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Budget 2023: Improving Malaysia's Social Protection

POLICY AND RESEARCH DIVISION
INSTITUT MASA DEPAN MALAYSIA
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Budget 2023: Improving Malaysia's Social Protection

Dated 29 September 2022

Theme:

Improving Malaysia's Social Protection

Introduction:

In light of the Covid-19 pandemic, it is clear that Malaysia's social protection needs to **be improved upon**. We should therefore **shift** towards a more **sustainable plan** that benefits all citizens especially as Malaysia is moving towards an ageing population by 2030.

Three key areas that need to be focused on:

- 1.1 Coverage Gap: Establishment Of A One-Stop Agency;**
- 1.2 Unsustainable Old-Age Savings And Pensions;**
- 1.3 Disaster Relief Aid and Assistance**

In 2019, households that **falls under the Poverty Line Income (PLI)** which accounted for **17.4%** in the **B40** group, they only received **12% of the overall budget**¹.

With the upcoming announcement of Budget 2023 on 7th October 2022, the government is likely to place emphasis on the Rakyat's social wellbeing through various schemes and initiatives for inclusivity.

The focus must also be in line with the **Guiding Principles and Strategic Thrusts of the Shared Prosperity Vision 2030 (SPV2030)**, i.e. continuous prosperity, equitable outcome and social wellbeing and Sustainable Development Goals (SDG) Target 1.3, i.e. implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable.

¹ [A Vision for Social Protection in Malaysia - Bank Negara Malaysia \(BNM\)](#)

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1.1 Coverage Gap: Establishment Of A One-Stop Agency	
Elaboration	<p><u>Current government interventions and issues:</u></p> <ol style="list-style-type: none"> 1) 200 applications developed by 93 agencies <ul style="list-style-type: none"> - Although the government agencies had developed almost 200 applications, inefficiency and redundancy remained as one of the challenges faced by agencies/ministries. These had also led to wastage of allocations. 2) The establishment of eKasih 2.0 <ul style="list-style-type: none"> - Although the establishment of eKasih 2.0 provides a first step towards a one-stop agency, the lack of monitoring, managing, improving, consolidating and maintaining the data and system requires a lot of effort and supervision by the government. - The present documentation process in proving the eligibility of the poor is relatively time consuming, as various approvals and certifications are required to meet the requirements and the registration can only be done at the Pejabat Pembangunan Negeri (PPN) or Pejabat Daerah². - Lack of network infrastructure readiness, especially in the rural and remote areas where accessibility and connectivity is unstable and unreliable due to geographical limitations.
Recommendation	<p>To address the issue of inefficiency, redundancy of system and irregularities in managing expenditure, Malaysia should:</p> <ol style="list-style-type: none"> 1) Establish a national identity framework towards a

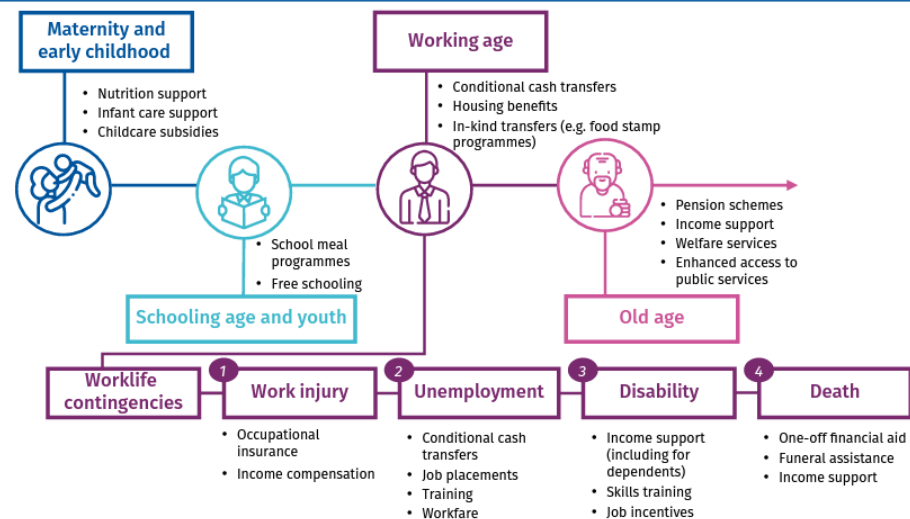
² [e-Kasih 2022 daftar permohonan borang online & semakan status - MySumber](#)

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One-stop Agency, as implemented by several European Union Member States such as Iceland, Norway, and Liechtenstein in 2019³.

