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**Exit and Rebuild:
a need for a focused strategy**
PART 1

Exit and Rebuild: a need for a focused strategy PART 1

Altaf Deviyati | July 2021

Summary

One year on and Malaysia is still implementing the same strategy. The harsh measures have caused severe socio-economic damage. This paper will highlight how the ongoing Covid-19 response lockdown strategy and weak social protection policy have disproportionately affected the poor and vulnerable even further and has pushed a portion of the middle class into poverty. The best way forward in the immediate term to avoid further hardship is to implement social expenditure measures that are based on the lifecycle approach which would not only have a wider coverage but aid programmes will benefit the demographic groups most at risk.

"Assalamualaikum!" A rather elderly looking man shouted from the gates of our home. *"Boleh bercakap dengan Abang?"* (Can I speak to the man of the house?). I asked why he was here, *"Masjid atas hantar"* (The mosque sent me here) he answered and instinctively, I knew that he was here for aid. As I approached him, he started apologising for causing trouble, explaining how the mosque asked him to come here since their aid services were open later at night. Our local mosque is actually an upgraded Surau, with no full time staff manning it, relying on volunteers who are mostly pensioners. He had probably mistaken my house for my neighbour's who's a regular at the mosque.

I could see he was embarrassed, apologising profusely for the intrusion. A father of four young children, he was desperate for help to pay the monthly rent. The first time he came was during the first Movement Control Order (MCO), each time MCO is announced I prepare alms, since I know he will come. Encik Ali (not his real name) relied on multiple jobs to make ends meet, but since the first lockdown, he was left with only one, as a security guard in Kajang town. Poverty not only strips you of money but dignity as well.

Lockdowns are not silver bullets

The Covid-19 pandemic has morphed into an economic crisis with disastrous socio-economic implications. Once it was declared a global pandemic, countries all over started to put in place strict measures which included lockdowns, social distancing and border controls to contain the spread of the virus and Malaysia was no exception. At the time of writing this article, Malaysia was going through its third nationwide lockdown known as the full movement control order (FMCO) with no end in sight. The government has chosen an arbitrary figure of 4,000 new daily cases as the threshold for loosening the current set of strict restrictions which have left many without incomes and begging for food for their households.

Encik Ali is one example of how the bottom 40 (B40) are struggling. Before the pandemic, many Malaysian urban households, be it B40 or M40 were already surviving on more than two incomes, by holding down multiple jobs. Covid-19 has made it even more difficult. According to the UNICEF-UNFPA study *Families on Edge*; The federal government's assistance programme, *Bantuan Prihatin Rakyat (BPR)* has helped those economically affected yet more than half of low-income families still struggled to meet essential expenses, *"Roughly 6 in 10 are unable to purchase enough food for their families, and 1 in 2 are either unable to pay utility bills or mortgage and pay rent on time. 1 in 4 of participants report continuing to reduce food intake while roughly 1 in 3 reported some or severe difficulties in providing enough money for their children to buy meals while at school."*¹ As bleak as that already sounds, the series of intermittent lockdowns have resulted in businesses and individuals exhausting their meagre savings since March 2020, which suggests that the situation would have worsened.

Lockdowns should only be used as a temporary measure, for a government to buy time in reorganising resources such as preparing healthcare facilities and put in place procedures and systems to minimize spread of the virus. Long term lockdowns are not viable for it will result in job losses, business closures and financial struggles which all have been associated with long-lasting decline in mental health and wellbeing.

Ultimately, the best strategy to deal with Covid-19 at this point in time is universal vaccination. By having a viable vaccination strategy together with good and updated standard operating procedures implemented fairly and critical behaviour and physical changes that enables safe and healthy lifestyles which need to be adopted by the public and institutions to ease reopening the economy.

¹ *Families on the Edge. Mixed methods longitudinal approach research on the impact of the Covid-19 crisis on women and children in lower income families. Issue 4: Two-steps forward, one step back: The new normal for Malaysia's urban poor?* <https://www.unicef.org/malaysia/media/1976/file/Families%20on%20Edge%20part%2004.pdf> May 2021

Social Protection System as a buffer for all

The first line of defense against a national disaster or crisis is the national social protection system (SPS). It is a system that safeguards society against socio-economic distress via public policies designed to provide protection in times of need. There are three key pillars of a social protection system, which are Protection, Prevention and Promotion, also known as the 3Ps. The fundamentals of SPS are to ensure that basic needs of all are met particularly the poor and vulnerable, to build a socio-economically resilient society and to maximize economic potential of all.

