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UNIVERSITI MALAYA

Pusat Penyelidikan Kesejahteraan Sosial
Social Wellbeing Research Centre
(SWRC)

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Policy Paper Series

PP2024/1

Creating Fiscal Space for Constructing Malaysia's Social Protection Floor

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CREATING FISCAL SPACE FOR CONSTRUCTING MALAYSIA'S SOCIAL PROTECTION FLOOR

Policy Paper 1: SWRC-UNICEF Policy Paper Series

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Norma Mansor

June 11, 2024

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STUDY HIGHLIGHTS

- Malaysia's rapidly ageing population necessitates substantial investment in young people to sustain future productivity and manage economic burdens. However, a significant number of children are affected by stunting and wasting, indicating insufficient investment in early childhood development. With this shortfall, Malaysia risks suffering long-term productivity losses and perpetual poverty cycles that may threaten future economic stability.
- Malaysia's non-contributory social assistance programmes have expanded significantly, resulting in a fragmented system involving numerous agencies. With over 61 programmes spread across more than 15 ministries and agencies, this complexity leads to significant exclusion errors and low adequacy.
- To address these issues, the study proposes the gradual introduction of a coherent **Social Protection Floor (SPF)** that follows the life cycle and the inherent vulnerabilities throughout, covering pregnant women, children, persons with disabilities, and senior citizens. This integrated framework aims to bridge coverage gaps and ensure a cohesive and equitable system that delivers tangible benefits to all segments of society.
- Introducing a SPF can cushion welfare losses resulting from subsidy rationalization: Implementing a well-designed cash assistance programme targeted at vulnerable life stages (childhood, old age, maternity, disability) through periodic disbursements can alleviate welfare repercussions from inflationary pressures.
- Constructing a SPF is financially feasible, with costs ranging from 0.683 percent of GDP initially to 0.939 percent upon full roll-out. Malaysia has ample fiscal space to fund the proposed SPF, which can be achieved through several measures:
  1. **Gradually reintroduce the GST/VAT, while establishing the SPF as a system of tax refund**: A phased reintroduction of the Goods and Services Tax (GST) or other similar value-added tax (VAT), coupled with a structured system of periodic tax refunds in the form of the proposed SPF, can mitigate welfare losses due to inflationary pressures and diminished budgets during vulnerable life-cycle stages. The combined impact of the VAT and cash assistance can serve as a progressive social policy tool.
  2. **Relocate allocations within existing social assistance programmes**: This can create fiscal space for the SPF by gradually introducing new benefits and broadening eligibility while discontinuing overlapping existing benefits.

1. INTRODUCTION

1.1. Study Objectives

The study aims to comprehensively analyse Malaysia's fiscal landscape, with a particular focus on identifying avenues to enhance fiscal space to support key social investments, specifically in child-sensitive social protection measures.[1]

Recognizing the pivotal role of the national budget in driving sustainable progress towards societal objectives, the study emphasizes the importance of government allocations towards critical public goods and services, such as education, healthcare and social protection, alongside investments in infrastructure. Additionally, it acknowledges that the Government's financing choices, whether through taxation, public debt or other means, significantly impact equity within society. Despite decades of improvement resulting in greater equality, recent years have seen an uptick in income inequality, signalling the need for policy measures that can reverse this trend.

In light of Malaysia's demographic challenges, particularly the rapid increase in the old-age dependency ratio, the study underscores the urgent need for investments in the younger population to bolster productivity and offset the welfare loss associated with increased old-age dependency. High rates of stunting and wasting among Malaysian children further highlight the necessity for child-sensitive social protection interventions.

Building on this understanding, the study seeks to analyse Malaysia's fiscal envelope to identify opportunities for creating fiscal space. This includes exploring strategies to increase allocations for key social investments, with a primary focus on constructing a child-sensitive social protection system that follows the life cycle and which can also support the achievement of a **social protection floor (SPF)** as defined in section 1.2. The investigation will draw on definitions and frameworks of child-sensitive SPFs, examine demographic changes and their implications, and highlight human capital arguments demonstrating the long-term benefits of investing in children. Additionally, it will cost a country-specific SPF for Malaysia, drawing on global evidence and best practices from countries that have implemented similar policies.

Furthermore, the study will identify various **fiscal strategies to expand fiscal space to fund the proposed SPF** without compromising Malaysia's long-term fiscal position. Two key approaches are considered: improved taxation policies, and the reprioritization of expenditures.

Ultimately, the study aims to contribute to ongoing policy debates and foster a comprehensive, inclusive dialogue that guides Malaysia towards an optimal policy mix for maximizing social welfare. Through evidence-based insights and recommendations, it seeks to prioritize equitable development and enhance societal welfare for all segments of Malaysian society.

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[1] Further details and analysis on other social protection measures such as old-age income security are available in a study by SWRC (Rabi, Mansor, Awang, & Kamarulzaman, 2019).

1.2. Child-Sensitive Social Protection Floors: Definitions and Framework

Social protection: The Social Protection Interagency Cooperation Board (SPIAC-B)[2] refers to social protection as "a set of policies and programmes aimed at preventing or protecting all people against poverty, vulnerability and social exclusion throughout their lifecycle, with a particular emphasis towards vulnerable groups" (SPIAC-B Secretariat, 2019).

Social protection floor (SPF): The International Labour Organization (ILO) defines social protection floors as "nationally defined sets of basic social security guarantees that should ensure, as a minimum that, over the life cycle, all in need have access to essential health care and to basic income security which together secure effective access to goods and services defined as necessary at the national level". The concept stems from the ILO Social Protection Floors Recommendation 2012 (No. 202)[3] and the Social Security (Minimum Standards) Convention, 1952 (No. 102).[4]

According to the ILO, country-defined social protection floors should comprise at least:

- access to essential health care, including maternity care;
- basic income security for children, providing access to nutrition, education, care and any other necessary goods and services;
- basic income security for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability;
- basic income security for older persons. (International Labour Organization, 2012)

The current paper does not expand on all four social security guarantees mentioned above, but rather focuses on basic income security for children, while also estimating and accounting for basic security for older persons and persons with disabilities.

A **life-cycle approach** to social protection is inherent in the SPF. It recognizes age-based vulnerabilities across the life cycle, bringing also to the forefront the transitions and changing risks that men and women (differently) face across the life cycle. Figure 1 depicts UNICEF's concept of social protection across the life cycle.

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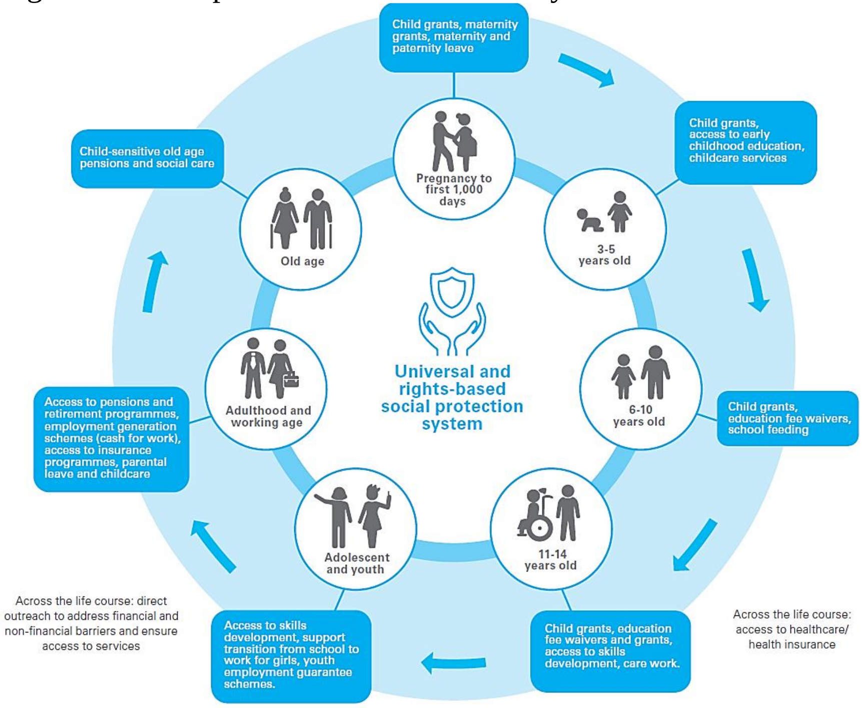
[2] SPIAC-B is composed of 25 intergovernmental agencies and 10 government bodies. Eleven civil society organizations act as observers. For more information see Social-protection.org

[3] https://normlex.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:3065524

[4] https://normlex.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_INSTRUMENT_ID:312247:NO

Figure 1: Social protection across the life cycle



Source: UNICEF (2019).

Social protection is considered instrumental in poverty eradication and as such, is one of the indicators that support achieving Sustainable Development Goal 1, No Poverty.

Moreover, social protection has been recognized as a child right. Article 26 of the Convention on the Rights of the Child states that:

1. States Parties shall recognize for every child the right to benefit from social security, including social insurance, and shall take the necessary measures to achieve the full realization of this right in accordance with their national law.

2. The benefits should, where appropriate, be granted, taking into account the resources and the circumstances of the child and persons having responsibility for the maintenance of the child, as well as any other consideration relevant to an application for benefits made by or on behalf of the child. (UN Human Rights, 1989)

Malaysia acceded to the CRC in 1995 and as such, is committed to upholding the rights of children. Article 4 of the CRC calls for States Parties to undertake necessary measures to implement the rights in the Convention “to the maximum extent of their national resources” (UN Human Rights, 1989).

Universal child benefits, also known as child grants, have been used across the world to provide effective social protection floors to children and can be seen as a foundational piece at the heart of a child-sensitive social protection national system. Child grants are paid regularly to parents or guardians of all children. They have been proven to effectively reduce absolute and regular poverty as well as child poverty; reduce disparities in social protection coverage; and generate positive returns on public investment through direct and indirect channels in both short and medium terms. Through these channels, universal child benefits or child grants allow the social protection system to unlock human capabilities that are needed for development and inclusive growth (UNICEF, 2019). The paper recognizes the principle of progressive realization of the right to social protection and as such, proposes an incremental expansion starting from the first 1,000 days of life (from pregnancy until the second birthday), with yearly expansion of eligibility (see next chapter). It also proposes a quasi-universal alternative that ensures inclusion of 80 percent of children, i.e. without including the richest 20 percent (discussed in the next chapter).

1.3.Providers of Social Protection in Malaysia

Malaysia boasts a diverse array of public social protection arrangements encompassing both contributory and non-contributory schemes. Noteworthy **contributory** formal social protection schemes include the Civil Service Pension Scheme (Kumpulan Wang Persaraan or KWAP), the Employees Provident Fund (EPF), the Social Security Organisation (Pertubuhan Keselamatan Sosial or PERKESO), and the Armed Forces Fund (Lembaga Tabung Angkatan Tentera or LTAT).

The focus of this paper, however, is on **non-contributory** social assistance programmes. While many of these are primarily overseen by the Ministry of Women, Family and Community Development (Kementerian Pembangunan Wanita, Keluarga dan Masyarakat or KPWKM), over the past decade there has been a notable expansion of social assistance programmes involving agencies not traditionally associated with social protection. For example, the Inland Revenue Board (Lembaga Hasil Dalam Negeri or LHDN) has assumed responsibility for administering the Sumbangan Tunai Rahmah (STR) programme. Consequently, fragmentation emerges as the predominant feature characterizing Malaysia’s social assistance landscape, with over 61 programmes spanning more than 15 ministries and agencies (Ministry of Finance, 2023a). Annex 1 provides a comprehensive list of these social assistance programmes, detailing their respective coverage and resource allocation.

Figure 2: Coverage of social protection across different groups and providers

	Family Benefit	Old-age	Survivor	Disability	Work Injury	Unemploy-ment	Sickness	Maternity	Healthcare
Civil Servants	MSI (KWAP)	MSI (KWAP)	MSI (KWAP)	MSI (KWAP)	MSI (KWAP)	–	MSI (KWAP)	MSI (KWAP)	PP
Private Employees	–	MSI (EPF)	MSI (PERKESO)	MSI (PERKESO)	MSI (PERKESO)	MSI (PERKESO)	MSI (PERKESO)	–	PP
Self-employed	–	VSI (EPF)	MSI (PERKESO)	MSI (PERKESO)	MSI (PERKESO)	–	MSI (PERKESO)	–	PP
Unpaid workers	–	–	–	–	–	–	–	–	PP
Economically inactive	–	–	–	–	–	–	–	–	PP
Various population groups	MT +IK								PP

MSI: Mandatory Social Insurance
VSI: Voluntary Social Insurance

MT: Means-tested Benefit
IK: In-kind

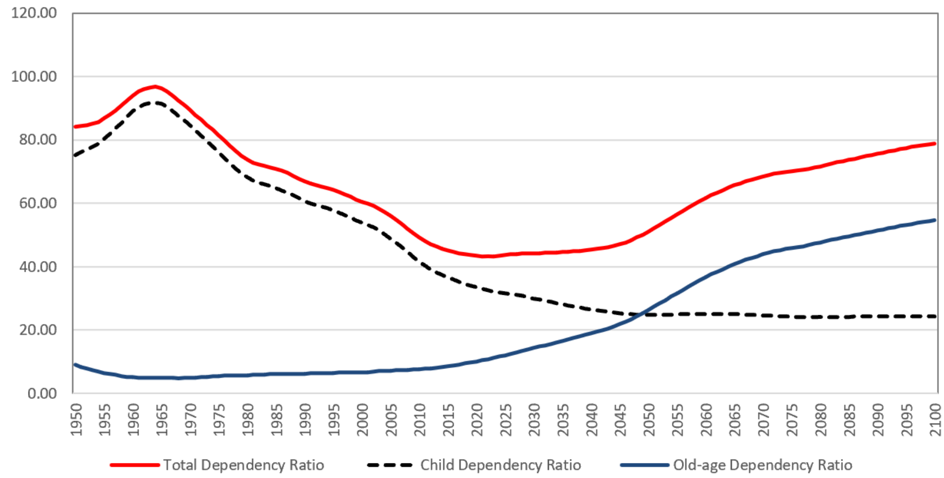
PP: Publicly Provided

2. WHY INVEST IN CHILDREN

2.1.Demographic Changes

Malaysia has seen significant changes in its population structure. One notable change is the rapid increase in the old-age dependency ratio (the ratio of elderly over-65-year-olds per working-age person). In 2049, for the first time in Malaysia, the old-age dependency ratio will exceed the young dependency ratio (the ratio of the pre-working population aged 0-14 per working-age person).

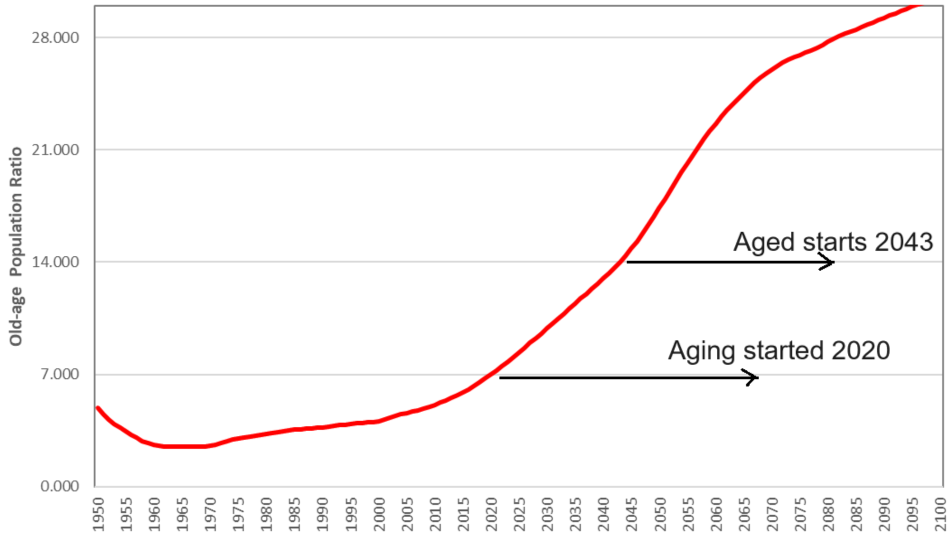
Figure 3: Number of dependents per 100 persons of working age (15-64), 1950-2100



Source: Calculation is based on data from United Nations (2022).

Malaysia's population has been ageing at a very rapid pace compared to other countries. The paper's calculation indicates that in 2020 Malaysia reached the threshold of an 'ageing nation', defined as when the post-working population (65+) constitutes 7 percent of the total population. By 2043, Malaysia will have reached the threshold of an 'aged nation', defined as when the post-working population (65+) constitutes 14 percent of the total population. In this rapid transition, young Malaysians will be facing an increased burden due to the demographic situation. It is therefore vital that they receive proper investment to reach their full potential.

Figure 4: Post-working age population as a percent of total population, 1950-2100



Source: Calculation is based on data from United Nations (2022).

2.2. Human Capital Arguments

The demographic dynamics in Malaysia emphasize productivity as the main driver for the long-term growth path towards convergence with high-income economies. To unleash productivity potential, investments in children are key. The period of greatest vulnerability in the survival and development of a child is from pre-birth to age 5, in particular the period from conception to the child's second birthday, also known as the first 1,000 days (UNICEF, 2011). Targeting this group injects income into the households' budget and supports reduction of vulnerability while investing in the most critical developmental phase.

More importantly, such investments have the potential to break the cycle of children becoming academically and economically disadvantaged later in life. Investing in a child's early years through a preventative approach reduces the risk of poverty and social exclusion in the long run. Research has shown that school-age children who had suffered from an episode of severe acute malnutrition in the first few years of life had poorer IQ levels, cognitive function, and school achievement, as well as greater behavioural problems compared to matched controls or siblings who were never malnourished (Prado & Dewey , 2012).

Latest statistics in Malaysia reveal that one in five children aged below 6 show evidence of stunting while 1 in 10 children aged below 6 show evidence of wasting (Institute of Public Health, 2022). From the economic growth perspective, the prevalence of stunting and wasting results in a significant loss in terms of productivity. In one estimate, undernutrition was found to reduce a nation's economic advancement by at least 8 percent because of direct productivity losses, losses via poorer cognition, and losses via reduced schooling (Black, et al., 2013a).

Children who live in income poverty are more likely to become poor adults who perpetuate the cycle of poverty. This is because of reduced life opportunities that then lead to greater risk of school dropout, child labour and child marriage (International Labour Organization and UNICEF, 2023). In addition to the personal damage at the individual level, unrealized human potential has long-term consequences at the national level. In an ageing society that needs well-prepared and productive adults, losing human potential due to child poverty poses a serious threat to economic growth and sustainability. Indeed, child development is a pre-condition for human development, and what we observe in children and child development today offers a glimpse of the state of human development in the future.

Evidence has shown that child-sensitive social protection contributes to income security in the household, which in turn leads to better health and education outcomes among children (International Labour Organization and UNICEF, 2023). It also boosts the earning potential and productivity of households, contributing towards the breaking of the intergenerational poverty trap. Better prepared children are more able to be more productive workers, in turn expanding the number of taxpayers, ultimately leading to increased sustainability of the social protection system. A child-sensitive social protection system has a long-term macroeconomic payoff as it supports higher growth. Thus, a universal child grant needs to be seen not as a short-term expenditure, but rather a long-term investment whose rewards will be tangible for generations.

2.3. Economic Vulnerability and Poverty

The main purpose of a social protection system is to reduce risk and vulnerability faced by individuals across their life cycle, and the benefits of a strong social protection system that ensures social protection floors across the life cycle are many. It helps families prepare for and be resilient to crises and shocks. It enhances human dignity and a sense of security that also promotes wellbeing. It also has a proven effect on reducing poverty. Economic vulnerability is a key driver of poverty. Households may experience a loss of income due to shocks such as sickness, climate-induced disruptions such as floods or loss of crops, and unemployment. These periods of reduced income can easily turn into monetary and multidimensional poverty, especially when no alternative sources of income are available. As stated in UNICEF's Global Social Protection Programme Framework: "…in line with the CRC, the protection of families and children against lack or loss of income as a result of shocks and removing financial barriers to access to services is at the heart of social protection" (UNICEF, 2019).

