A Vision for Social Protection in Malaysia

Social protection as a safeguard against socioeconomic vulnerabilities

Social protection, broadly, includes all public policies designed to provide protection for individuals against economic and social distress. There are three types of policies that fall under social protection, namely, social safety nets, social insurance, and active labour market policies (ALMPs). Besides reducing society’s vulnerabilities to various economic risks, social protection policies also serve as important macroeconomic stabilisation tools.

The COVID-19 pandemic and the economic crisis that ensued have damaged people’s lives and livelihoods around the world. In response to the health and economic crises, most governments around the world have strengthened their social protection policies. Much-needed support was channelled to the most vulnerable groups. The unprecedented scale and impact of the pandemic, however, have pushed current social protection systems in many countries to their limits, necessitating ad-hoc fiscal support to supplement them.

Malaysia’s social protection system was not spared from these challenges. The pandemic has unearthed deep structural issues surrounding the prevailing social protection framework in the country. Critical issues include, fragmented and overlapping programmes, gaps in overall coverage, inadequacy of programmes to comprehensively address socioeconomic vulnerabilities, and fiscal challenges. Implementing reforms to narrow these gaps is therefore vital to address these fundamental issues that affect a sizeable proportion of our population and residents of this country (Diagram 1). This would strengthen the foundations to future-proof the social protection system and help individuals secure access to better opportunities to protect and enhance their well-being. Reforms would also enhance the counter-cyclicality of policy support for the economy.

Diagram 1: Socioeconomic vulnerabilities faced by Malaysians

1 Refer to Table 1 in the mini box on the global evolution and landscape of social protection.

2 Active labour market policies (ALMPs) refer to all social spending (other than on education) aimed at enhancing the employability of workers or increasing their earnings capacity (simplified definition based on the Organisation for Economic Co-operation and Development (OECD) and International Labour Organization (ILO)).

3 According to the United Nations (UN), in response to the COVID-19 impact, over 1,400 social protection measures have been deployed, many of which are short-term measures (UN Special Rapporteur, 2020). The ad-hoc nature of these responses indicates that social protection systems were insufficient in providing support and resilience against the pandemic.

4 World Bank, 2015.

5 Even in the years leading up to the COVID-19 pandemic, the World Bank highlighted the need to address under-coverage and low adequacy of social protection in Malaysia, particularly for the elderly (World Bank, 2015). The COVID-19 pandemic also emphasised the need to increase coverage for self-employed and informal sector workers.
in facing future health, environment, social, and economic shocks. This article aims to provide an overview of the evolution and landscape of social protection systems (refer to the mini box), examines the current state of social protection in Malaysia, and provides several ideas on the design of a more effective social protection system for Malaysia.

The Global Landscape of Social Protection

In essence, the three main pillars of social protection comprise protection, prevention, and promotion, or universally known as the 3Ps (Table 1). The 3Ps aim to ensure basic needs are met, resilience against poverty is achieved, and economic potential is maximised. The 3Ps collectively play a significant role in macroeconomic stabilisation, especially in minimising the impact of scarring during economic downturns. A risk that many countries face is an over-reliance on social safety net policies, which fall under ‘Protect’. While these are politically popular and relatively easier to implement, an over-reliance on social safety net policies would undermine or even nullify the primary goal of ensuring poverty eradication. Protection of the vulnerable could also be compromised due to the heavy strain on public finances arising from over-spending on social safety nets. Research and cross-country experience have predominantly shown that a more balanced approach that draws on the complementarities of the 3Ps would result in a more effective and holistic social protection system (Diagram 2).

