DEVELOPMENT DIGEST
FEATURED WORK FROM THE WORLD BANK GROUP GLOBAL KNOWLEDGE & RESEARCH HUB IN MALAYSIA

Approaching New Frontiers

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Global Knowledge & Research Hub in Malaysia
ABOUT DEVELOPMENT DIGEST

The Development Digest is a half-yearly publication that features key works from teams based at the World Bank Group Global Knowledge and Research Hub (the Hub) in Malaysia.


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Toward Better Country Outcomes

In his first six months as World Bank Group (WBG) President, David Malpass underscored the importance of supporting member countries – particularly those with lower per-capita incomes – in their quest to achieve better development outcomes. This renewed focus on the quality and effectiveness of WBG country programs is likely to be a pervasive theme during the 2019 World Bank Annual Meetings and in our institutional work going forward. In this edition of our Development Digest entitled Approaching New Frontiers, I would like to share some brief reflections on the alignment between the work of the Hub in Malaysia and President Malpass’s focus on ramping up efforts to improve country-level outcomes.

The Hub in Malaysia, supported by the Malaysian Government, serves as a global platform for promoting South-South knowledge exchanges, disseminating development experiences, and developing policy and research-based innovations for the benefit of countries from across all regions. These activities lend their support to existing WBG country programs, and directly to the policy reform efforts of the countries themselves. Below are a few examples of the work under each category of activity:

Promoting South-South Knowledge Exchanges – Since its establishment in 2016, the Hub has supported more than sixty South-South knowledge exchanges between Malaysia and other developing countries, particularly from the regions of East Asia, South Asia, Africa, and the Middle East and North Africa. These have spanned numerous development sectors including technical and vocational training (TVET), agriculture, planning, financial services, and land management. On the latter topic, for example, there is increased interest in learning more about Malaysia’s ‘e-Tanah’ land management system – which is an innovative system with an administration that relies on a particular public-private partnership model. Over the coming months, knowledge exchanges will be organized by the Hub to share this experience with Rwanda, Lebanon, and the Palestinian Territories, among others.

Disseminating Development Experiences – The Hub also disseminates Malaysian and global development experiences for the benefit of other countries through the generation
of analytical reports. These cover numerous development topics including ones related to advancing financial inclusion, enhancing service delivery, and driving economic productivity. One recent example is the launch of an innovative gender report entitled *Breaking Barriers: Toward Better Economic Opportunities for Women in Malaysia*. Other reports which are scheduled to be launched in the first half of 2020 will focus on global anti-corruption efforts and Malaysia’s transition to high-income and developed nation status. This latter report on high-income transition will not only incorporate important policy recommendations for the Malaysian Government, but also relevant lessons for other countries on how to navigate their own development journeys towards achieving higher levels of economic prosperity and development.

**Developing Policy and Research-based Innovations** – Along with curating and operationalizing development experiences, the Hub also works on developing policy and research-based innovations with a global reach. This collaborative work is often done with Malaysian counterparts cooperating closely with WBG teams. In labor, WBG teams recently worked with a Malaysian Government institution, TalentCorp, on developing and using a Critical Occupations List – which is a policy tool that helps to identify and address labor shortages for occupations that are deemed critical to national economic activity. Digital taxation is also another area at the development frontier around which the Hub has devoted substantial policy attention, as there is immense cross-boundary trade in digital economy services, and its taxation is not easily implementable in many countries. To this end, our work with the Ministry of Finance, Malaysia, may offer some important insights in this area as it continues to become more integral for development. Lastly, the research team at the Hub has also supported the development of an innovative long-term economic growth model that is currently being used by numerous countries around the world. This model allows macroeconomic planners to analyze long-term economic growth scenarios based on various indicators including savings, investment, productivity, human capital, demographics, and labor force participation. It can also be used to evaluate the implications of economic growth for poverty rates in all countries.

Looking ahead, the Hub looks forward to continuing its close collaboration with the Malaysian Government and its many partners. The goal is to maximize the effectiveness of its knowledge and research-based solutions for better development progress in countries around the world.

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*Mara Warwick*

Country Director for Brunei, Malaysia, Philippines and Thailand, World Bank Group.
A Year of Transitions

The Hub in Malaysia is experiencing a year of transitions: firstly, moving into our next phase of operations beginning July 1, 2020; and secondly, undergoing an internal transition in the institutional leadership of the WBG.

The first transition involves both continuity and change. The Hub will continue to implement and deliver on its current work program commitments over the next nine months, and simultaneously begin preparations to move into a second phase of operations – carrying on with similar lines of analytical, policy, and research work - but with some shifts in emphasis.

This year of change will witness the continuing production of new knowledge and research products reflecting the thematic areas covered by the Hub’s teams. Many of these thematic areas are well-captured by the articles of this edition of the Development Digest, including on Malaysia’s poverty line, promoting economic opportunities for women in Malaysia, creating a conducive ecosystem for Islamic sustainable finance, and assessing the effects of public capital on growth through the World Bank’s Long-Term Growth Model.

A new beginning also brings to fruition multiple strands of work, including our flagship report on Malaysia’s transition to a high-income and developed nation. This report has been long in the making, and will incorporate contributions by every knowledge and research team in the Hub, aiming to inform the Malaysian Government’s thinking and policies on navigating a successful entry into high-income and developed country status over the next five years. This publication will also carry important lessons for other countries seeking to emulate Malaysia’s development journey.

As we prepare for our next phase of work, we aim to develop a new five-year work program that will largely follow the same glidepath as the previous one in terms of broad development topics. This time, however, it will exhibit several new features based on agreements between the Malaysian Government and the WBG.
These new features include a consolidated set of thematic areas revolving firstly around economic growth, sustainable and Islamic finance, and governance, harmonized between the knowledge and research teams working in the Hub; a global outlook balanced against a sharper focus on policy-relevant research and internal policy reforms; and finally, a greater push to support Malaysia’s efforts to effectively become a developed nation and its goal of becoming a global leader in the area of sustainable finance.

The second transition is related to the arrival of David Malpass at the helm of the WBG. Since becoming President, he has articulated at the Spring Meetings in April 2019 the central importance of supporting client countries in their efforts to achieve better country outcomes, which can be realized through higher quality and more effective WBG country programs.

This shift in emphasis towards intensifying WBG efforts to support the goals of all countries to achieve greater development progress reflects and reinforces the Hub’s direction in the next phase of its work in Malaysia. While we continue our efforts in sharing Malaysia’s development experiences and innovations with other countries through South-South knowledge exchanges and analytical products, and vice versa sharing this global experience with Malaysia, the Hub will also be paying greater attention to the policy-relevant and country-level dimensions of its work towards influencing the realization of better country outcomes.

I look forward to this important year of transitions for the Hub, and welcome our readership to learn more through the stimulating range of development topics covered in this latest edition of the Digest.

Firas Raad
Country Manager for Malaysia, World Bank Group
Global Knowledge and Research Hub
In most countries, the public sector is the largest spender and employer, and it sets the policy environment for the rest of the economy. The effectiveness and efficiency of a country’s public sector is vital to its success of its development activities. For over 50 years, Malaysia’s public service has carved an admirable track record, as evidenced by the country’s level of development today.
Re-energizing the Public Service in Malaysia

When we do the benchmarking, findings show that Malaysia performs above or at par on most governance indicators when compared to its peers in East Asia.

Many governments with similar development aspirations look at the Malaysian public service as a useful case study. Today, we have many members of the public service contributing to knowledge-exchange initiatives with other emerging economies.

Looking forward, however, this emerging group of countries may no longer be the right comparator as Malaysia looks toward progressing further in the near future. Malaysia is now edging closer to achieving high-income and developed nation status. As a country progresses toward higher levels of development, it will require increasingly sophisticated and specialized skills to deliver better public services, whereby the public sector is in competition with the private sector to attract the right people.

As such, the debate needs to shift from a focus on the numbers and definitions of the public service to a consideration of the quality of people and services provided by the public service, as well as the long-term sustainability of the wage bill.
Taking this point of view of comparing Malaysia with the Organization for Economic Co-operation and Development (OECD) can help set better standards for public service delivery and governance. Naturally, under these new circumstances, the gap between Malaysia and OECD countries on several governance indicators may seem large. However, we should not be disheartened, but rather be re-energized when looking at the dividends the country stands to earn when the public service makes improvements to close this gap.

There is a well-established connection between quality of institutions and growth, and it is thus important to focus on the people, policies, and institutional and legal framework that contribute to the strength of these public institutions. It is also heartening to see that the Government has taken on a proactive agenda, as issues of good governance and integrity within the public sector have been placed center stage in the 11th Malaysia Plan (2016-2020), complemented by strategies, measures, and an action plan to ensure that reforms would be able to bear fruit.

