



GOVERNMENT OF MALAYSIA

MALAYSIA SUCCESS STORY IN POVERTY ERADICATION

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INTRODUCTION

Malaysia is a unique country. It is made up of multi-ethnic and multi-cultural society who lives in peace and harmony. Three major ethnic groups are Malays and other Bumiputera group, Chinese and Indians. In 1970, Malays and other Bumiputera who made up about 55.6 per cent of the total population, the Chinese 33.9 per cent, Indians 9.0 per cent and others 1.5 per cent. Although Malaysia is a multi-racial country, all Malaysians live in harmony and conflict among ethnic group is rare. The harmonious society and its diversity have driven the development and nation building. In fact, Malaysia has been recognized by the world as a model for other plural societies.

MALAYSIA'S SOCIO-ECONOMIC BACKGROUND

Federation of Malaya secured its independence from Britain on 31 August 1957. After achieving independence in 1957 but prior to 1970, the development policy was primarily aimed at promoting growth with strong emphasis on the export market. The approach was *laissez faire* (market-based policy with no interference by the government) as well as on economic and rural development. Prior to independence, more than half of the Malaysian households were living in poverty. Although the economy registered high growth rates during 1960s, (average growth of GNP at 7.3

percent), the country continued to face high poverty incidence in both rural and urban areas. The overall incidence of poverty in 1970 was 49.3 per cent. The incidence of poverty in rural areas was higher at 58.7 per cent as compared to urban areas at 21.3 per cent. The incidence of poverty among the Bumiputera (Malays and other indigenous groups) was higher at 64.8 per cent, while for the Chinese was 26 per cent and Indian 39.2 per cent. The overall income inequality in 1970 was high with Gini coefficient of 0.51 and income share of the bottom 40% household was low at 11.5 per cent as compared to top 20 per cent household at 55.7 per cent.

The country also experienced high unemployment rate which recorded at 6.6 percent in 1967 and high at 8.0 percent in 1970. There were also economic imbalances between urban and rural areas as well as between indigenous and non-indigenous groups. The large part of population, particularly among the indigenous groups were living in the rural areas and engaged in the low income, traditional activities particularly in rice and rubber smallholding in the agriculture sector. Whereas, the non-indigenous among the Chinese and Indians have entered the sectors that were very dynamic such as tin mining, agriculture estates, commerce and manufacturing.

NEW ECONOMIC POLICY (NEP), 1971-1990 PERIOD

In the implementation of development initiatives, Malaysia has subscribed strongly to the belief that economic development must benefit all citizens and reduce the disparity. Therefore, the development thrust after independence was centred on the philosophy of 'growth with equity'. This development philosophy has been translated through the promulgation of the New Economic Policy (NEP) in 1971 under Malaysia's first long-term development plan, 1971-1990 to support and strengthen the Government's effort to drive the economy towards promoting quality and inclusive growth to ensure that no one in the society will be left out in the development process. The objectives, priorities and strategies under the NEP had been shaped to achieve the over-riding goals of national unity and develop a just, prosperous and progressive Malaysian society. The NEP was implemented through two pronged strategies:

- (I) Eradication of poverty irrespective of race; and
- (ii) Restructuring of society so as to eliminate ethnic identification with economic functions.

The main focus under the poverty eradication strategy has been on income-generating, expansion of education and training facilities, employment generation, and modernisation of rural life as well as improvement in living conditions. Provision of services to the poor has also been done through Government partnerships

with the private sector and NGOs. During the first half of the NEP period, agricultural policy through agrarian reform has been the major instrument in transforming rural areas and the poverty-stricken communities into a more prosperous Malaysian society. Since the majority of the poor were in the agricultural sector in rural areas, the focus of the poverty eradication strategy was on mobilizing rural resources through land development programmes and reorganizing institutions towards modernizing and developing the agriculture and rural sector. Among other programme were:

- i. New land development schemes - The resettlement of the poor and the landless in the new land development schemes (rubber and oil palm plantation.) The settlers have been provided with house and other facilities such as electricity and water supply;
- ii. *In-situ* development programme - Rehabilitation and consolidation of land, replanting with commercially higher-yielding crops and the application of modern agriculture techniques;
- iii. Promoting downstream agriculture activities through village industry and rural entrepreneurship programme;
- iv. Double-cropping or off-season cropping, intercropping and mixed farming to supplement main crop incomes;
- v. Improve marketing network through the establishment of farmers' markets in urban centres to enable farmers to sell their products directly to the customers with better prices;

