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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.


Editorial Team: Joshua Foong and Daniel Subramaniam

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Please contact jfoong@worldbank.org or dsubramaniam@worldbank.org if you have questions or comments with respect to content.
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The past six months have marked a new phase in the long-standing and fruitful relationship between Malaysia and the World Bank Group. The partnership began more than sixty years ago in the era of post-independence and focused heavily in the first few decades on financing Malaysia’s infrastructure needs. Over eighty-six lending projects were supported by the World Bank Group across myriad development sectors including energy, transport, land, health, social development and education. These projects, by way of example, included a power project in Port Dickson, an urban transport project in Kuala Lumpur, and a land settlement and environmental project in Sabah.

With Malaysia’s rising economic prosperity in the late 1990s and early 2000s, an evolution in the partnership occurred with a shift away from concessional financing towards a focus on the sharing of development experiences, policy innovations and global research. This change led to an eventual agreement by both sides to establish a World Bank Group Hub in Malaysia in 2015. In the words of former Bank Negara Malaysia Governor Zeti Akhtar Aziz who helped spearhead this agreement, it was hoped that the Hub would become ‘a regional centre of excellence that promotes learning opportunities, thought leadership and innovation.’

During its first five years of operation, the Hub strove to fulfill this vision by engaging in knowledge-sharing activities, policy innovations and original economic research in areas covering macroeconomic growth, financial sector innovation, competitiveness, governance, social protection and jobs. Its operating model focused on the principles of dynamism, impact, partnerships and outreach to lower-income countries. As part of its South-South knowledge sharing activities, it hosted more than 70 knowledge exchanges/learning activities with over 40 countries supported by the International Development Association (IDA) from four regions of the world. In the last 16 months, study exchanges, for example, were organized with Cambodia, Nepal, Lao PDR, Afghanistan, Vietnam and Zimbabwe.

In recognition of the Hub’s vibrant and impactful work during its start-up years, a decision was reached in late 2019 to extend its mandate into a new five-year phase of operation. Within these discussions about the new phase, there was an agreement by the Malaysian Government and the World Bank Group to (i) rename the Hub as the ‘World Bank Group Inclusive Growth and Sustainable Finance Hub’; (ii) enrich the research component of the Hub’s work through greater collaboration with World Bank’s Chief Economist for the East Asia and the Pacific Region; and (iii) maintain a healthy balance between the outbound and inbound components of the Hub’s work while also placing additional emphasis on supporting Malaysia’s internal reform and development priorities.

This transition in the work of the Hub over the past year also coincided with outbreak of the COVID19 pandemic in the early months of 2020. As a result, a decision was taken to realign much of the Hub’s activities towards supporting efforts to fight the pandemic alongside existing work focused on promoting
inclusive growth and sustainable finance. In view of the uncertainties around the longevity and severity of this public health crisis and its economic consequences, it is likely that this topic will dominate the work of the Hub over the next year or more.

In reaction to the global economic shock brought about the spread of the COVID19 virus, the Hub’s policy and research teams mobilized into action and rapidly delivered advisory services and organized global knowledge-sharing activities. Our Global Practice teams consulted closely with Malaysian Government counterparts responsible for implementing fiscal and monetary mitigation measures and delivered a range of analytical and advisory inputs including numerous policy notes (covering fiscal, social protection, and private sector topics) and the provision or real-time economic monitoring data. On the research side, the Hub’s team prepared a total of 7 Research Policy Briefs (RPBs) addressing various aspects of the COVID19 crisis. These RPBs are shared across the World Bank Group and with many global stakeholders and development partners.

While Malaysia, as other countries around the world, continue to contend with the immediate challenges of the pandemic, it is also not losing sight of the more medium-term reform agendas that are critical for its anticipated transition into high-income country status by 2024. The importance of these reform agendas has also been reinforced by the underlying vulnerabilities exposed by the onset of the COVID19 crisis (e.g. gaps in the existing social protection system). In its efforts to support Malaysia’s high-income transition and inclusive growth agenda, the Hub recently prepared a Flagship Report focused on the areas of economic growth drivers, competitiveness, jobs, inclusion, institutions and financing. This report will benefit other middle-income countries (MICs) seeking to avoid the ‘middle-income trap’ and to emulate Malaysia’s development successes. An additional Hub activity promoting the agenda of institutional reform has been the preparation of a new Global Report on effective anti-corruption strategies.

Another major topic influencing the work of the Hub over the next five years will be the global climate crisis. In view of the profound implications of this crisis for global development, the Hub will be scaling up its efforts to position sustainable finance as an effective lever to support greater climate action. This renewed push towards promoting greater sustainable financing – line with the Hub’s new name – was also underscored earlier this month with the organization of a global ‘Sustainable and Inclusive Finance Forum’ launched by Malaysia’s Central Bank Governor Nor Shamsiah and World Bank Vice President for the East Asia and Pacific Region Victoria Kwakwa. Alongside the importance of sustainable finance, the forum highlighted innovative ways to strengthen financial inclusion through the adoption of new Islamic finance instruments and Fintech solutions.

Looking ahead, Malaysia and the World Bank Group are in a great position to sustain this positive development collaboration as represented by the work of the of the Inclusive Growth and Sustainable Finance Hub. The Hub will seek to remain a vibrant global platform for sharing innovative development solutions for the benefit of Malaysia and other countries.

Firas Raad
Country Manager for Malaysia, World Bank Group
Recover, revitalize and reform after the storm

Ndiamé Diop

No one could have predicted that COVID-19 would raise a perfect storm, hitting the world economy hard in 2020. By our estimates, 90% of the world’s economies will expect to see a contraction this year. This severe downturn means countless people across the world, including in Malaysia, will suffer illnesses, lose jobs and livelihoods. The impact of the pandemic is expected to lead to the first increase in global extreme poverty since 1998, effectively wiping out the progress made since 2017.
Despite myriad challenges, there are encouraging signs that Malaysia is riding it out comparatively better. The country’s economy rests on strong fundamentals. A diversified economic structure, a sound financial system, an effective public health response and proactive macroeconomic policy support have all helped soften the blow. While we expect the economy to see a sharp contraction this year, with GDP shrinking by 3.1%—including a particularly pronounced contraction in the second quarter—and despite the enormous uncertainty over the timing of a return to economic growth, there is light at the end of the tunnel.

The government has deployed a six-stage strategy to build resolve, resilience and to restart the economy. We have entered the fourth “recovery” stage, building the basis for the latter stages of revitalizing and reforming the economy. This means the government is set on not just getting out of this crisis but also trying to get into better shape than it was before, so it is more able to withstand the next one.

Even before the COVID-19 crisis came along, there was a growing sense among many Malaysians that growth had become less inclusive, that the pace of income growth had not kept up with the cost of living and that the economy was not creating enough high-quality jobs. There was also a growing concern that standards of governance needed to be improved, and that the quality of public services was falling short of the expectations of an increasingly middle-class society.

We tried to get to the bottom of these issues in the latest edition of the Malaysia Economic Monitor, looking not only at how the country can survive the storm of the COVID-19 pandemic, but also take advantage of the opportunities provided by the crisis to emerge stronger. A few things stand out.

Firstly, in the short-term, while significant policy support has been put in place, the government may need to do more to protect those who need it most, especially vulnerable households and businesses. While some economic activities will rebound after movement restrictions are lifted, it will take time for incomes and jobs to recover, as some parts of the economy (like manufacturing) will see a faster return to growth than others (like tourism). This may mean providing further rounds of financial assistance to the vulnerable, especially the poorest 40% of the population (“the bottom 40”) who lack the savings and support networks to withstand a prolonged hit to their earnings.

The crisis has also underscored the need for Malaysia to put in place a stronger social protection system that is more cost-effective and less fragmented to improve individuals’ and households’ welfare, both during the recovery period and in the future. Such a system would aim to guarantee a minimum level of protection to all those in need, be responsive to changing circumstances, incentivise work, and be fiscally sustainable. The country’s recent announcement to update and raise the poverty line is an important step in this regard and will ideally be matched with a similar upgrade of the non-income dimensions of poverty in the Multidimensional Poverty Index (MPI) in the forthcoming 12th Malaysia Plan. These measures can help inform government policies and programs to ensure that the most vulnerable of Malaysians are provided with the support that they need.
Stepping up support to vulnerable households means creating additional fiscal space so that the government has more headroom to adequately respond to the crisis. And while some space can be created by reallocating non-core public spending and expanding non-tax revenue (securing additional dividend contributions from government-linked companies to the treasury), what is needed is to temporarily lift the limits on the amount and usage of borrowing imposed by Malaysia’s fiscal rules. This outcome, however, will require legislative action in Parliament.

In the medium-term, steps will need to be taken to prepare the economy for operations under a “new normal.” This means restoring Malaysia’s fiscal buffers in readiness for the next crisis.

COVID-19 caught Malaysia somewhat off guard with limited budgetary space to respond with direct fiscal injections, so as the economy recovers reforms will need to be taken to boost tax revenues (including finding new sources of revenue that are more progressive).

A key focus also must be on upskilling and retraining the workforce for a new economy, as well as accelerating the digital agenda and bridging the digital divide. And, even before the crisis, there was a growing realization that Malaysia needs to shift its competitive approach towards attracting higher-quality investments, a challenge which is even more critical to address now.

Looking further ahead, now is the time to adopt bold reforms to help propel Malaysia to the next level of its development journey in the years ahead.

Work that the World Bank has carried out suggests that while Malaysia is expected to reach high-income status in the coming years, there are key gaps in the policy framework that are holding the country back from achieving its full potential—and these gaps are even more costly during a crisis. So, now is the time to carefully design and implement policies that would help to boost female labor force participation, improve the quality of human capital, boost competitiveness, create quality jobs, modernize institutions and promote inclusion through a stronger social protection framework that is fitting for Malaysia’s aspirations as a high-income and developed economy.

