Getting the Great Reset Right: Structural Labour Market Issues in the Post-COVID-19 World

Road to a Resilient and Agile Workforce

Over the past decade, the quest for productivity growth has spurred rapid technological progress and adoption, as well as the onset of the Fourth Industrial Revolution. This article seeks to discuss how the COVID-19 pandemic accelerated these shifts, and highlights structural impediments within Malaysia's labour market landscape. Going forward, while labour market conditions are expected to improve, these structural issues - combined with the uneven economic rebound - might hinder an entrenched recovery. This sentiment is echoed around the globe. In a recent update, the International Labour Organization (ILO) warned of an uncertain and incomplete recovery, given significant disruption to the labour market and impact on vulnerable segments of workers.[1] Nevertheless, the pandemic provides an opportunity for Malaysia's economy and labour market to "build back better" from the crisis, in what has been described as "The Great Reset"[2] in policy circles. This article concludes with a discussion of policy priorities to enhance the resilience and agility of the workforce, and strategies for building a more robust labour market ecosystem.

Part I: Prevailing Structural Issues

Over the years, Malaysia's labour market has been subject to various structural impediments. Even before the pandemic, these issues posed a challenge to national aspirations of becoming a high-income economy.

First, the prevalence of the low-cost production model and high dependence on low-skilled foreign workers discourages productivity enhancements, depresses wages, and encourages the creation of low-skilled jobs.[3] This is evidenced by the fact that industries which employ a higher share of low-skilled foreign workers tend to have lower productivity levels[4], relying on longer working hours to produce output. Furthermore, unchecked reliance on low-skilled foreign workers potentially introduces distortions to wage-setting mechanisms, leading to a suppression of local market wages[5]. Notably, industries which are more reliant on low-skilled foreign workers also tend to have lower median salaries and wages (Chart 1). Of greater concern, over the long run, continued reliance on labour-intensive, low-cost business models run the risk of de-coupling wage gains from improvements in overall productivity[6] and deterring the creation of high-skilled and high-paying jobs.

Despite the savings, a low-cost, labour-intensive production model is an untenable long-term strategy, particularly with Malaysia's peers actively in the process of innovating and upgrading themselves (Chart 2). In the World Intellectual Property Organization's (WIPO) Global Innovation Index 2020, Malaysia ranked eighth among 17 South East Asian, East Asian, and Oceanian economies. Relative weaknesses identified include high cost of redundancy[7], low business sophistication, and poor creative, knowledge and technology outputs. Comparatively, the top three economies in the region were Singapore, South Korea, and Hong Kong.

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[1] International Labour Organization (2021). ILO Monitor: COVID-19 and the world of work, 7th Edition.

[2] The phrase "The Great Reset" was first popularised as the title of Richard Florida's 2010 book, written in the aftermath of the 2008-09 Global Financial Crisis. In essence, it is the idea of leveraging on crises to reinvent and reboot. Crises set the stage for an overhaul of the economy, supported by technological advances which enable new ways of getting things done. This term has also been used by the International Monetary Fund (IMF) and World Economic Forum (WEF) in the context of discussing policy priorities for growth and the labour market in the post-pandemic recovery.

[3] Please refer to previous discussion in "Low-Skilled Foreign Workers' Distortions to the Economy" in the Bank Negara Malaysia 2017 Annual Report.

[4] In this article, labour productivity refers to the ratio of gross domestic product to the total number of hours worked.

[5] Whether immigration and foreign labour suppress employment and wage opportunities for local workers is a much-debated issue. At the forefront, in the context of the US, are George Borjas and David Card. Card (1990) found that the large influx of Cuban migrants during the "Mariel boat lift" had no negative effect on the wage trend for low-skilled workers in the US. In 2015, Borjas, using the same set of data, found that the drop in low-skilled wages in 1979-1985 was as much as 30 percent. Ultimately, findings on both sides are contentious as data relating to immigration studies is imperfect and sensitive to different configurations and comparisons. In the Malaysian labour market, the World Bank (2015) found the increase in migrant workers to be a net positive for GDP and wages overall, but reduces wages of low-skilled workers, or "least educated Malaysians", and existing migrant workers in the country.

[6] The link between wage and productivity in the Malaysian labour market is further detailed and examined in "Are Workers Paid Fairly? An Assessment of Productivity and Equity" in the Bank Negara Annual Report 2018.

[7] In accordance with the World Bank's "Doing Business" publication series, redundancy costs measure the cost of advance notice requirements and severance payments due when terminating a redundant worker, expressed in weeks of salary.
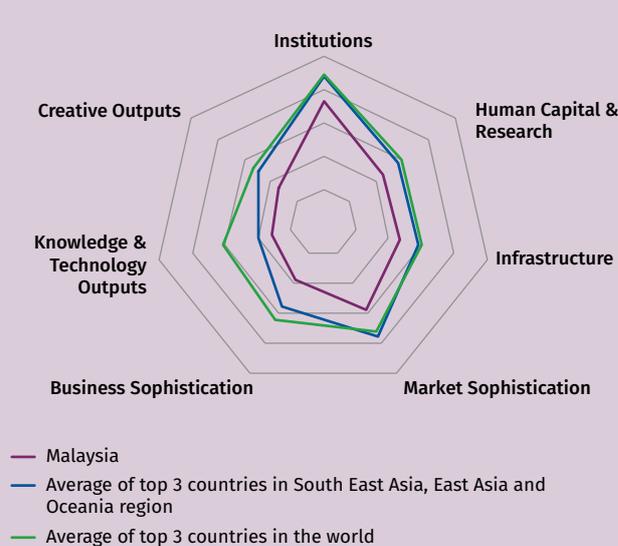
Chart 1: Productivity and Median Monthly Salaries and Wages by Industry, 2019
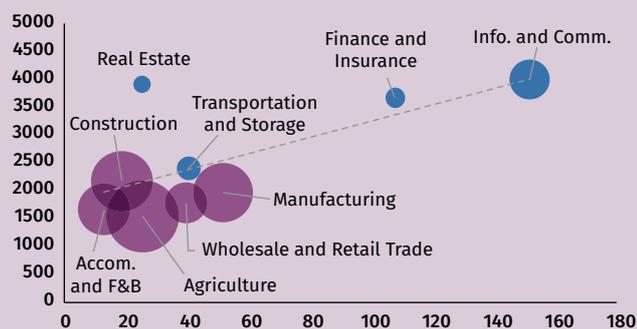
Note: X-axis - annual labour productivity (value added per hour worked, RM); Y-axis - median monthly salaries and wages of employees (RM); bubble size - share of non-citizen employed persons to total employment in respective sectors (%). Chart does not include *mining* sector (productivity: RM548.50 per hour worked; median salary and wage: RM3,968 per month; share of non-citizen workers: 5.6% of total employment in the *mining* sector).

Source: Bank Negara Malaysia estimates using data from Labour Productivity Statistics, Salaries & Wages Survey Report, and Labour Force Survey Report published by the Department of Statistics, Malaysia

Chart 2: Malaysia's Scores in the Seven Pillars of the WIPO's Global Innovation Index 2020

— Malaysia
— Average of top 3 countries in South East Asia, East Asia and Oceania region
— Average of top 3 countries in the world

Source: Global Innovation Index 2020 Report published by the World Intellectual Property Organization

Furthermore, in the Bloomberg Innovation Index 2021, Malaysia ranked 29th out of 60 economies, dropping two spots from the previous year. Malaysia performed below average in criteria such as productivity, pervasiveness of tertiary education, and researcher concentration. In comparison, South Korea and Singapore ranked first and second, respectively.

The second structural issue is the low creation of high-skilled[8] jobs, which has lagged behind the supply of graduates[9] (Chart 3). Malaysia's share of high-skilled job creation declined to an average of 27% in the period 2010-2019, from approximately 51% in the previous decade. This corresponds to 86,200 employment gains per annum between 2010-2019, while the number of graduates in Malaysia has increased by an average of 151,000 persons per annum over the same period.[10] These figures complement findings from a Khazanah Research Institute study[11], which showed that 95% of young workers in unskilled jobs and 50% in low-skilled non-manual jobs were over-qualified for the occupations they were in. The most recent Graduate Tracer Study by the Ministry of Higher Education (MOHE)[12] suggests a similar story, revealing that approximately one-third of graduates end up in mid-skilled and low-skilled occupations. Ultimately, this suggests that the economy has not been creating sufficient high-skilled jobs to absorb the number of graduates entering the labour force, leading to skill-related underemployment[13].

Third, there appear to be significant mismatches between skills required by industry and those that workers possess. According to an Organisation for Economic Co-operation and Development (OECD) study[14] on skills imbalances in Malaysia, employers reported shortages in communication skills (e.g. oral expression and writing), social skills (e.g. social perceptiveness and social orientation), and physical abilities (e.g. static strength and stamina). These findings are broadly consistent with hiring difficulties reported by Malaysian

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8   High-skilled occupations include major occupation groups like managers, professionals and technicians and associate professionals. Mid-skilled occupations include clerical support workers; service and sales workers; skilled agricultural, forestry, livestock and fishery workers; craft and related trades workers; and plant and machine operators and assemblers. Low-skilled occupations include elementary occupations.
9   Graduates refer to individuals aged 15 years and over with the highest certificate obtained from universities, colleges, polytechnic, recognised bodies or equivalent, where duration of study is at least two years. Graduates are classified into two categories, namely diploma graduates and degree graduates.
10 Authors' estimates based on statistics from the Labour Force Survey Report, 2019, Department of Statistics, Malaysia.
11 Khazanah Research Institute (2018). "The School-to-Work Transition of Young Malaysians".
12 Ministry of Higher Education (2019). Graduate Tracer Study.
13 According to the Department of Statistics, Malaysia (DOSM), skill-related underemployment is measured as those with tertiary education working in semi/mid-skilled and low-skilled occupations.
14 OECD (2019). "Reducing Skills Imbalances to Foster Productivity Growth of Malaysia," OECD Working Paper.

employers in the past, with an additional shortage of high-level cognitive skills (e.g. critical thinking, problem solving).[15] Additionally, separate insights from the Critical Occupations List (COL)[16] highlighted mismatches for occupational skills. Notably, occupations such as Information and Communication Technologies (ICT) managers, software developers, and electronic engineers have consistently appeared in every COL since it was first published in 2015, indicating continued demand and difficulty to fill these positions. Evidently, there is room for improvement in terms of ensuring the quality of the labour supply is on par with recruiters' wish lists. This is exacerbated by the reportedly passive collaboration between industry and education and training institutions in human capital development and recruitment initiatives[17].

Consequently, these three structural issues have resulted in weak labour market outcomes, especially for youth and graduates. Historically, the youth unemployment rate has consistently been two to three times higher relative to overall unemployment.[18] In 2019, the youth graduate unemployment rate remained elevated at 17.5%, with the overall youth unemployment rate at 10.5%. Meanwhile, the unemployment rate for graduates has been consistently higher than that of non-graduates in the past decade (Chart 4). With regards to income, there are potential signs of diminishing returns to education, as entry-level salaries and wages for graduates have remained concerningly low. In fact, starting salaries for graduates have been stagnant when taking into account corresponding movements in consumer prices. In 2018, a graduate would have received an average estimated starting salary of only RM1,983 in real terms, a slight decline from RM1,993 in 2010[19].

