CHAPTER 1

Economic Management and Prospects

Economic Management and Prospects

Managing the Twin Health and Economic Crises

Battling one of the worst crises in recent human history, nations across the globe are challenged on various fronts, particularly in public health and economic management. The COVID-19 pandemic resulted in 4.9 million deaths globally and a plunge in global economic growth by 3.2% in 2020. The International Labour Organization (2021) estimates that the COVID-19 pandemic resulted in 8.8% loss in global working hours equivalent to 255 million full-time jobs in 2020. Although 2021 was expected to be a recovery year, the impact of the pandemic still lingers on despite the rapid vaccination rollout. Nations, in general, are still struggling to chart the way forward as the pandemic continues to threaten the pace of progress. Certain industries, especially tourism-related activities that require physical presence, including hotels, transportation, recreations and restaurants, continue to be impacted, dragging down their economic contribution.

Closer to home, the pandemic has delayed the nation's aspiration for greater economic development. As 2021 is the foundation year for the Twelfth Malaysia Plan, 2021 – 2025 (12MP) and the 2030 Shared Prosperity Vision (SPV 2030), effective implementation of various programmes and projects is vital to catapult the nation towards achieving various developmental goals. While the overarching aims and objectives of the medium- to long-term plans remain, the pandemic has derailed the progress and steered the growth trajectory away from its original path. Notwithstanding this, the Government is resolved to provide necessary assistance to the people and businesses and return the economy to its growth trajectory. Given the importance of prioritising the safety of the people, the Government has implemented various forms of Movement Control Orders (MCOs) nationwide. Nevertheless, the MCOs have affected people's livelihood, restricted business activities and impacted the economy. In response, the Government has provided various assistance to ease the people's burden and help businesses survive. Since the emergence of the pandemic in March 2020, the Government has announced eight assistance packages amounting to RM530 billion to assist the people and businesses in weathering the crisis.

TABLE 1.1. *Assistance and Economic Stimulus Packages during COVID-19 Pandemic*

	OBJECTIVE	ASSISTANCE AND STIMULUS PACKAGES	AMOUNT (RM BILLION)
	PEOPLE		
1.	Alleviate people's welfare	Bantuan Prihatin Nasional: PRIHATIN & KITA PRIHATIN	18.30
		Internet Connectivity for Education and Productivity: PENJANA & PEMULIH	3.50
		Reskilling and Upskilling Programmes: PENJANA	2.00
		Bantuan Prihatin Rakyat: PERMAI & PEMERKASA	4.50
		Increase in People's Welfare assistance: PERMAI	2.20
2.	Assisting people's cashflow	Loan Moratorium: PRIHATIN, PEMERKASA & PEMULIH	95.00
		i-Lestari: PRIHATIN	40.00
		EPF Rate Reduction: PRIHATIN & PERMAI	19.20
		Civil Servant Special Assistance: PRIHATIN	1.90
		i-Citra: PEMULIH	30.00
		Special COVID-19 Assistance (BKC) and Job Loss: PEMULIH	5.10
		Electricity Discounts at 2%-50%: PRIHATIN	1.35
		Capping price of 5kg cooking oil at RM30: PEMULIH	1.00
		ePENJANA dan eBELIA Programme: PENJANA & PERMAI	0.80
		Other assistances under all packages: Private Retirement Scheme, frontliner allowance, IPT students assistance, OKU assistance, single mother and food basket	9.90
	Subtotal		**234.75**
	BUSINESS		
3.	Assist business cash flows	Wage Subsidy and Government incentives: PRIHATIN, PRIHATIN PKS+, PENJANA, KITA PRIHATIN, PERMAI, PEMERKASA, PEMERKASA+ & PEMULIH	24.90
		Special Relief Financing (SRF) and Targeted Relief and Recovered Facility (TRRF): All packages	16.00
		Loan Moratorium (Biz): PRIHATIN & PEMULIH	115.00
		EPF Employer Assistance Programme: PRIHATIN	10.00
		SME GO: PENJANA	1.60
		Electricity discount up to 15%: PRIHATIN, PEMERKASA and PEMULIH	2.00
4.	Rejuvenate businesses, particularly SMEs and MSMEs	Microfinancing: PRIHATIN, PEMERKASA, & PEMULIH	4.26

	OBJECTIVE	ASSISTANCE AND STIMULUS PACKAGES	AMOUNT (RM BILLION)
5.	Rejuvenate businesses	Prihatin Special Grant: PRIHATIN PKS+, KITA PRIHATIN, PERMAI, PEMERKASA, PEMERKASA+ & PEMULIH	6.08
		DanaJamin: PRIHATIN	50.00
		All economic sector facility fund: PRIHATIN	1.00
		MyCIF: PRIHATIN	0.50
		Financial Stress Support for Businesses: PENJANA	2.00
		PENJANA Tourism Financing (PTF): PENJANA	1.00
		Automation and Digitalisation Fund: PENJANA & PEMERKASA	1.00
		Guarantee Schemes (SJPP) & Danajamin PRIHATIN Guarantee Scheme (DPGS): PRIHATIN & PEMULIH	30.00
		Fund for SMEs: PEMULIH	1.40
		Others for all packages: Tax relief for COVID-19 Related Expenses, Bumiputera Relief Financing, spur the setup of new businesses, micros and SMEs eCommerce campaign and etc.	6.56
	Subtotal		**273.30**
	ECONOMY		
6.	Rejuvenate businesses and economy	Small Scale Projects: PRIHATIN & PEMERKASA	6.00
		Others (includes expanding MARRIS): PRIHATIN	1.10
		Tax Incentives for Property Purchase: PENJANA	1.04
		Dana PENJANA Nasional: PENJANA	1.20
7.	Address the impact of COVID and enhance implementation of various existing measures, subsidies and incentives	COVID-19 Related: PRIHATIN, PERMAI & PEMERKASA+	3.50
		National COVID-19 Immunisation Programme (PICK): PERMAI, PEMERKASA & PEMULIH	5.80
		Others - Mobile Vaccination Clinic, Mobile Vaccination Programme, MyMedic Programme: PEMULIH & PERMAI	0.04
		Food Security Fund: PRIHATIN	1.00
8.	Improve cash flow	Tax incentives for Passenger Cars: PENJANA	0.90
		Others – Assistance on arts, culture, entertainment, events and exhibitions sector support; commodity sector support; technology and etc.	1.37
	Subtotal		**21.95**
	Total Assistance		**530.00**

Note: Figures may not tally due to rounding

To ensure the allocations reached the targeted groups, the National Economic Implementation and Strategic Coordination Agency (LAKSANA) was established in March 2020 to closely monitor, evaluate and improve public service delivery. These include various studies to evaluate the effectiveness of programmes and projects and identify implementation gaps and ways to facilitate the delivery mechanism. This is in line with the Government's objective of adopting more targeted and coordinated approaches to ensure the assistances reached those who needed them most. As of July 2021, an estimated 20 million people and 2.4 million businesses have benefited from these programmes.

FEATURE ARTICLE 1.1

The Impact of COVID-19 Pandemic on Households and Micro and Small Enterprises
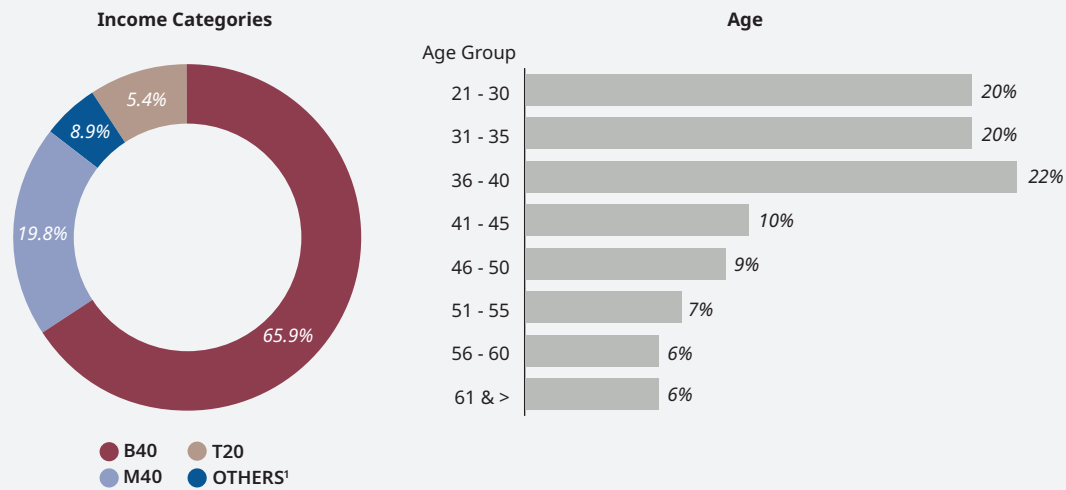
Introduction

The COVID-19 pandemic and the imposition of various forms of Movement Control Orders (MCOs) nationwide have severely affected the people and businesses, particularly the micro, small and medium enterprises (MSMEs). Some sectors could not operate as normal due to movement restrictions, and changes in consumer behaviour impacted employment and the economy's resilience. In response, the Government has provided a large amount of assistance to lessen the burden of the people and businesses. Assistance valued at RM530 billion was provided through eight assistance and economic stimulus packages since March 2020. This article aims at assessing the impact of the COVID-19 pandemic on households and businesses, their preparedness in facing the pandemic and the effectiveness of Government assistance in alleviating their difficulties.

Methodology

Two surveys were conducted in 2020 and 2021 to gauge the impact of MCOs on households and businesses income, the effectiveness of Government assistance and obtain proposals on improving the delivery of assistance. The first survey was conducted from August to October 2020, while the second was from July to August 2021. The surveys compared the impact of the pandemic during the two periods against the pre-pandemic situation. The first survey covered assistance and stimulus packages such as Prihatin Rakyat Economic Stimulus Package (PRIHATIN), PRIHATIN Small and Medium Enterprises Economic Stimulus Package (PRIHATIN SME+), National Economic Recovery Plan (PENJANA) and Kerangka Inisiatif Tambahan Khas PRIHATIN (KITA PRIHATIN) while the second covered Pakej Bantuan Perlindungan Ekonomi dan Rakyat Malaysia (PERMAI) and Strategic Programme to Empower the People and Economy (PEMERKASA) assistance packages. Both surveys were conducted by an independent private research house.

The surveys covered two segments of respondents, namely households and micro and small enterprises (MSEs). The first survey involved 5,374 respondents, while 4,915 respondents participated in the second survey. Respondents in both surveys comprised employed heads of households (wage earners or self-employed) and unemployed individuals. Approximately 350 respondents from each state participated in the surveys. A specific weightage was applied to ensure appropriate state-based representation and proportion of the population. The profile of survey respondents is as shown in Figure 1.1.1.
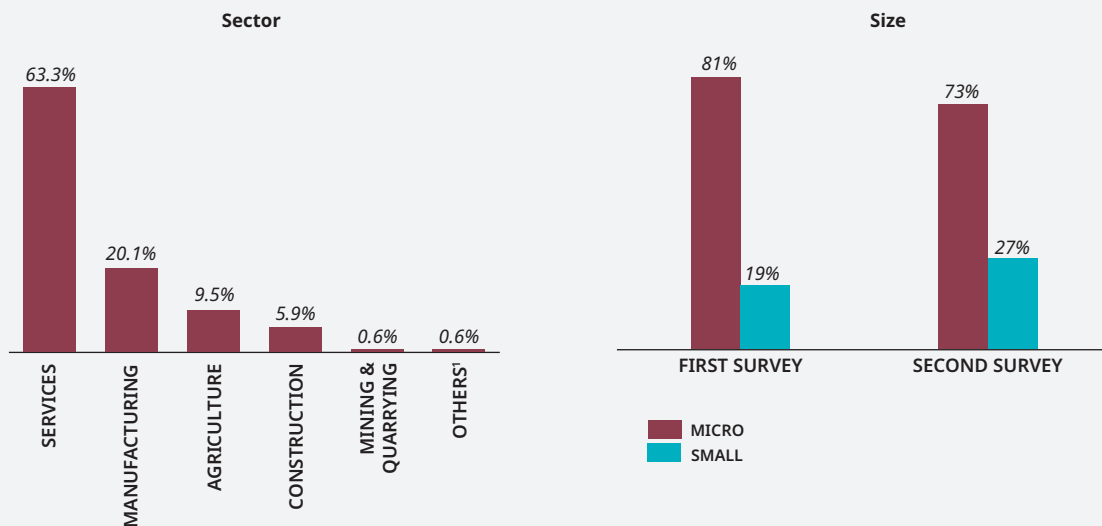
FIGURE 1.1.1. *Households' Profile by Income Categories and Age*

Income Categories

- 65.9% B40
- 19.8% M40
- 8.9% OTHERS¹
- 5.4% T20

● B40   ● T20
● M40   ● OTHERS¹

Age

Age Group

Age Group	
21 - 30	20%
31 - 35	20%
36 - 40	22%
41 - 45	10%
46 - 50	9%
51 - 55	7%
56 - 60	6%
61 & >	6%

¹Others refer to the respondents who were unsure about their household income or refused to disclose their earnings
Source: Ministry of Finance, Malaysia (2020 and 2021)

The first survey involved 500 enterprises compared to 507 respondents in the second survey. The respondents were owners or senior management personnel of MSEs. They were selected based on the sectors and subsectors they were operating in using the criteria in Guideline for New Definition of SME 2013 (updated August 2016) as outlined by the SME Corporation Malaysia (SME Corp. Malaysia). The second survey involved 329 respondents (65%) who had participated in the first survey (repeat respondents), while 178 (35%) were new respondents. Data was collected through telephone interviews and online surveys using quantitative questionnaires. The response rate for households and enterprises surveys were 31% and 24%, respectively. The profile of MSEs involved in the survey is as shown in Figure 1.1.2.

FIGURE 1.1.2. *Micro and Small Enterprises' Profile by Sector and Size*

Sector

- SERVICES: 63.3%
- MANUFACTURING: 20.1%
- AGRICULTURE: 9.5%
- CONSTRUCTION: 5.9%
- MINING & QUARRYING: 0.6%
- OTHERS¹: 0.6%

Size

|	MICRO	SMALL
FIRST SURVEY	81%	19%
SECOND SURVEY	73%	27%

● MICRO
● SMALL

¹Others refer to respondents who were unsure about the sector they were operating in
Source: Ministry of Finance, Malaysia (2020 and 2021)

Outcome of Surveys

Households

The study found that the pandemic severely impacted household earnings, with income fluctuating beginning in 2020 while expenses remaining at similar levels throughout the study period. The income of self-employed respondents reduced significantly to 51% of the pre-pandemic level in the first survey, while the income of wage earners reduced to 73%. In the second survey, the income of self-employed and wage earners reduced to 59% and 85%, respectively, compared to the pre-pandemic level, as shown in Figure 1.1.3. Income improvement in the second survey compared to the first survey indicates that the assistance provided by the Government and higher economic activities have helped mitigate the impact of the MCOs for both the self-employed and wage earners.