In the World Bank’s latest Malaysia Economic Monitor report, published on July 1, we looked at three focus areas in positioning the public service among its new OECD peers.

First, the human resource management system of the public service can be strengthened to be more transparent, flexible, and competency-based. The guiding principles should focus on whether the entrants into the public service are the right people for the right job. For example, do they have the highest levels of integrity; do they represent the entire population of Malaysia and exemplify diversity; and finally, are they recruited and managed transparently?
Second, enhancing transparency in government operations, sharing of data, and engaging citizens can go a long way in facilitating an open environment within the public service. To achieve this, it is necessary to not just build an institutional and legal framework, but it is also important to foster a stronger culture of sharing and collaboration across government departments, and even beyond. It is ultimately a combination of technical, financial, and behavioral change - all of which are equally important and must come with committed leadership at the top.

Third, as Malaysia deals with some of the traditional challenges of efficient service delivery, it must factor in megatrends related to digitalization and automation which are changing the way services are delivered to people. It is also important to manage the impact of this change on people in the public service. While some skills may become redundant, others will receive higher demand, and this has implications for future hiring as well as re-skilling and redeploying the current staff in the public service.

Good governance is not something that can be picked off the shelf or simply adopted. It must be made an integral part of all streams and functions.

The most difficult part of change is usually changing behaviors – a process which takes time. Commitment at the top and having the right leadership are key to this change, in efforts to bring about a clean, transparent, and trusted government to usher in a new era of shared prosperity for Malaysia.

For the full report on the Malaysia Economic Monitor: Re-energizing the Public Service, visit http://bit.ly/MEMpublicservice
This article was first published on the World Bank’s East Asia and Pacific on the Rise blog. To access the article, visit http://bit.ly/MEMpublicserviceblog

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How Can Malaysia Re-energize its Public Service?

Getting the best talent on board

- Conducting **merit-based promotion, decentralization, & using competency frameworks**
- Guiding principles to focus on whether entrants are **the right people for the right job**

Engaging in fair and neutral employment

- Malaysia fares poorly in citizens perceptions of equal treatment in public sector employment
- Fair and neutral employment facilitates the growth of a **more diverse, resilient, and innovative workforce**

Citizen perceptions regarding equal treatment in public sector employment are low...

...and this is the same for the share of citizens viewing the public sector as being impartial.

Source: Quality of Government (QoG) Expert Survey
Supporting a more open and transparent environment

• Creating a framework that encourages a **merit-based, transparent, inclusive, and citizen-centric public service**

Going digital by adopting new technology and skills

• Human resource management policies should adapt to **technological change and automation**
• The public sector workforce of the future will require **advanced cognitive, socio-behavioral, and interpersonal skills**
In recent months, the debate on redefining Malaysia’s poverty line and what it encompasses was reignited in the nation’s headlines, following the United Nations Special Rapporteur’s remarks on the country’s poverty rate. Being present in Malaysia, we had the opportunity to interact with stakeholders who were invested in the country’s poverty outcomes to help the bottom 40% and drive more inclusive development. We delve into the matter to analyze Malaysia’s official poverty standards.
Back in 1977 Malaysia was a largely agrarian lower-middle-income country, with a monthly gross national income (GNI) per capita of 200 Malaysian ringgit (MYR), or about $80 at the prevailing market exchange rate at the time. That was the year that Malaysia set its first official monetary poverty line, estimating that a household required the equivalent of approximately MYR50 ($20) per person each month to achieve a basic standard of living.

Since then, Malaysia has prospered and its GNI per capita has risen to MYR3,650 ($872) per month, an increase of 324% after adjusting for inflation. However, the inflation-adjusted poverty line has only increased 15% over the same time period. As a recent report by the UNSR and others have argued, an update of Malaysia’s poverty line is long overdue.

Regardless of the poverty line used, no one would deny that Malaysia has made remarkable progress in reducing poverty—from almost half of the population living in poverty in 1970 to less than 1% today based on the 1977 standard that is still in use.

Yet it is time to raise the bar. Even absolute poverty lines need to be upgraded to reflect the current realities in Malaysia and remain relevant for decision making.

It is a common misconception that absolute poverty lines should be based on the minimum needs for survival. Rather, poverty lines go beyond basic subsistence, and include having the resources to lead a healthy, active, and dignified life, and being able to participate meaningfully in society. That is why virtually all countries update their poverty lines as they develop and living standards improve. This concept is elaborated quite clearly in the United Nations Economic Commission for Europe’s (UNECE) methodological guide that Malaysia references for setting its poverty line: “Also the base of the absolute measure, that is the basket of goods, is likely to need updating over time as community standards or expectations change.” One recent example is Mexico, a country with a GNI similar to Malaysia’s, where the autonomous panel responsible for setting the poverty line revised its standards upwards in 2018.

What should Malaysia’s poverty line be? Ultimately that is for Malaysians to decide, based on local values and aspirations—perhaps drawing lessons from other countries that have advanced to upper-middle- or high-income status.
Recent research by Martin Ravallion shows that countries with average incomes similar to Malaysia’s have absolute poverty lines equivalent to MYR2,550 ($1,460 adjusted for purchasing power parity) per month for a family of four, almost three times Malaysia’s current poverty line. That poverty line would yield a poverty rate of 18%, which is about the same poverty rate that arises from applying an OECD-style relative poverty line, and also within the 16% to 20% range given in the UNSR’s press release.

The multidimensional poverty index (MPI) introduced in the 11th Malaysia Plan is also too low for a country at Malaysia’s level of development. Malaysia’s MPI takes into account monetary plus non-monetary aspects of deprivation such as sub-standard education, health, and living conditions. Even when non-monetary aspects of well-being are considered, Malaysia’s multidimensional poverty index counts less than 1% of Malaysians as multidimensionally poor.

At the recent World Statistics Congress in Kuala Lumpur, World Bank staff presented new research on a potential alternative MPI for Malaysia, using the same multiple dimensions as the current MPI but setting standards relevant to an upper-middle-income country. This alternative estimates Malaysia’s rate of multidimensional poverty at 19%.
The United Nations Special Rapporteur’s report also rightly draws attention to those who are disproportionately affected by poverty. It highlights that not only is poverty more prevalent than the isolated pockets often assumed, but also that poverty is deeper among some communities in Malaysia. Many of these are “statistically invisible” because the Household Income and Basic Amenities Survey that is used as the basis for poverty measurement excludes Orang Asli settlements, foreign workers, and refugees. The survey does not record the status of persons with disabilities, and its sample design prevents reliable poverty estimates for indigenous people in Sabah and Sarawak (non-Malay Bumiputera), whose poverty rates appear to be much higher than those of Malays.

The government authorities have the technical and financial resources to modify the Household Income and Basic Amenities Survey to make these comparisons possible. It is time to do so, as the absence of this information impedes the formulation and implementation of policies to help Malaysians escape poverty. Updates of Malaysia’s income-based poverty line and multidimensional poverty index to levels corresponding to the country’s present state of development can complement the current focus on the bottom 40% to guide policies to ensure that the needs of the poorest Malaysians are addressed adequately.

It will take political courage, and good communications, to raise Malaysia’s official poverty standards.

Inevitably some will claim, incorrectly, that poverty has increased. The reality is that poverty has not been increasing, but rather that Malaysians expect more from life and more from their government, and most of all, a greater share in the nation’s prosperity.

This article was first published on the World Bank’s East Asia and Pacific on the Rise blog. To access the article, visit http://bit.ly/povertylinemywb

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Ascertaining the role of national development planning in supporting Malaysia’s aspirations to become a high-income and developed country can be an enormous feat – given the complexities and challenges tied to remaining competitive in the global environment, as well as meeting rising citizen expectations. National development plans and strategies have been implemented with varying levels of success in countries around the world - with the goal of promoting growth and shared prosperity for its citizens.
For Malaysia, national development planning has been central in guiding economic policymaking for more than 60 years.

Malaysia’s development outcomes over the course of six decades have occurred against the backdrop of five-yearly development blueprints called the Malaysia Plans, currently in its 11th edition, illustrating its importance as a policy instrument to promote growth and shared prosperity.

The poverty rate has declined. Standards of living have improved. Social and economic infrastructure have expanded and grown in sophistication. In 2003, universal access to primary education was also introduced and as such, government expenditure on education - which accounts for almost 5% of the country’s GDP - outperforms its neighbors.

