Shielding the poor

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With the economic slowdown eating into household incomes, the number of people who will fall below the poverty line is expected to increase sharply.

But how the poverty line is determined is in itself a subject for debate. There are different points of view on this, with some economists saying it is currently too low and therefore understates the number of people who are poor.

Under the Ninth Malaysia Plan (9MP), the urban poverty line income (PLI) was set at RM687 per household per month. However, this figure has been disputed by many as too low because of the high cost of urban living. For this reason, they argue that the computation should be revised.

"The government numbers on poverty are understated," says Lim Teck Ghee, chief executive of the Centre for Policy Initiatives, in an interview with *The Edge*. "With the sudden rise in inflation, the wage growth rate is not reflective of the cost of living. The estimate is that one-third of urban households are living in poverty."

Indeed, this thinking is gaining favour in official circles.

In the mid-term review of the 9MP, the urban PLI was revised to RM691 and rural PLI to RM800 for 2007.

However, even this figure is considered too low by development economists.

"The poverty line is not static. It is dynamic and can change," says Datuk Zainal Aznam, a member of the National Economic Council. "The measurement of the poverty line should be reviewed. The existing measurement is insufficient to calculate the exact number of people in poverty.

"Some people are not considered poor but are close to the (poverty) line. When (consumer) prices go up, some of them may just fall below the line."

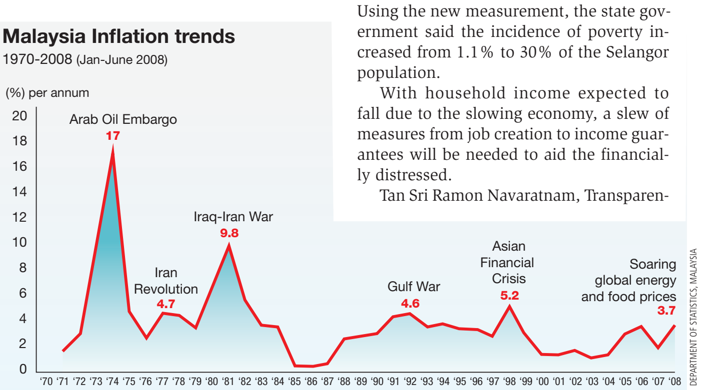
Prof Emeritus Datuk Mohamed Ariff, the executive director of the Malaysian Institute of Economic Research (MIER), points out that there should be different measurements of poverty. "The poverty line should be different for the urban and rural areas, and in Sabah and Sarawak," he tells *The Edge*. "There is quite a number of urban poor and foreign poor here."

It is true that the Economic Planning Unit (EPU) had already modified its methodology for computing the PLI during the Eighth Malaysia Plan period. The PLI consists of a food and non-food component, according to the 9MP. Under the new methodology, adopted in 2005, the PLI is defined separately for each household in the household income survey based on its size, demographic composition and location.

"A household is considered hardcore poor if its monthly household income is less than the food PLI," the 9MP reads. "As food requirement is based on a nutritionally adequate diet, the hardcore poverty threshold income is much higher than the old definition of half the PLI."

Moving on the poverty issue, the Selangor government has chosen to revise the state household PLI to RM1,500 in its Budget 2009. Using the new measurement, the state government said the incidence of poverty increased from 1.1% to 30% of the Selangor population.

With household income expected to fall due to the slowing economy, a slew of measures from job creation to income guarantees will be needed to aid the financially distressed.



Tan Sri Ramon Navaratnam, Transparency International Malaysia president and corporate adviser of Sunway Group, affirms that a comprehensive social safety net is needed to cope with the crisis.

"The main thing is to liberalise the economy and let people find their own jobs," he says. "The government should liberalise the issue of licences for taxis and hawkers' stalls to generate self-employment.

"Encouraging self-employment will also help the business environment. The government should help prevent people from losing jobs. It can give contracts to the people and not just think about mega projects," says Navaratnam.

"But most of all," he adds, "it should improve governance so that the country can attract investors. Knock off the corruption and we will be all right."