FIGURE 1.1.3. *Income Level for Self-Employed and Wage Earners*
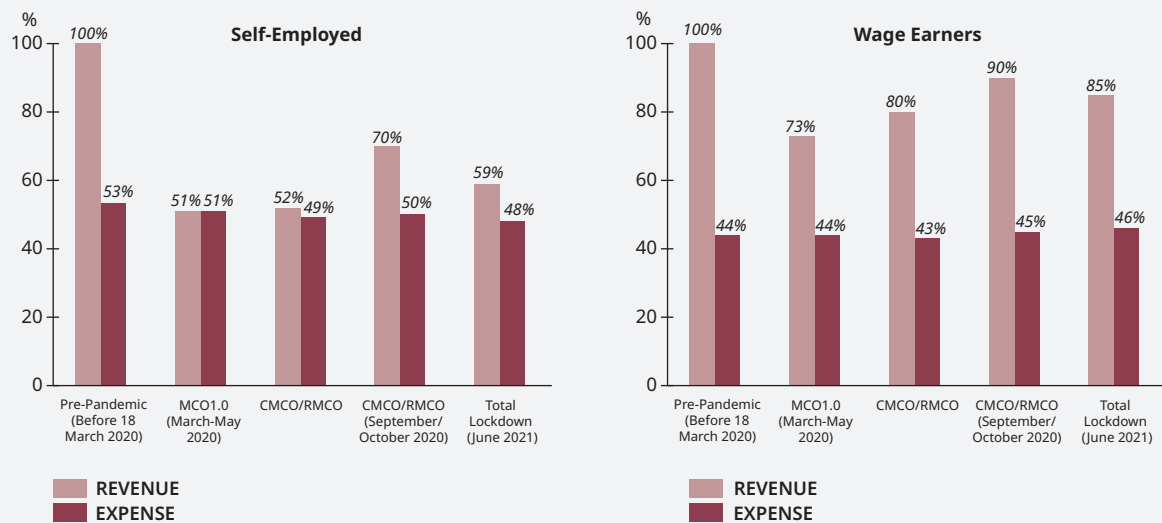
Source: Ministry of Finance, Malaysia (2020 and 2021)

The study also found that all respondents categorised as vulnerable[1] households received Government assistance during both periods. The assistance includes income assistance such as Bantuan Prihatin Nasional (BPN) or Bantuan Prihatin Rakyat (BPR) and expense assistance such as loan moratorium, Employees' Provident Fund (EPF) withdrawals, electrical bill discount, food basket assistance and Jaringan Prihatin. In the first survey, 69% of respondents utilised cash assistance for basic necessities compared to 74% in the second survey. However, only 19% of the households in the bottom 40% (B40) respondents in the second survey received food basket assistance.[2]

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[1] Vulnerable households are defined as those with higher expenses than income and savings level under the poverty line.
[2] The Food Basket Programme was only provided from 28 June 2021 onwards.

With regard to expenses, 42% of respondents in the second survey withdrew their savings in EPF compared to only 25% in the first survey. This indicates that households increasingly relied on their EPF savings to purchase necessities and meet their financial obligations. Furthermore, among those who withdrew RM5,000 and below, 70% of B40, 50% of the households in the middle 40% (M40) and 100% of the top 20% of households in the top 20% (T20) respondents expressed that their EPF withdrawal was only sufficient to support them up to three months. As such, 91% of the respondents had proposed the extension of the loan moratorium. Both surveys also revealed that unemployed[3] persons were willing to work with lower wages, including in new working sectors. The study also highlighted that most unemployed respondents did not apply for the Employment Insurance Scheme (EIS) for various reasons, including unawareness and cumbersome application processes.

Micro and Small Enterprises

The average monthly revenue of MSEs in the first survey declined by 60% compared to the pre-pandemic period following tight movement restrictions and standard operating procedures (SOPs). However, the decline is less at 49% in the second survey compared to the pre-pandemic period, cushioned by longer operating hours, particularly in the services and manufacturing sectors. However, the revenue for enterprises fluctuated according to the level of restrictions on economic and social activities. Similar to households, the expenses for enterprises remained at relatively similar levels to the pre-pandemic period.

Overall, analyses found that the number of vulnerable[4] enterprises declined during the second survey at 40% from 58% in the first survey due to the improved financial situation following longer operational hours. Other contributing factors to the decline include the assistance provided by the Government, where 75% (first survey) and 76% (second survey) of vulnerable enterprises acknowledged that the assistance had benefited them. Furthermore, most respondents in both surveys agreed that the Government's communication channels effectively disseminated information to the public.
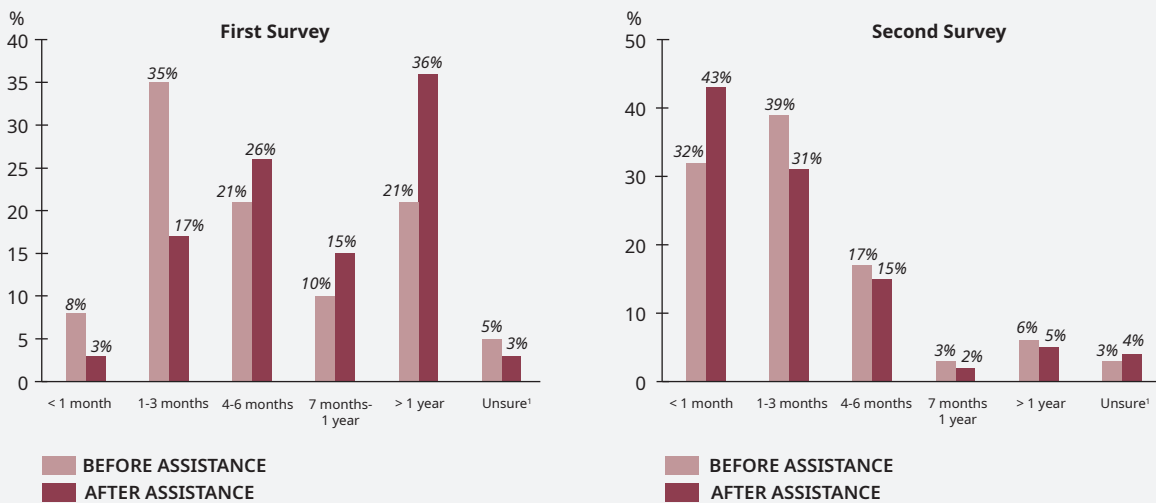
Despite the positive response, the surveys unveiled several shortcomings in Government service delivery. The second survey highlighted that 40% of the respondents were unaware of the assistance provided by the Government and financial institutions. At the same time, respondents were not familiar with the microfinancing assistance, such as SME Go Scheme and Bumiputera Relief Financing where 99% was unaware, compared to assistances such as Prihatin Special Grant (45.5%), loan moratorium (61.5%) and Wage Subsidy Programme (77.5%).

Among MSEs, 70% of the respondents in the first survey viewed Government's support positively compared to only 30% in the second survey. Notable reasons for the dissatisfaction in the second survey include lengthy application processes and the limited amount of assistance. Furthermore, 77% of respondents in the first survey believed that the Government's assistance could sustain them for more than four months. In contrast, 74% of the respondents in the second survey opined that the assistance could sustain them for only three months, as shown in Figure 1.1.4.

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[3] Unemployed respondents refer to those without source of income during study, but had some work experience before the study was conducted
[4] Vulnerable enterprises are defined as businesses with higher expenses compared to revenue and have cash balance below operating costs.

FIGURE 1.1.4. *Micro and Small Enterprises Survival Before and After Government Assistances*

First Survey

Category	Before Assistance	After Assistance
< 1 month	8%	3%
1-3 months	35%	17%
4-6 months	21%	26%
7 months-1 year	10%	15%
> 1 year	21%	36%
Unsure[1]	5%	3%

Second Survey

Category	Before Assistance	After Assistance
< 1 month	32%	43%
1-3 months	39%	31%
4-6 months	17%	15%
7 months 1 year	3%	2%
> 1 year	6%	5%
Unsure[1]	3%	4%

[1]Unsure refers to the respondents who could not state the period of survival before and after receiving Government assistance
Source: Ministry of Finance, Malaysia (2020 and 2021)

In terms of future prospects, 69% of the repondents are confident that the economy will recover after completing the national vaccination programme. In terms of the 2022 Budget priority, the top recommendations by repondents include higher financial assistance (65%) and enhancing the roles of microfinancing agencies (48%). Other recommendations include establishing more locations for business activities (36%) and greater involvement of industry players in crafting economic plans (32%).

Way Forward

Adoption of Technology and Digitalisation

The pandemic has revealed the importance of technological adoption and digitalisation to ensure the survival of individuals and enterprises in the post-pandemic era. It is time for all stakeholders to embrace the new normal of doing business and spur a sustainable recovery momentum. To remain relevant, enterprises need to urgently transition and optimise modern technologies and business digitalisation platforms. The Government will enhance this transition by promoting its national digitalisation agenda, particularly among the B40 and M40 households, thus creating pathways to engage in entrepreneurship or self-employment as an alternative source of income. The most immediate actions include having an end-to-end business process premised on digital and automated systems covering procurement and inventory management, accounting, digital marketing, e-commerce and digital payment systems.[5] The World Bank report on Malaysia's Digital Economy (2018) states that Malaysia uses digital technologies widely, but digital adoption by businesses still lags behind the global average. Only 29% of businesses had a web presence, with only 5.2% engaged in e-commerce in 2015. Moving forward, the Government has introduced the Malaysia Digital Economy Blueprint and Pelan Jalinan Digital Negara (JENDELA) as inclusive policies to encourage digitalisation by firms of all sizes and regions and remove barriers to digitalisation.

Upskilling and Reskilling the Workforce

To support long-term financial stability and income generation among individuals, a rapid assessment of upskilling and reskilling needs among those in the workforce would assist people to get back to work safely and limit scarring effects of prolonged unemployment and skills mismatch.

[5] Malaysian Digital Economy Corporation (2020) listed five key areas for digitalisation which are procurement and inventory, accounting and taxes, digital marketing, e-Commerce and Electronic Point of Sale (ePOS) and contactless payment systems.

The survey revealed the need for the workforce and enterprises to strengthen upskilling and reskilling measures to cope with the new normal. In line with the strategies outlined in the Twelfth Malaysia Plan, 2021 – 2025 (12MP), efforts will be enhanced to leverage and adopt technologies and digitalisation in work processes. In addition, it is also pivotal to upskill and reskill talents to meet industrial needs as well as provide access to life-long learning for all segments. For the self-employed, the Government will continue to provide targeted assistance through upskilling and reskilling initiatives implemented in line with national priorities (digital economy, Technical and Vocational Education and Training (TVET), and the Fourth Industrial Revolution (4IR)).

Comprehensive Social Protection System

The crisis has affected the people in terms of security and health and their economic well-being attributed to reduced income, rise in unemployment, and increasing poverty. The pandemic has also shown that some fragments of the society are not covered sufficiently by any social security programmes, thus highlighting the importance of a comprehensive social protection system as an automatic stabiliser during crisis. The surveys, among others, note the significance of social assistance in ensuring the welfare of vulnerable groups. In addition, a centralised and integrated database is needed to help manage the implementation and coordination of planned measures effectively at both federal and state levels, thus improving social protection programmes by optimising resources. At the same time, the Government will continue with its efforts to increase employability and reduce the over-reliance on social safety nets.

Improving Public Service Delivery

To ensure reforms and economic recovery are well-coordinated, the Government continues to monitor and review the implementation of immediate and medium- to long-term actions through high-level policy platforms. In the long term, the renewed approach will support the annual budget, 12MP and the Shared Prosperity Vision 2030 (SPV 2030) through continuous monitoring of the recovery and reform initiatives.

The Government will strengthen its communication channels at every level to ensure the information on assistance programmes is disseminated effectively. In addition, application processes will be simplified. Support services will be made widely accessible to the people catering to the needs of specific groups, such as single mothers, orphans, the elderly, and people with disabilities. The role and involvement of the government machinery at the grassroots level, community and non-governmental organisations (NGOs) will be enhanced.

Conclusion

The study reveals several important findings. While the COVID-19 pandemic and impositions of MCOs had negatively affected many households and businesses, some were impacted more than others. It can be inferred that the assistance provided by the Government has benefited a large portion of the population. However, the study also reveals that some of the assistance did not reach the intended beneficiaries for various reasons, including unawareness of the Government's initiatives and cumbersome application processes. Moving forward, the Government will enhance the effectiveness of the assistance programmes by improving its service delivery and communication channels and a more targeted approach in ensuring the assistance benefit the intended beneficiaries.

Apart from financial support, the Government has also taken necessary measures to return the economy to normalcy. On 15 June 2021, the National Recovery Plan (NRP) was announced with four implementation phases to provide the people, businesses and investors with a timeline and parameters for a phased and systematic opening of the economy. The NRP outlines certain conditions under which the MCOs and the SOPs will be lifted or relaxed. Embedded in the NRP is the whole-of-nation approach that mobilises the cooperation

of various stakeholders, including state governments, frontliners, volunteers, business owners and non-governmental organisations (NGOs) in achieving the widest coverage of vacinnated adult population. As of 13 October 2021, a total of 90.9% of the adult population have been fully vaccinated.

Strengthening the Sustainable Financing Agenda

The sustainability agenda continued to be supported despite the pandemic crisis. As part of the effort to catapult Malaysia as a sustainable financing hub, the Government successfully priced the world's first sovereign US Dollar Global Sukuk in April 2021. The issuance of the USD800 million sustainability 10-year Trust Certificates and the USD500 million 30-year Trust Certificates (Wakalah Sukuk) was well spread globally, covering Asia, Europe, Middle East and Africa, and the US. The issuance garnered overwhelming interest and clearly reflected investors' confidence in Malaysia, with the offering oversubscribed by 6.4 times. Both tranches were assigned a rating of A3 by Moody's Investors Services and A- by S&P Global Ratings. The strong demand also resulted in the lowest yield and spread for Malaysia's US Dollar sukuk issuance. More importantly, it demonstrates the market's confidence in Malaysia's economic recovery and growth prospects. Proceeds from the issuance of Sustainability Sukuk will be utilised to finance social and green projects aligned to the Sustainable Development Goals (SDGs) Agenda. This is in line with the Government's efforts to prioritise SDG-related programmes and projects, which began in the 2021 Budget.