- This can be in the form of **social protection numbers** such as ID cards, mobile IDs, electronic national cards, biometrics, and driver's licence - these cards must contain a **secure contactless chip** and the **holder's photo and fingerprints**.
- Through this initiative, the government is able to **keep track on eligibility** of the poor for various schemes and assistance (of different segments of society).
- It is proposed that this social protection scheme should be **registered automatically** for all newborn Malaysians.

Diagram 4: Life cycle approach to social protection



Source: Bank Negara Malaysia, ILO

³ [National ID cards: 2016-2022 facts and trends - Thales Group](#)

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	<p>2) Sufficiency of network infrastructure readiness can be resolved especially in the rural areas to enhance capacity and efficiency of government machinery by:</p> <ul style="list-style-type: none"> - Introduce a One-stop Mobile Centre for Social Welfare⁴: Under this arrangement, the government through various ministries and agencies should establish mobile booths in rural areas. Such a facility allows villagers to register themselves for aid and assistance especially in the rural areas. For instance, similar to the setup of MyEG booths in post offices. - For example, the Norway Labour and Welfare Organisation comprises a central agency coupled with the elements of the municipal social service systems.
<p>1.2 Unsustainable Old-age Savings and Pensions</p>	
<p>Elaboration</p>	<p>Malaysia's multi-tiered retirement ecosystem that ensures old-age income security is mainly funded by the:</p> <ul style="list-style-type: none"> - Public sector or the government (e.g. Bantuan Warga Emas, KWAP & LTAT); and - Private sector (EPF, PRS) <p>Malaysia is set to become a super ageing nation by 2056⁵. It is highly alarming that majority of Malaysians are looking at poor retirement as evidenced by the depletion of retirement savings from Employees Provident Fund's (EPF)⁶. Additionally, 68.9% of the working age population, have no formal or regular pension cover⁷.</p>

⁴ Askim, J., Fimreite, A. L., Moseley, A., & Pedersen, L. H. (2011). *One-Stop Shops for Social Welfare: The Adaptation Of An Organizational Form In Three Countries*. *Public Administration*, 89(4), 1451–1468. Doi:10.1111/J.1467-9299.2011.01933.X

⁵ [Malaysia's path to becoming ageing nation fast even by global standards - New Straits Times](#)

⁶ [More poor retirees with depleted EPF savings, warn economists - The Malaysian Reserve](#)

⁷ [Celebrating Merdeka in poverty - Free Malaysia Today](#)

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Issue:

- 1) **RM28.1 billion**, or **12%** of the share in government operating expenditures (OE), is **being exhausted** in providing civil servants' pensions (See Table 3.1 below). Nationwide, there are **628,300** civil servant pensioners in 2022⁸.

TABLE 3.1. Federal Government Operating Expenditure by Component, 2020 – 2022

COMPONENT	RM MILLION			CHANGE (%)			SHARE (%)		
	2020	2021 ¹	2022 ²	2020	2021 ¹	2022 ²	2020	2021 ¹	2022 ²
Emoluments	82,996	84,529	86,510	3.1	1.8	2.3	36.9	38.5	37.0
Retirement charges	27,533	27,581	28,067	6.3	0.2	1.8	12.3	12.6	12.0
Debt service charges	34,495	39,000	43,100	4.7	13.1	10.5	15.4	17.8	18.5
Grants and transfers to state governments	7,669	7,745	7,927	1.3	1.0	2.3	3.4	3.5	3.4
Supplies and services	29,323	23,265	30,367	-6.9	-20.7	30.5	13.0	10.6	13.0
Subsidies and social assistance	19,769	16,701	17,352	-17.3	-15.5	3.9	8.8	7.6	7.4
Asset acquisition	631	415	533	-18.1	-34.2	28.4	0.3	0.2	0.2
Refunds and write-offs	654	511	375	-26.8	-21.9	-26.6	0.3	0.2	0.2
Grants to statutory bodies	10,291	13,190	14,066	-25.3	28.2	6.6	4.6	6.0	6.0
Others	11,239	6,663	5,203	-75.3	-40.7	-21.9	5.0	3.0	2.3
Total	224,600	219,600	233,500	-14.7	-2.2	6.3	100.0	100.0	100.0
Share to GDP (%)	15.9	14.5	14.3						