Table 1: The 3Ps of Social Protection

<table>
<thead>
<tr>
<th>Social Safety Nets</th>
<th>Social Insurance</th>
<th>Labour Market Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
<td></td>
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</tr>
<tr>
<td>Non-contributory* interventions designed to reduce poverty and vulnerability</td>
<td>Contributory* interventions that improves people’s ability to protect themselves against shocks to income</td>
<td>Contributory or non-contributory* interventions designed to promote efficient labour market outcomes</td>
</tr>
<tr>
<td><strong>Primary objective</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Protect: Ensuring basic needs/rights are met (e.g. housing, health, education) and eradicating poverty</td>
<td>Prevent: Providing resilience to individuals and families from shocks to prevent poverty</td>
<td>Promote: Enhancing economic opportunities and potential of individuals</td>
</tr>
<tr>
<td><strong>Available tools</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash transfers, in-kind benefits (e.g. free schooling), and housing benefits</td>
<td>Pensions, income insurance schemes</td>
<td>Active: Job placement programmes, job incentives</td>
</tr>
<tr>
<td><strong>Policy considerations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>While it is universal and should be prioritised by Low Income Countries (LICs) and Emerging Market Economies (EMEs), these policies tend to strain fiscal resources</td>
<td>Balances fiscal sustainability with comprehensive support; should be prioritised if citizens are able to make contributions</td>
<td>Passive policies should be implemented universally, with active policies complementing to boost labour productivity in the long-run</td>
</tr>
<tr>
<td><strong>Key strengths</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provides basic needs universally and directly</td>
<td>Comprehensive support provided with the least impact to fiscal coffers</td>
<td>Passive labour policies provide protections for workers, while active policies facilitate labour mobility and encourage upskilling to increase productivity of workforce</td>
</tr>
<tr>
<td><strong>Key drawbacks</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heavy strain on fiscal position if relied on exclusively in the long-term</td>
<td>Requires citizens to be able to make contributions and does not immediately protect the most vulnerable</td>
<td>While policies are typically universally available, they do not directly alleviate critical vulnerabilities (e.g. poverty)</td>
</tr>
<tr>
<td><strong>Fiscal strain</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Typically high, especially for LICs and EMEs</td>
<td>Small fiscal strain since policies are contributory in nature</td>
<td>Moderate fiscal strain to fund active labour market policies (ALMPs) as most are market-financed</td>
</tr>
</tbody>
</table>

*The definition of contributory and non-contributory will be defined in the subsequent paragraphs

Source: Bank Negara Malaysia, World Bank, ILO
For each of the pillars in the 3Ps, the coverage of protection would differ depending on how they are funded (Diagram 3). The first stage consists of basic needs or is also known as the social protection floor and is mainly provided by the Government. This includes access to essential health care and basic income security to prevent individuals from falling into poverty. This is followed by protection provided by mandatory contributions, where individuals pay a small percentage of their wages towards injury and income security schemes. The mandatory nature of these policies ensures that there is a large pool of contributors with mixed levels of risk. This is a crucial aspect of mandatory contributory schemes as it allows individuals who have relatively low wages to obtain income and injury protections.

As these policies only provide basic injury and income protection, the private sector can supplement them with more comprehensive coverage. Voluntary contributions, however, involve a higher premium relative to the mandatory schemes and would thus rely on workers having higher incomes to afford them. These policies thus go beyond alleviating poverty to increasing income resilience at higher levels.

A comprehensive social protection system would also account for the unique vulnerabilities faced at different life stages (Diagram 4). Typically, policies would tend to gravitate towards the provision of contingencies during a person’s working years, as this is the stage of life when most people are...
Contingencies during a person’s working years, as this is the stage of life when most people are at different life stages (Diagram 4). Typically, policies would tend to gravitate towards the provision policies thus go beyond alleviating poverty to increasing income resilience at higher levels.

Voluntary contributions typically provided by the Government, the coverage of social protection could expand as the funding mechanism broadens to include mandatory and voluntary contributions.

Level of protection refers to the coverage of social protection. However, this depends on the funding mechanism. Beyond the basic needs, which is typically provided by the Government, the coverage of social protection could expand as the funding mechanism broadens to include mandatory and voluntary contributions.

For each of the pillars in the 3Ps, the coverage of protection would differ depending on how they are funded:

- Level of protection

Source: Bank Negara Malaysia, ILO and UN framework for Social Protection Floor

Income-earners with financial dependents. However, vulnerabilities ought to be optimally addressed not only during working years but also in different stages in life. This would ensure equal economic opportunity, quality of life, and social cohesion (Diagram 4).

Diagram 4: Life cycle approach to social protection

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Finally, the design of a robust social protection system should also ensure long-term sustainability and continuity. Design considerations must therefore be comprehensive and focus on the specific conditions and priorities of a particular economy. For example, countries that are able to design social protection systems that are both universal and efficient rely on the government having ample and sustainable revenue-generating capacity. Should governments find themselves with less capacity for revenue-generation, trade-offs must be made in the policy design. To illustrate, the various European social protection modalities in existence today can provide insights on this balancing act (Table 2).

