

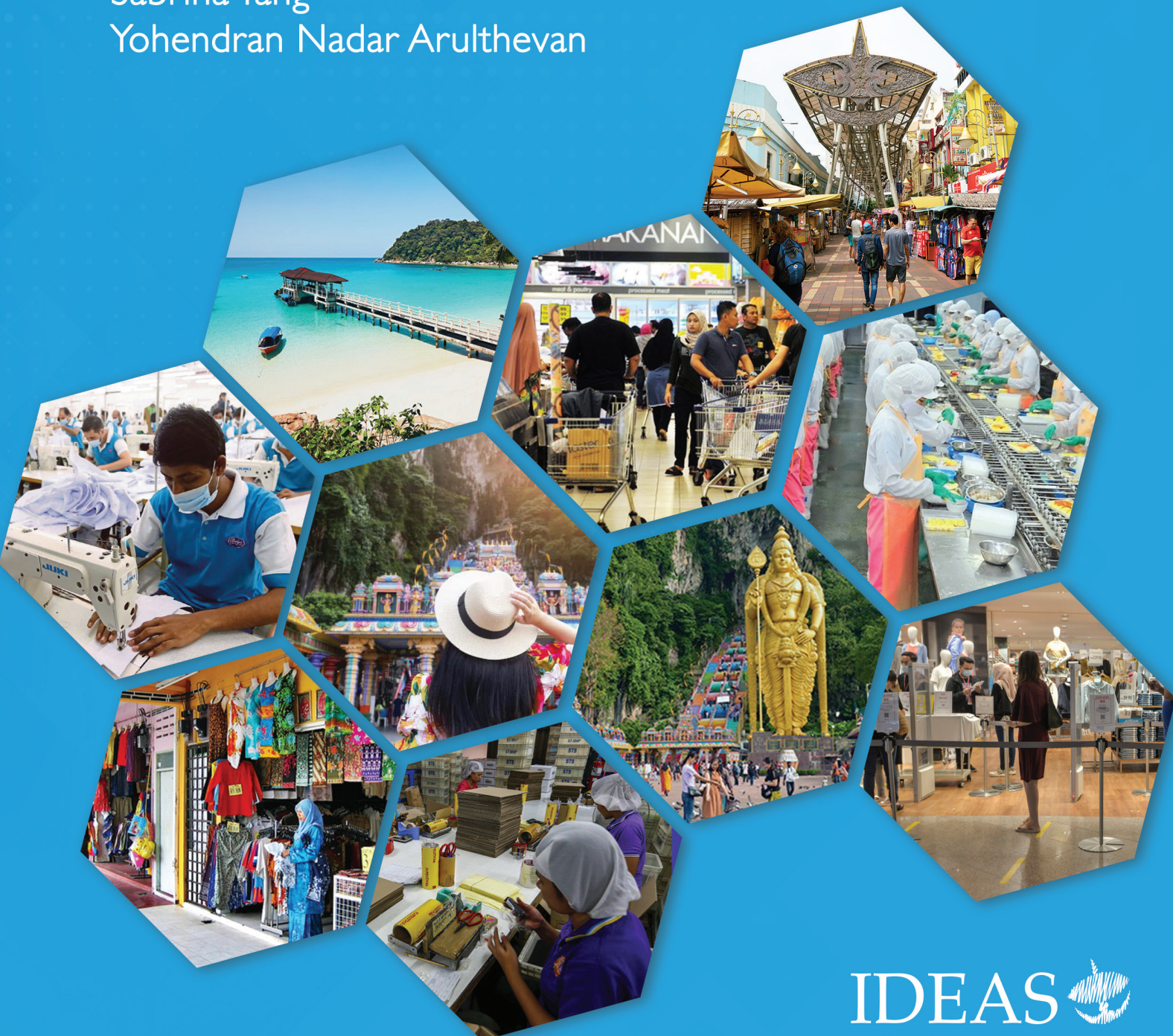
January 2021

Post COVID-19 Recovery: Building SME Resilience

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**We would like to thank the following individuals for their intellectual support and peer review of the paper:*

- *Laurence Todd, Research Director, Institute for Democracy and Economic Affairs, Malaysia*
- *Dr Awari V Mohan, Associate Professor of Strategy & Innovation and Director of Research at the Nottingham University Business School (NUBS), University of Nottingham Malaysia*

*** We would also like to thank IDEAS interns Ima Safia, Danya Frances Rajah and Aqmal Zullif for their valuable assistance in scheduling stakeholder interviews and gathering information.*

****We would like to thank the industry stakeholders (listed at the end of the paper) for their sectoral and market insights through our engagement with them.*

This study was financed by the British High Commission in Kuala Lumpur. However its contents, observations and recommendations do not represent the UK government's policy or views. This report is an outcome of the independent research carried out by IDEAS.

EXECUTIVE SUMMARY

The COVID-19 pandemic has been an on-going uphill battle for Malaysia. In an effort to curb the virus, a series of Movement Control Orders (MCO) have been implemented in various states. This came at a high cost to the economy as lockdown measures such as restricted mobility, limited operating hours for businesses and mandatory closure of non-essential services caused massive disruptions to business operations. Representing 98.5% of all registered business establishments and making up 48.4% of total employments in Malaysia, SMEs have been significantly impacted by the pandemic and the subsequent lockdown measures. In response, the Malaysian government has rolled out a number of economic stimulus packages (ESPs) to help ease the financial burdens of businesses, especially SMEs in Malaysia. However, the effectiveness of the ESPs in helping SMEs build resilience and providing certainty in the direction of future economic development seems to be ambiguous.

This report seeks to provide evidence-based insights for policymakers to better understand shortcomings in both policy measures as well as potential areas of growth. It starts with a brief introduction to give readers some background information on the general economic impact of the lockdown measures and the policy measures that have been rolled out to help businesses in Malaysia. The paper then assess the ESPs by categorizing the measures based on a 3R framework (*Respond, Recover, Reset*). After that, the paper dives into three broad sectors (Manufacturing, Retail, Tourism) which have been some of the worst hit sectors in Malaysia. For each sector, discussions on policy and implementation gaps will be presented in addition to longer term implications of the pandemic. Finally, as shown in the table on the next page, the concluding chapter will summarise gaps in the policy framework and give recommendations for some areas of improvement in regards to crisis management and opportunities for growth for the economy.

Themes	Gaps in policy framework	Recommendation
<p>Implementation gaps in the government’s crisis respond measures should be addressed to better prepare for future crises.</p>	<p>Several economic stimulus packages have been launched to help sustain businesses. However, measures within the packages may not have benefited a majority of SMEs due to implementation gaps.</p> <p>Examples:</p> <ul style="list-style-type: none"> • Disbursement of working capital relief funds may have been skewed towards existing customers of private banks. • Delays in the disbursement of cash subsidies reduced the effectiveness of those measures in helping businesses survive. • Untargeted ePenjana cash subsidies meant most of the credits may have been spent on larger notable brands and not SMEs. • Loopholes in firm size determination guidelines prevented businesses who had to scale down from receiving much needed cash assistance. • Lack of timely updates on port operations guidelines resulted in shipment delays for businesses. • Information asymmetry between industry players and policymakers prevented businesses from applying for beneficial measures. 	<ul style="list-style-type: none"> • Explore alternative funding distribution mechanisms for future crises. • Explore alternative welfare programmes or enhance current programmes to increase likelihood of funds reaching the targeted group (i.e., targeted cash subsidies) • Explore flexible thresholds for grants and support. • Pro-actively assess and provide timely updates on vital business areas such as port operations. • Expand mediums to disseminate important information for future crises.

<p>Public policy nudges towards automation and digitalization needs to match with current industry needs and capabilities.</p>	<p>SMEs may not have fully benefited from the government's initiatives to increase automation and digital adoption rate among businesses due to the limitation in capacity and available talents in the field. Examples:</p> <ul style="list-style-type: none"> • IR4.0 grants and loans are targeted towards high-tech projects that SMEs would normally not have the technical skills to undertake. • Lack of effective communications between policymakers and industry stakeholders. • Initiatives to get retailers onto e-commerce have not accounted for major costs and skills needed for a sustainable pivot towards digitalisation (i.e., digital marketing, high commission fees, uncertain returns for businesses). • Lack of industry ready local graduates to accelerate the jump towards automation and digitalization. 	<ul style="list-style-type: none"> • Widening scope of upscaling grants provided to include utility innovations. • Have frequent consultations between policymakers and industry stakeholders in addition to utilising feedbacks from those consultations • Having a comprehensive long-term perspective when devising initiatives to digitalise businesses • Reforming TVET and upskilling courses to create industry ready graduates and increase digital literacy of Malaysians.
<p>Regulatory reforms are recommended to increase adaptability of industry players to all situations.</p>	<p>Although regulations are necessary to protect the legitimate interest of businesses and the community, Malaysia's complex regulatory framework and the lack of enforcement could have stunted business innovation and reduce the incentive for SMEs to formalize. Examples:</p> <ul style="list-style-type: none"> • Lack of coordination between federal and state government resulted in long waiting times for project approvals. • Burdensome guidelines on obtaining the necessary licenses de-incentivised businesses to formalize and consequently limited their access to funds included in the economic stimulus packages. • Unequal enforcement of regulations and laws on all stakeholders could have led to the creation of an uneven playing field. 	<ul style="list-style-type: none"> • Simplify and streamline business formalization mechanisms • Provide one-stop centers across the country for SMEs to apply or receive information on the proper procedure to formalize • Strengthen enforcement of current regulations for all stakeholders.

1.0 INTRODUCTION

The first Movement Control Order (MCO) was implemented by the Malaysian government on 18th March 2020 in response to the COVID-19 pandemic. During this period, a set of precautionary measures were implemented to prevent further outbreaks of COVID-19 in the country. This included the closure of all government and non-essential private premises, restricted mobility within the country, travel bans on all foreigners entering Malaysia and on Malaysians leaving the country. This caused massive disruption to the operations of many businesses within the economy. During this period, 67.8% of businesses in Malaysia reported no sales or revenue at all.¹

To help cushion the shock and lay the foundation to revitalize the economy, the Malaysian government has implemented a series of economic stimulus packages (ESPs) totalling RM305 billion (USD 75.2 billion).² These ESPs are part of a six-stage economic recovery plan, also known as the 6Rs. First, the 'Resolve' and 'Resilience' stages were mostly aimed at ensuring the survival of businesses during the immediate aftermath of the lockdown. Then, the 'Restart' and 'Recovery' stages were aimed at stabilising business activities once the infection curve had been flattened. At the start of this project, the Malaysian economy was at the 'Revitalize' and 'Reform' stages where the policy focus was at jump-starting business growth, especially through digitalisation. However, COVID-19 cases have since risen to record breaking numbers, resulting in the imposition of a new MCO.

The series of MCOs has resulted in a drastic slowdown in the economy despite the ESP implementation. Malaysia's GDP is projected to have contracted by 4.9% in 2020 on the back of declining investment and household spending, after having suffered a double-digit contraction of 17.1% in the second quarter.³ Besides that, Malaysia's Social Security Organisation (SOCSO) has also filed an average of 10,000 cases of employment losses every month since the MCO.⁴

Bearing the brunt of the pandemic are Malaysia's small and medium enterprises (SMEs), who represent 98.5% of all registered business establishments in the country⁵ and make up 48.4% of the total employment.⁶ Nearly 70% of SMEs suffered more than a 50% drop in business within one week of the MCO announcement.⁷ Cashflow and loss of revenue was a major challenge for SMEs during the lockdown as 56.56% of firms reported zero revenue during this period.⁸ Besides that, 68.9% of SMEs resorted to using their savings to accommodate all operating cost/working capital incurred.⁹ For SMEs who survived the lockdown, regaining consumer confidence and pivoting business activities are the biggest challenges to recover in the mid-to-long run.

¹ See 'Effects of COVID-19 on the Economy and Companies/Business Firms'- Round 1 (DOSM)

² See Fiscal Outlook and Federal Government Revenue Estimates 2021 (Ministry of Finance, Malaysia)

³ See World Bank revises Malaysia's 2020 GDP forecast to larger 4.9% contraction (The Edge, 29 September 2020)

⁴ See Nearly 90,000 jobs lost this year, says SOCSO (Free Malaysia Today, 29 October 2020)

⁵ See Economic Census 2016, (DOSM)

⁶ See Small and Medium Enterprises (SMEs) Performance 2019, (DOSM)

⁷ See COVID-19: After MCO, survey finds nearly 70% SMEs lost half income (Malay Mail, 27 March 2020)

⁸ See SME Business Sustainability During COVID-19 Crisis Survey (SME Association of Malaysia)

⁹ See 'Effects of COVID-19 on the Economy and Companies/Business Firms'- Round 1 (DOSM)

However, despite the gradual opening up of the economy following relaxation of the MCO, the policy focus seems to lag behind in terms of providing certainty in the direction of future economic development. Studies on the effectiveness of ESPs in helping SMEs build resilience in the mid-to-long term are also limited, and therefore unlikely to provide evidence-based insights to policymaking.

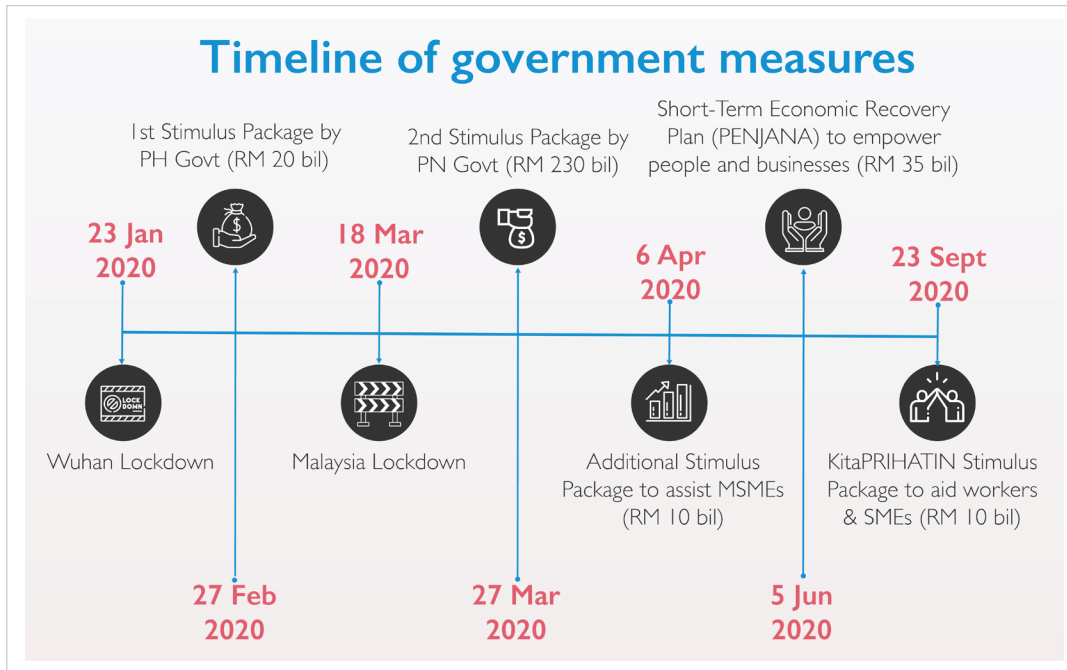
In response, this report seeks to fill the gaps by gathering on-the-ground information from SME operators and also other stakeholders in order to better understand shortcomings in both policy measures and implementation as well as opportunities for growth. Given that comprehensive data on the impact of COVID-19 is unavailable, we therefore referred to surveys carried out by SME Association Malaysia and the Department of Statistics Malaysia (DOSM) to discern areas within the SME sector which required policy attention. However, data and statistics alone are insufficient to understand the structural gaps impeding the effectiveness of the ESPs. Hence, we have collated opinion from relevant stakeholders such as SME owners, business associations and government agencies. Through these engagements, several policy recommendations are being made and listed in this report.