NDIAMÉ DIOP is the World Bank Country Director for Brunei, Malaysia, Philippines and Thailand.
From Vulnerable to Pandemic Poor

Kenneth Simler

The COVID-19 pandemic has taken a toll on everyone’s lives. In addition to the direct morbidity and mortality impacts of the disease, measures to control the spread of the virus have had far-reaching effects on people’s livelihoods. In poor and rich countries alike, control measures have displaced workers at all skill levels and pay grades, and upended daily activities such as going to work, attending school, and gathering with friends and family. Even people in countries without COVID-19 cases have suffered from border closures, crippling their trade, tourism and livelihoods.
The pandemic has been especially cruel to the poor and the vulnerable. These include those with little or no assets or savings to fall back on, informal workers who are not covered by or have inadequate social safety nets, and those who have lost their jobs, been placed on unpaid leave, or experienced pay cuts because of movement control orders (MCO).

October 17 marks the annual observance of the International Day for the Eradication of Poverty, a day for the world to reflect and engage on the actions needed to achieve the goal of ending poverty in all its forms. This year, for the first time since 1998, the proportion of the world’s population living in extreme poverty is expected to increase. In its global 2020 Poverty and Shared Prosperity Report, the World Bank estimates that 88 million to 115 million people will be pushed into extreme poverty.

Malaysia has done comparatively well in controlling the spread of the novel coronavirus and has taken unprecedented relief and stimulus measures to protect the physical and economic well-being of Malaysians. Yet, mirroring the situation globally, everyone in Malaysia has been affected, particularly the B40 and those who were already vulnerable and struggling to make ends meet prior to the pandemic.

Our recent report Aspirations Unfulfilled: Malaysia’s Cost of Living Challenges details the challenges that low- and middle-income Malaysian families were facing even before the COVID-19 pandemic. Households’ concerns about “the cost of living” are more complex than simply rising prices. Also in the mix are sluggish wage growth among younger workers and those without tertiary education, a shortage of affordable housing in urban areas, and precarious personal finances, with high indebtedness and extremely low savings.

Reliable data on the socioeconomic impacts of the pandemic on poor and vulnerable households in Malaysia are scarce and fragmented. Some clues are available from online surveys conducted earlier by the Department of Statistics Malaysia (DOSM), although DOSM rightly cautions that these are not official statistics because the sampling was not representative of the population. The results suggest that informal workers and those who are self-employed have been hit particularly hard, as they were less likely than formal salaried workers to receive full or partial wages during the months when they could not work. At the onset of the first MCO in mid-March, a majority of survey respondents reported having only enough savings to live on for 1–2 months; for most self-employed persons it was less than one month. Despite the introduction of government assistance programs, it is anticipated that many micro, small and medium enterprises will not survive the economic shock of COVID-19.

KENNETH SIMLER is a Senior Economist at the World Bank.
The world is four months into the worst pandemic crisis in one hundred years. By mid-April 2020, more than 80% of countries had imposed strong social distancing measures to control the spread of the disease. The economic fallout has been immense, with dire consequences for poverty and welfare, particularly in developing countries. As the restrictions are gradually eased, the challenge will be to revive the economy while mitigating new waves of infection. Having more limited resources and capabilities but also younger populations, developing countries face different trade-offs in their fight against COVID-19. Sooner rather than later, draconian measures may have to give way to more targeted, self-enforcing, and cost-effective practices to reduce the rate of infection.
The Economic Contraction

The COVID-19 pandemic has thrown the world into its worst economic crisis since the Great Depression. Because of the pandemic, the world economy in 2020 is projected to grow six to seven percentage points (p.p.) lower than otherwise, with 90% of countries experiencing negative growth rates. Global trade volume is expected to decline between 13% and 32% in 2020. Global labor, measured by working hours, is projected to decrease by 10.5% in the second quarter of 2020, a decline equivalent to 305 million full-time workers.

For developing countries, the global contraction carries a large adverse external shock. The demand for exports has plummeted, commodity prices are declining to record lows, and international tourism is expected to decrease significantly in 2020. The pandemic also entails a large domestic shock in developing countries, with direct costs related to morbidity, health care, and uncertainty; and indirect costs related to the containment and mitigation measures imposed to reduce the spread of the disease, such as reduced labor, production capacity, and productivity.

The growth projections cited above are predicated on the condition that the restrictions imposed to contain the spread of the disease are concentrated over the first half of the year. However, if the lockdowns are extended by 50% longer, with financial conditions becoming tighter and fiscal burdens becoming heavier, world GDP growth in 2020 could drop an additional 3p.p.

This severe scenario would imply mass unemployment, firm closures, and possibly debt and financial crises. The dislocation implied by such a large contraction would extend well beyond 2020, making the recovery in subsequent years weak and volatile.

Different Strategies for Different Contexts

A welfare evaluation of different strategies to deal with the pandemic crisis should consider both public health and economic considerations jointly. Success in limiting the fatalities and suffering from the disease depends on taking into account the economic and institutional challenges faced by different countries, and considering the incentives that people have to comply with social distancing measures. Governments have had difficult choices to make on the best approach for their countries to contain the spread of the disease. Surrounded by uncertainty as to the threat of the virus, some governments chose strict lockdowns.
The Problem with Indiscriminate Lockdowns

Indiscriminate lockdowns are less effective and more costly in developing than in advanced countries. Lockdowns are ineffective in containing the disease’s spread when imposed in cities with overcrowded dwellings and neighborhoods, causing social compression rather than social distancing. Lockdowns are counterproductive when they produce massive displacement of people, especially from urban to rural areas, thus spreading the contagion. And lockdowns are unproductive when compliance is low, leading to short-lived containment gains and an increased probability of second or third waves of infection.

In developing countries, lockdowns can be extremely costly in economic and human terms. They can lead to mass unemployment and business closures. They can put the families of poor and informal workers, especially daily laborers, at the risk of starvation, crime, and disease. Furthermore, the loss of public and private resources due to lockdowns reduces the ability to provide other vital services in health care, education, and safety. Most developing-country governments do not have the means to prevent these losses and unintended consequences, especially during a deep recession.

Different Vulnerabilities for Different Demographic Profiles

The COVID-19 disease affects the young and old differently. According to current epidemiological evidence, there is a marked difference in the age profile of vulnerable populations: the infection fatality rate for people over 60 years of age appears to be five to 100 times higher than those below the age of 60, with substantially higher fatality rates in older age groups.

This is relevant for two reasons. First, the population most vulnerable is the least economically active; and, conversely, those most economically active are at considerably lower risk of serious or fatal disease. A blanket constraint of economic activity, therefore, disables those who can work (and practice responsible social distancing) without increasing significantly their exposure to health risks.

Second, developing countries, being at an earlier phase of the demographic transition, have younger populations. The ratio of people over 60 years of age to total population is 1:20 and 1:10 in the typical low-income and middle-income country, respectively. In comparison, this ratio is 1:5 in advanced countries. Therefore, the mortality risk from COVID-19 is significantly lower in low- and middle-income than in advanced countries.

A qualification is that not only age but also comorbidities determine the severity of COVID-19. On the one hand, low- and lower-middle-income countries have a lower prevalence of diseases known to exacerbate symptoms of COVID-19, such as cardiovascular disease, chronic respiratory disease, and diabetes, even controlling for age differences. On the other hand, lower-income countries have a higher prevalence of infectious diseases and, in some cases, higher HIV infections, which weaken immunity if unattended.
The Alternatives to Indiscriminate Lockdowns

Two approaches have been taken to consider alternatives to strict lockdowns; one from epidemiology and the other from economics.

Insights from Epidemiology

One of the world’s top epidemiological teams, the Imperial College COVID-19 Response Team, has studied the results of alternative mitigation and suppression strategies on mortality rates in a worldwide group of countries (Walker et al. 2020).

The epidemiological projections show that, first, mortality rates are lower for countries at lower income levels; second, mortality rates for all country groups decrease as mitigation and suppression measures become more severe; and, third, the gains in lives saved by more severe measures decrease with income level. These results are driven by countries’ age composition, with younger populations in lower-income countries being less affected by the pandemic and corresponding mitigation and suppression strategies.

Some caveats on these epidemiological projections should be considered when applied to low- and middle-income countries. First, the original projections do not control for the quality of public health care. Second, the projections assume uniform compliance across countries and do not allow for collateral or unintended damage. This would diminish the containment effect of radical suppression strategies, making them less beneficial than other more moderate strategies.
Going beyond epidemiological projections, Barnett-Howell and Mobarak (2020b) highlight four findings. First, the loss from inaction to address the disease is enormous for all countries. Second, the loss across all scenarios is higher for better-off countries, resulting from combination of higher mortality (due to an older population) and higher incomes. Third, all countries benefit from mitigation strategies, but the marginal gains decrease when moving from mitigation to suppression strategies. Fourth, lower-income countries gain less in moving from no intervention to mitigation to suppression than higher-income countries do.

Of note, the economic benefits of more strict suppression measures decline with income level, with Barnett-Howell and Mobarak citing three reasons. First, fatality rates in lower-income countries are lower because their populations are younger. Second, delaying infections is less useful in countries with significantly lower health care capacity. Third, the opportunity cost of more drastic measures is higher for poorer people.

**Insights from Economic Modelling**

The analytical and policy-oriented response to the pandemic from economics has been robust, with an expanding number of high-quality papers. In these papers, economic agents have been modelled with increasing degree of complexity and realism, with more recent models allowing for economic agents to be heterogeneous regarding sector of economic activity; productivity; and demographic structure. Public health interventions are also modelled with increasing realism; allowing for governments to discriminate between sectors; introduce differential lockdowns or shielding of vulnerable populations; and conduct testing, tracing, and isolating of cases of infection. One of the latest models, by Acemoglu et al. (2020), studies the effects of a comprehensive set of policy measures potentially available to policymakers.

