



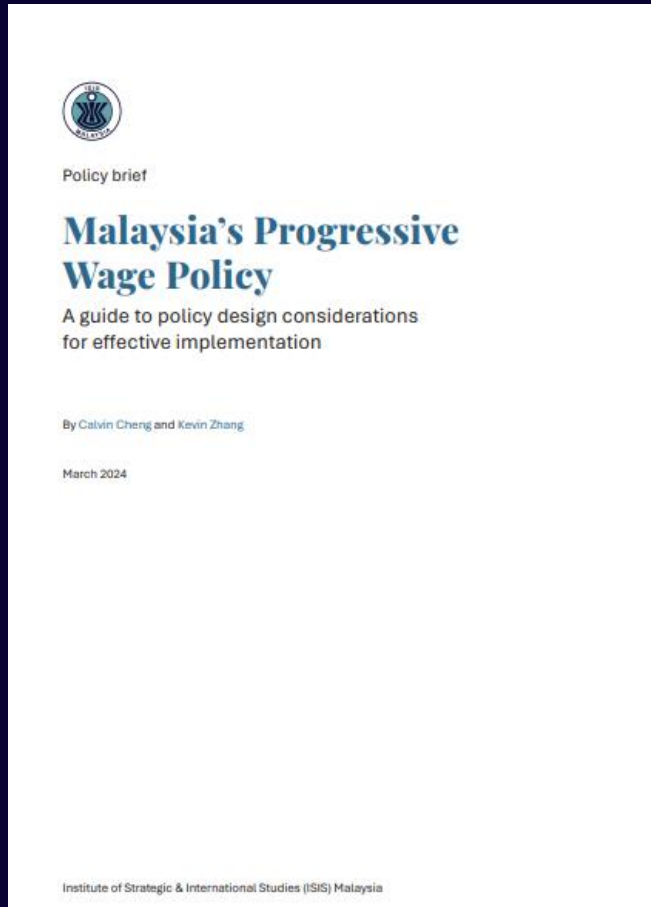
Institute of Strategic and International Studies  
**Economics, Trade  
and Regional Integration**

# Policy design considerations for Malaysia's Progressive Wage Policy

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Roundtable and policy brief dissemination event





## ► About the policy brief

Malaysia's Progressive Wage Policy: a guide to policy design considerations for effective implementation

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# Malaysia's Progressive Wage Policy: recap

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## ► What is Malaysia's Progressive Wage Policy (PWP)?

- **The PWP is a 'conditional structured wage-setting mechanism'.** Companies receive a monthly incentive conditional on workers receiving wages in line with PWP salary guidelines and completing approved skills training programmes.
- **Aims to boost wages, productivity and skills development.** Targeted at MSMEs, this voluntary programme aims to encourage firms to increase employee wages while incentivising skills development amongst the labour force.
- **The PWP could have transformative impacts on wages and human capital development – if done right.** Once implemented nationwide, the PWP would be among the most significant changes in Malaysia's wage-setting and labour market institution landscape over the past decade.

Source: PWP white paper,  
Kementerian Ekonomi (2023)



# Malaysia's Progressive Wage Policy: recap

## ► Progressive Wage Policy timelines



Source: PWP white paper, Kementerian Ekonomi (2023)



# Malaysia's Progressive Wage Policy: recap

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## ▶ Malaysia's PWP is inspired by Singapore's Progressive Wage Policy

- ▶ **Singapore's Progressive Wage Model (PWM) was first introduced in 2014.** It was a response to the challenge of rising income inequality and slow wage growth among lower-income workers during the early 2000s.
- ▶ **There are major differences between the Malaysian and Singaporean versions despite similar names and objectives.** This is due to differing legislative and institutional environments, as well as different policy design approaches. This has large implications for impacts and implementation of Malaysia's PWP.

Source: Cheng and Zhang (2024). Lee (2024).



# Malaysia's PWP v Singapore's PWM

## ► What firms and sectors do they cover?

### ► Malaysia Progressive Wage Policy

- > Covers firms in **all sectors** and occupations
- > **MSMEs only** (excludes large firms and multinationals)

### ► Singapore Progressive Wage Model

- > **Only includes seven sectors** (gradually increasing coverage since 2014)
- > Covers **all firms** regardless of size

Source: PWP white paper, Kementerian Ekonomi (2023). Singapore Ministry of Manpower (n.d.).





# Malaysia's PWP v Singapore's PWM

## ► What types of workers do they cover?

- **Malaysia**  
Progressive Wage Policy
  - > **Malaysians only** (excludes non-citizens and PRs)
  - > **Full-time workers only** (excludes part time workers)
  - > Excludes workers earning above RM5,000 per month

- **Singapore**  
Progressive Wage Model
  - > Singaporeans and PRs
  - > Covers **full-time and part-time** workers

Source: PWP white paper, Kementerian Ekonomi (2023). Singapore Ministry of Manpower (n.d.).



# Malaysia's PWP v Singapore's PWM

## ► Other key design differences

### ► Malaysia Progressive Wage Policy

- > **Voluntary**
- > Two-tier flat wage incentive
- > Works alongside the national minimum wage

### ► Singapore Progressive Wage Model

- > **Mandatory** compliance (voluntary in earlier years)
- > Co-funding mechanism
- > Sets de facto sectoral wage floors through mandatory compliance

Source: PWP white paper, Kementerian Ekonomi (2023). Singapore Ministry of Manpower (n.d.).





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# Design consideration 1: voluntary or mandatory?

- ▶ **A voluntary PWP will offer more flexibility and reduce the burden on firms but risks lower participation and higher inequality**
- ▶ **A voluntary approach will make it easier for small businesses to adapt in the short term.** Not enforcing compliance will ease pressure on microenterprises already contending with the recent changes in the minimum wage and other policies.
- ▶ **But in the long term, a voluntary PWP may limit its wage and productivity impacts.** A voluntary approach will decrease participation rates and limit how much the policy can affect wage-setting. This could also lead to higher inequality as well-resourced, higher-productivity MSMEs will choose to opt in, while workers in lower-productivity MSMEs or sectors are left out.

