges older workers. For growth to become truly inclusive, the government, firms and labor unions should take care of inter-generational equity while erasing a legacy of patriarchy. Youth and women continue to account for the majority of those disadvantaged by the current inclusive growth initiative. Alleviating their situation will require the government to drastically reorient its inclusive growth policies. In particular, a more flexible and merit-based employment system, one favorable to youth and women, should replace the older seniority-based system. While these will prove formidable tasks, the government needs to make efforts to build a broad coalition to carry out labor market reform.

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CHAPTER 5

Health Care Innovations for Inclusive Growth

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1. Introduction

Universal healthcare (UHC) is one of the main objectives of Malaysian policy, and the government has largely succeeded in ensuring inclusive and affordable access to healthcare. However, partly due to rapid socio-economic growth during the last decade, the country now faces new challenges: a higher prevalence of non-communicable diseases and a rapidly aging society (Mustapha *et al.*, 2014). As a result, healthcare costs have steadily increased and the current approach to healthcare financing, reliant on a dual system of public and private funding, no longer offers a sustainable method for maintaining UHC. It comes as no surprise, then, to learn that the country only achieved a score of 70 percent according to a 2017 World Health Organization (WHO) global study on UHC progress, despite the availability of an extended network of primary care facilities and near-free services. As such, UHC remains a work in progress, one that should change in response to shifting demographic, epidemiological, and technological trends, as well as public expectations (World Health Organization, 2017). The Minister of Health recently called for inculcating personal responsibility for health, reflecting a shift in policy objectives from a more reactionary model of government dependence to a shared-accountability model that supports better health outcomes (Bernama, 2019).

Although many tools can improve access to healthcare and reduce inequity — such as better access to essential services, extended education, increased prevention awareness and service-delivery efficiency — this chapter focuses solely on barriers related to UHC financial access and protection. It explores potential solutions for growing individual and national health expenditures, as well as the widening affordability gap across socioeconomic levels in access to quality health services. Specifically, the proposal offered here addresses how the private sector and government could pool resources both to provide access and encourage actions that promote health, incorporating principles of a performance-based and co-payment health financing model. In this system, good health outcomes would become the shared responsibility of all, creating a supportive environment for healthy behaviors while helping control individual, and, by extension, national healthcare costs. This model requires concurrent efforts to reduce inequalities in access, while fostering improvements in education and technology, as well as advancing detection and treatment of public health diseases.

We will first review the key successes of the Malaysian healthcare system in ensuring universal access for both urban and rural populations; next, we will examine rising challenges to UHC as a result of epidemiological changes and address how the government has responded to these developments. We will then explore different financing systems from around the world in meeting similar challenges; finally, we will conclude with key considerations for policies that can support Malaysia's healthcare goals.

2. Malaysia has Largely Succeeded in Achieving UHC

Malaysia has a relatively low level of investment in healthcare expenditure as a percentage of gross domestic product (GDP), at approximately 4 percent compared to the benchmark of 7 percent recommended by the WHO (World Health Organization, 2018). Even so, Malaysia has achieved significant progress towards UHC since independence, with a notable improvement in health outcomes. Infant mortality has decreased by 90 percent, from 75.5 deaths per 1,000 live births in the early 1960s to only 6.7 deaths in 2016, whilst maternal deaths have decreased by 89 percent during the same period (World Health Organization, 2018). In general, Malaysia has achieved better-than-average results in reducing once-widespread communicable diseases, successfully eradicating smallpox in 1978 and achieving the WHO regional target on hepatitis B through concerted efforts and programs, both ahead of the targeted schedule (World Health Organization, 2018).

These achievements reflect an initial government investment in infrastructure and services and later the development of a vibrant private healthcare industry. Malaysia has a healthcare facility within a 5km radius of every resident. Besides the easy access to healthcare in urban areas, the rural population also enjoys a range of facilities, including fully-staffed community clinics, district hospitals, and tertiary specialist hospitals (Quek, 2014).

However, the changing healthcare landscape calls for reassessment of these initial successes. Adult life expectancy has remained relatively stagnant due to the growing burden of non-communicable diseases (NCDs) over the past 15 years, a challenge that the health system has proven unable to address sufficiently. Inequalities in access related to socioeconomic status have also persisted (Ministry of Health Malaysia & Harvard T.H. Chan School of Public Health, 2016).