- vi. Technical training and advisory on agriculture best practices to the target groups and the rural poor; and
- vii. Providing industrial and vocational training for the rural human capital, coupled with credit facilities and related support, to enable them to be employed in non-farm occupations or start their own businesses in rural areas and urban centres;

Apart from income-generating projects, the Government has also sought to improve the quality of life of the poor through the provision of infrastructural and social amenities as part of a broader programme to improve the quality of life of all Malaysians. For the rural population, that includes the provision of potable and piped water, electricity, roads, medical and health services, and schools including rural hostels. A special programme for the hardcore poor (household earning less than the food PLI) was also continued. This programme involved the creation of a register and profile of hardcore poor households and the delivery of appropriate projects to meet their specific needs, such as additional opportunities to increase their employability and income, better housing, food supplements for children and educational assistance.

In the second half of the NEP period, Malaysia had transformed the economy from agricultural based to manufacturing based. Though agriculture was the dominant sector in the Malaysian economy throughout the 1970s, Malaysia has successfully diversified and transformed the economy from being

agriculturally dependent to a manufacturing based economy in the second half of the NEP period. Education and training as well as entrepreneurship programmes played a vital role to support the poor and the low income household to secure jobs and business opportunities. By the end of the NEP period, the incidence of poverty declined to 16.5 % in 1990 as compared to 49.3 % in 1970.

POST – NEP PERIOD

Poverty eradication remained as an integral component and thrust of the subsequent development policies, namely National Development Policy (NDP), 1991-2000; the National Vision Policy (NVP), 2001-2010 and the Tenth Malaysia Plan, 2011-2015. During this period, Malaysia has moved into the third stage of economic development with stronger role of the manufacturing and services sectors. These sectors were the major drivers to the Malaysian economy and provide vast employment opportunities to the *rakyat*. Apart from the manufacturing industries, the services sector such as transport and communication, finance, insurance, real estate, business service, electricity, gas and water, wholesale and retail trade, hotels and restaurants had also contributed significantly to the employment generation. While continue with effort to provide quality employment opportunities, the focus of poverty eradication initiatives and programmes have been realigned to meet with the expectation and sustain high living standard of the *rakyat* from multi-dimensional perspective in a

more challenging environment. The subsequent NDP had also introduced new thrusts entailing shifting the focus of the anti-poverty strategy towards the eradication of hard core poverty, while the NVP incorporates the strategies to address pockets of poverty in remote areas and among Bumiputera minorities in the states of Sabah and Sarawak on the island of Borneo as well as increasing the income and quality of life of those in the lowest 30 per cent income category.

Impact of Economic Crises and Slowdown

The economic crisis and slowdown, to some extent, hampered efforts directed at further reducing poverty and improving the socio economic well-being of the people. The financial turmoil in 2007/2008 that affected most countries worldwide was successfully managed by Malaysia and completed the last lap in the effort to fully eradicate hard core poverty and continue progressing in reducing general poverty. The challenges started when Malaysia's economy grew at a slower pace of 4.8% in 2008 as compared to 6.5% in 2007. During this period, income generating opportunities in both the formal as well as the informal sector became more limited. Demand for labour declined and many people became underemployed or were retrenched as factories reduced operating hours or closed down. Unemployment rate also increased due to the slowdown. The fall in commodity prices such as rubber and palm oil affected incomes of the small

holders. During the 2007-2008 periods, the cost of living also increased with the increase in the Consumer Price Index (CPI).

The overall impact of the slowdown caused the poverty rate to increase slightly to 3.8% in 2008, while the poverty gap index¹, which measures the intensity of poverty, also increased, albeit marginally from 0.8% in 2007 to 0.9% in 2008. The incidence of general poverty in the rural areas increased to 7.7% while in the urban areas, it remained at 2.0%. Based on the experience during the Asian financial crisis in 1997, Malaysia, once again successfully overcame the challenges arising from the 2007 economic crisis and slowdown. The Government had responded swiftly to prevent the economy from slipping into a deeper recession and restored growth momentum through stimulus packages to protect the livelihood of the poor and low income groups during the economic slowdown and uncertainty. All these achievements were made possible through pragmatic and continuous Government efforts to sustain a quality economic growth with effective initiatives and intervention to counteract the economic instability and protect the poor households from destructive impacts. As a result, the economy continued to prosper and the incidence of poverty had been restrained at 3.8%, while

¹ Poverty gap index is the average measure of poverty intensity reflecting the extent to which the income of the poor lies below the poverty line.

the poverty gap index and poverty severity index² declined to 0.8% and 0.3% in 2009, respectively.