![FIGURE 2. "Smart" Measures Can Ease the Trade-Off between Lives and Livelihoods](source: Adapted from Acemoglu et al. 2020.)
Although recalibration and application of these models to various low- and middle-income countries is needed, some qualitative implications can be derived. First, social welfare losses due to the economic contraction are likely to weigh more heavily than those due to fatalities in developing than developed countries, as developing countries have younger and poorer populations. Second, compliance with strict measures is bound to be significantly lower in developing countries than in advanced countries; implying that mitigation and suppression strategies in developing countries should be less strict and lengthy. Third, since economic losses in countries that are already low-income matter significantly for their welfare, the need for finding cost-effective ways for addressing the pandemic is large and possibly higher than in advanced countries.

A fourth implication is that implementing some of the “smart” mitigation strategies that could render great benefits is likely to be more difficult in developing countries; yet applying “smart” measures is the only sustainable strategy in the absence of a vaccines or treatment.

The Excruciating Trade-Off between Saving Lives and Saving Livelihoods

For developing countries, the trade-off is not just between lives and the economy; rather, it is about preventing deaths from COVID-19 versus avoiding crushed livelihoods and deaths flowing from those crushed livelihoods.

This trade-off is excruciating, real, and unavoidable. The analysis and estimations presented in previous sections suggest three conclusions.

1. Developing countries have limited ability to cope with the pandemic crisis and related trade-offs. In advanced countries, the lives-versus-livelihoods trade-off can be eased with immense resources. Developing countries, on the other hand, not only face limited (and shrinking) financial resources but are also burdened by precarious health systems, overcrowded cities, informal labor markets, poor governance, and, in some cases, fragility and conflict. Hence, a single-minded goal of saving lives from the pandemic is unrealistic and can lead to considerable human losses.

2. Developing countries face different trade-offs than advanced countries. Developing countries suffer more from the contraction in economic activity required by strict suppression measures. Yet, the benefits of these suppression measures are lower in developing countries because of both their younger populations and their lower ability to treat critically ill patients. Therefore, the lives-versus-livelihoods trade-off is likely to be different for countries at different levels of development and demographic profiles.
3. The terms of the trade-offs can be eased by coordinated economic and public health policies. The goal of preserving lives and livelihoods is possible with a combination of pragmatic and effective economic and public health policies, tailored to the reality of developing countries. The success of public health measures to fight the pandemic requires well-designed economic policies. Compliance with social distancing is higher when current economic support is available and the prospects for economic recovery are better; likewise, public health infrastructure can be improved if sufficient revenues are being generated by a well-performing economy.

- Public health care capacity. Measures should be urgently undertaken to increase public health care capacity, procuring emergency hospital space, breathing ventilators, medical protective equipment, and testing kits. Developing country governments would need to rely on cost-effective solutions in cooperation with their own private sectors and international aid organizations.

- Relief and recovery economic policies. Relief measures should be implemented during the containment period and recovery measures in the aftermath. They should aim to protect the poor and vulnerable; provide temporary support to affected businesses; and ensure macroeconomic stability and the continuity of public services. Since most low- and middle-income countries lack the fiscal space to conduct sufficient relief and recovery policies, they would need the economic support of the international community.

- Sustainable and cost-effective mitigation. Some of these measures consist of improving personal and public hygiene; compulsory wearing of face masks and other protective devices in public places; encouraging working from home when possible; restricting mass gatherings; shielding vulnerable groups like the elderly and people with certain preexisting conditions; antibody testing of representative samples to obtain a profile of the extent of infection and recovery in the population; extensive antigen testing, tracing, and isolating cases of infection; and use of information technologies to gather information on social distancing, detection of potential contagion, and compliance with mandated isolation. Here again, the role of international coordination and cooperation is essential: first, to share technologies and best practices; and second, to prevent waves of infection “imported” from other countries with less effective mitigation measures.

Norman V. Loayza is Lead Economist in the East Asia & Pacific Chief Economist (EAPCE) Research Center.
As Malaysia faces the coronavirus pandemic (COVID-19), the battle is on to defend the welfare and livelihoods of people in the bottom 40% of household income. Three economic support packages have been announced. The latest two are called Prihatin (which translates to “care”), and these focus on supporting Malaysians who risk falling through the cracks. These include street vendors, micro-entrepreneurs, artists and other informal workers who have been gravely impacted by the crisis.
While these proactive measures will afford at-risk Malaysians some breathing space, it will be worthwhile to consider the country’s overall strategy for social protection during the ongoing Movement Control Order, the ensuing recovery phase, and in the long-term. Many expect this crisis to bring big changes to the world, calling it “the new normal.” Changes will abound. Life as we know it will change. The world of work is expected to change, but as yet in unknown ways.

One big change for Malaysia is to find ways that the existing social protection system can better cover the informal jobs where most lower-income workers find their livelihoods. A recent survey by the country’s Department of Statistics revealed that in the first phase of Malaysia’s lockdown during the second half of March, the rate of job displacements was particularly high in the agriculture and services sectors and among the self-employed. These are the sectors and types of work that employ lower-income workers, for whom telework or working from home is not an option. Therefore, the primary challenge will be for social protection to reach as many of those in need as effectively as possible, both in the COVID-19 crisis and beyond.

Three aspects are of primary importance here:

**First, protection through cash transfers is key.** The form of direct income support provides short-term relief to mitigate acute financial strains, supports more medium-term recovery efforts, and stimulates consumption during an economic downturn. To protect the lower-income households affected by the COVID-19 crisis, especially those who work informally, income protection needs to be independent of coverage by formal social insurance like the Employees Provident Fund (EPF) or the Social Security Organization (SOCSO). While, in principle, one might channel income support specifically to informal sector workers who have lost their jobs or livelihoods during the crisis, the very nature of informality would make this direct targeting extremely challenging – beyond specific groups such as ride-hailing workers – and would risk leaving many unprotected. This crisis has dragged many into economic vulnerability.

Thus, the recently introduced Bantuan Prihatin Nasional (BPN) program as part of the Prihatin package is an important step in the right direction, as it is both progressive and places a strong emphasis on protecting the bottom 40%. Further, enrollment is automatic for all existing beneficiaries of the Bantuan Sara Hidup (BSH) program and for qualified Malaysians who completed a tax return in recent years. Enrollment of new beneficiaries can also be done relatively easily through the website of the Inland Revenue Board, making it possible to have quick payouts.

**Second, further rounds of cash transfers may be needed.** The economic support packages implicitly assume that the COVID-19 crisis will pass within the next two to three months. Hence all BPN payments are scheduled to cease after May 2020. However, many anticipate the impact of the crisis on lower-income households to last longer. If further rounds of cash transfers are needed, it will be worthwhile to consider channeling these to the beneficiaries of the BSH program instead of the wider group of beneficiaries that the BPN program covers. This would ensure that a higher share of transfers goes to the bottom 40% – the group in the most urgent need of support.
According to World Bank estimates, the previous Bantuan Rakyat 1 Malaysia (BR1M) program – which had similar eligibility criteria to the BSH program – reached around 85% of bottom 40% households in 2016. Transmitting further rounds of cash transfers to BSH recipients would also better complement other measures in the support packages that use EPF and SOCSO and thus already offer some income protection to middle-income households.

**Third, more can be done to increase the coverage of BSH and BPN among lower-income households.** Getting the word out is important. An effective communications campaign will use conventional forms of broadcast media and newspapers and can be boosted by coverage over digital platforms, such as social media and mobile payment applications. Good deployment of media isn’t enough. Communications in concert with those on the ground – state and local governments, religious groups, charity and civil society organizations – will also be important to ensure those who are not digitally literate will be aware of the assistance available. Communications will also need to focus with more precision on specific groups and areas with relatively low coverage rates, thus contributing to cost-efficient implementation.

Communications efforts need to be paired with a simplified delivery process. It’s important to make the BSH and BPN intake process less burdensome, and to facilitate registration of those without internet access, especially for rural communities and villages located off the grid. Also, given the high risk of contagion from the virus, it’s imperative to assure that the delivery of income support measures doesn’t increase this risk for recipients. In the spirit of social distancing, all payments should be electronic wherever feasible.

The COVID-19 crisis is a shared global challenge, and Malaysia is not alone in this battle. The encouraging thing is that the country’s social protection gears are engaged. But as policymakers find their footing in fighting the fire, the new normal presents an opportunity for the country to bolster the system and emerge stronger, more resilient and better protected.

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**Achim Schmillen** is Practice Leader for Human Development at the World Bank.

**Amanina Abdur Rahman** is an Economist in the Social Protection and Jobs Global Practice at the World Bank.

**Alyssa Farha Jasmin** is an Economist in the Social Protection and Jobs Global Practice at the World Bank.
Globally, cyclical downturns and structural changes episodically eliminate substantial numbers of jobs, thus creating serious dislocations. The rise in joblessness due to COVID-19 is projected to be extraordinarily steep. In response, governments have implemented a range of measures to financially compensate displaced workers, assist them in finding reemployment, or both. Job losses have significant economic, social, and psychological consequences; laid-off workers often lack the skills or geographic proximity to easily transfer to sectors that are growing, and providing adequate support can be expensive. Careful public policy responses can help mitigate the costs of job displacements and support workers in finding productive reemployment.
Causes and Impacts of Job Displacements

Across the globe, both cyclical downturns and structural changes have periodically eliminated substantial numbers of jobs. In the United States, roughly 10% of workers are laid-off on economic grounds in a typical three-year period, Farber (2017) documents. Farber (2017) further shows that the rate of job loss is pro-cyclical, amounting to around 12% even in relatively mild recessions. As for structural changes, breakthrough technologies such as artificial intelligence and robotics could radically change the nature of work, dwarfing previous waves of technological change in terms of labor market disruption. Thus, it is imperative to understand the impacts of job displacements, and the advantages and drawbacks of possible public policy responses.

