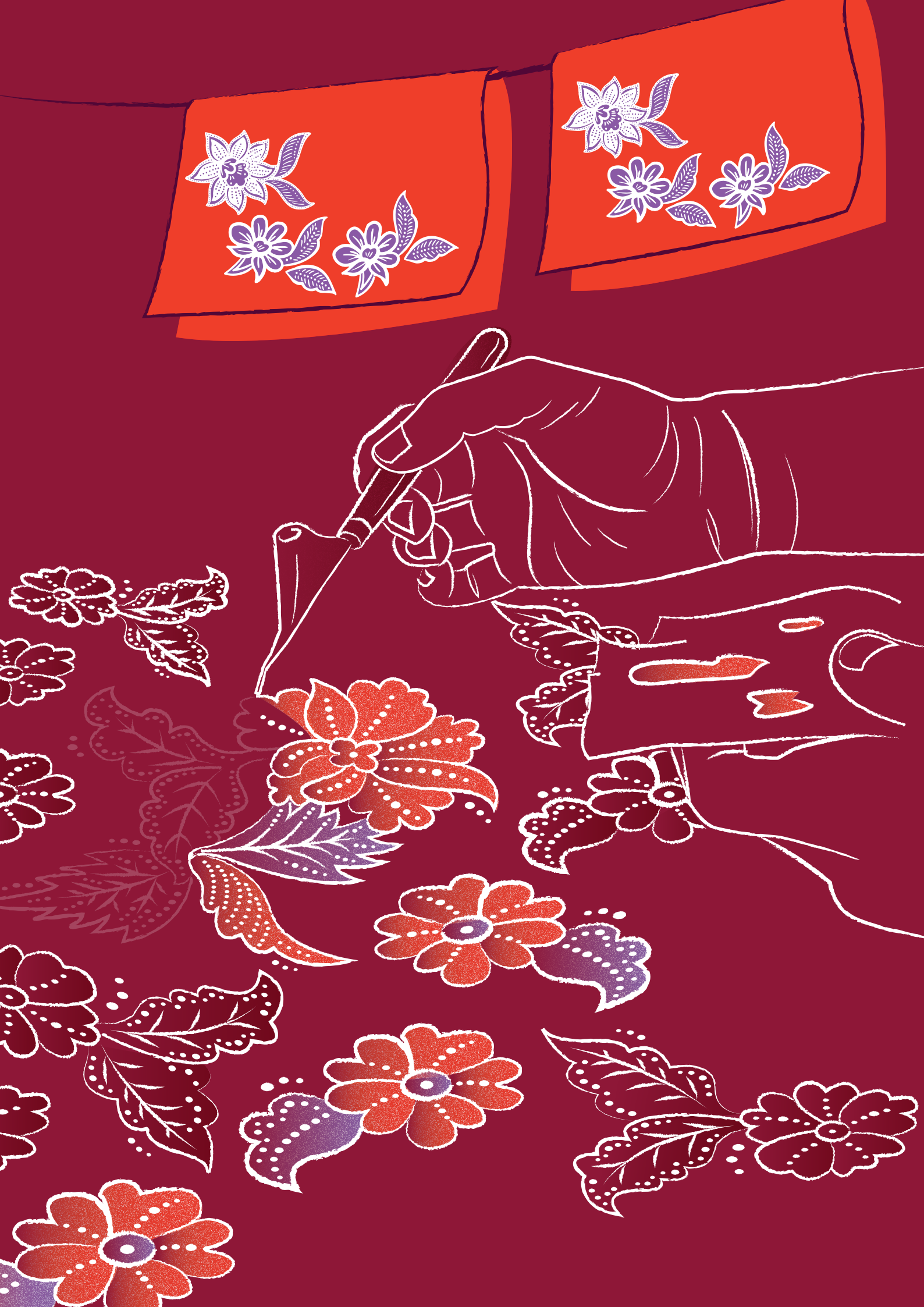




# **Chapter Three: Unlocking the Private Sector Role for Sustainable Development**







## Chapter Three:

# Unlocking the Private Sector Role for Sustainable Development



As the market economy has grown—the largest corporations now have annual revenues that are on par with the GDP of entire countries—so has its effects on society. Market forces influence what we eat, who we communicate with, where we live, what we study, the amount of trash we produce and how we dispose of it, and so much more. Indeed, the market shapes our choices even as it is shaped by our choices.

When the private sector is not aligned with critical sustainable development values, there are risks both to human and environmental well-being, and to the long-term health of the economy. In this chapter, we explore how failing to protect migrant workers creates conditions for labour abuse while also creating barriers to export markets and labour supply. We also see how building cultures of integrity, free from corruption, contributes to a stronger and healthier business environment.

Just setting the bar at ‘do no harm’ is insufficient, however. How can we unlock private sector capacity to make the world a better place? In the investment space, we look at the present ‘environmental, social and governance’ (ESG) investing model and where

it needs to be strengthened to ensure real SDG impact. We also look at social enterprises—global and local—where entrepreneurs have made use of market forces to sustain social good.

Finally, we consider the physical and digital infrastructure needed to enable businesses—especially smaller businesses rooted in rural and remote communities—to realize their potential. Entrepreneurship requires opportunity and know-how. By creating suitable ecosystems for local communities and small businesses to participate in the market, we empower them to take ownership of their development journey.

Because the private sector is a major driver of development, any solution for sustainability must harness its capacity to create, disrupt and grow. It is not just an abstract entity, but consists of real people—many of whom are looking not only to make a living but also to make a difference to the places and communities they are rooted in.

The extent to which we enable the latter will determine our collective progress toward the SDGs.

## 3.1

# A Time to Speak

### SCENE 1

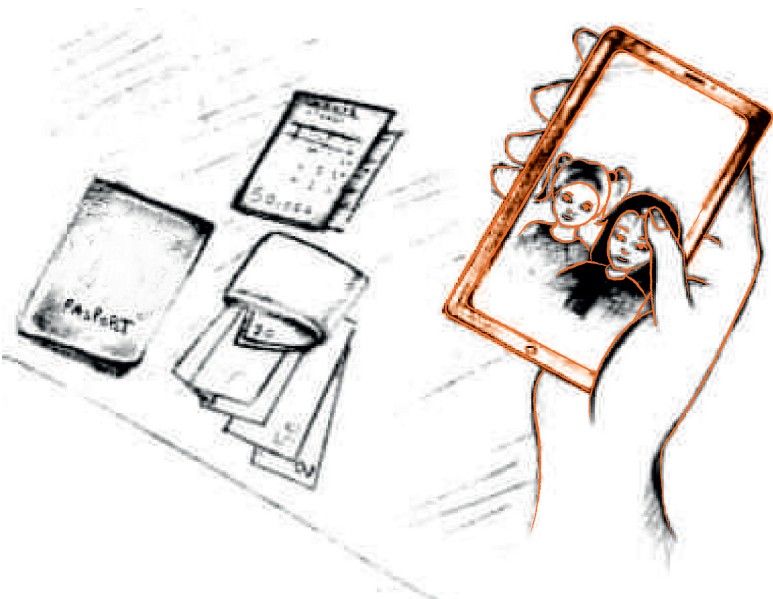
"Hello! Hello! Can you hear me?" A jigsaw of pixels flicker across my phone screen, hinting at the blurred outlines of my wife and daughter. "Hi Amal, do you see me *shona*?" No answer. "Amal, *baba* just wanted to wish you happy birthday—can you hear me?" The screen goes black just as the break bell sounds across the compound.

Today marks the third year in a row I am missing my daughter's birthday. Crossing the compound to get back to work, I try comforting myself with the thought that Amal's birthday coincides with this month's payday. Instead, my chest grows tight when I think about the last four months of unpaid wages. As the last of the bodies trickle into the factory, my floor manager calls out, "*Beratur untuk bayar gaji!*" Letting out a sigh of relief, I make my way to poise myself at the front of the crowd. At least I can send money back home this month—maybe even enough for a birthday gift for Amal.

The roll of cash I accept feels light in my palm. With each note that I count out, the image of Amal toying with building blocks and action figures fades into the distance. This cannot be right.

Before moving to Malaysia, I had used up my savings to pay the recruiter's fees. That was supposed to include the cost of my work permit and other arrangements for the five-year contract period. But, when I arrived two years ago, I was told that a monthly fee would be charged to my wages for 'administrative reasons'. By then, I had invested too much to turn back, so I accepted the terms.

I thumb through the wad of bills again and again. It hardly covers half of the amount owed for the last 5 months, even after the usual monthly deductions. "*Biasa-lah,*" my floor manager sighs as he explains that the increased cuts are due to the recruitment agency and immigration authorities charging higher fees. I ask what the fee increases are for, but he scowls and hints at trouble with the immigration authorities if I keep complaining.



#### Glossary

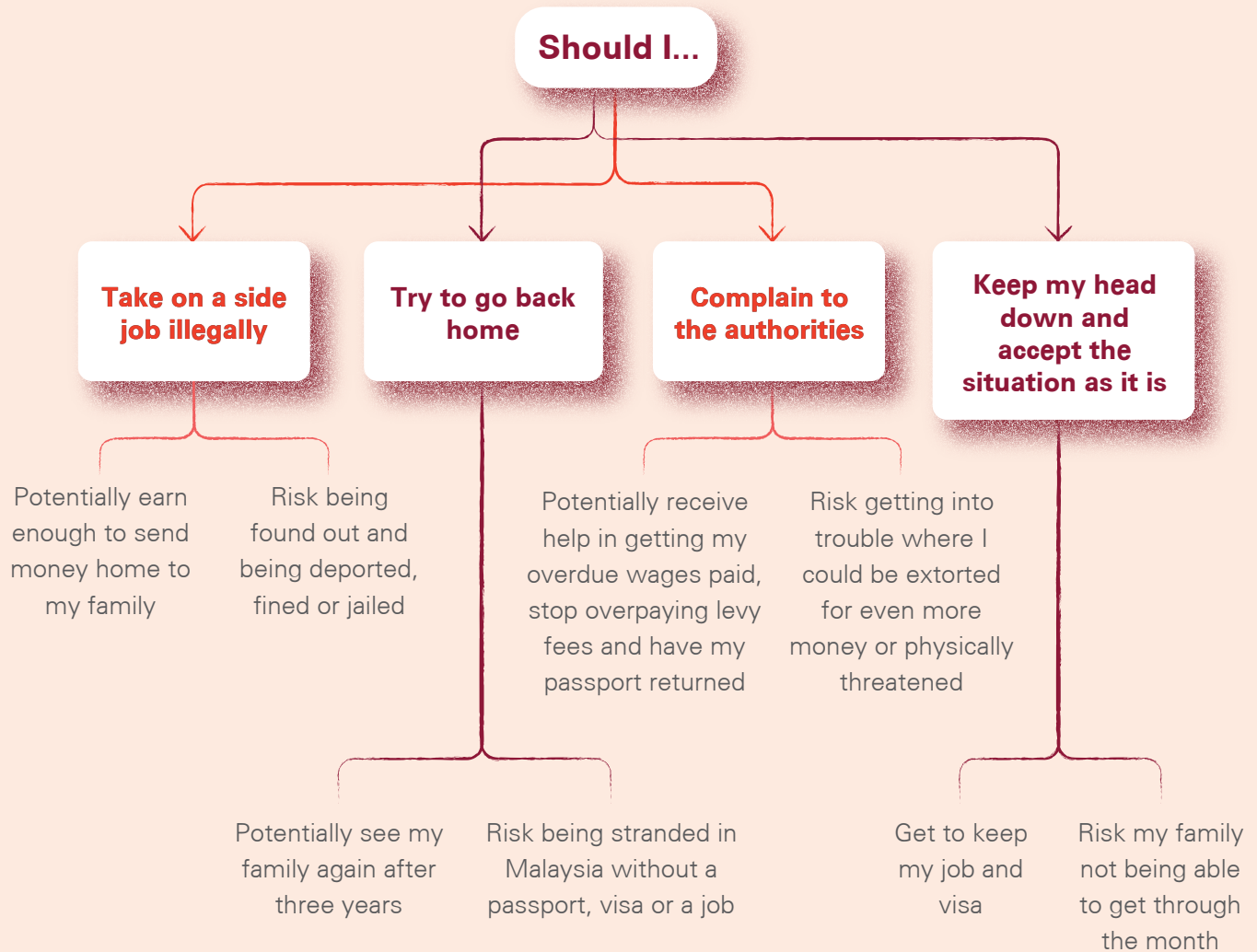
*Baba*: Father

"*Beratur untuk bayar gaji*": "Line up for wage payment"