Income poverty can have significant negative impacts on children's lives. Poverty is associated with lower school attendance and learning, increased risk of child labour and child marriage, and overall decreased aspirations and opportunities for children (International Labour Organization and UNICEF, 2023). This leads to unrealized human potential, which affects families and societies in the immediate and long terms (National Academies of Sciences, Engineering, and Medicine, 2019) (Richardson, 2023).

Global evidence supports the use of universal cash benefits as a cost-effective way to reduce child poverty in absolute and relative terms. Currently, 47 countries and territories provide universal or quasi-universal cash benefits (International Labour Organization and UNICEF, 2022).

Extensive evidence shows that social protection reduces poverty and increases income security in households, with positive repercussions for child health, nutrition, education, food security and protection (International Labour Organization and UNICEF, 2019) (International Labour Organization and UNICEF, 2023). Social protection also provides households with economic security to boost their productivity and earning potential; lowers the risk of poverty persisting across generations; and protects children from child labour (International Labour Organization and UNICEF, 2022).

Simulations conducted for 14 middle-income countries show that a universal child benefit scheme costing 1 percent of a country's GDP would reduce poverty for the whole population of that country by as much as 20 percent, and that the reduction in child poverty would be equal to or greater than that level (ODI and UNICEF, 2020). Evidence further suggests reductions not only in poverty, but also in inequality as measured by the Gini coefficient (ODI and UNICEF, 2020) (International Labour Organization and UNICEF, 2023).

One noteworthy example of progressive expansion of coverage is from the Republic of South Korea. There, coverage initially limited to infants was then expanded every year as the initial cohort aged and retained eligibility. The age expansion has been ongoing since 2018 and was accompanied by the introduction of family-friendly policies and childcare services (also extended to workers in the informal economy); this has had the effect of strengthening the sustainability of the social protection system as a whole, as it supports formalization and increased tax contribution of workers (ODI and UNICEF, 2020).

Besides successful progressive implementation of universal coverage in high-income countries, latest global experience also demonstrates that more than 52 low- and middle- income countries are already implementing social security schemes that offer universal coverage for various life-cycle categories (Sibun, D., & Seglah, H., 2024). Drawing on many examples of gradual approaches to the implementation of a universal and inclusive system, this study will provide concrete and costed evidence that Malaysia can indeed afford to invest in a universal system of protection.

2.4. Child Poverty in Malaysia

Despite a large decline in poverty rates in Malaysia in the last decades, poverty, and child poverty in particular, remains a persistent challenge. Even prior to COVID-19, 5.6 percent of Malaysian households (405,400) were already living in absolute poverty, while the poverty rate among households with children was even higher at 8.4 percent (Zakaria, Hazli, Fazli Sabri, Satar, & Magli, 2023). Other official data confirmed that children were more likely than adults to live in poverty. In 2019, for example, out of the 405,400 households living in poverty, 335,000 households had children (Khalidi & Megat Muzafar, 2022) (Department of Statistics Malaysia, 2020).

As a result of the COVID-19 pandemic, the number of households living below the absolute poverty line in 2020 rose even further to 639,800, while the number of households living in extreme poverty tripled to 78,000 (Zakaria, Hazli, Fazli Sabri, Satar, & Magli, 2023). The number of non-citizen households living in poverty is unknown but is expected to be significantly higher than the corresponding number for Malaysian citizens.

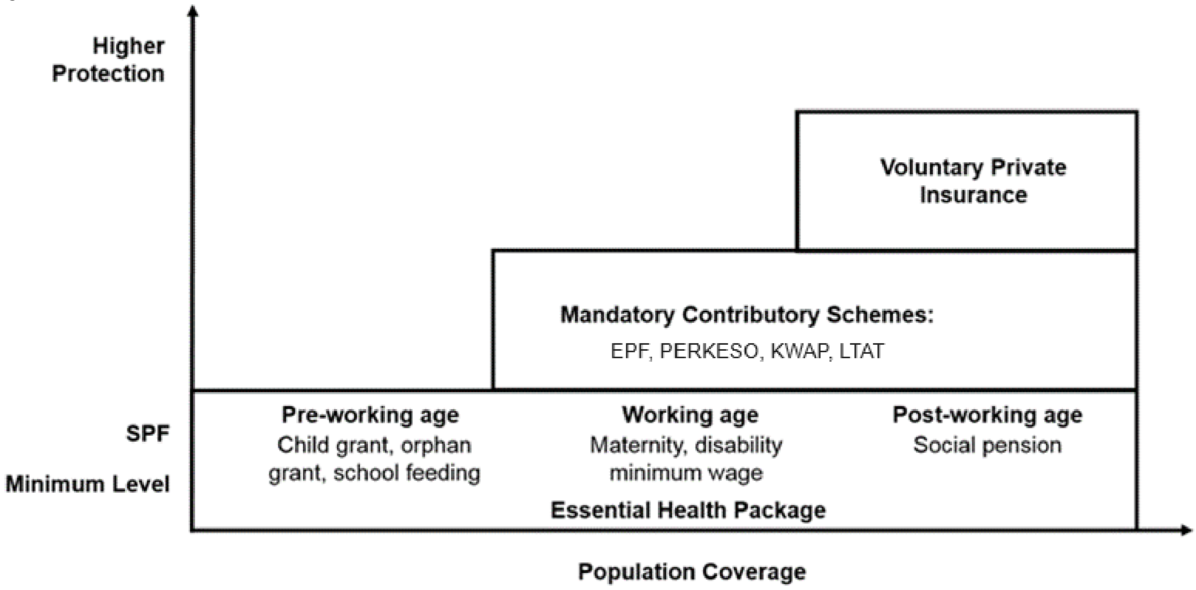
UNICEF's 2017 report *Children Without* highlighted the situation of children who live in low-cost flats, right in the heart of Kuala Lumpur. The study found that pockets of poverty remained, with children in these flats experiencing the effects of multi-dimensional poverty, from malnutrition to reduced access to education (UNICEF, 2018). Follow-up studies were subsequently carried out with these households, during the COVID-19 pandemic and most recently in 2023. The most recent findings show that while there have been improvements in the labour market earnings, the prevalence of poverty persists, and is exacerbated in female-headed households and households whose heads have a disability or where children have a disability (UNICEF, 2024).

Recent studies among households living in low-cost flats in Kuala Lumpur and Penang confirm the struggles these families face in meeting basic needs. The most recent data confirms that the increased cost of living is placing significant financial strain on families, many of whom have had to take drastic measures such as reducing the number of daily meals for their children from three meals to two (UNICEF, 2024). Evidence from households living in low-cost flats in Penang (UNICEF, Forthcoming) also show reduced food consumption in 2023, possibly stemming from financial stressors. Mental health has deteriorated, with reported levels of mental stress in 2023 surpassing those observed during the pandemic (UNICEF, 2024) (UNICEF, Forthcoming).

3. CONSOLIDATING THE SOCIAL ASSISTANCE PROGRAMME INTO A SOCIAL PROTECTION FLOOR

Strengthening Malaysia's social protection system demands a comprehensive approach that prioritizes the progressive realization of universality; furthers social solidarity and inclusion; and fosters synergies and coordination among diverse administrative frameworks to enhance efficiency and impact. The envisioned social protection floor (SPF) proposed in this study would stand as a cornerstone in achieving these objectives, seamlessly complementing existing contributory social protection programmes such as EPF, PERKESO, KWAP and LTAT. By consolidating and coordinating Malaysia's fragmented social protection landscape, this integrated framework not only bridges coverage gaps but also ensures a cohesive and equitable system that delivers tangible benefits to all segments of society.

Figure 5: Integrating a child-sensitive social protection floor with Malaysia’s social protection system



Source: Based on information from International Labour Organization (2012).

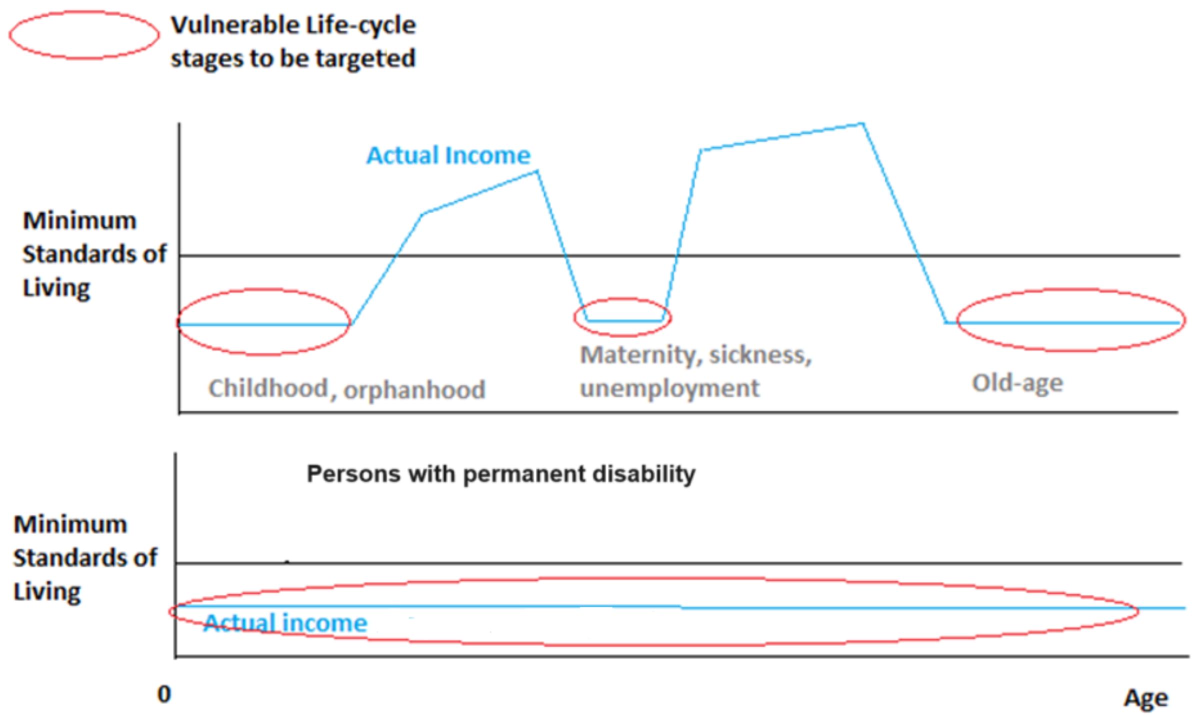
3.1. The Life-Cycle Approach to Consolidation and Targeting

Social assistance in Malaysia is highly fragmented across many small programmes (see Annex 1). The cumulative administration for these many social protection programmes suggests that there is significant benefit to be derived if efficiencies of scale can be achieved. A sufficiently large scheme, as is the case with a SPF, would “typically exhibit a relatively lower administration cost percentage as compared to a smaller scheme” (Ortiz, Durán-Valverde, Pal, Behrendt, & Acuña-Ulate, 2017). These efficiency gains can then be used to improve coverage, both in terms of number of people covered as well as in terms of adequacy of payments.

In addition, complex fragmented social assistance programmes in Malaysia covering multiple contingencies make it particularly difficult for beneficiaries to learn about and qualify for such programmes and the benefits to which they are entitled. Therefore, consolidating these programmes is necessary for Malaysia.

The SPF initiative identifies sources of vulnerability and exclusion related to life-cycle changes and proposes to address them using the form of cash transfer as the basis for intervention. The following figure shows how changes in individuals' and households' life cycles (moving from one life cycle to another) influence vulnerability. The graph will likely also look different for men and women, especially after the birth of the first child. Evidence on the 'child penalty' across the world confirms that women are more likely to fall out of the labour force after the birth of the first child and not come back to the labour force (Kleven, Landais, & Egholt Søgaard, 2019). This would further extend the period with no/lower income for women compared to men. Further research is needed to unearth the 'child penalty' for Malaysia.

Figure 6: Moving from one life-cycle stage to another influences vulnerability



For example, a young couple expecting their first child will face a sudden increase in expenditure not matched by an income increase. The Universiti Malaya reference budget for a household of two to live a decent life is estimated at RM4,630 a month. When the couple has the first child, the reference budget increases to RM5,980 a month (Social Wellbeing Research Centre, 2023). The increase in expenditure required for this new life stage is, in many cases, coupled with a possible loss of income of a working mother due to pregnancy and/or childcare work. This situation can put the entire household into a new, more vulnerable life cycle, as shown in Figure 6, indicated by the first vulnerability circle.

Crucially, the period of greatest vulnerability for the survival and development of a child is from conception to age 5, especially the period covering pregnancy and the child's first two years (UNICEF, 2011). Similarly, old-age protection is a major concern in Malaysia. As citizens get older, vulnerability increases significantly. Data from the Department of Statistics Malaysia (DOSM) shows that relative poverty among senior citizens is the highest and stands at 42.0 percent – 2.5 times higher than the national average of 16.6 percent (Department of Statistics Malaysia, 2023a). Disability and orphanhood are also associated with vulnerability.

Against this background, refocusing social protection interventions to target key stages of the life cycle – thereby ensuring that vulnerability in one life-cycle stage is not transmitted to the next – offers an appropriate framework for consolidating the many social assistance programmes currently operating in Malaysia. This refocus is aimed at addressing the roots of vulnerability and ensuring that individual instruments complement one another (as well as complement existing contributory schemes as shown in Figure 5) to achieve comprehensive coverage and complementary cumulative benefits that promote equitable growth and reduce social exclusion.

3.2. Targeting

While life-cycle approaches ostensibly cover all individuals in a category (e.g., all children within a specific age bracket), a form of targeting is implicitly built in:

1- <u>Categorical targeting</u>: The life-cycle approach recognizes that deprivation and vulnerability are associated with certain stages of the life cycle, e.g. childhood, maternity, and old age. As deprivation is correlated with the proposed categories, categorical targeting increases benefits based on household characteristics regardless of household income.

2- With the inclusion of financing mechanisms such as taxation (discussed later), <u>the overall impact (of transfer and tax (or fuel subsidy removal) combined) is a net transfer</u> from rich households to poor households.

If for political reasons it is thought preferable to limit benefits only to B40 and M40 groups, the study recommends the creation of a wealth threshold (for instance, households that own three properties or more) and the exclusion of those above the threshold. In other words, **instead of targeting the poor (for whom income information is limited or absent), a programme might exclude the rich (who are more visible in existing administrative data).** This approach has been used by several countries, including Australia, New Zealand, and the UK, among others (International Labour Organization and UNICEF, 2024).

The proposed shift, from the narrow poverty targeting currently used in Malaysia to life-cycle identification, will achieve the following key objectives:

1- Reduce exclusion errors associated with poverty targeting: Available data shows that the Sumbangan Tunai Rahmah (STR) programme has suffered from large exclusion errors (many deserving citizens did not receive benefits).[5]

Evidence from families in low-cost flats in Kuala Lumpur shows that one in three households living in extreme poverty (household income below RM2,000 per month) do not receive STR (UNICEF, 2024), when STR achieved a wide coverage of above 70 percent of the population (see Figure 28). In fact, the study also points to inclusion errors, when non-eligible households receive the benefits. Interestingly, however, UNICEF's *Living on the Edge* study shows that even households who are not eligible for, but receive STR, claim to not have enough income to cover basic costs. This further underscores the need to cover at least 80 percent of the population, who are all exposed to vulnerabilities and risks.

2- Administrative simplicity and efficiency: The simplicity of the categorical targeting proposed reduces the administrative burden currently placed on many agencies to verify documents and assess complex eligibility criteria. Categorically targeted programmes have little need for periodic reappraisal of eligibility, whereas poverty-targeted programmes require periodic retargeting to assess ongoing eligibility, which implies more costs and complexity from an administrative perspective.[6] Complexity, like costs, adversely affects coverage. Many vulnerable people are less educated or informed, and therefore more likely to be excluded from a programme for failing to comply with the requirements of complex eligibility-determination or qualification processes (generally associated with means-tested targeted programmes).[7] Additionally, as poverty is dynamic, households that are right above the threshold can easily fall below the threshold after experiencing a shock such as sickness or the death of a family member, unemployment, etc. Capturing them into the system will take time, with such delays further hampering households' capacity to recover. Furthermore, fragmentation of the many different social protection programmes in Malaysia covering multiple contingencies makes it very difficult for beneficiaries to know which benefits they are entitled to, resulting in further exclusion of those in need. Meanwhile, those with better access to information or who are better connected may benefit from many programmes, including those they are ineligible for, thereby contributing to inclusion errors.

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[5] This is not unique to Malaysia as evidence shows that poverty targeting carries very significant exclusion error risks. For instance, Mexico's Oportunidades excluded 70 percent of the poorest 20 percent of eligible households while Brazil's Bolsa Família had an exclusion error of 59 percent (Fiszbein, Schady, & Ferreira, 2009). Exclusion and inclusion errors in Bangladesh, Indonesia, Rwanda and Sri Lanka ranged between 44-55 percent when 20 percent of the population was covered, and between 57-71 percent when 10 percent was covered (Kidd & Wylde, 2011). In China's Minimum Livelihood Guarantee Scheme (also known as Diabo), cities using more targeting were less likely to reduce poverty (Ravallion, 2007).

6 An ILO review concluded that the universal schemes reviewed had the lowest average administration costs at 2.5 percent of total programme costs, whereas targeted programmes averaged administration costs of 11 percent (Ortiz, Durán-Valverde, Pal, Behrendt, & Acuña-Ulate, 2017).

7 This partly explains the high exclusion 'error' among the poor as in the case of urban poor not receiving STR, as discussed in the preceding paragraph.

3- Dignity, solidarity, and social cohesion: Programmes intended exclusively for the poor tend to be stigmatizing. Studies have found that the screening processes involved in determining eligibility to means-tested, or proxy means-tested benefits tend to be stigmatizing.[8] The social 'othering' that occurs through poverty targeting generates a strong 'in' and 'out' group dichotomy, especially in contexts where notions of 'deserving' and 'undeserving' poor prevail (Roelen, 2017). In contrast, categorical targeting removes screening procedures to determine eligibility (who is 'in' and who is 'out'). It further contributes to a sense of community as all in the group benefit from such inclusive programmes. It removes the risk of deserving low-income families excluding themselves from entitlements due to the shame of being 'on benefits'. Further, the broad-based consensus is that universal approaches help create social cohesion and a sense of citizenship and belonging. A life-cycle approach sends a clear message from the state that all citizens have a stake in society.

3.3. SPF Benefit Design and Cost[9]

Benefits, benefit amount, eligibility

For the life-cycle stages discussed earlier (see Figure 6), the following proposed Social Protection Floor can be introduced to replace the fragmented social assistance programmes currently existing in Malaysia.

Table 1: Income security under the proposed Social Protection Floor (SPF)

Benefit	Monthly amount	Eligibility	Implementation date	Complementarities
First 1,000 Days Benefit (per child)	RM200	Pregnant women and children up to 2 years of age	Starts 2025	• Complete Antenatal Care/Postnatal Care • Breastfeeding support and Growth Monitoring • Parenting including nutrition

[8] In India, Thozilurappu Paddhathi (the 'work guarantee scheme' or National Rural Employment Guarantee Act – NREGA) is often referred to as Thozhiluzhappu Paddhathi, the 'lazy work scheme' (Walker, 2014). Another study found that "stigma or stigmatization is an important mechanism through which shame is induced" (Roelen, 2017).
[9] Projections and calculations in this section are based on a costing model applied under a set of assumptions and using data inputs from various sources. A more technical description of the model is in Annex 3.

