

# EFFECTIVE SOLUTIONS FOR SUPPORTING MSMEs RECOVERY & RESILIENCE: The Experience of Malaysia

## Highlights

**IsDB**   
البنك الإسلامي للتنمية  
Islamic Development Bank





## Background and Rationale

- Micro, Small, and Medium-sized Enterprises (MSMEs) are the backbone of the global economy, making up over 90% of the firms worldwide, MSMEs contribute to around 70% of total employment and half of GDP in most economies.
- Malaysia's government has implemented a series of strategic programmes and financing facilities to support and empower MSMEs to survive and grow beyond the COVID-19 pandemic in an inclusive macroeconomic environment.
- The Islamic Development Bank (IsDB) Center of Excellence in Kuala Lumpur in partnership with the United Nations Development Programme (UNDP) Malaysia undertook an initiative that aims to capture Malaysia's best practices and experience in supporting MSMEs in the wake of COVID-19 and beyond, as well as identifying promising private sector-led solutions with potential to apply and scale in other IsDB and UNDP Member Countries.

## Objectives

01

**Capturing successful experience in supporting MSMEs in an ecosystem approach, starting with Malaysia's experience.**

02

**Identify Member Countries with high potential to adapt solutions responsive to the local context.**

03

**Facilitate matchmaking and business linkages between stakeholders across MSMEs ecosystem.**

## MSMEs Landscape in Malaysia: Achieving Sustainability



MSMEs account for more than **97%** of businesses in Malaysia, of which 85.5% were active in service sector, 7.4 % in construction, 5.1 % in manufacturing, 1.7% in agriculture, and 0.3% in mining and quarrying.



**78%** of SMEs are defined as **micro**, 20% are small and 1.6% are medium.



Malaysia MSMEs contribution to GDP has grown from RM298 billion to **RM512 bil** in 2021, creating job opportunities for **7.3mil** people (23% of Malaysia population) and accounting for RM118 billion of the country's overall exports.


## MSMEs Landscape in Malaysia: MSMEs Challenges



**1** **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.



**2** **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



**3** **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



**4** **Awareness of Support Programmes**  
MSMEs remain unaware of support programs and their eligibility.  
Targeted communications are needed to ensure information reaches the intended audience.



**5** **Level playing field**  
Large businesses continue to dominate markets, raising need for fair competition regardless of size. Gender-sensitive policies and reforms are required to ensure that disproportionate challenges facing women in business are mitigated.

## MSMEs Ecosystem Building Blocks

### Policy and Programs

Public sector-led measures and supporting actions to incentivize entrepreneurship and provide relief to businesses in response to crisis.

### Private Sector Engagement

Leveraging private sector expertise and resources to complement public sector support.

### Financing

Programs and mechanisms offered by public- and private-sector financial institutions to support sustenance of business through grants and loans to maintain cash flow and support continued operations.

### Capacity Building

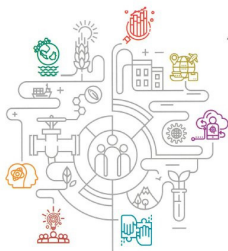
Training, skills building, and mentorship, through accelerator or incubator programs, that progress entrepreneurial innovation from ideation to commercialization.

### Technology & Innovation

Measures specifically targeted at digitalization of the national economy, notably the transition of business to e-commerce.



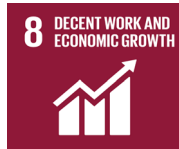
# Malaysia's Policy Response to COVID-19: Aligning to SDG



## TWELFTH MALAYSIA PLAN

2021-2025

A PROSPEROUS, INCLUSIVE, SUSTAINABLE MALAYSIA



To address these challenges, strategies and initiatives under the Twelfth Malaysia Plan support the SDG 8 (Sustainable Development) specifically, promoting development-oriented policies and encouraging formalization and sustainable growth of MSMEs. Strategies and support included:

- Financial collaboration,
- Financial innovation,
- Risk management,
- Regional competitiveness,
- Sustainable supply chains,
- Free, fair, non-discriminatory, transparent, predictable, and stable trade and investment environment.

Improvement of the financial infrastructure that caters to MSMEs is of critical importance but is not sufficient. Innovative business solutions for sustainable development has become even more relevant in the context of the COVID-19 pandemic. Other critical enablers for MSMEs growth include:



Improvements in ICT infrastructure



Development of legal and regulatory frameworks to support the growth of e-commerce.



E-Commerce platforms and capacity building to expand MSMEs access to markets and better integration into regional and global value chains.



Empowerment of MSMEs in research and development and technology and explore new growth areas in the digital economy.

## Malaysia's Policy Response: Special Stimulus Package



To soften the impact of the movement control order (MCO), RM10 billion targeting SMEs including wage subsidies.



Creation of a RM2.1 billion Prihatin Special Grant for qualifying SME companies and provision of a special grant of RM3,000 to each company, which is expected to benefit nearly 700,000 MSMEs nationwide.