"*Biasa-lah*": "The usual"

*Shona*: Honey (term of endearment used between family members)

As we are dismissed back to our workstations, I think of how my family will struggle to make it through to the next month. My family's landlord back home will not give any further extensions on rent payments and my wife had spent the last of the money I had sent. Because I had to surrender my passport to my floor manager for 'safekeeping' when I first arrived, I am stuck in Malaysia and tied to this job for another three years. While my hands busy themselves with packaging silicon wafers, I think about my options:



**As I weigh the choices, I overhear my co-workers bring up a name. The name of a journalist who might help. Turning to them, I ask, "How do I contact her?"**



## SCENE 2

“I’m sorry we just can’t do it, Riya,” my editor’s voice echoes through the phone. “The risk is far too high. Have you seen the cases in the news lately?” My editor, Jun, is referring to recent headlines spelling ‘alleged defamation’ and ‘million-ringgit lawsuit’.

I spent the last six months stowed away in *mamaks*, interviewing workers from a semiconductor manufacturing facility on the outskirts of the Klang Valley. I received a tip about a string of labour abuses towards the mix of documented and undocumented migrant workers there. Over too many cups of *teh ais*, I had penned accounts of withheld wages, unwarranted levy charges, passport retention and verbal intimidation. After finally

completing the first draft of the study last week, I forwarded it to my editor and spent the rest of the week anticipating his response.

“Riya, you know the risks we could face if we publish this. The newspaper is still recovering from the last lawsuit,” he sighs. “But Jun,” I argued, “the study makes a strong enough case for an official public enquiry. That is why we became journalists, right? To make a difference?”

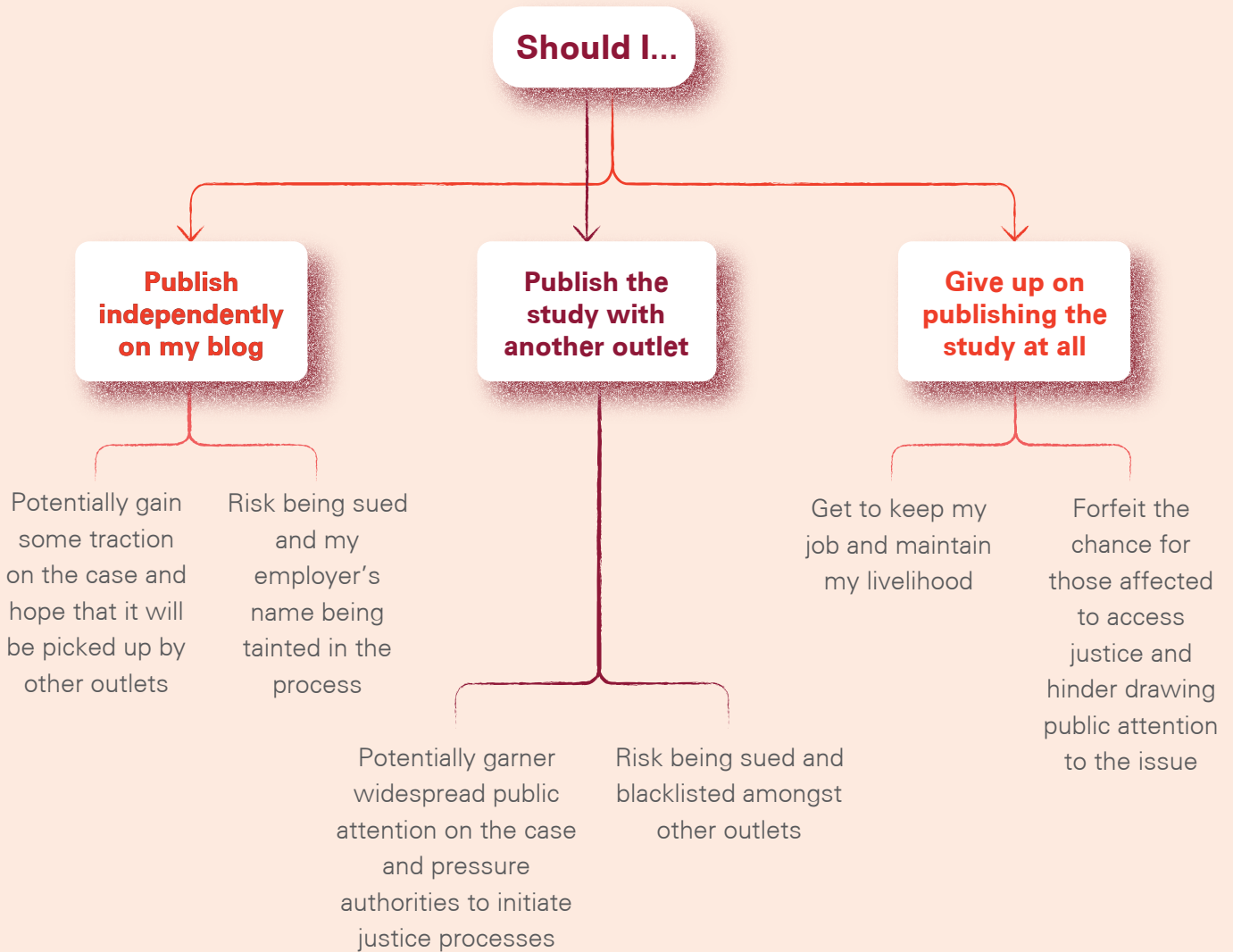
The call ends without a conclusion. Even so, I doubt Jun will give way. We were already hit with pay cuts in the last quarter to fund our mounting legal expenses. I power up my laptop as I think of what to do now:



### Glossary

*Mamak: Open-air eateries serving Indian-Muslim cuisine*

*Teh ais: Iced Ceylon tea, prepared with condensed milk*



The time on my laptop screen reads 8:54am as I pull up my emails, searching for one that came in a few days ago. My mouse hovers over the subject line 'Invitation: UNDP Roundtable with Human Rights Defenders on Use of Strategic Lawsuits Against Public Participation (SLAPP)'.

UNDP supports dialogue, awareness and training on the UN Guiding Principles on Business and Human Rights in Bangladesh, India, Indonesia, Malaysia, Myanmar, Sri Lanka, Thailand and Vietnam. In several countries, UNDP is supporting governments in the development and implementation of National Action Plans on Business and Human Rights. UNDP also works with civil society, providing grants to organizations in the region in support of human rights defenders. UNDP's work with businesses includes developing due diligence tools, conducting training for staff, and supporting impact assessments.

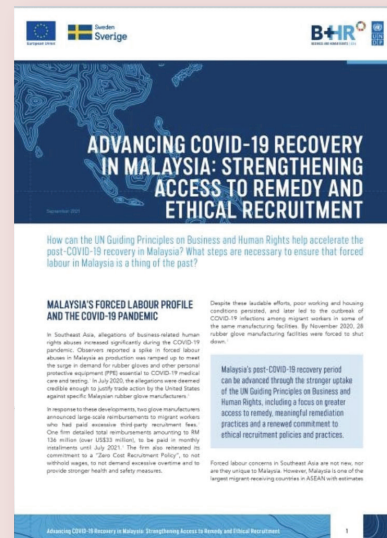




Business recovery guidelines are essential for Malaysia's progression amidst the COVID-19 pandemic. Scan the QR code to read the **UNDP's publication.**



To find out more about **advancing COVID-19 recovery and remedies in Malaysia**, scan the QR Code.



## WHAT ABOUT OUR RIGHTS?



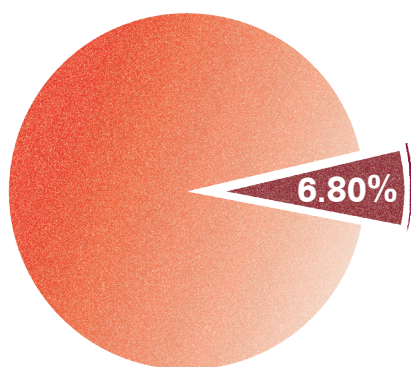
Scan the QR Code to find out more about **court services and policies** in Malaysia.

## 3.2

## Mainstreaming Responsible Business Practices for Post-Pandemic Recovery

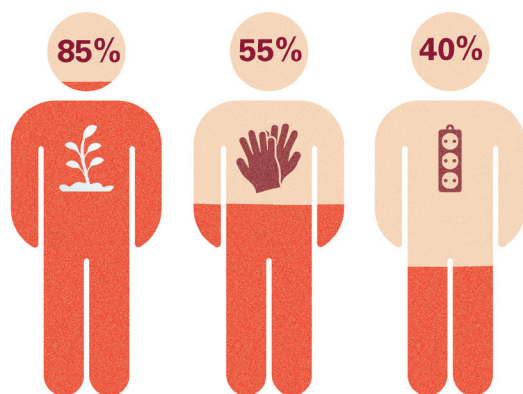
As Malaysia's national agenda turns towards recovery following the COVID-19 pandemic, the participation of migrant workers in the country's labour force remains critical to its economic rebound. With 1.1 million documented migrant workers making up 6.8 percent of the total labour force, Malaysia is the leading migrant-receiving country in the region.<sup>1</sup> Its key industries are largely dependent on foreign labour with migrant workers representing 85 percent, 55 percent and 40 percent of the labour force in plantation, glove-making, and electrical and electronics (E&E) manufacturing respectively.<sup>2</sup> With the acceleration of responsible business practice (RBP) codification in national, regional and international legislation—many of which are linked to issues of migrant labour—Malaysia's commitment to RBP is necessary to minimize supply chain disruptions and maintain foreign investment. To preserve Malaysia's place in the global value chain, an expansion on risk assessments capturing the links between RBP and national economic security is due.

