



SERC SDN BHD

Socio-Economic Research Centre

PROGRESSIVE WAGE POLICY (PWP)

**Increase Wages Through Upgrading Skills and
Productivity Gains**

20 June 2024

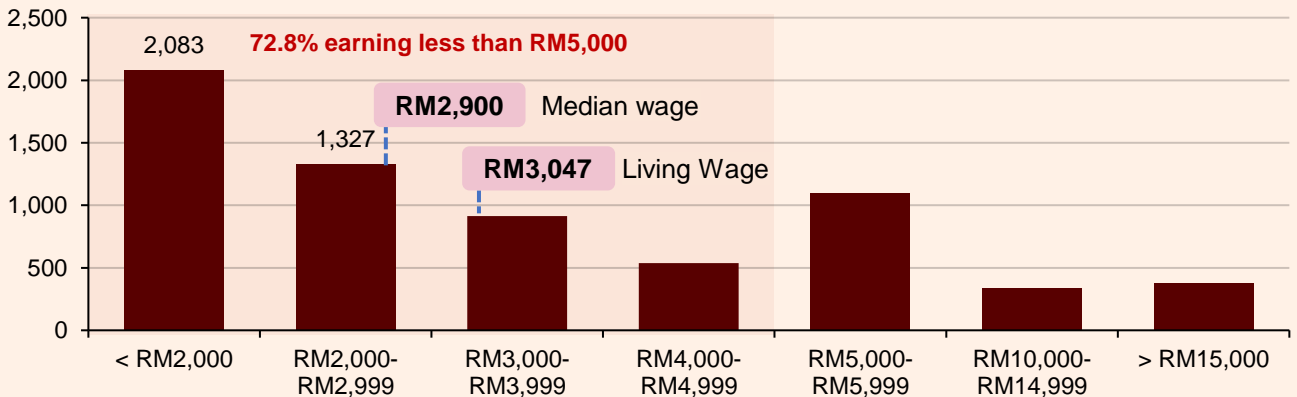




Low wages remains a policy concern

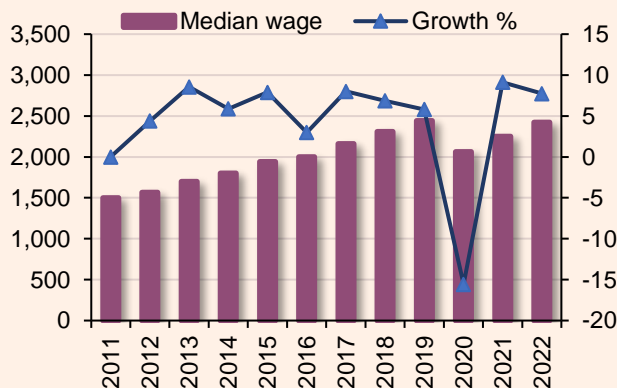
- Low average wages in Malaysia is generally linked to low productivity, skill set and technological change, the product of economic and industrial structures and policies, social forces as well as supply and demand-side mismatch, which favours the skilled over the less skilled. Hence, this structural wage stagnation has caught the attention of policymakers, compelling them to find innovative ways to address this issue.
- The national median wage of employees in the formal sector was RM2,900 per month as of December 2023. This was below the living wage of RM3,047 (as stated in PWP White Paper) - the wage level that could afford the minimum acceptable living standard. It was found that more than half of formal employees (3.4 million employees or 51.1% of total) in Malaysia were earning below the living wage.
- The World Bank said that stagnating wage growth has made Malaysia one the countries with the lowest household savings for the low and semi-skilled workers. In the presence of a “dualistic” tendency of the economy, there is growing polarisation between a lower share of skilled employees in high-wage and high-productivity sectors and a growing mass of low and semi-skilled workers employed in low-productivity and low-wage sectors.
- As at Q4 2023, Malaysia’s share of skilled employment (those who are employed in managerial, professional or technician roles) was at 27.9%, followed by semi-skilled workers (59.1%) and low-skilled employment (13.1%). The wage gap between low-skilled and high-skilled workers has widened over the last decade. In 2010, the gap between these groups was RM1,760 in 2010, and by 2022, the gap has widened to RM2,871 a month (highest was RM3,046 in 2019), causing low-skilled workers not able to catch up with high-skilled workers.