FEATURE ARTICLE 1.2

Mapping Development Expenditure to Sustainable Development Goals

Introduction

Achieving the 2030 Sustainable Development Goals (SDGs) is one of the main policy priorities of the Government. As 2030 is less than a decade away, it is imperative for the nation to clearly understand the landscape and identify the financing gaps to implement programmes and projects to achieve the SDGs. In the 2021 Budget, the Government began aligning its finances to the SDGs. The preliminary mapping exercise started with an analysis of the 2015 development expenditure (DE) of the Ministry of Natural Resources and Environment (NRE) and the Ministry of Energy, Green Technology and Water (KeTTHA), in comparison with the 2019 DE of the renamed Ministry of Water and Climate Change (KASA) and the Ministry of Energy and Environment (KeTSA). The DE comparison was based on NRE and KeTTHA assuming similar functions and responsibilities as KASA and KeTSA. This article expands the scope of the analysis to cover the SDGs across all ministries and agencies based on the latest DE figures. This would enable the complete identification of financial gaps for SDGs in Malaysia, if any.

**Method of SDG Tagging for Development Expenditure Programmes and Projects**

The objective of tagging DE programmes and projects is to ascertain how DE is allocated through the lens of the SDGs. This exercise is still done on an ex-post basis, covering all ministries on a trial basis. 2015 was chosen as the reference year, which coincides with the adoption of the 2030 Agenda, while 2020 reflects the most recent audited expenditures.

In clear-cut cases, each programme and project under DE was tagged to a specific SDG. However, if a programme or project supported multiple SDGs, its DE was assigned an equal weightage. For example, suppose a programme or project contributes towards the attainment of two SDGs, the amount of expenditure is apportioned equally between the SDGs.

Findings

In 2020, DE for all ministries and agencies amounted to RM51.4 billion compared to RM40.8 billion in 2015, an average annual increase of 4.7%. The distribution of DE across SDGs for the two years is shown in Figure 1.2.1.

FIGURE 1.2.1. *Development Expenditures by Sustainable Development Goals, 2015 and 2020*
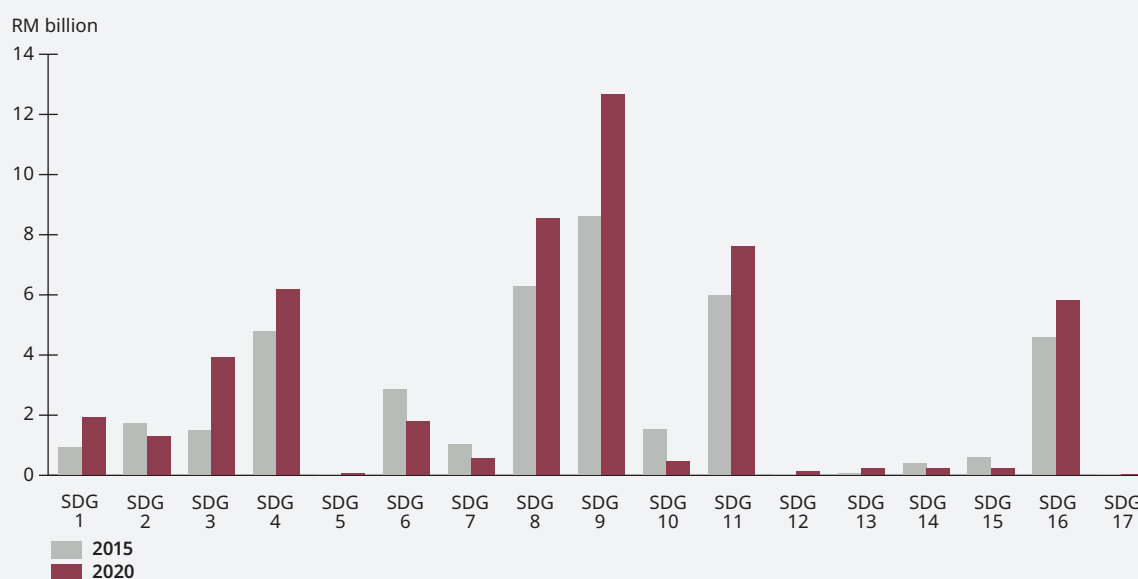
Source: Ministry of Finance, Malaysia

It is observed that DE allocation was focused more on some SDGs in both years, where the same five SDGs received the most allocation, more than 70% of total DE. There was a continued emphasis on programmes or projects for SDG9 (Industry, Innovation and Infrastructure) followed by SDG8 (Decent Work and Economic Growth), SDG11 (Sustainable Cities and Communities), SDG4 (Quality Education) and SDG16 (Peace, Justice and Strong Institutions).

TABLE 1.2.1. *Development Expenditure for Top 5 Sustainable Development Goals, 2015 and 2020*

	SUSTAINABLE DEVELOPMENT GOALS	RM BILLION		SHARE TO TOTAL DE (%)		AVERAGE ANNUAL GROWTH (%)
		2015	**2020**	**2015**	**2020**	**2015-2020**
1	SDG9	8.6	12.6	*21.1*	*24.6*	*7.9*
2	SDG8	6.3	8.5	*15.4*	*16.6*	*6.2*
3	SDG11	6.0	7.6	*14.7*	*14.8*	*4.8*
4	SDG4	4.8	6.2	*11.8*	*12.0*	*5.3*
5	SDG16	4.6	5.8	*11.3*	*11.3*	*4.8*
Sub-total		30.3	40.7	*74.3*	*79.3*	***6.1***
Total DE		40.8	51.4	...	...	***4.7***

Source: Ministry of Finance, Malaysia

Although the top five SDGs were the same for both years, DE for each SDG increased significantly in 2020. For instance, SDG9 received the most allocation amounting to RM12.6 billion in 2020, an average annual increase of 7.9% from RM8.6 billion in 2015. Similarly, over the same period, the DE for SDG8, SDG11, SDG4 and SDG16 increased between 4% and 6% on average during the period. Overall, the DE for 2020 for these five SDGs amounted to RM40.7 billion or 79.3% of the total DE in 2020. In comparison, these five SDGs received RM30.3 billion or 74.3% of total DE in 2015.

The focus of DE on the top five SDGs illustrates the Government's role as a facilitator and enabler of growth in funding infrastructure, R&D and education programmes and projects to generate jobs and support the economy. As the nation progresses in its urbanisation, DE for a conducive environment for cities is given priority. Likewise, ensuring a peaceful nation is essential, as reflected by the high spending in this area.

Nevertheless, SDG5 (Gender Equality), SDG12 (Responsible Consumption and Production), SDG13 (Climate Action), SDG14 (Life Below Water), and SDG17 (Partnerships for the Goals) continued to receive the lowest DE in both years. In 2015, the bottom five SDGs were allocated RM150 million or merely 0.4% of total DE. While the same SDGs received a higher allocation in 2020 at RM610 million, its collective share was small at 1.2% of total DE, with SDG17 allocation declining by 27.5%.

TABLE 1.2.2. *Development Expenditure for Bottom 5 Sustainable Development Goals, 2015 and 2020*

SUSTAINABLE DEVELOPMENT GOALS		RM BILLION		SHARE TO TOTAL DE (%)		AVERAGE ANNUAL GROWTH (%)
		2015	2020	2015	2020	2015-2020
1	SDG13	0.04	0.2	*0.1*	*0.4*	*38.0*
2	SDG14	0.04	0.2	*0.1*	*0.4*	*38.0*
3	SDG17	0.02	0.004	*0.05*	*0.01*	*-27.5*
4	SDG5	0.02	0.05	*0.05*	*0.1*	*20.1*
5	SDG12	0.03	0.11	*0.1*	*0.2*	*30.0*
Sub-total		**0.15**	**0.61**	*0.4*	*1.2*	*32.4*
Total DE		**40.8**	**51.4**	...	...	*4.7*

Source: Ministry of Finance, Malaysia

Discussion

Almost all SDGs received more DE in 2020 than 2015, with emphasis on SDGs such as Climate Action and No Poverty. In contrast, others such as Gender Equality, Reduced Inequalities, Partnerships for the Goals, and Responsible Consumption and Production received lower allocations. The lower allocation does not necessarily mean that the Government does not prioritise these SDGs. More often than not, the SDGs were also financially supported by other resources, such as external funding and donations. There was a clear shift in Government's focus towards financing programmes and projects related to Climate Action in 2020, but not to programmes and projects related to Life Below Water, Gender Equality, Partnerships for the Goals, and Responsible Consumption and Production.

Efforts need to be further enhanced to establish other financing options to complement Government's allocation to those SDGs receiving lower DE allocations. The Government is developing an SDG Integrated National Financing Framework (INFF), comprising platforms for reforms in various areas such as policy, regulations, financial instruments, institutions and public-private collaboration. The Government also plans to develop a more complete, unified and explicit framework for sustainable finance through a Sustainable Finance Roadmap to complement this task. These initiatives will enable the Government to identify financing gaps and suitable financing options for SDG-related programmes and projects. In turn, this would allow for better coordination of all financing resources nationwide towards ensuring adequate and sustainable financing for national development that supports the attainment of the SDGs by 2030.

Conclusion

The emphasis of a nation on achieving the SDGs is reflected by the priorities of its programmes and projects. Based on the analysis of DE in 2015 and 2020, some SDGs were given higher priorities than others. Hence, greater effort is needed to identify the cause, financial gaps and alternative sources of financing. The current approach of assigning an equal weightage in allocating DE for a programme or project supporting multiple SDGs may be simplistic. Thus, some improvements are warranted in the methodology.

The Government also made a series of progress on various fronts of fiscal and economic management. These include the formulation of the Fiscal Responsibility Act, which is targeted to be tabled in Parliament in 2022. The Act will enable the institutionalisation of fiscal prudence, governance and transparency rules based on global best practices. To further complement the successful issuance of the sustainability sukuk, the Government has established the MySDG Trust Fund in collaboration with the United Nations in Malaysia. The effort provides a platform for various parties, including the Government, private sector, NGOs, individuals and other domestic and international entities, to contribute to achieving SDGs in Malaysia. With regard to the annual budget, the Government continues to coordinate and streamline financing approaches to enable more systematic financing of environmental, social and governance (ESG) programmes and projects comprehensively and effectively.

FEATURE ARTICLE 1.3

Financing for Sustainable Development

Introduction

The COVID-19 pandemic and climate-related risks have similarly devastating effects on countries. Like COVID-19, climate change surpasses borders and can lead to various impacts on lives and livelihoods. There is now a greater sense of urgency in addressing climate change, and the momentum has been gathering in the last few years around the world, brought about by several factors.

It can be seen how extreme weather caused floods and droughts, leading to health crises and disruptions in food security and supply chains, which eventually resulted in economic and financial instabilities. On the other hand, there is now greater demand from trading and investment partners alike for assurance of climate and biodiversity friendly products and a smooth transition to net zero carbon targets. In addition, capital allocators increasingly demand robust and rigorous details of climate action strategies from their clients. Failing which, there may be possible downgrading in sovereign ratings, increasing reinsurance premiums and a greater number of climate refugees.[1] There is also the risk of stranded assets in the financial system and elsewhere in sectors deemed not green enough, all of which may have a domino effect on economies.

Malaysia is positioning itself as a sustainable financial hub, thus providing the opportunity to apply financial instruments that can accelerate Malaysia's transition to a low-carbon economy. For this to be successful, there is a need for an innovative and inclusive approach towards achieving its medium- to long-term development goals, such as the Sustainable Development Goals (SDGs) and the 2030 Shared Prosperity Vision (SPV 2030). For sustainable financing to progress well, it is imperative to understand the existing national financing landscape and architecture to identify gaps and the best possible pathway. The private sector could contribute to green financing and investment through its Environmental, Social and Governance (ESG) practices. This article highlights some important initiatives by the Government in achieving sufficient financing for sustainable development in the country.

Existing Initiatives

Currently, the Government utilises several financial options to support sustainable development, such as through sukuk issuances, trust funds, green procurement, green financing and carbon pricing. In April 2021, the Government successfully issued the world's first sovereign USD-denominated sustainability sukuk via the issuance of USD800 million 10-year Trust Certificates and USD500 million 30-year Trust Certificates (Wakalah Sukuk). Both tranches of the Sukuk was oversubscribed by more than 6.4 times reflected global investors' interests despite the challenges and risks posed by the COVID-19 pandemic. The proceeds from the issuance would help to finance sustainability-related programmes and projects in the country.

Following the announcement in the 2021 Budget, the Government will be establishing the MySDG Trust Fund. The fund provides a platform that enables multi-parties, including the private sector, individuals or entities within and outside of Malaysia, to partake in national efforts to attain the SDGs through their contributions. The fund will help fill in the financing gap and complement the annual Government budget allocation in financing SDG-related programmes and projects. The Government allocated a total of RM20 million as an initial contribution to the fund and is collaborating with the United Nations' office in Malaysia to co-manage the fund and attract more contributions from within and outside of the country. With attractive tax incentives being offered and leveraging the goodwill and high standards of fund and project management practised by the UN, the fund is envisaged to garner a significant amount of contribution from potential donors. This, in turn, would enable the financing of more impactful SDG-related programmes and projects and thus, accelerates the achievement of SDGs by 2030 or even earlier.

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[1] Describes the increasing large-scale migration and cross-border mass movements of people that were partly caused by such weather-related disasters.

The Government also adopts the Government Green Procurement (GGP) initiative to support the consumption of green products and services. The GGP seeks to integrate environmental considerations in Government-based procurements, taking into account the protection of the natural environment, reduction of pollution and the conservation of resources. In 2018, the Government published the GGP Guidelines 2.0 as an updated reference, covering 20 GGP criteria for green products and services, such as ICT equipment, air-conditioning systems and cleaning services. The Government will continue expanding this initiative and improving the GGP guidelines to enhance the green initiative implementation in the public sector. As of 2019, GGP is valued at approximately RM290 million, involving 25 ministries. Meanwhile, the value increased to RM559 million in 2020 involving 26 ministries.

There are also other initiatives undertaken by public agencies, such as Bank Negara Malaysia (BNM) and Securities Commissions (SC), towards addressing climate change. To assist private financing towards achieving sustainable development, BNM announced the establishment of the Joint Committee on Climate Change (JC3) in 2019. Co-chaired by BNM and SC, the JC3 is intended to pursue collaborative actions for building climate resilience within the financial sector in Malaysia. The JC3 also recognised the urgent need to accelerate responses towards ensuring a smooth and orderly transition to a low-carbon economy. This includes managing exposures to climate risks and facilitating businesses to transition towards sustainable practices.