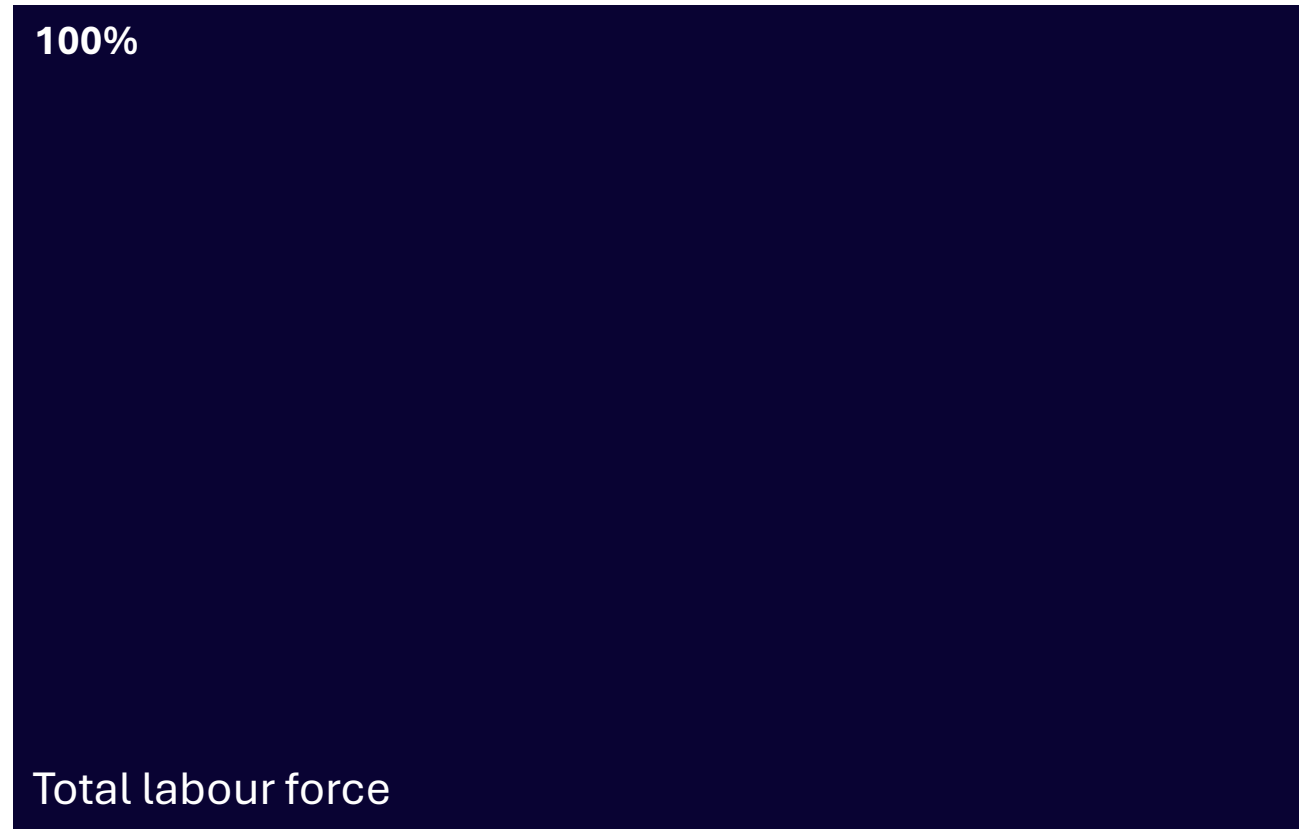
Source: Cheng and Zhang (2024).



# Design consideration 2: how inclusive should coverage be?

- ▶ **In its current form, the PWP will likely exclude most workers in Malaysia**

Who will the PWP include?



Source: Cheng and Zhang (2024). Author's illustrations using data from the Department of Statistics Malaysia.