Further, Malaysia’s economy has diversified from an agriculture- and commodity-based economy to one that is now based on manufacturing, services, and more recently, the digital economy. Per capita GDP increased by six times in ringgit terms between 1970 and 2017, and there has been a 6% increase in real income. These strides have propelled Malaysia to become a leading economy in the region.

Much of these dividends have been due to good planning and implementation, with political commitment from the highest levels. The national development planning system has been a beacon, directing key socio-economic reforms in the face of favorable economic climates, and even during economic transitions and global downturns, with some adjustments. Top-down and bottom-up approaches featured in the system balanced technical details, stakeholder buy-in, and ownership with deep consultations within and beyond government. This was further
backed by budget resources and a strong mandate for the Economic Planning Unit (now the Ministry of Economic Affairs) and as a result, policies were implemented through programs and projects in coordination with line ministries and sub-national governments.

The government has since announced that it will be commencing work on its 12th Malaysia Plan (2021-2025). To this end, we draw from the recently concluded World Bank assessment of Malaysia’s experience with national development planning to explore the lessons learnt in the quest to elevate the quality of planning inputs and processes, implementation, and corresponding outcomes.

Some of the challenges include:

- **Coordination among inter-governmental agencies**: The introduction of new reform agendas accompanied by the creation of new institutional structures can affect the effectiveness of inter-agency coordination when done without proper integration.

- **Efficacy in measures and implementation gaps**: Using the planning system to achieve socio-economic outcomes has several limitations. Ensuring institutional capacity to keep up and coordinate responses against an environment of rapid change and dynamic policy dimensions is key.

- **Adequate resources**: Plans need to be backed by adequate fiscal resources. This becomes ever more urgent when external factors come into play, e.g. the collapse of oil prices during the mid-1980s.
The assessment also suggested a few approaches to meet these challenges:

- **Strike a stronger balance between getting the plan right and the quality of implementation** by learning the lessons from past implementation and integrating them into future program designs.

- **Boost capacity** by considering institutional systems and human resource management and development issues.

- **Embed an annual review process** that will enable quicker revision of targets and key performance indicators based on changes in the global, regional, and domestic economic environments.

- **Strengthen the Mid-term Review process** with more emphasis placed on the feedback cycle through better, more focused, frequent, and timely monitoring and evaluation.

- **Reduce the distance between planners and beneficiaries** through devolution, and have development priorities set at the state and sub-state level. The current administration’s promise to share oil revenues, if implemented, could make this a welcome reality for some states.

- **Adopt a more nuanced and targeted approach to the challenge of combating poverty and inequality and promoting inclusivity** by addressing socio-economic development gaps in lagging regions, states, and sub-states.

- **Recalibrate the state’s role in industrial policy in economic sectors by prioritizing interventions** that create the right environment to achieve socio-economic goals.

**Malaysia will most likely retain its approach to national development planning, as it remains a central feature of long-term policymaking. But one cannot deny the shifting realities transforming the state of play in the country.**

A different political and policy environment that places more emphasis on economic governance and citizen-centricity has emerged since the elections of May 2018. This will change the way national development planning is done, with officials potentially more open to reflecting upon the adequacy of institutional and policy frameworks and the planning system. The system will have to face the ultimate test – whether it will remain a relevant and effective policy tool as the nation shifts its sights and standards to be on par with developed and high-income countries.

This article was first published on the World Bank's East Asia and Pacific on the Rise blog. To access the blog, visit [http://bit.ly/ndpmyblog](http://bit.ly/ndpmyblog)

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New technologies, digitization, and automation are having a profound impact on the demand for workers across the world. New types of work are emerging, expectations of workers’ skills are changing, and some jobs are disappearing. In this environment, policymakers need to be a bit like football managers in the off season: identifying where last year’s team came up short and working to fill gaps through training and new hires.
Labor market shortages can disrupt economic growth, reduce output, and undermine productivity growth. If shortages persist in the long run, countries can become less competitive because businesses lack the talent to innovate. Identifying labor market shortages as they arise, and developing strategies to fill them, is therefore important to maintain productivity and competitiveness.

Many countries around the world experience shortages, and Malaysia is no exception.

Shortages have arisen in Malaysia for several reasons. First, Malaysia has a relatively small working-age population, which limits labor supply. Second, Malaysia’s strong economic growth in recent years has resulted in a tight labor market with low unemployment rates, limiting the workers available for employers to hire. Finally, the shifts brought about by technological disruption have resulted in a constantly changing mix of sophisticated skills that makes it challenging for policymakers, employers, and students alike to identify what skills are needed.

In 2014, the Government of Malaysia established a Critical Skills Monitoring Committee (CSC) with the mandate to monitor skills imbalances. The CSC, working with the World Bank, created the Critical Occupations List (COL), a list of occupations for which there is strong evidence that there is significant labor market shortage that may be alleviated through government action.
The CSC is composed of representatives from TalentCorp and the Institute of Labor Market Information and Analysis (ILMIA), which are both under the Ministry of Human Resources. Each agency brings a unique strength to the CSC. TalentCorp has a mandate to nurture talent in Malaysia through a suite of initiatives that build skills and networks, and seek to make living and working in Malaysia more attractive. Thus, TalentCorp brings to the CSC its partnerships with the private sector and its knowledge of the skills ecosystem in Malaysia.

ILMIA undertakes analysis of the labor market and human capital issues, and has built a data warehouse of labor market information. Thus, ILMIA brings to the CSC expertise in labor market analytics and access to and understanding of Malaysia’s different sources of labor market information.

The methodology for the COL builds on international best practices and uses a mixed-methods approach to define occupations that appear on the list. The occupations that are skilled, sought-after, and strategic in the list span a range of fields and professions from mathematicians, actuaries, and statisticians, to software developers and electrical engineers.

The “top-down” stage generates objective evidence of shortages that is comparable over time and across occupations by analyzing survey and administrative data. The “bottom-up” stage solicits evidence of shortages directly from employers and other stakeholders, and also generates contextual knowledge about why shortages are present.
The COL seeks to identify and draw stakeholder attention to this set of occupations that are critical to the continued growth and development of the Malaysian economy but that are currently difficult to fill.

Institutions of higher education are using the COL to inform the development of courses of study that meet industry demand. As part of the Government’s efforts to leverage the Malaysian diaspora, TalentCorp is currently using the COL in its Returning Expert Programme (REP) to help attract qualified Malaysians working abroad to return to Malaysia for employment in shortage occupations.

Malaysia’s experience shows that shortage lists should be updated regularly and improved continuously, should be based on rigorous evidence, and should be transparent. The lists should be developed by a specialized agency, but should incorporate evidence from public and private sector stakeholders.

The COL still faces several challenges that are also instructive for practitioners in other countries considering creating their own shortage list. These include the challenge of classifying job titles and occupations into standardized occupations – the backbone of the COL and similar shortage lists – and the creation of shortage lists that reflect subnational labor market dynamics.


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CRITICAL OCCUPATIONS LIST (COL) 2018/2019

Information & Communications Technology (ICT) managers

Sectors:
• Financial and insurance/Takaful activities
• Information and communications

High demand due to business expansion and the digital industry’s favorable economic outlook.

Mathematicians, actuaries & statisticians

Sectors:
• Financial and insurance/Takaful activities
• Information and communications

Data analysts, data scientists and actuaries are highly sought after.

Mechanical engineers

Sectors:
• Manufacturing
• Mining and quarrying
• Construction

Companies are looking for applicants with additional skills, such as programming and problem-solving skills.

Graphic and multimedia designers

Sectors:
• Arts, entertainment and recreation
• Information and communications
• Manufacturing

Critically needed in the creative content and technologies areas.

University & higher education professional teachers

Sectors:
• Education

Increased demand due to technological innovation and globalization of the education industry.
*This list of 10 jobs are not exhaustive and are only part of the occupations in the Critical Occupations List 2018/2019

Source: TalentCorp

### Sales and marketing managers

**Sectors:**
- Manufacturing
- Accommodation and food services

**Takes 6-12 months to fill vacancies due to limited pool of experienced talent.**

### Financial analysts

**Sectors:**
- Financial and insurance/Takaful activities

**There is a demand for talent in specialized roles, especially those with Syariah knowledge.**

### Mechanical engineering technicians

**Sectors:**
- Manufacturing

**Highly sought after, especially in the industrial electronics sub-sector.**

### Electrical mechanics & fitters

**Sectors:**
- Manufacturing
- Construction

**There is an inadequate supply of talent with strong technical skills.**

### Agricultural & industrial machinery mechanics & repairers

**Sectors:**
- Manufacturing
- Agriculture, forestry and fishing

**Jobs such as farm machinery repairers, industrial machinists, and computer numerical control machinists are in short supply.**
Greater gender parity in the labor market is more than a core development priority. In fact, the promotion of economic opportunities for women is one of the most promising avenues for Malaysia’s future development. But in order to do so, policymakers, employees, and families alike must work to create more economic enablers for women.
We sat in a small tuition room of a low-cost housing apartment, joined by nine other Malaysian women of different races, all of whom lived here as residents. Most of them worked as cleaners and small-scale entrepreneurs to eke out a living for their families.

