UNIVERSITI MALAYA

Pusat Penyelidikan Kesejahteraan Sosial
Social Wellbeing Research Centre
(SWRC)

National Social Wellbeing Blueprint

NATIONAL SOCIAL WELLBEING BLUEPRINT

Social Wellbeing Research Centre (SWRC)
Universiti Malaya, 50603 Kuala Lumpur

2023

Published by Social Wellbeing Research Centre (SWRC)

ISBN 978-629-96636-3-8

This Blueprint was first put forward in 2019 to the Malaysia Social Protection Council (MySPC), chaired by YAB Dato' Seri Dr Wan Azizah binti Dr Wan Ismail (then the deputy Prime Minister)

Printed in Kuala Lumpur, Malaysia

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Abbreviations

11MP	:	Eleventh Malaysian Plan
1AZAM	:	*Akhiri Zaman Miskin* (Poverty Eradication Programme)
1MDB	:	1Malaysia Development Berhad
ADB	:	Asian Development Bank
AFC	:	Asian Financial Crisis
AIM	:	*Amanah Ikhtiar Malaysia* (Micro-credit facility for self-employed hardcore poor)
ALMP	:	Active Labour Market Policies
B40	:	Bottom 40%
BA	:	*Bantuan AM* (Welfare Aid)
BKK	:	*Bantuan Kanak-Kanak* (Children's Aid)
BNM	:	Bank Negara Malaysia
BOT	:	*Bantuan Orang Tua* (Elderly Aid)
BR1M	:	*Bantuan Rakyat 1 Malaysia* (1Malaysia People's Aid)
BSH	:	*Bantuan Sara Hidup* (Household Living Aid)
CEDAW	:	Convention on the Elimination of Discrimination Against Women
COL	:	Critical Occupations List
CPF	:	Central Provident Fund
CPI	:	Consumer Price Index
CRC	:	Convention on the Rights of the Child
DOSM	:	Department of Statistics Malaysia
EIS	:	Employment Insurance System
EPC	:	*Elaun Pekerja Cacat* (Allowance for Disabled Workers)
EPF	:	Employees Provident Fund
EPU	:	Economic Planning Unit
ERA	:	Early Re-employment Allowance
ESO	:	Employment Service Officer
ESSA	:	Employees' Social Security Act 1969
FMIs	:	Fund Management Institutions
FWCS	:	Foreign Workers Compensation Scheme
GCR	:	*Gantian Cuti Rehat* (Civil Servants' Post Employment Benefits)
GDP	:	Gross Domestic Product
GST	:	Goods and Services Tax
GTP	:	Government Transformation Programme
HDMF	:	Home Development Mutual Fund
HIES	:	Household Income and Expenditure Survey
HRDF	:	Human Resources Development Fund
ICU	:	Implementation Coordination Unit
ILMIA	:	Institute of Labour Market Information and Analysis
ILO	:	International Labour Organization
IMP	:	Industrial Masterplan
IPS	:	Invalidity Pension Scheme

IR4.0	:	Fourth Industrial Revolution
IRAS	:	Inland Revenue Authority of Singapore
JKM	:	*Jabatan Kebajikan Masyarakat* (Department of Social Welfare)
JPA	:	*Jabatan Perkhidmatan Awam* (Public Service Department)
JPM	:	*Jabatan Perdana Menteri* (Prime Minister's Department)
JPN	:	*Jabatan Pendaftaran Negara* (National Registration Department)
JSA	:	Job Search Allowance
JTK	:	*Jabatan Tenaga Kerja* (Department of Labour)
KKM	:	*Kementerian Kesihatan Malaysia* (Ministry of Health)
KPKT	:	*Kementerian Pembangunan Kerajaan Tempatan* (Ministry of Local Government Development)
KRI	:	Khazanah Research Institute
KUSKOP	:	*Kementerian Pembangunan Usahawan dan Koperasi* (Ministry of Entrepreneur and Cooperatives Development)
KWAP	:	*Kumpulan Wang Persaraan (Diperbadankan)* (Retirement Fund (Incorporated))
LHDN	:	*Lembaga Hasil Dalam Negeri* (Inland Revenue Board)
LOE	:	Loss of employment
LTAT	:	*Lembaga Tabung Angkatan Tentera* (Armed Forces Fund Board)
M40	:	Middle 40%
MARA	:	*Majlis Amanah Rakyat* (People's Trust Council)
MASCO	:	Malaysian Standard Classification of Occupation
MOA	:	Ministry of Agriculture
MOE	:	Ministry of Education
MOF	:	Ministry of Finance
MOHR	:	Ministry of Human Resources
MPF	:	Mandatory Provident Fund
MSIC	:	Malaysian Standard Industrial Classification
MWFCD	:	Ministry of Women, Family, and Community Development
MySPC	:	Malaysia Social Protection Council
NEP	:	New Economic Policy
OECD	:	Organisation for Economic Co-operation and Development
PEA	:	Payout Eligible Age
PhilHealth	:	Philippine Health Insurance Corporation
PLI	:	Poverty Line Income
PLMP	:	Passive Labour Market Policies
PMR	:	*Penilaian Menengah Rendah* (Malaysian Public Exam)
PPBM	:	*Persatuan Pengasuh Berdaftar Malaysia* (The Association of Registered Childcare Providers Malaysia)
PPF	:	Public Provident Fund
PPKZM	:	*Program Pemulihan Kanak-kanak Kekurangan Zat Makanan* (The Rehabilitation Program for Undernourished Children)
PPP	:	Purchasing Power Parity
Protégé	:	Professional Training and Education for Growing Entrepreneurs
PWD	:	Persons with Disabilities
RIA	:	Reduced Income Allowance
RMT	:	*Rancangan Makanan Tambahan* (School Feeding Programme)

SDFC	:	Skills Development Fund Corporation
SDGs	:	Sustainable Development Goals
SKSPS	:	*Skim Keselamatan Sosial Pekerjaan Sendiri* (Self-employment Social Security Scheme)
SKSSR	:	*Skim Keselamatan Sosial Suri Rumah* (Housewives' Social Security Scheme)
SL1M	:	*Skim Latihan 1Malaysia* (Training programme for unemployed youth)
SME	:	Small and Medium Enterprises
SOCSO	:	Social Security Organisation
SPF	:	Social Protection Floor
SPG	:	Superannuation Guarantee
SPM	:	*Sijil Pelajaran Malaysia* (Malaysian Public Exam)
SSC	:	Shared Service Centre
SSGS	:	Special Singapore Government Securities
SSS	:	Social Security System
SST	:	Sales and Service Tax
SWRC	:	Social Wellbeing Research Centre
T20	:	Top 20%
TEKUN	:	*Tabung Ekonomi Usaha Niaga* (An agency providing finance, guide & support to entrepreneurs)
TFR	:	Total Fertility Rate
TVET	:	Technical and Vocational Education and Training
UBI	:	Universal Basic Income
UN	:	United Nations
UNDP	:	United Nations Development Programme
UNICEF	:	United Nations International Children's Emergency Fund
UPM	:	Universiti Putra Malaysia
WB	:	World Bank

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SECTION I : SETTING THE CONTEXT

Malaysia has become one of the fastest developing economies with an admirable track record of rapid economic development and is on its way to becoming a high-income nation. Malaysian households have generally benefitted from the economic growth during Malaysia's rapid industrialisation over the last three decades until the early 2000s. A substantial increase has been reflected in the nation's nominal median monthly household incomes and the overall standard of living. However, not all Malaysians feel that their lives have improved. Making a decent living is still challenging for many Malaysians; also not all have equal access to opportunities.

Therefore, the Blueprint adopts a holistic approach to wellbeing within the context of growing the economy, however, with an equally important focus on sharing the benefits with all Malaysians, as in **SHARED PROSPERITY**. The Blueprint also aims to focus on inter-generational redistribution in addition to the redistribution of income from higher-income to lower-income groups.

Chapter 1: National Social Wellbeing Blueprint

1.1 Our Vision for Our People

**A PROSPEROUS MALAYSIA WHERE EVERY CITIZEN
LIVES A PURPOSEFUL AND DIGNIFIED LIFE**

1.2 Objectives of the Blueprint

The objective of this 10-year Blueprint is to chart a set of strategies and options for consolidating the existing fragmented social protection arrangements into a; coherent, effective, and impactful system of social protection that contributes to the vision of Malaysia as a **socially inclusive, economically productive, efficient nation**. As a baseline, this document starts with a review of the existing fragmented and uncoordinated social protection programmes. This section is followed by proposals for interventions and consolidation to create synergies among programmes that ultimately **leave no one behind**. Consequently, a comprehensive social protection system will contribute to overall growth while ensuring fiscal sustainability in tandem with Malaysia's journey to become a developed nation.

1.3 Approach, Philosophy and Framework

Malaysia's Economic Planning Unit (EPU) defined wellbeing as the; physical, social, and economic benefits that improve the quality of life and satisfaction of individuals, families and communities (EPU, 2014). Social wellbeing, thus, includes the following: housing, leisure, governance, public safety, social participation, culture, health, environment and family. The relationships between wellbeing and social protection programmes have been well established. Countries that have improved living conditions broadly have developed comprehensive social protection systems covering most of the population. Social protection not only benefits people living in poverty but also promotes the wellbeing of societies at large.

The term 'wellbeing' has gained traction beyond economic dimensions since the published Commission on Measuring Economic Performance and Social Progress report (Stiglitz et al, 2010). The report posed a critical question of the best indicator to measure societal progress besides economic development, commonly measured by the Gross Domestic Product (GDP). One of the report's recommendations was to **"shift emphasis from measuring economic production to measuring people's wellbeing"** (Stiglitz et al, 2010).

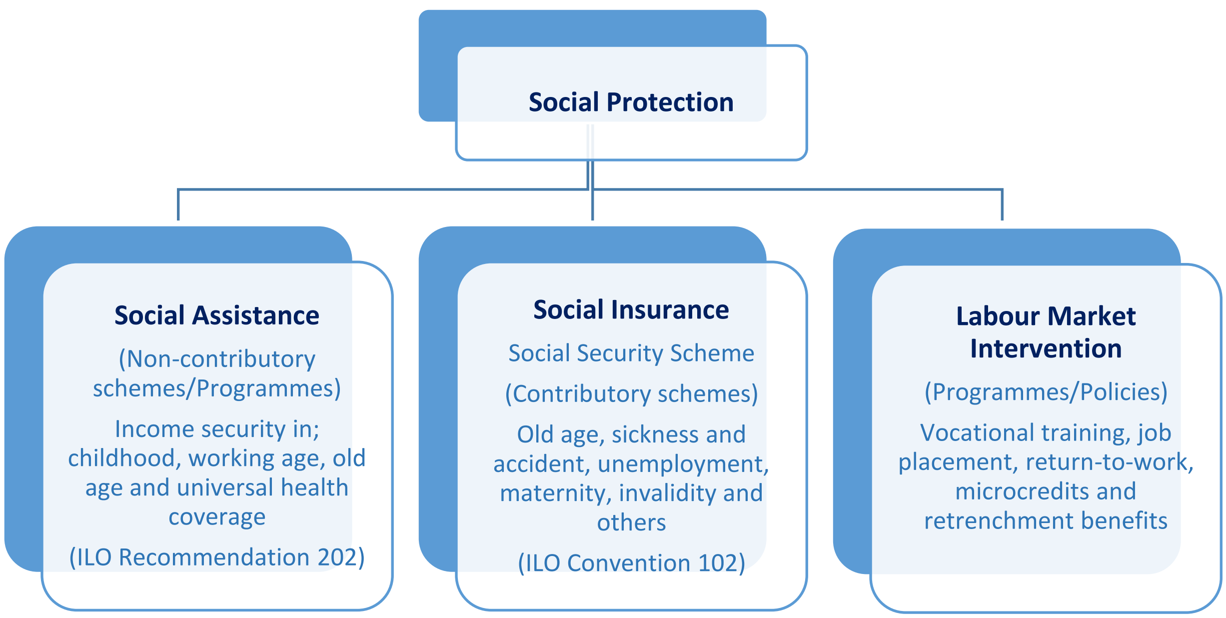
Hence, this is a new beginning and Malaysia must make a shift when designing all government policies and measuring progress to reflect objective measures, such as; the GDP, the unemployment rate and the impact on the quality of life of the people. The barometer of success of this new reform initiative is when the poorest, weakest, furthest, underserved, most illiterate, those with disabilities and oldest Malaysians feel the benefits of progress.

To some extent, Malaysia has produced indicators that measure welfare and wellbeing, namely, the Malaysia Quality of Life Report, which later developed into the Wellbeing Index. The former has been measured since the 1980s and reported in subsequent years in 1999, 2002, 2004 and 2011, while the latter was reported in 2013. The reports were produced by Malaysia's Economic Planning Unit (which is currently under the Ministry of Economic Affairs) and showed the government's commitment towards measuring development through social indicators (Abu Bakar et al, 2018).

The concept of social protection also echoes elements of social wellbeing. The definitions and terms of social protection have evolved and differ slightly. Nevertheless, social protection is generally understood as a combination of social insurance, ie contributory forms of social provisioning, and social assistance, ie transfers covering much of the population, and generally funded by public sources and labour market policies (ILO, 2012). These programmes and policies are designed to reduce and prevent poverty vulnerability throughout the life cycle.

A life cycle approach implies changing social protection in the three phases of life: infancy and childhood, adulthood and working life, and old age, with health needs changing throughout. This framework is used in the social protection floors initiative adopted as ILO Recommendation 202 (ILO, 2012). Such an approach has shown that social protection programmes should address all population segments.

Figure 1.1: Major Components of Social Protection



Source: ILO definition of Social Protection (ILO, 2012)

The range of social protection instruments includes:

i. Social transfers in cash or kind;
ii. Programmes and policies to ensure social access to education, health, water, sanitation and other social services;
iii. Social support services such as care facilities;
iv. Active labour market policies (ALMP) and passive labour market policies (PLMP)

The International Labour Organization's (ILO) nine principal branches of social security and the ILO Social Security (Minimum Standards) Convention, 1952 (No.102) lay down the minimum standard for the level of social security benefits and the conditions under which they are granted. The nine branches include medical care, sickness, unemployment, old age, employment injury, family, maternity, invalidity and survivor benefits.

Besides that, the ILO Social Protection Floors Recommendation, 2012 (No. 202) states that national social protection floors should comprise access to essential healthcare, basic income security for children, providing access to nutrition, education, care and any other necessary goods and services, basic income security for persons of active age who are unable to earn sufficient income, particularly in cases of sickness, unemployment, maternity and disability; and basic income security for older persons to ensure adequate access to essential healthcare and basic income security throughout the life cycle.

1.4 Government Commitments to Social Protection

Social protection is an important policy tool for the realisation of human security and for achieving equity and social justice. The Universal Declaration of Human Rights includes the right to social protection in Article 22, which guarantees the right to social security. Further, Article 25 recognises the right of everyone to a standard of living adequate for the health and wellbeing of oneself and one's family, including medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, spousal death, old age or other livelihood deprivation due to circumstances beyond one's control. Other international legal instruments and standards, which Malaysia has signed, highlight the right to social security (UN, 1948). In principle, social protection is a basic human right that contributes to the better social wellbeing of an individual and simultaneously promotes a productive nation at large.

At the national level, Malaysia's commitment to social protection is clear in the Eleventh Malaysia Plan 2016-2020, where human capital development is identified as a critical enabler for driving and sustaining Malaysia's economic growth and supporting a sustainable and inclusive economy (EPU, 2016). A further explicit commitment was restated in the 2018 midterm review of the Eleventh Malaysian Plan (MTR11MP):

> *"Enhancing social protection and wellbeing for households, in particular the B40 households, a framework for an integrated and comprehensive social protection system will be established. The implementation of social protection programmes across different agencies will be coordinated through a central council. The council will obtain data from various databases and guided inputs from industry and academia. In addition, big data analytics will be deployed to generate value and insights for improving the Social Protection Floor. The targeting of recipient eligible for assistance will also be refined to be more need-based, which will include socio-demographic and geographical factors. Furthermore, mechanisms will be identified to extend social security protection to households working in the informal sector."* (EPU, 2018)

Currently, Malaysia has a range of public social protection arrangements, including contributory and non-contributory schemes. Contributory formal social protection schemes include the Civil Service Pension Scheme (KWAP), the Employees Provident Fund (EPF), the Social Security Organisation (SOCSO), and the Armed Forces Fund (LTAT). Non-contributory arrangements, or social assistance, are mostly targeted at low-income groups and administered by the Ministry of Women, Family, and Community Development (MWFCD) and the Ministry of Finance (MOF). In addition to public schemes, zakat, the Islamic welfare institution, collects and distributes cash and in-kind assistance to specific needy categories at the state level.

At present, social protection programmes in Malaysia are organised according to three major components (Table 1.1).

Table 1.1: Existing Social Protection Programmes in Malaysia

Social Protection	Programmes	Provider
Social Assistance	• Financial and welfare assistance • Home-help services • Zakat	• Federal and State government through several ministries • Pusat Zakat and Baitulmal – State level
Social Insurance, Pension and Retirement Benefits	• Public sector pensions • Retirement and protection for armies • Old age protection and savings • Employment injury and invalidity • Workmen Compensation Act • Sickness and maternity benefits • Private retirement schemes • Healthcare	• Public Service Department • Armed Forces Fund Board (LTAT) • Employees Provident Fund • Social Security Organisation • Ministry of Human Resources • Ministry of Health (MOH)
Labour Market Programmes	• Retrenchment benefits • Retrenchment monitoring operation room • Electronic labour exchange • Vocational training programmes for retired/retiring servicemen • Job Coaching • Return to Work • Microcredits	• Ministry of Human Resources • Public Service Department • Social Security Organisation • Agencies under the Ministry of Rural and Regional Development

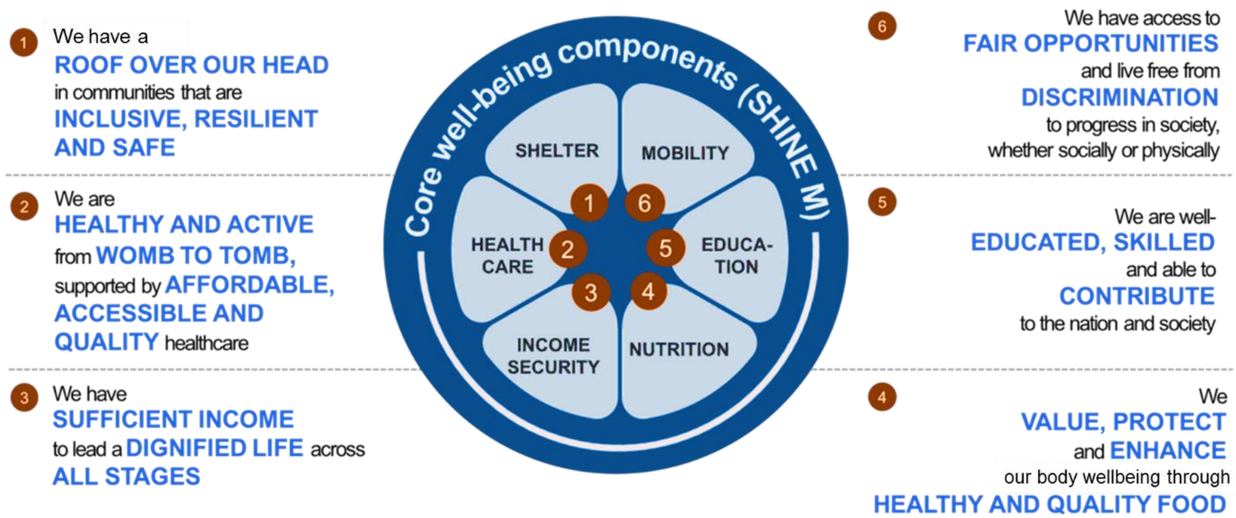
Source: Mansor et al (2014)

As Malaysia moves towards high-income nation status, Malaysia should move away from a charity model into a more inclusive system. Plans and efforts for more effective social protection, as stated in the MTR11MP, are aligned with the UN's Sustainable Development Goals (SDGs). Specifically, they will contribute to achieving the third target of SDG 1 (the complete elimination of extreme poverty in the world through the establishment of social protection systems and measures for all), SDG 8 (sustained, shared and sustainable economic growth; full, productive employment and decent work for all), and SDG 10 (the reduction of inequalities between countries and within them).

1.5 Social Wellbeing and SHINE-M

Adapting the concept of social wellbeing and taking the social protection framework into perspective, this Blueprint has identified six core components of social wellbeing: Shelter, Healthcare, Income Security, Nutrition, Education and Mobility, known as SHINE-M. These elements should not be seen as independent of each other. They are interconnected and income security forms the basis for better social wellbeing.

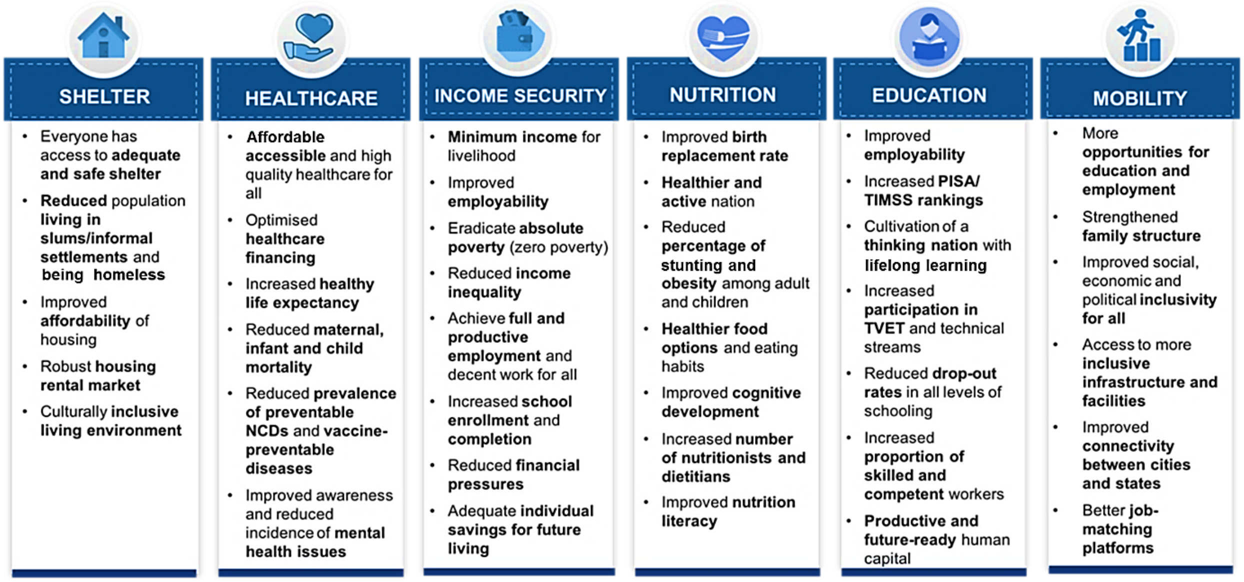
Figure 1.2: A Holistic Social Wellbeing Framework for Malaysians



This Blueprint shapes the aspiration for the social wellbeing of Malaysians based on a holistic social framework grounded by the SHINE-M components. Malaysia should strive for all residents to have a roof over their heads in inclusive, resilient, safe communities. Health is a key component of an enriched life. Hence, all Malaysians should be supported by; affordable, accessible and quality healthcare to lead a healthy and active lifestyle from womb to tomb. In addition, the Rakyat deserves sufficient income that enables them to lead dignified lives across all stages. Considering the importance of nutrition in enhancing our body's wellbeing, improved access to high-quality and healthy food for all should be a priority. It is also important that labour force participants are; well-educated, skilled and able to contribute to the society and the nation. Lastly, the Rakyat should have access to fair opportunities and live free from discrimination for the nation to achieve significant progress.

This Blueprint has identified specific outcomes according to SHINE-M components to realise the aspirations above. These outcomes focus on the needs of the present generations and consider the long-term impact on the future generations of Malaysians.

Figure 1.3: SHINE-M Desired Outcomes



SHINE-M provides a simple yet comprehensive framework for different aspects of social wellbeing, where income security for categories of vulnerability in life stages is the foundation to enrich the other components further. Hence, the recommendations developed in this Blueprint aim to address the life cycle vulnerabilities laid through SHINE-M, a hybrid framework suited to Malaysia's shared prosperity goal.

1.6 A Phased Approach to Improving Wellbeing Blueprint Development

While wellbeing is a broad concept involving income and non-income dimensions, the Blueprint's major focus is on income, covering both contributory and non-contributory arrangements for two main reasons:

- Time element
- Prioritisation according to the needs of the country (drawing from the contributions of different task forces with their different portfolios)

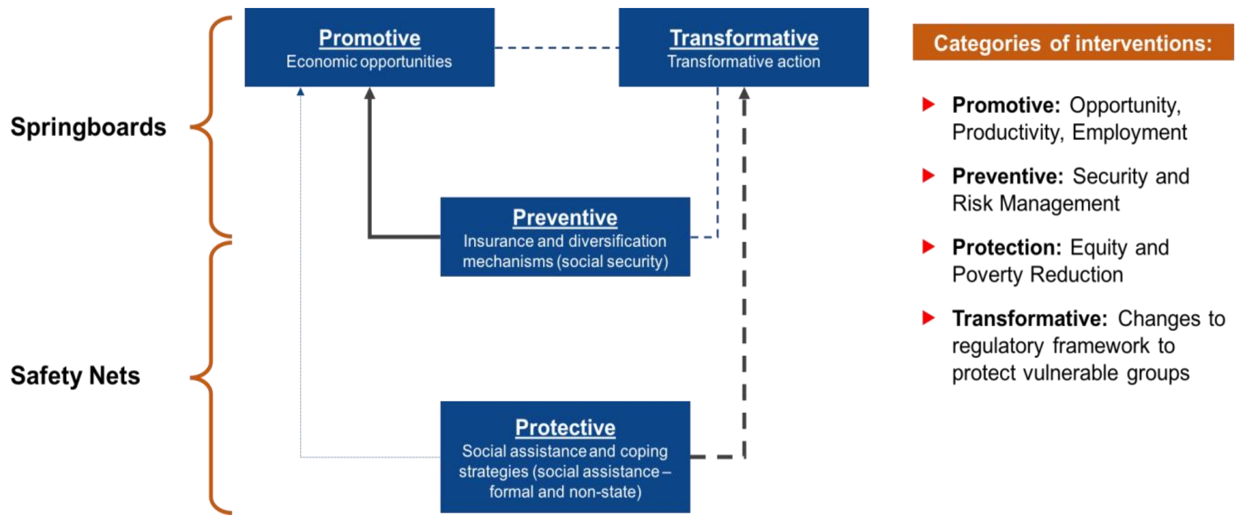
Therefore, this framework is presented as a first phase covering the income dimension, followed by two more non-income dimensions. Below are the three suggested phases for the development of the wellbeing of all Malaysians:

- Phase 1: **Income security:** Covers social cash transfer arrangements, including contributory and non-contributory benefits. Phase 1 began in 2020.
- Phase 2: **Inclusive and active labour market environment**: This covers areas that promote a more inclusive labour market such as paternity arrangements, the incentive structure for increasing labour market participation and the employability of women, old age, ensuring a more inclusive society and labour market for people with disabilities, women, young people and minorities. Further, policies like active/passive labour market policies, reskilling, training and technology deepening should also be covered. Phase 2 began in 2021 and is ongoing.
- Phase 3: **Other non-income dimensions** such as health, education, shelter and good citizenship values. Phase 3 is to start in 2023.

1.7 Strategic Focus Areas

With the phased approach described above, the Blueprint will focus on specific strategic areas to form the structure of Malaysia's National Social Wellbeing Strategy. These focus areas aim to provide interventions throughout Malaysians' life cycle, drawing upon protection, prevention, promotion and transformation principles.

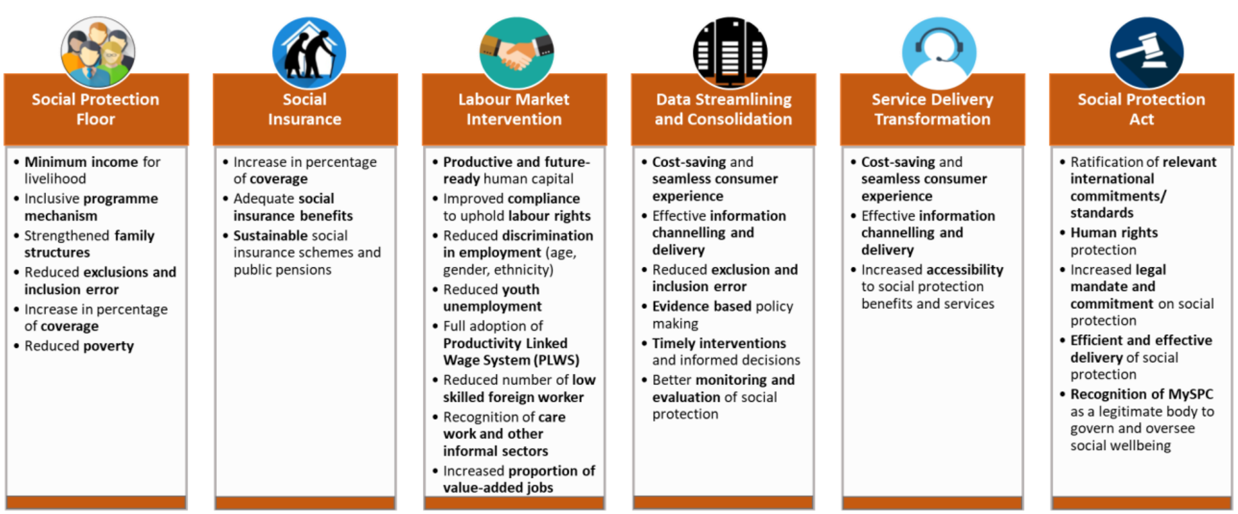
Figure 1.4: Categories of Intervention



Source: Devereux and Sabates-Wheeler (2004)

The first three strategic focus areas adopt the components of social protection and the remaining three are identified key enablers that would lay the foundation for and support the successful implementation of the strategy. The following chapters detail the recommendations for each focus area, emphasising the income security dimension.

Figure 1.5: Desired Outcomes by Strategic Focus Areas



Chapter 2: Social Wellbeing Landscape in Malaysia

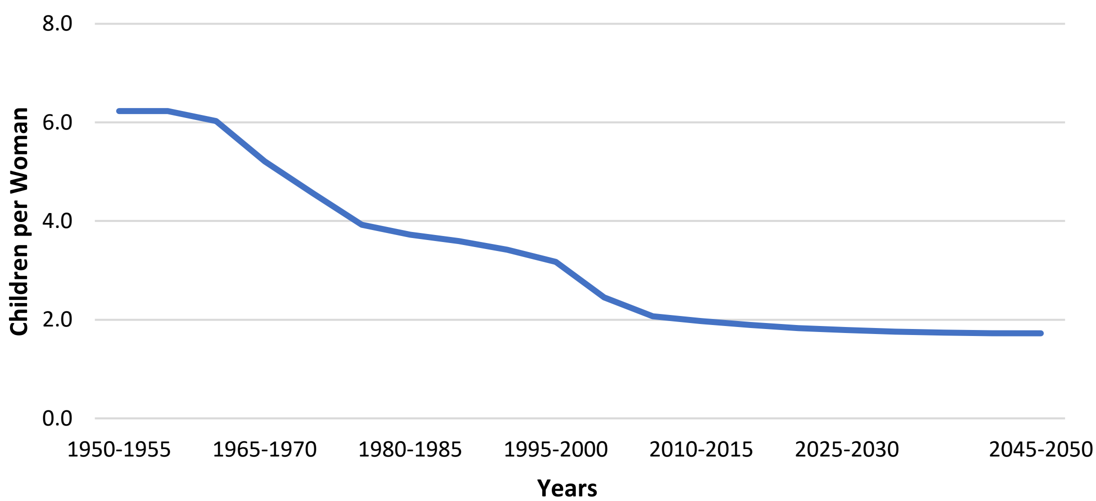
2.1 Socioeconomic Background

2.1.1 Demographic Profile

Malaysia's population reached 31.2 million in 2017. Over the last ten years, it grew at an average rate of 1.5% annually, higher than that of Southeast Asia (1.2%). By 2050, the growth rate will still be positive at 0.4%. However, the population is expected to decline by 2070 (UN, 2016).

The declining natural population growth (excluding migration) can be explained by fertility and mortality rates. Since 1957, the total fertility rate (TFR) has decreased by almost 70%, from 6.1 children per woman to 2.0 children per woman in 2017. It is expected to decline further to an average 1.7 children per woman by 2050 (UN, 2016).

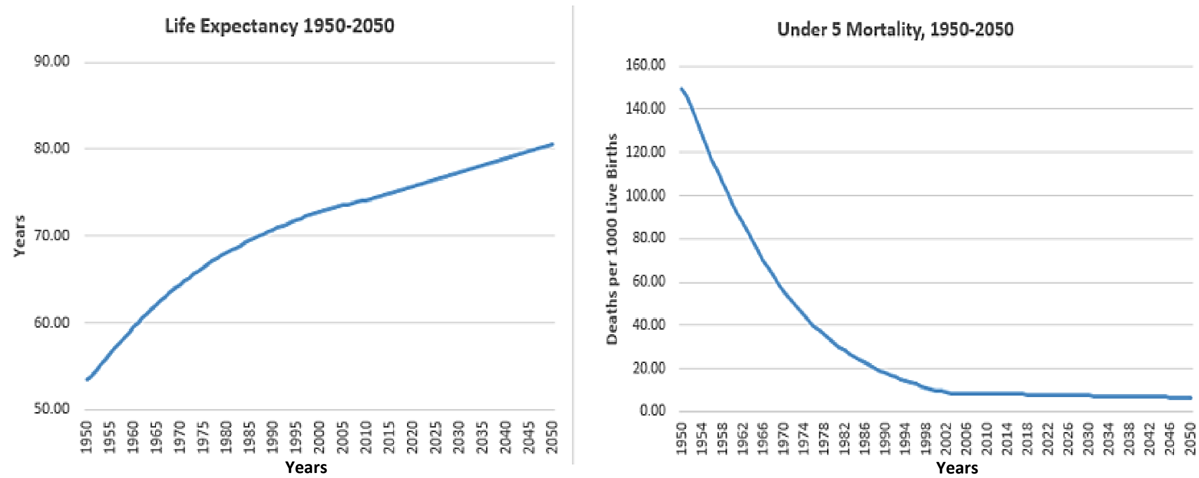
Figure 2.1: Total Fertility Rates, 1950–2050



Source: UN (2016)

The mortality rate improved over the same period, with the under-five mortality rate declining significantly from 111.2 deaths per 1,000 live births in 1957 to 8.1 deaths per 1,000 live births in 2017. Life expectancy at birth, therefore, has increased steadily to reach 72.9 years as of 2016, a 16.6 years increase since independence. It is expected to increase by eight more years by 2050 (UN, 2016).

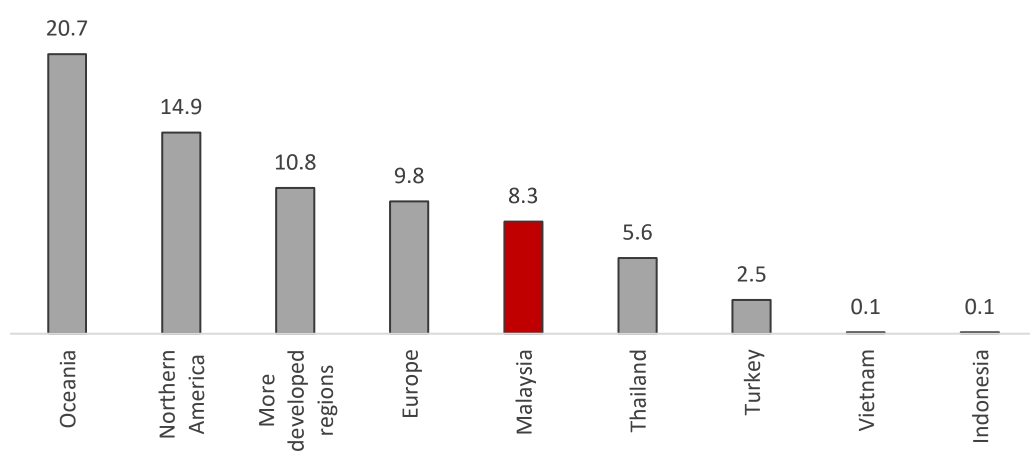
Figure 2.2: Life Expectancy in Years (left graph) and Under-5 Mortality (deaths per 1,000 lives), 1950–2050



Source: UN (2016)

In addition to natural population change (fertility and mortality), net migration has also been a key feature of Malaysia's demography. The latest available data estimated that in 2013 recent immigrants constituted 8.3% of the total population, significantly higher than the regional average (UN, 2016).

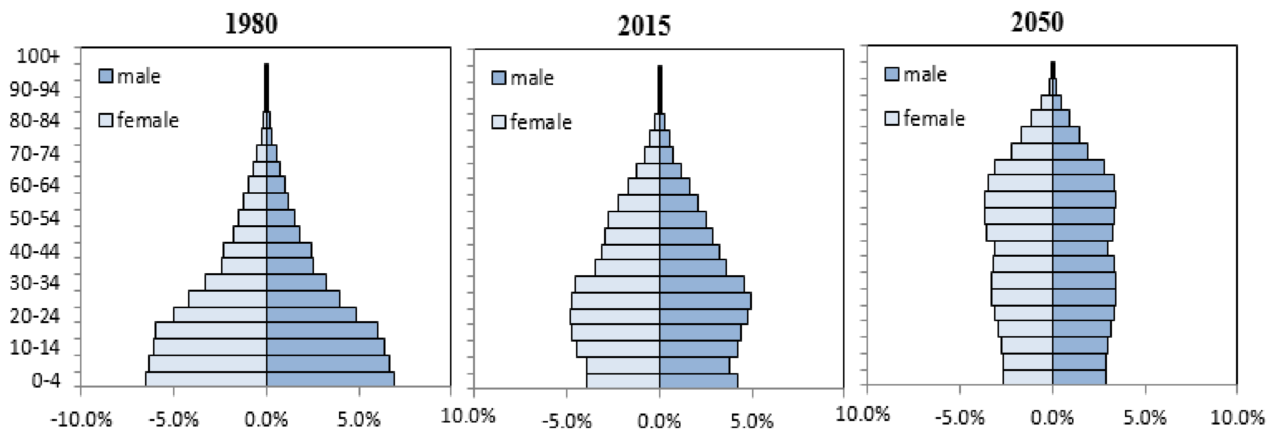
Figure 2.3: International Migrant Stock as a Percentage of the Total Population, 2013



Source: UN (2016)

Considering factors such as fertility, mortality, and migration, Malaysia's population is expected to grow, however, at a decreasing rate until 2070, when natural population growth is expected to decline. As of 2015, an important feature of Malaysia's population is the broad middle section of its population pyramid, a favourable demographic profile for the labour market.

Figure 2.4: Population Pyramid, 1980–2050



Source: UN (2016)

The population dynamics discussed earlier have four major potential consequences:

- While population growth will continue to increase over the next few decades, the number of children will decrease.

Table 2.1: Population, 1957–2050 (millions)

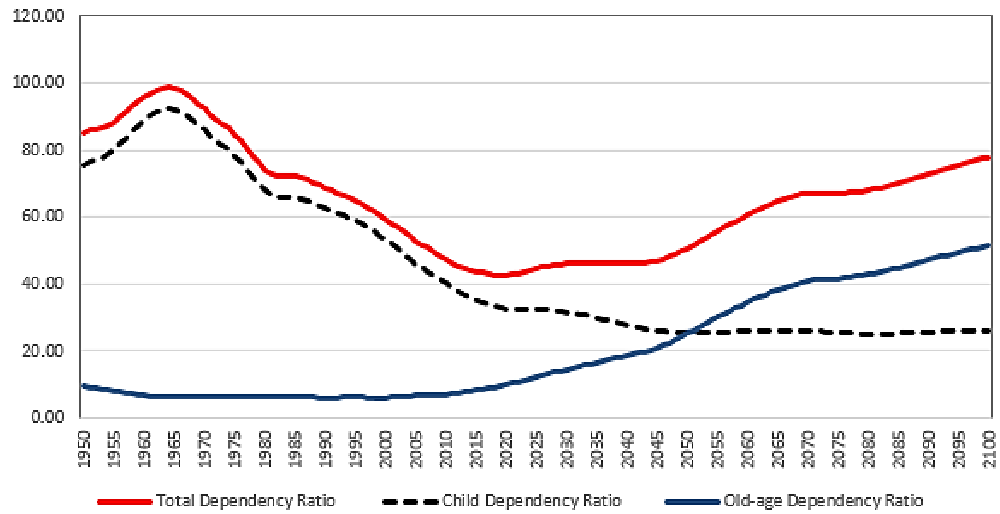
	1957	2017	2050
Population	7.4	31.0	40.7
Children under 18	3.7	9.1	8.3

Source: UN (2016)

Despite the declining fertility rate, the likelihood of steady and possibly increased population growth can be explained by "demographic momentum" which occurs because more women are in their reproductive years.

- The reduction in the young dependency ratio (the ratio of children under 15 years of age per working-age person) will be overtaken by the rapid increase of the old-age dependency ratio (the ratio of elderly over 65 to working-age people). The year 2050 is estimated to mark a point when the old-age dependency ratio exceeds that of the young dependency ratio for the first time in Malaysia. Older people (65 and above) will exceed the pre-working-age population (below 15).