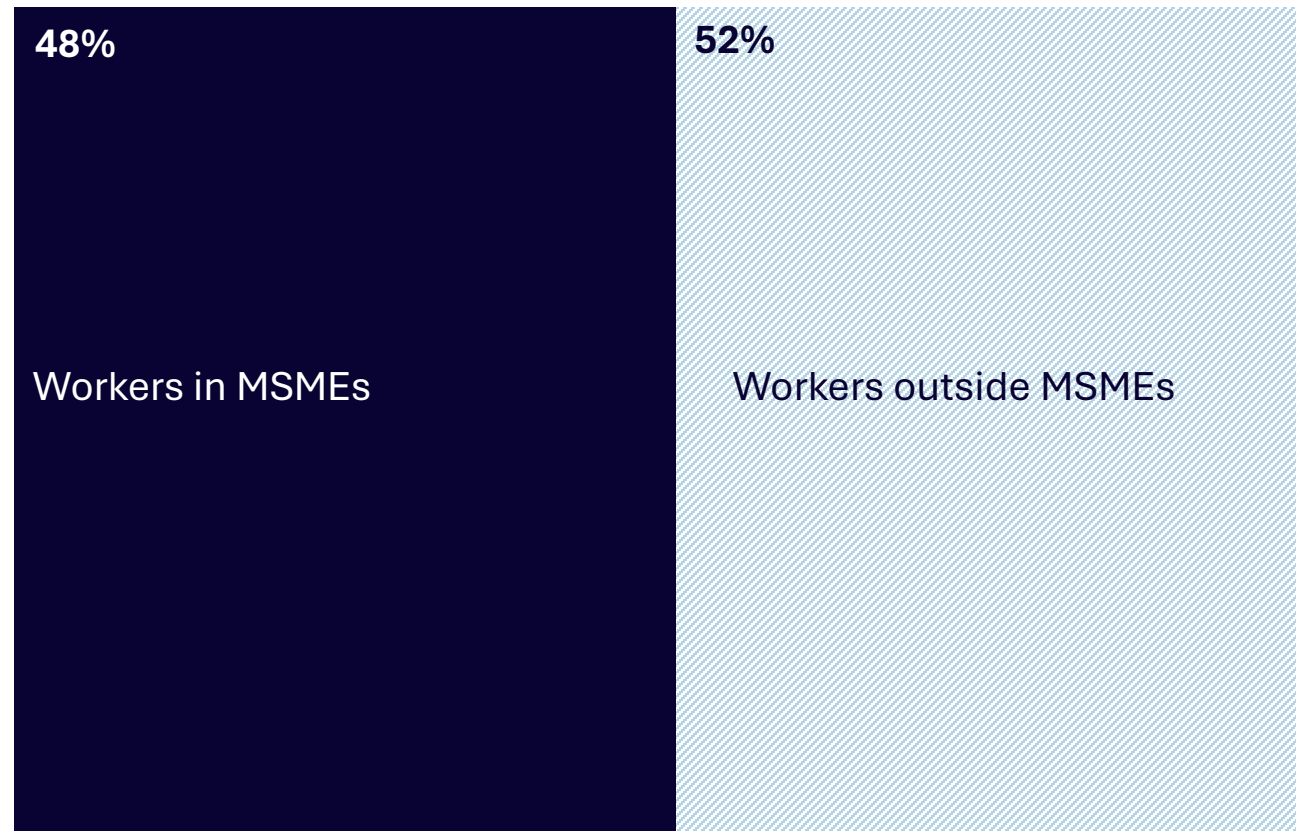


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8

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Who will the PWP include?



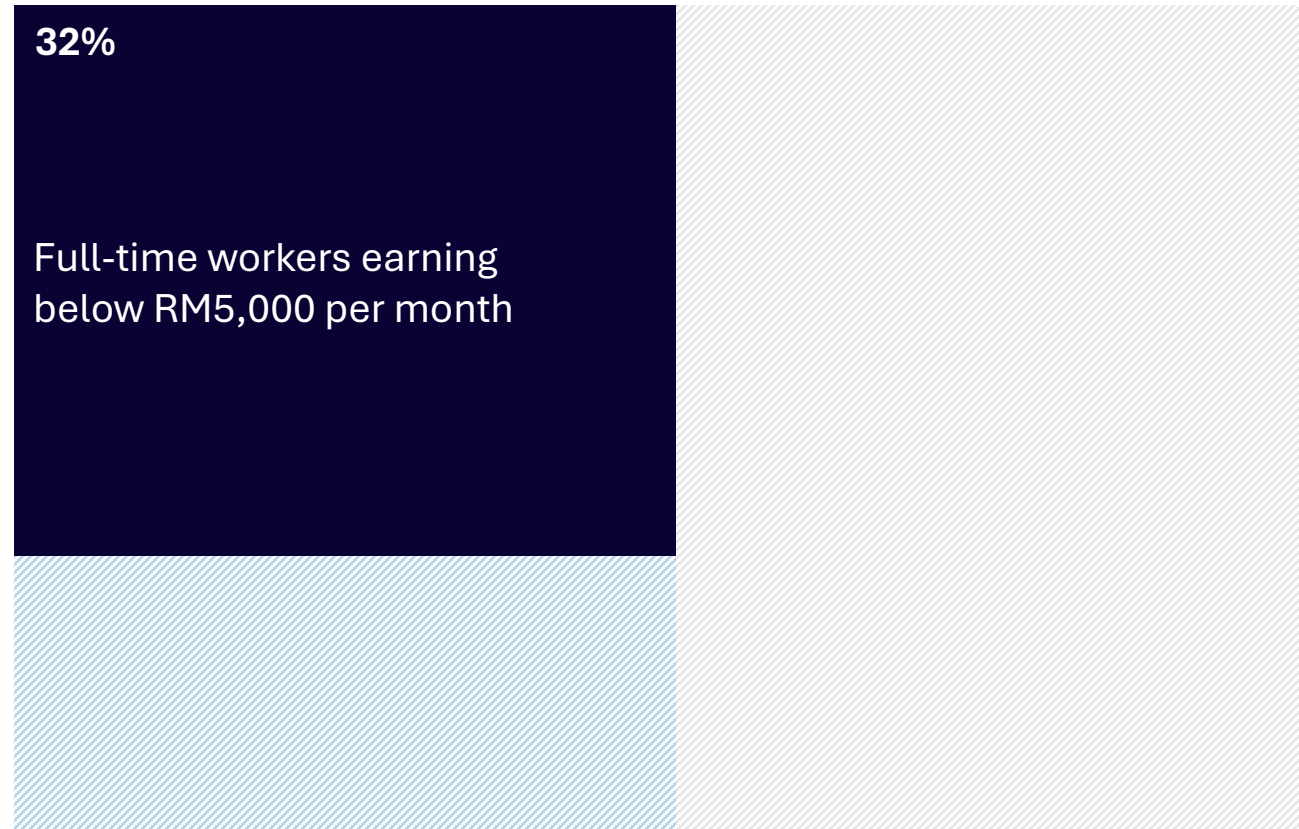
Source: Cheng and Zhang (2024). Author's illustrations using data from the Department of Statistics Malaysia.