### Table 2: Cross-comparison of different welfare models in Europe

<table>
<thead>
<tr>
<th></th>
<th>Nordic</th>
<th>Anglo-Saxon</th>
<th>Continental / Bismarckian</th>
<th>Mediterranean / Southern</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Poverty level</strong></td>
<td>Low</td>
<td>Low</td>
<td>Moderate</td>
<td>High</td>
</tr>
<tr>
<td><strong>Taxation level</strong></td>
<td>High</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Weak collection</td>
</tr>
<tr>
<td><strong>Key identifiers of welfare model</strong></td>
<td>Generally universal support from government</td>
<td>Some universal protection (e.g. healthcare), though generally provides more means-tested assistance</td>
<td>Some universal protection (e.g. childcare support), but emphasises job security with social insurance and labour regulations</td>
<td>Welfare is largely family-oriented, though government provides generous protection to elderly (e.g. pensions, early retirement)</td>
</tr>
<tr>
<td><strong>Principal source of social protection support</strong></td>
<td>Government and local authorities; redistributive taxation</td>
<td>Government redistribution for the unemployed, social insurance for the employed</td>
<td>Market-driven, with additional reliance on social insurance</td>
<td>Market-driven; local governments; family and self-support</td>
</tr>
<tr>
<td><strong>Strengths</strong></td>
<td>Highly egalitarian and progressive</td>
<td>Comprehensive support with only moderate taxation</td>
<td>Workers enjoy a high level of support</td>
<td>Comprehensive care for elderly (e.g. pensions, public services)</td>
</tr>
<tr>
<td><strong>Weaknesses</strong></td>
<td>Could be difficult to implement in less wealthy countries</td>
<td>Implementation challenges such as long wait times and funding shortages</td>
<td>Reliance on social insurance entails less benefits for those contributing less or facing employment challenges</td>
<td>Generally insufficient protection provided to the overall population</td>
</tr>
</tbody>
</table>

Source: Adapted from Popova et al. (2013)

The Nordic model of social protection is generally the most generous and comprehensive. Support is universally provided across almost all vulnerable groups, financed by substantial revenues from the high taxation rates of its high-income residents. Countries with less revenue-generating capacity than Nordic countries could face problems adopting this model. Internalising this lower taxation appetite, the Anglo-Saxon model provides for universal healthcare but relies on a means-tested approach for other forms of assistance. The Bismarckian model utilised by Germany, focuses primarily on social protection provided via the labour market. Lastly, the Mediterranean model is an example of how governments can still provide support despite significant resource limitations. Countries that adopt this model (e.g. Italy and Spain) leverage largely on welfare, and especially healthcare, being family-oriented (for example, by providing tax or cash transfer benefits for family care).  

These models highlight the need for trade-offs in policy design to ensure social protection systems remain sustainable in the long-term, unless broader revenue collection enhancements can be made. For Malaysia, while our current approach is closer to the Anglo-Saxon model, the coverage is comparatively more limited. This underscores the need for a policy review and a redesign of social protection policies.

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1 This multi-generational approach to social protection with the family unit as a source of security can also be seen in Eastern Europe. For details on the ‘Familistic’ welfare model of Italy and Spain, refer to Leon and Migliavacca (2013).
Giving the Malaysian Social Protection System a New Lease of Life

The evolution of Malaysia’s social protection system

Similar to other developing countries, the social protection system in Malaysia began as early as the post-independence period. Social protection was first provided via public programmes which focused on social safety nets through the provision of basic needs such as education, healthcare, and sanitation facilities. This was subsequently complemented by the development of the foundations for both social insurance policies and active labour market policies (ALMPs) (Diagram 5). While these were important strides towards developing a comprehensive social protection system in Malaysia, most of the measures were somewhat episodic, introduced in response to periods of economic stress. A systematic, thorough, and holistic review of the social protection system is therefore warranted to ensure social protection policies are more comprehensive, inclusive, sustainable, and equipped to meet its intended objectives.