Various initiatives have also been undertaken by BNM in increasing financial sector readiness to manage climate risk and support an orderly transition to a greener economy. This includes publishing an Industry Consultative Paper on Guides for Climate Risk Management and Scenario Analysis, finalising and implementing the Climate Change and Principle-based Taxonomy (CCPT) as well as issuing the Value-Based Intermediation Financing and Investment Impact Assestment Framework (VBIAF) sectoral guides on renewable energy, energy efficiency, palm oil, manufacturing, construction and infrastructure.

Efforts and initiatives undertaken by SC in mobilising private sector financing to achieve sustainable development include the issuance of Sustainable and Responsible Investment (SRI) Sukuk of RM5.39 billion in 2020. Other initiatives include issuing the First Social Sukuk in Malaysia of RM1 billion by Khazanah Nasional in 2015 and the world's first Green Sukuk in 2017 with proceeds of RM250 million to finance the construction of large-scale solar projects. In addition, a total of RM635 million ringgit-denominated bonds and a USD680 million foreign-currency-denominated bond were issued under the ASEAN Green, Social and Sustainability Bond Standards in 2018. Furthermore, since 2015, SC has announced various funds, including 20 qualified SRI Funds comprising 14 Unit Trusts, four Wholesale Funds and two Mix Assets Funds. The initiatives undertaken have encouraged and facilitated many renewable energy companies to be listed in the Bursa Malaysia stock exchange.

Future Initiatives

Various efforts continued to be undertaken at the global level to address the impact of climate change and expedite the transition of businesses towards adopting low-carbon activities. For example, the EU will implement a Carbon Border Adjustment Mechanism (CBAM) beginning 2023.

The CBAM seeks to impose a carbon price on imported goods to equalise costs for European industries, which may have relocated their production facilities in countries not enforcing any carbon regulations. This will have a negative impact on the competitiveness of Malaysian exporters with products entering the EU market as they have to factor in the additional tax in their overall cost structure, hence resulting in higher prices for their products. Recently, the US is also considering a similar measure called a "polluter import fee", which might impact Malaysian businesses even further as the EU and the US are among important trading partners of the nation. As such, efforts need to be further intensified to raise awareness among industry players on the need to consider this new development and quickly adopt low-carbon activities in their business operations or risk losing out on their export competitiveness.

Given these developments, the Government is working on several initiatives, including utilising economic instruments of carbon pricing, such as carbon tax and the development of an Emission Trading Scheme (ETS) to further encourage the industries to transition to low-carbon activities. A study has been commissioned on the carbon tax to recommend the best potential taxation mechanism for implementation in Malaysia. The Government is also assessing the most appropriate ETS mechanism to encourage industries to participate in domestic carbon trading. The mechanism should consider the Nationally Determined Contributions (NDCs)[2] under the Paris Agreement of the United Nations Framework Convention on Climate Change (UNFCCC). The two initiatives act as pull and push factors in expediting the transition of local industries to low-carbon activities. These will also help industries fulfil future requirements by other countries without affecting the nation's NDCs.

Moving forward, the Government is working with various parties, including international bodies, to further strengthen Malaysia's financing ability in meeting its sustainable development needs. Among the collaborative ventures between MOF and the United Nations Development Programme (UNDP) is the adoption of the Integrated National Financing Framework (INFF), comprising platforms for reforms in various areas, including policy, regulations, financial instruments as well as public and private institutions collaboration. To complement this venture, the Government is developing a complete, unified and explicit framework for sustainable finance through the development of the Sustainable Finance Roadmap. The outcomes and outputs from these projects would enable the Government to identify financing gaps and the most suitable financing options to be implemented. This would allow better coordination of all financing resources available nationwide towards ensuring adequate financing for a greener and sustainable national development.

Conclusion

Apart from the COVID-19 pandemic, the nation faces several other challenges, including the risks from climate change. The nation has put in the building blocks towards achieving its long-term goals, such as the SPV 2030 and SDGs. There are various initiatives currently being undertaken by the Government to ensure ample financing for sustainable development. However, there is a need for a coordinated, holistic and systematic financing framework and roadmap to ensure sustainable development initiatives receive sufficient financial support.

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[2] Malaysia's NDC is to reduce 45% of Greenhouse Gas (GHG) emissions intensity to GDP by 2030 compared to 2005.

Outlook

Global Economy

Global growth is projected to rebound in 2021 and to moderate in 2022 after a sharp contraction of 3.1% in 2020, mainly due to worldwide effects of the COVID-19 pandemic and ensuing economic lockdowns to curb its spread. Efforts to mitigate the pandemic through fiscal stimulus and accommodative financial conditions are expected to improve the sentiment among businesses and consumers globally. Nevertheless, downside risks to growth remain, following uncertainties surrounding the COVID-19 pandemic, including the emergence and spread of various new strains of the virus that may be more contagious.

Differences in vaccine rollout and policy support across the world resulted in an uneven recovery among economies. According to the World Health Organization (WHO), 6.5 billion vaccine doses have been administered globally. Approximately 46.5% of the world population has been fully vaccinated with the COVID-19 vaccine (Our World in Data, 2021). With the faster implementation of vaccination programmes, prospects for reopening more economic and social sectors are enhanced for all economies, which bodes well for faster global economic recovery.

Domestic Economy

The Malaysian economy expanded by 7.1% in the first half of 2021. Growth is expected to continue in the second half of the year, particularly in the fourth quarter, as more economic and social sectors operate at full capacity. The expected growth trajectory aligns with the successful vaccination programme under the National COVID-19 Immunisation Programme (PICK) and various stimulus and assistance packages to support the people and revitalise the economy. Overall economic growth is expected to expand between 3% and 4% in 2021. Continuation of the packages to combat the COVID-19

will have spillover effects and boost the economy in 2022. Hence, with strong economic fundamentals and a diversified structure, the domestic economy is forecast to expand between 5.5% and 6.5% in 2022. Nevertheless, the favourable outlook is predicated on other factors, including the successful containment of the pandemic, effective PICK implementation, and strong global economic prospects.

Monetary and Financial Developments

Monetary policy remains accommodative in cushioning the adverse effects of the prolonged nationwide lockdown on the economy while simultaneously supporting recovery. The policy also ensures that inflationary pressure remains manageable. The Overnight Policy Rate (OPR) and Statutory Reserve Requirement (SRR) were held steady during the first seven months of 2021 at 1.75% and 2.00%, respectively. Efforts to boost market liquidity include the flexibility accorded to banking institutions to utilise the Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII) to meet the SRR compliance until the end of 2022. The banking sector remains strong, backed by sufficient liquidity and capital buffer, while the capital market exhibits resilience underpinned by ample domestic liquidity and a supportive policy environment. The recent launch of the third Capital Market Masterplan, 2021 – 2025, will ensure the capital market remains relevant, efficient and diversified to expedite the growth of sustainable and inclusive economy (Securities Commision Malaysia, 2021). The future stance of monetary policy will continue to be guided by new data and information and their implications on the overall outlook for inflation and domestic growth.

Economic Management

As Malaysia moves into the COVID-19 endemic phase, the Government will focus on ensuring the livelihood of the people, enhancing businesses and facilitating economic activities in the immediate and the new norm of

post-pandemic. Currently, the Government is at the end of the six-stage strategy,[1] namely reform which involves implementing the 12MP through the annual budgets and other sectoral masterplans. At this stage, the Government will focus on reforms that address various structural challenges that could hinder its vision of becoming a prosperous, inclusive and sustainable nation.

Issues and Challenges

As Malaysia progresses towards its vision, several challenges may affect its progression. The immediate issues include those that will directly affect the people, such as the scarring impact of the COVID-19 pandemic on income, the emergence of new vulnerable groups, and under-employment and inadequate social protection. In addition, some of the economic challenges include reviving the tourism industry, the new business landscape post-pandemic, a narrow revenue base and the waning of national competitiveness. Climate change will also be another emerging threat, where its impact can be as devastating as the COVID-19 pandemic.

The Scarring Impact of COVID-19 on Income

The Department of Statistics Malaysia (DOSM) reports that per capita income in 2020 shrank by 6.5% to RM43,475 from RM46,450 in 2019. Concurrently, mean salaries and wages[2] declined by 9% from RM3,224 in 2019 to RM2,933 in 2020. Thus, many households in the middle 40% (M40) of household income groups have now been relegated to the bottom 40% (B40) category. The number of unemployed persons also increased by 39.9%, from 508,200 persons in 2019 to 711,000 persons in 2020. The deterioration in the statistics above stems from the 5.6% contraction in economic growth in 2020. Although the assistance packages kept the current unemployment rate below 5%,

concerns about the longer-term impact of the pandemic on the lives and livelihood of the people remain.

The Emergence of New Vulnerable Groups

The pandemic has affected every household in the country, encompassing the B40, M40 and the top 20% (T20) of household income groups. According to the Household Income Estimates and Incidence of Poverty 2020 Report (2021), 12.8% of T20 and 20% of M40 households have now been relegated to a lower-income category. In particular, compared to the B40 group, the M1 (the lowest 10 percentile of the M40) was more severely impacted during the pandemic due to their high financial commitments and household expenses. Data indicates that due to layoffs and wage cuts, around 600,000 to one million households of M40 have been relegated into the B40 income bracket.

Underemployment and Inadequate Social Protection

Youth unemployment and underemployment have increased over the years, with the former increasing to 12% of the total youth labour force or 314,000 persons in 2020 (2019: 10.5% or 295,800 persons). Likewise, time-related underemployment in 2020 rose to 2.2% of the total employed persons or 334,000 persons (2019: 1.3% or 191,600 persons) due to the inability of the market to meet the increasing demand from job seekers, especially new graduates and those retrenched during the pandemic. In addition, existing inflexible working arrangements have discouraged more women from participating in economic activities. The continuous over-reliance on migrant workers, particularly low-skilled foreign workers, and unattractive wages have hindered greater involvement by Malaysians in certain occupations. The pandemic has also spurred

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[1] The six-stage strategy introduced by the Government in 2020 involved the Resolve, Resilient, Restart, Recovery, Revitalise and Reform stages
[2] Refers to Malaysian citizens only

a significant shift to work from home and remote practices, which require considerable digital skills and technological adoption in the new normal. On the other hand, the lack of social security protection for certain segments of workers, particularly the self-employed and workers in the informal sector, has increased the vulnerability of these groups during the pandemic. As of June 2021, the Social Security Organisation highlights that only 6.5% of the 2.5 million self-employed are registered under the Self-Employment Social Security Act 2017 [Act 789], which shows the severity of the situation.

FEATURE ARTICLE 1.4

The Future of Work Post COVID-19 Pandemic

Introduction

More than 18 months have passed since the World Health Organization declared the novel coronavirus (COVID-19) outbreak as a global pandemic. Hundreds of millions of people have lived through lockdowns imposed to stop the spread of the virus. Many have made the abrupt shift to working from home, while millions of others have lost their jobs. The future looks uncertain. It is unknown whether our way of life might return to normal or what kind of scars the pandemic would leave.

Like many other countries, the hardships have affected the Malaysian economy and negatively impacted its labour market. This is especially so when over 100,000 retrenchments were recorded in 2020, and for the period of January to June 2021, it has reached almost 35,000. On the other hand, unemployment marked the highest rate since 1990 at 5.3% in May 2020 and 4.5% in year 2020, higher than the average full employment rate of 3.4% recorded annually pre-COVID-19.

Even though the country has been under extended lockdowns, cases are still soaring. For over several months recently, Malaysia has surpassed the five-figure mark for daily COVID-19 infections. Thus, it is expected that the new norm of working from home and strict standard operating procedures at the workplace to continue until the country is ready to shift to the more liberal phases of the National Recovery Plan.

Nevertheless, working from home has accelerated the adoption of fully digitalised approaches and created a learning process through live videos and social sharing. Many claimed that this has changed the employment structure, especially on the skills demanded in the Malaysian labour market. Therefore, this article aims to look at the employment structure pre and during the pandemic, how the pandemic has normalised remote work, and the demand for employment post-COVID-19.

Situation Analysis

Key labour market indicators trends were analysed to investigate whether there have been any changes to the labour market structure during the pandemic. The investigation compared the period before and since the first containment measure, the Movement Control Order (MCO), was imposed on 18 March 2020 until 12 May 2020. In the early stages of the MCO, only essential services were allowed to operate, while non-essential activities were restricted. Subsequently, several phases of MCOs were imposed in stages to ensure that the economy operates yet maintaining the security and health safety of the country.

Consequently, the labour market experienced an unprecedented trend by recording an unemployment rate above 4%, away from the full employment level. Based on the quarterly trend, the unemployment rate peaked at the highest rate of 5.1% in the second quarter of 2020, compared to the pre-crisis period of 3.4%. Unfavourable business performance during the year led to an increase in employment losses and the freezing of new hirings. Thus, softer labour demand was observed with a lower number of employment opportunities registered. Own-account workers or self-employed also dropped to 2.4 million persons in the first quarter of 2021 compared to 2.7 million persons in the first quarter of 2020, as shown in Figure 1.4.1. This group, which mainly comprised small-scale businesses and unregistered entrepreneurs, was among the vulnerable groups most affected by the pandemic.