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### Key industries are largely dependent on foreign labour



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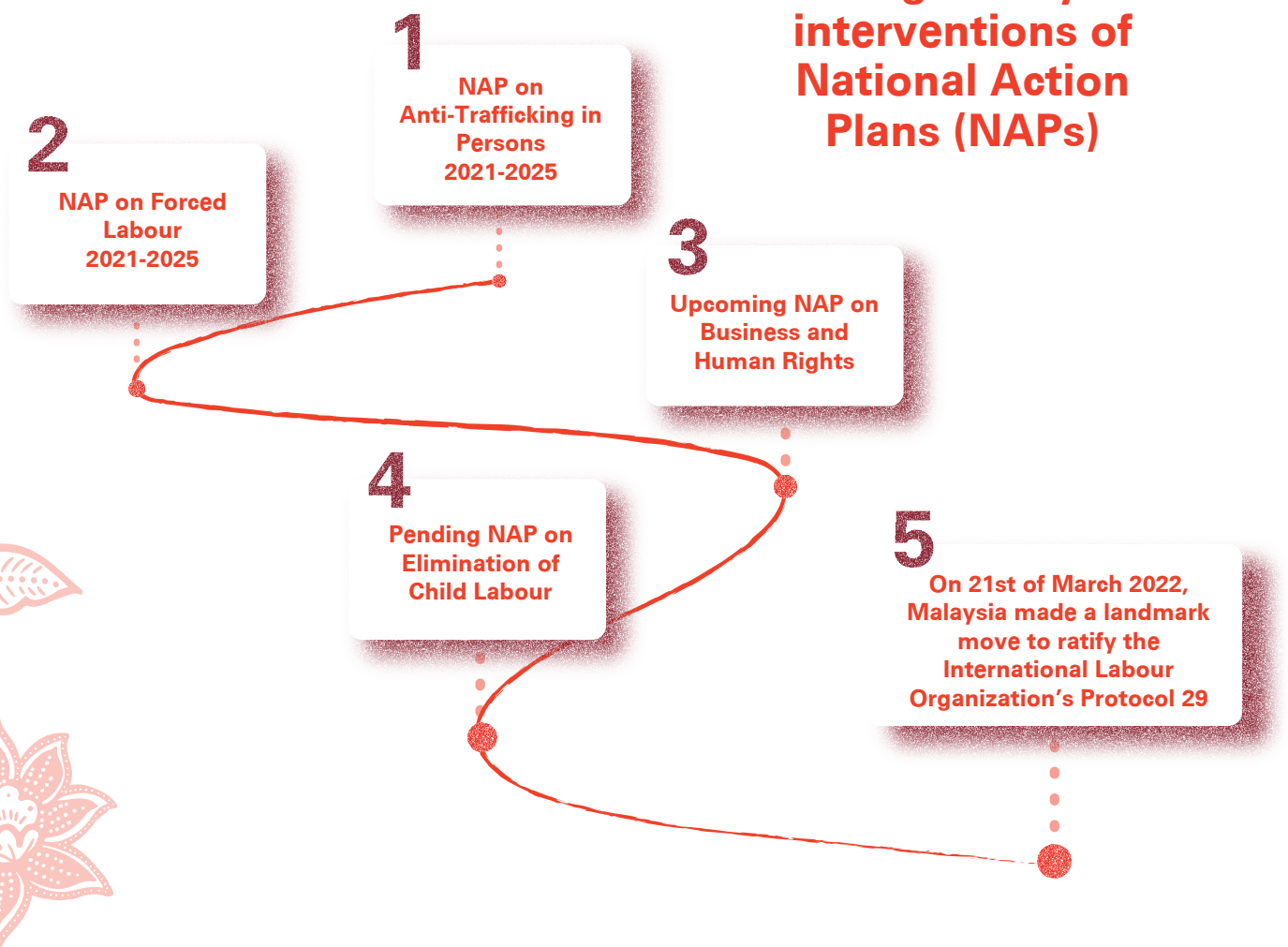
<sup>1</sup> Malaysian Employers Federation. "Key Statistics." Malaysian Employers Federation, n.d., <https://www.mef.org.my/kc/statistics.aspx>. Accessed 5 July 2022.

<sup>2</sup> Surendran, Supriya. "Special Report On the 12th Malaysia Plan 2021-2025: Industries insist a lot more time needed to adjust to 15% foreign labour cap." The Edge Markets, 11 October 2021, <https://www.theedgemarkets.com/article/special-report-12th-malaysia-plan-2021-2025-industries-insist-lot-more-time-needed-adjust-15>. Accessed 5 July 2022.

Despite Malaysia's historical dependency on outsourced human capital, labour abuses remain rampant in the form of poor living conditions, curtailed freedom, forced labour and harassment by authorities. Often beginning at the recruitment stage, migrant workers are exploited by discriminate levy systems that trap them in a cycle of debt bondage. In the last decade, the call for RBP to address migrant worker treatment has emerged at the forefront of national, regional and international agendas. This is in part due to its address in Target 8.7 of the United Nations (UN) Agenda 2030 which emphasizes measures to eliminate forced labour, modern slavery, human trafficking and child labour. In this context, RBP is becoming an entry point for private and public entities to achieve economic and sustainable development outputs in line with the UN Sustainable Development Goals.

In recent years, Malaysia has initiated regulatory interventions through a series of National Action Plans (NAPs), including the 'NAP on Anti-Trafficking in Persons 2021-2025', the 'NAP on Forced Labour 2021-2025', the forthcoming 'NAP on Business and Human Rights', and the pending 'NAP on Elimination of Child Labour'. On 21 March 2022, Malaysia made a landmark move to ratify the International Labour Organization's Protocol 29, which calls for effective measures to prevent forced labour, protect victims and ensure their access to justice. At a glance, the national RBP landscape reflects efforts to cultivate the intersection between humanitarian and economic interest. Yet, poor business practices continue to disrupt key industries across the country in two distinct ways.

## Regulatory interventions of National Action Plans (NAPs)



Firstly, the absence of RBP mainstreaming coupled with movements to implement foreign labour quotas by both Malaysia and migrant-sending countries are exacerbating severe labour shortages across sectors.<sup>3</sup> Considering the pandemic-induced exodus of migrant labour, there is an estimated gap of 1.2 million workers across plantation, construction and manufacturing sectors due to severe delays in resumption of foreign labour supply.<sup>4</sup> Inconclusive negotiations with migrant-sending countries over worker protection triggered sales losses ranging in the billions for palm oil plantations and semiconductor manufacturers, impeding the country's economic recovery by creating supply chain vulnerabilities.<sup>4</sup>

Secondly, businesses are increasingly subject to import bans over egregious labour practices, with the last two years alone seeing the United States ban six Malaysian companies over forced labour claims.<sup>5</sup> Experts have weighed in on the rising risk to our export-reliant growth model if the government and businesses do not address poor labour practices across industries.<sup>6</sup> In 2021, a major multinational home appliance manufacturer pulled out of Malaysia when an audit of its local supplier revealed accounts of forced labour.<sup>7</sup> While major economic drivers such as rubber and palm oil exports have long been subject to financial, legal and reputational hazards, experts predict a national economic

fallout if the electrical and electronics sector is to follow suit.<sup>8</sup>

Accordingly, RBP intervention should be framed as part of a system-wide strategy interlinking a network of stakeholders and policies rather than an isolated agenda. One such way this has been addressed is through conducting comprehensive stakeholder mapping to locate the role of outsourcing recruitment agencies in enabling labour abuses. To this end, the 'NAP on Forced Labour' introduced policy instruments to regulate the over 1,000 private recruitment agencies brokering the recruitment, processing and transport of migrant workers.<sup>9</sup> This included introducing recruitment cost remediation mechanisms which were exercised when one glove manufacturer compensated RM50 million to its migrant workers who had overpaid third-party recruitment fees.<sup>10</sup>

However, one system issue that hinders RBP implementation is the use of Strategic Lawsuit Against Public Participation (SLAPP) acts by businesses, recruitment agencies and government entities to silence human rights defenders. By exhausting defendants' resources, SLAPP acts are deterrents to key actors who are integral to the RBP ecosystem. For example, in February of 2022, a recruitment agency filed a RM30 million lawsuit against a

<sup>3</sup> Idris, Ahmad Niqab. **"Malaysia to only allow foreign workers in construction, plantation, agriculture sectors."** *The Edge Markets*, 29 July 2020, <https://www.theedgemarkets.com/article/malaysia-only-allow-foreign-workers-construction-plantation-agriculture-sectors>. Accessed 5 July 2022.

<sup>4</sup> Lee, Liz & others. **"Malaysian firms turn down orders as migrant labour shortage hits."** *Channel News Asia*, 13 June 2022, <https://www.reuters.com/world/asia-pacific/malaysia-firms-turn-down-orders-migrant-labour-shortage-hits-2022-06-13/>. Accessed 20 June 2022.

<sup>5</sup> US Customs & Border Protection. **"Withhold Release Orders and Findings List."** US Customs and Border Protection, n.d., <https://www.cbp.gov/trade/forced-labor/withhold-release-orders-and-findings>. Accessed 25 July 2022.

<sup>6</sup> Lee, Liz, Chu, Mei Mei & Ananthalakshmi, A. **"Analysis: Malaysia's labour abuse allegations a risk to export growth model."** *Reuters*, 22 December 2021, <https://www.reuters.com/world/asia-pacific/malaysias-labour-abuse-allegations-risk-export-growth-model-2021-12-21/>. Accessed 22 June 2022.

<sup>7</sup> Reuters. **"Dyson dumps Malaysian supplier ATA over labour concerns."** *Channel News Asia*, 25 November 2021, <https://www.channelnewsasia.com/business/dyson-end-contract-ata-malaysia-forced-labour-2337426>. Accessed 1 July 2022.

<sup>8</sup> Cheah, Choor Sooi. **"Proposed EU ban on products made by forced labour may impact Malaysia."** *Focus Malaysia*, 9 August 2021, <https://focusmalaysia.my/proposed-eu-ban-on-products-made-by-forced-labour-may-impact-malaysia/>. Accessed 1 July 2022.

<sup>9</sup> Moreno, Muñoz & others. **"Malaysia - Economic Monitor: Immigrant Labor."** *The World Bank*, 1 December 2015, <http://documents.worldbank.org/curated/en/753511468197095162/Malaysia-Economic-monitor-immigrant-labor>. Accessed 30 June 2022.

<sup>10</sup> Aiman, Ainaa. **"Top Glove to refund RM50 mil in recruitment fees to its foreign workers."** *Free Malaysia Today*, 5 August 2020, <https://www.freemalaysiatoday.com/category/nation/2020/08/05/top-glove-to-refund-rm50-mil-in-recruitment-fees-to-its-foreign-workers/>. Accessed 1 July 2022.

migrant rights activist after the activist raised allegations of corruption.<sup>11</sup> SLAPP acts against human rights defenders such as this disables effective RBP mainstreaming by obstructing the ability to raise concern and scrutinize compliance. Altogether, movements towards system-wide strategy harmonization are only made possible when thinking about RBP among an interconnected web of stakeholders and policies.

Looking forward, how do we evolve beyond a soft law approach that depends largely on a voluntary moral compass? The creation of social value through corporate governance tools such as Corporate Social Responsibility (CSR) and Environmental, Social and Governance (ESG) do not absolve the need to reckon with existing labour abuses through RBP. In this

way, CSR and ESG frameworks only represent part of the way forward. At this juncture in RBP mainstreaming, a coordinated focus should be placed on graduating from norm-building to policy enforcement. The call stands for businesses and policymakers to build an environment where RBP is the normative governing agenda, not the exception. UNDP looks to answer this call by supporting the Government of Malaysia to launch the country's first 'NAP on Business and Human Rights' in 2023, following in the footsteps of neighbouring Thailand, Japan and Pakistan. Upholding RBP has long been rooted in our conviction to ensuring human rights. Now, in the face of humanitarian and economic risks, it will be decisive in securing Malaysia's post-pandemic recovery.



<sup>11</sup> Nambiar, Predeep. **"See you in court, migrant activist tells recruitment firm boss suing him."** Free Malaysia Today, 16 February 2022, <https://www.freemalaysiatoday.com/category/nation/2022/02/16/see-you-in-court-migrant-activist-tells-recruitment-firm-boss-suing-him/>. Accessed 1 July 2022.

### 3.3

## It Was Just Dinner

Wednesdays were the most tiresome of workdays—halfway through a tiring work week, but only halfway to the weekend—Ming thought, slouching at his poorly lit office cubicle that evening. He was sitting on a list of menial tasks colleagues had sent his way. If he had his way, no e-mails would be allowed after 4 p.m.