Lim advocates giving cash to the needy. "In many countries, the best system to help the vulnerable groups is to transfer the money directly to them to use in whatever form. Direct transfer will ensure efficiency and households can make decisions on the best way to make use of the money."

Navaratnam demurs. "Cash handouts, except for the truly needy, are not a good idea," he says. "We should wean people off the subsidy mentality. We could end up bankrupting the country otherwise."

"The problem is that there are people with no access to the delivery system. This is something that Pemudah (the public-private task force set up to improve the business environment) can take up. It is too concerned with the business sector, and should also work on helping with the delivery system for the poor."

However, the government's ability to provide assistance may be severely restricted if its revenues are badly affected by the slowdown and by the sharp fall in the prices of commodities.

"Government revenue is very likely to fall sharply," says Lim, pointing out that Budget 2009 had assumed a crude oil price of US$125 per barrel.

"If crude oil averages US$65 per barrel in 2009, government revenue next year will be short by RM35 billion."

Crude oil price has slumped from a peak of US$140 per barrel in July to around US$50 currently.

But it is not just revenue from crude oil that will drop.

"All streams of government revenue will be affected (by the economic slowdown), and that includes sales tax, dividends, interest, export duties, indirect taxes and so on," says Lim. "We might need a new budget or Malaysia plan. This is (going to be) the worst economic crisis (of our times)."

"We do have the resources if we manage them well, and if savings are made from the existing operating budget, by awarding contracts through open tenders, for example," he adds. "It needs a high degree of efficiency and good governance, which have been missing even during good times. I wonder how it would be during the bad times." E

9MP

Comparison of Poverty Line Index (PLI) for 2004 (RM per month)

REGION	1977 METHODOLOGY	2005 METHODOLOGY Urban	Rural	Overall
Peninsular Malaysia	543	663	657	661
Sabah	704	881	897	888
Sarawak	608	777	753	765
Malaysia	588	687	698	691

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Zainal Aznam: Measurement of the poverty line should be reviewed

CORPORATE

REDtone needs money raised via bumi issue

FROM PAGE 21

When asked how much he intends to keep, Zainal says it is "premature" to comment. He adds that the Securities Commission may impose some kind of moratorium on the shares.

Still, there is real concern over the possible overhang of shares. REDtone's share base of 257.6 million is about to balloon to 804 million upon completion of its planned bonus issue, special bumiputera issue and a second bonus issue.

The company has enough share premiums to do the first bonus issue, but the second one will depend on the issue price of the bumiputera tranche and the number of shares issued. Without the second two-for-five bonus issue, REDtone's enlarged share base will be reduced by about 235 million shares.

More importantly, REDtone needs the money raised via the bumiputera issue. A reduction in the number of shares in the bumiputera tranche will mean smaller proceeds, which may hurt REDtone spending plans.

Some RM19.5 million of the RM39.69 million REDtone expects to raise from the bumiputera tranche is for capital expenditure. Of this, RM15 million is for use for the construction of 35 base stations. The remaining proceeds will be split between R&D into wireless broadband services like IPTV (RM7.82 million) and working capital (RM11.7 million). If only 127 million shares are issued at the theoretical price of 23 sen apiece instead of the planned 172.55 million shares, the proceeds will be reduced by about RM10 million.

It remains to be seen if REDtone can successfully find investors who believe in the company's future and are willing to stick around during the rough times.

And times are hard as upfront spending is high while earnings visibility is less clear as competition heats up on the local wireless and broadband scene.

But Zainal is convinced REDtone will be able to carve a piece of the market for itself. Going forward, REDtone is transforming itself into a provider of "solutions as a service". "This will encompass everything that we're doing, from discounted call services to data, mobile and software services. We want our customers to view us as the leading alternative service provider that will help them grow their business (make money) and reduce the cost of doing business (save money)," Zainal says.

Whether or not he ends up being the single largest shareholder, Zainal says it will be business as usual for him. "REDtone has a good management team and I'll work closely with them and do whatever it takes to deliver results, including climbing base stations if I have to," he adds. E