3. New Challenges in NCDs and an Aging Population

As Malaysia experiences rapid economic growth, the prevalence of lifestyle diseases appears to have grown as well. Malaysia's rates of avoidable mortality rates[1] caused by NCDs run 131 percent higher than the Organisation for Economic Cooperation and Development (OECD) average, with the prevalence of diabetes increasing almost 5 times within the last 30 years, and hypercholesterolemia doubling within the last 10 years (Gay *et al.*, 2011). More worryingly, undiagnosed cases of cardiovascular diseases have increased substantially. For example, about

1 High-income OECD countries have used "avoidable mortality rates" to measure achievements in reducing premature deaths considered preventable by intervention (Nolte & McKee, 2004).

one-third of patients with diabetes and high blood pressure remain unaware that they have these conditions prior to screening (Gay *et al.*, 2011).

The rising NCD levels correlate directly to changes in behavior-related risk factors such as diet, physical activity, smoking, and drinking; 98 percent of the adult population (aged 18 and over) has at least one risk factor for NCDs (Alwan *et al.*, 2011). On obesity alone, prevalence has almost tripled from 7 percent to 18 percent from 2006 to 2015, making Malaysia the fattest country in the region (Alwan *et al.*, 2011). Almost 90 percent of Malaysians have an unhealthy diet, and the level of tobacco smoking has risen among adolescent males (Ministry of Health Malaysia & Institute for Public Health, 2015).

The 2016 Malaysian Health Systems report (2016) examined the distribution of risk factors across ethnic groups, gender, socio-economic status, education levels, and location. The findings suggest that NCDs occur more commonly among poor, rural, uneducated, and Malay communities, although particular diseases show slight variations (Abdul Rashid, 2016). We note that these findings may reflect structural inequalities that the proposed reforms may not be sufficient to address, particularly for populations having *a priori* constraints on food choices, genetics, and/or lifestyle factors.

In addition to the growing prevalence of NCDs, the rapid rate of population aging now outpaces the growth of inflation. Projections suggest that Malaysians will become an aged nation by the year 2035, with 15 percent of the population reaching the age of 60+ years due to dwindling fertility rates and longer lifespans (Khazanah Research Institute, 2015). This increases the likelihood of age-related diseases, and, in turn, the need for caregivers knowledgeable in managing Parkinson's, Alzheimer's, and other types of dementia, along with related conditions (Lunenfeld & Stratton, 2014). These demographic changes add burdens to the existing healthcare system, which must provide for adequate testing, diagnosis, and access to affordable treatment.

The urbanization rate will increase to 79.8 percent by 2025 from 73 percent in 2014, increasing requirements for amenities and infrastructure, including medical facilities (Department of Statistics Malaysia, 2017; Federal Department of Town and Country Planning & Ministry of Urban Wellbeing, Housing and Local Government, 2016). The issue of healthcare access will become even more acute in rural areas, already facing uneven staffing due to the lack of monetary and career incentives for serving those populations.[2]

4. Malaysia's Current Healthcare Financing System

Malaysia has a two-tiered healthcare financing structure comprised of public and private funding sources. Public healthcare services are almost entirely subsidized, accessible to every citizen at minimal fees, and paid for through annually budgeted tax revenues. Employees of the public sector and their families enjoy free access to public healthcare facilities and services. The providers form an extensive network of health facilities, from small, community-based clinics in rural areas to larger hospitals throughout the nation. Since the 1950s, the Malaysian government has made these nearly-free healthcare services its primary strategy for achieving UHC, by ensuring access and affordability for all citizens. In addition, employers and employees of the formal labor sector (both public and private) pay a compulsory monthly contribution to the Employees' Provident Fund (EPF), the national pension fund scheme that provides some social protection for old age (Quek, 2014).

Rising income levels and a demand for more individualized attention and healthcare choices led to the rapid development of private-sector facilities and financing options beginning in the 1980s (Wan *et al.*, 2014). Generally, the more affluent tend to gravitate towards private healthcare, seeking what they perceive as better-quality services. However, the overcrowding at public healthcare facilities, coupled with an urgent need for medical attention, has forced some to seek private services at an out-of-pocket cost far exceeding what they can afford (Abdul Rashid, 2016). While the incidence of catastrophic expenditures remains among the lowest worldwide for middle-income countries, the steady rise in out-of-pocket expenditures suggests that, as originally designed, the healthcare financing system may not adequately meet public needs (Abdul

2 Confirmed by an anonymous government informant, June 2019.

Rashid, 2016). This calls for a review of the current system against the objectives of UHC – enabling affordable and equitable healthcare access.