Number of formal employees by monthly salary range as of Dec 2023 ('000)

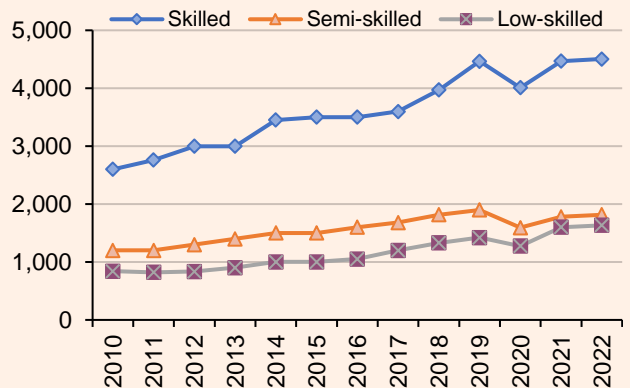


Monthly median wage (RM)

Growth rate (%)



Workers' wages by skill category (RM)



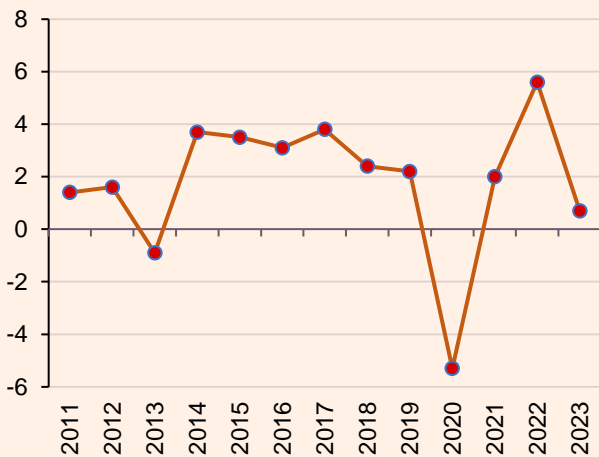
Source: Department of Statistics Malaysia (DOSM)



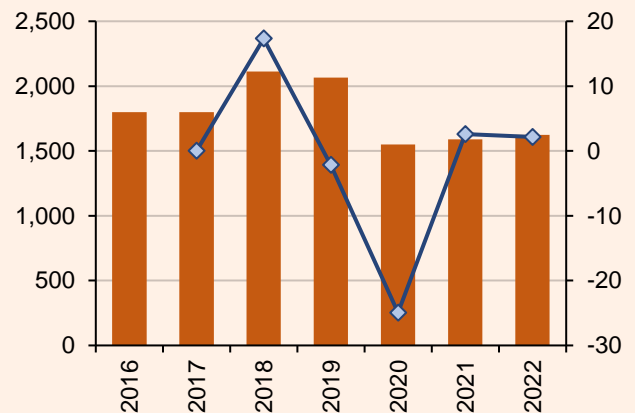
Existing wage policies have limitations

- In fact, not only wage growth was stagnating or moderate, but so was productivity growth. The implementation of Minimum Wages Policy, Productivity-linked Wage System (PLWS), as well as Collective Wage Agreement were good initiatives; however, they did not yield a significant impact on the overall wage structure and productivity of the employees.
- It should not be surprising that the minimum wage policy has not only led to wage compression, causing stagnated average wage growth of the semi-skilled workers, but also used by some employers for benchmarking the starting pay of fresh graduates. Median monthly wage of graduates grew by 7.1% per annum to RM2,066 in 2019 (RM1,800 in 2017) before declining by 11.3% per annum to RM1,624 monthly in 2022 (RM1,550 in 2020).

