Ecosystem for Effective Solutions to Support MSME's Covid-19 Recovery & Resilience:

The Malaysian Experience

JUNE 2023

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June 2023

Design, layout, cover images: Leng & Associates, Malaysia

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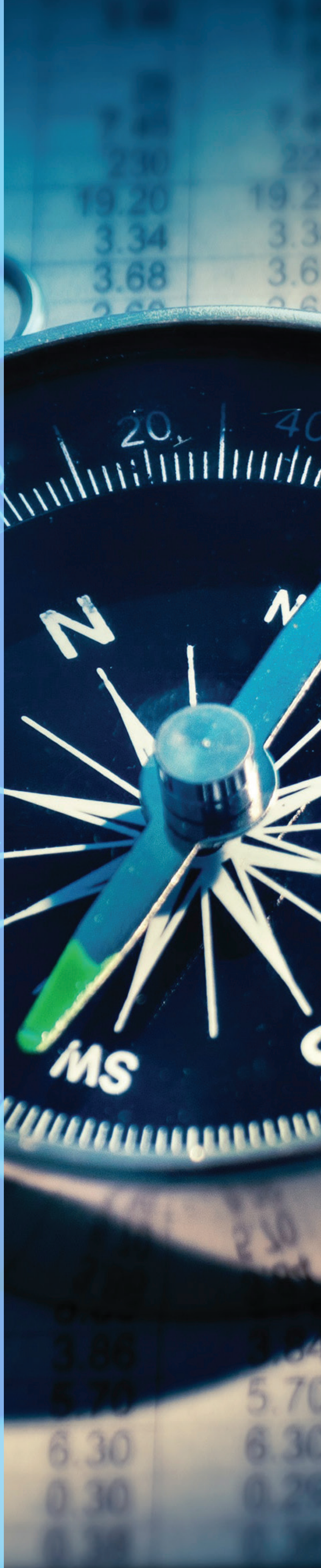

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ACKNOWLEDGEMENT

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The author wishes to acknowledge the invaluable guidance and support provided by the UNDP-IsDB MSME Solutions Project Team in preparing this report: Mohamed Abida, Head of IsDB Center of Excellence, Malaysia; Kamal Al-Hashedi, Senior Monitoring and Evaluation Specialist, IsDB; Amalul Ariffin Shah Bin Malek Shah, Senior Economic Empowerment Specialist, IsDB; Mohd Yusri Bin Yusof, Senior Economic Empowerment Specialist, IsDB; Manon Bernier, Deputy Resident Representative, UNDP Malaysia; Yi Wei Yan, Partnership Coordinator, UNDP Malaysia; and Yin Wei Chong, Head of Solutions Mapping, Accelerator Lab, UNDP Malaysia. Special appreciation to Dr. Haniza Khalid, Senior Development Economist, UNDP Malaysia for providing additional narratives and the final quality assurance of the report.

Note: The names of agencies in the report are kept up to date until August 2022. Several ministries and agencies have changed names since then, following the November 2022 General Election.

FOREWORD

United Nations Development Programme (UNDP) and the Islamic Development Bank (IsDB) have a long-standing partnership which has evolved and strengthened over the years. The partnership builds upon UNDP's and IsDB's commitment to cooperate in shared priority areas such as crisis response and recovery, poverty reduction, private sector development, capacity-building, and knowledge-sharing. During the pandemic, UNDP and IsDB joined forces under the TADAMON Pandemic Accelerator to support innovative NGO-led COVID-19 response solutions. Prior to that in 2019, the IsDB became the newest partner to the Youth Co:Lab initiative -- the largest youth social entrepreneurship movement in Asia and the Pacific, which was created by UNDP and the Citi Foundation.

UNDP offers a comprehensive set of interventions for micro, small- and medium-sized enterprises (MSMEs) which includes tailored support in the form of trade and market intelligence megatrends analysis, the Aid for Trade Initiative, the Supplier Development Programme, a dedicated SME Action Platform, impact venture accelerators, as well as inclusive business ecosystem approaches and gender-responsive Inclusive and Equitable Local Development (IELD). Complementing these, IsDB brings to this effort its Centers of Excellence, Regional Hubs, and various channels, including Reverse Linkage Mechanism, Thiqah Platform, and Islamic Corporation for the Development of the Private Sector, that are positioned to facilitate information-sharing and solution application and scaling.

For this report, the objective is to firstly synthesize the key pillars of the Malaysian MSME ecosystem and from this, offer some insights to other countries. Secondly is to showcase scalable and innovative solutions for MSME players which may inspire their expansion and integration in broader trade and supply chains. Further targeted support can be developed for selected countries according to, among others, interest in replication and scaling as evidenced by commitment on the part of relevant governmental agencies and private and third sector counterparts; a policy, legal, regulatory, and financial environment that accommodates and motivates innovation; and general market conditions indicating demand for products and services offered by the showcased solutions.

We hope that the report will spark interesting conversations across UNDP and IsDB member countries keen in curating innovative ideas and developing stronger ecosystems for their own MSME sectors.

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LIST OF ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
B2B	Business-to-Business
BNM	Bank Negara Malaysia
CVC	Corporate Venture Capital Company
CGC	Credit Guarantee Corporation Malaysia
ECF	Equity Crowdfunding
EPF	Employees Provident Fund
ESG	Environment, Social, and Governance
GDP	Gross Domestic Product
GEI	Global Entrepreneurship Index
GEDI	Global Entrepreneurship and Development Institute
GERD	Gross Expenditure on R&D
GITA	Green Investment Tax Allowance
GITE	Green Income Tax Exemptions
GTFS	Green Technology Financing Scheme
GoM	Government of Malaysia
IsDB	Islamic Development Bank
JC3	Joint Committee on Climate Change
KPLB	Ministry of Rural Development
KWAP	Government Pension Fund
MaGIC	Malaysian Global Innovation and Creativity Center
MCO	Movement Control Order
MCMC	Malaysian Communications and Multimedia Commission
MDEC	Malaysian Digital Economy Corporation
MECD	Ministry of Entrepreneur and Cooperatives Development
MITI	Ministry of International Trade and Industry
MNC	Multinational Corporations
MoSTI	Ministry of Science, Technology and Innovation
MRANTI	Malaysian Research Accelerator for Technology & Innovation
MSAP	Mandatory Standard Access Pricing
MSME	Micro, Small and Medium-Sized Enterprise
MVP	Minimum Viable Product
OECD	Organization for Economic Cooperation and Development
P2	Peer-to-Peer
PPP	Public-Private Partnership
R&D	Research and Development
RM	Malaysian Ringgit
SDG	Sustainable Development Goals
SIDEC	Selangor Information Technology and Digital Economy Corporation
SME	Small- and Medium-Sized Enterprise
SUPER	Startup Ecosystem Roadmap
TPM	Technology Park Malaysia
UNDP	United Nations Development Programme
UNPRI	United Nations Principles for Responsible Investment
VC	Venture Capital

Executive Summary

This report presents findings and analysis of the Malaysian experience in supporting the micro, small, and medium-sized enterprise (MSME) sector to (a) synthesize lessons learnt and exchange knowledge and resources on solutions that support MSME recovery and resilience in Malaysia and (b) promote scalable and innovative solutions in Malaysia and UNDP or IsDB member countries. The Malaysian experience is of particular interest given the confluence of measures intended to mitigate the effects of the COVID-19 pandemic with the country's ongoing digitalization strategy, which is designed to enhance MSMEs' resilience, inclusivity, and sustainability.

Key challenges faced by Malaysia's MSMEs included:

- Disproportionate exposure to the impacts of the COVID-19 pandemic given their significant representation in the contact-intensive service sector;
- Lockdowns, travel constraints, restrictions on face-to-face business operations, and remote working were disruptive and greatly reduced firms' productive capacity. As a result, traditional brick-and-mortar business models were swiftly rendered obsolete, requiring businesses to pivot to digital solutions to respond effectively to the crisis and ensure their survival;
- A significant percentage of Malaysian MSMEs were operating without risk insurance, and those that had insurance were equally unprepared for the scale of the pandemic's impact on business operations;
- Businesses and communities operating in remote areas saw their existing challenges, rooted in infrastructure and communication gaps, further deepened by lack of connectivity and understanding and use of basic technologies.

In response, the Government of Malaysia (GoM) has implemented a series of strategic programs and financing facilities to support and empower MSMEs to build resilience and grow beyond the COVID-19 pandemic in an inclusive macroeconomic environment. Initiatives to support MSME resilience, inclusivity, and sustainability reflect the country's overarching strategies to digitalize the economy which have been reinforced, and made more urgent, by the pandemic. Support has focused on helping businesses to maintain cash flow and supporting business revival.

This report then analyzes Malaysia's experience along five components of an entrepreneurial ecosystem: policy and programs, financing, technology and innovation, capacity-building, and private sector engagement.

In the area of Policies and Programs, GoM has identified strategic economic priorities and allocated resources toward their realization, with support programs focusing on startup creation and integration into international value chains. Program targeting can achieve specific goals like enhancing productivity, and, more broadly, policies and programs can support MSMEs in related areas, such as transitioning to a green economy.

In the area of financing, GoM has diversified the offer of financing mechanisms for MSMEs through funding and related schemes to supplement provision of loans or credits and Islamic financings, with banking institutions and venture capital funds playing a greater role in the ecosystem. Crowding in of private investment has been stimulated by alternative sources of financing such as peer-to-peer (P2P) funding and equity crowdfunding (ECF), which have grown in prevalence in light of, among others, liberalization of regulatory requirements. This reflects an understanding that public sector involvement in early-stage financing is key to crowding in private investment.

In the area of innovation and technology, the digital economy is expected to maintain and grow its position in the national economy, and Malaysian support programs have accordingly responded to the transition of the digital economy from niche to mainstream status. Digital products and solutions have been essential during the COVID-19 pandemic, particularly during movement-control orders (MCOs), in connecting stakeholders and facilitating the continuation of business online. Government agencies like the Malaysian Digital Economy Corporation (MDEC), within the Malaysian Communications and Multimedia Commission (MCMC) have led efforts to support this transition.

Malaysia's capacity-building programs have engaged the range of stakeholders- notably the policy, financial, and R&D communities- in efforts to balance economic growth with focus on achieving the SDGs. Alongside training, coaching, and mentorship, provision of infrastructure has facilitated design and development, low-cost market testing, and mass production, while startup screening and networking with investors sets the stage for commercialization, including meeting standards for market entry.

Fiscal challenges faced by GoM, notably those caused by the COVID-19 pandemic, raise the urgency of engaging private sector support for MSMEs. Alongside Public-Private Partnerships and co-investment, reform of regulatory frameworks to accommodate alternative financing modalities, and targeted tax incentives, GoM's initiatives to expand connectivity and make it more affordable support MSMEs' adoption of cloud computing, social media, and data analytics. This incentivizes MSMEs to move their business online and motivates inclusivity in alignment with the national digitalization strategy.

Private sector solutions that complement and reinforce the foregoing public-sector support mechanisms have been identified for potential scaling and replication in other IsDB Member Countries as contributors to achievement of the SDGs. These solutions focus on sustainability and inclusivity: the provision of access to services and products supporting entrepreneurship in a way that enables all segments of society, notably the underserved, to contribute to, and gain from, economic activity, leaving no one behind.

Recommendations for Member Countries

Policies and Programs

Meeting the dual objective of building MSME resilience and sustainability and addressing sudden and drastic disruption of business require a blend of targeted relief, capacity-building, risk mitigation, financial collaboration and innovation based on stakeholder engagement, including the private sector.

- Ensure that environmental regulatory regimes differentiate between MSMEs and larger enterprises and take account of activity risk levels, business complexity and mainstreaming specialized-sector strategies to support MSME greening.
- Build MSMEs' awareness and understanding of the need for research and development, technology, and innovation that underpin the transition to a digital economy, as clarified by the COVID-19 pandemic experience.
- Avoid program proliferation, duplication, or redundancies, and design implementation with responsibilities allocated across ministries and agencies in a way that will prevent or minimize overlap and confusion.
- Take account of the breadth of company maturity, not neglecting ideation and startup phases, and provide technical as well as generic management support to achieve the SDGs and integrate solutions into global supply chains.

Financing

Government and lending institutions need to be responsive to crisis-related urgency of financing needs that require flexible and accelerated responses, and a balance needs to be struck by financial institutions that must comply with prudential banking requirements while achieving social objectives.

- Minimize policy pivots through establishment of longer-term, party-neutral strategies to ensure provision of preferential lending schemes dependent on governmental allocation of financing at below-market rates. To establish a fast-lane in banking, apart from the typical credit processing under the normal circumstance, is equally important to promote instantaneous or prompt intervention to the vulnerable beneficiaries.
- Motivate early-stage financing and crowding in of private investment by incentivizing angel investors, VC and other private sector investors to consider businesses in higher-risk investment phases via various de-risking mechanisms, and mitigating family-owned CVC, typically run micro and small enterprises who are reluctance to explore innovative technologies.
- Focus on risk management, governance and disclosure, product and innovation, and capacity-building alongside more specific ESG considerations, notably inclusivity and reaching the underserved, in the establishment of minimum requirements for borrowers to strengthen the SDG financing framework.