FIGURE 1.4.1. *Employed Persons by the Status of Employment Pre and During the Pandemic*

¹estimates
Source: Department of Statistics and Ministry of Finance, Malaysia
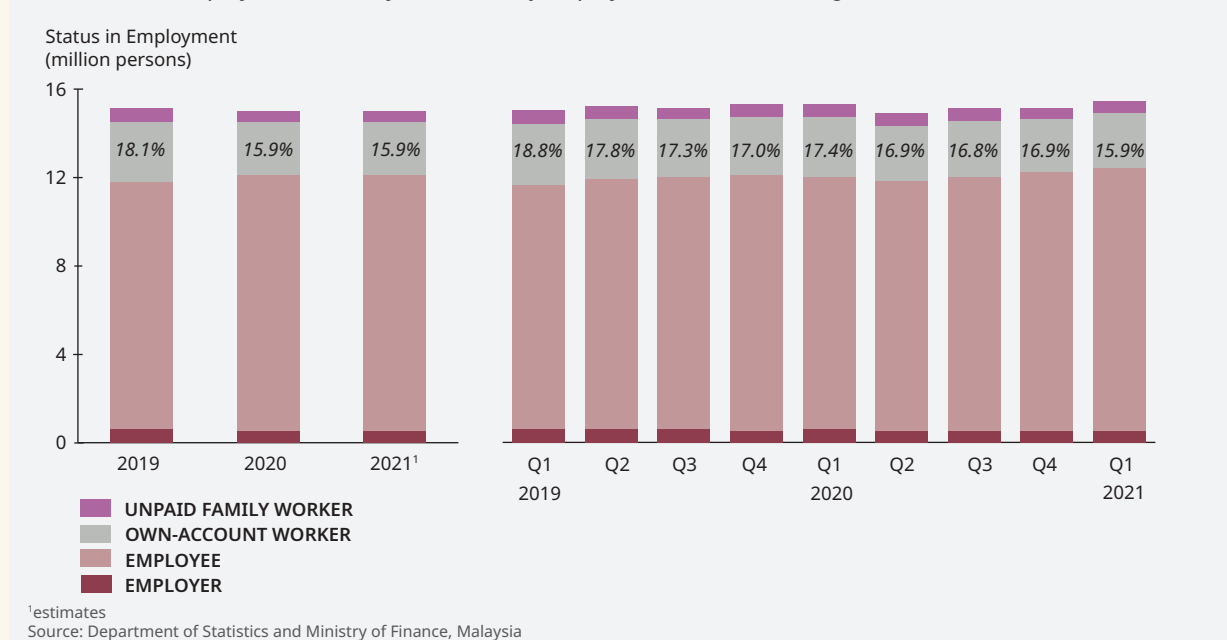
Even though employment is showing marginal improvements by each quarter, the composition of the employed persons by sector remained the same with the majority concentrated in the services sector, followed by manufacturing and agriculture sectors. Within the services sector, the highest employment share was mainly in the wholesale and retail trade (28%), followed by accommodation and food and beverages (15.3%), as well as education (9.9%) subsectors. The ICT subsector only recorded a 2.5% share, as shown in Figure 1.4.2.
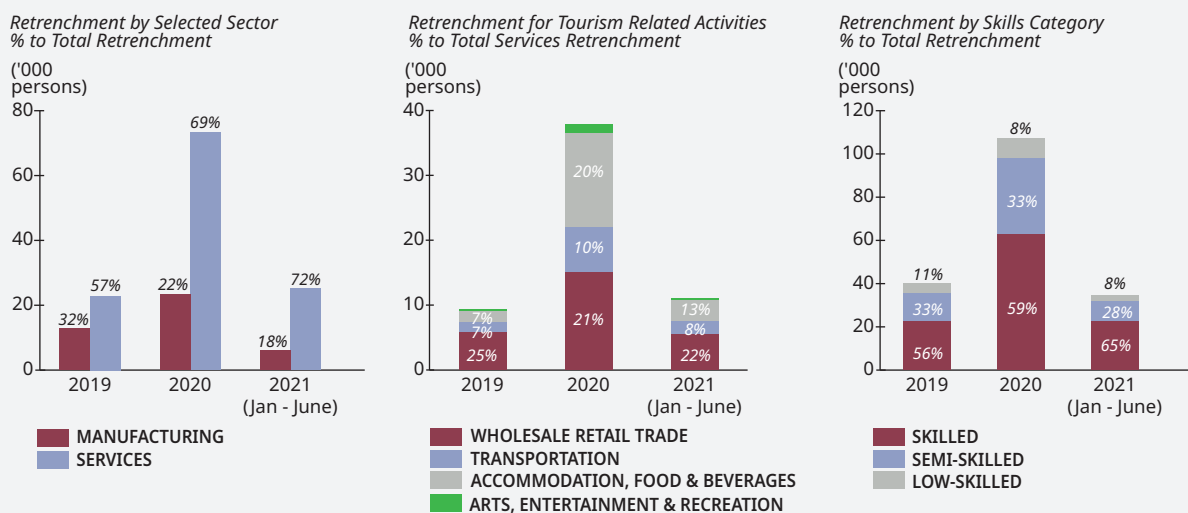
The Malaysia Digital Economy Corporation (MDEC) highlighted that the demand for digital experts tripled from around 19,000 vacancies in June 2020 to 56,000 vacancies in April 2021. The most popular jobs were software development, data science, IT services, digital security and e-commerce. However, employment in the ICT subsector only rose by 15,800 persons or 6.6% in the first quarter of 2021 against the same period last year. The increase is relatively small compared to 200,300 persons (7.4%) in wholesale and retail trade; and 98,400 persons (12.5%) in the public administration and defence, compulsory social security.

FIGURE 1.4.2. *Employment Share by Selected Services*

(million persons)

Source: Department of Statistics and Ministry of Finance, Malaysia
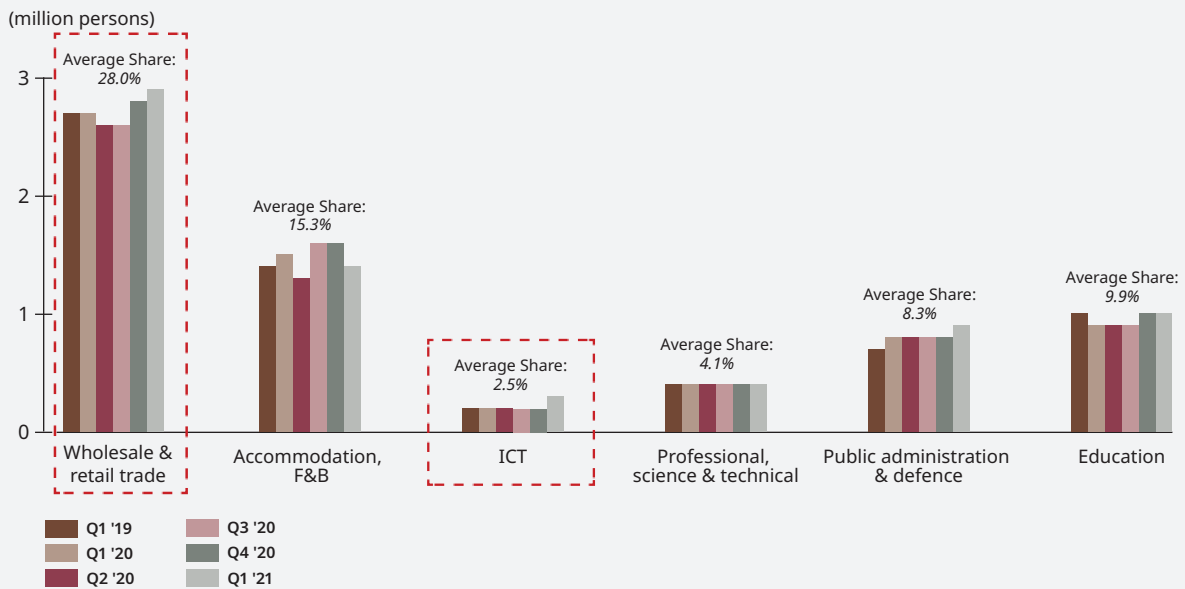
Zooming in retrenchment by sector, the highest rate was recorded in the services and manufacturing sectors as business operations were restricted, affecting working hours and business revenues. The retrenchment in the services sector was mainly from the accommodation, food and beverages subsector due to prohibitions on travelling activities, which eventually affected transportation and all tourism-related activities. From over 34,700 people retrenched as of June 2021, retrenchments were mainly among the skilled (64.6%) and semi-skilled (27.6%) workers, as shown in Figure 1.4.3.

FIGURE 1.4.3. *Retrenchment Pre and During the Pandemic*

Retrenchment by Selected Sector
% to Total Retrenchment

Retrenchment for Tourism Related Activities
% to Total Services Retrenchment

Retrenchment by Skills Category
% to Total Retrenchment

Source: Social Security Organisation, Malaysia

Similarly, vacancies and job placement also did not show any significant changes as both vacancies and placements were mainly in the manufacturing sector and tourism related activities, as shown in Figure 1.4.4.

FIGURE 1.4.4. *Vacancies and Placements by Skills Category*
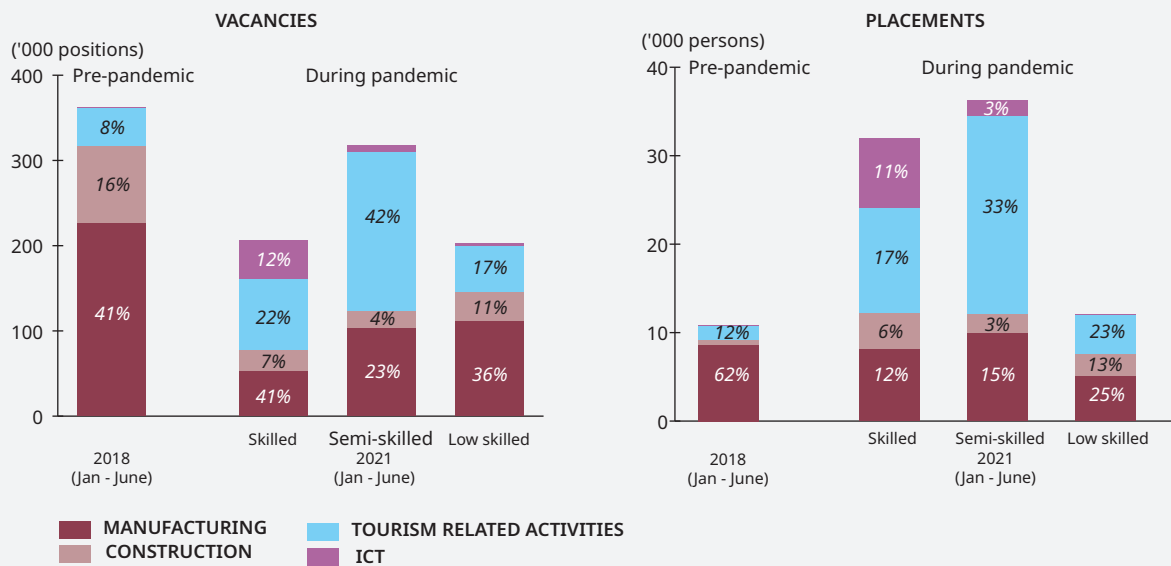
Source: Ministry of Human Resources and Social Security Organisation, Malaysia

An analysis by the Institute of Labour Market Information and Analysis (ILMIA) in 2020 showed that the top five jobs with the most vacancies during the pandemic period include stationary plant and machine operators; advertising and marketing professionals; financial and investment advisors; general office clerks; and managing directors and chief executives. The top five jobs represented 33% of total job vacancies in the third quarter of 2020.[1] Jobs listed by ILMIA and MDEC are also part of the Critical Occupation List[2] that were highly demanded by employers in 2019 and 2020, except general office clerks.

Labour Demand Perspective

Despite analysis proving no significant changes in the employment structure, substantial remote work adoption by industries, coupled with the Fourth Industrial Revolution (4IR) and the digitalisation advancement are expected to bring changes to the employment structure and future of work post-pandemic. The World Economic Forum (2018) had foreseen the emergence of technology within these few years. The report highlights that automated machinery now accounts for 29% of completed work and is expected to rise to 42% by 2022 and 52% by 2025. In other words, in approximately seven years, more than half of the work tasks will be completely automated and completed by machines. Companies and organisations may need to start adjusting their future plans to meet this trend, where automation and technology are becoming the norm with more resources invested in this area. The report also lists a few jobs that will be replaced by automation soon, including data entry, accounting; book-keeping; payroll; administration; factory work, business services and administration; management; and auditing.

The QS Top Universities (2020) highlights that two-thirds of all jobs by 2030 will be made up of soft-skill-intensive occupations. These skills include good leadership value, flexible and easily adaptable to changes and work pressure, critical thinking and objective in decision making, tech-

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[1] Jobs Market Insights (Third Quarter 2020).
[2] Critical Occupations List 2019/2020 Report.

savvy, competence in communication and high emotional intelligence, and having a creative and innovative mindset. Higher learning institutions should ensure the future labour supply is furnished with the highly demanded soft skills.

The Organisation for Economic Co-operation and Development (2019) also highlights some important points that employers should prioritise in embracing the digitalisation era. First, employers should prepare workers for new jobs and changes to the existing ones, as digital transformation may lead to lost jobs. Second, employers should empower people with multiple skills set to succeed in the digital world of work. Greater focus should be given to cognitive skills, including digital skills, social and emotional skills, job-specific skills and most importantly, on the motivation to cope with changes. Third, employers should be ready to face the massive challenges in training. This includes life-long learning opportunities, particularly for low-skilled workers. Lastly, employers should improve their social protection to ensure that no one is left behind.

Labour Supply Perspective

Nonetheless, questions may also arise whether employers and the future workforce are ready to embrace the future of work in the post-pandemic era. The labour demand analysis shows that advertising and marketing professionals; financial and investment advisors; managing directors and chief executives; and digital experts in software development, data science, IT services, digital security and e-commerce are the highly demanded jobs in the market during the pandemic. However, the Ministry of Higher Education Graduate Tracer's Study reported that from over 305,000 graduates produced in 2020, 11.3% are from the science, mathematics and computer fields; 3.3% are from finance, banking and insurance; and 1.9% from marketing and advertising. Hence, the tertiary institutions may not be able to match the future of work demands, as indicated in Figure 1.4.5. Alternatively, the workers may need to be equipped with future work skills through greater upskilling and retraining.

FIGURE 1.4.5. *Job Vacancies and Output by Higher Learning Institutions, 2020*

('000 positions/persons)
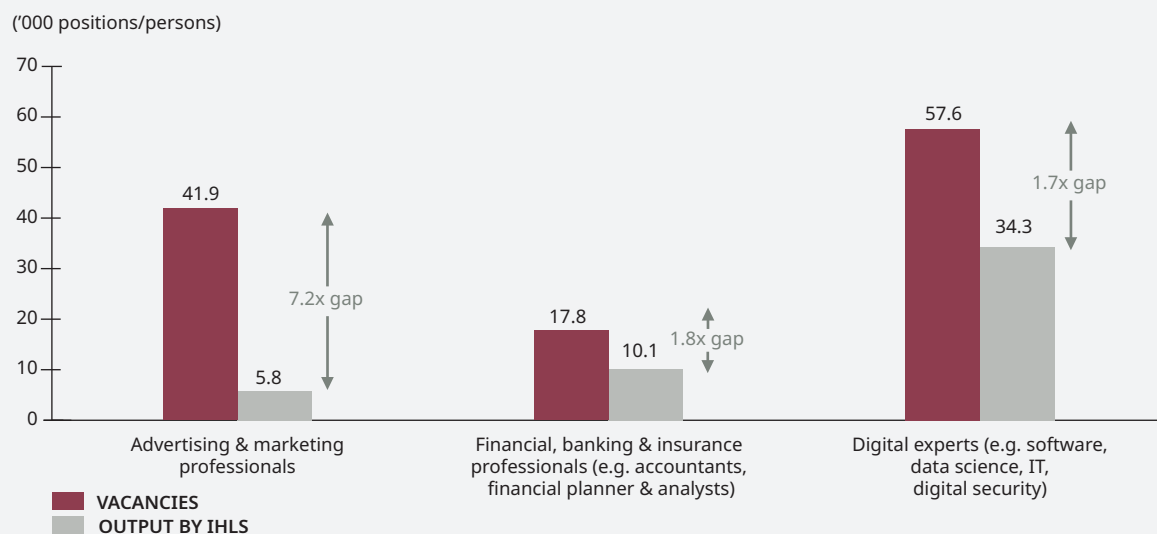
Source: Mininstry of Higher Education and Social Security Organisation, Malaysia

The World Economic Forum (2020) highlighted that several strategies will be taken by companies in Malaysia to cope with the wave of digitalisation and the future of work requirements. All companies surveyed will accelerate the digitalisation work processes (i.e. using digital tools, video conferencing, etc.) for future work; providing more opportunities to work remotely (75%); fast-tracking the application of digitalisation in the upskilling and reskilling programmes (i.e. education technology providers) (58.3%); and reassigning workers to different tasks temporarily (33.3%). In response to the shifting in skills needs, among others, 86% of the companies surveyed will automate the work; 86% will hire new permanent staff with skills relevant to new technologies; and 86% expect existing employees to pick up skills on the job. Companies will also focus on the upskilling and reskilling programmes to equip their workers with the up-to-date skills and knowledge required, including analytical thinking and innovation; critical thinking and analysis, and technology utilisation, monitoring, and control.

