VOL.4 | 2019

SOCIAL PROTECTION *INSIGHT*

SHAPING DESTINY

BETWEEN HOPE & EXTINCTION

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SOCIAL PROTECTION INSIGHT | VOL 4 2019

CONTENT

REFRAMING THE TARGETING VS UNIVERSALISM DEBATE

Christopher Choong Weng Wai
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THE POLICY QUESTION

Universalism is in vogue, conspicuously seen in discourses on universal basic income, but proponents of targeting are not backing down, raising legitimate concerns over fiscal constraints. But is it really a zero-sum game between universalism and targeting?

Universalism is based on the principle that social benefits are basic rights and should be afforded to everyone (Mkandawire, 2005). Universalism is said to generate greater political support since no one feels excluded (Kidd, 2015). Nonetheless, in practice, this doesn't mean that all social protection programmes are given to the entire population all the time. For example, a universal social pension provides pension payments to everyone in the population *when they reach retirement age*. A universal child allowance provides allowance to all families with children and it is universal to the extent that it does not target *poor families with children* but applies to everyone in that category.[1]

On the contrary, targeting is based on the principle of providing social benefits to a select group of people, usually through some forms of means-testing, to determine whether these beneficiaries are eligible for, or "deserving" of social provisioning (Mkandawire, 2005). Means-testing is usually income based but non-income considerations have been introduced as well e.g. proxy means testing using assets and demographic characteristics.

However, we argue that the policy choice is often not between targeting and universalism when we apply this at the social protection *system level*—instead we need to frame a continuum of universal and targeted approaches at the *individual programme level*. Hence, the more pertinent policy question is whether individual programmes are broadening and extending universalism, contributing to the coverage of all forms of risks for all groups in the social protection system, or whether the programmes are actually narrowing the space for social policies to the deserving poor only.

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[1] This form of universalism can also be called categorical targeting.

B40 AS A TARGET GROUP

Beyond social protection schemes that protect the population from specific risks and deprivations, the government also provides safety nets to prevent people from falling below a certain minimum living standard, as well as labour market interventions to promote productivity and income growth. Poverty targeting has always been a feature of Malaysia's welfare and social protection landscape (Table 1). In Malaysia's first and second long-term plan (Outline Perspective Plans 1 and 2), the target group was the poor and hardcore poor. However, the target group was expanded in the Outline Perspective Plan 3 and conceptualised as the bottom 30% in the 8th Malaysia Plan. This later became the bottom 40% (B40) in the 9th Malaysia Plan (9MP) and continues until today.

Table 1: Evolving Poverty Eradication Focus

Long-term Plans	Key Strategy
OPP1 1970-1990	Eradication of poverty irrespective of race
OPP2 1991-2000	Special focus to eradicate the hardcore poor
OPP3 2001-2010	Specific strategy to address pockets of poverty (i.e. Orang Asli, minorities in East Malaysia, urban poor and poor in the remote areas) and increase the quality of life of the bottom 30% of households.
NEM 2011-2020	Increased emphasis on the bottom 40% of households.

Source: Adapted from the PowerPoint Presentation by Economic Planning Unit (EPU) in 2007 on "Overview of Poverty Eradication in Malaysia": http://www.ssig.gov.my/wp-content/uploads/2013/07/10985.pdf

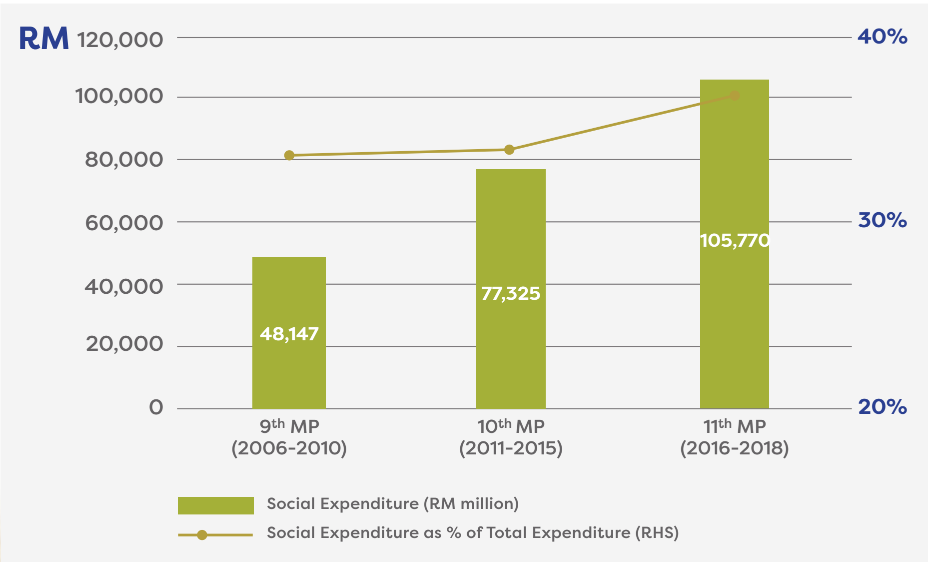
Moving from targeting the poor (i.e. 0.4% of the population in 2016) to the B40 (i.e. 40% of the population) significantly expands the size of the target group. At present, the B40 is measured using a 40% income cut-off on gross household income without adjusting for household size and cost of living at different locations. In terms of implementation, this may result in excluding the poorest of the B40. While no systematic study has yet to be conducted, the issue of mistargeting remains a source of concern given the higher risk of inclusion and exclusion errors in delivering benefits to a significantly larger group of people.

Even if we fix the definition and demarcation, targeting in such a massive way may still miss out certain segments of the population, such as those in the informal sector without documented proof of income.

Furthermore, attempts to list the “deserving” poor, in this case the labelling of individuals as the B40, may result in stigmatisation as the label may have negative connotations like inferiority and being aid-reliant (Kidd, 2015). This could result in low take-up rates and low self-esteem, considerations that are not getting enough attention from policy makers.

More importantly, social expenditure has not kept up. Social expenditure was at 33.6% at the start of the 9MP, remained largely the same at the start of the 10th Malaysia Plan (33.8%) and increased marginally to 36.4% in the middle of the 11th Malaysia Plan. Subsidies and social assistance as a share of operating expenditure decreased from 18.2% in 2011 to 11.9% in 2018.

Federal Government Social Expenditure, 2006 - 2018



Source: Ministry Of Finance (2019)

Enlarging the target group without a proportional increase in the size of social expenditure means that the allocation per unit is reduced, affecting depth of coverage and disproportionately impacting those further down the income spectrum.

Individual programmes would be competing for limited resources, necessitated by growing pressures for fiscal consolidation and reduction of government debt. Large individual programmes on the B40 may even divert resources away from a more expansive set of social protection programmes.

WHITHER NOW, SOCIAL PROTECTION?

Given all these challenges with targeting, should we drop this idea altogether and shift towards some forms of universalism? The argument in favour of universalism is intuitive. Since we are already covering 40% of the population, coupled with the hassle of dealing with inclusion and exclusion errors, why not extend social assistance to the whole population? In addition, targeting requires strong administrative capacities, which can be costly to implement and have been estimated to consume, on average, 11% of total programme costs (World Bank, 2009).

While we think that there are merits to universalism, we argue that the consideration for social assistance cannot be delinked from the underlying fiscal issue. A corresponding increase in social expenditure is a key ingredient in making the transition from targeting to universalism a success. Otherwise, universalism could exacerbate the earlier-mentioned issue with targeting the B40, as resources continue to be spread thinly across an increasingly larger group of people.

If allocation for social expenditure continues to stagnate, or worse decrease, the more pragmatic approach may be to strengthen targeting mechanisms instead. This may even mean reducing the size of the target group to improve depth of coverage for those in need of welfare assistance. Administrative capacities to target would have to be reassessed and

“So, should we move towards universal social provision or should we rationalise and strengthen targeting?”

strengthened, as opposed to being assumed as costly and ineffective. Stigma that comes along with targeting may not be eliminated but can be mitigated with the use of technology to make the welfare distribution process more subtle, as well as becoming more conscious and sensitive in the design of welfare programmes. As highlighted above, a set of effective targeting programmes reaching the right groups and the right risks can still extend universalism at the social protection system level.

Moreover, the evidence of political support for universalism remains unclear. While there are arguments that universalism invokes broad-based alliance to sustain social protection schemes through economic fluctuations (Kidd, 2015), there are also concerns that universalism may have lesser buy-in when inequality—both real and perceived—is high and seen as subsidising the rich (The Economist, 2019).

So, should we move towards universal social provision or should we rationalise and strengthen targeting? The answer—not unexpected coming from economists—is that it depends. It depends on fiscal resources underpinned by wider political economy considerations of societal values and social responsibilities.

It depends on the size of the target group, administrative capacity and costs, as well as inequality levels and perception.

In sum, given all these parameters for consideration, we argue that this should be an empirical question, and not merely an ideological one.

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PROMOTING FINANCIAL WELL-BEING THROUGH FINANCIAL EDUCATION

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Poor financial well-being, which has been amplified in recent years because of poor personal financial management, the slow wage increase and rising cost of living, has impacted a large swathe of the Malaysian population.

The problem of poor financial well-being requires effective financial literacy tools to educate and enhance people's ability to handle financial matters and reduce the negative consequences of poor financial decisions.

In this respect, Employees Provident Fund's 'Belanjawanku' 2019 for Klang Valley, which was launched by Finance Minister Lim Guan Eng (4 March, 2019) is built on the basis of educating the public and ensure improved financial literacy among Malaysians.

Belanjawanku provides detailed personal budget information for individuals and families to know the requirements for their monthly expenses in order for them to make wiser financial decisions. The items and their costs included in Belanjawanku are the minimum that a person or family need in order to attain a reasonable and acceptable standard of living.

"Belanjawanku is not a prescription or a “standard” that one has to follow. It is a guide for basic expenditure and for those who can afford to spend more, there is no stopping them from doing this as long as their lifestyle can fit into their income."

Belanjawanku is a project proposed by the Employees Provident Fund (EPF) as part of its financial literacy programme and the detailed study was carried out by a team of researchers at University of Malaya’s Social Wellbeing Research Centre (SWRC).