New Economic Model and Inclusive Development Framework

The NEP achieved considerable success in overcoming past obstacles and driving the nation forward economically and socially. However, in light of the current socio-economic context and challenges, the development approaches of the post- NEP period have been shifted towards market friendly policies and instruments that are compatible with national competitiveness. However, the NEP goal of national unity remains highly relevant and social inclusion has been given greater emphasis. Inclusivity is a key principle in Malaysia's development agenda for the post-NEP period, to ensure all citizens enjoy the fruits of growth and development regardless of gender, ethnicity, socio-economic status and geographic location.

Inclusive development principle was introduced in the New Economic Model (NEM) as stipulated in the Tenth Malaysia Plan (TMP) and reaffirmed framework in the Eleventh Malaysia Plan (EMP). The inclusive development approach will ensure that no one is left out in contributing to and sharing in the development outcome. While perfect equality is in reality impossible to achieve in an open, global economy, an inclusive society will ensure that

²Poverty severity index measures the intensity of poverty and inequality among the poor.

inequalities can be narrowed through capacity enhancement and empowerment programmes through specific strategies, include uplifting the bottom 40% household towards the creation of more prosperous and bigger middle-class society, empowering communities for a productive and prosperous society, transforming rural areas, accelerating regional growth, and enhancing economic potential of the urban poor. Basic principles of the new development framework are market friendly, need-based, merit-based and transparency.

Under the present Eleventh Malaysia Plan (2016-2020), Malaysia continues to focus on effort to address multi-dimensional and relative poverty issues by reducing inequality and improve income disparity as well as narrowing the development gaps between regions through the corridors development initiatives to overcome regional disparities as well as providing greater access to quality opportunities to enhance capacity and capability of the bottom 40% households. Malaysia has also embarked with a more focus development strategies to address socio-economic uncertainty and vulnerability among the bottom 40% household which include women, children, youth, older persons and persons with disabilities (PWDs) to face greater challenges of modern urban life through a more integrated and comprehensive social protection system.

THE ROLE OF CIVIL SOCIETY IN POVERTY ERADICATION

In Malaysia, civil society such as non-governmental organization (NGOs), cooperatives and the private sector play an important role in poverty alleviation, complementary to the roles played by the government. In this regard, the effectiveness of the Government roles in poverty alleviation will depends very much on the capacity of officials as well as the established mechanism for planning, implementation and monitoring. The most active role of civil society in Malaysia was among others, in disseminating firsthand information for policy formulation, building capacity among the poor households, providing and delivering services and financial assistance to the target groups.

Planning and Policy Formulation

The formulation of poverty reduction policies in Malaysia has been led and coordinated by the Economic Planning Unit (EPU), Prime Minister's Department, as an integral part of the process of formulating the national development plans. The process has been a multi-tiered one, involving public service machineries, civil society organizations (CSOs) and leaders at the grass-roots level, the Federal, State and local levels. At the same time, it has also been made broad-based, incorporating not only inputs from the parties mentioned above but also those of the universities, NGOs and individual experts. The main focus of the exercise has been on the achievements and shortcomings of existing programmes,

and the identification of remedial and new programmes. In this regards, CSOs in Malaysia have contributed to greater extent in policy formulation, identification of priority areas and focus, budget priorities as well as strategies and programmes designed.

At the implementation level, the implementation of poverty programmes has been carried out by various ministries through their operating agencies including agencies at the State and district levels as well as NGO's and the private sector, based on approved policies, programmes and implementation guidelines. To increase effectiveness of implementing mechanism and ensuring greater impact of the programmes and projects, the task of coordinating and monitoring the implementation of rural poverty programmes was assigned to the Ministry of Rural and Regional Development and for the urban poverty programmes to the Ministry of Urban Wellbeing, Housing and Local Government.

