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PETALING JAYA: The World Bank Group expects Malaysia's informal employment sector to decrease to 21% by 2040, depending on whether productivity growth and the relative growth of labour costs continue to trend upwards.

The "Informal Employment in Malaysia" report by the World Bank reported that the sector has exhibited a consistent decline, which dropped from 30.5% in 2019 to 26.8% in 2022, translating to about 4.1 million workers.

Based on the findings, the downward trajectory suggests a substantial shift in the informal employment sector, with the numbers anticipated to persist.

It was reported that the initiatives put in place by the Social Security Organisation (Socso) and Employees Provident Fund (EPF) to safeguard those who are informally employed may have contributed to the sector's recent decline.

"The number of members of i-Saraan and subscribers to the Self-Employment Social Security Scheme (SESSS) have been increasing over time.

"Hence, while there has likely been an increase in the creation of formal jobs over time, accounting for the downward trend, the declining rate of informal employment between 2016 and 2022 is partly due to the increase in coverage of EPF and Socso through i-Saraan and SESSS, respectively," as stated in the report.

There has also been an indication that Malaysia has a higher prevalence of informal employment than other high-income nations, but a lower rate than comparable nations in the area.



Comprehensive study: (From left) Matsuda, World Bank Human Development in East Asia and Pacific Regional Director Dr Alberto Rodriguez, Zunika, World Bank senior economist in social protection and jobs Dr Yashodhan Ghorpade and economist Alyssa Farha Jasmin at the launch of the report.

World Bank country manager for Malaysia, Yasuhiko Matsuda, highlighted that a number of informally employed workers are vulnerable, given their inability to further invest in skills enhancement to achieve career advancement or taking risks for starting new businesses.

Hence, he believes that policy measures should aim to improve the protection and productivity of workers in the informal economy.

"The fundamental policy requirement is that these people will feel secure as they are well protected in case they get into accidents or their business does not do well and have something to fall back on.

"Once that is done, their contributions to the overall economy can be maximised," he told the media after the launch of the report yesterday.

On that note, improving the welfare of informal workers will remain as the government's priority as highlighted in the Mid-Term review of the Twelfth Malaysia Plan (12MP), said Economy Ministry deputy secretary-general of policy Datuk Zunika Mohamed.

She said the government will continue to collaborate with the World Bank to conduct additional research as an effort to propose strategies for economic and welfare development of the nation, which

could potentially be included in the upcoming 13MP.

Hence, Zunika told the media that the proposed policy recommendations made by the World Bank in its report may be brought up to the ministry to be considered for the 13MP.

The formation of a convening body to bring together significant stakeholders on informal employment, upskill training, requiring digital platforms to offer injury insurance for high-risk occupations, as well as mandating automatic contributions for retirement savings for incomes earned through digital platforms, are some of the highlighted measures to address the issue.

Additionally, she pointed out that several initiatives are already underway in Malaysia as an effort to enhance the social protection system for unpaid labourers.

Among some of the initiatives mentioned was the RM100mil in contribution matching grant allocated in the Budget 2024 for the SESSS, the increased matching contribution value to a maximum of RM500 per year under the voluntary i-Saraan programme, upskilling of informal employees, as well as the micro credit schemes made available for informal workers.

The "Informal Employment in Malaysia" report is a collaborative effort between the Economy Ministry and the World Bank Group through the Reimbursable Advisory Services, which explores the laws, policies and programmes that control informal employment as well as the scope and trend of this type of work.

By providing policy recommendations to improve the protection and productivity of workers engaged in informal employment, the paper seeks to close the knowledge gap on informal employment in Malaysia.