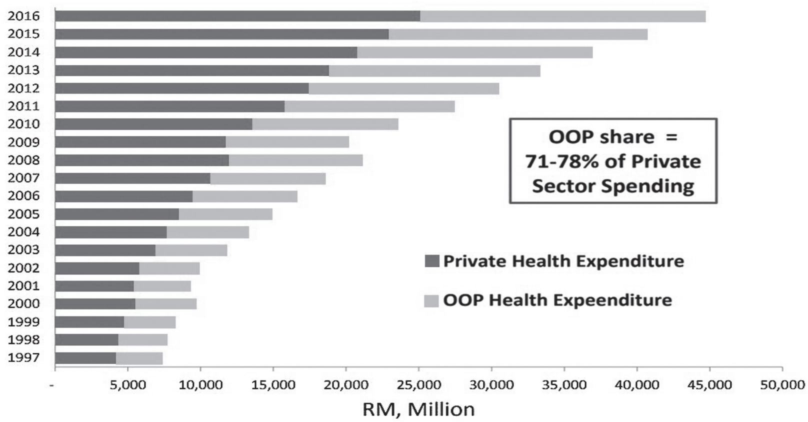
The WHO posits four target indicators for monitoring and evaluating progress in achieving UHC (Chua & Cheah, 2011):

1. Total health expenditure should be at least 4 percent-5 percent of GDP;
2. Out-of-pocket spending should not exceed 30 percent-40 percent of total health expenditure;
3. Over 90 percent of the population will have coverage through prepayment and risk-pooling schemes; and
4. The system provides close to 100 percent coverage for vulnerable populations through social assistance and safety-net programs.

We will analyze Malaysia's healthcare system using each indicator in turn. In terms of health expenditure, costs have remained between 4-5 percent of GDP since 2008 (Department of Statistics Malaysia, 2018). While it may seem commendable to have contained healthcare spending over the past decade, this may also indicate growing unmet needs for infrastructure and health service delivery. To put this in context, healthcare costs amounted to only 2.7 percent of GDP twenty years ago, implying a steadily increasing pressure over the years to address the changes in national healthcare demands. In addition, when compared with selected OECD countries, Malaysia spends relatively less on primary care (17 percent of total health expenditure) compared to secondary and tertiary care (49 percent) and negligible amounts on long-term care. Higher allocation of resources to primary care tends to correlate with lower aggregate spending due to better health outcomes (Starfield, Shi & Macinko, 2005).

Turning to the second indicator, out-of-pocket (OOP) costs currently represent 36 percent of total health spending, growing by 19 percent over the last 10 years, with more than 70 percent of OOP expenses incurred with private healthcare providers (Figure 5-1). This proportion reflects the growing demand for healthcare services beyond the public sector's capacity to deliver them, one that will continue to grow if left unchecked.

Figure 5-1 | OOP Share of Private Expenditure, Malaysia (1997-2016)



Source: Malaysia National Health Accounts (2017).

For the third indicator, the government's policy of funding all public health costs means payment out of tax revenues, rather than from prepayment or risk-pooled financing. Pooling of resources occurs almost exclusively in the private sector through private health insurance. However, insurance costs continue to rise as providers hold the bargaining power in determining service prices, controlling the amount, type, and duration of services with no accountability as to outcomes.

Finally, it appears that Malaysia has a strong safety net for vulnerable populations, with only 0.2 percent of the poorest households experiencing catastrophic expenditures and 20 percent of total subsidies allocated to the poor (Abdul Rashid, 2016). However, due to overcrowding at facilities in rural areas, it seems likely that at least some residents will incur higher expenses by seeking urgent attention at private facilities (Ahmad, 2019). While the risk remains relatively small, this does not translate well for quality of health outcomes: more and more people may forego testing or obtaining proper treatment to avoid having to choose between long lines at government providers or the higher cost at private providers.[3]

3 Confirmed by author observation at a selected facility and interviews with physicians, both kept anonymous for confidentiality (November 2016).

Therefore, while on the surface healthcare costs and out-of-pocket spending seem to fall within the WHO parameters of a well-run healthcare system, closer scrutiny shows a suboptimal financing system that, without intervention, threatens to become unsustainable; it may expose the lower-income population to severe financial burdens and, in the longer term, ultimately push proper healthcare out of reach. In terms of the four indicators above, the Malaysian health system does not appear "terminally ill"; however, immediate-term transformation seems necessary with the increasing signs and symptoms of systemic disparity.

5. The Impact of an Overheating Health Financing System

We will examine three sides of this story, from the perspective of the public sector, the impact on private-sector businesses, and the impact on individuals.

As government facilities struggle to cope with overloading, the Ministry of Health has responded by investing heavily in facility sites and upgrades and in hiring more staff to cope with the increased demand. However, the problems persist despite these investments; Malaysia still has only 1.9 beds per 1,000 in population and a doctor-to-patient ratio of 1:656, well below its regional peers (Ahmad, 2019). The facility shortfall is compounded by a lack of specialist doctors (a shortage of 3,000) and nurses (Malaysia's ratio is 1:300 patients, compared to the recommended WHO ratio of 1:200) in high-demand fields such as diabetes, heart disease, and mental illness. This situation seems to indicate resource allocation inefficiencies within the system; increased spending does not seem to produce proportionate benefits in meeting population health demands (Malaysia Productivity Corporation, 2019).