Service Delivery and Capacity Building

Non-governmental organizations (NGOs) and the private sector in Malaysia have complemented Government effort to redress poverty in recent years. Working in close cooperation with one another and complementing government efforts, they provide, *inter alia*, small business loans to the poor as well as industrial training and job opportunities, educational support for children of the poor and better housing. Among the NGOs, the *Amanah Ikhtiar Malaysia* (AIM) has been the most successful poverty eradication

model in Malaysia. AIM was established as a private trust entity in 1987 with the main objective to reduce poverty through the provision of microcredit facilities to the poor. AIM not only offers financial products and services to the poor, but also a wide range of services including financial education, entrepreneurship training, value change support and social services. By September 2014, AIM had cumulatively disbursed more than RM11.3 billion in financing to enable its *Sahabat* to venture into micro or small-scale businesses as well as poultry and livestock rearing, mostly in rural areas. In July 2012, there were 313,871 active *Sahabat* in the AIM network. Through its 135 branches, AIM was able to serve the rural poor as well as expand its services to the urban poor.

Other microfinance institutions operating in Malaysia include *Yayasan Usaha Maju* and *TEKUN Nasional*. These institutions were receiving financial support from the Government in term of grants or/and soft loans. In addition, other NGOs, such as various state-base Poverty Eradication Foundations were also participated in the poverty eradication programmes through education and training.

In the rural areas, various community development programmes was implemented by CSOs namely *KEMAS* and *JKKK* to provide opportunities to the rural poor to improve their socio-economic wellbeing through child care, pre-school classes etc. In the urban areas, *RUKUN TETANGGA* committees

programmes was expanded to include social outreach activities, which focused on specific target groups, particularly among the poor households.

Recognizing the important role of NGOs in contributing to the poverty eradication and social development, the Government continued with support and assistance to ensure greater enabling environment that could assist NGOs in implementing their programmes and activities, especially in capacity building among the poor communities as well as among the committees' leaders, volunteers and caregivers, so as to enable them to carry out their roles in a more effective manner.

Malaysia has also recognized the importance of the private sector and has therefore continued with effort to encourage the private sector to play greater role in poverty eradication. A main challenge in encouraging the private sector in poverty reduction is improving the investment climate and strengthening the enabling environment for the private sector to actively participate in poverty reduction. Malaysia continues to provide greater enabling environment for the private sector as well as NGOs to doubled-up effort to assist the poor. In the urban areas, the private sector will continue to assist the Government in the construction of infrastructure as well as the low-cost housing for the poor and the lower income groups.

MAINSTREAMING GLOBAL DEVELOPMENT AGENDA

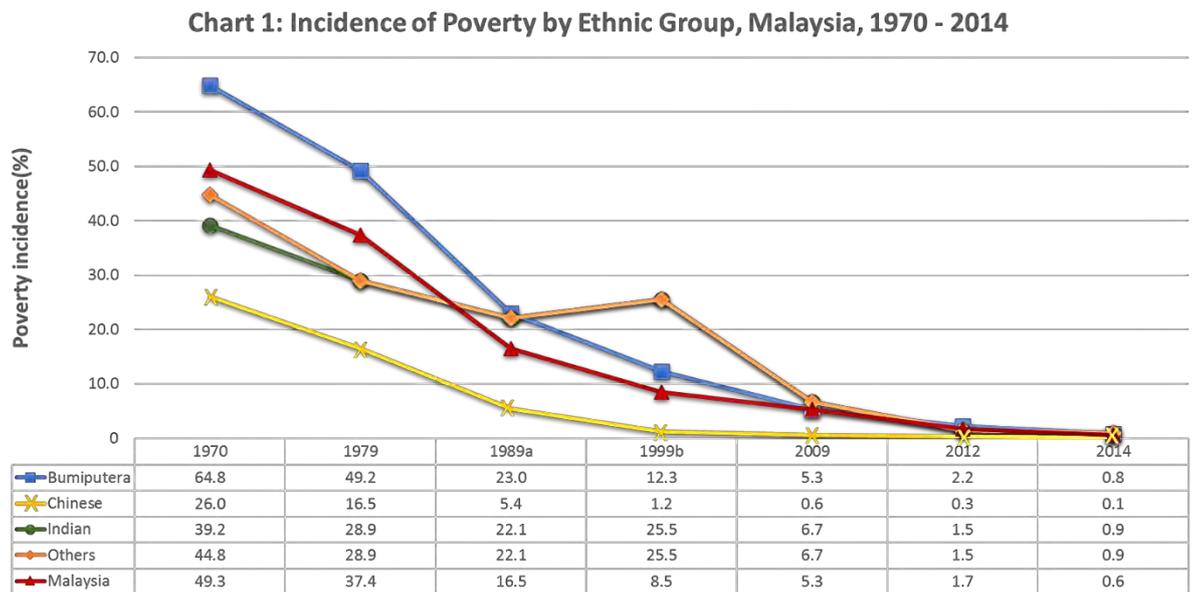
In a global development framework, Malaysia has also managed to meet and surpassed many of the global development targets of Millennium Development Goals (MDG). The Eleventh Malaysia Plan has also integrated and mainstreamed the 2030 global development agenda of Sustainable Development Goals (SDGs) to make it relevant and effective implementation at national, sub-national and local level.

