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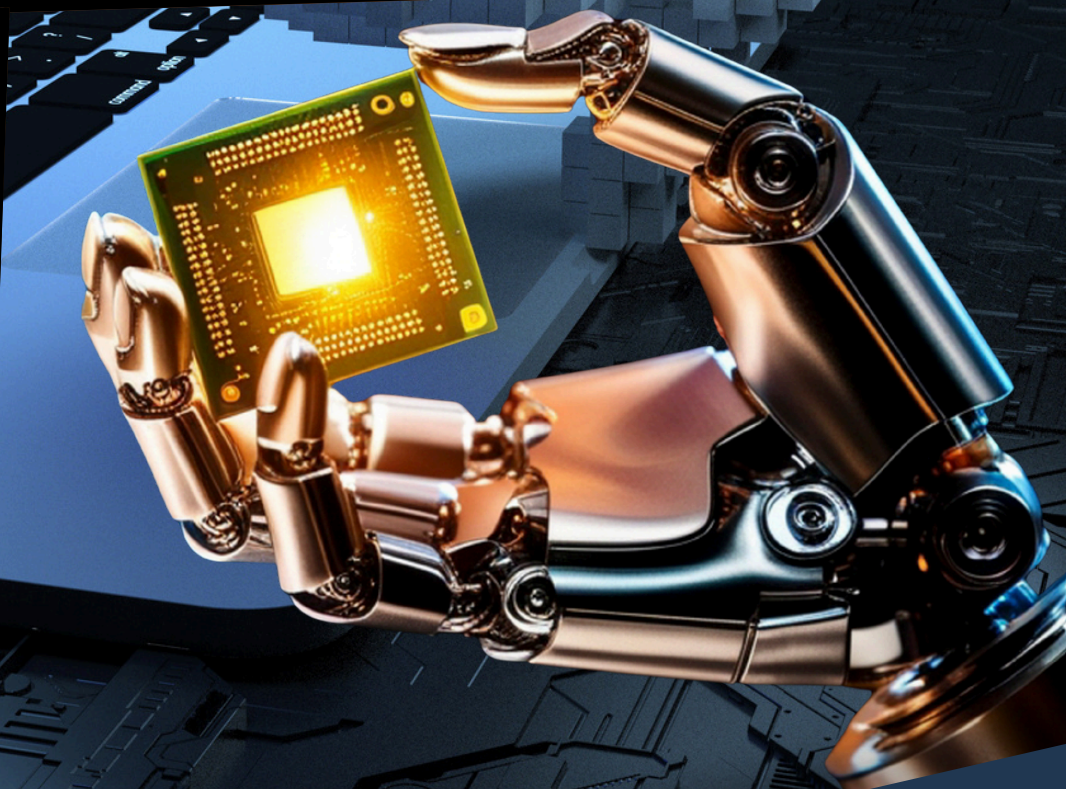


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# **SUBSIDY DELIVERY IN THE DIGITAL ERA: MALAYSIA'S HYBRID DISTRIBUTION MECHANISMS**

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## **INTRODUCTION**

Malaysia has long relied on subsidy programmes to alleviate the rising cost of living and protect households affected by the current economic situation. Historically, subsidies were largely universal and implemented through price controls on essential goods and fuel. However, mounting fiscal pressures and concerns over leakage and exclusion of intended beneficiaries have prompted the government to shift toward targeted subsidy mechanisms supported by digital and systematic administrative systems (Ministry of Finance Malaysia [MOF], 2023). In recent years, Malaysia has adopted a hybrid subsidy distribution system that combines banking-based transfers with non-banking delivery mechanisms, including MyKad-linked verification and authorised retailers. This hybrid model seeks to enhance efficiency while maintaining broad coverage. Nevertheless, the coexistence of regulated financial institutions and non-bank service providers introduces new challenges related to governance, accessibility, and inclusivity considerations.

## **SUBSIDIES DISTRIBUTION MECHANISM**

### **Banking-Based Distribution**

The banking system plays a central role in cash-based subsidy programmes such as Bantuan Tunai Rahmah (BTR). Funds are transferred directly into recipients' bank accounts or accessed through formal financial institutions. This approach capitalises on Malaysia's relatively high level of financial inclusion and its well-developed payment infrastructure (Bank Negara Malaysia [BNM], 2023). Banking-based distribution enables greater traceability, faster disbursement, and importantly, participating banks are subject to prudential regulation and reporting requirements under the Financial Services Act 2013 and Islamic Financial Services Act 2013. As a result, this channel operates firmly within the supervisory authority of Bank Negara Malaysia (BNM, 2023).