Chart 3: Labour Force Gains by Highest Certificate Obtained vs. Employment Gains by Occupations ('000 persons)
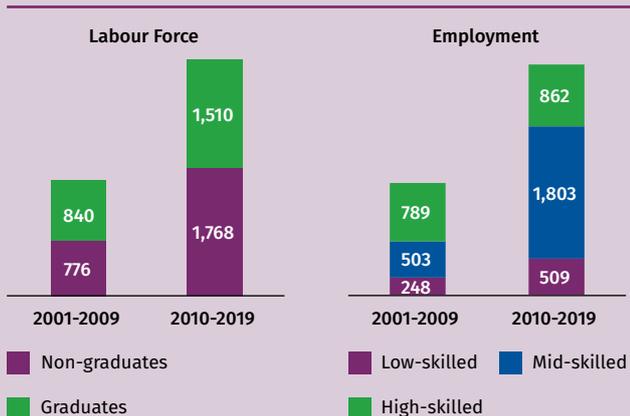
Source: Bank Negara Malaysia estimates using data from Labour Force Survey and Graduate Statistics Reports published by the Department of Statistics, Malaysia

Chart 4: Unemployment Rate of Graduates and Non-Graduates (% of respective labour force)
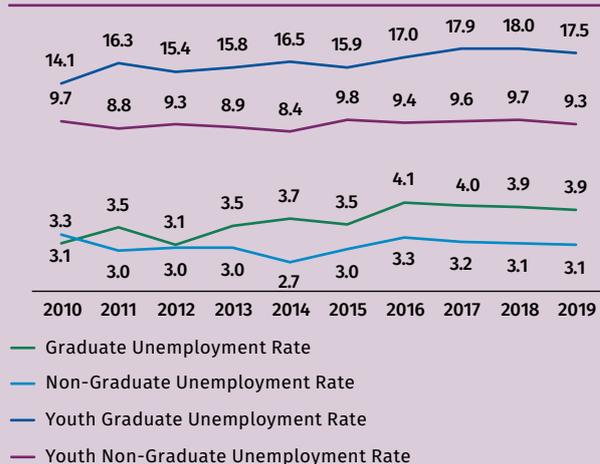
Source: Bank Negara Malaysia estimates using data from Labour Force Survey Report published by the Department of Statistics, Malaysia

Part II: Impact of COVID-19 on the Labour Market

The movement and labour restrictions implemented to contain the pandemic resulted in a sharp and unprecedented deterioration in economic activities and labour market conditions. High-frequency data from the Employment Insurance System (EIS), showed that jobless claims increased in March and peaked in June 2020, amid a drop in the job placement rate[20] (Chart 5). Official Labour Force Survey (LFS) figures confirmed

[15] World Bank (2014). "Boosting Trade Competitiveness," Malaysia Economic Monitor. Based on the report, firms consistently pointed out a deficit in desirable soft skills among fresh graduates, particularly communication skills (81% of surveyed firms), creative or critical thinking (56%), analytical skills (51%), problem solving (49%), and ability to work independently (47%).
[16] The COL is collated and updated by a committee led by TalentCorp on an annual basis. It is a set of occupations in demand that identifies skills imbalances across 18 economic sectors in Malaysia.
[17] Bank Negara Malaysia (2016). "Youth Unemployment in Malaysia: Developments and Policy Considerations," Annual Report. The analysis quoted insights from a 2014 TalentCorp survey which reported that 34% of companies have never collaborated with universities and 53% of firms surveyed have never engaged with career centres while recruiting for new candidates.
[18] This is not a phenomenon unique to Malaysia. Singapore, Vietnam, Korea and US also recorded youth unemployment rates that are two to three times higher than the overall unemployment rate.
[19] Authors' estimates based on findings from the MEF Salary Surveys for Executives and Non-Executives.
[20] Placement rate refers to the number of new job placements per 100 jobless claims. New job placements are proxied by Early Re-employment Allowance (ERA) claims, whereas jobless claims are measured using Job Search Allowance (JSA) claims. Both allowances are provided as benefits under the EIS by the Social Security Organisation (SOCSO).

Chart 5: Placement Rates and Jobless Claims

Jobless claims (persons) — Placement rate (% of jobless claimants)
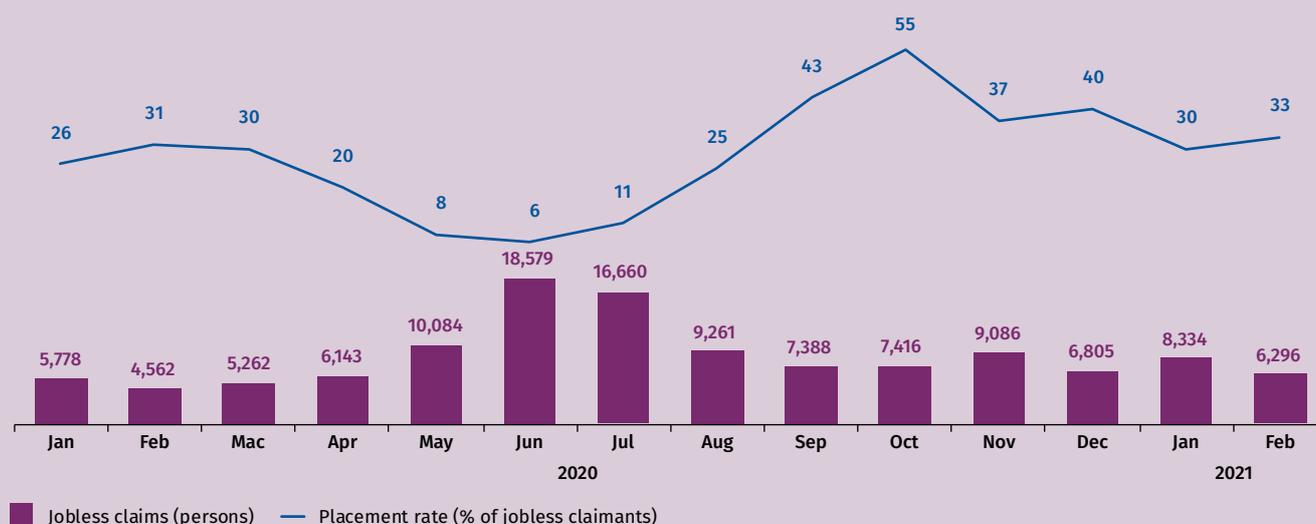
Source : Employment Insurance System data from the Social Security Organisation

that employment declined significantly from 15.1 million persons in 2019 to 14.9 million persons in the second quarter of 2020, as workers were laid off and did not have their contracts renewed while small businesses were impacted. In the same quarter, the unemployment rate increased to 5.1% (791,800 persons), the highest recorded since the commodity price crisis in the mid-1980s. This translated to an increase of 283,600 unemployed persons (2015-2019 increase: +57,900 persons), despite the decline in labour force participation during the quarter, which partially offset the rise in unemployment levels. Total hours worked per worker also recorded a reduction of 27.3%, leading to a significant increase in (time-related) underemployment.[21] Consequently, underemployed workers as a share of the total labour force increased from 1.2% (191,100 persons) in 2019 to 2.6% (413,500 persons) in the second quarter of 2020[22] (2017-2019 average: 1.4%). Both the higher unemployment and underemployment rates resulted in a substantial rise in the underutilised labour force to 7.7%[23]. Altogether, these developments led to workers losing part or all of their income, as reflected in the first contraction of quarterly services and manufacturing wage growth over the past eight years (Chart 6).
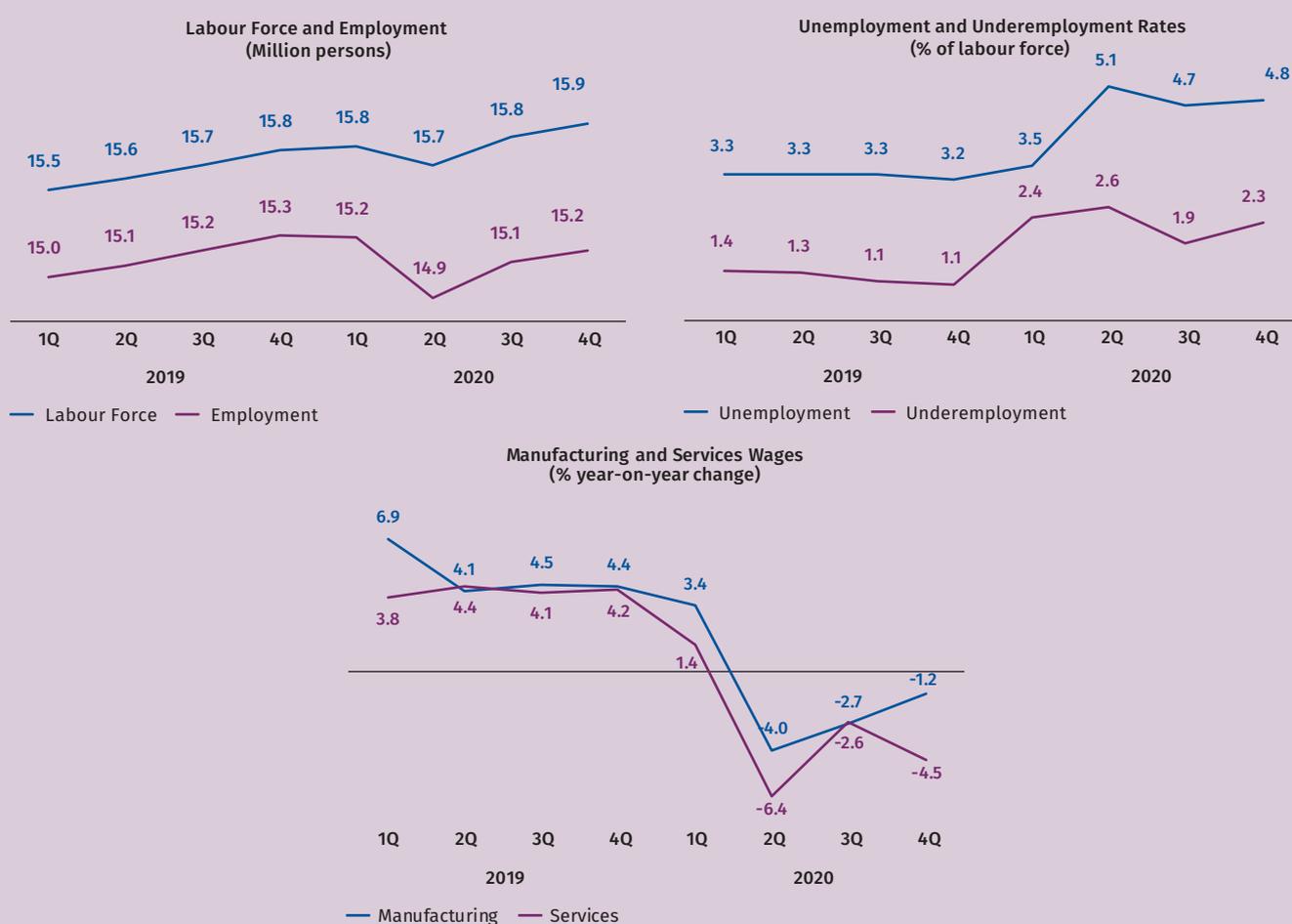
A partial recovery commenced as the restrictions on movements and labour were eased and economic activity resumed during the Conditional and Recovery Movement Control Order (CMCO & RMCO, respectively) periods in May to August 2020. This was mainly driven by the recovery in private sector employment, as standard employment registered a net gain of around 256,300 persons by the third quarter of 2020, and underemployment recovered as workers returned to full-time work during the quarter. EIS data showed a decline in jobless claims amid a rise in the job placement rate between June to October 2020, as layoffs were halted and workers were re-employed following a brief uptick in domestic travel. The re-impositions of CMCO 2.0 in mid-October 2020 and Movement Control Order (MCO) 2.0 in early January 2021, however, led to a further weakening of labour market conditions in the fourth quarter of 2020 and in the first quarter of 2021. This coincided with a modest rise in jobless claims amid a deterioration in job placement rates over November 2020 to January 2021.

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[21] According to DOSM, time-related underemployment is defined as relating to those who are employed less than 30 hours per week (due to the nature of their work or because of insufficient work) and are able and willing to accept additional hours of work.

[22] Quarterly data on time-related and skill-related underemployment can be obtained from the Labour Market Review and Quarterly Labour Force Survey Report published by DOSM.

[23] Underutilisation is a broader concept of untapped capacity in the labour market. In this article, the underutilisation rate is measured as the sum of the number of persons unemployed and underemployed, expressed as a percentage of the labour force.

Chart 6: Selected Labour Market Indicators

Labour Force and Employment
(Million persons)

Labour Force: 15.5, 15.6, 15.7, 15.8, 15.8, 15.7, 15.8, 15.9

Employment: 15.0, 15.1, 15.2, 15.3, 15.2, 14.9, 15.1, 15.2

1Q 2Q 3Q 4Q (2019) 1Q 2Q 3Q 4Q (2020)

— Labour Force — Employment

Unemployment and Underemployment Rates
(% of labour force)

Unemployment: 3.3, 3.3, 3.3, 3.2, 3.5, 5.1, 4.7, 4.8

Underemployment: 1.4, 1.3, 1.1, 1.1, 2.4, 2.6, 1.9, 2.3

1Q 2Q 3Q 4Q (2019) 1Q 2Q 3Q 4Q (2020)

— Unemployment — Underemployment

Manufacturing and Services Wages
(% year-on-year change)

Manufacturing: 6.9, 4.1, 4.5, 4.4, 3.4, -4.0, -2.7, -1.2

Services: 3.8, 4.4, 4.1, 4.2, 1.4, -6.4, -2.6, -4.5

1Q 2Q 3Q 4Q (2019) 1Q 2Q 3Q 4Q (2020)

— Manufacturing — Services

Source: Labour Force Survey Report, Manufacturing Statistics, and Services Statistics published by the Department of Statistics, Malaysia

While overall employment conditions improved slightly from the trough in the second quarter of 2020, wage conditions remained weak, and the pandemic continued to have a negative impact on vulnerable segments of the labour market:

i) **Non-standard employment continues to suffer from slower demand conditions and further restrictions**
Although standard employment has begun to recover from the crisis, for non-standard workers[24] (such as the self-employed, gig workers, and owners and employees of small and family-owned businesses), employment has yet to see a rebound (Chart 7). In the second quarter of 2020, non-standard employment recorded a steep decline of around 252,000 persons and continued to experience a net decline in employment for the remainder of the year. The continued job losses stemmed from the concentration of these workers in *high-touch* sectors that remained affected by the pandemic, containment measures, as well as the "New Normal" standard operating procedures (SOPs) to ensure physical distancing in social spaces and business premises. The more severe impact on non-standard workers is also partially due to the fact that workers in non-standard employment arrangements are more likely to belong to micro and small businesses, which are more vulnerable to economic shocks relative to larger enterprises. Moreover, weak domestic demand conditions contributed to more limited employment and income opportunities for this segment of the workforce. They are also made more vulnerable due to their limited access to social protection and exclusion from coverage of social insurance programmes.