PERFORMANCE AND ACHIEVEMENT

As a result of continuous Government effort supported with resilient and sustainable economic growth, hard core or extreme poverty among all ethnic groups, based on national poverty line measures has been virtually eliminated with the overall incidence of hard core poverty reduced significantly from 6.9 per cent in 1989 to 0.1 per cent in 2014. The incidence of general poverty also reduced tremendously from 49.3 per cent in 1970 to 0.6 per cent in 2014. The Poverty Gap Index and Poverty Severity Index stood at 0.11% and 0.03%, respectively.

The reduction of poverty was evident across all ethnic groups, strata and region, **as shown in Chart 1 to Chart 3 and Table 1**. Among the Bumiputera the poverty incidence reduced from almost 65 per cent in 1970 to 0.8 per cent in 2014, meaning that millions have been removed from poverty. Poverty incidence

among the Bumiputera reduced from 64.8 per cent in 1970 to 0.8 per cent in 2014. The same pace of reduction also occurred among the Chinese and Indians, where the poverty rate for the Chinese reduced from 26.0 per cent in 1970 to 0.1 per cent, while for the Indians from 39.2 per cent to 0.9 per cent, during the same period.



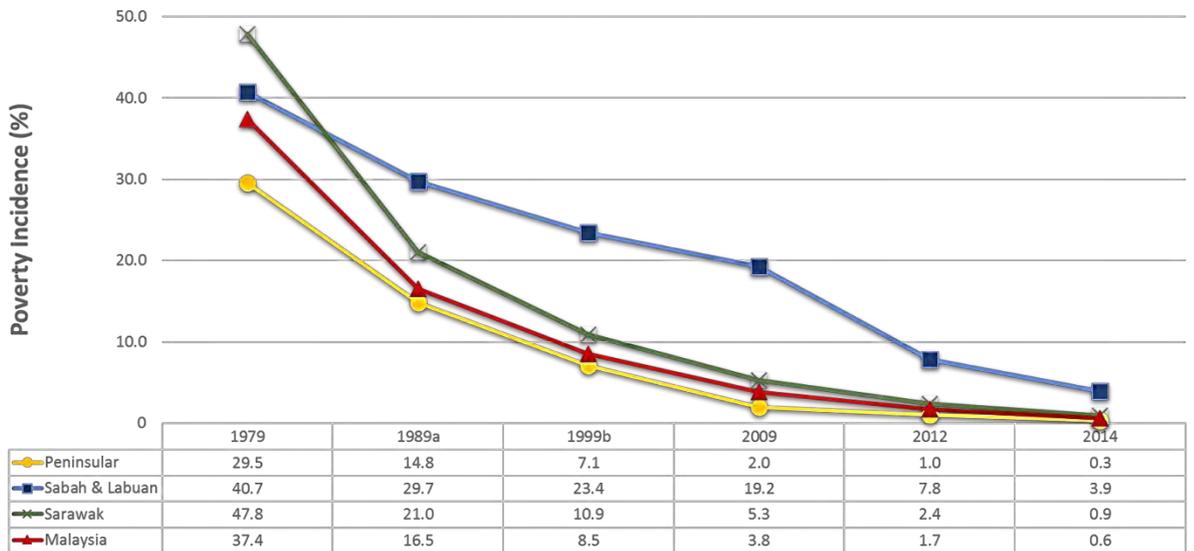
Note: a) Starting 1989, data is based on Malaysia citizens;
 b) From 1999 onwards, calculation of poverty is based on 2005 Methodology
 Source: Household Income Survey (HIS), DOSM

Chart 2: Incidence of Poverty by Strata (Urban and Rural), Malaysia, 1970 - 2014



Note: a) Starting 1989, data is based on Malaysia citizens;
 b) From 1999 onwards, calculation of poverty is based on 2005 Methodology
 Source: Household Income Survey (HIS), DOSM

Chart 3: Incidence of Poverty by Region, Malaysia, 1979 - 2014



Note: a) Starting 1989, data is based on Malaysia citizens;
 b) From 1999 onwards, calculation of poverty is based on 2005 Methodology
 Source: Household Income Survey (HIS), DOSM