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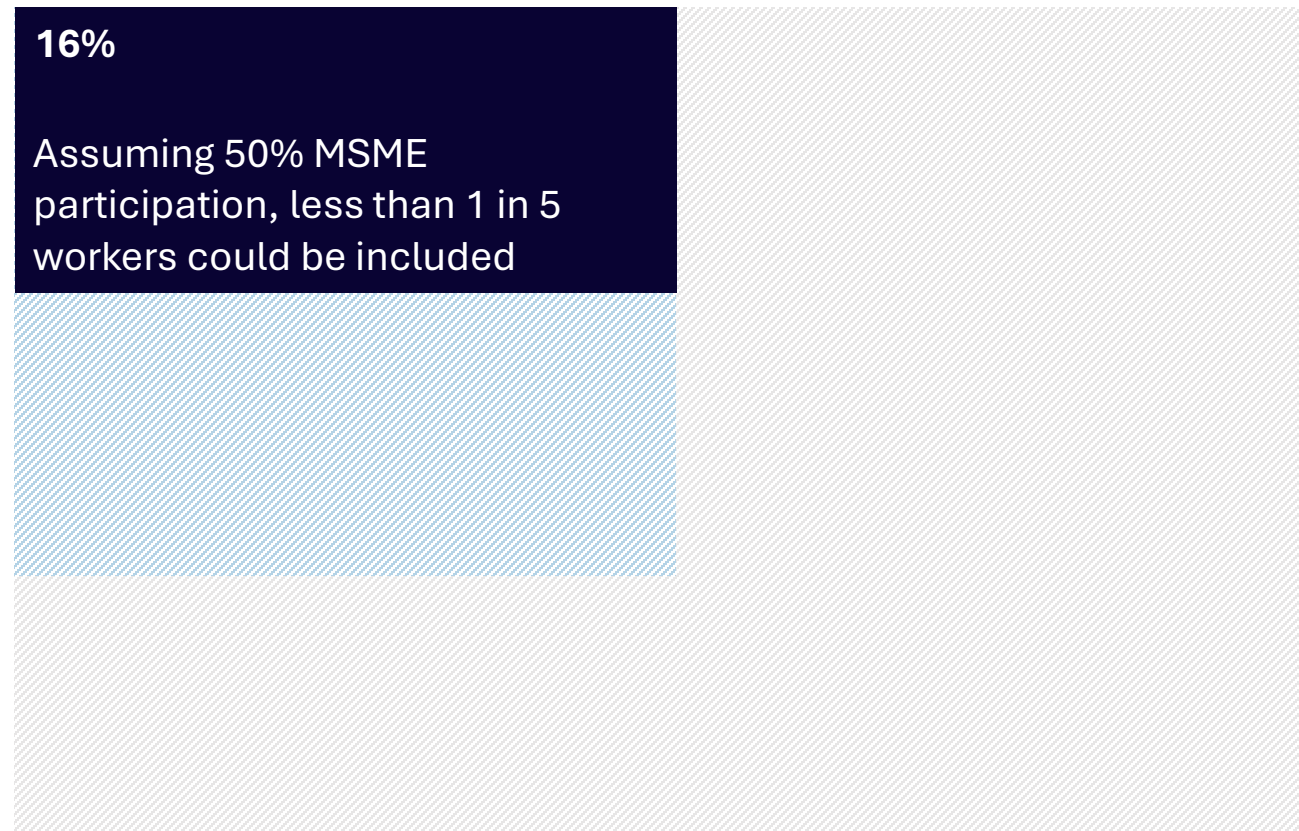
Source: Cheng and Zhang (2024). Author's illustrations using data from the Department of Statistics Malaysia. Proportion of workers earning RM5,000 taken from the PWP white paper as two-thirds.

## Design consideration 2: how inclusive should coverage be?

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- ▶ **In its current form, the PWP will likely exclude most workers in Malaysia**

Who will the PWP include?



Source: Cheng and Zhang (2024). Author's illustrations using data from the Department of Statistics Malaysia.



## Design consideration 2: how inclusive should coverage be?

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- ▶ **Overall, choosing to cover a higher proportion of workers will boost impacts, but incur higher costs**
- ▶ **The more workers that are covered, the more the PWP will move the needle on its wage and productivity goals.** This would also mitigate risks of widening inequality between firm and worker types.
- ▶ **But greater coverage could mean greater costs and complexity.** This could make the PWP harder to implement and enforce, especially if institutional capacity or fiscal commitments are limited (e.g. current wage floor enforcement)

Source: Cheng and Zhang (2024).