In the private sector, businesses typically purchase group insurance coverage for their employees that covers almost all healthcare costs, from doctor visits to terminal illnesses such as cancer, up to a relatively high limit. This arrangement has effectively given the working population a credit card, with the employer ultimately bearing the risk of poor employee health. Many employers directly subsidize healthcare costs as part of their remuneration packages in order to attract highly-skilled workers.

However, the medical-insurance industry has been reporting losses due, it says, to a higher claim ratio, which rose from 50.6 percent in 2013 to 71.1 percent in 2017, primarily because of more frequent cases of chronic diseases and a higher inflation rate. This has led the insurers to increase medical-insurance premiums by about 15 percent per year (Thompson, 2019).

In 2017, there were 1.36 million people employed in the informal sector, representing approximately 10 percent of all employment in Malaysia. About 70 percent of informal-sector workers are self-employed (Department of Statistics Malaysia, 2017). One of the key issues with a growing informal sector is the number of workers uninsured against health, old age and other risks (Kuddo & Rutkowski, 2011). With a higher disease burden and overloaded public facilities, these individuals will have to increase out-of-pocket expenditures or forgo treatment altogether.

Overall, the rise in NCDs and increased demand for services across the board have inflated public spending, driving private doctors to increase prices and causing private insurers to pass on the cost by increasing premiums in turn; ultimately, this pushes consumers into financial hardship (Life Insurance Association of Malaysia, 2018). Effectively, this vicious financial cycle creates barriers to access, as an increasing number of people avoid testing or treatment; this lack of care inevitably creates worse health outcomes in turn and even higher incidences of undiagnosed NCDs.

6. The Government's Response

The government has long known the consequences of this dichotomous and unbalanced healthcare financing system; since the launch of the Fourth Malaysia Plan (1981-1985), it has recognized it as an unsustainable one that will put significant pressure on national resources (Government of Malaysia, 1981, p.248). The government has therefore sponsored several studies, beginning with the Health Sector Financing Study by Westinghouse Health Systems (1985), funded by the Asian Development Bank in collaboration with the Economic Planning Unit under the Prime Minister's Office. This study recommended the establishment of a National Health Financing Scheme, backed by a National Security Fund that would oversee all healthcare costs in the public and private sectors. The government responded with a highly contentious plan, later dropped due to heavy resistance by stakeholders and deferred indefinitely (Kananatu, 2002).

In 1997, the World Health Organization commissioned a study conducted by JR Herms that revealed increasing out-of-pocket expenditures (cited in Kananatu, 2002). Yet another study conducted around the same time by Rashid Hussain Berhad and William Hsio recommended the establishment of a medical savings account to finance hospitalization costs (Kananatu, 2002). A 2002 study entitled "Health Care Reform Initiatives", conducted by Donald Shepard of Brandeis University, William Savedoff from the WHO, and Malaysian scholar Phua Kai Hong from the National University of Singapore, suggested corporatizing and privatizing some government hospitals as a way to manage costs. At the same time, they proposed reducing MOH's role in service provision while retaining its regulatory and enforcing functions (Shepard, Savedoff & Hong, 2002).

In total, the government commissioned at least seven major reports on health systems reform including health financing, while concurrently implementing incremental policy changes (Abdul Rashid, 2016). The key themes that emerged from these studies include the shift from treating illness to encouraging wellness and from a doctor-centric health delivery system to a more patient-centered, patient-participatory model, increasing the role of the private sector, and creating equity in healthcare financing through a national health insurance scheme. Yet to date, Malaysia has not implemented a comprehensive national health insurance scheme to facilitate and support a full health system reform.

In 2009, the government announced 1CARE, a holistic proposal aimed at restructuring the national health system around consumer choice, focusing on integration of services and universal access to affordable and equitable healthcare (Ministry of Health Malaysia, 2009). The initiative proposed improvements in primary healthcare, such as preventive interventions at the community level that could directly lead to positive health outcomes, driving healthcare costs down. Notably, 1CARE proposed a social health insurance scheme that would pool resources from general taxation, social health contributions, and a co-payment model towards a defined benefits package. This package would have three distinct features:

1. Compulsory enrolment and mandatory contributions, with deductions from payroll;
2. Benefits available only to those who contribute;
3. Benefits predetermined by the Ministry of Health.

The insurance scheme under 1CARE aimed to halve private out-of-pocket spending by increasing pooled funding resources.