Innovation and Technology

Productivity growth requires improvement of management practices alongside intensified competition, reforms to the ownership structure of firms, and investments to enable access to talent through higher quality education and training.

- Review regulatory frameworks to prevent impediments to progress and incentive use of innovative financing mechanisms.
- Motivating capital allocation to early-stage and growth-stage enterprises, progressing digitalization goals.
- Encourage transmission of knowledge from creators to users by creating supportive linkages between MSMEs and academia and ensure targeting of technical skills development among MSMEs

Capacity-Building

The provision of tools, skills, and capabilities, and motivating collaboration among the entrepreneurial, investment, corporate, industrial, and governmental sectors open channels connecting innovators, investors, and clients as well as establishing partnerships with corporate entities and regional partners, while also engaging rural communities in creativity and innovation.

- Find the balance between providing MSMEs with generic capacity-building in areas like organizational management, business planning, and networking with investors, and upskilling in areas specific to innovation and technological development.
- Build linkages to potential investors and offer related coaching, as well as well-organized events like pitching days, and identify interested international investors to accelerate the move into foreign markets.
- Set comprehensive and rigorous metrics to assess MSMEs' eligibility for capacity-building support such as product maturity or track record; alignment with national strategies, sustainability priorities, and the principle of leaving no one behind; presence of international expansion plans; and team quality.

Private Sector Engagement

Private sector resources, when properly incentivized and deployed, have the potential to fill gaps created by budgetary constraints, notably those exacerbated by crises. In return, given MSMEs' significant contribution to economic activity and the ongoing transition to digitalization, responding to needs identified by MSMEs is imperative.

- Explore and develop Public-Private Partnerships to introduce de-risking instruments to the MSME financing package as to attract and leverage private sector resources and raise efficiencies to boost economic growth and MSME resilience.
- Provide space where ecosystem stakeholders collaborate to produce technological innovation and bring strategies to fruition.
- Provide linkages between industry and governmental policies to drive innovation and commercialization and support resilience.
- Be systematic about finding opportunities to co-invest with private equity and VC funds, establish regulatory frameworks for alternative financing platforms and digital asset exchanges, provide targeted tax incentives and exemptions, and enhance inclusivity by expanding access to connectivity.

Recovering from the Pandemic

Malaysia's economic recovery from the COVID-19 pandemic is strengthening, however certain areas require continued attention. Given their significant representation in the contact-intensive service sector, MSMEs in Malaysia were disproportionately impacted by the pandemic. In 2021, MSMEs registered Gross Domestic Product (GDP) growth of 1.0 percent, returned to positive figure after recording -7.3 percent in 2020, Malaysia's overall GDP growth rate for the corresponding period (3.1 percent).[1] MSMEs' contribution to GDP was highest in the agriculture sector, at 55.0 percent, followed by construction (49.0 percent), services (39.8 percent), manufacturing (34.2 percent), and mining and quarrying (2.9 percent).[2] Particularly vulnerable to the pandemic's shocks have been workers and small entrepreneurs (notably women, who dominate the hospitality and tourism sectors), youth, and rural communities, since agriculture is typically a low-technology sector in Malaysia.

A key takeaway, from the pandemic experience of MSMEs is that traditional brick-and-mortar businesses are being supplanted by online businesses as lockdowns, travel constraints, restrictions on face-to-face business operations and remote working have pushed businesses to explore digital solutions to enable their survival. With the trend toward increased digitalization and the need to increase productivity, an adequately skilled workforce has become even more critical. Given that the rate of digital adoption of MSMEs in Malaysia lags behind those of large firms, building digital skills is required to keep the businesses in the market and open new economic opportunities.

In the face of multiple challenges, Malaysia's multi-pronged pandemic policy response has served to sustain economic activity and has set the groundwork for recovery: growth in 2022 is projected at over 5 percent, led by pent-up domestic and external demand. These conditions are allowing for gradual unwinding and enhanced targeting of support measures, while financial sector reforms continue to focus on inclusion, economic transformation, and a sustainable economy. Implementation of the 12th Malaysia Plan focuses on enhancing labor productivity and boosting the digital and green economies. This will serve the objective of sustainability, build resilience, and minimize pandemic-related economic impacts while promoting inclusive growth and job creation.[3]

Malaysia's initiatives at the national policy level to support MSME resilience, inclusivity, and sustainability reflect the country's overarching strategies to digitalize the economy which have been reinforced, and made more urgent, by the COVID-19 pandemic. Enhanced financing schemes and grants, relaxation of application procedures and requirements, moratoria on loans and financing repayments, and rental waivers and discounts offered to MSMEs renting premises owned by government-linked companies have complemented a range of government-sponsored programs that aim to catalyze the creation of innovative, sustainable solutions underpinning the current and future contribution of Malaysian MSMEs to national economic growth.

Malaysia's government has implemented a series of strategic programs and financing facilities to support and empower MSMEs to survive and grow beyond the COVID-19 pandemic in an inclusive macroeconomic environment. Support has focused on helping businesses to maintain cash flow and supporting business revival. For example, as of end-2021, Malaysia's Ministry of Entrepreneur and Cooperatives Development (MECD) had successfully assisted a total of 220,248 entrepreneurs affected by the COVID-19 pandemic under the 100-day Aspirasi Keluarga Malaysia (Malaysian Family Aspirations) program. Over RM7 billion ($1.58 billion[4]) was provided in the form of loans, moratoriums, and grants to affected entrepreneurs, with the objective of helping MSMEs increase their contribution to GDP at an average rate of 1.0-1.5 percent annually.[5]

While MSME performance in 2021 showed signs of improvement and recovery, activity in the third quarter of the year was affected by the nationwide Enhanced Movement Control Order, which particularly impacted the services and construction sectors. Building on Phase IV of Malaysia's National Recovery Plan and an adult vaccination rate of over 90.0 percent, growth of Malaysia's GDP in 2022 grew by 8.7 percent[6], driven by continued expansion in domestic demand, recovery in the tourism sector and steady improvement in employment.

1 Source: Department of Statistics Malaysia.
2 Ibid.
3 Source: International Monetary Fund, Malaysia 2022 Article IV Consultation, Press Release 22/134.
4 USD exchange rate $1 = RM4.43
5 Source: Department of Statistics Malaysia.
6 BNM: Malaysia's GDP grew by record high in two decades, no chance of recession in 2023 | Malay Mail

However further actions at the policy level are still needed to address labor shortages, ease regulatory restrictions, streamline bureaucratic processes, and support entrepreneurial innovation and skills development that advance the transition to the future of work bode well for the transition of Malaysia's MSME sector to sustainable growth, competitiveness, and integration into global supply chains.[7] Figure 2 and 3 below summarize the list of MSME challenges based on the data collected from interviewees in this study. It is obvious from the interviews that MSMEs differ from larger companies in dealing with economic challenges mainly due to their lack of strategic market positioning and risk management, flexibility in adopting to new technologies and the digital market and inability to access finance for expansion.

Micro, Small and Medium-Sized Enterprises Defined

Micro, small and medium-sized enterprises (MSMEs) play a major role in economies worldwide, notably in developing countries. They are important contributors to job creation and global economic development, accounting for 90.0 percent of businesses and more than 50.0 percent of employment worldwide[8]. In the Asia Pacific region, MSMEs account for more than 95.0 percent of domestic enterprises.

Formal MSMEs contribute up to 40.0 percent of national income (GDP) in emerging economies, with the figure significantly higher when informal MSMEs are included. With regard to employment, according to World Bank estimates, 600 million jobs will be needed by 2030 to absorb the growing workforce worldwide, reinforcing the urgency of MSME development on policymakers' agendas: MSMEs create 7 out of 10 jobs in emerging markets.

In Malaysia, estimates indicate that the MSME sector will contribute 45 percent of national GDP and 25.0 percent of total exports by 2025. Malaysian MSMEs' GDP grew by 1.0 percent from RM512.9 billion in 2020 to RM518.1 billion in 2021, creating job opportunities for 7.3 million people and accounting for RM124.3 billion of the country's exports. In 2021, MSMEs accounted for 97.4 percent of businesses in Malaysia, of which 83.8 percent were active in the services sector, 8.0 percent in construction, 5.8 percent in manufacturing, 1.9 percent in agriculture, and 0.4 percent in mining and quarrying.[9]

Box Article: Malaysia's Medium, Small, and Micro Enterprises Profile

Source: SME Corp. Malaysia

Medium-sized enterprise:

- In manufacturing: sales turnover RM15 million-RM50 million OR 75-200 employees.
- In services and other sectors: sales turnover RM3 million-RM20 million OR 30-75 employees.

Small enterprise:

- In manufacturing: sales turnover RM300,000-RM15 million OR 5-75 employees.
- In services and other sectors: sales turnover RM300,000-RM3 million OR 5-30 employees.

Microenterprise:

- In manufacturing: sales turnover less than RM300,000 OR less than 5 employees.
- In services and other sectors: sales turnover less than RM300,000 OR less than 5 employees.

7 Ibid.
8 World Bank SME Finance: Development news, research, data | World Bank
9 Source: Department of Statistics Malaysia

The Entrepreneurial Ecosystem: Building Blocks of Innovative Entrepreneurship

Entrepreneurship is commonly defined as the process of creating or setting up a new business, with the creator (entrepreneur) bearing most of the risks and enjoying most of the rewards. The entrepreneur is, moreover, typically viewed as being an innovator who brings new ideas, goods, services, and business/or procedures to the market in the process of commercialization. The environment in which entrepreneurship happens- the entrepreneurial ecosystem- is a landscape comprising a range of simultaneously moving parts, all contributing, when properly designed and implemented, to the incentivization of entrepreneurship.

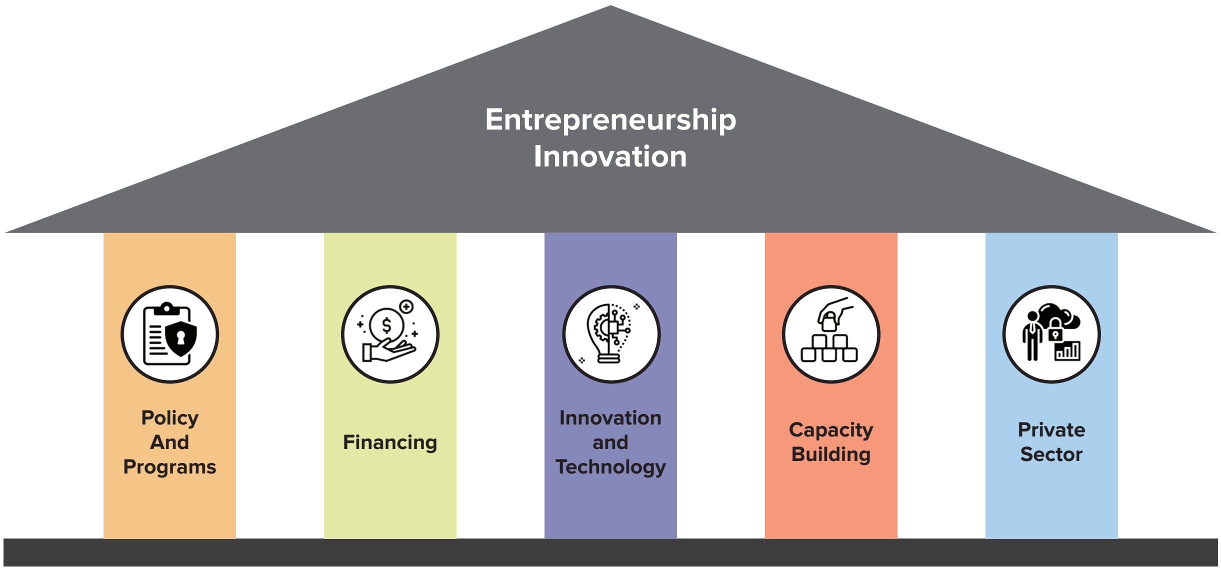

Figure 1: The Entrepreneurship Ecosystem

This report analyzes the Malaysian five pillars (Figure 1) in its entrepreneurial ecosystem. These are Policy and Programs, Financing, Innovation and Technology, Capacity-Building, and Private Sector Engagement.

1. Policy and Programs refers to measures and supporting actions introduced by GoM that are designed to incentivize entrepreneurship and provide relief more broadly to the country's businesses in response to the pandemic. This includes programs focused on easing financial burdens and facilitating companies' access to financing, as well as providing skills development, including training and mentorship to facilitate innovative entrepreneurship and its commercialization.
2. Financing comprises programs and mechanisms offered by public- and private-sector financial institutions to support the sustenance of business through, among others, grants and loans to maintain cash flow and support continued operations, including employment.
3. Technology and Innovation comprises measures specifically targeted at digitalization of the national economy, notably the transition of business to e-commerce as has been accelerated by the pandemic.
4. Capacity-building includes training, skills building, and mentorship, in particular through accelerator or incubator programs, that bring entrepreneurial innovation from ideation to commercialization.
5. Many of the measures across these pillars have been designed with a view to engaging and leveraging private sector expertise and resources to complement public sector support.