The research involved identifying the expenses of working adults under 40 years old and of senior citizens through questionnaire surveys as well as focus group discussions with researchers from local universities, representatives from the EPF, Credit Counselling and Debt Management Agency (AKPK), Economic Planning Unit, the National Wage Council, NGOs, Bank Negara Malaysia, and experts from industries, which include financial institutions, financial planners, nutritionists and reference persons of specific households living in Klang Valley.

The premise on which Belanjawanku was constructed are:

i

Housing for singles is based on room rental while for couples, is based on monthly mortgage repayment or rental value, whichever is lower

ii

Couples would own a car and a motorcycle

iii

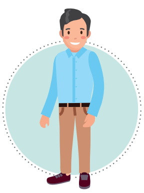
The average travel distance to work is within a 30km radius

iv

People are generally healthy and have access to universal healthcare and primary and secondary education.

The target groups were

i



Single

ii

Couples (Without children)

iii

Couples (With one child)

iv

Couples (With two children)

v

Senior Couples

vi

Elderly Single

Additionally, the study included price surveys carried out between July 2017 to July 2018.

Prices for food and groceries for home cooking were obtained from wet markets and popular supermarkets around Kuala Lumpur and Selangor.

Meanwhile, costs for dining out were obtained from the average price of food at food courts and mid-range restaurants selling mixed rice ('nasi campur') and noodles, food prices at mamak and kopitiam outlets around Kuala Lumpur, Petaling Jaya, Subang Jaya, Shah Alam, Puchong, Bangi, Kajang, Ampang, Ulu Klang, and Mutiara Damansara.

The product choices for all categories of items were taken mainly from 15 popular brands. In calculating the acceptable housing expenditure, comparisons were made between the monthly costs of room/house rental to housing mortgages, whichever is lower.

Based on this, for rental rates, the average flat, house and room rental for several districts in Klang Valley areas were obtained from www.mudah.my and www.ibilik.com as well as the Research Structure Plan for Selangor 2035 Report, published by the State Government of Selangor, 2010.

Money is an essential component of the economy and Belanjawanku serves as a practical reference and foundation for money management.

As it is, since Belanjawanku was launched, there has already been numerous healthy and, sometimes, heated debates about the numbers that have been proposed in Belanjawanku as monthly living expenses guide. This is because people of varying backgrounds and income levels have their own interpretations of the required monthly expenditures.

Bear in mind, however, that Belanjawanku is not a prescription or a "standard" that one has to follow. It is a guide for basic expenditure and for those who can afford to spend more, there is no stopping them from doing this as long as their lifestyle can fit into their income.

What the active discussions indicate is that people are indeed aware of and keen to share ideas to improve the general level of financial literacy skills and improve the management of their finances.

Further details on
Belanjawanku
can be obtained from SWRC's website:
www.swrc.um.edu.my

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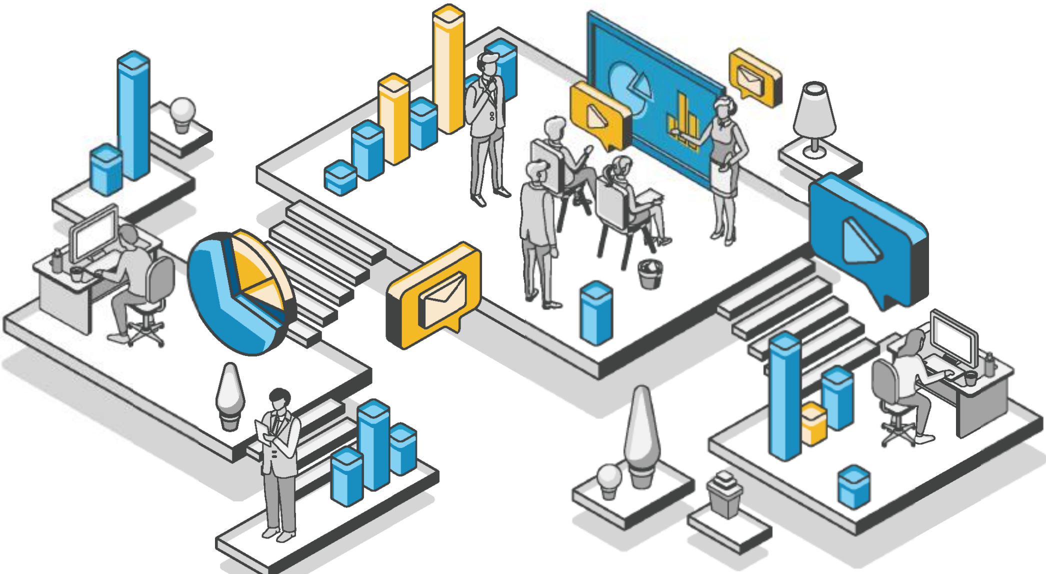
THE ELEMENTS OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

By Aberdeen Standard Investments
Adapted from:
https://www.aberdeenstandard.com/en/insights-thinking-aloud/article-page/the-elements-of-esg

HOW DOES ONE DEFINE ESG INVESTING?



ESG investing focuses on mitigating three types of material risks:

Environmental

Environmental factors relate to how a company views itself with regard to environmental conservation and sustainability. Types of environmental risks and opportunities include a company's energy consumption, waste disposal, land development and carbon footprint, among others.

Social

Social factors deal with a company's relationship with its employees and vendors. Risks and opportunities can include (but aren't limited to) a company's initiatives related to employee health and well-being, and how supplier relationships align with corporate values.

Governance

Corporate governance factors can include the corporate decision-making structure, independence of board members, treatment of minority shareholders, executive compensation and political contributions, among others.

These broad categories are just a starting point for an in-depth ESG risk assessment, but they reveal critical information about a company's values and practices, as well as a number of potential risks that should be identified and managed before investing.

WHY IS ESG IMPORTANT?

We will look at this question from a few different viewpoints: an investor, an asset manager and a company.

Investors: From the perspective of investors, consideration of ESG factors has gone from a nice-to-have to a need-to-have over the past decade. This can be attributed to many different trends. One is a growing awareness of the effects of climate change and other man-made environmental impacts, especially given the number of extreme weather events happening recently. Another is the changing demographics of the global investor base, which increasingly includes more women and millennials, both of whom have been shown to express a greater interest in stewardship. Lastly, recent research has shown that factoring in material ESG risks during the investment process can help generate a high-quality return stream that is likely to be more stable over the long term. This makes sense intuitively, in that it should foster a more in-depth look at potential investment opportunities.

ESG investing among institutions is on the rise. According to a recent survey of institutional investors by State Street Global Advisors, 80% of institutions now incorporate an ESG component within their investment strategies, with more than two-thirds of these institutions stating that the integration of ESG has significantly improved their returns.[1]

A survey conducted by BNP Paribas Securities Services finds that while nearly half of these investors have invested 25% or less of their assets in specific ESG strategies, they plan to increase this to 50% or more over the next two years.

[1] "ESG Institutional Investor Survey: Performing for the Future." State Street Global Advisors, 2017.

Asset managers are responding to this increase in demand for ESG products. Of the 80% of asset managers incorporating ESG investing, 40% currently market 25% or less of their funds as either ESG or responsible investing funds. However, more than half (54%) have said they plan to market 50% or more of their funds as ESG products in two years[2].

“Asset managers: Risk management is becoming ever more important to asset managers as risks develop and evolve within constantly changing markets”

Incorporating ESG risks into investment decisions helps asset managers gain a fundamental understanding of the key risks and opportunities associated with each company or asset. All of these risks – including those relating to cybersecurity, supply chain management, regulatory changes and environmental impacts – should be part of the overall analysis of an investment opportunity.

Recognising unique advantages and possible risks of an investment, whether positive or negative, is a critical part of fundamental investing. Understanding material risks related to ESG concerns contributes to a fuller understanding of each potential portfolio holding.

While many commentators link ESG analysis to “non-financial” analysis or considerations, this view may actually understate the importance of ESG-related factors.

Rather, these factors are just as vital to understanding a company's financial health as understanding the company's financial statements, perhaps just not in the very short term. But, if an ESG risk manifests itself over the medium to long term, it will soon have a significant impact on a company's financial condition and its ability to generate returns for investors.

By integrating ESG considerations on a holistic, fundamental basis, investment managers can better price the asset they are investing in. This helps avoid overpaying for an investment. Understanding the individual material issues of an asset helps managers determine the most appropriate weighting for a particular asset within a portfolio.

Additionally, full integration of ESG into the investment process helps investors better engage with companies on the issues will have the most significant impacts on their businesses. Finally, ESG integration helps manage the downside risk, or the risk that an asset loses value due to the augmentation of a key risk to the business.

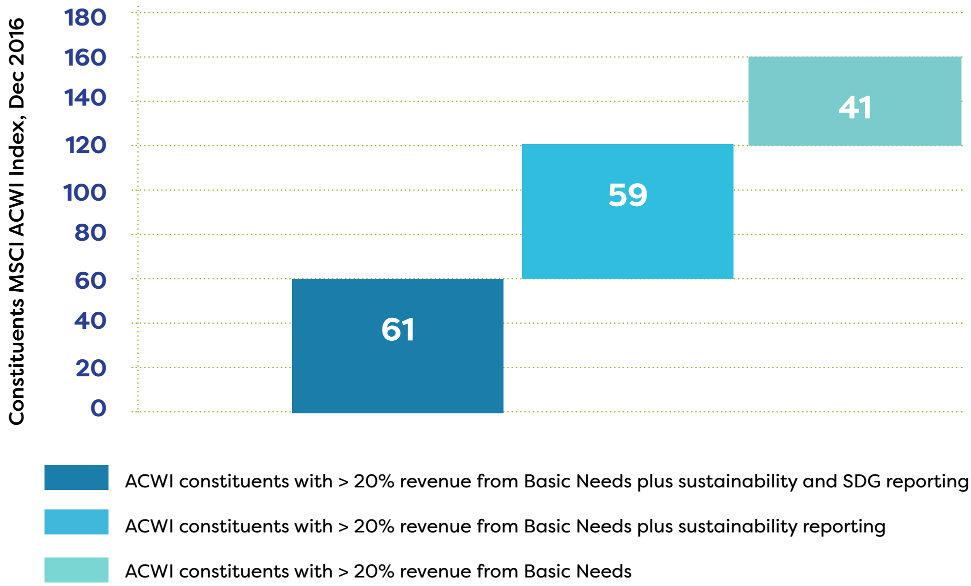
Companies: As a result of greater commitment to ESG and responsible investing from both investors and asset managers, companies are changing their reporting practices to better reflect their commitment to sustainability and other ESG issues.