In addition, the literature shows that job displacements have detrimental and durable effects on consumption; health and mortality; fertility; and other outcome variables; and that the effects of job displacements are strongly pro-cyclical. Further, large-scale job displacement may have significant impacts on entire communities, although arguably, only in the case of particularly large-scale and geographically concentrated job displacements.

While much of the literature on the impacts of job displacements has focused on developed economies, there is evidence that impacts of job loss are also significant and long-lasting for workers in developing countries—at least for workers in these countries’ formal sectors.

More broadly, the existence of a large informal sector is a characteristic feature of labor markets in developing economies. While this poses myriad challenges, this sector can also act as a countercyclical safety net in times of crisis. Moreover, while direct evidence of the impact of job losses on informal sector workers is largely missing, it can be conjectured that because uncertainty and churn are usual features of work in this sector, the impact of losing any particular informal “job” might be relatively muted—at least outside of extraordinary circumstances like the ongoing COVID-19 crisis, which threatens to hit informal workers particularly hard.
Public Policy Responses

Careful public policy responses in the form of temporary income support and active labor market policies can mitigate the human and social costs and support displaced workers in finding productive reemployment.

The first widespread approach generally used to support laid-off workers is temporary income support. There are three main modalities: unemployment insurance, redundancy payments, and social assistance programs. How these instruments are designed and implemented has significant effects on the coverage and adequacy of income support and on workers’ incentive to look for jobs.

An unemployment insurance system provides a first line of support for laid-off workers in the formal sector. However, unemployment insurance systems are usually designed as insurance for relatively short-term, frictional spells of unemployment, not for longer-term spells that are typical of job displacements caused by structural change or extraordinary circumstances like the ongoing COVID-19 crisis. Further, studies show that very long benefit periods can serve as a disincentive to search for work.

Redundancy payments can also provide income support for displaced workers in the formal sector, possibly for a longer period than unemployment insurance. They can take the form of regular redundancy payments that firms fund and pay out upon separation on economic grounds or, in cases where large-scale layoffs occur, countries can set up special funds to dispense redundancy payments to laid-off workers in the affected industry or region.

Social assistance programs can provide a third line of support to displaced workers. Social assistance programs are non-contributory interventions usually based on need. In most countries with unemployment insurance systems, unemployment insurance benefits and social assistance benefits are coordinated. In other countries without an unemployment insurance system or with high rates of informality, a significant part of the income support to displaced workers will need to be provided through social assistance programs. This might also be the case in the ongoing COVID-19 crisis due to the widespread dismissal of informal-sector workers.

The second widespread approach to support laid-off workers is to offer services, programs, and incentives that will encourage reemployment. Such active labor market policies regularly include one or a combination of employment services, education and training, and business support or subsidized employment. Temporary income support and active labor market policies should be implemented as complementary to each other.

Properly designed and implemented active labor market policies can significantly increase the reemployment and earnings prospects for laid-off workers. Employment services can be very cost effective, especially where labor demand is strong. Education and training can yield significant returns if accompanied by strong employer involvement to match education and training with market needs. Well-targeted and designed wage subsidies have been found to
increase employment rates for eligible workers. Community employment programs may be an effective way to provide temporary income support to displaced workers.

Given large-scale job displacements with limited local job opportunities, two promising active labor market policies are self-employment assistance and relocation incentives. The former can include access to both credit and technical assistance for potential entrepreneurs and microenterprises. The latter can be a useful instrument when labor markets are stagnant and opportunities exist elsewhere.

Suitable targeting and statistical and case profiling is essential for any strategy involving active labor market policies. Not all workers will be able to invest in new skills, search for jobs in new sectors, or move to a new location. But if appropriately targeted, many will be able to do at least one of these things.

**Conclusion**

The ongoing COVID-19 crisis might lead to an unprecedented rise in the rate of job displacements. Hence, policymakers might need to consider developing an action plan based on a detailed, structured, and timely review of realities on the ground.

Properly designed and implemented temporary income support and active labor market policies can help mitigate the employment impacts of the crisis. Critical complementary policies will include measures to ensure that displaced workers and their families have continued access to health and care services.

In the context of COVID-19, it helps to distinguish between relief measures and recovery measures. During the COVID-19 crisis, short-term relief measures related to job displacements would need to focus on the provision of income support, in addition to policies that aim to prevent mass layoffs from happening in the first place. Medium-term recovery measures could be comprised of a more standard mix of income support and active labor market policies.

Two additional considerations can inform public policy responses to help mitigate the costs of job displacements during the COVID-19 crisis. First, during the crisis, temporary income support and active labor market policies need to be designed in an inclusive way that broadens eligibility beyond workers in formal jobs. Second, all interventions will need to be implemented in accordance with public health and social distancing requirements. For instance, as much as feasible, all payments of income support should be made digitally, such as through transfers into beneficiaries’ bank accounts or mobile wallets. Similarly, the delivery of active labor market policies should preferably make use of online or mobile channels.

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*Achim Schmillen* is Practice Leader for Human Development at the World Bank.
The COVID-19 pandemic crisis combines the worst characteristics of previous crises. It features a simultaneous supply and demand shock; domestic, regional, and global scope; a projected long duration; and a high degree of uncertainty. Sustained economic recovery is possible only when the underlying causes are addressed and the foundations of growth are protected. This implies mitigating the spread of the disease to manageable levels while keeping the economy sufficiently active. In the short term, economic policy should focus on preventing further poverty, averting unnecessary business closures, and avoiding lasting damage to human capital and productivity. In the long term, policy reform could include expanding labor and business formalization; improving social protection; extending financial inclusion; promoting digital transformation; and improving public health care access and quality.
While the COVID-19 crisis shares some similarities with other crises such as those stemming from natural hazards, wars, macroeconomic mismanagement, and international financial meltdowns, it arguably combines their worst features (see table 1). The pandemic combines a simultaneous supply and demand shock; domestic, regional, and global scope; a projected long duration; and a high degree of uncertainty. According to Global Economic Prospects, it is “the most adverse peacetime shock in over a century”.

**TABLE 1. A Taxonomy of Crisis and Associated Shocks Ranked by Severity and Uncertainty**

<table>
<thead>
<tr>
<th>Type of crises</th>
<th>Mechanism</th>
<th>Scope</th>
<th>Duration</th>
<th>Certainty</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Supply</td>
<td>Domestic/Regional</td>
<td>Global</td>
<td>Short</td>
</tr>
<tr>
<td>Pandemic</td>
<td>x</td>
<td>x</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Wars</td>
<td>x</td>
<td>x</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Macroeconomic mismanagement (e.g. hyperinflation)</td>
<td>x</td>
<td>x</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>International financial crises</td>
<td>x</td>
<td>x</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Natural hazards</td>
<td>x</td>
<td>x</td>
<td></td>
<td>x</td>
</tr>
</tbody>
</table>

Source: Authors’ formulation.

Growth impacts and perceived uncertainty are two indicators of crisis severity. The current crisis is expected to bring about the largest contraction in global GDP per capita since World War II. In addition, it has the highest share of economies experiencing a recession in modern times (figure 3). Moreover, the pandemic is associated with extraordinary uncertainty. The World Uncertainty Index shows that the level of uncertainty associated with COVID-19 exceeds that of any other crisis experienced since at least 1960 (figure 4).

**The magnitude and persistence of the economic downturn and the shape of the recovery will depend on smart public health policies to mitigate the pandemic; economic policy responses to support households and businesses during the crisis; and the discovery and delivery of an effective vaccine or treatment.**
Recovery from the Pandemic Crisis - Balancing Short-Term and Long-Term Concerns

**FIGURE 3. Crisis Severity and Growth Contractions, 1871-2020**

Source: Authors’ adaption from World Bank 2020a.


The Inescapable Facts

Certain inescapable realities constrain a rapid recovery from the pandemic and will eventually drive the shape of the recovery:

Public health concerns will remain paramount. Economic activity will remain depressed as long as the threat of the disease is present. Voluntary distancing seems to have taken place in the absence of containment regulations, implying that the effect on economic activity will persist in the absence of a credible reduction in public health risks. Smart mitigation strategies—targeted quarantines, testing, tracing, and isolation—can in principle minimize losses of both human lives and the economy. However, many governments have been unable or unwilling to implement them at scale, resorting to indiscriminate lockdowns of questionable efficacy and high cost, especially in developing countries.
The negative external shock, exacerbated by other shocks, will linger for the foreseeable future. It is very likely that international borders will remain restricted and global economic activity will stay low and volatile. This implies that negative external shocks will persist in the near future, affecting even countries that are able to reduce the public health risk posed by COVID-19. Global coordination and cooperation could greatly reduce the human and economic cost implied by the pandemic by providing financial support to governments in need, facilitating trade and capital flows, and developing and – crucially – deploying a COVID-19 vaccine.

Pre-existing conditions matter. Domestically, countries with favorable demographic profiles and those able to implement sustainable measures to deal with the pandemic will fare better on health and economic dimensions (see map 1). Developing countries will have to navigate the crisis with lower health care capacities, larger informal sectors, smaller scope for home-based work, and dwindling fiscal space. Externally, countries that depend more on international merchandise and services trade and financial flows will be more affected by the global dimension of the crisis. The sharp downturn of trade will hit those countries with disrupted global value chains and with high dependence on a limited range of products and markets especially hard. This includes most developing countries, many of which will also suffer the brunt of plummeting revenues from tourism and remittances.

**The Shape of Recovery: An Alphabet Soup of L, W, V, or U?**

The type of recovery will depend on how severely countries have been hit by the pandemic and the external shock, and on the policy responses that governments are deploying:

**Lack of recovery (L):** For countries that do not get the pandemic under control and squander public resources with failed attempts at mitigation and recovery, allowing the pandemic crisis to morph into macroeconomic, debt, and financial crises, the COVID-19 crisis may have a permanent effect on GDP via lost investment during and after the crisis, a loss of human capital, a deterioration of fiscal capacity, and a slowdown in productivity growth.