[24] In this article, non-standard employment is proxied by three categories of employment: own account workers, unpaid family workers, and employers. This is guided by ILO's examples of "diverse employment arrangements which deviate from standard employment", including temporary employment, multiparty employment relationships, dependent self-employment, and features prominently in the gig economy. On the other hand, standard employment refers to salaried employment that is continuous, with a direct relationship between employer and employee.

ii)   Younger workers face very challenging labour market conditions immediately upon entry into the workforce

The youth unemployment rate, which has already been elevated for some time, increased from 10.9% in 2019 to 12.5% during the MCO in the second quarter of 2020, and remained elevated for the rest of the year (Chart 8). The lack of recovery in the youth segment alludes to relative disadvantages that younger workers face in the labour market. Firstly, youths tend to have a lack of work history, experience and career networks, and thus tend to have a harder time finding suitable employment, relying more on job-matching mechanisms like job search portals, career centres, and employment services. Second, younger workers may not have job-ready skills and require higher investments in initial training, making them less attractive to employers.[25] While these factors are already a challenge in normal times, fewer job opportunities, lower vacancies and higher financial pressures on businesses during a crisis make finding and holding down jobs significantly more difficult for younger workers. In addition, youths tend to hold employment in the mid-skilled occupations (72% of youth were employed in mid-skilled occupations in 2019; adults: 58%), while the pandemic has led to a net loss of around 176,900 mid-skilled jobs. Moreover, new graduates who were trained in *high-touch and tourism-related services* sectors may also find it more challenging to gain employment in industries less affected by the pandemic, especially in an environment where there are more experienced jobseekers in the labour market. Prolonged unemployment among the youth segment gives rise to a host of issues, including structural skills mismatches and skills atrophy, ultimately weighing on their long-term income prospects. Empirical evidence from previous studies in other countries shows that for fresh graduates, entering the labour market during a downturn can reduce earnings for up to 10 years post-graduation.[26] This reinforces the notion that closer policy focus is warranted to limit long-term scarring effects, particularly on the youth.

Chart 7: Total, Standard and Non-Standard Employment Indexed Levels (1Q 2019 = 100)

Source: Bank Negara Malaysia estimates using data from Labour Force Survey Report published by the Department of Statistics, Malaysia

Chart 8: Unemployment Rate by Age Segment (% of respective labour force)
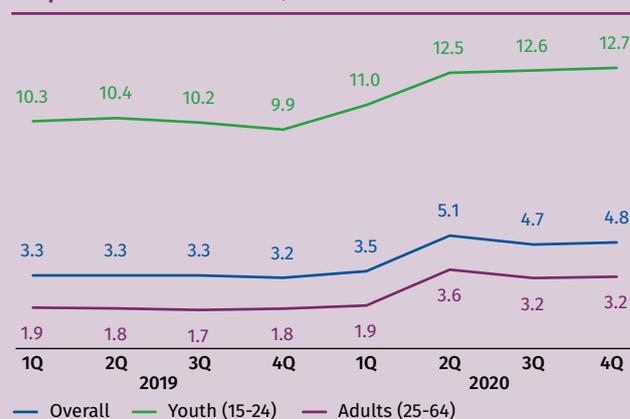
Source: Bank Negara Malaysia estimates using data from Labour Force Survey Report published by the Department of Statistics, Malaysia

iii)   Working women are disproportionately impacted by the pandemic

The downturn triggered by the pandemic has led to larger employment losses for women compared to men. This is in contrast to previous crises in Malaysia's history. Notably, in 2020, women's employment registered a negative growth rate of 0.1%, while men's employment registered a positive growth of 0.3% (Chart 9). While men's employment levels recovered by the fourth quarter of 2020, women's employment levels have yet to recover.[27] Furthermore, the women's labour force participation rate, which has historically been significantly lower than that for men (2010-2019 average for women: 52.5%; Men: 80.3%),

[25]   Morsy, H. (2012). "Scarred Generation". Finance and Development, IMF.
[26]   Kahn, L B (2010). "The long-term labor market consequences of graduating from college in a bad economy," Labour Economics 17(2): 303-316; Genda, Y, A Kondo and S Ohta (2010). "Long-term effects of a recession at labor market entry in Japan and the United States", Journal of Human Resources 45(1): 157-196., and; Oreopoulos, P, T von Wachter, and A Heisz (2012). "The Short- and Long-Term Career Effects of Graduating in a Recession", American Economic Journal: Applied Economics 4(1): 1-29
[27]   Employment levels for women recorded 5,888.6 thousand persons in the fourth quarter of 2020, versus 5,871.0 thousand in 2019. For men, employment levels were 9,273.1 thousand persons in the fourth quarter of 2020, and 9,202.4 thousand in 2019.

decreased significantly during the onset of the crisis and stagnated after restrictions were lifted (Chart 10). This unwinds the steady increases observed over the past few years, and if unaddressed, may set back the progress of encouraging higher labour force participation among women. These patterns arise in the current crisis due to two factors: (i) Higher representation of women in *consumer-facing, contact-intensive services* subsectors[28]; and (ii) The provision of familial and childcare needs brought on by closure of schools and care facilities being largely borne by women[29]. Left unattended, Malaysia risks losing out on benefits from narrowing gender gaps in the labour market, including a significant boost to GDP, higher productivity, and higher incomes overall.[30]

Chart 9: Difference in Percentage Points between Women's and Men's Employment Growth, Malaysian Crises from 1986 to 2020
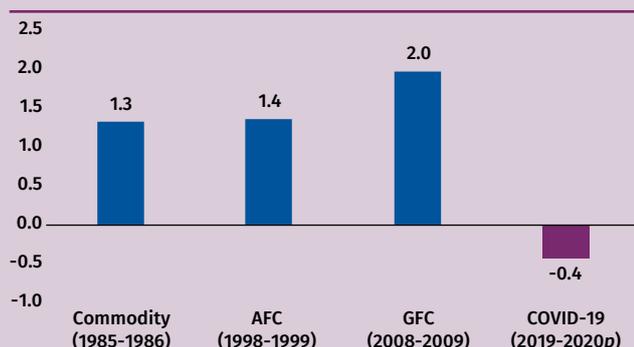
p Preliminary

Note: *AFC* Asian Financial Crisis
      GFC Global Financial Crisis

Source: Bank Negara Malaysia estimates using data from Labour Force Survey Report published by the Department of Statistics, Malaysia

Chart 10: Women's Labour Force Participation Rate from 1Q 2018 to 4Q 2020 (% of working-age women)

Source: Labour Force Survey Report published by the Department of Statistics, Malaysia

While economic activity is expected to recover once the pandemic is contained, the recovery is likely to be uneven across sectors. COVID-vulnerable sectors, particularly *high-touch, high-contact, and tourism- and travel-related services* subsectors, are expected to recover at a slower pace, having been hit hard by repeated disruptions throughout 2020. The uneven recovery across sectors would, in turn, likely increase long-term unemployment in the near-to-medium term. This presents a risk to the labour force, as longer and repeated unemployment spells can worsen the degree of scarring on skills and incomes[31]. Taking a longer-term view, the COVID-19 pandemic also potentially induces further structural shifts in the economy and the labour market, particularly in view of accelerated adoption of technology, digitalisation, and organisational transformation. There are concerns that these shifts may result in a slower-than-expected recovery in employment following the crisis, leading to persistent unemployment, with accompanying impact on income and wages. In labour economics, this is often referred to as "hysteresis", or the "jobless recovery" phenomenon.

[28] Women constitute 53% of workers employed in *accommodation, food and beverage services activities* (share of women employed in the economy overall: 39% of total employment). Source: DOSM (2019). Labour Force Survey Report.

[29] In 2019, 3,023.1 thousand persons cited housework and family responsibility as their reason for remaining out of the labour force and not seeking work; 97.4% of these were women. Source: DOSM (2019). Labour Force Survey Report.

[30] In the long run, with the removal of economic barriers for women, Malaysia's income per capita could grow by 26.2%, translating into an average annual income gain of RM9,400. Source: World Bank (2019). "Breaking Barriers: Toward Better Economic Opportunities for Women in Malaysia," The Malaysia Development Experience Series.; Lagarde, C and J D Ostry (2019). "When more women join the workforce, everyone benefits. Here's why," World Economic Forum.

[31] Arulampalam, W. (2001) using data from the British Household Panel Survey, found that an unemployed individual, when returning to work, will face a ~5.7% wage penalty during the first year of employment. This increases to ~13.5% during the next three years. Subsequent spells of unemployment also carry a "wage scar", albeit not as large. Huckfeldt, C. (2016) documented that large and persistent earning losses from retrenchment were concentrated among workers who switched occupations after job displacement, which occur more frequently during recessions. In a survey of OECD countries, Quintini and Venn (2013) also report workers' earnings tended to fall significantly in the years following job losses, although the effect differs significantly across countries, gender, age groups and educational attainment.

Jobless Recovery: What Is It and What Does It Look Like?

Definition

A jobless recovery is a situation where economic recovery occurs without a corresponding improvement in employment. Formally, it can be defined to occur when employment growth significantly lags behind output after a recession[32], also resulting in elevated unemployment long after the economic recovery.

A well-known case of a jobless recovery is in the US labour market following the 2008-2009 Global Financial Crisis (GFC), where the rebound in US output following the crisis was accompanied by a tepid recovery in employment. While quarterly output recovered to pre-crisis levels within two years from the trough, it took five years for employment and seven to eight years for the unemployment rate to return to pre-crisis levels (Chart 11). Discussion on jobless recoveries often revolve around the following three factors: i) Efficiency improvements; ii) Job polarisation[33], and; iii) Imperfect labour mobility.

Chart 11: US GDP, Employment and Unemployment Trends During the GFC (4Q 2007 = 100)
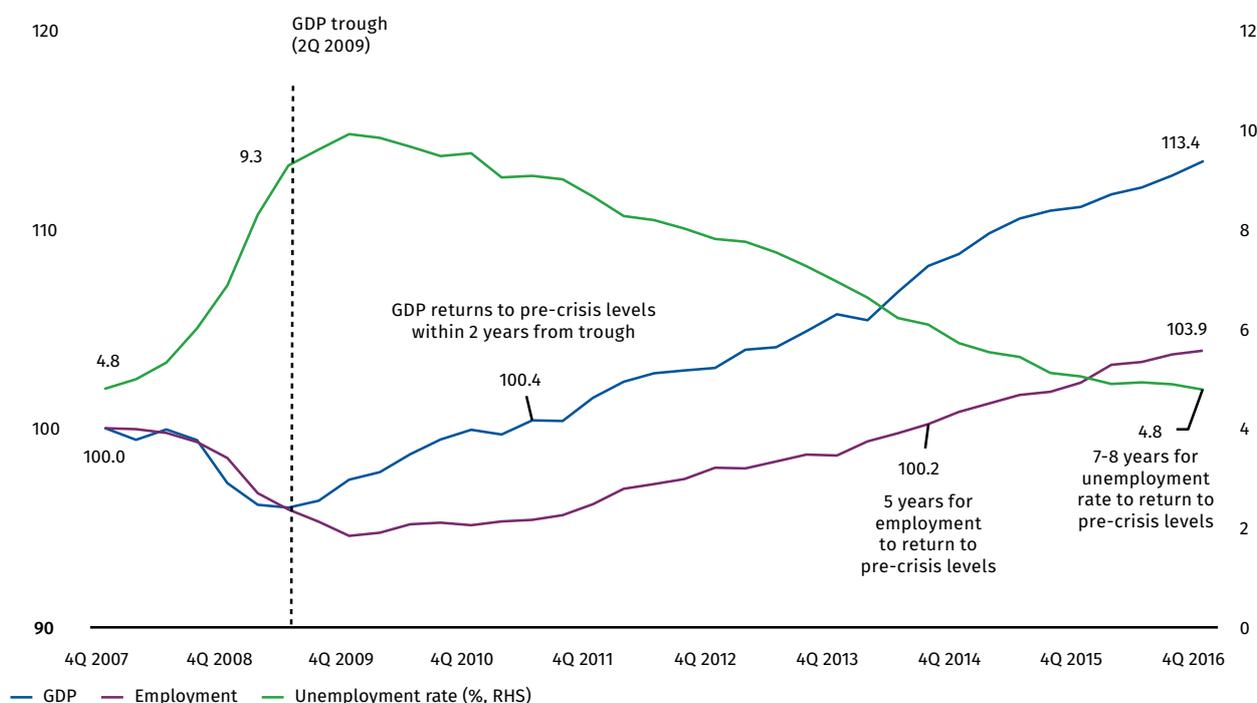
Source: Bank Negara Malaysia estimates using data from CEIC