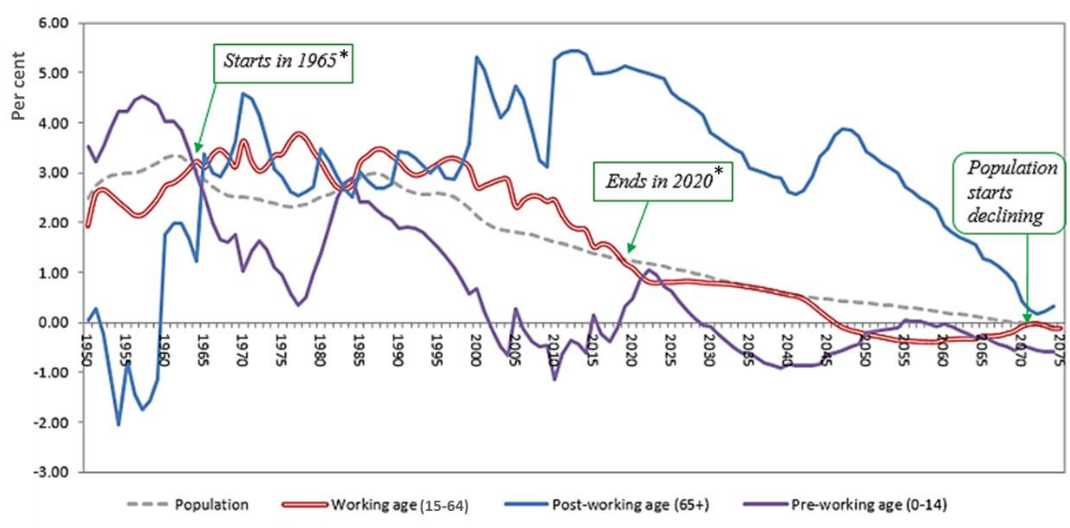
Figure 2.5: Number of Dependents per 100 Working-Age People (15–64), 1950–2100



Source: UN (2016), Authors' calculation

- While Malaysia has enjoyed a favourable demographic profile for decades, during which the working-age population expanded faster than the general population, this favourable demographic period, widely referred to as the "demographic window of opportunity", is ending. Expanding the working-age population and the concomitant enlargement of the labour force have favoured sustained economic growth as the country created sufficient jobs to absorb the rapidly growing labour force.

Figure 2.6: Population Growth Rates by Major Age Groups (%) and Demographic Window of Opportunity (start and end period), 1950–2075

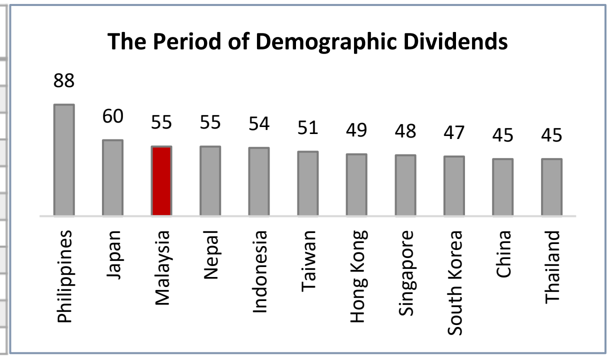


Note: *The demographic dividend began when the labour force grew faster than the overall population and ended when the labour force grew slower than the overall population.

Source: UN (2016), Authors' calculation

Figure 2.7: Length of Demographic Dividends for Selected Countries (years)

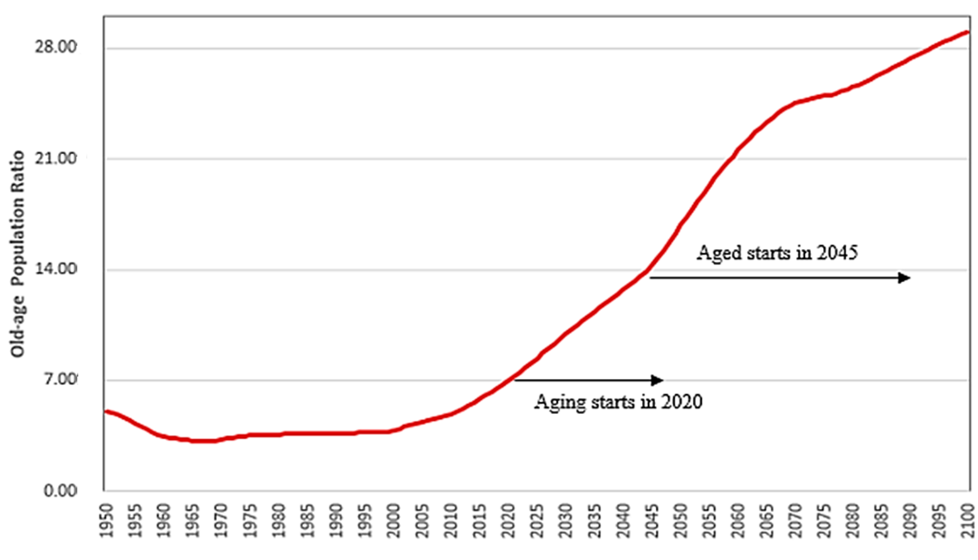
Country	Year		Length
	Start	End	
Philippines	1964	2052	88
Japan	1932	1992	60
Malaysia	1965	2020	55
Nepal	1991	2046	55
Indonesia	1971	2025	54
Taiwan	1963	2014	51
Hong Kong	1961	2010	49
Singapore	1964	2012	48
South Korea	1966	2013	47
China	1965	2010	45
Thailand	1968	2013	45



Source: The authors' calculation was based on the UN (2016) for Malaysia and Nepal. For other countries, Oizumi (2013), based on the UN (2013)

- As a result of falling fertility rates and longer life expectancy, Malaysia's population has been ageing faster than most other countries. Malaysia is considered an 'ageing nation', as the post-working population (65 and above) has constituted 7% of the total population since 2020. It will soon be an 'aged nation' when the post-working population (65 and above) constitutes 14% of the total population by 2045.

Figure 2.8: Post-Working Population as Share of Total Population, 1950–2100

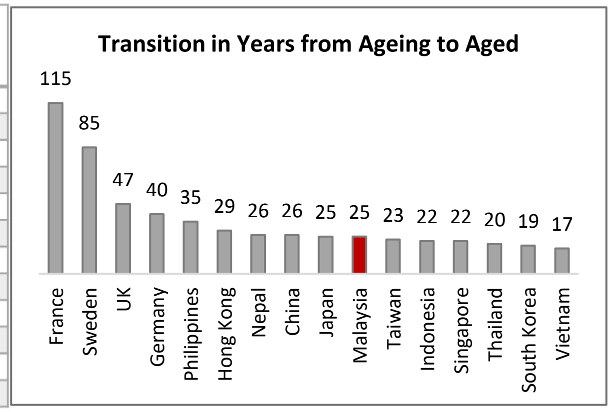


Source: UN (2016), Authors' calculation

In comparison with other countries, the speed of ageing is indeed alarming. For instance, while it took France 115 years to move from the ageing to an aged phase, Malaysia is doing this in only 25 years, as in other Asian societies.

Figure 2.9: Speed of Ageing for Selected Countries (years)

Country	Year		Length of Transition
	Ageing Nation	Aged Nation	
Philippines	2035	2070	35
Hong Kong	1984	2013	29
Nepal	2028	2054	26
China	2001	2027	26
Japan	1970	1995	25
Malaysia	2020	2045	25
Taiwan	1994	2017	23
Indonesia	2023	2045	22
Singapore	1999	2021	22
Thailand	2002	2022	20
South Korea	1999	2018	19
Vietnam	2016	2033	17

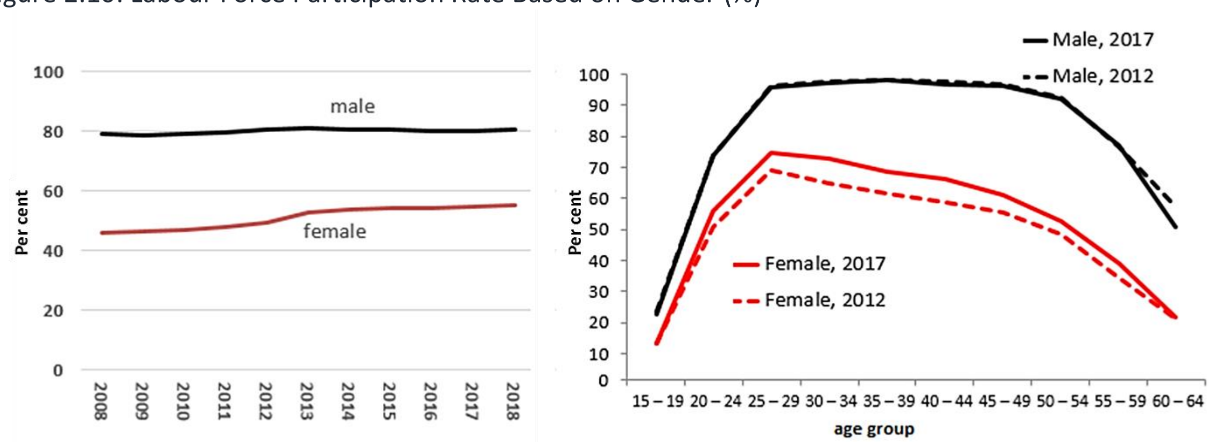


Source: The authors' calculation was based on the UN (2016) for Malaysia and Nepal. Oizumi (2013) based on the UN (2013) for other countries.

2.1.2 Labour Market Development

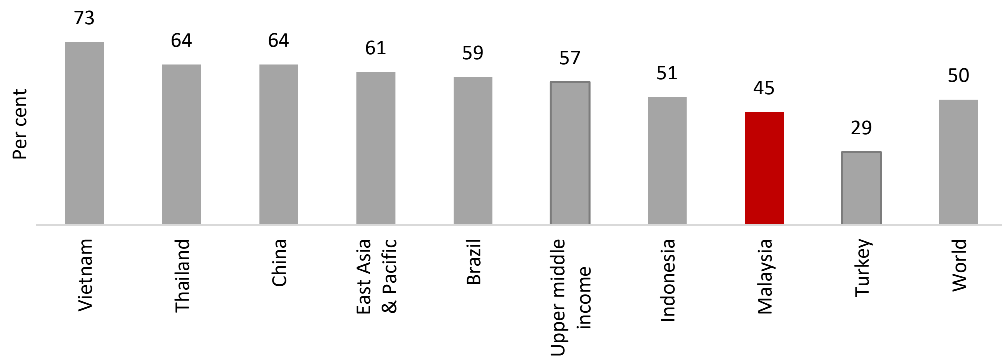
The projected reduction in the share of the working-age population requires Malaysia to offset the potential slowdown in growth momentum with a shrinking working-age population relative to the overall population. For instance, Malaysia can partially counter the labour supply reduction due to demographic changes by ensuring much higher female labour force participation. Malaysia has seen some improvement in such participation over the past decade, as female labour force participation increased by almost ten percentage points between 2008 to an estimated 55.3% in 2018, still significantly less than the male participation rate, estimated at 80.5% (DOSM, 2011-2017). Malaysia currently has one of the lowest female labour force participation rates in the region and, in comparison, with countries at the same level of economic development.

Figure 2.10: Labour Force Participation Rate Based on Gender (%)



Source: UN (2016) and DOSM (2011-2017), Authors' calculation

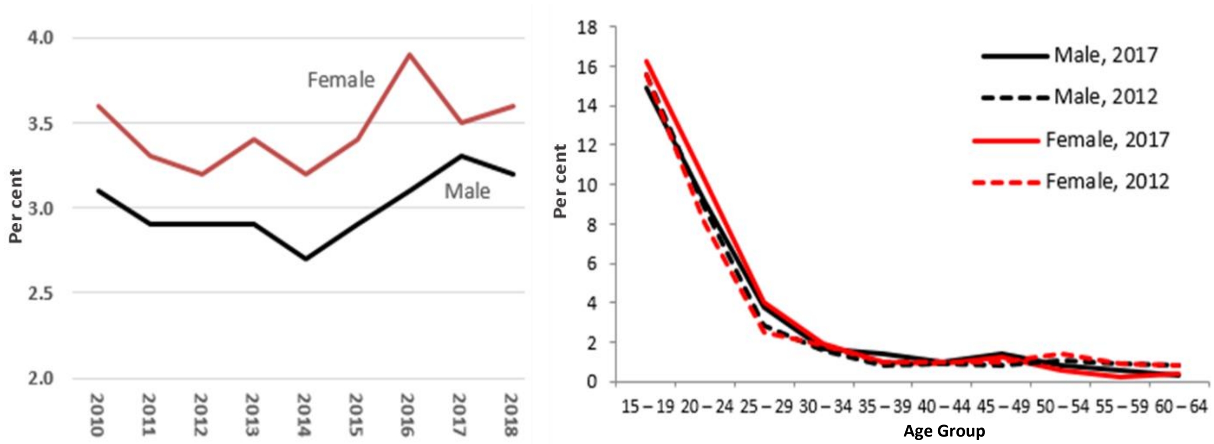
Figure 2.11: Female Labour Force Participation Rate for Selected Subgroup Comparisons 2015[1] (%)



Source: World Bank (2016)

In addition to Malaysia having a predominantly male labour force (60% of the economically active population are men, compared to 40% of females), unemployment statistics by gender and age further show that unemployment in Malaysia disproportionately affects the young (both sexes) and female labour force participants (most age groups) (DOSM, 2011-2017).

Figure 2.12: Unemployment Rates by Gender and Age Group, 2010–2017 (%)



Source: UN (2016) and DOSM (2011-2017), Authors' calculation

An important consequence of the above labour market discrimination is the differential social protection coverage between males and females. As discussed later, Malaysia's over-reliance on an insurance model (based on labour market participation), with limited government intervention, results in lower female labour participation rates, disrupts contributory records and creates greater engagement in the informal labour market. Many countries have tried to correct such situations by establishing a complementary tax-funded, basic old-age social pension.

[1] Note that the rate is different from the reported rate by the Malaysian national statistics office for 2015, which is 54.1%. The reason being, the World Bank uses age 15-64 for the work-age population, while the Department of Statistics Malaysia uses the age group of 15-59.

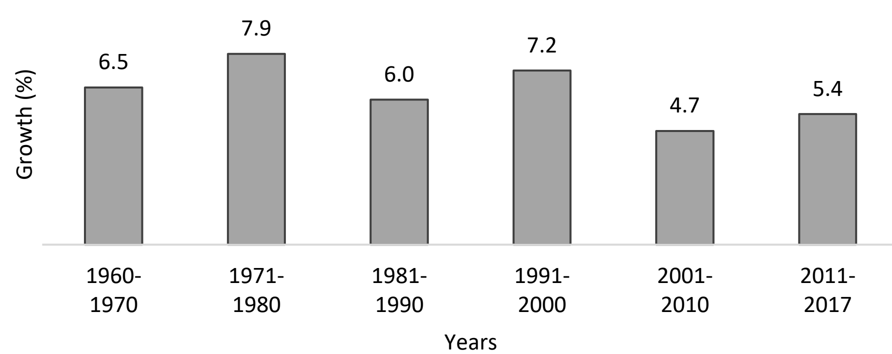
In terms of wage differentials between male and female labour force participants, the gap is less pronounced, with women earning 6.2% less than men on average (DOSM, 2011-2017). Wage disparities are more visible across other dimensions, such as state, urban-rural and skills, to name a few. This disparity can be grossly captured by the difference between monthly mean salaries and wages, which was RM2,880 in 2017, and the median value, significantly lower at RM2,160 for the same year (DOSM, 2011-2017). This difference reflects the higher earnings by top half earners pushing up the mean. In terms of geographical disparity, wage earners in Putrajaya enjoyed the highest median monthly wage (RM3,500), followed by Kuala Lumpur (RM2,650) and Selangor (RM2,580). Meanwhile, Kelantan recorded the lowest median wage at RM1,500, followed by Kedah at RM1,650, with Perak and Terengganu at RM1,700 (DOSM, 2011-2017). Further, a marked wage difference can be observed between high-skilled and low-skilled wage earners, with median monthly wages of RM3,600 and RM1,200 for high-skilled and low-skilled wage earners, respectively, in 2017 (DOSM, 2011-2017).

2.1.3 Macroeconomic Overview

Malaysia is one of Asia's great economic success stories, sustaining rapid and inclusive growth for almost fifty years, with its real GDP growing at an average of 6.5% annually since 1970 (OECD, 2016). This structural transformation has changed the economy's dependence on agriculture to a more diversified export economy.

Malaysia's robust growth for extended periods has not always been smooth. For instance, the period of high growth in the early and mid-1990s, annually averaging close to 9%, was interrupted by the Asian Financial Crisis of 1997 and 1998. While Malaysia recovered relatively fast, largely due to unorthodox macroeconomic measures undertaken by the government and fuelled by strong demand for its electrical and electronics exports, post-crisis economic growth did not reach pre-crisis levels, averaging only 4.7% annually between 2000 and 2009 (OECD, 2016). Nevertheless, the structural reforms undertaken during the Asian Financial Crisis enabled Malaysia to weather the 2008 global financial crisis, although economic growth moderated. The contraction in Malaysia's economy during the Asian Financial Crisis was not severe and growth rebounded quickly. GDP growth resumed at an average of 5.4% annually between 2011 and 2017, mostly domestically driven, with services now accounting for more than half of the GDP (OECD, 2016).

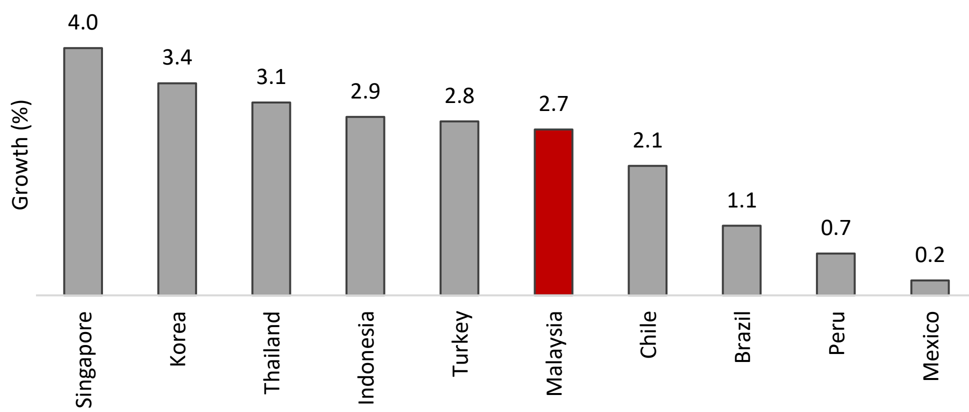
Figure 2.13: Real GDP Growth, 1960–2017 (%)



Source: DOSM (2018)

The resilience generated by this economic transformation has resulted in Malaysia developing into an upper middle-income country, with per capita income exceeded US$10,000 in 2018 (BNM, 2018), with a further aspiration to transition to a high-income economy. Nevertheless, Malaysia is facing various challenges to its economy. One issue is slowing growth, as discussed earlier. While Malaysia successfully translated the demographic window of opportunity into sustained economic growth, providing opportunities for Malaysians to access social services (education, health, etc) and move out of poverty, the demographic transition will limit this option. The second 'big push' in Malaysian development depends mainly on labour productivity as the main driver of long-term growth towards convergence with high-income economies. For instance, rising labour productivity accounted for at least half of the per capita growth in most OECD countries from 1990 to 2000 (OECD, 2017). From 1990-2014, labour productivity grew at an average annual rate of 2.7% for Malaysia. (World Bank, 2016).

Figure 2.14: Labour Productivity Growth, 1990–2014 (%)

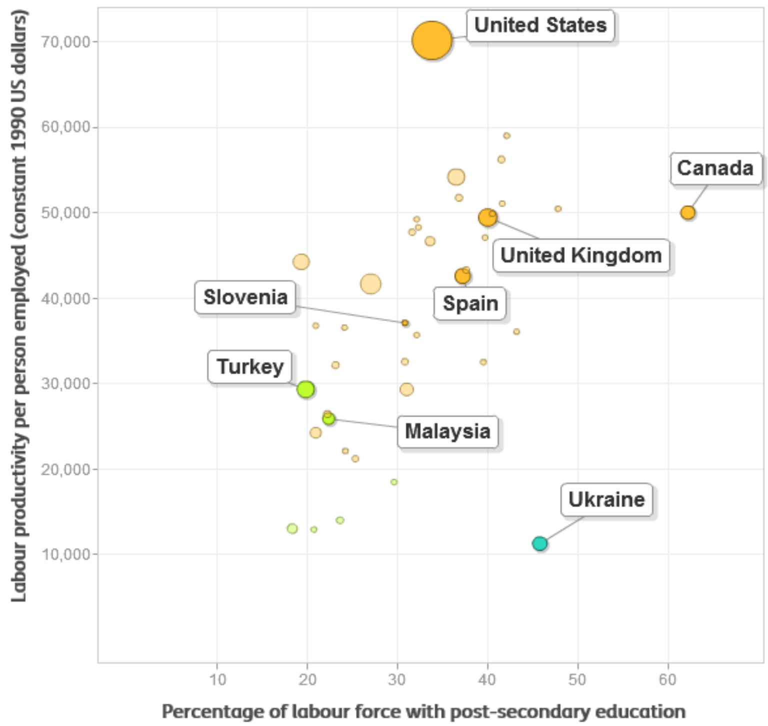


Source: World Bank (2016)

Malaysia's slowing productivity growth since the Asian Financial Crisis is worrying. Since then, productivity growth has been on a downward trend: from an average of 3.9% in 1990-1996 to 3.3% in 2000-2007, and slowing further to only 2.4% in 2011-2017 (OECD, 2016). Similarly, wage increases have been slow, with real growth of only 3% annually between 2013-2017 (KRI, 2018). Nevertheless, Malaysia's labour income share has been trending up, rising from 29.5% in 2005 to 35.3% in 2016 (KRI, 2018). The growing share of labour income may be due to expanding reliance on cheap undocumented foreign workers, with growing remuneration for Malaysian employees in the public sector. In any case, this has been reflected in lower income inequality. However, failing to shift from a labour-intensive production model towards a more capital-intensive one can be at the expense of long-term growth as the demand for higher-skilled, high-tech industrial jobs, which contributes to productivity growth, is sluggish. The downward trend of productivity growth has resulted in the recent upward stickiness of labour income share.

Malaysia's productivity slowdown raises concerns about the nation's growth towards developed country status. Such growth must be driven by productivity gains emphasising; up-skilling, greater innovation and higher integration of digital technology and not solely by capital accumulation and more labour inputs. These efforts appeared not to have been supported by labour force readiness for seizing opportunities presented by the new growth engines of the new economy, as claimed by some industrial players. Nevertheless, there is also an opposite view of a mismatch between labour supply and demand resulting from insufficient investment in high-tech production technology.

Figure 2.15: Percentage of Labour Force Participants with Post-Secondary Education and Labour Productivity for Selected Countries, 2013–2017

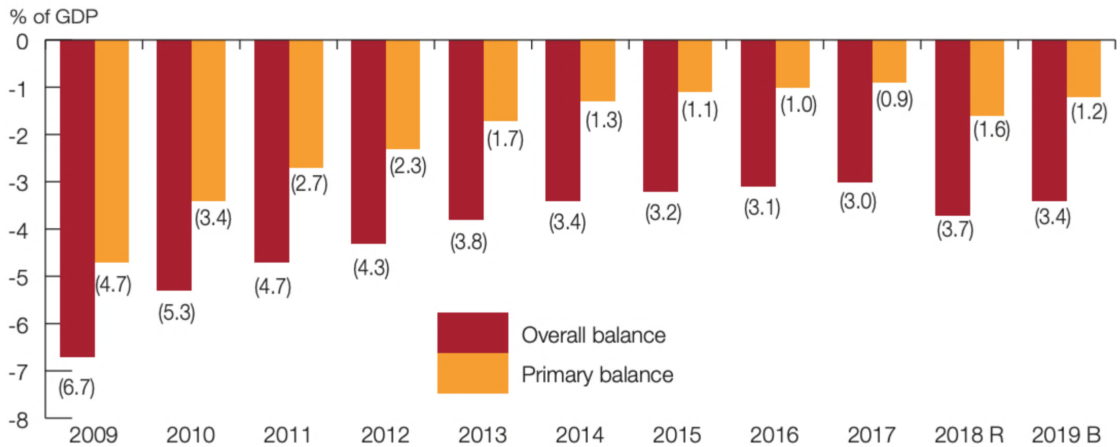


Source: ILO (2017)

With significant investment in modern technology in Malaysia, those with skills benefit more and the less skilled are left behind. Faced with scarcity, competing employers will continuously increase wages for those with skills, widening income gaps in the labour market. There is also an urgent need to raise the quality of education to match skill sets with modern labour market requirements. The focus must be on creating avenues for all to improve their skills, initiate vocational pathways, emphasise technical skills and provide opportunities to meet Malaysia's growth needs by developing skills for the right jobs. Malaysia has to face the growing problem of inequality and promote more inclusive growth, especially reforms in social protection among the vulnerable in society and pension adequacy as Malaysia confronts an ageing society.

Another challenge in the Malaysian economy is the persistent fiscal deficit, which has been in place since the Asian Financial Crisis but further accelerated in 2018, at 3.7% of the GDP, with the narrower revenue base following the transition from the Goods and Services Tax (GST) to the Sales and Service Tax (SST) and provision for off-budget items and payments for tax refunds (MOF Malaysia, 2018). In addition, the public debt burden (including Federal Government debt, government guarantees, off-budget liabilities and debt related to 1MDB) is also substantially high, at 74.5% of the GDP as of June 2018 (MOF Malaysia, 2018). As such, the Malaysian government committed to a fiscal consolidation path that ensured the fiscal deficit was reduced to 3.4% of the GDP in 2019 and 3% in 2020 (MOF Malaysia, 2018). A key portion of the Government's expenditure, namely, the civil service pension cost, has risen almost 22 times between 1990 and 2017 to around RM22 billion or 10% of the fiscal operating expenditure (MOF Malaysia, 2018). This situation represents a major and rising unfunded liability to the Government amid the ageing population trend discussed earlier.

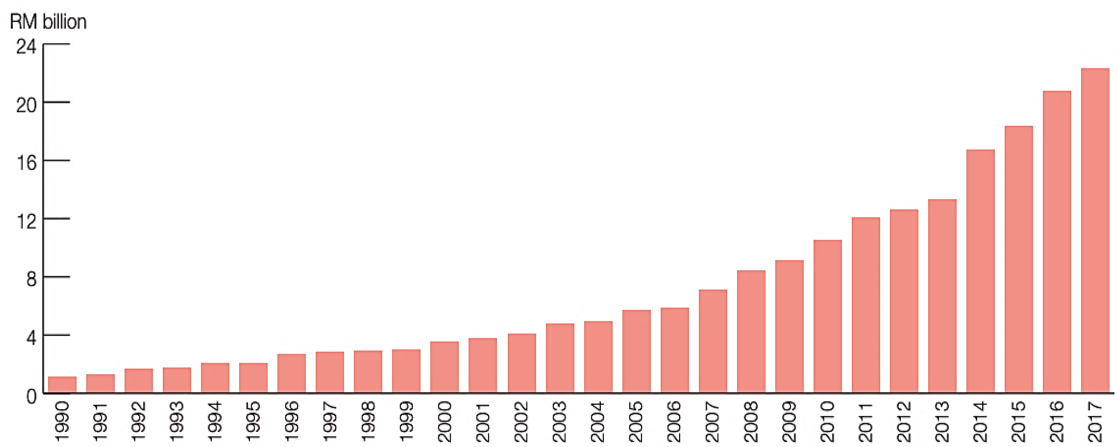
Figure 2.16: Federal Government Overall and Primary Balance (as a Percentage of the GDP)



Note: Overall balance is the difference between revenue and expenditure. The primary balance excludes debt service charges.

Source: MOF (2018)

Figure 2.17: Total Cost of Federal Pensions (RM Billion)



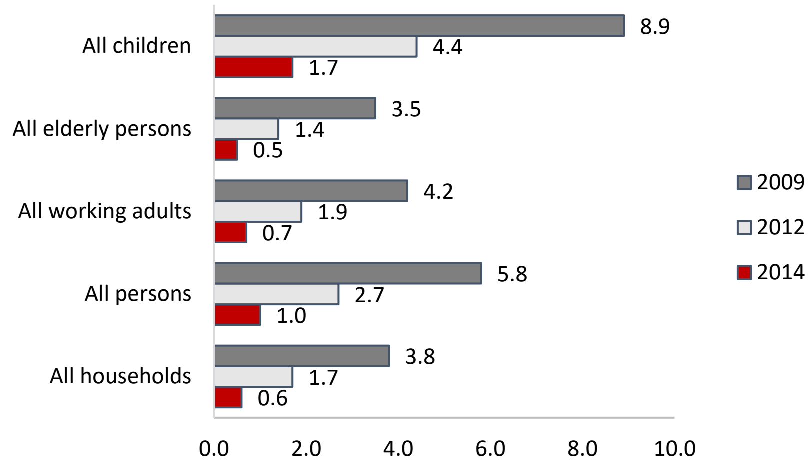
Source: MOF (2018)

2.1.4 Poverty Profile

Malaysia is among the few developing countries that have made sustained and rapid progress in tackling poverty and improving the population's quality of life (UNDP, 2013). Between 1970 and 2014, absolute poverty decreased from almost half the population in the 1970s to only 0.6% in 2014 (EPU, 2015). The decrease in poverty has been coupled with an overall income distribution improvement, with the Gini coefficient declining from 0.44 in 2009 to 0.40 in 2014. The mean monthly household income of the bottom 40% of households increased more than the income of the overall population (EPU, 2016).

Like many countries, poverty in Malaysia has an age dimension. The proportion of children in absolute poverty is higher than that of working-age adults or elderly persons in poverty (Redmond et al, 2017).

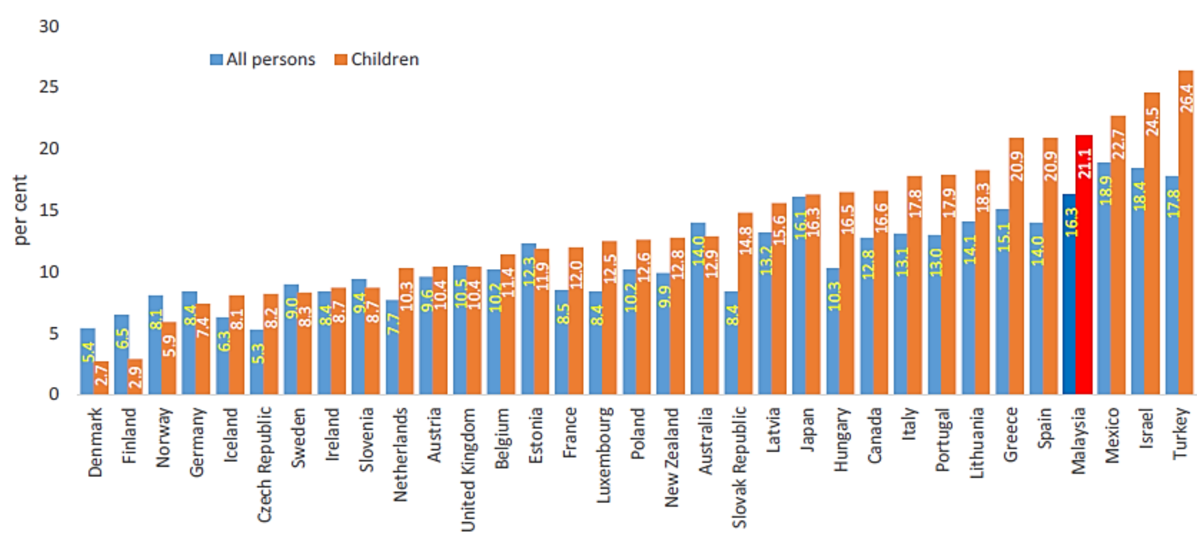
Figure 2.18: Absolute Poverty Rate by Age Group, 2009–2014 (%)



Source: Redmond et al (2017)

Poverty measurement, including among children, is very sensitive to the poverty line used. For instance, if the poverty line is doubled, the percentage of children living in poverty will increase from 1.6% to 15%, which indicates the great vulnerability of households with children, as many non-poor are hovering around the poverty line (Redmond et al 2017). Further, using a relative poverty measure similar to the OECD countries, defined as households with less than half median income, the proportion of children living in poverty is 21.1% higher than for all persons in Malaysia and also high in comparison with the OECD countries (Ragayah H.M.Z, 2002).

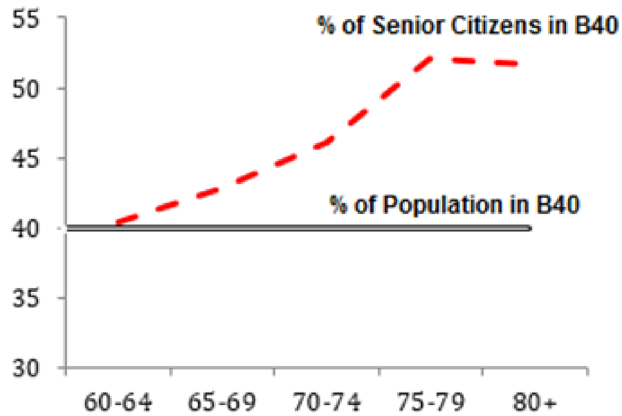
Figure 2.19: Relative Poverty in OECD Countries and Malaysia, 2014 (%)



Source: Redmond et al (2017)

Similarly, while the poverty rate among older people seems low, it is important to go beyond the low poverty line. For instance, the old age population aged 60 and above are overrepresented (44%) among the lowest 40% of the population in terms of income, the B40 group. Further, as citizens age, vulnerability increases significantly, with more than one out of two seniors aged 75 in the B40 group (World Bank, 2014).

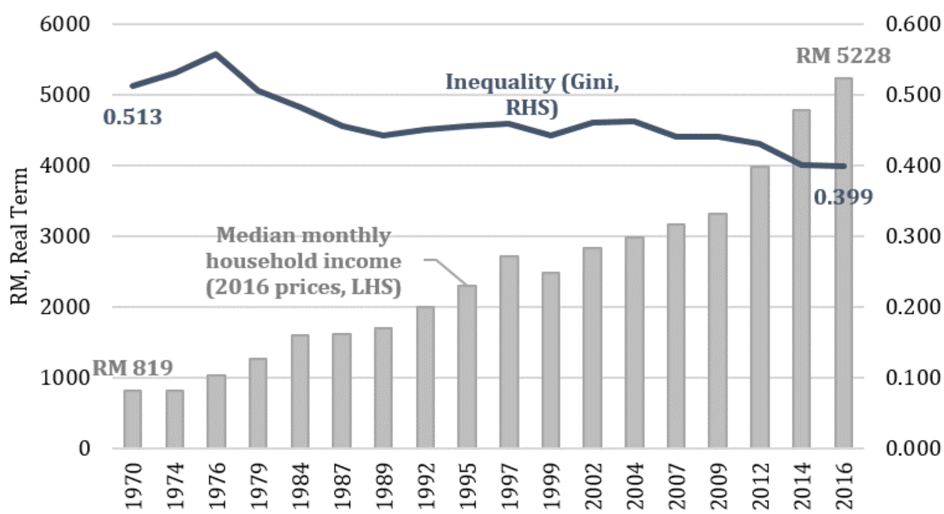
Figure 2.20: Senior Citizens Representation Among the B40 Group, 2012



Source: World Bank (2014)

The increase in real income, shown in Figure 2.21, moves in tandem with improvements in the income distribution. This outcome occurred on the back of the monthly median household income that has increased steadily in real terms from RM819 in 1970 to RM5,228 in 2016 – an increase of 6.4 fold in real terms (KRI, 2018).

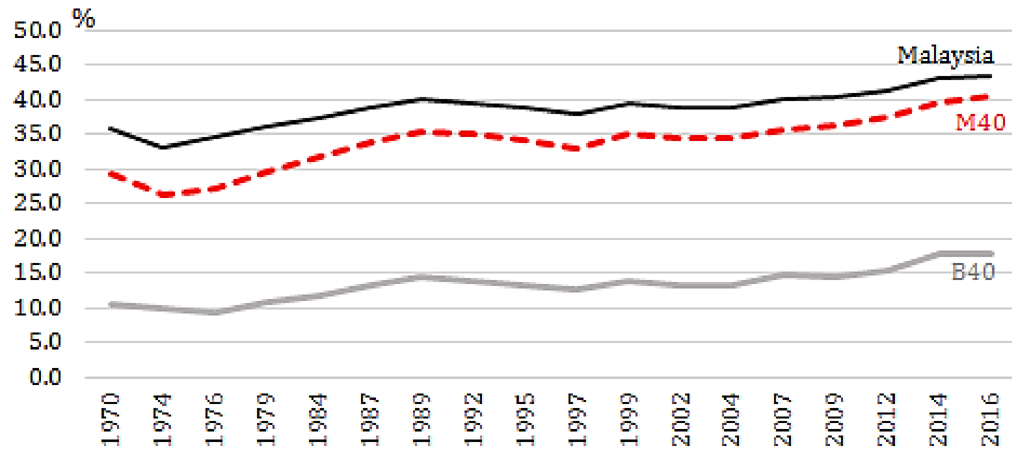
Figure 2.21: Median Monthly Household Income in Real Terms (LHS) and Gini Coefficient (RHS), 1970–2016



Source: KRI (2018)

Inequality improvements, expressed in Gini coefficient reductions, as seen in Figure 2.21, are consistent with other statistics. For instance, over the same period, the mean income of B40 households as a percentage of the mean income of the top 20% (T20) of households increased from only 10.3% in 1970 to 17.7% in 2016. Similarly, the mean household income for the middle 40 (M40) households as a share of the mean income of T20 households increased from 29.4% to 40.4% over the same period (KRI, 2018).

Figure 2.22: Mean Household Income for the M40 and B40 groups as a Percentage of the T20 group, 1970–2016

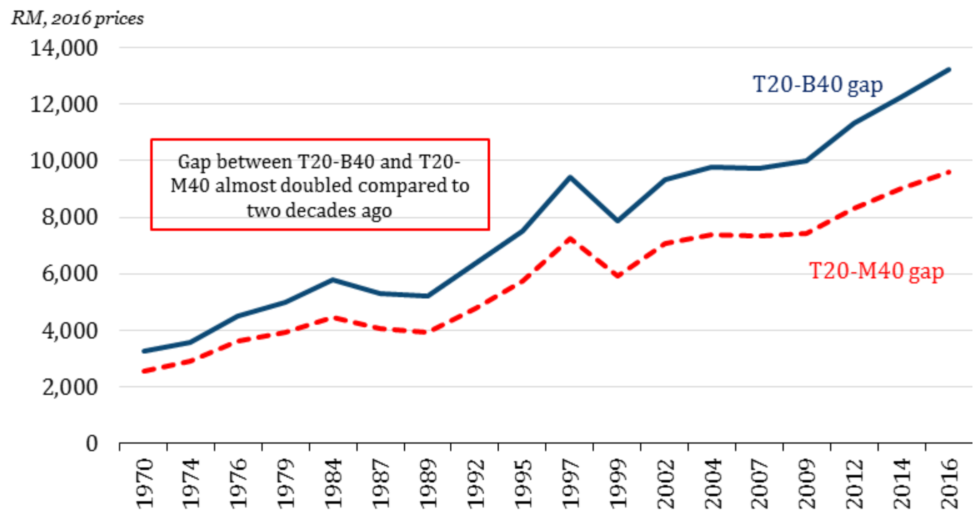


Source: KRI (2018)

Despite this improvement, some issues should be highlighted:

- While 'within-state' inequalities have decreased in line with the national trend, 'between-state' inequalities have not significantly improved. This situation can be attributed to the lack of income convergence among states in Malaysia. For instance, the ratio of the monthly median incomes of the state with the highest monthly median income (Selangor) to the state with the lowest monthly median income (Kelantan) was 3.4 in 1970. After almost five decades, the ratio of the state with the highest monthly median income (KL) to the state with the lowest monthly median income (Kelantan) has only declined slightly to 2.9 times (KRI, 2018).
- The income gap, expressed in absolute differences instead of relative measures, such as; the Gini coefficient, has widened over time. For instance, the gap in absolute terms between the T20 and the B40 groups and between the T20 and the M40 groups has almost doubled compared to two decades ago (KRI, 2018). Hence, while relative inequality may have reduced, absolute differences in household income have become larger.

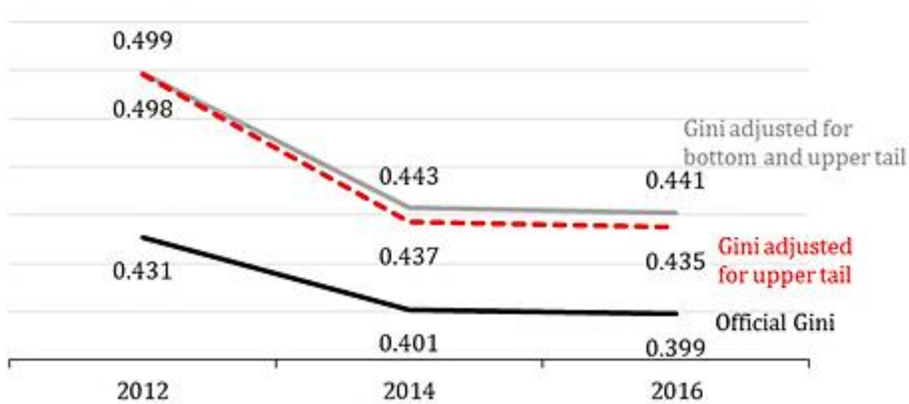
Figure 2.23: Gaps in Mean Real Household Income Between the T20 & M40 groups and the T20 & B40 groups, 1970–2016



Source: KRI (2018)

- A few limitations arise from using household survey tools to measure inequality in Malaysia: first, the household is the reference unit for measurement with no adjustments for household size. Second, there is likely under-sampling and under-reporting of households at the upper end of the income distribution (missing top). Third, foreign workers in the country have not been included (missing bottom). To correct these limitations, KRI conducted a study and found that the missing incomes at the top and bottom are significant (KRI, 2018). Although the trend of declining inequality remains the same, the inequality level was significantly higher after accounting for the lost income at the top and bottom.

Figure 2.24: Income Inequality, Adjusted for Missing Upper and Lower Incomes, 2012–2016



Source: KRI (2018)

2.2 Current Social Wellbeing Landscape in Malaysia

2.2.1 Social Protection Development in Malaysia

Family intergenerational support has been the traditional form of social protection in Malaysia. Like in other countries in Asia, the family is regarded as the main caring institution for aged parents, financially and emotionally. It is customary for adult children who have started earning income to contribute financially to support their parents, younger siblings or relatives. For instance, a study shows that 57% of parents receive financial support from their children (MARS, 2019)[2]. Support is also provided through living together in an extended family household. In exchange, older parents extend help by caring for and educating their grandchildren and performing household chores. It is reported that 14.8% of parents help care for their children or grandchildren and assist with the housework (MARS, 2019).