Malaysia's current strategy in addressing the socio-economic fallout of the pandemic has been to increase social welfare expenditure such as cash transfers for low-income households, those who have lost their jobs due to the pandemic as well as EPF pension withdrawals to name a few. While the additional welfare expenditure is definitely on the right path, it still falls short. Even before the pandemic, Malaysia's social expenditure was well below other upper middle-income countries. This is mostly due to low tax revenue and income disparity. Malaysia's tax-to-GDP ratio was 12.5 per cent in 2018, below the Organisation for Economic Cooperation and Development (OECD) benchmark average of 34.3 per cent.² Malaysia is also relying on existing programmes and approaches to weather this crisis which may not be fit for purpose. According to the World Bank, our social protection system, "...is fragmented and overlapping programmes, gaps in overall coverage and inadequacy of programmes to comprehensively address socioeconomic vulnerabilities and fiscal challenges."³ The fact that our aid distribution still uses

2 *Revenue Statistics in Asian and Pacific Economies 2020 - Malaysia.* <https://www.oecd.org/tax/tax-policy/revenue-statistics-asia-and-pacific-malaysia.pdf>

3 *A Vision for Social Protection in Malaysia. Social protection as a safeguard against socioeconomic vulnerabilities. Economic, Monetary and Financial Developments in 2020*

means testing⁴ or in other words, supply driven rather than demand, is problematic and the absence of an overarching social policy makes matters worse.

Life-Cycle approach towards pandemic recovery

People face risks and vulnerabilities at different stages in life. For instance, children who rely on parents to meet their daily basic needs. So, if a family is poor, the children are poorer. So are young adults with no income or financial stability looking for employment or starting a start-up, women who left the workforce during child rearing and bearing years or retired folks with not enough savings to live out the rest of their lives. These examples show that each group faces different hardships at different life stages. There can also be a knock-on effect, a child who lived through childhood poverty, and was deprived of certain essentials has a higher risk of continuing to be poor well into adulthood and old-age. This is why a life-cycle approach towards social protection should be a preferred method. Through the lifecycle approach, assistance or intervention is targeted at crucial age groups instead of means testing for the poor.

Certain groups have been hit worse than others during this pandemic. Children in general are missing out on critical development years in education and social development but those from low-income households' fare far worse, as are youths entering a fragile labour market with little to no support or protection and people with disabilities are finding it even harder to seek and receive care. Many middle to low-income households are seeing their life savings being wiped out. Don't forget, the undocumented, refugee and migrant communities who are already marginalized during normal times, are pushed even further to the fringe and left to fend

⁴ A means test determines if a person or household is eligible to receive government aid. A Proxy Means Test (PMT) is an econometric method employed to predict income and poverty status of households using data on basic household characteristics. International evidence shows that it is both inaccurate and arbitrary. According to WB, PMT Standard proxy-means testing helps filter out the non-poor, but excludes many poor people, thus diminishing the impact on poverty.

for themselves. Each demographic will need assistance to weather the impact of this pandemic both short and long-term. To rely on means-testing at a time when demographic changes and needs are rapidly changing, will leave out many in their greatest time of need.

Unfortunately, we have yet to see a holistic overall strategy on how to address the socio-economic impact for the above-mentioned groups. To top it all off, mental health issues are increasing due to the harsh conditions of non-stop lockdowns and financial troubles. The additional allocation to talian kasih is not doing enough to address the rising mental health challenges and the Ministry of Education has yet to share their plan to address online education shortcomings and how schools will reopen safely. Giving a RM100 cash incentive transfer to an unmarried person is not a strategy. To top it all off, our healthcare workers are experiencing severe professional burnout and are leaving their jobs at the height of the pandemic.

Moving forward

The lockdown strategy unevenly affects businesses. Those that are considered “non-essential” are not allowed to open shops and many are also unable to fully work from home. This is especially so for small medium enterprises (SME). As small businesses continue to be battered, many may not survive, resulting in a spike in unemployment and more families living on the edge. The Malaysian malls and retailers’ associations had recently announced that since the first lockdown, 30 percent of retail in malls have closed down and 300,000 have been laid off.⁵ This has knock-on effects to their suppliers and service providers, as well as the wider business community. To add, the inter-State travel ban has decimated the Malaysian tourism industry, which is already suffering from border closures and may not recover for years to come.

⁵ Chan, Dawn. 30 pct of shops at malls have closed; 300,000 workers lost jobs over past 16 months. <https://www.nst.com.my/news/nation/2021/06/701290/30-pct-shops-malls-have-closed-300000-workers-lost-jobs-over-past-16> 22 June, 2021