According to a recent roundtable discussion sponsored by Pensions & Investments, less than 25% of the 500 largest companies globally were producing sustainability reports five years ago. As of 2017[3], over 80% of these companies now produce reports of this kind. The chart below shows increased adoption of ESG reporting within the MSCI ACWI Index.

[2] Source: BNP Paribas Securities Services, May 2017.

[3] "Not Your Parent's ESG." Pensions & Investments, May 2017.

Focus on Sustainable Development Goals (SDGs) for MSCI ACWI constituents as of 31 December 2016



***Source:** MSCI ESG Research, December 2016*

But simply reporting on sustainability practices is no longer enough. ESG risks are just as important as financial risks, and thus should be given equal consideration. Companies must therefore report their material ESG risks and opportunities and how they plan to manage them. While some companies have adopted best practices, others still continue to dump this information in their sustainability or Corporate Social Responsibility (CSR) reports where it can be easily overlooked.

Still, there is reason to be hopeful that improvements will come in time.

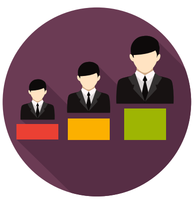
Several international bodies, including the Global Reporting Initiative (GRI) and the Sustainable Accounting Standards Board (SASB) are currently advocating for global standards of ESG risk assessments. But this is still a work in progress.

Finally, companies are seeing increased support from their boards regarding a focus on ESG characteristics. According to data from Institutional Shareholder Services, 33% of companies included in the S&P 500 Index have at least one director on their board with experience in corporate social responsibility or socially responsible investment[4]. Changes like these that happen at the very top of the corporate structure are likely to spur a greater drive toward implementing more ESG-friendly objectives.

HOW DOES ESG AFFECT INVESTMENT PERFORMANCE?

What does all of this have to do with investment performance? The good news is that multiple studies conducted over the past several years showed a positive correlation between an emphasis on ESG and investment performance. Here are a few examples:

A study conducted in 2011 by Alex Edmans and published by The Journal of Financial Economics, which looked at the performance of a value-weighted portfolio of the "100 Best Companies to Work For in America," found that firms with above-average employee satisfaction had overwhelmingly positive returns, as well as earnings surprises.



A study of the relationship between ESG and corporate fixed income in 2016 by MIT Sloan School of Management and Breckenridge Capital Advisors showed that ESG factors were positively correlated with measures of financial health, including risk, return on assets and leverage ratios. Furthermore, these positive findings were even stronger during times of market turmoil.

A review of more than 2,000 empirical studies from the 1970s to the present was conducted by Gunnar Friede, Timo Busch and Alexander Bassen in 2015, the results of which were published in The Journal of Sustainable Finance & Investment, to provide a closer look at the relationship between ESG and corporate financial performance (CFP). The study found that ESG and CFP had a non-negative relationship 90% of the time, and that most studies reported positive results.

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[4] Skroupa, Christopher P. "Company Valuation -- How ESG Integration Is The Future Standard." Forbes. July 12, 2017

These are just some of the recent studies that have come out in support of ESG investing. While there are no guarantees of outsized performance, it seems to make sense that having a focus on doing what's right, not only for one's bottom line but also for employees, shareholders and the environment, would lead to a more engaged workforce, mitigation of certain risks and, ultimately, a satisfied investor base. When these elements combine, good intentions seem to reinforce good business results. And all of this is good news for investors.

ABERDEEN STANDARD INVESTMENTS (MALAYSIA) SDN BHD

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EXPANDING OLD-AGE INCOME PROTECTION TO INFORMAL WORKERS

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Around the world, the "standard" employment relationship defined by dependent wage employment for a single employer and over a long period, forms the basis for many risk-sharing policies – including those related to income security during old age. However, for many workers in developing and emerging countries this type of employment relationship is more of an aspiration than a reality. Moreover, the changing nature of work and the increasing diversity and fluidity of work further challenge the effectiveness of risk-sharing policies that rely heavily on employment as a stable platform and the employer as a steadfast implementing agent. In addition, aging leads to additional challenges for old-age income protection. As countries around the world age more and more rapidly, it will be increasingly important to deepen financial protection for those who already make contributions to their own pensions, while expanding the coverage of risk-sharing policies to reach the segment of the labour force currently outside the pension net, including informal and gig economy workers.

Note: The authors thank Philip O'Keefe for helpful guidance. Findings, interpretations and conclusions expressed in this paper are entirely those of the authors and do not necessarily represent the views of the World Bank, its affiliated organisations, its Executive Directors or the governments these represent.

Various indicators show high prevalence of non-standard forms of work in Malaysia. According to the Labour Force Survey, the share of own-account workers among all workers increased from 16.4 percent in 2010 to 19.4 percent in 2018. The rise in self-employment has been particularly pronounced for women, for which the share of own-account workers increased from 11.6 percent in 2010 to 19.5 percent in 2018.

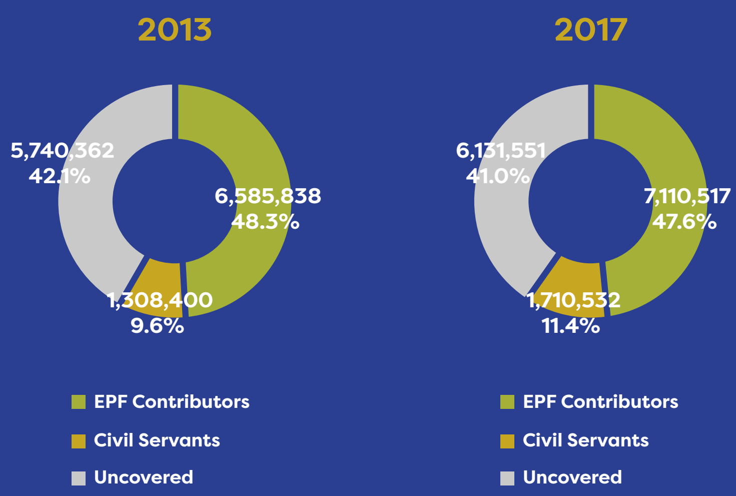
The coverage of existing pension and pension savings institutions remains some way from being complete. The most important institutions providing either annuitised benefits or retirement savings in Malaysia are the budget-funded retirement scheme for pensionable public service workers, administered by the Retirement Fund Incorporated (KWAP), the pensions scheme for the armed forces, administered by the Armed Forces Fund Board (LTAT), and the mandatory retirement savings plan for private sector workers and non-pensionable public service workers, administered by the Employees Provident Fund (EPF).

> **"The changing nature of work and the increasing diversity and fluidity of work further challenge the effectiveness of risk-sharing policies that rely heavily on employment as a stable platform and the employer as a steadfast implementing agent."**

Based on publicly available data in 2017, 11.4 percent of the labour force comprised of civil servants or members of the armed forces while 47.6 percent contributed to the EPF. The figures suggest that 41 percent of the labor force were uncovered by EPF, KWAP, or LTAT, and many of those contributing to the EPF have inadequate benefits at retirement. Although workers contributing to the EPF are technically "covered", many workers move in and out of standard employment and therefore their EPF contribution histories tend to be inadequate to support a reasonable level of old-age income protection.

According to the conceptual framework of the World Bank's White Paper "Protecting All – Risk-Sharing for a Diverse and Diversifying World of Work" (World Bank, 2019) a comprehensive policy package of protection from risk and uncertainty should ideally consist of four layered elements: a guaranteed minimum, mandatory social insurance, voluntary but incentivised insurance, and purely voluntary and privately financed insurance.

Figure 1. Share of uncovered labor force, 2013 and 2017



Source: *Authors' calculations based on Department of Statistics Malaysia, EPF and Public Service Department.*

In this context, a guiding principle for strengthening the social protection system is progressive universalism: gradually expanding coverage of risk-sharing instruments that are appropriate to diverse work arrangements and welfare situations, giving priority to the poorest in use of public funds.

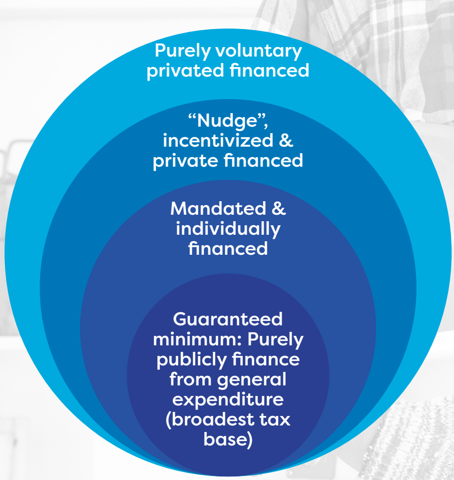
The first layer of the proposed policy package (the guaranteed minimum) should largely be guaranteed through non-contributory social assistance programs with broad coverage, plus any general revenue-financed premium subsidies for those who voluntarily participate in contributory schemes (often the poor and/or near-poor). In principle, the guaranteed minimum would be available to all those in need, set at adequate benefit levels, incentivise work, be responsive to changing circumstances, and be fiscally sustainable.

The combination of social assistance and contribution subsidies from general revenues results in a blurring of the historically rigid distinction between contributory and non-contributory programs.

As a second layer, social assistance should be complemented with mandatory contribution-based social insurance, ideally in a form that does not fully depend on formal wage employment. An arrangement of this nature would provide basic insurance coverage. Ideally, the guaranteed minimum combined with mandated social insurance should be sufficient to ensure an adequate retirement income for everyone. However, even in highly formal economies, a sustainable "contributory" system may require an increased role for general revenue financing as the share of elderly population becomes high. For example, Japan funds much of its basic pension in its "contributory" social insurance system from general revenues to avoid having to raise contribution rates to a level that would compromise competitiveness. In the outer layers, additional insurance could be achieved through voluntary savings schemes supported by appropriate government incentives and "nudges", and purely unincentivised savings for those who can afford it.