“We feel that we can do more,” one said to the focus group. “It’s especially hard with the children – we have to make sure they’re taken care of while we’re at work.” The women nodded in unison. It quickly became obvious that many of them faced the same issue: balancing work and family was challenging, and affordable childcare services were hard to come by.

These women are not alone. From the urban poor to the middle-class, the more women and men we talk to, the clearer it becomes that they share similar stories and challenges. In many cases, women are forced to quit their jobs due to a lack of childcare support, high transit costs, and lack of trust in available care options.

This is especially pronounced for poor families, where it is an economic necessity for both men and women to work. But due to the lack of subsidized care facilities available where they live, they usually end up working shifts, if employed - sometimes leaving home early or returning late at night, with long commutes on public transport or motorbikes to the workplace. As such, women also report that they choose to stay at home or work informally from home, as the costs of leaving their children, financially and non-financially, outweigh basic wages.

The same goes for middle-class and highly-educated women who also face the double burden of care – children and elderly, with many tending to quit their jobs or preferring flexi- or part-time options.

The question to ask is: are Malaysian women being held back from economic opportunities?

Whilst Malaysia has made great progress in increasing the female labor force participation rate from 46.4% in 2009 to 55.2% in 2018, the country still records one of the lowest rates amongst East Asian countries. This means that for every 100 women aged 15 to 65 years, 55 of them work.

In 2018, more than 60% of women who did not participate in the labor force cited housework, including child and elderly care, as the main reason for not seeking work. In stark contrast, less than 4% of men who were not involved in the labor market gave housework as the reason for not seeking work. Thus, in Malaysia, across all ethnicities, the strong sense of family and women’s duty to care for children and the elderly is pervasive, and recognizing this social-cultural value is key to addressing the issue at hand.

Further, equal access to economic opportunities for women still remains a challenge despite the fact that girls perform better than boys in schools, and make up more than 55% of graduates in higher education institutions. Enrolment for girls in STEM subjects has also increased, taking
up 67% of available spots, and girls further represent an encouraging 40% and 34% in ICT and engineering respectively.

In our quest to go beyond the numbers, new World Bank research delves into the voices of the people to provide policy directions that facilitate equal access to economic opportunities for women in Malaysia. This requires a comprehensive inter-agency policy approach, and with tight fiscal resources, addressing barriers must include clear prioritization, especially for the urban poor, and better coordination and monitoring. To that end, five policy recommendations have been identified:

- **Expand the availability, quality, and affordability of care services.** For children, coverage of care should be expanded to ages 0 to 17 years, rather than the current limited range of 0 to 6 years.

- **Strengthen the protection of informal workers and the productivity of workers in general.** Scaling up the Government’s matching of voluntary pension contributions and introducing a social pension can help protect informal workers.

- **Pursue planned legal reforms to explicitly recognize equal rights for women and men in the workplace.** This can also involve advancing new bills such as the Gender Equality Act, in line with other developing and developed countries.

- **Improve support for working parents, in line with international legal norms.** Mandating paid paternity leave and increasing the maternity leave to 98 days, in line with international standards, is key to enabling fathers to be more hands-on in parenting.

- **Address gender norms and attitudes through education and awareness in schools and among the wider population.** Societal attitudes towards shared parenting and care do change over time, which education and media can help develop.

CLOSING THE GAP BETWEEN MEN’S AND WOMEN’S ECONOMIC OPPORTUNITIES COULD INCREASE INCOME PER CAPITA BY 26.2%, IMPLYING AN AVERAGE ANNUAL INCOME GAIN OF RM9,400 FOR EACH MALAYSIAN.

Breaking barriers for women in Malaysia not only makes business and social sense; its impacts have the potential to go beyond the individual and family level to contribute to the nation’s development goals. As Malaysia continues on its path towards becoming a high-income and developed nation, ensuring that women have equal access to economic opportunities is what the country will need for more inclusive growth.


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Women in the workforce

Malaysia’s income per capita could grow by 26.2% if all economic barriers are removed for women.

This implies an average annual income gain of RM9,400 per person.

In 2018, 80.4% of working-age men were in the labor force, but for women, it was only 55.2%.

Malaysia’s female labor force participation rose from 46.8% in 2010 to 55.2% in 2018.

More than 50% of graduates are women.

The main constraint preventing women from participating in the labor force is housework, which includes elderly care and childcare.

Within all major educational groups, women’s average earnings are 70.6% to 83.2% of men’s average earnings.

In 2017, 22.1% of managers in Malaysia were female.

In 2018, about 15.7% of board members were female at a typical Malaysian public-listed firm.

On average, publicly traded companies with female board members have higher profits.

International evidence shows that companies with more women in leadership positions tend to perform better.
In Malaysia, regulatory reforms are beginning to shape the trajectory of the digital economy to unleash ultrafast Internet speeds. The result has been beneficial to Malaysians, especially within the confines of a market with low adoption of fiber Internet services in the past decade, compared to its regional peers. But now things are changing. The country’s broadband market is rapidly moving to become more accessible, with increased competition and better quality services - which could potentially expand the digital economy to provide the benefits of economic growth, job creation, and social inclusion.
Last year, the country saw a major undertaking of regulatory reforms, leading to a drop in prices of fixed broadband services and triggering a shift in consumer demand for faster Internet. This is important as recent World Bank analysis found that Malaysia’s lag in Internet speed was partly due to limited competition in the broadband market - marked by the dominance of one company holding a 90% market share as of December 2017. At that time, Malaysia had the most concentrated fixed broadband market in all of Asia Pacific for a country with a population larger than one million. Limited competition and difficulties in network deployment constrained alternative Internet service providers (ISPs) from rolling out networks or offering services on competitive terms.

A key reform to address this has been the introduction of the Mandatory Standard on Access Pricing (MSAP) by the country’s telecommunications regulator, the Malaysian Communications and Multimedia Commission (MCMC). The MSAP regulates the prices and terms for alternative ISPs to access the incumbent’s wholesale broadband capacity. Similar measures have had positive impacts on broadband markets in other parts of the world, allowing alternative ISPs to offer lower-priced and higher-quality services to their subscribers.

Fixed broadband connection quality, including fiber Internet services, rapidly responded to these regulatory changes. Within three months of the reform in 2018, many local service providers announced new broadband subscription plans with faster speeds at lower prices. The impact was evident for what is globally becoming the norm for basic broadband services (30Mbps services), with average prices for those plans falling by over 30% in 2018. Notably, the average price of plans for speeds in excess of 1Gbps (the emerging speed target for high-income economies) fell by 40%. Price drops were seen across all plan types.
As a result, Malaysian subscribers have begun the switch to broadband plans with faster speed. Data from MCMC shows that the number of fixed broadband subscriptions with download speeds of more than 100Mbps grew by a factor of eight to 1.2 million subscribers by the end of 2018.

**After these reforms, we see that Malaysia is now starting to close the gap in Internet speed with leading countries.**

In December 2017, the average speed of fixed broadband services in the five countries with the fastest connections in the world was over six times faster than average speed in Malaysia. By March 2019, this had narrowed to just over two times. Looking at the bigger picture, Malaysia’s average fixed broadband speeds have trebled in the span of a year (see Table).

<table>
<thead>
<tr>
<th>Tested speeds in Mbps</th>
<th>Fixed Internet</th>
<th>Mobile Internet</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dec-17</td>
<td>Mar-19</td>
</tr>
<tr>
<td>Fastest five (average)</td>
<td>135.9</td>
<td>155.2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>22.2</td>
<td>67.2 (3x)</td>
</tr>
<tr>
<td>Global comparison (F5/MY)</td>
<td>6.1</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: World Bank staff calculations using data from Ookla Speed Test

Malaysia’s experience shows that policy reforms can have an immense impact on market outcomes in a short space of time, as recent events have proven.