Moreover, in times of economic downturn, direct transfers within the extended family have also acted as informal shock absorbers. Hence, the social protection of individuals is often regarded as a family concern, with the government playing a residual role. However, development in the form of; industrialisation, urbanisation and social mobility has led to the need for a more comprehensive social protection system.

Malaysian's formal social protection programmes, developed from British colonial practices, were aimed at poverty eradication efforts in its earlier economic development plans. Social protection initiatives have also been in Malaysia's Five-Year Development Plans, as shown in Table 2.2, with changing emphasis over time.

Table 2.2: Development of Social Protection Policies in Malaysia

Colonial Administration (1951)	• Establishment of the Employees Provident Fund
1st Malaysia Plan (1966-1970)	• Establishment of; Old Folks Homes, Children's Homes, Homes for the Handicapped, Women and Girl's Protection Homes and reformatory institutions, in Malaya, Sabah and Sarawak
2nd Malaysia Plan (1971-1975)	• A re-orientation of the welfare system was formulated by the Ministry of Welfare Services and the participation of voluntary organisations, which focused on the preventive and development aspects of welfare services • Launch of the Social Security Organisation (SOCSO) in 1971
3rd Malaysia Plan (1976-1980)	• Social welfare assistance was consolidated and expanded with priorities for the physically and socially handicapped
4th Malaysia Plan (1981-1985)	• The Child Care Act was introduced in 1984 • Further improvement on the existing social welfare programmes and facilities • Voluntary welfare organisations were identified
5th Malaysia Plan (1986-1990)	• Formulation of the National Social Welfare Policy

[2] Based on the Malaysia Ageing and Retirement Survey (MARS) Wave 1 Full Report

6th Malaysia Plan (1991-1995)	• Focused on measures aimed at inculcating self-reliance among disadvantaged groups • Protection for children was further strengthened • Establishment of the National Coordinating Council on Eradication of Child Abuse
7th Malaysia Plan (1996-2000)	• Continued with the strategy of enabling disabled people to gainfully participate in the economy by providing better care for the disabled • Establishment of community-based rehabilitation schemes and training centres • Active labour market policies • Establishment of microcredits, such as; AIM and TEKUN
8th Malaysia Plan (2001-2005)	• Launching of the National Policy for the Elderly • Launching a database of the disabled
9th Malaysia Plan (2006-2010)	• Enhancement of the enforcement of the Child Care Act 1984
10th Malaysia Plan (2011-2015)	• Focused on strengthening social safety nets to reduce the vulnerability of disadvantaged groups • Improve active participation in the economy
11th Malaysia Plan (2016-2020)	• Improve wellbeing for all through universal access to quality healthcare, providing affordable housing and improving living environments • Betterment of human capital development through TVET transformation, lifelong learning and improving the quality of education

Source: Mansor et al (2014)

2.2.2 Social Assistance

Malaysia is among the leaders in developing countries that have made sustained and rapid progress in tackling poverty and improving the population's quality of life (UNDP, 2013). This success can be largely attributed to the Malaysian Government's New Economic Policy (NEP) and its related programmes, which effectively reduced poverty throughout the country and made Malaysia one of the countries with the lowest rate of poverty incidence in the Asia-Pacific region (UNDP, 2013). The Government Transformation Programme (GTP), launched in 2009, came about from sluggish national and international economic growth. The public finance management strategy has focused on fiscal consolidation, particularly by reducing untargeted regressive subsidies. Cash transfers attempted to offset the welfare losses for poor people due to the removal of general price subsidies.

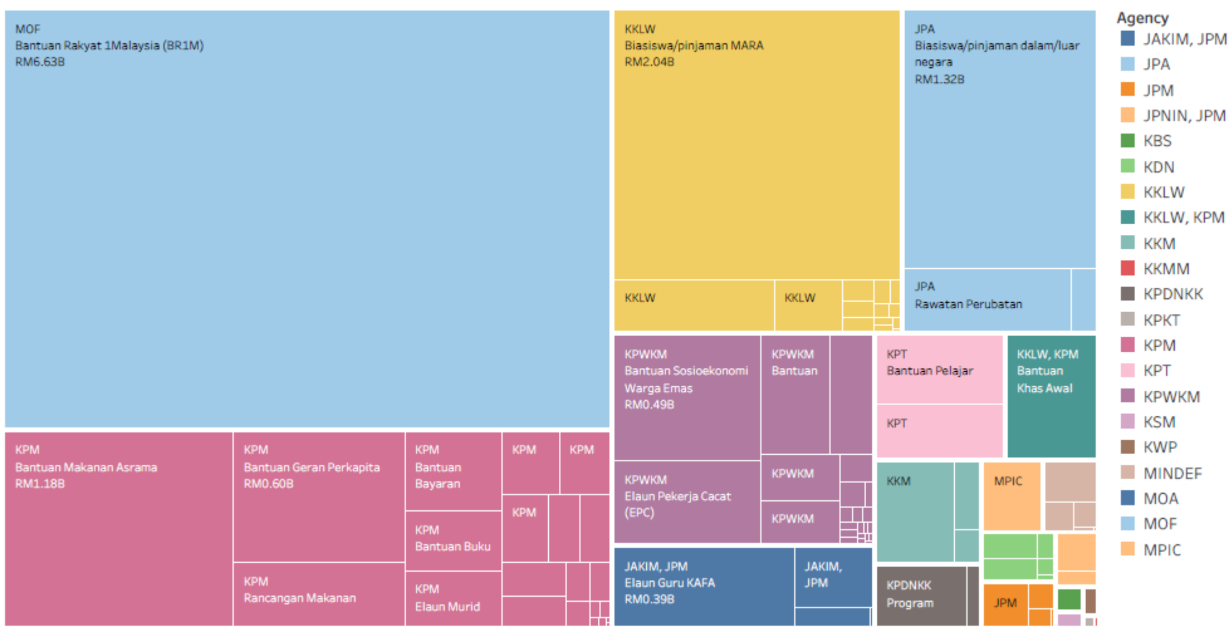
The most notable cash transfer programme was the Bantuan Rakyat 1Malaysia (BR1M/BSH), introduced in 2012 as an income support programme for households in the B40 group. While introduced as periodic one-off payments, BR1M/BSH has expanded far beyond its originally stated remit, broadening the recipient base to those in the M40 group; and the fiscal cost has risen substantially. This rapid expansion in social assistance is not in line with the development path of Malaysia. As Malaysia's extreme poverty rate was at 0.4% in 2016 (DOSM, 2018), it should be moving away from narrowly defined poverty-targeted programmes to other instruments that are more socially inclusive and less stigmatising (eg social pensions, tax credits, child grants).

Providers of Public Social Assistance

Currently, many agencies are involved in social protection programmes in Malaysia, which are highly fragmented with overlapping objectives. In addition to traditional social protection providers, such as the Ministry of Women, Family and Community Development (MWFCD) for social welfare; the Ministry of Human Resources (MOHR) for labour programmes; the Ministry of Finance (MOF) for financing, the last wave of expansion of social assistance programmes included agencies not usually seen as involved in social protection. For instance, the Inland Revenue has been administrating BR1M/BSH implementation. Fragmentation characterises Malaysia's social assistance, with more than 110 programmes under more than 20 ministries and agencies (BNM, 2018).

A snapshot of key social assistance programmes with their relative size is shown below:

Figure 2.25: Social Assistance Providers in Malaysia, 2017



Note: A full list of all public social assistance programmes is included in Annex 1

Source: BNM (2018)

Scope and Extent of Coverage

Besides BR1M/BSH, many small-scale, specific-purpose programmes cover certain population segments. Most of these programmes are provided by the MWFCD, the lead agency for social support programmes. MWFCD currently provides social assistance through 11 different programmes. The four largest programmes are summarised in Table 2.3.

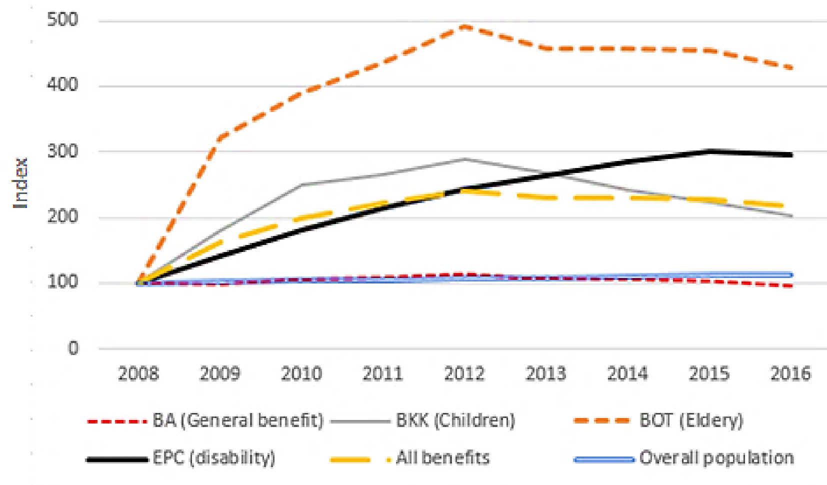
Table 2.3: MWFCD's Social Assistance Programme, 2018

Name	Benefit	Eligibility Criteria & Conditions
Senior Citizen Aid (*Bantuan Orang Tua*, *BOT*)	RM 350 per old-age citizen monthly	-No fixed income to sustain livelihoods -No family or family members providing support -Means-tested by investigating officer -Age 60 and above
Children Aid (*Bantuan Kanak-Kanak*, *BKK*)	RM100 per child monthly, with a maximum of RM450 monthly	-Family income below the poverty line -Children of schooling age must be in schools -Means-tested by investigating officer -Children below 18
General Aid (*Bantuan Am*, *BA*)	RM100- RM350 per person/family monthly Some states add other benefits to federal benefits	-Monthly income below the poverty line -Means-tested by investigating officer (Other factors considered include; the number of dependents, dwelling condition, age of head of household, level of disability/frailty and other family characteristics)
Disabled Workers Allowance (*Elaun Pekerja Cacat, EPC*)	RM400 per person monthly	-Registered persons with a disability under the Department of Social Welfare -Age 16 and above -Individual income ≤RM1,200 (excluding family income) -Not residing in funded institutions -Evidence of income and employment

Source: MWCFD (2018) and UPM (2017)

The MWFCD's social assistance programmes have witnessed significant expansion, currently covering 462,322 recipients – a 4.2 fold increase in coverage between 2008 and 2016 (MWCFD, 2018). The largest two population group coverage increases were older people (total of 133,352 recipients, increasing 6.4 fold during 2008-2016) and persons with disability (73,056 recipients, increasing 5.4 fold during 2008-2016) (MWCFD, 2018).

Figure 2.26: Growth of MWCFD's Social Assistance Programmes, 2008–2016 (2008=100)



Source: MWCFD (2018), Authors' calculation

Meanwhile, subsidised diesel for fishermen and rice rations for low-income families are provided by the Ministry of Agriculture and Agro-based Industry (MOA) as social support for farmers. At the same time, the Ministry of Education provides support programmes and incentives for poor students. Medical support is given through the Ministry of Health (MOH). Additionally, 1AZAM, a flagship programme providing income-generating opportunities for low-income households, has also been introduced, reducing their reliance on government support (Koen et al, 2017).

Box Article 2.1: Bantuan Rakyat 1Malaysia

The 2012 introduction of cash payments for families under BR1M/BSH changed the social assistance landscape. 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. Nevertheless, ad hoc and irregular changes in its design and payment arrangements have reduced the financial security of low-income households.

Below are key changes in BR1M/BSH since its establishment.

Table 2.4: Changes in BR1M/BSH, 2012–2018

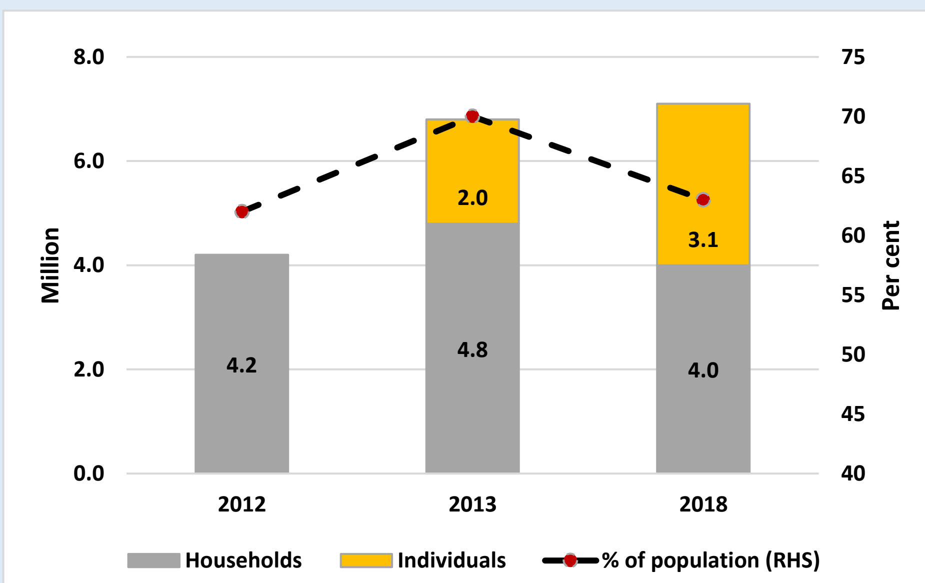
Year	Scheme	Target	Criteria	Benefit per year
2012	BR1M	Low-income households	- Household income <RM3,000	- RM500
2013	BR1M 2.0	Low-income households & individuals	- Household income <RM3,000 - Single individuals with income <RM2,000	- Household: RM500 - Single individual: RM250
2014	BR1M 3.0	Low-income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

2017	BR1M 6.0	Low-income households & individuals	- Household income <RM4,000 - Single individuals aged 21 or above with income <RM2,000 and did not receive any book voucher - Elderly (aged 60 and above) with income <RM4,000	- Households captured under e-Kasih or income <RM1,000: RM1,200 cash - Households income <RM3,000: RM1,200 cash - Households with income RM3,000 - RM4,000: RM900 cash - Single individuals aged 21 - 59: RM450 cash - BR1M Bereavement Scheme: RM1,000
2018	*Bantuan Sara Hidup*	Low-income households & children	- Household income <RM4,000 - Children (aged 18 and below, except for disabled children for whom benefit is not limited by age)	- Households captured under e-Kasih or income <RM2,000: RM1,000 cash - Households income <RM2,001 – RM3,000: RM750 cash - Households 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.

Source: UPM (2017) and MOF (2018)

Since its introduction, BR1M/BSH has been the largest cash transfer programme targeted at a large population segment. In 2018 administrative data showed that 4 million households and 3.1 million single beneficiaries received BR1M/BSH payments (BNM, 2018), constituting 63.2% of the overall population.

Figure 2.27: BRIM Coverage (in Million) and as a Share of Overall Population (%) for Selected Years



Source: BNM (2018) and IMF (2018)

Other important nutrition-focused programmes in Malaysia are also worth noting. A summary of selected programmes is provided below:

Table 2.5: Selected Nutrition-Focused Programmes, 2016

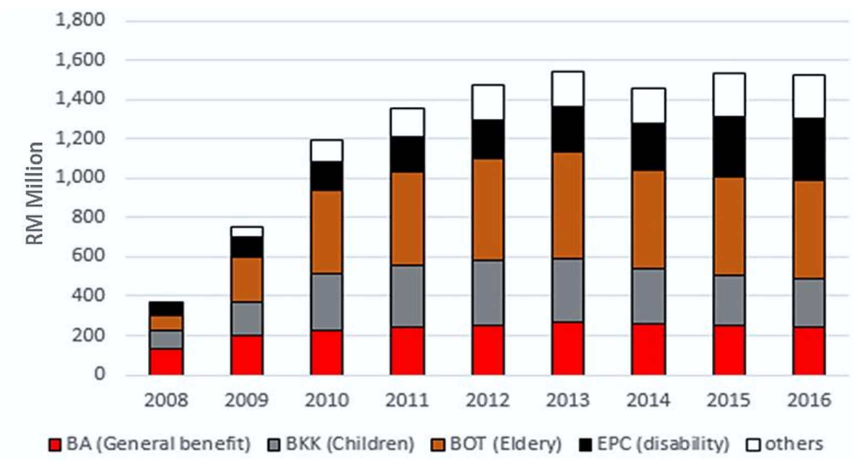
Programme	Description and Objectives of Programmes
Rehabilitation Programme for Malnourished Children (*Program Pemulihan Kanak-Kanak Kekurangan Zat Makanan, PPKZM*)	● Basic food supply, immunisation and treatment were given ● Has been extended as Community Feeding Programmes in remote areas in Perak, Pahang, Kelantan ● To improve the nutritional status of children aged six months to six years from hard-core low-income families
Nutrition Activities at Childcare Centres (TASKA)	● Healthy eating promotion activities in childcare centres by the Community Development Department (KEMAS), Institutes for National Integration Studies and Training (IKLIN) and the Association of Registered Childcare Providers (*Persatuan Pengasuh Berdaftar Malaysia, PPBM*)
Nutrition programmes at childcare centres and preschools	● Collaborative work among the Ministry of Health Malaysia, the Social Welfare Department under the Ministry of Women, Family and Community Development, the Community Development Department under the Ministry of Rural and Regional Development and the Ministry of Education ● Technical guidance was given on nutrition-related activities, such as; menu reviewing, healthy and safe meal preparation, nutrition education and nutritional status monitoring.
School Feeding Programme (*Rancangan Makanan Tambahan, RMT*)	● Supplemental and additional food aid programmes aimed at providing nutritious food with balanced nutrients for poor primary school students.
School Milk Programme (*Program Susu 1Malaysia*)	● The programme encourages milk drinking among primary school pupils under the paid milk scheme and milk supplied to underprivileged and undernourished pupils.
School Canteen Management Guidelines	● Provide guidelines for monitoring foods sold in school canteens, menu development for boarding schools and nutrition education targeted at school children, teachers, school canteen operators and parents.

Source: MOH (2017)

Financial Trends

Allocation to social assistance programmes in Malaysia has grown with the proliferation of many programmes. In line with the significant increase in the number of recipients of MWCFD social assistance (Figure 2.26) - with a 4.2 fold increase between 2008 and 2016, allocations for such social assistance programmes increased significantly by about three fold (Figure 2.28). Most notably, allocations to older people, people with disabilities and children have seen the largest increases.

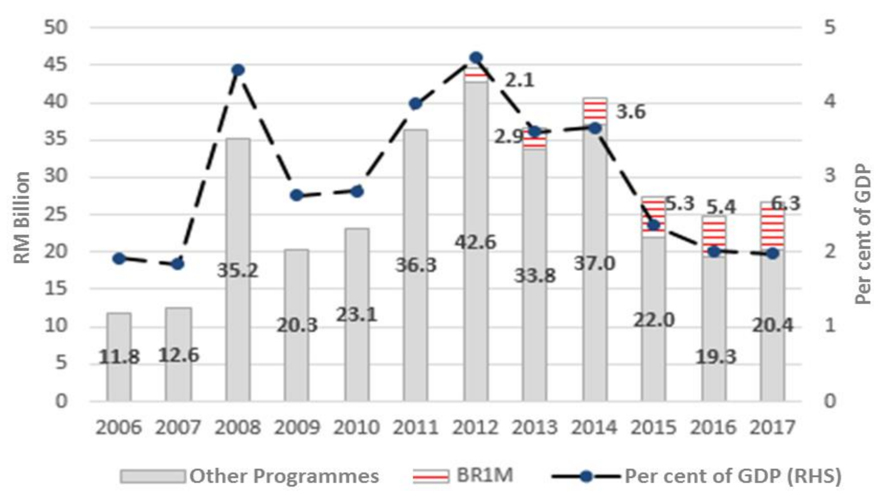
Figure 2.28: MWCFD's Social Assistance Programmes Expenditure (RM Million), 2008–2016



Source: MWCFD (2018)

Subsidy rationalisation in 2015 reduced overall social assistance spending from a peak of RM44.7 billion (4.6% of the GDP) in 2012 to RM26.7 billion (2% of the GDP) in 2017 (BNM, 2018). Parallel to the shift away from consumer subsidies, BR1M/BSH has expanded significantly over the past few years, totalling RM6.3 billion (0.4% of the GDP) in 2017 (BNM, 2018).

Figure 2.29: Allocation of Social Assistance in Malaysia (RM Billion) and as a Percentage of the GDP, 2006–2017



Source: BNM (2018)

Box Article 2.2: A Promising Source of Funding for Social Protection Programmes

Zakat is one of the five pillars of Islam and Muslims must support those in need. There are two types of zakat: zakat on the person (*zakāt fitrah*) and zakat on wealth, including income, business, agricultural produce, savings, investments and insurance, and gold and silver. Among eligible recipients of zakat, as prescribed in the Holy Quran are those who are destitute (*fuqarā'*), poor (*masākin*), employed to administer the zakat funds (*amil*), striving in the cause of Allah (*fī sabīlillah*), debtors (*ghārimīn*), stranded during a journey (*ibnu al-sabīl*), people who want to free themselves from the bondage of slavery (*riqāb*), and people who have recently converted to Islam (*muallaf*).

A growing body of research has investigated zakat's role in providing social protection and its importance as a poverty reduction mechanism.[3] In Muslim-majority countries, zakat has a long tradition of providing; income, goods for consumption, and other basic services, such as healthcare and education, to poor and marginalised populations. Social protection is concerned with protecting and helping the poor and vulnerable, such as children, women, older people, people living with disabilities, the displaced, the unemployed, and the sick.[4] The intersection between zakat and social protection largely lies with financial assistance, food, education, job, and income generation activities for the poor and vulnerable in various life stages. An OECD reported that zakat is effective in alleviating poverty by supplementing the income of benefiting households as much as 30%, while Shirazi stated that the poverty rate had decreased from 38.7% to 38% in Pakistan just because of the distribution of zakat and land tax (*'ushr*)[5] (Nixon et al, 2017 and Shirazi, 1996).

Malaysia's State Zakat Institutions have increased their zakat collection significantly over recent years due to increased awareness among Muslims on the obligation to pay zakat, heavy campaign and promotion by the State Zakat Institutions and supported by a more efficient collection and distribution process. Malaysia's State Zakat Institutions managed to collect more than RM2,909 million and RM2,997 million of zakat funds (Table 2.6) which was approximately 0.9% and 0.8% of the Gross Domestic Product (GDP) in 2017 and 2018, respectively (Figure 2.30).

Selangor allocated 48% (RM228.3 million) for 47,471 households, while Wilayah Persekutuan allocated 32% (RM190.3 million) for 88,595 households of their zakat funds for the poor and vulnerable in 2017. In the case of Selangor, most of the zakat given away to people in need is in the form of monthly financial assistance, monthly food assistance, educational needs and fees, housing rental, medical costs, emergencies, business capital, agricultural and fishing capital, scholarship, house building and repair, elderly home operation costs and funeral costs.

The institution of Zakat has played an important role in reducing poverty and promoting the equitable sharing of wealth. In addition, it is a promising source of funding for social protection programmes. However, several issues and challenges need to be addressed for Zakat to play a greater role in advancing the socioeconomic development of Malaysia's poor and vulnerable populations.

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[3] Further reading, Ibrahim, P. (2006) Economic role of zakat in reducing income inequality and poverty in Selangor (PhD thesis). Universiti Putra Malaysia.

[4] Governance and Social Development Resource Centre (2019). Retrieved from https://gsdrc.org/topic-guides/social-protection/what-is-social-protection/

[5] Nixon, S., Asada, H., & Koen, V. (2017). Fostering inclusive growth in Malaysia. Economics Department Working Papers No. 1371. Paris: OECD; Shirazi, N.S. (1996). System of zakat in Pakistan: An Appraisal. Islamabad: International Institute of Islamic Economics.

First, the growth of zakat collections has not been proportional to Malaysia's GDP growth. Thus, there could be a need to intensify efforts to create awareness among Muslims to pay zakat on wealth and businesses. Nevertheless, there could also be a possibility that GDP growth did not create significant wealth for Muslims. Second, since zakat distribution is not integrated with the national social assistance programmes at the Federal level, households may receive these two types of financial assistance simultaneously. Third, State Zakat Institutions employ different targeting mechanisms to distribute zakat, particularly to needy people, compared to the e-Kasih programme. State Zakat Institutions employ the *Hadd Al-Kifayah* method or minimum adequacy line for individuals and their family members based on living costs. For example, in the case of Selangor, a family leader is entitled to RM940 in living costs, a spouse (RM195), a jobless adult aged >18 years (RM195), a child aged 6-17 years (RM26), a child aged 0-5 years (RM115), a disabled child (RM200), a family member with chronic disease (RM200), and childcare costs (RM200). Therefore, the Kifayah rate for a household of a family leader, spouse, one jobless child, two teenage children, and small children is RM2,080. If the income for the household is RM1,200, the family is considered poor (-RM880) and entitled to receive zakat. Finally, the zakat administration in Malaysia is a state matter, particularly concerning passing regulations and statutes. There are advantages and disadvantages to the decentralisation of zakat administration. Nonetheless, integrating zakat into the national social protection system would ensure its role as a potential mechanism to expand the country's fiscal space for social protection.

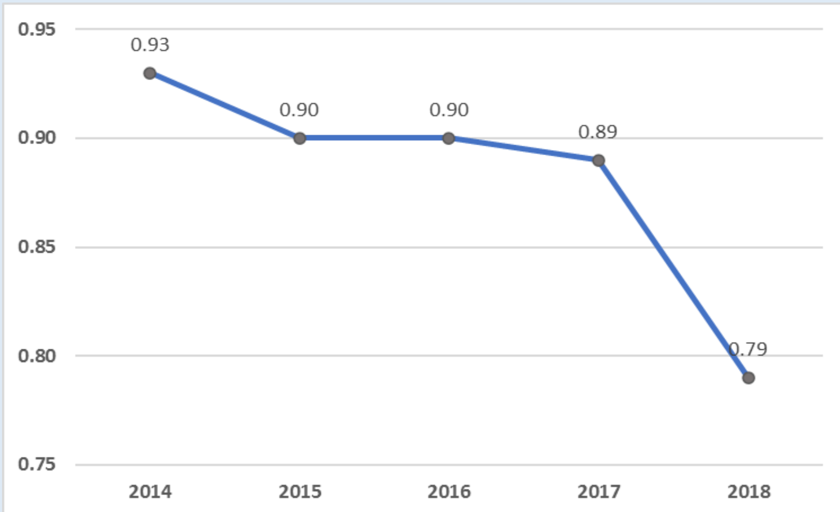
Table 2.6: Total Collection of Zakat Funds, 2014–2018 (RM ’000)

STATE	2014	2015	2016	2017	2018
JOHOR	212,809.1	239,931.0	250,436.5	260,671.6	285,784.1
KEDAH	128,400.3	133,954.5	140,448.1	170,030.1	183,556.5
KELANTAN	133,321.3	161,908.9	162,678.8	170,890.3	183,034.9
MELAKA	58,281.0	65,968.4	70,537.7	85,598.5	87,815.0
N. SEMBILAN	88,200.4	95,247.3	104,760.4	124,495.6	131,116.5
PAHANG	109,325.1	118,082.5	122,249.0	133,655.6	138,696.4
P. PINANG	87,936.0	92,844.8	96,781.5	101,454.4	119,734.2
PERAK	114,588.5	132,585.0	151,181.1	170,804.6	176,246.2
PERLIS	162,327.7	NA	NA	NA	NA
SELANGOR	582,120.5	627,225.1	673,736.3	757,112.8	793,679.7
TERENGGANU	120,116.4	126,639.1	133,360.1	137,949.5	160,718.7
SABAH	52,829.1	61,795.7	63,704.1	88,312.0	79,661.8
SARAWAK	67,319.5	68,574.0	72,082.7	92,492.2	NA
W.P. KUALA LUMPUR	540,795.1	565,830.7	589,296.5	616,199.1	657,428.2
	2,458,369.9	**2,490,587.2**	**2,631,252.6**	**2,909,666.4**	**2,997,472.3**

Note: NA-Data not available

Source: JAWHAR & State Islamic Religious Council Website

Figure 2.30: Zakat Collection as a Share of the GDP (%)



Source: JAWHAR and BNM, Authors' calculation

2.2.3 Social Insurance

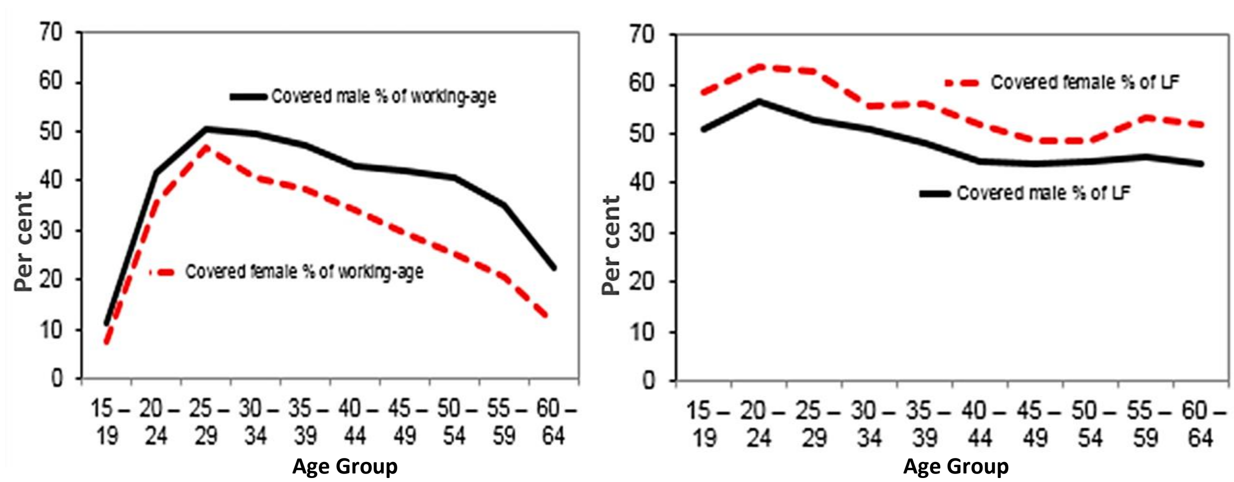
The social insurance system in Malaysia is a mix of defined contributions and defined benefits schemes with two branches; long and short-term. The long-term branch covers the contingencies of old age, permanent disability and survivors. The short-term branch covers; work-related injury, unemployment, illness and funeral allowances. In addition, civil servants in Malaysia are covered by the Malaysian Public Sector Pension Scheme, which provides an array of benefits to members.

Employees Provident Fund Scheme

Scope and Extent of Coverage

The EPF scheme is a mandatory retirement saving plan for private and non-pensionable public sector employees. Public sector employees, the self-employed and foreign workers may join the scheme voluntarily. As of September 2018, the total number of EPF members was 14.6 million (EPF, 2019). However, active members[6] totalled only 7.6 million (EPF, 2019), which is slightly more than one-half of the overall labour force and only one-third of the working-age population of Malaysia.

Figure 2.31: EPF Contributors as a Percentage of Working-Age Population (Left) and Labour Force (Right) by Sex and Age Groups, 2018

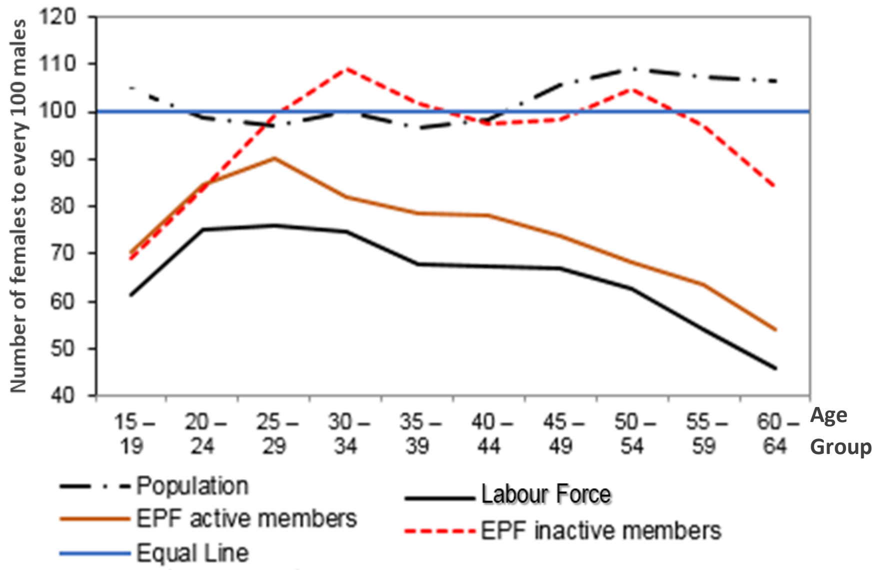


Source: EPF (2018), DOSM (2011-2017) and UN (2016), Authors' calculation

Figure 2.31 shows that social insurance coverage in Malaysia has a gender dimension. It further shows that this gender gap is wider for the working-age population (active and inactive in the labour market) compared with only those in the active labour force (only those participating in the labour market). As a result, participation in the labour market is a key determinant of whether an individual is protected or otherwise. This situation is an inherent problem in the labour market in Malaysia, where there are participation rate differentials between the male and female working-age populations, as discussed earlier. This result can also be seen in Figure 2.32, which shows that EPF's active membership mirrors the general labour force pattern where the sex ratio (female to male) peaks at age 25 before it starts declining.

[6] Those who contributed at least once over the last 12 months.

Figure 2.32: Number of Women to 100 Men by Labour Force Status, 2018



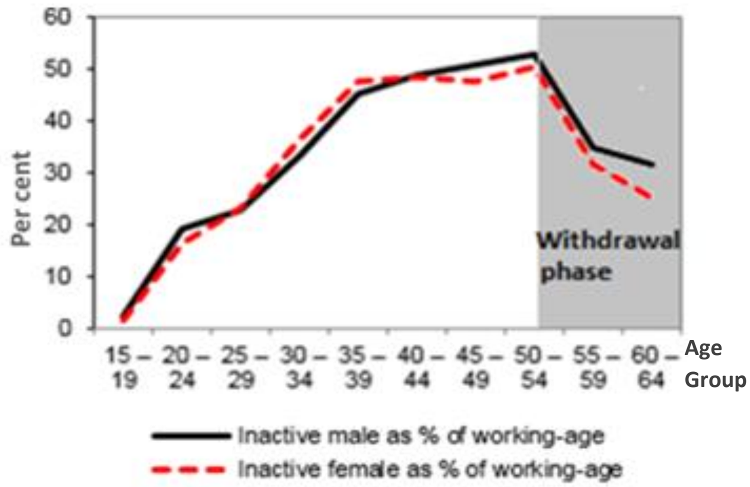
Source: EPF (2018), DOSM (2011-2017) and UN (2016), Authors' calculation

Both figures indicate that the coverage gap starts widening between males and females at age 25 and continues throughout the generally productive labour years. As discussed earlier, low female labour force participation rates are one reason for this. However, the overreliance on an insurance model based on labour market participation without government intervention has resulted in systemic bias against females, who have lower labour participation rates, limited contributory records and are more often involved in the informal labour market. Therefore, government intervention, such as, a social pension, can help compensate for the discriminatory labour market and provide old age protection for all citizens. Out of the 2.5 million self-employed Malaysians, only 137,000 contribute to the EPF (EPF, 2019), a large coverage gap that provides further justification in favour of government intervention.

Figure 2.31 and Figure 2.32 show that coverage of both sexes declines as members get older (following an initial labour market entry spike). This outcome can be explained by Figure 2.33, which shows that contribution inactivity among EPF members increases with age. While the increase in female inactivity can be partially attributed to maternity and child caring periods, male contribution inactivity is likely due to increased informality in the labour market and not to unemployment, which declines with age, as shown earlier.

This increase in informality in the labour market by age is puzzling and counterintuitive (one would expect the younger generation to engage more in informal labour arrangements and as they age, they would seek stable careers). One possible justification might be that the high contribution rates discussed in the next sections incentivise people to work in the informal sector.

Figure 2.33: Inactive[7] EPF Members as Share of the Working-Age Population by Age Group, 2018 (%)



Source: EPF (2018) and UN (2016), Authors' calculation

To increase coverage, especially among women, the EPF has launched innovative initiatives, including:

1. **i-Saraan:** A voluntary contribution scheme attached to a government incentive which allows EPF members who are self-employed and do not earn a regular income to make voluntary contributions towards retirement, with additional contributions from the government.
2. **i-Suri:** Housewives can now opt for EPF contributions through the new special incentive under i-Suri. i-Suri ensures homemakers' wellbeing and acknowledges women's contribution to their families and the country's development.

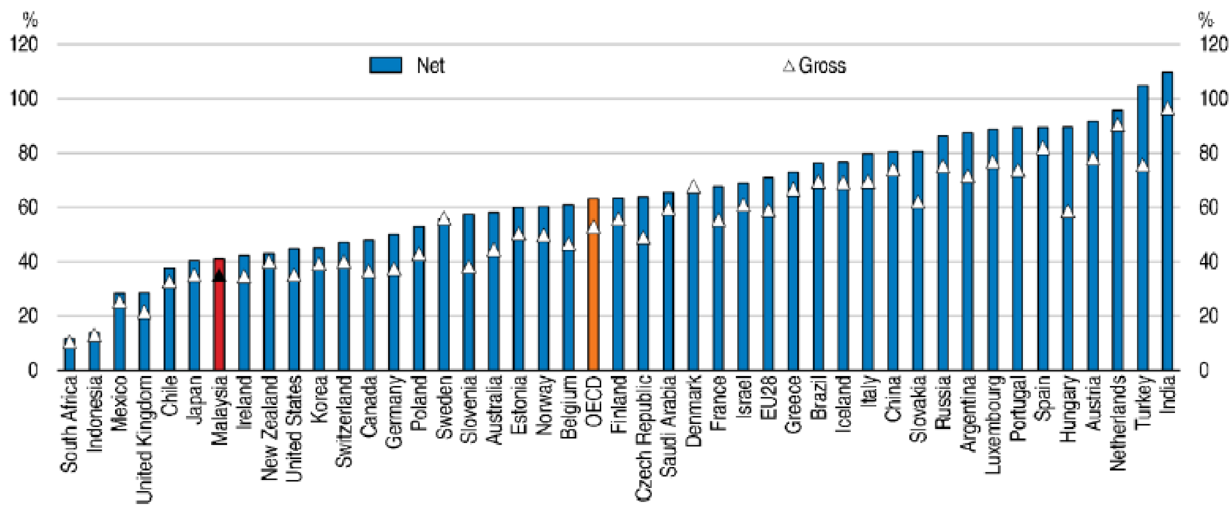
Benefit Levels and Eligibility Conditions

EPF is a fully funded, defined-contribution retirement saving scheme. Each member has two sub-accounts: Account 1, also known as the retirement account, constitutes 70% of contributions, and can only be withdrawn at age 55. Account 2 constitutes 30% of contributions and gives members some withdrawal flexibility before age 55. Upon reaching 55, contributions to members' Account 1 and Account 2 will be consolidated into Account 55. EPF members can withdraw all or part of their savings from this account at any time. If EPF members continue working after age 55, all new contributions received from age 55 to 60 will be credited into Akaun Emas and can only be withdrawn at 60 (EPF Act 1991). Types of pre-retirement withdrawals allowed in Account 2 include, members' and children's education, purchasing/building a house, reducing mortgage loans, medical costs for critical illness of members and dependents and withdrawal of savings of more than RM1 million. Members are also eligible to receive two types of additional benefits: (a) a death benefit of RM2,500 to be paid to immediate family members if the member dies before age 60; and (b) an incapacitation benefit of RM5,000 to be paid to members when they are declared invalid by medical specialists before the age of 60.

[7] Inactive EPF members are defined as having made no contributions in the past year of the reference year.

A major design setback is the lack of annuitisation. EPF statistics show that more than two-thirds of EPF contributors withdraw retirement savings as a lump sum at the time of retirement, then at age 55 (EPF, 2018). Inadequacy is another concern, with two-thirds of EPF members aged 54 having less than RM50,000 in their accounts (EPF, 2018), ie only about a multiplier of 1.2 of annual per capita income as of 2017. The combination of inadequacy, early withdrawal age, and lump sum withdrawal results in old-age vulnerability. Reports suggest that 50% of EPF members exhaust their savings within five years (EPF, 2018), which puts pressure on social assistance benefits, as discussed earlier. The OECD estimated the net replacement rate for a Malaysian male of average income at 41%, much lower than the OECD average of 68.3% (Koen et al, 2017).

Figure 2.34: Pension Replacement Rate for Selected Countries, 2014 (%)



Note: Figures are for 2014, except for Malaysia which refers to the year 2012

Source: Nixon et al (2017)

Recognising the issue of inadequacy of benefits, the EPF has undertaken key initiatives to support members to make better choices, including the financial literacy programmes below:

1. **i-Invest:** Allows EPF members to make informed investments of unit trust funds offered by EPF-approved Fund Management Institutions (FMIs) through the self-service i-Invest online platform within the i-Akaun (Member) portal. For members below 55, investment can be funded directly from the eligible portion of members' savings under Account 1 with a sales charge ranging from zero to 0.5% of the transaction amount.
2. **Belanjawanku:** An expenditure guide providing estimated minimum monthly expenses on various types of goods and services for different households in Malaysia.
3. **My Money Matters:** A useful guide that provides tips and information on financial planning, such as, points of consideration when purchasing a house or a car.

