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ABSTRACT

The social protection system in Malaysia aims to provide financial and social support to individuals and households facing various risks and vulnerabilities. It consists of several components, including social assistance programmes, social insurance schemes, and labor market interventions. However, the system has been criticised for gaps and inequalities, leading to calls for comprehensive reform.

This compelling article by the author emphasises the urgent need for a comprehensive reform of Malaysia's social protection system. This article highlights the need for a mindset shift towards solidarity, responsibility, and social insurance. By reframing social assistance as a supplement to hard work, recognising that everyone is at risk, and moving from subsidies to sustainable protection systems, Malaysia can create a more inclusive and resilient social protection framework that eventually can ensure the well-being of all Malaysians, foster economic stability, and promote a sense of solidarity among members of the community.

SOCIAL PROTECTION IN MALAYSIA: FROM 'CHARITY' TO 'SHARED RESPONSIBILITY'

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In a post-COVID world, where fiscal positions of governments around the world are still stretched in the aftermath of the crisis, pushing for fiscally demanding policies such as further assistance may seem like an uphill battle. However, it is precisely during this current window of recovery, economic rebuilding, and heightened reinvestments, that the focus on strengthening Malaysia's social protection system becomes important.

We have observed how Malaysia's existing social security schemes help households stay afloat during the crisis, such as the Social Security Organization (SOCSO)'s employment insurance scheme, as well as anti-poverty cash transfer programmes under the Department of Social Welfare (JKM). Though not ideal, even the Employees Provident Fund (EPF)'s withdrawal scheme was at least available during the crisis for its contributors.

However, the fact that many still struggled tremendously – to the point of raising "white flags" – serves as a grave reminder of how many Malaysians are still left out from Malaysia's social protection net. They tend to be the neglected "missing middle" – a term coined by Khazanah Research Institute in its seminal 2021 report titled 'Building Resilience' – referring to a relatively large group of Malaysians who are neither in the position to benefit from SOCSO or EPF because they do not work in the formal sector, nor eligible to benefit from cash assistance from the government because they are not considered "poor" enough by national standards.

***Source**: Malaysiakini*

The national definition of being "poor" itself was also only recently revised. For years prior to 2019, the country has prided itself for having successfully reduce absolute poverty rates to almost 0%, until policy makers finally yielded to calls to raise the Poverty Line Index (PLI) – the income in which a household is considered poor in Malaysia – from RM980 per month to RM2,208 per month. Overnight, almost nine in every 100 Malaysian households were found to be living in poverty, defined as households that are not able to meet their basic living needs.

The situation is particularly acute for children and the elderly; before the pandemic, six in every 100 Malaysian households are in poverty but if we consider only households with children and only households with elderlies, poverty befalls a higher proportion of them – at about nine and twelve in every 100 households, respectively. Even at this (high) level of analysis, it is apparent that children and elderly tend to put additional burden on household finances. Therefore, excluding the elderly and the children from specific social protection provisions worsens the situation.

The efficacy of anti-poverty programmes in Malaysia have also been found to barely move the needle. Typically, countries with solid social protection systems will see anything between a 0.15 and a 2.00-point improvement in the Gini index – a common measure of inequality – after accounting for government assistance. In contrast, Malaysia's Gini index barely improves after receiving cash transfers, at around 0.41.

The three issues illustrated above – namely the missing middle, the higher incidence of poverty among households with elders and children, and the efficacy of social security programmes – only represent a handful of many other symptoms that highlight the gaps within Malaysia's social protection system. What is clear is that improvements are needed urgently, before the temporal window where Malaysia as an 'ageing' nation expires, and Malaysia becomes a structurally 'aged' nation.

Strengthening the social protection system in Malaysia will entail highly debated policies such as an income protection floor for all Malaysians (or at least all low- to middle-income Malaysians), children's benefits, and the universal-versus-targeted methods in delivering social assistance.

On the part of the government, these highly debated policies will require a significant shift in the way socioeconomic policy are crafted and delivered – beginning with a shift from looking at social protection as merely a redistributive role by the government, towards looking at it as an 'investment'. Building the economic resilience of Malaysian households today can directly correlate with savings from future costs of poor health, educational and welfare outcomes due to underinvestment today.

However, a significant shift in our worldview as a member of the Malaysian society is also crucial – specifically, our perception of social protection as a "charity" needs to shift towards seeing social protection as a "shared responsibility". This article will henceforth make the case for three ways we can change our perception on social protection to enable decision makers to make the hard-yet-necessary investments to strengthen the Malaysian social protection system.

What is social protection?