Diagram 5: Evolution of social protection policies in Malaysia

<table>
<thead>
<tr>
<th>Post independence to 1980s</th>
<th>1990 to 2010</th>
<th>2011 - present</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision of minimum guarantee (social protection floor) and eradication of poverty</td>
<td>Building the foundation for social insurance</td>
<td>New labour market policies</td>
</tr>
<tr>
<td>• Society restructuring through the provision of funding for education, healthcare and other basic needs</td>
<td>• Establishment of Employees Provident Fund (EPF) in 1951</td>
<td>• Enactment of Pembangunan Sumber Manusia Berhad (PSMB) Act 2001</td>
</tr>
<tr>
<td></td>
<td>– A defined-contribution plan under the EPF Ordinance 1951, mandatory for those in the formal sector</td>
<td>– Pembangunan Sumber Manusia Berhad (PSMB) Act 2001 established the Human Resources Development Fund (HRDF) which collects levies as resources for the training and development of employees</td>
</tr>
<tr>
<td></td>
<td>• Establishment of Social Security Organisation (SOCSO) in 1971</td>
<td>• Greater coverage for worker from Social Security Organisation (SOCSO)</td>
</tr>
<tr>
<td></td>
<td>– The Social Security Organisation (SOCSO) covers mainly the provision of occupational insurance, including employment injury and invalidity scheme</td>
<td>• Self-Employment Social Security Scheme (SESS) in 2017 to insure against employment injuries</td>
</tr>
<tr>
<td></td>
<td>• Housing rehabilitation and resettlement programmes</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bank Negara Malaysia

The New Economic Policy (NEP), which was introduced in 1971, provided monumental strides towards the eradication of poverty. These efforts resulted in a sharp decline in absolute poverty, from 12.9% of the total population in the early 1980s to around 0.2% of the total population in 2015, in comparison to the global poverty ratio, which stood at 26.6% of the total global population in 2015. While remarkable strides have been made in terms of eradicating absolute poverty, the measurement of relative poverty, which stood at 16.9% of the total...
households in 2019, shows that significant improvements can still be made. This highlights the importance of complementing income support with active labour market policies (ALMPs) to sustainably enhance productivity and boost incomes, particularly for low-income groups.

The foundations for a social insurance system were also built through the establishment of the EPF in 1951 and SOCSO in 1971. While public sector employees are protected by the Government’s pension scheme, employees in the private sector as well as their employers are mandated by the EPF Act 1991 to contribute to the EPF private sector retirement scheme. This, together with SOCSO’s occupational insurance schemes and more recently the Self-Employment Social Security Scheme (SESS) introduced in June 2017 as well as the Employment Insurance System (EIS) in January 2018, have bridged some of the gaps in Malaysia’s social insurance landscape. The Government’s focus over the past decade in encouraging private retirement schemes, for example by establishing the Private Pension Administrator (PPA) and introducing the tax incentives for Private Retirement Scheme (PRS) and deferred annuity products in 2012, will further enhance the robustness of social protection. There were also efforts to enhance the mobility of Malaysia’s labour force. In 2001, the Government established the Human Resources Development Fund (HRDF) to retain and upgrade the skills of local employees, apprentices and trainees to be in line with business needs.

In response to the economic impact of both the COVID-19 pandemic and the subsequent movement restrictions, the social protection system has proven vital in ensuring vulnerable groups were protected. The processes and databases built by various Government entities facilitated an efficient deployment of stimulus measures. For example, SOCSO’s existing infrastructure laid the groundwork for the disbursement of wage subsidies, while the database created for disbursement of Bantuan Sara Hidup (BSH, now known as Bantuan Prihatin Rakyat or BPR) through Lembaga Hasil Dalam Negeri (LHDN) allowed for cash handouts to be distributed directly and seamlessly to those in need.

As effective as this infrastructure was, the magnitude and scale of the pandemic revealed critical gaps in the social protection system. These gaps came in the form of effectiveness, implementation, as well as sustainability, involving all pillars of the social protection. A holistic review of the entire social protection system is needed to ensure its continued ability to act as an automatic stabiliser during crisis periods. Emphasis needs to be given to ensure more efficient delivery, better coverage of the most vulnerable, and improved labour mobility in order to reduce the over-reliance on social safety nets.