¹ Revised estimate

² Budget estimate, excluding 2022 Budget measures

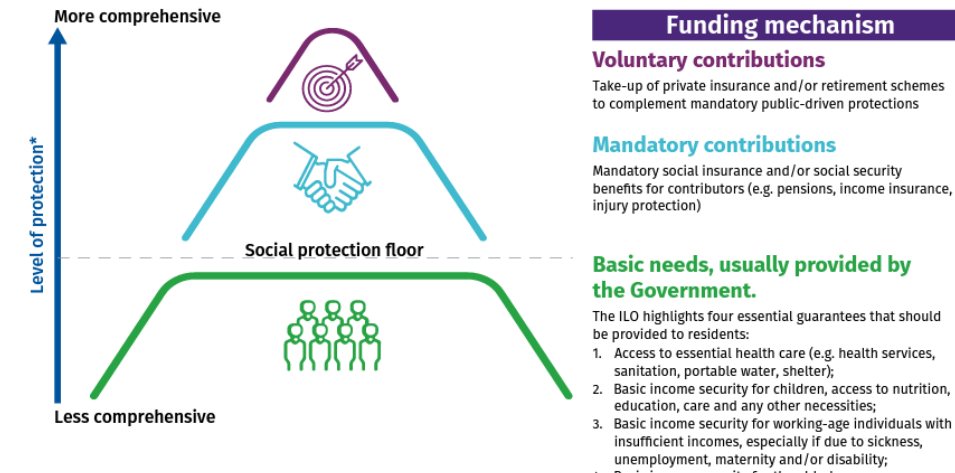
Source: Ministry of Finance, Malaysia

- 2) Malaysia's social insurance schemes **mostly cover the formal sector**. However,
- **Workers in informal sectors** represent the **second biggest segment of employment** in Malaysia at **16.8%**⁹. This is problematic since they are **not covered by PERKESO or EPF** putting them at an **increased risk of being exposed to vulnerabilities**.
 - This has led to the **emergence of a large and diverse set of vulnerable groups** consisting of informal sector workers as well as individuals who require special assistance due to low income, old age

⁸ [Section 3. Federal Government Expenditure - Ministry of Finance \(MOF\)](#)

⁹ [BERNAMA - Social Protection for Workers in the Informal Sector - Social Wellbeing Research Centre \(SWRC\)](#)

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	<p>and disability.</p> <p>The Government needs to devise a number of policies to restructure the overall social protection expenditure system for a greater benefit for all.</p>
<p>Recommendation</p>	<p><u>Short-to-Medium term approach:</u></p> <p>Diagram 3: Level of coverage for social protection policies based on funding</p>  <p>Funding mechanism</p> <p>Voluntary contributions Take-up of private insurance and/or retirement schemes to complement mandatory public-driven protections</p> <p>Mandatory contributions Mandatory social insurance and/or social security benefits for contributors (e.g. pensions, income insurance, injury protection)</p> <p>Basic needs, usually provided by the Government. The ILO highlights four essential guarantees that should be provided to residents:</p> <ol style="list-style-type: none"> 1. Access to essential health care (e.g. health services, sanitation, portable water, shelter); 2. Basic income security for children, access to nutrition, education, care and any other necessities; 3. Basic income security for working-age individuals with insufficient incomes, especially if due to sickness, unemployment, maternity and/or disability; 4. Basic income security for the elderly. <p>* Level of protection refers to the coverage of social protection. However, this depends on the funding mechanism. Beyond the basic needs, which is typically provided by the Government, the coverage of social protection could expand as the funding mechanism broadens to include mandatory and voluntary contributions</p> <p>Source: Bank Negara Malaysia, ILO and UN framework for Social Protection Floor</p> <p>1) Switch to a more sustainable pension scheme model that can simultaneously benefit everyone and reduce burden on the government’s operating expenditure</p> <ul style="list-style-type: none"> - Eliminate option of permanent and pensionable scheme for new government workers <ul style="list-style-type: none"> - They should be placed under an improved contract similar to the EPF, in which contributions from both themselves and their employers are mandatory. - This savings should not be touched until they reach retirement age.

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2) **Introduce mandatory retirement contribution scheme to workers in the informal sector** as outlined in Strategic Thrust 5 of SPV.

- As implemented by places like Chile and Africa which have large informal labour markets¹⁰.

Long-term approach:

1) **Revisit and reform** existing legislations and public pension schemes to be more **sustainable** in the long run.

- **Utilise the national identity framework** as mentioned above to **track the missing middle** i.e. the 68.9% of the working age population who are deemed to have no formal or regular pension coverage.

2) Government should **promote continuous programmes to increase financial literacy** among Malaysians.

- **Implement the National Strategy for Financial Literacy (2019-2023)**¹¹ and its 5 priority areas.



- Adapt existing financial literacy classes for different audiences (schools, higher education institutions, working adults, homemakers and pensioners).