Efficiency improvements: Changes in production modes and processes

Major recessions have instigated changes in the way companies organise themselves, produce goods, and provide services. In literature, this is dubbed as the "cleansing effect" of recessions[34], which stems from the Schumpeterian concept of "creative destruction"[35]. During a recession, outdated processes and

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[32] Schreft, S L and A Singh (2003). "A Closer Look at Jobless Recoveries", Federal Reserve Bank of Kansas City, Economic Review vol. 88.
[33] The term "job polarisation" was first coined by Goos and Manning (2007). It is the phenomenon in which the share of employment in occupations in the middle of the skill distribution declines, while increasing on the lower and upper ends.
[34] This term was coined by Caballero and Hammour (1994) in their paper "The Cleansing Effect of Recessions", which investigates the response of industries to cyclical variations in demand within a framework of a creative destruction model.
[35] "Creative destruction" refers to the process of incessant innovation in which new production units replace outdated ones. Joseph Schumpeter popularised the concept, and originally described creative destruction as innovations in the manufacturing process that increase productivity.

production units with inferior technology are more easily scrapped in favour of newer, more efficient ones. This intertemporal reallocation towards productivity-enhancing activities could result in significant productivity gains over the medium to long term. To the extent that these efficiency enhancements stem from the substitution of workers with machinery or technology, significant shifts in production methods and processes may lead to slower employment growth following a crisis[36].

Job polarisation: Shrinking opportunities for mid-skilled occupations

Job polarisation refers to increasing concentration of employment in the highest- and lowest-skilled occupations, as job opportunities in mid-skill occupations disappear following structural shifts in the economy. Routine tasks tend to be concentrated in mid-skilled occupations[37], which are thought to be particularly susceptible to automation and technological replacement[38]. While this phenomenon has been observed steadily over the past few decades, recessions may also result in an acceleration of permanent job destructions in the mid-skilled occupations. Job polarisation has been cited as another potential contributing factor to a jobless recovery, given that mid-skilled jobs make up the largest portion of the labour force in most economies.

Imperfect labour mobility: Re-allocation of labour towards growth sectors

Recessions are typically associated with a reallocation of resources in the economy (i.e. capital and labour), from low-productivity to high-productivity activities and sectors. While the reallocation of resources can be a positive feature of the economy over the long term, in the short run, the reallocation of labour across sectors could be disruptive and costly to resolve, both in terms of time and resources. This is especially the case when the skills that workers have accumulated from previous occupations in a contracting sector do not match skills and occupations in demand in expanding sectors. Resolving these frictions during a crisis may take significantly more time (to find occupations that fit current skill sets, due to more limited employment opportunities), or resources (to cater to large-scale re-skilling or up-skilling programmes, amid other urgent priorities), resulting in slower employment growth following a crisis[39].

Malaysia's Experience

While the current health crisis has resurfaced concerns over the prospect of a jobless recovery, historically, Malaysia has never experienced such a phenomenon. During the Asian Financial Crisis (AFC), for example, the unemployment rate increased to 3.2% in 1998 (1997: 2.4%), but employment levels did not suffer a significant decline (1997: 8.57 million persons; 1998: 8.60mn; 1999: 8.84mn). During the GFC in 2008-2009, the Malaysian labour market exhibited similar developments; employment never dipped significantly below pre-crisis while the unemployment rate recovered relatively quickly, as labour market conditions rebounded strongly following robust growth post-GFC (Chart 12).

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[36] Automation affects employment through two channels, the "productivity effect" and the "reinstatement effect". The former involves displacement of labour due to productivity-enhancing technologies; the latter involves the creation of new tasks in which labour has a comparative advantage. Source: Acemoglu, D and P Restrepo (2019). "Automation and New Tasks: How Technology Displaces and Reinstates Labour," Journal of Economic Perspectives, Vol. 33, No. 2, pp. 3-30.

[37] While routine tasks exist through out the skills distribution, these are characteristics of many mid-skilled jobs, such as bookkeeping, clerical work, and repetitive production and monitoring. Because the core tasks of these jobs follow precise, well-understood procedures, they can be codified in computer software and performed by machines. Source: OECD (2020). "Worker Security and the COVID-19 Crisis," Employment Outlook; Keister, R and P Lewandowski (2016). "A Routine Transition? Causes and Consequences of the Changing Content of Jobs in Central and Eastern Europe," IBS Policy Paper 05/2016.

[38] Jaimovich, N and Siu H (2018). "Job Polarization and Jobless Recoveries," National Bureau of Economic Research Working Paper.

[39] Aaronson et al (2004). "Can sectoral reallocation explain the jobless recovery?" Chicago Fed, Economic Perspectives, 2004, 2nd Quarter; Borio et al (2015). "Labour reallocation and productivity dynamics: financial causes, real consequences," BIS Working Papers; Bartelsman et al (2019). "Labour reallocation in Recession and Recovery: Evidence for Europe," National Institute Economic Review.

Chart 12: Malaysia's GDP, Employment and Unemployment Trends During the GFC (4Q 2007 = 100)
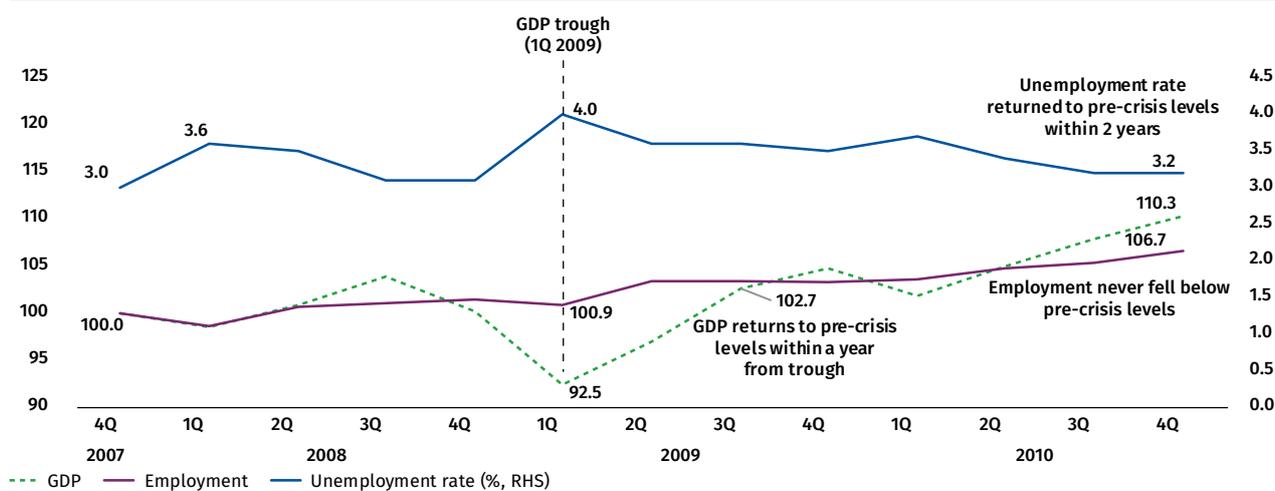
Source: Bank Negara Malaysia estimates using National Account and Labour Force Survey Report published by the Department of Statistics, Malaysia

This underscores the importance of policy intervention in reducing the severity of economic shocks to the labour market. For Malaysia, the impact of the pandemic was mitigated by a slew of measures to soften the economic burden of lockdowns on households, businesses and workers. Key policies under *PRIHATIN*, *PENJANA*, Budget 2021, *PERMAI*, and *PEMERKASA* packages include the Wage Subsidy Programmes (WSP 1.0, 2.0 and 3.0), increased access to the Micro Credit Scheme and micro-SME special grants, as well as enhanced hiring incentives under the *PENJANA Kerjaya* initiative. Continued policy support remains important to prevent economic and labour market scarring while the economy recovers from the pandemic.

Part III: Policy Priorities and Imperatives

In November 2020, the Government formed the National Employment Council (NEC), which aims to coordinate and harmonise policies related to the labour market, with job creation as a key focus area. This is a welcome effort to strengthen prospects for an entrenched recovery, while ensuring effective implementation of key Government measures in the labour market. Among others, key initiatives outlined by the NEC include a long-term, strategic plan for the creation of employment opportunities, covering issues related to skills and labour shortages in key sectors, and equitable opportunities for vulnerable groups.

Notwithstanding the swiftness of the Government's response to the current crisis, Malaysia must not lose sight of the necessity to implement important long-term structural reforms. A holistic labour market policy framework could be considered, to guide policymakers in building a robust labour market ecosystem (Diagram 1).

Broadly, this framework encompasses policies to catalyse economic transformation, enhancing skills, training and education systems, strengthening Active Labour Market Policies (ALMPs), and promoting inclusive labour market outcomes. These policies should be supported by key enablers such as active private sector participation, comprehensive labour market data, and appropriate legal frameworks and administrative capabilities. Drawing from this policy paradigm, the following three policy strategies could be considered.

First, there is an urgent need to introduce policies and economic reforms that would ultimately lead to the higher creation of and demand for high-skilled and knowledge-based workers. At the top of the list, a holistic review of the current investment policy framework and incentives ecosystem is critical to reinvigorate investments. In this respect, adopting a clear vision and strategic direction is key. In the Bank's 2019 Economic and Monetary Review, the article on "Securing Future Growth through Quality Investments" outlined the "National Investment Aspirations" (NIAs) - five key criteria for quality investments which are aligned with

Diagram 1: Four Main Pillars of the Labour Market Policy Framework

Pillar 1
Economic Transformation
- Sustainable growth
- Quality investment to expand high-skilled jobs
- Reduce reliance on foreign workers

Pillar 2
Skills and Education
- Skills assessment & anticipation
- National education system
- TVET and apprenticeship

Pillar 3
Active Labour Market Policies
- Training, re-skilling and up-skilling
- Public employment services (PES)
- Employment subsidies/incentives

Pillar 4
Inclusiveness
- Comprehensive social security coverage
- Entrepreneurship
- Decent jobs*

Supported by key enablers :

Meaningful private sector participation

Information, technology and digital tools

Administrative capability and enabling legal framework

* Jobs that meet conditions of security, dignity and equality

Note: Adapted from ILO's framework of labour market policies in response to the COVID-19 pandemic

Source: Bank Negara Malaysia

overarching national development goals[40]. These entail investments that: i) Increase economic complexity; ii) Create high-value jobs; iii) Extend domestic industrial linkages; iv) Develop new and existing clusters, and; v) Improve inclusivity. Moreover, a forward-looking, comprehensive and coherent plan to reduce reliance on foreign workers would nudge industries to gradually adjust and shift away from the low-cost production model. These reforms would ultimately enable the economy to transition into high-value production and more sophisticated and complex economic activities, and generate high-skilled jobs that command higher wages. Furthermore, the increased demand for high-skilled workers would ease the current excess of graduates in the labour market.

Second, efforts to enhance skills and facilitate the reallocation of workers to more resilient, productive, and high-growth areas must be intensified, with more focus towards the "future of work"[41]. These involve a broad range of policies to enhance the education and training ecosystems, as well as initiatives to improve the matching mechanisms in the labour market. This must include a systematic and sustained strategy to facilitate the continuous and constructive participation of industry, academia, and civil society in the design, formulation and implementation of labour, skills, and education policies[42]. In advanced economies such as Germany, Australia, and South Korea, as well as neighbouring economies like Singapore, policymakers, industry members, academics, and community leaders collaborate within Councils to identify skill needs, design frameworks to bring skills and qualifications up to standards, update academic and training curricula, and generally promote the enhancement of knowledge and skill levels of the workforce. This is critical for the workforce to meet evolving industrial needs and ongoing economic challenges. The permanent establishment of such a platform for collaboration in Malaysia would greatly aid current efforts to enhance the national education system, reform the national training ecosystem, and ensure strategic development plans are aligned with the evolving needs

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[40] For further details on quality investments in activities that meet the NIAs, diversifying into more complex products , and employing a mission-based investment approach, please refer to the box article titled "Innovation Malaysia: Towards Higher Quality Growth in a Post Pandemic Future"

[41] According to the OECD, the "future of work" revolves around digitalisation and globalisation, which spark radical shifts in how we live and work.