Current Initiatives to Meet Future of Work

Digital transformation for a nation is a journey through various possible paths. Malaysia has started the process of integrating digital technologies into all areas of its economy in phases. However, with more than 90% of Malaysian businesses are micro, small and medium enterprises (MSMEs), there will be hurdles for the economy to fully shift digitally. Therefore, smaller businesses must also be digitally empowered in various sectors via the available assistance programmes provided. To date, the Government has provided such assistance through the SME Digital Accelerator Grant, 100GoDigital and Smart Automation Grant to support MSMEs to automate their business processes and move towards digitalisation.

MDEC also helps individuals and micro-entrepreneurs to embed digitalisation in their work processes. Among MDEC's current digitalisation initiatives are Global Online Workforce (GLOW), eUsahawan and eRezeki programme. These programmes create opportunities for citizens, especially the low-income groups, to generate additional income by undertaking digital assignments via an online crowdsourcing platform.

While the number of digital job vacancies is high, the majority of vacancies are for experienced talent. This poses a challenge for fresh graduates. Therefore, fresh graduates could bridge their experience gap for pre-employment training by taking up digital jobs on a freelance basis. Some of the platforms that can be optimised are Upwork, Freelancer.com or Fiverr. At the same time, junior-level talents can pick up some in-demand digital skills, such as analytical skills, software development, various programming languages, and cloud computing, to prepare themselves before entering the job market.

MDEC has also established the Digital Skills Training Directory, which provides courses that have been reviewed and endorsed by expert tech practitioners to help talents identify suitable training courses. Job seekers would be better informed by referring to this directory, while those employed can also enhance their careers by taking up courses to acquire some of the in-demand skills mentioned earlier. This would also help secondary school leavers or pre-university students decide on what courses to pursue, as this directory indicates the latest trends and the most promising career opportunities in digital technology-related disciplines.

In addition, the HRD Corp has also developed an assessment tool of necessary skills and competencies for the detailed occupation categories, called the Industrial Skills Framework (IndSF). This tool aims to assist employers, employees and training providers understand the latest

development in skills in need. The skill sets described in the IndSF cover a range of soft skills to hard skills for each occupation. It can be a good guide to all employers and employees as the modules will be updated regularly.

Furthermore, in ensuring that the whole spectrum of society is on track to catch the wave of digitalisation in meeting the future of work requirements, the Malaysia Digital Economy Blueprint has also outlined strategies to accelerate Malaysia's progress as a technologically advanced economy. This Blueprint identified six strategic thrusts: drive digital transformation in the public sector, boost economic competitiveness through digitalisation; build enabling digital infrastructure; build agile and competent digital talent; create an inclusive digital society; and build trusted, secure and ethical digital environment. These will chart the path to strategically position Malaysia as a competitive force in the new era.

Conclusion

The employment structure has not changed significantly during the pandemic. However, substantial remote work, including work-from-home practices and the digitalisation advancement, is expected to change the employment landscape and future of work. Thus, employers should continue to retrain their workers, while employees should continue to upskill themselves to meet the future skills demanded. On the supply side, tertiary institutions should give more emphasis the digital-related programmes and embed analytical thinking and other soft-skills in the existing non-IT related courses that may add value to the workforce upon entering the job market. All ongoing initiatives towards digitalisation should also be continued to facilitate businesses to adopt technological tools in daily operation. These efforts will eventually allow the labour market players to progressively move towards automation and digitalisation to meet the future of work.

Reviving the Tourism Industry

Tourism and related activities continue to be badly affected by the pandemic. The United Nations World Tourism Organization reports that the global export revenue from tourism fell by USD930 billion in 2020. This is a significant loss as tourism supports one in 10 jobs and provides a livelihood for millions in the developing and developed economies. According to the World Travel and Tourism Council, the COVID-19 pandemic is likely to cost the tourism industry almost USD22 billion and a loss of almost 50 million jobs worldwide. The Malaysian Association of Hotels quotes that the revenue loss by the hotel industry amounted to RM6.5 billion in 2020. The average occupancy rate and average daily rate in 2020 declined to

27.5% and RM196.69, respectively (2019: 64.5% and RM223.48). While the industry's recovery depends on the relaxation of borders and travel restrictions, it also depends on innovative solutions to help the industry weather the crisis.

New Business Landscape Post-Pandemic

One of the most compelling impacts of COVID-19 is how it has altered the way of doing business. It has forced firms to adopt new business models which is digital-centric. On post-pandemic, Finbarr Toesland (2021) reveals that tech-enabled retailers could double their earnings if they engage in 'phygital'[3] activities. However, this new model

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[3] Physical and digital are connected at the same time without physical presence at the retail premises.

requires innovation, creativity, capability, and willingness to institute these changes in their business operations. In the Malaysian context, this change may pose a challenge. It is argued that micro, small and medium enterprises (MSMEs) are generally reluctant to move away from traditional business norms for various reasons, including high investment and cash flow requirements.

Selected Lessons from the COVID-19 Pandemic

Introduction

The COVID-19 pandemic and imposition of various forms of Movement Control Orders (MCOs) nationwide have dramatically changed people's daily activities and business operations. In addition to safety and health, people were affected economically mainly due to reduced disposable income and rising unemployment with the extended lockdowns. Similarly, industries and businesses were severely affected by border closures and restriction of people's movement and business activities which limited their production capacity and sales. However, not all consequences of the pandemic are negative in nature. This article highlights selected lessons from the pandemic and the positive impact on the environment. The article concludes with some recommendations for the nation in moving forward.

Emerging Issues from the COVID-19 Pandemic

The pandemic uncovered several underlying issues within industries and among individuals. It unveiled the consequence of a high dependency on foreign labour, low utilisation of technologies in the construction sector, high dependency on tourist arrivals and tourism receipts, and lack of savings by individuals. It has also revealed the extent to which human and business activities have degraded the environment.

High Dependency on Foreign Workers

Before the COVID-19 pandemic, numerous concerns were raised on the nation's heavy reliance on unskilled and low-skilled foreign workers. Malaysians are generally reluctant to take up the 3D (dirty, dangerous, difficult) jobs, resulting in the monopolisation of foreign workers in specific sectors. Many foreign workers work in labour-intensive sectors, such as the manufacturing, construction, plantation, agriculture and domestic helper sectors (World Bank, 2019). With the implementation of MCOs, suspension and restriction on many economic activities have reduced on-site workers and resulted in high retrenchment, especially among foreign workers. Government initiatives to send foreign workers to their home country and tighter foreign entry policy into Malaysia during the pandemic also contributed to a shortage of workers, especially in the agriculture and construction sectors. Consequently, there was a labour shortage, especially in the two sectors, which led to a sharp decline in GDP growth and labour productivity in 2020, as shown in Table 1.5.1.

TABLE 1.5.1. *GDP and Labour Productivity, by Sector (% change)*

SECTOR	GDP		LABOUR PRODUCTIVITY	
	2019	**2020**	**2019**	**2020**
Agriculture	2.0	-2.2	0.3	-1.8
Mining	-0.6	-10.6	-0.2	-8.5
Manufacturing	3.8	-2.6	1.7	-2.6
Construction	0.4	-19.4	3.6	-15.7
Services	6.2	-5.5	2.9	-6.0
GDP/Total Productivity	***4.4***	***-5.6***	***2.3***	***-5.5***

Source: Department of Statistics, Malaysia

With the value of construction projects awarded declining by 22.6% to RM86.7 billion for 2020 compared with RM112 billion for the year before as reported by the Construction Industry Development Board (CIDB), the construction sector contracted by 19.4% in 2020. Likewise, labour productivity in the sector fell by 15.7% in 2020. Labour productivity in the agriculture sector dropped by 1.8% in 2020, with its growth contracting by 2.2%. The Malaysian Employers Federation cited that the plantation industry reported a shortage of 40,000 workers with RM10 billion losses during the same period despite experiencing a 26% hike in palm oil prices in 2020.

Low Utilisation of Technologies in the Construction Sector

Malaysia's construction business models and operations are labour intensive. Technology adoption in the construction sector is far behind other sectors, such as manufacturing and agriculture (Rusuli, M.S.C. et al., 2021). According to the findings from the Department of Statistics Malaysia (2021), the construction sector recorded the lowest adoption of digital technology in terms of data analytics at 2.8%, followed by online collaboratives platform (5.4%) and management software (29.1%).

**TABLE 1.5.2.** *Adoption of Digital Technologies by Sector, 2019 (%)*

SECTOR	DATA ANALYTICS	MANAGEMENT SOFTWARE	ONLINE COLLABORATIVE PLATFORMS
Agriculture	9.0	39.5	13.6
Mining	3.4	40.5	34.8
Construction	2.8	29.1	5.4
Manufacturing	4.3	48.4	8.6
Services	6.8	42.7	12.3

Note: The data is based on registered establishments in the agriculture, mining, manufacturing, construction and services sectors. The total survey coverage consisted of 1,081 industries at the 5-digit level based on the Malaysian Industry Classification Standards, 2008 Version 1.0. Source: Department of Statistics, Malaysia.

High Dependency on Tourism Industry

Tourism is one of the major contributors to economic growth. In 2019, the tourism industry continued to maintain its strong growth momentum, contributing 15.9% to GDP or RM240.2 billion (DOSM, 2020). Malaysia was ranked 14th in the world for tourist arrivals and 23rd for tourism receipts (UNWTO, 2019). However, the COVID-19 pandemic has severely impacted the tourism industry, mainly due to worldwide travel bans, travel risk aversion and border closures. The unexpected decline in tourist arrivals, which fell significantly by 83.4% to 4.3 million, and a decrease of 85.3% in tourist receipts to RM12.7 billion in 2020 have adversely affected the tourism-related industries. Thus, the contribution of gross value added of tourism industries to GDP fell to RM199.4 billion or 14.1% to GDP in 2020 (DOSM, 2021). The bleak prospects continued in 2021. As of June 2021, tourist arrivals fell by 98.8% to 50,613 tourists (January – June 2020: -68.2%; 4.3 million tourists), while tourist receipts contracted by 99.4% to RM80.2 million (January – June 2020: -69.8%; RM12.7 billion), as shown in Figure 1.5.1 and Figure 1.5.2.
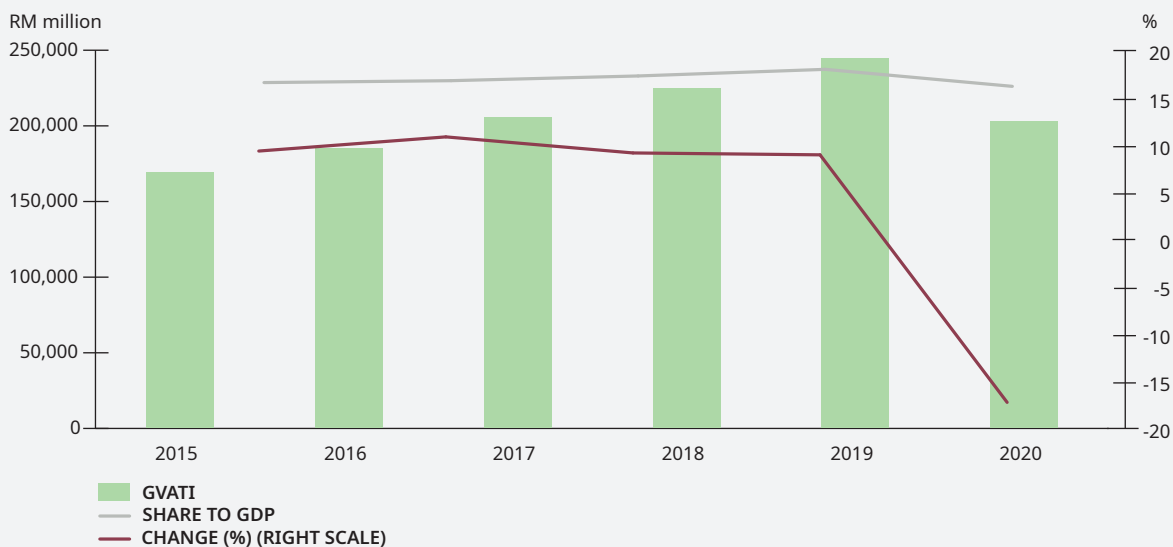
FIGURE 1.5.1. *Malaysia's Tourist Arrivals*
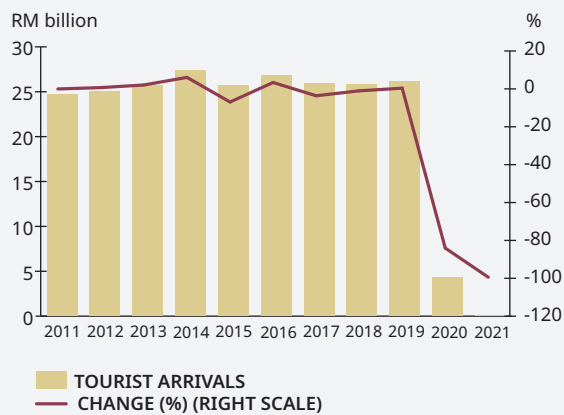
Source: Ministry of Tourism, Arts and Culture, Malaysia

FIGURE 1.5.2. *Malaysia's Tourist Receipts*
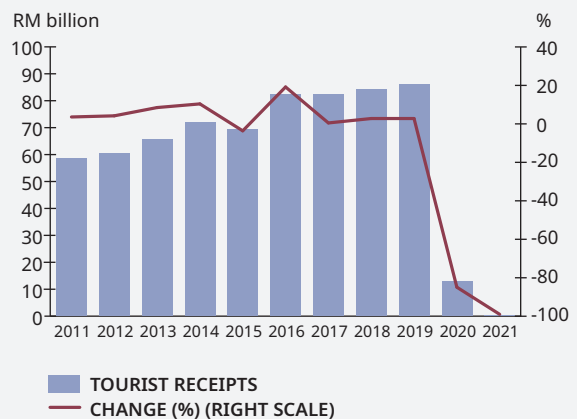
Source: Ministry of Tourism, Arts and Culture, Malaysia

FIGURE 1.5.3. *Gross Value Added of Tourism Industry (GVATI)*

Source: Ministry of Tourism, Arts and Culture, Malaysia

Lack of Savings by Individuals

Savings by individuals are essential for greater security in life, more so in crisis situations. A survey by DOSM in March 2020 found that 71.4% of the self-employed could only survive for one month with their savings, while 77.2% of employers and 82.7% of employees reported that their savings could last only for two months in the private sector. In addition, 78.9% of workers in government-linked companies and 75.2% of employees in multinational companies reported that their savings are sufficient for only four months. The statistics above were based on data collected at the early pandemic stage, thus the situation would most probably be worse when the pandemic surged and the lockdowns lengthened. This indicates how badly the pandemic has affected individuals and the need for the Government to provide social protection to mitigate the impact.