In the next section, we will provide an overview and mapping of the ESPs. Then, we will describe the research questions and mixed methodology used in this report. Following that, we will deep-dive into three broad sectors which are impacted by MCO the most, namely manufacturing, retail and tourism, where we will present the insights on policy and implementation gaps using case studies, along with policy recommendations as offered by SME operators and stakeholders over the course of conducting this research. Finally, we will present a concluding chapter.

2.0 AN OVERVIEW: GOVERNMENT’S ECONOMIC STIMULUS PACKAGES

Since the outbreak of COVID-19, the Malaysian Government has rolled out various ESPs to aid communities and businesses around the country. The chronology of the measures provided by the government is as follows:

Figure 1: Chronology of ESPs provided by the Malaysian Government



Although timely and helpful in preventing a far more severe economic collapse, these packages were comprised of mainly of stop-gap measures as the bulk of the allocations were aimed at job and income protection.¹⁰ There is insufficient support for a more sustainable long-run recovery and reset of the Malaysian economy. To further assess the scope of the various ESPs in generating a long-run recovery, we categorise the SME-related measures within each package according to a ‘3R Framework’ (Respond, Recover, Reset). The following table will explain the framework.

Table 1: 3R Framework

Phases	Respond	Recover	Reset
Description	Solving immediate issues faced by economic players in the market in order to maintain employment security and business resilience. Measures that give direct relief and solutions to offset economic shocks.	Assessing and regaining momentum in selected markets under the right circumstances. Measures that help businesses and individuals revive and rebound amidst changes in the market.	Reconstructing and repositioning SMEs across different sectors to build resilience in the face of changing trends and market environment.
Example	Cash transfers, wage subsidies	Reskilling and upskilling measures, financing and loan options	Investment into infrastructure, automation and digitalization

¹⁰ See IDEAS Policy Paper No. 69: Social Protection for the Poor and Vulnerable Malaysians during COVID-19

As shown in Tables 2 - 6, the measures in the packages mainly align with the ‘Respond’ category, especially in the case of the PRIHATIN packages.

The 2020 Economic Stimulus Package and PENJANA Package covered a wider range as both packages had a few measures that fit the ‘Recover’ category. These measures include grants/loans for digitalization purposes and incentives for businesses to upskill their employees. However, the ‘Reset’ category remains quite empty across all packages. Besides that, there have been concerns on the effectiveness of the ESPs in helping businesses survive to the recovery stage as well. Hence, future policy direction should focus on the long run economic recovery strategy and consider structural barriers that may impede the effectiveness of policies or regulation implemented to help Malaysia’s SMEs.

Table 2: 2020 Economic Stimulus Package

Measures	Respond	Recover	Reset	Beneficiaries
Restructuring of existing loans	Loan moratoriums and stamp duty exemption of 100%			All SMEs with existing loans
New funds and one-off payments	RM 2.2 bil - Special Relief Fund and micro-credit scheme	RM1 bil - Loans for working capital and capital expenditure; Waiver of listing fees on LEAP; Accelerated Capital Allowance	RM 1.3 bil- Establishment of SME ADF, GLICs to co-invest with private investors into early/growth stage Malaysian companies	All SMEs
	RM 500 mil - Travel discount vouchers and boosting promotion of local attractions; RM600 cash payment for taxi & tour bus drivers, tour guides			SMES in tourism
Tax relief and incentives	Option to defer or reschedule monthly income tax instalments			All SMEs
	Service tax exemption for hotels			SMES in the hotel sector
	Tax deduction on PPE provided to employees			All SMEs

Measures	Respond	Recover	Reset	Beneficiaries
		Training expenses incurred are claimable as existing double tax deduction		SMES in tourism
	Exemption from HRDF levy			SMES in tourism and retail
	Special income tax relief of up to RM1000 for individuals to travel domestically			SMES in tourism
Utility discounts	RM 500 mil – Electricity discount of 15%			SMES in tourism and retail
	MAHB provided rebates on rental for premises at the airport			SMES in tourism and retail
Incentives to reskill and digitalise		RM200 mil - Matching grant for HRDF to train approximately 40,000 workers		SMES in tourism, retail and manufacturing (E&E, automotive)
		RM 70 mil - Subsidy for short courses on digital skills and TVET skills training		All SMEs
		ILKA trust accounts can be used for short courses conducted together with industry		All SMEs
			RM40 mil - Digitalise distribution and establish more storage facilities for food	SMEs in food production

Table 3: PRIHATIN Rakyat Economic Stimulus (Prihatin)

Measures	Respond	Recover	Reset	Beneficiaries
Restructuring of existing loans	Postponement of PTPK loan repayment; Loans from government cooperatives will be included under the loan moratorium			All SMEs
New funds/loans available and one-off payments	RM4.5 bil - Additional funds to previous loan initiatives to assist MSMEs; RM50 bil -Guarantee scheme to finance working capital requirements			All SMEs
Tax relief and incentives	RM 10 bil - Employer Advisory Services programme to benefit over 480,000 SMEs			All SMEs
	RM 400 mil - HRDF levy exemption			All SMEs
	Postponement of income tax instalment payments extended to other sectors			All SMEs
Utility & rental discounts	RM 530 mil - Increase of RM 30 mil electricity discount previously announced			All SMEs
	Lease exemption on Federal Government owned premises			SMEs that rent federal government owned premises
	Providing free internet service to all customers during MCO	RM400 mil - Telco companies will widen network coverage and capacity		All SMEs

Measures	Respond	Recover	Reset	Beneficiaries
Incentives to reskill, upgrade and digitalise			RM100 mil - Development of infrastructure for food storage, distribution and crop integration programme.	SMEs in food production
		RM 2 bil - Upgrading of infrastructure and tourism facilities		All SMEs
Job retention programme	RM5.9 bil - Wage subsidy programme			All SMEs

Table 4: Additional Prihatin SME (Prihatin)

Measures	Respond	Recover	Reset	Beneficiaries
Job retention programme	RM 7.9 bil - Additional funds for wage subsidy programme			All SMEs
Restructuring of existing loans	RM 700 mil - Abolishing the 2% interest rate under Micro Credit Scheme, TEKUN Nasional to roll out soft loan scheme			Microenterprises
Tax relief and incentives	Tax deduction to landlords who provide rental waiver/discounts			All SMEs
	Foreign worker levy reduced by 25%			All SMEs, except those involved in the domestic help sector
Utility and Rental discounts	Rental waiver/discounts on premises owned by GLCs			SMEs that rent GLC owned premises
Incentives to reskill, upgrade and digitalise		RM 2.1 bil -Special PRIHATIN Grant		Microenterprises

Table 5: Pelan Menjana Semula Ekonomi Negara (PENJANA)

Measures	Respond	Recover	Reset	Beneficiaries
Tax relief and incentives	RM600 mil - Tax Relief for COVID-19 related expenses			All SMEs
	RM 300 mil - Income tax rebate for new businesses and stamp duty exemption in M&As			New businesses and SMEs involved in M&A
	RM 1.8 bil - Tax exemption for tourism related activities			SMES in tourism
	RM200 mil - 100% export duty exemption on palm oil commodities			SMEs in palm oil sector
Incentives to reskill, upgrade and digitalise	RM3 bil - Free 1Gb per day & unlimited use of Government's COVID-19 apps	RM70 mil - On-boarding training, seller subsidy, sales support	RM100 mil -National Technology and Innovation Sandbox	All MSMEs
	RM 70 mil - Digital discount vouchers for "Shop Malaysia Online" campaign	RM 700 mil - Grants and loans available for SMEs & MTCs to digitalize	RM 600 mil - Dana PENJANA Nasional	All MSMEs
	RM 5 mil - MyAssist SME One Stop Shop			All MSMEs
Job retention programme	RM5.3 bil - Extension of the wage subsidy programme			All MSMEs
Promoting local products	RM 20 mil - National 'Buy Malaysia' Campaign			All MSMEs
New funds/loans available	RM 2 bil - PENJANA SME Financing (Loan); RM 2.4 bil - Remissions of penalties related to late tax payments	RM 400 mil - PENJANA Microfinancing (Loan)		All MSMEs
		RM 1 bil - PENJANA Tourism Financing (Loan)		SMES in tourism
	RM 500 mil - Bumiputera Relief Financing			Bumiputera MSMEs
	RM 1.6 bil - SME Go-Scheme for liquidity support			SME contractors

Measures	Respond	Recover	Reset	Beneficiaries
	Accelerate Payment Terms for SMEs who are part of GLCs' supply chain			SMEs part of GLC supply chain
	SUSUK Prihatin			Microenterprises owned by women entrepreneurs
		RM 400 mil - Agriculture and Food sector support		SMEs in food production
		RM 225 mil - Arts, Culture & entertainment, sector support		SMEs in arts, culture, entertainment

Table 6: KitaPRIHATIN

Measures	Respond	Recover	Reset	Beneficiaries
New funds/loans available and one-off payments		RM 600 mil - Special PRIHATIN Grant 2.0		Microenterprises
Job retention programme	RM 2.4 bil - Targeted wage subsidy programme			All MSMEs

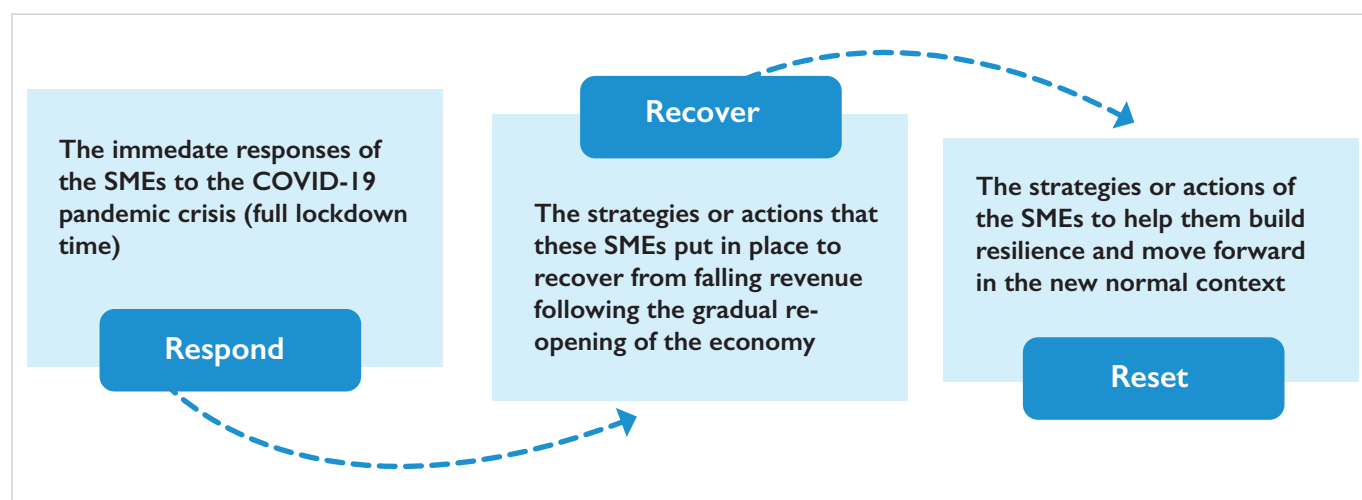
3.0 RESEARCH DESIGN OVERVIEW

The main aim of this paper is to understand how Malaysian SMEs, in the identified sectors, responded to the COVID-19 pandemic crisis. In addition, the paper also seeks to identify policy elements that were helpful or hindered enterprises in an effort to close the gap between industry players and policymakers. To achieve these aims, the paper sets out,

1. To understand how Malaysian SMEs in the three targeted sectors have responded in order to survive, to what extent they have recovered since the onset of the COVID19 pandemic crisis, and how do they intend to reset their business model to build future resilience
2. To provide actionable policy recommendation based on the above findings.

Given there is no precedence to such a crisis situation and no secondary data available to assess the effectiveness of policy measures thus far, this paper therefore adopts an exploratory study and qualitative approach in an attempt to extract insights and richer understanding of the challenges in addition to the thought processes of SMEs. The following framework is used to guide the interviews and development of case studies of the selected SMEs.

Figure 2: Broad framework to guide the case study development



This study takes a multiple-case research design to draw out the strategies that the SMEs used to survive the pandemic and move forward. Multiple cases incorporate a replication logic instead of a sampling logic (Yin, 2003) and thus help to ensure the possibility of generalisation and some validation of the findings. Also, these field-based case studies are important to help provide findings from a uniquely Malaysian perspective.