**Social safety nets: Over-reliance on social safety net programmes with weak targeting and verification capacity risks undermining policy effectiveness**

Currently, most of the fiscal outlay for social protection programmes in Malaysia goes towards social safety nets. This is predominantly the result of fragmented policies managed by multiple agencies at both Federal and State Government levels. Despite the sizeable expenditure of RM17.1 billion in 2019 (1.1% of GDP), the payout amounts under each programme tended to be small and insufficient to ensure that the most vulnerable households were able meet minimum income and living standards, as allocations are spread over more than 60 programmes. The fragmentation also resulted in overlapping and identical assistance being provided (e.g. education support) and managed by several different ministries (Table 3). Inadvertently, this together with the existence of numerous databases managed by multiple agencies made verification and enforcement particularly challenging and has led to leakages (e.g. double-dipping issues).

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11 SESS mandated contributions from self-employed workers in 20 sectors (e.g. passenger transportation, online business, and fisheries) on 1 June 2017, while the EIS came into effect on 1 January 2018 and provided unemployment benefits.
12 LHDN (Inland Revenue Board of Malaysia in English) is Malaysia’s tax collection authority.
13 A different perspective along with policy recommendations on this topic can be found in the Box Article: “Getting the Great Reset Right: Structural Labour Market Issues in the Post-COVID-19 World”.
14 The ministries in charge of managing social safety net programmes include the Ministry of Women, Family, and Community Development; Ministry of Health; Ministry of Education; Ministry of Human Resources; Ministry of Rural and Regional Development; Ministry of Housing and Local Government; Ministry of Agriculture and Agro-Based Industry; and other public departments and agencies (Samad and Shahid, 2018).
15 Based on the World Bank’s Atlas of Social Protection Indicators of Resilience and Equity (ASPIRE), regional countries have spent similar amounts on social safety nets. Based on latest available data, this includes Vietnam (2016: 1.9% of GDP), Cambodia (2015: 0.9% of GDP), the Philippines (2016: 0.7% of GDP), Indonesia (2016: 0.7% of GDP) and Thailand (2011: 0.5% of GDP).
16 Additionally, records for some of these social safety net programmes are also still managed manually.
17 The high level of bureaucracy and the lack of central coordination would also reduce efficiency of disbursements as qualifying recipients must make applications through several entities, each with their own verification process.
The targeting mechanism of many of these programmes to the bottom-40 income group (B40) also requires a thorough reassessment. Based on the Household Income and Expenditure Survey (HIES), households under the Poverty Line Income (PLI) threshold received the smallest percentage of BSH allocation in 2019. While accounting for 17.4% of households in the B40, this group received only 12% of the total allocation that year. Weak verification capacity also led to relatively high occurrences of both inclusion and exclusion errors (Chart 1). For instance, verification to determine eligibility for BSH were based primarily on LHDN data, which captured only those in formal employment, making it challenging to validate the eligibility of the self-employed and workers in the informal sector. The effectiveness of these programmes was also limited by the lack of mechanisms for recipients to graduate from the social safety net programmes as they were not integrated and linked with active labour market policies (ALMPs). This indirectly increased the over-reliance of beneficiaries on social safety net programmes as a source of income and may not have helped to address intergenerational poverty in the long run.

Table 3: Social Protection Programmes in 2019

<table>
<thead>
<tr>
<th>Social Welfare Department</th>
<th>MOE</th>
<th>MoF/IRBM</th>
<th>Department of Orang Asli Development</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Social Safety Net</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disability benefit</td>
<td>3</td>
<td>8</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Education support</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Family benefit</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing benefit</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Income support</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Old age support</td>
<td>1</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Nutritional support</td>
<td>1</td>
<td></td>
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<tr>
<td><strong>Social Insurance</strong></td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension schemes</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occupational insurance</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Active Labour Market Policies</strong></td>
<td>4</td>
<td>3</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Education support</td>
<td>2</td>
<td></td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Job incentive</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>One-off assistance</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training/Entrepreneurship</td>
<td>1</td>
<td></td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Passive policy</td>
<td></td>
<td></td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Job matching</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td><strong>Others</strong></td>
<td>3</td>
<td>5</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Education support</td>
<td></td>
<td></td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>One-off assistance</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer subsidy</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Affordable housing</td>
<td></td>
<td></td>
<td></td>
<td>9</td>
</tr>
</tbody>
</table>

Acronyms refer to Ministry of Education (MOE), Ministry of Finance (MoF) and Inland Revenue Board of Malaysia (IRBM)