Financing and Financial Trends

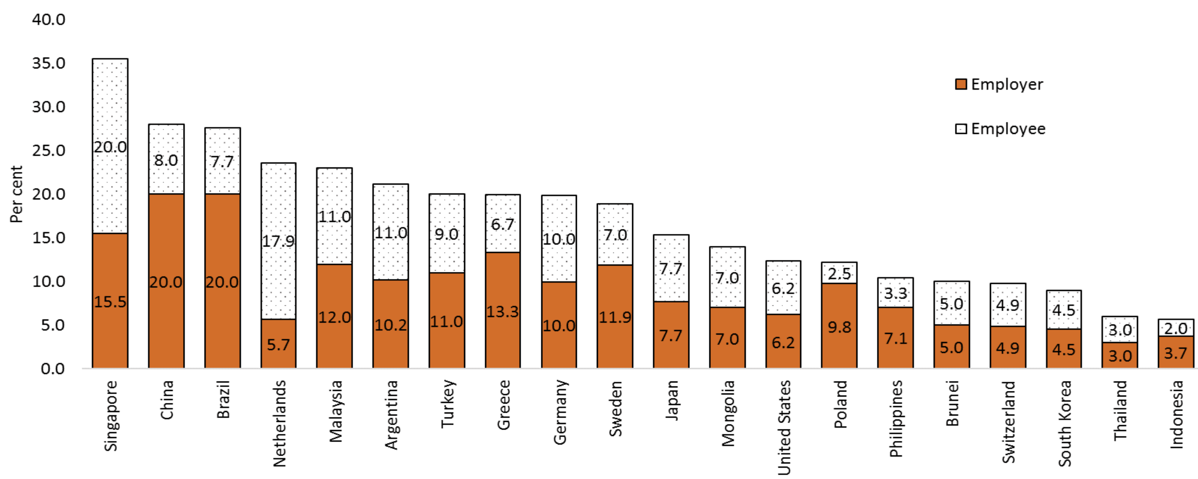
Both EPF accounts are financed by one contribution rate collected from employees and employers. Table 2.7 shows the contribution rates for various categories of EPF members.

Table 2.7: EPF's Contribution Rates, 2018

Category	Salary	Age below 60 years		Age 60 years[8] and above	
		Employee	Employer	Employee	Employer
Malaysian employee	RM5,000 and below	11%	13%	5.5%	6.5%
	More than RM5,000	11%	12%	5.5%	6.0%
Foreign workers	NA	11%	RM5	5.5%	RM5
Self-employed	NA	Maximum contribution of RM60,000 yearly			

Malaysia's contribution rate for retirement protection (EPF) is relatively high compared to other countries. Figure 2.35 compares Malaysia with a few selected countries.

Figure 2.35: Contribution Rates for Selected Countries, 2014 (%)

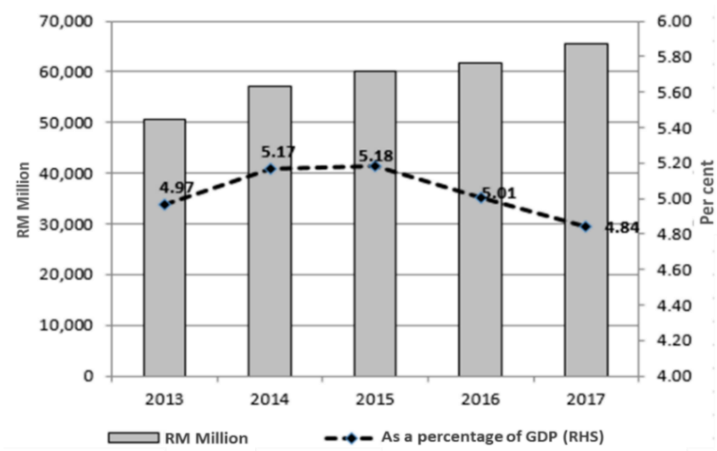


Source: World Bank (2018)

[8] Starting Jan 2019, the new contribution rate for above 60 years old is 4% (employer share) and 0% (employee share), without a maximum salary limit.

From 2013 to 2017, the total contributions collected increased modestly in value, however, not as a percentage of the GDP.

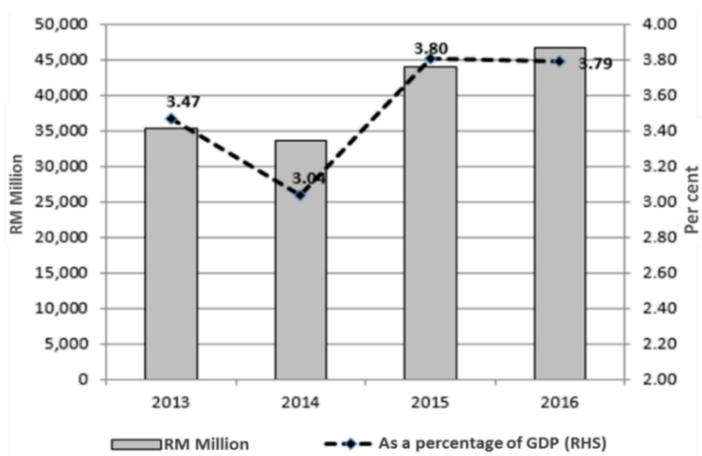
Figure 2.36: EPF's Total Annual Contributions (RM Million) and as a Share of the GDP (%), 2013–2017



Source: EPF (2018)

Similarly, withdrawal amounts have increased in RM terms however have also been relatively stable as a share of the GDP.

Figure 2.37: EPF's Total Benefits (RM Million) and as a Share of the GDP (%), 2013–2017



Source: EPF (2018)

As contributions exceed withdrawals, the accumulated assets are still in the building-up phase. As of December 2019, the EPF's accumulated assets totalled RM924.80 billion (EPF, 2019), which was 63.4% of the GDP for the same year or a multiple of 16.4 of the annual contributions of 2017 (EPF, 2018). However, throughout 2013-2017, contributions grew at an average of 6.8% annually, compared to an average of 9.4% for withdrawals over the same period (EPF, 2018). The rate differential indicated that the build-up phase would end soon. This situation requires attention, especially in light of broader structural changes, such as; demographic pressures and expected labour market changes, given the perceived notion that the younger generation prefers flexible work arrangements.

Key modifications are needed to mitigate the risks. Among them are:

1. **Increase in minimum withdrawal age**: Although Malaysia's minimum retirement age is 60, members can withdraw their retirement savings as a lump sum at 55. An increase in the minimum withdrawal age will not only allow the assets' build-up phase to extend but will provide better protection for members against longevity risks as they can accumulate more savings. As discussed earlier, two-thirds of members have less than RM50,000 in accumulated savings at age 54 (EPF, 2018), which is insufficient for old-age protection when the life expectancy at age 55 is 79 years (UN, 2016). Low wages and pre-retirement withdrawals are mainly the cause of savings inadequacy. The EPF database shows that 68% of active members earn salaries below RM3,000 (EPF, 2018). Pre-retirement withdrawals, such as; housing-related withdrawals, health withdrawals, education withdrawals and age-50 withdrawals, further contribute to the depletion of retirement savings.
2. Address the issue of increasing contribution inactivity by age discussed earlier.
3. **Encourage active contributions by older workers (age 60 and above)**: the number of older workers in Malaysia is relatively small. According to the Nikkei Asian Review, Malaysia has the smallest proportion of older workers compared to other Asian countries (Nikkei Asian Review, 2018). In 2017, EPF data revealed that out of 2.5 million members aged 60–75, only 213,478 (9%) actively contributed to the EPF and only 33,391 (1%) regularly contributed every month in a year (EPF, 2018).

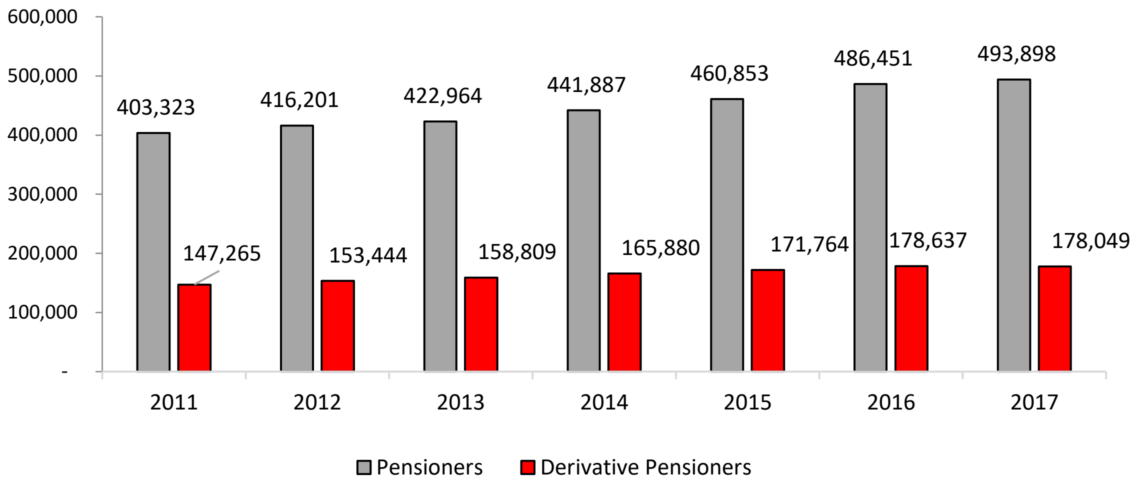
Public Service Pension Scheme

Scope and Extent of Coverage

Through its Public Services Department (JPA), the Government of Malaysia provides a non-contributory, defined-benefit Civil Service Pension scheme, where the investment, contribution management and retirement benefits' payment administration function are executed by Kumpulan Wang Persaraan (KWAP). This scheme's scope of coverage includes three main areas: Retirement benefits, which comprise: (a) A monthly pension, a one-off gratuity and a cash award for accumulated leave payment; (b) Survivors' benefits, which include; a monthly derivative pension and (c) Disability pension.

As of 2017, there were approximately 1.6 million civil servants currently employed by the Government of Malaysia (KWAP, 2018). Regarding pension recipients, approximately 700,000 received a civil service pension as of July 2018, of which 76% were former public servants, while the remainder were beneficiaries (KWAP, 2018).

Figure 2.38: KWAP's Civil Service Pensions Disaggregated Between Pensioners and Derivative Pensioners, 2011–2017



Source: Based on data from KWAP (2018)

Benefit Levels and Eligibility Conditions

The current retirement age for civil servants is 60 years old[9]. A civil servant may apply for optional retirement upon or after reaching the age of 40 years, with no less than ten years of active service. However, early pension payments will only commence at age 55 for those appointed on or after 12 April 1991. For those appointed earlier, the pension payment will commence at the age of 45 for female and 50 for male. A description of different pension entitlements is provided in Table 2.8.

Table 2.8: Government Employees' Pension Entitlements

No	Pension Benefits	Description
1	Gratuity	A lump sum payment will be made to all retirees based on the following calculation: **7.5% x service length (month) x last drawn salary**
2	Pension	A monthly payment made to a retiree based on the following calculation: **1/600 x service length (month) x last drawn salary** The above is subject to a maximum of 60% of the last drawn salary (equivalent to a 30-year (360 months) cap).
3	*Gantian Cuti Rehat (GCR)*	Cash instead of accumulated leave is a one-off payment made to the retiree based on the following calculation: **1/30 x leave accumulated (maximum 150 days) x (last drawn salary + fixed allowance)**
4	Medical Benefits	Free medical benefits similar to those that the retiree was entitled to while in service in any government hospital and clinic.
5	Pensioners card	A card identifies pensioners and provides medical benefits and serves as a discount card at certain providers/outlets.

[9] This is for those appointed with effect from 1 January 2012. For those appointed prior to 1 January 2012, they are bound by options made during the Option Retirement Age exercise in year 2001, 2008 and 2012 (retirement ages; 55, 56, 58 or 60 years).

No	Pension Benefits	Description
6	Disability pension	An additional pension is paid to retirees if they are asked to retire for health reasons caused by their job scope or due to an accident while travelling. The pension is given depending on the degree of the retiree's disability.
7	Pension adjustment	All retirees will receive adjustments to their monthly pension base, increasing by 2% annually, beginning from January every year.

In addition to civil servants' pension entitlements, surviving dependents are entitled to various benefits at their demise. Table 2.9 provides a summary of these benefits.

Table 2.9: Government Employees' Survivors' Pension Entitlements

No	Pension Benefits	Description
1	Derivative Gratuity	A lump sum payment will be made to the dependents of the deceased based on the following calculation: **7.5% x service length (month) x last drawn salary** Dependents may include, spouses, children under 21, and/or the deceased's mother.
2	Derivative Pension	A monthly payment will be made to dependents based on the following calculation: **1/600 x service length (month) x last drawn salary** The above is subject to a maximum of 60% of the last drawn salary (equivalent to a 30-year (360 months) cap). Dependents may include, spouses or children under 21 or children with permanent disability.
3	*Gantian Cuti Rehat (GCR)*	Cash instead of accumulated leave is a one-off payment made to the dependent(s) of the deceased based on the following calculation: **1/30 x leave accumulated (maximum 150 days) x (last drawn salary + fixed allowance)** Dependents may include, spouses, children under 21, and/or the deceased's mother.
4	Medical Benefits	Free medical benefits similar to those that the dependents were entitled to while the deceased was in service in any government hospital and clinic. Applicable for spouses and children under 21 years old.
5	Pensioners card	A card identifying a dependent provides access to medical benefits and discounts at certain providers/outlets. Applicable for spouses of the deceased.
6	Dependent pension	An additional pension is paid to dependents if death occurs while on duty or due to an accident while travelling. The pension is based on the number of eligible dependents. Applicable for spouses, children under 21 and mother of deceased.
7	Pension adjustment	All dependents will receive adjustments to their monthly pension with a 2% annual increment, calculated from January every year. Applicable for spouses, children under 21 and mother of the deceased.
8	Derivative ex-gratia	A lump sum payment is made when the deceased leaves no dependents (spouse or child under 21 when death occurs). Applicable for mother of the deceased.

While the benefits' scope is quite comprehensive, benefit adequacy has been a concern. As of 2017, almost 9 out of 10 pension recipients received less than RM3,000 a month (KWAP, 2018). This outcome reflects the weak wage base, as 52% of civil servants have earnings of less than RM3,000 monthly (KWAP, 2018). Attention to this issue is needed. In 2016, 176,721 civil servants received BR1M/BSH social assistance. A possible solution is an integration of a social pension (which will be discussed later), which will provide old-age protection for low-wage earners, including those in government service.

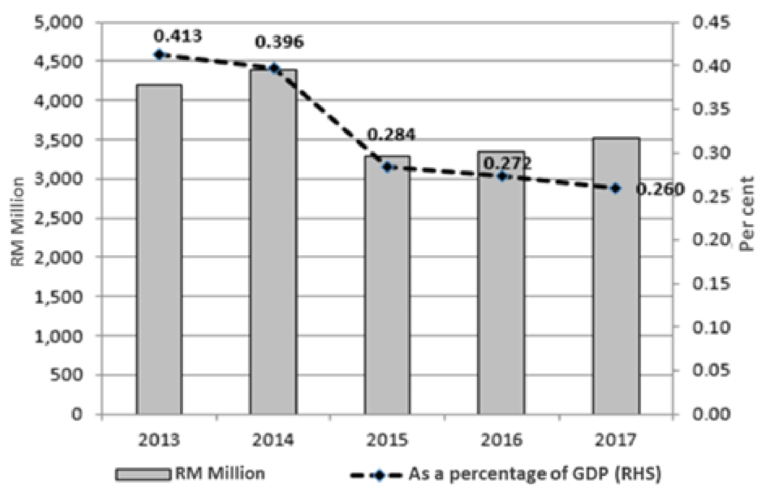
Financing and Financial Trends

KWAP contributors to the retirement fund are from three primary sources:

- **Federal Government:** annual contribution of up to 5% of the total annual budgeted pay for employees;
- **Statutory bodies, local authorities, and agencies:** monthly contribution of 17.5% of pensionable employees' basic salary;
- **Employees:** no contribution. However, the share of pensionable employees' contributions to contributory schemes, such as EPF and LTAT, will be transferred to KWAP upon the employees' retirement or switch to pension schemes.

In 2017, total contributions amounted to RM3.5 billion, about 0.3% of the GDP (Figure 2.39).

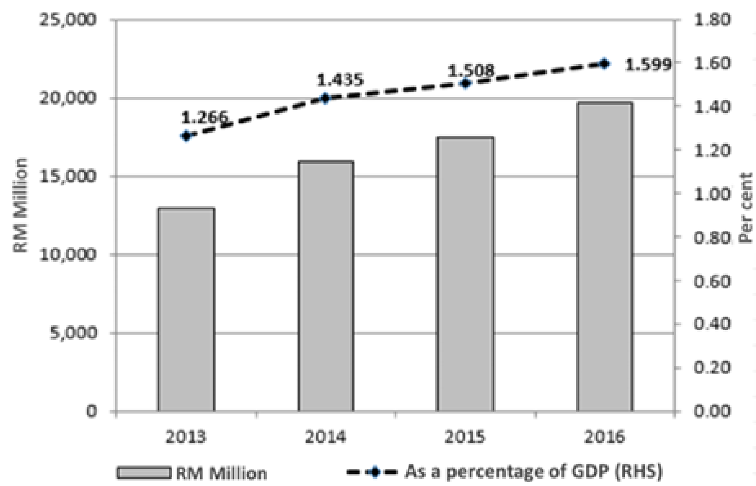
Figure 2.39: KWAP's Total Annual Contributions (RM Million) and as a Share of the GDP (%), 2013–2017



Source: Based on data from KWAP (2018)

As of 2016, the total benefits paid (pension and gratuity payments) totalled RM19.7 billion, 1.6% of the GDP for the same year and a multiple of 5.88 of collected contributions in the same year (Figure 2.40).

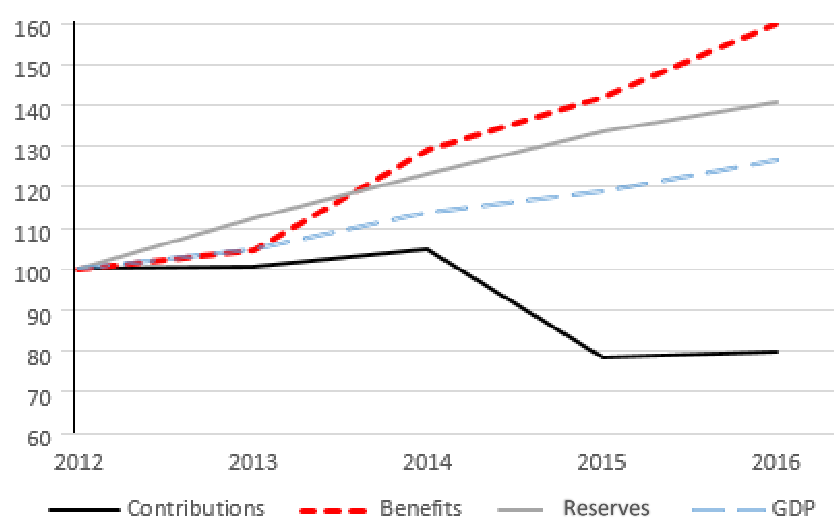
Figure 2.40: Total Benefits (RM Million) and as a share of the GDP (%), 2013–2016



Source: based on data from KWAP (2018)

Despite the significant difference between the contributions and benefits amounts, the overall reserve continues to grow, benefiting from government contributions and investment income. As of the end of 2016, the total fund size of the KWAP was RM125.0 billion (KWAP, 2018), a multiple of 6.35 of paid benefits for the same year. Nevertheless, growth in benefits has exceeded all other growth components of the system, which indicates the sustainability concerns of the system.

Figure 2.41: Growth of KWAP Benefits, Contributions, and Reserves between 2012 and 2016



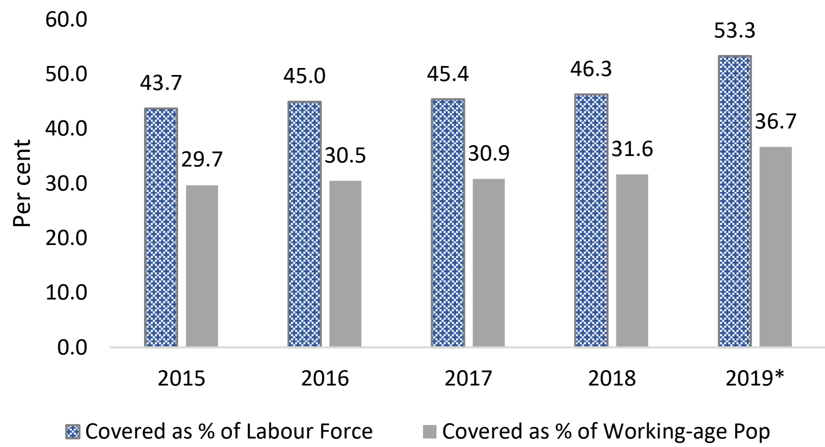
Source: based on data from KWAP (2018)

Social Security Organisation (SOCSO)

Scope and Extent of Coverage

The Social Security Organisation (SOCSO) is a statutory organisation established in 1971. Although it has a broad mandate, it has been limited to providing occupational health protection and promoting social reintegration for persons with occupational disabilities. SOCSO has two branches of social insurance: the long-term branch includes the Invalidity Pension Scheme, while the short-term branch includes two schemes, the Employment Injury Scheme and the Employment Insurance Scheme (EIS). Coverage is mandatory for all private sector employees under 60 years of age. As of December 2019, coverage reached 8.3 million active employees (SOCSO, 2020), representing approximately 53.3% and 36.7% of the labour force and working-age population, respectively.

Figure 2.42: SOCSO Contributors as a Share of the Labour Force and Working-Age Population, 2015 - 2019[10](%)



Source: based on data from SOCSO (2020) and DOSM (2011-2019)

To address the challenge of the coverage gap, SOCSO has initiated several programmes. Most notably, the Self-Employment Social Security Scheme (SKSPS) was introduced in 2017 to provide social security protection to the informal sector. This programme has used a sectoral approach and started with taxi/e-hailing taxi drivers or individuals carrying out similar services. As of December 2018, the number of registered drivers was only 7,660 (SOCSO, 2020) - insignificant compared to Malaysia's large informal sector. Continuous advocacy and enforcement programmes have resulted in 71,425 drivers registering under SKSPS as of December 2019 (SOCSO, 2020). SOCSO has extended the SKSPS to the remaining 19 sectors classified under the Malaysia Standard Industrial Classification (MSIC) starting from 1st January 2020 (SOCSO, 2020).

Besides extending coverage on employment, SOCSO has also recently introduced the Employment Insurance System (EIS) that came into effect on 1st January 2018 to protect workers who have lost their employment by providing monetary allowances and reskilling and upskilling training. Interim benefits are given to eligible applicants during the first year of implementation, as the full EIS benefits will only be

[10] *For year 2019 data, only Interim Statistics were available for analysis. Hence, were subjected to slight changes after full audit. This is applicable throughout this section.

given when applicants fulfil the contribution qualification conditions. In 2019, SOCSO received over 40,084 loss of employment (LOE) applications, of which 35,140 applicants received EIS benefits worth up to RM107.6 million. In addition, 18,745 EIS benefit recipients have returned to work through SOCSO's programme for employment services job placement in the same year (SOCSO, 2020).

Further, to ensure equal treatment for national and foreign workers regarding work accident compensation, SOCSO extended coverage to foreign workers under the Employment Injury Scheme, effective 1st January 2019. The effort to extend employment injury was aligned with the ratification of the Equality of Treatment (Accident Compensation) Convention 19 on 11th November 1957 by Malaysia (Equality of Treatment (Accident Compensation) Convention, 1925). Before that, foreign workers were covered under the Foreign Workers Compensation Scheme (FWCS), which provided fewer benefits than the Employment Injury Scheme under SOCSO. At the end of 2019, over 1.1 million active foreign workers had shifted from the FWCS and contributed to SOCSO's Employment Injury fund, which has increased SOCSO's overall coverage to more than half of the labour force (SOCSO, 2020), as indicated earlier in Figure 2.42.

As part of the government's initiative to provide social protection to homemakers, SOCSO is currently planning the Housewives Social Security Scheme (SKSSR), which will provide all homemakers coverage against accidents and contingencies. In the 2020 Budget presentation, the government announced an allocation of RM20 million to kick-start the scheme, protecting 150,000 homemakers in Malaysia. This scheme was expected to be launched in the second half of 2020 (MOF, 2020). [11]

Eligibility Conditions and Benefit Levels

For the Employment Injury Scheme, members receive protection during; industrial accidents, commuting accidents, accidents during emergencies and occupational diseases. The Invalidity Pension Scheme covers permanent or long-term invalidity or death not caused by employment. Table 2.10 summarises the benefits of each scheme:

Table 2.10: SOCSO Schemes

INVALIDITY PENSION SCHEME	**EMPLOYMENT INJURY SCHEME (Formal workers, self-employed, foreign workers)**
1. Invalidity pension	1. Temporary Disablement Benefit
2. Invalidity grant	2. Permanent Disablement Benefit
3. Constant-Attendance Allowance	3. Constant-Attendance Allowance
4. Facilities for physical & vocational rehabilitation (including; the Return-to-Work Programme, Haemodialysis treatment)	4. Facilities for Physical & Vocational rehabilitation (including; the Return-to-Work Programme, Haemodialysis Treatment)[12]
5. Survivors' pension	5. Dependants' Benefit
6. Funeral benefit	6. Funeral Benefit
7. Education benefit	7. Education Benefit
	8. Medical Benefit

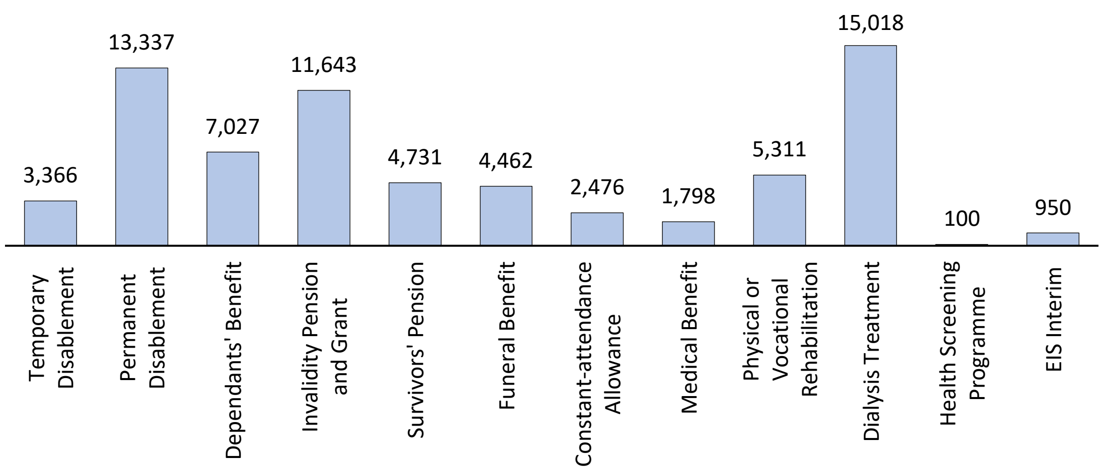
[11] At the time of printing, SKSSR has been fully implemented under the Housewives' Social Security Act 2022.

[12] Foreign Workers are not entitled to education benefits and vocational rehabilitation programmes including; the Return-to-Work Programme and Hemodialysis Treatment.

Eligibility for the above Invalidity Pension Scheme depends on meeting the contribution period requirement, ie at least 24 months of contribution within 40 consecutive months before the month the claim is made. The Medical Board or Appellate Medical Board determines and certifies the invalidity conditions for workers. Once approved, candidates continue to receive benefits until death. Upon death, the Invalidity Pension is replaced by the Survivors' Pension for eligible dependents.

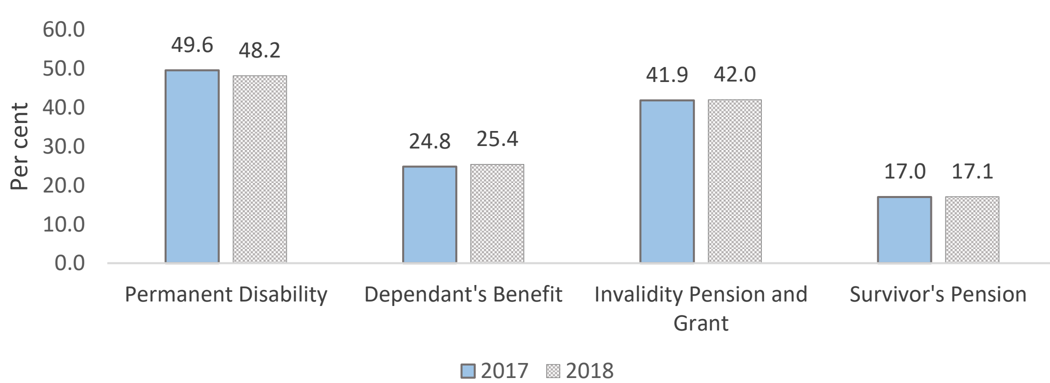
Although the EIS benefits started with a government grant to provide interim benefits, contributions are slowly accumulating, and full benefit disbursements began on 1 January 2019. To be eligible for benefits under the EIS, the insured person must be able to work and actively search for work. Benefits under the EIS include two main components: first, Employment Insurance (EI), which provides allowances for job search, early pre-employment, reduced income and training. The second component is the Employment Services (ES), which adopts a case management approach and provides services to the unemployed, including job matching, job placement and training.

Figure 2.43: SOCSO Average Annual Benefits, 2018 (RM)



Source: based on data from SOCSO (2020)

Figure 2.44: Replacement Rate (Benefit/Median Wage) of Selected SOCSO Benefits, 2017 & 2018 (%)



Source: based on data from SOCSO (2020) and DOSM (2016-2018)

Financing and Financial Trends

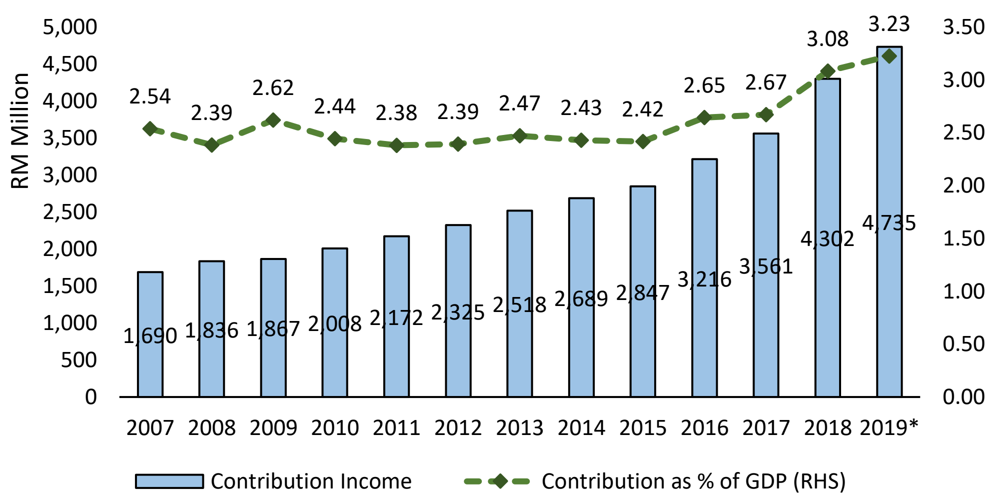
SOCSO schemes are defined benefits with contributions from employers and employees totalling 2.65% (employers pay 1.95% and employees pay 0.70%) of the insurable wage, which is capped at RM4,000 monthly. For the self-employed, a contribution rate of 1.25% is only borne by the employee. Foreign workers are only covered under the Employment Injury Scheme paid by the employer. Table 2.11 breaks down the contribution rates:

Table 2.11: SOCSO Contribution Rates (per cent of insurable wage)

	Employment Injury Scheme	Invalidity Pension Scheme	EIS	Total
Employers	1.25	0.50	0.20	1.95
Employee	-	0.50	0.20	0.70
Total	1.25	1.00	0.40	2.65

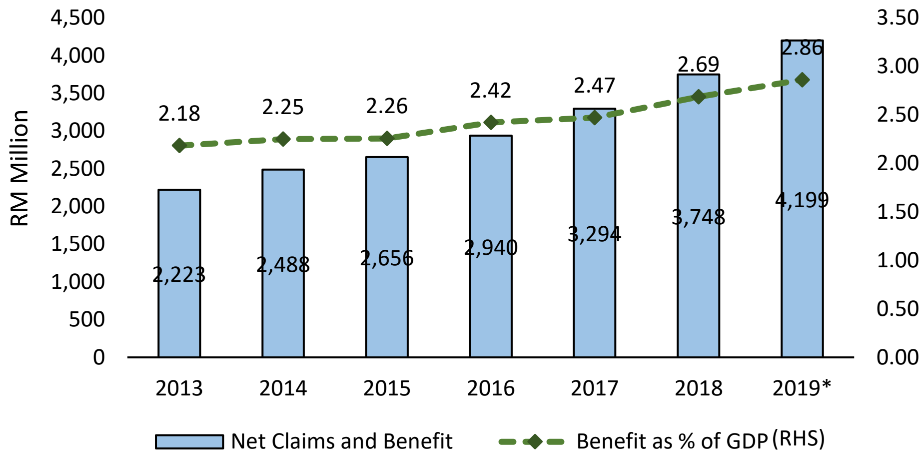
In 2018, SOCSO collected RM4.3 billion in contributions or 3.1% of the GDP, while the benefit payments totalled RM3.7 billion or 2.7% of the GDP (SOCSO, 2020).

Figure 2.45: Annual SOCSO Contributions (RM Million) and as a Share of the GDP (%), 2013-2019*



Source: SOCSO (2020) and DOSM (2020)

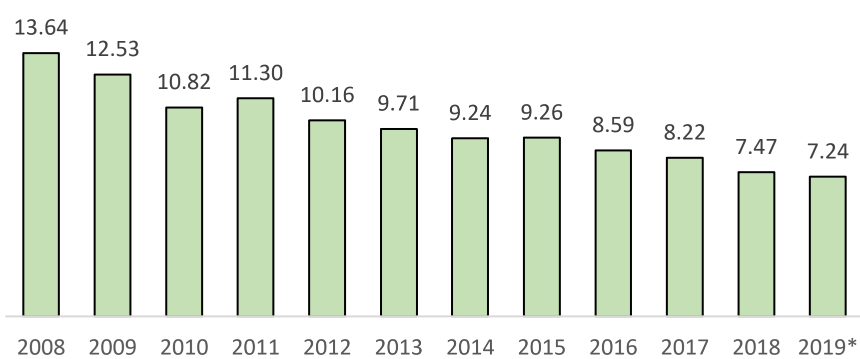
Figure 2.46: SOCSO's Total Benefits (RM Million) and as a Share of the GDP (%), 2013-2019*



Source: SOCSO (2018) and DOSM (2020)

In addition to paid-out benefits, SOCSO's other expenses totalled RM0.7 billion (SOCSO, 2020), which covered important services, such as rehabilitation and back-to-work centres. As contributions exceed benefits (margin of 15%), the generated surplus after operational costs, combined with the investment income, amounted to RM1.6 billion in 2018 (SOCSO, 2020), continues to add to the social security reserve, now at RM27.2 billion (SOCSO, 2020), which is only 1.9% of the GDP for the same year. However, the increase in the surplus has been at a lower rate than the increase in benefits paid. For instance, while reserves in 2008 were a multiple of 13.64 of the annual benefits paid in the same year, the reserves in 2018 were reduced to a multiple of 7.47 of the annual benefits in 2018.

Figure 2.47: SOCSO's Reserves as a Multiple of Benefits Paid, 2008-2019*

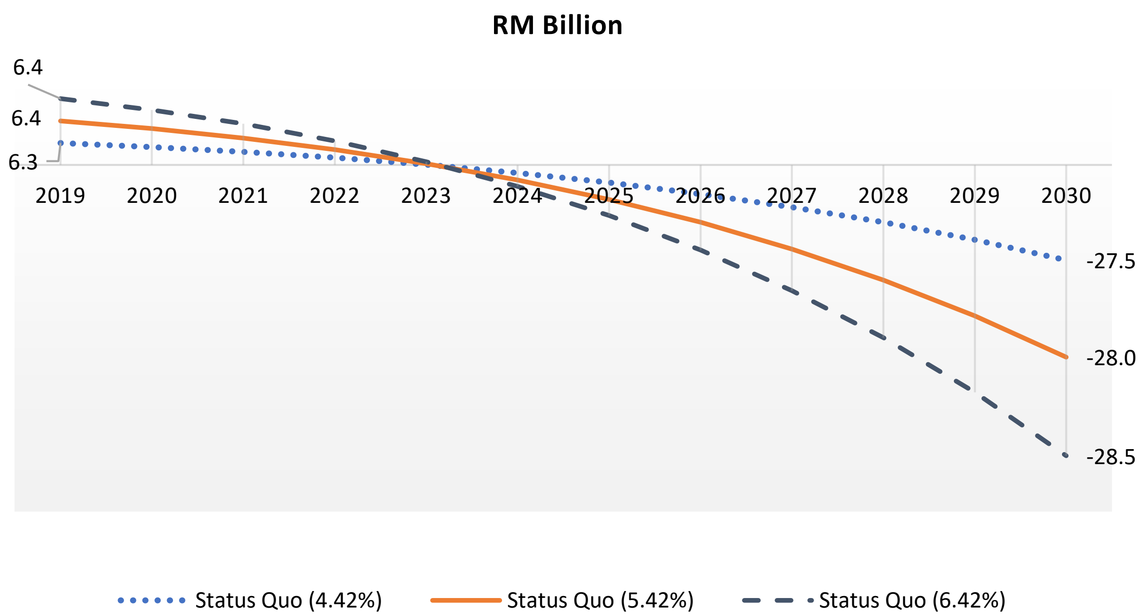


Source: Based on data from SOCSO (2020)

In general, the increase in benefits can be attributed to an increase in benefits or the number of beneficiaries. As noted in Figure 2.44, replacement rates have been stable, with a small reduction over recent years. Therefore, the increase in beneficiaries is the main reason for the increasing pressure on the reserves. A closer examination shows that the long-term branch (dependents' benefits, invalidity pensions and grants, and survivors' pensions) faces pressure, with 459,729 persons currently on long-term benefits (SOCSO, 2020). A major contributor to long-term pension claims is weak old-age protection (inadequate savings under the EPF and absence of social pensions), with applicants often trying to receive invalidity pensions from SOCSO to meet their old-age protection needs. SOCSO received over 14,000 applications for invalidity pensions in 2017, with only 40% getting their invalidity certified[13] (SOCSO, 2018). Even when an application is unsuccessful, the increasing number of applications for invalidity pensions raises the administrative costs for screening them.

Such pressure on the reserves requires attention as it is not actuarially balanced with current contributions. As a short-term measure, SOCSO has been cross-subsidising the long-term branch with short-term branch funds - an unsustainable practice. SOCSO's projections estimate that the reserves for invalidity pensions will be depleted by 2023-2024 if there are no changes to contribution rates (SOCSO, 2020). Even with increasing interest returns from investment, the downward pressure on reserves will not be reversed. Therefore, introducing tax-funded social pensions, recommended later, will provide better old-age protection and reduce the tendency to try to qualify for invalidity pensions.

Figure 2.48: Projection of SOCSO's Assets Supporting the Invalidity Pension Scheme, 2019-2030 (RM Billion)

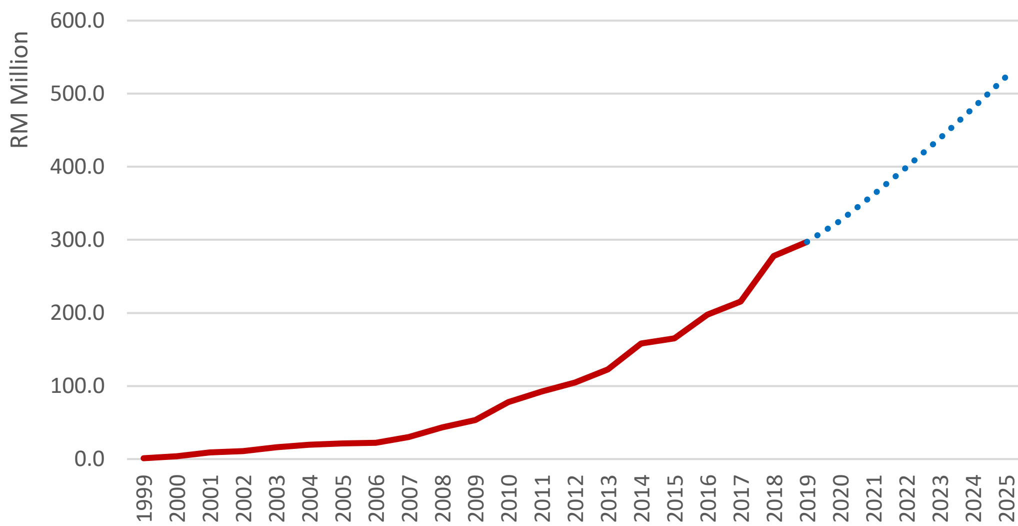


Source: SOCSO (2020)

[13] One of SOCSO's concerns is the definition of People with Disabilities (PWD). This should be standardised across various ministries and agencies. Social Security benefits should be designed to incentivise productivity rather than to compensate withdrawal from the productive labour market. SOCSO for example uses the concept of "loss of income capacity" according to impairment ratings which should be the standard baseline for compensation. This can be standardised by Bank Negara, whose role is to regulate Private Insurance practices. If it is not standardised, some groups of people may not qualify for disability benefits from either SOCSO or the Welfare Department.

Another issue is the medical benefits of the Employment Injury Scheme and the Invalidity Pension Scheme. Malaysia's public health system does not provide dialysis treatments, implants, comprehensive rehabilitation and other costs. Cost increases to provide such benefits (especially dialysis) have outpaced contributions - a situation not sustainable in the long term. For instance, dialysis costs doubled in only five years (2012 to 2017) and amounted to RM278.1 million in 2018, an increase of RM62.3 million (28.9%) compared to RM215.8 million in 2017. It is projected to increase by more than RM500 million in 2025 (SOCSO, 2018). For SOCSO to remain sustainable, it will be necessary to strengthen tax-funded healthcare coverage in Malaysia by covering these healthcare services.

Figure 2.49: Historical and Projection of SOCSO's Expenditure on Dialysis, 1999-2025 (RM Million)



Source: SOCSO (2018)

2.2.4 Labour Market Intervention

In Malaysia, there are around 22 million working-age individuals (15 to 64 years old) (UN, 2016), and each faces various challenges and risks related to their employment status during this life stage. Those employed face risks of unemployment and loss of income during an economic recession or when an industry is in decline. Those who are unemployed face the risks of long-term unemployment as the relevance of their existing human capital and skills may diminish when they are not working. Some working-age women may face difficulties re-entering the workforce after childbirth, while some informal workers may face risks related to insufficient workers' protection. Some individuals are out of employment either because they are discouraged or disabled and are vulnerable without any income source.