The study is based on primary data collected in the following ways -

- From through face- to- face interviews with founders of SMEs and relevant stakeholders such as business associations, e-commerce operators, as well as policy makers.
- A Roundtable with relevant stakeholders was organised in a focus group discussion format and a Webinar with the founders of SMEs were organised – details in the table below:

Table 7: Brief details of stakeholder engagements

	Title	Date	Participants
Online Webinar	Building SME Digital Resilience: What Have We Learned from the MCO?	13th November 2020	<ol style="list-style-type: none"> 1. Chriszen 2. Hexa 3. Frangipani 4. MyBurgerLab
Roundtable	IDEAS Roundtable 2020: COVID-19 Recovery for Manufacturing SME and Digital Retail	24th September 2020	<ol style="list-style-type: none"> 1. British High Commission in Kuala Lumpur 2. Economics Planning Unit 3. SME Corp 4. Invest KL 5. SERC 6. Malaysia SME 7. SME Malaysia 8. Malaysia Competition Commission (MyCC) 9. Malaysian Investment Development Authority (MIDA) 10. Malaysian Association of Tour and Travel Agents (MATTA) 11. PwC Malaysia 12. Universiti Malaya 13. Universiti Teknologi MARA (UiTM) 14. Fave 15. Sunway University 16. Universiti Kuala Lumpur (UniKL) 17. Grab Malaysia 18. SME Corp

The primary data collected is related to the immediate responses by the SMEs to survive the initial phase of the pandemic crisis and then their recovery actions . In addition, the strategies the SMEs have put or are putting in place for moving forward in the post COVID-19 phase were also solicited. Policy factors that helped or policy factors that could help were also discussed.

The following table provides a profile of the firms chosen as case studies.

Table 8: Profile of firms chosen as case studies

Company Name	Academic qualification of owner	Owner's business background	Main business activities	Main location of business	Number of staff	
					Pre COVID-19	Post COVID-19
Hexa Food Sdn Bhd	Mechanical engineering graduate	Founder has background in Engineering and is the managing director of Hexa, as well as a founder of its subsidiaries HEXA FOOD, HEXA IOT, EBAZA, M8HEXA	Spices (manufacturer & distributor) in Malaysian and ASEAN markets	Klang, Selangor	N/A	N/A
IGL Coatings	Electrical and electronic graduate	Founder worked for a scientific instrument company for 5 years before opening IGL in 2014	Paint and chemical coatings (manufacturer & distributor)	Shah Alam, Selangor	20	30
Chriszen Malaysia Sdn Bhd	STPM graduate	Founders started by selling cosmetics at a local night market in Penang and then moved into the cosmetic wholesale market. In 2002 moved to Kuala Lumpur and founded Chriszen in 2012.	Cosmetics wholesaler	Industri Desa Aman, Kuala Lumpur	60	19-23
DoughHappy	Biochemical graduate	After graduating, both owners worked for other companies (sales of scientific instruments, production planner in F&B industry) before opening DoughHappy in 2018	Bakery	Taman Desa, Kuala Lumpur	2	2
Frangipani Resort and Spa	STPM Graduate	Founders, formed Asian Overland Services with 3 partners. He then diversified in the conference business, nature tours and opened Frangipani Resort in 2005.	Hotel	Langkawi, Kedah	N/A	N/A
Langkawi Chantique	Law graduate	Worked at a resort chain and Eco-World before joining her family to run the Chantique in 2019	Hotel	Langkawi, Kedah	8	0

A cross case-study method is employed where the multiple organizations studies are analysed individually and then cross-examined for the occurrences of any similar patterns and for any unique themes (Yin, R. K 2009). Along with the case studies, data from the roundtable and online webinar discussions were drawn out to lay the foundation for making policy recommendations.

In the next sections we present the case studies and the summary of the findings from the cross-case analysis.

4.0 MANUFACTURING

Impact of COVID-19 on the sector

When the lockdown was announced, there was widespread uncertainty on the types of businesses that were classified as essential and guidelines for workplace social distancing measures. The disruptions which arose when the MCO was first introduced were severe and caused a knock-on impact as supply chains were disrupted. For example, the reduction in manpower at ports resulted in the delay of exports.¹¹ The loss of production and exports accounted from just the manufacturing sector for the first 14 days of the MCO was forecasted to be at RM 64.6 billion (USD 15.9 billion) and RM 32 billion (USD 7.9 billion) respectively.¹² Even after the 2020 ESP and PRIHATIN packages were rolled out, 82% of SME manufacturers reported a decrease in revenue for the first half of 2020.¹³ In December 2020, IHS Markit Malaysia reported rising input costs (especially logistics) and on-going subdued demand (both domestic and international) which may continue well into 2021. This could signal a slow recovery for the sector.

How the pandemic interacts with longer term challenges for the sector

Nevertheless, some interesting trends have emerged from the pandemic. The COVID-19 pandemic has exposed several systemic risks in the global value chain which have prompted multinational corporations (MNCs) to reconfigure their supply chains.¹⁴ Furthermore, the shift to 'Environmental, Social and Governance (ESG)' financing frameworks by the financial sector is a sign of increasing consumer and corporate awareness regarding the importance of sustainability issues.¹⁵ Apart from the financial aspect of investment assessment, an increasing number of socially conscious investors have been using ESG standards to assess businesses. This includes assessing the environmental and social impact of the business in hopes of encouraging more sustainable business practices. Besides that, there has been increasing public scrutiny on foreign labour practices in Malaysia, especially with clusters forming at foreign worker dormitories.¹⁶ However, the ability of Malaysian manufacturers, especially the SMEs, to adapt to these developments is ambiguous.

Malaysia's manufacturing sector has contracted since the early 2000s with the share of value-added in gross output of the manufacturing sector stagnating.¹⁷ Besides that, there has been a lack of structural shift from low value-added/labour-intensive industries to high value-added/knowledge-intensive industries. Although SMEs have a strong presence in manufacturing, they represent the low-value-added sub-sectors which have been relatively unproductive compared to the 'mid/high' value-added sub-sectors (See Figure 3).¹⁸ Their labour-intensive and cost-competitive model may have hampered progress towards automation and reduced their resilience towards external shocks such as COVID-19.

¹¹ See *COVID-19, intensifies the urgency to accelerate shipping masterplan* (The Malaysian Reserve, 20 July 2020)

¹² See *Impact of COVID-19 on the Malaysian Economy and the Mitigation Measures* (MIDA)

¹³ See *FMM-MIER Business Condition Survey Issue No. 2/2020* (FMM, 19 August 2020)

¹⁴ See *IDEAS API 2020 Briefing Paper No. 1: Post-COVID Supply Chain Reconfigurations: Convergence or Divergence in ASEAN Economic Integration?*

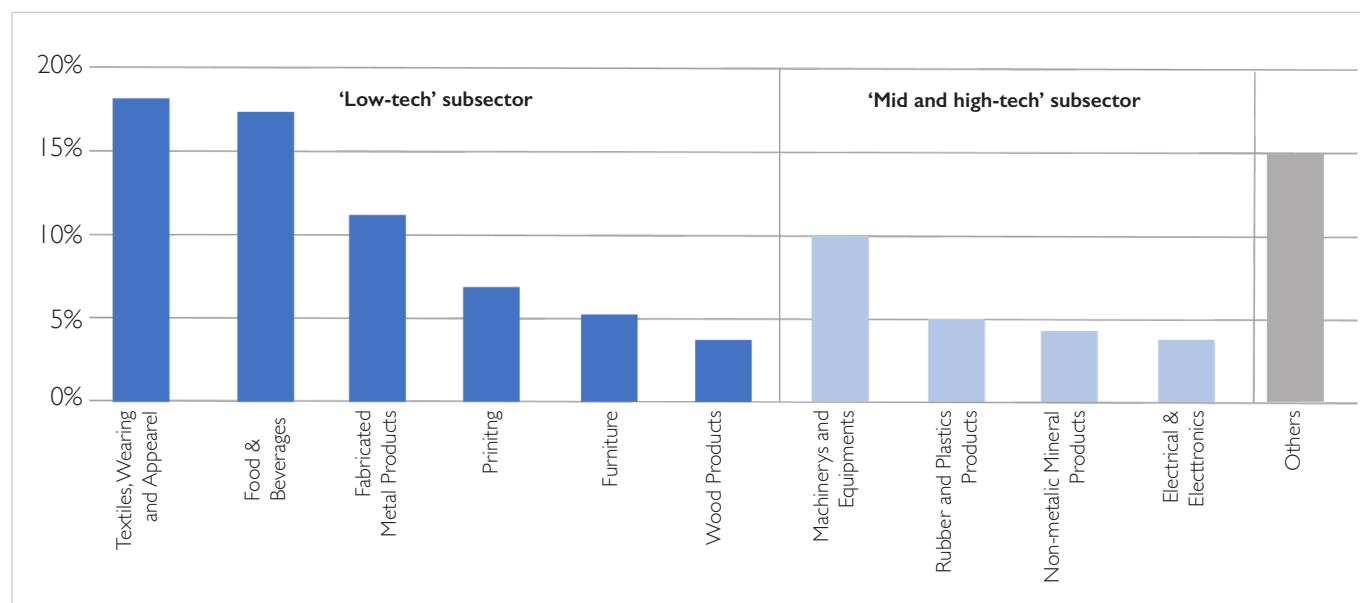
¹⁵ See *Why ESG is here to stay* (McKinsey & Company, 26 May 2020)

¹⁶ Official data from the Ministry of Home Affairs, shows that 2 mil documented migrant workers were employed in Malaysia as of 30 June 2019. The sectors in descending order of documented foreign workers employed: manufacturing, construction, agriculture, services.

¹⁷ See *Rasih R., Crinis V. and Lee H.A. (2015), "Industrialization and labour in Malaysia", Journal of the Asia Pacific Economy, 20(1), 77-99.*

¹⁸ See *IDEAS Brief Ideas No.27: COVID-19 Strategy: Malaysia as a Regional Manufacturing Hub*

Figure 3: Percentage share of SMEs in the manufacturing sector by sub-sectors (IDEAS, 2020)



Government 'Respond' measures

Across the ESPs, there were a number of 'Response' measures to help relieve immediate cashflow burdens of businesses. Some notable measures that benefited SME manufacturers were the wage subsidy programmes, tax deductions, utility discounts, loan moratoriums, working capital relief funds (i.e., Special Relief Funds, SME Soft Loans) and the Accelerated Capital Allowance (ACA) for machinery and equipment (see Table 2-6).

Although 'Response' measures were generally welcomed by SME manufacturers, gaps in the ESPs may have drastically reduced the effectiveness of these measures. Stakeholders were mindful to state that measures such as the wage subsidy programmes, loan moratoriums, tax deductions and utility discounts have greatly helped lighten their cashflow burdens. However, a critical part of the supply chain, namely port operations, was overlooked in the ESPs. Besides that, there were implementation gaps in regards to the disbursement of working capital relief funds and loans as well. Furthermore, loopholes in the guidelines on determining the size of firms may have prevented relief funds from reaching the pockets of SME manufacturers.

There was a lack of timely updates on port operations guidelines. During the first lockdown, customs clearance at ports for the inputs of raw material and exports of Malaysian manufactured goods that were not deemed as essential were halted.¹⁹ Even as restrictions on custom clearance were eased, reduced manpower at ports due to social distancing measures have contributed to prolonged delays as well. Although stakeholders were understanding of the delay for the first month of the lockdown, fast and timely updates on the restrictions would have helped mitigate port congestion issues. During this period, businesses were faced with at least 2 months of shipment delays which resulted in the loss of much needed revenue.

¹⁹ See *Shippers face financial burden* (The Star, 29 June 2020)

Besides that, implementation gaps in the disbursement of working capital relief funds and loans have prevented many businesses from receiving those funds. For the disbursement of working capital relief funds and loans (i.e., Special Relief Fund, PENJANA Financing loans, SME Soft Loan), private banks were given the liberty to assess and approve loan applications at their discretion. The government expected that this decentralized method will accelerate the process however, SMEs found that private banks prioritized existing borrowers or larger firms, whilst businesses who did not receive the loans had to depend on their savings.²⁰

Loopholes in the guidelines to determine the size of firms may have prevented some SME manufacturers from receiving SME-focused relief funds. A significant number of measures in the ESPs were primarily focused on easing the financial burdens of Malaysian SMEs. This is especially true in the Additional Prihatin (SME) package where an extra RM 10 billion (USD 2.5 billion) was set aside for SMEs. However, to determine whether a business is considered a SME, the government utilizes 2019's end-of-year revenue statements. Hence, manufacturers that should be considered as SMEs in 2020 (as they had to scale down operations due to low demand and rising operational costs) were not classified as SMEs in governmental system. Therefore, these businesses did not qualify for the SME-focused public relief measures.

Government 'Recover & Reset' measures

Seen by many as a catalyst for change, COVID-19 has prompted the Malaysian government to intensify efforts in reducing the economy's dependency on low value-added and labour-intensive industries. This includes public policy nudges to encourage IR4.0 adoption within the SME manufacturing ecosystem in a bid to shift SMEs into more high value-added industries and reduce their reliance on foreign labour. Since the announcement of the first ESP on 27th March 2020, several loan facilities (i.e., SME ADF) and grants aimed at boosting high-tech or green projects have been made available for SME manufacturers.²¹ Besides that, the government has decided to freeze any new intakes of foreign labour from June 2020 to hasten IR4.0 technology adoption and incentivize hiring of local workers. Although these restrictions have been eased as businesses have since voiced out concerns on sudden labour shortages following the hiring freeze on foreign labour, the government is still trying to encourage businesses to hire locals.²²