Taken together, the expanded coverage of social assistance and the provision of social insurance and incentivised savings would imply a strong role for government and could entail additional fiscal expenditures in many countries. As a consequence, progressive universalism calls for gradual expansion of social protection systems in line with the prevailing fiscal space.

Figure 2. Comprehensive package of protection from risk and uncertainty



Source: *World Bank*

At present, Malaysia is still some way from providing comprehensive protection from risk and uncertainty. One large and growing group where gaps are most apparent are the elderly. Not only are the number of elderly growing, but they are relying on support from working age households whose relative size is gradually stagnating; at a household level it is anticipated that elderly co-residence with family members will gradually decrease as Malaysia continues to urbanise.

The elderly in Malaysia depend upon multiple sources of support for their livelihood in retirement. These sources include labour income, family support, public transfers, remittances, pensions, savings and EPF distributions. In terms of the first layer of protection, social assistance is provided by the Bantuan Sara Hidup (BSH) programme, which has broad and progressive coverage but lacks depth, and in much more narrowly targeted form by the Bantuan Orang Tua (BOT) programme – which targets those aged 60 and above with no source of income – and other programs of the Department of Social Welfare (DSW) under the Ministry of Women, Family and Community Development (MWFCD).

In 2016, the average BOT benefit was about RM 3,720 per year or 9.3 percent of income per capita. In the same year, BOT covered about 133,000 beneficiaries or about 4.7 percent of those over 60. This places Malaysia among the group of countries in East Asia and the Pacific where benefit levels and even more so the coverage of non-contributory pensions is lowest (World Bank, 2016).

"At present, Malaysia is still some way from providing comprehensive protection from risk and uncertainty."

In terms of the second layer, the two main schemes are the pension scheme for civil servants and the retirement savings plan administered by the EPF. For a significant share of EPF members, the average EPF savings is too small to support meaningful old age income protection, the benefit is received at too young an age relative to remaining years of life at withdrawal (even with the age increase of recent years), and studies have found that most lump-sum benefits are used up in a few years, exposing some retirees to poverty soon after retirement in the absence of significant supplementary sources of income.[2]

"Altogether, Malaysia faces a dual agenda of deepening financial protection for those already contributing to retirement savings schemes while expanding coverage to reach the almost 40 percent of the labour force currently outside the pension savings net."

[2] Nearly seven in 10 EPF members aged 54 have less than RM50,000 in savings, with the poorest 20 percent having an average savings of only RM6,909.62 (World Bank, 2018).

Altogether, Malaysia faces a dual agenda of deepening financial protection for those already contributing to retirement savings schemes while expanding coverage to reach the almost 40 percent of the labor force currently outside the pension savings net. For those already in EPF, there is a need to continue reforms which strengthen income protection in old age and align the system with increased longevity in Malaysia. The link to the labour market is also crucial, with a need over time to encourage longer working lives and look at options for reducing the contribution burden on labour while providing adequate old age benefits. Squaring the circle of adequate protection while avoiding ever-increasing contribution rates will require consideration of whether only contribution revenues and investment returns are sufficient as Malaysian society ages, or whether there may ultimately need to be a role for general revenues.

In terms of coverage expansion, there is a need for innovation to bring informal workers currently uncovered into some formal pension arrangement. A first step would be expanding old age protection through a modest non-contributory social pension for those without pensions or adequate EPF accumulations coupled with strengthened efforts to incentivise participation in contributory schemes. Such a social pension for eligible households should be supported through budgetary transfers. One way to achieve this could be expanding the coverage of current elderly social assistance benefits, such as those offered under the current BOT program, ideally with a more adequate benefit level. The parameters for such assistance need to be developed, taking into account the current and anticipated future fiscal constraints, the targeted threshold for eligibility, the anticipated benefit level(s) and the anticipated indexation (ideally one that is automatic and not discretionary and, at a minimum, adjusts for changes in consumer prices).

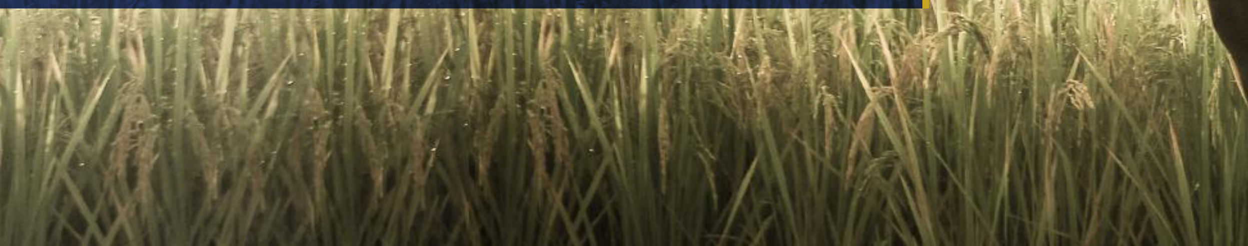
A key question for any social pension is whether it should be universal or targeted, and – if targeted – how narrowly. The option of a universal, non-contributory, and flat social pension for all elderly over a certain age has the attraction of ensuring some financial protection for all. It also does not affect incentives to work.

It would, however, cost more than targeted approaches and would inevitably provide benefits to some who do not need them. An intermediate option would be providing a social pension for all those without an existing pension or EPF account balance below a certain threshold (for instance equivalent to 40 percent of the elderly population and as such aligned with Malaysia's broader emphasis on the B40). This option would be cheaper but could create disincentives for low income workers to contribute to the EPF during their working lives. The third option is to target the social pension according to household income or other measures of household welfare. This option most closely aligns with the elderly poverty reduction objective while controlling fiscal costs.

However, it would be advisable to adopt a targeting approach and threshold which allowed for relatively wide coverage of the poor and vulnerable elderly. A final option – which could address younger cohorts of workers but not the stock issue of current elderly and those nearing retirement – would be to pre-fund a social pension by making a lump sum deposit into an EPF account on their behalf early in their working lives and letting compound returns generate an accumulation by retirement sufficient to generate the equivalent income flow of a modest social pension for life after retirement.

Complementary to a social pension, efforts to increase participation in second-layer retirement savings schemes (such as EPF) could involve a mixture of incentives and stronger infrastructure for the self-employed and informal sector workers. One method for providing old age protection to informal workers is by encouraging participation in voluntary insurance arrangements. Most successful policy innovations to expand the take up of voluntary insurance from across the world draw on insights from behavioral economics.

> **"In all countries – including Malaysia – mandatory payroll tax financed benefits of any sort increase incentives to evade or underreport incomes. At the same time, many countries have limited oversight for ensuring compliance."**



With mainstream recognition of the social and cognitive limitations on people's ability to make rational choices (Kahneman, 2011; World Bank, 2015), policy makers have been increasingly resorting to behavioral "nudges" to coax people to save and insure.

In all countries – including Malaysia – mandatory payroll tax financed benefits of any sort increase incentives to evade or underreport incomes. At the same time, many countries have limited oversight for ensuring compliance. Policy makers have been experimenting intensively with an alternative course to a payroll tax mandate: making participation the lowest-effort, default option that people can take at key moments of contact with government.

For example, in some countries such as New Zealand, all workers, including the self-employed, are "auto-enrolled" in a retirement savings scheme yet have the option of "opting out" through an annual email. The proportion of workers exercising this opt-out decision is surprisingly low. In addition, the retirement savings scheme needs to be credible, efficient and transparent to ensure public confidence.

As a result, many countries have been using technology to support robust and efficient delivery systems so that informal workers can readily enroll and check their account status on their smart phones and receive benefits directly to their bank or mobile-money accounts. Using auto-enrollment accords well with research of retirement savings behavior in high-income countries showing that when participation in voluntary pension plans (such as the "401(k)" plans in the United States) is made the default option, worker enrolment doubles (Benartzi and Thaler, 2004).

In Malaysia, there have already been efforts to expand social protection coverage to the self-employed via voluntary insurance. According to the EPF (2018), in 2017 there were about 100,000 members of the Skim Simpanan Persaraan 1Malaysia (SP1M) voluntary retirement savings scheme for the self-employed (now known as i-Saraan) that offers a 15 percent Government contribution of up to RM250 per year. Total savings of SP1M were about RM500 million.

Another effort to encourage voluntary insurance has been the introduction of Private Retirement Schemes (PRS) administered by the Private Pension Administrator (PPA) in 2012. Between 2014 and 2018, the Government provided a one-time matching contribution of up to RM1,000 for youth under the age of 30. As of 2018, there were 416,913 PRS members, with 40 percent of these members aged 30 and below (The Star, 2019).

These existing efforts are a step in the right direction in recognising the need for old-age protection beyond that mandated and tied to formal employment. However, the aggregate take-up rate of the schemes has been relatively low to date, likely at least in part due to the relatively low matching rate.

Given that the challenge in encouraging participation is not unique to Malaysia, alternative incentives or adjustments to the existing voluntary retirement savings schemes – including changes in the nature or size of matching contributions – intended to boost participation would need to incorporate global experiences on behavioral "nudges" and weigh the fiscal costs and potential incentive effects.

Overall, expanding old age protection in Malaysia to cover all elderly regardless of the type of employment may gradually be achieved through a modest social pension and by ensuring that voluntary pension savings is efficient, transparent and supported by carefully considered incentives.

To achieve the maximum benefit and increase the likelihood of providing the guaranteed minimum for all, the design of the two schemes would need to be carefully coordinated.