Child Benefit (per child)	RM150	All children 2-17	Phased roll-out starting 2026 with children who were receiving the First Thousand Days Benefit subsequently being switched to Child Benefit, with eligibility retained until they turn 17. In 2041, the roll-out will be completed.	• Parenting including nutrition • Sexual and Reproductive Health for adolescents • Encouragement to enroll in pre-school
Disability Allowance	RM150 for children under 18 (U18) RM300 for adults	Additional allowance for all persons with a disability not receiving old-age pension	Starts 2025	• Early detection and intervention for ages 0-5
Old-age Pension	RM300	All persons above 65	Starts 2025	

Over the projection period, benefits are assumed to maintain real value in RM (indexed with inflation). However, as the economy is expected to grow in real terms, the benefit level will decline in relative value over the projection period (see Annex 3). At a later stage, a periodic review of the real value of the benefit can be introduced to ensure coherence and relevance.

While the above benefit amounts are **low in value as a stand-alone benefit, they are meant to complement one another** and to provide the first level of income security for the household as a unit, as explained in the SPF in Figure 5. This also **does not undermine the incentive to improve** protection arrangements provided by EPF, PERKESO, and other savings/insurance arrangements.

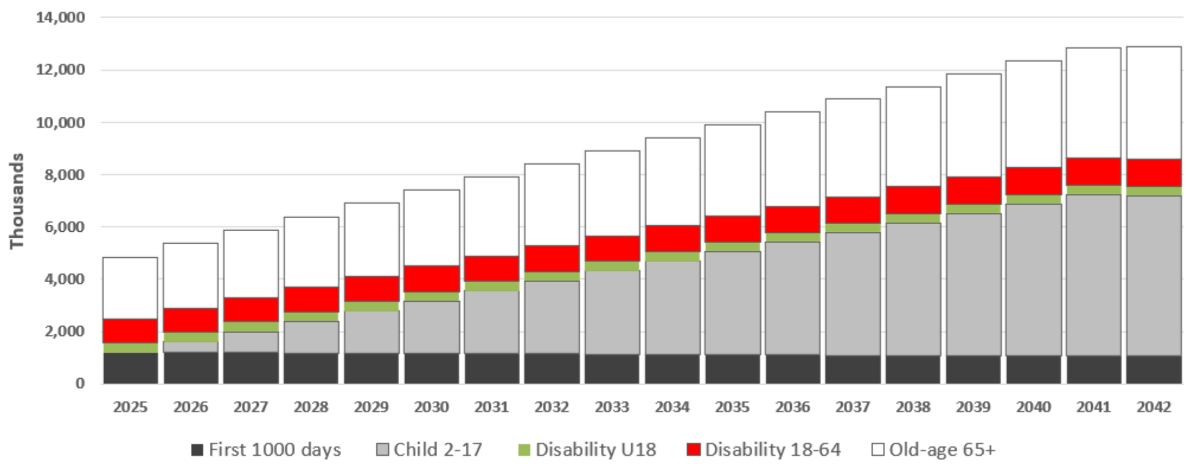
Benefits recipients

Applying the above criteria on the study population projection disaggregated by single age and single year, the SPF's projected recipients are listed in the table below:

Table 2: Number of beneficiaries of the proposed SPF in thousands, 2025-2042

	2025	2026	2027	2032	2037	2042
Beneficiaries, 000	**4,845**	**5,360**	**5,874**	**8,420**	**10,886**	**12,913**
First 1000 days	1,207	1,202	1,196	1,155	1,101	1,071
Child 2-17	0.0	404.0	806.6	2,789.4	4,699.6	6,128.3
Disability U18	368.8	368.4	368.6	364.8	353.7	342.1
Disability 18-64	924.0	932.0	939.6	977.8	1,010.0	1,031.5
Old-age 65+	2,345.4	2,453.4	2,562.7	3,133.1	3,722.6	4,339.5

Figure 7: Number of beneficiaries of the proposed SPF in thousands, 2025-2042



Source: Calculation is based on data from United Nations (2022).

Overall cost

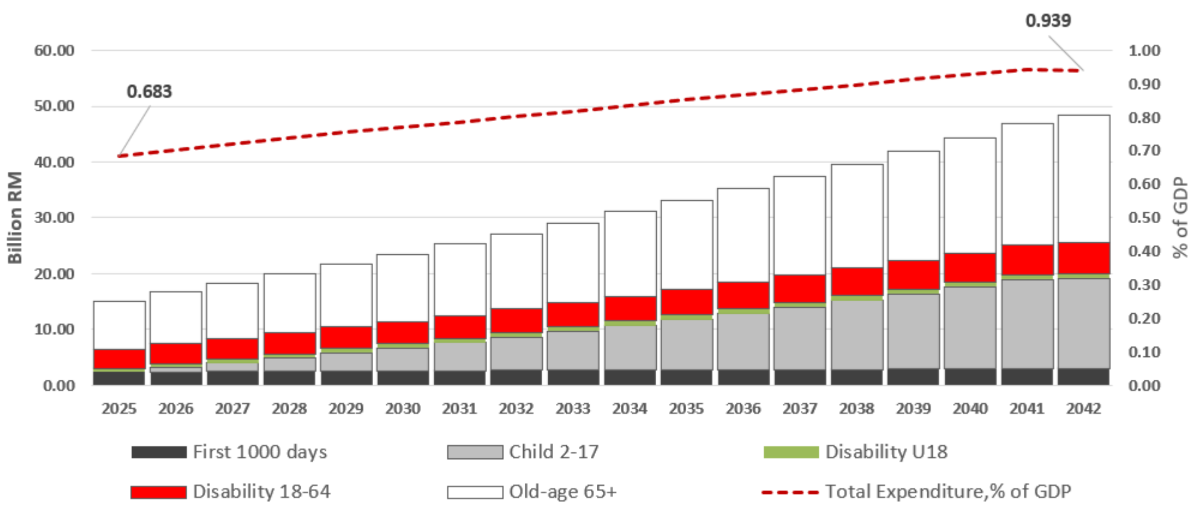
The total benefit amount for each benefit is calculated as the product of the beneficiaries and the benefit amount for each year in the projection period. For the calculations of the First 1,000 Days Benefit and Child Benefit, we assume 80 percent coverage. In line with evidence from international experience,[10] administrative cost is assumed at 2.5 percent of the benefit amount. The following table summarizes the cost of each programme expressed in RM and percentage of GDP.

[10] See Footnote 6. According to an ILO review across many countries, administration costs for universal schemes averaged 2.5 percent of total programme costs.

Table 3: Projected overall cost in RM billion and as a share of GDP, 2025-2042

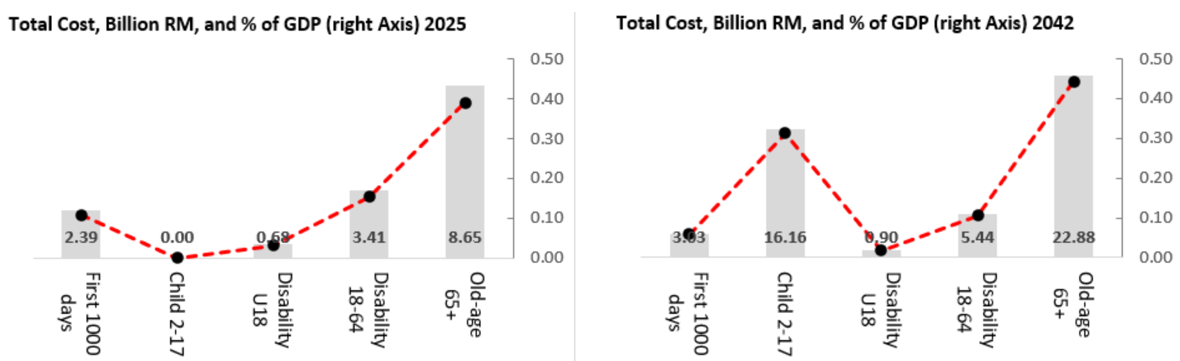
	2025	2026	2027	2032	2037	2042
Total Expenditure, Billion RM	**15.138**	**16.715**	**18.342**	**27.162**	**37.407**	**48.420**
First 1000 days	2.39	2.44	2.49	2.67	2.82	3.03
Child 2-17	0.00	0.76	1.56	6.00	11.20	16.16
Disability U18	0.68	0.70	0.71	0.79	0.84	0.90
Disability 18-64	3.41	3.53	3.64	4.21	4.81	5.44
Old-age 65+	8.65	9.28	9.93	13.49	17.74	22.88
Total Expenditure,% of GDP	**0.683**	**0.703**	**0.721**	**0.802**	**0.883**	**0.939**
First 1000 days	0.11	0.10	0.10	0.08	0.07	0.06
Child 2-17	0.00	0.03	0.06	0.18	0.26	0.31
Disability U18	0.03	0.03	0.03	0.02	0.02	0.02
Disability 18-64	0.15	0.15	0.14	0.12	0.11	0.11
Old-age 65+	0.39	0.39	0.39	0.40	0.42	0.44

Figure 8: Projected overall cost in RM billion and as a share of GDP (right axis), 2025 - 2042



Source: Calculation is based on data from United Nations (2022) and International Monetary Fund (2023).

Figure 9: Projected overall cost in RM billion and as a share of GDP (right axis), first year of introduction 2025 (left graph) and when the roll-out is completed 2042 (right graph)



Source: Calculation is based on data from United Nations (2022) and International Monetary Fund (2023).

Table 3 shows the **affordability of the proposed SPF. It is important to link this cost with the savings from fuel subsidy reform and from redirecting some of the small and fragmented programmes discussed later, which can be streamlined into the proposed schemes.**

3.4. Complementary Interventions

While cash transfers are an effective policy instrument to tackle child poverty, they might not be enough to achieve impacts in other dimensions. Integrated programming presents an opportunity to augment the impacts of cash transfer programmes and deliver sustainable shifts in underlying norms and behaviours that prevent access and utilization of services. Based on the premise that poverty/vulnerability is broader than a deficit in income or consumption, integrated approaches also respond to deficits in productive assets and human capital. Furthermore, evidence has shown that conditional cash transfers are no more effective than unconditional transfers in achieving complementary impacts on nutrition or child wellbeing, and in certain contexts can even hurt the most marginalized (UNICEF, 2016).

Child nutrition is a key component of child development. Cash plus models across the world have paired cash transfers with nutrition to enhance the impact on nutrition-related outcomes. Malaysia faces a double nutrition challenge, undernutrition and overnutrition. Both are largely preventable and have significant impact on human development and consequently, economic growth: malnutrition, including micro- and macronutrient deficiencies, increases the likelihood of illness, impairs cognitive and motor development, and affects children's educational performance and, ultimately, adult productivity (UNICEF and NTAG, 2012). Malnutrition is associated with a higher chance of premature death and disability in adulthood, through cardiovascular diseases, diabetes, and cancer (International Food Policy Research Institute, 2014). Evidence shows that social protection and cash transfer programmes have sizeable impacts on nutrition outcomes.[11] Even programmes not targeting children have shown considerable impact.[12]

The proposed SPF will create a floor protecting families with children at critical stages (pregnancy, infancy, and pre-school) as described in Figure 5. Further, recognizing the role of schools as incubators of positive behavioural changes and good citizenship values among children, the study recommends strengthening school feeding programmes, accompanied by behavioural change education/messages, which can lead to sustained impact.

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[11] Just to name a few: the Red de Protección cash transfer programme reduced stunting among children aged 6-59 months by 5.3 percentage points, with stronger impacts among poorer families. Moreover, during the coffee price shock, beneficiaries of this programme were able to maintain or modestly increase per capita food consumption, while in other comparable households per capita consumption declined sharply (Ortiz, Fajth, Yablonski, & Rabi, 2010). Other evidence documented in Mexico, Malawi and Colombia show that social protection programmes have led to reductions in stunting (Ortiz, Fajth, Yablonski, & Rabi, 2010).

[12] In South Africa, for instance, children in households receiving pensions experience on average 5 cm greater growth than those in households without pensions – the equivalent of approximately half a year's growth for Black and Coloured children (Ortiz, Fajth, Yablonski, & Rabi, 2010).

There are currently a good number of existing programmes that can complement SPF cash transfers at critical stages of child development. Two of these programmes are of critical importance: the Supplementary Food Programme (Rancangan Makanan Tambahan or RMT) and the School Milk Programme. These programmes mainly aim to provide supplementary food to primary-school students, especially in rural areas and low-income groups, to improve health and nutrition. They have a long history dating back to the 1970s in line with the Malaysian Education Development Plan (Pelan Pembangunan Pendidikan Malaysia or PPPM) during the post-colonial period (Arop, 2000). However, Budget 2019 announced a cut in the RMT by RM10 million, budgeted at RM289 million for 2019 (Ministry of Finance, 2018). Similarly, the School Milk Programme has faced recent challenges, including delays in implementation. Strengthening these two programmes can be instrumental in reversing alarming nutrition trends as well as complementing other educational initiatives to improve learning experience for children.

An option for strengthening these two programmes is to merge them into the provision of a healthy breakfast. Evidence suggests that where the provision of school meals with good nutrition standards is concerned, the most effective intervention is the provision of a healthy breakfast to students in the morning before school (UNICEF, 2015). The provision of a school breakfast addresses short-term hunger among students and can improve concentration, school participation and attendance. School breakfast programmes are useful educational interventions that also positively impact student behaviour by introducing good practices for eating breakfast and ensuring that breakfast provides adequate micro- and macronutrients. The provision of breakfast at school can also contribute to obesity prevention; school-age children and adolescents who consume breakfast are less likely to be overweight than those who skip breakfast but snack throughout the day.

3.5. Disbursements of Cash Transfer

As a consequence of the fragmented social protection arrangements in Malaysia, diverse and fragmented information management systems across many agencies have proliferated in order to meet the specific needs of each programme. Running these parallel systems is costly and does not necessarily produce better data topography. The Government has initiated an effort to consolidate the different databases. We recommend the use of MyKad, Malaysia's national ID card, as the basis for unification across all programmes including social assistance. MyKad's built-in chip can store and retrieve programme-specific data as well as link it to other biometric data already stored. Given the simplified needs of the SPF discussed earlier, MyKad provides the age information necessary to identify beneficiaries and their dependents. Further, special eligibility criteria such as disability and orphancy, or service complementarity such as antenatal/postnatal care and childcare, can be easily added.

Another key advantage is its functionality as a payment method (Touch 'n Go), which can facilitate disbursement of benefits without the need to open a bank account. Such simplicity will enable low-income groups to avoid banking fees, as well as ensure the programme is able to fully reach rural communities.

4. OPTIONS TO FINANCE PROPOSED MEASURES

The study underscores the pivotal role of the national budget as a cornerstone for fostering sustainable progress in advancing societal objectives. Government allocations towards vital public goods and services such as education, healthcare and social protection, alongside investments in infrastructure, serve as fundamental prerequisites for fostering and perpetuating advancements in human development. Moreover, the financing choices made by the Government, whether through taxation, public debt, or other means, bear significant implications for equity.

Fiscal space, as defined by Heller (2005), represents “the room in the government’s budget that allows it to provide resources for a desired purpose without jeopardising the sustainability of its financial position or the stability of the economy.” Various avenues exist for policymakers to create fiscal space for driving economic and social development, with primary emphasis in this study placed on two key sources: **enhancing taxation mechanisms** and **reorienting expenditure priorities**. Additional strategies can be employed in the short term to facilitate a smooth transition and enhance policy coherence between monetary and fiscal policies. This may involve adopting a more accommodating macroeconomic framework, allowing for a degree of tolerance towards inflation.

Before investigating each of the two options, the national budget including the overall accumulated debt for the past two years as well as the 2024 Budget are presented below in current currency and as a percent of GDP.

Table 4: National budget in RM million and as a percent of GDP, 2022-2024[13]

	Million RM			Percent of GDP		
	2022	2023	2024	2022	2023	2024
Total Revenue	**294,357**	**303,200**	**307,600**	**16.43**	**15.88**	**14.93**
Tax revenue	**208,765**	**229,020**	**243,620**	**11.65**	**12.00**	**11.83**
Direct tax	153,476	173,020	185,000	8.57	9.06	8.98
Indirect tax	55,289	56,000	58,620	3.09	2.93	2.85
Non-tax revenue	**85,592**	**74,180**	**63,980**	**4.78**	**3.89**	**3.11**
Total Expenditure	**364,267**	**397,140**	**393,800**	**20.33**	**20.81**	**19.12**
Current expenditure	**292,693**	**300,140**	**303,800**	**16.34**	**15.72**	**14.75**
Emoluments	87,789	91,273	95,641	4.90	4.78	4.64
Pension and gratuities	31,397	32,079	32,446	1.75	1.68	1.57
Debt service	41,269	46,100	49,800	2.30	2.42	2.42
Goods and services	34,692	33,984	38,002	1.94	1.78	1.84
Subsidies and social assistance	67,358	64,228	52,757	3.76	3.36	2.56
Asset acquisition	767	911	1,704	0.04	0.05	0.08
Grants to states	22,136	23,346	24,392	1.24	1.22	1.18
Others	7,285	8,219	9,058	0.41	0.43	0.44
Development expenditure	**71,574**	**97,000**	**90,000**	**4.00**	**5.08**	**4.37**
Budget Deficit (Surplus)	**69,910**	**93,940**	**86,200**	**3.90**	**4.92**	**4.18**
Overall Debt	**1,079,600**	**1,174,700**	**1,261,800**	**60.27**	**61.54**	**61.25**

Source: Based on data from Ministry of Finance (2023b). GDP data from International Monetary Fund (2023).

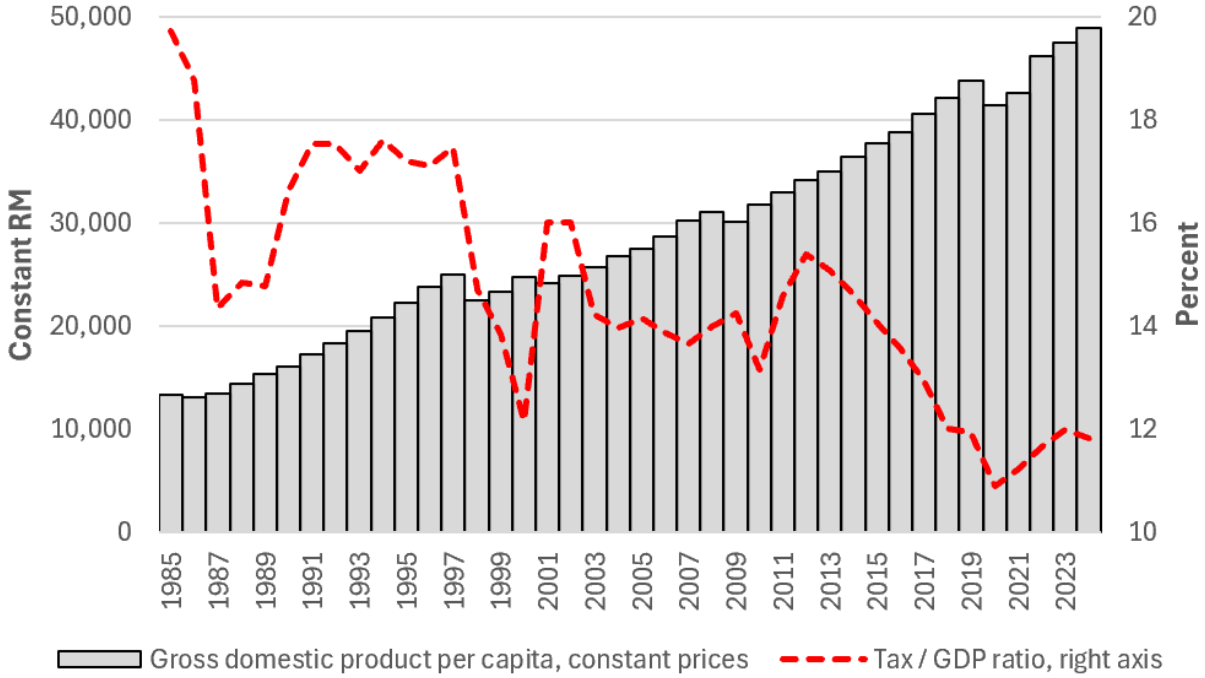
4.1. Improved Taxation

Taxation serves as the cornerstone of modern societies, providing governments with essential revenue to fund public services and investments. Beyond its fiscal role, taxation promotes equity by redistributing wealth, mobilizes domestic resources for development, and fosters human capital through investments in education and healthcare.