Thankfully, there were more inspiring things to look forward to. His schoolmate, Adam, had invited him for dinner in Damansara Heights. Usually, Ming would pass on invitations to socialize, but Adam mentioned something about an exciting and lucrative opportunity. If it worked out, maybe he could finally afford that overseas vacation to Japan he had been saving for.

That thought was much more interesting than the e-mails staring at him. Allowing himself a moment of fantasy, he pulled up the search bar and typed in 'Kyoto tours', 'Malaysia-Japan flights', and 'Ringgit-Yen exchange rates'.

He was deep down the rabbit hole when Maryam, his colleague, appeared hurriedly, startling him. In a minor panic, Ming scrambled to close the half-dozen tabs he was using to compare hotel prices. More than one mouse-click missed the 'x.' Fortunately for him, Maryam was much too preoccupied with what she had to say to notice.



"MING! You heard what happened over at the marketing department?" Maryam was here with the latest gossip. Ming could always count on her to provide a daily summary of office affairs.

"You know Jeffery, right? Tall guy, always in nice clothes? He received an engraved, limited edition fountain pen in exchange for closing a couple of deals. The pen is so nice, it has this oriental design, but we could never afford it with our salaries combined! What was he thinking, accepting gifts like that?"

Ming really was not in the mood to listen to Maryam, especially after being pulled back from his fantasy trip to Nijo castle. He managed to mumble, "Uh-huh."

"It is wrong! It goes against the company's no-gift policy. Didn't he learn anything from all that FairBiz integrity training? All the compulsory courses boss assigns us monthly? I presented a self-reflection about it during our last staff meeting! And the newsletters? We signed a pledge to act with integrity. He could get into serious trouble if boss finds out, you know."

Ming glanced at his watch, irritated. It was 15 minutes to 5 p.m. but it felt like such a long time. *She can go on and on*, he thought. *What is it with the no-gift policy anyway? It was just a pen. And Maryam thinks everything that looks nice must be super-expensive. Jeffrey did hard work to close the deal, and if he got something nice out of it, how bad could it be?*

Noticing that Ming wasn't paying attention, Maryam shifted gears and started asking him what was up.

Ming was ready to move the conversation onto something more positive and told her all about the meeting he would have with Adam that evening at a posh restaurant. "I think I may have an exciting business opportunity. If it comes through, maybe I'll buy you a fountain pen!" he winked.

Ming grinned at Maryam's look of disbelief. He knew she would love this juicy piece of—

"Adam? Isn't he also one of our suppliers? Eh, you know he's been chasing boss to approve a bunch of orders for weeks! Boss says he's been very pushy, I heard. And now an invitation to a restaurant you cannot afford? Ming, I'm telling you, if there's a personal stake in this, it's wrong, even if Adam was a buddy from school, you know that right?"

Ming regretted revealing so much to Maryam. If he had known she would be such a killjoy, he would have talked about the weather instead. However, she was not wrong. The meeting *did* sound out of sorts. He did not know that Adam was having trouble making his sales.

Ming chewed on his lip. Just like Maryam, he too had taken those monthly integrity courses and made his pledge. He knew the rules. *But the rules are too strict*, he justified himself. *I am just having dinner with a friend, not looking for a bribe. The company does not get to decide who I meet outside of work, right?*

Taking a deep breath, he came to a conclusion. Maryam was obviously blowing things out of proportion. He would meet Adam, and everything would be alright. Even as he forced his body to relax, his knuckles were still white as he gripped the edge of his desk.



Meeting Adam at the restaurant was a nice change from his usual dinner of *chap fan*.

“You know, your boss is giving me such a hard time. I’ve been trying to get him to confirm some orders, but he’s been delaying it. I don’t understand why it has to be so difficult!”

Ming was not sure if he was holding his knife and fork right.

“I’ve been venturing into various businesses on the side these past few years—very lucrative. I live where the rich people live now, very good place, has everything. It’s a good life *lah*, you should come visit soon.” Adam paused, staring at Ming’s barely touched plate, “Ming, you have to help yourself to some food!”

“Look, I need to know what is going on. Is someone trying to undercut me? I need some intelligence *lah*. If you can tell me what I need to know or get the papers through somehow, I can cut you in. Half-percent. You know how big this contract is, right? And I promise the products are good quality, so it is a win-win-win all around!”

Ming’s feet felt cold. He instinctively glanced over to the next table, wondering if they had

overheard Adam. The food was making him feel a little sick, like it was stuck in his throat. He felt cheated and manipulated. Humiliated, even.

It was wrong. It *was not just a pen*, and this *was not just dinner*. Maryam was right. *How could I have been so careless?*

“Ming, are you with me on this?”

He could not do this. Not for a vacation to Kyoto. Not even for a friend. He did not earn as much as he would like, and he was not some moral giant. However, he had given his word to act with decency and integrity and he took it seriously—even if not seriously enough to turn down dinner.

“Ah, just one minute, Adam. I...ah...need to take this call.” Ming walked as quickly as he could out of the restaurant. Collapsing in the driver’s seat of his Bezza with his head in his hands, he wondered what, if anything, he should tell his boss. *Will I get in trouble, blowing the whistle on myself?* But he did not want this hanging over him either. Clicking on ‘Contacts’ on his phone, he started typing ‘Boss’.

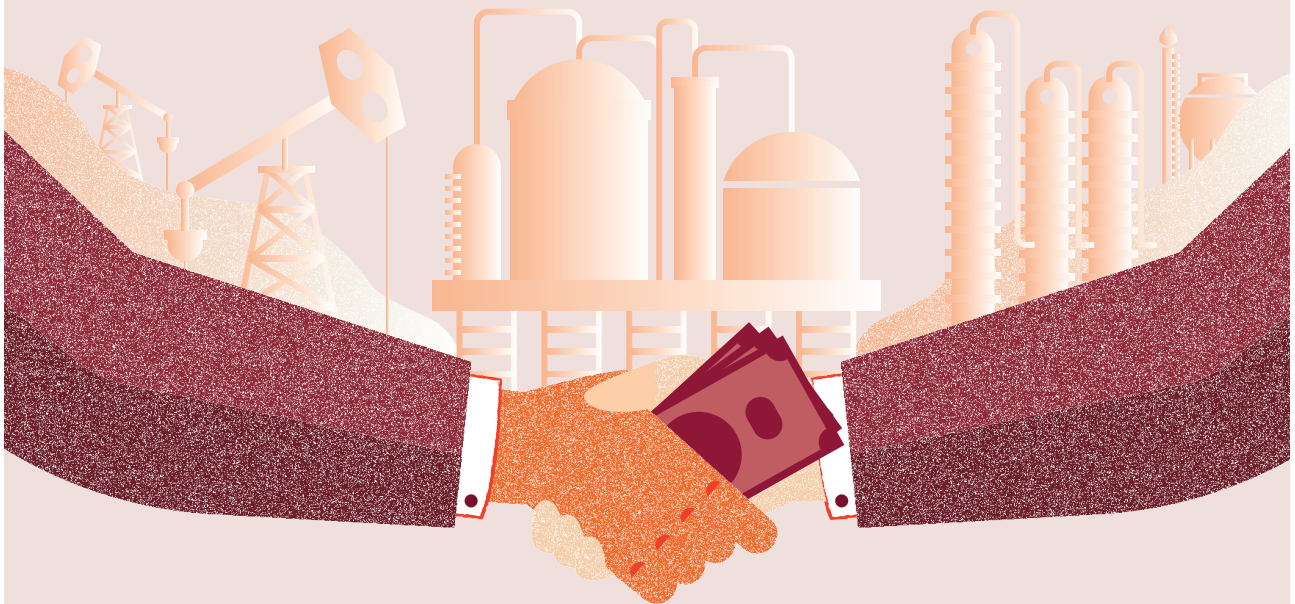
The ‘Promoting a Fair Business Environment in ASEAN’ (FairBiz) Project aims to raise business standards in six ASEAN countries, including Malaysia, by working with both public and private sector entities to create a fair and transparent business environment. In Malaysia, UNDP partnered with Multinational Corporations (MNCs) to build the capacity of small and medium enterprises (SMEs) in their local supply chains to improve corporate governance standards and practices. Following the training, participants worked to develop new integrity policies to strengthen their business integrity practices. This support for SMEs helps to ensure that a rigorous approach in addressing graft and practices that promote integrity are integrated at all levels, creating a fair business environment in the country that enables a dynamic economy.



#### Glossary

*Chap fan*: Economy rice (one of the cheapest options for dining out)

## BUT WHAT ABOUT ... **BRIBERY AND CORRUPTION?**



Governance is not just for the public sector. We need to address bribery and corruption in businesses as well. Through progressive regulatory controls, Malaysian businesses can experience improvements in internal systems that prevent corruption by promoting fair business environments. Scan the **QR Code** to find out more.

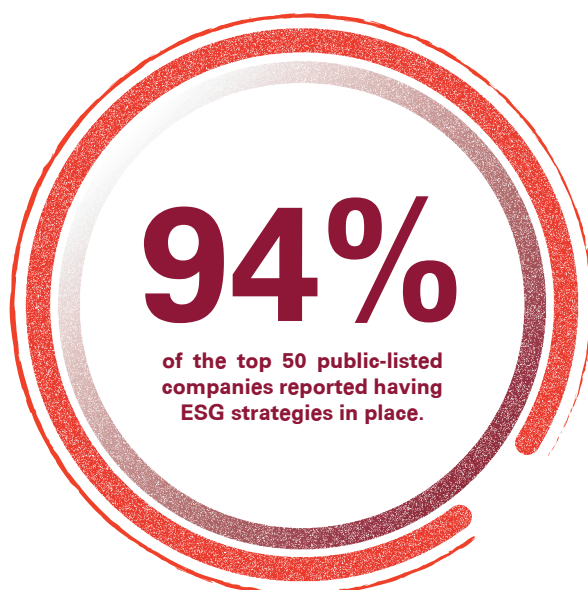
### 3.4

## From SDG Aspiration to SDG Action: The SDG Impact Standards and the Future of Private Sector Financing

The 2030 Agenda for Sustainable Development ushered in a new era of private sector financing to achieve the Sustainable Development Goals (SDGs). In the eight years since, firms have been integrating SDG financing strategies across corporate agendas. In an unpredictable market landscape, firms must be primed to tackle disruptions—ranging from rising energy costs to labour shortages—linked to development challenges. In addition, governments are using the SDGs as a roadmap for national policies that shape the ecosystem firms operate in, while other stakeholders are demanding greater accountability from firms on social and environmental impact.

Firms have long needed the resources to understand and manage their impact—both positive and negative—in the specific contexts in which they operate. Consequently, firms are

increasingly looking to embed some form of responsible investing into their business models to ensure positive returns to society and secure long-term portfolio performance. In Malaysia, Environmental, Social and Governance (ESG) standards have been the dominant responsible investing framework driving the SDG impact landscape. In practice, ESG standards integrate non-financial factors into the investment analysis to identify material risks and growth opportunities. The result is a reporting system used by firms to measure their environmental and social credentials. Where development issues tend to multiply economic shocks, building portfolio resilience entails preparing for the impact of non-financial risks such as resource scarcity or talent retention. However, ESG standards have been received with confusion and over-optimism about the sustainability outcomes they can actually deliver.