While identifying and managing the risks for each type of worker is an overwhelming task, this section illustrates how labour market policies, especially active labour market policies, could not only help workers deal with the associated risks during their working age but also contribute to managing these risks after their working age. In addition to the social assistance and insurance policies recommended in this Blueprint, labour market policies are essential in strengthening Malaysians' social protection.

'Activation' in the Labour Market

Labour market policies, which refer to "regulative policies that influence the interaction between labour supply and demand" (ILO, nd), are typically categorised into active and passive policies. While passive labour market policies (PLMPs) often seek to provide income replacement or support to individuals, active labour market policies (ALMPs) are interventions in the job market to help those who are unemployed or at risk of unemployment to find new jobs (ILO, 2016). Regulations, such as; the minimum wage, unemployment insurance schemes and mandatory retirement schemes, are also part of labour market policies because they can affect incentives to work (labour supply) and hire (labour demand), and the pay-outs of unemployment insurance or retirement schemes could be a form of PLMPs[14]. PLMPs generally target the unemployed, while ALMPs' targets are wider—employed individuals looking for better jobs, youth in their school-to-work transition, the underemployed and the unemployed (ILO, 2016).

Originally, ALMPs were designed to keep people 'active' in the labour market, overcome rigidities and support labour market reintegration (ILO, 2016). Increasingly, they have also supported the 'activation' of workers by assisting their transition between sectors, maintaining income during recessions and supplementing vulnerable groups' wages. ALMPs are more common in developed countries but not insignificant elsewhere (ILO, 2016). However, one key difference in implementation between developed and developing countries is that the latter design ALMPs around multiple objectives to simultaneously address other structural economic issues, such as poverty. For instance, attendees of a training programme may receive a monthly cash stipend, helping them gain new skills while creating a social protection floor (ILO, 2016; Pignatti and Van Belle, 2018).

ALMPs have four main aims in developing and emerging countries: **(1) Increase employment** by creating jobs; directly or indirectly, assisting with job search or skills upgrading to match demand; **(2) Improve equity** by targeting specific groups that are discriminated against or have skill deficits; **(3) Enhance**

[14] Retirement schemes are a form of savings for old age. Their eventual pay-out is a form of income support for those in old age. Sometimes, the government could also contribute to retirement funds in order to encourage pension contributions. As such, they could be considered as an indirect passive policy that benefits the post-working-age population, however with consequences during the working age because it affects incentives to work and hire. See, Kotlikoff and Wise (1987) and Jiménez-Martín (2014), among others, for some discussion on the incentive effects of pension programmes.

employment mobility and job quality by assisting workers who are transitioning from a declining sector to a new sector; and **(4) Reduce poverty** through job and employment opportunities, in addition to raising individual lifetime earnings potential through the accumulation of human capital (ILO, 2016).

These ALMPs can be classified into training, public work, employment subsidies, self-employment and micro-enterprises and labour market services. In practice, an ALMP programme may be defined by more than one of these classifications, as policies in developing countries tend to have multiple aims.

Table 2.12: Classification of ALMPs for Emerging and Developing Countries

Classification	Functions
Training	• Often targeted at certain groups to improve employability and enhance future career paths • Might include other interventions and income support • Usually for a short duration and covers basic skills
Public work	• Compensate for limited job creation in the private sector. However, jobs usually complement existing ones • Mostly to reduce poverty or develop communities • Could be a form of social protection for individuals who are not covered by income support or contributory schemes to insure against economic shocks • Often implemented as workfare programmes (permanent employment) or combined with other programmes
Employment subsidies	• Incentives for firms to hire certain workers • Incentives for certain workers to remain employed • Usually targeted at a certain group, especially workers with difficulties integrating into the labour market
Self-employment and micro-enterprise creation	• Provides logistical and financial support to unemployed or inactive individuals who are willing to start a business • Promote employment in the formal and informal sector
Labour market service	• Connect job seekers with employers by providing services, such as job-search assistance, labour market orientation, career advice and referral to training programmes

Source: Adapted from ILO (2016)

Malaysia has various ALMP programmes, and some include cash assistance schemes, with the main recipients being the lower-income groups. For example, the 1AZAM programme aims to alleviate poverty by increasing employability or the ability to generate income through small-scale entrepreneurship. The programme involves several forms of ALMPs depending on the type and structure of the programme—they provide training, microcredit, logistical and marketing support and job placements, and a daily allowance (when applicable) to participants (MWFCD, nd).

The Ministry of Human Resources (MOHR) also administers several ALMP initiatives. The Manpower Department coordinates pre-employment training to fulfil industrial sector needs in Malaysia. It operationalises Industrial Training Colleges nationwide (Manpower Department MOHR, nd). MOHR also developed JobsMalaysia, a free online career information service which serves as a one-stop centre to match job seekers with employers (JobsMalaysia, nd). TalentCorp, initially established to stem Malaysia's brain drain problem, has initiatives that help match Malaysian professionals abroad with job opportunities in Malaysia. Their role has since expanded to attract, nurture and retain talent within Malaysia's workforce ecosystem (TalentCorp nd). Meanwhile, Protégé (Professional Training and Education for Growing Entrepreneurs), formerly known as Skim Latihan 1Malaysia (SL1M), provides "ready to work" unemployed graduates and low-income youth with on-the-job training in participating companies, where some participants will have the opportunity to be 'matched' to the labour market (Protégé, nd).

There are also specific funds set up to finance training programmes. These include the Human Resources Development Fund (HRDF), which is mandated to ensure the growth of a quality workforce through high-skilled training certification programmes and is funded by a levy on employers (HRDF, nd). Secondly, the Skills Development Fund Corporation (SDFC) is responsible for disbursing loan funds meant for skills training. The SDFC initially focused on Sijil Pelajaran Malaysia (SPM) leavers and those who dropped out of school after the Penilaian Menengah Rendah (PMR). Its mandate has now extended to fund employee training (SDFC, nd).

MOHR is the principal government agency that implements, administers, and monitors ALMPs in Malaysia[15]. Between 2009 and 2017, the average of the ministry's development expenditures was about RM1.4 billion, or 1.1% from the total development expenditures (Figure 2.50 and Figure 2.51). Meanwhile, the operating expenditures account of RM0.7 billion or 0.4% of the total operating expenditures. In 2017, operating expenditures for Training Services and Skills Development were RM0.3 billion and RM0.1 billion, respectively[16]. The government's total expenditure on social assistance that year was RM26.7 billion[17].

ALMPs differ between countries as they address different challenges in the labour market. Generally, public expenditure dedicated to ALMPs is lower than PLMPs, as the cost and coverage of PLMPs are usually higher. PLMPs expenditures are about 70% of total labour market spending in Northern America, Asia, and the Pacific, and 60% in European countries. Meanwhile, ALMPs are generally higher in Sub-Saharan countries (Pignatti and Van Belle, 2018). In 2012, it was estimated that most of Malaysia's social protection expenditure was spent on social insurance (pensions and PLMPs), followed by social assistance and labour market programmes—each at 3.7%, 0.4% and 0.03% of the GDP per capita[18], respectively (Figure 2.52).

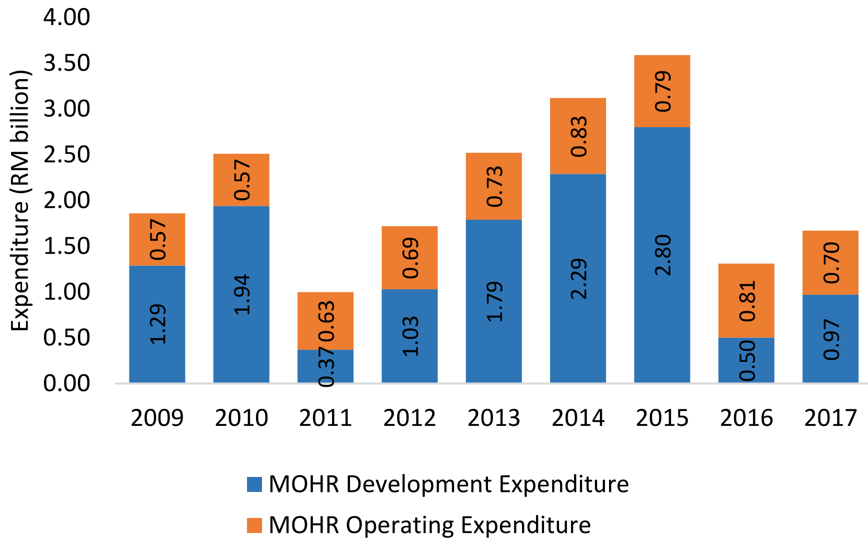
[15] Based on the agency's roles and responsibilities that are associated with ALMPs, such as; "*To plan and develop human resource through control and labour market analysis to formulate policies relating to employment, development of a skilled workforce and productivity linked wage system …; To create job opportunities and job placement …; To update and implement National Vocational Training Policy and strategies that will fulfil the training needs in the private sector …*" among others. Based on MOHR (Nd).

[16] Based on operating expenditure for 020200 *Perkhidmatan Latihan* and 020300 *Pembangunan Kemahiran*, under 020000 *Kemajuan Guna Tenaga Manusia* in Federal Government Financial Statements, 2017 in AGD (2017).

[17] See Annex 1 of this Blueprint.

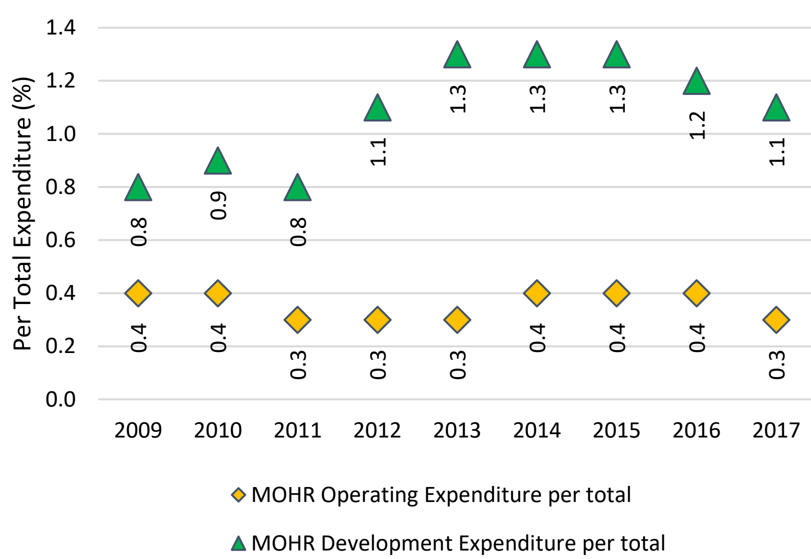
[18] Expenditures for each programme w normalised to their number of potential beneficiaries (ADB 2016b).

Figure 2.50: Total Operating and Development Expenditure, MOHR, 2009 – 2017 (RM Billion)



Source: MOHR (nd)

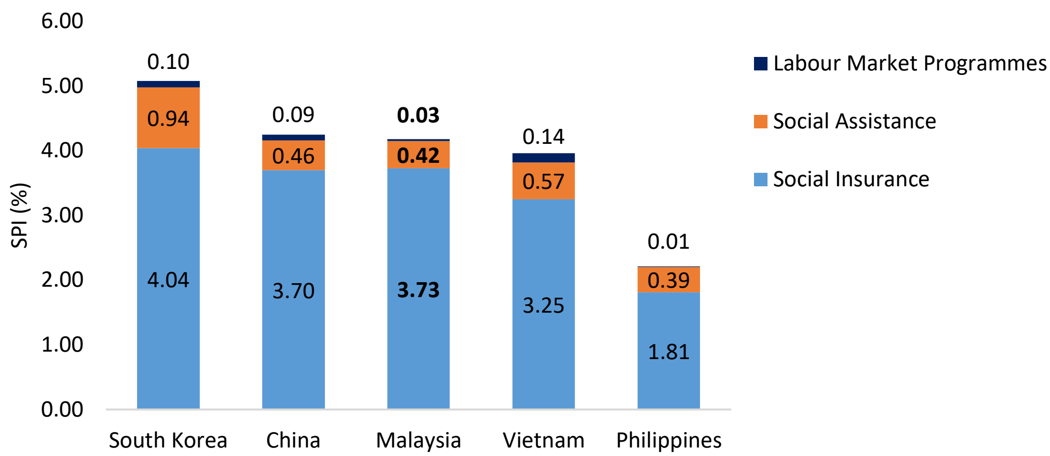
Figure 2.51: Percentage of Operating and Development Expenditure from Their Respective Total Government Expenditure, MOHR, 2009 – 2017 (%)



Notes: Based on actual expenditures recorded for MOHR (P46 and B46)

Source: Federal Government Financial Statistics, various years (AGD, 2009 - 2017)

Figure 2.52: Social Protection Indicators* for Selected Countries, 2012 (%)



Notes: *The **Social Protection Indicator (SPI)** is a relative indicator, calculated as total expenditure for a programme per number of beneficiaries, per the GDP per capita. There are three components of SPI, as illustrated in this chart: (1) **Social insurance**: health insurance, pensions and PLMPs (unemployment insurance and severance payments); (2) **Social assistance**: cash or in-kind transfers, child welfare, assistance to older people, health assistance, disability benefits; and (3) **Labour market programmes**: skills development and training programmes, special work programmes (cash- or food-for work programmes). The latest year for complete data available for Malaysia was 2012 (ADB, 2016b).

Source: Based on the SPI Report for Asia (ADB, 2016b) and the SPI Database (ADB, 2016a)

Labour Market Policies and Institutions

Reliance on ALMPs to spur employment without providing income support may cause individuals with little to no income to fall further behind. Providing income support without linking it to labour activation measures, such as; upskilling or job matching, will not improve the employment or income prospects of individuals facing barriers to re-employment. While ALMPs target economic outcomes, they are also important social policies due to inclusion and participation in productive employment (Islam et al, 2000). Empirical studies have shown that both ALMPs and PLMPs are more effective when implemented in concert and as part of a broader social protection system—Pignatti and Van Belle (2018) noted the complementary nature of these policies. While PLMPs are usually expected to produce work-disincentive effects, they can have positive labour market outcomes if sufficient amounts are spent on ALMPs. However, the results only hold for developed nations because explicit coordination between active and passive policies is more common in these economies[19].

In practice, implementing ALMPs and PLMPs in Malaysia goes beyond the institutions related to human resources and appears to be fragmented. For ALMPs specifically, this could be illustrated by several examples: funding for the 1AZAM programme is allocated to several ministries and agencies; Majlis Amanah Rakyat (MARA) under the Ministry of Rural Development has its entrepreneurship (MARA, nd-a) and skills development training programmes (MARA, nd-b); SME Corporation under the Ministry of

[19] The effects of ALMPs are mixed, and some categories of ALMPs are more effective than others. For more discussion, see, Betcherman, Dar and Olivas (2004), ILO (2016), Crépon and Van Den Berg (2016), McKenzie (2017), Bown and Freund (2019).

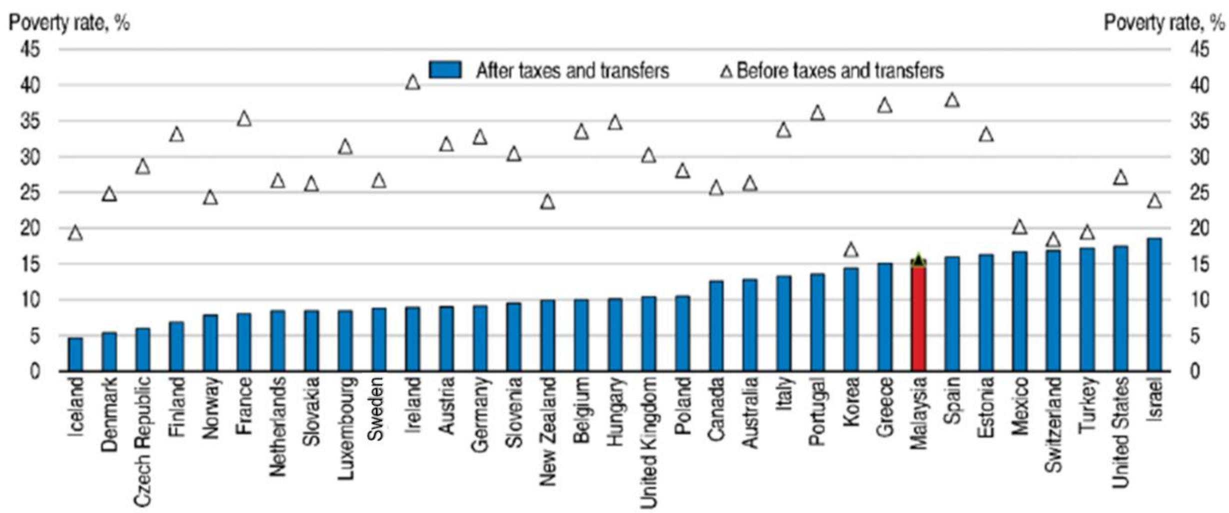
Entrepreneur Development has various financing with training programmes for entrepreneurs (SME Info, nd); the Ministry of Youth and Sports has its platform to link youth entrepreneurs to financing and training facilities (Youth Entrepreneurial Network); the Ministry of Agriculture and Agro-based Industry similarly has a youth-centric agropreneur programme supplemented with grants, financing and training (MOA, nd).

Whilst having a mix of policies that share common objectives and are implemented through different ministries could reach the broadest possible set of stakeholders, these efforts risk dilution and measurement complexities, making it difficult to track their effectiveness per unit of expenditure and to justify the allocation of public resources for these programmes. Fragmented implementation could also render inefficiencies due to the possible duplication of programmes and overlapping target groups between agencies. Given the importance of explicit coordination between labour market policies to ensure desirable outcomes, reviewing these policies and ensuring strategic coordination and coherence is necessary. Furthermore, this exercise must consider the impact of policies beyond their economic gains to include social protection considerations. Following this, further reform to the structure and re-strategising the direction of Malaysia's labour market policies and institutions could be considered.

2.3 Summary of Issues and Challenges

While there has been no evaluation of Malaysia's social protection arrangements and impacts on poverty reduction and inequality, comparing poverty indicators before and after government redistributive interventions (taxes and transfers) can provide a broad view of the impacts. The relative income poverty rate (based on an unadjusted 50% of median income) has declined slightly from 17.4% in 2007 to 15.6% in 2014 (Koen et al, 2017). The modest impact reflects the low redistributive capacity of Malaysia's tax-and-transfer arrangements in contrast to other countries that have significantly reduced poverty and inequality through redistributive policies.

Figure 2.53: Relative Poverty Before and After Taxes & Transfers in Malaysia & OECD Countries, 2014 (or latest available data)



Source: Koen et al (2017)

Some lessons can be drawn focusing on specific social assistance issues, including:

- Social assistance programmes' targeting errors (especially exclusion errors) contribute to their weak redistributive power. As indicated earlier, social assistance in Malaysia has very wide coverage across many programmes targeting different vulnerabilities. While inclusion errors understandably get higher with greater coverage, it is very troubling to find **high levels of exclusion**, especially among those most in need. For instance, BR1M/BSH coverage reached 63.2% of the population in 2018 (BNM, 2018 and UN, 2016), significantly higher than the targetted B40 group, which suggests an inclusion error of 23.2%. Significant inclusion errors did not minimise exclusion errors. A study of urban poverty in 2018 found that about 34% of households with incomes below RM4,000 (the main eligibility criterion) did not receive BR1M/BSH, while 33% of households in extreme poverty monthly incomes below RM1,000 did not receive BR1M/BSH (UNICEF, 2018). This outcome suggests that **targeting complexity exacerbates exclusion errors**: many vulnerable people are less educated and informed and more likely to fail to comply with the requirements of complex eligibility determination or qualification. Hence, they end up not receiving the benefit and are excluded. **Avoiding complexity should be a policy objective** in any attempt to reform social assistance programmes in Malaysia.

- Furthermore, the fragmentation of the many different social protection programmes in Malaysia for multiple contingencies often makes it difficult for the public to know which benefits they are entitled to, resulting in the exclusion of those in need while those with better access to information, eg, due to political clientelism, might benefit from multiple programmes as reflected in the high inclusion error.

- As exclusive targeting of the B40 group seems ineffective, vulnerability and its coverage in the existing social assistance framework can offer lessons learnt. The old age population are overrepresented among the B40 group. For instance, 44% of elderly citizens aged 60 and above are among the B40 group. Further, **as citizens aged, their vulnerability increases significantly, with more than 1 of 2 seniors aged 75 in the B40 group**, as seen in Figure 2.20 (World Bank, 2014)[20]. The social assistance programmes' coverage is broadly in line with this pattern. As shown in Figure 2.28, the largest benefit category of MWFCD recipients is the elderly benefit, BOT, which significantly increased 4.3 fold from 2008-2016 (MWCFD, 2018). BR1M/BSH administrative statistics show that 28% of BR1M/BSH recipients in 2016 were senior citizens aged 60 and above, ie 54% of all Malaysians aged 60 and above received BR1M/BSH. Against this background**, old age can be seen as an underlying vulnerability that can be used to consolidate fragmented social assistance programmes and link them to Malaysia's contributory social arrangements.**

- Children are currently the second-largest recipients of MWFCD assistance. Recent changes in BR1M/BSH criteria, which link benefits to the number of children, are a step in the right direction as large family sizes, usually with a larger number of dependents, are also more represented among the B40 group with 63% of families with six or more members in the B40 group (World Bank, 2014). However, further consolidation of all benefits targeted at children can result in more simplification and better coverage.

- Further, informal sector workers constitute 49% of the B40 group and are unlikely to be covered by contributory social insurance programmes (World Bank, 2014).

In addition, issues regarding social insurance are highlighted as follows:

- There have been efforts to increase social protection for self-employed and homemakers through contributory social insurance, such as; the Self-employment Social Security (SKSPS) by SOCSO, i-Saraan and i-Suri under the EPF, as discussed earlier. Despite these efforts, the old-age savings scheme under the EPF is voluntary, while the mandatory SKSPS is only implemented in limited sectors. Due to this, most self-employed and economically inactive populations are without sufficient social protection coverage and will eventually reach old age without income protection. To ensure the protection of these groups, introducing a tax-funded old-age social pension is a key instrument to close the coverage gap.

- Under SOCSO's Invalidity Scheme, insured persons certified invalid before age 60 will receive invalidity pensions until death. This scheme is actuarially unsustainable with the increased expenditure on invalidity pensions and grants and the constant contribution rate since inception. Important steps should be considered to restore long-term sustainability for this important branch of social insurance.

[20] This is consistent with the fact that EPF savings have been inadequate, especially with the withdrawal age of 55 (see discussion page 46).

- Malaysians do not have sufficient old-age savings, according to data from the EPF (refer to page 34, the Employees Provident Fund Scheme). Additionally, the withdrawal design of EPF savings (lump sum withdrawals) leads to many individuals exhausting their savings quickly. Therefore, lump sum withdrawal should be revised, and the EPF should propose other withdrawal designs to resolve this issue. With the absence of tax-funded social pensions and insufficient savings to sustain life after retirement, old-age poverty will continue to be a pressing issue.

- Additionally, paying attention to old age income security is important to prevent individuals from applying for invalidity pensions due to insufficient old age savings. The trend for invalidity pensions has increased over the past decade, with most applicants nearing retirement age. In 2017, SOCSO received over 14 thousand applications under the invalidity scheme (SOCSO, 2018). Around 60% of applicants are not certified as invalid, which leaves them vulnerable as they may end up in poverty without any pension to sustain their post-retirement life.

- Currently, all domestic workers in Malaysia are without any form of social protection. SOCSO's Acts 4 and 800 do not cover domestic workers as they are not defined as workers under the First Schedule of both acts. Malaysia has also not ratified ILO Convention C189 – Domestic Workers Convention, 2011 (No. 189). This absence of protection is a form of discrimination against domestic workers. Based on statistics from the Department of Statistics Malaysia (DOSM), the total number of domestic workers in Malaysia is 120,000, with 80% being foreign citizens (DOSM, 2017).

From a systematic approach, the social protection arrangements have some critical issues, including:

- Different organisations own databases with different requirements and definitions. Although the Personal Data Protection Act (PDPA) does not restrict data sharing between government agencies and ministries, some organisations are bound by regulations stated in their acts that prevent information and data sharing. This situation makes it difficult to trace benefits and assistance received by individuals to prevent any form of duplication. In addition to the high maintenance costs, these databases are also not utilised to their maximum potential to ensure the efficient delivery and coverage of social protection.

- Malaysia has various acts, policies and international commitments under social protection. However, there are gaps in coverage as certain groups do not have any legislation or policy ensuring their protection rights. There remains an insufficient legal mandate to protect the rights of all Malaysians, especially the most vulnerable groups, to social protection. A solution to be considered is the enactment of an overarching act that will strengthen the obligation of responsible parties, to ensure the rights to elements of social protection, as included in the Universal Declaration of Human Rights (1948).

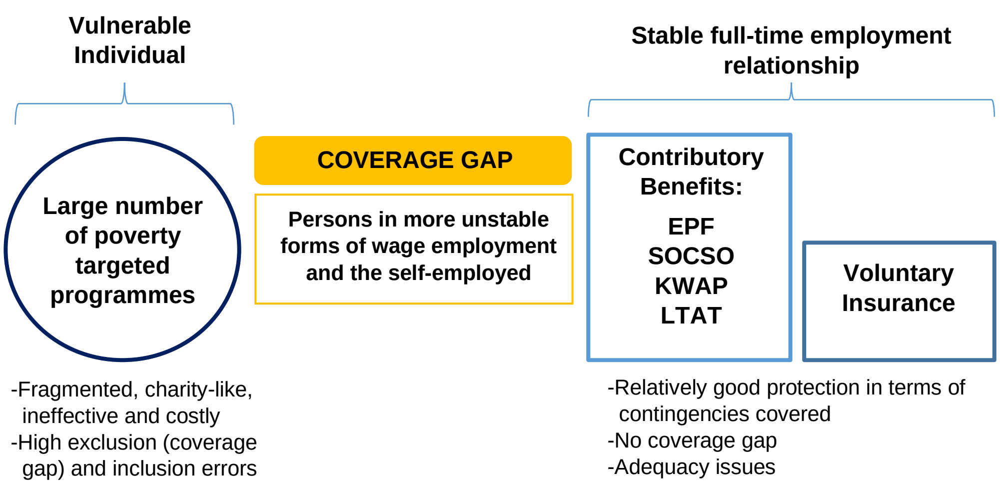
SECTION II : THE NATIONAL SOCIAL WELLBEING STRATEGY

Chapter 3: An Integrated and Development-Based Social Wellbeing Model

3.1 Towards an Integrated Social Protection System

The main feature of the fragmentation of existing social protection, as discussed earlier, is the prioritisation of two population groups at opposite ends: the first includes salaried employees in the formal sector (public and private), particularly those in stable full-time employment, who enjoy relatively good protection in terms of contingencies covered and no major coverage gaps (with the limitations of adequacy discussed earlier). The second includes vulnerable individuals, often targeted by social assistance programmes (see Annex 1). Despite the large number of programmes, these arrangements exclude a significant share of those targeted by these programmes. Apart from these two groups, coverage of other workers, especially persons in more unstable wage employment and the self-employed, is not automatic. Therefore, significant coverage gaps exist despite efforts to extend the coverage of formal contributory arrangements.

Figure 3.1: Social Protection Coverage in Malaysia at Two Roles

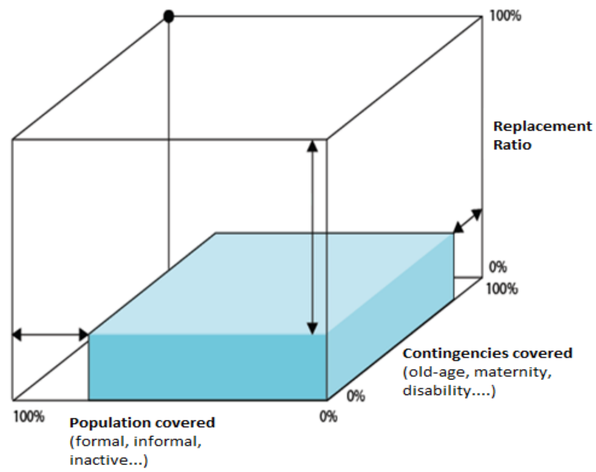


Against this background, the consolidation of existing arrangements into a coherent social protection system requires the new system to ensure the following broad objectives:

1. **Coverage** of contingencies (extent of coverage) for all groups (formal, informal, vulnerable, etc)
2. **Adequacy** of benefits
3. **Cost** containment for intergenerational equity and economic growth friendliness.

These three objectives can be presented in a cube diagram, where the two base dimensions represent coverage (population and contingencies). The third dimension, height, represents the system's generosity regarding benefit levels expressed as a percentage of wages. The volume represents the overall costs of the system.

Figure 3.2: Objectives of a Coherent Social Protection System

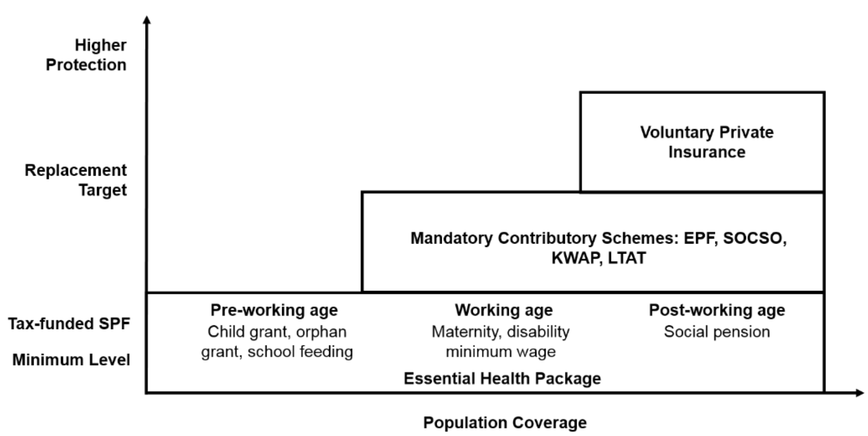


Like any social policy, there is a trade-off and choices to be made: the above objectives conflict with one another- you can achieve any two without impacting each other, but not the three together. For instance, high coverage (the base) and generous benefits (height) will increase costs (the volume). While closing the population coverage gap (the width in the graph) is a key objective in Malaysia's commitment to leaving 'no one behind', this section presents recommendations to balance the other objectives. In this regard, two more objectives are critical to ensure both full population coverage and cost containment of the system:

1. The system should promote social solidarity, inclusion, and cross-subsidisation ('working' to 'non-working', 'haves' to the 'have-nots').
2. The overall system creates synergies and coordination between different arrangements to ensure; coverage, impact and efficiency.

In line with ILO recommendations, the framework adopts a two-dimensional approach for consolidating and coordinating Malaysia's fragmented social protection arrangements and closing the coverage gap.

Figure 3.3: Integrated Social Protection System



Source: Based on ILO (2012)

In the horizontal dimension, a coherent social protection floor containing basic social security guarantees, tax-funded and provided at a minimum level of social protection to ensure universal access to essential health care and income security using life cycle targeting. The vertical dimension accounts for the progressive achievement of higher levels of protection within the integrated and comprehensive social security mechanism currently in Malaysia. Through better coordination and with emphasis on creating synergies between contributory and non-contributory programmes, the overall integrated system will be more effective, not only in reducing inequality but also in enhancing economic security for the entire population while maintaining incentives for saving and participation in the labour market within Malaysia's overall fiscal envelope.

As discussed earlier, while wellbeing is a broad concept covering income and non-income dimensions, the study focuses on the income dimension, covering contributory and non-contributory arrangements. Other important non-income dimensions (such as education, health, shelter, reskilling, employability, and inclusive labour market policies for women, old age, and disabled people) should be covered in complementary reforms.

3.2 A Shift from a Charity-Based Social Assistance Approach to a Developmental Model

The rapid evolution of cash transfer social assistance programmes in Malaysia, most notably BR1M/BSH, over the past decade is more relevant to countries at earlier stages of development than a natural and systematic expansion reflecting the development path of Malaysia. As countries get richer and extreme poverty is largely eliminated, the tendency is to move away from narrowly defined poverty-targeted social safety nets to other more socially inclusive measures and less stigmatising programmes (eg social pension, tax credits, child grants). Malaysia seems to have moved in the opposite direction with the proliferation of charity-like programmes. Malaysia needs to move away from narrowly targeted and stigmatising approaches. In other words, this report recommends targeting underlying vulnerabilities instead of explicitly targeting poverty, which is not easily observable and can be manipulated, as the evidence suggests for Malaysia and other countries (Kidd and Wylde, 2011). In this regard, risks associated with the life cycle, such as; childhood, maternity and old age, coupled with the risks of disability and orphanhood, can be targeted with social assistance programmes and universal benefits provided for each category. From narrow poverty targeting to categorical targeting, the proposed shift converges with the gathering momentum for universalism, as in the intense debate on Universal Basic Income (UBI)[21]. This shift will achieve key objectives:

1. **Reduce exclusion errors associated with poverty targeting**: As discussed earlier, available data shows that BR1M/BSH has suffered large exclusion errors (many deserving citizens did not receive benefits). This situation is not unique to Malaysia, as evidence shows that poverty targeting carries very significant exclusion error risks. For instance, Mexico's Oportunidades excluded 70% of the poorest 20% of eligible households, while Brazil's Bolsa Família had an exclusion error of 59% (Fiszbein et al, 2009). Exclusion and inclusion errors in; Bangladesh, Indonesia, Rwanda and Sri Lanka ranged between 44% and 55% when 20% of the population was covered and between 57% and 71% when 10% was covered (Kidd and Wylde, 2011). In China's Minimum Livelihood Guarantee Scheme (known as Diabo), cities using more targeting were less likely to reduce poverty (Ravallion, 2007).

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. For instance, universal programmes have little need for a periodic reappraisal of eligibility, whereas targeted programmes require periodic retargeting to assess ongoing eligibility. Targeting processes imply more costs and complexity from an administrative perspective. Not surprisingly, an ILO review concluded that the universal schemes reviewed had the lowest average administration costs at 2.5% of total programme costs, whereas targeted programmes averaged administration costs of 11% (Ortiz et al, 2017). In addition to costs, complexity adversely affects coverage. As many vulnerable people are less educated or informed and more likely to fail to comply with the requirements of complex eligibility-determination or qualification processes, generally associated with means-tested targeted programmes, they end up not getting the benefits, ie are excluded. This situation partly explains the high exclusion error among low-income people, as in the case of the urban needy's access to BR1M/BSH discussed earlier, where almost 4 out of 10 deserving beneficiaries did not receive

[21] While this recommendation is to provide benefits universally, it is not the same as UBI. It can be a step towards UBI by prioritising first key population groups ie old age, children, etc. This is in line with the IMF suggestion 'that a gradual approach to reform would be desirable, possibly focusing first on universal coverage of subgroups of the population, such as; children and the elderly.' (see, IMF. 2017. IMF Fiscal Monitor: Tackling Inequality. See, Chapter 1: Tackling Inequality)

BR1M/BSH (UNICEF, 2018). Furthermore, the 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 the further exclusion of those in need while those with better access to information or better connected may benefit from many programmes, including those who are ineligible, ie contributing to inclusion errors.

3. **Dignity, solidarity, and social cohesion**: Programmes supposed to be exclusively for people experiencing poverty tend to be stigmatising. Studies have found that the screening processes for determining eligibility for means-tested or proxy-means-tested benefits tend to be stigmatising. For example, 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 stigmatisation is an important mechanism through which shame is induced' (Roelen, 2017). The social 'othering' that occurs through targeting generates strong 'in' and 'out' group dichotomies, especially in contexts where notions of 'deserving' and 'undeserving' poor prevail, say, for example, in the 'Anglo-Saxon social model' (Roelen, 2017).

4. 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 the group benefits 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. Universalism signals a clear message from the state that all citizens have a stake in society.

While categorical approaches ostensibly cover all individuals in a category (eg all above the age of 70 receive social pensions), a form of targeting is implicitly built-in:

1. **Self-selection targeting**: The modest benefit amount (a floor-level benefit that can be complemented with other contributory schemes as in Figure 3.3) coupled with other administrative burdens to register and receive benefits, are likely to result in less than universal take up, as higher income groups may not claim the benefit.
2. **Categorical targeting**: The life cycle approach recognises that deprivation and vulnerability positively correlate with age, eg childhood and old age (more details in the recommendation below). As deprivation positively correlates with the proposed categories, categorical targeting increases benefits based on household characteristics, even if non-poor households receive the same benefits.
3. With the inclusion of financing mechanisms, such as tax, **the overall impact (transfer and tax combined) is a net transfer** from rich to poor households.

Box Article 3.1: Targeting vs Universal

The design and implementation of social protection systems are important in ensuring that they can powerfully shape countries, enhance human capital and productivity, reduce inequalities, build resilience and end the inter-generational cycle of poverty (World Bank, 2019). Universal design regards social protection as a universal human right, arguing for inclusive coverage, while the targeting design promotes targeting social protection at the 'poor' (Kidd, 2018). Under universalism, the entire population within a specific vulnerable group (such as; seniors and people with disabilities) is the beneficiary of social benefits as a basic right, while targeting narrows the eligibility to social benefits through means-testing to determine the "truly deserving" (Mkandawire, 2005).

Poverty targeting is defined as using policy instruments to channel resources to a target group identified below agreed national poverty lines (ADB, 2004), where generally, it suffers from significant limitations (see earlier discussions). Important categories of poverty-targeting methods include means testing, Proxy Means Testing (PMT), categorical targeting, geographical targeting, self-targeting, and community-based targeting. Some design considerations are summarised below:

Targeting		Universal
Higher administrative costs due to eligibility verification processes.	**Cost**	Lower administrative costs due to simpler criteria.
Inclusion, exclusion, and proxy errors result from inadequate information and statistical capacity.	**Inclusion and exclusion errors**	Absence of exclusion and inclusion errors as every individual within a specific vulnerable group is eligible for the schemes.
Susceptible to corruption.	**Corruption**	The scheme cannot be manipulated to benefit certain groups over others.
Unwelcome tensions due to slackness in the eligibility process.	**Inclusivity**	A more popular programme as it allows very little room for discrimination.
Complex and uncertainty in eligibility as data are rarely reliable.	**Simplicity**	An easier programme to implement.
Focus on those already identified as poor, thus, not a poverty preventive programme.	**Poverty prevention**	Prevents people from falling into poverty.
May generate stigma and shame for those characterised as poor and in special need.	**Stigmatisation**	No stigma, as everyone is entitled to the benefits.
Create a disincentive to work as if they exceed a benefit eligibility threshold. The benefit will be discontinued	**Incentive**	Limited impact on disincentives to work as categories selected are generally not in the labour force, such as seniors and children.

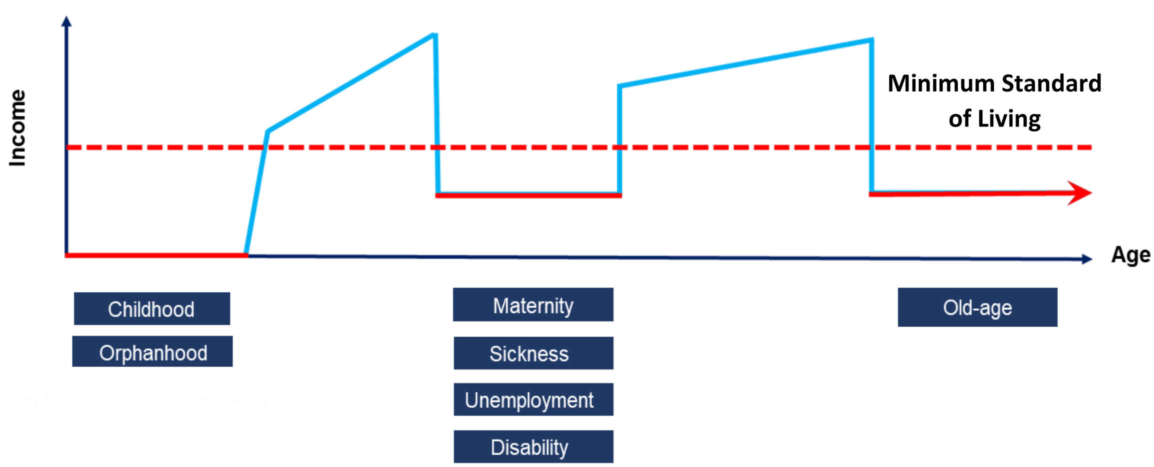
In Malaysia, a demonstration of the above can be observed from BR1M or BSH now, Malaysia's largest social assistance scheme introduced out of fiscal consolidation and subsidy rationalisation efforts in 2012, was first proposed to ease the burden of deserving groups. Although it covered 63.2% of the population in 2018 (BNM, 2018), a study on urban poverty in the same year discovered an exclusion error of 33% for households living in extreme poverty with a monthly income below RM1,000 (UNICEF, 2018). Complicated administrative processes, inaccessibility, stigmatisation and insufficient data are some factors that may explain the high exclusion error.

3.3 Adapting the Social Protection Floor for Malaysia to Consolidate Fragmented Social Assistance Programmes

As discussed earlier, the main feature characterising Malaysia's social assistance programmes is its fragmentation across many small programmes (except for BR1M/BSH). Administration costs tend to accrue in absolute terms in social protection programmes, which means that the administrative efficiency of a programme may 'benefit from efficiencies of scale' as the scheme grows. Therefore, a sufficiently large scheme typically exhibits a relatively lower administration cost in percentage terms than smaller schemes (Ortiz et al, 2017). This outcome is in addition to issues discussed earlier where the complex, fragmented nature of social assistance programmes in Malaysia often cover multiple contingencies, where many times the same contingency is covered by different programmes making it particularly difficult for beneficiaries, many of whom have low education attainment, to know about the existence of such programmes and to which benefits they are entitled.

Therefore, consolidating these programmes through an SPF can identify sources of risk and exclusion related to life cycle changes and then use such vulnerability phases as categories to be the basis for intervention. The following figure shows how changes in individuals', and households', life cycles (moving from one life cycle to another) will influence vulnerability.

Figure 3.4: Moving from one life cycle 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 EPF reference budget (*Belanjawanku*) for a household of two to live a decent life is estimated at RM4,020 a month. However, the reference budget is much higher, at RM5,330, when the household has its first child (SWRC, 2018). The increase in expenditure required for this new life stage is often coupled with a possible loss of income for 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 3.4.