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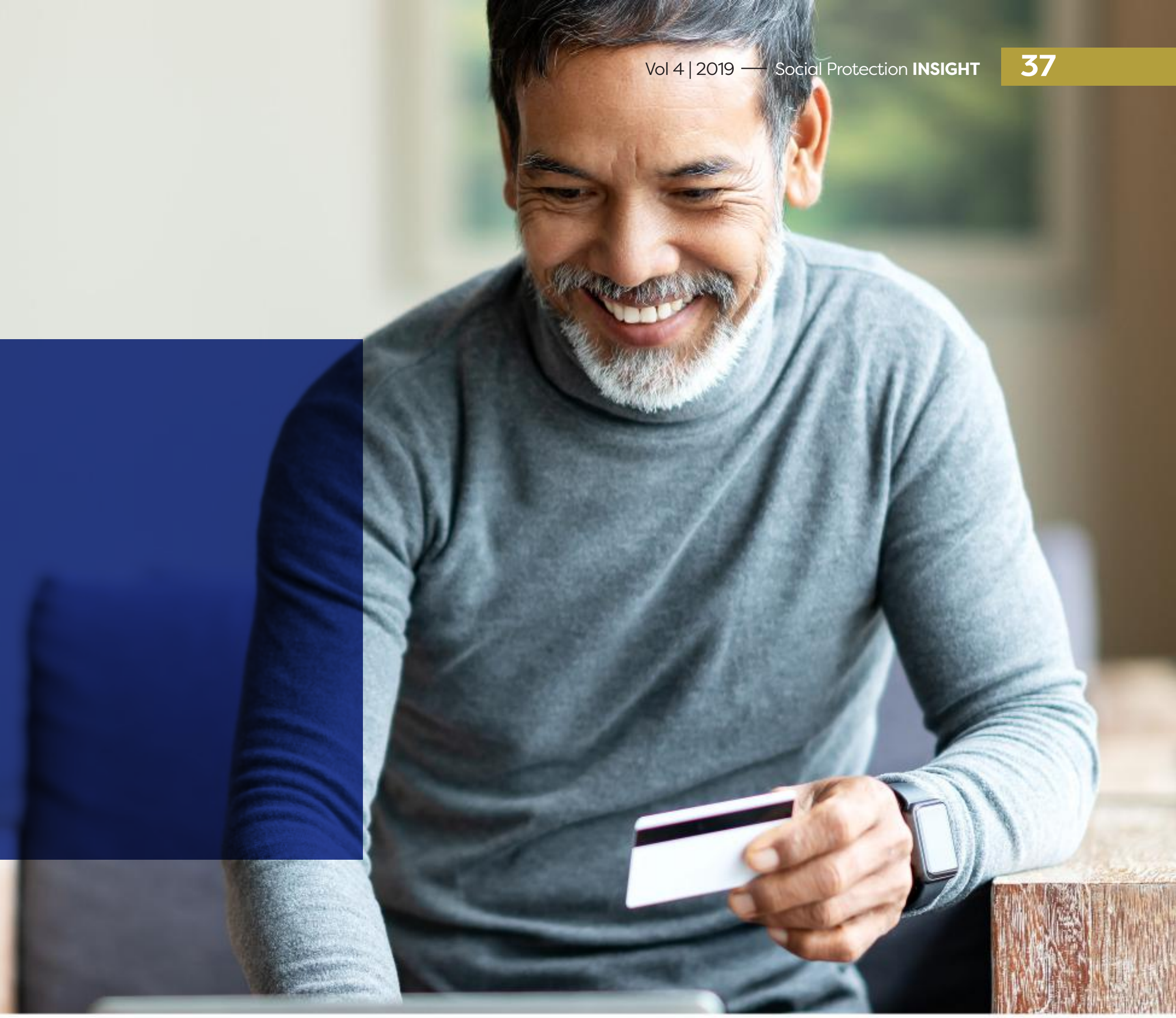
The National Strategy for Financial Literacy is a five-year plan (2019-2023) that aims to raise the country's financial literacy level through priorities and actionable plans, along with equipping Malaysians with the knowledge to make informed financial decisions and to nurture healthy attitudes to financial management.

EMPOWERING FINANCIAL FREEDOM: THE PATH TO FINANCIAL INDEPENDENCE

Edika Amir Muhamad Amin
Employees Provident Fund

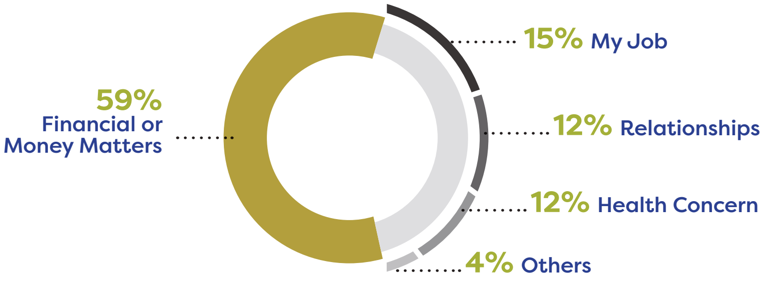


As Malaysia's economy continues to expand, greater opportunities are created to pursue people's life goals and achieve financial independence. Financial decisions we make whether on day-to-day finances or on long-term financial needs can have lasting effects on our well-being, encompassing health, happiness and prosperity.

Today, young, old, men, women, blue collar workers and even white collar professionals, rush through life at a feverish and frenetic pace, neglecting efforts needed to enhance our financial health. As a result, many Malaysians continue to lack the personal finance knowledge necessary to make sound financial decisions. This is supported by a study by S&P Global Literacy Financial in 2014 that reported that the financial literacy rate in Malaysia is only 36%.

Furthermore, overall well-being can be affected when individuals face financial stress. According to a 2019 PwC Employee Financial Wellness Survey, many employees cited financial matters as the main source of stress, more than any other source combined, as shown in Diagram 1.

Diagram 1: Financial Matters Is the Top Cause of Stress

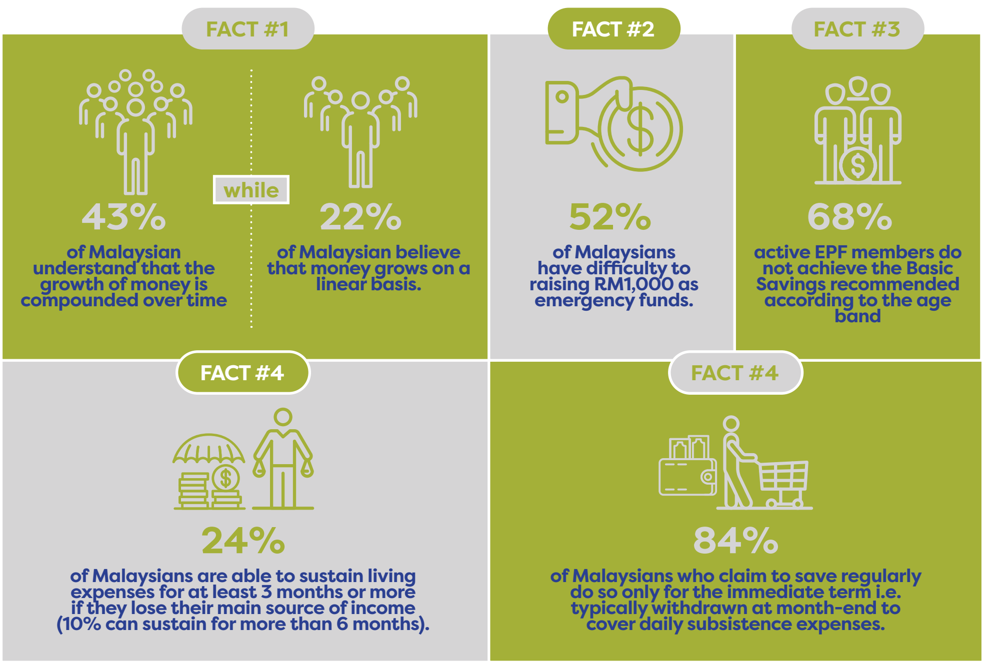


Source: PwC 8th Annual Employee Financial Wellness Survey (2019)

The survey also found that individuals experiencing financial stress are often distracted, and causes absenteeism, productivity loss, retirement, and even loss of health.

Therefore, having the ability to manage our finances is an essential building block to attaining and sustaining a good quality of life. Prudent financial management enables us to make informed decisions through different life stages such as marriage, family protection, children's education, and unexpected events (death or illness), hence improving the standard of living as a whole.

Figure 1 explains the current state of financial literacy in Malaysia.



Source: Malaysia National Strategy for Financial Literacy (2019-2023)

Financial well-being can lead to improvement of overall well-being

The definition of overall well-being has expanded over the years to include not only the physical, but also the emotional, work, and financial well-being. Financial well-being is defined as leading a meaningful, contented and sustainable life - free from constant financial worries and able to withstand temporary income shocks, changes in life circumstances and emergencies without financial burden. Moving forward, financial literacy can play a prominent role in achieving financial well-being and thus impacting a person's overall well-being as a whole.

Addressing financial literacy requires a systematic, sustained, and coordinated approach that focuses on engendering long-term behavioural change. Given this, the nation's policymakers recognised the need to create a structured framework to address financial literacy. This brings us to the development of Malaysia's first National Strategy for Financial Literacy. It is envisioned that this National Strategy will act as a catalyst for financial inclusion, owing to its ability to empower Malaysians to make informed financial decisions that can dramatically impact the financial well-being of all individuals and society.

About the National Strategy and Approaches

The National Strategy for Financial Literacy is a five-year plan (2019-2023) that aims to raise the country's financial literacy level through priorities and actionable plans, along with equipping Malaysians with the knowledge to make informed financial decisions and to nurture healthy attitudes to financial management.

The strategy was formulated by the Financial Education Network (FEN), an inter-agency group co-chaired by Bank Negara Malaysia and the Securities Commission Malaysia. Other founding members include the Ministry of Education, the Employees Provident Fund (EPF), Permodalan Nasional Bhd (PNB), Agensi Kaunseling dan Pengurusan Kredit (AKPK), and Perbadanan Insurans Deposit Malaysia (PIDM).

The National Strategy outlines five priority areas namely:

Strategic Priority 1 — **Nurture values from young**

Financial education should start at an early age. Basic financial education must be taught to schoolchildren in order to inculcate and nurture good financial values in youth. This will enable students to apply what they have learnt about personal finance and practise prudent money management.

Strategic Priority 2 — **Increase access to financial management information, tools and resources**

Educate and encourage Malaysians to adopt a healthy financial lifestyle. To advance and improve financial awareness, information will be communicated through bite-sized messages using various channels including social media, digital platforms, and physical touch points, in order to reach out to as many Malaysians as possible.

Strategic Priority 3 — **Inculcate positive behaviour among targeted groups**

The third strategic area will focus efforts on vulnerable segments of society. Target groups include housewives, the self-employed, and young graduates who are entering the workforce, as this is a period when our youth should learn how to manage their income. This strategy will look to develop long-term financial attitudes and positive behavioural change, requiring consistent intervention over a period of time.