The study accordingly approaches analysis and assessment of Malaysia's ecosystem through these five lenses in the expectation that other countries may benefit from the experience and identify replicable solutions, including innovations generated at the MSME level, that contribute to broader resilience and sustainability objectives to benefit their own ecosystems. Figure 2 and 3 below summarize list of MSME challenges based on the data collected from interviewees in this study.

MSME Landscape in Malaysia: Achieving Sustainability

MSME Challenges

Access to finance: 40% of MSMEs in developing countries have unmet financing needs. MSMEs are less likely to obtain bank loans than larger enterprises, relying instead on internal funds or securing cash loans or gifts from friends and family for their businesses.

Digitalization: Reliable internet access and digital literacy among MSMEs to manage businesses remotely and access online training and government support to enhance resilience are lacking. Businesses are grappling to use e-commerce platforms and automation to reduce operating costs, escalate production, and increase revenue during the pandemic.

Risk Management: 90% of micro- and informal enterprises lack insurance coverage. 50% of SMEs are uninsured, while financial constraints imposed by the pandemic have forced insured enterprises to reduce their insurance coverage.

Awareness of Supporting Programmes: MSMES remain unaware of support programs and their eligibility. Targeted communications are needed to ensure information reaches the intended audience.

Level playing field: Large businesses continue to dominate markets, raising the need for fair competition regardless of size. Gender-sensitive policies and underlying budgeting reforms are required to ensure that disproportionate challenges facing women in business (and other aspects of life) are mitigated.

From the MSME lenses

- Microenterprises are particularly hard hit by the COVID-19 pandemic with urgency being a key feature;
- Access to finance, digitalization, risk management, level playing field, and awareness of programs are lacking;
- Managing success- as companies grow their management systems may not grow accordingly;
- Mind set of founder/owners often does not adapt to realities a larger business- i.e. governance and succession planning- notably in case of merger and acquisition or listing.
- Record-keeping: many micro-sized enterprises use inadequate record keeping practices.

From the Lender's lenses

- Need efficient processes and systems (accelerate approvals process) to get funds to clients urgently;
- Continuity and availability of public, inexpensive funding to offer clients on competitive terms are required;
- Meeting stakeholder expectations given conflicting mandates of complying with prudential banking requirements and objective of supporting MSMEs and social objectives- complex balancing act between doing good vs. doing well.

Figure 2: MSMEs Challenges in Malaysia

Key Success Factor

- Support is used appropriately, e.g. to facilitate doing business, increase liquidity, or facilitate project management.
- Organization's top management support and commitments are evident;
- Program staff at all levels are involved, whether at headquarters or at regional or state-level offices in program execution;
- Adherence to established standard operating procedures (SOPs) in selecting, approving, and disbursing funds and evaluating program impact;
- Use of digital/on-line platforms in announcing programs and selecting beneficiaries and in approval, disbursement, and monitoring to enhance speed and efficiency;
- Effective teamwork in executing support functions.
- Full understanding of clients' challenges and needs– whether cash flow, workers, supply, market dynamics, or capacity– to ensure appropriate response, solution, or intervention; and
- Active monitoring and collection of feedback regarding successes and issues faced by the agency and its clients for communication to the appropriate government offices.

Key Challenges

- Need more matching e.g. with government projects. Now doing fundraising to support expansion, including crowdfunding.
- Need to ensure that acceleration program's Demo Days bring a good number of expressions of interest from investors and contacts in with other stakeholders including government.
- They need capital for any expansion overseas for which they are now doing fundraising.
- They need partners with robotics background for regional expansion. Local partners are required for contextualization, including investors who have a track record in developing international business.

Figure 3: Summary of Interviews with Malaysian MSMEs/Start-ups

Unpacking The Malaysian Entrepreneurial Ecosystem

Policy and Programs

Support programs introduced by GoM cover a wide range of MSMEs. Together with state governments and non-ministerial bodies or agencies, 16 federal ministries are responsible for program management, while financial disbursements mostly managed by non-ministerial bodies or agencies. Key among the latter is SME Corporation Malaysia (SME Corp. Malaysia), which coordinates efforts for overall MSME and entrepreneurship development. Organizationally situated under the Ministry of Entrepreneur and Cooperatives Development (MECD), SME Corp. Malaysia acts as the central point of reference for research and data dissemination on MSMEs and entrepreneurs, as well as provides business advisory services for MSMEs and entrepreneurs throughout the country. It is also tasked with collecting information from the range of relevant ministries and agencies, reporting data annually under the SME Integrated Plan of Action (SMEIPA).[10]

Other key agencies supporting Malaysia's MSME sector include:

- MECD, responsible for developing MSMEs, entrepreneurs, and cooperatives, accounts for some 53.0 percent of funding disbursements targeting these objectives. The Ministry of International Trade and Industry (MITI) and the Ministry of Rural Development (KPLB) account for 26.0 percent and 7.0 percent of such disbursements, respectively. MECD programs cover a wide range of activities and industries, while MITI focuses on industrial SMEs with the specific objective of enhancing productivity and increasing Malaysia's exports, and KPLB focuses on rural, regional, and community development.
- The Ministry of Science, Technology and Innovation (MoSTI) launched, in 2021, the Startup Ecosystem Roadmap (SUPER) 2021-2030 initiative with the objective of transforming Malaysia into a top 20 global start-up ecosystem by 2030. SUPER focuses on funding, talent, innovation, policies and regulations, and market environment. MoSTI seeks to catalyze private sector engagement in support of government-led programs, reprioritizes public funding towards the early stage of start-up financing, and has established the MyStartup digital platform, spearheaded by Cradle, to showcase high-growth start-ups and motivate knowledge-sharing and networking.
- The Malaysian Research Accelerator for Technology and Innovation (MRANTI) has been established through consolidation of two innovation support programs (mentioned above): the Malaysian Global Innovation and Creativity Centre (MaGIC) and Technology Park Malaysia (TPM). MRANTI aims to improve coordination of support offered to businesses during the ideation and commercialization stages, involving the public and private sectors and academia.

Figure 4: Coordination and Partnership

10 Sources: The World Bank's Malaysian SME Program Efficiency Review and Malaysia: Assessment of the Startup Financing Ecosystem.

The Government of Malaysia has identified strategic economic priorities and allocated resources toward their realization.[11] A combination of supportive and stimulating measures is required to progress MSMEs toward digitalization of the national economy and to mitigate the impacts of the pandemic. GoM has pursued a whole-of-nation approach to foster innovation, digitalization, and use of technology.[12]

To ensure resilience, inclusivity, and competitiveness and expansion of MSMEs' access to international markets and global value chains, GoM has encouraged implementation of environment, social, and governance (ESG) principles. Measures include provision of preferential financing schemes, grant programs, moratoria on tax payments, insurance premia, and rental payments; simplification of licensing and administrative requirements; and offer of capacity-building services including technological accelerator programs as a complement to traditional capacity-development programs.

Malaysia support programs tend to focus more on startup creation and integration into international value chains. Malaysia's support programs have tended to focus on providing support during the growth and expansion stages of MSMEs with post-MVP (minimum viable product) funding, rather than supporting the ideation stage or facilitating new business or startup creation. MoSTI's SUPER program aims to address this imbalance. Meanwhile, the number of Malaysian programs that focus on improving domestic and international market access has risen in recent years, suggesting a positive trend toward integration of Malaysia's MSME sector into international trade channels and global value chains. This aspect of MSME support is important given its potential to mitigate supply chain and consequent production disruptions that have been a feature of the pandemic by broadening options to source inputs, as well as the role that international trade and value chains play in transmitting knowledge and innovation across markets.

Malaysia's Policy Response to COVID-19:
6 Key Strategies to Resilience and Innovation

Malaysia has unveiled a rescue plan worth almost **one-fifth** of the country's gross domestic product (GDP) to address the economic fallout from the coronavirus pandemic.

Malaysia's **whole-of-nation and bottom-up** strategy involves the range of stakeholders including public and private sectors, academia, community leaders, non-governmental organizations, and international organizations.

The Twelfth Malaysia Plan identifies **new sectors** as economic drivers, creating opportunities for the people ensuring inclusivity and equality - particularly for entrepreneurs from the B40 and M40 (lower income) categories.

Focuses on innovation, **digitalization,** notably in the field of science, with human capital development as the key driver promoting a culture of innovation, creativity, and social empowerment.

Focuses on the use of **technology** with specific support programs in **big data, artificial intelligence, and machine learning** to facilitate understanding of society's needs, notably those of the unserved and underserved.

Inculcate **ESG principles** over the long term to ensure competitiveness and resilience, particularly for women entrepreneurs and social enterprises.

Figure 5: Malaysia's Policy Response to COVID-19

Program targeting can achieve specific goals like enhancing productivity. A key challenge related to the design of Malaysia's MSME support programs is a lack of focus on targeted interventions that address specific challenges: MSME support programs designed to improve productivity tend to be generic in nature, with significant overlaps; compared to MSME support programs in other countries such as the Czech Republic, the Philippines, and Vietnam which are focused more specifically on skills formation, market access, non-R&D innovation, and business R&D, objectives that directly support productivity growth. There is a need for better targeting and coordination through streamlining MSME support programs that create redundancies and eliminating programs that yield generic or less impactful results.

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11 See Twelfth Malaysia Plan 2021-2025: A Prosperous, Inclusive, Sustainable Malaysia

12 The whole-of-nation approach refers to a strategy focused on inclusivity, such that all members of society benefit from government-led initiatives, reinforcing the principle of leaving no one behind.

Policies and programs are supporting MSMEs in transitioning to a green economy, given the market challenges related to climate change and environmental degradation. Transition to a green economy features prominently the 12th Malaysia Plan, in alignment with the SDGs. GoM has also announced its commitment to become a Net-Zero Greenhouse Gas Emission Nation by 2050. The ASEAN SME Policy Index 2018, which classified ASEAN Member States according to their support for green SMEs, classified Malaysia and Singapore as advanced stage. A key challenge for this group of countries is that MSMEs might be disadvantaged compared to larger companies in having access to available incentives needed to support the green transition. Another challenge is that there is potentially a disconnect between the programs supporting MSMEs and those supporting greener practices.[13]

Convergence of the enterprise and finance ecosystems will accelerate impact addressing SDG and ESG requirements. A recent study exploring establishment of an Impact Ecosystem Accelerator notes that, while Malaysia's enterprise and finance ecosystems are relatively mature and well-organized, there is potential to progress their convergence towards explicit results in the Sustainable Development Goal (SDG) and impact realms by developing the pipeline of SDG-focused projects and supporting partnerships, programs, and financing instruments, including capital to be sourced in the private sector.[14] This approach seeks to address shortfalls in, among others, enterprises' contribution to achievement of development indicators including the SDGs and ESG frameworks, and in financial resources mobilized in support of delivering development and impact-related outcomes. The causal linkage between Malaysia's entrepreneurial ecosystem and demonstrated progress toward achievement of SDG goals, such as reaching the underserved, can thereby be clarified and strengthened.

KEY TAKEAWAYS

- Focus on favorable macroeconomic conditions, notably a free, fair, transparent, and stable trade and investment environment is required to facilitate sustainable, balanced, and inclusive MSME growth characterized by regional competitiveness and integration into sustainable supply chains.
- Achievement of MSME resilience and sustainability, in particular enabling MSMEs to withstand significant disruption of business such as that caused by the COVID-19 pandemic, requires policy measures that comprise a blend of targeted relief, capacity-building, risk mitigation, and financial collaboration and innovation with engagement of private sector-sourced capital and expertise.
- Policy and public-led support programs must be complemented by a recognition on the part of MSMEs that research and development, technology, and exploration of new growth areas will be required to adapt and thrive in the forthcoming digitalized economy. This need has been accelerated by the COVID-19 pandemic.[DI5]
- Policies and programs should support MSMEs in transitioning to a green economy, factoring in SMEs' potentially disadvantaged position compared to larger companies regarding access to incentives supporting green transition.
- Effective communications and awareness-raising are required to ensure that entrepreneurs are aware of support programs offered by the government, their potential utility, and their eligibility for support.
- Involvement of the large number of ministries and agencies in implementing MSME support programs has resulted in program fragmentation, which can impact efficiency and efficacy. Agencies must often coordinate their efforts with other implementing partners, complicating execution irrespective of the quality of program design.
- While the number of programs that focus on human capital development and/or promote uptake of innovation and technology has increased, the total value of disbursements for these programs has declined. This may suggest program design issues and/or implementation bottlenecks that impede beneficiaries' access.

13 Facilitating the green transition for ASEAN SMEs | OECD.
14 Concept Note- Impact Ecosystem Accelerator, by Dr. Shariha Khalid Erichsen, Senior Consultant, SDG Impact Finance, May 3, 2021.