1CARE appeared as a comprehensive framework that could transform healthcare delivery, operating, and financing models. However, poorly-phased implementation, specifically a lack of proper consultation with key stakeholders due to a purported lack of evidence for the proposals, in addition to a lack of buy-in from politicians and proper education of the public on the need for health financing reform, led to its demise (Juni, 2014).

Beginning in 2014, the government embarked on another study and collaboration, this time with the Harvard TH Chan School of Public Health, to undertake a complete review of the Malaysian health system. The study explored the demographical and epidemiological challenges that have shaped the current healthcare needs of the country (Abdul Rashid, 2016).

The recommendations of this report somewhat resembled those of the 1CARE framework: they focused on enhancing primary care and fixing the financing system as the twin pillars of change. The Ministry of Health began exploring and pilot-testing community-driven healthcare services aimed at shifting from a reactive to a more proactive approach in preventing NCDs, particularly cardiovascular diseases. This included utilizing population health data to identify geographical "hot spots" with higher prevalence of undiagnosed NCDs, and working through an extensive collaborative network of volunteers, primary healthcare clinics, and tertiary care in order to target early detection and treatment.[4] This approach aims for a heavier emphasis on controlling rising proximal risk factors and correcting the significant gaps in screening and treatment of NCDs, both of which supply good indicators for future morbidity and mortality (Abdul Rashid, 2016). Therefore, the recommended initiatives in this

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4 While these pilot projects remain unpublished, the author served as an MOH consultant for the Enhanced Primary Healthcare program under the Malaysia Health Systems Research in early 2017, and had access to these policy plans at that time.

study deploy a higher number of counseling professionals and aim for improved primary care efficiency and access, closer monitoring, and support for continuity of care between primary, secondary, and tertiary providers. These innovations would also rest on a new voluntary social and pooled financing system, one that would enable a single, government-owned purchaser to create affordable access to healthcare services across both public and private providers.

Despite the extensive scope of the recommendations — including the need to ensure that healthcare financing works alongside a comprehensive transformation of health systems delivery — only incremental changes to the national financing framework have taken place to date, such as the introduction of PeKa B40 and MySalam. PeKa B 40 provides financial coverage for Malaysians over 50 and in the lowest-40 percent income group; it covers free health screenings, medical equipment, incentives for completing cancer treatment, and monetary incentives to help with transport to any public or private health facility. MySALAM, on the other hand, provides a lump sum protection for critical illnesses such as cancer (Ministry of Health, 2019). These positive but small initiatives reflect a slower approach, echoing the gradual changes over the last 30 years. More importantly, these tweaks do not seem to address the fundamental issues arising from a lack of efficient funding through pooled resources, including personal participation in managing one's own health.

In the meantime, the Ministry of Health has made significant progress in primary care initiatives, such as ensuring access to screening and treatment via community networks and programs, improving care-delivery efficiency, and fixing gaps in continuity of care.[5] However, such gains will remain modest at best without a sustainable financial model, since financing affects access, equity, and ultimately population health outcomes. Beyond access, health financing may have a degree of influence on health-seeking behaviors, such as early screening and prevention of risk factors associated with NCDs, through the use of longer-term incentives. This approach has underpinned programs such as the Robert Wood Johnson Foundation's

5 As confirmed by anonymous informant in the Ministry of Health on the progress of the Enhanced Primary Healthcare transformation program.

"Bridging for Health," aimed at improving patient experience, health outcomes, and cost of care through financing innovations that influence healthy choices. Interestingly, the WHO states that financing systems must create "access" to needed healthcare services, including activities related to prevention, promotion, treatment, and rehabilitation, all of which have a direct impact on health outcomes.

7. Comparisons of Healthcare Financing Models around the World

To provide context, this section provides a comparative overview of different healthcare financing systems around the world. While these comparisons offer useful perspective on various policy practices versus their population health outcomes, ultimately each nation must formulate a system that best addresses its specific conditions, challenges, and desired results.

Three countries — Singapore, Taiwan, and France — supply the best comparisons, the first two because of cultural and demographical similarities, while by some accounts, France offers the most complex and best social health financing system (Mossialos *et al*., 2017).

A. The Health Financing System in Singapore - Individual Accountability and Government Control

The government of Singapore actively monitors, manages, and regulates healthcare costs across both public and private sectors to ensure universal health care coverage at a reasonable cost. A combination of government funding and individual savings finances the system, with a strong emphasis on promoting individual accountability. The government subsidizes approximately 80 percent of health costs, supported by three main programs (Mossialos *et al*., 2017):

- *Medisave* is compulsory and requires all working Singaporeans to contribute a percentage of their wages to an individual health savings account, with a matching contribution from employers.

These funds pay for health services such as hospitalization, surgery, selected outpatient expenses, and additional private health insurance if needed for individuals and their families.