**Volatile recovery (W):** A volatile recovery may occur in countries that address public health concerns with strict but unsustainable measures, leading to a cycle of openings, outbreaks, and lockdowns. This may also happen to countries that are very dependent on external conditions, which are likely to be volatile. A recovery with a double-dip recession may be a common feature of the pandemic crisis, reflecting the risks associated with renewed outbreaks and an exceptionally volatile international situation.

**Quick recovery (V):** A quick, V-shaped recovery is in theory the best scenario after a shock. It is, however, unlikely for most countries because of the depth of the crisis (which has affected growth fundamentals) and the high degree of uncertainty surrounding the crisis. Moreover, attempting a quick recovery by opening without proper public health measures in place, and by pumping government stimulus packages where fiscal multipliers are low, can be counterproductive.
Gradual recovery (U): A gradual recovery may be the most pragmatic scenario for most countries in the next few years. It may require a period of resilience, where smart public health measures are in place and economic activity resumes, albeit at a lower level, and where vulnerable households are supported and excessive destruction of firms is prevented. Recovery would occur based on resilient fundamentals, at a pace driven by the pandemic’s resolution and the normalization of global conditions.

**Beyond Quick Recovery: Long-term Resilience as a Goal**

A gradual recovery may be a more sensible policy goal, considering both the uncertainty of the pandemic crisis and the limits of what can be achieved by active government interventions. It would set long-term resilience as its goal.

Why would the pursuit of a quick recovery be misguided? First, it can lead to repeated waves of the pandemic. Abandoning containment and mitigation measures prematurely may lead to an initial upsurge in economic activity but at the cost of rising infection rates. Hence, after implementing supply-restricting containment measures, the turn toward recovery needs to highlight the dual challenge posed by economic decline and the continued risk of contagion.

In order to preserve lives and livelihoods, the combination of pragmatic and effective economic and public health measures is crucial, in line with the realities and conditions in each country.

Second, a pursuit of quick recovery can result in large fiscal deficits without a significant and steady increase in economic activity. In severe cases, this can lead to an unsustainable fiscal situation, resulting in debt and financial crises. Increased spending and reduced revenues can exacerbate the fiscal risks posed by worsening macroeconomic conditions amidst plummeting commodity prices, currency depreciations, and widening sovereign spreads.

Third, pursuing a quick resumption of growth may transform emergency measures into regular practice. While these measures may have been necessary at the peak of the crisis, they are harmful or risky in normal times. Rescuing firms and financial institutions is necessary when governments are forcing supply restrictions to contain the spread of COVID-19. However, policymakers need to write off certain loans and allow some firms to fail when their solvency beyond the current crisis is questionable.

What does long-term resilience require? The fundamentals of economic growth must remain solid, even during the crisis. This requires restoring “wealth,” which broadly understood includes physical, human, natural, social, intangible, and financial capital. In this framework, economic growth is an annual return on this cumulative wealth stock, mediated by how productively it is used. On the path to recovery, it is crucial to preserve all these forms of capital while grasping opportunities to boost productivity growth. In this way, the path to recovery can also lead to long-term resilience.
First, human capital needs to be preserved and strengthened throughout and after the crisis, focusing especially on children’s and young adults’ health and education. It is unlikely that online and remote learning in general can be adapted to prevent large human capital losses, especially for children in poor and disadvantaged households. Reopening schools, as safely as possible, should be seriously considered. Human capital formation in the workplace has also been curtailed, with early evidence suggesting that the transition to new business practices and the associated productivity effects are uneven.

Second, physical capital can be preserved by maintaining projects of high-quality public investment and by encouraging private investment by reducing policy uncertainty and avoiding crowding out by large fiscal deficits. High-quality public investment, policy certainty, and fiscal moderation may be at least as important as the credit guarantees and interest rate reductions that dozens of developing country governments have implemented to boost investment since March 2020.

Third, natural capital captures both non-renewable sources (such as fossil fuels) and renewables sources (such as forests). Commodity exporters’ large share of carbon-based wealth faces increased risk due to future price uncertainty and large-scale attempts at global decarbonization. This puts a premium on deepening the role of non-renewables, while managing volatility in commodity prices in the short term through appropriate macrofiscal management.

Fourth, the current crisis has demonstrated the role that social capital plays in building resilience. In seven European countries, areas with high social capital registered between 12% and 32% fewer COVID-19 cases from mid-March until mid-May.

Finally, productivity faces a drastic fall because of the destructive nature of the pandemic crisis. This can be mitigated only by avoiding excessive business closures, providing continuity of public infrastructure and services, and maintaining macroeconomic stability. In the long term, structural reforms are needed to promote a growth-friendly macroeconomic, regulatory, and institutional environment.

**Conclusion**

Although it is hard to see the positive side of an ongoing crisis, crises have begot reforms with lasting beneficial effects in the past and may do so again now. The pandemic crisis has exposed areas of great vulnerability in developing countries, and reforms are needed to address them. Some of them include reforms to expand labor and business formalization; to improve the coverage and adequacy of social protection; to extend financial inclusion to elderly, rural, and poor people; to promote digital transformation in schools, businesses, and government; and, most basically, to improve access and quality of public health care.

*Norman V. Loayza* is a Lead Economist at the World Bank  
*Apurva Sanghi* is a Lead Economist at the World Bank  
*Nurlina Shaharuddin* is a Research Analyst at the World Bank
Disaster preparedness and State-Owned Enterprises: How Caribbean countries learned from Malaysia

Ruxandra Burdescu, Jana Kunicova and Joy Ten Berge

Effective management of state-owned enterprises (SOEs) can offer countries a layer of defense for fiscal resilience and sustainability when resources become scarce due to natural disasters.
SOEs are present throughout the Caribbean economy in the air, sea and land transport, telecommunications, energy and water, agriculture, housing, and the service sectors. These sectors often suffer from a lack of useful quality information and inadequate monitoring of performance. Some operational challenges include the efficient and effective use of government resources, quality service delivery, and ongoing privatization and divestment efforts.

There were also challenges associated with fiscal risks and contingent liabilities, weak compliance with policies and reporting procedures, and significant debt accumulation. Indeed, commercial SOEs can pose important fiscal risks through large budget subventions, forgone tax revenue, and accumulation of arrears. Commercial SOEs should generate revenues sufficient to cover their operational costs, but many accumulate significant operating deficits and payment arrears to other enterprises and to the tax authorities.

That’s why, a few summers ago, the World Bank Group Global Knowledge and Research Hub in Malaysia and the government of Malaysia collaborated on the Supporting Economic Management in the Caribbean (SEMCAR) Program to organize a knowledge exchange aimed at strengthening the capacity of twelve Caribbean countries to more effectively manage their SOEs. The dialogue also factored in the Caribbean nations’ unique geographic positions, and innovative tools to build resilience for emergencies were developed that can be useful now to combat the current pandemic.

This knowledge exchange opened an opportunity for thoughtful, committed practitioners to learn from each other and how the Malaysian government turned weak operational and financial performances into high performing entities that become profitable, dynamic, performance-oriented, and well-governed.

The SEMCAR Program was financed by Global Affairs Canada and implemented jointly by the World Bank and the International Monetary Fund. With World Bank assistance and through ongoing active policy dialogues under several budget support operations, lessons learned were adapted to the local context.

Here’s how it worked: a Caribbean delegation including sixteen officials from 10 participating SEMCAR countries came together, representing: Antigua and Barbuda, Barbados, Dominica, Grenada, Jamaica, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, St. Lucia, St. Kitts and Nevis. The delegation learned valuable lessons from the implementation of Malaysia’s National Transformation Program (NTP), one that included government and economic transformation, as well as strategic reform initiatives.

The NTP, driven by the Prime Minister’s Performance Management and Delivery Unit Prime Minister’s (PEMANDU), provided more involved and transparent leadership to assure the successful implementation of the reforms. The program helped implementing agencies better coordinate with each other and required more careful monitoring of key performance indicators. In order to improve accountability of the reforms, the program required extensive communication with all stakeholders and kept the public informed on their progress.
Discussions with the Ministry of Finance and Khazanah, Malaysia’s wealth management fund, gave the Caribbean delegations further insights into the details of how Malaysia’s government-linked companies (GLCs) had become profitable and more efficient. For example, they found that Malaysia’s regulatory practices simplified several regulations and re-engineered business processes. This proved to be particularly useful, especially in how firms interact with the state.

For several participants, the experience produced a critical shift in approach and thinking. Malaysia’s management of GLCs provided Caribbean countries with a new vision for excellence to replicate. For the representative for Suriname, it was most important to promote meritocracy in civil service, set clear goals and targets through an inclusive process, assure buy-in of all stakeholders, and include the political opposition in discussions. They also noted the importance of the GLCs to adopt a “professional business attitude” while pursuing ambitious goals.

After visiting Malaysia, all participants including the authorities in Grenada, St. Lucia, and St. Vincent and the Grenadines developed a new appreciation for the importance of the process of change management beyond legislative mandate and leadership. St. Vincent passed critical regulation to strengthen SOE oversight in 2019 and new monitoring tools were developed in Grenada and in St. Vincent. These tools have the potential to strengthen the capacity of the Ministries of Finance to oversee the SOE sector and assure its fiscal sustainability.

Supporting SOEs and resilient public financial management reforms in the Caribbean region continues to this day, with funding from the Canadian Government. “Benchmarking Caribbean Water Utilities” released in 2020 offers policymakers and practitioners useful recommendations, relevant for their unique situations and to build future resilience.

The devastation of the past hurricane seasons is a tragic reminder that countries need to be prepared. Lessons on building resilience will help them well when facing new challenges, such as the global pandemic. Advancing SOEs reforms is one of several ways to cultivate a path for responsible fiscal practices and key to building resilient governance.

Ruxandra Burdescu is a Senior Public Sector Specialist.

Jana Kunicova is a Senior Public Sector Specialist.