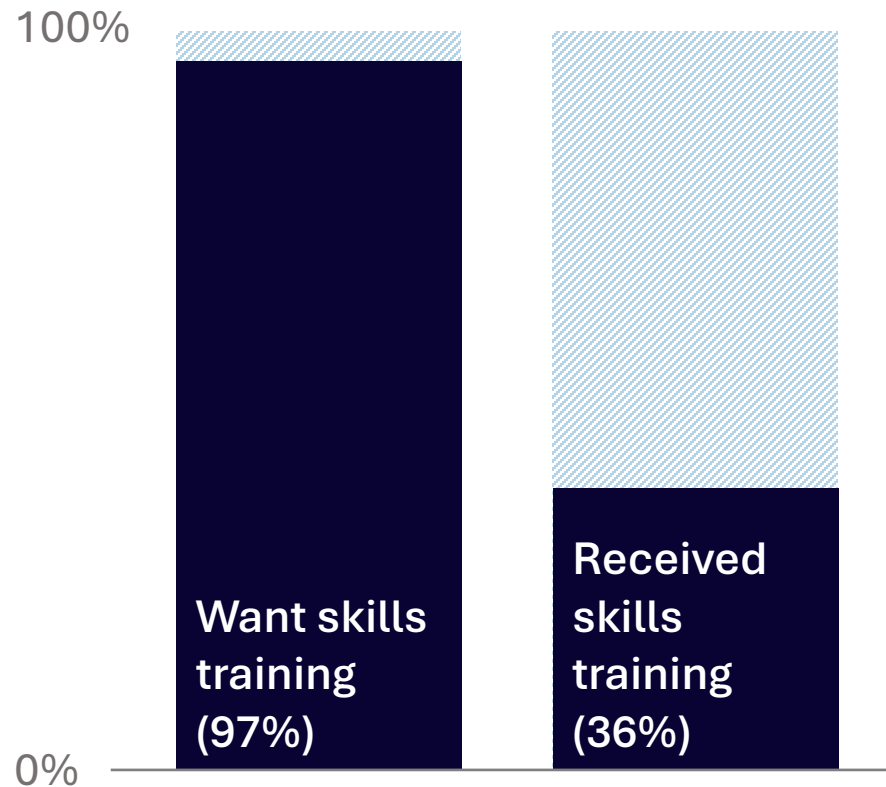


# Design consideration 3: how about existing skills training ecosystems?

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- **Malaysia's existing skills training ecosystem faces demand-side, supply-side and institutional governance challenges**

% of survey respondents



## Demand-side barriers\*

- > Low HRDF levy balances for many MSMEs
- > Information gaps regarding available training courses
- > High workload and time constraints

Source: Author's illustrations based on Randstad (2022)  
 Note: \*HRD Corp annual report (various years).



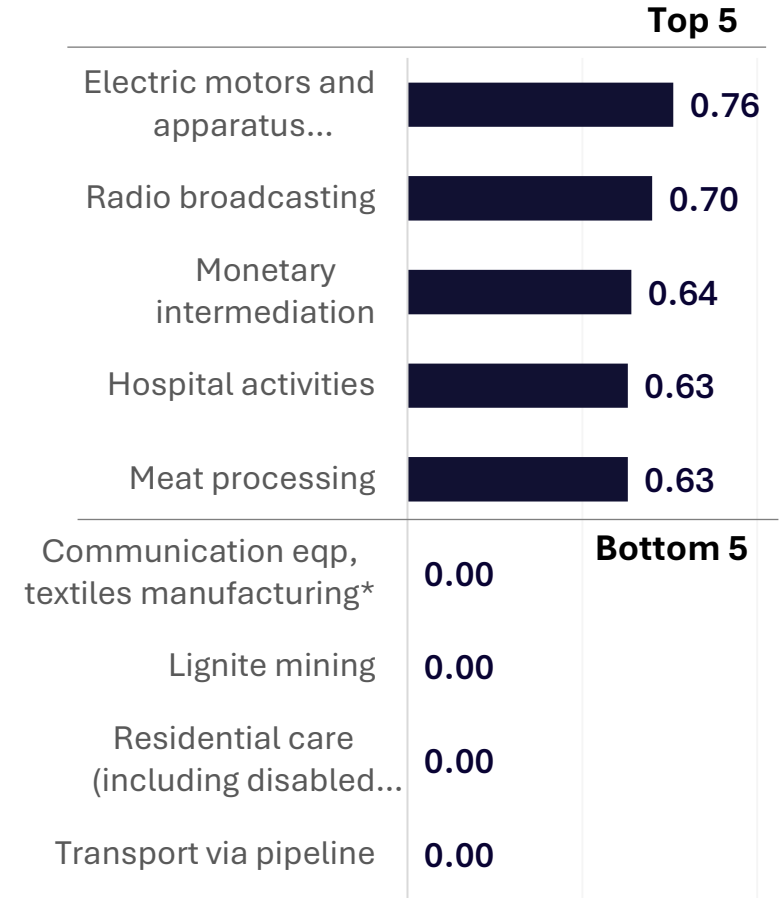
# Design consideration 3: how about existing skills training ecosystems?

► **Malaysia’s existing skills training ecosystem faces demand-side, supply-side and institutional governance challenges**

Active training providers per 1,000



Training index scores, top and bottom 5



Source: Authors’ calculations using HRDF data



# Design consideration 4: how should the wage incentive work?

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► **Malaysia's PWP uses a flat incentive system, while Singapore's PWM uses a co-funding system**

## ► Malaysia

### Flat wage incentive

- > "Entry-level" positions: RM200/month
- > Non-entry-level" positions: RM300/month

## ► Singapore

### Co-funding mechanism

- > Government co-funds 75% of the monthly wage increase for the first 2 years. 30% in the following 2 years, and 15% in the final year\*

Source: Authors' illustrations based on information from the Inland Revenue Authority of Singapore (IRAS)

Note: \* for the first tier of employees earning up to RM2,500



# Design consideration 4: how should the wage incentive work?

► **Malaysia’s flat wage incentive is easier to implement but could subsidise lower-wage sectors more...**