Labour productivity growth (%)



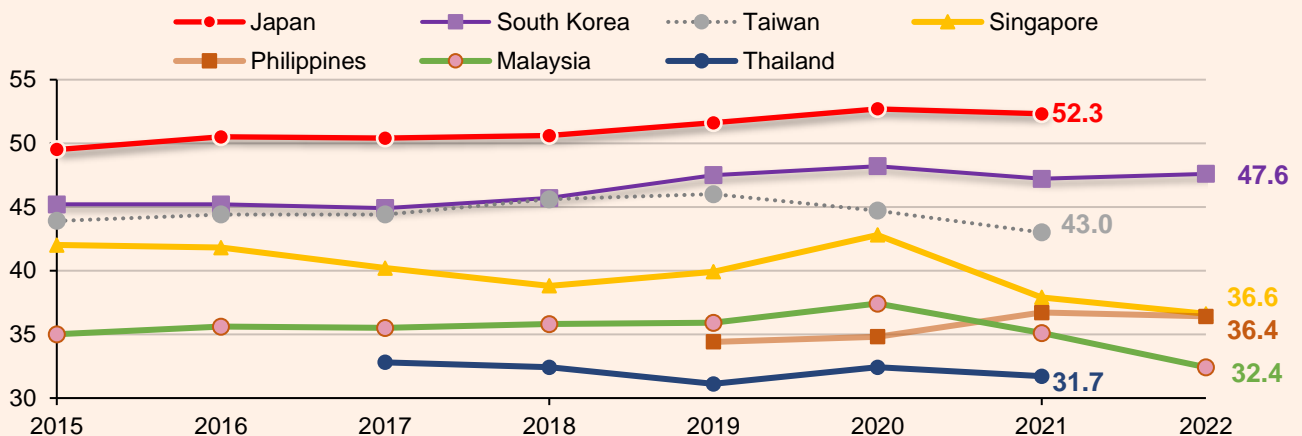
Median monthly salaries & wages of employed graduates ≤24 years old (RM)



Source: Department of Statistics Malaysia (DOSM)

- The labour share income, as measured by CE-to-GDP ratio, was set at 40% by 2025 under Mid-Term Review of the Twelfth Malaysia Plan and 45% by 2033 under MADANI Economy Framework. However, it has been on a downward trend since 2020 to 32.4% in 2022, reflecting a persistent structure of low-wage labour market. Furthermore, Malaysia was lagging behind many of her regional peers. According to the World Bank, stagnating wage growth has made Malaysia one of the countries with the lowest household savings for the low and semi-skilled workers.

Compensation of employees (CE) to GDP ratio (%)






Source: Department of Statistics Malaysia (DOSM)



What is Progressive Wage Policy (PWP) ?

INCREASE IN WAGE MATCHING BY PRODUCTIVITY IMPROVEMENT

- The tabling of the Progressive Wage Policy (PWP) on the 30th November 2023 in Parliament started a series of discussions and feedback sessions regarding the policy. The most recent was the townhall session with Minister of Human Resource on 6 June 2024.
- **PWP is an incentive based initiative by the government to incentivise the employers to help improve the wages of employees via skills upgrading and the improvement of productivity. It is a win-win policy.** While the increase in wages help to raise the employees' purchasing power but increase the output of companies.
- PWP complements to the existing policies of Minimum Wage and the Productivity Linked-Wage System (PLWS).
- **PWP has the following features:**

Voluntary 	Incentive-driven 	Productivity-linked 
Companies who are interested are able to apply online	Registered companies are eligible for incentives upon meeting certain criteria stipulated by the government	The increase in wages has to be matched by an improvement in productivity level.



Guidelines

- Companies must be **Malaysian-based** – registered with **ROS, SSM, PERKESO, KWSP and other local authorities.**
- **Government-Linked Investment Companies (GLICs) and Multinational Corporation (MNCs) are excluded.**
- **Opened to all sectors except public administration and defence.**
- **Incentives can only be claimed for Malaysian employees on a first come, first served basis.**
 - Suggestion of a starting higher wage by the Committee is based on a median salary added with a suitable increment based on certain conditions.
 - The increase in salary will be **an increase in basic salary** and shall not be treated as an additional allowance.
- Employees must be **hired on a full-time basis (contract of service) or hired on a contract basis for more than 3 years (contract for service)**
- Who is the intended beneficiaries?
 - **Malaysian employees earning between RM1,500 to RM4,999 on a monthly basic wage.**
- The progressive salary increase needs to take into account these factors: **level of labour intensity, wage trend, inflation rate, and current policies.**



Training requirements

- The concept of a Progressive Wage Policy suggest that **wage should be increased parallel to an increase in productivity**. Naturally, an increase in productivity is **cultivated through rigorous training programmes**, which constitutes an important component in the PWP.
- Furthermore, meeting these **training requirements represents a pre-condition** that has to be met to be **eligible for financial incentives**.
- The following are the **different conditions of training requirements that need to be met to be considered an effective training**:

Training	Components
Training Mode	<ul style="list-style-type: none">• Face-to-face• Remote online training• E-learning• Internal training• Hybrid
Types of training	<ul style="list-style-type: none">• Generic• Specific
Training platform	<p>The following are available training platforms that can be accessed by companies registered with HRD Corp (to utilise HRD levy) and companies who are not registered with HRD Corp (can take non-HRD levy programmes)</p> <ul style="list-style-type: none">• HRD Corp Claimable Courses (HRD levy)• On-the-Job - OJT Scheme (HRD levy)• e-LATiH – Premium (HRD levy); Free courses• Strategic initiatives of HRD Corp• Internal training• Other acknowledged training platform
Hours	Minimum 21 hours or 3 days.
Evaluation form	Employers must fill out an evaluation form to indicate the effectiveness of the training programme with respective of each industry.



Employer evaluation system

- The performance of “progressive wage employers” will be assessed in the form of number of stars given.
- It is assessed by two components: **Basic Salary and Bonus.**
- This evaluation is essential to cultivate a healthy competition between companies to create a better wage culture.

Jawatankuasa Peningkatan Kemahiran dan Produktiviti
Edaran Umum

- Dokumen yang diperlukan bagi tuntutan insentif DGP adalah seperti berikut:-

No	Mod Latihan	Sijil Kehadiran	Rekod Latihan	Penilaian Majikan
1	Latihan Bersemuka / Remote Online Training /e-LATIH	<input type="checkbox"/>		<input type="checkbox"/>
2	Latihan Dalaman / OJT		<input type="checkbox"/>	<input type="checkbox"/>
3	Hibrid	<input type="checkbox"/>		<input type="checkbox"/>

- Majikan juga perlu mengisi maklumat keberkesanan latihan dalam sistem GDP seperti berikut:-

- o Adakah latihan yang telah dihadiri ini telah meningkatkan produktiviti pekerja? Jika Ya, sila tandakan (✓) pada yang berkenaan.

- Meningkatkan janaan hasil
- Mengurangkan kos
- Kedua-duanya di atas

- o Sila nyatakan / berikan bukti bagi menyokong pernyataan di atas.

.....
.....

- o Jika **Tidak**, sila nyatakan / berikan sebab bagi yang berkenaan:

.....
.....

This form is required to be filled by the employer to indicate the effectiveness of the training undergone by the employee with respective of industry to qualify for the incentive given by the government.



Incentives rate and group of employees



- The increase in salary refers to **BASIC SALARY** and shall not be treated as an additional allowance.
- Employees involved can be further broken down to:
 - **Entry level (EL):** An employee with the company **within a year**
 - **Non-entry level (NEL):** An employee with the company for **more than a year**
- According to the “Guidebook of Starting Basic Salaries and Annual Salary Increment for Selected Sectors”, it involves most categories of occupation according to the Malaysian Standard Classification of Occupations (MASCO), which are classified as below:

MASCO 2	Professionals
MASCO 3	Technical & associate professionals
MASCO 4	Clerical support workers
MASCO 5	Service & sales workers
MASCO 6	Skilled agricultural, forestry & fishery workers
MASCO 7	Craft related trade workers
MASCO 8	Plant, machine operators & assemblers

Note:

- Managers (MASCO 1) and Unskilled Workers (MASCO 9) are not included in the PWP.
- For more information on the MASCO classification, visit the official website here: <https://gajiprogresif.gov.my/assets2/media/Guidebook%20of%20Starting%20Basic%20Salaries%20and%20Annual%20Salary%20Increment%20for%20Selected%20Sectors.pdf>

- The PWP involves all sectors **except for Government and International based organisations**
- To be eligible for the incentives, the following wage conditions need to be met:

 Entry Level (Max: RM200)	 Non-Entry Level (Max: RM300)
Current wage < PWP Guide	% Current wage increase < PWP Guide
PWP wage adjustment ≥ PWP Guide	% PWP wage increase ≥ PWP Guide