Financing

Many Malaysian MSMEs rely on informal or internal sources of financing, typically loans from family and friends, with Malaysian microenterprises' access to capital markets being relatively low compared to that in neighboring countries. GoM, through various ministries and agencies, has enhanced its offer of funding and related schemes to supplement provision of loans or credits, mostly through the banking system. Table 1 below shows the funds made available to MSMEs by the Central Bank of Malaysia, while Table 2 shows microcredit schemes managed by other GoM agencies.

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> We must balance compliance with prudential banking requirements and our social objective of supporting entrepreneurship.
> - **Hamdan Mohd Habibollah**, *Head of Stakeholders Management, SME Bank.*

Table 1. Funding Schemes by Central Bank of Malaysia

Scheme	Terms of Financing
Targeted Relief and Recovery Facility (TRRF)	Financing Rate: up to 3.5% per annum (including guarantee fee) Size: up to RM500,000 for SME and up to RM75,000 for micro Tenure: up to 7 years (including moratorium period) Moratorium: at least 6 months
Low Carbon Transition Facility (LCTF)	Financing Rate: up to 5% per annum (including guarantee fee) Size: up to RM10 million Tenure: up to 10 years
Business Recapitalization Facility (BRF)	Financing Rate: up to 3.5% per annum (not inclusive of guarantee fee); up to 5% per annum (including guarantee fee); no profit rate limit for equity investments Size: up to RM5 million Tenure: up to 10 years
Agrofood Facility (AF)	Financing Rate: up to 3.75% per annum (including guarantee fee) Size: up to RM5 million Tenure: up to 8 years
SME Automation and Digitalization Facility (ADF)	Financing Rate: up to 4% per annum (including guarantee fee) Size: up to RM3 million Tenure: up to 10 years
PENJANA Tourism Financing (PTF)	Financing Rate: up to 3.5% per annum (including guarantee fee) Size: up to RM500,000 for SME and up to RM75,000 for micro Tenure: up to 7 years (including moratorium period)
All Economy Sectors Facility (AES)	Financing Rate: up to 7% per annum (including guarantee fee) Size: up to RM5 million Tenure: up to 5 years
High Tech and Green Facility (HTG)	Financing Rate: up to 3.5% per annum (not inclusive guarantee fee); up to 5% per annum (including guarantee fee) Size: up to RM10 million Tenure: up to 10 years
Disaster Relief Facility (DRF)	Financing Rate: up to 3.5% per annum (including guarantee fee) Size: up to RM700,000 for SME and up to RM150,000 for micro Tenure: up to 7 years (including moratorium period)

Source: Budget 2023 Touchpoints

Table 2. Microcredit Schemes

Scheme	Terms of Financing
Micro Kasih Scheme	Financing Rate: 0% for first 6 months, 4% thereafter Size: Up to RM50,000 Tenure: up to 5.5 years • Moratorium: 6 months
Skim Mikro Kasih Penjaja	Financing Rate: 0% for first 6 months, 4% thereafter Size: Up to RM20,000 Tenure: Up to 5.5 years Moratorium: 6 months
TEKUN Microcredit Schemes	Financing Rate: 3-4% Size: Up to RM100,000 Tenure: Up to 10 years
Micro Enterprises Facility (MEF)	Financing Rate: to be determined by financial institutions Size: MSMEs (including part-time workers (gig workers) on digital platforms and self-employed workers): Up to RM50,000 Tenure: up to 5 years
iTEKAD	Starting Capital: Matching Grant Microfinance under MEF Rate, size, tenure: to be determined by financial institutions

Source: Budget 2023 Touchpoints

Alternative sources of financing, such as peer-to-peer (P2P) funding and equity crowdfunding (ECF), have grown in prevalence thanks to, among others, liberalization of regulatory requirements, a temporary waiver of administrative fees for fundraising, and increased allocations to funding schemes and co-investment programs. The Malaysia Co-Investment Fund (MyCIF), for example, has responded to the COVID-19 pandemic by incentivizing business owners to explore fundraising through ECF or P2P campaigns.

Malaysian solutions reflect an understanding that public sector involvement in early-stage financing is key to crowding in private investment. Entrepreneurial ecosystems tend to benefit from crowding-in of private capital and improved access to finance at the early and start-up business stages, as shown by the impact of the establishment of government-sponsored venture capital (VC) funds in OECD countries such as Estonia and Finland. Dana Penjana Nasional Malaysia, an innovative public-private financing structure in the form of a fund of funds, seeks to motivate the emerging angel and impact investing scene for early stage, impact-oriented enterprises. Through a matching arrangement with GoM and private sector VC financing, the scheme directs funds to early-stage businesses while the matching arrangement raises investor confidence by mitigating risk aversion. This type of mechanism encourages VC investors to consider supporting less-established businesses in their earlier, higher-risk investment phases. Importantly, the scheme also requires domestic VC players to partner with foreign VCs, motivating foreign-sourced investment and, thereby, international knowledge transfer.

Incentives are required to further mitigate risk aversion prevalent among family-owned CVCs. Family-owned CVCs are positioned to inject potentially significant amounts of liquidity into the MSME and start-up ecosystem, and could therefore play a key role in catalyzing investment by local and international actors to facilitate the growth of startups. A challenge is that this investor class is often reluctant to explore innovative solutions based on pioneering technologies and processes due to limited appetite for risk.

Tax incentives to crowd-in investment in MSMEs may unlock funding across the ecosystem and serve as a demonstration effect, potentially catalyzing further private sector, venture capital, and private equity investment. As noted in the referenced World Bank study, investing in VC funds, as opposed to start-ups directly, allows time for technical know-how to be built up while serving to avoid crowding-out of direct company investment by VCs. Provision of tax and related incentives would both ipso facto motivate such investment and would encourage investor interest through clarity provided regarding relevant tax treatment.[15]

15 Sources: The World Bank's Malaysian SME Program Efficiency Review and Malaysia: Assessment of the Startup Financing Ecosystem.

Transition financing initiatives are being led mainly by international financial institutions and are backed by regulators who seek to promote adoption of ESG standards. As United Nations Principles for Responsible Investment (UNPRI) signatories, Malaysia's Government Pension Fund (KWAP) and Employees Provident Fund (EPF) are encouraging companies in its listed portfolio to adopt ESG practices, while the Joint Committee on Climate Change (JC3), co-chaired by Bank Negara Malaysia (BNM) and Securities Commission Malaysia, is engaging financial industry stakeholders to establish lending strategies and priorities in response to climate change. JC3's focus on risk management, governance and disclosure, product and innovation, and capacity-building, and its support of initiatives like a Climate Disclosure Guide for Businesses and specialized training programs for financial sector actors will help the borrowers adopt ESG practices.

Financial incentives through tax and duty privileges can encourage MSMEs to enhance environmental practices and support development of new green enterprises. The Malaysian Green Technology Corporation's MyHIJAU initiative promotes procurement (sourcing and purchasing) of green products and services in Malaysia. Green technology tax incentives, including the Green Investment Tax Allowance (GITA) and Green Income Tax Exemptions (GITE).[16]

16 Source: The OECD's Facilitating the Green Transition for Asean SMEs.

Box Article: Securities Commission of Malaysia's Guidelines on Peer-to-Peer Financing (P2P) Framework

P2P operator facilitates businesses or companies to raise funds from both retail and sophisticated investors through an online platform. Considering that the primary objective of introducing market-based financing is to help build small businesses which in turn help to spur and promote growth of the economy, hence the P2P operator is not permitted to facilitate individuals seeking personal financing. Through the Securities Commission registered P2P platform, an investor may invest in an investment note or an Islamic investment note issued by businesses or companies for a specified tenure with the expectation of a predetermined financial return.

The process for investing through a P2P platform may differ from operator to operator depending on the rules set by the operators. In general, upon understanding and analyzing the information disclosed by issuers concerning its business, financing purpose and financial information; credit assessment; repayment schedule and risk information published on the P2P platform, an investor will then make an informed decision on the issuers and amount they wish to invest in. For example, Issuer X issues an investment note which seeks to raise RM100,000. The investment note is rated "A" with a rate of return 0.5 per cent per month for a 12-month period. Therefore, the investor that chooses to invest in Issuer X in such amount he so decides, he will receive monthly repayments (principal and returns) for the duration of the investment note.

When an issuer applies for funding, the P2P operator will evaluate the issuer's suitability, among others, by assessing its capacity to repay through credit history checks and analysis of any alternative data. These factors allow the P2P operator to assess and assign a risk score to the investment note or Islamic investment note issued by such issuer. Such issuance will then be hosted on the P2P platform where investors will then select and invest accordingly.

As part of SC's effort to nurture and facilitate market-based innovation in FinTech under the aFINity@SC initiative, the regulatory framework for equity crowdfunding (ECF) was introduced in February 2015. Continuing on the initiatives, SC has introduced the regulatory framework for P2P, setting out requirements for the registration and obligations of a P2P operator as provided in the revised Guidelines on Recognized Markets (the Guidelines) in May 2016.

Source: Frequently Asked Questions On The Peer-To-Peer Financing (P2P) Framework - Regulatory FAQs | Securities Commission Malaysia

Government-supported low-interest loans to green investments include Credit Guarantee Corporation Malaysia (CGC) facilitating MSMEs' access to funding by providing expert support, loan guarantees, financing facilities, and credit rating, with the aim of supporting low carbon projects. Additionally, Green Technology Financing Scheme (GTFS), introduced in 2010, is a soft loan supported by the government.[17] The Bank Negara Malaysia's Low Carbon Transition Facility (LCTF) is a financing facility created to encourage and support SMEs to adopt sustainable practices for business resilience. LCTF can be used to finance capital expenditure to finance capital expenditure or working capital to initiate or facilitate the transition to low carbon and sustainable operations. These include, but are not limited to, obtaining sustainability certification; increasing the use of sustainable materials for production, improving energy efficiency of buildings and appliances and installing on-site generation equipment of renewable energy.

KEY TAKEAWAYS

- Banks can play a crucial role in supporting MSMEs in response to the pandemic and other crises. They can provide financial assistance and offer flexibility with repayment requirements alongside strategic support in areas like marketing, branding, and export-readiness such as shariah compliance and meeting halal product requirements. Banks can also provide more general capacity-building services to support MSMEs' sustainability and resilience.
- MSMEs have been particularly hard hit by the COVID-19 pandemic. Urgency of financing needs, notably cash flow challenges stemming from the pandemic's impact on business performance and conditions like movement control orders, as well as unrelated disasters like flooding, require flexible and accelerated responses from lending institutions.
- Policy makers must be vigilant to the fact that MSMEs continue, to a large extent, to rely on internal funding sources to launch their businesses and that, while facing the brunt of pandemic-related challenges, many MSMEs lack insurance coverage.
- Lack of collateral continues to be an impediment to MSMEs' receiving loans from financial institutions, despite overall growth in such lending in recent years. A survey of MSMEs conducted by BNM indicates that constraints faced by MSMEs with respect to bank lending include, primarily, issues related to documentation, collateral, and business bankability.
- Financial institutions are faced with potentially conflicting objectives such as compliance with prudential banking requirements and achievement of social objectives like reaching the underserved. Availability of preferential lending schemes may depend on governmental allocation of financing at below-market rates, and pivots in governmental attention to supporting schemes within longer-term strategies interrupt the overall dynamic to support MSMEs.

17 See the OECD's Facilitating the Green Transition for Asean SMEs.

Innovation and Technology

The digital economy is the new normal, accelerated by the COVID-19 pandemic. Malaysian support programs have sought to respond to the transition of the digital economy from niche to mainstream status. Digital products and solutions have been essential during the COVID-19 pandemic, particularly during movement-control orders, serving to connect stakeholders and facilitate the continuation of business online, and the digital economy is expected to maintain and grow its position in the national economy.

> Securing buy-in and commitment from both government and startup ecosystem players is critical.
> - **Adam Ramskay**,
> Head of Strategy, Cradle Fund

According to the World Bank, most digital adoption by Malaysian MSMEs has been related to sales and marketing functions, with a smaller portion of enterprises using digital solutions for more complex business and production functions. This creates an opportunity to expedite the digitalization process among MSMEs by recalibrating policies to encourage use of digital tools to facilitate more complex business and production functions.[18] At the same time, corresponding growth in the use of innovative financing mechanisms, such as P2P and ECF, digital financing, digital asset classes, and alternative currencies stands to benefit from steps being taken by Securities Commission Malaysia and BNM to ease regulatory constraints. This should motivate creation of new pools of capital for early-stage and growth-stage enterprises and reinforce progress toward national digitalization goals.

Investment that ensures productivity growth among MSMEs requires a supportive enabling business environment, including availability of capital and a skilled workforce. Indicators presented by the Global Competitiveness Report and the World Bank's Doing Business indicators show that reforms implemented in recent years by GoM have contributed to the establishment of an accommodative business environment. Malaysia's initiatives toward improving its innovation ecosystem are viewed as having positioned the country at the forefront in this area among the upper-middle-income economies, ranking highly on global indices measuring innovation, such as the Global Innovation Index, where the country ranks 33rd out of 131 economies, and second out of 37 upper-middle-income economies. MDEC, tasked with developing a national-level digital ecosystem, is underpinning Malaysia's progress toward becoming a knowledge-based economy, reflected in the growth of R&D and non-R&D innovations.