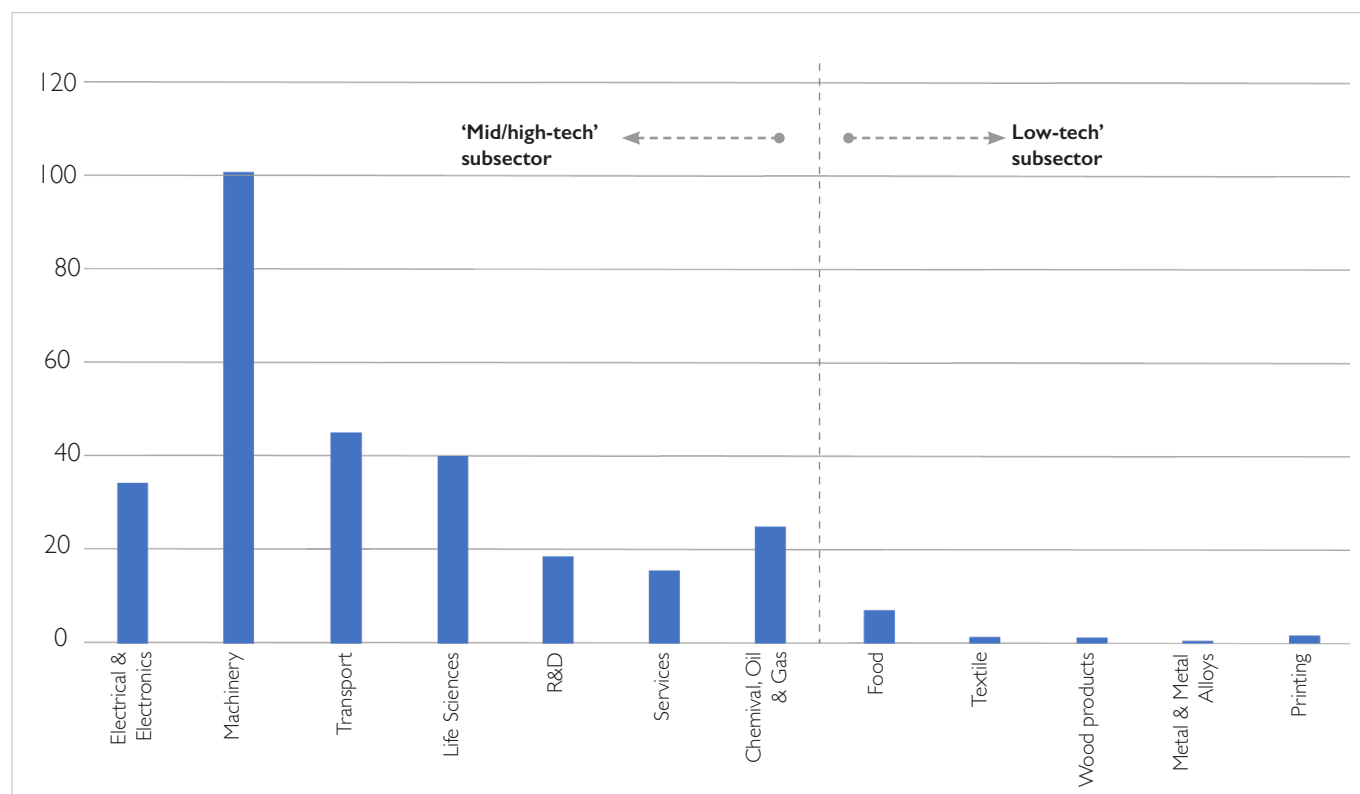
The expectation gap between policymakers and industry players in the manufacturing sector has widened in the wake of the COVID-19 pandemic. Although public policy nudges towards IR4.0 and green technology are in the general right direction, it is crucial to remember that SMEs in the manufacturing sector may be limited in their capacity to make the immediate jump. They may be constrained in terms of technical skills and financial capabilities, to fully reap the benefits of available IR4.0 grants and loans. Furthermore, current TVET graduates may not be industry ready to help SMEs make that jump towards IR4.0 as well. Taking a retrospective view, despite numerous discussions between policymakers and industry players, these expectation gaps may have been present in regards to two vital resources in supporting SMEs to scale up which are government grants and labour needs.

²⁰ See *Struggling SMEs seek increase in allocation to SRF* (The Edge, 2 June 2020); See *SMEs Sustainability and Survival During MCO*, (SME Association)

²¹ An example is the 'SME Automation and Digitalisation Facility' where a total of RM 3 billion (USD 0.7 billion) was allocated as incentives for SMEs to improve productivity and efficiency by automating processes and digitalising operations

²² See *Governments Decision to Limit Foreign Workers to only Construction, Plantation and Agriculture sectors After Freeze is Lifted is Shocking and Unacceptable* (FMM Press Statement, 30 July 2020)

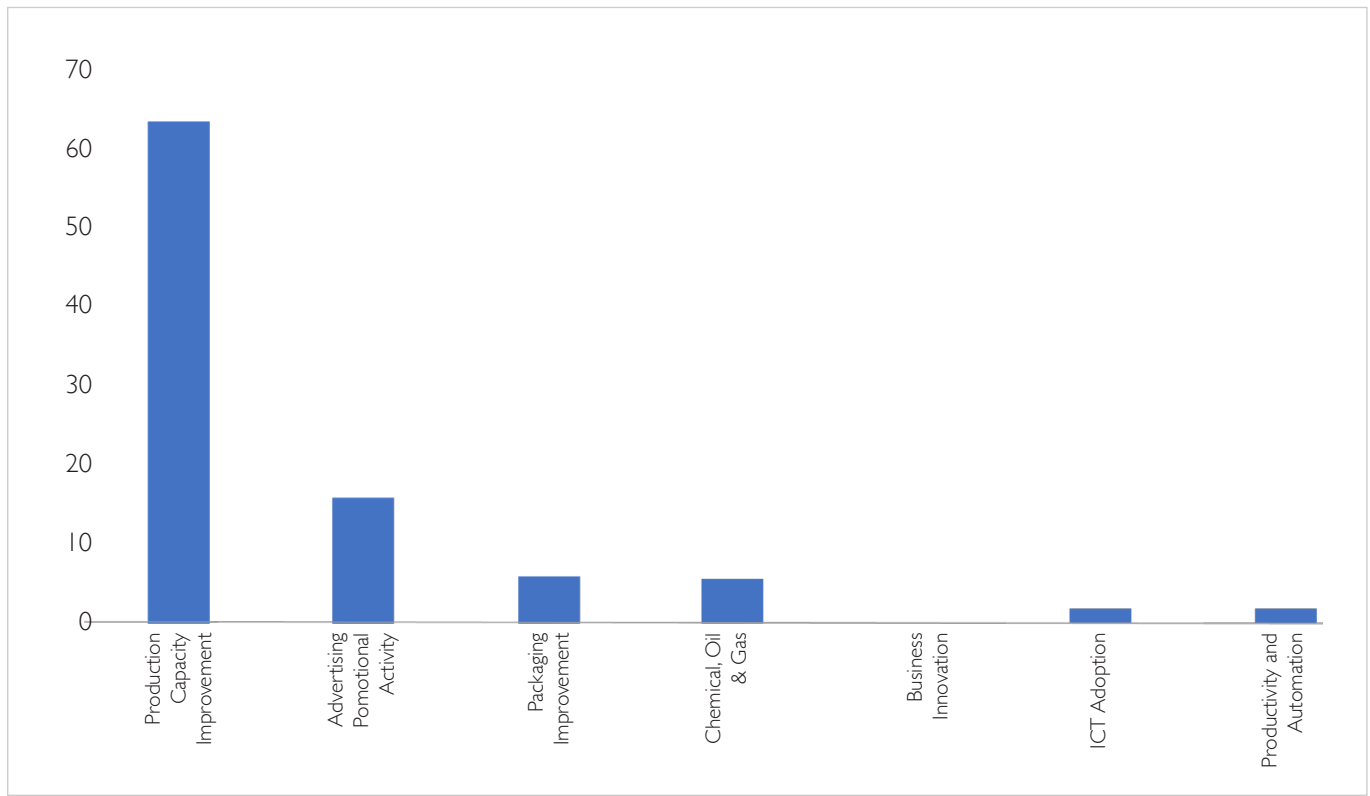
Figure 4: Number of projects approved for Domestic Investment Strategic Fund (DISF) Grants by industry (MITI 2018 Annual Report)



Note: Sub-sectoral classification adopted from OECD Taxonomy of Economic Activities

SMEs' limited access to government grants reduces their ability to scale up the value-chain. SMEs in the manufacturing sector mainly populate the 'low value-added' sub-sectors which are highly labour-intensive and relatively unproductive compared to the 'mid/high value-added' sub-sectors. Hence, they may not have the technical knowledge or capacity to make the immediate jump towards high-tech projects. This includes devising IR4.0 project proposals that qualify for government grants as a majority of these grants are aimed at highly advanced projects. Indeed, if we look at previous public grants aimed at shifting Malaysia's low value-added sub-sectors into high value-added sub-sectors, the approval rate seems to be skewed towards sub-sectors that are already considered high value-added (See Figure 4).

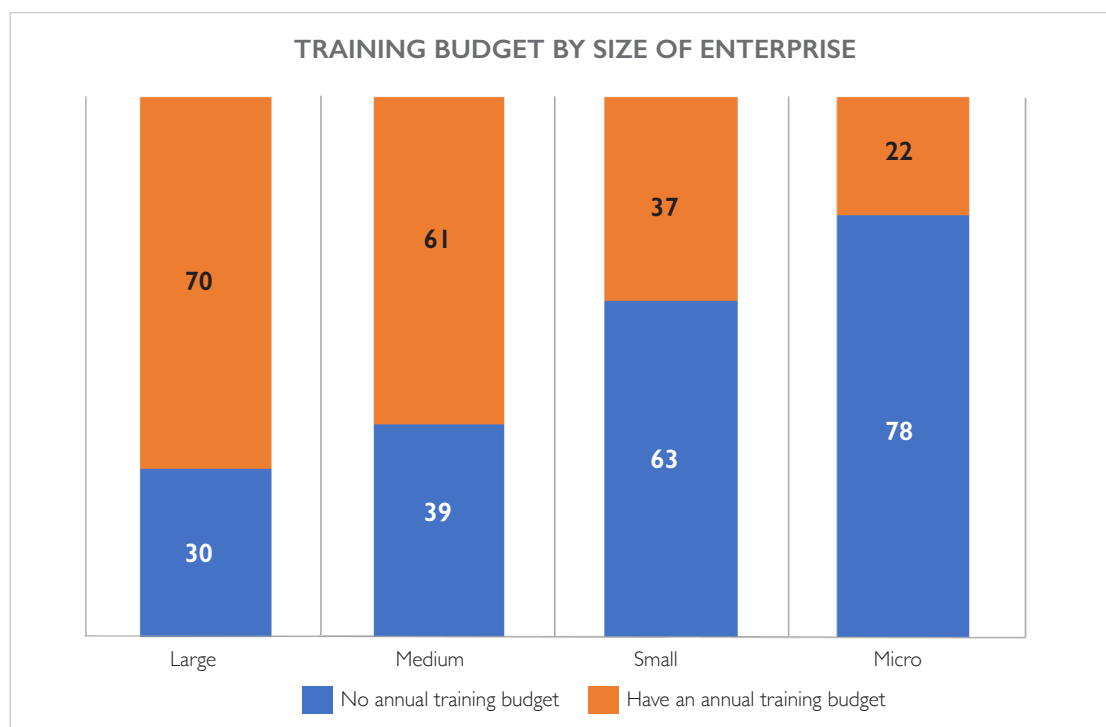
Figure 5: Percentage of projects approved for Matching Grants under the Business Accelerator Program, renamed as the Biz-Up Programme, by types of projects (MITI 2016 Annual Report)



The expectation gap was evident during the pandemic as public funding given out to help SMEs recover from COVID-19 focused on high-tech projects whereas SMEs are still struggling to stabilize their cashflows.²³ Furthermore, approval rates for utility innovations (less technical but highly essential projects, such as packaging improvements or upgrading existing machineries) still remains low (See Figure 5).²⁴ During our engagement with stakeholders, there was a major consensus among industry players that more grants and loans should be approved for these types of projects. By doing so, it will encourage SMEs to undertake R&D and eventually nudge them towards IR4.0.

²³ See *BNM sets up RM 1 billion facility to support high-tech, innovation-driven SMEs hit by COVID-19* (The Edge, 16 December 2020)

²⁴ Based on the 'SCORE-system', projects proposals with high level of automations are rated as more competitive (SME Integrated Plan of Action)

Figure 6: Allocation of businesses' budget to training (Khazanah Research Institute 2018)

TVET graduates are not industry ready to help SMEs make the jump towards IR4.0. The pandemic has emphasized Malaysia's dependency on foreign labor, especially as businesses have been vocal about their preference in hiring foreign labor despite the growing restrictions. Stakeholders explained that current TVET courses do not teach graduates the right technical skills and mindset to solve industry problems. If they were to hire TVET graduates, training would take up a considerable amount of time and budget for which there are many competing demands. Although larger firms would have the budget to take on the task of training these new recruits, SMEs normally have a smaller budget and would try to minimize allocation for training, especially after COVID-19 (See Figure 6).

The fact that the cost of training TVET graduates staves off businesses from hiring local TVET graduates, even after several government subsidies have been rolled out, reinforces the need to re-vamp TVET system. Flaws in the current TVET system has been well explored with the same conclusion overall that the TVET system is not well-integrated into Malaysia's education system and teaching materials lack practicality.²⁵ Although a complete structural overhaul of the system is needed, a good place to start is to integrate work-based learning (WBL) into TVET through a tailor-made support service to facilitate WBL in SMEs.²⁶ This includes governmental support for networks of companies/intermediary bodies (i.e., business associations) that can relieve employers from the administrative burdens²⁷ associated with WBL. Furthermore, Malaysia could learn from France's apprenticeship schemes where the course is designed in a way that students will study and work at the same time.²⁸ Hence, students will already have the relevant work experience and are industry ready upon graduating from the scheme.

²⁵ See Cheong, K.C., & Lee, K.H. (2016), 'Malaysia's Education Crisis – Can TVET Help?', *Malaysian Journal of Economic Studies*, 115-134; See *The School-To-Work Transition of Young Malaysians* (Khazanah Research Institute, 2018)

²⁶ See ETF 2014

²⁷ Includes locating information such as the various tax incentives to train TVET students

²⁸ The two main apprenticeship schemes are: *Contrat d'apprentissage* (apprenticeship contract) and *Contract de professionalization* (professionalization contract).

Case Study I - IGL Coatings



	Respond	Recover	Reset
Challenges	<ul style="list-style-type: none"> Faced uncertainty on the continuation of their operation as there was a delay in reporting businesses that were considered essential and official workplace guidelines by MITI Tried applying for SRF but was denied as they have not previously held any loans with the private banks that were responsible for the disbursement of funds 	<ul style="list-style-type: none"> The distribution of their non-essential products to international customers were delayed due to restrictions and lack of manpower at the ports 	<ul style="list-style-type: none"> To remain relevant due to shifting consumer needs Industry4WRD grant application halted at auditing phase due to restrictions imposed during CMCO
Solutions	<ul style="list-style-type: none"> Continuously reached out to MITI for clarification on workplace guidelines Registered as a hand sanitiser distributor with MITI to continue operations during lockdown periods Implemented work from home policies where possible Applied and obtained the wage subsidies from HRDF 	<ul style="list-style-type: none"> IGL's products that were considered essential was able to be fast-tracked through customs, allowing the company to receive some revenue 	<ul style="list-style-type: none"> Carried out R&D using own savings for a coating that continuously disinfects itself using nanotechnology every 24 hours. This product will be the company's new main product as they believe hygiene will be a leading factor among consumers in the long run

IGL Coatings is a technology-driven SME with the core focus of developing eco-friendly coatings and cleaning products. The founder and current managing director, Mr Keong Chun Chieh, started the business in 2014 after working for at a local scientific instrument firm for 5 years. IGL Coatings' products primarily cater for the automotive aftermarket and are distributed to over 50 countries around the world, including North America, China, Taiwan and Southeast Asia. When COVID-19 started spreading throughout China in January, IGL Coatings took it as a sign to prepare the company for a possible outbreak in Malaysia. The preparations included guidelines on maintaining an enhanced safety and hygiene in addition to restriction movements around the nation.