### **Non-Banking Distribution**

Non-banking distribution refers to delivery mechanisms operating outside of conventional financial institutions. In Malaysia, this includes subsidy redemption through MyKad-linked systems, point-of-sale verification, and authorised retail outlets, all of which are often administered by third-party entities such as MyKasih Foundation. This channel is particularly relevant for item-based subsidies, where benefits are restricted to specific goods rather than disbursed in cash. The non-banking approach aims to reach individuals without consistent access to banking services while ensuring that subsidies are spent on intended necessities. It also reflects international trends that link social assistance programmes to national identification systems. However, unlike banks, these entities fall outside the prudential regulatory perimeter of Bank Negara Malaysia and rely primarily on contractual arrangements and ministerial oversight for governance.

## **CHALLENGES OF BOTH DISTRIBUTION MECHANISMS**

### **Banking-Based Distribution**

Despite its operational advantages, banking-based distribution faces several limitations. Certain population segments, particularly the elderly, informal workers, and rural households, may lack active bank accounts or sufficient digital literacy, therefore constraining their effective access to benefits (BNM, 2023). In addition, inaccuracies in income reporting and household registration can lead to targeting errors. The use of digital banking platforms also exposes subsidy programmes to cybersecurity risks and potential service disruptions. Moreover, cash transfers provide limited control over expenditure patterns, as recipients may allocate spending to non-essential consumption.

### **Non-Banking Distribution**

Non-banking mechanisms encounter a different set of challenges. For example, the implementation of MyKad-based systems is inherently dependent on compatible point-of-sale devices, reliable internet connectivity, and frequent database updates. In the event of system downtime or verification failures, it may prevent eligible recipients from redeeming benefits thereby undermining public confidence in the system. From an institutional perspective, the governance of non-bank subsidy channels differs substantially from that of banking channels. While banks operate under the supervision of Bank Negara Malaysia, MyKad-linked platforms and foundations that administer subsidies are not subject to the same prudential regulatory framework. Instead, they function through government contracts and programme-specific guidelines. This regulatory asymmetry raises concerns regarding accountability, data governance, and operational transparency.

## **IMPACT OF THE NON-BANKING SYSTEM**

The MyKad-based subsidy system is designed to ensure that only eligible individuals can redeem subsidised goods and that benefits are used for designated items. While this approach enhances targeting and reduces leakage, it generates unintended consequences for small retailers. Many micro and informal retailers lack the financial capacity to install payment terminals or verification devices required for participation. As a result, subsidy redemption becomes concentrated among large retail chains and selected outlets. This concentration diverts consumer traffic away from neighbourhood shops toward authorised retailers, potentially weakening the economic viability of small businesses. The exclusion of small retailers also

affects beneficiaries, particularly those living in rural or low-density areas where access to authorised outlets is limited. Higher travel costs and longer transaction times may diminish the effective value of subsidies for these households..

Furthermore, because non-banking subsidy mechanisms operate outside the regulatory jurisdiction of Bank Negara Malaysia, oversight relies on contractual governance and administrative monitoring rather than prudential supervision. While this arrangement may be sufficient for operational control, it creates an institutional gap between financial and non-financial subsidy channels. Such fragmentation complicates efforts to create a coherent and transparent subsidy delivery framework.

## CONCLUSION

Malaysia's hybrid subsidy distribution system represents an attempt to balance fiscal discipline with social protection objectives in an increasingly digital policy environment. Two distinct functions are identified, with banking-based transfers leveraging a robust financial infrastructure and regulatory oversight by Bank Negara Malaysia, while non-banking mechanisms such as MyKad-linked systems are used to enhance control over the use of subsidised goods. However, the coexistence of these channels introduces governance and inclusion challenges. The exclusion of small retailers from non-banking subsidy mechanisms illustrates how digital delivery can inadvertently marginalise micro-enterprises and raise access costs for certain households. Additionally, the regulatory asymmetry between banking and non-banking channels raises important questions concerning accountability, transparency, and data management. Future subsidy reforms should prioritise system interoperability, technical support for small retailers, and clearer institutional coordination between financial regulators and programme administrators. A more integrated hybrid framework, combining the strengths of regulated banking channels with inclusive non-banking mechanisms would enhance the sustainability and equity of Malaysia's subsidy distribution system.

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