Abolishment of the 2% interest rate for the RM500mil Micro Credit Scheme under Bank Simpanan Nasional and extension of the micro loan scheme for micro businesses extended to Tekun Nasional with a maximum loan limit of RM10,000 per company at no interest. For this purpose, a sum of RM200mil has been provided.



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.



Automatic moratorium for companies with financial years ending Sept 30 until Dec 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 SSM (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% during this period.



# Malaysia's Policy Response: PENJANA Economic Recovery Plan

To stimulate the Malaysian economy and propel local businesses. Initiatives targeting MSMEs include:

## penjana Pelan Jana Semula Ekonomi Negara

01

Matching grants for businesses who provide EPF (Employee Provident Fund-mandatory savings and retirement planning) and PERKESO (social security protection) for gig economy workers.

02

PENJANA SME financing loan to assist SMEs who need cash flow support to sustain business operations (maximum loan size RM500,000 per SME).

03

Bumiputera relief financing –RM200 million through PUNB (financing services) and RM300 million through MARA (support and training) for Bumiputera businesses.

04

PENJANA Microfinancing – allocation of up to RM400 million with RM50 million allocated for female entrepreneurs (maximum RM50,000 per enterprise).

05

Dana PENJANA Nasional – An investment fund to match private capital investment with selected venture capital and early-stage tech fund managers.

06

Stamp duty exemption for SMEs on any instruments executed for Mergers and Acquisitions (between 1 July 2020 and 30 June 2021).

07

SMEs established between 1 July 2020 and 31 December 2021 receive income tax rebates of up to RM20,000 per year for 3 years of assessment.

## Malaysia's Policy Response: Technological Transformation



- To enhance digitalization, technology and innovation for MSMEs: RM19.79 billion in financial and non-financial assistance through MSMEs stimulus packages PRIHATIN, PENJANA, and PEMERKASA and RM300 million under PEMULIH.
- MSMEs Digitalization Grant to provide grants and business matching with local technology solution providers to increase adoption of digital technology among MSMEs.
- Smart Automation Grant provides a matching grant for businesses that provide services to adopt digital technology or business process automation.
- Government works with the private sector to provide training, seller support, and sales subsidy to participating enterprises to encourage adoption of e-commerce as well as cross-border trade by MSMEs (e-Usahawan Program, PEDAS, and GoeCommerce).

## Malaysia's Policy Response: Partnerships

Partnership between EPU and relevant ministries in strategizing initiatives and programs supporting entrepreneurship



### Ministries:

- Ministry of Entrepreneur Development and Cooperatives (MEDAC)
- Ministry of Communication and Multimedia Malaysia (KKMM)

### Agencies:

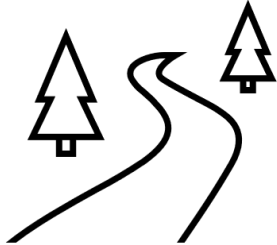
- SME Corporation Berhad (SMECorp.),
- Malaysian Industrial Development Finance (MIDF),
- SMI Association of Malaysia,
- Multimedia Development Corporation (MDEC)
- MyDIGITAL Corporation (SCMO)

Malaysia's whole of nation approach with private and public partnerships.



- Representatives of ministries and agencies,
- Business associations,
- Industry players,
- Economists,
- Academics, and
- Non-governmental organizations.

## Malaysia's Policy Response: Capacity Building



# MRANTI

Malaysian Research Accelerator for Technology & Innovation



### Startup Ecosystem Roadmap (SUPER)

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.

**The Malaysia Research Accelerator for Technology and Innovation (MRANTI)** has been established through consolidation of two innovation support programs : 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.

# Cradle

— Creating. Leading. Startups. —

Provide early-stage funding and additional support services (mentorship, skill development) for tech-based startups.



**NATIONAL TECHNOLOGY &  
INNOVATION SANDBOX**

Create high-skilled job opportunities for Malaysians - reduce dependency on foreign labor.



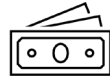
A Selangor government agency mandated to lead the digital transformation of Selangor as ASEAN's digital hub focusing on three key sectors of the Digital Economy: E-Commerce, Startups, and SME Digitalization.