Unsurprisingly, Malaysian households with the proportion of children living in poverty is higher than that of working-age adults or elderly persons living in poverty. Even for those not in poverty, many households with children hover just above the (already low) poverty line. For instance, if the poverty line is doubled, the percentage of children living in poverty will increase from 1.6% to 15% (Redmond et al, 2017). The proportion of children living in poverty is 21.1% higher than that of all persons in Malaysia when using the relative poverty measure (Redmond et al, 2017). Yet, the period of greatest vulnerability for the survival and development of a child is from conception to five years, especially for the unborn foetus and the first two years (UNICEF, 2011).

Similarly, old-age protection is a major concern in Malaysia. As citizens aged, they become more vulnerable to poverty - more than one out of two seniors aged 75 and older are in the B40 group (World Bank, 2014). The lack of protection has placed significant pressure on social assistance programmes. The largest category of MWFCD recipients is the elderly benefit (BOT), which increased 4.3 fold during 2008-2016. Furthermore, 54% of all Malaysians aged 60 and older received BR1M/BSH (MWCFD, 2018). The paper suggests consolidating fragmented old-age social assistance programmes and aligning them with contributory social insurance arrangements in Malaysia to alleviate such pressures. Similarly, other vulnerable life cycle stages are illustrated above where entering a new life cycle, such as; disability and orphanhoods, are not only associated with vulnerability. However, such categories are also socially and morally justifiable for the state to provide for them.

Against this background, refocusing social protection interventions to target key life cycle stages ensures that vulnerability in one life cycle stage is not transmitted to the next. The proposal aims to address the roots of vulnerability and ensure that individual instruments complement one another to achieve comprehensive coverage. Coupled with complementary cumulative benefits to individuals and households (refer to Figure 3.3), the proposed intervention should promote equitable growth and reduce social exclusion. The key vulnerable life cycle stages recommended to be used as the basis for targeting include pregnancy, children under five years old, preschool children (ages 5 and 6), orphans, persons with disability, and old-age citizens. For these life cycle stages, the below social protection floor is proposed to phase out existing charity-like fragmented social assistance programmes in Malaysia.

Table 3.1: Proposed Social Protection Floor Benefit Amounts

Benefit	Monthly Amount	Eligibility
Pregnancy Benefit	RM 150	Pregnant women in the last 5 months of pregnancy
Child Benefit	RM 150	Children under 5 years of age
Preschool Benefit	RM 150	Conditional upon enrolment in preschool for children aged 5 and 6
Orphan Benefit	RM 150	Orphans age 6 and up to 15 years old
Disability Benefit	RM 250	Persons with disability aged 6 and up to 60 years old
Old-age Pension	RM 400	All persons aged 70 and above

While the above benefit amounts are **low in value as a stand-alone benefit, they are meant to complement each other** and provide the first level of income security for households as a unit explained in the SPF in Figure 3.3, but also to achieve other key objectives, mainly:

1. **Ensure costs are within the long-term fiscal envelope of Malaysia while at the same time closing the coverage gap, in line with the broad objectives of reform stated earlier.**
2. **Not to reduce the incentive structure** to contribute to higher protection arrangements provided by EPF, SOCSO, and other saving/insurance products.

Coverage of the Proposed SPF

Under a set of assumptions specified in Annex 2, the following table summarises the population covered under each benefit in thousands and a percentage of the underlying population group for 15 years.

Table 3.2: Costing Results: Number of Beneficiaries, 2019-2033 ('000)

	2019	2023	2027	2033
Beneficiaries ('000)	**4,397.4**	**4,670.3**	**4,988.3**	**5,406.4**
Pregnancy	421.5	410.6	415.2	393.6
Children (age 4 and below)	1,659.6	1,672.8	1,670.3	1,594.8
Preschool (age 5 & 6)	616.8	627.8	633.8	616.3
Orphans (age 6-15)	171.5	178.1	186.1	189.4
Full Disability (age 6-60)	510.1	528.3	544.8	566.7
Old age (age 70 and above)	1,018.0	1,252.7	1,538.1	2,045.5

Source: Study's calculation (see Annex 2)

Cost of the Proposed SPF

Based on the coverage mentioned earlier and using the projection framework detailed in Annex 2, the following table summarises the cost of each benefit expressed in RM and as a percentage of the GDP.

Table 3.3: Overall Cost in RM Billion and as a Percentage of the GDP, 2019-2033

	2019	2023	2027	2033
Total Expenditure (RM Billion)	**11.836 (0.744)**	**14.764 (0.680)**	**18.409 (0.633)**	**25.378 (0.573)**
Pregnancy	0.32 (0.02)	0.36 (0.02)	0.40 (0.01)	0.45 (0.01)
Children (ages 4 and below)	3.06 (0.19)	3.48 (0.16)	3.88 (0.13)	4.39 (0.10)
Preschool (ages 5 & 6)	1.14 (0.07)	1.30 (0.06)	1.47 (0.05)	1.70 (0.04)
Orphans (ages 6-15)	0.42 (0.03)	0.49 (0.02)	0.58 (0.02)	0.70 (0.02)
Full Disability (age 6-60)	1.88 (0.12)	2.20 (0.10)	2.53 (0.09)	3.12 (0.07)
Old age (age 70 and above)	5.01 (0.31)	6.94 (0.32)	9.54 (0.33)	15.02 (0.34)

Note: The percentage of the GDP is shown in parentheses

Source: Study's calculation (see Annex 2)

It should be noted that benefits are assumed to maintain real value in RM terms (indexed with inflation) over the projection period. However, as the economy is expected to grow in real terms (positive economic growth), the benefit level will decline in relative value (relative to the GDP per capita income) over the projection period. A periodic review of the benefit's real value can be introduced later to ensure coherence and relevance. This situation is in addition to the automatic indexation with inflation already built into the projection.

3.4 Phased Approach to Introduce the SPF

If an immediate implementation is not possible for political or fiscal reasons, the Blueprint proposes an alternative realistic timeline for the progressive realisation that can be defined and agreed to. A phased approach to implementation could be achieved by continuously introducing new benefits 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 partially offset the cost of the newly introduced SPF benefits.

Year 1: Fragmented programmes will be gradually phased out and replaced with SPF benefits. Small programmes are anticipated to be completely phased out with extra funds channelled to the SPF. In 2020, SPF was established. During this period, efforts were focused on launching and scaling the SPF. Listed below is a potential example of how the SPF could be implemented over ten years:

- Year 1: Start with a social pension for the population aged 70 and above, maternity benefits, as well as support for children less than two years old
- Year 2: Introduce conditional daycare benefits for children aged five and six
- Year 3: Incorporate orphans and persons with disabilities into the initial set of beneficiaries
- Years 4-10: Gradual increase in age cut-off for child grants by a few years every year, depending on fiscal space

Alongside introducing and gradually expanding the system, monitoring and evaluation are central to the strategy. Systematic and frequent monitoring can address problems that might arise in the execution, such as delays in delivery, exclusion of eligible populations, corruption or other issues. Collecting and analysing real-time information will help identify problems related to programme implementation and create a database that can be used for further programme improvement. Further, collecting empirical evidence on the effect of the system will be crucial to building broad political and public support for the expansion and continuation of the system. For solid impact evaluation, it is necessary to collect baseline information at the inception of the proposed system to compare and measure the impact. Not surprisingly, cash transfers in other countries have been found to have positive institutional externalities (Fiszbein et al, 2009). Cash transfer programmes have strengthened a results culture within the public sector by emphasising monitoring and evaluation. Establishing a robust monitoring and evaluation system for social protection schemes is expected to have cross-sectoral external effects by strengthening other policy implementations.

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Chapter 4: Reforming Social Insurance

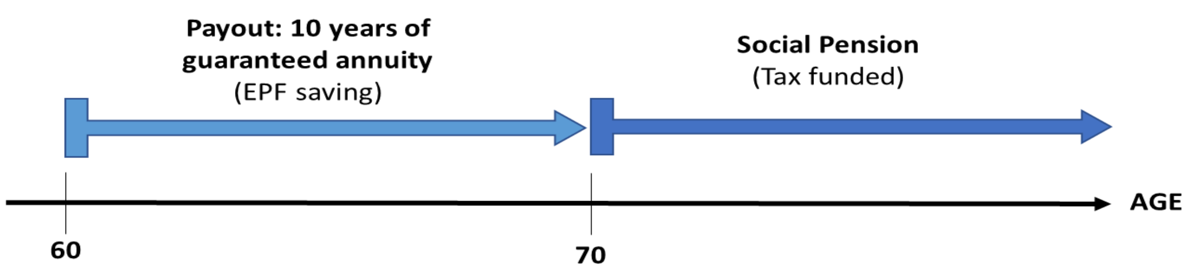
4.1 Enhancing Contributory-Based Schemes Towards Lifetime Income Security

A key function of any old-age protection mechanism is income/consumption-smoothening over an individual's life, where it shifts resources from individuals' earning periods to cover post-working age needs. As discussed earlier, the EPF's role in protecting longevity risk through consumption smoothening over a member's lifetime is constrained by a key design problem, ie the lack of annuitisation of accumulated assets over the post-working-age years. This lack of annuitisation is largely due to inadequate saving, another design problem of pre-retirement withdrawals or the early withdrawal age of only 55. The low age of full withdrawal at age 55, coupled with a low wage base for most members, has led to a low accumulation level at age 55, which in turn, translates into low payout levels – unattractive for many members. As Malaysians enjoy increased life expectancy, it is estimated that an individual aged 55 in the years 2015-2020 will live another 24.3 years (UN, 2016). Hence, the risk of old-age poverty is significant and requires consumption-smoothening to protect against uncovered risk.

This recommendation proposes raising the withdrawal age and introducing monthly payout for members. As discussed earlier, it should be noted that many members' savings will be insufficient for any meaningful amount of life annuity. In this regard, creating synergy between the EPF and the SPF's social pension is recommended to provide life coverage for all. A combination of instalments and the social pension can achieve this. Precisely:

- At age 60, a mandatory saving portion is paid monthly for ten years (between age 60 and 70). This contribution should be of a minimum amount, such as RM60,000 (a monthly contribution of RM500 per month)
- If the member survives, from age 70 onward, they will receive a social pension as part of the SPF.
- Members are allowed to withdraw the excess from the mandatory amount.

Figure 4.1: Creating Synergy between the EPF and SPF for Old-age Protection



While this scenario provides minimal old-age protection, it is practical and less problematic with regard to public reaction. A more challenging scenario is also presented below.

Detailed old-age protection reform options are presented in stand-alone and in-depth analysis[22]conducted by the team of SWRC to guide the reform strategy for old-age protection. This publication should be used as part of this Blueprint.

Box Article 4.1: Country Case Study: Singapore CPF Life

The Central Provident Fund (CPF) is a statutory board under Singapore's Ministry of Manpower responsible for investing contributions. To address longevity risk in Singapore, The Central CPF introduced its mandatory annuity product to its members in 2009 called CPF Lifelong Income for the Elderly (LIFE). Those who meet the following criteria are auto-enrolled into the annuity scheme:

a) Member is a Singaporean Citizen or Permanent Resident born in 1958 or after; and
b) Member has at least SG$60,000 in their Retirement Account six months before they reach their payout eligibility age (PEA).

If members do not meet the above requirement, they can still join CPF Life and receive lifelong income anytime between their PEA and one month before they turn 80. There are three CPF LIFE plans to choose from – the LIFE Standard Plan, the LIFE Basic Plan and the LIFE Escalating Plan (see Table 4.1).

Table 4.1: CPF LIFE Plans

Plan	Monthly Pay-out	Bequest to beneficiaries
Standard Plan	Higher level of monthly payout	Lower bequest
Basic Plan	Lower level of monthly payout	Higher bequest
Escalating Plan	Monthly pay-outs that start lower but increase by 2% yearly	Lower bequest

Any unused annuity premium (without interest) and Retirement Account savings will be paid to the beneficiaries upon the death of a member. Bequest amount will differ across plan type and age of death. The CPF LIFE monthly pay-outs will change according to gender, age, Retirement Account Savings used to join CPF LIFE and the plan type, interest and mortality rates.

An independent actuarial consultant determines the premiums and payouts for its members. The following (Table 4.2) is an example scenario of the expected payout for different amounts in their Retirement Savings Account at the age of 55 in 2019 during their deaccumulation period of the CPF LIFE (Figure 4.2)

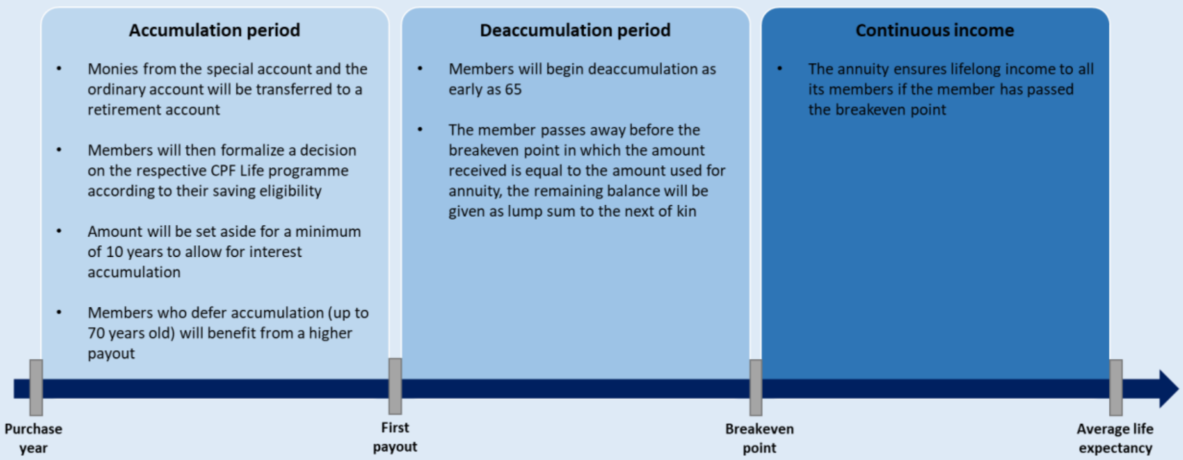
[22] This publication titled "Longevity risk and social old-age protection in Malaysia: Situation Analysis and Options for Reform", available at https://socialprotection.org/discover/publications/longevity-risk-and-social-old-age-protection-malaysia-situation-analysis-and

Table 4.2: Expected Monthly Pay-outs for Different Retirement Plans

Retirement Account Savings (SG$)	Standard Plan (SG$)	Basic Plan (SG$)	Escalating Plan* (Initial amount, SG$)
Basic Retirement Sum (BRS) 88,000	730 - 790	690 - 720	570 - 620
Full Retirement Sum (FRS) 176,000	1,350 - 1,450	1,280 - 1,320	1,040 - 1,140
Enhanced Retirement Sum (ERS) 264,000	1,960 - 2,110	1,860 - 1,920	1,510 - 1,660

Note: *Increase by 2% every year

Figure 4.2: Accumulation and Deaccumulation of CPF LIFE



The annuity provided in Singapore ensures that no one is short-changed in the process. Several systems are in place to provide this scheme:

1. CPF LIFE monies are invested in Special Singapore Government Securities (SSGS), which the Singapore Government guarantees.
2. As a national scheme, CPF LIFE has a large member base and can pool mortality risk from a large portion of the population. CPF LIFE is less exposed to the adverse selection risk that private insurers typically face.
   Being non-profit and administered by a public entity, the CPF LIFE scheme does not incur distribution costs from agents' commissions. Costs can also be better spread out due to economies of scale from a large member base.

4.2 SOCSO Invalidity Pension Scheme Reform

To ensure the sustainability of SOCSO's funds, as discussed earlier, SOCSO is proposing an immediate rectification through two potential policy recommendations that are based on several actuarial valuations:

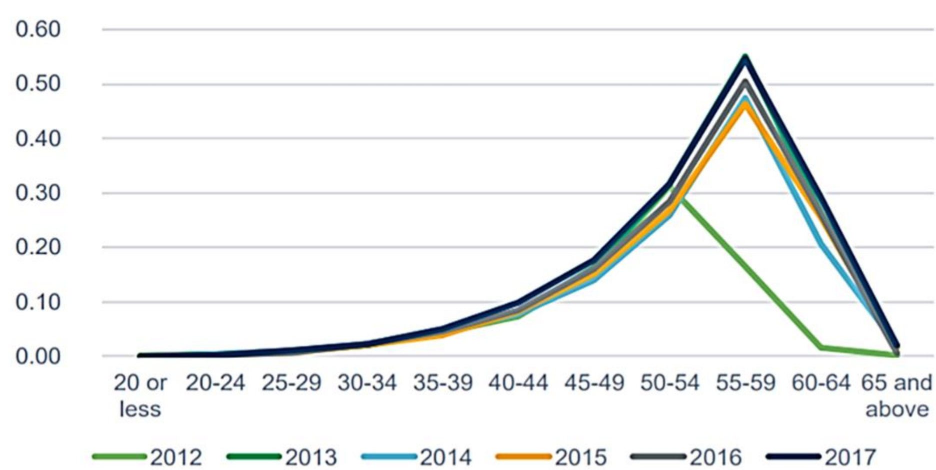
1) Increase the contribution rate for the Invalidity Pension Scheme (IPS) gradually from 1% to 2% and eventually, to the appropriate actuarial pricing.
2) Streamline SOCSO's Invalidity Pension with Elderly Assistance and EPF Savings at age 60.

These actuarial valuations recommended that the IPS contribution rate increase be implemented in stages for the IPS fund to be sustainable. The contribution rate can gradually increase to 2%, 2.5% and 3% in stages. With the implementation of the recommended rates, the actuarial valuation projected the IPS fund would be sustainable for a few decades.

However, SOCSO recognises the difficulties in introducing such reforms, especially if the reforms would burden employers and employees directly. Thus, SOCSO also suggests streamlining IPS by introducing a social pension termed Elderly Assistance under the Social Protection Floor and EPF savings at age 60. The proposal was formulated based on Article 12 of ILO Convention 128 (Higher Standard Practices), which states that "invalidity benefit shall be granted throughout the contingency or until the start of social pension" (Invalidity, Old-Age and Survivors' Benefits Convention, 1967).

Since SOCSO's social protection mandate replaces income for the working population, invalidity pensions should be limited until retirement age, when the retirees would be eligible for EPF monthly payout and Elderly Assistance. For old-age savings, 13% to 15% of the invalidity pension given by SOCSO to valid beneficiaries will be deducted and transferred to their EPF accounts for their old-age savings before retiring.

Figure 4.3: Claim Rate of the Invalidity Pension by Age Cohort (%)



4.3 Social Insurance Coverage in the Informal Sector of Malaysia's Labour Force

The informal labour sector typically comprises jobs lacking formal institutions in; salary, benefits, social protection and employment-related matters. Thus, the study of informal employment is crucial to understand better the underlying factors affecting the conditions workers face in this labour force sector. In particular, women and youths participate proportionally more frequently in the informal sector than in the formal sector due to social class, lack of experience or other reasons. It is important to evaluate policy measures that address the needs and concerns of the informal labour force to reduce the financial security gap with formal employment. For instance, policies could reduce barriers to employment in formal businesses or entice workers to transition into formal activity if they voluntarily worked informally. Most glaringly though, the social wellbeing gap is vast, and a policy that bridges this and offers wider coverage to all participants in the labour force should be a pressing priority.

Efforts have been made to promote voluntary participation in social security programmes. However, the take-up has been uninspiring. EPF launched the *Insentif Persaraan* (i-Saraan) in 2018, in which the government contributes an additional 15% to an individual's voluntary contribution (up to a maximum of RM250 per year). In its first year of implementation, the programme was proven impactful by an increase in the total year-to-year value of the voluntary contribution to 29.2% in 2018 against 5.3% in 2017 (Table 4.3). Correspondingly, the percentage change of active contributors increased from 0.4% in 2017 to 18.3% in 2018. Although the programme was not the sole factor in the large spike in voluntary contributions, it exemplifies the strength of incentives on human behaviour. Future policy design should be based on sound reasoning, empirical analysis and wise judgment to design an incentive structure which promotes a healthy saving pattern.

Table 4.3: i-Saraan Contributors and Contribution Amount, 2016-2018

Total	Receipting Year		
	2016	2017	2018
Member (Count)	115,287 -	115,723 *(0.4)*	136,992 *(18.3)*
Amount (RM '000)	814,675.9 -	857,923.7 *(5.3)*	1,108,803.9 *(29.2)*

Note: Annual percentage change is shown in parentheses

Source: EPF Business Intelligence, 2016-2018

SOCSO's efforts have resulted in establishing a new scheme, the Housewives' Social Security Scheme (SKSSR), which aims to cover disabilities due to accidents in the course of providing household care and invalidity due to chronic illnesses and diseases that limit significant or all household work, as well as death. The extensive list of benefits aligns with SOCSO's replacement of income objectives to provide adequate social protection coverage.

However, the main challenge in providing such protection for homemakers is securing consistent contributions for the social security scheme. Since homemakers are not paid for contributing to household responsibilities, they do not necessarily have a consistent income or salary to contribute to the SKSSR directly. The responsibility to contribute to the social insurance scheme rests with the working husband and the government because there is no defined employee and employer relationship. SOCSO estimates that the government must allocate RM180 million annually to initiate and sustain comprehensive coverage for homemakers under the SKSSR[23]. However, flexible arrangements and exit policies should be considered to enter alternative sources of funds, such as from formally employed husbands, state/local municipal governments or even charity organisations, including Zakat.

Box Article 4.2: Self-Employment Policies Elsewhere

<u>Singapore</u>

- The CPF requires self-employed persons earning more than SG$6,000 annually to make mandatory contributions to the MediSave account of 4% to 10.5% (depending on age).
- Collection and implementation are carried out by the Inland Revenue Authority of Singapore (IRAS) through deduction from the tax credit or requiring the contribution during tax assessment.
- The CPF pays an additional 1% interest on the first SG$60,000 for all members, non-discriminatory.
- CPF members aged 55 and above get an additional 1% interest on the first SG$30,000 (on top of the additional 1% interest on the first SG$60,000 for all members).

<u>Hong Kong</u>

- Self-employed persons must register with the Mandatory Provident Fund (MPF) system and regularly make mandatory contributions at 5% of relevant income. They can opt for payment; monthly, yearly or before the contribution 'day' (the 10th day of each month). The minimum income is a salary of HK$7,100 per month (HK$85,200 per year).

<u>Philippines</u>

- All employed persons under the age of 60 with a monthly income of more than PHP1,000 must contribute to three social security funds: Social Security System (SSS), Home Development Mutual Fund (HDMF) and the Philippine Health Insurance Corporation (PhilHealth).
- Membership of these social security funds is <u>optional</u> for self-employed persons.

<u>India</u>

- Several schemes provide social security. The most prominent are the Employees' Provident Fund (EPF) and the Public Provident Fund (PPF).
- The EPF is only available to salaried employees working with companies registered with the EPF. The contribution rate is 12% of the salary payable by both the employee and employer. Self-employed persons are not allowed to participate in this fund.
- PPF is available to all Indian citizens, whether employed, self-employed, unemployed or retired. It is not mandatory and anyone can contribute any amount subject to a minimum of 500 rupees and a maximum of 150,000 rupees.

[23] The estimation accounts for all the social security benefits listed above using the tentative contribution amount set under the Pakatan Harapan Manifesto.

Australia

- Employees' contribution to the superannuation fund is optional, whereas employers contribute a Superannuation Guarantee (SPG) at 9.5% of employees' salary.
- Self-employed persons are not obligated to pay SPG for themselves. Instead, they can contribute up to AU$25,000 per year in concessional super contributions (tax-deductible) and an additional AU$100,000 annually in non-concessional super contributions (non-tax deductible).
- For any person with a yearly income of less than AU$52,697 (before-tax) and meets the eligibility criteria, the Government will match 50 cents for every AU$1 that they add to their superannuation from their after-tax income, up to a maximum of AU$500.

TOTAL INCOME (AU$)	MEMBER CONTRIBUTION (AU$)	GOVERNMENT CONTRIBUTION (AU$)
37,697	1,000	500
43,697	600	300
49,697	200	100

Source: Adapted from Central Provident Fund Board, Singapore (nd); Mandatory Provident Fund Schemes Authority, Hong Kong (nd); Social Security System, Philippines (nd); BankBaazar.com (nd); Australian Taxation Office, Australia (nd).

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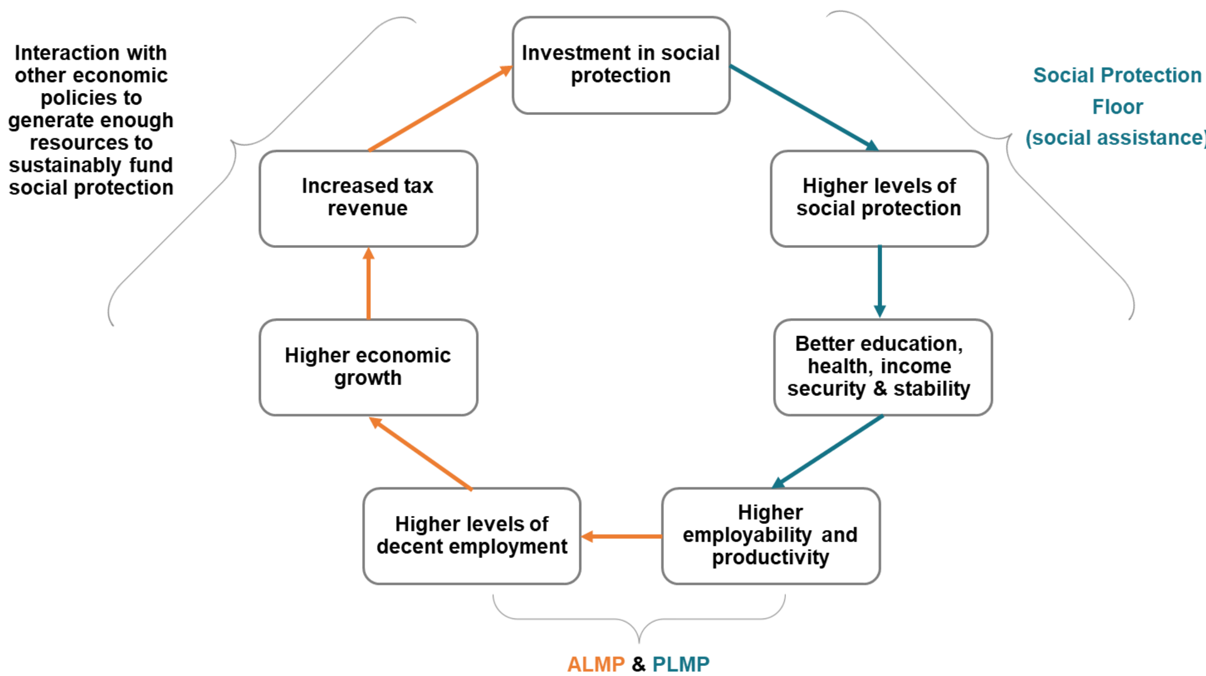
Chapter 5: Towards an Active and Inclusive Labour Market

There is a positive link between employment policies and social protection policies. When individuals are adequately protected, they can mitigate various life cycle and employment risks, enabling them to focus on their human capital development (education and health). Workers can participate meaningfully in the labour market when they can cover their basic needs. Active Labour Market Policies (ALMPs) assist workers who face skills mismatches or inadequacy, and these programmes may even directly employ them during economically challenging times. In contrast, Passive Labour Market Policies (PLMPs) cushion workers who are temporarily or permanently unemployed. An efficient labour market can contribute to higher economic growth, translating to more resources for the country to fund its social protection policies sustainably. This circular positive linkage between social protection and employment is illustrated in Figure 5.1.

Figure 5.1: Virtuous Cycle between Social Protection and Employment



Source: ILO (2016)

As Malaysia becomes a more advanced country, social welfare policies should include; strengthened investment levels in people through; education, healthcare, childcare and employment policies so that individuals can continuously improve their skills and capabilities (European Commission, nd). Calibration to this policy approach is increasingly important, given the uncertain times ahead, as the nature of work may evolve due to technological innovations and advancement disruptions. Establishing social security for the population through benefits provides the necessary protection. However, to effectively invest in people, such policies must be supplemented with social investments throughout their life cycle (Kuitto, 2016). In the previous section, ALMPs could be interpreted as a form of social investment policy, whereas PLMPs are a form of compensating welfare for working-age people.

Figure 5.2: Compensating and Social Investment in Welfare

WELFARE POLICIES	Childhood & youth	Working age	Old age
Life cycle			
Compensating	Child/family cash benefits	Unemployment, sickness, invalidity, social exclusion cash benefits, parental leave and birth allowance cash benefits	Old age and survivors cash benefits
Social Investment	Family benefits in kind, education	Active labour market policies (ALMPs), benefits in kind for socially excluded and invalidity	Old age benefits in kind, benefits in kind for survivors

Source: Kuitto (2016)

More importantly, social security and social investment interaction is not just within specific demographies; they can interact across demographic groups to achieve particular outcomes. Malaysia aspires to increase its female labour force participation rate by introducing benefits, such as; birth allowances and benefits for infants and children. However, social investment policies that assist mothers to re-enter the workforce upon childbirth and/or child-rearing years or provide high-quality childcare support for new mothers may further elevate women from recipients of welfare benefits to productive workers in the labour market.

Additionally, social investments are dynamic, and there are non-negligible potential long-term gains. Working mothers who are productive may save more for their old age, allowing them to rely less on state-funded welfare assistance during retirement or earlier. Their children, supported by high-quality childcare and education, will enter working age as; healthy, educated and productive working adults. Therefore, social investment is a sustainable way to ensure citizens have basic social protection and receive productive assistance to maximise their capabilities. Social protection policies should be implemented in coordination with other policies (labour market, employment, education, health, childcare) to create an agile and robust social investment for the people.

A three-stage approach is proposed here: pre-employment, employment, and policies to re-employ retirees. These proposals are high-level, as some implementations are ongoing or detailed in specific national policy documents.

5.1 Pre-employment

5.1.1 Managing talent

Talent management is a prerequisite for a viable labour market. Although almost every Malaysian is employed (the unemployment rate was 3.3% in 2019 (DOSM, 2019), employment quality remains contentious. Historically, the education dividend contributed to Malaysia's economic growth when economic activities moved from primary commodity to production based. However, the present challenge is to transform Malaysia into a knowledge-based economy. The Ministry of Human Resources is central to determining industry-driven workforce planning. The estimate of the skills needed by industries under the Third Industrial Masterplan (IMP3) 2006-2020 should guide the Ministry of Education to direct the type of courses offered by universities and TVET institutes. A close collaboration between the three ministries, including the Ministry of Education, which would execute the plan, should include; monitoring and evaluation to ensure objectives are met. The IMP3 spelt out a 60:40 ratio of science and technology to humanities.

5.1.2 Encouraging Participation in Technical Vocational Education and Training (TVET)

TVET has been identified as a priority area within various national documents, such as:

- Malaysia Education Blueprint 2015-2025 – 4th Shift: Quality Technical Vocational Education and Training Graduates
- Mid-Term Review of the 11th Malaysian Plan – Pillar 4: Empowering Human Capital (Prioritising quality over quantity of TVET)
- Share Prosperity Vision 2030 – Strategic Thrust 3: Transforming Human Capital (At least 60% of SPM graduates will pursue TVET fields)

A historical challenge to TVET has been the negative perception among students and parents that view TVET as an inferior stream of education when there is clear evidence that TVET is much needed in the industrialisation stage of an economy. The often-cited cases have been; Germany, South Korea and other OECD countries when TVET was the vibrant engine of industrialisation. Efforts may focus on creating awareness of the future education and career pathways for students at the school level towards increasing the quantity and quality of TVET graduates. Smart partnerships between industry and TVET institutions are also vital to ensure a match between supply and demand. Through such partnerships, TVET institutions could develop curricula based on industry requirements and benefit from sharing industry expertise. This outcome too, would enhance youth capability in TVET, hence, producing a highly skilled local workforce that can meet industry demands. Moreover, employers must be able to offer the appropriate level of wages for TVET graduates to attract youths to venture into this field.

5.2 Employment

5.2.1 Malaysians@Work: To incentivise the creation of job opportunities

The Malaysians@Work initiative announced during the Budget 2020 is a programme aimed at creating better employment for Malaysians, especially for graduates and women. It was officially launched during the EPF's International Social Wellbeing Conference 2019 and was expected to commence in stages beginning in June 2020. The programme is a stimulus package to help create up to 350,000 jobs over the next five years. Additionally, the mechanism to implement it will allow participants to save for their retirement, besides giving them a higher disposable income to support their daily needs. The four components of this programme are as follows:

- **Graduates@Work:** The programme is designed specifically for hiring graduates who have been unemployed for more than 12 months. Graduates who secure work will receive a wage incentive of RM500 per month for two years, while employers receive a hiring incentive of up to RM300 per month for each new hire for two years.

- **Apprentice@Work:** A TVET incentive programme aimed at encouraging more youths to enter TVET courses in the form of an additional RM100 per month on existing allowance for trainees on apprenticeships.

- **Women@Work: The programme** aims to create 33,000 job opportunities per year for women who have stopped working for a year or more and are aged between 30-50. The wage incentive for returning women workers is RM500 per month for two years, and a corresponding hiring incentive for employers is up to RM300 per month for two years. In addition, the current income tax exemption for women who return to work after a career break will be extended for another four years until 2023.

- **Locals@Work:** A hiring cost equalisation programme aimed at incentivising the shift away from dependency on low-skilled foreign workers. The wage incentive for Malaysians hired to replace foreign workers is RM350 or RM500 per month, depending on the sectors, for two years and a corresponding hiring incentive for employers of up to RM250 per month for two years.

5.2.2 Retrenchment, Labour Market Exchange and Job Coaching

The Blueprint recommends that all three functions (retrenchment, labour market exchange and job coaching) should be serviced by one centre for improved effectiveness and efficiency. With readily available retrenchment and vacancy data under the Employment Insurance System, the creation of the Employment Services within SOCSO aims to assist and facilitate job seekers in finding the best available jobs based on an individual's social and economic background and skills. Essentially, the Blueprint emphasises the role of government extending beyond compensation during retrenchment but also assistance for effective and efficient labour supply and demand. For example, retrenched workers should be assigned to Employment Service Officers (ESO) on a one-to-one basis to ensure quality and a seamless re-employment process. The ESO can assess the individual's interest and capabilities to facilitate the transition to more thriving sectors and suitable vacancies in the labour market.

The service extends beyond job matching to job coaching and counselling. If the job seeker is interested in a particular vacancy but does not have the required skill set, the ESO can guide job seekers to applicable vocational training schemes. Retrenched workers may also be referred to career counselling to rebuild their confidence and self-esteem. Technology greatly improves such services, such as the EIS Job Portal. The online platform could promote and facilitate these employment processes perusing access to information about employers and employees registered under SOCSO. Analysing vast datasets with granular information on job classifications and skill levels will encourage informed decisions and effective supply and demand matching.

5.2.3 Preparing for the Future of Work

As the Fourth Industrial Revolution (IR4.0) changes the nature of work, the workplace and the workforce, Malaysia needs to be adaptable to meet the challenges of a rapidly changing world. 65% of children entering primary school today will end up working in completely new job types that do not exist yet.[24] Automation and technological breakthroughs are expected to replace; routine, repetitive and predictive

[24] The Future of Jobs, World Economic Forum, 2018

work whereby jobs at high risk of displacement by technology are semi-skilled in Malaysia.[25] The increasing popularity of the gig economy due to its flexible nature also changes traditional employer-employee relationships and workplace environments.

In preparing for the future of work, the Blueprint proposes increased investments in people's capabilities to acquire 21st-century skills through reskilling and upskilling. This investment could follow the Critical Occupations List (COL) produced by TalentCorp and the Institute of Labour Market Information and Analysis (ILMIA), which provides an annual overview of the skills and occupations in demand within industries. Enhancing the workforce's skills would aid in closing the skills gap, hence, allowing better adaptability to future challenges for workers from all skill levels. Policy reforms related to human capital and the workplace are also important in preparing the right and inclusive work environment to attract and retain the right talents. These policies may cover infrastructure to support; family care, reemployment policies, age-management practices and work-life integration.

5.2.4 Driving a Culture of Entrepreneurship

The Blueprint recognises the role of entrepreneurship in creating job opportunities and driving innovation through technology-driven start-ups or social enterprises. This situation aligns with the National Entrepreneurship Policy 2030 (KUSKOP, 2020), which aims to create a holistic and conducive entrepreneurial ecosystem to support; inclusive, balanced and sustainable economic development. It aims to increase the number of; qualified, viable, resilient entrepreneurs and enhance the capabilities of local entrepreneurs including small and medium industries. Among the strategies identified to spearhead the policy's objective are; the inculcation of entrepreneurship culture, the focus on innovation-driven enterprises and the empowerment of micro, small and medium enterprises through education and training and widening the access to capital and financing.

Previously, the government introduced several schemes after the Asian Financial Crisis (AFC) to support the self-employed, such as *Amanah Ikhtiar* (AIM), set up to provide financial assistance through micro-credit facilities to the hardcore poor to venture into income-generating activities. AIM, is a complementary agent of the government's poverty eradication programmes under the National Development Policy. It is an interest-free loan to undertake income-generating projects, such as; trading and farming, and the loans are to be repaid weekly. Once the loans are fully settled, larger loans will be offered.

Another microcredit agency established after the AFC is TEKUN Nasional, which provides simple and quick financing facilities to small-scale entrepreneurs to kick-start and further expand their businesses. TEKUN provides easy financing from RM1,000 to RM50,000 with a repayment period from six months up to five years for eligible persons. Over the years, it has been reformed as an institution providing business and income generation opportunities. It also provides business capital financing, guidance and support services and a networking platform for entrepreneurs (Mansor & Awang, 2002).

[25] The Times They Are A-Changin': Technology, Employment and the Malaysian Economy: Khazanah Research Institute, 2017.

5.3 Post-retirement

5.3.1 Reemployment of retirees

Retirees remain an untapped human resource in the country. Retiring at 60 or 55 years old, as is currently the practice for a sizeable number of private sector employers, is far too early when the life expectancy at birth of Malaysians has increased to 75 years old (DOSM, 2019). This situation is more so for jobs that are not physically demanding. However, retirees' tacit knowledge and experience can add significant value to the productivity and effectiveness of organisations.

The reemployment of Malaysians over 60 can be increased by introducing incentives for employers who hire older persons through subsidies, tax exemptions or other rewards. Experiences from other countries with similar experiences, such as; Singapore, the United Kingdom and Australia, should be studied.

The incentives should be substantial enough to increase recruitment and persuade employers to retain older workers. The National Strategic Development Plan on Ageing Population proposal should be adopted here.

> *Financial incentives can be provided to employers based on a multi-tier system to encourage elderly recruitment, with higher subsidies for a higher proportion of elderly workers employed. In terms of concessions, tax discounts can be provided to employers who hire a pre-specified minimum number of older workers. A regular reporting system is required to ease monitoring employers' age-friendliness and thus, qualification for incentives.*
>
> *Regularly reporting the number of older workers currently employed can be done via monitoring EPF and/or income tax accounts to facilitate the ease of tracking and monitoring. Another potential incentive to encourage the recruitment of elderly workers is by incorporating a one-time bonus for employers who retain elderly workers for a pre-set period. Thus, avoiding abuse of financial incentives by employing a hire-and-fire culture. In addition, similar incentives can be offered to NGOs that demonstrate most of their volunteers are senior citizens.*
>
> *(Adapted from National Strategic Development Plan on Ageing Population, MOHR, 2019)*

Chapter 6: Data Streamlining and Consolidation

6.1 Data Harmonisation

Due to fragmented social protection arrangements, diverse and fragmented information management systems across many agencies have increased in Malaysia to meet the specific needs of each programme. To name a few: the e-kasih[26] database, the e-bantuan[27] database, the BR1M/BSH database, the EPF database and the SOCSO database. Running these parallel systems is costly and not necessarily enriching data topography. With the newly established Shared Service Centre (SSC), the unification of databases becomes a natural step.

Harmonising data fields is the first step to ensuring cohesive information flows between Social Protection agencies. Data analysis using multiple datasets will require consistent classifications and definitions of data fields to enable data sharing and integration across the varying Social Protection Agencies. The DOSM has set these guidelines through multiple publications that are available online, such as; the Malaysian Standard Classification of Occupations 2013 (MASCO) and the Malaysia Standard Industrial Classification (MSIC). Although definitions may vary across multiple agencies due to diverse functions and specialised operations, the Blueprint recommends that statisticians from each agency must prepare a metadata document for user reference when they publish official statistics. The document should explain the differences in data field classifications, especially those that differ from the DOSM's published guidelines.

Table 6.1: Types of Data, Data Fields and Sources for Social Protection[28]

Type of Data	Data Field (List of Variables)	Potential Source
Demography and Context	Population, Age, Sex, Marital Status, District-level address, Wage/Salary, Family Information, Migration etc.	DOSM, JPN, LHDN, JPA, JTK, SOCSO, and EPF
Labour Statistics	Employees, Employers, Unemployed, Years of Experience, Skills/Qualification, Industry Specialisation, Expected Years in Retirement, etc.	DOSM, JPA, JTK, SOCSO, HRDF, TalentCorp, and EPF
Social Assistance/ Social Security	Population Coverage, Benefits Disbursed, Contributions Paid or Collected, Out-of-Work Benefits, Beneficiaries in poverty, Inequality, People with Disabilities, Retirees, Home or Asset Ownership, etc.	DOSM, JKM, Zakat, KPKT, E-Kasih, SOCSO and EPF
Health	Life Expectancy, death rates, HIV/AIDS incidence rates, non-communicable disease incidence rates, suicidal rate, health expenditure, etc.	DOSM, KKM, JPN, & SOCSO
Education	Education spending, years of education, literacy rate, drop-out rate, completion rate, attendance rate, computer programming literacy, financial literacy, PISA performance, publications, etc.	DOSM, MOE, National Universities, JobsMalaysia, TalentCorp, etc.

[26] E-Kasih is an electronic national database of poor and vulnerable households established in 2007 by the Implementation Coordination Unit (ICU) of the Prime Minister's Office. It collects a sizable amount of information through a household survey of around 25 pages covering approximately the bottom 10% of the population.

