

# Building Inclusive Social Protection with a Universal Child Benefit

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## Introduction

Children are among the most important resources Malaysia can rely on to drive future growth. Unfortunately, child indicators on several dimensions show deterioration in recent years. The economic fallout induced by Covid-19 would further aggravate this situation if due attention were not given to reverse the misshapes.

This article argues that a universal child benefit (UCB) is a policy option whose time has come and should be implemented in Malaysia. It has the advantages of not only addressing poverty risk during childhood but could also set the right direction in overcoming longstanding coverage gaps in building an inclusive social protection system in Malaysia.

## Childhood vulnerability

Childhood is inherently a vulnerable stage of life as children rely on adults to provide for their needs. Children are disproportionately affected by poverty, with the Household Income Survey 2019 data showing a higher poverty rate among households with children, at almost 9%, compared to 2% for households without children. Children from poorer households are more likely to live in inferior living conditions, receive worse nutrition, healthcare and education. Such circumstances have long-term implications for physical, cognitive and social-emotional development, and subsequently for future earnings.

Vulnerability during childhood is not limited to poverty alone as issues like nutritional challenges involve not only caloric undernourishment, but also obesity and micronutrient deficiencies, leading to higher diet-related noncommunicable diseases (NCDs) during adulthood. While we may think undernutrition is more concentrated amongst the poor and obesity is more prevalent among the rich, the reality is malnutrition is a problem that cuts across income classes. The National Health and Morbidity Survey 2019 data shows that about 22% of children in the bottom 40% and 17% in the top 20% households were stunted. Obesity rates for both groups did not differ much, at 16% and 18% respectively<sup>1</sup>. More worryingly, some indicators suggest the situation has worsened over the years. Between 2011 and 2019, the stunting rate for children under five increased from 17% to 22%, while obesity among children aged 5–17 rose from 6% to 15%.

## Social security for children

As it stands now, the provision of social security for children and their families in Malaysia does not have legislative backing unlike legal provisions that protect social security schemes for occupational injury and joblessness risks under the Social Security Organisation (SOCSO), as well as the retirement savings scheme under the Employee Provident Fund (EPF).

While welfare assistance for children exists, they only try to assist the “deserving” poor. Eligible recipients are identified using poverty measures such as the poverty line income (PLI) and the bottom 40% (B40) income thresholds. While targeting seems sensible, exclusion among poor children remains a serious issue. For example, the number of children of around 70,000 enrolled into the Bantuan Kanak-kanak programme (BKK) in 2019 was far below than the estimated 160,000 children living in poor households based on the 2004 poverty measurement methodology<sup>2</sup>. Exclusion rate is expected to be higher considering the revised 2019 methodology. In the meantime, children in households living just above the poverty line income threshold are largely left to their own devices.

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<sup>1</sup> IPH (2020)

<sup>2</sup> MOF (2021). This is based on an assistance value RM100 per child or a maximum of RM450 per family. However, Budget 2021 increased the value of assistance to RM150 per child aged seven to 18 years and RM200 per child aged six years and below, or a maximum of RM1,000 per family. The number of expected beneficiaries is also expected to increase considerably, although still limited to families below the poverty line. These changes follow the revision in the PLI measure. Source: PMO (2020)

As multidimensional deprivations during childhood create major barriers to child development, a universal approach that provides a child benefit as a social protection floor for all children deserves attention more than ever.

Ideally, the UCB scheme would provide an unconditional monthly income to every child until they reach 18. Such a universal social protection floor would address many problems, from preventing poverty and addressing vulnerability to alleviating stigmatisation and optimising every child's potential, leaving no one behind. A universal scheme would also minimise undue administrative costs to target and select beneficiaries.

### **“Missing middle”**

As universality means benefits go to rich and poor kids alike, one could ask why the rich should also get it. In fact, child benefits already accrue to children in higher-income households, albeit not in the form of direct handouts. This happens when tax-paying parents claim tax relief for several child-upbringing expenses, including child allowances, childcare costs, and relief for educational savings.

Between these two poles, middle-income children benefit least. They are left out as their parents are not “poor enough” to be eligible for social assistance, yet are not earning enough to benefit from child tax reliefs. A universal approach would be effective in ensuring inclusion of children “missing in the middle”, while simultaneously improving the progressivity of the benefits across income groups.

Implementing UCB can be done in stages, with yearly expansion before achieving full coverage. At the outset, it could start by covering children aged 0–12 years at an estimated annual cost of around RM12.0 billion, for a benefit level of RM150 monthly.

While seemingly large, it is not impossible. This can be achieved by streamlining and consolidating tax revenue forgone due to child-related tax reliefs and the existing social assistance expenditure such as BKK and BPN (Bantuan Prihatin Nasional which has a child assistance element). Clearly, the scheme can be implemented within the existing fiscal space as it is estimated that up to RM14.0 billion will be at the government's disposal from the rationalisation exercise alone.

The proposed investment in Malaysia would come to about 0.7% of GDP, covering all children aged 0-12 years (or 72% of total children aged 0-17 years). This percentage share of GDP is slightly higher than the global median of 0.6%. By comparison, Mongolia, a lower-middle-income country, invested 0.6% of GDP, covering 85% of children. South Africa, a country with a larger share of children, invested 1.3% of GDP, covering 64% of children.

## Beyond childhood

A universal coverage is critically needed to build an inclusive social protection system and the UCB scheme is an ideal entry point to realise that purpose. Universality would mean the inclusion of all children is guaranteed from the day they are born. Enrolment of new-borns in the scheme is automatic when they register for a birth certificate. Once a comprehensive social protection registry that leave no one behind is in place, other need-specific interventions can be better designed as information on every child is available in the registry.

Further, the registry can be used to minimise protection gaps during the following life stages. When children are about to graduate from the UCB scheme upon reaching 18 years of age, automatic registration can be extended for employment-related social insurance and retirement schemes to prepare them for working lives and later, old age.

These recommendations were put forward in the recently published Khazanah Research Institute report entitled “Building Resilience: Towards Inclusive Social Protection in Malaysia”<sup>3</sup>. Besides deploying universal child benefits, the report proposes expanding social insurance to all working-age adults, including those in informal employment and the unemployed, besides establishing a social insurance pension for old-age income security. The report can be downloaded at <http://www.krinstitute.org>.

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<sup>3</sup> KRI (2021)