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Empower enterprises to help the poor

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COMMENT
by Jason Loh and Rosihan Addin

AN English folk fairy tale tells us about an old woman living in what must have been a gargantuan shoe with her twelve rambunctious kids. As far as fairy tales go, thirteen people cramped into a giant shoe is not something too far-fetched. However, this story may not be too detached from reality.

This can be especially seen among the underprivileged communities - otherwise known as the urban poor - interspersed within the Klang Valley or Greater Kuala Lumpur conurbations.

It is symptomatic of the overall state of affordable housing (owned and rental) as provisioned by the state for the urban poor and the interplay/inter-relationship between income and affordable housing in general, as measured by the price to income ratio (or median multiple - median house price as a multiple of median annual household income) as the "quantity" (i.e. prevailing supply in the market), and the dynamics of urban planning as the "quality" (i.e. the design and environment of affordable housing). This is just one example.

According to data from the Federal Territories Ministry, the number of hardcore poor in Kuala Lumpur has shot up approximately 270% over the past two years. Absolute poverty figure rose to 8.4% in 2020, from 5.6% in 2019. This in addition to the approximately 600,000 M40 households that are newly categorised as B40, representing approximately 20% of those initially earning between RM4,850 and RM10,959.

Although the transition to endemicity has enabled the reopening of the economy to proceed on the basis of further easing/relaxation and normalisation, this is not expected to reverse the income shock that has pulled many urbanites down the socio-economic classification scale.

With the cost-of-living crisis aggravated and intensified by imported inflation since late last year, earnings have fallen in real terms. In turn, this means reduced standards of living and, critically, savings.

Profiteering and profit gouging by cartels (enabled by market concentration and monopoly/oligopoly) in the supply-chain (as contributory causes of the mainly manufactured inflation) for essentials like food items have further affected purchasing power and, by extension, savings. It has been alleged that poultry is one of these.

Essentially, what we are seeing is a kind of "stagflation" at the microeconomic level (for the B40 and lower and middle levels of the M40) - where wages have remained stagnant but cost of living continues to rise unabated.

Reduced purchasing power and levels of savings entail the need to hold on to more liquid assets - as embodied in loan moratoriums and the four Employees Provident Fund withdrawal schemes. And our Bursa has been trading sluggishly, etc.

In turn, this implies that the state needs to recycle the captive savings (i.e. illiquid assets) that are locked up due to regulatory/policy requirements, into the deficit and invest in the economy (i.e. liquid assets) - to increase the overall savings of the households and private sector (since investment determines savings).

The recent hike in the Overnight Policy Rate by Bank Negara will only serve to reduce the fragile purchasing power of the economy, still reeling from the aftershocks of the impact of Covid-19 - forcing it to rundown its savings. Even when all the while it is highly unlikely that we will be returning to the stagflation of the 1970s, where inflationary conditions persisted consecutively.

This was in part due to the wage spiral, whereby the costs of higher nominal wages were passed on to consumers, and the cycle of markups repeated itself only to be broken by retrenchment set against the backdrop of austerity (as in the case of the UK).

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Then too, the oil price shock, characteristic of the 1970s, were a result of deliberate cuts to oil production - which happened twice (1972-1974 and 1979).

The current spike in energy prices is due to supply chain, i.e. distribution, bottlenecks. The geopolitical and geoeconomic conflict between Russia versus Ukraine and the West does not change this.

Instead, we are in a "macro-equilibrium" state, where the percentage of the quantum of wage increase (assuming it is constant or the maximum) is consistently outpaced by the inflation rate and, by extension, the Goods and Services Tax (GST), should it ever be reintroduced.

Minimum wage hike: (RM1,500-RM1,200)/RM1,200 = 25%

Hypothetical GST hike: (6%-4%)/4% = 50%

The GST, of course, would mean that it is the B40 that is subsidising the upper M40 and T20.

The implementation of the minimum wage hike on May 1, 2022 is not adequate to cope with the high cost of living in the Klang Valley, where a high percentage of the urban poor can be found.