Monthly incentive cost in RM, Flat incentive versus co-funded incentive



Source: Authors’ projections using Department of Statistics data

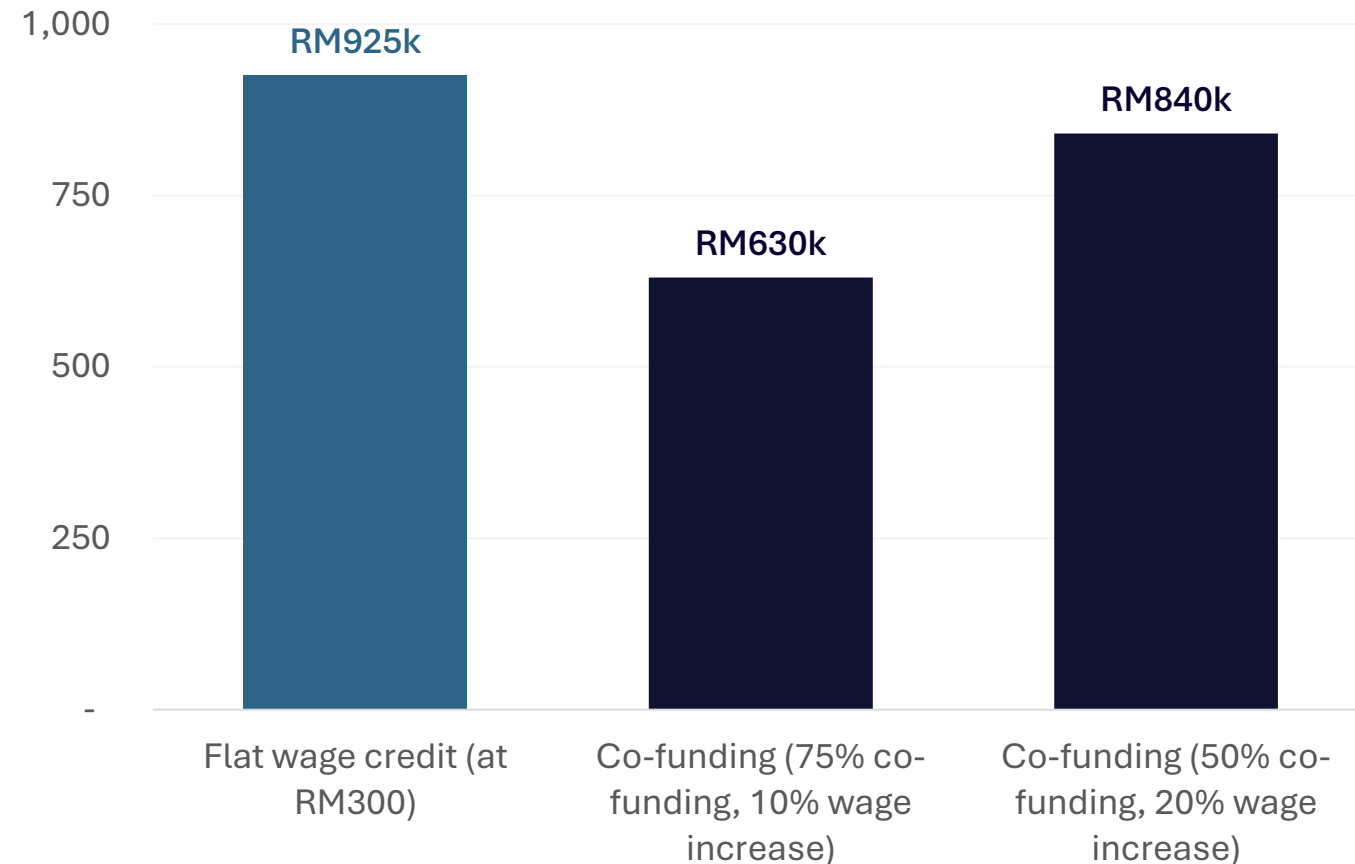
Note: Co-funded cost projections assume 75% of the cost is borne by the government in line with PWCS first-tier co-funding rate, and that wage adjustments are 10%.



# Design consideration 4: how should the wage incentive work?

- ...and may also cost more versus co-funding mechanisms

Cost projections under different incentive structure assumptions



Source: Authors' projections using Department of Statistics data

Note: Cost projections assume 31% of workers in each industry are covered by the PWP, in line with coverage estimates on slide 8. Estimated costs are for a single month.

## Design consideration 4: how should the wage incentive work?

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- ▶ **Overall, choice of the optimal wage incentive modality will depend on the long-term policy priorities of Malaysia's PWP**
- ▶ **A flat wage incentive system requires less administrative capacity for policymakers and is simpler for small businesses to comply with.** However, evaluated against a backdrop of large differences between wages across regions and industries in Malaysia, a flat incentive could result in the incentive being overly generous for some firms and insufficient for others.
- ▶ **A tiered co-funding model like Singapore's will involve greater administrative complexity but could offer a more flexible approach.** A co-funding model would be harder to implement but could align incentives more closely with the varying wage levels across different sectors and regions.

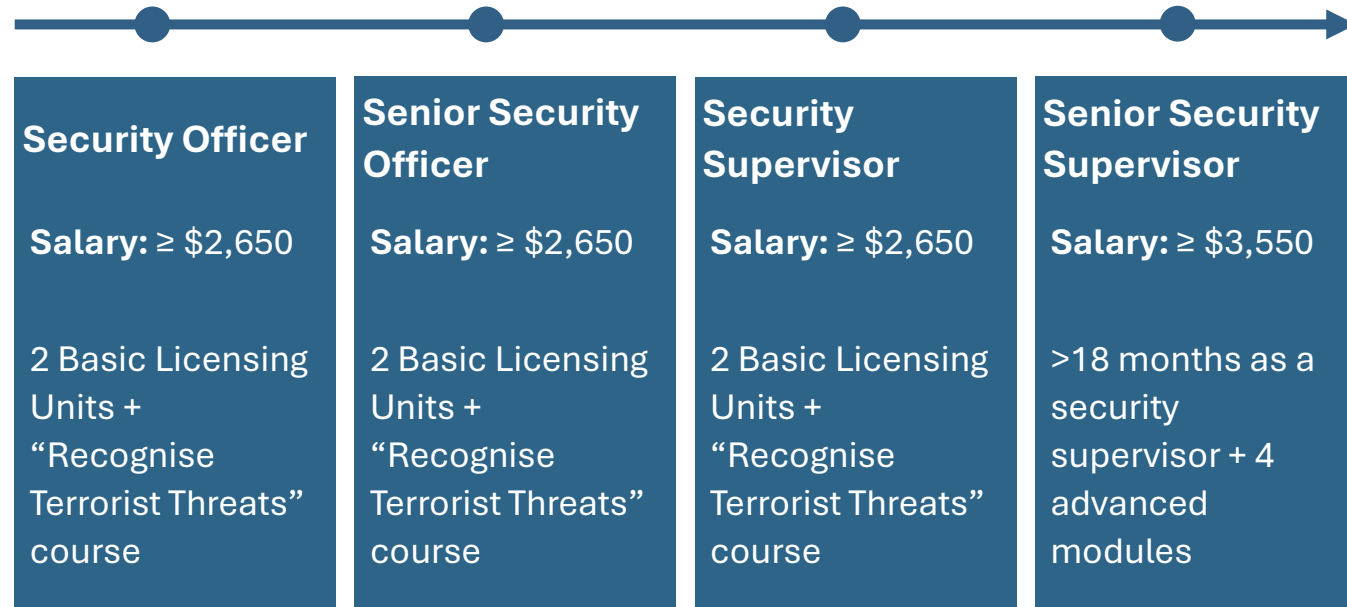
Source: Cheng and Zhang (2024).