However, they were still caught off guard when the first MCO was announced in Malaysia. As there was a delay in communicating the list of business activities that were considered essential in addition to the official workplace guidelines approved by the Ministry of Trade and Industry (MITI), IGL Coatings' management team reached out to multiple government agencies for clarification on the continuation of work for essential businesses. At the same time, they rushed departmental meetings, project statuses, prioritised work-from-home policies and updated their distribution network worldwide. After receiving clarification on the list of business activities that were considered essential, IGL Coatings' management team applied to MITI for a license to manufacture and distribute disinfectant and hand sanitisers to continue operations during the lockdown period. They then implemented their updated work-from-home policies in accordance to restrictions imposed.

After the initial shock, IGL Coatings' next step was to maintain its cashflows which included applying for the Special Relief Fund (SRF) and wage subsidy programs rolled out in addition to ensuring its products reaches customers locally in Malaysia and around the world. Although there were no issues with applying and receiving for the wage subsidies, the company ran into some problems in applying for the SRF. IGL Coatings attributed the hardship to the fact that these loans were given out at the discretion of private banks hence, the banks would prioritise existing borrowers. As IGL Coatings does not have existing loans with any of the approved banks before, they were put at the back of the wait list. Luckily they are finally provided with a small quota of the funds.

In terms of getting their products to customers, their production-distribution line within Malaysia was not affected significantly. However, the distribution of their products to international customers were delayed due to the lack of manpower at the ports. The reduction in manpower meant that there were less officers available to carry out custom checks and approved shipments out of the ports. This resulted in delays of 2 months of their shipments. Fortunately, IGL Coatings' sanitisers and disinfectants were fast-tracked through custom clearance as they are considered essential medical products. Hence, the company could still receive some revenue from their sales of disinfectants and sanitisers globally.

For the long-run, IGL Coatings believes that hygiene will be a leading factor among consumers. Hence, they used 2020 to undergo product innovation and developed a coating that will continuously disinfect itself using nanotechnology every 24 hours. Mr Keong Chun Chieh states that this product will be one of IGL Coatings' core product for the long run after its launch next year. Besides product innovation, the company decided to revamp their production system as well. When Malaysia entered the Recovery Movement Control Order (RMCO) phase on 8 June 2020, IGL Coatings saw it as an opportunity to upgrade its production system and tried to apply for the Industry4WRD grant. Unfortunately, the application process was halted at the auditing phase when the Conditional Movement Control Order (CMCO) was imposed due to rising COVID-19 cases. The business has yet to receive any updates on the status of their application.

Case Study 2 - Hexa Food Sdn Bhd



	Respond	Recover	Reset
Challenges	<ul style="list-style-type: none"> Ensuring that there is an uninterrupted supply of their raw materials due to restrictions and reductions of manpower at the ports. 	<ul style="list-style-type: none"> Taking precautionary steps to avoid a COVID-19 outbreak in their factory. Difficulty in obtaining approvals from state agencies, causing delays in the construction of their new factory. 	<ul style="list-style-type: none"> To remain relevant as a brand with customers for their B2C segment. Impossibility of acquiring B2B customers through physical exhibitions.
Solutions	<ul style="list-style-type: none"> Relied on their relationship with their suppliers to ensure a continued supply of raw materials. 	<ul style="list-style-type: none"> Accelerating the use of digital systems (IOTs) which has been implemented prior to Covid-19 to reduce dependency on manual labour. 	<ul style="list-style-type: none"> Use of young talent to help develop their digital systems, as well as following latest marketing trends. Listing all their products on their website as a substitute for exhibitions for their B2B segment. Use of social media for their B2C segment by developing creative content and using e-commerce sites to launch their online store.

Hexa Food Sdn Bhd (Hexa) is a spices, herbs and seasonings manufacturer founded in 2007. They currently export their goods to several countries regionally. From the start, the spice manufacturer's focus was always on building up the brand, expanding its market and developing in-house expertise for its automated and digital systems for an efficient process and so that they do not have to rely on external sources. Hexa had to make several adaptations to their business due to the COVID-19 pandemic, such as ensuring a functioning supply chain despite the lockdown, as well as installing digital systems in their factory to replace manual workers and expanding their e-commerce presence to increase sales.

After the MCO announcement regarding non-essential services, Hexa's immediate challenge was to obtain raw ingredients needed to manufacture their spices. As some of their materials were imported, they were unsure if they could obtain it as the port had strict controls on the movement of goods. In order to receive their materials, they relied on their relationship with their suppliers, which has been built over the years prior to COVID-19. To remain operational, Hexa required clearances from MITI and the police station, and

they found the process easy as they could make applications through Facebook and WhatsApp. They also noted the importance of business associations such as the Federation of Malaysian Manufacturers (FMM) as a communication channel with MITI.

Prior to COVID-19, Hexa had invested heavily in deploying new digital systems, or better known as the Internet of Things (IoT), at its factory to monitor product quality and productivity. This greatly helped Hexa to adapt quickly to the new COVID-19 workplace standard of procedures (SOP), especially with the restriction of number of workers. The implementation of digital systems in its factory has also helped reduced Hexa's dependency on manual labour. Hexa utilized its linkages with SIRIM, formed through attending multiple exhibitions, to develop its factory's new digital system. Besides that, Hexa noted that the Industry4WRD initiatives were really useful in helping them develop the digital system as they were able to connect with many individuals that has the experience and knowledge of digital systems through the programmes, as well as companies that offer products to assist Hexa in its move towards digitalisation. The financial assistance that they have received from the Industry4WRD Intervention Fund were also helpful in financing the installation of the digital systems. They found that the application process for the grant was relatively straightforward and easy, and that they did not require the services of an external consultant. However, they noted that it was time consuming to get the necessary approvals from the state government agencies, thus causing delays in the construction of their new factory.

Furthermore, Hexa emphasised that good talent aided them in adopting the digital systems as well as helping them remain resilient throughout the COVID-19 pandemic. A significant portion of their investment in implementing the digital systems included hiring and developing local graduates, especially in engineering, in order to develop in-house expertise. Besides that, Hexa found that hiring interns are of great use to them too as they are in touch with the latest digital marketing trends such as using the latest social media platforms like TikTok where Hexa launched the Hexa Food Tik Tok Challenge to increase brand awareness among the younger demographic. However, Hexa highlighted the challenge of hiring good talent for SMEs because they would have to compete financially with larger companies at home and abroad.

Building presence on e-commerce platform is important for Hexa to develop remain in touch with their customers. First, following MCO, they could not participate in exhibitions and generate sales anymore which made up a big part of their business-to-business (B2B) segment. As a substitute to these exhibitions, they now advertise all their products on their website. Furthermore, there is a shift in the business-to-consumer (B2C) segment where individual consumers are now cooking more at home following MCOs. To maintain customer engagement, Hexa pivoted to generating more online content and advertisements). Hexa was able to do this quickly as they had already started building up its e-commerce presence before the pandemic., despite high revenue from retail sales at the time. Aside from customer relationship management online, Hexa has also invested into producing creative digital content including programmes showcasing the use of its products in recipes, hosting online cooking competitions, selling products on e-commerce platforms and launching its own online store. Hexa views this as a long-term initiative and maintains that they will continue doing this post- pandemic.

Research & Development Infrastructure and Innovation - the panacea for short- and long- term competitiveness of Malaysian SMEs?

by Dr Awari V Mohan

According to a study conducted by General Electric to keep a pulse on the current state of innovation across the globe, it reported that SMEs in Malaysia are taking a back seat in driving innovation, dropping to just 6% compared to 14% in 2014.²⁹

The interviews and case studies of SMEs in Malaysia done for this research study have shown that in addition to factors like embracing digital technologies and developing human capital, innovation is a key factor in the long-term competitiveness of the enterprises. From the small kitchen of bread retailer where sandwiches are created to stay fresh without refrigeration, to interesting process innovations and DIY burgers of a burger F&B enterprise, to a more formal Research & Development (R&D) unit of a machinery manufacturing SME and findings from case studies and the roundtable events, innovation emerged as critical for the survival and long-term competitiveness of Malaysian SMEs.

First Point about Innovation in SMEs – Innovation is not only based on R&D

In the context of Malaysia, one of the first issues to note is that SMEs (and in many cases even large enterprise) may not have formal R&D divisions. The product and process-oriented innovation activities can be embedded in a formal R&D unit or in other parts of the enterprise. The 'innovation' team or individual are typically 'technical personnel' with long experience in the field. For instance, they could be nutritionists or quality managers in the context of a food manufacturing facility. Innovation in SMEs can occur in the form of creating new products, making changes or improvements to existing products, as well as introducing changes in the production processes. In addition, innovation can also include simple improvements also known utility. Innovations and also improvements in packaging and design.³⁰

These key factors need to be taken into consideration when policies are developed and implemented for supporting innovation amongst SMEs. It should also be noted that using formal data-oriented assessment of the technical abilities using criteria like patents, number of PhD's or master's degree holders can be challenging in the context of SMEs and MSMEs given that such data will not be available.³¹

Government Policy and Incentives are important for Innovation

The role of the government in supporting SMEs in their innovation efforts is critical and is reiterated in this study along with another research focused on innovation in SMEs. This support from the government can be for internal technology development, acquisition and also commercialisation. There is a need for targeted government policies to support innovation in SMEs in terms of, (see infographic below)

²⁹ See *Is There Room for SMEs to Grow and Drive Innovation in Malaysia?* (General Electric, 13 February 2019)

³⁰ See *Malaysia – How to Use Utility Innovations* (Mirandah Asia, 20 February 2012)

³¹ *Research Report on Technology Acquisition & Commercialisation among Malaysia SMEs submitted to MTDC* (Awari, Myint and Lau 2020)



 Ease criteria for R&D financial assistance by:

- Increase funding for utility innovations
- Increase funding for the purchase and upgrading of second-hand machinery

 Help SMEs to understand and get intellectual property rights for their research outputs

 Incentivise collaborative research with SMEs and research institutes

Provision of financial support from 'prototype' to 'market commercialisation' is given the emphasis by respondents in the field studies too.

While there are government-led initiatives for such funding in information technology or specialised cutting-edge, 'new high-tech' sectors, there is also the need to support sectors which are considered 'non high-tech' where most manufacturing SMEs belong to and hence make up Malaysia's overall technological base.

Sector-Specific Innovation Support Systems

There is a need for sector-specific support systems for innovation and technological upgrading. In the research, we have seen the following points emerging-

- Sector-specific skill identification and talent development programs
- Setting up and enhancing of sector-specific promotion, public/private intermediaries including linkages with international trading firms
- Supporting local firms to participate in international trade fairs
- Exploring possibilities of implementing offset policies/procurement policies for products and services from local SMEs in strategic sectors
- Improving logistics/ICT infrastructure important to do networking for knowledge

The findings from the case studies regarding the need for sector-specific organisations for training of technical manpower have shown the importance of education/training institutions. For instance, in the case of healthcare technology organisations the role of the technicians emerged as critical for technology development / acquisition and also commercialisation. While the invention of prosthetic device was done by researchers, it is the technicians who could customize it and thus make it more marketable (i.e., they were the connectors to the market along with the sales team).

Building Awareness of Policies and Infrastructure

There is also a lack of awareness of the many policies and infrastructure that the government has set up to support technology development and innovation. There is a need for government programmes to develop awareness of the various organisations and their capabilities to support innovation for the firm.

Need to increase the Role of Universities and Public Research Institutes (PRIs)

a. *New Modes to Strengthen the Linkages /Access for SMEs with Universities and GRIs*

The participants in the research study acknowledge that there has been progress in Malaysia in terms of the role of the universities in moving from teaching and research to undertaking of knowledge transfer activities. Furthermore, several public universities have set up technology transfer divisions or centres for commercialisation in order to market the research knowledge developed in the universities.

However, these linkages and mode of technology transfer is still not very effective from the point of view of SMEs. This research has revealed that Malaysian universities are under pressure to publish in academic journals to meet certain ranking objectives and teaching staffs are not given the right incentives to invest their research focus and expertise into solving industrial challenges

b. *Rationalise Public R&D Infrastructure*

In terms of the Public Research Institutes (PRIs), SMEs have availed benefits, like testing facilities, from PRIS like SIRIM, but access to the various facilities are centralised in Klang Valley and there is a need to have such facilities in other parts of the countries to increase the access to such benefits. Also, according to the interviewees, Malaysian universities and PRIs have excellent research infrastructure but SMEs regard the following as gaps to accessing these facilities:

- The charges for access were considered too high
- These are not 'share models' for SMEs to access such infrastructure.

Business Associations as Innovation Intermediaries

The emergence of business associations as a key external driver in technology acquisition and commercialisation indicates the need for enhancing their role in the different sectors as nodal organisations to enhance business potential of the sector; thus aiding commercialisation opportunities. The other important role of business associations also includes playing an information brokering role in technology acquisition and commercialisation. These business associations can also work as training organisations to support SMEs in the development of new business models which constitutes an important internal driver for technology acquisition and commercialisation.

Role of Large Local Business Organisations or Multinational Corporations (MNCs) for supporting SME Innovation

Large Business Organisations and MNCs play an important role in supporting SME innovation. They not only provide demand for supplier SMEs but in Malaysia we have seen that they provide 'technical manpower' (trained engineers and sales executives become SME founders). The presence of MNCs in the country have helped in developing both technical and managerial capabilities among many Malaysian entrepreneurs and so foreign direct investments (FDIs) related policies to have specialised MNCs in the country have helped in the development of such technology entrepreneurs. These large organisations have worked as 'platforms' where SME founders had initial learning on matters related to business, technical, and also managerial knowledge.

The 11th Malaysia Plan acknowledged the importance of SME innovation with targeted measures – focusing on productivity enhancement through automation and promoting increased use of ICT & continuing the Technology Commercialisation Platform (TCP) and Inclusive Innovation programmes. This research reveals that there are a great number of programmes and organisations to support SMEs- but there is aggressive push on issues like automation or IR4.0 technology. It is felt that SMEs are not in a position to leapfrog to this 'high' technology and there must be a phased approach to such push of adoption of high technology for innovation. In short, policymakers' efforts to promoting SME R&D and innovation should be geared towards enhancing competitiveness and future resilience.