Before that, it is worth understanding what the concept of social protection entails. According to the International Labour Organization (ILO), a social protection system is a package of policies and programmes that a society provides for its members to protect all members against economic and social distress caused by a reduction or complete loss of income due to life risks. The ILO stipulates nine (9) key sources of risks that may befall anyone in their lifecycles, namely the need for medical care, sickness, unemployment, old age, employment injury, family, maternity, invalidity (or disability) and the loss of a breadwinner.

There are three (3) components to a good social protection system: Protect, Prevent and Promote.

'Protection' refers to "social assistance" which is typically fully-financed by the government through fiscal spending, often on outright cash transfers or coupons.

'Prevention' refers to "social insurance" programmes which are schemes designed to financially protect members against contingencies. While these tend to require participants to contribute, they need not necessarily be tied to formal employment. The self-employed and homemakers may also participate, and in fact should do so as social insurance tends to be the cheapest form of basic coverage compared to for-profit private insurance schemes.

'Promotive' programmes refer to active or passive labour market interventions to ensure people remain in productive employment to keep themselves out of deprivation. Active labour market programmes can be in the form of skills training, resume building workshops, or work shadowing, while passive labour market programmes tend to be financial in nature, like unemployment or job-search allowances.

These three pillars are evaluated alongside a human's lifecycle, in which major risks that can befall someone within his or her lifecycle are assessed. Somewhat surprisingly, Malaysia's social protection policy lineup seems to be lagging considerably behind even our lower middle income regional peers – as shown in Table 1 below.

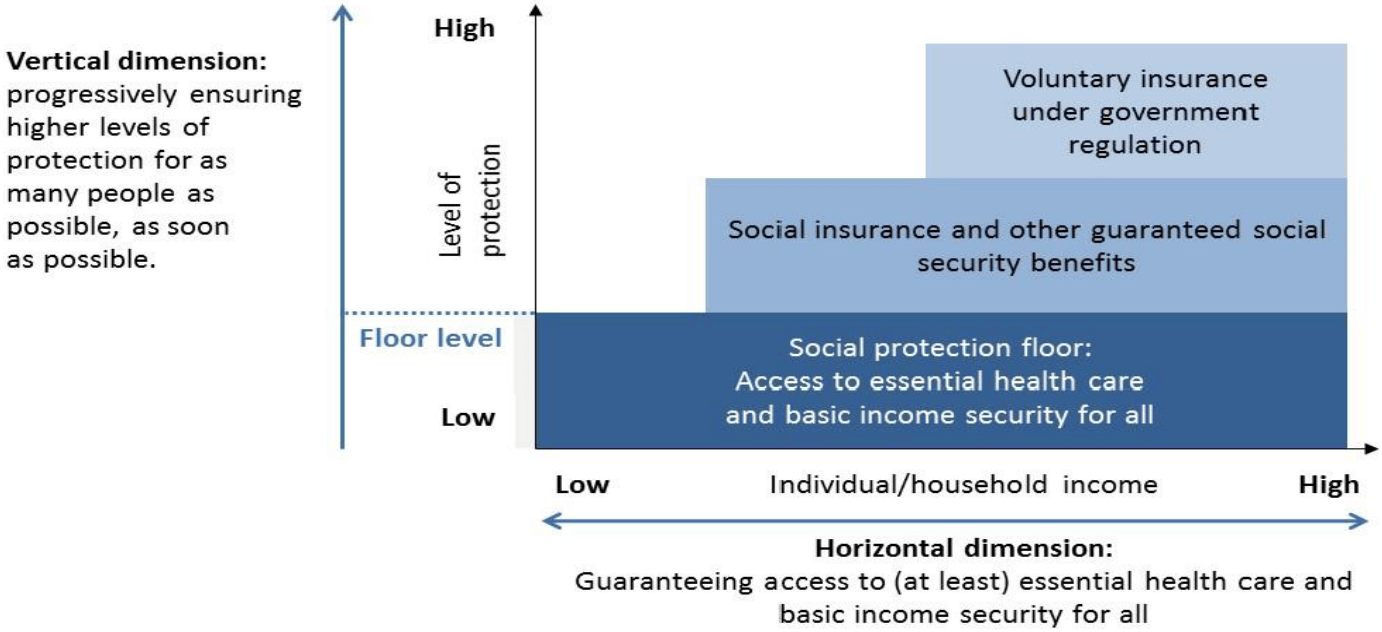
	MEDICAL CARE	SICKNESS	MATERNITY	OLD AGE	EMPLOYMENT INJURY	INVALIDITY	SURVIVORS BENEFIT	FAMILY / CHILDREN	UNEMPLOY-MENT
THAILAND	Strong	Strong	Strong	Strong	Strong	Strong	Strong	Strong	Strong
VIETNAM	Strong	Strong	Strong	Strong	Strong	Strong	Strong	Weak	Strong
PHILLIPINES	Strong	Strong	Strong	Strong	Strong	Strong	Strong	Weak	Limited
LAOS	Strong	Strong	Strong	Strong	Strong	Strong	Strong	Weak	Weak
SINGAPORE	Strong	Limited	Limited	Strong	Strong	Strong	Strong	Strong	Weak
INDONESIA	Strong	Limited	Limited	Strong	Strong	Strong	Strong	Weak	Limited
MALAYSIA	In-kind	Limited	Limited	Strong	Strong	Strong	Strong	Weak	Limited
BRUNEI	In-kind	Limited	Limited	Strong	Strong	Strong	Strong	Weak	Weak
MYANMAR	Strong	STRONG	STRONG	Weak	Strong	Weak	Weak	Weak	Weak
CAMBODIA	Weak	Weak	Limited	Weak	Strong	Weak	Weak	Weak	Limited