Programs that support linkages with MNCs, business R&D, and adoption of efficient management practices are critical to enhancing MSMEs' innovation and productivity. While Malaysia exhibits a high level of innovation at the broad level, the observed intensity of its R&D has been somewhat uneven in recent years.

A National Survey of Research and Development, conducted by MoSTI, indicates overall R&D intensity in Malaysia, measured in terms of the gross expenditure on R&D (GERD), decreased from 1.4 percent of GDP in 2016 to 1.0 percent in 2018. This decline may be attributable to factors such as reduced R&D budgets as well as the impact of the COVID-19 pandemic and attendant uncertainty that inhibit investment in R&D and force limitations on, or reallocations of, the national budget. This has implications for MSMEs in that productivity and added value yield the creation and dissemination of new knowledge or innovation- which requires an institutional environment that facilitates transmission of knowledge from creators to users. This points to the need for programs that support linkages between MSMEs and academia to motivate advances in innovation along the industry-research axis, as well as enhanced targeting of technical skills development among MSMEs. Adoption of efficient management practices to enhance Malaysia's productivity growth will require a comprehensive policy approach that alongside intensified competition, reforms to the ownership structure of firms, and investments enable access to talent through higher quality education and training.[19]

18 See the World Bank's Malaysia Economic Monitor: Weathering the Surge.
19 Ibid.

Case Study I: E-commerce for Rural Development: A Response to COVID-19 Recovery

As part of the Malaysian Government's efforts to accelerate adoption of digital solutions among rural MSMEs, US$4.72million from the Economic Stimulus Package was channeled to the Perkhidmatan e-Dagang Setempat (PeDAS) transformation program, designed to empower MSMEs with digital and entrepreneurial skills necessary to achieve wider market access through e-commerce platforms. Complementing PeDAS, UNDP Malaysia, in partnership with the United Nations Capital Development Fund (UNCDF) piloted an e-commerce ecosystem for rural producers and artisans in Pagalungan and Moyog, Sabah, in East Malaysia. Residents here face infrastructural barriers including poor road access, costly delivery services, and limited warehousing and storage facilities. At the same time, e-commerce growth has been slow given limited internet connectivity and digital literacy, as well as technophobia.

TONIBUNG, an experienced civil society organization, mapped out emerging issues and opportunities with feasibility studies that showed a majority of rural producers and traders who were previously technophobic had developed interest in e-commerce given the experience of the effects of movement restrictions on usual business practice. With most businesses having bank accounts, owning basic mobile phones or smart devices, and using social media, the key challenge was behavioral: adoption of online commerce and payment systems.

The project pilot started small and mobilized available resources within the local community. Producers and aggregators were on-boarded onto WhatsApp Business, simple to use and requiring lower internet bandwidth compared with more sophisticated e-commerce platforms, helping to ensure inclusivity for a wider group of beneficiaries and customers. Processed goods were selected as the main commodity instead of raw, unprocessed produce to minimize obstacles posed by road access and warehousing facilities, and local aggregators with established rapport with the community filled delivery, warehousing, and remittance gaps in remote settings.

Koondos, the project's homegrown e-commerce store, was set up to operate using free tools like Google Sites and WhatsApp Business, and relied on local aggregators in connecting the supply chain. Rural community interest in e-commerce was sustained by demonstrating benefits in the pilot in terms of profit, convenience to trade with local aggregators, and other spill over social goods such as empowering women and improving connectivity.

Launched for Christmas sales on 18 December 2020, Koondos! generated revenue of USD500 in just two weeks, recording a 15 percent profit margin. Producers expressed pride in the achievement, regaining revenues comparable to the pre-COVID-19 period.

Case Study II: Sarawak Digital Economy Corporation (SDEC)

The COVID-19 pandemic has impacted MSMEs in rural communities, already challenged by their remote location and underdeveloped commercial markets. Sarawak, a Malaysian state on the island of Borneo, is an example. In an effort to improve the community's livelihood, the Sarawak Biodiversity Centre (SBC), in collaboration with UNDP, has implemented a project aimed at enhancing Sarawak's economic resilience by strengthening community-based businesses' digital and marketing skills, alongside introduction of a digital platform to facilitate businesses' move online.

In partnership with the Ministry of International Trade, Industry and Investment (MINTRED) and Sarawak Digital Economy Corporation (SDEC), a series of online, hybrid, and physical workshops has been held to facilitate local communities marketing of their bio-products online. A train-the-trainers program has enabled villagers' learning from members of their own community, reinforced by mentoring sessions. Women's participation has been prominent.

Participating communities have completed their online business onboarding and have created and utilized Facebook and WhatsApp Business tools in the post-COVID-19 era. The communities are now actively selling their products on a local social enterprise e-commerce platform called Timogah (www.timogah.com), which is designed to connect farmers, traders, and local product dealers directly to consumers in Sarawak. Timogah has created opportunities for local farmers and micro-businesses to reach more customers in the comfort of their farms and homes. Timogah is helping to improve the communities' incomes and lifestyle while providing consumers with direct access to fresh produce and rural products.

Case Study III: PACOS Trust

PACOS Trust is a community-based organization dedicated to supporting indigenous communities in Sabah. PACOS is an acronym for 'Partners of Community Organizations in Sabah'. Sabah is located in the northern portion of the island of Borneo beside the South China Sea. As the second largest state in Malaysia, Sabah is not only home to many exotic plants and wildlife, but also to approximately 40 indigenous tribes, rich in culture and tradition. Many of these indigenous peoples have called Sabah their home for centuries, long before the creation of Malaysia. Development and modernity raise concerns about the loss of culture, traditions, land, and identity of the indigenous peoples- concerns which PACOS seeks to address in partnership with the local communities.

PACOS works to empower the indigenous communities through systematic building and strengthening of community organizations which can act collectively on their own. PACOS also realizes the need to support networking among organizations struggling to assert rights over community resources and revitalizing indigenous systems. PACOS accomplishes this by providing training in Community Organizing and Education, Natural Resource Management, and Land Rights to ensure and preserve socioeconomic development and local customs and culture.

KEY TAKEAWAYS

- The new normal, to which the world has been heading and which has been accelerated by the pandemic, is characterized by activities being done through e-commerce, including digital financing and payments, marketing, sales, long-distance learning, video conferencing, and logistics services.
- Mechanisms that support linkages with MNCs, business R&D, and adoption of management practices must occupy a central position in program design. Agencies like the Malaysia Digital Economy Corporation, tasked with managing and leading Malaysia's ICT and digital economy forward, are facilitating MSMEs'- and overall business, economic, and societal-migration into the digital age.
- Further to support for business R&D, an institutional environment that facilitates transmission of knowledge from creators to users requires programs that support linkages between MSMEs and academia and enhanced targeting of technical skills development.
- Case studies, as shown above, provide insights into the digital gap in rural areas and poorer states in Malaysia that can be addressed by targeted programs including for example, empowerment of indigenous communities.

Capacity-Building

Capacity-building programs support Malaysia's social innovation movement. Malaysia's capacity-building programs have achieved success through engagement of the range of stakeholders in efforts to balance economic growth with focus on achieving the SDGs. Provision of tools, skills, and capabilities, and motivating collaboration among the entrepreneurial, investment, corporate, industrial, and governmental sectors has served to open channels connecting innovators, investors, and clients as well as establishing partnerships with corporate entities and regional partners across ASEAN, while also engaging rural communities in creativity and innovation.[20] Provision of infrastructure has facilitated design and development, low-cost market testing, and mass production, while startup screening and networking with investors sets the stage for commercialization, including meeting standards for market entry.

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> As academicians with little business background, our engagement with MaGIC provided an opportunity to better understand business and the value of networking."
> - **Dr. Hanafiah Yussof**,
> Founder, Board of Director and Group Chief Executive Officer, Robopreneur

Capacity-building programs should address general needs as well as areas more specific to social enterprises and tech startups. A balance needs to be struck between providing MSMEs with generic capacity-building in areas like organizational management, business planning, and matchmaking with investors, and areas more specific to the goals of innovation, technological development, and the green transition like upskilling support and mentorship services that focus on technical content. Guiding entrepreneurship to take account of inclusivity priorities, such as gender and youth engagement, should feature prominently in capacity-building programs. The Malaysian Research Accelerator for Technology and Innovation (MRANTI), as an example, has provided effective capacity-building support to some 2,800 startups, while giving entrepreneurs access to their premise in Kuala Lumpur with state-of-the-art infrastructure to facilitate innovation, incubation, and product, service, and business development.

MSMEs that have benefited from capacity-building and accelerator programs are developing innovative solutions that support the sector's resilience. Of particular interest are innovative solutions that support the resilience and sustainability of other MSMEs in areas like Business and Financial Services or Disaster and Climate Change. Examples include Adam Money Service, a Malaysian company that provides service infrastructure for underserved traders to have access to cross-border business in a scalable and affordable way, and uPledge, which uses Artificial Intelligence that focuses on textual processing and analysis to extract, map, and report on sustainability frameworks. Other solutions contribute more broadly to sustainability and the SDG agenda, such as Pandai, a social enterprise that develops education technology in the form of an app which helps primary and secondary level students learn and study, and Robopreneur, which automates food delivery, reducing the need for labor and human contact.

20 Source: Money Compass: MRANTI to Accelerate Malaysia's Commercialization Rate.

Case Study: Selangor Information Technology and Digital Economy Corporation

Selangor Information Technology and Digital Economy Corporation (SIDEC), a GoM agency-turned corporation, has been assisting start-ups since 2015 in transitioning and expanding their business to e-commerce in partnership with state governments and agencies in the areas of branding, marketing, market feedback, and price competitiveness. The Selangor Accelerator Programme nurtures startups with mentorship, workshops, and a pitching day.

SIDEC sees the pandemic as having brought many new players into the e-commerce market, making it a crowded field. Not all businesses will survive in the longer term. SIDEC therefore focuses on supporting the more viable enterprises in adjusting their business models and identifying opportunities in a more strategic way, emphasizing innovation as opposed to opportunism.

SIDEC points to key factors of success that include leaders who are motivated to grow their business quickly and are willing to adapt to digital demands; brand awareness alongside seeking out innovative and creative ways to remain competitive in the market- this includes using influencers to attract buyers; taking customer comments and feedback seriously, recognizing the role this plays in improving digital presence; a dependable courier service that ensures efficient delivery; and the understanding that customers value the convenience of doing their purchasing online.

KEY TAKEAWAYS

- Availability of human and financial capital needs to be reinforced with analysis of stakeholders required to build the capacities of MSMEs to support their sustainability and resilience.
- Key metrics used in identifying MSMEs' eligibility for capacity-building support include the stage of maturity of the product, whether the enterprise is creating impact proactively, whether activities are aligned with government goals and ESG principles such as leaving no one behind (e.g., women- and youth- owned MSMEs), and quality of the team, notably its leadership. Selection criteria may be industry- or sector-specific, and may refer to cultural or other market-specific requirements, such as halal certification.
- An important aspect in considering support for solutions is the extent to which company founders have international expansion plans in place, for example to localize content or license platforms for use in other markets, as well as progress in identifying interested investors to replicate and scale solutions in other markets.

Private Sector's Role

Fiscal challenges faced by GoM, notably those caused by the COVID-19 pandemic, raise the urgency of engaging private sector support for MSMEs. As is the case worldwide, the COVID-19 pandemic has exacerbated Malaysia's budgetary constraints given the need to provide emergency support to businesses and households in response to economic downturn, alongside required allocation of resources toward healthcare, research, and related measures to control the pandemic. Total COVID-related fiscal spending by GoM amounted to 2,5 percent of GDP in 2021, more than double of what was initially budgeted. As a result, the federal government deficit is estimated at about 6.5 percent of GDP in 2021, compared to the 5.5 percent deficit foreseen in the 2021 Budget.[21]

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> We motivate inclusive growth by providing jobs to our team of agents selling our education apps. These are mostly housewives and home-based businesses. Some of our agents can earn RM10,000 (US$2,200) per month.
>
> - **Pandai Education.**

Consolidation of public spending creates a gap that needs to be filled by the private sector, just as governments seek to stimulate private sector growth through innovative policies. Within this context is the recognition that MSMEs contribute significantly to overall economic activity and, in order to sustain and build that contribution, transition to a digitalized and inclusive green economy is a requirement, not a luxury.

Malaysia's private sector is contributing to MSMEs' growth, inclusivity, and sustainability. Engagement of the private sector in Malaysia in contributing to MSME growth and sustainability has been driven, at least in part, by the pandemic's role in creating an opportunity for GoM to focus programs on growth and resilience in this sector. This means responding to needs identified by MSMEs, including initiatives to build digital capabilities which are also aligned with the national digitalization strategy. Enhanced focus on, and engagement of, the private sector is further reflected in proliferation of programs that involve funding from private institutions such as banks, private companies, or companies linked with or implemented by government agencies, departments, or government-linked institutions or corporations (GLCs).