Source: Bank Negara Malaysia compilation of publicly available data, which is not exhaustive

The targeting mechanism of many of these programmes to the bottom-40 income group (B40) also requires a thorough reassessment. Based on the Household Income and Expenditure Survey (HIES), households under the Poverty Line Income (PLI) threshold received the smallest percentage of BSH allocation in 2019. While accounting for 17.4% of households in the B40, this group received only 12% of the total allocation that year. Weak verification capacity also led to relatively high occurrences of both inclusion and exclusion errors (Chart 1). For instance, verification to determine eligibility for BSH were based primarily on LHDN data, which captured only those in formal employment, making it challenging to validate the eligibility of the self-employed and workers in the informal sector. The effectiveness of these programmes was also limited by the lack of mechanisms for recipients to graduate from the social safety net programmes as they were not integrated and linked with active labour market policies (ALMPs). This indirectly increased the over-reliance of beneficiaries on social safety net programmes as a source of income and may not have helped to address intergenerational poverty in the long run.

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18 In 2019, the PLI stood at RM2,208.
19 This is based on the Bank’s staff estimates based on HIES 2019 data.
21 Inclusion errors refers to provision of aid to those who do not qualify, whereas exclusion errors imply failure to reach the needy which results in under-coverage (Source: Wheeler, Hurrell, & Devereux, 2015).
22 Khazanah Research Institute’s (KRI) publication “Climbing the Ladder: Socio-Economic Mobility In Malaysia” in 2016 emphasised the importance of access to education and having parents with savings, in achieving upward socio-economic mobility. However, their discussion paper in 2019 titled “A rising tide lifts all boats? Intergenerational social mobility in Malaysia”, highlighted the gaps in data in making intergenerational economic analysis. This should be considered as an area for improvement moving forward.
The efforts to strengthen our social protection would benefit immensely from the formulation of a roadmap for reforms which includes the development of a unified database for Malaysia’s social protection system. This approach to social protection reform has been undertaken by countries such as Brazil, the Philippines, and Chile, among others. As there are currently more than 60 programmes under several agencies and ministries, serious considerations should be made to consolidate the social safety net programmes under the flagship BPR programme, and complemented with more granular categorisation. The smaller number of programmes with narrower criteria based on income and household size would likely allow for more targeted and effective disbursements and further boost the progressivity of these policies. Critically, the consolidation of programmes would allow for higher disbursements to the most vulnerable without undermining fiscal sustainability. To minimise inclusion and exclusion errors, the verification capacity could be improved by introducing compulsory registration at LHDN for all citizens regardless of income levels, which would further widen the coverage of LHDN’s database. To complement social safety net programmes and encourage graduation from the programmes, conditionalities could also be imposed in order to be eligible for the benefits, such as for recipients to enroll in reskilling and upskilling training under active labour market policies (ALMPs) or school attendance requirements for their children.

23 More granularity is needed in BPR recipient categorisation. Under the current scheme, two households with monthly incomes of RM2,501 and RM3,999 would receive identical assistance, even though the extent of their vulnerability would be different.

24 For example, making the priority of benefits as a bridge to address the current gap in meeting minimum income and living standards. An outcome of this could be creating more tiers in the disbursement of social safety net policies to ensure the most vulnerable households receive the most support.

25 Setting school attendance for the children of beneficiaries as a conditionality has seen success in Brazil, which has this requirement in their conditional cash transfer programme, Bolsa Familia.
Social insurance: Inadequate pensions coverage and increasing fiscal burden of public pensions

Social insurance in Malaysia faces several challenges particularly in terms of sufficiency and sustainability. This is further compounded by Malaysia’s ageing population.26 Sufficiency of retirement income is a critical issue for private sector employees as Malaysia moves towards an ‘aged nation’ status27 with the old-age dependency ratio expected to increase to 16.6% by 2040 from 8.5% in 2015 (Chart 2).28 Based on a study conducted by EPF in 2018, two out of three active EPF contributors are projected to have insufficient retirement savings to meet a minimum pension of RM1,000 per month.29 Private retirement schemes, on the other hand, provide limited support in addressing this issue, since less than 3% of Malaysia’s workforce (aged 20-59) have a Private Retirement Scheme (PRS) account.30 Furthermore, the capacity of the B40 working population to withstand income shocks, such as permanent disability and the death of a breadwinner, is inadequate given the low private insurance penetration rate for this segment at 24.9%31 as at 2017. For employees in the public sector, there will be an issue of fiscal sustainability following rising liabilities from the defined-benefit pension scheme. As at 2019, the share of pension liabilities of the total Federal Government Operating Expenditure has increased to 9.8% from 6.5% in 2009.32