# Design consideration 5: How will the skill progression pathways work?

- ▶ **Aligning the PWP's salary guidelines with tailored skill pathways for each occupational tier could improve career progression clarity**

Sample salary and skill progression pathway for under Singapore's PWM



**Source:** Authors' illustrations based on information from Ministry of Manpower Singapore  
**Note:** Salary figures are in Singaporean Dollars for full-time outsourced security roles, part-time security roles have a pro-rated salary scale.



## Design consideration 5: How will the skill progression pathways work?

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► **Foregoing occupation-specific skill progression and career pathways will simplify implementation – but risks diluting the skills and progression aspects which are key components of a 'Progressive Wage' approach**

- **Currently, there is no indication that the PWP salary guidelines will be aligned to a skill progression pathway.** While there is mention of a working committee that will produce an annual wage guide for each industry, the white paper stops short of detailing the implementation of skills progression pathways. This raises important considerations about how required skills training will then be aligned with the wage increment ladder
- **A clearly defined skills progression is crucial for structuring the types of skill training appropriate for each sector and job role.** Aligning wage progression with an occupation-specific skills acquisition pathway offers firms and workers a better understanding of what types of training will advance their productivity and career.



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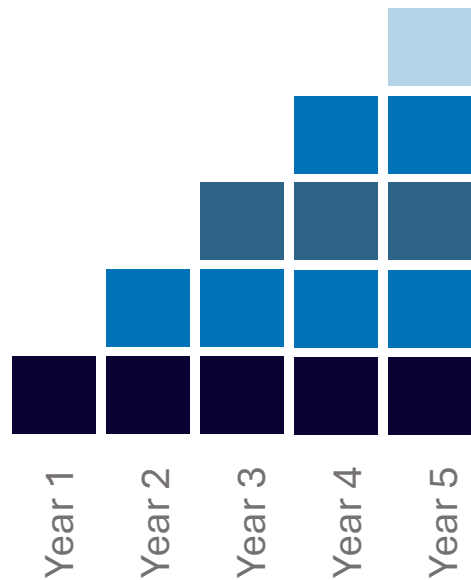
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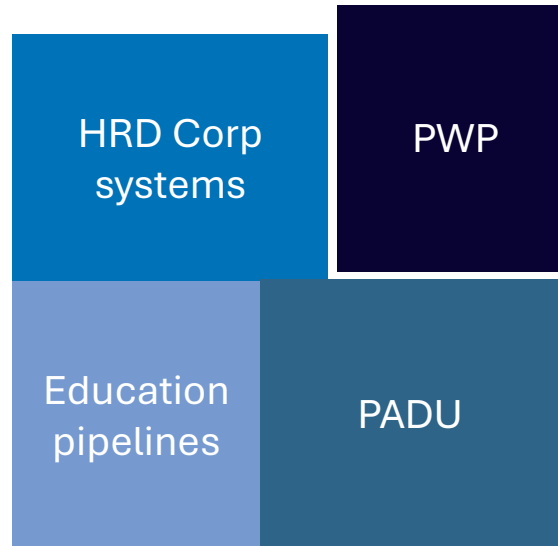
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# Future directions for Malaysia's Progressive Wage Model

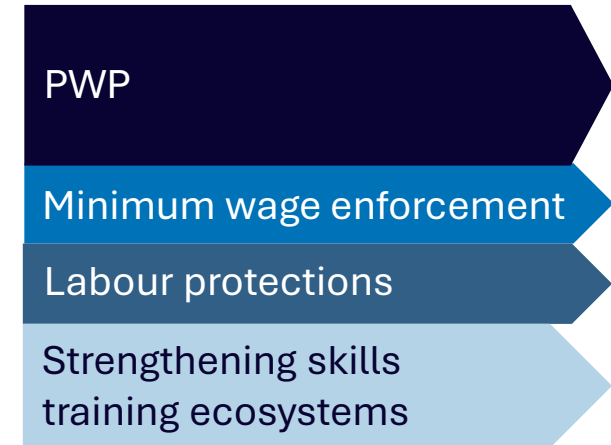
## ► Gradual improvement over time



## ► Integrate with existing systems



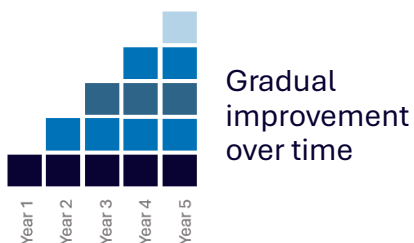
## ► Pursue other policy reforms in tandem



# Recommendation 1: Phased transition to mandatory participation

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- ▶ A gradual transition towards mandatory compliance will strengthen the PWP's impacts, whilst mitigating the disruptive effects it can have on MSMEs



## Pilot phase (Year 1-2):

- > Voluntary across all sectors but use public procurement as an incentive for firm participation

## Mid-term (Year 3-4):

- > Gradual transition to mandatory PWP in selected sectors, maintain voluntary PWP for other sectors.
- > Potential sectors to start with are Retail, Palm Oil and Security