Table 1: *Comparison of Social Protection Policies based on ILO's 9 key risks, by Country*

Strong	*There exists at least one programme anchored in national legislation*
In-Kind	*There exist medical benefits, but they are in kind and are not anchored in any national legislations*
Limited	*There exist limited provisions under the national labour code, as employers' liabilities (such as, paid sick leave)*
Weak	*No statutory programme anchored in any national legislation exist, or exists but have yet to be implemented*

Source: *The state of social protection in ASEAN at the dawn of integration; ILO, 2015*

Furthermore, the United Nation's prescriptive "social protection floor" concept – as shown below, would suggest that Malaysia still lacks a critical component, known as "Layer 1", which is basic minimal income security for everyone. As a note, Malaysia's flagship social transfer programme – currently known as Sumbangan Tunai Rahmah (STR) and SARA – are still targeted and only received by poor households that has made it into the poverty database only.



Source: *Social Protection Floors in the Financing for Development Agenda; FFDO-UNDESA, 2017*

As discussed earlier, multiple factors make a social protection reform incredibly challenging, among others, the constraint to the Government's fiscal budget. This article, however, seeks to explore how three mindset shifts among us members of the Malaysian necessary may also be necessary to tackle another factor – which is garnering the necessary political support for these reforms to take place.

Shift #1: Social assistance as supplement to hard work

Firstly, it is worth considering how hard work alone may not be sufficient to take one out of poverty or deprivation. There exist real structural barriers, such as educational opportunities, family social status, and locational differences that can systematically exclude someone from securing a good-paying job or accessing the social and financial capital to start a promising business – even by working hard. Furthermore, children and elders are dependent and unable to work; this is why households with elders and/or children tend to fare economically poorer than households without them. In Malaysia, only a small group specially-abled persons, children, and senior citizens are eligible for cash transfers.

A good social protection system recognise the need for a social assistance component that provides a basic minimum floor for survival and is fully financed by the government's fiscal budget. As many governments struggle to afford the lofty standards set out by the likes of the United Nations and European nations, having at least one cash transfer programme that effectively targets the poor is a good basic minimum. However, the keyword here is effective; while Malaysia has progressed leaps and bounds with our poverty database and administrative capacity since our first cash transfer programme – Bantuan Rakyat 1Malaysia (BR1M) – the high degree of informality alongside the growth of the gig economy renders such a targeting mechanism highly exclusionary. This is how a universal cash transfer – at least for all elders and all children to start with – have come to the fore as a viable policy prescription, but the idea remains contentious and is outside the scope of this article.

Nevertheless, it is important to not simply regard social assistance programmes as mere “dole money” that encourages laziness and a dependency mindset among the poor. In Malaysia, the idea of handing out cash to a targeted group of ‘poor’ households was only first mooted and implemented in 2014, with the specific intention to cushion the impact of the introduction of the Goods and Services Tax (GST) in 2015. Price levels never meaningfully moderated even with the reversal of GST, while cash transfers tend to be sticky. Thus, what was then known as BR1M has now remained, despite undergoing several name changes to its current iteration – Sumbangan Tunai Rahmah (STR). The essence of the programme remains, and this is commendable because where we are concerned, it is very much a necessary component in a complete social protection repertoire.

Shift #2: Everyone is at risk

A second necessary mindset shift is away from the belief that government assistance should exclude the rich. In reality, every single one of us is vulnerable to multiple kinds of risks that can result in financial hardship. Even someone well off may be bankrupted by one cancer surgery or be blessed with a special child, just as an individual who may seem healthy can fall sick or get into an accident. Old age too, is an example of a looming risk, that too few Malaysians are prepared for.

A good social protection system that is truly comprehensive will qualify every individual at every stage of their lives to claim baseline financial support in the face of these calamities. As these adversities are contingent in nature, a good social protection system shall have a “social insurance” component. In Malaysia, several schemes under the SOCSO fulfil this purpose, protecting its members from various risks, while the EPF scheme protects members against financial risks associated with old age.