## Key Takeaways from Policies and Programs Supporting MSMEs



### Policy and Programs

- ✓ Develop incentivizing programs reflecting targeted national strategy
- ✓ Update regulatory frameworks to be responsive to digital era
- ✓ Build a policy package that motivates co-investment



### Financing

- ✓ Design programs that engage public- and private sector lending institutions
- ✓ Leverage the public sector to motivate early-stage financing
- ✓ Encourage local investor partnership with foreign venture capital investors



### Technology & Innovation

- ✓ Enhance digitalization, technology and innovation for MSMEs through digitalization & automation grants
- ✓ Provide training, seller support, and sales subsidy to enterprises to encourage adoption of e-commerce
- ✓ Support linkages between MSMEs & academia



### Capacity Building

- ✓ Address general and technical capacity needs
- ✓ Establish linkages to potential investors
- ✓ Provide physical space and facilities for ecosystem stakeholders to collaborate
- ✓ Ensure appropriate selection of capacity building beneficiaries



### Private Sector Engagement

- ✓ Build stakeholder consensus around incentives
- ✓ Develop Public-Private Partnerships to leverage private sector resources and raise efficiencies
- ✓ support the supply of solutions targeting resilience, inclusivity, and sustainability

## Featured Malaysian Private Sector Solutions Supporting MSMEs

### Selection Process Used to Identify and Assess the Featured Solutions Providers

#### Recommendations by Credible Government Agencies

- Malaysia Digital Economy Corporation (MDEC)
- Bank Negara Malaysia (BNM)
- MRANTI/Technology Park Malaysia
- FIKRA: Securities Commission Malaysia & the United Nations Capital Development Fund (UNCDF)

#### Rigorous Screening Tool

- Sound business model
- Highly Accessible
- Innovative
- Robust Operability
- Impact and sustainability
- Scalable and exportable
- Capable leadership team

## Malaysian Private Sector MSMEs Solutions Providers: Fintech

COMPANY	SOLUTION DESCRIPTION
<b>Kapitani</b>	[P2P] Platform to enable capital / credit for smallholder farmers. Enhance productivity and income of smallholder farmers through better farm management practices, including book-keeping, microlending, crop insurance, credit scoring, among other farmer support ecosystem areas.
<b>Global PsyTech</b>	Applying psychometric screening and behavioural science, core solutions include Fintech Analytics which provides an alternative credit risk assessment tool that combines behavioural data and other sources. The platform has amassed 50,000+ credit behaviours, operating in 3 countries and covering more than 30+ companies.
<b>Alfie Asia</b>	Provides alternative credit scoring (ACS) based on smartphone-derived data. Alfie Tech incorporate behavioral, financial and digital data points to predict the risk of default of borrowers, especially those without formal credit history. The algorithms can infer the level of financial literacy, risk taking behavior, financial discipline and lifestyle (disposable income) etc., thus giving lenders insights on the perceived level of credit risk.
<b>BricknShare</b>	Unlocks home equity by investing with homeowners. Provides upfront cash in exchange for a share of the home's value, entailing no loan or extra debt, no interest, and no monthly payments.
<b>BlueDuck</b>	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.
<b>Finory</b>	Credit card management app that allows the user to manage all their credit-cards in a single app. Developed for personal financing needs of the Malaysian consumer, Finory seeks to improve financial literacy of Malaysians.
<b>DU-it</b>	Provides instalment solution to businesses using the 'Buy Now, Pay Later" business model to address the existing supply chain financing gap. Du-it allows businesses to purchase their needs via an interest-free installment plan and make B2B payments to be a more efficient and rewarding experience with cross-sharing of information within the du-it ecosystem

## Malaysian Private Sector MSMEs Solutions Providers: Business Support Services

COMPANY	SOLUTION DESCRIPTION
<b>Mesinkira</b>	Mobile app serving MSMEs/B40 merchants in all retail requirements (payment, inventory management, bookkeeping, business analytics), all on the mobile phone. Reports generated from the app will facilitate merchants' bankability, fostering financial inclusion.
<b>MADCash</b>	Shariah compliant platform which empowers micro women entrepreneurs to grow their business while allowing funders to measure and track the impact of their funding. To date, the platform has been successful to onboard 300+ women entrepreneurs.
<b>microLEAP</b>	Shariah-compliant platform and 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.
<b>Adam Money Service</b>	Money service business and infrastructure for underserved traders to have access to cross border business, in scalable and affordable way.
<b>Swipey</b>	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.

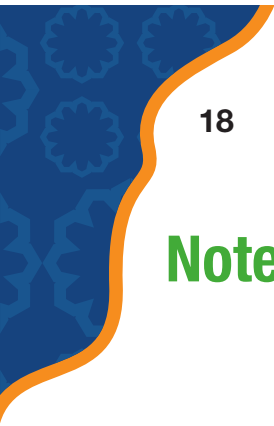


## Malaysian Private Sector MSMEs Solutions Providers: Digitalization

COMPANY	SOLUTION DESCRIPTION
<b>Koha Digital</b>	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.
<b>Marion</b>	Fully digital brokerage solution that provides investors with a hyper-personalized trading experience on Bursa Malaysia and empowers them with intelligent tools to make informed investment decisions.
<b>Products2U</b>	P2U is a service provider which has the most complete list of services in Malaysia, covering all major brands and utility branches. It is fully backed by KAT Technologies Sdn Bhd, whose prepaid business has been leading the market since 1999.



# Notes



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