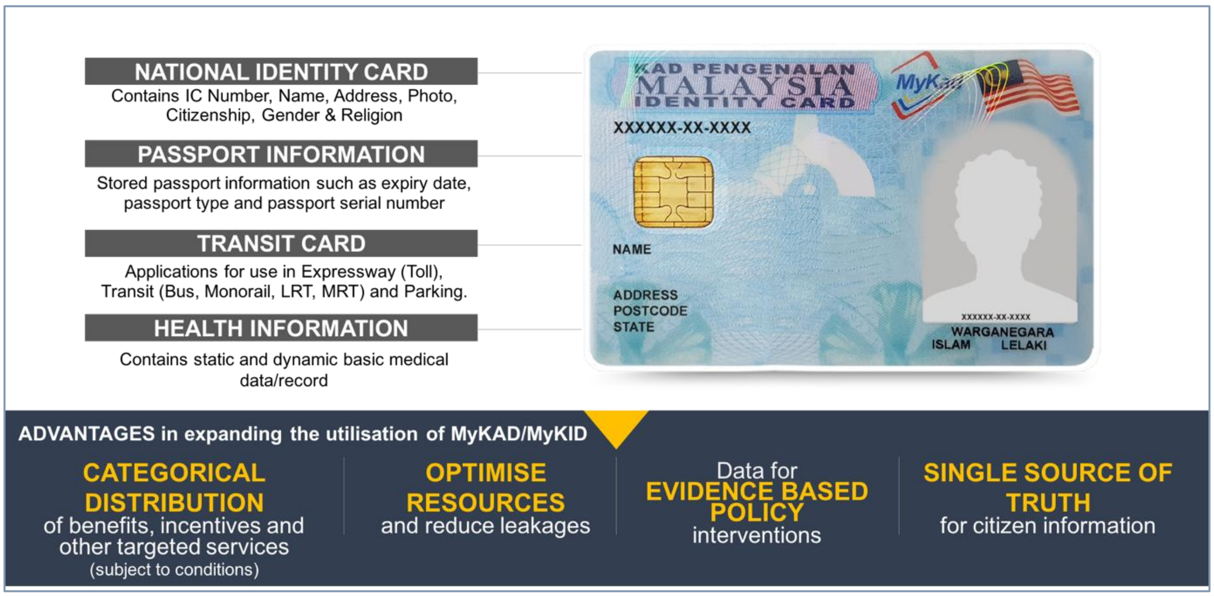
[27] eBantuan is a registry used by the Welfare Department for its social assistance programmes. Data collected through applications are validated by social welfare officers, often through home visits and other sources.

[28] The list was adapted from the OECD Report: Society at a Glance 2019. Although the list of variables is not exhaustive, the figure provides concrete examples of potential data that can be harnessed and shared between social protection agencies.

6.2 Utilisation of MyKad for Effective Distribution of Benefits

Using Mykad as the basis for unification across all programmes, including social assistance, is also key for data streamlining. MyKad's built-in chip can store and retrieve programme-specific data and link it to other biometric data already stored. Given the simplified Social Protection Floor (SPF) discussed earlier, MyKad provides the age information necessary to identify beneficiaries and their dependents. Further, special eligibility criteria, such as; disability, orphancy and daycare requirements, can be easily added. Another key advantage is its functionality as a payment method (Touch n Go), which can facilitate the disbursement of benefits without opening a bank account. Such simplicity will save banking fees for low-income groups and can fully reach rural communities.

Figure 6.1 MyKad/MyKid to Engage Citizens and Deliver Benefits



Another important area is the evaluation of the effectiveness of social programmes in Malaysia. Establishing a unified database system can be leveraged to collect panel data that measures the impact of the recommendations over time and key indicators regarding the SHINE-M component. With a unique identifier (ie MyKad number), it should be possible to more accurately analyse an individual's behaviour by supplementing observations of the individual in question with data on other individuals captured in the database.

Box Article 6.1: Data Sharing for Policymaking

The Importance of Data in Policymaking

Today, governments are only scratching the surface in their use of data. During the past decade, advances in information technology have spurred a revolution in policymaking, from business to sports and most importantly, government policymaking. Previously, decisions in these areas had been heavily influenced by factors other than empirical evidence, including personal experience or observation, biases and social norms, instinct, and philosophies or beliefs. However, the ability to collect and analyse large amounts of data has allowed policymakers to cut through these distortions to discover and understand what works. Specifically, in the social protection and social insurance milieu, a data-driven approach *(with up-to-date and extensive data)* has allowed governments to design and promote more efficient and impactful programmes to serve the public.

Data for Social Protection Programmes

Successful monitoring and evaluation (M&E) of social protection programmes are impossible without data, regardless of how clearly the questions of interest are defined or how strong the evaluation methods are. When designing social protection programmes, they typically come with many questions of interest. It should not be surprising that addressing these questions of interest will, therefore, require using multiple types of data spanning multiple sources within the government. Therefore, there is a dire need for synergy between government agencies, statutory bodies and relevant agencies to share data. The use of data for policymaking also provides the following benefits:

1. **Understanding gaps:** assist in measuring the effectiveness of existing programmes and identifying potential gaps.
2. **Public's point of view:** Survey data allows the government to capture valuable insights from the public's perspective and consider the public's view in future policies.
3. **Data-driven policymaking:** When it comes to policymaking, the major focus of the government should be towards the benefits for society. Data essentially provides policymakers with a broader map to work with.

Furthermore, data sharing is also beneficial from a policy and operational perspective.
From a policy perspective, sharing data can:

1. **Allow for a more holistic policy approach:** applies a more equitable approach to distributing resources based on objective and comparable information;
2. **Better serve the public:** increase the responsiveness and inclusiveness of interventions to serve chronically poor people, serve those who are structurally vulnerable to poverty, and respond to individual shocks; and
3. **Aids the introduction of a social protection floor:** access to more data can support the introduction and implementation of a targeted social protection floor.

From an operational perspective, data sharing can:

1. **Avoid bureaucratic duplication:** if data is properly shared amongst institutions, duplication of effort can be avoided *(eg with data collection activities or social protection programmes)*.
2. **Better transparency in government programmes:** facilitate the oversight of multiple social protection programmes in Malaysia.
3. **Data Management:** in the long run, data sharing can also help establish a common data collection methodology and system among institutions.

Malaysia Does Not Share Data Effectively

Unfortunately, sharing data remains an issue in Malaysia, even within the government. It is essential to note that although the Personal Data Protection Act 2010 (PDPA) does not capture the Federal Government and the State, it does not exempt agencies and statutory bodies. Therefore, these institutions continue to be in the ambit of the PDPA.

Data-sharing issues require the government's immediate attention. With the advent of big data and analytics and artificial intelligence and machine learning, governments worldwide are gradually embracing these technologies when designing healthcare delivery, education and social protection programmes. If left unchecked, Malaysia risk being left behind in future policymaking methodologies.

PDPA at a Glance

The PDPA came into force on 15 November 2013. The PDPA only applies to personal data related to a 'commercial transaction'. The Act affects the process of personal data life cycle management from when personal data is collected, used, stored and destroyed. The Act applies to customers, employees and third-party service providers' data. In terms of disclosing data, Section 39 of the Act stipulates that a data user may disclose the personal data of a data subject under the following circumstances:

1. The data subject has given their consent;
2. Disclosure is necessary for; (i) preventing or detecting a crime; (ii) investigation; (iii) authorised by law; and/or (iv) order of a court;
3. The data user acted in the reasonable belief that they had, in law, the right to disclose;
4. The data user acted in the reasonable belief that they would have had the consent of the data subject if the data subject had known of the disclosing of the personal data and the circumstances of such disclosure; or
5. The disclosure was justified as being in the public interest in circumstances determined by the Minister.

However, the Act also states that Section 39 does not make it mandatory for data users to disclose information, even if any of the conditions above are met. Therefore, a stumbling block remains in data sharing, particularly among institutions covered by the PDPA. While one solution is to amend each Institutional Act to allow data sharing amongst trusted institutions, this might not be feasible, given that each institution has a different scope, mandate and purpose for sharing data and, therefore, amendments will not be standardised. Policymakers should instead take advantage of the current review of the PDPA and propose amendments that can facilitate data sharing for social wellbeing purposes.

Changes to the PDPA in the Works

In March 2019, The Communications and Multimedia Ministry, via the Personal Data Protection Department (JPDP), announced that they were reviewing the PDPA to ensure it was up to date and in line with current developments. Minister Gobind Singh Deo emphasised that the review would be based on the need for effective and efficient implementation of the PDPA and to streamline international requirements on personal data protection, including the key takeaways of the European Union's General Data Protection Regulation. Currently, no timeline has been given for the review.

Key considerations moving forward

1. **What?**
   The PDPA should be amended with an additional clause: The amended clause will allow the free flow of data for social wellbeing among government agencies, statutory bodies, research centres and think tanks.

2. **Who?**
   The Personal Data Protection Commissioner's approval will be required: The Commissioner must produce a safelist of institutions under the proposed clause mentioned above.

3. **How?**
   The PDPA must go through a legislative process to be amended: The Act will need to be passed by the *Dewan Rakyat* (House of Representatives). It will become law once the Dewan Negara (Senate) approves it, receives the Royal Assent and is published in the Gazette.

4. **What's next?**
   Consultation process: The Personal Data Protection Department will need to be consulted to discuss amendments to the PDPA.

5. **When?**
   The consultation process to start in 2019: Although the government has not set any timelines for the review of the PDPA, it is recommended that the consultation process began in 2019 with proposed amendments to be passed in 2020.

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Chapter 7: Service Delivery Transformation

7.1 Foster Collaboration Among Social Security Organisations and Refocus to Unlock Synergies

With the consolidation of all social assistance programmes into the SPF and by creating synergies within the contributory bodies (EPF, SOCSO, and KWAP) and with the SPF, key institutional arrangement modifications can result in the more cost-effective management of the system while leveraging on the strengths of each institution. However, further in-depth analysis is needed to ensure smooth operationalisation. The following table summarises the proposed modifications to achieve an optimal mix and lean structure based on the division of labour.

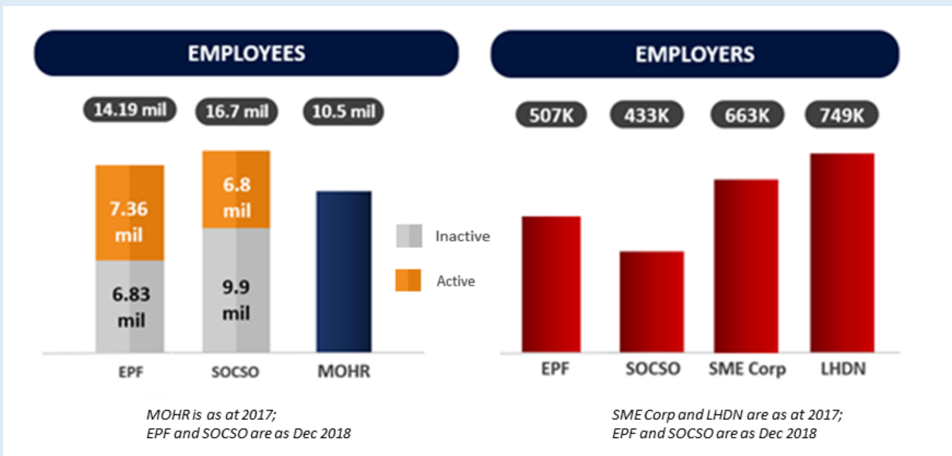
Table 7.1: Social Protection Providers' Refocused

Scheme	Focus Area	Modifications proposed
1. EPF	Old-age protection (wealth accumulation)	- The decumulation phase is to be jointly managed with KWAP - Contribution to Account 2 (mortgage, health, tuition needs) to be made optional - New civil service entrants to join the EPF.
2. SOCSO	- Work injury insurance, disability and survivorship insurance - Employment Insurance	- Rebalance the contribution rates, especially invalidity - Transferring dialysis benefits to the Ministry of Health - Expanding coverage of Self-Employed Social Security - Expanding coverage of the Employment Insurance System to the Self-Employed (informal sector etc).
3. SPF	Life Cycle Risks	- All social assistance schemes gradually consolidated and managed by SPF - This outcome will be under the MWCFD.
4. Shared Service Centre (SSC)	One-stop-shop service delivery	- Unification of all services provided by social providers into a 'one-stop-shop' service delivery - Unification of contribution collection channelled to designated purposes/schemes - Manage and maintain a unified data system based on MyKad

Box Article 7.1: EPF-SOCSO Joint Collaboration

Currently, only 30.9% of the Malaysian working population have access to formal social security through the EPF and/or SOCSO, whilst the uncovered population must engage multiple agencies to access social assistance benefits. In addition, differences were found in the coverage for employers and employees across social protection agencies. For example, the EPF registered approximately 17% more active employers than the total active employers registered at SOCSO. The following illustrates the gap in coverage between various agencies:

Figure 7.1: Coverage Differences Across Agencies



The lack of one-stop centre has resulted in a non-optimised service delivery system and unnecessary duplication or gaps in social protection coverage. However, efforts to improve the efficiency and effectiveness of social security benefits delivery in Malaysia have started between SOCSO and the Employees Provident Fund (EPF) surrounding the following areas: Enforcement, Data Sharing, Cross Counter Services, Contact Centre, Joint Collection and Investment.

Figure 7.2: Illustration of the Areas of SOSCO and EPF Collaboration

Based on the similar core business functions that SOCSO and the EPF share, six potential areas were selected: prevention, promotional and protection collaboration initiatives. The initiatives include; exchanging best practices, platforms and resources to upskill and enrich both organisations. Through these strategic areas of collaboration, SOCSO and the EPF intend to; widen the social protection coverage in Malaysia, integrate social security infrastructure and data, and optimise resources for social security service delivery.

For example, the EPF participated in SOCSO's annual OPS KESAN in 2020 – a nationwide enforcement programme to survey and enforce mandatory contributions from employees and employers as stipulated under the law. The one-month collaboration programme involving more than 10,000 employers led SOCSO and the EPF to identify 1,371 and 1,283 employers that were not registered under Act 4 and Act 452, respectively. Throughout the joint programme, the enforcement team from SOCSO and EPF also shared strategic compliance practices, such as using digital platforms and software applications for onsite surveillance. Monitoring and evaluating these pilot collaboration initiatives has shown that synergy across two social protection agencies has positive implications for the efficiency and effectiveness of SOCSO and EPF services.

Unfortunately, several limitations and barriers exist to collaboration between social protection agencies. Differences in social protection mandates and practices, varying data collection techniques and definitions, and disputes in financing collaboration activities are several challenges that surfaced during the pilot initiatives[29]. For instance, SOCSO and EPF apply very different definitions of wages (remuneration, tips, bonus, etc) in collecting contributions from employees and employers. Enforcement activities, especially for underpayment cases, cannot be included within the scope of the collaboration. Therefore, improving data sharing and detailing the coverage gap analysis between SOCSO and the EPF would help better target these joint enforcement programmes for greater efficiency.

In addressing the issue of access to social benefits, the policy approach must be multi-dimensional, including specific measures to:

i. Improve outreach to those working in the informal sector
ii. Improve data sharing and enforcement among agencies
iii. Continuous monitoring of benefits and their impact on social development in Malaysia.

This multidimensional approach will include collaborative efforts from more social protection partners, as suggested in Figure 7.3. Greater efforts should promote active collaboration among relevant agencies through formal arrangements and potential review of existing rules and regulations to reflect the evolving nature of social security and social assistance to cater to Malaysians' needs.

[29] Legal barriers associated with the collaboration are addressed in thrust 4 of this Blueprint.

Figure 7.3: Potential Collaboration Extensions with Social Protection Agencies in Malaysia

7.2 Establish Shared Service Centres (SSC) for Unified Service Delivery (One-Stop-Shop) for All Social Protection Benefits

By consolidating all social assistance programmes into the SPF and creating synergies within the contributory bodies (EPF, SOCSO, KWAP) and with the SPF, Shared Service Centres are recommended as 'one-stop-shops'. Such one-stop-shops will serve the needs of all social protection providers (SPF, EPF, SOCSO, KWAP) as front-line service delivery to the public. The unification of service delivery is practical and cost-saving. As pointed out in Section 3.2 , administration costs tend to accrue in absolute terms in social protection programmes, meaning a sufficiently large scheme usually exhibits relatively lower administration costs than a smaller scheme (Ortiz et al 2017). While the EPF and SOCSO serve the same population segment (formal labour force participants), each organisation has physical branches staffed with professionals across Malaysia. Combining these offices will save the EPF and SOCSO, resulting in significant cost savings and greater convenience to the public. In addition to serving the contributory bodies' needs, these centres can provide services to the consolidated social assistance programmes under the SPF. This streamlining and simplification will further remove access barriers to information on entitlements, especially for those with low education attainment, and will result in exclusion errors associated with complex targeting programmes where applicants for such programmes must go from agency to agency undertaking parallel (and often duplicative) applications and assessments. A unified SSC e-portal can be created to provide a wide range of public services for SPF, EPF, SOCSO and KWAP. The proposed SSC should be led by a managing director overseeing day-to-day operations at a network of branches and the unified e-portal.

SSC will unify the covered wages and contributions criteria between EPF and SOCSO. This situation will reduce the double burden on employers to meet individual requirements for the accounting and remittance of contributions.

Chapter 8: Social Protection Act

8.1 Enacting a National Social Protection Act

Successful implementation of the recommendations from the preceding chapters requires an enabling environment. Structures that place social protection as an important part of national development must be in place. Various laws, policies and action plans support social protection for specific groups and their objectives. The wellbeing of Malaysians has also often been emphasised in Malaysia's development plans. More recently, within the 2018 midterm review of the Eleventh Malaysia Plan 2016-2020, Pillar Two aims to enhance the implementation of inclusive development to bring greater prosperity and wellbeing to all Malaysians.

8.1.1 Existing Social Protection Commitments

Acts/Laws of Malaysia

1. Employees Social Security Act (1969)
2. Employees Provident Fund Act (1991)
3. Persons with Disabilities Act (2008)
4. Child Act (2001)
5. Pensions Act (1980)
6. Employment Insurance System Act (2017)
7. National Wages Consultative Council Act (2011)
8. Retirement Fund Act (2007)
9. Education Act (1996)
10. Destitute Persons Act (1977)
11. Armed Forces Fund Act (1973)
12. Employment Act (1955)
13. Workmen Compensation Act (1952)
14. Minimum Wages Order (2012)
15. Federal Constitution Malaysia (1963)
16. Self-Employment Social Security Act (2017)

Policies

1. National Social Policy (2003)
2. National Policy on Women (1989)
3. National Policy for Older Persons (1995)
4. National Policy for Persons with Disabilities (2008)

International commitments

1. UN Convention on the Rights of the Child (CRC) (1995)
2. UN Convention on the Elimination of Discrimination Against Women (CEDAW) (1995)
3. UN Convention on the Rights of Persons with Disabilities (2008)
4. Universal Declaration of Human Rights (1948)

However, there are gaps in coverage whereby certain groups do not have specific legislation or policies addressing their rights. Groups identified to fall within this gap are, the working-age group who are self-employed or involved in more unstable forms of employment and full-time students pursuing tertiary education. Although these groups may not necessarily be vulnerable, their security needs must be considered in the face of shocks and life cycle events.

At present, there is no legislation which guarantees rights to protection for vulnerable groups in Malaysia. A single overarching policy on social protection is also absent, whereby these uncovered groups could be excluded from their entitlements. Moreover, the absence of legislation also suggests that the obligations of concerned parties are non-binding, which could risk the sustainability of current programmes. Rights to elements of social protection are contained in Articles 22 and 25 of the Universal Declaration of Human Rights (1948). It is necessary to adapt them into standards and entitlements established within a strong framework at the national level to make these rights meaningful.

> *Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international co-operation and in accordance with the organization and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality.*
>
> *(Article 22 of the Universal Declaration of Human Rights, 1948)*

> 1. *Everyone has the right to a standard of living adequate for the health and wellbeing of himself and his family, including; food, clothing, housing and medical care and necessary social services, and the right to security in the event of; unemployment, sickness, disability, widowhood, old age or other lack of livelihood in the circumstances beyond his control.*
> 2. *Motherhood and childhood are entitled to special care and assistance. All children, born in or out of wedlock, shall enjoy the same social protection.*
>
> *(Article 25 of the Universal Declaration of Human Rights, 1948)*

Given this, enacting a National Social Protection Act (the Act) is recommended to strengthen the promise of protection for all, especially the most disadvantaged and vulnerable groups. An act passed by the Parliament is important, as having an executive decision in place first (the Act) would set a strong foundation. Thus, facilitating the implementation of the proposed programmes. Drawing upon current practices, the Act should set out a broad legal framework and regulations that will guide the implementation of the Act. As the existing acts and policies demonstrate, social protection systems comprise many components. Hence, the Act is also intended as a central act which governs the other acts already in place.

The existence of legislation ensures that the proposed programmes are guaranteed and receive a lasting commitment from the government and authorities regardless of changes in government leaders. This outcome is also important for future social protection policies as the act may establish shared objectives agreed upon across all parties involved, making it the starting point for coordination and cooperation. Furthermore, this aligns with ILO Recommendation 202 (para 3b and 7), which provides for the need to have basic social protection guarantees to be established by national law. The ILO also recommends that all entitlements, rights and obligations are spelt out within the legal framework.

8.1.2 Proposed Content of the Act

1. **Definition of social wellbeing:** The definition should capture the meaning of social wellbeing and how it is envisioned within the Malaysian context. The definition of a minimum standard of living that is aspired to by all Malaysians should also be included here. These descriptions give us a common understanding of both concepts, aligning the design of future action plans or programmes.

2. **Definition of risk and vulnerability:** This section should identify the vulnerable groups and situations in which the act would apply. The levels of risk and deprivation that are unacceptable within society should be considered in the development of this section. It is proposed that those, in poverty, exposed to life cycle risks and seasonal shocks be included among others deemed appropriate. This identification is important to ensure that no one is left behind.

3. **National objectives and goals of social wellbeing:** Setting national objectives is important in ensuring that the direction of programmes and policies are aligned. These objectives then guide the planning and coordination of efforts between concerned parties. Goals would also encourage the need to act towards achieving them.

4. **Social protection floor entitlements:** The eligibility requirements and entitlements of the Social Protection Floor proposed in Thrust 1 should be described within this section. Placing commitments towards the Social Protection Floor within the Act would safeguard the programme should there be any changes in government direction or leaders.

5. **Malaysia Social Protection Council (MySPC):** According to its mandate, the MySPC is tasked as the coordinating body for initiatives related to social protection (Refer to Section 8.2).

6. **Duty of implementers:** List of public bodies to which the act applies, along with their roles and responsibilities. This section may also include; the monitoring and evaluation process, ie indicators guided by social wellbeing objectives and requirements to publish annual progress reports.

7. **Articulation of financial needs:** As the proposed programmes would have financial implications, there is a need to articulate long-term financial requirements clearly. This situation is to ensure the adequacy of benefits and sustainability of programmes. A periodic review of the adequacy of benefits is also recommended, considering any economic or demographic shifts, ie ageing population and adjustment to cost of living or inflation.

8. **Data sharing:** Micro-level data is important for formulating and monitoring programmes in an integrated social protection system. The Act should include a provision to overcome the limitations of data sharing provided in the existing acts.

Box Article 8.1: Social Protection Framework Elsewhere

Governments are now recognising the need to assist people who are vulnerable within their societies. As a response, many countries have introduced Social Protection Acts and Policies at the national level to prioritise social protection and bring issues related to social protection to the forefront. Below are examples of social protection acts/policies from different countries:

The Social Services Act (Wales) that came into force on 6 April 2016 provides the legal framework for improving the wellbeing of people needing care and support, including carers who need support. Under this act, carers will have equal rights to assessment as the people in need. One part of the Act focuses on a preventative approach to meeting care and support needs, ensuring that the right help is available at the right time. To ensure successful implementation, the Act imposes duties on local authorities, health boards and Welsh Ministries that require them to work to promote the wellbeing of people and carers who need care and support. Welsh ministers must report on the progress towards achieving wellbeing in an annual report using evidence from various organisations, sectors and people. This situation enables local authorities to compare and benchmark their performance with others and improve their services. This outcome will also improve people’s understanding of the quality of social services and allow them to make better, informed decisions about their care and support.

Cambodia launched the **National Social Protection Policy Framework 2016-2025 (SPPF)** as a policy framework to increase access to social protection services for public officials, workers in the private sector and people in the informal sector. This policy introduces a strategic plan that aims to ensure income security, minimise economic and financial vulnerabilities of the people and improve welfare, equity, solidarity and harmony in the national society. This outcome is achieved by harmonising, integrating and strengthening existing schemes focusing on social assistance and social insurance. In addition, the policy includes the expansion of the social protection floor to respond to all contingencies throughout the life cycle. The reform agendas in this policy framework are designed to be flexible, allowing the Royal Government to update and modify the policy content according to social, economic and political conditions. The SPPF outlines all activities and sets monitoring and evaluation mechanisms to ensure effective short-, medium- and long-term implementation.

The Myanmar Social Protection Strategic Plan is unique as it recognises that social protection should be child-sensitive, based on evidence that suggests return to investments are highest at the youngest ages. The policies and programmes account for different dimensions of children’s vulnerabilities (age and gender-specific), intra-household dynamics and their impact on children. The Strategic Plan was also designed while considering Myanmar’s contextual circumstances. For example, it1 is aligned with Myanmar’s rural development, health, and education strategies, which aim towards inclusive approaches to poverty alleviation and enhanced opportunities. This situation is also fully consistent with Myanmar’s regional and global commitments. Additionally, the document acknowledges Myanmar's environmental risks subject to periodic natural disasters to strengthen the preparedness and resilience of those subject to disasters by smoothing consumption over the year to address this issue. For overall coordination, the Strategic Plan suggests the establishment of a Social Protection Working Committee that includes senior representatives from line ministries, agencies and non-governmental organisations.

The National Social Protection Policy by The Republic of Uganda was published by the Ministry of Gender, Labour and Social Development in 2015. Previous interventions by the government have not had a specific focus on reducing risk and vulnerability across all populations. Social protection schemes and programmes only cover the working population in the formal sector, leaving about 93% of the labour force, mostly employed in the informal sector, without access to social security services. This Policy, therefore, aims to facilitate a better understanding of social protection in the Ugandan context and provides a basis for a holistic approach to addressing the risks and vulnerabilities faced by different categories of the population in both the formal and informal sectors. This Policy focuses on two pillars of the social protection system: social security and social care and support services. Complementary interventions in policies for agriculture, health, education, employment and finance sectors are included.

A Social Protection Act or National Policy creates a guided framework that eases the implementation of social protection programmes. It lays out clear aims and action plans for structured and well-planned social protection programmes that consider the needs of specific vulnerable groups.

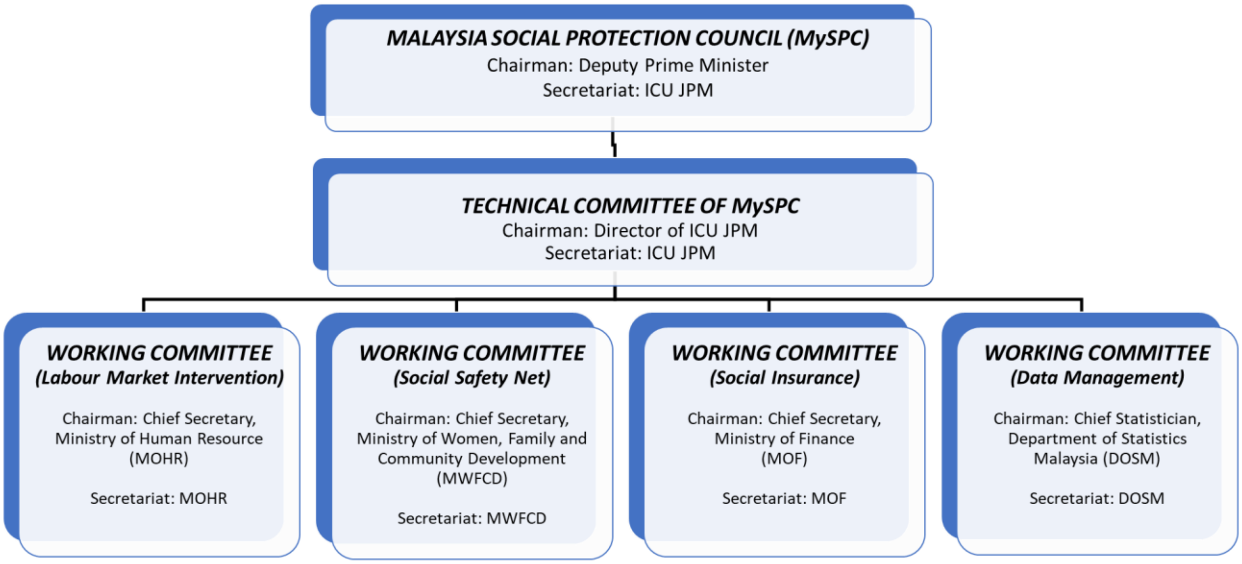
It is important to note that a country's act/policy should be drafted concerning its country-specific context. Different countries are at different levels of development stages and experience distinct issues concerning social protection. Hence, these nuances must be considered and reflected in the document to be effectively executed. An act/policy has to be applicable to impact the enhancement of social protection in a country significantly.

8.2 Malaysia Social Protection Council (MySPC)

The Malaysia Social Protection Council (MySPC) was established in 2016 to develop a national social protection system and action plan for Malaysia. This situation ensures the wellbeing and dignity of all are protected throughout their lifetime towards a productive and empowered society. The creation of the MySPC was a response to the existing gap and challenges, such as; the absence of a parent policy on social protection, exclusion of the informal sector, absence of income security for the poor/elderly and the disparate database among social security service providers.

In 2019, the Deputy Prime Minister was appointed to lead the MySPC with the Implementation Coordination Unit (ICU) as its secretariat. The MySPC will be supported by the Technical Committee, chaired by the ICU, and four working committees: Labour Market Intervention, Social Safety Net, Social Insurance and Data Management. These working committees' lead ministries/agencies are MOHR, KPWKM, MOF and DOSM. Figure 8.1 illustrates the current structure of the MySPC.

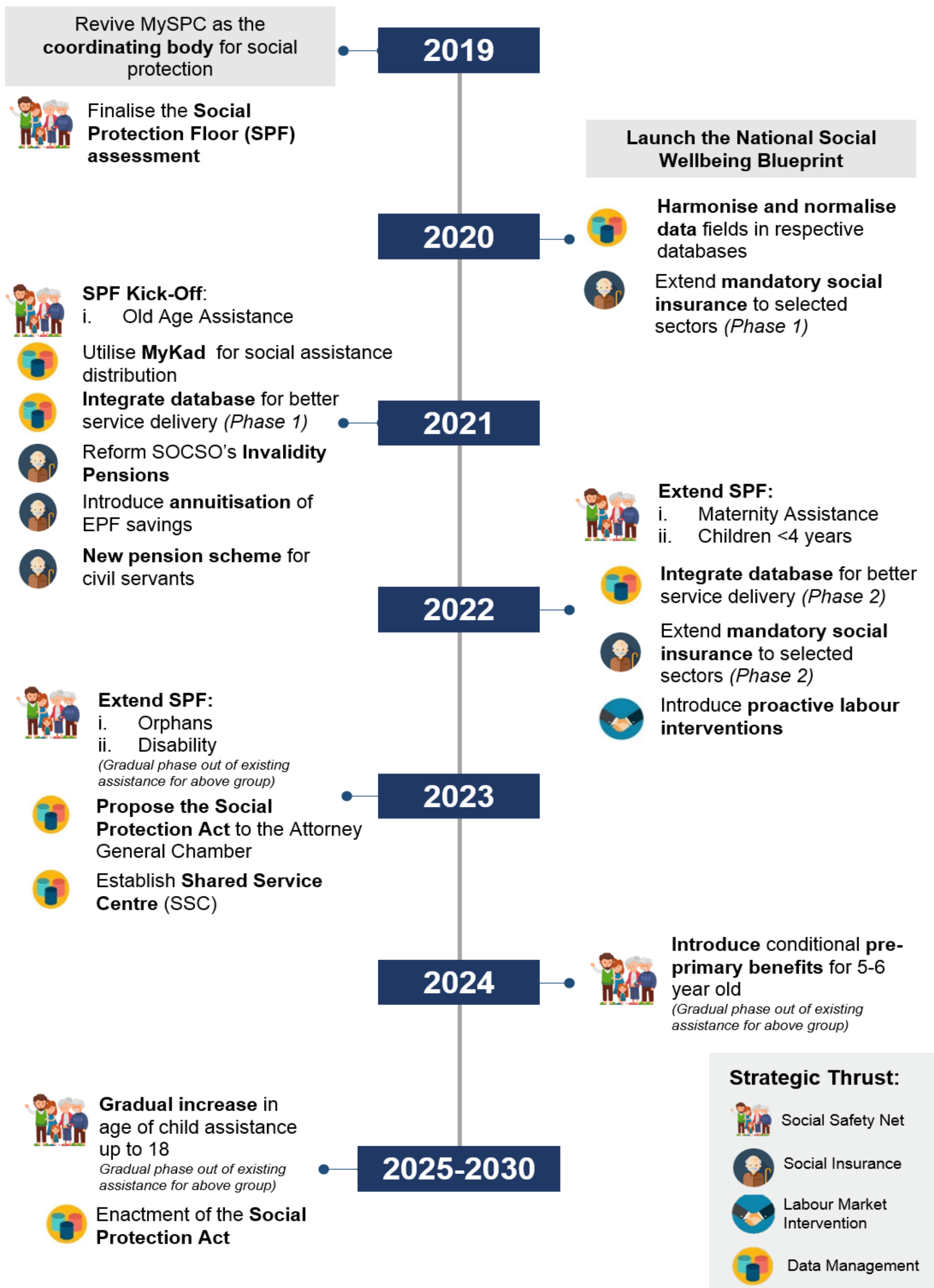
Figure 8.1: Structure of MySPC



The main objective of the MySPC is to ensure that social protection for all citizens is provided in an integrated and comprehensive manner. As a part of its preliminary initiative, the council intends to review and re-evaluate current laws, policies and programmes to ensure a supportive policy environment. A coordinating body is necessary for more coherence and timely responses to changes and challenges. The council shall coordinate the national social protection system's planning, implementation, monitoring and evaluation.

Chapter 9: Implementation of the Blueprint

9.1 Phases of Implementation



9.2 Stakeholder Engagement

Reforming a country's social protection (especially old age pensions/cash benefits) is complex. Adopting innovative reforms to respond to a country's social demands is no longer adequate. Governments must accompany their reform proposals with a strategy to manage these changes. Managing change dictates, to a large extent, the success or the failure of a programme.

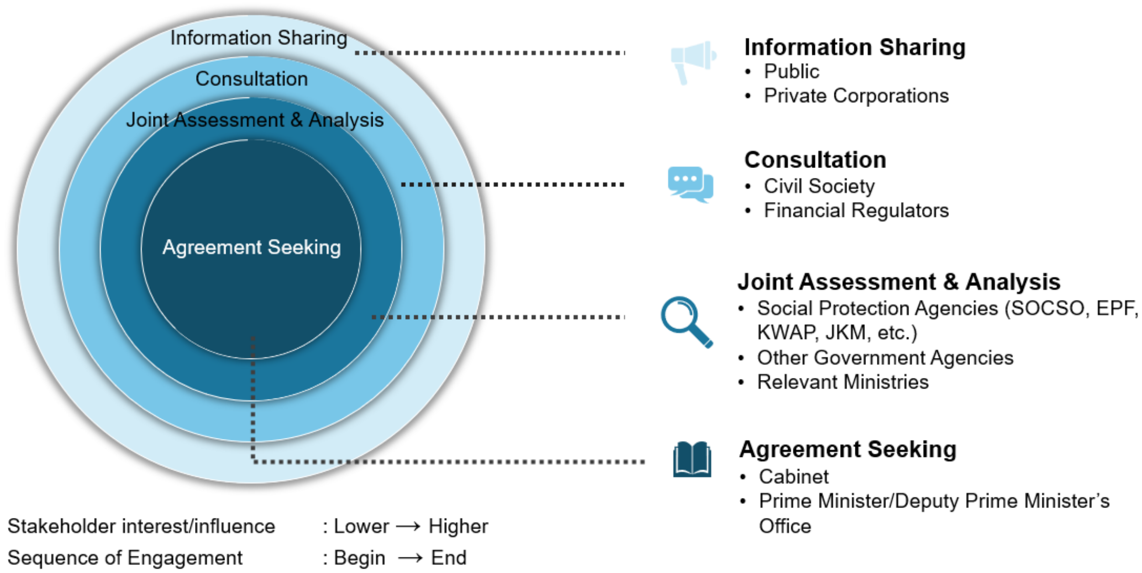
Change management is the discipline that guides how we prepare, equip and support individuals/organisations/people to successfully adopt change to drive success and outcomes. While all changes are unique and all individuals are heterogenous, decades of research show that certain actions are needed to prepare people for transitions. Change management provides a structured approach for supporting the people (in this case, the entire country) to move from their current to future states.

A change management strategy must ensure stakeholders accept and adopt the new initiatives. Successful management change can only be achieved if the relevant stakeholders are prepared for agile change. Since the Blueprint will require the coordination of different organisations under multiple ministries, it is important for an effective change management strategy. This situation is also necessary to establish a consistent vision and develop institutional capacity among policymakers, implementers and civil society.

While the Blueprint suggests major reforms to social wellbeing, which is generally good for the people of Malaysia, the Blueprint also suggests preparing proper communications, planning, legal changes and the environment for these changes in order for Malaysia to have a smooth transition in introducing the new social wellbeing policies.

Van der Voet et al (2016), public administration theorists in the Netherlands and the United Kingdom, developed a framework that explains how change is implemented within public service organisations. Their framework states that transformational leadership is achieved "by articulating a vision, fostering the acceptance of group goals, and providing individualised support, effective leaders change the basic values, beliefs and attitudes of followers" (Podsakoff et al 1996).

Figure 9.1: Stakeholder Engagement Spectrum



Source: Adapted from 'Stakeholder Engagement Spectrum' by the Consensus Building Institute

Referring to the diagram above, the outer ring consists of broader stakeholders with less stakeholder interest or influence, where it may only be necessary to provide updates and collect input or advice. Joint fact-finding is only engaged if there is a dispute on technical information. The following circle, consultation, involves engaging with stakeholders who may have a role in crafting options and hold more influence over the outcomes. The last circle with the highest stakeholder interest and influence is consensus building, where representing affected stakeholders is important to seek agreements.

Multiple workshops and engagement sessions with research institutes, non-governmental organisations, civil society, government agencies, financial regulators, private corporations and ministries adopting this approach are carried out to collate input that would later augment the social protection reforms. Participation from varying stakeholders enriches the Blueprint and facilitates and fosters acceptance of the reforms.

Technical specialists were first gathered from SWRC, SOCSO, EPF, KWAP, BNM and KRI to discuss the concept and proposed content of the Blueprint. The first workshop was later organised to share information and introduce the concept of wellbeing and the Blueprint's preliminary recommendations. The workshop successfully aligned the vision and expectations of various non-governmental organisations, civil society and government agencies on paying attention to social wellbeing.

Subsequently, the Blueprint Working Committee organised a second workshop and invited social protection providers from different government agencies and Ministries to participate. This workshop spans joint fact-finding and consultation. The Blueprint working committee presented high-level contents of the Blueprint to the participants, which were analysed and deliberated together. Critical input from the participants was considered and later incorporated into the Blueprint. Concurrently, individual consultation and consensus-building sessions were held with the Deputy Prime Minister and important stakeholders to obtain buy-in.

More importantly, stakeholder engagement should continue beyond the completion of this Blueprint to seek wider public acceptance. The government must organise ongoing awareness roadshows to gradually expose the public to the changes the stakeholders need to prepare for with the introduction of the Blueprint's recommendations. Possible reactions to the Blueprint can be pre-empted through these engagement strategies and measures taken to smoothen the reform process and ensure seamless implementation during the rollout phases.

9.3 Key Success Factors, Risks and Challenges

9.3.1 Affordability

Several factors have been identified to influence the implementation of the Blueprint. The affordability of the proposed initiatives within this Blueprint is a potential concern due to the limitations in Malaysia's fiscal space, as the current revenue base is narrow. In 2016, Malaysia had a tax-to-GDP ratio of 14.3% (the average ratio from 1998 to 2016 was 15.6%), well below the OECD average of 34% (OECD, 2019). This relatively low tax-to-GDP ratio suggests the potential to increase tax revenue to increase social expenditure. ADB (2016) found that a basic level of social protection can be provided in most Asian countries without introducing high levels of taxation, whereby major gaps in social protection can be closed by increased spending of only 2% to 3% of the GDP. Creating the required budget space for improved social spending can be attained through; reallocating resources within the national budget, increasing taxation and improving tax collection. The existing small and narrowly targeted assistance programmes typically incur higher administrative costs. To address this, the Blueprint includes strategies for consolidating and rationalising current social protection programmes working towards reallocating the current budget to address gaps in coverage. Moreover, efficiencies of scale gained through categorical targeting of stages of vulnerability would promote administrative efficiency, resulting in relatively lower administrative costs.

9.3.2 Political Will

Strong leadership and political commitment are important factors for the successful implementation of the Blueprint. Introducing new social protection programmes requires; fiscal space, a political space, and a commitment to reallocate funds towards social expenditure. It can be observed that budgetary decisions do not purely depend on economic principles. However, they are strongly influenced by political attitudes regarding who deserves support and in what form. Many people agree on the usefulness of social protection but disagree on its content, scale, delivery and cost (UN, 2011).

Moreover, some members of parliament are foreseen to oppose giving handouts with the perception that it would affect productivity. Since consolidation involves closing more popular programmes, this too could influence their support towards the proposed reforms at the risk of losing political support. This situation underlines the importance of correcting the misconception that social protection is not just isolated handouts but a comprehensive system promoting the Rakyat's development, shared prosperity and economic growth.