In December 2014, Bursa Malaysia launched the FTSE4Good Bursa Malaysia Index (F4GBM) to provide higher market visibility for firms achieving a FTSE4Good ESG rating. So far, firms adopting ESG standards have seen promising outcomes with the F4GBM outperforming the FTSE Bursa Malaysia Emas Index in the first five months of 2022.<sup>1</sup> Moreover, reports from an investment research firm cited sustainability indexes in Asia outperforming or losing less than their non-ESG equivalents during down markets from 2017 to 2021.<sup>1</sup> Parallel movements include the launch of the Sustainable and Responsible Investment Sukuk Framework by the Securities Commission Malaysia and the Value-Based Intermediation Framework by Bank Negara Malaysia. Nonetheless, even as ESG standards gain momentum, environmental law violations, labour rights abuses and poor corporate governance continue to impair Malaysia's reputational standing and disrupt its access to global markets.<sup>2</sup>

This reflects a gap in translating SDG impact creation into corporate agendas. While ESG standards focus on how ESG issues impact the performance of the investment or entity, they do not account for how the investment or entity impacts stakeholders or sustainable development outcomes.<sup>3</sup> In turn, the practice of ESG standards neither captures the overall outcomes of business operations nor provides guidelines for assessing and managing the unintended impacts generated by its operation.

The way ESG standards have been practised often reflects a siloed approach that allows firms to 'cherry-pick' issues it focuses on, neglecting the interconnectedness of the 17 SDGs. For example, a mining firm may achieve a high environment score for investing in renewable energy innovation yet continue to neglect its waste management practices. With this, there is increasing recognition that it is possible to obtain high ESG ratings without generating real SDG impact.<sup>4</sup> To ensure firms advance SDG action, the impact ecosystem must go beyond risk-based reporting standards towards an overall impact management approach.

To enable this, UNDP introduced the SDG Impact Standards in 2020 which orients management and decision-making practices of bond issuers, enterprises and private equity firms towards achieving SDG impact. The SDG Impact Standards are a best practice guide and self-assessment tool targeting internal management and decision-making practices. Where ESG standards focus on external outcomes, SDG Impact standards focus on wiring a firms' internal processes towards achieving sustainable development and social transformation. In reference to the previous example, a mining company with poor waste management practices is now encouraged to conduct meaningful stakeholder engagement with affected communities to determine sustainable solutions.

<sup>1</sup> Zhai Yun, Tan. **"Honouring Malaysia's Best Performers in ESG Excellence: The Edge to Roll Out Malaysia's First ESG Awards."** The Edge Markets, 27 June 2022, <https://www.theedgemarkets.com/article/honouring-malaysias-best-performers-esg-excellence-edge-roll-out-malaysias-first-esg-awards>. Accessed 15 August 2022.

<sup>2</sup> Azhar, Kamarul. **"Malaysian companies' ESG practices to come under more scrutiny."** The Edge Markets, 26 July 2021, <https://www.theedgemarkets.com/article/malaysian-companies-esg-practices-come-under-more-scrutiny>. Accessed 16 August 2022.

<sup>3</sup> United Nations Development Programme (UNDP). **"SDG Impact Standards: Glossary."** UNDP, March 2021, <https://sdgimpact.undp.org/assets/SDG-Impact-Standards-Glossary.pdf>. Accessed 16 August 2022.

<sup>4</sup> Raghunandan, Aneesh & Rajgopal, Shivaram. **"Do ESG Funds Make Stakeholder-Friendly Investments?"** Review of Accounting Studies, 19 April 2021, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3826357](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3826357). Accessed 1 August 2022.

In this way, the SDG Impact Standards are designed to complement risk-based reporting standards in ESG standards by driving deeper systemic shifts that will transform sustainability from an 'add on' to what business gets done to 'how all business gets done'.<sup>5</sup> By doing so, local firms with integrated SDG impact strategies will be better positioned to improve long-term financial performance and safeguard access to global market opportunities.<sup>6</sup>

As we navigate the post-COVID-19 pandemic terrain, achieving the SDGs has proven pivotal in both preventing and remaining resilient against future crises.<sup>7</sup> While private sector resources to make significant progress towards the SDGs are currently available, capacity and capital are siloed throughout an immature impact ecosystem.

Firms, investors and regulators serious about sustainable development should be cautious of exercising ESG standards as a silver bullet solution for sustainability in the private sector. At this juncture, in our bid to build resilient and sustainable societies, we must move beyond SDG alignment to SDG action from private sector actors. Our task now is to extend our current practice of responsible investing in a way that also ensures intentional SDG action. As we continue to direct corporate activity and financial streams towards achieving SDG impact, we need tools and frameworks that address both target sustainability outcomes and the decision-making processes firms use to get there. Together, this will activate the potential of the private sector for shaping the future we want.

## SDG Impact Standards



<sup>5</sup> Michaux, Fabienne. "Why are the SDG Impact Standards Needed?" SDG Impact, 21 June 2022, [https://www.youtube.com/watch?v=k7VG5N0kl4&t=256s&ab\\_channel=SDGImpact](https://www.youtube.com/watch?v=k7VG5N0kl4&t=256s&ab_channel=SDGImpact). Accessed 18 August 2022.

<sup>6</sup> Muhmad, Siti Nurain & Muhamad, Rusnah. "Sustainable business practices and financial performance during pre- and post-SDG adoption periods: a systematic review." *Journal of Sustainable Business and Finance*, 14 February 2020, [https://www.tandfonline.com/doi/full/10.1080/20430795.2020.1727724?casa\\_token=TFIKDAEs1z4AAAAA%3A8MiUM6B70ygrIBJjimFOLa4MfmxaJyf9ZycEtqheuWtzEjQAioAcWJjXzdVc3B60--pLebm\\_gAA5C50](https://www.tandfonline.com/doi/full/10.1080/20430795.2020.1727724?casa_token=TFIKDAEs1z4AAAAA%3A8MiUM6B70ygrIBJjimFOLa4MfmxaJyf9ZycEtqheuWtzEjQAioAcWJjXzdVc3B60--pLebm_gAA5C50). Accessed 18 August 2022.

<sup>7</sup> van Zanten, Jan Anton & van Tulder, Rob. "Beyond COVID-19: Applying 'SDG logics' for resilient transformations." *Journal of International Business Policy*, 3, 16 October 2020, <https://link.springer.com/article/10.1057/s42214-020-00076-4>. Accessed 15 August 2022.



Looking for the best ways to invest sustainably in Malaysia? **Scan the QR Code** to find out more.



UNDP's Data Analyst, Suzanne Ong, peers into a fireside discussion and writes about technological progression for SDG standards. To find out more, **scan the QR Code**.

## 3.5

## Interview with Social Impact Challenge Accelerator Participant, Dr. Indra a/p V. Selvarajah

Dr. Indra a/p V. Selvarajah is a faculty member of University Putra Malaysia, the chair of the World Federation of Music Therapy, and a music therapy consultant to Firegent, a technology and data company. She works to bring music therapy together with digital platforms and AI to improve access and benefits for patients, caregivers and physicians. Dr. Indra took part in the Social Impact Challenge Accelerator (SICA), a platform organized by the Malaysian Global Innovation and Creativity Centre (MaGIC) and UNDP, which assembles high potential innovators to scale and accelerate impact-driven solutions in tackling social and environmental challenges.

### What is music therapy and why does it make a difference?

Music therapy is a clinical and evidence-based application of music within a treatment setting. Everything that we do in music therapy—the techniques and interventions—have all been subjected to the rigors of research and healthcare standards. For any intervention to qualify as music therapy, it needs to be delivered by a trained and certified music therapy professional who has completed certification at a university-approved programme.





With the SICA initiative, we are working with dementia patients, with older adults who have very severe neurological impairment. The experience of finding their brain activity dying is very traumatic. We are also catering to the needs of the caregivers who have an increasingly difficult job trying to take care of their loved ones with dementia. As a music therapist, we must make sure that everything that we try to do using music intervention tools has already been proven to be safe and more importantly, effective to help the patient and support the caregiver.

Music therapy is equivalent to physical therapy, occupational therapy, and speech therapy in advance countries. There are protocols for assessment, intervention planning, monitoring, and termination or treatment. Music therapy is also dynamic. It is responsive, which means we take and make minute-to-minute adjustments to the therapeutic procedure based on the patient's responses. When we are working on dementia patients, we are not just trying to deliver a set plan and expect the patient to conform to our expectations on what should unfold, but we are responsive. We set up sessions to encourage interaction and engagement to optimize the therapy benefits.

### **What kinds of impact are you trying to achieve through the social enterprise?**

We are looking primarily at the impact on the patients and key events in their medical treatment. There is a lot of stigma and ignorance about dementia as a disease. This stigma prevents families from taking on early medical assessments and diagnosis because there is a fear of being subjected to difficult medical treatment. People associate music with recreation, entertainment and enjoyment, and do not normally look at music as a form of treatment, let alone intervention and therapy. That is the advantage of music therapy, as it is considered non-invasive and non-threatening.

We are trying to help to educate caregivers, for them to understand what exactly dementia is, and how music can help in a variety of situations for dementia patients. Also, how music affects the brain and how can it have an impact on the functioning of the dementia patient. We provide them with opportunities to engage in music therapy so that they start to slowly get a feel for what music can do. They can learn more about the ways to use music to help with detection and screening. However, we realized there is a lot of potential to use music therapy down the road with dementia patients and their caregivers to help to improve their bonding and support for caregivers. This is because caregivers also need respite. They also have a lot of mental health needs, which music therapy can provide.

**What is the business model for the social enterprise? How do you align it to achieve your target?**

The business model is one in which we are ultimately developing a mobile app that offers a platform to connect music therapists with caregivers and persons with dementia together remotely, in order to make it easier to provide music therapy for dementia patients.

If you look at the latest clinical practice guidelines released by the Ministry of Health, they have listed music as therapy and as one of the intervention solutions. A lot of music therapy involves special needs children, not to mention patients suffering from dementia and Alzheimer's disease. However, many music therapists themselves are limited in terms of how many people they can help at one time. We do not have enough therapists who are trained and qualified to cater to the demand.

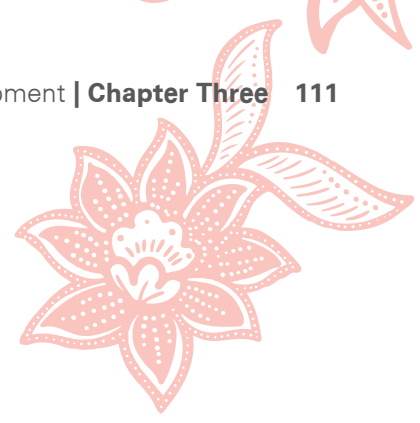
Music therapists are trying to create a solution that is AI-based and can leverage data analytics and be delivered through a telehealth platform. This will allow music therapists to have a set of online tools that can be used as part of their arsenal of tools. The Firegent solution leverages a teletherapy platform and is an advantage for music therapists because they will be able to cater to a wider population. The mobile platform will enable input of music

therapy for dementia resources and tools. Data is collected through the platform and can be sent to medical specialists to help them with medical diagnosis, as well as treatment and management of the dementia patient. The results can also be processed in real time and enable music therapists to assess the patient. When the commercial mobile app is launched, it will provide music therapists with an additional income stream. The online feature powered by 5G Data Analytics will boost the accessibility and affordability for people with dementia, connecting resources and expertise that would be otherwise unavailable due to logistics and, of course, cost.

**Why did you participate in SICA and how did it impact you?**

I was encouraged to join SICA by a senior professor who is an expert in geriatric care. Every one of us who joined SICA was going in with the hope to provide better solutions for the community based on our respective solutions. If our solutions were to move forward in a sustainable fashion, then social entrepreneurship, which ultimately aims to establish an enterprise with the aim of solving social problems, or effecting social change, will be the way to go.