Public-Private Partnerships (PPP) are key to leveraging private sector resources and raising efficiencies to boost economic growth and MSME resilience. Malaysia's Industry 4.0 (Industry 4WRD, or i4.0) blueprint sets budgetary priorities with a view to incentivizing the private sector in making Malaysia a destination for high-tech industries.[22] Policies and priorities embodied in the strategy engage the private sector in areas like Artificial Intelligence, robotics, 3D printing, Internet of Things, and social business as fundamental components leading Malaysia's digital transformation. Initiatives like the Malaysian Technology Development Corporation's (MTDC) Centre of 9 Pillars, where entrepreneurial ecosystem stakeholders collaborate as a community-in-practice on technological innovation, bring the strategy to fruition by providing a link between industry and GoM policies to drive innovation and adoption of i4.0 technologies. Leveraging platforms like the World Logistics Council's Multidimensional Digital Economy Application System will, moreover, progress expansion of Malaysia's private sector into global markets, notably technology firms, digitally connecting Malaysian businesses with global trading partners.[23] A PPP could be structured around a Lead Company teaming up with a cohort of MSMEs, or involving family-owned VCs as discussed above.

21 Source: International Monetary Fund: Malaysia 2022 Article IV Consultation.
22 Source: Digital News Asia.
23 Source: OpenGov Asia.

Incentivizing finance and investment and developing digital infrastructure are enhancing MSMEs' contribution to the sustainability agenda. As noted above, allocation of resources by Malaysian government-linked investment funds for co-investment with private equity and VC funds in priority sectors, and establishment of a Co-Investment Fund (CIF), are unlocking private capital for MSMEs. Establishment of a regulatory framework for alternative financing platforms via ECF and P2P financing, as well as regulation of digital asset exchanges, are facilitating private sector investment in MSMEs, while tax exemptions for certain business-to-business transactions and measures to prevent compounded taxation further contribute to an environment that incentivizes private sector investment in MSMEs.

GoM's initiatives to expand connectivity and make it more affordable, such as the National Fibre Connectivity Plan which aims to develop broadband infrastructure in rural and remote areas of the country, and Mandatory Standard Access Pricing (MSAP), which has lowered broadband prices, support MSMEs' adoption of cloud computing, social media, and data analytics. This incentivizes MSMEs to move their business online and motivates inclusivity in alignment with the national digitalization strategy.

KEY TAKEAWAYS

- The private sector seeks a stable macroeconomic environment in which investment holds the prospect of healthy financial and, increasingly, social returns. If the government communicates its priorities clearly and effectively, and targets incentives appropriately, private sector actors will enter the dynamic with resources for further R&D, skills development, and expansion into global markets and supply chains.
- Public-Private Partnerships, in the context of MSMEs, provide the basis for public policy and entrepreneurship to leverage economic infrastructure, private capital, and innovation to drive digitalization and MSME resilience. Establishment of appropriate regulatory frameworks and relaxation of certain tax policies incentivize private investment in MSMEs. As a complement, there is valuable experience in government granting private sector access to physical infrastructure (office facilities, laboratories, equipment, and data), incentivizing R&D and motivating innovation.
- Private sector's support to the MSME sector can only happen if the government sufficiently raise companies' understanding of the relevance and value of sustainability investments and SDGs. Introduction of integrated sustainability reporting requirements for listed companies, for example, contributes to the vendor ecosystem's (which should include SMEs) sustainability by improving companies' appreciation for the value of such investment and their ability to articulate results and impact, supporting achievement of the SDGs.

Selected List of Government Support Initiatives

The Government of Malaysia has prepared a range of strategies implemented by agencies and programs to support MSMEs survive the COVID-19 pandemic and build their businesses in the context of the national digitalization strategy. Below are examples of key initiatives in these areas, as well as financial and capacity-building mechanisms.

The Ministry of Economy works closely with the Ministry of Entrepreneur and Cooperatives Development (MECD) and the Ministry of Communication and Multimedia Malaysia (KKMM) as well as agencies such as SME Corporation Malaysia (SME Corp. Malaysia), Malaysian Industrial Development Finance (MIDF), SMI Association of Malaysia, Malaysia Digital Economy Corporation (MDEC), and MyDIGITAL Corporation (SCMO) in strategizing initiatives and programs supporting entrepreneurship.

Twelfth Malaysia Plan	Supports the SDG Agenda by enhancing cooperation to promote sustainable economic growth and empowerment of MSMEs through financial collaboration, financial innovation, risk management, regional competitiveness, sustainable supply chains, and a free, fair, non-discriminatory, transparent, predictable, and stable trade and investment environment.
Fourth Industrial Revolution (4IR)	Guiding principle for Malaysia to position itself at the forefront of global technological advances that are transforming economies. Focus is on harnessing and leveraging innovation, notably in the field of science, with human capital development as the key driver. 4IR accordingly seeks to promote a culture of innovation, creativity, and social empowerment.

COVID-19 Response

GoM has unveiled a rescue plan worth almost one-fifth of the country's gross domestic product (GDP) to address the economic fallout from the coronavirus pandemic. The whole-of-nation strategy involves the range of stakeholders including public and private sectors, academia, community leaders, non-governmental organizations, and international organizations, with working groups established that include representatives of ministries, agencies, business associations, industry players, economists, academics, and non-governmental organizations.

PENJANA Economic Recovery Plan	Initiatives targeting MSMEs include matching grants for businesses who provide EPF (Employee Provident Fund- mandatory savings and retirement planning) and PERKESO (social security protection) for gig economy workers; PENJANA SME financing loan to assist SMEs who need cash flow support to sustain business operations (maximum loan size RM500,000 per SME); PENJANA Microfinancing, with an allocation of up to RM400 million with RM50 million allocated for female entrepreneurs (maximum RM50,000 per enterprise); and Bumiputera relief financing of RM200 million through PUNB (financing services) and RM300 million through MARA (support and training) for Bumiputera businesses.
Special Stimulus Package	To soften the impact of Movement Control Orders (MCOs), GoM has allocated RM10 billion targeting SMEs. Initiatives include an increased wage subsidy for employers.
Prihatin Special Grant	Grant for qualifying SME companies with provision of a special grant of RM3,000 to each company.
Support to Cooperatives	The Malaysian Cooperative Society Commission (MCSC) is responsible for developing the co-operative movement in Malaysia and facilitating cooperatives' contribution to economic development.
Support to Franchise Entrepreneurship	Operating under the Ministry of Finance, Perbadanan Nasional Berhad (Pernas), supports franchise entrepreneurship and development of local products and international marketing.
Additional policy measures introduced by GoM to address the pandemic	• Encouraging negotiations, based on the existing legal framework, between employers and employees on terms of employment, including the option to deduct salaries, and to allow unpaid leave during the MCO; • An automatic moratorium for companies with financial years ending September 30 until December 31 allowing submission of statutory documents (30 days from the last date of the MCO) and financial statements (3 months from the last date of the MCO) to the Companies Commission of Malaysia • Appeal to owners of private premises to reduce rental rates for SMEs during the MCO and three months after its end, alongside additional tax deductions equal to the amount of rent reduction from April to June, subject to rental reduction being at least 30 percent during this period. • Tax deduction on the cost of renovation and renewal of premises up to RM300,000 to support compliance with SOPs such as improving ventilation; • Tax deduction of up to RM50,000 on rental expenses of employee accommodation premises.; • Targeted assistance RM1.6 billion for the tourism industry, RM238 million for the creative industry, and RM307 million for the retail industry.

Financing Support

Malaysian MSMEs are benefiting from financing arrangements on preferential terms made available by governmental and private sector lending institutions.

SME BANK GROUP	Finances underserved SMEs by facilitating their financing requirements and providing capacity-building services as required for such higher-risk companies. COVID-specific financing, sourced from Bank Negara Malaysia (BNM) and totaling RM 1.5 billion, includes: • RM 500Mapproved for 1,000 SMEs through a Special Relief Fund; • a PENJANA Tourism Fund, targeting Malaysia's tourism sector; • SME Technology and Transfer Fund (focused on high tech with aviation as priority); • a Targeted Relief Facility RM 320M that has benefitted 4,000 clients; • an Export Program to assist companies with export readiness, connect them with potential buyers, and facilitate broader engagement such as participation at EXPOs.
BANK NEGARA MALAYSIA	iTEKAD program, a blended financing program piloted in partnership with Islamic financial institutions that combines social finance funds with microfinancing alongside education and training, provided by implementation partners, with the goal of empowering low-income microentrepreneurs.
Keluarga Malaysia BANTUAN RAKYAT Keluarga Malaysia SEMARAK NIAGA SemarakNiaga	RM40 billion “SemarakNiaga” initiative is a key element of Malaysia's Budget 2022 providing support targeted at MSMEs. The program aims to build the capacity and competitiveness of the business sector through, among others, access to financing and soft loans, equity financing and financing guarantees.
Maybank	Offers loans and financing on preferential terms to MSMEs affected by the floods, Bumiputera SMEs, and Malaysian-owned SMEs.
ALLIANCE BANK	Launched a #SupportLokal initiative to help MSMEs continue to earn revenue or scale up their business digitally during the Movement Control Order (MCO) period.
Dana Penjana Nasional	RM600 million investment fund established as part of GOM's initiative to accelerate Malaysia's economic recovery; raises funding from local and international investors to support startups in the local venture capital space and enhance Malaysia's value proposition as a hub for innovative companies to launch their business, scale up, and internationalize.
MDEC™	Lead manages Malaysia's ICT and digital economy to ramp up Malaysia 5.0, a sustainable and circular economy and national-level digital ecosystem based on an alliance of public and private sector stakeholders.

Capacity-Building

A range of capacity-building programs offering training, coaching, mentorship, and networking with prospective investors includes accelerators, incubators, and a technology park.

SUPER	Designed to identify gaps and challenges across the startup growth cycle, contributing to the development of an effective, coordinated entrepreneurial ecosystem.
Cradle — Creating. Leading. Startups.	MOSTI-based agency mandated to provide early-stage funding, mentorship, and skills development for tech-based startups. Cradle acts as a coordinating agency for Malaysia's startup ecosystem, reporting to high-level government stakeholders on predetermined outcome metrics, such as startup creation and value-added.
MY STARTUP	Consolidated platform created by Cradle for ecosystem players, including a list of registered startups.
MRANTI (Malaysian Research Accelerator for Technology & Innovation) / MaGIC (Malaysian Global Innovation and Creativity Centre)	Program empowering social enterprises through capacity-building, marketing support, and access to funding sources with focus on tech-driven enterprises. MRANTI's Social Impact Challenge Accelerator (SICA) provides a space for social enterprises to network with investors.
MRANTI (Malaysian Research Accelerator for Technology & Innovation) / Technology Park Malaysia	Serves at the grassroots level targeting local startups to scale up to the global market; provides office space where MSMEs develop engineering and biotechnology businesses, supporting design and development, low-cost market testing, and mass production.
National Technology & Innovation Sandbox	Launched by MOSTI, with MaGIC as the lead secretariat, NTIS aims to create high-skilled job opportunities for Malaysians while reducing dependency on foreign labor, increasing GDP and social inclusion, and enhancing private sector participation, investment, and collaboration in research.
Sidec — Chase Your Dreams	Selangor government agency mandated to lead the digital transformation of Selangor as ASEAN's digital hub, focusing on three key sectors of the Digital Economy: e-commerce, startups, and MSME digitalization. SIDEC's focus has broadened from supporting startups to include MSME transformation, reinforcing businesses' move to online channels.
CEDAR — Centre For Entrepreneur Development And Research	Wholly owned subsidiary of SME Bank, CEDR's mission is to build capacities of Malaysian entrepreneurs towards sustaining their business growth in support of the National Economic Agenda. Provides training programs, business coaching, and motivational talks, services that are also available to non-borrowers.
INSKEN — Institut Keusahawanan Negara	Agency under the purview of MECD, offers capacity-building initiatives for entrepreneurs through industry-driven training and coaching programs delivered in collaboration with ministries, industry practitioners, professionals, and government agencies to ensure relevance based on current industry requirements.

Recommendations for Building an Entrepreneurial Ecosystem

Based on the foregoing analysis, the following recommendations are offered to policymakers and the range of entrepreneurial ecosystem stakeholders in other countries for consideration in designing and implementing programs and mechanisms to support MSMEs' resilience, growth, and sustainability.