9.3.3 Coordination and Information

The physical geography of Malaysia is a potential barrier to reaching out to vulnerable groups, particularly communities in rural and remote areas. The Blueprint proposes delivering assistance through localised unified service centres accessible even to those in the most remote areas to overcome this. The use of the unique Malaysian identity card (MyKad) is the key enabler. It can be the basis for unification across all social protection programmes. Eligibility criteria stored in the MyKad can easily be retrieved with biometric verification. This outcome facilitates a more efficient disbursement of benefits locally without beneficiaries having to travel far, complete lengthy forms and follow complicated bureaucratic procedures.

Information that can help identify the vulnerable groups addressed in this Blueprint is important to provide them with the appropriate services. Currently, information on social protection programmes in Malaysia exists in many forms to meet specific programme requirements. Hence, the need to share and unify information between operating institutions. Data on local social conditions is equally important to help prioritise areas for development. Thus, facilitating the implementation of social protection programmes. Organising such data would contribute to more comprehensive monitoring and evaluation of the national social protection system in the long run.

9.3.4 Communication

At the public sector level, a concern is the readiness to integrate and cooperate between ministries and agencies, as they are accustomed to focusing on their specific portfolios. Gathering their support requires clear communication through proper channels regarding the catalytic potential of strengthening social protection towards improving wellbeing and promoting economic growth. As the identified implementers, obtaining their support is vital to ensure a smooth transition into the proposed reforms and their sustainability.

Trust deficit in the government might spur opposition from certain social groups towards social protection reform. Recent misdeeds by certain government officials could cast doubts on the intention behind the Blueprint since the proposed strategies involve giving cash benefits. Opposition is also predicted to come from “the losers” of the reforms due to the phasing out of certain programmes in which they are beneficiaries. Addressing this entails informing the society of their rights to social protection and engaging with them about their concerns of the reforms. Comprehensive evaluation and impact studies of existing programmes should be conducted before any changes are made. Moreover, to foster acceptance altogether, communicating the reforms should advocate solidarity, social cohesion and that everyone has a stake in society.

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ANNEXES

Annex 1: List of Social Assistance Programmes in Malaysia, 2016

No.	Type	Categories	Pillar of SP	Programme Name	Brief description	Agency	No. of recipients	Expenditure (RM)
1	Assistance	Low-income	Promotion	1AZAM Sabah dan 1AZAM Sarawak	Assistance for LIH to provide income-generating opportunities through agriculture, small business and job opportunity	JPM	Eligible	20,000,000
2	Assistance	Low-income	Protection	Anjung Singgah	Shelter for homeless people	KPWKM	Eligible	4,500,000
3	Assistance	Education	Promotion	Asrama 1Malaysia	Boarding school to promote a multi-racial environment	KPM	1,010	2,320,264
4	Assistance	Social welfare	Promotion	Asrama OA	Boarding school for Orang Asli	KKLW	8,769	10,250,000
5	Assistance	Low-income	Promotion	AZAM Niaga/Khidmat	Assistance for LIH to provide income-generating opportunities through agriculture, small business and job opportunity	KPWKM	Eligible	974,236
6	Assistance	Social welfare	Protection	Bantuan Am (KL, Putrajaya, Labuan)	General social assistance	KPWKM	2,084	4,968,047
7	Assistance	Social welfare	Protection	Bantuan Anggota Palsu OA	Prosthetics supply for Orang Asli	KKLW	150	580,000
8	Assistance	Others	Promotion	Bantuan Bas Sekolah (P. Klang)	School bus assistance	MINDEF	13,413	16,483,449
9	Assistance	Education	Promotion	Bantuan Bayaran Tambahan Persekolahan	Government supports additional expenses, such as co-curricular & annual school sports competitions, Islamic/Moral education activities and insurance	KPM	All	203,355,347
10	Assistance	Education	Promotion	Bantuan Buku Teks	Textbook assistance	KPM	All	156,694,063
11	Assistance	Education	Promotion	Bantuan Geran Perkapita	Grant to help with teaching and learning in government schools, eg purchase of books, educational trips, etc	KPM	4,991,762	596,232,692
12	Assistance	Education	Promotion	Bantuan Geran Perkapita Pra-Sekolah	Grant to help with preschool teaching and learning in government	KPM	Eligible	20,667,177

No.	Type	Categories	Pillar of SP	Programme Name	Brief description	Agency	No. of recipients	Expenditure (RM)
					schools, eg purchase of books, educational trips etc			
13	Assistance	Social welfare	Protection	Bantuan Hemodialisis dan Suntikan Erythropoietin (ERT)	Haemodialysis and Erythropoietin Injection assistance	KKM	2,807	21,976,086
14	Assistance	Education	Promotion	Bantuan Jaket Keselamatan	Safety jacket assistance	KPM	6,250	499,563
15	Assistance	Social welfare	Protection	Bantuan Kanak-Kanak	Cash assistance to support children from households living in poverty	KPWKM	80,050	219,318,305
16	Assistance	Social welfare	Protection	Bantuan Kebajikan Kepada Keluarga Pesakit OA44	Social assistance for Orang Asli family members with sickness	KKLW	5,861	4,180,630
17	Assistance	Cash	Promotion	Bantuan Khas Awal Persekolahan 1Malaysia (BKAP1M)	Cash assistance at the start of the school term for primary and high school students from low-income households	KKLW, KPM	Eligible	300,504,200
18	Assistance	Others	Prevention	Bantuan Khas Pesawah	Assistance for farmers	MOA	228,000	0
19	Assistance	Education	Promotion	Bantuan Makanan Asrama	Boarding school food assistance	KPM	Eligible	1,176,020,707
20	Assistance	Education	Promotion	Bantuan Makanan Pra-Sekolah	Pre-school food assistance	KPM	204,681	85,733,214
21	Assistance	Education	Promotion	Bantuan Makanan Tambahan KEMAS	Additional food assistance programme for KEMAS	KKLW	228,177	95,876,242
22	Assistance	Others	Protection	Bantuan Mengurus Jenazah	Funeral benefit	JPA	12,333	42,820,000
23	Assistance	Others	Prevention	Bantuan Musim Tengkujuh	Monsoon season assistance	MPIC	440,000	116,019,600
24	Assistance	Social welfare	Promotion	Bantuan Pakaian Seragam OA	Uniforms for Orang Asli	KKLW	12,658	0
25	Assistance	Education	Promotion	Bantuan Pakaian Seragam Pasukan Beruniform	Assistance for uniforms, eg Scout, Red Cross etc	KPM	47,000	4,568,387
26	Assistance	Others	Promotion	Bantuan Pelajar Pendidikan Tinggi	Assistance for higher education students	KPT	1,200,000	238,559,038

No.	Type	Categories	Pillar of SP	Programme Name	Brief description	Agency	No. of recipients	Expenditure (RM)
27	Assistance	Social welfare	Protection	Bantuan Penjagaan OKU/Pesakit Kronik Terlantar (BPKT)	Assistance for care for disabled persons and chronically ill patients	KPWKM	26,724	92,064,181
28	Assistance	Education	Promotion	Bantuan Perjalanan dan Pengangkutan Murid	Transportation assistance for students	KPM	Eligible	15,833,564
29	Assistance	Social welfare	Promotion	Bantuan Persekolahan OA	Schooling assistance for Orang Asli	KKLW	10,229	3,596,000
30	Assistance	Cash	Protection	Bantuan Rakyat 1Malaysia (BR1M)	Cash assistance to low-income household	MOF	7,576,650	6,631,893,293
31	Assistance	Others	Prevention	Bantuan Sara Hidup Bekas Kakitangan Kontrak JASA	Cash assistance to ex-contract staff of JASA	KKMM	229	656,580
32	Assistance	Others	Prevention	Bantuan Sara Hidup Bekas Kakitangan Kontrak JPM	Allowance for JPM's ex-contract workers	JPM	353	982,800
33	Assistance	Others	Prevention	Bantuan Sara Hidup Bekas Kakitangan Kontrak KEMAS	Cash assistance to ex-contract staff of KEMAS	KKLW	4,313	13,946,480
34	Assistance	Others	Protection	Bantuan Sosioekonomi Lain	Other socio-economic assistance	KPWKM	2,798	16,006,802
35	Assistance	Social welfare	Protection	Bantuan Sosioekonomi Warga Emas	Cash assistance for elderly poor	KPWKM	143,647	488,639,813
36	Assistance	Education	Promotion	Bantuan Sukan Sekolah	School assistance for sports equipment etc.	KPM	All	24,235,006
37	Assistance	Education	Promotion	Bantuan Utiliti Sekolah dan Sekolah Agama Bantuan Kerajaan	Religious school assistance	KPM	2,042	57,590,288
38	Assistance	Scholarship	Promotion	Biasiswa IKBN/IKTBN	Scholarship	KBS	12,000	17,652,904
39	Assistance	Scholarship	Promotion	Biasiswa Kecil Persekutuan	Federal scholarship	KPM	140,476	84,781,390
40	Assistance	Scholarship	Promotion	Biasiswa Perguruan Persekutuan	Federal teaching scholarship	KPM	3,354	49,927,261
41	Assistance	Scholarship	Promotion	Biasiswa Sukan	Sports scholarship	KPM	2,000	1,600,000

No.	Type	Categories	Pillar of SP	Programme Name	Brief description	Agency	No. of recipients	Expenditure (RM)
42	Assistance	Scholarship	Promotion	Biasiswa/bantuan	Scholarship assistance	KKM	Eligible	222,703,268
43	Assistance	Scholarship	Promotion	Biasiswa/dermasiswa/ bantuan pelajaran (Institut Latihan Perindustrian (ILP)/Pusat Latihan Teknologi Tinggi - ADTEC)	Scholarship/education assistance	KSM	7,000	11,434,639
44	Assistance	Scholarship	Promotion	Biasiswa/pinjaman dalam/luar negara	Scholarship/study loan	JPA	48,537	1,316,680,378
45	Assistance	Scholarship	Promotion	Biasiswa/pinjaman MARA	MARA scholarship	KKLW	90,000	2,040,000,000
46	Assistance	Scholarship	Promotion	Biasiswa/pinjaman pelajaran	Scholarship/study loan	KPT	29,748	185,908,686
47	Assistance	Others	Protection	Catuan DEPO Tahanan	Assistance at prison depot	KDN	90,639	40,352,699
48	Assistance	Low-income	Protection	Community Feeding and Food Basket	Strategy to improve the nutritional status of aboriginal (orang asli) children aged six months to below six years old in rural areas	KKM	1,775	667,000
49	Assistance	Others	Protection	Diskaun Tambang Feri	Ferry fare discounts	KWP	Eligible	11,000,000
50	Assistance	Low-income	Promotion	Education	Education	KPWKM	1,000	2,991,985
51	Assistance	Others	Protection	Elaun Askar Wataniah dan Pasukan Simpanan	Allowance for reserve Army	MINDEF	51,633	59,935,739
52	Assistance	Others	Promotion	Elaun Guru KAFA	Religious teacher allowance	JAKIM, JPM	33583	392,058,972
53	Assistance	Others	Promotion	Elaun Guru Takmir	Religious teacher allowance	JAKIM, JPM	4,000	38,112,000
54	Assistance	Others	Protection	Elaun Imam	Allowance for imam	JAKIM, JPM	12,500	127,500,000
55	Assistance	Others	Protection	Elaun JKKK/JKKKP/JKKKOA	Monthly allowance for community leaders/organisations	KKLW	17,321	221,779,783
56	Assistance	Others	Protection	Elaun Ketua Kampung Baru	Allowance for community leader	JPM	9,195	12,260,060

No.	Type	Categories	Pillar of SP	Programme Name	Brief description	Agency	No. of recipients	Expenditure (RM)
57	Assistance	Social welfare	Protection	Elaun Khas Kanak-kanak Pemulihan Dalam Komuniti (PDK)	Allowance for children under the Community Rehabilitation Programme	KPWKM	21,000	94,103,878
58	Assistance	Social welfare	Promotion	Elaun Murid Berkeperluan Khas (EMK)	Special needs students' allowance	KPM	82,000	142,089,441
59	Assistance	Social welfare	Protection	Elaun OKU Tidak Berupaya Bekerja (EOTBB)	Allowance for disabled persons who are unable to work	KPWKM	56,562	133,099,097
60	Assistance	Others	Protection	Elaun Pegawai Penyelaras Masjid Daerah	District mosque committee allowance	JAKIM, JPM	171	1,436,400
61	Assistance	Social welfare	Protection	Elaun Pekerja Cacat (EPC)	Allowance for disabled workers	KPWKM	79,726	326,422,151
62	Assistance	Others	Protection	Elaun Pelatih dan Jurulatih PLKN	Allowance for National Service Training Programme's trainers	MINDEF	20,000	2,269,968
63	Assistance	Education	Promotion	Elaun Pra Universiti	Pre-university allowance	KPM	638	399,870
64	Assistance	Others	Protection	Elaun RELA	Allowance for RELA (Volunteer Department under KDN)	KDN	11,000	30,770,921
65	Assistance	Education	Promotion	Elaun Saku Pelajar Matrikulasi	Allowance for matriculation students	KPM	29,000	55,959,720
66	Assistance	Social welfare	Protection	Elaun Tok Batin OA	Tribal leader (Tok Batin) allowance	KKLW	604	6,382,800
67	Assistance	Education	Promotion	Geran Operasi Jawatankuasa Kebajikan Kanak-kanak	Operating grant for Children Welfare Committee	KPWKM	Eligible	630,000
68	Assistance	Others	Protection	Geran Operasi NGO Institusi Penjagaan Warga Emas/Kanak-Kanak/OKU Swasta	Operation grant for NGOs' care facilities for the elderly/children/disabled	KPWKM	Eligible	23,373,539
69	Assistance	Education	Promotion	Geran Operasi Pusat Aktiviti Kanak- kanak (PAKK)	Grant for childcare operation centres	KPWKM	Eligible	2,934,253
70	Assistance	Education	Promotion	Geran Operasi Rumah Tunas Harapan (RTH)	Operating grant for Rumah Tunas Harapan (shelter for orphans)	KPWKM	Eligible	1,245,858

No.	Type	Categories	Pillar of SP	Programme Name	Brief description	Agency	No. of recipients	Expenditure (RM)
71	Assistance	Social welfare	Promotion	Geran Operasi Taska OKU	Operation grant for nurseries for disabled children	KPWKM	180	1,256,370
72	Assistance	Education	Promotion	Geran Perkapita Kanak-kanak KEMAS	Grant to help with teaching and learning in KEMAS	KKLW	228,177	17,329,976
73	Assistance	Low-income	Protection	Home Help	Allocation for volunteers helping disabled and elderly people	KPWKM	Eligible	4,000,000
74	Assistance	Social welfare	Promotion	Input Pertanian OA	Assistance to help Orang Asli with agricultural activities on their land	KKLW	500	0
75	Assistance	Social welfare	Promotion	Institut Pengajian Tinggi Awam OA	Higher learning institution for Orang Asli	KKLW	820	5,860,000
76	Assistance	Others	Prevention	Insurans PLKN	National Service Training Programme insurance	MINDEF	20,000	217,210
77	Assistance	Social welfare	Protection	Kelas Dewasa Asli Pribumi/ Kelas Dewasa Ibu Bapa Orang Asli dan Penan (KEDAP)	Orang Pribumi Adult Education	KKLW	3,250	3,498,125
78	Assistance	Social welfare	Promotion	Kumpulan Wang Amanah Pelajar Miskin	Financial assistance for poor/hardcore poor students registered under e-Kasih	KPM	970,700	94,282,668
79	Assistance	Social welfare	Protection	Kumpulan Wang Tabung Perubatan	Financial assistance for patients who cannot afford medical treatment	KKM	5,800	47,254,490
80	Assistance	Social welfare	Promotion	Makanan OA	Food for Orang Asli	KKLW	4,980	2,250,570
81	Assistance	Others	Promotion	Pra Diploma Mengubah Destinasi Anak India Malaysia	Assistance for Indian children's pre-diploma education	KPT	300	327,500
82	Assistance	Others	Protection	Program 1Malaysia 1Harga	Assistance to standardise the prices of subsidised items (eg sugar, all-purpose flour, cooking oil palm -1kg packet)	KPDNKK	Eligible	19,889,645
83	Assistance	Social welfare	Protection	Program Kecemerlangan Pelajar	Covering expenses for tuition, motivational camps, etc	KKLW	240	0
84	Assistance	Others	Protection	Program Pengedaran Barang Perlu, LPG dan Community Drumming	Distribution of basic necessities	KPDNKK	800	154,532,303

No.	Type	Categories	Pillar of SP	Programme Name	Brief description	Agency	No. of recipients	Expenditure (RM)
85	Assistance	Scholarship	Promotion	Program Pra Perkhidmatan (Elaun Pelatih IPG)	IPG Trainersr allowance	KPM	17,560	56,188,865
86	Assistance	Low-income	Protection	Program Titipan Kasih & Kios Sejahtera	Food basket programme	KPKT	Eligible	3,995,000
87	Assistance	Others	Promotion	Program Vaksinasi HPV	HPV vaccination	KPWKM	Eligible	5,173,728
88	Assistance	Education	Promotion	Projek Khas Murid Sekolah Berasrama Penuh	Financial assistance for students from low-income households in boarding school	KPM	Eligible	4,615,662
89	Assistance	Education	Promotion	Rancangan Makanan Tambahan 1Malaysia	Additional food assistance programme	KPM	Eligible	289,080,205
90	Assistance	Others	Prevention	Rawatan Perubatan Pesara	Retiree medical assistance	JPA	60,000	284,804,277
91	Assistance	Others	Protection	Rukun Tetangga	Programme for national unity	JPNIN, JPM	7,077	42,000,000
92	Assistance	Others	Prevention	Skim Perlindungan Insurans Berkelompok	Group insurance scheme	KDN	100,000	2,530,750
93	Assistance	Others	Promotion	Subsidi Mamogram	Mammogram subsidy	KPWKM	Eligible	3,334,280
94	Assistance	Education	Promotion	Subsidi Taska 1Malaysia	Kindergarten subsidy	KPWKM	1,320	1,189,889
95	Assistance	Others	Protection	Sukarelawan Anggota Pertahanan Awam	Assistance for volunteers	JPM	1,611	57,577,601
96	Assistance	Others	Protection	Sukarelawan Polis	Assistance for police volunteer	KDN	15,749	12,399,776
97	Assistance	Others	Protection	Sukarelawan Siswa/Siswi	Assistance for student volunteer	KDN	4,357	7,326,052
98	Assistance	Others	Promotion	Tabika Perpaduan dan Taska Permata Perpaduan	Assistance for nurseries	JPNIN, JPM	45,555	16,739,677
99	Assistance	Social welfare	Promotion	Tambang Bas OA	Bus allowance for Orang Asli	KKLW	43,875	11,500,000
100	Assistance	Others	Prevention	Veteren Tentera	Veteran army assistance	MINDEF	18,707	23,515,766

No.	Type	Categories	Pillar of SP	Programme Name	Brief description	Agency	No. of recipients	Expenditure (RM)
101	Assistance	Education	Promotion	Wang Saku Institusi Kanak-Kanak	Daily allowance for children at JKM's institution	KPWKM	2,477	2,000,061
102	Assistance	Social welfare	Promotion	Wang Saku Institusi Kurang Upaya	Daily allowance for disabled persons at JKM's institution	KPWKM	964	532,360
103	Assistance	Social welfare	Protection	Wang Saku Institusi Warga Emas	Daily allowance for older people at JKM's institution	KPWKM	2,965	925,950
104	Incentive	Incentive	Protection	Elaun Sara Hidup Nelayan Darat	Allowance for fishermen	MOA	5,200	11,714,600
105	Incentive	Incentive	Promotion	Insentif Hasil Tangkapan Nelayan	Fishermen incentives	MOA	52,175	239,830,000
106	Incentive	Incentive	Promotion	Insentif Pengeluaran Getah (IPG)	Rubber production incentive	MPIC	440,000	5,749,752
107	Incentive	Incentive	Promotion	Skim Insentif Pengeluaran Padi (SIPP)	Paddy production incentive scheme	MOA	197,189	423,752,277
108	Subsidy	Subsidy	Protection	Bayaran Pampasan Tol	Toll compensation payment	KKR	All	419,674,973
109	Subsidy	Subsidy	Promotion	Insentif Benih Padi Sah (IBPS)	Paddy seeds incentive	MOA	197,189	71,762,819
110	Subsidy	Subsidy	Protection	Skim Penstabilan Minyak Masak (COSS)	Cooking oil subsidy	KPDNKK	All	691,813,340
111	Subsidy	Subsidy	Promotion	Skim Subsidi Harga Padi	Paddy price subsidy	MOA	146,000	642,491,411
112	Subsidy	Subsidy	Promotion	Subsidi Baja Padi Kerajaan Persekutuan	Paddy fertiliser subsidy	MOA	197,189	470,660,547
113	Subsidy	Subsidy	Promotion	Subsidi Baja Racun Padi Bukit/Huma (SBRPB)	Paddy pesticides subsidy	MOA	82,000	61,264,305
114	Subsidy	Subsidy	Protection	Subsidi Bil Elektrik	Electric bill subsidy	KeTTHA	13,500,000	98,950,150
115	Subsidy	Subsidy	Promotion	Subsidi Faedah Imbuhan Tabung Pinjaman	Interest loan subsidy	MOF	Approved	2,446,292,488
116	Subsidy	Subsidy	Protection	Subsidi Gas Cecair (LPG), Diesel dan Petrol	Fuel subsidy	MOF	All	3,193,169,551

No.	Type	Categories	Pillar of SP	Programme Name	Brief description	Agency	No. of recipients	Expenditure (RM)
117	Subsidy	Subsidy	Promotion	Subsidi Kadar Faedah Kepada Bank Pembangunan Malaysia Berhad	Interest subsidy for Bank Pembangunan Malaysia Berhad	MOF	Approved	73,143,076
118	Subsidy	Subsidy	Protection	Subsidi Perkhidmatan Udara Luar Bandar (RAS)	Rural Air Services (RAS) subsidy	MOT	1,110,000	247,654,317
119	Subsidy	Subsidy	Protection	Subsidi Tepung Gandum	Flour subsidy	KPDNKK	All	43,985,885
120	Subsidy	Subsidy	Protection	Subsidi Tren Tidak Ekonomik (KTMB)	Non-economical train subsidy for KTMB	MOT	132,189	10,000,000
TOTAL							**33,724,547**	**26,675,048,961**

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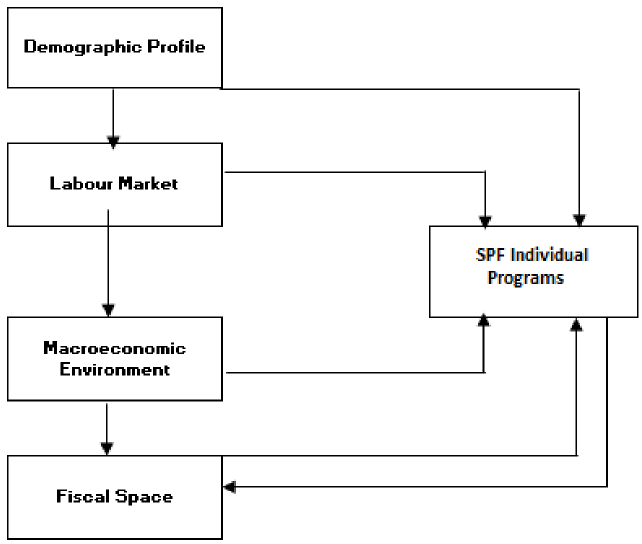
Annex 2: Projection Model for the SPF

1. Projection Framework

The projection exercise is divided into two parts: First, projection of the underlying factors (demographic, labour force, and macroeconomic). Second, under a set of specified assumptions on the benefit parameters (eligibility conditions, coverage, benefit level etc) expressed in Table 3.1, beneficiaries, benefit levels, and overall costs are projected for 15 years, ie till 2033 for each benefit. The linkages and dependency structure of the projection parts are illustrated in the following diagram.

Figure 1: Components of the Projection Model



2. 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 (UN, 2016). The data set is disaggregated by sex and single-year age. The following table summarises the population projection's main characteristics relevant to the study.

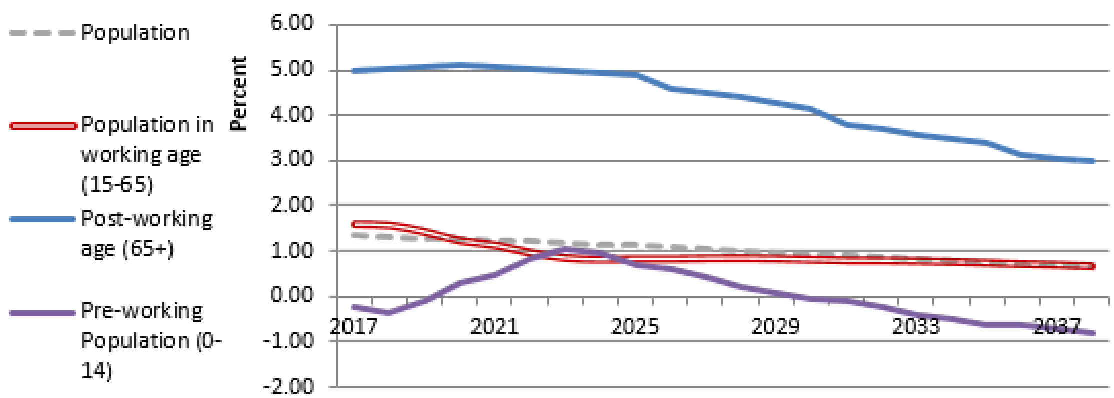
Table 1: Population Projection (Medium Variant) Main Characteristics, 2019-2033

	2016	2019	2023	2027	2033
Total Population ('000)	**30,929**	**32,173**	**33,806**	**35,343**	**37,356**
Pre-working age (0-14)	7,444	7,389	7,589	7,796	7,756
Working age (15-64)	21,620	22,625	23,587	24,383	25,600
Post-working age (65+)	1,865	2,159	2,630	3,164	4,000

	2016	2019	2023	2027	2033
Total Population (%)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Pre-working age (0-14)	24.1	23.0	22.4	22.0	20.8
Working age (15-64)	69.9	70.3	69.8	69.0	68.5
Post-working age (65+)	6.0	6.7	7.8	9.0	10.7
Total Dependency Ratio (%)	**43.1**	**42.2**	**43.3**	**45.0**	**45.9**
Youth	34.4	32.7	32.2	32.0	30.3
Old age	8.6	9.5	11.2	13.0	15.6

Source: Based on data from UN DESA (2016), the Authors' calculation

Figure 2: Population Growth Rates by Working Status, 2017 - 2037

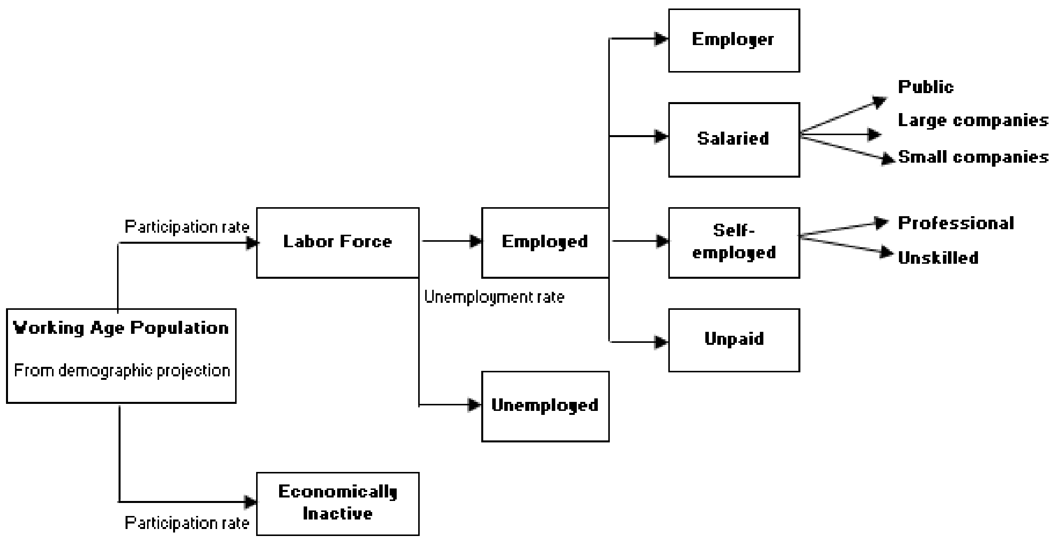


Source: Based on data from the UN (2016), the Authors' calculation

Labour Market Model:

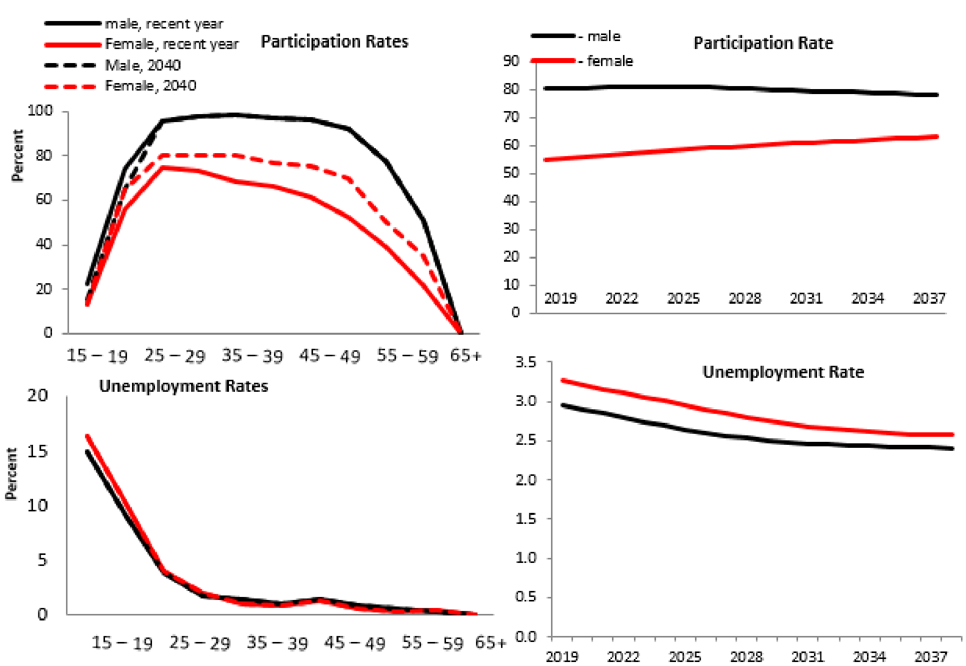
The labour market model is directly built on the population model. The following diagram presents the structural relationships that relate both models (the population model and the labour force model) for each year in the projection period and disaggregation by age and gender.

Figure 3: Labour Market Model Overview



Assumptions were made explicitly concerning participation and unemployment rates. For the participation rate, it is assumed that the workforce participation rates by age group of 2017 will stay the same over the projection period for the male working-age population. However, female participation rates are assumed to increase modestly in certain age groups, as shown below. For the unemployment rate, it is assumed that age and gender-specific unemployment rates in 2017 are expected to remain the same over the projection period. The overall slight decrease in the unemployment rate over the projection period resulted from the change in the demographic structure of the underlying population.

Figure 4: Labour Market Model's Projection: Unemployment and Participation Rates by Gender and Age Group



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 2: Summary of the Labour Force Main Projection Results, 2019-2033 (‘000s)

	2016	2019	2023	2027	2033
Total Working Age (‘000)	**21,620**	**22,625**	**23,587**	**24,383**	**25,600**
Economically Active	14,471	15,254	16,232	17,026	18,015
Employed	14,004	14,784	15,765	16,568	17,560
Unemployed	467	470	467	458	455
Economically Inactive	7,149	7,371	7,355	7,357	7,585
Male Working Age (‘000)	**10,690**	**11,153**	**11,586**	**11,978**	**12,635**
Economically Active	8,552	8,971	9,384	9,688	10,040
Employed	8,286	8,706	9,127	9,439	9,795
Unemployed	266	265	257	249	245
Economically Inactive	2,138	2,182	2,202	2,290	2,595
Female Working Age (‘000)	**10,930**	**11,472**	**12,001**	**12,405**	**12,965**
Economically Active	5,920	6,283	6,847	7,338	7,975
Employed	5,718	6,078	6,638	7,129	7,765
Unemployed	202	205	209	209	210
Economically Inactive	5,010	5,189	5,154	5,067	4,990

Source: Calculation is based on UN (2016), DOSM (2011-2017) and model assumptions

Macroeconomic Model:

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. For 2023-2033, labour productivity in Malaysia grew at an average annual rate of 3.28%. The study assumes this rate will remain unchanged over the projection period. For the inflation rate (CPI), the average annual rate over the past five years, estimated at 2.86%, is expected to remain the same over the projection period. The GDP deflator is linked to the CPI and the two rates are equated starting from 2028.

Table 3: Summary of Main Macroeconomic Indicators, 2019-2033

Economic Indicators	2016	2019	2023	2027	2033
GDP at current prices (RM billion)	1,230,121	1,590,925	2,171,161	2,909,406	4,432,320
GDP per capita at current prices (RM)	40,002	49,758	64,685	82,959	119,641
Inflation (CPI) (%)	2.08	3.11	2.86	2.86	2.86
Real GDP growth (%)	4.22	5.39	4.78	4.44	4.21
Labour productivity growth (%)	2.41	3.42	3.28	3.28	3.28

Figure 5: Projection Results: GDP Growth in Real Terms and the CPI

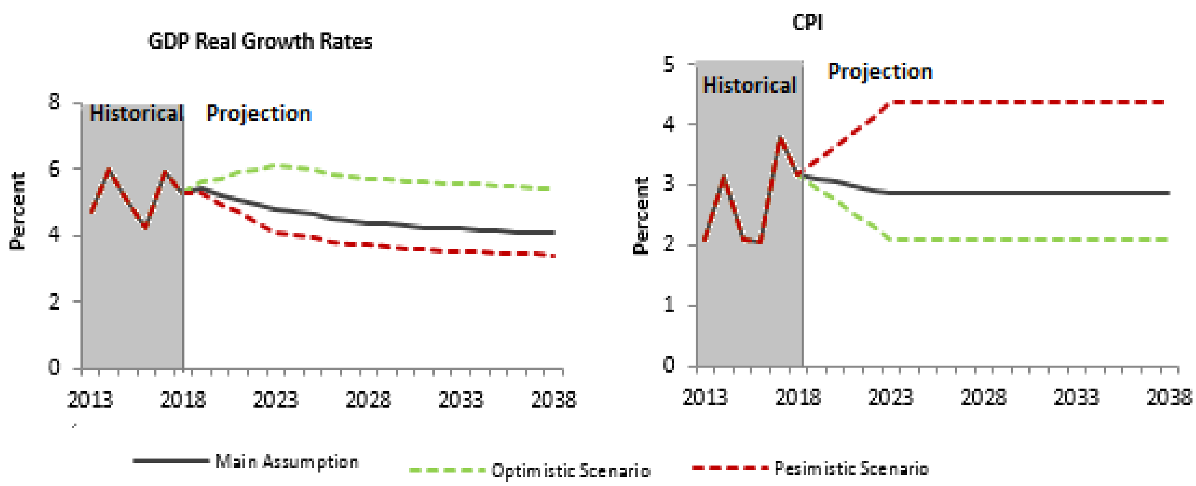
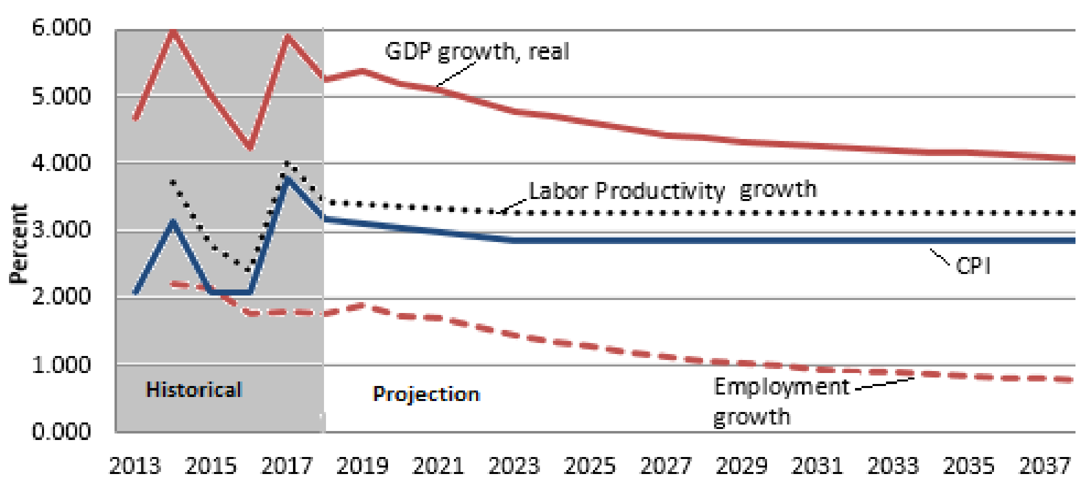


Figure 6: Projection Results: Growth Rates



3. Projection of the SPF

The first assumption that needs to be specified is the coverage ratio among the underlying population. The following table summarises the coverage ratios assumed for each programme[30].

Table 4: Coverage Rates Projection Assumptions

Category	Underlying Population	Take-up rate (%)	Notes
Pregnancy	Expecting mothers	80	Last five months of pregnancy
Child benefit	less than two-years-old, or less than four-years-old	80	
Pre-school benefit	Children in preschool age	60	Conditional upon enrolment in preschool
Orphans	Male Female	80	Percentage of incidence from total number of children
Disability	Male Female	80	Percentage of incidence from people aged 6-60
Old age	Male Female	80	

Applying these rates to the corresponding age groups that were already projected gives the specific programme's beneficiaries, as shown in Table 5.

Table 5: Costing Results: Number of Beneficiaries, 2019-2033 ('000)

	2019	2023	2027	2033
Beneficiaries ('000)	**4,397.4**	**4,670.3**	**4,988.3**	**5,406.4**
Pregnancy	421.5	410.6	415.2	393.6
Children (age 4 and below)	1,659.6	1,672.8	1,670.3	1,594.8
Preschool (ages 5 & 6)	616.8	627.8	633.8	616.3
Orphans (age 6-15)	171.5	178.1	186.1	189.4
Full Disability (age 6-60)	510.1	528.3	544.8	566.7
Old age (age 70 and above)	1,018.0	1,252.7	1,538.1	2,045.5

Source: Based on data from the UN (2016), the Authors' calculation

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. A periodic review of the benefit's real value can be introduced later to ensure coherence and relevance. Table 6 traces the benefit level development over the projection period.

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

Table 6: Costing Results: Benefit Level in RM and as a Percentage of the GDP per Capita

2019			2020		2025		2030	
RM	**% of National Poverty Line**	**% of GDP per Capita**	**RM**	**% of GDP per Capita**	**RM**	**% of GDP per Capita**	**RM**	**% of GDP per Capita**
150	15.46	3.62	155	3.49	179	2.92	206	2.48
200	20.62	4.82	206	4.65	238	3.90	274	3.30
300	30.93	7.24	309	6.97	357	5.85	411	4.96
400	41.24	9.65	412	9.30	477	7.80	549	6.61

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[31], the administrative cost is assumed at 2.5% of the benefit amount. The following table summarises the cost of each programme expressed in RM and a percentage of the GDP.

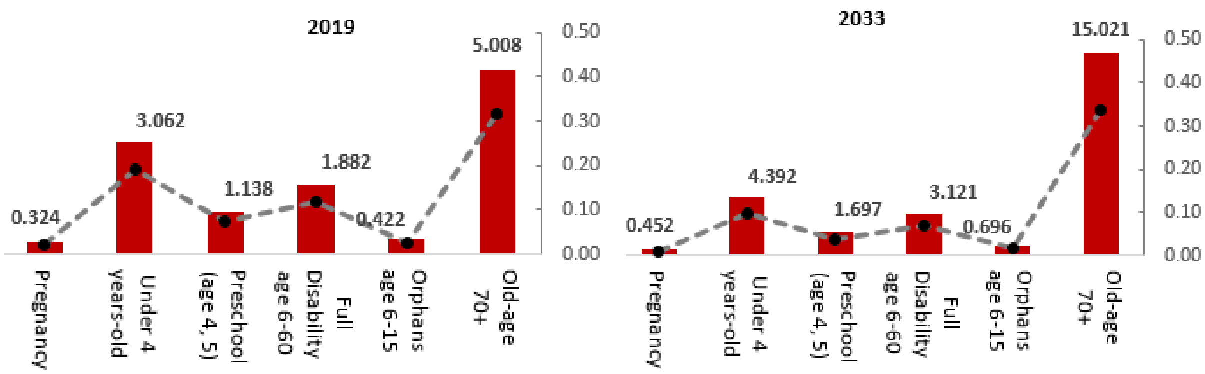
Table 7: Costing Results: Overall Cost in RM Billion and as Percentage of the GDP, 2019 – 2033

	2019	2023	2027	2033
Total Expenditure (RM Billion)	**11.836 (0.744)**	**14.764 (0.680)**	**18.409 (0.633)**	**25.378 (0.573)**
Pregnancy	0.32 (0.02)	0.36 (0.02)	0.40 (0.01)	0.45 (0.01)
Children (age 4 and below)	3.06 (0.19)	3.48 (0.16)	3.88 (0.13)	4.39 (0.10)
Preschool (ages 5 & 6)	1.14 (0.07)	1.30 (0.06)	1.47 (0.05)	1.70 (0.04)
Orphans (age 6-15)	0.42 (0.03)	0.49 (0.02)	0.58 (0.02)	0.70 (0.02)
Full Disability (age 6-60)	1.88 (0.12)	2.20 (0.10)	2.53 (0.09)	3.12 (0.07)
Old age (age 70 and above)	5.01 (0.31)	6.94 (0.32)	9.54 (0.33)	15.02 (0.34)

Note: Values in parentheses refer to the percentage of the GDP (%)

[31] An ILO review across many countries found that administration costs averaged 2.5% of the total programme costs for universal schemes (Ortiz, Durán-Valverde, Pal, Behrendt, & Acuña-Ulate, 2017).

Figure 7: Total Expenditure in RM Billion and as a Percentage of the GDP (RHS), 2019 and 2033



National Social Wellbeing Blueprint

ISBN 978-629-96636-3-8

Social Wellbeing Research Centre