The potential of a country's taxation system is influenced by various factors, including the level of per capita real income, degree of income inequality, industrial structure of the economy, social and political context, and administrative competence of tax-gathering branches of government. As countries progress along these factors, the tax-GDP ratio tends to increase. Malaysia, however, has been moving in the opposite direction with tax revenue collection weakening over time, falling to less than 12 percent of GDP in 2023 from 20 percent of GDP four decades ago (Ministry of Economy, 2024) (International Monetary Fund, 2023).

[13] The budget figures are actual for fiscal year 2022, estimated for fiscal year 2023, and budgeted for fiscal year 2024.

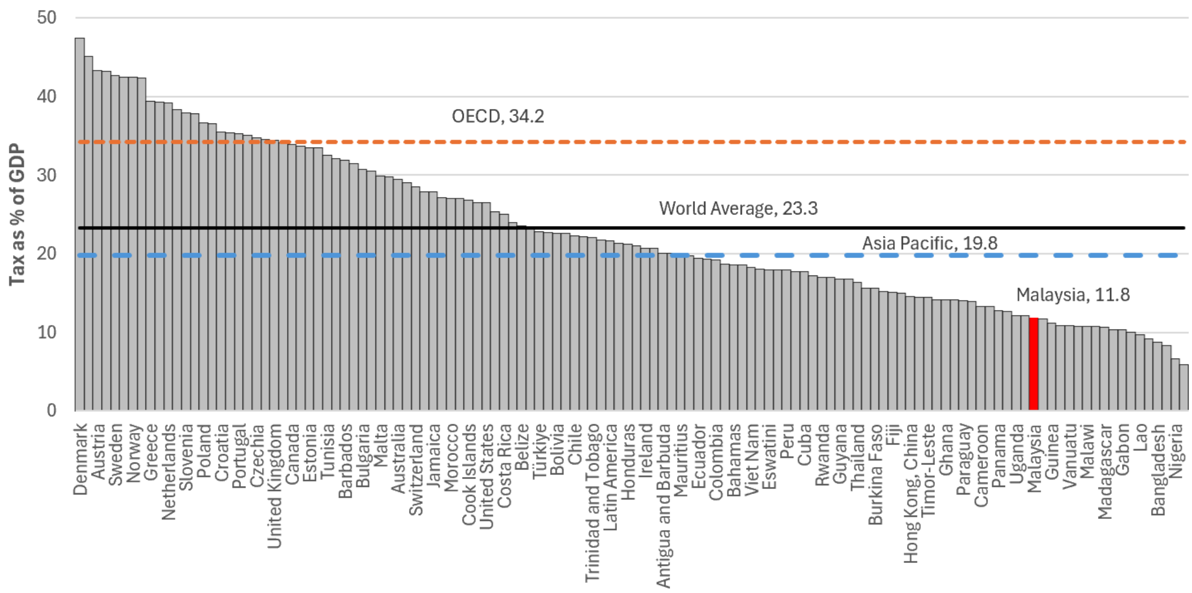
Figure 10: GDP per capita in constant prices[14] and tax-to-GDP ratio (right axis), 1985-2025



Source: Based on data from Ministry of Finance (2023b). GDP data from International Monetary Fund (2023).

Unsurprisingly, Malaysia's tax-to-GDP ratio significantly lags behind countries of similar developmental status. In fact, Malaysia's ratio is nearly one third of the average OECD ratio (34.2 percent) and even falls below the average ratio observed in African countries (15.57 percent) (Organisation for Economic Co-operation and Development, 2023).

Figure.11: Tax-to-GDP ratio, 2021



Source: Based on data from Organisation for Economic Co-operation and Development (2023).

[14] Base year is 2015.

Hence, Malaysia possesses significant potential to enhance tax revenue by capitalizing on its economic growth, diverse industries, and strengthened administrative capabilities. A detailed examination of the tax revenue composition offers valuable insights into potential avenues for expanding fiscal capacity through taxation.

Table 5: Taxes in RM million and as a percent of GDP, 2022-2024[15]

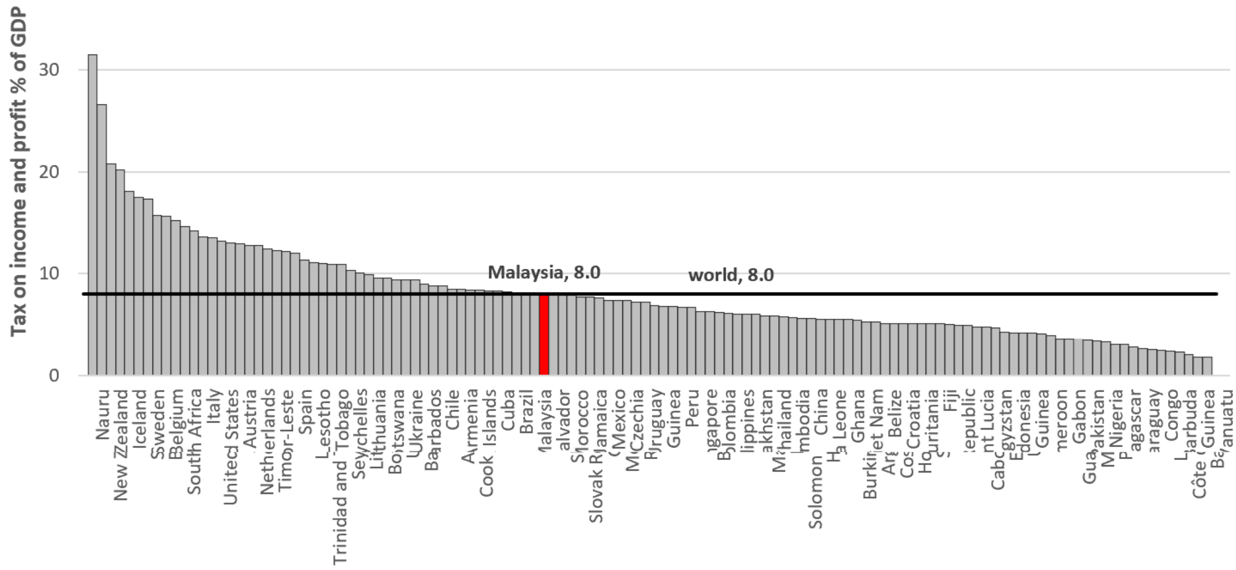
	Million RM			Percent of GDP		
	2022	**2023**	**2024**	**2022**	**2023**	**2024**
Total Taxes	**208,765**	**229,020**	**243,620**	**11.65**	**12.00**	**11.83**
Direct tax	**153,476**	**173,020**	**185,000**	**8.57**	**9.06**	**8.98**
Companies Income Tax	82,133	98,435	106,420	4.58	5.16	5.17
Individuals Income Tax	33,776	39,725	42,460	1.89	2.08	2.06
Petroleum Income Tax	23,421	20,520	21,750	1.31	1.07	1.06
Others	10,199	10,360	10,315	0.57	0.54	0.50
Withholding and others	3,947	3,980	4,055	0.22	0.21	0.20
Indirect Tax	**55,289**	**56,000**	**58,620**	**3.09**	**2.93**	**2.85**
Export Duties	2,622	1,800	1,900	0.15	0.09	0.09
Import Duties	3,192	3,038	3,200	0.18	0.16	0.16
Excise Duties	12,556	13,100	13,600	0.70	0.69	0.66
Sales Tax	16,256	17,600	18,300	0.91	0.92	0.89
Service Tax	15,112	16,600	17,500	0.84	0.87	0.85
Others	5,551	3,862	4,120	0.31	0.20	0.20

Source: Based on data from Ministry of Finance (2023b). GDP data from International Monetary Fund (2023).

Upon closer examination, it becomes evident that Malaysia's ratio of direct taxes to GDP is in line with the global average, standing at 8.0 percent of GDP (Organisation for Economic Co-operation and Development, 2023).

[15] The budget figures are actual for fiscal year 2022, estimated for fiscal year 2023, and budgeted for fiscal year 2024.

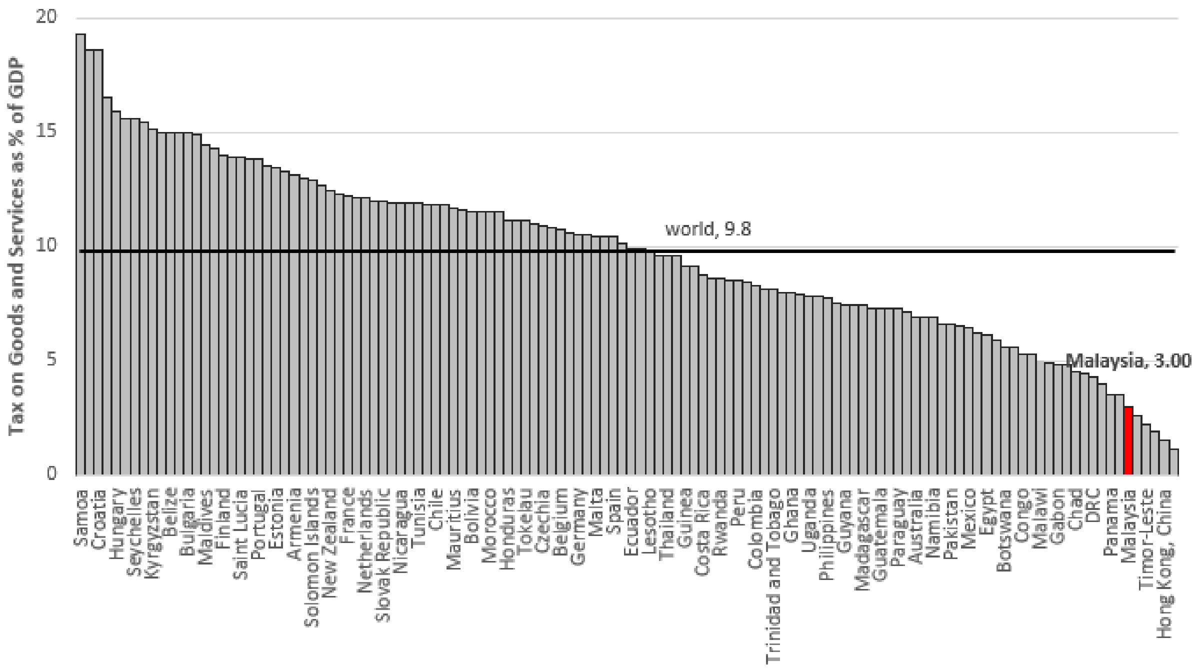
Figure 12: Tax on income and profit as a percent of GDP, 2021



Source: based on data from Organisation for Economic Co-operation and Development (2023).

Nevertheless, Malaysia's tax on goods and services ranks among the world's lowest as a percentage of GDP, notably falling well below the global average of 9.8 percent of GDP (Organisation for Economic Co-operation and Development, 2023).

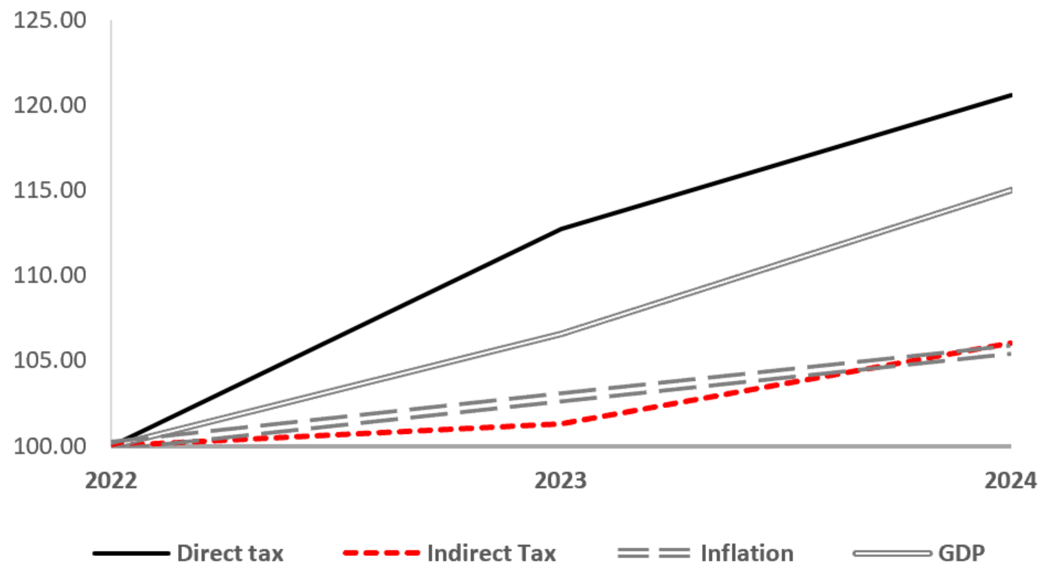
Figure 13: Tax on goods and services as a percent of GDP, 2021



Source: Based on data from Organisation for Economic Co-operation and Development (2023).

Furthermore, it is concerning that the disparity continues to widen over time, as the tax on sales and services grows at a slower pace than GDP growth, diminishing its relative contribution to the economy.

Figure 14: Various taxes, inflation and GDP growth rates (base year is 100 in 2022)



Source: Calculation is based on data from Ministry of Finance (2024) and International Monetary Fund (2023).

Past attempts to address this issue have been limited in impact. In the most recent effort announced with Budget 2024, the Government will introduce new measures to broaden the tax base, enhance compliance, and streamline administration to effectively mobilize domestic resources. Key initiatives include:

- Increasing the excise on sugary drinks from RM0.40/litre to RM0.50/litre.
- Raising the Service Tax by an additional 2 points, now standing at 8 percent, excluding food, beverages and telecommunication services.
- Introducing a 5 percent excise on chewing tobacco, alongside an additional RM27/kg.
- Implementing a 10 percent capital gains tax solely on the disposal of unlisted shares of local companies.
- Expressing further intentions to impose new taxes on luxury goods and companies with global income, although specific implementation dates were not provided. (Ministry of Finance, 2023b)

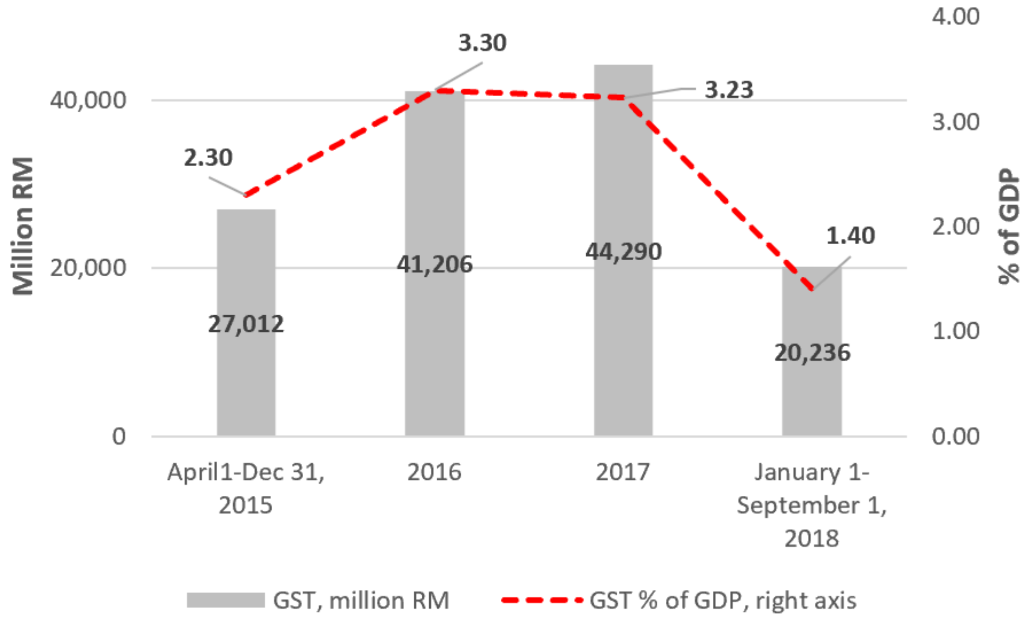
While the collective impact of these measures was not reflected in the 2024 Budget, their potential to generate tax revenue is assessed to be very limited, contributing only around 0.3 percentage points of GDP (International Monetary Fund, March 2024).

Of note in Table 5 is the conspicuous absence of a value added tax (VAT) among the array of tax options utilized in Malaysia. This largely accounts for the nation's weakened tax generation capacity, particularly evident in the realm of goods and services as illustrated in Figure 13.

However, this has not always been the case in Malaysia. The Goods and Services Tax (GST), akin to a VAT, was introduced on April 1, 2015, and implemented until September 1, 2018.

During this period, it generated substantial tax revenue amounting to 3.23-3.30 percent of GDP for the years in which the GST was fully implemented (Ministry of Economy, 2024). This constituted nearly one fifth of Malaysia's total revenue during those years.

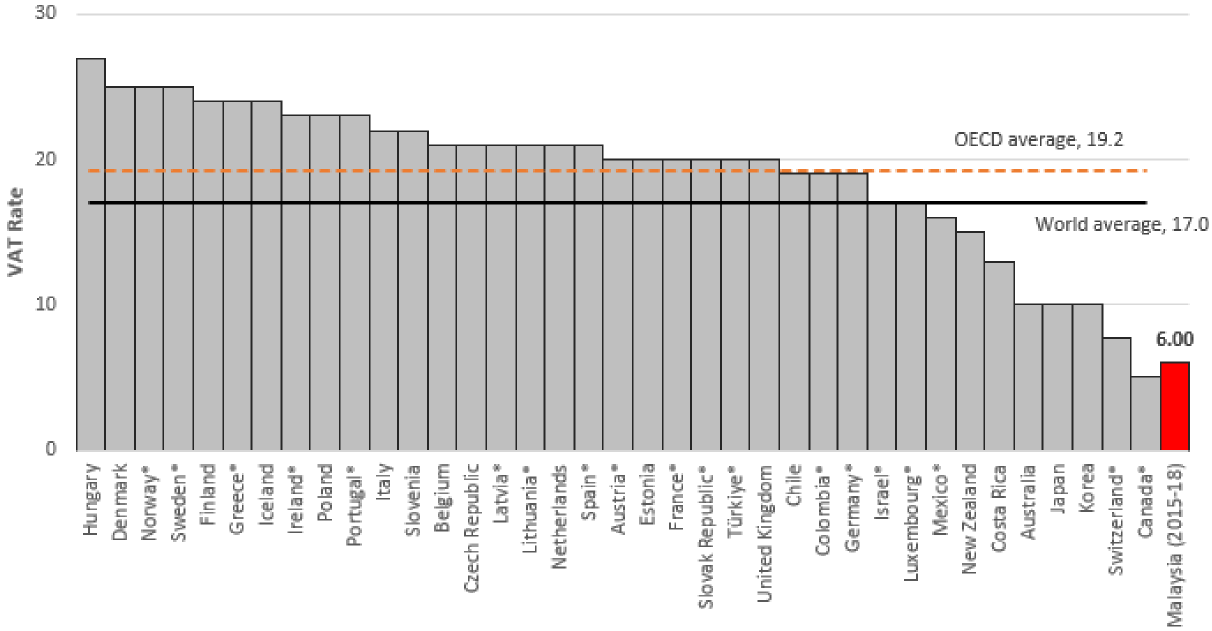
Figure 15: GST tax collection in RM million and as a percent of GDP (right axis), 2015-2018



Source: Based on data from Ministry of Economy (2024). GDP data from International Monetary Fund (2023).