¹⁰ Source: Shared Prosperity Vision 2030 Strategic Plan Document, p.100

¹¹ [Malaysia National Strategy for Financial Literacy 2019-2023](#)

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	<ul style="list-style-type: none"> - Mandate compulsory financial literacy classes for schools and higher education institutions, as well as for staff in companies. - Devise delivery methods to ensure financial literacy resources are accessible and can reach the informal sector and bottom layer of society.
<p>1.3 Disaster Relief Aid and Assistance</p>	
<p>Elaboration</p>	<p>Global climate change has indeed affected Malaysia in the form of heavier rainfall. This has led to the occurrence of frequent flooding in both rural and urban areas, as evidenced in the recent flood disasters across the country.</p> <p>Such climate incidents are projected to be more extreme in the future. Hence, a structured disaster relief management action plan is crucial, ranging from short-term to long-term measures.</p> <p>Existing Mitigation Plans (Pre-disaster)</p> <ul style="list-style-type: none"> - Mitigation plans under MetMalaysia, Bomba, Kuala Lumpur City Hall (DBKL), GLC/GLIC Disaster Response Network (GDRN); - Activation of flood relief centres, by utilising schools and support from NGOs; - Early identification of flood hotspots, and constant monitoring of heavy rain warning issuance; - Early warning system to alert the public, through usage of sirens. <p>Issue:</p> <p>1) Based on a study carried out by the Department of Statistics of Malaysia (DOSM)¹² Malaysia is estimated to have suffered losses amounting to</p>

¹² [Laporan Khas Impak Banjir Malaysia 2021 - Department of Statistics Malaysia \(DOSM\)](#)

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	<p>RM6.1 billion due to the impacts of flood that hit Klang Valley and multiple states across the nation in late 2021.</p> <p>2) At least 130,000 people are affected by the flooding annually, causing roughly \$1.8 million losses per year^{13,14}.</p> <p>3) Mismanagement and lack of coordination between state and federal authorities leading to assistance not being provided in a timely and efficient manner.</p>
<p>Recommendation</p>	<p><u>Structured Disaster Management Action Plan</u></p> <p><u>Short-term approach:</u></p> <p>1) Disaster Management (during disaster)</p> <ul style="list-style-type: none"> - Proactive measures by relevant agencies, including ministries (KASA), NADMA, JPS, and local authorities (DBKL); - Inter-agencies cooperation to mobilise and assist with flood evacuation. <p>2) Financial Relief Process (post-disaster)</p> <ul style="list-style-type: none"> - Loosening bureaucracy to speed up the aid distribution process and government top-ups in urgent cases to badly affected victims. <p>3) 'Grab Bags' as a Disaster Risk Reduction Strategy</p> <ul style="list-style-type: none"> - Provide survival packs for every household. The grab bags are equipped with tools needed during disaster seasons.

¹³ Source: Malaysia's Economic Resilience in Post COVID 19 Pandemic, Mesyuarat MPN Bilangan 9, 27 September 2022

¹⁴ Source: World Bank Group and ADB (2021). Climate Risk Country Profile: Malaysia

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	<p><u>Long-term approach:</u></p> <p>1) Adopting more robust and resilient disaster and emergency infrastructure and city planning.</p> <ul style="list-style-type: none"> - Establish more river basins/reservoirs in regard to channelling flash flood control (e.g. Kasukabe underground flood protection tank and flood protection facility) and energy storage infrastructure using the excessive water from the flash flood to turn it into renewable energy; - Build electricity grids in hotspot areas of evacuation centres to supply enough electricity during a disaster and; - A case study of the Netherlands' resilient climate planning which demonstrates the technological and data drive planning. <p>2) Businesses should focus on 'Repairing the Earth'</p> <ul style="list-style-type: none"> - Implement tax incentives for climate protection infrastructure i.e. carbon tax, involvement of the corporations to shift towards sustainable and green projects & investments. <p>3) Invest in weather radar systems</p> <ul style="list-style-type: none"> - Provide short-range forecasts of weather phenomena like tor typhoons that can cause strong winds and flash floods (i.e in Klang Valley). Malaysia should learn and have a collaboration together with Vietnam Meteorological and Hydrological Administration (VMHA) and Japan International Cooperation Agency¹⁵.
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¹⁵ [Japan: Pillars of Resilience - Financial Times](#)

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	<p>4) Natural disaster insurance</p> <ul style="list-style-type: none">- This exclusive insurance package specifically for B40 who are affected during the flood disasters should be made available by the government.
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