The implementation of regulations that boosted competition have had positive effects on subscriptions and affordability. This demonstrates the potential gains from regulatory reforms and the demand for high quality and affordable Internet services. Regulatory reforms are a first, but critical, step in a longer journey to providing all Malaysians with access to ultrafast and affordable broadband services that will position local businesses and the economy for growth in an increasingly digital world.

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How do banks decide where to lend if they don’t know what is green, environment- or climate-friendly? How do financial institutions quantify the financial risks associated with climate change? How can corporates issue green bonds if they cannot distinguish between green and non-green? How can asset managers respond to their clients’ preferences if there is no formal and agreed-upon definition?
The financial sector needs the tools to identify climate risks and opportunities relevant to their business. A green taxonomy is just that. It helps financial sector participants, whether banks, financial institutions, or investors, determine whether an economic activity or project qualifies as environment-friendly or not, tag their assets consistently, and engage in accurate and transparent tracking and reporting. To that end, Datuk Nor Shamsiah Mohd Yunus, Governor of Bank Negara Malaysia (BNM) announced on September 25 during the Regional Conference on “Climate Change Risks and Opportunities: Respond, not React” that BNM with the Securities Commission (SC) will be working with the World Bank to develop a “green taxonomy” that will help the Malaysian financial sector classify green assets transparently and consistently.

**Threats and opportunities for the financial sector**

Climate change presents both risks and opportunities for financial institutions and the financial system as a whole. Banks lend to many industries that are physically affected by extreme weather events caused by climate change. Rising sea levels and severe flooding can destroy infrastructure, disrupt supply chains, and affect the ability of borrowers to repay loans. Investment portfolios contain many industries that are subject to transition risk—the risk that an asset will lose its value due to changes in production methodologies, regulations, and investor/consumer tastes. The oil and gas industry, for instance, may face significant tax and environmental regulations going forward.

On the other hand, climate change also presents opportunities to increase the range of financial products and services for renewable energy, green buildings, and climate-smart agriculture and cities. This is important because the financial sector has a key role to play in directing capital flows to support activities that can help countries transition to a low-carbon economy.

**Green taxonomy: The missing link**

In the context of implementing BNM’s Value-based Intermediation guidelines, local Islamic banks identified the absence of a green taxonomy as a major hurdle in implementing sustainable finance in Malaysia. Without a formal, agreed-upon, and practical taxonomy, market actors have to make a judgement call on what’s green and what’s not, which leads to a lack of comparability, transparency, and accountability.

Some regulators have already focused on this issue. The European Commission Technical Expert Group (TEG) on sustainable finance has drafted a classification system—the EU Taxonomy—for climate change mitigation and adaptation as part of the EU Sustainable Action Plan. The Green Finance Committee of China Society of Finance and Banking has published a Green Bond Endorsed Project Catalogue, defining the scope of green investment projects. The Bangladesh Bank has also developed guidelines for green banking, and identified green products eligible for financing by banks and financial institutions in the country.
A Malaysia-specific taxonomy

Given the uniqueness of their journey towards a low-carbon economy, Malaysia’s financial sector regulators have decided to develop their own taxonomy, while learning from the experience of the front-runners.

It will be important, however, to ensure that the taxonomy is aligned with international best practices and science-based definitions to avoid Malaysian financial institutions, issuers, and asset managers from being left behind as the rest of the world converges towards a global standard. This is where the World Bank, with its global reach and convening power, can add value.

Partnering with the World Bank

The World Bank has long been a champion of sustainable development -- espousing Environmental and Social Standards; offering investors fixed-income securities with triple-A risk-adjusted returns, Environmental Social and Governance (ESG) risk mitigation opportunities, and a positive development impact; pioneering the issuance of Green and Blue bonds; intermediating disaster risk transfer transactions to help countries adapt to climate change; advising governments on the development of sustainable bond markets; and mobilizing investments towards ESG investing for fixed income. In Malaysia, specifically, the World Bank facilitated the issuance of the first green sukuk in the world and supported the development of a Value Based Intermediation Financing and Investment Impact Assessment Framework (VBIAF) that aims to re-orient Islamic finance business models towards generating positive and sustainable impact.

Sustainability is the currency of the future and charting the path towards greener development will be key for any country keen to pursue and further that goal. For Malaysia, this step is a key move that could spell more progress for sustainable development and the world of green finance.

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How Malaysia Created a Conducive Ecosystem for Islamic Sustainable Finance

Ahmad Hafiz Abdul Aziz and Wei Zhang

Malaysia is largely seen as a global leader in Islamic Finance and has a strong agenda for green and climate-friendly investments. But this outcome did not happen overnight. It has taken many players – ranging from the country’s capital markets regulators and government bodies to the private sector.
Today’s ecosystem now thrives as the total of Sharīah (Islamic law) compliant assets are currently estimated around $2 trillion and supporting Malaysia’s green growth agenda.

Islamic sustainable finance has huge potential because it caters to the appetites of a wide spectrum of investors. It meets Sharīah objectives and emphasizes social and environmental considerations in investment.

But beyond its key players, how has Malaysia’s Islamic sustainable finance ecosystem come this far? For other developing countries seeking to emulate this and develop sustainable investments to mitigate the effects of climate change, it is important to consider the building blocks that have contributed to this growth, which includes the following:

Creating frameworks and guidelines for the ecosystem

A key step to creating a strong ecosystem is laying its foundation. Malaysia’s Islamic sustainable finance ecosystem benefits from a comprehensive set of guidelines, including the Sustainable and Responsible Investment (SRI) Sukuk framework and SRI funds issued by the Securities Commission (SC) of Malaysia. This provides a regulatory framework to facilitate more green, social, and sustainable financing.

Other financial regulators such as the Malaysian bourse (Bursa Malaysia) have also initiated a sustainability reporting requirement for large companies, and the Central Bank of Malaysia (BNM) has issued guidance documents that facilitate Value-based Intermediation (VBI) to re-orient Islamic finance business models towards realizing Sharīah objectives. Within this, the World Bank played a role by developing the VBI Financing and Investment Impact Assessment Framework (VBIAF), in partnership with the Global University of Islamic Finance (INCEIF).
Participation of Environmental, Social, and Governance (ESG) investors

Further strengthening this ecosystem has been the participation of six key institutional investors including Khazanah Nasional Berhad, the Retirement Fund (Incorporated) or KWAP, and the Employees Provident Fund (EPF). These investors have become signatory to the United Nation’s Principles for Responsible Investment, signifying their commitment to a sustainable financial system on a global stage. The role of institutional investors is crucial to set the tone of ESG investments domestically, with the hope that other private investors will follow suit.

Presence of a highly skilled Islamic finance workforce

In Malaysia, product innovation has thrived in an environment of experts who are exposed to new ideas, and supported by regulators who actively encourage the development of new and innovative products. This is boosted by the growth of the local Islamic financial sector workforce which is expected to rise to 144,000 to 200,000 within the decade. Additionally, the World Bank has also provided technical assistance in developing local certifiers for green sukuk – thus providing a key push for the ecosystem.

Raising awareness on ESG

Key stakeholders are also involved in the delivery of targeted capacity-building and communications activities to encourage embedding ESG in business operations. More awareness is being raised at the national level as the government is poised to play an important role in the green growth agenda, with green finance being a key component.

The momentum for sustainable finance also finds its footing regionally as the issuance of the ASEAN Capital Markets Forum (ACMF)’s Green Bond, Social Bond, and Sustainability Bond standards that in line with the International Capital Market Association (ICMA), are among the efforts taken to promote Sustainable and Responsible Investment (SRI) in the region.

High levels of government support through policy tools and incentives

To drive the sustainable finance market in Malaysia, the government has created new incentives to spur its growth. Incentives like grants and tax deductions on the issuance costs of SRI sukuk and tax incentives for green industry can attract SRI issuers to invest in green technology activities in energy, transportation, building, waste management, and service activities.

Islamic sustainable finance is poised to play a bigger role as it supports Malaysia’s pledge to the Nationally Determined Contribution to reduce greenhouse gas emissions intensity of GDP by 45% before the year 2030. This is important in light of Malaysia’s commitments to the United Nations Framework Convention on Climate Change under the Ministry of Energy, Science, Technology, Environment and Climate Change.
To move forward, Malaysia must seek to diversify the market by encouraging more issuances from a wider range of environmental projects.

Bringing it to the next level will also involve more key players such as state governments, municipalities and banking institutions, while relevant stakeholders should expand its scope to cover areas such as affordable housing and disasters.

The rise of Islamic finance to take up the mantle of sustainable growth in Malaysia has created new opportunities for the country to become a pioneer in green financing. With the issuance of the world’s first green *sukuk* in 2017, the stage has been set for Malaysia’s Islamic sustainable finance ecosystem to scale greater heights.