- *MediShield* is a catastrophic insurance scheme to help pay for major or prolonged illnesses as a supplement to *Medisave* funds. It covers treatments such as kidney dialysis, chemotherapy, and erythropoietin for kidney failure. *Medisave* covers the premiums; Singaporeans are automatically enrolled
- *Medifund* is a special government-endowed safety-net fund created to help the poor. It provides funding at an approved institution should government subsidies, *Medisave,* and *MediShield* prove insufficient to pay for services.

Additional financing schemes include ElderShield, a long-term care program regulated by the government and managed through private insurers. It provides monthly cash payouts for the aged who can no longer support themselves, covering selected types of care including nursing facilities, home-based services, etc. The government has also initiated an ElderCare Fund to help low- and middle-income patients manage long-term care costs (Mossialos *et al*., 2017).

Strict guidelines for eligibility of claims under the three programs serve to address needs while containing unnecessary doctor visits and treatment frequency. The government continually refines its policies to encourage Singaporeans to save for medical care in accordance with changing health needs. For example, 2016 saw an expansion of MediSave to cover NCDs such as diabetes and high blood pressure, as well as health screenings and vaccinations for selected groups (Mossialos *et al*., 2017).

Financial sustainability in Singapore rests on three pillars: fiscal discipline at the government level, with strict guidelines that require drawing on surpluses in the current term of government and the use of block budgets; targeted subsidies instead of universal subsidies; and the combination of government control with higher levels of individual responsibility for healthcare resources (Lim, 2017). The government actively monitors and controls market competition through direct regulation of pricing for public-sector providers, which indirectly influences private sector pricing as well. Hospital cost-recovery targets and budgets aim to break even, with indirect enforcement via publication of hospital bills for common illnesses and treatments.

The Singapore health system has received global praise for achieving impressive health outcomes while utilizing only 4-5 percent of GDP. Bloomberg named Singapore the healthiest country in Asia in 2017, while the Economist Intelligence Unit called its healthcare system the second most efficient globally (Channel News Asia, 2017; Lim, 2017).

However, high levels of individual responsibility mean higher degrees of copayment compared to other countries, with the low level of government spending an expected corollary (Mossialos *et al*., 2017). As in the case of Malaysia, changes in demographics, epidemiology, and economics have driven the need for change. An aging population and the rise of NCDs have pushed a steady climb in health care costs (Kuddo & Rutkowski, 2011). The government has responded with new financing schemes, such as the Pioneer Generation Package and MediShield Life, both partly funded by the government to address the needs of the elderly and those with preexisting illnesses. Awareness has increased about the role of primary care reforms in avoiding expensive hospitalizations downstream, as aging accelerates and NCDs become more widespread (Lim, 2017).

B. The Health Financing System in Taiwan – Single-Payer and Government-Administered

The health financing system in Taiwan is a single-payer health insurance system, called the National Health Insurance (NHI) program; it stipulates the government's responsibility for ensuring adequate health care and medical services for all citizens. The Ministry of Health and Welfare administers the NHI, with support from a health information infrastructure across six regional offices (Mossialos *et al*., 2017).

Enrollment in NHI is compulsory for all citizens and foreigners who reside in Taiwan for more than six months. Revenues mainly derive from various taxable sources: payroll premiums, supplementary income such as large bonuses, professional fees and wages from additional jobs, dividends, rents, etc., with about 5 percent of revenues coming from tobacco tax and lottery gains. The government pays monthly premiums, calculated on a per capita basis but capped at a maximum of four members per household. Private insurance is also available, but only pays for medical services not already covered by NHI; it does not buy special privileges such as faster access or choice of specialists (Mossialos *et al*., 2017).

NHI offers comprehensive benefits, including outpatient and inpatient care, prescription drugs, dental care, traditional Chinese medicine, childbirth, physical therapy, home care, mental health and end-of-life care. However, the government mandates copayments for physician visits and prescription drugs and coinsurance payments for inpatient care, subject to ability to pay (Mossialos *et al*., 2017). In effect, whilst personal income determines contributions, the government alone makes all coverage decisions, based on aggregate population income levels.

The government has managed to contain healthcare costs to only 6.2 percent of GDP. This reflects cost containment strategies including a budgeting system, diagnosis-related payments (DRG), annual drug price adjustments, and pilot testing of pay-for-performance (Mossialos *et al*., 2017). One should note that such lowered costs may arise from capacity constraints that will require addressing in the longer term, such as lower physician-population ratios and infrastructure limitations (Mossialos *et al*., 2017, p.169).