Policies and Programs

- Policies and programs that have the dual objective of building MSME resilience and sustainability and addressing sudden and drastic disruption of business require measures that comprise a blend of targeted relief, capacity-building, risk mitigation, financial collaboration and innovation based on stakeholder engagement, including the private sector.
- Build MSME resilience in the face of challenges related to climate change. Regarding climate change, for example, address environmental degradation by (a) establishing environmental regulatory regimes that differentiate between MSMEs and larger enterprises and take account of activity risk levels, with regulatory incentives for going beyond compliance and assistance for MSMEs to accomplish this; and (b) mainstreaming strategies to support MSME greening, including technical assistance, access to finance, regulatory incentives, and market access.
- Communicate clearly and in a targeted way to raise MSMEs' understanding of the need for research and development, technology, and innovation that underpin the transition to a digital economy, as clarified by the COVID-19 pandemic experience. This will strengthen the supply of solutions supporting resilience, inclusivity, and sustainability of MSMEs. It is critical to ensure that otherwise underserved communities are reached.
- Policies and programs should be comprehensive and well-coordinated as much as possible. This can help avoid proliferation, duplication, or redundancies, and their implementation should be carefully designed with responsibilities allocated across ministries and agencies in a way that will prevent or minimize overlap and confusion.
- Design of support programs should take account of the breadth of company maturity, not neglecting ideation and startup phases, and should provide technical as well as generic management support. This should be complemented with targeted advanced skill and technical support and market opportunities to integrate solutions into global supply chains.

Financing

- Government and lending institutions need to be responsive to crisis-related urgency of financing needs that require flexible and accelerated responses. Further, a balance needs to be struck by financial institutions that must comply with prudential banking requirements while achieving social objectives.
- Policy pivots should be minimized through establishment of longer-term, party-neutral strategies to ensure provision of preferential lending schemes dependent on governmental allocation of financing at below-market rates.
- The public sector can play an important role in motivating early-stage financing and crowding in private investment, incentivizing VC and other private sector investors to consider businesses in higher-risk investment phases and mitigating family-owned CVCs' reluctance to explore innovative technologies. Partnering with foreign VCs motivates foreign-sourced investment and international knowledge transfer.
- Focus on risk management, governance and disclosure, product and innovation, and capacity-building should accompany more specific ESG considerations, notably inclusivity and reaching the underserved, in the establishment of minimum requirements for borrowers. This will strengthen the SDG financing framework.

Innovation and Technology

The new e-commerce normal and corresponding use of innovative financing mechanisms require review of regulatory frameworks to prevent impediments to progress while motivating capital allocation to early-stage and growth-stage enterprises, progressing digitalization goals.

Productivity and added value yield innovation, which is facilitated by an institutional environment that encourages transmission of knowledge from creators to users. This suggests creating supportive linkages between MSMEs and academia as well as enhanced targeting of technical skills development among MSMEs.

Capacity-Building

- A balance needs to be struck between providing MSMEs with generic capacity-building in areas like organizational management, business planning, and networking with investors, and upskilling in areas specific to innovation and technological development.
- Capacity-building should include establishment of linkages to potential investors and related coaching, as well as well-organized events like pitching days. Identification of interested international investors accelerates the move into foreign markets.
- MSMEs' eligibility for capacity-building support is indicated by metrics such as product maturity or track record; alignment with national strategies, sustainability priorities, and the principle of leaving no one behind; presence of international expansion plans; and team quality. Selection criteria may be industry- or sector-specific, and may refer to market-specific requirements such as halal certification.

Private Sector Engagement

- Private sector resources, when properly incentivized and deployed, have the potential to fill gaps created by government budgetary constraints, notably those exacerbated by crises. In return, given MSMEs' significant contribution to economic activity and the ongoing transition to digitalization, responding to needs identified by MSMEs is imperative.
- Public-Private Partnerships are key to leveraging private sector resources and raising efficiencies to boost economic growth and MSME resilience. Space must be provided where ecosystem stakeholders collaborate to produce technological innovation and bring strategies to fruition by providing linkages between industry and governmental policies to drive innovation and commercialization and support resilience.
- Co-investing with private equity and VC funds, establishing regulatory frameworks for alternative financing platforms and digital asset exchanges, providing targeted tax exemptions, and enhancing inclusivity by expanding access to connectivity are all fundamental components of a policy package that will mobilize private capital to support MSME resilience and sustainability.

Selected List of Innovative and Scalable MSME Solutions

The commonality across private sector solutions presented below is a focus on sustainability and inclusivity: the provision of access to services and products supporting entrepreneurship in a way that enables all segments of society, notably the underserved, to contribute to, and gain from, economic activity, leaving no one behind. Specifically, solutions that will be appropriate for replication and scaling in other countries must meet a set of criteria, established for the purposes of this project, that embrace the SDG objectives as well as additional conditions regarding innovation and business viability. The solutions must feature:

- A business model that is sound, comprehensive, and based on a plan that is feasible and indicates a trajectory to success rooted in, for example, competitive advantage and sound marketing analysis;
- Accessibility, meaning the solution must be easy to locate, identify, and understand;
- Innovation, introducing new, advanced, and original ideas and methods supporting a sustainable economy;
- Operability, referring to digital accessibility, for example design for older users or having efficient backup systems;
- Impact and sustainability references targeting one or several SDGs and/or addressing challenges related to the COVID-19 pandemic;
- Scalability and exportability, meaning the solution displays investment potential and international relevance;
- A leadership team of high quality, demonstrating technical expertise with a sound track record in business management and operation.

The project team has accordingly developed a screening tool and scoring methodology that covers the above seven key areas, with weights assigned to each area reflecting relative importance for this analysis. Solutions that meet these criteria have been offered for showcasing by several GoM-led agencies and their accelerator programs. These agencies and programs are:

- Malaysia Digital Economy Corporation (MDEC), the government agency under the Ministry of Communications and Multimedia Malaysia entrusted to lead the nation's digital economy forward. MDEC's mandate includes driving digital adoption, development of industry ready tech talents, digital economy policies, and global champions.
- Bank Negara Malaysia (BNM), in partnership with KPMG and 1337 Ventures, organized a flagship FinTech event in January 2022 with the theme 'Advancing Digitalisation for Recovery, Sustainability and Inclusion' focusing on the importance of sustainability and digital technology in reorienting the role of finance to help economies rebuild towards a more inclusive, resilient, and sustainable future.
- MRANTI/Technology Park Malaysia, a government-supported program that provides physical office space and facilities to entrepreneurs embarking on their engineering and biotechnology innovation; assists in design and development, market testing, and mass production; provides linkages to funders and exposure to targeted users; and assists with halal certification.
- FIKRA, a joint initiative by the Securities Commission Malaysia and the United Nations Capital Development Fund (UNCDF) to further enhance the Islamic capital market ecosystem in Malaysia by identifying and scaling innovative fintech solutions.

The MSME solutions offered through these programs for showcasing for potential replication and scaling in other countries offer products and services in areas ranging from financial technology and business support services to digitalization, healthcare, and mitigating impacts on the climate.[24]

24 Solutions offered by MDEC and BNM/KPMG/1337 Ventures are presented in this section. Solutions offered by MRANTI and FIIKRA are presented in this report, but have not yet been scored by the respective accelerator teams.

Financial Technology

Financial technology ("fintech") is defined here as "new technology that seeks to improve and automate the delivery and use of financial services. At its core, fintech is utilized to help companies, business owners, and consumers better manage their financial operations, processes, and lives by utilizing specialized software and algorithms that are used on computers and, increasingly, smartphones. Fintech, the word, is a combination of 'financial technology.'"[25]

Scaling Solutions: Scenarios and Emerging Trends

Fintech is rapidly growing in use worldwide, with most financial institutions in countries such as the United State and the United Kingdom having already moved much of their business online.[26] It is generally viewed that the emerging trend is one of finance moving entirely to the digital space while use of physical money will, in due course, cease.

Fintech companies are catalyzing this trend. The more innovative fintech solutions are, moreover, appearing in developing countries where there is abundant demand among the local populations for innovative banking products and services. While currently general use of financial technologies tends to be concentrated in the European Union, it is forecast that innovative fintech is set to spread rapidly worldwide, and this, in turn, will require companies to adapt and manage their business models to accommodate the new reality. A key feature among countries where the use of fintech will be maximized will be reform or easing of regulatory frameworks such that companies offering these financial products and services, and companies that use them, will be easily and fully integrated into the national economy.

Overall, fintech is likely to see greatest demand in less technologically developed countries, where large segments of the population are unserved due to lack of access to financial services stemming from, among others, physical distances required to travel to obtain such services. This typically means countries where a majority of the population remains unbanked and affected by poverty. Hence, the ground is ripe for fintech startups in, for example, Africa and Southeast Asia. It is particularly in these regions that opportunities to buy and sell goods and services online will contribute to mitigating poverty, fostering inclusivity in economic activity, and raising the standard and quality of life for society broadly defined.

Advantages and Innovation

The solutions showcased below exhibit advantages and innovation in that they empower underserved segments of the population to participate productively in economic activity. The solutions provide services tailored specifically to, for example, smallholder farmers, while alternative credit risk assessment brings financial services more generally to the underserved and unbanked communities. Innovative products targeting home ownership unlocks home equity by investing with homeowners without the need for borrowing and taking on additional debt, and other solutions address consumers' personal financing needs, improve financial literacy among the population, and address supply chain financing gaps by allowing businesses to undertake interest-free transactions and make B2B payments more efficiently.

25 Source: Investopedia.
26 Source: Finance & Tech News

Sample Solutions

Kapitani, an alumnus of MDEC, began operation in November 2020. Kapitani offers a digital platform to empower smallholder farmers with digital and financial technologies know-how to improve farm management practices including book-keeping, microlending, crop insurance, and credit scoring to increase profitability and productivity and enhance access to capital and credit. The platform has onboarded more than 300 farmers to date.

Global PsyTech, an alumnus of MDEC, began operation in January 2018. Global PsyTech applies psychometric screening and behavioral science to core solutions like Fintech Analytics, which provides an alternative credit risk assessment tool that combines behavioral data and other sources. The platform has amassed over 50,000 credit behaviors, operating in three countries and covering more than 30 companies.

Alfie Asia, an alumnus of MDEC, started operation in December 2021. Alfie Asia builds alternative credit scoring (ACS) algorithms based on smartphone-derived data points, focusing on behavioral, digital, and financial aspects for risk profiling. The solution brings financial services to the underserved and unbanked communities.

BricknShare, an alumnus of Bank Negara Malaysia/KPMG/1337 Ventures, unlocks home equity by investing with homeowners, providing upfront cash in exchange for a share of the home's value. No loan or extra debt is involved, there is no interest charged, and no monthly payments are required.

BlueDuck, an alumnus of Bank Negara Malaysia/KPMG/1337 Ventures, produces innovative insurance and financial products for residential real estate agents as well as their landlords and tenants, facilitating zero deposit rental and enabling end-to-end rental management system through a wide distribution network.

Finory, an alumnus of Bank Negara Malaysia/KPMG/1337 Ventures, started operation in June 2020. Finory offers a credit card management app that allows the user to manage all their credit-cards in a single app. The product addresses personal financing needs of the consumer while improving financial literacy.

DU-it, an alumnus of Bank Negara Malaysia/KPMG/1337 Ventures, offers an installment solution for businesses using the "Buy Now, Pay Later" business model to address supply chain financing gaps. The service allows businesses to make purchases via an interest-free installment plan and make B2B payments a more efficient and rewarding experience, with cross-sharing of information.

Business Support Services

Business support services are defined here as "services provided in relation to business or commerce including evaluation of prospective customers, telemarketing, processing of purchase orders and fulfillment services, information and tracking of delivery schedules, managing distribution and logistics, customer relationship management services, accounting and processing of transactions, operational assistance for marketing, formulation of customer service and pricing policies, infrastructural support services, and other transaction processing."[27]

Scaling Solutions: Scenarios and Emerging Trends

Provision of business support services, ranging from training and capacity-building to mobile apps that facilitate online transactions, are essential to economic growth and sustainability, in particular in the post-COVID environment. Countries that prioritize development of the infrastructure supporting business provide the accommodating environment that fosters innovative entrepreneurship.

Use of business services, including outsourcing, allows a company to focus on its area of expertise in achieving specific objectives while a business service provider provides support that falls within its own area of expertise.[28] Hence the term, business-to-business interactions or B2B. Environments in which entrepreneurship is supported and where there is potential for growth of small business are likely to be growth areas for business support services. Such services may include, for example, accounting services using updated bookkeeping software; consulting services in a range of areas including financial audits or IT consulting for new database design or software development; engineering services, including mechanical, chemical, software, and electrical engineering to support production and testing of new items and validation of prototype design; and research support to conduct, for example, focus groups in determining product marketability or soliciting end-user feedback.

Advantages and Innovation

Companies presented below offer solutions that bring distinct advantages to the broader entrepreneurial population, such as addressing business retail requirements (payment, inventory management, bookkeeping, and business analytics) on the mobile phone, as well as certain communities and underserved segments of the population. Shariah-compliant platforms support women entrepreneurs and provide both Islamic and conventional financing, enhancing financial inclusion. Solutions that support cross-border business serve to open new markets for local business, supporting international commerce and access to supply chains, while digitalization of backend financial operations enhances operational efficiencies while allowing for organized, efficient, and secure storage of business data.

27 Source: Central Board of Indirect Taxes and Customs.
28 Source: Indeed.

Sample Solutions

Mesinkira, an alumnus of MDEC, started operation in January 2020. Mesinkira offers a mobile app serving MSMEs/B40 (bottom 40 percent) merchants in all retail requirements (payment, inventory management, bookkeeping, and business analytics), all on the mobile phone. Reports generated from the app facilitate merchants' bankability, fostering financial inclusion.