[42] Among OECD countries, about 75% of social partners and 30% of ministries cited lack of consultation with all relevant stakeholders as a significant barrier to conducting skill needs assessments. Source: OECD (2016). "Getting Skills Right: Assessing and Anticipating Changing Skills Needs".

of industry and community. In addition, enhancements to the implementation of ALMPs and capabilities of national employment services would further facilitate the adjustment of firms and workers to changing labour market conditions.

Active Labour Market Policies (ALMPs) in Malaysia

Definition

Active Labour Market Policies (ALMPs) are government policies that intervene in the labour market to help jobseekers (unemployed, self-employed, and employed) find re-skilling and up-skilling opportunities, apprenticeship, vocational and skills training, and ultimately work. The four main features of ALMPs are: (1) Assistance in job search process; (2) Recommendation of training and apprenticeship schemes; (3) Wage subsidies, public employment services, and public works programmes; and (4) Provision of support to micro-entrepreneurs and the self-employed.

As pointed out recently by the World Bank[43], even though Malaysia has made significant progress in its skills development system since the 2000s, there exists duplication and fragmentation in Malaysia's ALMPs. Specifically, implementation and deployment are spread over multiple agencies, leading to inefficiency and high administration costs. As a result, this manifests in relatively lower levels of programme spending and fewer beneficiaries. This fragmentation in the ALMP system also results in a lack of overarching strategy and importantly, weak linkages between training and employment support with the needs of industry.

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[43] World Bank (2020). "Surviving the Storm," Malaysia Economic Monitor.

Third, initiatives to enhance labour market resilience should be intensified, beginning with closing gaps in, and enhancing access to, social security and insurance. The COVID-19 pandemic has highlighted the gaps in coverage of social protection in many countries. Of note, large segments of women, self-employed, and younger workers have low access to employment insurance, or social savings. There are also gaps in the coverage of training, re-skilling and up-skilling programmes. For instance, in Malaysia, training schemes for the self-employed and gig economy workers are not well-established or widely accessible. In a recent economic survey, OECD reported that older adults, workers in micro-enterprises, workers in the informal sector and women have limited access to training opportunities.[44] Thus, while workers in standard employment were provided with temporary income relief during the depths of the pandemic, many other workers were unable to access these funds and training schemes. In addition, specialised funds for vulnerable segments were limited, and information on

Table 1: Selected Key Policy Strategies and Priorities

Encourage demand for high-skilled workers	Improve training and matching mechanisms	Enhance labour market resilience
Reinvograte investments through NIAs	Enhance education and training ecosystems	Close gaps in social security and insurance programmes
Transition into high-value production	Secure cohesive participation of industry, academia, and civil society	Extend coverage of re-skilling and up-skilling programmes
Reduce reliance on foreign workers	Enhancement of ALMPs	Consolidate social protection programmes to widen accessibility

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[44] OECD (2019). OECD Economic Surveys: Malaysia.

social protection programmes is fragmented and difficult to navigate.[45] These programmes also have different eligibility criteria under the charge of distinct Ministries and agencies. While the Government recognised these gaps and provided specialised assistance early on in the pandemic, broadening coverage and enhancing the reach of the social protection infrastructure to vulnerable segments would greatly increase the resilience of the labour force to future economic shocks.[46]

Conclusion

This article discussed key structural issues inhibiting the Malaysian labour market. First, there is an over-reliance on the low-cost production model. Second, the supply of fresh graduates far outpaces the creation of high-skilled jobs. Third, there are significant skills mismatches between graduates and industry needs. In the presence of these long-standing structural issues, the impact of COVID-19 is likely to exacerbate these problems. In addition, changes brought about by the pandemic are likely to accelerate the impact of technological advancement, with potential implications on the jobs recovery coming out of the crisis, as well as the types of jobs created in the future.

The health and economic crisis brought on by the COVID-19 pandemic can be viewed as a turning point - an opportunity to reset and build stronger fundamentals for the economy following the crisis. Over the long term, economic policies should be geared towards creation of high-skilled, high-paying jobs, with complementary focus on advancing skills enhancement, enhancing search and matching mechanisms in the labour market, and promoting more inclusive outcomes for vulnerable segments of the labour market. Current efforts by the Government to enhance the labour market statistics landscape are also welcome, as comprehensive, granular, and timely data on developments in the labour market is key in enabling quality analysis and the formulation of impactful policies.

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[45] These include social safety net policies (e.g. *Bantuan Prihatin Rakyat*, MyGovernment), social insurance policies (e.g. *perlindungan tenang*, SOCSO), and ALMPs (e.g. platforms to facilitate job search and gig workers, like MYFutureJobs and MDEC's GLOW Programme; the training schemes under Human Resources Developement Fund (HRDF)/*PENJANA).

[46] For further reading, please refer to the box article entitled "A Vision for Social Protection in Malaysia" in this report.

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A Vision for Social Protection in Malaysia

Social protection as a safeguard against socioeconomic vulnerabilities

Social protection, broadly, includes all public policies designed to provide protection for individuals against economic and social distress. There are three types of policies that fall under social protection,[1] namely, social safety nets, social insurance, and active labour market policies (ALMPs).[2] Besides reducing society's vulnerabilities to various economic risks, social protection policies also serve as important macroeconomic stabilisation tools.

The COVID-19 pandemic and the economic crisis that ensued have damaged people's lives and livelihoods around the world. In response to the health and economic crises, most governments around the world have strengthened their social protection policies. Much-needed support was channelled to the most vulnerable groups. The unprecedented scale and impact of the pandemic, however, have pushed current social protection systems in many countries to their limits, necessitating ad-hoc fiscal support to supplement them.[3]

Malaysia's social protection system was not spared from these challenges. The pandemic has unearthed deep structural issues surrounding the prevailing social protection framework in the country. Critical issues include, fragmented and overlapping programmes,[4] gaps in overall coverage, inadequacy of programmes to comprehensively address socioeconomic vulnerabilities,[5] and fiscal challenges. Implementing reforms to narrow these gaps is therefore vital to address these fundamental issues that affect a sizeable proportion of our population and residents of this country (Diagram 1). This would strengthen the foundations to future-proof the social protection system and help individuals secure access to better opportunities to protect and enhance their well-being. Reforms would also enhance the counter-cyclicality of policy support for the economy

Diagram 1: Socioeconomic vulnerabilities faced by Malaysians
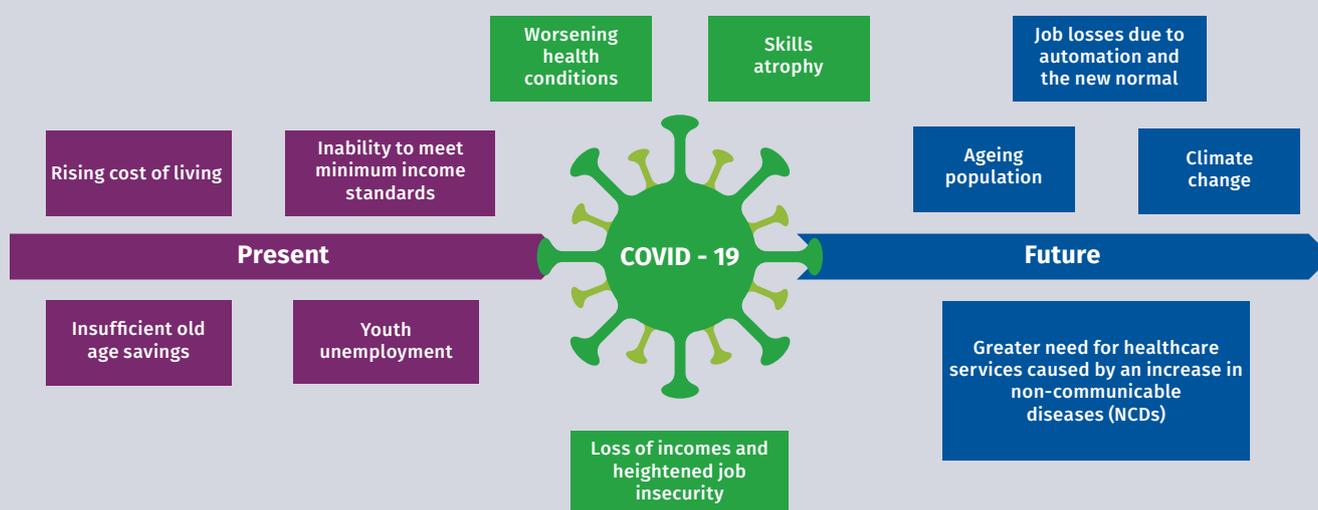
Source: Bank Negara Malaysia

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[1] Refer to Table 1 in the mini box on the global evolution and landscape of social protection.
[2] Active labour market policies (ALMPs) refer to all social spending (other than on education) aimed at enhancing the employability of workers or increasing their earnings capacity (simplified definition based on the Organisation for Economic Co-operation and Development (OECD) and International Labour Organization (ILO)).
[3] According to the United Nations (UN), in response to the COVID-19 impact, over 1,400 social protection measures have been deployed, many of which are short-term measures (UN Special Rapporteur, 2020). The ad-hoc nature of these responses indicates that social protection systems were insufficient in providing support and resilience against the pandemic.
[4] World Bank, 2015.
[5] Even in the years leading up to the COVID-19 pandemic, the World Bank highlighted the need to address under-coverage and low adequacy of social protection in Malaysia, particularly for the elderly (World Bank, 2015). The COVID-19 pandemic also emphasised the need to increase coverage for self-employed and informal sector workers.

in facing future health, environment, social, and economic shocks. This article aims to provide an overview of the evolution and landscape of social protection systems (refer to the mini box), examines the current state of social protection in Malaysia, and provides several ideas on the design of a more effective social protection system for Malaysia.

The Global Landscape of Social Protection

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

Table 1: The 3Ps of Social Protection

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

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

Source: Bank Negara Malaysia, World Bank, ILO

Diagram 2: Benefits of complementarities of 3Ps in social protection
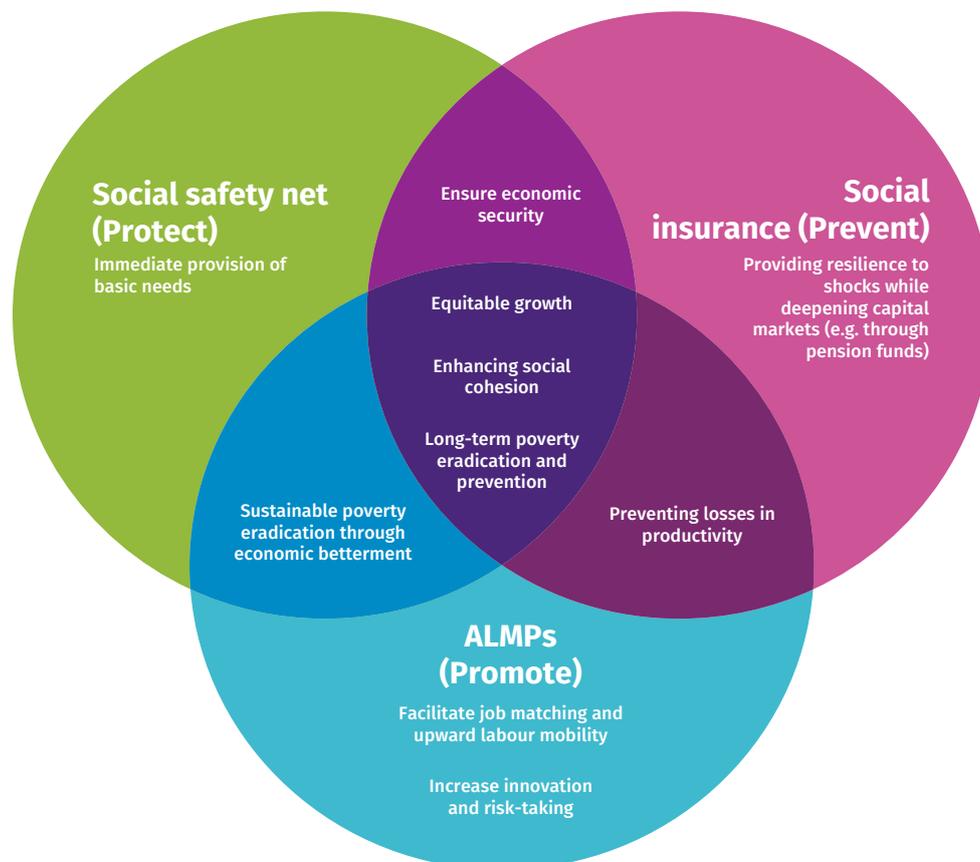
Social safety net (Protect)
Immediate provision of basic needs

Social insurance (Prevent)
Providing resilience to shocks while deepening capital markets (e.g. through pension funds)

Ensure economic security

Equitable growth

Enhancing social cohesion

Long-term poverty eradication and prevention

Sustainable poverty eradication through economic betterment

Preventing losses in productivity

ALMPs (Promote)
Facilitate job matching and upward labour mobility

Increase innovation and risk-taking

* Active labour market policies (ALMPs) refer to all social spending (other than on education) aimed at enhancing the employability of workers or increasing their earnings capacity (simplified definition based on the OECD and ILO)

Source: Bank Negara Malaysia

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

As these policies only provide basic injury[6] and income protection, the private sector can supplement them with more comprehensive coverage. Voluntary contributions, however, involve a higher premium relative to the mandatory schemes and would thus rely on workers having higher incomes to afford them. These policies thus go beyond alleviating poverty to increasing income resilience at higher levels.