Chart 2: Old-age dependency ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>7.4</td>
</tr>
<tr>
<td>2015</td>
<td>8.5</td>
</tr>
<tr>
<td>2020</td>
<td>9.9</td>
</tr>
<tr>
<td>2025</td>
<td>11.7</td>
</tr>
<tr>
<td>2030</td>
<td>13.6</td>
</tr>
<tr>
<td>2035</td>
<td>15.2</td>
</tr>
<tr>
<td>2040</td>
<td>16.6</td>
</tr>
</tbody>
</table>

Note: Old-age dependency ratio is defined as the ratio of older dependents (people older than 64 years old) to the working-age population (people aged 15–64)

Source: Department of Statistics, Malaysia (DOSM) population projection, 2018

Social insurance: Lack of coverage for workers in the informal sector and the self-employed

In addition to sufficiency and sustainability, there is also inadequate coverage for workers in the informal sector and the self-employed (Diagram 6). The design of the current social security scheme provides protection only to employees who are within SOCSO’s database, consisting of those in the formal sector. This creates challenges in providing coverage to self-employed individuals. While SOCSO attempted to address this issue with the introduction of the SESS in 2017, the programme remains undersubscribed.33 Gaps in the social security ecosystem’s coverage also arises from the absence of an EIS-equivalent for workers in the informal sector and self-employed workers, as well as for underemployed workers.34

26 The definition of an ageing population is one where the share of people aged 65 and over is between 7% and 13% of the total population.
27 Share of people aged 65 and over is above 14% of the total population.
28 The pace at which Malaysia transitions from an ageing nation to an aged nation is also important. To illustrate, France experienced this transition over 115 years, while Malaysia is expected to experience this transition in 25 years.
29 This is based on EPF’s “Social Protection Insight” Volume 3 in 2018.
31 This figure is calculated as the percentage of B40 individuals who own an individual life insurance policy or family takaful certificate, after eliminating duplicates from multiple policies. The Bantuan Rakyat 1Malaysia (BR1M) recipient segment is used as a proxy for the B40 segment.
32 For example, in the case of Thailand, to promote transition to defined-contribution scheme for civil servants in 1997, the government automatically enrolls all new hires into a defined-contribution scheme but retained the lifetime pension scheme with a lower benefit.
33 In February 2020, at the onset of the first wave of the COVID-19 pandemic in Malaysia, an estimated 47,000 individuals (compared to the 2.7 million workers who are self-employed) registered for the SESS, of which 92% were from the passenger transport sector.
34 According to the ILO, underemployment refers to the underutilisation of the productive capacity of the employed population.
Social insurance should also place great emphasis in building resilience against economic and financial shocks. Priority could be accorded to expanding the coverage of social insurance schemes. However, due to the infancy of the social insurance system and the potential operational and implementation challenges, this expansion could be approached in a gradual manner (Diagram 7). In the immediate term, addressing the lack of retirement savings for employees in the private sector will be vital. Incentives such as Matching Defined Contribution (MDC)\(^3\) could be introduced to nudge interest towards private retirement schemes. For the public sector, a move towards a defined-contribution scheme for new hires needs to be prioritised given the burden posed by the prevailing system on the Government’s fiscal position. This would, however, present its own set of challenges, particularly in ensuring continued interest to pursue a career in the public service.

Active labour market policies (ALMPs): Fragmented policies resulting in low accessibility and training not meeting industry demand

In order to enhance labour mobility and reduce frictions in the job search and placement process, several impediments in the implementation and design of ALMPs need to be addressed. Similar to the problem faced by social safety nets, there is duplication and fragmentation,\(^3\) which has resulted in weak linkages

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\(^3\) For example, MDC incentives are used by governments to incentivise private retirement scheme contributions. The OECD has argued in favour of MDC as a tool to nudge workers in the informal sector to contribute to private retirement schemes in Latin America. Given Malaysia's relatively high number of informal sector workers, this could also be considered (OECD, 2010).