5.0 RETAIL

Impact of COVID-19 on the sector

Wholesale and retail trade is one of the worst-hit service sub-sectors as the government implemented various movement control orders to curb the COVID-19 pandemic. With a decline of 22.3%, this subsector was a major contributor to the 16.2% decline in the services sector in the second quarter of 2020.³²

The situation for retailers is likely to worsen in the coming months. Members of the Malaysia Retailers Association (MRA) had initially projected the contraction of in the third quarter of 2020 retail sales growth rate at 3.4% in September 2020.³³ The latest results were 185% worse than the earlier estimate, with the actual third quarter of 2020 retail sales growth rate contracting by 18.4%, compared to the same period a year ago.³⁴

Thus, the number of struggling businesses in the subsector is likely to rise as they fail to cope with the changing retail landscape amid the Covid-19 pandemic. According to the Retail Group Malaysia (RGM) Managing Director, Tan Hai Hsi, more than 51,000 retail stores (about 15% of the total industry supply) in the country are to shutter with a peak expected in January 2021.³⁵ RGM also estimates that the loss of retail sales in 2020 could be as high as RM6.8bil (USD 1.7 billion).

The deterioration of the subsector has left many Malaysians working in the subsector jobless. With businesses closing down, the number of job opportunities within the subsector also dwindled.³⁶ Furthermore, the number of registered retail vacancies in the second quarter of 2020 fell by 44.7% from the first quarter of 2020. The number of jobs created in the second quarter of 2020 fell by 64.4% from the first quarter of 2020.

How the pandemic interacts with longer term challenges for the sector

The emerging trends within the subsector present both challenges and opportunities. Digital ubiquity will become the new normal as convenience becomes the new currency and shoppers expect retail omnipresence.³⁷ Retailers are likely to boost their digitalisation efforts as Malaysia secures a spot among the top five leading Southeast Asian e-commerce markets, with 40% of Malaysian consumers are now using e-wallets for online purchases.³⁸ Nevertheless, our retailers seem to be lagging in adopting these trends (See Figure 7). Most retailers prefer to operate their business in a physical premise rather than a virtual one.

³² See Department of Statistics Malaysia, *Quarterly National Account – Gross Domestic Product, August 2020*

³³ See Retail Group of Malaysia, *Malaysia Retail Industry Report, September 2020*

³⁴ See Retail Group of Malaysia, *Malaysia Retail Industry Report, November 2020*

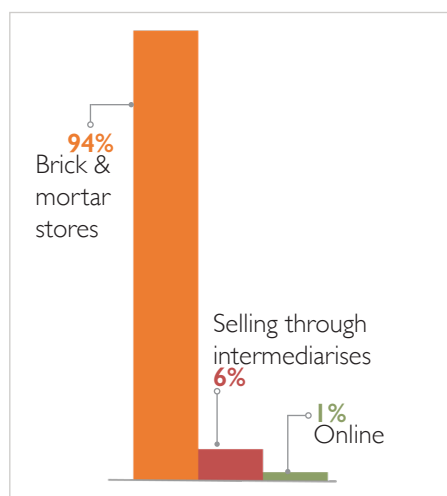
³⁵ See The Malaysian Reserve, *Over 50,000 retailers to close by early next year, October 2020*

³⁶ See Department of Statistics Malaysia, *Employment Statistics, November 2020*

³⁷ See World Economic Forum, *Future of Consumption in Fast-Growth Consumer Markets: ASEAN, June 2020*

³⁸ See The Malaysian Reserve, *Malaysia among top 5 e-commerce markets, 40% consumers use e-wallet, December 2020*

Figure 7: Key distribution channels of retailers (MyCC 2020)



Government 'Respond' measures

Informal retailers are likely to have limited access to these measures given their classification as unregistered business entities. As highlighted earlier in the report, the retail sector employs the highest number of informal workers in the economy. These players do not qualify for loans and funds allocated via the ESPs. Existing red tape around the formalisation of businesses also discourages players from registering their businesses to access these measures. Consequently, informal retailers prefer to obtain loans and funding from private non-banking financial institutions which do not require businesses to be registered. However, these institutions do not need to abide by the existing loan moratorium causing many of their customers including the informal retailers to continue servicing their loans with interest rates similar to pre COVID-19.

A one-size fits all effort to digitalise business is unlikely to work for smaller retailers. Stakeholders are cautious when setting up their business on e-commerce platform given the high transition costs. There is always an uncertainty over the returns they are bound to receive when they make the move to virtual marketplaces. Competition among small businesses is intense in these platforms given the pivotal role of brand awareness and advertising. However, the business models of retail micro-enterprise and SMEs are unable to absorb the high costs associated with brand building and advertisement. This has led to many firms preferring to stick to their existing brick-and-mortar business models and choosing to close their business entirely during the lockdown.

Targeted cash subsidies to consumers are essential to support local businesses. The distribution of cash handouts by the government helped boost local spending. It generated the much-needed revenue for enterprises to remain in operations. However, the extent to which the measure fulfilled its primary objective might be minimal, as consumers might spend the cash to purchase products from larger corporations instead of our local businesses. Thus, some retailers have called for a more well-thought-out direct cash handout programme.

Some nations have successfully implemented more targeted cash subsidies. In South Korea, all citizens are qualified to receive a 100,000 won (\$83) cash handout as COVID-19 relief, a measure comparable to the PENJANA RM 50 e-wallet credit.³⁹ Nevertheless, the main difference between both cases lies in the

³⁹ See Ledger Insights, *How South Korea uses local currencies for basic income, COVID-19 relief payments, August 2020*

distribution and usage of these funds. In South Korea, each province had its local digital currencies to disseminate the relief payments that can only be used within the particular province. These targeted cash handouts will have a spillover effect on our local community. We will not only be saving businesses but jobs and livelihoods as well. The government can bolster employment within the community, which will, in turn, provide locals with more income to be spent back into the local businesses.

Government ‘Recover & Reset’ measures

The government attempted to accelerate digitalisation within the sector by offering various grants and allocations for businesses to get onboard digital platforms. E-Commerce giants such as Grab itself ran campaigns to encourage Malaysians to support local businesses. Efforts included the Grab (loves) Local Heroes campaign and government efforts that Grab supported, such as Shop Malaysia Online (SMO) and ePENJANA.⁴⁰ Nevertheless, some stakeholders are sceptical over the digitalisation agenda promoted by the government. We also need to consider our informal retailers since the sector employed the highest percentage (20.9%) of workers in Malaysia’s informal sector in 2019.⁴¹

SMEs and micro-enterprises find it costly to transition into e-commerce. Stakeholders have voiced their unwillingness to invest in boosting their e-commerce readiness, given their tight cash flows. Some smaller retailers find it onerous to pay the 20-30% commission fee demanded by the digital platforms due to their narrow profit margins. For those who also operate a physical business, covering existing overhead and paying these high commissions becomes a more difficult challenge given their diminishing overall sales and revenue at present. Thus, these players have urged the government to offer commission fee waivers.

We could model commission fee waivers after the Food Delivery Booster Package offered by Enterprise Singapore that subsidises delivery costs. Singapore introduced the package in April, during the circuit breaker, and covered part of the commission charged by its primary delivery platforms FoodPanda, Deliveroo, and GrabFood.⁴² These efforts have helped increase a local business’s sales from food delivery significantly, from less than 1% to around 60% of its existing average monthly revenue during the circuit breaker.

The lack of digitalisation skills limits the ability of SMEs and micro-enterprises to pivot. Players were also encouraged to digitalise their business through the various grants and programmes. However, the success of these measures remains arguable. Some stakeholders still found it challenging to shift to digital platforms. For sustainable pivots, players require substantial capital as it entails a change in their business models. These include the shift of focus to brand awareness. Algorithms that govern digital platforms are also more likely to present businesses with a strong brand presence as top choices for consumers.⁴³ To support these new business models, retailers need to hire more tech-savvy talents. However, the lack of a digitally skilled workforce in Malaysia compounds the difficulties these businesses face in hiring workers in digital marketing, customer service, and data analytics roles.⁴⁴

⁴⁰ See Grab Press Centre, *Sustaining Local Businesses in The New Normal Through Grab*, November 2020

⁴¹ See Department of Statistics Malaysia, *Informal Sector Workforce Survey Report*, July 2020

⁴² See *The Straits Times*, *How Swee Choon dim sum restaurant turned Covid-19 crisis into a business opportunity*, November 2020

⁴³ See IDEAS, *Building SME digital resilience: What have we learned from the MCO?*, October 2020

⁴⁴ See World Bank, *Malaysia Economic Monitor: Data for Development*, June 2017

Complicated business registration and licensing requirements are burdensome to first-time and informal retailers. In 2019, retail represented the highest share of informal employment, at 20.9%, higher than any other sector.⁴⁵ Stakeholders have voiced their concern over unclear instruction and guidelines on obtaining the necessary licenses to operate their business. Existing processes are likely to be a deterrent to formalisation and may lead to more informal retailers. Consequently, these businesses will have limited access to economic stimulus packages such as the digitalisation grants and loan moratorium. Thus, it can be more difficult for them to pivot sustainably in the future.

The government could consider new schemes to incentivise formalisation. An increasing number of countries now create special programmes for individual entrepreneurs. In 2009, France implemented the new Auto-Entrepreneur (renamed as Micro-Entrepreneur in 2016) status.⁴⁶ It is a scheme that allows a solo operator to register simultaneously with the trade registry, the tax administration, and social security in only a few minutes. An improvement in the business registration process also resulted in less cumbersome paperwork for small businesses.⁴⁷ The country saw the registration of more than 300 000 new enterprises within a year through this scheme.

The government could facilitate formalisation by making it easier for enterprises to formalise. In 2005, Portugal announced the On the Spot Firm provision under the Simplex programme.⁴⁸ The programme made it possible to create a company in a single office in a single day. Enterprises receive all the necessary legal documents, including their extract of entry into the Commercial Register upon completion of the programme. Compliance is ensured by having all the documents sent to the tax authorities. Between 2005 and September 2008, the country saw the creation of 59,068 new enterprises. Although there was no specific assessment made about the impact of the initiative on reducing undeclared work, we may presume that fewer people worked in an informal capacity with the rise in officially registered business.

⁴⁵ See Department of Statistics of Malaysia, *Informal Sector Workforce Survey Report*, July 2020

⁴⁶ See United Nations Conference on Trade and Development, *Formalize the informal sector: Make formalization easy and desirable*

⁴⁷ See French Entrée, *Small business in France: the former auto-entrepreneur becomes 'micro-entrepreneur'*, February 2016

⁴⁸ See OECD Centre for Entrepreneurship, SMEs and Local Development, *Informal Sector Entrepreneurship*

Case Study 3 - DougHappy



	Respond	Recover	Reset
Challenges	<ul style="list-style-type: none"> Struggled to understand if their business type was allowed to operate and what licences to obtain. 	<ul style="list-style-type: none"> Offsetting the large decrease in sales from their physical food truck. High commission rates on food delivery services such as GrabFood prevented them from listing their products on the platform. 	<ul style="list-style-type: none"> Diversifying the sources of their sales to ensure a reliable revenue stream in the future.
Solutions	<ul style="list-style-type: none"> Temporarily suspended their operations as they did not want to violate MCO rules. 	<ul style="list-style-type: none"> The loan moratorium announced by the government helped them avoid cash flow issues. Utilized digital platforms to participate in e-commerce and built their social media presence to promote their products to customers. Used GrabDelivery instead of GrabFood to send their orders after customers order directly through them. 	<ul style="list-style-type: none"> Undertook R&D activities to create new products such as sourdough bread with the use of the small grant they obtained from the Geran Khas Prihatin programme. Ventured into selling baking supplies such as pre-mix flours on e-commerce platforms.

DougHappy is a bakery business owned by Mr. Sam Chuah and his partner Ms Lee Zee Huey that operates out of a food truck and sells a variety of self-baked bread. Prior to operating the business, Mr Sam was a sales associate for a chemical company while, Ms Lee was in the F&B industry and had worked in the production planning department of a bread factory. DougHappy operates in the Taman Desa neighbourhood which, prior to the COVID-19 pandemic, was where a large percentage of their customers were residing at. Lockdown measures prompted the owners of DougHappy to make adjustments in their business model in terms of product and process innovation.

DougHappy struggled with the uncertainty of whether they could continue operating their business during the first MCO as there were no clear guidelines on the types of businesses that could continue operating. According to them, the directives on what businesses could remain open were very general, and there was no thorough breakdown on the different specific types of businesses. Additionally, DougHappy was

also unsure on what appropriate licences needed to be obtained in order to continue operating. Unwilling to take chances on a breach of SOPs, they temporarily suspended their operations while waiting for a definitive guideline on their eligibility to continue operating.

To increase business resilience, DougHappy had undertaken R&D activities such as creating new products by experimenting with different recipes. They introduced a variety of new bread such as sourdough bread which they believed could help them acquire more customers especially targeting the younger demography. They had managed to conduct R&D with the support of a small grant through the Geran Khas Prihatin programme, in which they received funds within half a month of applying. Additionally, the support of the loan moratorium also aided them to remain operational despite a 60% fall in sales.

DougHappy realised that they could no longer solely rely on sales generated from physical platform and decided to participate in the e-commerce. They worked on building their brand by increasing their social media presence. Part of their digitalisation effort was to band together with other businesses around Taman Desa to form a Facebook group. Members of the group can utilise it to market their products and promote businesses around the area to other localities. For customers who purchased their goods online, DougHappy used GrabDelivery as the method of delivering their goods to their customers, where customers contacts DougHappy directly and then the only service charged by Grab is the delivery fee from DougHappy to their customers. DougHappy found that although they could increase their presence through GrabFood as their bakery would be listed on the platform amongst other restaurants, they opted not to use this service as the charges were too expensive from the high commission rates. They mentioned that it would have been helpful to have government incentives or subsidies to help them get on board third-party food delivery platforms as operational cost could rise by 30% just by enrolling into these platforms.

In addition to diversifying sources of sales, the SME owners also created new sources of sales revenue by diversifying into selling baking supplies such as selling pre-mix flour for bread and cakes online. There was an increase in the demand of individuals wanting to bake or produce food at home in general during the MCO period and coupled this with the lack of baking supplies on e-commerce platforms, this diversification strategy has helped Doughappy to grow as a business. However, on spurring digital consumption, the operators opined that government incentives could be directed at supporting community-based businesses so that digitalisation efforts by the SMEs in particular could be better supported.

In short, the owners of DougHappy shared that the key factors prompting their relative success in facing the COVID-19 pandemic was due to their adaptability by carrying out product development and venturing into e-commerce. They also noted that had they received clearer directives and SOP guidelines, they could have planned and rolled out these initiatives sooner and more efficiently.