MADCash, an alumnus of MDEC, started operation in August 2020. MADCash offers a Shariah-compliant platform that empowers women entrepreneurs to grow their businesses while allowing funders to measure and track the impact of their funding. To date, the platform has been successful onboarding over 300 women entrepreneurs.

microLEAP, an alumnus of MDEC, started operation in October 2019. microLEAP offers a Shariah-compliant platform and is the first P2P operator in Malaysia to offer both Islamic and conventional financing on the same platform. To date, the platform has attracted 1,700 investors, funded 160 investment notes to MSMEs, and disbursed over RM20 million.

Adam Money Service, an alumnus of Bank Negara Malaysia/KPMG/1337 Ventures, is a provider of infrastructure supporting underserved traders with access to cross border business in a quick, scalable, and affordable way.

Swipey, an alumnus of Bank Negara Malaysia/KPMG/1337 Ventures, started operation in 2021. Swipey lets MSMEs focus on building their business and optimizing operating costs by digitalizing backend financial operations through corporate card solutions and a user-friendly dashboard.

Digitalization

Digitalization is defined here as "transforming business processes by leveraging business technologies, ultimately resulting in opportunities for efficiencies and increased revenue" (as contrasted with digitization, which is defined as "converting data, documents, and processes from analog to digital").[29]

Scaling Solutions: Scenarios and Emerging Trends

Adoption and increasingly widespread use of technology has led to wide-ranging changes in economies around the world, motivating reduced production costs, establishment of quality standards, and new communications channels across vast distances.[30]

Digitalization encompasses the range of activities and processes made possible by leveraging digital technologies, providing a path for companies to grow and succeed.[31] Digitalization and automation enhance operational efficiencies by limiting risk of human error and lowering operational costs through, for example, automated marketing activities and orders processing. Digitization, the tactic underpinning the broader, strategic digitalization process, involves transitioning data from analog to digital, enabling, for example, data storage on the cloud.

Digitalization is also impacting consumer behavior: buyers are increasingly doing research online to compare goods and services across competing suppliers. A study prepared by GE Capital Bank found that over 80 percent of consumers conduct online research before visiting a store to make a purchase.[32] This is reinforced by a growing trend of online purchasing. From the sustainability perspective, digitalization is facilitating inclusivity, enabling participation in economic activity by a greater share of the consuming population, and raising the standards according to which business is conducted to meet changing patterns of demand.

Advantages and Innovation

Beyond, as mentioned above, reducing transaction costs, digitalization lowers costs related to production and product testing. Digital technologies enable streamlining of workflows for more efficient execution and reduced operational costs. Companies are able to perform experiments at lower cost, in turn enabling lower risk associated with new products as well as enhancing insight into future product development, marketing, and business planning. Digitalization also facilitates data analysis, increasingly important in the context of market and innovative product testing. These factors are particularly important for startups, whose business models, by nature, are more reliant on testing and are, therefore, more exposed to risk.

29 Source: TruQC.
30 Source: Joe Cackler, Emily Gu, and Mike Rodgers, CS 201, Stanford University, March 2008
31 Source: Factory dev.
32 Ibid.

Sample Solutions

Koha Digital, an alumnus of Bank Negara Malaysia/KPMG/1337 Ventures, started operation in June 2021. Koha Digital provides easy and accessible digital legacy planning for individuals to protect and preserve their family's financial future. Features include integrated education, innovative personal financial health and legacy planning, charitable distribution of wealth following death, and personalized video or letter messages to loved ones.

Marion, an alumnus of Bank Negara Malaysia/KPMG/1337 Ventures, started operation in 2021. Marion offers a fully digital brokerage solution that provides investors with a hyper-personalized trading experience on Bursa Malaysia, empowering them with intelligent tools to make informed investment decisions.

Product2U, an alumnus of Bank Negara Malaysia/KPMG/1337 Ventures, is a service provider offering the most complete list of services in Malaysia, covering all major brands and utility branches. P2U seeks to bridge the offline and online markets by creating touch points that provide business facilities and enable utilities payments and additional purchases across the country, covering rural and urban areas.

Blended Islamic Social Finance Schemes for MSMEs

Islamic social finance (*waqaf, zakah, infaq*) is an important component of the financing pillars for MSMEs, complementing government financial schemes and banks or non-banks financial solutions. The unique qualities of social finance – (i) flexibility (ii) ability to add skills development and training elements and (iii) impact monitoring mechanisms – can advance financial inclusion whilst addressing constraints typically associated with traditional finance.

MSME schemes based on Islamic social finance (ISF) are flexible in that it is able to structure in de-risking elements. For instance, banks can allow a longer time period for payments since certain number of payments can be taken from the Islamic Social Finance allocations to the borrower (especially when the borrower is not able to meet its obligations during early or challenging phases of the business). In fact, some portion of the financing amount can be offset directly from *zakah* or *infaq* funds eligible to the borrower. Central Bank of Malaysia views the ISF sector to be a strong partner in development financing, with many of the ISF state authorities have begun to adopt innovative practices by working other stakeholders and implementation partners. These partnerships can optimize the strengths of various actors in the ecosystem (e.g., collection/distribution agents, platform providers, payment facilitators, fund managers, and underwriters), thereby improving efficiency and outreach, augmented by the increased adoption of digital tools.

One such ISF blended finance programs that has shown outstanding results and potential for upscaling is iTEKAD. It is essentially a blended social finance program to support low-income microentrepreneurs providing business assets funded by social finance instruments (donations, social impact investment, zakat, and cash waqf), microfinancing, and structured training. As of August 2022, 95% of iTEKAD microentrepreneurs have successfully built online capabilities to enhance sales. The program is expected to have benefitted over 4,000 low-income microentrepreneurs by 2023.

Fund Providers	Type of Funds		Social Finance intermediated by financial institutions			Digital Tools	Network Partners
Funding			Business Model			Supporting Infrastructures	
			Bank Islam	**Bank Muamalat**	**CIMB Islamic**		
Contributors		Donation	Seed Capital, Microfinancing, and training		Safety net protection and training	Institutions' mobile apps: • Financial Institutions • State Islamic Religious Councils (SIRCs) • Social Enterprises • Non-govern-mental organisations (NGOs)	Philanthropic capital collected and distributed through changemakers: (NGOs, Social Enterprises, Foundations)
Donors		Waqf and endowment	Direct Integration	Indirect Integration			
Investors	Philanthropic Fund	Zakat	Blended Microfinancing	Funding Escalator	Blended Protection		Channeling waqf and zakat funds to socioeconomic projects: (SIRCs, Government Agencies)
			Risk absorbent capital	Risk absorbent capital (incubate at start-up/micro level)	Risk absorbent capital (Covers self, family and micro business)	• E-wallet (offered by approved providers)	
Government Grants			+	+	+		
			Microfinancing +	Mentoring +	Mentoring +	• QR code	Seamless collaboration and transparency with distributed ledger technology: (Fintech)
Financial Institutions (returned zakat/CSR)							
Corporates (CSR funds)	Commercial Fund	Social Investment Account	Mentoring	Financing (Graduated SME level)	Voluntary employment	Payment Gateway	

Figure 6: Breakdown of Social Finance Offerings in Malaysia within iTEKAD
Source: *Financial Sector Blueprint 2022-2026* (BNM, 2022)

By 2021, three Islamic banks have rolled out their iTEKAD offerings, all aimed to better serve the low-income households. iTEKAD offers seed capital through an affordable microfinancing arrangement. What makes the iTEKAD program innovative is that the financing facility is often coupled with social finance funds, either *zakat* or *waqf,* (which are therefore non-repayable and can be used for capital expenditure. The latter helps to effectively reduce credit exposure of the iTEKAD borrowers. Recipients also receive structured entrepreneurship, employment guarantee and financial management training to ensure a more holistic understanding, skills and knowledge in managing their venture efficiently and sustainably. iTEKAD's success hinges upon close collaborations with partners such as State Islamic Religious Councils, government agencies, private sector (which provided training and upskilling opportunities as well as job guarantees in some cases), social enterprises, universities and non-government organisations. The Government also provided a grant allocation in 2023 of RM20 million to augment the seed capital component offered by participating banks in iTEKAD.

Participating Bank	Offering	Program Structure
BANK ISLAM	iTEKAD Microfinancing	Returned *zakat* and microfinancing facility
بنك معاملات Bank Muamalat	iTEKAD Mawaddah	Returned *zakat* and two-tier mudarabah investment
CIMB ISLAMIC	CIMB Islamic Rider Entrepreneur Programme	Internal CSR grant, cash *waqf* and micro-financing facility

Impact indicators for participants of the iTEKAD program include:

Business Growth	• increase in value of average monthly sales • increase in business asset value
Financial Resilience	• business income saved per month • diversified forms of savings
Employment	• sustained operations (self-employed) • employee retention
Digital Upskilling	• online sales • e-wallet payment for business transactions • official websites with secured payment gateway

In order to encourage more initiatives that builds upon ISF as a blended finance instrument for MSMEs, ongoing efforts include developing shared infrastructures:[33]

- A shared data repository of target groups for social finance programs, which can support better risk-informed profiling of beneficiaries and the channeling of funds to unmet groups
- A network of credible implementation partners – that are vested in social outcomes and have strong relationships with 'at-risk' communities – can act as support system to build trust and encourage participation in the financial system.
- An integrated dashboard optimizing mobile-based interfaces that facilitates real-time funding updates and impact disclosures. This can address key information gaps on the social finance landscape, including on readily available opportunities for willing stakeholders to contribute funds or volunteer other resources.

33 Social finance as an enabler of social development in Malaysia - FSBP 2022-2026 (bnm.gov.my)

ANNEX: REPORT OBJECTIVE AND METHODOLOGY

This report presents findings and analysis of the Malaysian experience in supporting the micro, small, and medium-sized enterprise (MSME) sector to (a) synthesize lessons learnt and exchange knowledge and resources on solutions that support MSME recovery and resilience in Malaysia and (b) promote scalable and innovative solutions in Malaysia and other countries. The intention, in the context of a partnership between the United Nations Development Programme and the Islamic Development Bank, is to showcase successful support programs and solutions to benefit MSME ecosystems in their member countries.

The report is based on desk research, including review of Government of Malaysia (GoM) strategies[34], support programs, corporate websites and press releases, media reports, and interviews conducted by the Project Team with GoM and private sector stakeholders providing support to the MSME ecosystem in Malaysia. Interviews were held with the following entities:

34 Notably the Twelfth Malaysia Plan 2021-2025 and the National Fourth Industrial Revolution Policy (4IR).

An agency under the Ministry of Science, Technology and Innovation (MOSTI), Cradle Fund is mandated to create an ecosystem that supports an innovative, business-building environment for technology entrepreneurs. Cradle Fund representatives emphasize the importance of securing buy-in and commitment from both government and startup ecosystem players: high-level policymakers are engaged to channel resources and facilitate policy interventions.

An agency within the Ministry of Communications and Multimedia Malaysia, MDEC is leading the country's ICT and digital economy growth. MDEC is supporting this project by showcasing MSMEs that bring innovative financial services and products to the underserved and are thereby positioned to be showcased to IsDB Member Countries.[35]

The agency combines a bottom-up approach, using feedback from 1,500 alumni regarding social enterprises challenges, with a top-down approach whereby GoM provides market access to enterprises. The latter strategy entails encouraging public social procurement and helping ministries track procurement results and monitor market accessibility.

TPM provides physical office space and facilities to entrepreneurs embarking on their engineering and biotechnology innovation, assists in design and development, market testing, and mass production, provides linkages to funders and exposure to targeted users, and assists with halal certification. In 2022, both MAGIC and TPM were merged into a single agency, Malaysian Research Accelerator for Technology and Innovation (MRANTI).

A producer of a learning and assessment app covering Malaysia's primary and secondary curricula, Pandai helps students to learn and prepare for their academic journey. The company is exploring export possibilities to large markets such as Bangladesh, India, Indonesia, Myanmar, Philippines, Thailand, and Vietnam.

A producer of service robots for professional and domestic use, Robopreneur targets the service and hospitality, medical healthcare, industrial cleaning, and education sectors. Representatives, as academicians with little business background, emphasize the value of support provided by MaGIC in supporting their engagement in the world of business.

A government agency-turned corporation, SIDEC, in partnership with state governments and agencies, assists startups in transitioning and expanding their business to e-commerce in the areas of branding, marketing, market feedback, and price competitiveness. The Selangor Accelerator Programme nurtures startups with mentorship, workshops, and a pitching day (see case study box, below).

A development finance institution reinforcing Malaysia's national agenda, SME Bank finances and supports the development of entrepreneurial, industrial, and technological infrastructure in adherence with prudential banking requirements: doing good and doing well.

35 The Project Team has developed and applied a screening tool to assess these MSMEs and their solutions' compliance with a set of relevant criteria.

IsDB

البنك الإسلامي للتنمية

Islamic Development Bank

UNDP