The VAT stands as a potent revenue tool employed across all OECD countries except for the USA, contributing an average of 20 percent to total revenues in these nations (Organisation for Economic Co-operation and Development, 2023). It is worth highlighting that Malaysia introduced the GST at a notably lower rate of 6 percent compared to the average VAT rate observed in other OECD countries, which stood at 19.3 percent in 2023 (Organisation for Economic Co-operation and Development, 2023).

Figure 16: Malaysia's GST rate (2015-2018) compared to VAT rates in OECD countries and the world average, 2023



Source: Based on data from OECD (2023) and Ministry of Economy (2024).
*Rates can be different for different geographical locations, or goods and services.

Therefore, reintroducing a VAT-like tax in Malaysia has an enormous upside potential to generate a revenue stream that can be channelled towards an inclusive growth path, including investment in the SPF. If Malaysia introduces a VAT gradually to eventually reach the world average rate of 17 percent, the amount generated has the potential to ultimately reach more than 9 percent of GDP, totalling RM188.4 billion in 2024.

Table 6: Potential VAT tax revenue at different rates in RM billion and as a percent of GDP, 2024[16]

2024		
VAT rate, %	**tax/GDP, %**	**Billion RM**
6	3.23	66.49
10	5.38	110.81
17 (world average)	9.14	188.38

It should be noted, however, that the decision to eliminate the GST in 2018, a pledge made during the 2018 General Election, stemmed primarily from its regressive nature as a consumption tax that disproportionately affected the income of the less affluent compared to the wealthy. Reintroducing it without addressing equity concerns poses significant political challenges.

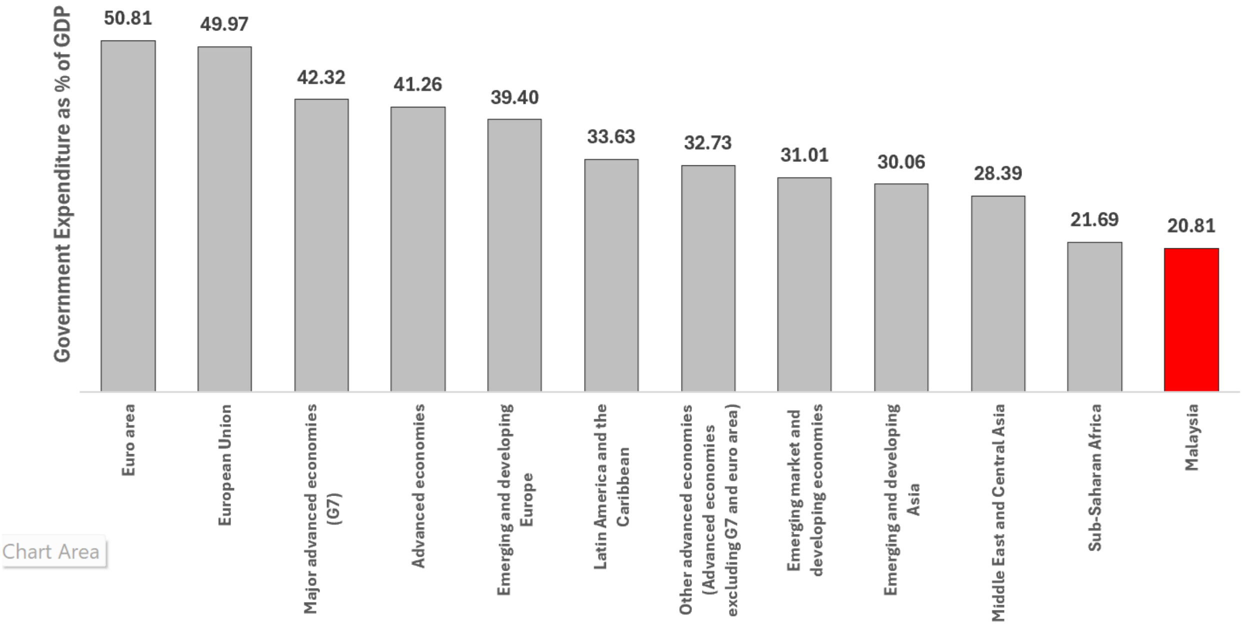
[16] This is assuming the same level of tax administrative efficiency that was achieved in 2015-2018 when the GST was implemented.

This paper advocates for **a phased reintroduction of the GST coupled with a structured system of periodic tax refunds**. Given the anonymity of transactions under a VAT system, **designing a tax refund mechanism in the form of cash transfer**, as outlined in Table 1, can mitigate welfare losses resulting from inflationary pressures and diminished budgets during vulnerable life stages. Ultimately, the combined impact of a VAT and cash assistance can serve as a progressive social policy tool.

4.2.Reprioritization of Expenditures

The constrained capacity for revenue generation in Malaysia, as evidenced by Figure.11, critically hampers the Government's capacity to efficiently allocate resources towards public expenditure, resulting in adverse effects on societal equity and human capital accumulation. With public expenditure estimated at RM397.14 billion in 2023 (Ministry of Finance, 2023), representing only 20.81 percent of GDP for that year, Malaysia ranks among the lowest in terms of public spending relative to its level of economic development.

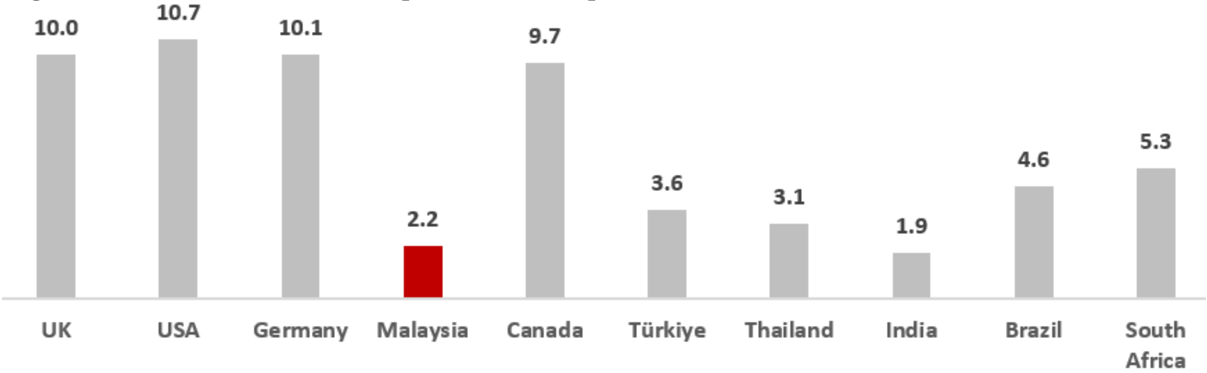
Figure 17: Public spending as a percent of GDP, Malaysia and country groups, 2023



Source: Based on data from International Monetary Fund (2023) and Ministry of Finance (2023).

This starkly low level of public investment underscores systemic challenges in adequately funding essential sectors such as education, healthcare and infrastructure. Insufficient allocations in these critical areas hinder the country's ability to address inequalities and promote inclusive growth. As a result, Malaysia faces persistent obstacles in nurturing its human capital base and achieving sustainable socioeconomic development targets.

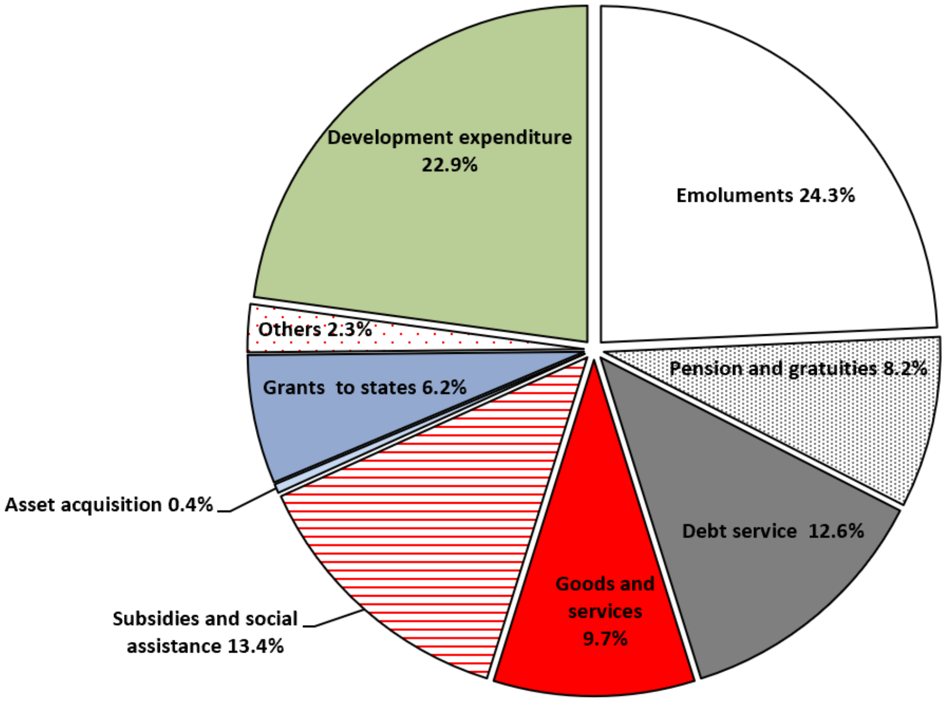
Figure 18: Public healthcare expenditure as a percent of GDP, selected countries, 2020



Source: Based on data from World Bank (2024).

It is worth taking a closer look at the pattern of public spending by examining disaggregated spending. Figure 19 shows the relative distribution of federal public spending for Budget 2024.

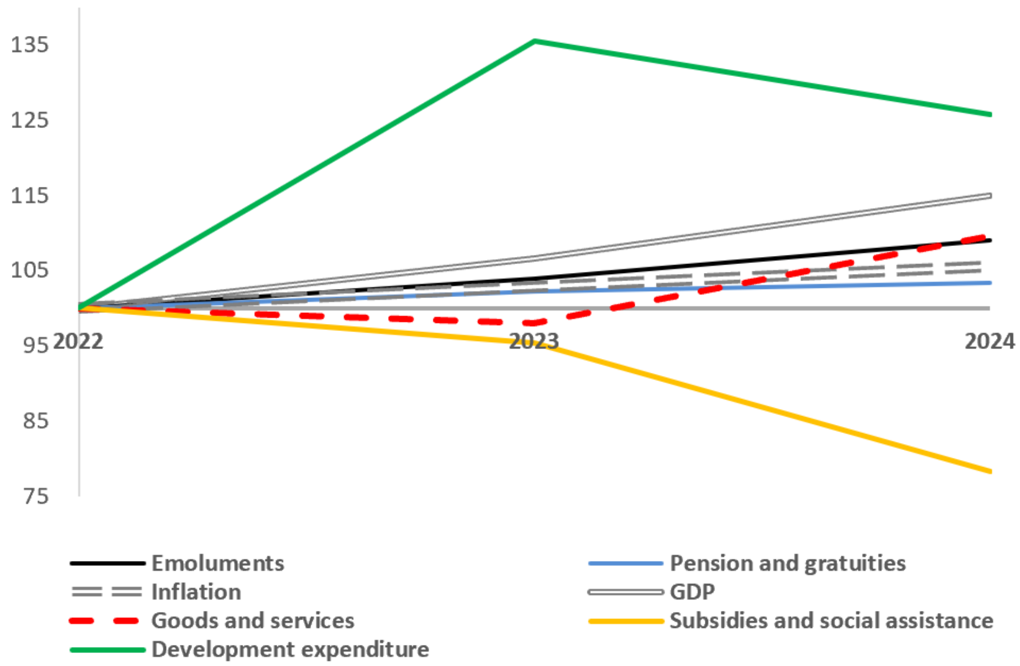
Figure 19: Economic classification of public spending as a percent of overall spending, 2024



Source: Based on data from Ministry of Finance (2023).

Despite this low level of public spending, the 2024 Budget outlines a further reduction in overall public expenditure, projected to decrease from 20.81 percent of GDP in 2023 to 19.12 percent in 2024 (Ministry of Finance, 2023), primarily driven by the forthcoming subsidy reform. In fact, this reduction trend in public spending has been evident over recent years. With the exception of development expenditure, outlays in all categories have grown at a rate slower than GDP, signalling a concerted effort to curtail public spending relative to economic growth.

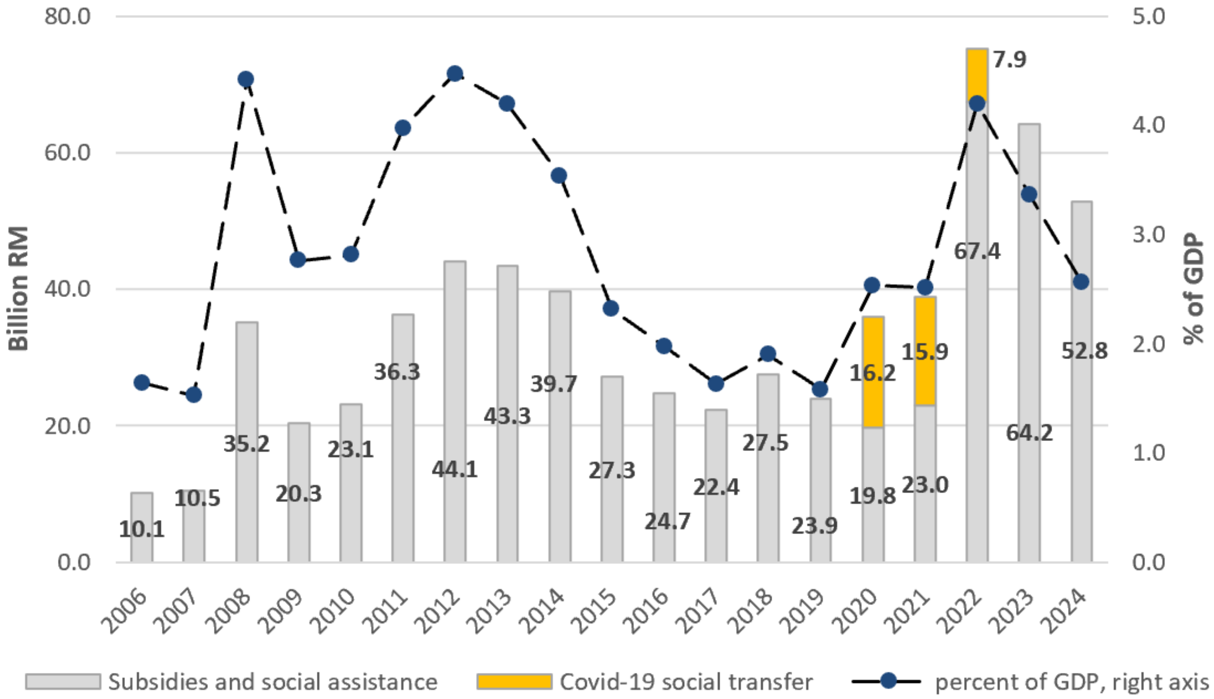
Figure 20: Forms of public spending, inflation and GDP growth rates (Base year is 100 in 2022)



Source: Calculation is based on data from Ministry of Finance (2023) and International Monetary Fund (2023).

The 2024 budgeted decrease in allocation to subsidies and social assistance marks a shift in fiscal policy, prompted by a period of substantial spending escalation characterized by expansive measures in response to the COVID-19 pandemic and a surge in the petrol subsidy bill.

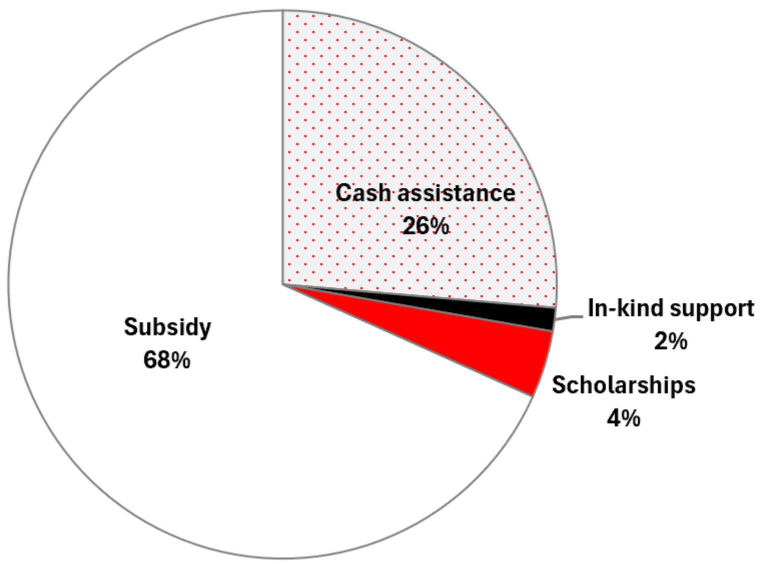
Figure 21: Public spending on subsidies and social assistance programmes in RM billion and as a percent of GDP (right axis), 2008 - 2022



Source: Based on data from Ministry of Economy (2024). GDP data is from International Monetary Fund (2023).

Disaggregated data on subsidies and social assistance shows that the bulk of spending here is on subsidies, with a significantly smaller amount going to cash assistance.

Figure 22: Relative size of disaggregated public spending on subsidies and cash assistance, 2022



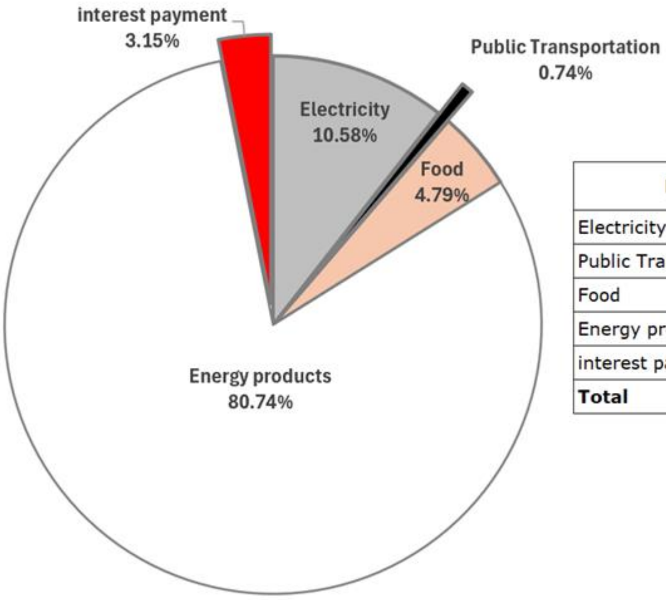
Source: Based on data from Ministry of Finance (2023).

In the context of this study, an examination of expenditures on subsidies and social assistance can yield valuable insights for reallocating resources, fostering efficiency, and maximizing impact by consolidating disparate protection systems into a unified social protection framework as previously outlined.

Spending on subsidies

Subsidies have been entrenched in Malaysia for decades, representing a substantial portion of government expenditure. As of 2022, a comprehensive array of 15 subsidy programmes were in effect across six ministries, commanding a total allocation of RM55.96 billion (Ministry of Finance, 2023) (Ministry of Economy, 2024). This figure translates to a significant 3.12 percent of GDP for the corresponding year.