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The 4th Annual Symposium on Islamic Finance was held on December 12-13, co-organized by the World Bank Group Global Knowledge and Research Hub in Malaysia, the Islamic Development Bank (IsDB) and the International Centre for Education in Islamic Finance (INCEIF).

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Improving Malaysia’s Governance through Enhanced Citizen Engagement

Shahridan Faiez and Vijayendra Rao

In Malaysia, governance initiatives and reforms have almost entirely been focused on the supply side. However, it is important to pay attention to the demand side of governance. Malaysia’s civil service reforms to improve the efficiency of public service delivery needs to be supplemented by making officials more directly accountable to citizens. Improving governance by engaging citizens and strengthening local institutions is a policy implication that has lessons not only for Malaysia, but also for other countries around the world.
Malaysia has a record in combating poverty and transforming its agrarian economy into an industrialized middle-income nation. Between 1967 and 1997, Malaysia recorded a continuous average GDP growth of 7%, while achieving sharp and consistent drops in poverty levels from 49.3% to 1.7% between 1970 and 2012. The share of urban population doubled from 34.2% in 1980 to 71% in 2010, making it one of the most urbanized countries in Southeast Asia.

A central part of this transformation was the creation, training, and production of high-quality public officials to deliver services necessary for nation building. From the beginning, the concept of governance was framed as technocrats’ ability to solve technical issues related to development objectives. This “supply-side” approach to service delivery yielded huge benefits in Malaysia’s transformation during the latter half of the 20th Century.

**The Supply-Driven Model’s Limits**

Over the last three decades, Malaysia has undertaken a comprehensive program of reform initiatives. Innovative approaches helped promote the continual improvement of citizen-oriented public service delivery. While these reform programs have attracted international recognition and accolades, service delivery performance has continued to fall short of public expectations. The perception persists that the delivery system has not been attentive to citizens’ concerns, and that government decisions have not been made with the public interest at heart.

Why this disconnect? One important answer lies in the limits of the supply-driven service delivery paradigm, with its highly centralized and top-down allocation of resources.

Public officials fashioned themselves into a simple binary relationship with citizens – the former’s job was to deliver, while the latter were required to behave simply as clients.

Such a paradigm worked well when citizens had to rely on the public sector to meet their needs. However, three major changes have challenged this paradigm; namely, centripetal decision-making, a change in the social structure, and a change in the nature of the citizen.

Firstly, Malaysia’s government structure became highly decentralized, with state- and local-level governments, regional development authorities, and deconcentrated federal agencies, while decision-making became highly centralized. These centripetal forces have been shaped not by objective developmental imperatives, but by the political economy of interest groups.

Secondly, two-thirds of Malaysians now live in urban areas, which have become the locus of new struggles between various stakeholders. Citizens engaged more in conflicts over land use, environmental quality, education and health services, payment for services, and cost of...
living issues. The demands by the private sector on the government have also increased, with requirements for greater levels of data transparency, clarity of policies, and enforcement of laws.

Thirdly, new aspirations began to take root centered on individual and group identity, long-term economic security, and issues affecting service delivery quality. Citizens have been better able to access information, goods, and services by themselves. They have a greater voice and can communicate their demands with greater levels of sophistication.

Local Governance and the Demand-Driven Public Sector

Many other middle- and high-income countries adhere to the principle of subsidiarity; i.e. the powers and jurisdiction devolved to local governments should be those that are best managed locally. Global evidence establishes a strong link between effective public service delivery and governments that are accountable to their citizens. At the local level, citizens’ needs are better matched with the supply of services when service providers have a downward accountability relationship with their consumers. In contrast, Malaysia’s local governments are “upwardly” accountable to centrally managed bureaucrats and politicians.

For Malaysia, strengthening local governance is central to the crafting of a demand-responsive public sector. Such a system would address three key governance principles; namely, responsiveness, responsibility, and accountability.

By doing so, this will ensure that (i) the government delivers services that solve citizens’ problems; (ii) government activities are done correctly, fiscal resources are managed prudently, and activities produce the intended impact; and (iii) the government serves the public interest with integrity.
Public participation is the defining component of any demand-driven service delivery system. Without it, the capacity for responsive, responsible, and accountable governance is compromised. Various mechanisms have been developed, such as citizen charters, citizen report cards, and participatory budgeting. In Malaysia, the principle of public participation is provided for in various planning and development instruments; however, these have largely been rendered impotent by administrative actions.

Free and fair local government elections is a key mechanism for strengthening accountability. However, global experience has shown that while local elections help strengthen accountability, elected local governments are also susceptible to collusion and elite capture without adequate safeguards.

The devolution of power requires careful thought about the authority and jurisdiction of local governments, especially with regards to financing, capacity building, and performance-based grants. Financial considerations include local revenue generation and other fiscal matters. Capacity-building of local politicians, bureaucrats, and citizens could be achieved e.g. through formal training, Web-based training, and participation in public events. Incentives – whether symbolically or through performance-based grants – could serve to improve the performance of local governments, addressing various issues such as measuring performance objectively and reliably.
By nurturing collective action involving the public sector, the private sector, and civil society, impressive results can be obtained with high levels of public satisfaction. For instance, Malaysia’s ThinkCity uses small grants and the power of social networks to bring key stakeholders to the table, thus creating effective platforms to promote collective action to solve issues and challenges, particularly in urban areas.

**Digital governance** using the convergence of new communication technologies with artificial intelligence gives rise to powerful new possibilities for local governance. The public can communicate with government agencies in real time, providing evidence-based feedback. Many other new innovations enhance monitoring systems and feedback processes to improve the performance of ground-level staff. These systems greatly facilitate participatory planning at the local level, provide higher levels of government access to high-frequency census data, and improve performance monitoring of frontline staff.

A **new generation of talent** is required in a demand-driven public service; one equally focused on service delivery as well as becoming a facilitator and interlocutor between the citizen and the State. As more activities and processes move to digital and AI-based systems, public officials have to give greater emphasis to relationship-building with communities, problem solving, and strategic planning. They will need skills that enable them to engage with local communities as well as manage intelligent machines. Ineffective old hierarchical structures would need to be replaced by new network-based organizational systems that understand the power of informational flows that can deliver positive development outcomes.

**Conclusion**

A new type of engagement based on network arrangements aligning the state, the private sector, and civil society needs to take shape in the emerging new Malaysia, and in many countries around the world. Fundamental to this reconfiguration is the role of local governance in providing public services that are well-matched to the needs of citizens.
Assessing the Effect of Public Capital on Growth

Sharmila Devadas and Steven Pennings

The Long-Term Growth Model Public Capital Extension (LTGM-PC) extends the World Bank’s Long-Term Growth Model (LTGM) or the Standard LTGM, by separating total capital stock into private and public portions, with the former adjusted for quality. The LTGM-PC is used to analyze the effect of an increase in the quantity or quality of public investment on growth. It contains a new infrastructure efficiency index (IEI) that combines quality indicators for power, roads, and water, as a cardinal measure of the quality of public capital in each country.
Through the lens of the model and newly-collated cross-country data, three findings were uncovered. First, the measured public capital stock is roughly constant as a share of gross domestic product (GDP) across income groups. Second, developing countries are relatively short of private capital. Third, low-income countries have the lowest quality of public capital and the lowest efficient public capital stock as a share of GDP.

Inadequate public infrastructure is often viewed as a key impediment to economic growth and development in low- and middle-income countries. Increasing infrastructure investment has been a part of national development strategies for decades. However, despite the importance of public infrastructure investment, there is wide disagreement about the size and significance of its effect on growth in developing countries.

There is a great deal of confusion in the empirical and policy discussion about the dynamics and mechanisms through which public infrastructure investment would affect growth. For example, empirical studies (and policy reports) are often vague about whether it is the level of infrastructure that affects growth, or whether infrastructure investment (and hence changes in infrastructure levels) affects growth. Likewise, empirical studies often have difficulty estimating when the boost to growth might occur (whether the size of the effect will increase or decrease over time) and what country-level factors determine the impact on growth (as different studies are for particular countries or reflect a cross-country average).

**Extending the LTGM – the LTGM-PC**

To help address these gaps, the LTGM-PC models the effect of public investment on long-term growth. Unlike coefficients estimated in many empirical studies, the LTGM-PC allows for the effect of extra public investment to vary across countries and over time within the same country. The model builds on the Solow-Swan growth model and the Standard LTGM. As capital is simply an aggregate in these models, they cannot simulate the specific effect of an increase in public investment.