A comprehensive social protection system would also account for the unique vulnerabilities faced at different life stages (Diagram 4). Typically, policies would tend to gravitate towards the provision of contingencies during a person's working years, as this is the stage of life when most people are

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[6] Injury protections in this context refer to protections for injuries in the workplace, such as those provided by Social Security Organisation (SOCSO) in Malaysia.

Diagram 3: Level of coverage for social protection policies based on funding

More comprehensive

Level of protection*

Less comprehensive

Social protection floor
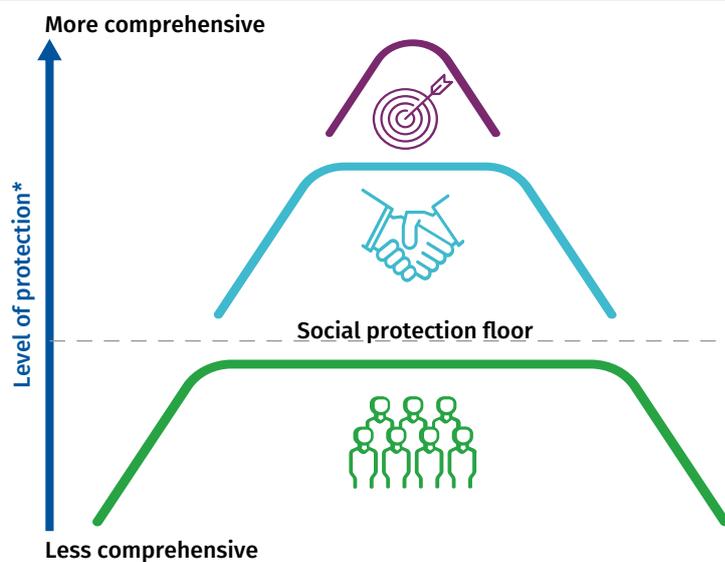
Funding mechanism

Voluntary contributions
Take-up of private insurance and/or retirement schemes to complement mandatory public-driven protections

Mandatory contributions
Mandatory social insurance and/or social security benefits for contributors (e.g. pensions, income insurance, injury protection)

Basic needs, usually provided by the Government.
The ILO highlights four essential guarantees that should be provided to residents:
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.

* 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

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

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

Diagram 4: Life cycle approach to social protection

Maternity and early childhood
•   Nutrition support
•   Infant care support
•   Childcare subsidies

Working age
•   Conditional cash transfers
•   Housing benefits
•   In-kind transfers (e.g. food stamp programmes)

•   Pension schemes
•   Income support
•   Welfare services
•   Enhanced access to public services

•   School meal programmes
•   Free schooling

Schooling age and youth

Old age

Worklife contingencies

1 **Work injury**
•   Occupational insurance
•   Income compensation

2 **Unemployment**
•   Conditional cash transfers
•   Job placements
•   Training
•   Workfare

3 **Disability**
•   Income support (including for dependents)
•   Skills training
•   Job incentives

4 **Death**
•   One-off financial aid
•   Funeral assistance
•   Income support

Source: Bank Negara Malaysia, ILO

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

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

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

Source: Adapted from Popova et al. (2013)

The Nordic model of social protection is generally the most generous and comprehensive. Support is universally provided across almost all vulnerable groups, financed by substantial revenues from the high taxation rates of its high-income residents. Countries with less revenue-generating capacity than Nordic countries could face problems adopting this model. Internalising this lower taxation appetite, the Anglo-Saxon model provides for universal healthcare but relies on a means-tested approach for other forms of assistance. The Bismarckian model utilised by Germany, focuses primarily on social protection provided via the labour market. Lastly, the Mediterranean model is an example of how governments can still provide support despite significant resource limitations. Countries that adopt this model (e.g. Italy and Spain) leverage largely on welfare, and especially healthcare, being family-oriented (for example, by providing tax or cash transfer benefits for family care).[7]

These models highlight the need for trade-offs in policy design to ensure social protection systems remain sustainable in the long-term, unless broader revenue collection enhancements can be made. For Malaysia, while our current approach is closer to the Anglo-Saxon model, the coverage is comparatively more limited. This underscores the need for a policy review and a redesign of social protection policies.
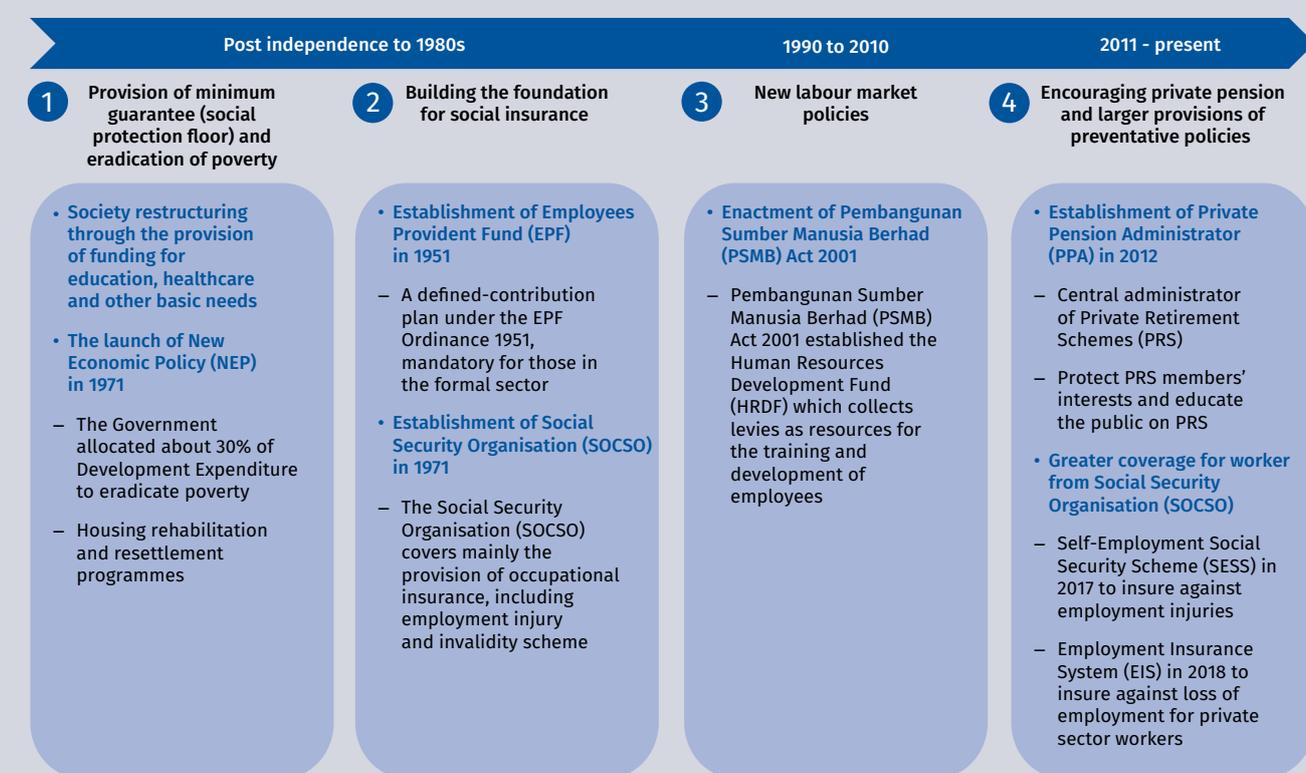
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[7] This multi-generational approach to social protection with the family unit as a source of security can also be seen in Eastern Europe. For details on the 'Familistic' welfare model of Italy and Spain, refer to Leon and Migliavacca (2013).

Giving the Malaysian Social Protection System a New Lease of Life

The evolution of Malaysia's social protection system

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

Diagram 5: Evolution of social protection policies in Malaysia

Post independence to 1980s	1990 to 2010	2011 - present
1 Provision of minimum guarantee (social protection floor) and eradication of poverty	**3** New labour market policies	**4** Encouraging private pension and larger provisions of preventative policies
2 Building the foundation for social insurance		

1 Provision of minimum guarantee (social protection floor) and eradication of poverty

- **Society restructuring through the provision of funding for education, healthcare and other basic needs**
- **The launch of New Economic Policy (NEP) in 1971**
  - The Government allocated about 30% of Development Expenditure to eradicate poverty
  - Housing rehabilitation and resettlement programmes

2 Building the foundation for social insurance

- **Establishment of Employees Provident Fund (EPF) in 1951**
  - A defined-contribution plan under the EPF Ordinance 1951, mandatory for those in the formal sector
- **Establishment of Social Security Organisation (SOCSO) in 1971**
  - The Social Security Organisation (SOCSO) covers mainly the provision of occupational insurance, including employment injury and invalidity scheme

3 New labour market policies

- **Enactment of Pembangunan Sumber Manusia Berhad (PSMB) Act 2001**
  - Pembangunan Sumber Manusia Berhad (PSMB) Act 2001 established the Human Resources Development Fund (HRDF) which collects levies as resources for the training and development of employees

4 Encouraging private pension and larger provisions of preventative policies

- **Establishment of Private Pension Administrator (PPA) in 2012**
  - Central administrator of Private Retirement Schemes (PRS)
  - Protect PRS members' interests and educate the public on PRS
- **Greater coverage for worker from Social Security Organisation (SOCSO)**
  - Self-Employment Social Security Scheme (SESS) in 2017 to insure against employment injuries
  - Employment Insurance System (EIS) in 2018 to insure against loss of employment for private sector workers

Source: Bank Negara Malaysia

The New Economic Policy (NEP), which was introduced in 1971, provided monumental strides towards the eradication of poverty.[8] These efforts resulted in a sharp decline in absolute poverty,[9] from 12.9% of the total population in the early 1980s to around 0.2% of the total population in 2015, in comparison to the global poverty ratio, which stood at 26.6% of the total global population in 2015. While remarkable strides have been made in terms of eradicating absolute poverty, the measurement of relative poverty,[10] which stood at 16.9% of the total

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[8] The Government spent almost a third of its Development Expenditure on poverty eradication measures (Mansor and Awang, 2002).
[9] Based on World Bank's poverty headcount ratio at $3.20 a day (2011 PPP).
[10] Unlike absolute poverty, which is measured based on affordability of basic necessities, relative poverty is measured against the median income of households. A household is considered to be in relative poverty if the total household income is less than half of the median income of all households, which stood at RM5,873 in 2019 (Source: DOSM). The number of households in relative poverty could be reduced, for example, by ensuring income growth of those below and slightly above the poverty line is higher than the income growth of those at the higher end of the income spectrum. Further details can be found in Khazanah Research Institute's (KRI) publication "The Absolute vs Relative Poverty Conundrum" in 2019.

households in 2019, shows that significant improvements can still be made. This highlights the importance of complementing income support with active labour market policies (ALMPs) to sustainably enhance productivity and boost incomes, particularly for low-income groups.

The foundations for a social insurance system were also built through the establishment of the EPF in 1951 and SOCSO in 1971. While public sector employees are protected by the Government's pension scheme, employees in the private sector as well as their employers are mandated by the EPF Act 1991 to contribute to the EPF private sector retirement scheme. This, together with SOCSO's occupational insurance schemes and more recently the Self-Employment Social Security Scheme (SESS)[11] introduced in June 2017 as well as the Employment Insurance System (EIS) in January 2018, have bridged some of the gaps in Malaysia's social insurance landscape. The Government's focus over the past decade in encouraging private retirement schemes, for example by establishing the Private Pension Administrator (PPA) and introducing the tax incentives for Private Retirement Scheme (PRS) and deferred annuity products in 2012, will further enhance the robustness of social protection. There were also efforts to enhance the mobility of Malaysia's labour force. In 2001, the Government established the Human Resources Development Fund (HRDF) to retain and upgrade the skills of local employees, apprentices and trainees to be in line with business needs.