- Currently, the Guidebook outlined that the annual increment for 2024 is **6% p.a.** under PWP.
- **Incentive is the difference between adjustment and existing salary (maximum RM200) / increment (maximum RM300).**



Incentive eligibility as per the Guidebook

Entry Level

Employee	Occupation (MASCO4D)	MASCO4D Occupation Job Title	(a) RM	(b) RM	(c) RM	Assessment		Eligibility	Incentive (RM) Max(RM200)
	2142	Civil Engineers	3,000	3,115	3,300	(a) < (b)	Pass	Eligible	200
						(c) ≥ (b)	Pass		
	3112	Civil Engineering Technicians	2,500	2,470	2,500	(a) < (b)	Fail	Not Eligible	0
						(c) ≥ (b)	Pass		
	4311	Accounting And Bookkeeping Clerks	2,000	2,085	2,100	(a) < (b)	Pass	Eligible	100
						(c) ≥ (b)	Pass		
	5414	Security Guards	1,800	1,985	1,900	(a) < (b)	Pass	Not Eligible	0
						(c) ≥ (b)	Fail		
	7231	Motor Vehicle Mechanics And Repairs	1,900	2,055	2,055	(a) < (b)	Pass	Eligible	155
						(c) ≥ (b)	Pass		

Notes:

- (a) – Existing salary
- (b) – PWP Salary Guide
- (c) – PWP Salary Adjustment
- Incentive = RM(c) - (a), maximum RM200

Non-Entry Level

Employee	(a) RM	(b)	(c)	(d)	Assessment		Eligibility	Incentive (RM) Max(RM300)
	2,000	RM2,080 (4%, RM80)	RM2,120 (RM120)	RM2,120 (6%, RM120)	(b) < (c)	Pass	Eligible	40
					(d) ≥ (c)	Pass		
	2,000	RM2,160 (8%, RM160)	RM2,120 (RM120)	RM2,160 (8%, RM160)	(b) < (c)	Fail	Not Eligible	0
					(d) ≥ (c)	Pass		
	2,000	RM2,120 (6%, RM120)	RM2,120 (RM120)	RM2,120 (6%, RM120)	(b) < (c)	Fail	Not Eligible	0
					(d) ≥ (c)	Pass		
	3,900	RM4,056 (4%, RM156)	RM4,134 (RM234)	RM4,095 (5%, RM195)	(b) < (c)	Pass	Not Eligible	0
					(d) ≥ (c)	Fail		
	4,000	RM4,100 (2.5%, RM100)	RM4,240 (RM240)	RM4,500 (12.5%, RM500)	(b) < (c)	Pass	Eligible	300
					(d) ≥ (c)	Pass		

Notes:

- (a) – Existing salary
- (b) – Existing increment by Employer
- (c) – PWP Increment Guide (6%)
- (d) – PWP Salary Increment Adjustment
- Incentive = RM(d) - (b), maximum RM300



Timeline of PWP since its announcement

April-Jul 2023

Research and engagement session commenced

11th Sep 2023

Presentation of KSP RMKe-12 in Parliament that mentions PWP

7th Aug 2023

Pitch to MTEN

Nov-Dec 2023

Tabling of the White Paper of the Progressive Wage Model in Parliament

27th Sep 2023

Presentation to the Cabinet

April 2024

Registration of firms for the pilot project

May 2024

- Publishing of guidelines
- Selection of firms for the pilot project

Jan-Mar 2024

Developments of the inner mechanisms of the PWP

4th Oct 2023

Briefing of PWP to the Cabinet

September 2024

Review of the pilot project

June-Aug 2024

Duration of pilot project








PILOT PROJECT






Duration	1 June 2024 to 31 August 2024
Target	1,000 Malaysian-based companies with local employees (Entry & Non-entry) earning between RM1,500-RM4,999 per month
Sectors	5 sectors (Manufacturing, Construction, Wholesale retail and trade, Information and Communication, and Professional, scientific and technical activities)
Duration of training	21 hours or 3 days starting from 1 January 2024
Incentive duration	12 months
Starting Wage	As per “Guidebook of Starting Basic Salaries and Annual Salary Increment for Selected Sectors”
Training requirements	Type: Generic, specific; Mode: Physical, remote online training, e-learning, hybrid; Platform: HRD Corp Claimable Courses, On-the-Job (OJT) Scheme, e-Latih, Strategic initiatives of HRD Corp, Internal training, other acknowledged training platforms