Case Study 4 - Chriszen Malaysia Sdn Bhd

CHRISZEN®

	Respond	Recover	Reset
Challenges	<ul style="list-style-type: none"> To be considered as an essential service to remain operational. Overcoming the reduction of foot traffic at physical cosmetic counters. Product testing ban at physical cosmetic counters. 	<ul style="list-style-type: none"> To remain relevant as a brand during the pandemic to existing and potential customers. 	<ul style="list-style-type: none"> Catering to changing consumer trends post COVID-19 to ensure the long-term sustainability of their business.
Solutions	<ul style="list-style-type: none"> Registered as a hand sanitiser distributor with MITI to continue operations during lockdown periods. Utilized digital platforms and technologies to remain in touch with customers through digital content and face filters for virtual product testing. 	<ul style="list-style-type: none"> Used ideas by young talents for latest marketing trends and ideas, such as influencer collaborations. Engaged with government agency stakeholders to form connections to direct some of its sales to other businesses during the pandemic. 	<ul style="list-style-type: none"> Innovated new products to align with shifting consumer needs, such as coming up with an affordable skincare line especially for sensitive skin.

Chriszen is a homegrown Malaysian colour cosmetics and skincare brand. Its owner, Ms Mandy Leong is an STPM Graduate. She started selling products at a night market, before becoming a wholesaler in Penang, and finally moving her headquarters to Kuala Lumpur. Since 2013, she has a total of 7 wholesale shops in the country. Since 2016, she started selling her products at local pharmacy stores in over 1000 outlets. Chriszen has since tried to penetrate the market in Jakarta, Indonesia but found it challenging to do so. Chriszen had to make many adaptations and changes due to the COVID-19 pandemic, such as utilizing digital platforms, introducing a new product to the manufacturing line to adhere to MCO restrictions, using new marketing channels with the help of fresh graduates, utilizing connections made during government programs and diversifying their business for the long run.

Chriszen's immediate reaction to the announcement of the MCO is to utilize digital platforms more to reach out to customers and to introduce new products in their manufacturing line to comply with the MCO restrictions. Chriszen's first move was to manufacture hand sanitizers and apply to MITI as a distributor of hand sanitizers, which allowed Chriszen to continue operating during the MCO and cover the losses from their cosmetic business. Before the pandemic, 90% of Chriszen's total revenue was from physical sales, mainly by representatives at pharmacies. Due to the MCO, foot traffic around the shopping outlets where Chriszen's products were sold reduced drastically. Furthermore, local councils have asked

pharmacies to either close down all cosmetic counters or ban product testing. To remain in touch with their customers, Chriszen had to think creatively to come up with digital content. This included live-streaming sessions on social media where they will promote their products and educate viewers on the correct usage methods. They also utilised an existing tool on Instagram, face filters, to allow customers to virtually try out their different range of colour cosmetics. Chriszen noted that its pre-pandemic efforts on cultivating TV home shopping presence has paid off during the pandemic as sales coming from that avenue managed to cover its offline losses.

Chriszen mentioned that their young talents also played an important role in marketing, such as brand awareness, as the fresh graduates they hired helped introduce Chriszen's senior management to the concept of influencer collaboration prior to COVID-19. This helped build up a consumer following that cushioned some of the COVID-19 hits to company revenue. Engagement with government agency stakeholders has helped Chriszen sustain their business during COVID-19 as they were able to direct some of its sales from customers to other businesses during the pandemic. Before the pandemic, the team at Chriszen participated in government training programs. Through these events, they formed linkages with other business owners. The connections formed through these programs are now contributing to Chriszen's revenue stream.

To allow for growth post COVID-19, Chriszen decided to focus on changing consumer needs and addressed them by innovating new products. As more consumers are now staying at home and masking up when in public, there is less need to use makeup and a higher demand for skincare products, especially products catered for sensitive skin. Chriszen quickly adapted by collaborating with their Original Equipment Manufacturers (OEMs) on research and development to produce a new skincare line. They are confident that this segment of their business will be sustainable in the long run, as there are growing demands in the market for affordable skincare products.

In the case of Chriszen, they are able to overcome the downturns caused by the COVID-19 and they are optimistic for the future. They attribute this due to their quick response in adapting to the MCO rules and regulations, as well as planning ahead for their future early.

Digitalisation – Easing the transition for SMEs

by Lau Zheng Zhou

Digitalisation plays a key role in driving Asia’s growth and development over the past 50 years.

Particularly for East Asian economies such as Japan, China, Korea, Singapore and Taiwan, digitalisation and information communications technology were leveraged to boost productivity and raise standards of living at a relatively fast pace.⁴⁹ However, this progress, which sometimes could be accelerated by external events such as a public health crisis, did not occur without collaborative efforts by the private sector, the government and also academia.

The 2013 SARS outbreak in China forced a permanent shift in consumer behaviours towards e-commerce and digital payments.

As the country underwent lockdowns to contain the spread of the pandemic, retail sales dropped significantly but consumer spending began to thrive on the hitherto nascent e-commerce platforms, most notably Alibaba’s Taobao and JD.com, which had also hastened the diffusion of digital payments linked to the e-commerce platforms.

However, the rapid adoption of digital consumption in China was only made possible by the Chinese government’s building of critical networks and nurturing regulatory attitudes.

The Chinese government’s initiative a decade prior to SARS to build and modernise the country’s telecommunications and information infrastructure, better known as the “Golden Projects”, laid the foundation for online payments and subsequently promoting paperless trade.⁵⁰

But more importantly, it was the nurturing attitudes by regulators such as the Chinese central bank and the public service agencies that gave private entrepreneurship the market space to innovate and thrive.

The People’s Bank of China did not start regulating mobile payments until 2018 despite its rapid development since SARS and this hands-off approach has helped to integrate providers such as Alipay and WeChat Pay with the traditional banks.⁵¹ This is in itself an intriguing point given the significant presence of government ownerships in the Chinese banking sector; and integration rather than competition was given the policy priority. Public service agencies were also quick to adapt to the digitalisation process, thus generating further spillovers in administrative efficiencies as well as promoting national digital literacy.

Today, the COVID-19 pandemic has accelerated digital consumption trends globally. Countries lagging in digital infrastructure are proactively seeking investments or joint private partnerships to build a vibrant digital economy. Business attitudes towards digitalisation, especially the SMEs, have also improved. So, **the policy challenges moving forward should remain easing the digital transition in order to build SME resilience for the future.**

Broadband affordability is essential to stimulate demand for e-commerce, digital payment as well as other digitalisation solutions.

Malaysia’s policy environment is considered highly conducive to encouraging future infrastructure expansion and also enabling equitable access to broadband internet. According to the Affordability Drivers Index 2019, Malaysia was the top performer among low and middle-income countries in terms of deployment of internet infrastructure as well as broadband adoption rates.

⁴⁹ Asian Development Bank’s publication, *Asia’s Journey Policy, Market, And Technology Over 50 Years*

⁵⁰ *Global Electronic Commerce: Theory and Case Studies*, J. Christopher Westland and Theodore H. K. Clark

⁵¹ Andrew Liu, *An Analysis of the PBOC’s New Mobile Payment Regulation*

Malaysia's relative success in broadband affordability is attributed to the high availability of public ICT access. Starting in 2007, the Malaysian Communications and Multimedia Commission (MCMC) has overseen the establishment of 860 Pusat internet centre facilities across the country, providing free wireless broadband for the public, in order to support socio-economic and human capital developments with the use of ICT. Entrepreneurship programmes have also been organised to help local businesses grow their presence online. Furthermore, public ICT access programs are particularly important to promote digital inclusion, targeting women and the rural communities.

Even with the relative success in broadband affordability, the adoption of digital technologies by businesses in Malaysia lags behind international peers. In the World Bank's report on Malaysia's Digital Economy, only 62% of businesses are connected to the Internet. From that portion of businesses, 46% has fixed broadband (often of low quality) and 18% have a web presence of some kind. Besides that, the report noted that larger export-oriented firms tend to dominate Malaysia's digital economy as their e-commerce adoption rates are higher than SMEs. This runs contrary to the presumption that e-commerce greatly reduces the barriers to entry for Micro-enterprises and SMEs.

The government should consider focusing on stimulating the local economy on the back of broad public ICT access. The various economic stimulus packages and also the upcoming Budget 2021 have seen the government's attempt to stimulate private digital consumption through e-payment incentives. However, as detailed in this chapter, the more well-established brands who are already onboard the e-commerce or proprietary platforms are expected to be the bigger beneficiaries.

Instead, the government could stimulate digital demand for local community-based businesses in its e-payment incentives roll-out plan. Not only will this provide the incentives to spur digital adoption by business operators, especially those from the rural communities, but it can also generate policy spillovers in maintaining employment within the community as well as demand along the supply chains. Policy incentives and assistance should be directed at increasing e-commerce participation as a start for micro-SMEs in the digitalisation journey.

Malaysia's low functional literacy will limit the productive use of digital technologies.⁵² Despite growing access to broadband internet and increasing share of value-add of the digital economy, Malaysia's lack of a digital workforce has resulted in the creation of a consumer but not producer of the digital economy, especially in adoption of more complex solutions. For instance, only 44% and 54% of Malaysian SMEs use cloud computing and data analytics to boost business performance compared to 85% of SMEs in Singapore.⁵³ Therefore, the lack of technological expertise continues to hamper Malaysian SMEs' digitalisation journey from going beyond the adoption of basic technology such as procuring computing devices and connectivity.

Publicly financed training on digital economy and ICT skills is a step in the right direction but SME feedback on effectiveness is mixed. Training and upskilling are given continued emphasis in the budgetary allocations for ESPs and Budget 2021, in addition to existing contribution to the Human Resources Development Fund. Publicly financed training is key to address underinvestment in human capital development by the private sector but publicly organised training programmes are met with

⁵² World Bank World Development Report 2016

⁵³ Huawei Technologies 2018

mixed responses by business operators too, not mentioning a lack of research into the effectiveness of these programmes.

In general, SME interviewees for this research highlighted the gap of these training programmes in meeting the unique transformation needs of the businesses. On the other hand, the hiring of digital natives were found to be more effective in creating options for digitalisation, thereby underlining the importance of producing market-ready graduates as well as having an apprenticeship-based tertiary education system. In short, SMEs' digitalisation process to build future resilience hinges on the optimality of having broad public ICT access, policies to stimulate digital demand for community-based SMEs, as well as an education system which produces market-ready graduates.

6.0 TOURISM

Impact of COVID-19 on the sector

COVID-19 and the subsequent border closures brought all forms of travel and tourism activities to a complete halt, and they both led to a near-collapse of Malaysia's tourism sector. According to the Ministry of Tourism, Arts, and Culture (MOTAC), estimated losses for the tourism sector in the first half of 2020 was reportedly around RM45 billion. Also, in the first half of 2020, tourist arrivals slumped by 68% while tourist expenditure deteriorated by 70%.⁵⁴ The spillover of the sector's contraction was rather substantial as it is the third-largest foreign income earner after the manufacturing and palm oil sectors.⁵⁵ According to the Department of Statistics of Malaysia, employment volume decreased by 1% to 14.93 million people over the same period in 2019. Among the most affected workforce were those in the services sector, such as hospitality, food and beverage, the arts, entertainment, and recreation.

How the pandemic interacts with longer term challenges for the sector

The onset of COVID-19 is also shifting tourist behaviours while accelerating digitalisation trends within the tourism sector. Tourists are more likely to prioritise hygienic and healthy living post-COVID-19. These are likely to translate into increased demand for digital products, cashless and contactless payment methods, and cloud-based property management systems.⁵⁶ The rise of super apps within the tourism industry is also noteworthy with the recent release of a new ASEAN super app by AirAsia.⁵⁷ They aim to consolidate their existing products including, airlines, hotels, insurance, mobile, and e-commerce services, in their upcoming super app.

Nevertheless, the extent to which tourism players in our country have adapted to these shifts in trends remains arguable. Their potential lag behind these trends could explain their relatively slower growth of tourist arrivals and tourism expenditure than their regional peers. While international tourist arrivals and tourist expenditure grew significantly in Thailand, Singapore, the Philippines, and Singapore between 2010 and 2018, Malaysia reported a relatively sluggish growth.⁵⁸

Government 'Respond' measures

The roll out of PENJANA was essential in mitigating the impacts of the pandemic and MCO on the tourism sector. It provided support to the tourism sector through the wage subsidy programme, PENJANA Tourism Financing for SMEs, electricity discounts, and various tax incentives. Notably, stakeholders have praised the tourism tax exemption and extension of the service tax up to the 30th June 2021. Besides that, they also welcome the government's extension of period of tax instalment payment exclusive for the tourism industry up to the 31st of December 2020.

Information asymmetry prevents hotels from responding swiftly to the crisis. An information asymmetry existed among stakeholders since some were unaware of the funding initiatives available for

⁵⁴ See *Tourism Malaysia, Negative Growth of 68.2% for Tourist Arrivals in the First Half of 2020, September 2020*

⁵⁵ See *The Star, Tourism contributes RM42bil to economy, August 2019*

⁵⁶ See *Organisation for Economic Co-operation and Development (OECD), Tourism Policy Responses to the coronavirus (COVID-19) Report, June 2020*

⁵⁷ See *Malay Mail, AirAsia unveils new ASEAN super app, October 2020*

⁵⁸ See *World Tourism Organization (UNWTO), International Tourism Highlights (2019 Edition) and World Tourism Barometer, July 2020*

them. This has led to some stakeholders applying for these initiatives much later which has lowered their chances of success with the applications as the quantum of these loans are used up within days.

Complicated application requirements can discourage firm from applying for relevant ESPs. Some players found it challenging to apply for the wage subsidy programme as it was time-consuming, and the payments were also not sent in time. They also find the lack of a one-stop centre to access the necessary information on financial capital allocated by the government burdensome.

Not all targeted firms have equal access to funding initiatives. According to our stakeholders, some loans were only available for hotels that remained in operations. Nevertheless, not all of them had the financial capacity to run their hotels during the movement restrictions adding the fact that there were virtually zero guests at their hotels. Hence, many were forced to closed down as they struggle to save their business with the ever-growing losses. 204 tourism and hotel operators have closed their businesses since March this year due to the impact of the Covid-19 pandemic and enforcement of the MCO.⁵⁹

Government ‘Recover & Reset’ measures

Government measures for recovery and reset were indeed helpful in addressing some of the more serious complications of the sector following border closures. The RM200 million worth matching grant for HRDF to train approximately 40,000 workers in the sector was pivotal in addressing the mass layoffs the sector faced following the MCO. The upgrading of infrastructure and tourism facilities totalling to RM 2 billion worth were also welcomed by all players.