Table 1

Incidence of Poverty (%), 1970, 1989 and 2014

	1970	1989	2014
Bumiputera	64.8	23.0	0.8
Chinese	26.0	5.4	0.1
Indians	39.2	7.6	0.6
Overall	49.3	16.5	0.6

Source: Department of Statistic, Post-Enumeration Survey, 1970, Household Income Survey, 1989, Household Income and Expenditure Survey, 2014

Growth is inclusive and shared across distinct groups

Malaysia's economic growth was resilient with growth rate of 7.6 per cent during 1970-2012 periods, which is among the highest in the region, even better than many of its neighbours. The resilient economic growth was supported by robust investment activities, with an average investment ratio to the GDP of about 30 per cent during 1970-1990 periods. The high and sustainable growth supported by robust investment activities has created new job and business opportunities. As a result, unemployment rate has been falling from 7.4 per cent in 1970 to about 3.0 percent in

2012. Cross country comparison shows that the unemployment rate in Malaysia is relatively low compared to the regional economies, and even lower than many developed countries. For instance, unemployment rates in OECD countries and high income countries in 2012 was about 8.0 percent, more than double that of Malaysia. Malaysia's inclusive growth policy has benefitted all groups, almost equally.³ The compounded annual income growth rate for the Bumiputera household grew by 8.8 per cent, which was not significantly different from the Indians at 7.0 per cent or the Chinese at 6.8 percent. The level of unemployment rate for all ethnic groups reduced significantly from about 11 per cent in 1970 to 3.0 per cent in 2012 for the Indians, from 7.0 per cent to 2.2 per cent for the Chinese, and from 8.0 per cent to 3.5 per cent for Bumiputera. The available evident from the Household Income and Expenditure Survey by the Department of Statistics reveals that the income pattern was improved and are more evenly distributed with a steady decline in inequality. The Gini Coefficient using gross income measures dropped from 0.513 in 1970 to 0.401⁴ in 2014, as shown in **Table 2**.

³ Malaysia Human Development Report, 2013.

⁴ Gini Coefficient using Disposable income measures in 2014 was 0.386.

Table 2

Income Distribution in Malaysia, 1970, 1989 and 2014

	1970	1989	2014
Gini Coefficient	0.513	0.442	0.401
Income Share for Top 20%	55.7	50.0	46.6
Income Share for Middle 40%	32.8	35.5	36.9
Income Share for Bottom 40%	11.5	14.5	16.5

Source: Department of Statistics, Post Enumeration Survey, 1970 and Household Income Survey, 1989 and 2014.

Income share of the bottom 40% household increased from 11.5 per cent in 1970 to 16.5 percent in 2014. In addition, income gap between Bumiputera and Chinese narrowed, while the income gap between Bumiputera and Indians, between Indians and Chinese as well as between rural and urban households also reduced significantly (**Table 3**).

Table 3

Income Disparity Ratio, 1970, 1989 and 2014

	1970	1989	2014
Bumiputera:Chinese	1:2.29	1:1.74	1:1.38
Bumiputera:Indians	1:1.77	1:1.36	1:1.13
Indians:Chinese	1:1.30	1:1.28	1:1.23
Rural:Urban	1:2.14	1:1.68	1:1.78

Source: Department of Statistics, Post Enumeration Survey, 1970 and Household Income Survey, 1989 and 2014.

Malaysia's success in poverty reduction is also recognised globally. Malaysia is considered among the fastest country to achieve the first goal of the Millennium Development Goals (MDG) which is to halve poverty by 2010. In terms of extreme poverty, which is measured by the proportion of people living on less than \$1.25 a day, Malaysia has registered zero level. Even with the use of \$2 a day, which is commonly used by middle income countries, only 0.7% of the Malaysian households in 2014 were deemed poor.

CONCLUSION

Malaysia's experience with regards to poverty eradication efforts has always been associated with rapid economic development and pro-poor strategy under a growth and distribution development framework. This achievement was made possible with socio-political stability and continuous Government efforts. The rapid expansion of the economy has provided vast opportunities of high-income employment to the poor and lower income groups in the urban areas, while the modernization of the agriculture sector has increased the productivity and contributed to the increasing income of the rural poor. Education and training as well as entrepreneurship and micro credit were among other programmes that yielded high impact outcome. Multi sectoral and holistic approach and the complementary role by NGO and the private sectors were also contributed to the success in poverty eradication.

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