

Social Protection Policies Beyond Poverty Targeting

KRI VIEWS 9/21 | 25 May 2021 | Hawati Abdul Hamid

Views are short opinion pieces by the author(s) to encourage the exchange of ideas on current issues. They may not necessarily represent the official views of KRI. All errors remain the author(s)' own. This article was prepared by Hawati Abdul Hamid, a researcher at Khazanah Research Institute (KRI). The author is grateful for valuable comments from Prof Dr Jomo Kwame Sundaram and Adam Manaf Mohamed Firouz.

The article was published in The Edge Weekly on 24 May 2021 under the same title.

Author's email address:

hawati.hamid@krinstitute.org

Attribution – Please cite the work as follows: Hawati Abdul Hamid. 2021. Social Protection Policies Beyond Poverty Targeting. Kuala Lumpur: Khazanah Research Institute. License: Creative Commons Attribution CC BY 3.0.

Translations – If you create a translation of this work, please add the following disclaimer along with the attribution: This translation was not created by Khazanah Research Institute and should not be considered an official Khazanah Research Institute translation. Khazanah Research Institute shall not be liable for any content or error in this translation.

Information on Khazanah Research Institute publications and digital products can be found at www.KRIInstitute.org.



Calls for social protection reform have gained prominence in public and policy discussions as the Covid-19 pandemic exposed the gaps in the existing system. Tax-funded social assistance programmes, an important pillar of social protection in Malaysia, are short-term in nature and lack sustainable financial and legal foundations. This has resulted in unpredictable benefits, under-coverage and programme fragmentation.

On the other hand, benefits under the social insurance pillars such as the unemployment allowance mostly accrue to the relatively “well-off” formal sector workers who can afford to make contributions. Often neglected are the “missing middle”, who are neither “rich” nor “poor”. Largely in the informal economy, they could not access social insurance benefits schemes due to non-contributions, yet often left behind for means-tested tax-funded social assistance.

Pitfalls of narrow poverty targeting

Widespread poverty in the past justified poverty targeting as an important dimension for social protection policies in Malaysia. While chronic poverty has mostly been eradicated today, gaps in terms of coverage and adequacy of social protection remain serious problems in Malaysia as almost half of the working age population are not part of social insurance schemes. Adequacy of old-age saving is worrying while programmes for pre-working age group are many but small in scale, targeting the most vulnerable children.

Despite the usefulness of poverty measures to understand the prevalence of poverty, shortcomings in its use to shape social protection interventions can range from setting a meaningful income threshold to determine eligibility for aid, to difficulty in verifying recipients' incomes.

Against the backdrop fiscal constraints, policies become overly obsessed with rigid income eligibility thresholds, striving to distribute scarce resources only to the “deserving” poor. Worryingly, conventional standards used to measure poverty can be minimally defined such that they become obsolete over time and fall behind reasonable standards as society progresses. Furthermore, poverty measurements by various approaches (absolute, relative, multidimensional) are extremely sensitive to subjective decisions in formulating poverty thresholds. Thus, for any poverty line income (PLI) we may settle with, households above the line may still be vulnerable, without income security and do not enjoy decent living. Social protection is essential for many in dealing with risks that could happen anytime throughout their lifetime.

While the official poverty rate is low at 5.6%, the number of vulnerable households is still high. Based on the 2019 official revised methodology, the average household PLI in Malaysia is RM2,208 per month. However, if the PLI is raised by RM728 to the relative poverty line of RM2,936 (defined as half the median income), the poverty rate shoots up from 5.6% to 16.9% (i.e., from 400 thousand to 1.2 million households)¹. This implies that around 800 thousand households are living just above the official poverty line, prone to poverty if income shocks were to occur, such as losing a job or accidents. Narrow poverty-targeting often loses sight of these limitations, leading to failure in developing sustainable pre-emptive measures to prevent more from falling through the cracks now and in the future.

In recent years, the focus of welfare policies has shifted to the poorest 40% of households (B40). However, the choice of the 40% cut-off point that delineates one as “deserving” of welfare aid is even more arbitrary. A study by Khazanah Research Institute on Malaysian household consumption found that the bottom 20% of households are barely able to meet their basic needs, while only the top 30% exhibit some aspirational traits of more diverse ‘middle-class’ consumption².

Households in the remaining 50% middle income group often faced spending constraints leading to various consumption trade-offs, especially when hit by unexpected circumstances. The

¹ DOS (2020)

² Hawati, Ho and Suraya (2019)

hardship of the bottom 20% of households and the modest consumption of the middle 50% suggest that government welfare policies matter to at least the bottom 70% (B70), well beyond just the B40 and those categorised as being in poverty.

Right to social protection

While social protection is still seen by many as relief for the poor, poverty targeting alone is not sufficient to guide social protection policy. Poverty may be temporary, recurrent or persistent over longer periods. The relative and dynamic nature of poverty means that anyone can move in and out of poverty over time. This implies high costs of administering effective and equitable welfare programmes, a complication for a social protection paradigm that is obsessed with targeting approach.

Gradually moving away from the charity-model (poverty targeting) into a more inclusive model that is forward looking in addressing vulnerability is imperative. Instead of targeting poverty explicitly, policy paradigm should shift to lifecycle approach that target core risk areas such as disability, sickness, unemployment, childhood and old age, hence ensuring everyone is able to overcome catastrophic threats throughout their lifetime.

Reform should entail addressing under-coverage and low adequacy while at the same time redesigning tax-funded social assistance programmes that coherently work with the contributory social insurance to reduce fragmentations. For continuous improvement in the quality of benefits, it is equally important to sustain a unified system where the poor would access the same social services as everyone else. Otherwise, in the words of Amartya Sen, “benefits for the poor often end up being poor benefits”³. A fragmented system, where for instance the rich go to private hospitals and the poor go to public hospitals, severs the shared interests of both groups, leading to perverse social outcomes particularly for the poor. Collaborative participation from the middle and upper classes provides greater political influence, ensuring continuous improvements and accountability in government.

Virtuous circle of inclusive social protection

The Covid-19 pandemic has demonstrated vulnerability of many individuals in facing contingencies caused by unexpected income loss, illness and other shocks. This should be a juncture for a paradigm shift in Malaysian social protection policies to honour the declaration that “social security is a human right” as enshrined in the Universal Declaration of Human Rights, 1948.

A coherent social protection system that build around lifecycle continuum to deliver good quality public services universally to poor and rich would not only reduce poverty and inequality, but also build trust in the government, increase willingness to pay tax and increase revenue collection. It is an inclusive system that provide the catalyst for this virtuous circle and contributing to greater economic, social and political stability.

³ Sen (1995)

References

- DOS. 2020. *Household Income and Basic Amenities Survey Report 2019*. Putrajaya: Department of Statistics Malaysia. <https://newss.statistics.gov.my/newss-portalx/ep/epFreeDownloadContentSearch.seam?cid=72667>.
- Hawati Abdul Hamid, Gregory Ho and Suraya Ismail. 2019. *Demarcating Households: An Integrated Income and Consumption Analysis*. Kuala Lumpur: Khazanah Research Institute.
- Sen, Amartya Kumar (1995), "The Political Economy of Targeting" in *Public Spending and the Poor: Theory and Evidence*. Dominique Van de Walle and Kimberly Nead (eds). Baltimore, MD, pp. 350-86, www.adatbank.transindex.ro/html/cim_pdf384.pdf