In response to the economic impact of both the COVID-19 pandemic and the subsequent movement restrictions, the social protection system has proved vital in ensuring vulnerable groups were protected. The processes and databases built by various Government entities facilitated an efficient deployment of stimulus measures. For example, SOCSO's existing infrastructure laid the groundwork for the disbursement of wage subsidies, while the database created for disbursement of Bantuan Sara Hidup (BSH, now known as Bantuan Prihatin Rakyat or BPR) through Lembaga Hasil Dalam Negeri (LHDN)[12] allowed for cash handouts to be distributed directly and seamlessly to those in need.

As effective as this infrastructure was, the magnitude and scale of the pandemic revealed critical gaps in the social protection system. These gaps came in the form of effectiveness, implementation, as well as sustainability, involving all pillars of the social protection. A holistic review of the entire social protection system is needed to ensure its continued ability to act as an automatic stabiliser during crisis periods. Emphasis needs to be given to ensure more efficient delivery, better coverage of the most vulnerable, and improved labour mobility in order to reduce the over-reliance on social safety nets.[13]

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

Currently, most of the fiscal outlay for social protection programmes in Malaysia goes towards social safety nets. This is predominantly the result of fragmented policies managed by multiple agencies at both Federal and State Government levels.[14] Despite the sizeable expenditure of RM17.1 billion in 2019 (1.1% of GDP[15]), the payout amounts under each programme tended to be small and insufficient to ensure that the most vulnerable households were able meet minimum income and living standards, as allocations are spread over more than 60 programmes. The fragmentation also resulted in overlapping and identical assistance being provided (e.g. education support) and managed by several different ministries (Table 3). Inadvertently, this together with the existence of numerous databases[16] managed by multiple agencies[17] made verification and enforcement particularly challenging and has led to leakages (e.g. double-dipping issues).

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[11] SESS mandated contributions from self-employed workers in 20 sectors (e.g. passenger transportation, online business, and fisheries) on 1 June 2017, while the EIS came into effect on 1 January 2018 and provided unemployment benefits.

[12] LHDN (Inland Revenue Board of Malaysia in English) is Malaysia's tax collection authority.

[13] A different perspective along with policy recommendations on this topic can be found in the Box Article: "Getting the Great Reset Right: Structural Labour Market Issues in the Post-COVID-19 World".

[14] The ministries in charge of managing social safety net programmes include the Ministry of Women, Family, and Community Development; Ministry of Health; Ministry of Education; Ministry of Human Resources; Ministry of Rural and Regional Development; Ministry of Housing and Local Government; Ministry of Agriculture and Agro-Based Industry; and other public departments and agencies (Samad and Shahid, 2018).

[15] Based on the World Bank's Atlas of Social Protection Indicators of Resilience and Equity (ASPIRE), regional countries have spent similar amounts on social safety nets. Based on latest available data, this includes Vietnam (2016: 1.9% of GDP), Cambodia (2015: 0.9% of GDP), the Philippines (2016: 0.7% of GDP), Indonesia (2016: 0.7% of GDP) and Thailand (2011: 0.5% of GDP).

[16] Additionally, records for some of these social safety net programmes are also still managed manually.

[17] The high level of bureaucracy and the lack of central coordination would also reduce efficiency of disbursements as qualifying recipients must make applications through several entities, each with their own verification process.

Table 3: Social Protection Programmes in 2019

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

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

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

The targeting mechanism of many of these programmes to the bottom-40 income group (B40) also requires a thorough reassessment. Based on the Household Income and Expenditure Survey (HIES), households under the Poverty Line Income (PLI)[18] threshold received the smallest percentage of BSH allocation in 2019. While accounting for 17.4% of households in the B40, this group received only 12% of the total allocation that year.[19] Weak verification capacity[20] also led to relatively high occurrences of both inclusion and exclusion errors (Chart 1).[21] For instance, verification to determine eligibility for BSH were based primarily on LHDN data, which captured only those in formal employment, making it challenging to validate the eligibility of the self-employed and workers in the informal sector. The effectiveness of these programmes was also limited by the lack of mechanisms for recipients to graduate from the social safety net programmes as they were not integrated and linked with active labour market policies (ALMPs). This indirectly increased the over-reliance of beneficiaries on social safety net programmes as a source of income and may not have helped to address intergenerational poverty in the long run.[22]

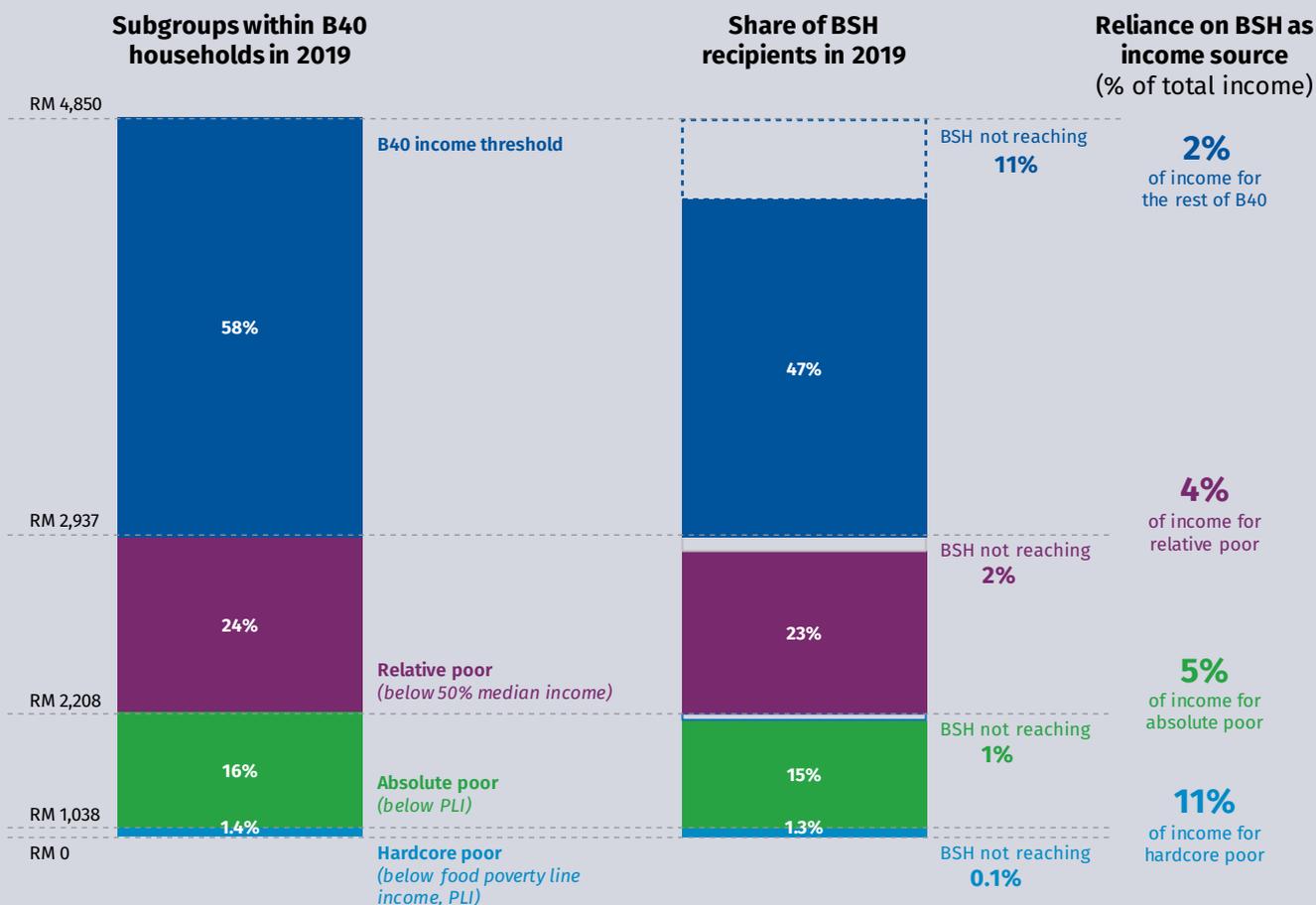[18] In 2019, the PLI stood at RM2,208.
[19] This is based on the Bank's staff estimates based on HIES 2019 data.
[20] World Bank (2015).
[21] Inclusion errors refers to provision of aid to those who do not qualify, whereas exclusion errors imply failure to reach the needy which results in under-coverage (Source: Wheeler, Hurrell, & Devereux, 2015).
[22] Khazanah Research Institute's (KRI) publication "Climbing the Ladder: Socio-Economic Mobility In Malaysia" in 2016 emphasised the importance of access to education and having parents with savings, in achieving upward socio-economic mobility. However, their discussion paper in 2019 titled "A rising tide lifts all boats? Intergenerational social mobility in Malaysia", highlighted the gaps in data in making intergenerational economic analysis. This should be considered as an area for improvement moving forward.

Chart 1: Breakdown of households receiving BSH in 2019

Subgroups within B40 households in 2019	Share of BSH recipients in 2019	Reliance on BSH as income source (% of total income)

RM 4,850

B40 income threshold

58%

BSH not reaching 11%

2% of income for the rest of B40

47%

RM 2,937

Relative poor *(below 50% median income)*

24%

BSH not reaching 2%

4% of income for relative poor

23%

RM 2,208

Absolute poor *(below PLI)*

16%

BSH not reaching 1%

5% of income for absolute poor

15%

RM 1,038

1.4%

1.3%

BSH not reaching 0.1%

11% of income for hardcore poor

RM 0

Hardcore poor *(below food poverty line income, PLI)*

Source: Household Income and Expenditure Survey (HIES) 2019 from the Department of Statistics, Malaysia; BNM estimates

The efforts to strengthen our social protection would benefit immensely from the formulation of a roadmap for reforms which includes the development of a unified database for Malaysia's social protection system. This approach to social protection reform has been undertaken by countries such as Brazil, the Philippines, and Chile, among others. As there are currently more than 60 programmes under several agencies and ministries, serious considerations should be made to consolidate the social safety net programmes under the flagship BPR programme, and complemented with more granular categorisation.[23] The smaller number of programmes with narrower criteria based on income and household size would likely allow for more targeted and effective disbursements and further boost the progressivity[24] of these policies. Critically, the consolidation of programmes would allow for higher disbursements to the most vulnerable without undermining fiscal sustainability. To minimise inclusion and exclusion errors, the verification capacity could be improved by introducing compulsory registration at LHDN for all citizens regardless of income levels, which would further widen the coverage of LHDN's database. To complement social safety net programmes and encourage graduation from the programmes, conditionalities could also be imposed in order to be eligible for the benefits, such as for recipients to enroll in reskilling and upskilling training under active labour market policies (ALMPs) or school attendance requirements for their children.[25]

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[23] More granularity is needed in BPR recipient categorisation. Under the current scheme, two households with monthly incomes of RM2,501 and RM3,999 would receive identical assistance, even though the extent of their vulnerability would be different.
[24] For example, making the priority of benefits as a bridge to address the current gap in meeting minimum income and living standards. An outcome of this could be creating more tiers in the disbursement of social safety net policies to ensure the most vulnerable households receive the most support.
[25] Setting school attendance for the children of beneficiaries as a conditionality has seen success in Brazil, which has this requirement in their conditional cash transfer programme, Bolsa Familia.