Strategic Priority 4 — Boost long-term financial and retirement planning

There is a clear need to improve long-term financial planning among Malaysians in order to achieve medium to long-term financial goals and have sufficient funds for expected life events, including marriage, having children, and retirement. This strategy will look to develop conscious efforts to boost long-term financial planning for unexpected life events and retirement planning among Malaysians through providing tools and guides, promoting other voluntary retirement schemes, and engagement with professional financial advisory services, where relevant.

Strategic Priority 5 — Build and safeguard wealth

Lastly, financial innovation has increased saving and investment opportunities. At the same time, Malaysians must be able to appreciate the benefits and risks of investing in new products. They should also be able to identify suitable financial products based on their risk appetite and objectives and make informed financial decisions. On this foundation of basic financial knowledge, Malaysians will be able to make the distinction between legitimate products and fraudulent schemes, and be aware of avenues to seek help when in doubt.

Overview of the Malaysian National Strategy for Financial Literacy

Source: Malaysia National Strategy for Financial Literacy

Financial Education Network (FEN)

The Financial Education Network (FEN) is an inter-agency platform comprising of institutions and agencies committed to improving the financial literacy of Malaysians. The FEN leverages on its members' expertise and resources to coordinate, cooperate, and collectively drive efforts to promote effective delivery of financial education initiatives to Malaysians.

To realise the vision of the national strategy, the FEN will collaborate with individuals and organisations in the public and private sectors to deliver the strategy's inclusive and sustainable measures. These collaborations will be in the form of four major initiatives, namely:

Financial Literacy Policies

To facilitate formulation of appropriate financial literacy policies, members of the public and private and public bodies are encouraged to give feedback and comments on the National Strategy and its implementation.

Implementation Partners

Financial institutions and experts can work with schools, non-governmental organisations (NGOs), and communities to deliver financial education programmes to different segments of society. These partnerships will extend the reach of the National Strategy's initiatives.

Develop Financial Literacy Materials and Tools

To help raise financial awareness, public and private bodies as well as academicians may collaborate to develop necessary materials and tools to support and contribute towards improving the financial well-being of Malaysians.

Outreach and Communications

Members of the public and private and public bodies can assist in promoting and creating awareness of the National Strategy and its intended outcomes via various communication platforms including social media.

Conclusion

Moving forward, the FEN understands that solutions will without question require concerted efforts from key stakeholders - policy-makers, corporations, and business owners and, if success is to be attained, citizens' very own participation. Given this, the FEN invites all Malaysians to support and collaborate with partners in enhancing financial literacy in Malaysia.

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"Technology is just a tool. In terms of getting the kids working together and motivating them, the teacher is the most important."

Bill Gates

"Education promotes equality and lifts people out of poverty. It teaches children how to become good citizens. Education is not just for a privileged few, it is for everyone. It is a fundamental human right."

Ban Ki-Moon

AMUNDI DOUBLES DOWN ON SOCIAL IMPACT INVESTMENT STRATEGY

Today, it is reported that there are 4 million people[1] who do not live in a decent home in France, twice the number at the turn of the century; and a further 12 million facing a housing crisis[2].

In the Ile de France region, the number of people in subsidised housing has increased tenfold. More than 1,000 homeless people are believed to be sleeping on the streets of Paris although 40,000 are welcomed in subsidised housing.

FIGHTING RISING INEQUALITY

There is a big increase in poverty and the number of dislocated families. And while it used to be mostly young or middle-aged men, now about half of those affected are single women with young children. In addition, there are 600,000 unemployed young people[3] , and half of those without a degree cannot find a job, a fourfold increase from 1975, while 2.5 million people cannot read well enough to be independent in their daily lives.

Given the scale of the social problems that France and many other countries face, it has become clear that more needs to be done. This is where the social and solidarity economy can help, by emphasising the need to tackle these issues through the funding of profitable social enterprises backed by sustainable business models; and clearly asset managers have a role to play here.

References

[1] Source : INSEE
[2] Source : Abbé Pierre Foundation
[3] Source : INSEE

Today, the challenge is to continue financing social initiatives by promoting the development of profitable social enterprises based on business models that are sustainable over a long period. Social impact investing is designed to finance the social and solidarity economy over the long-term by creating a direct link between savers and investors looking for social values in their investments; and social enterprises needing to raise capital. It is a shared objective: contributing to the common good.

While the focus of Amundi's Socially Responsible Investing (SRI) investing has always been about creating a dialogue with listed companies to help them improve their performance on ESG (Environment, Social and Governance) issues, Amundi's impact investing philosophy is more focused on a dialogue with institutional investors and retail clients. Investors give Amundi their money and say that they want a return on their investment, but also want to see proof of the positive social impact their money is making.

INVESTING IN SMALLER COMPANIES

While providing funds to the social and solidarity economy remains a relatively small part of Amundi's business, accounting for €300 million in dedicated funding of social enterprises, the asset manager believes that investing in unlisted companies is the easiest way to make an impact.

The aim is to invest in companies that can help meet people's basic needs—a home, a job, food, clean water, adequate hygiene and sanitation facilities—and recognise the importance of environmental concerns and gender equality in building the economy of the future.

Amundi focuses on small companies that are moving to the next stage of their development. The asset manager contributes to driving local development by supporting innovative projects. These projects work towards creating social inclusion for people excluded from the labour market, providing support for dependent people, financing the construction of eco-friendly homes for housing impoverished families, and helping innovative Small, Medium Entreprises (SMEs) in the environmental field.

Amundi first developed its social solidarity funds five years ago and aligns its investments with the United Nation's 17 Sustainable Development Goals (SDGs) that are guiding environmental and social development priorities until 2030.

The need for private-sector capital would be crucial in achieving the SDGs. The financial sector has been grappling with thorny problems on how to translate the funds into investable instruments. Until recently, there was a lack of financing instruments for capital market investors, and thus limited options for financing social impact toward achieving the SDGs; especially so when SDGs were set up for governments and not for investors. Taking that point into account, Amundi tries to feed the aims of the SDGs into their funds; and this helps to frame and explain their objectives to their investors.

DEVELOPING SOCIAL SOLIDARITY FUNDS

Amundi aims to address the SDGs through its five impact investing themes, which cover most of the 17 SDGs:

Access to decent housing

Access to meaningful jobs

Access to healthcare, education and training

Protecting the environment

International solidarity including microfinance

The investment universe related to impact investing is growing rapidly in France, in part thanks to the ESUS, Entreprise Solidaire d'utilité Sociale, (the French Social Enterprise of Social Utility). It provides easier access to financing. However, the social economy is expanding faster than financing awards given out, and faster than Amundi's funding pace. The reason for this fast growth is due to the need for these companies. Inequality is growing fast and now, there is more awareness of the issues and the need to tackle them.

The inflows for the strategies come from large institutions and more than €2.8 billion in solidarity-based employee savings funds, to which employees choose to allocate some of their savings. Some 90 percent of the fund is invested in listed socially responsible companies, while 10 percent goes to the social impact fund, whose investments have to generate a positive return, and have their impact measured on a range of different themes.

Amundi is committed to providing long-term support for the companies financed via its flagship social impact fund diversifying the range of socially committed organizations it invests in and publishing transparent and concrete information about its investments.

The fund looks for SMEs involved in these areas, and it seeks evidence that they are already making an impact. Both financial and social impacts are measured.

AMUNDI'S INVESTMENTS VIA ITS FLAGSHIP SOCIAL IMPACT FUND

In October 2018, Amundi announced a three-year responsible investment action plan that will see ESG analysis integrated across its €1.4 trillion funds[4]. The firm currently has €280 billion of assets under managements[5] invested in three areas of responsible investment, and plans to increase the application of its ESG policy to 100 percent of its open-ended fund management and voting practices by 2021.

Responsible Investing (RI) has always been one of Amundi's founding principles. The firm has rated the performance of 5,500 issuers on a range of environmental, social and governance (ESG) criteria.

In addition, the firm's investment in the social and solidarity economy—companies that provide goods and services meeting the needs of a large number of communities—will reach €500 million by the end of 2021, up from €200 million. Both moves are in response to investor demand which Amundi views as a fundamental shift in asset management.

As of 30 September 2018, Amundi's social impact investments have led to:

- The creation and maintenance of **16,372** jobs
- Support for **361** charities
- **4,295** people trained, educated and successfully employed
- **2,315** people housed
- **17,674** tonnes of waste recycled or recovered
- **19,280** people benefiting from healthcare
- **2,283** hectares of farmland preserved
- Meetings with **100** social businesses each year
- Funding of **32** social businesses at this stage

References

[4] Source : Amundi
[5] Source : Amundi

While the fund is currently focused on France, Amundi plans to expand it across Europe - initially to Italy, Germany and Spain, thereafter to Belgium and the Netherlands.

Amundi also maintains a range of other partnerships. The firm is involved in a public/private partnership with Agence Française de Développement (AFD, the French Development Agency), by managing an open-ended mutual fund of 85M€ for retail clients to finance AFD and all its projects of local economic development in emerging countries (green and social projects).

Amundi has also set up a partnership with IFC with Euro 1.6 billion funding. The fund invests in green bonds issued by financial institutions in emerging markets to finance business projects with positive environmental impact.

The firm partners with Danone in managing a fund for Danone Communities. It is funded by Danone employees and invests in projects that fights malnutrition and increases access to clean drinking water.

Elsewhere, CPR Asset Management, a wholly owned subsidiary of Amundi, has developed its own risk-based ESG approach that is being rolled out progressively through a number of existing and newly created equity, fixed income, credit and diversified investment solutions.

Supplemented by impact measures, this approach has also been adopted for some of its strategies dedicated to specific themes in listed companies – first, on food for generations, which aims to make the global food chain more sustainable; second, on investment in education, with a focus on all levels of the school system up to professional qualifications; and third, on the fight against global warming as well as climate action, in partnership with CDP[6].

Looking ahead, Amundi plans to explore the possibility of issuing social impact bonds with a focus on the SDGs and to meet the ambitions laid out in its three-year plan. The focus will be on new commitments to impact investment to address clients' new expectations and to expand this approach to other European markets.