At SICA, it was the first time we were exposed to the impact measurement model. It really was



revolutionary, because we could plan for and track impact while anticipating and mitigating risks. As we are tracking and monitoring our progress and collecting data, we want to be able to predict the outcomes, and know what are the areas of weakness. This can help us improve on the delivery and the scalability of the solution. The impact measurement model was exactly the solution that we were seeking as we were striving to leverage on a more efficient use of our resources, while optimizing the benefits to the community.

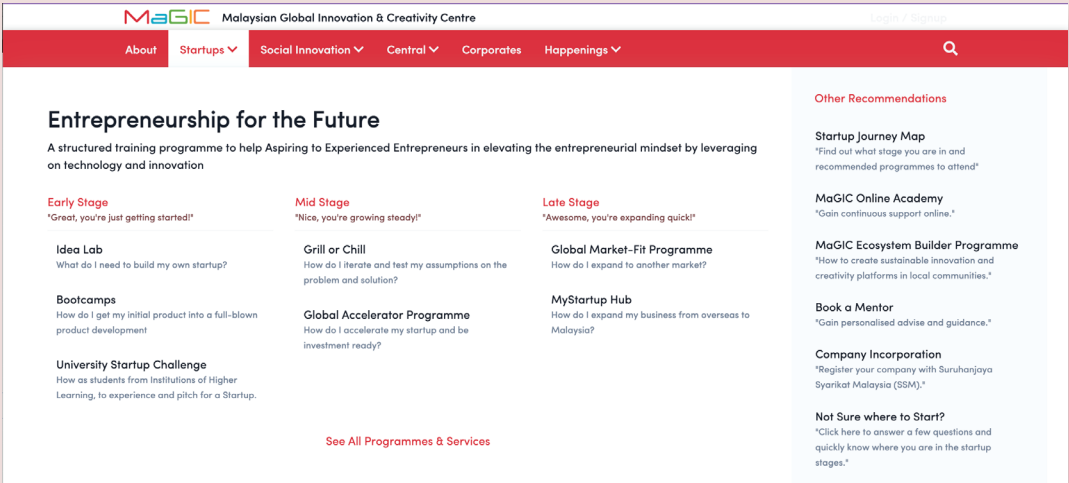
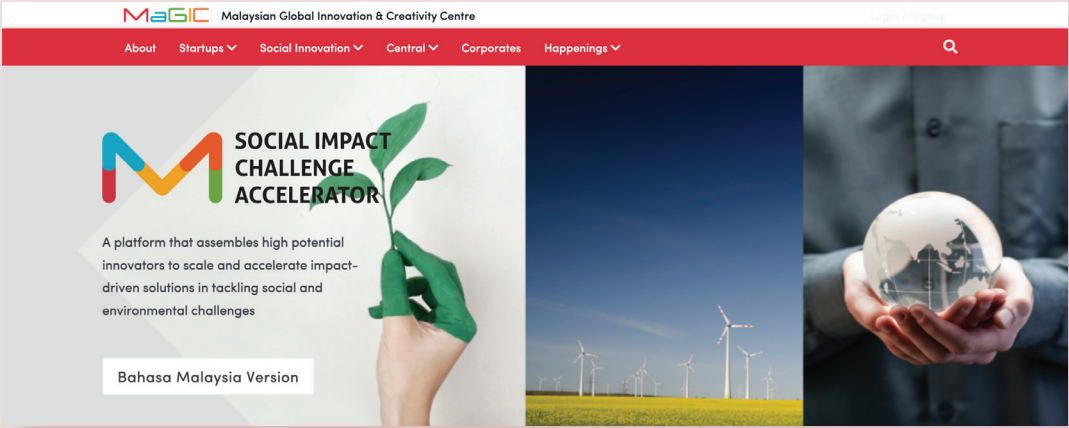
### **What were the challenges you faced in SICA?**

The challenges have mostly emerged after SICA, when we tried to implement what we were taught during SICA into the real world. Firstly, changing the mindset of stakeholders, to embrace social entrepreneurship, and to adopt the SDGs as part of their mission and objective, that has been a bit more of a learning curve. This is because many people in our current ecosystem are used to doing business in the traditional ways. Their priorities in business are usually driven by profit first.

It is still an ongoing process, where we help them to see how positioning and solving social problems at the forefront of business actually makes good business sense. We hope they will realize that if they prioritize human needs, and look into social concerns, and use that as the main impetus to drive their business solutions, they will not only encourage profitability, but also encourage sustainability. I think that is something which they are still not completely clear about.

I understand why it is so important that we are doing things like this, and continue to champion social entrepreneurship. It is because until we achieve that balance, where social costs and business priorities actually play side by side, I think we are going to continue plundering the planet and creating more destruction in our path. In order for us to actually move forward, we really have to change our mindset altogether, so that we become more socially responsible and ethical while operating a business at the same time.





**The Social Impact Challenge Accelerator** serves as a platform for entrepreneurship and innovation. Scan the QR Code for more information.

### 3.6

## Market Reach



"Mum, you're all wet, and there's mud on your trousers!" I exclaimed as she returned home.

"I am fine," she replied, "just a small slip on my way back." It had been raining for the past two days, and the roads to the *tamu* had turned muddy and slippery again.

"I told you not to go to the *tamu*. Are you sure you are not hurt?" I asked as I helped her put away the unsold produce.

"Mainah, if I don't go whenever it rains, our vegetables and fruits will just rot away. See? I sold some. And no, I'm fine, just muddy," she smiled. There were fewer items in her basket than when she left that morning, but she had brought back more than half. Rainy weather meant fewer customers at the *tamu*.

While I wish that mum would not have to make the trip when it rains, it has always been the place where my family sells our crops. It is both our main source of income and where we buy necessities—salt, sugar and oil. Not going would mean that the produce we grew and harvested would go to waste. However, going did not mean all would be sold either.

Looking at Mum, I wished there was a better solution.

Radio news: "From tomorrow onwards, Malaysia will enforce the movement control order, MCO. Inter-district travel is banned and roadblocks will be set up to oversee the operation. Please wear a mask in public areas and keep a social distance of..."

#### Glossary

*Tamu*: A traditional market where local villagers gather and barter their goods. *Tamu* means 'meeting' in the local Kadazan language

I looked up in panic from dinner preparations. “Mum, did you hear that? Does that mean we can’t go to the *tamu* now?”

“I’m not sure. Nothing like this has happened before, let’s wait for dad to come back with the pineapples. We will figure it out. Eh, Mainah! Don’t add so much salt. We don’t know when we can get more from the *tamu* again. *Jimat sikit!*” Mum patted my hand lightly.

“Dinner’s ready,” Mum called out. “I know it’s sweet potatoes again, but we have *tuhau*. So, not so bad, eh?”

We have been eating a lot of tapioca and sweet potatoes lately, as the road closures had prevented us from leaving the area to get to the *tamu* in the next district. Mum had not been able to sell our produce or replenish some necessities.

“Do you think the MCO will be lifted soon?” I asked as I helped myself to a boiled sweet potato.

“Hai, even if it were to end tomorrow, we won’t have much to sell. The pineapples have gone bad. I turned the last of this harvest into fertilizer this afternoon,” Dad replied.

Dad spoke calmly, but I could see the frustration in his eyes. It takes 18 months from planting a pineapple plant to harvesting its fruit. There was another batch maturing in a few months—

would this pandemic be over by then?

Mum had not been planting many vegetables either, just enough for our own consumption. She said that we would just end up throwing them away if we had grown more, since we could not sell them at the *tamu*.

“Mainah, pack the pandan and pineapples for me. The guy from *Koondos!* will come get them later,” Mum said.

“Oh, the pineapples too?”

“Yes, they are going to try selling dried pineapples next,” she replied. “Hmm, if the response is good, maybe we can plant more pineapples to supply them.”

“But they take a long time. Surely, we need to grow something else?” I asked her.

“Of course! I’ll ask the collector what else is *hangat* these days. We can plant those too in the meantime.”

Mother does not go to the *tamu* as frequently even though the movement control order has been lifted. These days, much of our produce is sold through e-messaging apps or as supplies for the dried products sold on *Koondos!*, an e-commerce platform. It is easier to sell our harvest and less goes to waste. Moreover, Mum does not have to travel so much to sell our produce, especially when it rains.

### Glossary

*Jimat sikit:* Save a little

*Tuhau:* A wild ginger, native to Sabah

*Koondos!:* A brand developed by Moyog Innovation House (MIH) in collaboration with PACOS Trust and TONIBUNG to assist rural communities in Sabah affected by the pandemic to market their products online. Koondos is the Kadazan word for ‘happy’

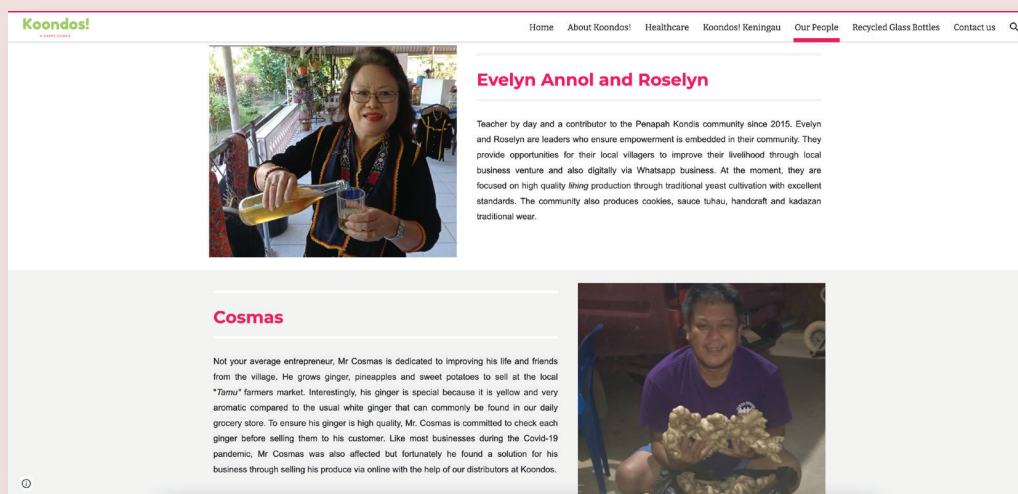
*Hangat:* Hot

UNDP worked with United Nations Capital Development Fund (UNCDF) to pilot an e-commerce ecosystem for rural producers and artisans in Pagalungan and Moyog, Sabah during the COVID-19 pandemic. E-commerce is often considered an unviable option for rural producers and a risky investment for industry players. However, the pilot in Moyog, Sabah demonstrated the feasibility of rural e-commerce, and the function it can serve as an alternative system to the informal economy in rural communities, especially during crisis. The success of the pilot has opened doors to further work on solar dryer technology that is cost-effective for and operable by these communities to enable the food processing required to create food products that can reach wider markets.





Farmers and business owners in **Moyog, Sabah**, shared their experiences and struggles during the COVID-19 pandemic. Scan the QR Code to learn more.



Visit **Koondos!** to find out how you can aid the well-being and livelihood of rural communities in Sabah. Scan the QR Code for more information.