**In the LTGM-PC, total capital is split into public and private portions, while otherwise retaining many other growth drivers and features of the Standard LTGM.**

In the LTGM-PC, the effect of an increase in either the quantity or quality of public investment and the full dynamic growth path depends on country-specific factors, such as the scarcity of public capital (relative to GDP) and some crowding-in of private investment. The model also allows for the fact that the public capital stock might be of low-quality construction, which is a practical concern in many developing countries.
The LTGM-PC draws extensively on the empirical literature to guide its choice of parameters and publicly available databases to calculate key variables. However, as a suitable measure of the fraction of public capital that is of high quality/efficiency could not be found, a new cardinal measure of efficiency, the IEI, was developed. The IEI is based on estimates of the fraction of roads that are in poor condition, water that never reaches its final customers, and electricity that is lost through transmission and distribution.

**Stylized facts documented using the LTGM-PC**

Through the lens of the LTGM-PC and utilizing the cross-country data on the IEI and public capital stocks, an analysis was conducted on how the quantity and quality of public capital vary across countries with different levels of development, and how this affects the impact of new public and private investment on growth.

Surprisingly, it was observed that the effect of an extra 1 percentage point (p.p.) of GDP of public investment on growth is roughly constant across different levels of development. Overall, a 1 p.p. increase in public investment as a share of GDP increases growth by 0.1–0.2 p.p. in the model. As public investment is typically around 5% of GDP and usually <10% of GDP, higher public investment alone cannot turn a slow-growing country into a tiger economy.
Instead, developing countries are short of private capital, both relative to GDP and in absolute terms. Private capital as a share of GDP in low-income countries is only two-thirds of that in middle-income countries, and almost half that in high-income countries. This means the return to private capital is highest in low-income countries, relative to both advanced countries and also relative to the return on public capital. This stems from the relatively low levels of private investment in low-income countries (whereas public investment in low-income countries is actually larger as a share of GDP).

However, low-income countries also have the most inefficient public investment – with an IEI one-fifth lower than middle-income countries and one-third lower than high-income countries. Even though low-income countries might not be short of measured public capital, low-income countries are likely short of efficient public capital that is actually useful in production. In low-income countries (i) the marginal product of efficient public capital – if it could be installed – is extremely high and (ii) there is substantial room for low-income countries to boost growth through increases in efficiency. As high efficiency only affects output through new investment, countries with high existing rates of public investment (and low existing efficiency) have the most to gain. However, efficiency is extremely difficult to increase quickly, and so in practical terms, the return to public investment will still be similar across different levels of development.
Conclusion

The effects of public and private investment on growth in the LTGM-PC vary substantially across countries depending on whether the country is relatively short of public or private capital – but on average are similar to the effect of aggregate investment in the Standard LTGM. The effect of public investment on growth is higher when the public capital-to-output ratio is lower, i.e. when public capital is scarce. Conversely, where public capital is relatively abundant, public investment will have a smaller effect on growth. The growth impact is also larger when public investment is more useful, such as when it is in the form of essential infrastructure (public investment in other areas will have a lower return).

The growth impact of an increase in public investment is very similar across different levels of development. For a typical low- or middle-income country with the model’s default parameters, a permanent 1 p.p. of GDP increase in public investment in essential infrastructure tends to boost growth by around 0.18 p.p. in the short term, but the boost to growth falls slowly over time as public capital accumulates. Other, less useful types of public investment (like public buildings) have a boost to growth of around 0.1 p.p. In contrast, a permanent 1 p.p. of GDP increase in private investment leads to a slightly higher short-term boost to growth of about 0.22 p.p., although the effect tapers off faster over time.

Model simulations also show that there can be substantial growth dividends from improvements in the quality of new public investment.

The new IEI suggests a public capital efficiency loss of about 30 p.p. for low-income countries, and 10–15 p.p. for middle-income countries (relative to the efficiency of high-income countries). For countries with poor quality public capital and a large public investment share of GDP (such as many low-income countries), an increase in the quality of public investment can be just as effective as a modest increase in the quantity of public investment. For example, for the typical low-income country, a 1 p.p. increase in efficiency boosts growth by the same amount as a 0.13 p.p. of GDP increase in public investment. Despite this, the level of efficiency has no effect on the marginal product of public capital because the low quality of new public investment is exactly offset by the greater need for public capital, due to the poor quality of past public investment.


The accompanying Excel-based toolkit can be downloaded here: https://www.worldbank.org/en/research/brief/LTGM

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STEVEN PENNINGS is Economist for the World Bank’s Development Research Group.
Marine plastics have put our oceans in danger. By 2050, it is estimated the volume of plastic will be greater than that of fish in the sea. Countries in East Asia and the Pacific contribute the most to marine plastic pollution. For World Oceans Day 2019, we are shining a spotlight on innovators working to stem the tide of marine debris in the epicenter of this crisis.
Yasmin Rasyid has worked for over 20 years in environmental management, community development, and social responsibility in Malaysia, including community mobilization and sustainability research. She is the founder of EcoKnights, a Malaysian environmental NGO.

Tell us about yourself, and your work.

Yasmin Rasyid (YR): I am a biologist by profession and an environmentalist by passion. The work we [at EcoKnights] are involved in follows the organization’s four core pillars which are: education and awareness, sustainable community development, sustainable waste management, and volunteerism and corporate social responsibility. The name ‘EcoKnights’ basically means an army of change, and what we want to do is to empower people to mobilize themselves towards creating a more sustainable future.

In what ways is plastic waste an issue for waterways in Malaysia?

YR: The majority of the waste that we collect from our beach or river clean-ups are plastics. These are choking up riverways and affecting our drainage systems – the drains are fully clogged with 10-20 years of compressed plastics, and this indirectly contributes to the flash floods we experience in city areas like Kuala Lumpur. Further, as plastic degrades over time into smaller plastics, this gives way to microplastics to enter the food chain easily through fish, and this poses very severe health threats to us in the long run.

When did you first get involved in trying to address these environmental issues, including plastic pollution? What pushed you to start EcoKnights?

YR: As a child, I was very interested in the environment. It led me to study marine biology in university, biotechnology for my Masters, and I am currently working to complete my PhD in sustainability science.

But I also came to realize that no matter how great the work I was involved in from the science and environmental perspective, a missing component was the human element - which is why a lot of the work that EcoKnights does today is community-centric. Ultimately, I don’t want to be speaking in a silo; I want to reach out to different areas to make changes that matter.

At first, I began EcoKnights also as a means to get my daughter more involved in some of these passions of mine. I also saw gaps in how various organizations were addressing the issues related to the environment and sustainability and wanted to find ways to solve them. Little did I know how strongly EcoKnights would come to resonate with many people, especially women, simply because sustainability is so relevant to our daily lives. In the last 15 years that we have been around, EcoKnights has worked to tighten its focus and become more strategic; so we can evoke the change we want to see.
What impact do you hope EcoKnights can achieve?

**YR:** Ideally, EcoKnights will one day be obsolete because people would be directly responsible for the environment, and actively participate and take charge of their laws and policies to mobilize governments to do the right thing. I see the role of NGOs as temporary mediators. We are here to empower and move communities to be able to be more involved in the future without the need of NGO intervention.

What motivates/inspires you?

**YR:** People inspire me. EcoKnights essentially runs on a very young team, and seeing their energy and what they bring to the team truly motivates me to do more. When I first began EcoKnights, I had a vision that it would eventually empower young people to lead it and it is happening right now as we speak. During our recent Ramadan celebration, I saw for the first time all the stakeholders and partners that my team has gathered and worked with for the past 15 years. Everyone had great things to say about the team and the work that we do so, and it’s because of this group of young people that EcoKnights is now growing its wings, and going out there to do what it does best.
What kind of work has EcoKnights undertaken, and what has been the impact?

YR: Our waste management programs have received a lot of good traction with the communities we work with. For example, we used to conduct river clean-ups every quarter of the year, and now we do it every weekend because we are getting more and more volunteers.

After many years of working on this issue with different groups, it has attracted the attention of local authorities – predominantly in Kuala Lumpur – and in the last two years, we’ve also been receiving calls from local authorities beyond this area. We also work to measure these impacts with data in order to benchmark our work, to see what else needs to be done, and to provide credibility to our efforts.

How can people get involved?