The Prime Minister on 28 June, 2021 announced the second biggest recovery package since the first one last year amounting to RM150 billion. The package was announced against a backdrop of indefinite lockdown since daily infection rates remain high. The Bantuan Prihatin Rakyat (BPR) programme under the People and Economic Strategic Empowerment Programme (PEMERKASA), is a cash transfer programme for low income households. This current recovery package further increased assistance. This is welcomed but it is feared that real cash transfers are still insufficient, not well targeted and the lengthy process will delay disbursement. BPR is still using proxy means testing (PMT), a method popularly used in developing countries but over the years have shown that it is prone to errors and under coverage. PMT is also used to target the poorest, but we already know that a significant portion of the population are affected and not just the poorest. Cash assistance needs to be better targeted using the life cycle approach and have wider coverage. The middle class are also affected but there is very little assistance afforded to them within the current BPR programme. We need to stop middle income households from depleting their life savings further and falling into poverty and greater indebtedness. Allowing the middle income group to dip into their own pension by withdrawing from their own Employment Provision Fund (EPF) account is not providing aid. Permitting access to pension funds could lead to accounting losses that may be difficult to overcome in the future, particularly for individuals closer to retirement age. According to Khazanah Research Institute, as is, more than 80 percent of EPF contributors do not meet minimum savings by retirement age.⁶ We will be opening a Pandora's box.

Additional short-term measures are needed for both people and businesses. We need to bring back a loan moratorium that does not disadvantage the borrower in the long term, banks cannot take advantage of the situation to make profit.

⁶ *Challenges with retirement savings in a pandemic.* <https://www.theedgemarkets.com/content/advertise/challenges-with-retirement-savings-in-a-pandemic> 2 November, 2020

During this pandemic, the banking industry has not been negatively impacted, they still recorded profits albeit smaller during the first lockdown when the government implemented universal moratorium. Introduce rent control — It could significantly help middle to low-income earners manage monthly expenditure without fear of legal penalties or eviction. Loan moratorium and clear rent control and protections would assist struggling SMEs to stage off bankruptcies while reorganising financing for the longer term. Unemployment benefits also need to be increased and have a wider coverage as well as improve access to non-banking financial support for SMEs. The discussion we need to be having is how to prevent businesses from closing down which will result in more future lay-offs. We also need to protect and include within policy those working in the informal sector who are not covered under the national unemployment insurance scheme. To put it plainly, we simply need better and more short-term assistance. Even the European Union, whose members consist of states with the best social protection systems in the world, needed to increase their short-term aid to counter Covid-19.⁷ Increasing immediate social expenditure is not being fiscally irresponsible, it is good social economic investment in the long run. However, the government will need to review the tax regime to ensure that it stays sustainable. In the short term, the government will have to bite the bullet and fund these essential and necessary assistance through debt while the global interest rates continue to be low.

After living with this virus over a 16 months period, we should already have enough data to simulate the long-term effect of Covid-19 on overall wellbeing for both people and businesses and come up with a strategy to counter and address potential long-term adverse effects. This virus is not going away anytime soon, we will have to learn how to live with it.⁸

7 Policy Response to Covid19. <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>

8 COVID-19 will be around a long time: WHO chief. <https://www.aa.com.tr/en/health/covid-19-will-be-around-a-long-time-who-chief/1815270>. 22 April, 2020

We need a new way of thinking on public policy. We need to be more innovative and robust in our public service delivery. E-government, e-learning and e-service had been the buzz word for many years before the pandemic, yet when Covid-19 hit us and we were forced into lockdown, they all fell short on delivery. The real effect of the digital divide is now undeniable. The Ministry of Education's online learning programme "DELIMa" is still not accessible to all, until now many school going children have yet to receive their laptops under the CERDIK programme and internet accessibility and affordability have hampered many from getting online for study or work. Many of the government online services and COVID-19 assistance still required physical presence and civil society organization (CSO) had to step in to assist in providing basic aid to the most vulnerable during the lockdowns. It is a surprise that the PM did not announce better collaborative work with CSOs, who would be in a better position to help in immediate aid distribution. A good example is the wave a white flag campaign spearheaded by CSOs. Seeking assistance and going through the proxy means tests can be an emotionally demoralising experience and process. This campaign allows people to seek urgent help without feeling disempowered.

We need to stop viewing humans as mere resources and start looking at them as what they truly are – people. People who invest their lives, energy and creativity for their family, organization they work for and for the community they live in. Without workers there will be no production — no manufacturing plants, no deliveries and no services. At the core of it, all workers are essentials yet they have the least say in policy and tend to be excluded. A top-down approach of policy making needs to stop. What this pandemic has shown us is how important the health of a worker is to the wellbeing of an economy and the fact that having multiple billionaires has no positive impact on economic growth. Therefore, democratisation of work, by collectively building institutions that are equitable and fair is critical if we are to become more resilient. People who work in Malaysia, whoever they are, have contributed to building this nation and deserve adequate protection and representation especially in times of crisis.



This pandemic has shown us how fragile our governance system is. This crisis should be an impetus to critically re-think our overall socio-political and governance system. We need to strengthen and boost policy reform and innovation that provide adequate protection for all — leave no one behind, and reform regressive subsidies to create fiscal space for a comprehensive social protection foundation, strengthen delivery systems, and invest in institutions that can champion the socio-economic agenda for a better Malaysia.

End of part 1



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