\(^4\) For example, technical vocational education are provided by three separate ministries namely the Ministry of Education, Ministry of Human Resources and Ministry of Youth and Sports.
between the upskilling and reskilling programmes offered by the Government with industry demand. There is also limited incentive to enroll in ALMPs which are not linked to other pillars of social protection. Planning, monitoring, and access to ALMPs could be improved by enforcing a periodic review of the policies, guided by long-term strategic national initiatives such as the upcoming 12th Malaysia Plan and the National Job Creation Strategic Plan. This is to ensure ALMPs in Malaysia would fulfill not just existing but also future skills demand by industries. The establishment of the National Employment Council (NEC) in 2020 is a step in the right direction in coordinating and harmonising labour-related policies, including to enhance implementation and management of ALMPs. Going forward, there remains a need to secure continuous and cohesive collaboration and enhance the synergy between key stakeholders (i.e. Government, industry, and course providers). Potentially, those in charge of ALMPs could work closely with TalentCorp to ensure that the outcomes of the Critical Occupations List (COL) guide the planning of course offerings. As synergies between stakeholders develop and course offerings improve in their quality and ability to cater to industry demand, eligibility for social safety net and social insurance programmes could be made conditional on meeting training and upskilling objectives. Social safety nets (e.g. cash handouts) could also act as income replacement and incentivise workers.

Diagram 8: Social protection reforms and enhancements

- **Pillar 1: Social Safety Nets (SSN)**
  1. Consolidation and rationalisation of SSN programmes
  2. Enhancing the targeting mechanism to increase progressivity
  3. Ensuring more complementarities with ALMPs

- **Pillar 2: Social Insurance (SI)**
  1. Incentives for contributions to private pensions
  2. Moving towards a defined-contribution (DC) scheme for new public sector hires
  3. Implementing a phased approach in addressing gaps in coverage

- **Pillar 3: Active Labour Market Policies (ALMPs)**
  1. Periodic review of ALMP implementation
  2. Boosting synergy between government, academia, and industry
  3. Training and upskilling conditionalities for SSN and SI programmes

Source: Bank Negara Malaysia

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37 HRDF stated in a report that their processes in identifying and analysing training needs remain weak.
38 The National Employment Council could subsume this role.
39 TalentCorp is an agency under the Ministry of Human Resources (MOHR) driving the agenda on developing and retaining Malaysia’s talent. The COL is an annual publication led by TalentCorp and the Institute of Labour Market Information and Analysis (ILMIA) to identify skills imbalances in the labour market and lay the foundation for broader human capital policy strategies.
40 Singapore’s Skills Framework (SfW), for example, collates pertinent information on careers and skills in various sectors from a multitude of stakeholders and publishes findings online. This information, which includes career pathways, specific job roles, existing and emerging skills, and available training programmes allows employees, employers, and course providers to make more informed decisions based on emerging skills.
41 Conditionalities for social safety net and social insurance programmes have been shown to increase enrollment in active labour market policies. However, research on the overall effectiveness of welfare conditionalities when considering its trade-offs is still inconclusive and is heavily dependent on policy design. In any case, its design must prioritise the efficient disbursement of support to the most vulnerable groups.
to attend courses, particularly those who are unable to take leave as they are paid daily wages. For these complementarities between social protection pillars to work, it is key to ensure the establishment of a one-stop website for registration, application, and eligibility checks for all social protection programmes. This would enhance the outreach of existing programmes and thus allow beneficiaries to also be aware of the potential complementarities.

Conclusion

The COVID-19 pandemic, which has seen unprecedented loss of incomes and heightened economic insecurity, has provided a litmus test for the effectiveness of the current social protection system. Immediate reforms to the social protection framework would not only enhance protection for the vulnerable but also strengthen the resiliency of Malaysia's economy. These reforms must be carried out in a holistic and coordinated manner to boost efficiency and effectiveness in the long-term. The design of social protection programmes should serve a counter-cyclical role by ensuring their quick and effective deployment during economic downturns. Ultimately, the programmes should reinforce economic security as a foundation for building a society that is socially cohesive, economically inclusive, and that promotes equitable opportunity for all.
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