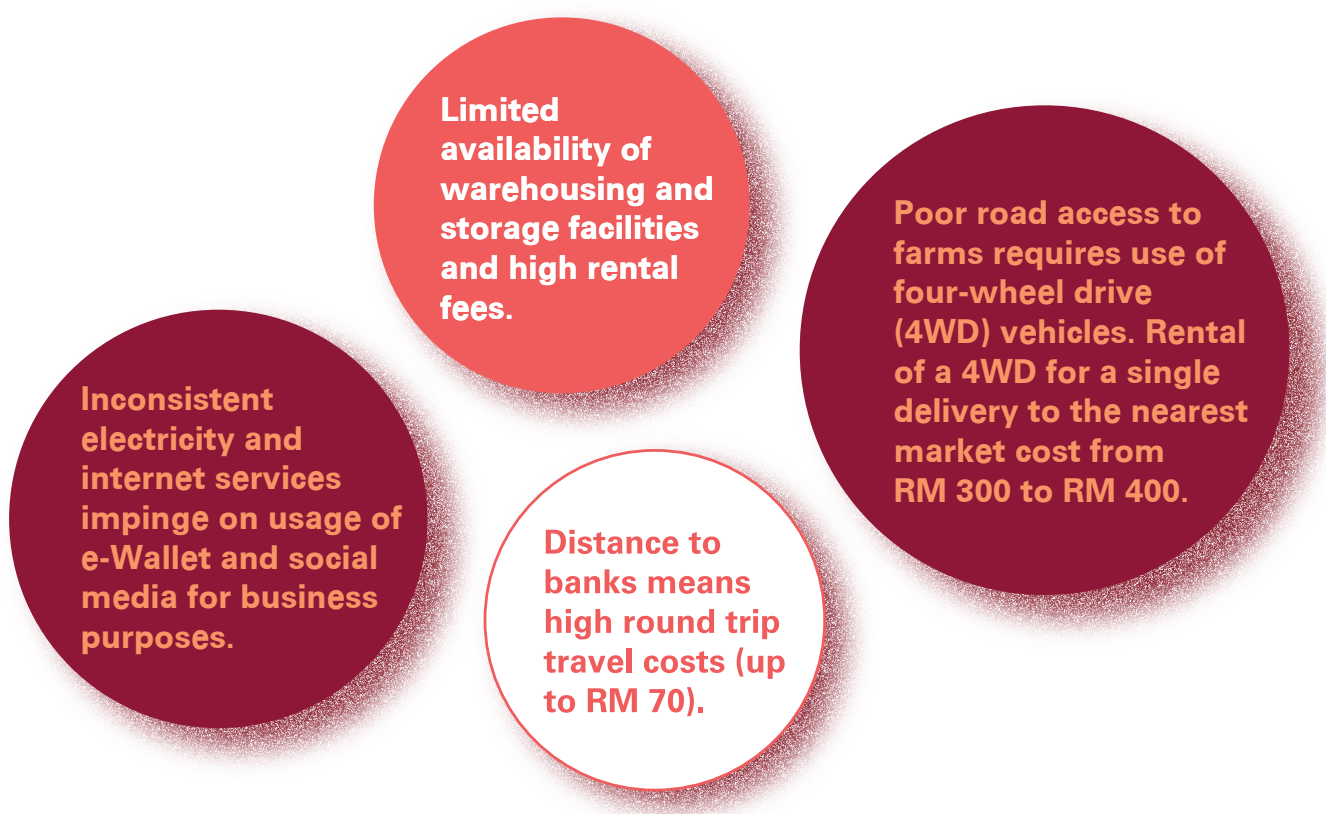
### 3.7

## Overcoming Gaps in Infrastructure to Enable Rural Supply Chains

During the COVID-19 pandemic, many rural agricultural producers found themselves suddenly cut off from local communal markets, which are often a primary source of income. UNDP and United Nations Capital Development Fund (UNCDF) worked with grassroots civil society organizations (CSOs) and social entrepreneurs in Penampang, Sabah to connect producers there with wider markets. This culminated in the development of the Koondos! e-commerce platform. However,

this effort was much more than just setting up a digital platform. Rather, there were significant production, logistics and payment infrastructure gaps that had to be overcome to create a supply chain that could deliver orders arriving through the platform. These infrastructure gaps are barriers to participation in wider markets—digital or otherwise—that limit economic opportunities and resilience for rural communities.

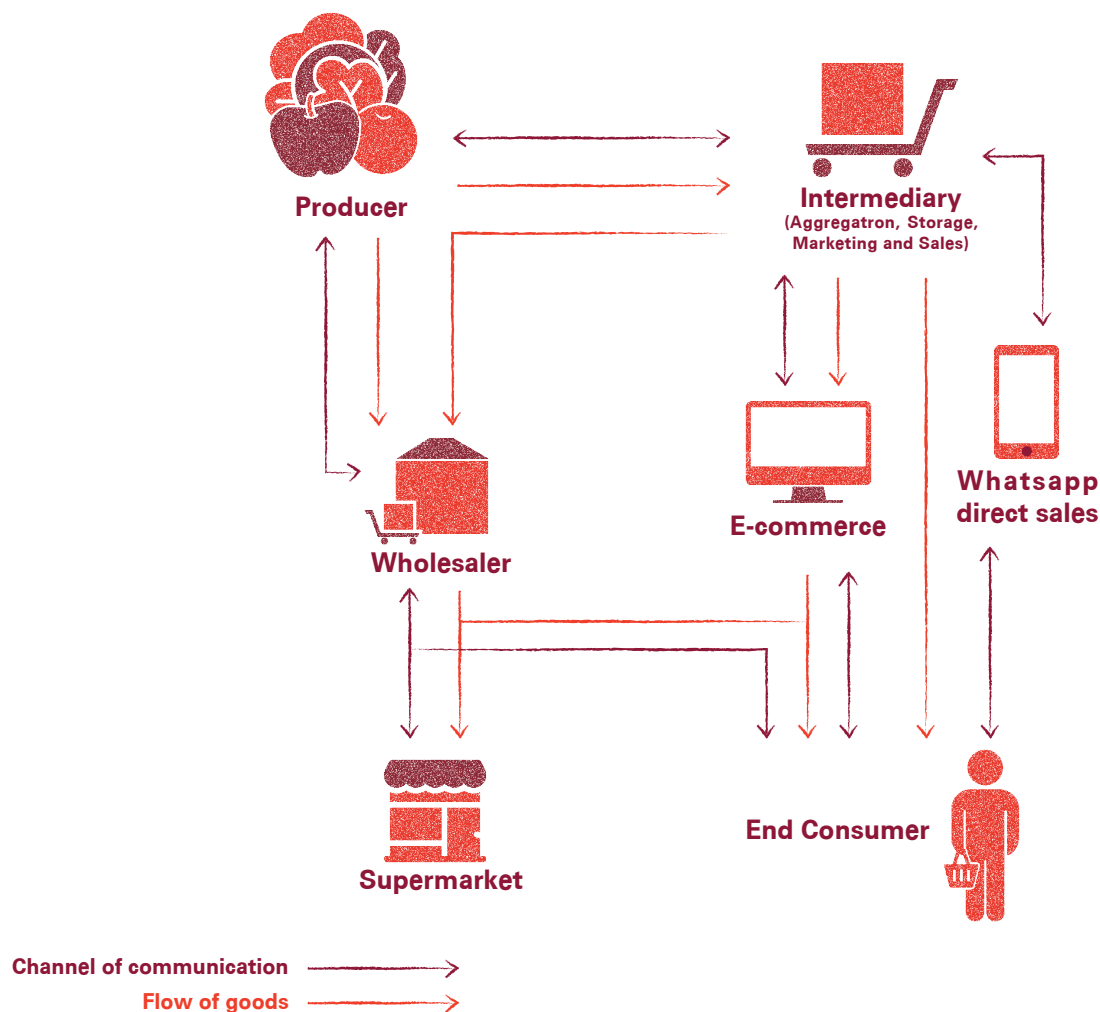
### Infrastructure challenges identified in the Sabah e-commerce pilot



Getting agricultural produce from rural areas to wider markets requires overcoming several obstacles. One such obstacle is the limited shelf life of fresh produce such as fruits, vegetables and herbs. To travel beyond local markets, fresh produce requires cold storage or processing into longer-lasting food products. In addition to the capital costs required for equipment, a reliable electricity supply is also necessary. Another set of obstacles was the remoteness of villages compounded by a lack of proper roads, increasing the costs of product delivery and banking. E-wallet systems could reduce banking costs, but reliability of internet access can be an issue.

Some of these infrastructure challenges can be mitigated or overcome through economies of scale but this may be unattractive to businesses that have other alternatives. This is where the local CSOs TONIBUNG and Moyog Innovation House stepped in for the pilot, serving as intermediaries to aggregate and store products, and to manage inventory, marketing and sales to wholesalers and to consumers directly through social media platforms. When the e-commerce Koondos! site was launched, it recorded sales of US\$500 and a 15 percent profit margin within two weeks, helping rural producers to regain pre-COVID revenue.<sup>1</sup>

## Supply web from rural producers to consumers



<sup>1</sup> United Nation Malaysia. "E-Commerce for Rural Development." United Nations in Malaysia, Singapore and Brunei Darussalam, 15 April 2021, <https://malaysia.un.org/en/124873-e-commerce-rural-development>. Accessed 21 September 2022.

The Sabah e-commerce pilot demonstrates the role CSOs can play in organizing rural communities and connecting them to the wider economy. Indeed, they should be seen as valuable partners in local development. However, CSOs are not a substitute for infrastructure development. Without investment in basic infrastructure to unlock business investment, CSO-driven efforts are likely to be limited to small pockets of work. As governments invest in infrastructure, CSOs can focus on capacity-building and community organization that needs to go hand-in-hand to empower rural communities.

What might this infrastructure investment look like? The inconsistent and unreliable electricity supply to rural and remotes areas needs to be improved. Sabah has the lowest rural electrification level at 88.7 percent and is home to 391 un-electrified villages that rely on either oil generators or solar power panels.<sup>2</sup> An outdated transmission and distribution network causes Sabah to experience electricity supply disruption four times more frequently than the Peninsula and Sarawak.<sup>3</sup> Improving the energy grid and transitioning to renewable and cleaner energy would enable Sabahans to enjoy a more reliable electricity supply and halve the rate of disruptions.<sup>3</sup>

## Sabah electrical supply challenges

Sabah has the lowest rural electrification level at

88.7%



Electricity supply disruption

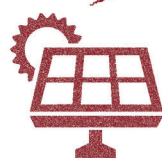
4

times more frequently than the Peninsula and Sarawak

Home to

391

un-electrified villages that rely on



Solar-powered panels



Oil generator

<sup>2</sup> Tonibung & others. "Sabah R2E Roadmap 2022-2030." United Nations in Malaysia, Singapore and Brunei Darussalam, n.d., <https://www.sabahre2roadmap.org/>. Accessed 24 September 2022.

<sup>3</sup> Chan, Neil. "Sabah Still Has the Most Blackouts." Daily Express Online, 24 October 2018, <https://www.dailyexpress.com.my/news/128199/sabah-still-has-the-most-blackouts/>. Accessed 26 Sept 2022.

For remote villages where extending the electric grid is cost-prohibitive, solar panel mini-grids and mini hydroelectric power systems are more economically viable solutions than transporting diesel for generators over long distances by four-wheel drive vehicles or boats. Feasibility studies across forty villages showed a vast majority of these communities have organizational capacity to manage and pay for these mini-grid systems.<sup>2</sup> Community-owned projects and blended sustainable financing from government, private sectors and international funding could help avoid the issue of mini-grid abandonment like in the case of Prai Witu village in Indonesia after international funding ran out.<sup>4</sup>

Next, rural digital gaps need to be minimized. Inconsistent and expensive internet plans increase the cost to sustain online operations. The state authorities must increase the number of Rural Internet Centres (Pusat Internet Desa) in remote areas that are fully equipped with consistent internet connection to enable smooth access to online banking systems, e-Commerce platforms and payment systems. Reviewing internet services and plans provided by telecommunication companies and subsidizing internet packages will also ensure

more affordable access to internet services can be enjoyed by all. In addition to improving digital infrastructure, rural producers could also benefit from digital literacy programmes that help them to make better use of internet services for business purposes given the bandwidth restriction in remote settings.