Figure 23: Relative size of disaggregated public spending on subsidies, 2022

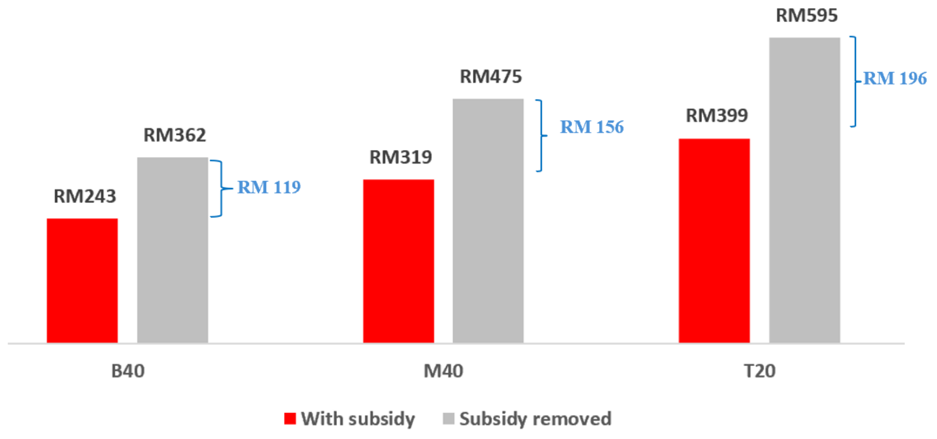


Function	No of programmes	Million RM
Electricity	2	5,918.35
Public Transportation	6	415.15
Food	5	2,681.93
Energy products	1	45,184.14
interest payment	1	1,761.11
Total	**15**	**55,960.69**

Source: Based on data from Ministry of Finance (2023) and Ministry of Economy (2024).

The predominance of energy products, constituting over 80 percent of the subsidy bill, is particularly alarming. Not only does it skew the price mechanism, hampering the efficient allocation of resources towards cleaner and more sustainable energy consumption patterns, but it also exacerbates socioeconomic disparities as wealthier households tend to disproportionately benefit from subsidized energy products, such as RON 95 petrol, in stark contrast to their less affluent counterparts.

Figure 24: Average monthly household spending on RON 95 by income groups with and without fuel subsidy, in RM, 2023



Source: Based on data from Ministry of Domestic Trade and Cost of Living (2023).

Furthermore, empirical evidence suggests that energy subsidies can impede economic efficiency and innovation. By artificially lowering the cost of energy, subsidies disincentivize investments in energy efficiency measures and renewable energy technologies, hindering the transition to a low-carbon economy. Research has shown that phasing out energy subsidies can spur innovation and investment in cleaner energy alternatives, leading to long-term economic and environmental benefits (Hosan, Rahman, Karmaker, & Saha, 2023).

The energy subsidy reforms announced in Budget 2024 thus mark a positive stride. Besides the environmental benefits, introducing measures to rectify the distortions, with the overarching goal of gradually phasing out the universal subsidy system in the short term, holds the potential to unlock substantial fiscal space. At the same time, however, the discontinuation of price subsidies will foreseeably create inflationary pressures, thereby precipitating a welfare setback for a significant segment of households in Malaysia.

Mitigating the welfare repercussions stemming from inflationary pressures **necessitates the implementation of a well-designed and comprehensive cash assistance programme, strategically tailored to target vulnerable stages of the life cycle (childhood, old age, maternity, disability) through periodic disbursements.** In this regard, the comprehensive Social Protection Floor proposed in this study, as shown in Table 1, holds the potential to significantly advance progressive social policies in Malaysia.

<u>Spending on social assistance</u>

Non-contributory social assistance programmes in Malaysia predominantly serve low-income demographics, yet they are dispersed across an extensive spectrum of over 61 initiatives involving more than 15 ministries and agencies. Annex 1 provides a full list with details of these programmes.

With the exception of the Sumbangan Tunai Rahmah (STR) programme, and apart from the multitude of small-scale programmes with specific purposes, most of the social assistance programmes are provided by the Social Welfare Department (Jabatan Kebajikan Masyarakat or JKM) of the KPWKM. The lead agency for social support programmes, JKM currently provides a number of social assistance programmes. Table 7 lists the key programmes:

Table 7: JKM's social cash assistance programmes, 2023

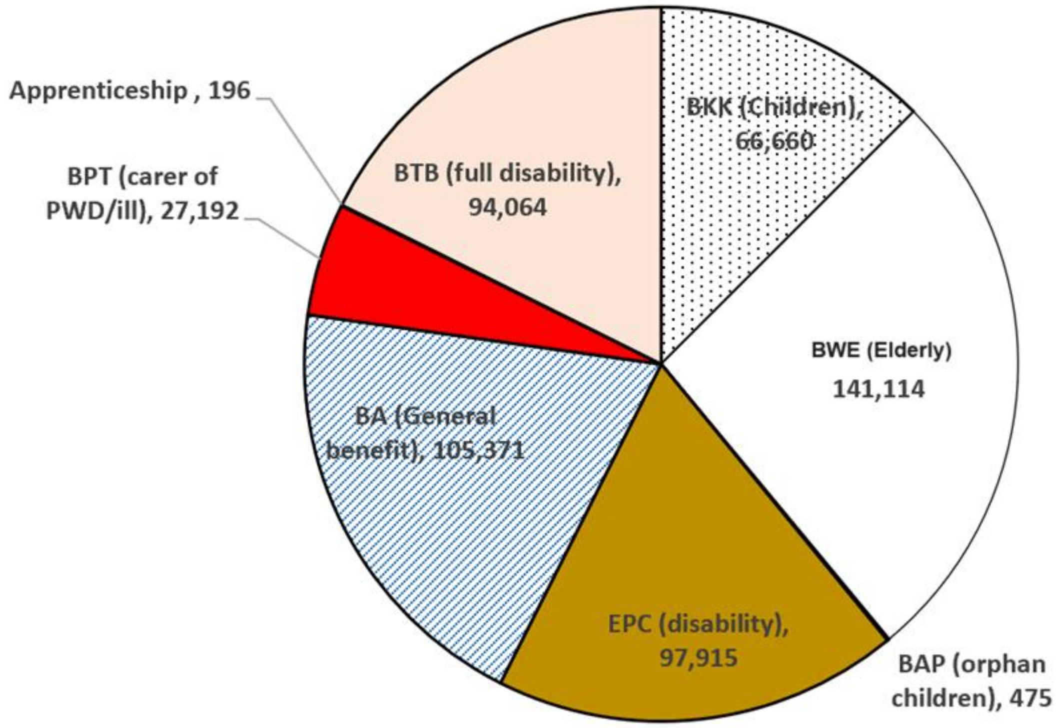
Name	Benefits	Eligibility criteria and conditions
Old-age Benefit (*Bantuan Warga Emas or BWE*)	RM500 monthly	• Household income below poverty line • Age 60 and above • Not residing in institutions under JKM or day care/residential centres that provide facilities/services for free
Child Benefit (*Bantuan Kanak-Kanak or BKK*)	Minimum RM150 per child monthly, with a maximum of RM1,000 per family - RM200 per child aged 6 years and below - RM150 per child aged 7-18 years	• Child aged below 18 • Family/guardian income below poverty line • Children of schooling age must be in schools
General Aid (*Bantuan Am or BA*)	RM100 per person monthly, RM350 per family monthly (some states add other benefits to federal benefits)	• Monthly income below poverty line • Means-tested by investigating officer (Other factors considered include number of dependents, dwelling condition, age of head of household, level of disability / frailty and other family characteristics)
Disabled Workers Allowance (*Elaun Pekerja Orang Kurang Upaya or EPOKU*)	RM450 per person monthly	• Registered persons with disabilities under JKM • Aged 16 and above • Individual income ≤RM1,500 (excluding family income) • Not residing in funded institutions • Evidence of income and employment
Financial Assistance for Foster Care Children (*Bantuan Anak Pelihara or BAP)*	RM250 per person monthly, with a maximum of RM500 for each family fostering two or more children	Families taking care of child/children who are: • under the age of 18 • without parents • not adopted through the Adoption Act 1952 or the Adoption Registration Act 1952; or • Children who live with foster families through: o Children taken from the Foster Child Programme managed by JKM; or

		○ Children cared for under the order of the Court for Children in accordance with the Children Act 2001.
Full Disability Benefit (*Bantuan OKU Tidak Berupaya Bekerja or BTB*)	RM300 per person monthly	• Registered persons with disabilities under JKM • Aged 16 and above • Unable to work • Not residing in funded institutions or trainee • Individual income below poverty line (excluding family income)
Financial Assistance for Carers of Persons with Disabilities (PWD) and Chronically Ill (*Bantuan Penjagaan OKU Terlantar / Pesakit Kronik Terlantar or BPT*)	RM500 per person monthly	• The applicant is a full-time carer/ provides intensive care to a PWD / chronic patients who require supervision and care • Household monthly income does not exceed RM3,000
Apprenticeship Training Allowance (*Bantuan Latihan Perantis*)	RM200 per person monthly	• Children of aid recipients or former trainees / former residents of welfare institutions; or • Moral supervision cases; or • Former Community Service Command Trainee • Note: Approval based on training period and maximum 24 months.

Source: Department of Social Welfare (JKM) (2023).

In terms of coverage, JKM's social assistance programmes covered 535,321 recipients in 2022. The two largest population groups covered were the elderly (total of 141,114 recipients in 2022), and persons with disabilities (PWD) (191,979 recipients of the two programmes for PWD). The Child Benefit programme (BKK) covered 66,660 children (Department of Social Welfare (JKM), 2023).

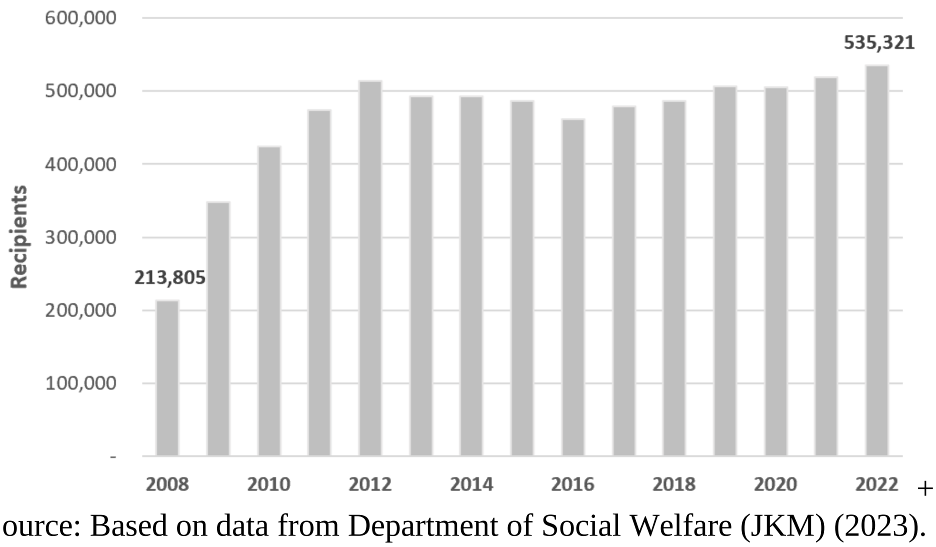
Figure 25: Coverage of JKM's social assistance programmes, 2022



Source: Based on data from Department of Social Welfare (JKM) (2023).

JKM's social assistance programmes witnessed significant expansion between 2008-2012, but the growth levelled off over the next decade following the introduction of Malaysia's largest cash transfer programme BR1M (now STR) in 2012.

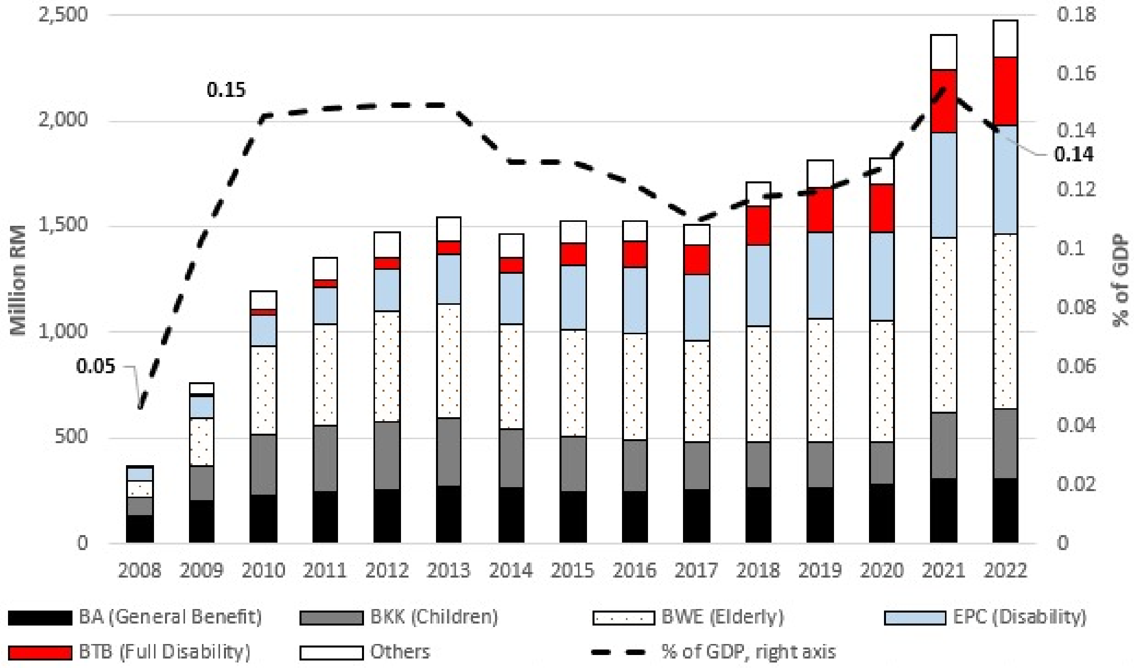
Figure 26: Coverage of JKM's social assistance programmes, 2008-2022



Source: Based on data from Department of Social Welfare (JKM) (2023).

Concurrently, in tandem with the rise in the number of beneficiaries accessing JKM's social assistance programmes, allocations dedicated to these programmes have surged, reaching RM2.472 billion in 2022 (Department of Social Welfare (JKM), 2023), constituting 0.14 percent of GDP.

Figure 27: JKM's social assistance programmes – expenditure in RM million and as a percent of GDP (right axis), 2008 - 2022



Source: Based on data from Department of Social Welfare (JKM) (2023).

The levelling off of spending after the peak in 2012 was largely due to the introduction of BR1M (now STR) that year, which changed the social assistance landscape in Malaysia. While initially introduced as one-time cash payments to ease cost-of-living pressures after subsidy reductions, it has significantly increased coverage and become more periodic. The table below summarizes the key features of the STR cash transfer programme as of 2023.

Table 8: Eligibility and benefit level for the STR cash transfer, 2023

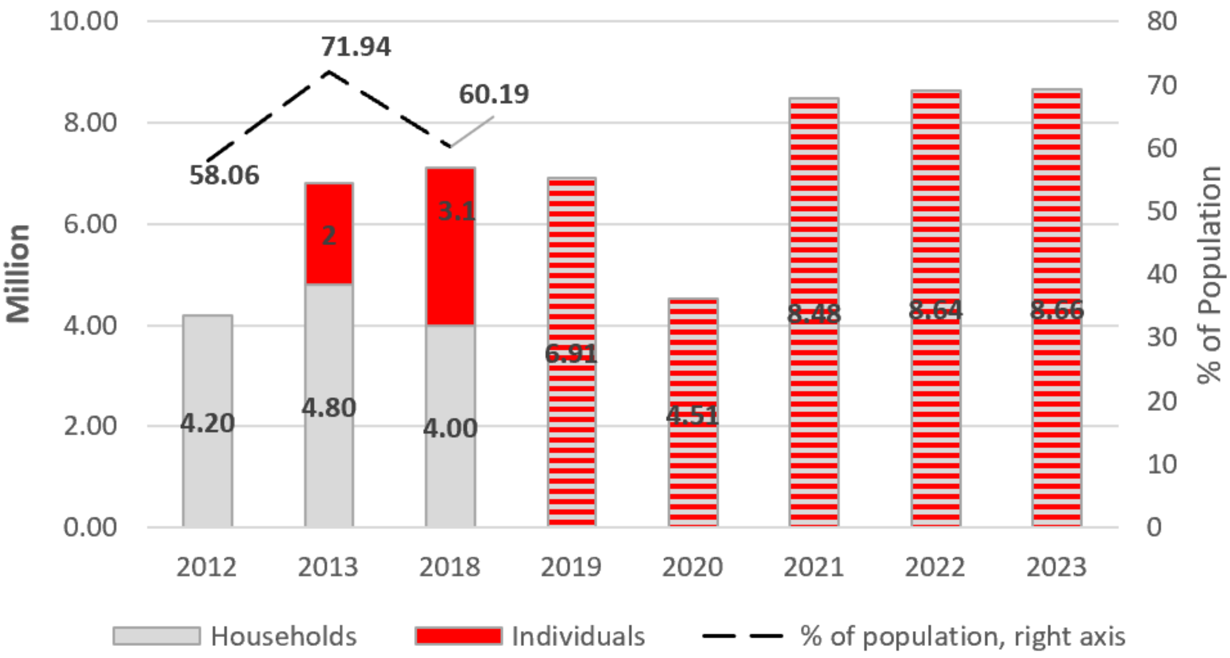
Target	Criteria	Benefit per year
Low-income household, individuals and children	- Household income <RM5,000 - Individual income <RM2,500 - Children: - aged 18 and below; - or aged 19 and above and still studying full-time in tertiary education institutions; except for disabled children for whom benefit is not limited by age	- Household with income <RM2,501: No children: RM1,000 cash 1-2 children: RM1,500 cash 3-4 children: RM2,000 5 children and more: RM2,500 - Household with income RM2,501-RM5,000: No children: RM500 cash 1-2 children: RM750 cash 3-4 children: RM1,000 5 children and more: RM1,250

Target	Criteria	Benefit per year
		- Single senior aged 60 years and above with individual income <RM5,001: RM600 cash - Single individuals aged 21-59 years and persons with disabilities aged 19-59 years with individual income <RM2,501: RM350 cash - Additional STR / Sumbangan Asas Rahmah (SARA): STR recipients (poor and hardcore poor status under eKasih or JKM): RM1,200/RM600 cash STR household recipients (not poor and hardcore poor status under eKasih or JKM): RM300 STR single and senior citizen recipients (not poor and hardcore poor status under eKasih or JKM): RM150 cash - STR Bereavement Scheme: RM1,000

Source: Ministry of Finance (2023) and Inland Revenue Board of Malaysia (2024).

It is to be noted that the design has been changing every year since its introduction. Annex 2 summarizes changes in the cash transfer design over time. The ad hoc and irregular changes in its design and payment arrangements have reduced the financial security of low-income households. Despite this, over the years STR has maintained its status as the single largest cash transfer programme targeted at a very large population segment. Most recent administrative data showed that a total of 8.66 million households and individuals received STR payments in 2023 (Ministry of Finance, 2024). The decomposition between households and individual recipients has not been provided since 2019; estimating the percentage of coverage to the population for these latest years is therefore not possible. For the years in which disaggregated data was available, it is estimated that the coverage fluctuated between 58.06 percent and 71.94 percent of the overall population (Bank Negara Malaysia, 2018). This is significantly higher than the intended population of the bottom 40 percent of the population.