Social insurance: Inadequate pensions coverage and increasing fiscal burden of public pensions

Social insurance in Malaysia faces several challenges particularly in terms of sufficiency and sustainability. This is further compounded by Malaysia's ageing population.[26] Sufficiency of retirement income is a critical issue for private sector employees as Malaysia moves towards an 'aged nation' status[27] with the old-age dependency ratio expected to increase to 16.6% by 2040 from 8.5% in 2015 (Chart 2).[28] Based on a study conducted by EPF in 2018, two out of three active EPF contributors are projected to have insufficient retirement savings to meet a minimum pension of RM1,000 per month.[29] Private retirement schemes, on the other hand, provide limited support in addressing this issue, since less than 3% of Malaysia's workforce (aged 20-59) have a Private Retirement Scheme (PRS) account.[30] Furthermore, the capacity of the B40 working population to withstand income shocks, such as permanent disability and the death of a breadwinner, is inadequate given the low private insurance penetration rate for this segment at 24.9%[31] as at 2017. For employees in the public sector, there will be an issue of fiscal sustainability following rising liabilities from the defined-benefit pension scheme. As at 2019, the share of pension liabilities of the total Federal Government Operating Expenditure has increased to 9.8% from 6.5% in 2009.[32]

Chart 2: Old-age dependency ratio
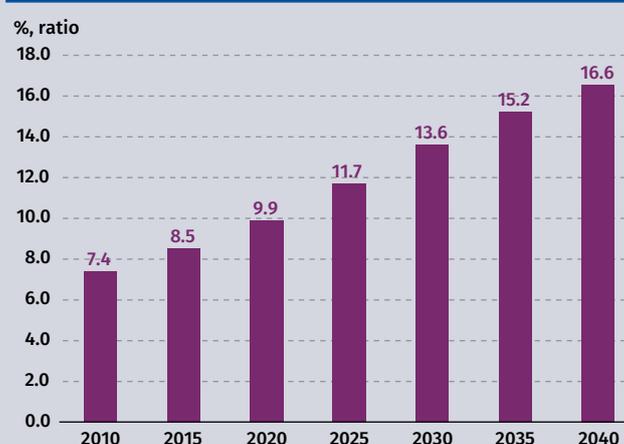
%, ratio

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

Source: Department of Statistics, Malaysia (DOSM) population
       projection, 2016

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

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

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[26] The definition of an ageing population is one where the share of people aged 65 and over is between 7% and 13% of the total population.
[27] Share of people aged 65 and over is above 14% of the total population.
[28] The pace at which Malaysia transitions from an ageing nation to an aged nation is also important. To illustrate, France experienced this transition over 115 years, while Malaysia is expected to experience this transition in 25 years.
[29] This is based on EPF's "Social Protection Insight" Volume 3 in 2018.
[30] Manulife Investment Management (2019). "A zoom into Asia's pension reform journey: Different perspectives of a multi-pillar approach".
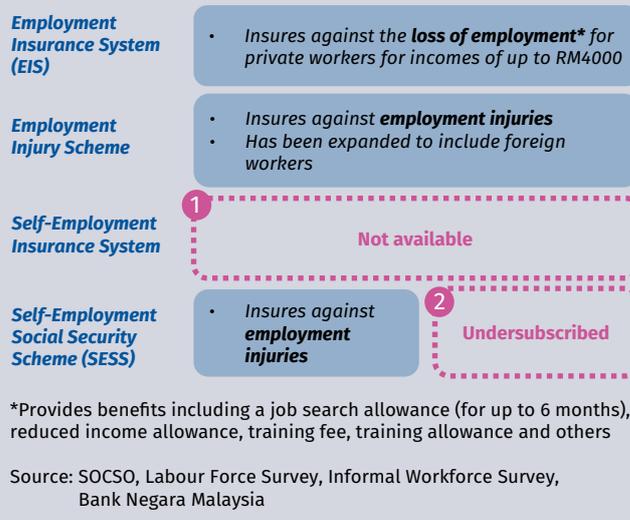[31] This figure is calculated as the percentage of B40 individuals who own an individual life insurance policy or family takaful certificate, after eliminating duplicates from multiple policies. The Bantuan Rakyat 1Malaysia (BR1M) recipient segment is used as a proxy for the B40 segment.
[32] For example, in the case of Thailand, to promote transition to defined-contribution scheme for civil servants in 1997, the Government automatically enrolls all new hires into a defined-contribution scheme but retained the lifetime pension scheme with a lower benefit.
[33] In February 2020, at the onset of the first wave of the COVID-19 pandemic in Malaysia, an estimated 47,000 individuals (compared to the 2.7 million workers who are self-employed) registered for the SESS, of which 92% were from the passenger transport sector.
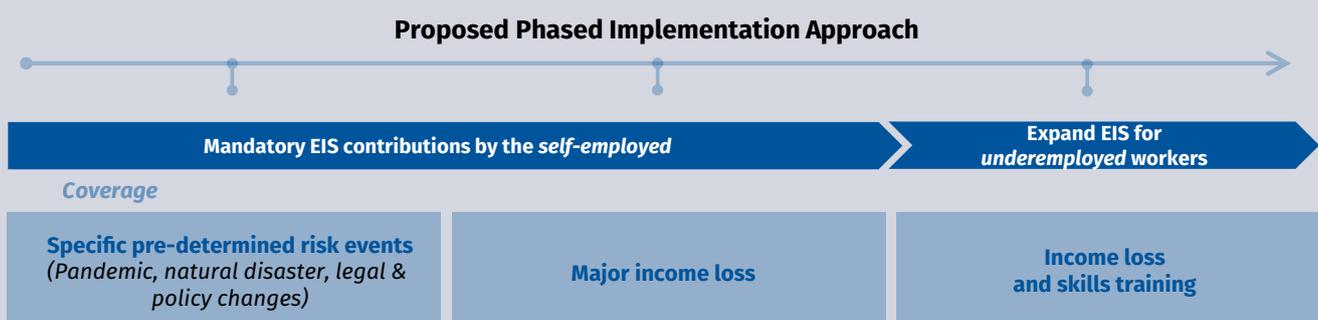[34] According to the ILO, underemployment refers to the underutilisation of the productive capacity of the employed population.

Diagram 6: SOCSO coverage for occupational insurance schemes

Employment Insurance System (EIS)
- Insures against the **loss of employment*** for private workers for incomes of up to RM4000

Employment Injury Scheme
- Insures against **employment injuries**
- Has been expanded to include foreign workers

Self-Employment Insurance System
1 Not available

Self-Employment Social Security Scheme (SESS)
- Insures against **employment injuries**
2 Undersubscribed

*Provides benefits including a job search allowance (for up to 6 months), reduced income allowance, training fee, training allowance and others

Source: SOCSO, Labour Force Survey, Informal Workforce Survey, Bank Negara Malaysia

Social insurance should also place great emphasis in building resilience against economic and financial shocks. Priority could be accorded to expanding the coverage of social insurance schemes. However, due to the infancy of the social insurance system and the potential operational and implementation challenges, this expansion could be approached in a gradual manner (Diagram 7). In the immediate term, addressing the lack of retirement savings for employees in the private sector will be vital. Incentives such as Matching Defined Contribution (MDC)[35] could be introduced to nudge interest towards private retirement schemes. For the public sector, a move towards a defined-contribution scheme for new hires needs to be prioritised given the burden posed by the prevailing system on the Government's fiscal position. This would, however, present its own set of challenges, particularly in ensuring continued interest to pursue a career in the public service.

Diagram 7: A phased implementation approach can be adopted, prioritising the most urgent need for coverage

Proposed Phased Implementation Approach

Mandatory EIS contributions by the *self-employed* | Expand EIS for *underemployed* workers

Coverage

| **Specific pre-determined risk events** *(Pandemic, natural disaster, legal & policy changes)* | **Major income loss** | **Income loss and skills training** |

Source: Bank Negara Malaysia

Active labour market policies (ALMPs): Fragmented policies resulting in low accessibility and training not meeting industry demand
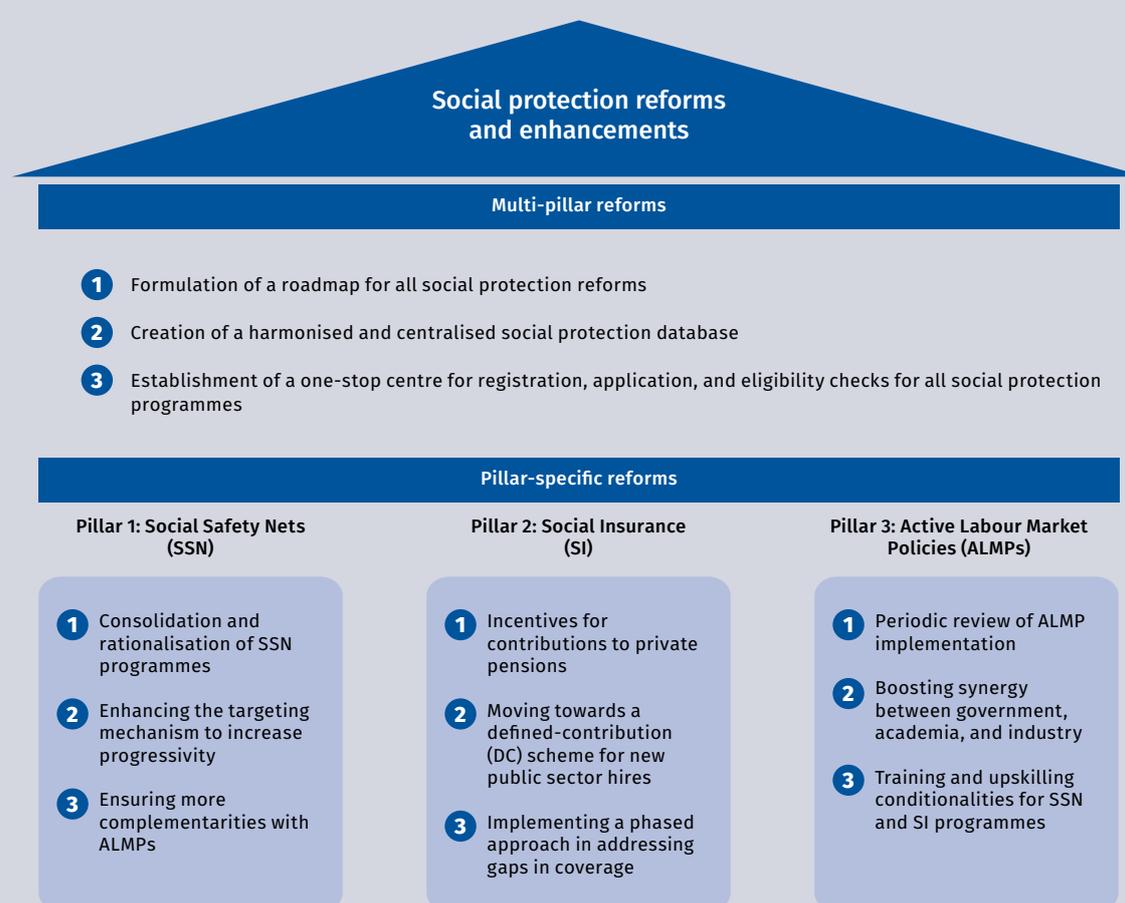
In order to enhance labour mobility and reduce frictions in the job search and placement process, several impediments in the implementation and design of ALMPs need to be addressed. Similar to the problem faced by social safety nets, there is duplication and fragmentation,[36] which has resulted in weak linkages

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

[36] For example, technical vocational education are provided by three separate ministries namely the Ministry of Education, Ministry of Human Resources and Ministry of Youth and Sports.

between the upskilling and reskilling programmes offered by the Government with industry demand.[37] There is also limited incentive to enroll in ALMPs which are not linked to other pillars of social protection. Planning, monitoring, and access to ALMPs could be improved by enforcing a periodic review of the policies,[38] guided by long-term strategic national initiatives such as the upcoming 12th Malaysia Plan and the National Job Creation Strategic Plan. This is to ensure ALMPs in Malaysia would fulfil not just existing but also future skills demand by industries. The establishment of the National Employment Council (NEC) in 2020 is a step in the right direction in coordinating and harmonising labour-related policies, including to enhance implementation and management of ALMPs. Going forward, there remains a need to secure continuous and cohesive collaboration and enhance the synergy between key stakeholders (i.e. Government, industry, and course providers). Potentially, those in charge of ALMPs could work closely with TalentCorp to ensure that the outcomes of the Critical Occupations List (COL)[39] guide the planning of course offerings.[40] As synergies between stakeholders develop and course offerings improve in their quality and ability to cater to industry demand, eligibility for social safety net and social insurance programmes could be made conditional on meeting training and upskilling objectives.[41] Social safety nets (e.g. cash handouts) could also act as income replacement and incentivise workers

Diagram 8: Social protection reforms and enhancements

Social protection reforms and enhancements

Multi-pillar reforms

1. Formulation of a roadmap for all social protection reforms
2. Creation of a harmonised and centralised social protection database
3. Establishment of a one-stop centre for registration, application, and eligibility checks for all social protection programmes

Pillar-specific reforms

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

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

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

Source: Bank Negara Malaysia

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[37] HRDF stated in a report that their processes in identifying and analysing training needs remain weak.
[38] The National Employment Council could subsume this role.
[39] TalentCorp is an agency under the Ministry of Human Resources (MOHR) driving the agenda on developing and retaining Malaysia's talent. The COL is an annual publication led by TalentCorp and the Institute of Labour Market Information and Analysis (ILMIA) to identify skills imbalances in the labour market and lay the foundation for broader human capital policy strategies.
[40] Singapore's Skills Framework (SFw), for example, collates pertinent information on careers and skills in various sectors from a multitude of stakeholders and publishes findings online. This information, which includes career pathways, specific job roles, existing and emerging skills, and available training programmes allows employees, employers, and course providers to make more informed decisions based on emerging skills.
[41] Conditionalities for social safety net and social insurance proprammes have been shown to increase enrollment in active labour market policies. However, research on the overall effectiveness of welfare conditionalities when considering its trade-offs is still inconclusive and is heavily dependent on policy design. In any case, its design must prioritise the efficient disbursement of support to the most vulnerable groups.

to attend courses, particularly those who are unable to take leave as they are paid daily wages. For these complementarities between social protection pillars to work, it is key to ensure the establishment of a one-stop website for registration, application, and eligibility checks for all social protection programmes. This would enhance the outreach of existing programmes and thus allow beneficiaries to also be aware of the potential complementarities.

Conclusion

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

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