Key issues raised during the Townhall session




	<p>What are the challenges of executing PWP compared to other countries that do not have many levels of bureaucracy?</p> <p><i>With more FDI coming to Malaysia, it is an utmost importance for the Government to remake Malaysia as a competitive nation and restructure our economy to generate better pay jobs.</i></p>
	<p>Will the PWP replace the Minimum Wage?</p> <p><i>It's meant to complement the Minimum Wage.</i></p>
	<p>What's going to happen post pilot project of the PWP?</p> <p><i>The pilot project by all means is to test the efficiency of the PWP and it is therefore, the finetuning of elements if any, will be given attention. The review period of the pilot project will be done in September 2024 after which the government will decide on the next course of action.</i></p>
	<p>What are the notable differences between Malaysia's PWP compared to other nations such as Singapore?</p> <p><i>The only notable differences between Singapore's and Malaysia's PWP is the job classification. Malaysia targets higher job classification while Singapore focuses primarily on sectors such as building and facility management like cleaners for example.</i></p>
	<p>Are there any tracking mechanisms to effectively monitor the training programmes other than the evaluation form?</p> <p><i>The only form of tracking is done via the evaluation form, which requires each employer to fill in and assess the effectiveness of the training undergone by employees to increase their productivity according to the respective industry.</i></p>

Key issues raised during the Townhall session (cont.)

	<p>Is there a complaint portal if a problem should arise?</p> <p><i>Any problems, employees or employers can reach out to Ketua Setiausaha (KSU) KESUMA or PERKESO via the email published on their website.</i></p>
	<p>Will the government provide further assistance if the number of training hours are not met due to insufficient levy funds (those registered with HRD Corp) – mostly catering to SMEs</p> <p><i>Despite the commencement of the pilot project in June 2024, the number of training hours (min 21 hours) will be considered from any training undergone since January 2024.</i></p>
	<p>Is there any non-monetary incentives the government can provide like a collaboration with public universities when it comes to fulfilling training hours. Certain industries do not have the necessary training providers to conduct the training, example in the manufacturing sector?</p> <p><i>The Ministry will look into the matter for consideration.</i></p>
	<p>How can the PWP be used to level the gender wage gap?</p> <p><i>The focus now is increasing everyone's salary in line with productivity gains regardless of gender for the time being but that is something the government will consider.</i></p>
	<p>There are some small scale MNCs equivalent to SMEs who could benefit from the PWP as they do not have deep pockets but are ineligible – what can be done to help them?</p> <p><i>The Ministry will look into this request.</i></p>



Key issues raised during the Townhall session (cont.)


	<p>Will there be an extension of one-year financial incentives?</p> <p><i>The one-year financial incentives were specific for the pilot project and is subjected to the availability of government's allocation and its fiscal position. An initial allocation of RM50 million for the implementation of the pilot project involving 1,000 companies.</i></p>
	<p>Why not identify a list of courses for the employees to attend?</p> <p><i>The government sees best to leave it to the discretion of the employers to decide the courses as they would know the ins and out of their industry better. The employers would know what kind of skills their employees would need to cultivate.</i></p>
	<p>Will the Government consider to the coverage of PWP to include higher pay between RM8,000 and RM10,000 per month</p> <p><i>The PWP for now will prioritise to increase the wages of employees earning at least the minimum wage to improve their livelihood.</i></p>