Environmental Quality Before and During COVID-19

Although the imposition of various forms of MCOs commencing March 2020 had significantly impacted the economy and uncovered several underlying issues within some industries, the pandemic positively impacted the environment. The Department of Environment data showed that the environmental quality before COVID-19 was much lower than during the pandemic. Analysis on the quality of river water based on main pollutants revealed that the number of river basins considered clean increased dramatically in 2020 (during the pandemic) compared to 2019. Out of 148 total river basins monitored in 2020, 28 river basins (19%) was categorised as clean from ammoniacal nitrogen compared to only 12 river basins (8%) in 2019, as shown in table 1.5.3. On the other hand, only 42 river basins (28%) of river basins were polluted by ammoniacal nitrogen polluted in 2020, down from 58 river basins (39%) a year before.

TABLE 1.5.3. *Number of Polluted River Basins from 148 Total Observations*

STATUS OF POLLUTION	AMMONIACAL NITROGEN (NH3-N)		BIOCHEMICAL OXYGEN DEMAND (BOD5)		SUSPENDED SOLIDS	
	Clean	**Polluted**	**Clean**	**Polluted**	**Clean**	**Polluted**
2019	12	58	53	52	78	30
2020	28	42	83	15	110	20

Note: The status of river pollution is categorised into three namely clean, semi-polluted and polluted. For simplicity, only river basins categorised as clean and polluted are reflected.
Source: Department of Environment, Malaysia

Analysis of the data reveals that in addition to a lesser number of river basins polluted by ammoniacal nitrogen, the number of river basins considered clean from biochemical oxygen demand and suspended solids increased significantly in 2020. On the contrary, the number of river basins polluted by all three pollutants has fallen, signifying improved water quality during the pandemic. The improvement is due to the restrictions on operations of certain industries, including the manufacturing, construction and plantation sectors.

Similarly, air quality has also improved significantly during the pandemic. Based on the air quality data, air quality stations in Selangor recorded only three unhealthy days (with a reading of 101 – 200[1]) in 2020 compared to 106 days recorded in 2019, as shown in Table 1.5.4. A similar trend was observed in Wilayah Persekutuan, with only seven unhealthy days recorded in 2020 compared to 71 days before the pandemic in 2019.

[1] Air Pollution Index (API): Good (0-50), Moderate (51-100), Unhealthy (101-200), Very Unhealthy (201-300), Hazardous (301-500), Emergency (500+)

TABLE 1.5.4. *Number of Unhealthy Days By Selected Station, 2019 and 2020*

STATIONS	2019	2020
Kedah	**12**	**0**
• Alor Setar	1	-
• Kulim	5	-
• Langkawi	2	-
• Sungai Petani	4	-
Kelantan	**4**	**0**
• Kota Bharu	2	-
• Tanah Merah	2	-
Selangor	**106**	**3**
• Banting	19	-
• Kuala Selangor	13	-
• Klang	15	-
• Petaling Jaya	15	2
• Shah Alam	44	1
Terengganu	**25**	**0**
• Besut	1	-
• Kemaman	11	-
• Kuala Terengganu	6	-
• Paka	7	-
Wilayah Persekutuan	**71**	**7**
• Batu Muda, Kuala Lumpur	16	-
• Cheras, Kuala Lumpur	32	3
• Putrajaya	23	4

Source: Department of Environment, Malaysia

As reflected above, improved air quality was not only evident in the Klang Valley but was also apparent throughout the nation, with Kedah, Kelantan and Terengganu recording zero unhealthy days in 2020 compared to 41 days in 2019. The declining number of polluted river basins and reduced number of unhealthy days proves that the quality of the environment has significantly improved during the pandemic.[2]

Policy Recommendations

The pandemic revealed that a dynamic labour market policy is needed to address long-standing labour market disequilibrium at the industry level. Workers displaced from affected industries, such as hospitality and retail, need to be redeployed to industries that have seen a surge in labour demand. Due to increasing demand, short-term labour shortages are foreseen in essential industries, such as health, agriculture, and food-based manufacturing. It is now more imperative for industries to shift towards high technologies and high-skilled labour to reduce the dependency on foreign workers. As skills and expertise are needed for technology adoption and application, the affected sectors need to invest in upskilling and reskilling initiatives to increase their workers' productivity and sector performance.

As one of the most affected sectors from COVID-19, the construction industry could take a lesson from this pandemic by intensifying the usage of the Industrialised Building System (IBS), which could help in boosting productivity. IBS inspires the usage of automation, mechanisation, and prefabrication of components, allowing the industry to hire more skilled workers to boost efficiency and productivity. This means faster completion times, greater productivity, less waste, fewer

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[2] Although the overall air quality in 2019 was affected by the haze in the whole month of September, the overall trend still showed that the air quality for other months in 2020 was better than those in 2019.

accidents and lower overall construction costs for the industry. The Government has emphasised the importance of technology applications in enhancing project performance and productivity. The Public Works Department (PWD) and CIDB have undertaken various efforts to adopt technology among industries.

Due to the impact of COVID-19 on the people and economy, rebalancing Malaysia's economic growth remains a complex process. The pandemic has also highlighted the positive relationship between the restriction in human movements and lesser business activities and the improved environmental quality illustrates the importance of full adherence by industries and businesses to all pollution control measures introduced and implemented by the relevant authorities. With continuous improvements undertaken to address underlying issues in various industries such as construction, plantation, manufacturing and tourism, the nation is set to move in the right direction towards attaining better environmental quality.

Regarding depleting savings, the pandemic has revealed the need to improve the existing social protection system. In addition, many individuals, particularly the self-employed and those in the informal sector, do not participate in any social protection programmes. Elevating the level of financial literacy among Malaysians is also crucial in promoting good financial behaviour.

Conclusion

One of the main lessons from the COVID-19 pandemic and the imposition of MCOs and lockdowns is the significant environment improvement during the pandemic due to lesser movements of the people and slower business activities. All stakeholders must now begin to seriously adopt a low-carbon economy plan to maintain this momentum. The analysis also recommends that individuals, businesses and industries embrace digital technology and adopt the required technical skills to be more resilient in facing potential adversities.

Narrow Revenue Base

The Government managed to reduce its fiscal deficit from 6.7% of gross domestic product (GDP) in 2009 to 3.4% in 2019. Following the pandemic, a significant amount of funds through various assistance and stimulus packages had been allocated to alleviate the difficulties of the people and businesses. Consequently, the deficit rose to 6.2% in 2020. In the medium term, the Government is committed to gradually consolidate its deficit. The consolidation effort entails optimising revenue and rationalising expenditures. With regard to revenue optimisation, a fair and effective taxation system and a broader tax base are necessary. At the same time, expenditure rationalisation requires a need to look at the whole structure of the Government's expenditures.

The Waning of National Competitiveness

The IMD World Competitiveness Yearbook (2021) highlights that Malaysia's global competitiveness ranking improved by two notches to 25th position in 2021 from 27th in 2020. Despite the improvement, the report quotes that Malaysia recorded significant declines in exchange rate stability, investment growth, population growth and expenditure on R&D, and rising risk of political instability. The World Bank Report "Aiming High: Navigating the Next Stage of Malaysia's Development" states that Malaysia is expected to transition from an upper-middle- to high-income-economy within the next five years despite the recession in 2020. However, the World Bank highlights that for Malaysia to move up to a high-income and developed country status, it needs to boost its competitiveness by accelerating productivity growth.

According to the Malaysia Productivity Corporation (MPC) in its Productivity Report 2021, labour productivity in 2020 contracted by 0.2% compared to 2.1% growth in 2019 due to a shortage of high-skills workforce in the economy. In this respect, Malaysia needs to address several issues related to low R&D expenditure, a drop in the commercialisation of R&D outputs, inadequate intellectual property rights (IPR) and the inability to attract high-quality FDI. Although these issues were prioritised in various short, medium and long-term development plans, they remain unresolved.

FEATURE ARTICLE 1.6

A Fresh Approach in Measuring and Enhancing Public Sector Productivity in Malaysia

Introduction

Malaysia aspires to be a prosperous, inclusive and sustainable nation. Towards this goal, the public sector must rise and keep up with the pace of its counterpart in the private sector. It is more crucial in these trying times for the government machinery to become more effective and efficient in meeting the challenging economic landscape that is compounded by the impact of the COVID-19 pandemic. With this notion in mind, the Government has emphasised transforming the public sector into more people-centric, efficient and productive. Without a more dynamic, efficient and productive public sector, it would be an uphill task for the nation to achieve its Shared Prosperity Vision 2030 (SPV 2030).

In 2020, the Government concluded the Public Service Sector Productivity Measurement Study, which looks at four broad public service sectors. As the study is based on a macro perspective, there is a need to measure public sector productivity from a multidimensional approach. Based on a Policy Note by the World Bank in collaboration with the Ministry of Finance, Malaysia, this article examines the potential impact of increased public sector productivity on the economy. It also estimates the productivity and efficiency levels of ministries, departments and agencies (MDAs) and highlights policy measures to improve the monitoring and management of public sector productivity.

The Public Sector Productivity Imperative

Productivity is commonly defined as the ratio of the volume of outputs to the volume of inputs. It is essentially a measure of how well resources (inputs like capital and labour) are being used to produce goods and services (outputs). Higher productivity translates into greater efficiency in delivering programmes, projects, and government services. The public sector is a key component in every country's institutional framework. It plays a significant role in supporting economic growth through its actions related to policy, regulation and service delivery.

A more effective public sector can substantially affect the levels of economic activity and the future growth trajectory of a country. According to the Worldwide Governance Indicators (WGI), countries with higher scores on the Government Effectiveness indicator tend to have higher GDP per capita growth rates, as shown in Figure 1.6.1. In addition, the World Development Report (WDR) in 2004 and 2017, which highlight on the role of public service, placed service delivery, public sector reform and governance at the centre of the development process. This association is backed by empirical evidence that examines the relationship between public sector efficiency and economic growth across 38 countries (St. Aubyn, 2008).
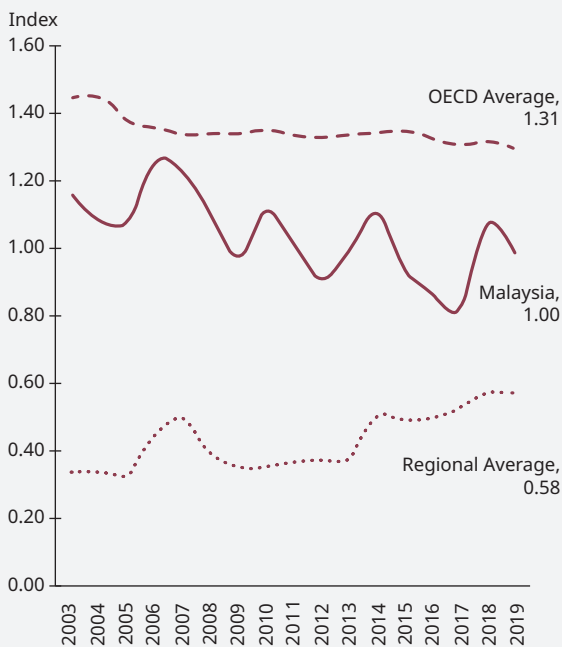
FIGURE 1.6.1. *Correlation between Government Effectiveness and GDP Per Capita Growth Rates*
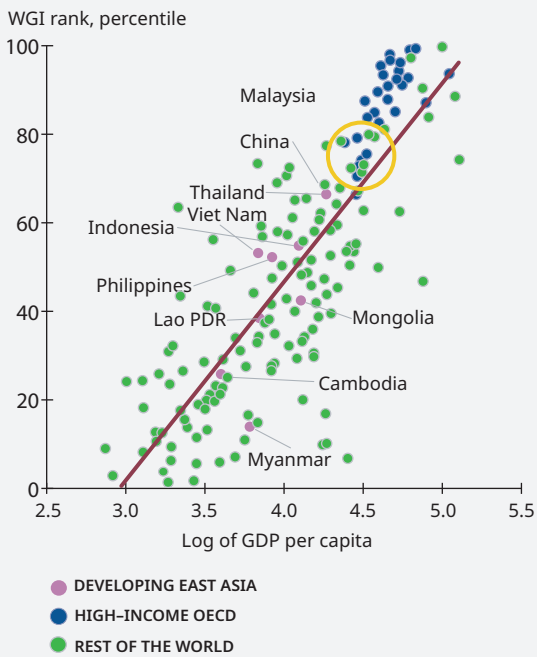
Malaysia's Ongoing Efforts in Public Sector Reform

In Malaysia, improving public sector productivity has been part of the policy discourse over the past three decades. It has become more closely linked to the economic reform agenda in recent years. The attention to public sector productivity improvement at the national level can be traced to the Sixth Malaysia Plan, 1990–1995 (6MP). Since then, various efforts have been undertaken to link public sector performance with productivity. Various institutional reforms and improvements have also been implemented to enhance the public sector's contribution to national productivity. According to the Government Effectiveness indicator of the WGI, Malaysia's performance is above its regional peers but below that of high-income OECD countries, as shown in Figure 1.6.2. However, issues such as government efficiency and political instability continue to persist and negatively influence public sector performance (IMD World Competitiveness Yearbook, 2021).