Joy Ten Berge is a Senior Economic Advisor to the Government of Suriname.
Malaysia is likely to make the transition from an upper middle-income economy to a high-income economy within the next few years, despite the setback of the COVID-19-induced recession in 2020. This transition will be an important indication of Malaysia’s success in its endeavors to achieve a higher level of development, by having already achieved a transformation in living standards within a generation and reducing the poverty rate to just a fraction of one percent of the population. Notwithstanding this imminent achievement, there are lingering questions concerning the speed of Malaysia’s economic growth, its quality, and its sustainability.
First, Malaysia’s economy is not growing at an optimal rate. Compared to countries that have recently graduated from middle-income to high-income status in recent years, Malaysia’s growing at a slower pace. Second, compared to that same class of countries, it has a lower share of employment at high skill levels and has higher levels of inequality. Third, compared to countries in the OECD, Malaysia collects less in taxes, spends less on social protection, and performs relatively poorly in terms of measures related to environmental management and the control of corruption. And lastly, there is a widespread sense that the proceeds of economic growth have not been equitably shared and that increases in cost-of-living are outstripping incomes, especially in urban areas, where three quarters of Malaysians reside.

Malaysia will face new challenges as it continues to climb up the development ladder. As such, the policies that enabled it to successfully make the transition from low-income to middle-income status will need to be adapted to meet the new challenges that it will face in the future. At an earlier stage of its development, factor accumulation was a key driver of Malaysia’s growth. As it makes the transition, it will increasingly need to depend upon more knowledge-intensive and productivity-driven growth, with a greater emphasis on achieving inclusive and sustainable development.

While the fundamentals that have driven its current growth are expected to continue to support it into the future, there is a high level of uncertainty regarding what the emerging “new normal” will look like after the COVID-19 shock. The Asian Tigers that achieved high-income status in past decades did so in a more benign international environment. Today, Malaysia faces not only a global pandemic and a worldwide recession, but also a looming international debt crisis, a heightened risk of a resurgence in trade disputes, the potential unraveling of global value chains, and the impact of disruptive technologies that will change the nature of comparative advantage. The impact of the COVID-19 pandemic, including the government’s large economic policy response and the global slowdown in trade, could undermine Malaysia’s growth, with a large stock of debt acting as a drag on the economy for years to come.

Malaysia’s economic growth was decelerating before the COVID-19 outbreak, indicating that its structural transformation is more fragile than those of its transitional peers. While decelerating growth is normal and to be expected as a country achieves higher levels of development, Malaysia’s growth appears to have slowed down more than it should have relative to its potential. Going forward, the country must adopt a new course to accelerate innovation and to increase productivity. In this context, the COVID-19 crisis might usefully provide an opportunity to undertake much-needed reforms.

Sustained growth is also necessary to advance Malaysia’s broader development goals, including the objective of shared prosperity. Without it, progress in terms of health outcomes or poverty reduction, amongst other indicators, will deteriorate. And there needs to be enough economic expansion to go around. If a large proportion of the population believes that growth only benefits a minority, the political support for the reforms necessary to achieve structural transformation will be insufficient to enable the government to implement them effectively. To date, Malaysia’s economy has been more business-friendly than people-friendly. Its quality of
growth and the character of its institutions are still markedly different from those of the high-income countries it seeks to join.

While it is certainly possible for Malaysia to fulfil its aspirations of becoming a high-income and developed economy, navigating the next stage of development will require tough reforms. Recent analysis by the World Bank suggests that for Malaysia to transition successfully to a high-income country, fulfil its fullest potential, and sustain equitable growth, reforms will be needed in six broad and inter-linked areas: (i) revitalizing long term growth; (ii) boosting competitiveness; (iii) creating jobs; (iv) modernizing institutions; (v) promoting inclusion; and (vi) financing shared prosperity.

This type of shift will require an enhanced social contract, where the state acts to meet the needs of the population in a credible and accountable manner by investing in human capital, regulating smartly, and enforcing rules and regulations in a more uniform way, while at the same time maintaining macroeconomic stability. In exchange, citizens must be enabled to exercise their right to hold the government accountable while at the same time accepting the principle that all citizens should be treated equally and pay more taxes in return for the greater benefits that they receive.

Malaysia is already at cusp of graduating into the class of high-income nations. While the challenges it faces from the “new normal” may appear daunting, the country has what it takes to make that leap – but it will require all hands on deck.

Samir Bandaogo is a Young Professional at the World Bank in the Macro, Trade and Investment Global Practice.
People have been either fighting corruption or have been victims of it for decades. So, should we accept it as a feature of life and carry on or try to fight it where we can? While developing our global report, which was released last week, we tried to delve deeper into how countries are making progress in addressing corruption. The case studies identified show how reform-minded governments and civil society organizations have contributed to reducing corruption in their specific contexts or laid important foundations that can be built on by others.
Virtually every continent, from Asia to Africa, Europe and the Americas, faces perpetrators who bypass or exploit weaknesses in existing laws and regulations to execute schemes, which have been increasing in scale and sophistication. Corruption undermines the credibility of the public sector, erodes trust in governments and their ability to steer a country to achieve high economic growth and shared prosperity. It often weakens the impact of public service delivery, adversely affecting all citizens especially the poor.

The report comes at a time when the world has changed dramatically due to COVID-19. The spotlight is once again on the capacity and integrity of the public sector -- not just in managing the health crisis but also in dealing with the economic and social impacts of the pandemic.

Emergency responses to the COVID-19 pandemic have resulted in huge expenditures by governments, circumventing the standard operating procedures and approval processes. This may create new vulnerabilities and leakages that may only come to light after the initial containment phase has passed. It is at this juncture that the World Bank has undertaken a fresh assessment of the challenges and opportunities faced by governments in tackling corruption in key functions and sectors. We examine the lessons learned from applying selected policy instruments that were designed to mitigate corruption risks, as well as the role and challenges faced by institutions that are intended to promote integrity and accountability.

Drawing lessons from a compendium of case studies from around the world, the report demonstrates that all is not lost and that it is possible to reduce corruption risks even in the most challenging environments. The complex nature of corruption means that technical solutions and added compliance measures will usually be insufficient. A good understanding of the historical origins, social norms, and political culture is often critical to design impactful policies and institutional structures that can support their implementation.

At the same time, one must acknowledge the potential challenges from the forces that benefit from the status quo. There will be resistance owing to the strong inter-play between power, politics, and money. The scope for reformers to make changes will therefore be constrained by the limits of their political influence. It could be a long and frustrating journey with two steps forward and one step backward.

The report presents approaches and policy responses in various country contexts. It reinforces that there is no single formula or magic bullet to address corruption. For example, open government reforms can be effective in promoting an ethos of transparency, inclusiveness, and collaboration and in shifting norms over time by making conditions less conducive to corrupt activity. However, their impact depends on the existence of other enabling factors, such as political will, a free and independent media, a robust civil society, and effective accountability and sanctioning mechanisms.
Case studies featured in the report highlight that multiple factors contribute to the impact of anti-corruption efforts, including political leadership, institutional capacity, incentives, technology, transparency and collaboration. Enhanced collaboration with stakeholders within and outside of government is a critical success factor in overall government effectiveness. Such collaboration involves both the public and private sector, civil society, media, research organizations, think-tanks and citizens. Strengthening the fight against corruption is a collective responsibility!

Rajni Bajpai is a Lead Public Sector Specialist.

Bernard Myers is a Senior Public Sector Management Specialist.
Defining green: Malaysia’s big step towards sustainability

Farah Imrana Hussain

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, changing weather patterns and severe flooding can destroy infrastructure, disrupt supply chains, and affect the ability of borrowers to repay loans.
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.

But how do banks decide where to lend if they don’t know what is green, environment- or climate-friendly? How can corporates issue green bonds if they cannot distinguish between green and non-green? How can asset managers respond to their clients’ preferences for green investments if there is no formal and agreed-upon definition?

A green taxonomy – a classification system that identifies activities or investments that deliver on priority environmental objectives – fills that gap by helping financial sector participants, whether banks, financial institutions or investors, determine whether an economic activity or project qualifies as environment-friendly or not. Such a system allows them to tag their assets consistently and engage in accurate and transparent tracking and reporting.

Malaysia zeroes in on climate risk

On December 27, 2019, the central bank of Malaysia – Bank Negara Malaysia (BNM) – launched a discussion paper for the development of a national green taxonomy. This followed Governor Nor Shamsiah Mohd Yunus’s keynote speech at the Regional Conference on “Climate Change Risks and Opportunities: Respond, not React” on September 25, 2019.

BNM worked with the World Bank and the Malaysian Securities Commission (SC) to develop the principles that would support the Malaysian green taxonomy and help Malaysia’s financial sector classify green assets transparently and consistently. BNM is inviting feedback on the paper from relevant stakeholders.

Green taxonomy: The missing link

The need for a green taxonomy in Malaysia became apparent during the development of Value-Based Intermediation guidelines, which aim to encourage banks and financial institutions to consider sustainability when assessing transactions. 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 around the world have already focused on this issue. On March 9, 2020, the European Union (EU) Technical Expert Group on Sustainable Finance published a report that contains recommendations relating to the overarching design of an EU Taxonomy. Currently the EU Taxonomy only focuses on climate change mitigation and adaptation although other environmental objectives are expected to be tackled in the near future.
The Green Finance Committee of China Society of Finance and Banking, a subsidiary of the People’s Bank of China, published a Green Bond Endorsed Project Catalogue in 2015 defining the scope of green investment projects for banks. There are a number of other green taxonomies in China issued by different authorities for different jurisdictions.

The Bangladesh Bank developed guidelines for green banking and identified green products eligible for financing by banks and financial institutions in 2017.

A Malaysia-specific taxonomy

Malaysia’s financial sector regulators have decided to develop their own taxonomy, while learning from other international and national experiences. 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, adds value. In the coming weeks, the Bank is launching a global guide on how to develop a national green taxonomy based on lessons learnt from engagements with a number of countries, including Malaysia.