There is no shortage in the number of reports that have shown how unprepared the average Malaysia is for retirement, even before the three episodes of EPF withdrawals allowed during the pandemic. But the much bigger issue than EPF savings sufficiency, is the number of people who are not even covered by the EPF or the Government’s pension scheme, that is about 4 out of 10 Malaysian workers, not to mention those outside the labour force.

The economic crisis that ensued the COVID-19 pandemic has demonstrated how weak Malaysia’s social protection system has been when many Malaysians found themselves in poverty due to loss of employment, without any kind of protection to their name. The 107,024 individuals who were able to claim unemployment benefits from SOCSO’s Employment Insurance Scheme (EIS) in 2020 – which was only introduced in 2018 – likely only represent the tip of an iceberg, against a backdrop of the 525,200 unemployed persons in that same year.

As a response, the government scrambled to devise multiple programmes like wage subsidies, loan moratoriums, and utility bill discounts in the absence of a reliable and existing social protection mechanism that would have just kicked in – as it did in the European context. Unsurprisingly, most of these assistance programmes are ad hoc, transitory, and extremely expensive for a government who is already highly indebted.

How Malaysians can learn from this episode is to increase our collective understanding and willingness towards bearing this risk collectively as a society, particularly through social insurance. Admittedly, those in the formal working sector are already mandatory contributors to social insurance schemes such as the EPF scheme and SOCSO’s schemes such as the Employment Insurance Scheme (EIS) and the Employment Injury Scheme. However, introducing additional mandatory schemes to strengthen these existing schemes – either among existing contributors and those currently not contributing – will require significant political support and solidarity among the Malaysian public.

This ‘takaful’ or sharing of risks concept may be understandably strange. ‘Donating’ may be a much more familiar concept than ‘sharing’, perhaps due to the human’s instinctive preference for charity, lack of trust in governments, tax structures that incentivise philanthropy, religious reasons, or a basic fear of financial commitment. This may explain why the challenge in implementing social insurance schemes in practice globally tend to be the pooling of higher risk individuals from the low-to-middle-income working-class population and in turn, become financially unsustainable. Yet, the principle of sharing risks and benefits on a national scale, across as many segments of society as possible, is a fundamental recipe for a successful social insurance model. As social insurance schemes only provide a protection floor, they can hardly be considered as a form of competition to private insurance schemes. which can act as a ‘top up’ for extra coverage to those who can afford it.

Shift #3: Pro-assistance, not pro-subsidy

The third mindset shift is from one that depends on subsidies to one that depends on a sustainable system that can protect us when we become financially vulnerable, in the form of an institutionalise and dependable system, regardless of prevailing socio-political conditions.

Technically speaking, the blanket subsidies that we enjoy today can be considered as a form of social protection. Financing it however has become a truly unsustainable endeavour on the part of the government – notwithstanding the inadvertently perverse behavioural incentives it has created, such as our preference for private vehicles over public transport and wasteful energy consumption. Additionally, there are rampant leakages where luxury car owners, neighbouring citizens, and the fishermen community with diesel fleet cards who are able to capture a sizeable share of our subsidy dollars from the cross-border price arbitrage.

Admittedly, strong counter arguments exist against pulling out energy subsidies. One is the option of opting for a more targeted subsidy mechanism instead. However, the debate over how exactly a “deserving” individual can be determined at the petrol pump has become paralysing.

Another counter argument against pulling out subsidies is the second order inflationary effects on households, but this is precisely the kinds of impacts that can be cushioned by more effective forms of cash support under a well-administered social protection system. What is certain is that Malaysia remains as one of only a handful of economies who still subsidise petrol prices at the pump, while most other governments have redirected the savings into alternative cash transfer programmes, backed by robust readily installed social protection systems.

A shared responsibility mindset

The structural gaps that exist within Malaysia’s social protection system warrant us to look towards ourselves and find credible solutions beginning with just revisiting our priors on what shared responsibility means to us.

Social protection is not ‘charity’ but rather an investment towards building a resilient human capital base to sustain longer term economic prosperity for a nation. A solid social protection system not only ensures survival of the most vulnerable of our people, it also protects us all from economic and lifecycle shocks, while ensuring we thrive in productive employment – arguably even allowing us to take necessary career risks that comes with innovation and growth.

Yet, social protection has often suffered from ‘bad press’ and misinterpretation, where the rich are deemed as not deserving, the poor are deemed as not hardworking enough, while the middle class are being forgotten. We need a stronger and binding narrative of togetherness and ‘solidarity’ that protects the most vulnerable members of our community, prevents the middle class from falling through the crevices, and frees the rich from constantly being the target of inter-class clashes – a good social protection system ensures exactly this.