YR: The easiest way for people to get involved is to look at our habits and consumption patterns. This is really something that is within our control. We need to be motivated to change these habits and behaviors. Essentially, the challenge to sustainable development is shifting the mindset of the normal person. This gets more difficult, especially if you’re in the city as you grow up in a very ‘disposable’ culture. The whole concept of a circular economy needs to be institutionalized, especially for businesses. Even if 5-10% of the biggest companies in this world can change and abide to the principles of the circular economy concept, I think we will see a more significant impact on the environment and the lives of people. Further, it’s also very easy to volunteer. I feel that that’s always a good stepping point to get yourself engaged and participating. When you participate, you open up yourself to seeing the world differently.

If there’s one change you’d like to see every person in Malaysia make to reduce plastic pollution, what would it be?

YR: I hope Malaysians can minimize using plastic. If we use less, we throw less, and we pollute less. I don’t think Malaysians are very motivated to make more sustainable choices – we like low-hanging fruits. As such, I believe the responsibility should also lie on businesses to change the behaviors of consumers. Businesses need to find creative and innovative solutions to rely less on plastics for packaging or create incentives for people to recycle, for example. These are the movers and shakers of change. Malaysia has really good environmental policies in place, but we fail in implementing and enforcing them effectively. So in my opinion, having businesses take up the mantle of sustainability will be very powerful and impactful for the environment.

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How a World Bank Youth Summit Winner is Helping Domestic Workers in Malaysia

Min Hui Lee

In 2017, Zenna Law won the Audience Award at the World Bank Youth Summit for her pitch on Pinkcollar, a social enterprise aimed at using technology to help migrant domestic workers in Malaysia gain safer and better access to work.
These workers risk falling victim to exploitative working and living conditions at the hands of middlemen recruitment agencies – to which Pinkcollar aims to eradicate by digitalizing the recruitment process, making it online and accessible, and running rigorous vetting of workers and employers to ensure responsible matching. We spoke to 25-year-old Zenna Law on her work to help the community.

Zenna Law has fond memories of being raised for most of her life by domestic workers who grew to become integral members of her own family. Growing up, she began to learn about the hardships that foreign domestic workers face – but it wasn’t until Law volunteered at a social organization in Moscow that she was truly exposed to the difficult situations domestic workers lived in. Since then, it became her mission to help the domestic workers by bringing them into the formal economy.

With the help of Elaine Sim and Sophia Aliza Jamal, both aged 26, Law has founded Pinkcollar – a social enterprise and professional recruitment agency that is a shared economy platform operating online for migrant domestic workers in Malaysia. Employing ethical sourcing and hiring practices, Pinkcollar’s mission is to end the forced labor and trafficking of domestic workers.

The issue is no easy one to tackle. Middlemen recruitment agencies have been criticized for making domestic workers sign contracts they have difficulty understanding, forcing workers into debt bondage by charging illegal recruitment fees, deducting workers’ salaries, restricting freedom of movement, and failing to provide knowledge on legal rights. According to Law, this leaves the over 250,000 migrant domestic workers registered in Malaysia at risk of exploitative working and living conditions, including abuse.
Partner organizations like the Filipino-Malaysian Cultural Sports & Welfare Society (FIMA) help provide migrant workers with access to upskilling and education on their rest days.

“They told us about how their belongings were confiscated, including their families’ information to prevent workers from contacting them. Body checks were also performed on them without their permission, among other things.”

Leveraging on technology and the Internet, Pinkcollar has successfully digitalized a conventional method of hiring domestic workers via middlemen agencies, by utilizing social media to source workers directly – thus eliminating the need to engage recruitment brokers, and giving worker community groups open channels for support, resources, and direct reporting of grievances. Rigorous vetting of worker-candidates and employers using technology are also conducted to match them to domestic workers.

“We have plans to expand on our tech capacities in ways that progress our mission, while remaining conscious that our company’s core lies in the humane care and treatment of people – employers and workers alike,” Law said.

Such innovation has the power to be disruptive and transformative, potentially wielding impacts towards the Sustainable Development Goals, like promoting greater gender equality in work, and reducing inequalities and caste-based discrimination.
“With every domestic worker supporting an average of 5 dependents back home, our social impact is measured by the amount of debt savings accumulated from the zero-placement-fee policy for our workers. This safeguards their abilities to support their families without any recruitment debt. We are also paving the way forward for domestic workers post-placement - by building partnerships with organizations to provide access to upskilling and education on their rest days. Creating avenues of continued learning will increase their chances of accessing better job prospects and better livelihood planning,” Law added.

In 2017, Law brought Pinkcollar to the World Bank Youth Summit, where she presented on the company and its goals. That year, Pinkcollar took home the prize for the Audience Award. In early 2019, it was awarded a Young Southeast Asian Leaders’ Initiative (YSEALI) grant to continue its progress for domestic worker welfare. Today, Pinkcollar is up and running and seeking to grow their social enterprise further.

“There is immense value in the contributions of domestic workers. Over the past year, I observed my family’s domestic worker tending tirelessly and lovingly to my ailing grandmother as her primary caregiver. It struck me to realize just how deep and far-reaching the positive impacts of their work have always been. They work within Malaysian homes to fill the gaps – often taking on the role of mothers, cooks, caregivers, and household managers – and devote themselves to supporting our families, away from their own. We need to start building a better ecosystem for domestic workers that will enable them to also follow through with their own hopes and dreams for their families and futures.”

Each year, the World Bank celebrates International Youth Day by commemorating the powerful role of the youth in creating the change they want to see. For Law and her partners, using online platforms to create better and safer job opportunities for domestic workers represents a new and disruptive approach to effectively help a community in need. As technology continues to change the world, utilizing it to create social impact is key – and the youth are at the helm of these new developments.

This article was first published in conjunction with International Youth Day 2019. To access the article, visit bit.ly/MYiyd_pinkcollar

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Youth of the Nation

As the World Bank Group Global Knowledge and Research Hub looks toward approaching new frontiers, a major cornerstone of our work has been engaging the youth to be more involved in policy analysis, and allowing space for their voices to create impact on issues that matter. To that end, we have worked with various student and youth groups to facilitate knowledge sharing on policy issues relevant to Malaysia and the globe. We speak to some of our youngest key stakeholders on their experiences.
Since 2017, the Malaysian Students’ Global Alliance (MSGA) has had several rounds of fruitful collaborations with the World Bank in Malaysia, ranging from forum and sharing sessions to policy competitions. These efforts have also helped to strengthen both our images towards the Malaysian youth, reaching more than 1,000 youths altogether. We greatly value the effort put in by the World Bank team and will be looking forward to more collaborations in the future.

Yau Khai Leed
Senior Advisor (Corporate and External Relations)
Our relationship with the Hub in Malaysia began in 2017 when we partnered for the second Youth Economic Forum. PFAA is one of the most prestigious youth organizations in the country, with members from diverse backgrounds and across different industries. This advantage has allowed PFAA to provide a platform to encourage more youth to participate in intellectual discourse and the national agenda towards building a better Malaysia. The partnership with the World Bank has broadened our opportunities and the PFAA network and perspective, particularly on World Bank’s role as an international organization in fighting extreme poverty and promoting shared prosperity – thus aligning with Malaysia’s new Shared Prosperity Vision 2030.

This year, for the fourth instalment of Youth Economic Forum, we are glad to see that the relationship built with the World Bank will once again provide an opportunity for Malaysian youth to get together, and collectively seek innovative solutions and bridge the knowledge gap between government, industry, and the public.
Over the summer, the International Council of Malaysian Scholars and Associates was grateful to be able to collaborate with the Hub for our annual flagship event -- the Malaysian Public Policy Competition (MPPC). We welcomed the World Bank Group as a Knowledge Advisor, receiving both judges and panelists who shared their knowledge and unique perspectives surrounding our theme, “Shared Prosperity: Bridging the Urban-Rural Divide”. Prior to our event, 30 of our participants even benefited from the World Bank’s Policy 101 workshop, which provided them with insights into- and a solid foundation for policymaking, so that they might co-opt their ideas and efforts to nation-build with the ever-changing the status quo. From a project director’s perspective, I found it rejuvenating to know that humanitarian organizations such as the World Bank is supportive of student initiatives. We were warmly welcomed from the first day we entered into their office with our proposal.
YCM has worked closely with the Hub for the past few years. We have hosted several of the Bank’s experts in our monthly speaker series and flagship annual summits, both of which have received overwhelming positive feedback from our members.

YCM was founded 11 years ago with the mission to build a platform that is most relevant for young professionals to further develop themselves through our diverse range of initiatives. The depth and breadth of the topics discussed each time empowers the youth in leadership and community building, and inspires them to play a part in moving the nation forward. Malaysian youths are a key driving force toward a better nation, so equipping them with the right skills and knowledge are crucial. We look forward to more collaborations with World Bank!