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[6] * CDP, a pioneering NGO in the disclosure of companies' carbon data and the only supplier of such data complying with the recommendations of the TCFD (Task Force on Climate-related Disclosures).

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THE WELL-BEING CONUNDRUM

Fatin Nadhirah Jamalolail
Employees Provident Fund

"In a world obsessed with measuring economic growth, some parts of the world have started to seek alternative indicators to measure the success of their economy and the focus has shifted from merely monetary gains towards people's social wellbeing."

Economic growth is often equated with progress and development and the most commonly used indicator to measure it is Gross Domestic Product (GDP). Regardless of its imperfections and flaws as the key indicator of economic success, and after the 85 years after it was officially developed by Simon Kuznets in 1934, it might just be the most frequently quoted and used term when one talks about the economic health of a nation.

However, quoting the words of Robert Kennedy in 1968, GDP, “measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country, it measures everything in short, except that which makes life worthwhile.” So why do we still cling to this flawed indicator? Does it really measure what is important to us? How can we measure progress and growth differently?

GDP: DESPERATE TIMES CALL FOR DESPERATE MEASURES

Few know that the indicator that is commonly used today to measure economic success, was first proposed to evaluate a country’s ability to wage war. William Petty, an English scientist came out with the first estimates of national income and expenditure, population, land and other assets of England and Wales in the 17^{th} century. The initial aim was to evaluate the economic condition of a country by measuring the country’s resources and enumerating whether it was able to fight a war and finance it through taxes. It was created to prepare nations for sustaining warfare.

"Malaysia has paved her way into becoming one of the fastest developing economies with an admirable track record of rapid economic development and is arguably on its way to achieving high-income status."

Fast-forward to the post-war period, the Bretton Woods Conference saw the creation of the International Monetary Fund and the World Bank, and GDP was adopted as the standard tool for measuring economic progress, which continues until today.

BEYOND GDP: WELL-BEING ISN'T A FOREIGN CONCEPT AFTER ALL

While it remains important, GDP does not reflect the total well-being of a nation as higher economic production does not equate to a better quality of life for its citizens. There has been a rising movement to find an alternative indicator to measure progress and the quality of life. The literature on the subject matter has escalated rapidly since the report of the Commission on Measuring Economic Performance and Social Progress was published. This report posed the critical question of what would be the best indicator to measure societal progress beyond purely monetary considerations. One of the recommendations of the reports is to "shift emphasis from measuring economic production to measuring people's well-being".

Well-being is a concept already embedded within humanity. Well-being is the state created by 'the good life' and 'the good life' has been a goal of political economy since at least the fourth century BC. This can be seen in Aristotle's concept of eudaimonia, which can be translated as achieving the best conditions possible for a human being, in every sense, which is not only happiness, but also virtue, morality and a meaningful life. Adam Smith, who is known as the father of modern economics, also put forth the importance of well-being and happiness. He believed that "to deserve, to acquire, and to enjoy the respect and admiration of mankind are the great objects of ambition and emulation," and that the attainment of this was achieved through, "the study of wisdom and the practice of virtue," rather than, "by acquisition of wealth and greatness." It is to live a life full of dignity.

"Income, wealth and economic growth are not ends in themselves but instruments for the purpose of human welfare betterment. "

Human well-being means for someone to be well in the basic sense of being healthy, well nourished, well clothed, be literate, have a roof over one's head, is long-lived, being able to take part in the life of community, being mobile, and having freedom of choice in what one can become and can do. This is what Amartya Sen (1999), a development economist, suggests through the "capability approach," in which the capability to function is what really matters. According to Torado and Smith (2015), which they referenced Sen, it is where the "expansion of commodity productions are valued, ultimately, not for their own sake, but as means to human welfare and freedom." Income, wealth and economic growth are not ends in themselves but instruments for the purpose of human welfare betterment.

Nevertheless, to come out with a single definition of well-being is not as straightforward, and perhaps might not need to be. In general, well-being refers to a positive physical, social and mental state or a condition due to a host of material consumption and relations with people and places.

Well-being emphasises the need to meet basic needs and improve conditions that support personal relationships, empower communities, financial security, rewarding employment, good health, as well as a secure and attractive environment. Malaysia's Economic Planning Unit (EPU) defines well-being as the physical, social and economic benefits that contribute to improving quality of life and satisfaction of individuals, families and communities.

CONCEPT OF WELL-BEING APPLIED IN OTHER PARTS OF THE WORLD

In a world obsessed with measuring economic growth, some parts of the world have started to seek alternative indicators to measure the success of their economy and the focus has shifted from merely monetary gains towards people's social well-being.

New Zealand Well-being

On May 30 New Zealand announced the world's first Wellbeing Budget, where they structured the government's expenditure around citizens' well-being. The Budget gave emphasis on six prominent priorities: aiding the transition to a sustainable and low-emissions economy, supporting a thriving nation in the digital age, lifting Māori and Pacific incomes, skills and opportunities, reducing child poverty, supporting mental health for all New Zealanders and investing in crucial national infrastructures.

Grant Robertson, the Finance Minister, in his budget speech gave importance to valuing and measuring all that makes life worthwhile in New Zealand. Ministers are to collaborate on funding proposals to fit the new priority areas set by the government. According to Prime Minister Jacinda Ardern, the budget was the epitome of their effort in broadening the definition of success for a country that incorporates not just the health of its finances, but also of their natural resources, people and communities.

Scotland Well-being

While New Zealand has 12 indicators of well-being, Scotland has 81. According to Scotland's National Framework, the aim was to create a more successful country, give opportunities to all people living in Scotland, increase the well-being of people living in Scotland, create sustainable and inclusive growth and reduce inequalities, and give equal importance to economic, environmental and social progress. Under this framework, Scotland has set up some national outcomes to measure its success. The outcomes are a reflection of the values and aspirations of the people of Scotland, and are aligned with the United Nations Sustainable Development Goals and help to track progress in reducing inequality.

Reflecting upon Sen's capability to function approach, it is pertinent to identify what matters to us as citizens. It is proposed to take into account six core aspects when measuring the social well-being of a society. They are shelter, healthcare, income security, nutrition, education and mobility. They should not be seen as independent of each other, but rather complementary in nature.

1
SHELTER

We have roof over our heads in communities that are inclusive, caring and safe

2
HEALTH

We are healthy and active at all ages, supported by affordable, accessible and quality healthcare

3
INCOME SECURITY

We have sufficient income to lead a dignified life throughout our life stages

4
NUTRITION

We value, protect and enhance our physical and cognitive wellbeing through healthy and quality foods

5
EDUCATION

We are equipped with relevant knowledge and skills in order to contribute to the nation and society

6
MOBILITY

We are able to move physically and progress socially due to good infrastructure and fair opportunities

MALAYSIA: WHERE CAN AND SHOULD WE GO?

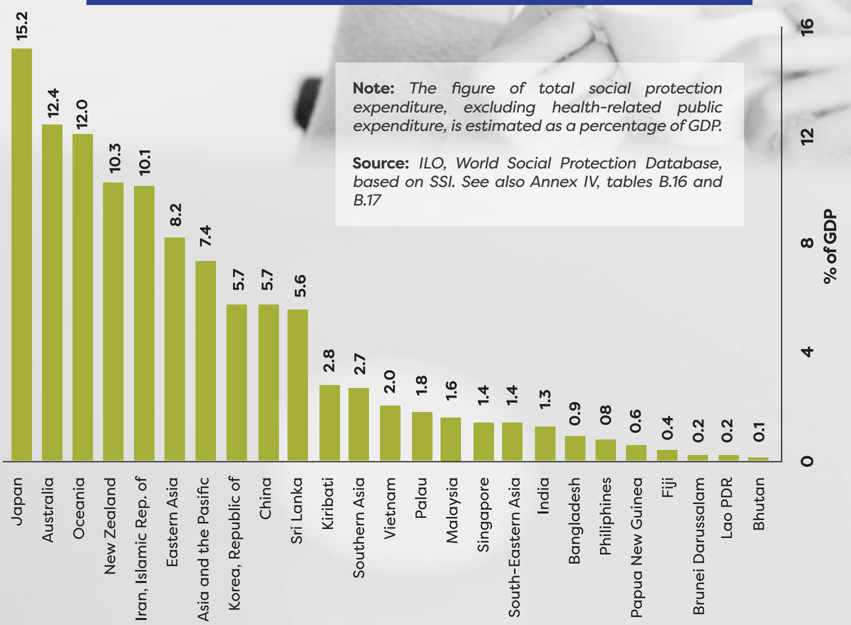
Malaysia has paved her way into becoming one of the fastest developing economies with an admirable track record of rapid economic development and is arguably on its way to achieving high-income status. In terms of competitiveness, Malaysia has been ranked as the Most Attractive Emerging Market in Asia, 2nd place in the Ease of Doing Business Index within ASEAN, 2nd in the Global Competitiveness ranking among ASEAN Countries, and 5th place in Digital Readiness among Developing Asian Economies.

Owing to the period of rapid industrialisation from the 1970s to the early 2000s, Malaysian households have generally benefitted from economic growth, looking at the substantial increase in nominal median monthly household incomes. Besides that, Malaysia has positioned itself at the top spot in the healthcare category of International Living's Global Retirement Index, owing to it affordable healthcare and well-trained medical staff.

Nevertheless, inclusive and distributive growth for citizens' well-being remains a challenge. Given the rising trends of digitalisation that have resulted in a proliferation of non-standard employment and an aging society that has put pressure on public finances and the adequacy of retirement savings, citizens' wellbeing remains a pressing issue that needs to be urgently addressed. The well-being of the citizens is interconnected with the social protection landscape of an economy.

Usually, public expenditure on social protection as a proportion of GDP typically rises with GDP per capita, but this has not always been true for Malaysia. Instead, social protection expenditure in Malaysia is lower than other Southeast Asian countries. Furthermore according to International Labour Organisation (ILO) (2017), Malaysia's social protection expenditure, at 1.6 per cent of GDP, is lower than the mean expenditure for Asia and the Pacific at 7.4 per cent of GDP. This does not take into account the expenditure on health. Investment in social security in high income countries averages around 12 per cent of GDP in lifecycle social protection schemes, with most investments in inclusive programmes.