C. The Health Financing System in France – Social Health Insurance

In France, the Ministry of Social Affairs, Health, and Women's Rights oversees health care provision and expenditures, with the primary objective of reducing health inequities. A statutory health insurance (SHI) pays for services — in effect, a social pooling insurance system, funded by a combination of tax sources: employer and employee payrolls, national earmarked income tax, tobacco and alcohol, the pharmaceutical industry, voluntary health insurance companies, and state subsidies. Coverage is compulsory for all citizens (Mossialos *et al*., 2017).

Unlike the single-payer system in Taiwan, SHI consists of multiple insurers incorporated into a single national exchange. Voluntary health insurance (VHI) complements this, chiefly for service copayments minimally covered by SHI, such as vision and dental care. VHI companies are not-for-profit, employment-based mutual associations or provident institutions, and cover about 13.5 percent of total health expenditures (Mossialos *et al*., 2017).

The government determines the lists of procedures, drugs, and medical devices covered under SHI, including pricing and rates of coverage. SHI generally covers hospital care, physiotherapy, outpatient care, specialists, dentists, midwives, diagnostic services, prescription drugs, certain medical appliances, and prescribed care-related transportation and home care. It also provides partial coverage of hospice and mental health care. Total out-of-pocket spending came to only 8.5 percent of health expenditures as of 2014. People with low incomes qualify for free or state-sponsored VHI, along with free vision and dental care. Exemptions from coinsurance apply to individuals with specified chronic illnesses, such as cancer and HIV/AIDS (Mossialos *et al*., 2017).

SHI has undergone several cost-containment initiatives: reduction in the number of acute care beds, the removal of 600 drugs from public reimbursement, increased generic drug prescription and reduced prices, central purchasing for better cost negotiation, an increased rate of outpatient vs. inpatient surgeries, earlier post-surgery and post-delivery discharge, and reduction of duplicate testing. Initiatives to improve value for healthcare costs have also begun, such as pay-for-performance, DRG payments, and research-informed improvements in practices.

8. Implementation Considerations for Malaysia

Based on the aforementioned key challenges in the Malaysian healthcare financing system and the analysis of different health financing models around the world, we propose that four key considerations inform implementation.

First, the government has thus far built a successful healthcare system on the principle of "leave no one behind," achieving impressive gains towards UHC in the past. This principle should continue by providing essential health service coverage to disadvantaged groups. The government's efforts through PeKA B40 and MySalam are steps in the right direction, narrowing the socioeconomic gaps in access to affordable basic healthcare.

However, most observers would agree that these programs do not completely address the issues of healthcare financing contributions and the risks of a single-payer, tax-based system. Small changes run the risk of limiting the full benefits of transformation.

This requires a shift away from total government funding that focuses on inequities alone. The second consideration calls for integrating public and private sources of funding and service provision to grant wider and more affordable services across all socioeconomic groups. The current dual system of funding differentiates the poor from the rich: lower-income groups have fewer options, opting to seek cheaper public services, while those who can afford it may seek both public and private services. As explained earlier, this situation exacerbates the issue of growing out-of-pocket payments as well as total individual and national healthcare expenditures. A pooled, social health insurance system with multiple payers (such as the French system with its mandatory enrollment and the government as the single biggest payer) allows for multiple benefits: greater competition amongst providers to drive costs down, lower premiums compared to the cost of private insurance due to the larger participant pool, and a government empowered to drive nationwide quality and cost-containment strategies.

The third consideration concerns behavioral modification, a critical factor in ensuring improvements in individual health outcomes and cost containment (Ahmad, 2019). As described earlier, the Singapore health-financing model employs this principle by mandating individual Medisave accounts. This policy resulted in Singaporeans paying large sums of money towards the healthcare services they consumed and reduced the government's burden from 76 percent of total health expenditure to 30 percent (Mossialos *et al*., 2017). This method "taught" Singaporeans to manage their own health, plan prudently for healthcare needs, and ensure a personal safety net for themselves and their loved ones. The Singapore government continues to create an environment for behavior modification through policy instruments, such as adjusting the formula of how and when residents can draw on Medisave. For example, the government now allows Singaporeans to withdraw from their savings for outpatient and ambulatory care as a way to encourage preventative measures in personal healthcare management.

For Malaysia to implement any national health financing system, the government should draw on relevant political challenges of past efforts. It should note, for example, the failure of 1CARE to take off, despite agreement among most healthcare professionals and government policymakers that it could provide a comprehensive, progressive framework, one capable of completely transforming the healthcare system. As the failure of 1CARE has shown, large-scale reform requires heavy investments of effort and time to educate, build consensus, and provide win-win collaborative models with the private sector.