Over the years, various efforts have been undertaken to measure and improve public sector productivity. Difficulties translating public sector productivity findings into policy actions and the absence of rigorous empirical evaluations on reforms have made it challenging to accurately target areas for improvement. In light of the importance of public sector productivity for Malaysia's transition to a high-income economy, there is a need to deepen the understanding and strengthen the approach in this area. Improved measurements will help shed light on productivity differentials across organisations in the public sector while providing the evidence necessary to design more targeted and cost-effective interventions.

FIGURE 1.6.2. *Malaysia's Performance in Government Effectiveness*

Source: Ministry of Finance (estimation by World Bank) and World Bank (2019)

International evidence shows that productivity gains can be spurred through public sector reforms in the following areas:

- Improving administrative human-resource capacity by ensuring public administrations are well-staffed and have the competencies and resources to meet task demands;
- Merit-based recruitment ensures public administrations are staffed with well-qualified and competent staff who can effectively complete their tasks, perform at high standards and generate innovations and new ideas;
- Improving management practices have significant impacts on public-sector productivity, as managers make decisions over the allocation of resources and how to incentivise and motivate staff;
- Implementing digital technology solutions in Government, such as electronic procurement helps to significantly reduce costs by improving information flows and monitoring systems, leading to a reduction in fund leakages, corruption and poor performance; and
- Financial and non-financial incentives can motivate staff to reach and maintain a high level of productivity. Financial incentives that pay for performance raises productivity while non-financial incentives, such as those that reward performance with the opportunity to choose their work location, also leads to higher productivity.

Given the importance of measurement in public sector productivity, several countries have incorporated this element into their broader economic and fiscal strategies. For example, Ministries of Finance in Austria, Estonia, Denmark and Sweden have engaged in efforts to expand the measurement framework, capturing hundreds of indicators on public sector performance. These are embedded in national initiatives to enhance overall productivity and generate stable economic growth.

The Way Forward: A Multidimensional Approach to Understand and Improve Public Sector Productivity in Malaysia

In attempting to analyse and enhance public sector productivity, a primary challenge is measuring inputs and outputs using a particular measurement method. Measuring public sector inputs and linking them to specific outputs and outcomes is challenging. Many public services are complex, co-produced across multiple individuals and organisations, and exhibit time lags between investment in inputs and the realisation of outputs. It is also complex to assign a monetary value to public-sector outputs as often there are no market transactions for public services. In most cases, they are provided for free or heavily subsidised. While there are multiple approaches to measuring public sector productivity, each has its weaknesses.

A multidimensional approach that examines multiple aspects of the public sector and its performance can provide a more comprehensive picture of what drives productivity and what this means for the broader economy. Through this, the Government is taking a fresh approach in deepening its understanding of Malaysia's determinants of public sector productivity and its potential impact on service delivery, economic activity, and fiscal space. The effort includes determining efficiency levels of MDAs, identifying drivers and bottlenecks of productivity and designing productivity-enhancing reforms. The multidimensional approach to understanding public sector productivity consists of three core components as shown in Figure 1.6.3.

- To understand how improvements in public sector productivity can impact economic and fiscal aspects in the short-, medium-, and long-run;
- MDAs' understanding of the efficiency levels and opportunities for efficiency improvements in individual public sector organisations is important; and
- Monitoring and identifying drivers of public sector productivity to enhance data collection and strengthen the processes to monitor trends in performance and productivity.

FIGURE 1.6.3. *A Multidimensional Approach to Understanding Malaysia's Public Sector Productivity*

Economic and Fiscal

To what extent can improvement in public sector productivity potentially impact the economy?
- Channels and potential impact to direct fiscal savings, cost effectiveness, economic activity, private consumption and growth (for example: government services, regulation and revenue)

- Reforms that generate high productivity gains (for example: ICT and capacity building)

MDAs

To what extent is the overall public sector productive and efficient?
- Using budget performance as a ready and comparable indicator across ministries
- Programme/Project progress performance

To what extent can the levels of effeciency of various public sector entities can be determined?
- Ministries - efficiency of core activities based on programme agreements/budget performance programme
- Agencies - efficiency of core activities/output and task completion rates
- Productivity variations within the same MDAs and across locations

Monitoring and Drivers of Productivity

- What are the indicators needed to strengthen supervision on efficiency/productivity for sound fiscal management?
- What are the factors drive productivity improvement and its implications for policy?

Source: World Bank

Integrating multiple data sources within the MDAs is crucial to examine public sector productivity through a holistic lens. Complementing traditional macro measures with more granular micro measures at the individual employee and organisational level will allow for accurate tracking and benchmarking of how MDAs perform and determine the main drivers of productivity. Examples of such analyses are in Figure 1.6.4 and Figure 1.6.5. Insights from the multidimensional approach are expected to enhance policy-making on improving public sector productivity, including establishing the indicators needed for better monitoring of productivity for sound fiscal management.

FIGURE 1.6.4. *Budget Execution Rates of a Ministry's Programmes, 2019*

FIGURE 1.6.5. *Number of Planned and Actual Licenses Issued by a Ministry, 2009 — 2015*
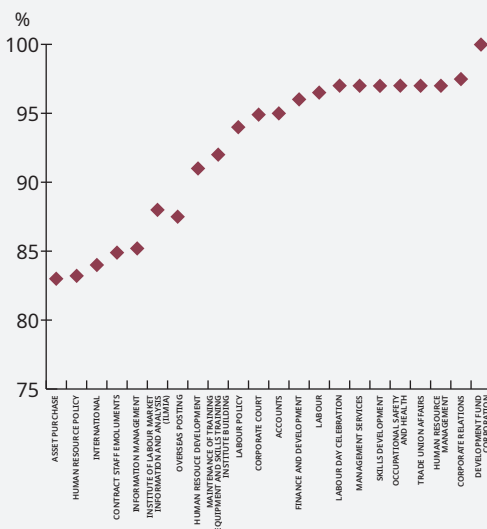
Source: Ministry of Finance, Malaysia (estimation by World Bank)
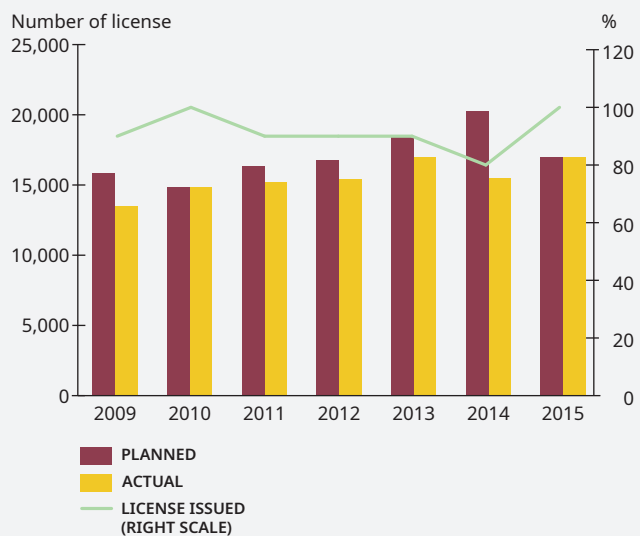
While there is strong evidence linking public sector productivity with fiscal and economic performance, there is room for more empirical work at the country level. A wealth of administrative data on the public sector, such as budget execution and project completion, can be applied to diagnose how productivity varies across organisations and determine the drivers. Such assessments help to strengthen the conceptual framework on public sector productivity as well as identify areas for future analysis and impact evaluations.

In the medium-term, more and better-quality data can be collected through regular surveys of public officials and citizens and expansion of the administrative data through digital technology tools. The data can be combined with evaluations of pilot reforms in the public sector to test which reforms have worked, why they have worked and under what conditions they work best. Such initiatives will need to be combined with capacity building programmes to strengthen competencies in data analysis and make the most of the new data-rich environment.

Conclusion

The public sector plays an important role in the national economic plan through planning, implementing and monitoring various economic and development plans and delivering essential public services. Malaysia has taken various steps to improve public sector productivity. Other measures under consideration include linking public sector productivity with economic and fiscal strategies through the multidimensional approach. As Malaysia transitions to a prosperous, inclusive and sustainable nation, there is a need for the public sector to lead the way in enhancing the nation's productivity.

The Threat of Climate Change

Climate change has wide-ranging devastating effects on mankind. Various efforts are being undertaken at the global level to address its impact and expedite the transition towards low carbon activities. Nations have undertaken various policies to encourage the transition towards green activities by moving away from carbon-intensity production. In July 2021, the European Commission announced its intention to endorse a master plan to cut carbon emissions by 55% of the 1990 level by 2030. The plan also intends to internationalise Europe's climate policies to place its firms on an equal footing with competitors in countries with weaker carbon policies. The EU, for example, is set to implement the Carbon Border Adjustment Mechanism (CBAM) beginning 2023, which seeks to impose a carbon tax on imported goods to equalise costs for European industries that have relocated their production facilities in countries that do not implement carbon tax policy. Indirectly, this will have a negative impact on the competitiveness of Malaysian products entering the EU market if the products are insufficiently "green". The US is also considering a similar measure, called "polluter import fee", which will have a similar impact. The move will significantly affect Malaysian exports as Malaysia's important trading partners are the US and the EU. As such, efforts need to be intensified to raise the awareness of industry players on the need to quickly adopt low-carbon activities. At the same time, there is a need for policies and frameworks that enable the smooth transition of industries to low carbon activities.

Strategic Initiatives - 2022 Budget

The 2022 Budget focuses on driving economic recovery, rebuilding national resilience and catalysing reforms across the public and private sectors. In addition, efforts will be strengthened to enhance the public service delivery to meet stakeholders' expectations.

The Budget is also pivotal as it lays the foundation for implementing the 12MP and the SPV 2030.

Driving Economic Recovery

Expediently regaining the nation's footing post-pandemic will necessitate more focus on driving economic recovery, especially the worst-hit tourism and related sectors. Businesses will be encouraged to further enhance their competitive advantage and venture into new growth areas to build resilience and withstand future adversities. Malaysian companies will be encouraged to leverage the nation's comparative advantage by capitalising on well-developed local infrastructure, talents, and natural resources. In this regard, Islamic products and services will be further strengthened, while tourism, especially ecotourism, will be promoted. In addition, efforts will be further enhanced to assist and empower the vulnerable and disadvantaged segments of society, women, indigenous people and the disabled. Thus, various programmes will be streamlined and coordinated to ensure an effective delivery mechanism.

The 2022 Budget will also focus on creating new job opportunities, strengthening human capital and preparing the workforce to operate in the new norm. Thus, a stream of immediate responses will address various structural labour market issues affecting the economy. Among others, lifelong learning, upskilling and retraining initiatives will be strengthened to future-proof the workforce.

Rebuilding National Resilience

The pandemic has brought to the fore several structural issues that need to be addressed. The 2022 Budget will focus on rebuilding the nation's resilience, beginning with the nation's public health system. Accordingly, the existing PICK initiative will be further enhanced to ensure the entire population is vaccinated. In addition, the capacity for local vaccine development will be further

improved to increase the level of preparedness in facing any future pandemics. Efforts will also be formulated to enhance digital and technological infrastructure, especially in the business and education sectors and remote areas. Various programmes and projects will be implemented to support MSMEs to increase their effective contribution to the economy.

The digital transformation efforts among MSMEs will be intensified by developing 5G infrastructure and implementing Fourth Industrial Revolution (4IR) programmes across all sectors. MSMEs will also be encouraged to tap into emerging online businesses. Overall, the Government will facilitate and provide the necessary support for the transition to the new business model. To enhance education and strengthen human capital, lifelong learning through upskilling and retraining initiatives will be intensified. The intent is particularly vital in equipping the workforce with the right digital and technological skills to remain relevant post-pandemic. In addition, efforts will be intensified to foster productivity through teleworking and increase workforce opportunities in securing decent jobs in the digital era.

Catalysing Reforms

The measures in the 2022 Budget will catalyse economic reforms and focus on attaining SDGs and objectives of the 12MP and SPV 2030. In addition, the Government will also focus on improving the efficiency of the public service delivery and emphasise the elements of ESG in public service, statutory bodies and Government-linked companies. As the public service serves as the administrative arm of the Government, it has a crucial role in facilitating the nation's recovery from the pandemic and becoming a prosperous, inclusive and sustainable nation. To achieve the vision, the Government has introduced the concept of Keluarga Malaysia, which aims at closer cooperation and collaboration among all stakeholders irrespective of political affiliation or ideological differences.

Consequently, the Government has embarked on greater and broader engagement with all stakeholders to better understand their needs and requirements. Following the feedback, the Government will focus on digitalising the work processes in the public sector to fulfil the aspirations of stakeholders. This aligns with the Public Sector Digitalisation Strategic Plan, 2021 – 2025 which provides directions and guidelines for various areas. This includes Government to Government (G2G), Government to Citizen (G2C), Government to Business (G2B) and Government to Employee (G2E). The plan highlights the pillars required to further enhance the existing Digital Government initiative by enhancing data, application, technology, capability and governance. Hence, existing procedures and processes will be reviewed to promote greater efficiency in the public service and enhance the quality of public services to fulfil stakeholders' requirements.

As a broad strategy, the Government will adopt the whole-of-nation approach to catalyse reforms in several areas to provide a conducive business environment, create new growth areas, enhance productivity, facilitate greater women participation in the labour force, and promote ESG principles across the economy. Efforts will also be focused on enhancing cooperation with the Third Sector of the economy, including the NGOs and civil society organisations as Government development

partners. The Government will foster closer collaboration and cooperation with various organisations to empower them to partake in national development. Overall, concerted effort by all parties will facilitate the attainment of the SDGs and outcomes of the 12MP and the SPV 2030, which aspires to place Malaysia as a prosperous, inclusive and sustainable nation.

Conclusion

The Malaysian economy expanded by 7.1% in the first half of 2021. Considering various levels of MCOs following the emergence of new COVID-19 variants in the third quarter, the economy is anticipated to expand between 3% and 4% in 2021. In 2022, the Malaysian economy is expected to strengthen between 5.5% and 6.5%, supported by significant improvement in global trade, stabilised commodity prices, containment of the pandemic, and gradual improvement in consumer and business sentiments. The 2022 Budget will advance measures to further drive economic recovery, enhance the nation's resilience, catalyse nationwide reforms and improve public service delivery. The programmes and projects in the Budget are aligned to the priorities of 12MP and SPV 2030 and support the nation's aspiration of becoming a prosperous, inclusive and sustainable nation.

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