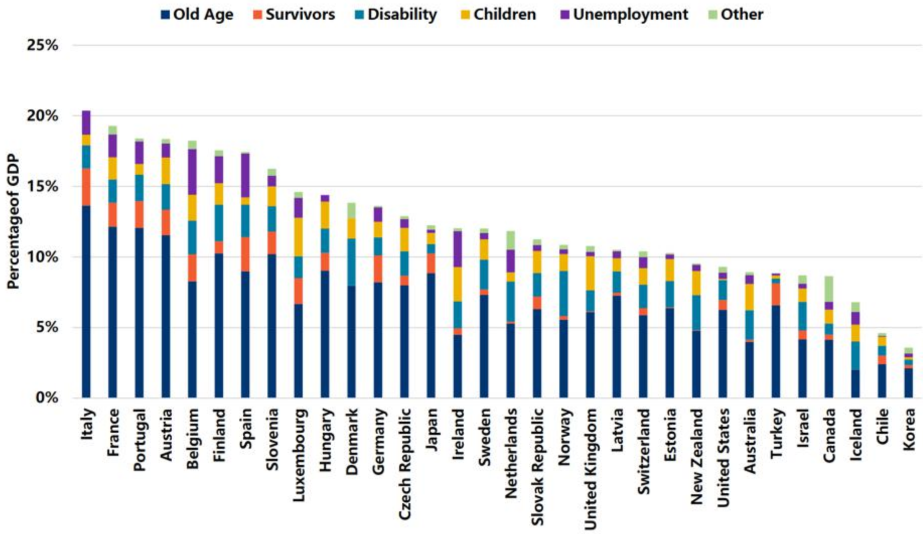
Social protection expenditure in Malaysia is below the mean expenditure for Asia and the Pacific



Note: *The figure of total social protection expenditure, excluding health-related public expenditure, is estimated as a percentage of GDP.*

Source: *ILO, World Social Protection Database, based on SSI. See also Annex IV, tables B.16 and B.17*

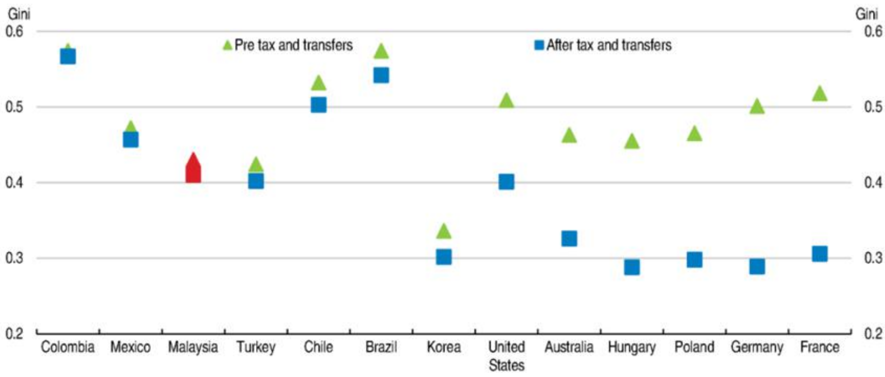
Investment in social security in high income countries averages at around 12% of GDP



Source: *Kidd (2017), Citizenship or Charity: the two paradigms of social protection*

Besides that, Malaysia's tax-and-transfer system has had minimal impact on income distribution, as the difference in Gini coefficient is only 0.02 pre and post tax-and-transfer.

Malaysia's tax-and-transfer system has minimum effect on income distribution



Source: *OECD (2016), Social Spending (indicator), http://dx.doi.org/10.1787/7497563b-en; ADB, Statistical Database System*

Spending on social protection is not only an investment towards economic growth but also an investment towards the well-being of citizens. For the individual and families, social transfers can strengthen the future labour force as they will have more money to invest in income-generating activities, supports people's access to employment, and mitigate the impact of shocks from undesired situations.

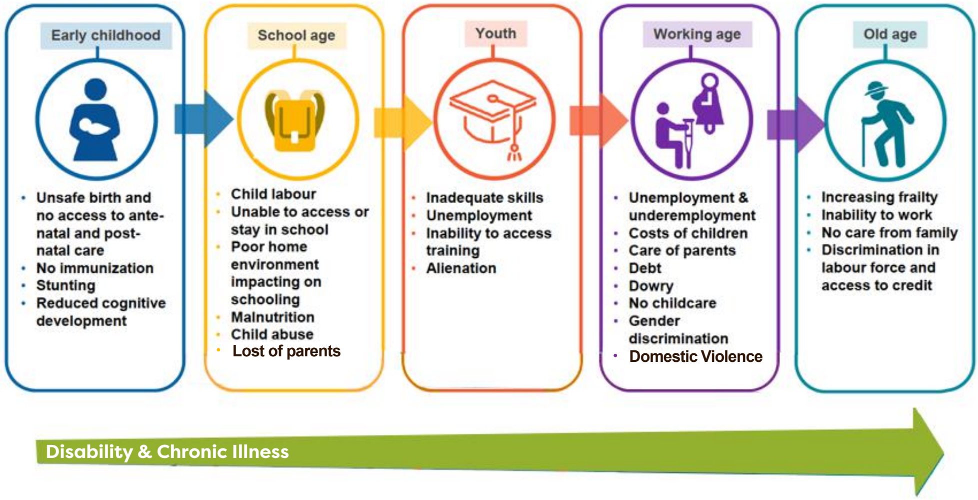
On a national level, investment in social protection builds a healthier and skilled future labour force, acts as a springboard for people to work and invest, and serves as a foundation of labour market engagement. Investment in social protection can also strengthen the social contract between citizens and the state.

Living in a world of uncertainties today, it is imperative to redefine and measure development and see social protection as a catalyst for not only improving development, but also the well-being of the citizens.

Given the lifecycle risks people face, social protection can give a sense of security and care. Other developing countries have realised the importance of investment in social protection. Thailand for example, has increased their public expenditure on social protection three-fold in the span of 15 years. They have created new sources of fiscal space by reallocating military expenditures to universal healthcare. Other countries such as Mongolia have financed a universal child benefit from a tax on mineral exports, while Indonesia extended its social protection by reforming energy subsidies (ILO, 2017).

> **"The increase in digitalisation and automation that affects how we live and work, are not making things easier either."**

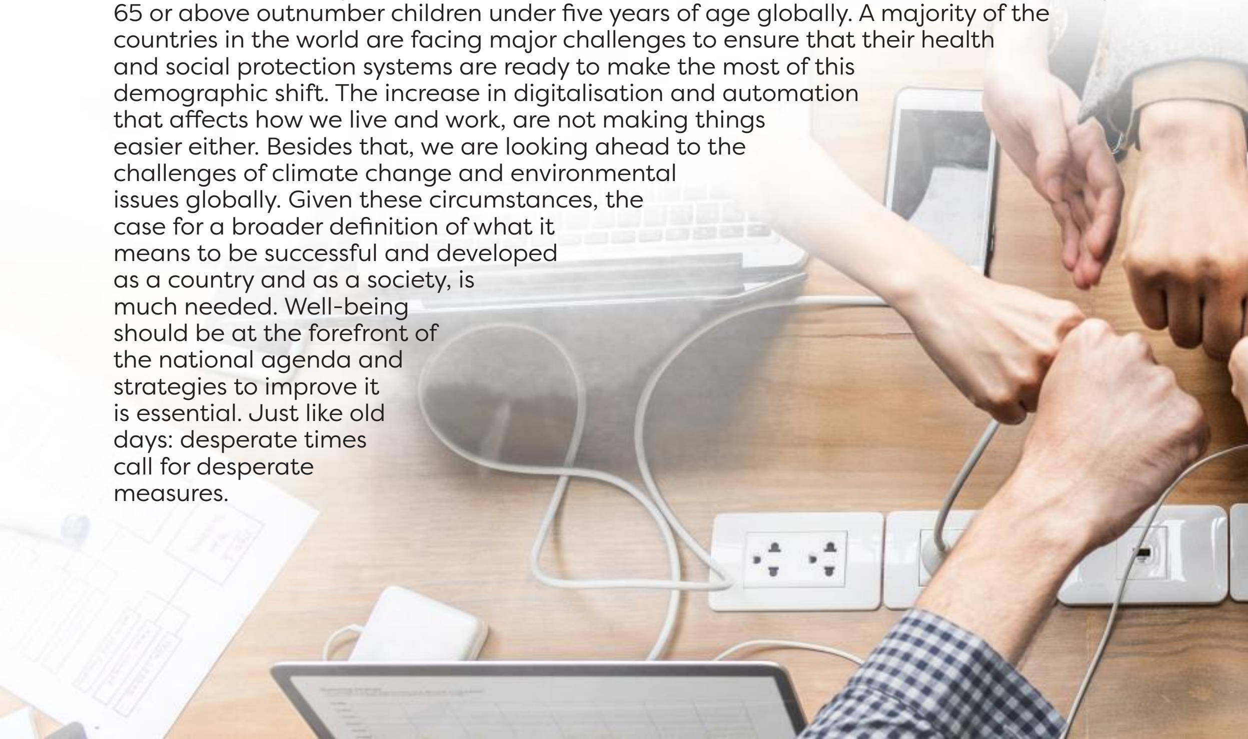
Examples of lifecycle risks



Source: Adapted from a presentation from Kidd (2019) on Targeting: Making certain no one is left behind.

We Are Facing A Different Kind Of War Today

While GDP was created as a measure of wartime production, perhaps there is a need to rethink how and why we measure economic growth and development. It is imperative to see growth and development not just for its own sake, but for the holistic well-being of citizens. Today, we are facing a different kind of war. For the first time ever in history, persons aged 65 or above outnumber children under five years of age globally. A majority of the countries in the world are facing major challenges to ensure that their health and social protection systems are ready to make the most of this demographic shift. The increase in digitalisation and automation that affects how we live and work, are not making things easier either. Besides that, we are looking ahead to the challenges of climate change and environmental issues globally. Given these circumstances, the case for a broader definition of what it means to be successful and developed as a country and as a society, is much needed. Well-being should be at the forefront of the national agenda and strategies to improve it is essential. Just like old days: desperate times call for desperate measures.



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