The Bank is also leveraging its experience in sustainable development, including issuing fixed income securities with triple-A risk-adjusted returns, pioneering the issuance of Green and Blue bonds; intermediating disaster risk transfer transactions to help countries adapt to climate change; and advising governments on the development of sustainable bond markets. In Malaysia, specifically, the World Bank facilitated the issuance of the first green sukuk in the world.

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 process of greening the financial sector.

Farah Imrana Hussain is World Bank Senior Financial Officer, Treasury.
Local currency bond markets are increasingly relevant for emerging markets and developing economies (EMDEs), not just to support a country’s development but also to strengthen its resilience to external shocks. Few EMDEs have succeeded as well as Malaysia in developing its domestic bond market. With a market size of roughly 98 percent of GDP, the country ranks third in Asia – just behind well-developed markets like Japan and the Republic of Korea. The latest report on Malaysia’s Domestic Bond Market: A Success Story by the World Bank’s Inclusive Growth and Sustainable Finance Hub in Malaysia, validates many of the building blocks needed for development of domestic bond markets.
The roots of Malaysia’s success can be traced back to the late 1980s and 1990s when the country began developing its conventional bond and sukuk markets to support the financing of development objectives, unscored by a goal to increase the private sector’s role in economic development. Today, the Malaysian bond market stands as a critical growth catalyst by providing long-term local currency financing to the real sector as well as key sectors such as infrastructure and housing.

Malaysia’s ability to develop specific segments of the debt capital market have been best reflected in infrastructure and Islamic financing. Relative to GDP, the value of the Malaysian project-finance bond market stands among the world’s biggest. Malaysia is ranked 21st out of 137 countries for the quality of its infrastructure, aided by the mobilization of long-term local currency financing from the bond market to support private sector participation. Notably, infrastructure bonds accounted for 26% of overall bond issuance between the years 1993-2019, and in the last decade, the bond market has financed up to an average of US$3.4 billion per year in the electricity, gas, and water sectors.

Further, Malaysia has played a significant role as an Islamic finance center, supporting the growth of the Islamic bonds or sukuk. This has helped pool other non-traditional sources of long-term capital into the capital market - not only serving the needs of Islamic investors but attracting conventional investors such as pension funds. Malaysia launched the first green project-finance sukuk in the world on June 2017 that financed the construction of renewable energy generation facility.

Malaysia’s journey provides important lessons that are applicable to other countries:

- **Malaysia’s experience reflects the need for an enabling environment underpinned by sustained macroeconomic stability, a robust banking sector, and a sound legal framework** as the foundation for capital market development.

- The country’s robust growth has allowed for a regular increase in income, which combined with economic and political stability, has stimulated and promoted high domestic savings with a long-term focus.

- **The role and commitment of the government is crucial.** Malaysian policies have supported the institutions, legal framework, incentives (including tax incentives), and the market infrastructure that created confidence among players to take on new investment opportunities, especially in priority sectors such as infrastructure. Two such institutions have played core roles. The Securities Commission in Malaysia and Central Bank of Malaysia quickly acquired legitimacy in the supervision and development of Malaysian financial markets. Further, the Employees’ Provident Fund, a public pension fund, effectively channelled a significant share of Malaysians’ private savings in the domestic bond market.

- This enabling environment has been developed progressively by combining a clear vision and merging of real and financial sector objectives to allow cohesiveness of policies and the effective participation of other stakeholders such as potential issuers, institutional
How Malaysia achieved a thriving domestic bond market

investors, and financial intermediaries - to whom the authorities have been leaving space for the private sector to drive innovation.

- The solid cohesion and coordination between the various stakeholders has allowed an adequate sequencing of market developments. The successive capital market development strategies reflected both the government’s agenda and the interests and capacities of other stakeholders, as well as where Malaysia’s position in terms of innovation and liberalization, indicating the level of market and investor maturity.

In light of the impact of COVID-19 pandemic on the economy, the government continues to leverage on its well-developed domestic bond market. One such development was the issuance of a RM500 million Prihatin (Malay translated as Care) Sukuk to help the expand fiscal space needed to finance measures announced in the economic stimulus packages and recovery plan.

Moving forward, Malaysia’s bond market has its share of challenges like attracting new issuers, playing a more significant role as a source of financing to small-to medium enterprises, declining trading and liquidity levels, and a demand side that is still dominated by a handful of big institutional investors. This leaves room for further market development, particularly on diversification.

Malaysia’s domestic bond market could significantly enhance the financial sector tools to support the post COVID-19 recovery and beyond. Efforts to further meet the development needs and current challenges of the Malaysian domestic bond market will inevitably set the stage for it to play an even more prominent role in recovery and growth whilst aligning Malaysia’s domestic market more broadly with the increasing emphasis on capital markets role in supporting the sustainable development goals (SDG).

Ana Maria Aviles is World Bank Senior Financial Sector Economist in the East Asia Pacific Region.

Swee Ee Ang is World Bank Senior Financial Sector Specialist.
There is cause for celebration in Malaysia. The country is following the path of many others that have progressed from low- to upper middle- or high-income status. Its demographic is moving from one of high fertility and mortality rates to an era of low fertility and low mortality.
As a result, in 2020, Malaysia passes a crucial milestone in its development trajectory and becomes an aging society, defined per the international convention as having 7 percent or more of the population age 65 and above.

But aging also raises concerns, especially if it happens fast. The share of the population age 65 and above in Malaysia is expected to double from 7 to 14 percent by 2044, in just 24 years. Only 12 years later, the share will reach 20 percent. Thus, Malaysia’s aging process is happening at a similar pace to that of Japan.

Rapid aging means that Malaysians will have to work longer. At present, compared to other upper middle- and high-income countries, the employment rate of those age 55 to 64 in Malaysia is very low, especially among women. Whereas in Korea, Japan or Thailand more than 65 percent of persons age 55 to 64 are active in the labor market, in Malaysia this is the case for only 45 percent of those in this age group.

Working longer will allow Malaysians to contribute to the country’s economic growth while improving their own financial protection in old age. In addition, working at older ages provides social interactions, autonomy, and sense of purpose and is therefore often associated with greater life satisfaction and slower cognitive decline. In fact, workers’ cognitive capabilities tend to change rather than decline as they age. Older works have the skills that complement, rather than substitute, younger workers. There is also no evidence either for Malaysia or internationally that increased employment among older workers harms the employment prospects of younger workers.

As in nearly all high-income countries, longer working lives will in turn require gradual adjustments to the minimum retirement age in line with increasing life expectancy. One policy option is to gradually increase the relatively low minimum retirement age from 60 to 65, and thereafter to link it to life expectancy.

In parallel, the minimum withdrawal age of the Employees’ Provident Fund (EPF) of 55 years old is also relatively low by international and regional standards. For example, the equivalent age in Singapore is 64. Along with the fact that many EPF members move in and out of formal employment, this means that the majority of older persons in Malaysia have very inadequate EPF benefits or none at all. Thus, the burden often falls on families or the very limited social welfare programs to protect older persons against poverty and destitution.

The average 55-year-old Malaysian is currently expected to live for another 24.5 years. This means that many workers will spend longer in retirement than as active EPF contributors. Shifting the minimum withdrawal age from 55 to 65 through a well-considered transition process, for instance over a period of 20 years, could almost double the effective financial protection for EPF members who work continuously. This is due to three effects: members will contribute for an additional 10 years; they will reap an additional 10 years of dividends; and the withdrawal period will be substantially shortened.
In parallel, policies are needed to foster the productive and inclusive employment of all workers, including older workers. If Malaysians are to work longer, they will need to be healthier for longer, with less physically demanding jobs, and with more digitally-enabled work places. A first policy option is to provide enhanced opportunities for training and lifelong learning that consider the specific circumstances of older workers. In addition, companies could be encouraged and supported to accommodate the wishes and abilities of older workers in areas such as work organization, work equipment, and working time policies. Finally, a regulatory framework for the productive and flexible employment of older workers could be developed and part-time and other flexible forms of employment could be further facilitated.

In order to prevent exacerbating existing gender imbalances in employment, it will also be important to address women-specific constraints to work. Relevant initiatives include better availability, quality and affordability of childcare, reforms of the legal environment and improved support for parents in line with international legal norms, and policies that address gender norms and attitudes.

While efforts to enable Malaysians to work longer might not always be popular, experience from different European countries shows how an inclusive reform process, the transparent provision of information, and the adoption of concepts from behavioral economics can win over some of those with doubts. Some countries, including Denmark, Italy, and the Netherlands, even aim to increase the minimum retirement age beyond age 70, while others have made provisions to automatically link the retirement age to life expectancy.

Even beyond the need for Malaysians to work longer, aging will be a key megatrend affecting all Malaysia in coming decades, raising policy challenges in areas such as income security, healthcare, and aged care. Many of these policy challenges have been exacerbated by the COVID-19 pandemic. For instance, COVID-19 infections in several aged care homes in Malaysia show the importance of securing health and safety conditions in these homes.

Ultimately, the right mix of policies can help Malaysia to adapt to rapid aging, improve the well-being of all, and increase the share of Malaysians that experience old age not as a burden but as a period of their life full of independence, social inclusion and productivity. That is the silver lining we all want to see.

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Achim Schmillen is Practice Leader for Human Development at the World Bank.

Amanina Abdur Rahman is an Economist in the Social Protection and Jobs Global Practice at the World Bank.