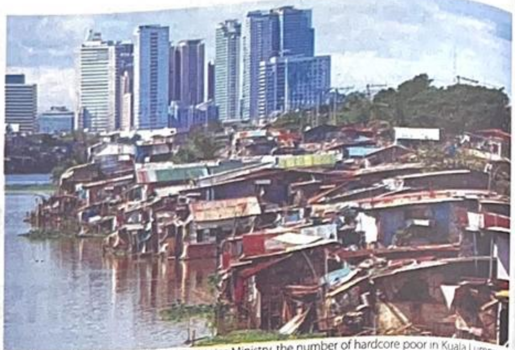
To get a concrete idea of urban poverty on the ground, one just has to take a look at the People's Housing Programme flats and low-cost houses to see the decrepit and unsanitary living conditions where a "typical" family of six has no choice but to squeeze into a 650sq ft space.

In addition to the already deplorable living conditions, the frequent water cuts in the Klang Valley only add insult to injury as people have to queue up to collect buckets of potable water from tankers to meet their daily needs as currently we have not implemented sourcing from groundwater (as strategic reserve) via drilling of wells, which can be done in the localities.

Under the administration of Prime Minister Datuk Seri Ismail Sabri Yaakob, the Bantuan Keluarga Malaysia and the National Food Basket Programme provide direct cash transfers and food baskets that emphasise nutritional quality, respectively.

The aid represents an increase in quantum from the previous schemes - up to RM2,000 for households with three children or more.

Although unconditional cash transfers and public delivery system, in the form of food baskets are critical in addressing the socio-economic conditions of the poor, it should be conceived as a stopgap measure only.



According to data from the Federal Territories Ministry, the number of hardcore poor in Kuala Lumpur has shot up approximately 270% over the past two years.

The recipients should be further helped to graduate out of this welfare system via a multipronged strategy, comprising of jobs and training/skilling for the parents (breadwinners) and technical and vocational education and training (TVET) and higher education for the children.

Public-private partnerships or PPP play a pivotal role - by providing the jobs, retraining and reskilling or upskilling alongside the industrial accreditation for TVET programmes and higher educational opportunities. Private partners definitively include non-governmental organisations and social enterprises.

In March 2022, the Federal Territories Ministry announced the formation of a special unit that would monitor poverty in an urban setting. This unit will also have a designated taskforce that will be entrusted to distribute aid and help to target vulnerable households within the Federal Territories.

To ensure a more effective and coordinated effort in tackling poverty in urban areas, the special unit should embark on a PPP by strategically collaborating with the private sector and social enterprises.

Take Suri for example. It is a Malaysian social enterprise based in Kuala Lumpur that strives to empower underprivileged/B40 mothers, by providing income opportunities for mothers, for example, teaching them sewing skills.

To date, Suri has 40 mothers under its wing that work either full-time or on a part-time basis. Ten of the mothers are now certified with Sijil Kemahiran Malaysia (Level Three) as part of their sustainable growth initiative.

EMIR Research has written on the vital role that social enterprises can play in providing employment and training opportunities - *Social enterprises in Malaysia - an emerging employment provider* (June 17, 2020).

It would like to further propose policy recommendations to help the urban poor communities through empowering social enterprises:

1. The government should look into promoting private investments for social enterprises. We should persuade investors such as venture capitalists to invest in socially-responsible investments through incentivising social impact bonds, and even green bonds, for investments in the green economy across all areas/sectors.

In another article - *The 12th Malaysia Plan - Driving the Green Investment Agenda with Green Bonds*" (Oct 13, 2021) - we called for the setting up of a green investment bank that would be wholly-owned by Bank Negara, with either the Finance Ministry or Environment and Water Ministry, or both, holding "golden shares".

Under this PPP, the government raises funds for green projects by intermediating between the investors (Bank Negara, green investment bank) and the service providers (private sector and social enterprises).

Fiscal and financial incentives can be provided through tax allowances/reliefs for both the investors as well as social enterprises that attract the investments.

2. The government should also ensure that social enterprises are given a share of public sector procurement such as the Vendor Development Programme as part of the PPP.

At the same time; the government should open up new procurement channels dedicated to social enterprises - that integrate and implement the national policy frameworks on related policy issues, such as social care and post-retirement employment.

A PPP would see the urban poor having wider and augmented opportunities for better quality employment that would enable them access higher income streams and, henceforth, increase their purchasing power and quality of life.

Just as significant, it would also help the government to manage deficit spending in a more targeted and transparent manner, where money will be well spent.

Not least, the multiplier effect will also benefit the overall economy.

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