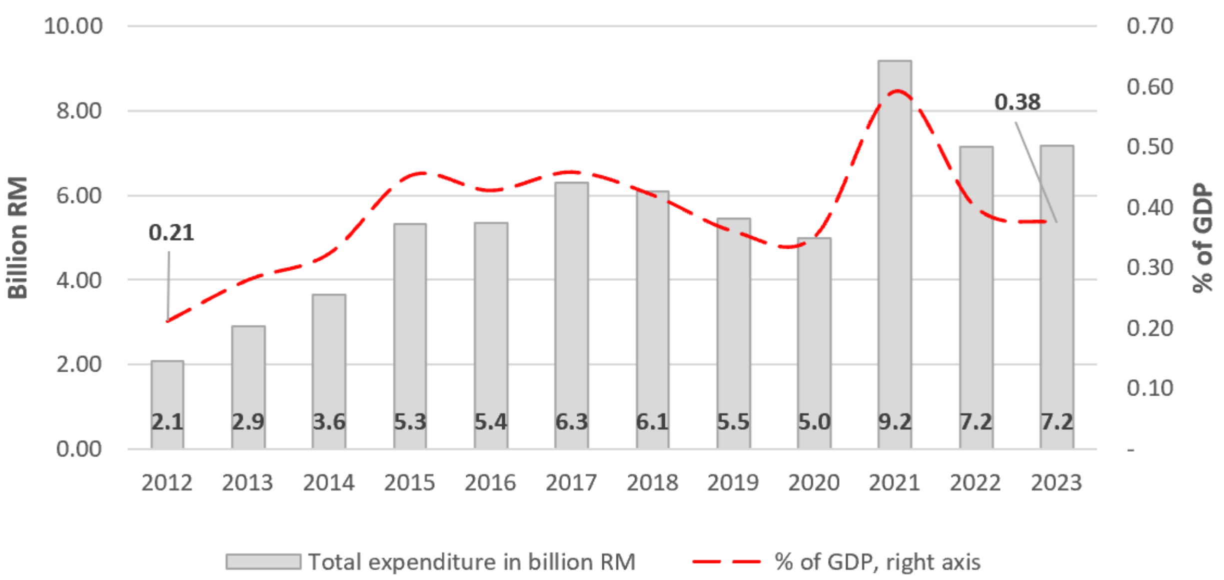
Figure 28: STR coverage in million and as a share of overall population (right axis) for selected years



Source: Ministry of Finance (2024) and Bank Negara Malaysia (2018).

Spending on STR has expanded significantly since its introduction, totalling RM7.2 billion (0.38 percent of GDP) in 2023 (Ministry of Finance, 2024). Both JKM's social assistance and STR increased in 2021-2022 due to the COVID-19 pandemic expansionary fiscal policy adopted by the Government of Malaysia.

Figure 29: Allocations to STR in RM billion and as a percentage of GDP, 2012 – 2023



Source: Bank Negara Malaysia (2018) and Ministry of Finance (2024).

The relocation of allocation within the existing social assistance programmes is a valid option for creating fiscal space to construct Malaysia's SPF. This can be done through a phased approach, by continuously introducing new benefits that currently do not exist and/or broadening eligibility or removing restrictive provisions in the existing benefits. Simultaneously, existing social assistance benefits targeted for the same beneficiaries should be discontinued. The accumulated cost savings from phasing out such cash transfer programmes should offset partially the cost of the newly introduced SPF benefits as illustrated in Table 1.

To conclude, this paper explores different alternatives that the Government of Malaysia can implement to progressively expand social protection and introduce a Social Protection Floor that follows the life cycle. The paper shows that extending coverage to children, pregnant women, persons with disabilities and senior citizens is fiscally feasible and within reach in the short and medium term in Malaysia.

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ANNEX 1: LIST OF SOCIAL ASSISTANCE AND SUBSIDIES PROGRAMMES, 2022

No.	Type	Programme name	Brief description	Agency*	Expenditure (RM million)
1	In-kind support	Anjung Singgah	Shelter for homeless people	KPWKM	4.20
2	Cash assistance	Bantuan Am	General social assistance	KPWKM	305.57
3	Cash assistance	Bantuan Awal Persekolahan (BAP)	Cash assistance at the start of school term for primary and secondary students from low-income households	KPM	259.95
4	Cash assistance	Bantuan Bayaran Tambahan Persekolahan (BTP)	The Government supports additional expenses such as co-curricular and annual school sports competitions, Islamic/Moral education activities and insurance	KPM	72.71
5	In-kind support	Bantuan Buku Teks	Textbook assistance	KPM	98.90
6	In-kind support	Bantuan Jaket Keselamatan	Safety jacket assistance	KPM	0.87
7	Cash assistance	Bantuan Keluarga Malaysia (BKM)	Cash assistance for low-income households	MOF	7,163.76
8	Cash assistance	Bantuan Makanan Asrama	Boarding school food assistance	KPM	1,342.63
9	Cash assistance	Bantuan Makanan Pra-Sekolah	Pre-school food assistance	KPM	82.30
10	Cash assistance	Bantuan Makanan Tambahan KEMAS	Additional food assistance programme for KEMAS	KPLB	115.37
11	Cash assistance	Bantuan Makanan Tambahan Tabika Perpaduan	Additional food assistance programme for Tabika Perpaduan	KPN	18.13
12	Cash assistance	Bantuan Mengurus Jenazah	Funeral benefit	JPA	60.69
13	In-kind support	Bantuan Pakaian Seragam Pasukan Beruniform	Assistance for uniforms, e.g., Scouts, Red Crescent, etc.	KPM	5.76
14	Cash assistance	Bantuan Perjalanan dan Pengangkutan Murid Asrama	Transportation assistance for boarding school students	KPM	18.95
15	Cash assistance	Bantuan Sara Hidup Bekas Kakitangan Kontrak KEMAS	Cash assistance to ex-contract staff of KEMAS	KPLB	14.89
16	Cash assistance	Bantuan Sosioekonomi Keluarga Miskin	Cash assistance for poor families	KPWKM	326.24
17	Cash assistance	Bantuan Sosioekonomi Kurang Upaya	Cash assistance for poor people with disabilities	KPWKM	789.98

18	Cash assistance	Bantuan Sosioekonomi Lain	Other socioeconomic assistance	KPWKM	14.64
19	Cash assistance	Bantuan Sosioekonomi Warga Emas	Cash assistance for poor elderly persons	KPWKM	607.14
20	Scholarships	Biasiswa IKBN/IKTBN	Scholarships for national youth skills institutes (Institut Kemahiran Belia Negara (IKBN) and Institut Kemahiran Tinggi Belia Negara (IKTBN))	KBS	16.76
21	Subsidy	Diskaun Bil Elektrik	Electricity bill discounts	KETSA	5,876.40
22	Subsidy	Diskaun Tambang Feri	Ferry fare discounts	KWP	7.00
23	Cash assistance	Elaun Khas Kanak-kanak Pemulihan Dalam Komuniti (PDK)	Allowance for children under the Community Rehabilitation Programme	KPWKM	102.53
24	Cash assistance	Elaun Murid Berkeperluan Khas (EMK)	Special needs students' allowance	KPM	178.25
25	Cash assistance	Elaun Pelajar Institut Kemahiran Belia Negara (IKBN)	Allowance for students from Institut Kemahiran Belia Negara (IKBN)	KBS	16.76
26	Cash assistance	Elaun Pelajar Institut Latihan Jabatan Tenaga Manusia (ILJTM)	Allowance for students from Institut Latihan Jabatan Tenaga Manusia (ILJTM)	MOHR	14.26
27	Cash assistance	Elaun Pelajar Pra-Perkhidmatan	Pre-service allowance	MOHR	3.05
28	Cash assistance	Elaun Pra Universiti	Pre-university allowance	KPM	0.61
29	Cash assistance	Home Help	Allocation for volunteers helping disabled and elderly people	KPWKM	17.80
30	Cash assistance	Insentif Galakan Tanam Semula KESEDAR	Cash assistance for KESEDAR settlers involved in the Oil Palm Replanting Programme, especially when farm produce cannot reach the set target	KPLB	20.32
31	Subsidy	Insentif Pas Bulanan Tanpa Had (My100/My50)	Unlimited 30-day travel pass for public transportation i.e. Rapid KL LRT, MRT, Monorail, BRT, Rapid KL bus and MRT feeder bus	MOT	115.00
32	Cash assistance	Kumpulan Wang Amanah Pelajar Miskin	Financial assistance for poor/hardcore poor students registered under e-Kasih	KPM	79.00

33	Scholarships	Kumpulan Wang Tabung Biasiswa Sukan	Scholarship to improve sports excellence among students under the school's Sports Development Programme	KPM	2.00
34	In-kind support	Kumpulan Wang Tabung Perubatan	Assistance for the poor to finance part or full cost of medical treatment, equipment, rehabilitation and medication	KKM	30.00
35	Cash assistance	Peningkatan Taraf Hidup Orang Asli	Assistance to improve standard of living for Orang Asli e.g. pocket money, transportation fares, uniforms, various schooling and boarding fees etc.	KPLB	63.15
36	Scholarships	Program Biasiswa Dan Penajaan KPM	KPM scholarship	KPM	389.31
37	Scholarships	Program Biasiswa dan Pinjaman Pelajaran JPA	JPA education loan/scholarship for students in tertiary education	JPA	832.69
38	Scholarships	Program Penajaan Pendidikan MARA	MARA scholarship	KPLB	2,017.00
39	In-kind support	Program Pengedaran Barang Perlu, LPG dan Community Drumming	Transporting necessary and selected goods and services subsidy	KPDNHE P	192.74
40	Cash assistance	Program Pra Perkhidmatan (Elaun Pelatih IPG)	IPG trainer allowance	KPM	53.90
41	Cash assistance	Projek Khas Murid Sekolah Berasrama Penuh	Financial assistance for boarding school students from low-income households	KPM	2.58
42	In-kind support	Pusat Aktiviti Warga Emas (PAWE)	A place for the elderly to carry out daily activities in the community	KPWKM	7.49
43	In-kind support	Rancangan Makanan Tambahan (RMT)	Additional food assistance to eligible students based on the 2019 Food Poverty Line Income	KPM	293.67
44	In-kind support	Rawatan Perubatan Pesara Awam	Civil servants retiree medical assistance	KKM	494.82
45	Subsidy	Skim Penstabilan Minyak Masak (COSS)	Cooking oil subsidy	KPDNHE P	976.40
46	Cash assistance	Sokongan bantuan sosial untuk golongan mudah terjejas	Assistance for vulnerable groups distributed under COVID-19 fund during the pandemic	MOF	9,042.83
47	Subsidy	Subsidi Bil Elektrik	Electric bill subsidy	KETSA	41.95
48	Subsidy	Subsidi dan Insentif Nelayan	Fishermen subsidies/incentives	MOA	149.93

49	Subsidy	Subsidi dan Insentif Tanaman Padi	Rice Crop Subsidies and Incentives	MOA	960.00
50	Subsidy	Subsidi Faedah Imbuhan Tabung Pinjaman	Interest loan subsidy	MOF	1,761.11
51	Subsidy	Subsidi Gas Cecair (LPG), Diesel dan Petrol	Fuel subsidy	MOF	45,184.14
52	Subsidy	Subsidi Harga Padi	Paddy price subsidy	MOA	570.00
53	Subsidy	Subsidi Pengangkutan Awam MY30	Subsidy for public transport	MOT	90.86
54	Subsidy	Subsidi Perkhidmatan Operasi Tren Skypark Link	Skypark Link Train Operation Service Subsidy	MOT	3.30
55	Subsidy	Subsidi Perkhidmatan Udara Luar Bandar (RAS)	Rural Air Services (RAS) subsidy	MOT	182.09
56	Subsidy	Subsidi Tepung Gandum Kegunaan Am	Flour subsidy for public consumption	KPDNHEP	25.61
57	Subsidy	Subsidi Tren Tidak Ekonomik (KTMB)	Non-economical train subsidy for KTMB	MOT	16.90
58	Cash assistance	Tabung Bantuan Bencana Negara	National disaster relief fund	MOF	816.31
59	Cash assistance	Wang Saku Institusi Kanak-Kanak	Daily allowance for children at JKM's institutions	KPWKM	1.41
60	Cash assistance	Wang Saku Institusi Kurang Upaya	Daily allowance for disabled persons at JKM's institutions	KPWKM	0.45
61	Cash assistance	Wang Saku Institusi Warga Emas	Daily allowance for elderly persons at JKM's institutions	KPWKM	0.61
				TOTAL (RM million)	**81,953.69**

Source: Compilation from different sources provided by Ministry of Finance (2023a).

* Agencies: JPA (Jabatan Perkhidmatan Awam), KBS (Kementerian Belia dan Sukan), KETSA (Kementerian Tenaga dan Sumber Asli), KKM (Kementerian Kesihatan Malaysia), KPDNHEP (Kementerian Perdagangan Dalam Negeri dan Hal Ehwal Pengguna), KPLB (Kementerian Pembangunan Luar Bandar), KPM (Kementerian Pendidikan Malaysia), KPN (Kementerian Perpaduan Negara), KPWKM (Kementerian Pembangunan Wanita, Keluarga dan Masyarakat), KWP (Kementerian Wilayah Persekutuan), MOA (Ministry of Agriculture), MOF (Ministry of Finance), MOHR (Ministry of Human Resources), MOT (Ministry of Transport).

ANNEX 2: CHANGES IN STR DESIGN OVER TIME

Year	Scheme	Target	Criteria	Benefit per year
2012	BR1M	Low-income household	- Household income <RM3,000	- RM500
2013	BR1M 2.0	Low-income household and individual	- Household income <RM3,000 - Single individual with income <RM2,000	- Household: RM500 - Single individual: RM250
2014	BR1M 3.0	Low-income household and individual	- Household income <RM4,000 - Single individual aged 21 or above with income <RM2,000 and did not receive any book voucher - Elderly (aged 60 and above) with income <RM4,000	- Household and elderly with income <RM3,000: RM650 cash and RM50 insurance premiums (iBR1M) - Household and elderly with income RM3,000 - RM4,000: RM450 cash & RM50 insurance premiums (iBR1M) - Single individual aged 21 - 59: RM300 cash - BR1M Bereavement Scheme: RM1,000
2015	BR1M 4.0	Low-income household and individual	- Household income <RM4,000 - Single individual aged 21 or above with income <RM2,000 and did not receive any book voucher - Elderly (aged 60 and above) with income <RM4,000	- Household with income <RM3,000: RM950 cash - Household with income RM3,000 - RM4,000: RM800 cash - Single individual aged 21 - 59: RM350 cash - BR1M Bereavement Scheme: RM1,000
2016	BR1M 5.0	Low-income household and individual	- Household income <RM4,000 - Single individual aged 21 or above with income <RM2,000 and did not receive any book voucher - Elderly (aged 60 and above) with income <RM4,000	- Household captured under e-Kasih or with income <RM1,000: RM1,050 cash - Household with income <RM3,000: RM1,000 cash - Household with income RM3,000 - RM4,000: RM800 cash - Single individual aged 21 - 59: RM350 cash - BR1M Bereavement Scheme: RM1,000
2017	BR1M 6.0	Low-income household and individual	- Household income <RM4,000 - Single individual aged 21 or above with income <RM2,000	- Household captured under e-Kasih or with income <RM1,000: RM1,200 cash - Household with income <RM3,000: RM1,200 cash

Year	Scheme	Target	Criteria	Benefit per year
			and did not receive any book voucher - Elderly (aged 60 and above) with income <RM4,000	- Household with income RM3,000 - RM4,000: RM900 cash - Single individual aged 21 - 59: RM450 cash - BR1M Bereavement Scheme: RM1,000
2018-2019	*Bantuan Sara Hidup (BSH)*	Low-income household and children	- Household income <RM4,000 - Children (aged 18 and below, except for disabled children for whom benefit is not limited by age)	- Household captured under e-Kasih or with income <RM2,000: RM1,000 cash - Household with income <RM2,001 – RM3,000: RM750 cash - Household with income RM3,001 - RM4,000: RM500 cash - Children aged below 18: RM120 cash each, limited to 4 people - Disabled or handicapped children: RM120 cash, no age limitation. - BSH Bereavement Scheme: RM1,000
January - April 2020	Bantuan Sara Hidup (BSH)	Low income household, individuals and children	- Household income <RM4,000 - Children (aged 18 and below, except for disabled children for whom benefit is not limited by age)	- Household captured under e-Kasih or with income <RM2,001: RM1,000 cash - Household with income RM2,001 – RM3,000: RM750 cash - Household with income RM3,001 - RM4,000: RM500 cash - Children aged below 18: RM120 cash each, limited to 4 people - Disabled or handicapped children: RM120 cash, no age limitation. - Single individuals aged 40-59 years with income <RM2,001: RM300 cash - Disabled individuals aged 18 years and above with income <RM2,001: RM300 cash - BSH Bereavement Scheme: RM1,000

Year	Scheme	Target	Criteria	Benefit per year
April - May 2020	Bantuan Prihatin Nasional (BPN) 1.0, under Prihatin Rakyat Economic Stimulus Package (PRIHATIN)	Low- and middle-income household, individuals and children	- Household income <RM8,000 - Single individual with income <RM4,000	- B40 Household with income <RM4,001: RM1,600 cash - M40 Household with income RM4,001 – RM8,000: RM1,000 cash - B40 Single individuals with income <RM2,001: RM800 cash - M40 Single individuals with income RM2,001 - RM4,000: RM500 cash
October 2020 – January 2021	Bantuan Prihatin Nasional (BPN) 2.0, under Prihatin Rakyat Economic Stimulus Package Additional Framework (KITA PRIHATIN)	Low- and middle-income household, individuals and children	- Household income <RM8,000 - Single individual with income <RM4,000	- B40 Household with income <RM4,001: RM1,000 cash - M40 Household with income RM4,001 – RM8,000: RM600 cash - B40 Single individuals with income <RM2,001: RM500 cash - M40 Single individuals with income RM2,001 - RM4,000: RM300 cash
2022	Bantuan Keluarga Malaysia (BKM)	- Low-income household, individuals and children	- Household income <RM5,000 - Single individual aged 21 or above with income <RM2,500 - Elderly (aged 60 and above) with income <RM5,000	- Household with income <RM2,501: No children: RM1,000 cash 1-2 children: RM1,500 cash 3 children and more: RM2,000 cash - Household with income RM2,501-RM5,000: No children: RM400 cash 1-2 children: RM600 cash 3 children and more: RM800 cash - Single senior aged 60 years and above with individual income <RM5,001: RM600 cash - Single individuals aged 21-59 years & persons with disabilities aged 19-59 years with individual income <RM2,501: RM350 cash - Additional BKM:

Year	Scheme	Target	Criteria	Benefit per year
				BKM recipients (single parents): RM500 cash BKM recipients (senior citizen): RM300 BKM Bereavement Scheme: RM1,000
- 2023	- Sumbangan Tunai Rahmah (STR)	- Low-income household, individuals and children	- Household income <RM5,000 - Individual income <RM2,500 - Children: - aged 18 and below; - or aged 19 and above and still studying full-time in tertiary education institutions; - except for disabled children for whom benefit is not limited by age	- Household with income <RM2,501: No children: RM1,000 cash 1-2 children: RM1,500 cash 3-4 children: RM2,000 5 children and more: RM2,500 - Household with income RM2,501-RM5,000: No children: RM500 cash 1-2 children: RM750 cash 3-4 children: RM1,000 5 children and more: RM1,250 - Single senior aged 60 years and above with individual income <RM5,001: RM600 cash - Single individuals aged 21-59 years and persons with disabilities aged 19-59 years with individual income <RM2,501: RM350 cash - Additional STR / Sumbangan Asas Rahmah (SARA): STR recipients (poor and hardcore poor status under eKasih or JKM): RM1,200/RM600 cash STR household recipients (not poor and hardcore poor status under eKasih or JKM): RM300 STR single and senior citizen recipients (not poor and hardcore poor status under eKasih or JKM): RM150 cash STR Bereavement Scheme: RM1,000

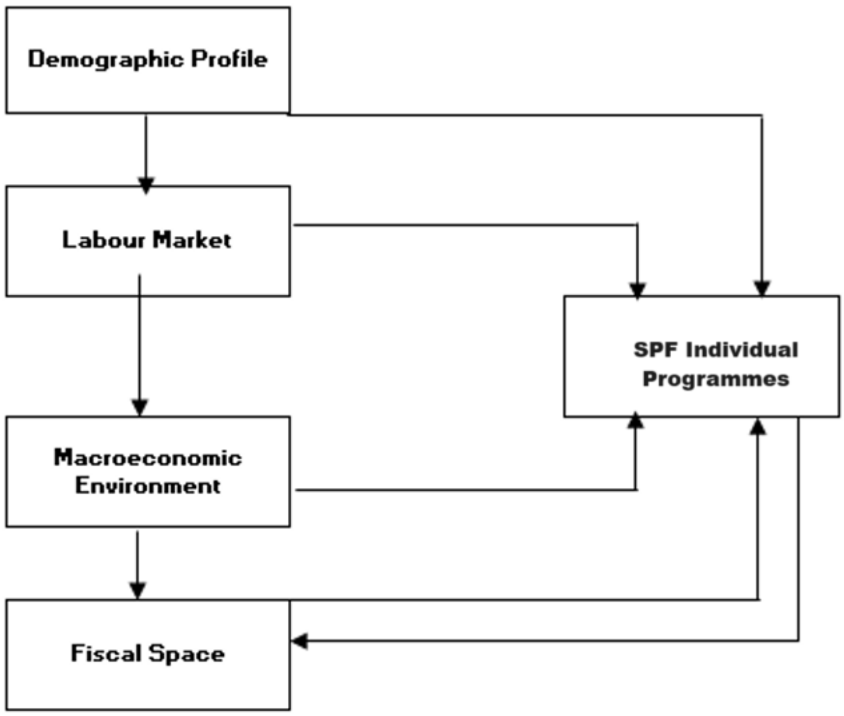
Source: Compiled from multiple sources including: Department of Communication (2020), Inland Revenue Board of Malaysia (2024), Ministry of Finance (2020), Ministry of Finance (2020a), Ministry of Finance (2023).