Hence, the fourth issue concerns piloting models of success to inform nationwide implementation. The Ministry of Health has already used pilot projects to develop large-scale changes — for example, under the Enhanced Primary Healthcare program, which continuously refines new models of service delivery at twenty sites via community volunteer centers and clinics. The evaluation of these initiatives will inform a nationwide rollout program over the next year. Similarly, the government may conduct incremental testing of financing models integrating public and private sources of funding in tandem with primary care enhancements, including gradual shifts towards personal accountability through education, outreach, and the importance of self-healthcare management. However, these incremental shifts must take place as part of a comprehensive, deliberate, and targeted transformation, urgently needed in a time of significant external pressures on Malaysian public health.

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Conclusion

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In many developing countries, the second decade of the new millennium came to an end with rapid economic growth and technological progress but also with widening income inequality and severe environmental pollution. Income inequality and environmental pollution are often dismissed as inevitable costs of economic and technological growth. The global community, however, increasingly promotes inclusive growth, defined as “economic growth distributed fairly across society and creating opportunities for all,” in order to combat these inequalities (OECD 2018). Confronted with an unprecedented set of social, economic, and environmental challenges, contemporary Asian societies need more inclusive policy decisions. In this context, the Korea Development Institute (KDI) and the Asia Foundation (TAF) launched this volume, which studies different hurdles faced by inclusive growth policies and considers possible solutions to these challenges.

The preceding pages extrapolate examples of inclusive policy initiatives in Mongolia, Hong Kong, Timor-Leste, South Korea, and Malaysia. The examples illustrate the benefits these initiatives bring to all citizens via well-informed fiscal decentralization policies, effectively managed public-private partnerships for public services, policies that improve the lives and livelihoods of women, careful analysis of existing social policies, and the replication of successful policy practices already implemented elsewhere.

Although each of the case studies focuses on a specific context, multiple themes emerged that resonate with the development challenges widely faced across Asia. Such challenges include the region's need to manage rapid urbanization in primary and secondary cities in order to address poverty and marginalization of new migrant settlements and reduce environmental impact. Additionally, changes to national and regional demographics creates a "youth bulge" in some countries and, in others, an aging population supported by a smaller foundational labor force. These trends require forethought, planning, and policy options that facilitate inclusive growth in the short- and long-term.

Equitable and inclusive solutions rest on ingenuity in public policy, as highlighted in the Timor-Leste, South Korea, and Mongolia chapters; on innovation in partnerships between the public and private sectors as seen in the Hong Kong and Malaysia case studies; and on providing an environment that enables both, as illustrated by this volume as a whole.

Many people in the five countries addressed in this volume, within government and beyond, recognize the importance of inclusiveness in economic growth and sustaining economic strength. The chapters on Hong Kong and South Korea demonstrate that the path towards more inclusive growth is a continuous struggle for both advanced and developing economies. In fact, the South Korean government recently introduced a series of policies that focus on building a more inclusive and sustainable model of growth and development. Many of these policies aimed to tackle similar challenges that the other cases in this volume have confronted.

South Korea is known for rapid and continuous social enterprise growth, which is largely due to the strong will of the government and corresponding policy support. Enacted in 2006, South Korea's Social Enterprise Promotion Act defined social enterprises, offered detailed provisions for those enterprises, and laid out different support mechanisms for the development of social enterprises. Subsequently, social enterprises successfully invited the socially vulnerable into the labor market and instilled social responsibilities and ethical business practices into other enterprises (Park *et al*., 2015). Promoting social entrepreneurship in South Korea, however, is not without challenges. One way to possibly address these challenges is to transform the government's role as a direct supporter into a more indirect role in which social entrepreneurs themselves could take a more active ownership over the continued development of social enterprises (Kim, 2009).

Much like the case of Timor-Leste, the South Korean government has also concentrated on gender-responsive policies. The government officially adopted gender budgeting (GB) in 2010, which requires that budgeting and policy-making processes take into account the impact of government budgeting on gender equality. The government also laid out a legal framework for gender budgeting through amendments to the National Finance Act and the National Accounting Act. Although South Korea's GB initiative fostered some positive changes, including promoting women in science and technology, the government continuously strives toward enhancing the initiative's effectiveness.

Inclusive growth is a critical challenge of the contemporary moment. A single society is not alone in its struggle to decrease inequalities. The shared experience of striving for inclusive growth opens up opportunities for more effective economic development cooperation initiatives between countries. In fact, there is a growing debate about how international economic development cooperation efforts should advocate for inclusiveness. Promoting economic growth should no longer solely focus on boosting a country's productivity, but it should also consider what deepens inequalities and the impact of those inequalities on people's lives. In order to provide guidance on such efforts, further research should measure the strength of the correlation between the levels of economic growth and social cohesion. Comparative studies between economies with similar approaches toward inclusive growth, especially focusing on the fields addressed within this book, will also provide further insights.

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