- The Progressive Wage Policy (PWP) starting with the pilot project in June-August 2024, marks a significant step in addressing wage disparities and enhancing the Malaysian workforce's skill set through training and productivity improvement. It was reported that about 500 employers have registered their interest to participate in this pilot run since the opening for the registration, and a total of RM50 million has been allocated by the Government for this pilot project.
- Notwithstanding, some employers may hesitate to participate in the scheme as they worry about bearing the fixed labour cost after the expiry of a one-year financial incentive. The business decision would have to consider all aspects, including finding a balance between fair workers' compensation and investing in skills development, sustaining business growth, and financial health.
- In fact, the PWP intends to assist the firms' transition towards creating better wage structure for the targeted employees. It is not a permanent feature to incentivise the firms as over-reliance on it would lead to a subsidy syndrome.
- While there are minimum wage, productivity-linked wage system (PLWS), and the collective wage agreement to help improve the income of workers, there is lacking of significant impact on the wage structure of employees; the question on everyone's mind is how will the PWP cultivate a competitive wage culture while also increasing productivity (where others were less successful: specifically the PLWS) on a sustained manner.
- Looking at the PWP Salary Matrix Tables for Entry Level Employees – **certain starting basic salary for said occupations have raised doubts on how the salary levels are determined.** For example: the starting salary of a "University and Higher Education Teaching Professionals" is RM3,580, while the starting salary of "Secondary School Teachers" and even "Primary School Teachers" are at RM3,855 and RM3,630, respectively. Clarifications are needed to explain the basis for having a lower starting basic salaries for University and Higher Education Teaching Professionals given their higher level of academic qualification.



- Under the “Guidebook of Starting Basic Salaries and Annual Salary Increment for Selected Sectors”, **managers (MASCO 1) and unskilled workers (MASCO 9) are excluded from participation**. Despite some managers earning a decent wage, it must be noted that some managerial levels earn below RM5,000 per month. The illustration below hypothetically indicates a fast-food restaurant manager earns about RM4,000 a month while a manager from a different industry earns about RM5,508 a month. It is clear that although both carry the title “Manager”, but they have a different basic salary. Based on the guidelines of PWP, the fast-food restaurant manager would not be included merely because he falls under **MASCO 1 category of managers** despite his wage level (below RM4,999) makes him eligible for the PWP. This oversight needs to be addressed. This may be a hypothetical situation but such “technical” issues could result in mistreatment of PWP.

Comparison of median wages between Managers of different industry

	
Fast-food Restaurant Manager	Manager (median wage)
RM4,000	RM5,508

- Furthermore, the median monthly wage for both professionals and managers were RM5,508 and RM5,583, respectively, according to Salaries and Wages Survey 2022. The survey indicates the Professionals are earning slightly less, about 1.3% less than managers, and yet they are included in the PWP. The rationale of including a Professional who could earn more than a Manager in the PWP needs clarification as this difference of inclusion is unjustifiable.

Comparison of median wages between Managers and Professionals

	
Professional	Manager
RM5,508	RM5,583

- The unskilled workers are excluded is deemed unfair. The guiding principle of PWP is to improve the wages of in tandem with their productivity improvement; and therefore, continuous training is required to enhance existing skills or even acquire new skill set. An unskilled worker would benefit the most from the PWP as it will enable them to climb up the wage ladder and a career path progression. Hence, clarification is needed for their exclusion as it stands against the principle behind the Progressive Wage Policy.

- Overall, the firms and employers have to embrace a productivity-linked wage system, provide job-related training, reskilling and upskilling to their employees, which will be crucial in responding to industry and market trend changes, as well as an important contributor to innovation, productivity and wage growth.
- Better wage structure for the Malaysian employees should not solely be determined by the government's intervention through the minimum wage and PWP as well as other labour policies. Market environment, economic forces, the employees' competencies and skill set are ultimately businesses' consideration in the wage setting. More importantly, employees must show strong initiatives for self-improvement and development and have the right attitude to learn new skills to keep pace with the industry's needs.
- The Government needs to support industries restructuring towards high value-added industries and automation as well as attract high-quality private investment so as to generate demand for manpower with high skill sets and getting higher wages. Creating an economy in which employers compete for productive and skilled workers matched with high productivity growth would raise wages. The quality of our education, learning institutions as well as technical and vocational education and training must be enhanced to offer a clear career pathway for the workers with skill set credentials and competencies.



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About SERC

The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM)'s Socio-Economic Research Centre (SERC Sdn. Bhd.) was established as an independent and non-profit think tank on 19 October 2010. Officiated by YAB Prime Minister on 28 April 2011, SERC is funded by ACCCIM SERC Trust.

SERC is tasked with carrying out in-depth research and analysis on a wide range of economic, business and social issues in support of the formulation of public policies to shape Malaysia's national socio-economic and industrial development agenda.

The organisation will identify and explore issues and future trends that impact domestic economic and business environments. It will also focus on sharing knowledge and promoting public understanding of socio-economic issues of national importance.

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