Alyssa Farha Jasmin is an Economist in the Social Protection and Jobs Global Practice at the World Bank.
The transition to a more innovation-based growth model is even more urgent in the current uncertain global context. Slowing growth in global trade and shifts in its patterns, and rapid technological change present challenges to sustaining productivity and economic growth. The key challenge today in Malaysia is, therefore, how to facilitate and accelerate the transition to this innovation-based growth model, and what policies and institutions could more effectively encourage innovation, technology adoption and commercialization of research.
Past and recent literature has clearly shown that innovation has one of the greatest impacts on productivity. Furthermore, there is a large consensus on the importance of creating and diffusing new knowledge for productivity and economic growth. Innovation creators (such as research organizations, universities) play a pivotal role in the diffusion of new knowledge that can be utilized by industries, firms, and members of society. Additionally, there has been rising recognition of the importance of demonstrating the returns of investments in innovation and research and development (R&D), largely through technology transfers and commercialization of innovations. It is thus important to note that an effective science, technology, and innovation policy and its accompanying ecosystem is key to translating scientific breakthroughs into outputs that would result in productive gains.

Recognizing this, Malaysia has been gradually transforming itself to a more knowledge-based and innovation-led economy. Resources and expenditures on R&D and innovation have been growing in recent years as have policy efforts through reforms and improvements to bolster educational and science, technology, and innovation (STI) capabilities. This has translated into some noteworthy progress in the overall STI landscape. Publicly funded innovation actors such as public research organizations and universities have also had a growing importance in the innovation landscape.

There is a need now to focus efforts on improving the effectiveness of public research efforts with a view to have impactful results in markets and society. Though recent statistics have shown increases in innovation outputs, the dynamics of knowledge transfer and commercialization of innovations are completely different as its success in Malaysia have been limited compared to other knowledge-based economies. Successful and consistent technology transfer and commercialization have been limited to a small number of public research organizations (PROs), universities, and firms.

The effectiveness of how innovation and knowledge is diffused to its potential users is attributed to a multitude of factors. This can include: (i) research capabilities and relevance (orientation); (ii) the institutional setting of institutions (structure and governance); (iii) the legal and regulatory framework governing innovation actors; (iv) supportive intermediary structures and finance availability; and (v) firms' absorption capacity. Thus, there is an important role for policymakers to design and implement policies that would facilitate innovation diffusions from innovation creators to industry and foster relationships between these actors in the innovation ecosystem.

Using the results from a new survey on public research institutions (PROs and university research centers) the forthcoming report on Assessing the Effectiveness of Public Research Institutions: Fostering Knowledge Linkages and Transferring Technology in Malaysia, aims to further analyze the effectiveness of these institutions in fostering knowledge linkages and technology transfers in Malaysia. A wide range of factors were assessed to determine the effectiveness of knowledge diffusion and technology transfer, as well as analyze the challenges and obstacles that exist in fostering relationships and linkages between research and industry.
The heterogeneous nature of research and innovation actors in Malaysia, combined with numerous agencies, organizations and bodies that play a role in innovation policies create a complex and confusing landscape for research institutions. Numerous ministries and agencies play a role in progressing the innovation agenda in Malaysia and conflicting expectations and goals fragments the innovation ecosystem in Malaysia. Greater consistency is required around objectives to encourage long-term strategic planning for R&D and innovation, which would in turn provide consistency in funding structure towards research institutions as well. In addition, a systematic effort is required towards implementing consistent monitoring and evaluation (M&E) frameworks across public research institutions to inform policy making.

A key factor that impairs this successful transfer of technology is the weak recognition of the value of technology transfer and commercialization initiatives in the performance evaluation and careers of researchers. The main factor that dissuades researchers from engaging in technology transfer and entrepreneurial activities is the heavy weight scientific publications (number and journals) still receive among the merit driven criteria for career advancement and salaries. There is a need to work towards the better implementation of incentives provided towards technology transfer and commercialization by recognizing the quality of Intellectual Property (IP) rather than quantity of IP so that commercialization efforts receive greater rewards for researchers’ career advancements.

A persistent challenge within the innovation ecosystem involved frictional relationships between innovation creators and industries creating mismatches in the demand driven innovation. Part of the problem involves cultural gap between research institutions and industry that arise due to difference in expectation. Weak communications between research institutions and industries to align interests and collaborate further exacerbate the challenge. At the same time, it was reported that businesses and industries may lack the absorptive capacity to utilize the innovation outputs, thereby limiting the opportunity for innovations to be marketed and diffused. Addressing these challenges could greatly facilitate further linkages which in turn could create more opportunities for technology transfer and commercialization. These would include (i) encouraging and facilitating secondment opportunities for researchers from Public Research Institutions without having any repercussions on career advancements; (ii) investing in designing ways for researchers to communicate and work more closely with industry including leveraging platforms that would provide both researchers and potential users (industry and community) information on available research and possible demands from users.

These reforms call for deeper partnerships amongst key stakeholders in the research and innovation ecosystem, enabling Malaysia to achieve greater impact from the innovations produced, hence accelerating the transition towards a competitive and innovation-based economy.

Smita Kuriakose is a Senior Economist in the Finance, Competitiveness and Innovation Global Practice at the World Bank.
A New Model for Maximizing Knowledge for Development

Tan Mei Ling

The World Bank Group Inclusive Growth and Sustainable Finance Hub in Malaysia is bringing development experience to low-income and developing economies. Over the years, the World Bank Group has recognized the crucial importance of knowledge sharing and countries peer-to-peer learning as a third pillar, in complementing development finance and technical assistance for the Bank to achieve its development goals of ending extreme poverty and building shared prosperity.
Whilst finance is crucial in development projects, money alone cannot sustain the policies, innovation, people, skills and values systems that are all vital toward building a country with strong institutions, competitive private sector and robust jobs marketplace. A country, its policy-makers and people, will look towards other nations who have succeeded before them, to learn what others have done right, their considerations and decision-making processes, their implementation experience and lessons learnt. These learnings are important in complementing finance, towards shaping better policies and implementation programs. In this new normal of Covid-19 where countries all over the world are grappling with recession, many are urgently looking for ways to collaborate and learn from each other to cope and weather this period with better policies and solutions.

The World Bank office in Malaysia is one such model of Maximizing Knowledge for Development, generating new knowledge, research products and solutions which provide borrowers (IDA and IBRD) with valuable lessons and result in new instruments and engagements that facilitate private and public financing flows to the poorest and most vulnerable. With the enhanced focus of Inclusive Growth and Sustainable Finance in the next 5 years, the Hub’s mandate of knowledge sharing will continue strong, and will be complemented with capacity building and policy reforms initiatives.

The Malaysia story is in demand by countries seeking to move away from commodity-led growth to a diversified export-oriented economy on the cusp of high-income country status. As Malaysia strives toward this goal, it is also learning and innovating in many sectors, which in turn becomes valuable policy lessons and innovation tools not only for the country’s own development but also benefiting many other developing and low-income countries.

The Malaysia Hub has generated a number of project results with implications beyond the country and region.

**Malaysia contributes to the development of low-income and developing countries** through capacity building and sharing of knowledge and implementation experience.

- On Covid-19 policy responses benefitting developing economies globally, the Malaysia Hub produced and disseminated widely seven research and policy briefs and delivered 12 webinars within the first 3 months. Research products and webinar include topics such as “Macroeconomic Policy in the Time of COVID-19: A Primer for Developing Countries”, “Costs and Trade-Offs in the Fight Against the COVID-19 Pandemic: A Developing Country Perspective”, and “Maintaining Finance for Firms Impacted by COVID-19: Perspectives for East Asia”.
Over the last five years, the Malaysia Hub played host to more than 60 knowledge exchanges and learning activities from over 50 low-income and developing countries from Africa, Asia, Eastern Europe, Latin America and Caribbean. Some examples include:

- The Cambodian Secretary of State for the Ministry of Planning visited the Hub and Malaysia’s Economic Planning Unit (EPU) to learn about Malaysia’s experience in Public Expenditure Policies for Equitable Growth and Poverty Reduction.

- Delegates from the Reserve Bank of Zimbabwe visited Malaysia’s Credit Guarantee Company to learn how to set up a SME guarantee scheme. This is part of the implementation of the Zimbabwe Financial Inclusion Strategy 2016-2020.

- In 2017, the Tanzanian Ministry of Finance and Planning delegation came to understand Malaysia’s SME Masterplan, finance programs and support policy, financial inclusion strategy and implementation, and FinTech regulation.

- World Bank partnered with the Central Bank of Malaysia to promote financial inclusion by reducing the costs of remittances in Sabah, benefitting Malaysians and migrant workers from the Philippines and Indonesia. Via the Greenback 2.0 Program in Sabah, promotional and educational activities were conducted at plantation estates to promote end-to-end digital services, including the opening of bank accounts and registration for e-remittance services.

Malaysia contributes to Global Development Financing Solutions by leveraging Malaysia’s leadership in Islamic finance and the WBG’s global expertise experience in green and socially-responsible finance

- Given the WBG’s experience in green and socially responsible investment bonds, the Hub collaborated with the Central Bank of Malaysia and the Securities Commission to launch a new asset class, green sukuk. This makes Malaysia the first country in the world to issue green bonds based on Islamic Shariah principles.

- The first issuance of USD58 million was for a solar photovoltaic plant in July 2017 and the second issuance of USD 236 million, also for a solar photovoltaic plant, was made in October 2017.

- The Hub provided support to the Government of Vietnam, and MOF Indonesia in issuing the world’s first Green Sovereign Sukuk.
World Bank Hub contributes to policy reforms in Malaysia and in other countries by developing new knowledge, carrying out original research, and bringing in global expertise

- Malaysia is among the first developing countries to extend indirect taxation to imported digital services, pushing the development frontier not just in Malaysia but in other countries. Policy reforms undertaken by the Government and regulators based on the work on Malaysia’s Digital Economy - A New Driver of Growth and a Source of Fiscal Revenue has yielded impressive results, which has served to inspire other countries to learn from its experience.

- The World Bank Hub in Malaysia led the production of a global report titled Enhancing Government Effectiveness: The Fight Against Corruption, which features 15 case studies on how reformers have overcome persistent public sector management challenges and includes analyses and examples of what works in improving policy and interagency coordination, and why it matters for national prosperity.

Tan Mei Ling is the Country Operations Officer at the World Bank Sustainable Growth and Inclusive Finance Hub.