ANNEX 3: TECHNICAL COSTING NOTE

Projection framework

The projection exercise is divided into two parts: First, **projection of the underlying factors** (demographic, labour force, and macroeconomic). Second, **projection of beneficiaries, benefit level, and overall costs** for 17 years i.e. until 2042, when the benefits roll-out is completed for each benefit), with projections made under a set of specified assumptions on the benefit parameters (eligibility conditions, coverage, benefit level, etc.). The linkages and dependency structure of the projection parts are illustrated in the following diagram.

Figure 30: Components of the projection model



Projection of the Determinants of Social Protection

<u>Demographic model</u>

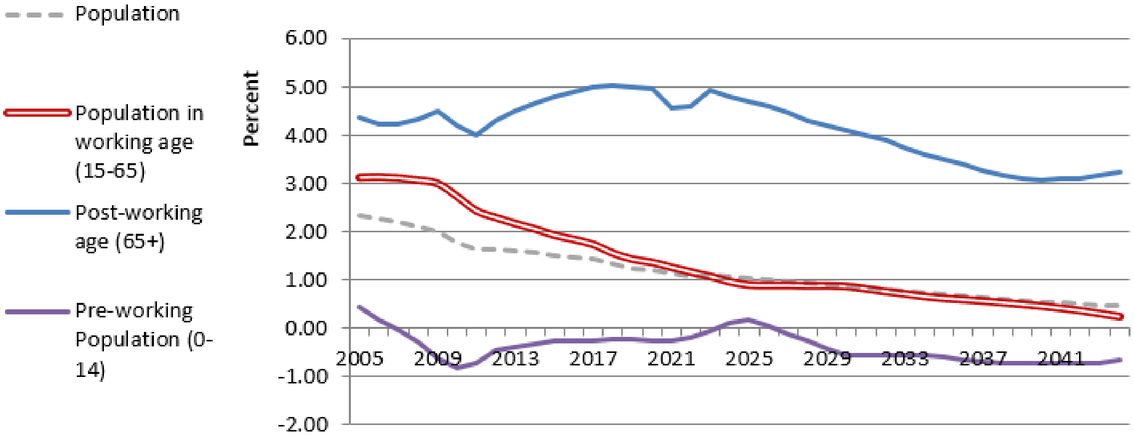
For the demographic projection, the study uses the medium-variant population projection made available by the United Nations Department of Economic and Social Affairs, Population Division (United Nations, 2022). The data set is disaggregated by sex and single-year age. The following table summarizes the population projection’s main characteristics relevant to the study.

Table 9: Population projection (medium variant) main characteristics, 2025-2042

	Thousands					
	2025	**2026**	**2027**	**2032**	**2037**	**2042**
Population	35,028	35,377	35,718	37,289	38,606	39,688
Pre-working age (0-14)	7,714	7,717	7,708	7,528	7,303	7,040
Working age (15-64)	24,637	24,856	25,077	26,151	26,986	27,606
Post-working age (65+)	2,931	3,065	3,202	3,915	4,651	5,421
	Percentage of Total Population					
Population	100.00	100.00	100.00	100.00	100.00	100.00
Pre-working age (0-14)	22.02	21.81	21.58	20.19	18.92	17.74
Working age (15-64)	70.34	70.26	70.21	70.13	69.90	69.56
Post-working age (65+)	8.37	8.67	8.97	10.50	12.05	13.66
	Dependency Ratio, Per cent					
Youth DR	31.3	31.0	30.7	28.8	27.1	25.5
Old-age DR	11.9	12.3	12.8	15.0	17.2	19.6
Total DR	43.2	43.4	43.5	43.8	44.3	45.1

Source: Calculation is based on data from United Nations (2022).

Figure 31: Population growth rates by working status, 2005-2042

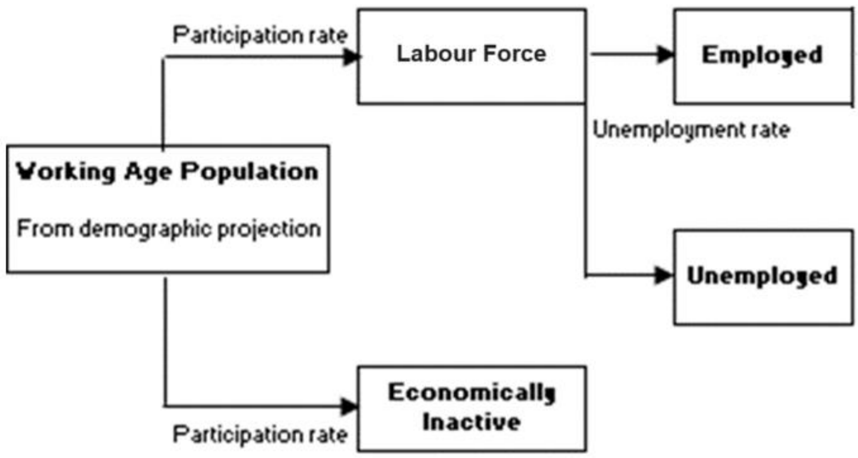


Source: Calculation is based on data from United Nations (2022).

<u>Labour market model</u>

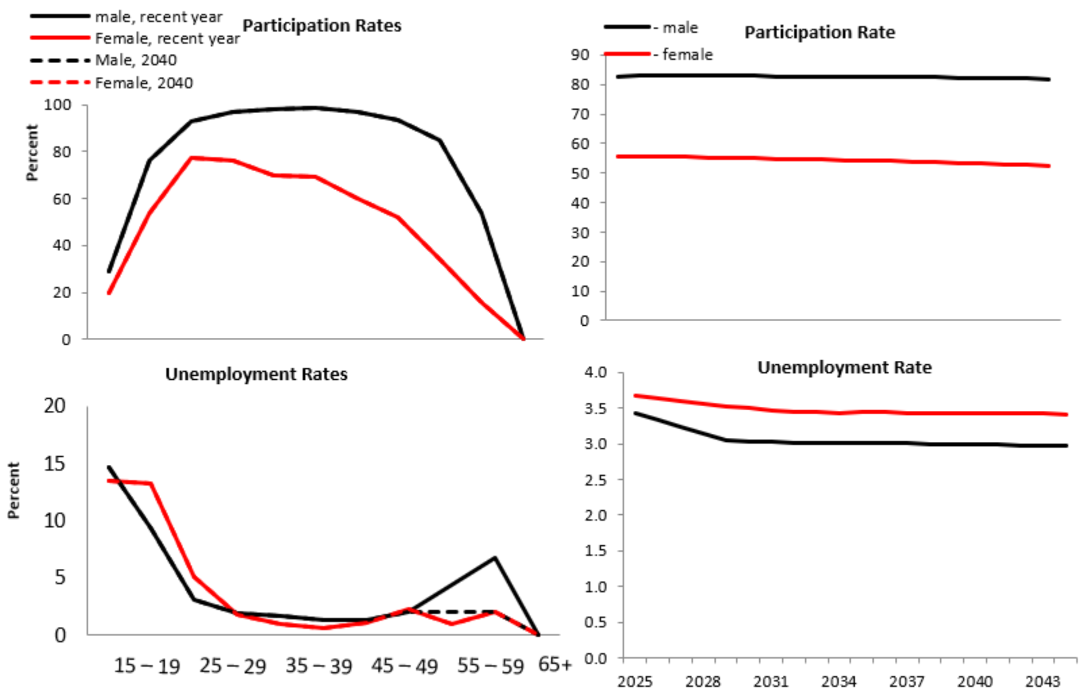
The labour market model is directly built on the population model. The following diagram presents the structural relationships that relate both models (the population model and the labour market model) for each year in the projection period and disaggregation by age and gender.

Figure 32: Labour market model overview



Assumptions were made explicitly on participation rates and unemployment rates. For the participation rate, it is largely assumed that the participation rates by age group of 2022 will stay the same over the projection period for the working-age population. For the unemployment rate, it is assumed that age and gender-specific unemployment rates in 2022 are expected to remain the same over the projection period. The overall slight decrease in the unemployment rate over the projection period basically resulted from the change in the demographic structure of the underlying population.

Figure 33: The labour market model's projection: Unemployment and participation rates, by gender and age groups



Source: Assumptions are based on data from Department of Statistics Malaysia (2023).

Applying age and gender-specific participation rates and unemployment rates on the working-age population (obtained from the population projection) for each year of the projection period produces the sought labour force disaggregated by age, gender, and working status (economically active, economically inactive, employed, and unemployed).

Table 10: Summary of the labour force main projection results, thousands, 2025-2042

000	Total					
	2025	2026	2027	2032	2037	2042
Working-age	24,637	24,856	25,077	26,151	26,986	27,606
Economically Active	17,135	17,298	17,454	18,087	18,534	18,736
Employed	16,531	16,703	16,866	17,512	17,947	18,146
Unemployed	603	595	588	576	587	590
Economically Inactive	7,503	7,554	7,614	8,042	8,431	8,842
	Male					
Working-age	12,631	12,738	12,847	13,379	13,794	14,092
Economically Active	10,457	10,561	10,661	11,081	11,403	11,566
Employed	10,099	10,210	10,316	10,747	11,060	11,221
Unemployed	358	351	344	334	342	344
Economically Inactive	2,174	2,173	2,177	2,276	2,370	2,498
	Female					
Working-age	12,007	12,118	12,230	12,772	13,192	13,515
Economically Active	6,677	6,737	6,793	7,006	7,131	7,170
Employed	6,432	6,493	6,549	6,764	6,886	6,925
Unemployed	245	244	244	242	245	245
Economically Inactive	5,330	5,381	5,437	5,766	6,061	6,345

Source: Calculation is based on data from United Nations (2022), Department of Statistics Malaysia (2023) and model assumptions.

<u>Macroeconomic model</u>

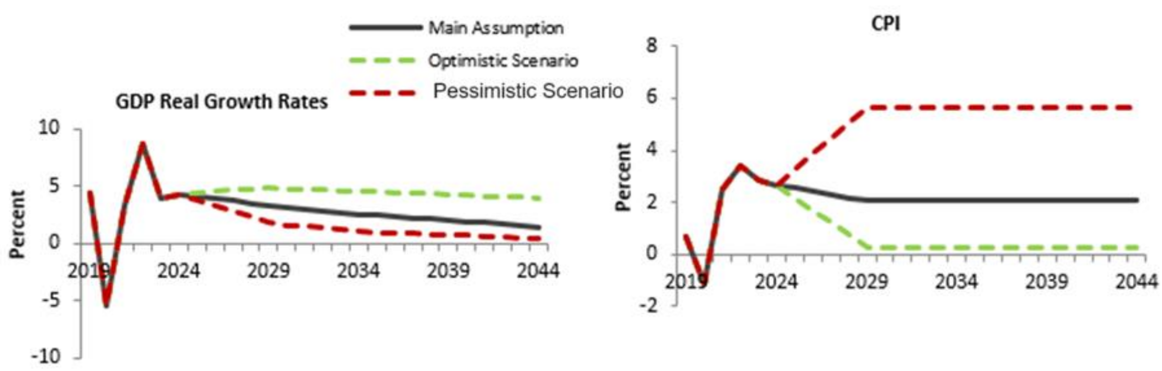
The model is built on the neoclassical long-run path of economic growth, which decomposes growth into two components: the growth rate of the employed population and labour productivity (reflecting technological progress, human capital, and capital/labour ratio). The growth of employment is fed directly from the labour force model. Over the period of 2019-2024, labour productivity in Malaysia grew at an average annual rate of 1.61 percent, which was largely impacted by COVID-19. However, in 2024, the study estimated it to reach a high rate of 3.119 percent. Therefore, the study assumes that this rate will increase to 2.5 percent by 2029, then gradually decline to 2.0 percent in 2034 and then 1.5 percent by 2044. For the inflation rate (CPI), the average annual rate over the past five years was estimated at 2.05 percent. The study assumes that this rate will remain the same over the projection period. The GDP deflator is linked to the CPI and starting from 2034 the two rates are equated.

Table 11: Summary of main macroeconomic indicators, 2025-2042

Economic Indicators	2025	2026	2027	2032	2037	2042
GDP, current prices, billion RM	2,217	2,378	2,543	3,385	4,237	5,158,441
GDP per capita, current , RM	63,288	67,221	71,191	90,786	109,752	129,974
Inflation (CPI), percent	2.55	2.42	2.30	2.05	2.05	2.05
GDP growth, real	4.12	3.94	3.75	2.86	2.25	1.70
Labor productivity growth, percent	3.00	2.87	2.75	2.20	1.85	1.60

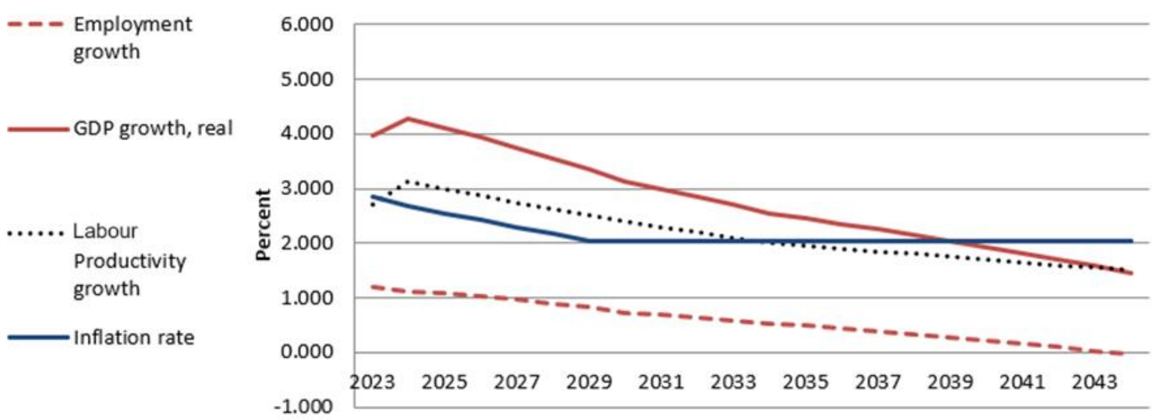
Source: Projection is based on baseline data from United Nations (2022), Department of Statistics Malaysia (2023), International Monetary Fund (2023) and study assumptions.

Figure 34: Projection results: GDP growth in real terms and CPI



Source: Calculation is based on data from International Monetary Fund (2023) and study assumptions.

Figure 35: Projection results: Growth rates



Source: Projection is based on baseline data from United Nations (2022), Department of Statistics Malaysia (2023), International Monetary Fund (2023) and study assumptions.

Projection of the SPF

The first assumption that needs to be specified concerns the coverage ratio among the underlying population. With the low benefit amount, a form of implicit targeting is built-in as some well-off households will choose not to take up the benefit. Further, a wealth threshold as explained earlier in Chapter 3 might be introduced for political reasons, which would remove some of the richest households. Therefore, the study assumes a take-up rate of 80 percent of the underlying population.[17] For persons with disabilities, a prevalence rate of 5 percent is assumed, which corresponds to a severe form of disability attested by medical personnel in line with existing practices at JKM.

Applying these rates into the corresponding age groups already projected, and against the criteria stated in Table 1, the specific programme's beneficiaries are shown below:

Table 12: Costing results: Number of beneficiaries in thousands, 2025-2042

	2025	2026	2027	2032	2037	2042
Beneficiaries, 000	**4,845**	**5,360**	**5,874**	**8,420**	**10,886**	**12,913**
First 1000 days	1,207	1,202	1,196	1,155	1,101	1,071
Child 2-17	0.0	404.0	806.6	2,789.4	4,699.6	6,128.3
Disability U18	368.8	368.4	368.6	364.8	353.7	342.1
Disability 18-64	924.0	932.0	939.6	977.8	1,010.0	1,031.5
Old-age 65+	2,345.4	2,453.4	2,562.7	3,133.1	3,722.6	4,339.5

Source: Projection is based on baseline data from United Nations (2022), Department of Statistics Malaysia (2023), International Monetary Fund (2023) and study assumptions.

Over the projection period, benefits are assumed to maintain real value in RM (indexed with inflation). However, as the economy is expected to grow in real terms, the benefit level will decline in relative value over the projection period. At a later stage, a periodic review of the real value of the benefit can be introduced to ensure coherence and relevance. Table 9 traces the benefit level development over the projection period.

[17] These assumptions are meant as a starting point. They (and many other parameters, e.g. benefit amount) can be changed in the costing tool, enabling one to immediately see the cost implication of any change.
Note also that rates above are interpolated between the specified years.

Table 13: Benefit level in RM and as a percent of GDP per capita

2025		2030		2035		2042	
RM	**% of GDP Per Capita**	**RM**	**% of GDP Per Capita**	**RM**	**% of GDP Per Capita**	**RM**	**% of GDP Per Capita**
150	2.84	168	2.43	186	2.19	214	1.98
200	3.79	224	3.24	248	2.92	286	2.64
300	5.69	336	4.86	372	4.38	429	3.96

Source: Calculation is based on data from International Monetary Fund (2023) and study assumptions.

The total benefit amount spent under each scenario is calculated as the product of the beneficiaries and the benefit amount for each year in the projection period. In line with evidence from international experience,[18] administrative cost is assumed at 2.5 percent of the benefit amount. The following table summarizes the cost of each programme expressed in RM and percentage of GDP.

Table 14: Projected overall cost in RM billion and as a share of GDP, 2025-2042

	2025	**2026**	**2027**	**2032**	**2037**	**2042**
Total Expenditure, Billion RM	**15.138**	**16.715**	**18.342**	**27.162**	**37.407**	**48.420**
First 1000 days	2.39	2.44	2.49	2.67	2.82	3.03
Child 2-17	0.00	0.76	1.56	6.00	11.20	16.16
Disability U18	0.68	0.70	0.71	0.79	0.84	0.90
Disability 18-64	3.41	3.53	3.64	4.21	4.81	5.44
Old-age 65+	8.65	9.28	9.93	13.49	17.74	22.88
Total Expenditure,% of GDP	**0.683**	**0.703**	**0.721**	**0.802**	**0.883**	**0.939**
First 1000 days	0.11	0.10	0.10	0.08	0.07	0.06
Child 2-17	0.00	0.03	0.06	0.18	0.26	0.31
Disability U18	0.03	0.03	0.03	0.02	0.02	0.02
Disability 18-64	0.15	0.15	0.14	0.12	0.11	0.11
Old-age 65+	0.39	0.39	0.39	0.40	0.42	0.44

Source: Projection is based on baseline data from United Nations (2022), Department of Statistics Malaysia (2023), International Monetary Fund (2023) and study assumptions.

[18] See Footnote 6. According to an ILO review across many countries, administration costs for universal schemes averaged 2.5 percent of total programme costs.

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