With the right support from TONIBUNG and Moyog Innovation House, the Penampang e-commerce pilot shows that rural agricultural producers can overcome the barriers that limit their access to wider markets. CSOs and Social Enterprises (SE) have provided innovative solutions to connect these rural producers to wider markets through community-led empowerment programmes and necessary facilities. However, such programming sometimes relies on funding grants to kick-start its operation. Channeling investment to community-led empowerment initiatives can ensure sustainability of the initiatives done by grassroots CSOs and SEs in addressing the communities' developmental needs, but investments alone are not sufficient. To scale up this pilot to other regions and areas, community-led initiatives and sustainable infrastructure development need to be integrated to maximize support for effective development of the rural supply chain.



<sup>4</sup> Mathis, Will & Listoyorini, Eko. **"A Solar Microgrid Brought Power to a Remote Village, Then Darkness."** Bloomberg, March 25, 2022, <https://www.bloomberg.com/news/features/2022-03-24/challenges-of-a-solar-microgrid-project-in-indonesia?leadSource=uverify%20wall>. Accessed March 25, 2022.

## 3.8

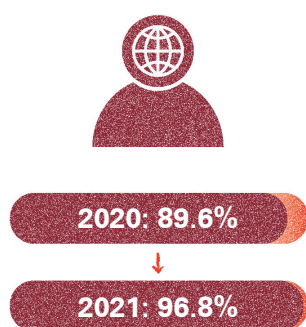
## Digitalization of the Economy and Digital Gaps

One lasting consequence of the COVID-19 pandemic is the acceleration of digitalization. The percentage of internet users in Malaysia grew from 89.6 percent in 2020 to 96.8 percent in 2021. Household access to mobile phones reached 99.6 percent while access to computers reached 88.3 percent.<sup>1</sup> More than one in three Malaysians used digital services for the first time ever in 2020 for healthcare,

education, shopping and other services.<sup>2</sup> This mirrors the growth of the digital economy, from 8.5 percent of gross domestic product (GDP) in 2019 (pre-pandemic) to 12 percent in 2020, contributing nearly US\$30.2 billion.<sup>3</sup> This was especially apparent in the e-commerce and food delivery sectors, which saw growth rates of 68 percent and 35 percent respectively in 2021.<sup>4</sup>

### Acceleration of digitalization in Malaysia during the COVID-19 pandemic

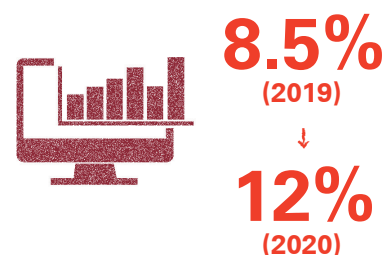
#### Internet users



#### In 2021 more than 1 in 3



#### Digital economy share of GDP



<sup>1</sup> Department of Statistics Malaysia. "ICT use and access by Individuals and household survey report, Malaysia 2021." Department of Statistics Malaysia, April 2022, [https://www.dosm.gov.my/v1/index.php?r=column/cthemByCat&cat=395&bul\\_id=bCs4UINSQktybTR3THZ3a0RzV2RkUT09&menu\\_id=amVoWU54UTl0a21NWmdhMjFMMWc yZz09](https://www.dosm.gov.my/v1/index.php?r=column/cthemByCat&cat=395&bul_id=bCs4UINSQktybTR3THZ3a0RzV2RkUT09&menu_id=amVoWU54UTl0a21NWmdhMjFMMWc yZz09). Accessed April 2022.

<sup>2</sup> Nathan Lydia. "Malaysian digitalisation speeding up." The Malaysian Reserve, 5 February 2021, <https://themalaysianreserve.com/2021/02/05/malaysias-digitalisation-speeding-up-experts-say/>. Accessed 8 July 2022.

<sup>3</sup> Pattarapatumthong Audi. "Malaysia's digital challenges." Bangkok Post, April 2022, <https://www.bangkokpost.com/tech/2289826/malaysias-digital-challenges>. Accessed 10 July 2022.

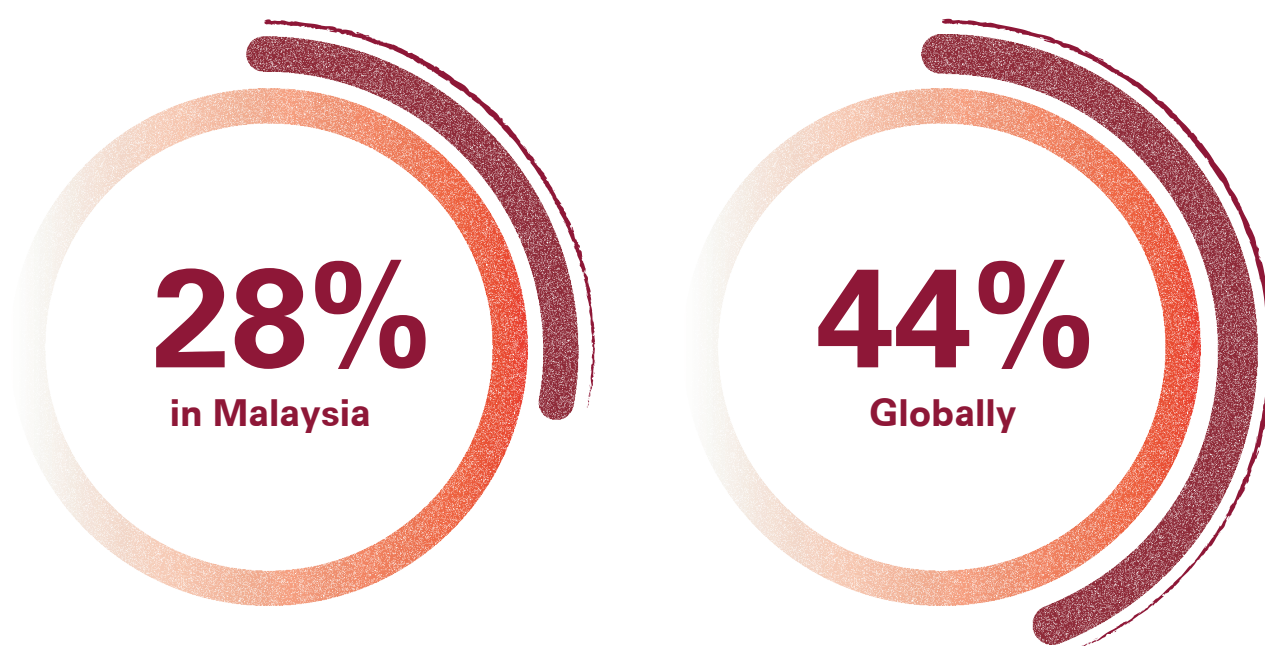
<sup>4</sup> AlphaBeta. "Positioning Malaysia as a Regional leader in the Digital Economy." AlphaBeta, October 2021, <https://alphabeta.com/wp-content/uploads/2021/08/Malaysia-Digital-Transformation.pdf>. Accessed 7 July 2022.

This is not an entirely new phenomenon, but an acceleration of an existing trend. Indeed, between 2015 and 2018, Malaysia's digital economy attained a robust 8 percent annual growth, three percentage points higher than GDP growth.<sup>4</sup> Nonetheless, the rapid and increasing rate of change of the digital economy demands attention. In February 2021, the Malaysian Government launched the Malaysia Digital Economy Blueprint in February 2021 to support transformation of the country into a digitally driven high-income nation by 2030.<sup>5</sup> If leveraged fully, digital transformation can create up to RM257.2 billion (US\$61.3 billion) in economic value annually by 2030.<sup>4</sup> As exciting as this digital transformation is, we need to

consider who benefits and who risks being left behind.

The benefits of digitalization have not been equitable across the various segments of the Malaysian economy, with digital adoption highly uneven across business sizes and sectors. End-to-end digitalization and digital adoption rates for businesses in Malaysia are still relatively low, with just 28 percent of Malaysian businesses having a web presence compared to 44 percent globally.<sup>3,6</sup> Regionally, the World Bank's Digital Adoption Index shows that Malaysian businesses lag behind their peers in Singapore, Thailand, Vietnam and the Philippines.

## Percentage of businesses with a website



<sup>5</sup> Economic Planning Unit, Prime Minister's Department. **"Malaysia Digital Economy Blueprint."** Economic Planning Unit, Prime Minister's Department, 2021, <https://www.epu.gov.my/sites/default/files/2021-02/malaysia-digital-economy-blueprint.pdf>. Accessed 8 July 2022.

<sup>6</sup> Woo Marc. **"The path to Malaysia's digital potential."** Google in Asia, 1 December 2021, <https://www.blog.google/around-the-globe/google-asia/malaysia-digital-potential/>. Accessed 9 July 2022.

This slow adoption of digitalization is due to challenges faced by micro, small, and medium enterprises (MSMEs) and rural industries. The Malaysia Digital Economy Corporation (MDEC) cites poor digital skills and high cost of investment in digital tools as key reasons for the low digital adoption rate among MSMEs, with around 77 percent of SMEs in Malaysia still at the basic digitalization stage.<sup>7</sup> The urban-rural gap is reflected in the difference in internet usage in the manufacturing sector (90 percent) and the agricultural sector (61 percent).<sup>4</sup>

The Government of Malaysia is investing resources into digital adoption for MSMEs. The SME Digitalization Grant allocated RM200 million for MSMEs in 2022, including RM50 million targeted at micro-entrepreneurs in rural areas.<sup>8</sup> Meanwhile, RM700 million was allocated in 2022 for digital connectivity for 47 industrial areas and 630 schools in rural areas.<sup>8</sup> Private sector actors are also investing in this area, such as the Mahir Digital Bersama Google programme, which has provided free access to training courses, tools and coaching in digital skills to 36,000 MSME participants.<sup>3</sup>

Even as these investments are made, it is important to understand what works, for whom, and under what conditions. UNDP's work with the *orang asal* communities in Sabah during the COVID-19 pandemic demonstrated how e-commerce could greatly widen the market reach of rural producers, diversifying their income and increasing resilience. The experience also highlighted how successful digitalization efforts in these businesses require more than reliable internet connectivity and digital literacy—financing, logistics, physical infrastructure, and organizational capacity needs had to be addressed simultaneously for rural entrepreneurs to participate in and benefit from digitalization.

Digitalization of the economy will continue to accelerate, bringing both opportunities and disruptions. Depending on how it is harnessed, this can either strengthen small businesses and their communities or leave them further behind. An inclusive vision of human development must encompass these actors in the digital economy and the pathways for them to arrive there.



<sup>7</sup> BusinessToday. "77 percent of Malaysia SMEs stuck in early stages of digitalization." BusinessToday, 11 November 2021, <https://www.businesstoday.com.my/2021/11/11/77-percent-of-malaysian-smes-stuck-in-early-stages-of-digitalisation/>. Accessed 27 September 2022.

<sup>8</sup> Sulhi Khalid. "RM700 mil allocated for digital connectivity in rural areas." The Edge Markets, 29 October 2021, <https://www.theedgemarkets.com/article/rm700-mil-allocated-digital-connectivity-rural-areas>. Accessed 27 September 2022.



How exactly were B40 communities impacted by the COVID-19 pandemic, and just how many of them were affected? **Scan the QR Code** to find out more.