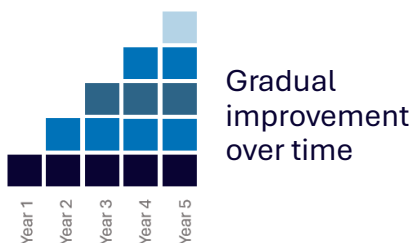
## Longer-term (Year 5-6)

- > Gradual expansion of mandatory PWP to all sectors to increase coverage and programme impacts

## Recommendation 2: Phased transition towards greater inclusion

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- ▶ Likewise, a gradual transition towards greater inclusion can boost the PWP's impacts on wages, productivity, and skills – while reducing disparities



### Pilot phase (Year 1-2):

- > Start developing outreach programmes and inclusion mechanisms for:
  - part-time workers;
  - workers with lower contract durations;
  - and larger firms

### Mid-term (Year 3-4):

- > Transition to cover full-time and part-time workers.
- > Loosen eligibility requirements to cover workers with contract duration of less than 3 years
- > Start developing inclusion mechanisms for own-account and informal workers, and larger firms

### Longer-term (Year 5-6)

- > Move towards comprehensive coverage, deploying mechanisms to include own-account and informal workers
- > Gradually incorporate larger firms, moving to a PWP that includes all firms regardless of size

## Recommendation 3: Increase integration with existing skills policies

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► **Greater integration with existing policies and institutions will make the PWP's implementation both easier and more effective**

- **Establishing a PWP skill progression pathway via HRD Corp.** Policymakers can use HRD Corp's existing data and expertise to pinpoint sector-specific skill requirements and outline well-defined skill and career progression pathways. Greater integration with HRD Corp courses will ensure that there is a clear skills progression that aligns with industry demand and provides workers with qualifications that signal their skill levels.
- **Integration with TVET, Academy in Industry (Ail), and alternative higher-education pathways.** Closer integration with existing institutions in the alternative higher-education system, such as TVET and Ail, can help align early career training with the PWP's goals.



## Recommendation 4: Make it easier for firms to comply

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► **Making it easier for firms to sign on and to comply to PWP's reporting requirements will increase participation and reduce incentives towards informality**

- **A major concern with of the PWP framework is that it places high compliance and administrative burdens for the smallest and least capable MSMEs.** This could increase their operational costs and reduce effective participation in the PWP.
- **Policymakers should simplify reporting and compliance procedures to make it easier to register, report compliance, and receive the wage credits.** This could include using standardised mobile-friendly platforms and implementing PWP compliance assistance programme specifically for microenterprises.



## Recommendation 5: Strengthen labour market institutions concurrently

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► **The PWP should be accompanied by continued progress in strengthening Malaysia’s labour market institutions**

- **Policymakers must ensure that the PWP does not detract from ongoing efforts to strengthen labour market institutions and standards.** Recent discussions that position the current voluntary version of PWP as a potential substitute for the mandatory minimum wage raise concerns about the weakening of labour protections for the country’s most vulnerable workers.
- **Policy messaging and communication should clearly outline that the PWP will not affect the continued enforcement of a mandatory wage floor for all workers.** As long as the PWP remains voluntary, the minimum wage needs to be strongly enforced, with the PWP only guiding additional wage progression above this mandatory wage floor.





## Recommendation 6: Learn and adapt from the pilot programme

- ▶ **The pilot phase is a critical opportunity to learn and adapt the PWP for nationwide rollout – and as such it needs to provide valid information**
- ▶ **Relevant steps need to be taken to make the pilot programme’s evaluation internally and externally valid.** The pilot phase is a critical opportunity to test, learn, and adapt the PWP to ensure its effectiveness and sustainability when rolled out on a larger scale. The current strategy of allowing firms to opt-in to the pilot voluntarily will create challenges in evaluation.
- ▶ **Policymakers may need to continue making adjustments to the programme design after the pilot programme ends.** As the PWP prepares for nationwide rollout, policymakers should think about how the PWP will work in the long-term, instead of merely on a year-by-year basis.



# Key takeaways

- ▶ **As the PWP transitions to nationwide implementation after the end of the pilot in September 2024, crucial decisions regarding key design aspects of the PWP will need to be made.**
- ▶ **Different policy design choices will have trade-offs and implications on the impacts and success of the PWP, so we need to make informed decisions**
- ▶ **Going forward, 1) gradually improving the PWP; 2) integrating it better with existing systems; 3) and concurrently other policy reforms in tandem, will increase the PWP's impacts.**
- ▶ **In the longer-term, we should envision the PWP to be an enduring and significant component of Malaysia's wage-setting mechanism, and work to increase its coverage across a broader section of Malaysia's workers.**



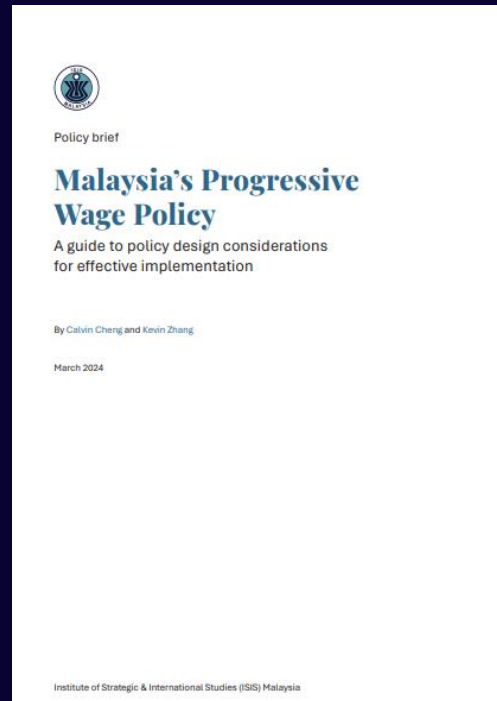
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**Thank you.**

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