The National Tourism Policy is great step for the long-term recovery of the nation’s tourism sector. The most significant transformation strategies include the embrace of smart tourism, upskilling human capital and promoting the practise of sustainable and responsible tourism. These key strategies are also all in line with the expectations and hopes of many industry players in the post COVID-19 era. Nevertheless, stakeholders have emphasised the need for careful reopening of international borders as recovery to at least 90% of pre COVID-19 levels is possible only with the arrival of foreign tourist. The underlying structural challenges faced by tourism SMES are also yet to be addressed.

Travel agencies might not be responding well to the falling demand for their products and services. Almost 90% of respondents from the Survey on Domestic Travel in Malaysia prefer arranging their travels by themselves. Although tour packages are no longer the preferred travel arrangement of Malaysians, we still have many travel agencies within Malaysia. However, there are currently 5,054 travel agencies based registered with the Ministry of Tourism, Arts, and Culture.

Consumption of products offered by the travel agencies and other reservation services subsector has also recorded the lowest growth in recent years.⁶⁰ This subsector also records one of the highest surpluses of tourism products. The presence of this surplus likely indicates the industry’s failure to address the existing mismatch in demand and supply. Nevertheless, some stakeholders argued that this trend is reversible if businesses focus on innovation. They recommend curating unique tours and travel packages that can better meet the needs of local tourists.

⁵⁹ See *The Edge Markets, Covid-19: 204 tourism and hotel operators closed down since March, November 2020*

⁶⁰ See *OECD, Rebuilding tourism for the future: COVID-19 policy responses and recovery, December 2020*

Fear of competition is undermining motivation to invest in innovations such as digitalisation among travel agencies. The presence of an uneven playing field was attributed to the unwillingness of players to invest in digitalisation.⁶¹ Several travel agencies are worried about the uncertain outcome of such an investment. They believe that there is a greater risk of returns if they were to trade their tour packages online rather than offline, given their failed digitalisation investments in the past. They are also not confident in competing with larger online travel agents (OTAs) such as Expedia and Traveloka.

Existing regulatory frameworks are likely antiquated and irrelevant to present-day travel and tourism standards. Unnecessary restrictions can reduce the scope for firms to innovate with new business processes. Stakeholders have also expressed their concerns over the bureaucratic burden emerging from these regulations. Thus, they have voiced the need to review the Tourism Industry Act that is presently unaligned with the current state of both domestic and global tourism markets.

Taxation and compliance laws do not apply equally to all players. The large presence of Airbnb properties, which usually do not need to face the red tape involving permit application, has raised dissatisfaction among local hoteliers. Therefore, stakeholders have called for equal enforcement of licensing requirements and laws on Airbnb property owners as well.

The development of sustainable tourism makes us a more attractive travel destination post-Covid-19. Based on the research carried out in the third quarter of 2020 by ALTIANT, 56% of overall respondents, comprising high-net-worth individuals (HNWIs) and ultra-high-net-worth individuals (UHNWIs), rate sustainability as four or five in importance on a scale of one to five.⁶² Across Asia and Europe, this figure rose to 63%. Stakeholders have highlighted measures within the United Nations 17 Sustainable Development Goals (17 SDG) as perfect reference points for policymakers.

Although the government has recently released a long-term recovery plan for the sector, comprehensive revisions can still be made to better meet the future travel patterns and tourism trends. Our existing plan should encapsulate guidelines that ensure updated safety and hygiene standards to protect tourists and the local community. It should focus on the strict enforcement of social distancing measures, hygiene standards, and crisis management. If executed properly, we are likely able to regain the confidence of travellers soon. We can also consolidate and streamline existing and relevant SOPs currently being upheld by some stakeholders, such as the safety and hygiene guidelines some hoteliers set by themselves.⁶³

⁶¹. See IDEAS, *Tourism Recovery Plan: An Opportunity for Change Post-Covid-19*, September 2020

⁶². See TIG Asia, *Sustainable tourism a big drawcard for luxury travellers*, December 2020

⁶³. See Malaysian Association of Hotels (MAH), *Clean & Safe Hotel Certification Guideline and MAH-BVN Clean & Safe Malaysia*, July 2020

Case Study 5 - Langkawi Chantique



	Respond	Recover	Reset
Challenges	<ul style="list-style-type: none"> Uncertain of what incentives to apply for as there was no official guidance. Loan applications were rejected and wage subsidy programme was not sustainable for the business Unable to compete with larger hotels who could offer large discounts. 	<ul style="list-style-type: none"> Insufficient income through hotel business, and no officials checked in for assistance. High start-up costs for their new food business as delivery services charge high commission rates. Adapting to market demand for their hotel as there is a decrease in short-term stays 	<ul style="list-style-type: none"> Coming up with a long-term plan to generate sufficient revenue for their hotel business.
Solutions	<ul style="list-style-type: none"> Temporarily suspended their hotel operations 3 months after MCO. Downsized their workforce to 0 workers. Utilized existing Facebook groups set up by businesses in surrounding areas to connect with customers. 	<ul style="list-style-type: none"> Started a new business of selling nasi lemak to help generate income. Utilized digital platforms and word of mouth to promote their new business. Pivoted into long-term rentals of their hotel rooms. 	<ul style="list-style-type: none"> Future plans to establish a permanent café at their hotel Continuing the long-term rental options for their hotel.

Langkawi Chantique is a boutique hotel located in Langkawi. It is a relatively small property with 23 rooms that mainly caters to foreign tourists. The hotel is run by a mother and daughter duo, Ms Nani, and Ms Azureen. Ms Azureen is a law graduate from the UK. Prior to her business venture, Ms Azureen had some prior experience to the hospitality industry as she had worked at a resort chain and a property development company before joining her mother to run Langkawi Chantique in 2019.

The announcement of the MCO caused several issues for the hotel, and forced Langkawi Chantique to close down after three months in operation as they did not receive any guidance from official channels on what government initiatives, they could apply for to allow them to continue operating. They quickly realised that the wage subsidy programme by the government was unsustainable. To make matters worse, they were unsuccessful in obtaining a loan they had applied for from a development financial institution. Furthermore, the owners found it difficult to compete with the larger hotels within the vicinity who decreased their prices by 50% to 70%. Due to this, they had to cut the number of staff they had, from 8 workers prior to the MCO, 3 workers during the MCO to 0 workers after the MCO. They believed that it would have been beneficial if there was an official hotline or help that they could reach out to, to seek advice on what they could do next to sustain their business.

Further into the MCO, they realised that there were no officials to check in on their hotel business, so they decided to venture into a new type of business. They diversified into F&B services by starting a nasi lemak business which helped them generate some income. The owners relied on word of mouth through friends and through social media to promote their new venture. There were some unofficial Facebook groups such as Langkawi Love Tribe and Langkawi Sana Sini which helped. They had some troubles initially setting up the business, as they found that online food delivery services such as GrabFood and FoodPanda were charging high commission rates of up to 30% to 40%. A local Langkawi based food delivery service, Tapaufood had also marked up their commission fees to be 20%-25%. Chantique Nasi Lemak initially ran thrice a week - Monday, Wednesday, and Friday. With rising demand from patrons in KL, the nasi lemak business started to open on weekends too. They chose to operate their business from 5 pm to 8 pm to avoid competing with other local nasi lemak vendors in the morning.

As there was a decrease in demand of short-term stays by tourists, Langkawi Chantique had to rent out the rooms to foreigners who were unable to return to their home country instead. Langkawi Chantique's long term stay guests received access to all the facilities available at the hotel, and the rental payments covered utility bills and maintenance costs of the property.

In the long run, Langkawi Chantique hopes to establish a permanent cafe within Langkawi Chantique in following the success of their nasi lemak business. They also believe that their pivot to room rentals is likely to continue in the future. Although they were grateful that their business is still operating today due to the quick modifications and adaptations that they thought of, they felt that they were left to fend for themselves during the COVID-19 pandemic, as they did not receive any form of assistance from official sources.

Case Study 6 -Frangipani Resort and Spa



	Respond	Recover	Reset
Challenges	<ul style="list-style-type: none"> Cash flow issues as the resort was closed down for 7 months. 	<ul style="list-style-type: none"> Catering to a different target market, from foreign tourists previously to local Langkawi and Malaysian residents now. 	<ul style="list-style-type: none"> Having a secondary source of income whilst awaiting for the revival of international tourism. Reinventing themselves to stand out amongst other resorts in Langkawi.
Solutions	<ul style="list-style-type: none"> Capping occupancy rates at 50%. Reduced overhead costs by downsizing their workforce by 60%, minimized operation hours, limited F&B choices 	<ul style="list-style-type: none"> Used digital channels as an advertising platform to reach out to locals. Altered their services to the change in demographic, such as discounting their rates by 70% and shutting down the bar. 	<ul style="list-style-type: none"> Pivoted into sustainable agriculture within the resort. Reduced maintenance costs by implementing green practices such as homemade termite treatments. Future plans to be an eco-friendly resort by reducing overall energy levels, and becoming an educational centre for sustainability.

Frangipani Resort and Spa is a resort located by the beach at Langkawi island. Over the years, The Frangipani Langkawi Resort & Spa has garnered a number of prestigious awards, including the ASEAN Green Hotel Award 2018, as well as Tripadvisor’s Top 25 Relaxation and Spa Hotels for Malaysia. The managing director, Professor Anthony Wong, is an STPM graduate who ventured into his own business early on in his career. He started a travel company at only 19 years old with 3 partners. His initial market was foreign tourists, before expanding to local tourists later on as the domestic tourism market started growing. After that, he ventured into a conference business and started the nature guide course. Prof Anthony had to make swift actions to ensure that Frangipani would be able to survive the challenges caused by COVID-19, such as altering his business model, carrying out cost saving practices, making use of digital platforms to advertise to local tourists, and venturing into sustainable agriculture.

Following the outbreak of COVID-19, the Frangipani Resort and Spa in Langkawi had to limit occupancy rates at 50% and laying off over 60% of its workforce after initially shutting down for seven months. The managing director of the resort realigned the operation hours with regular office hours, offered a limited menu at the in-house restaurant, and closed down the bar as well. Frangipani attributed the exercise of such drastic business restructuring measures to the need of reducing their overhead and ensure its survival in the upcoming years. Their managing director was also determined to not take up any loans as well, due

to uncertainties of tourism trends in the future. Frangipani were persistent that their staff had to multitask if they wanted to remain employed. Managers had to wear different hats and take part in maintenance work as well whenever possible. Prof Anthony himself also took part in housekeeping and gardening at the resort.

For Frangipani to remain operational, they quickly advertised their resort on digital channels to local Langkawi residents as there were travel restrictions during the first MCO for inter-state travel. Frangipani noted that the ease of marketing through digital mediums has made things so much easier for them, compared to traditional channels in the past. Prof Anthony noted, however, that many SMEs do not have enough knowledge to make a smooth transition to digitalizing their businesses. He believes that government agencies such as the Malaysia Digital Economy Corporation should provide more through guidance for this, which should be tailored specifically for different industries. Frangipani had to slash prices by 70% to remain attractive to the local market. Frangipani also had to make alterations to their services such as closing down the bar since most locals do not spend much on alcohol. They continued these practices to market themselves to other local tourists from other states once there was a relaxation on inter-state travel.

Frangipani also pivoted to sustainable agriculture by expanding the organic farm and orchard located within the boundaries of the resort. Frangipani believes they will continue carrying out this practice even when the tourism industry returns to normal and expand further on other sustainable practices. Before COVID-19, the managing director dedicated 1.8 acres of his resort property for the planting of fruit trees, which produced 2-3 tonnes of mangoes and 500 kgs of papaya annually. However, upon the onset of the pandemic, he cleared up more space within his property to plant more fruit trees such as calamansi trees, that generated additional revenue for his business. Frangipani managed to keep their maintenance costs low by innovating cost-saving methods such as homemade termite treatments and embracing more sustainable practices such as rainwater harvesting. Frangipani has made it their mission that in the long-term, they want to reduce their overall energy levels compared to their levels today. Frangipani used United Nation's (UN) Sustainable Development (SDG) goals as the basis of their sustainable practices and explained that it is within their mission to educate Malaysians on sustainability, as according to them, the awareness level of Malaysians regarding the importance of sustainability is very low. Frangipani noted that it would be good if there were attractive incentives or rewards for hotels that carry out sustainable practices in recognition of their efforts so that other resorts will follow suit too.

Frangipani believes that they were able to overcome the challenges of the major disruption to the hospitality industry caused by COVID-19 due to an immediate change of their business model, carrying out cost saving practices, digitalisation, catering to the domestic tourism needs and venturing into sustainable practices to generate some side revenue. They are positive for their future outlook, as they believe their sustainability practices is aligned with global consumer trends which place a greater emphasis on sustainable tourism.

Barriers to entry: the challenges to starting a business in Malaysia

by Laurence Todd

Regulatory barriers can frustrate the entry of new firms into the market, undermining economic adaptability. During economic crises, business closures usually increase as business conditions deteriorate. To ensure economic recovery, it is therefore necessary to encourage new firms to enter the market and to support existing firms to adapt their business practices. Government's must therefore balance the need to provide a safe and responsible regulatory framework with the need to maintain a flexible environment for new and adapting businesses.

Starting a business has consistently been an area where Malaysia underperforms relative the other areas of business competitiveness. In the 2019 Ease of Doing Business Index, Malaysia ranked 12th overall but only 126th for Starting a Business. This poor performance reflects a complex regulatory environment which creates barriers for prospective entrepreneurs. According to the Global Business Complexity Index (GBCI) 2020 report, Malaysia is the 9th most complex country in the world to do business in and the 3rd most complex in Asia.

In Malaysia, most businesses require a set of different licenses and authorisations in order to operate. The process for incorporating a company is relatively quick and inexpensive but depending on the sector of the business a number of additional licenses are required. In addition to general health and safety and environmental regulation, different products and services are subject to separate licensing regimes. As a result, one business may require multiple licenses: in their review of distributive trade MPC found examples of small retail stores requiring 10 different licenses.

The cost of complying with regulations is increased by the use of agents and the need to engage in face-to-face interactions. In order to manage complex regulatory requirements many small firms use agents, adding significantly to the cost of doing business (IDEAS, 2019). Furthermore, compliance with regulations often requires over the counter interactions which are time consuming, further increased the cost of compliance (IDEAS, 2019).

Engagement with local authorities is often considered the most burdensome. Any business with physical premises requires licenses from their respective local authorities. Previous research by IDEAS found engagement on issues regulated by local authorities are the most burdensome, for example over the counter engagement was highest for billboard registration, which is regulated at the local authority level (IDEAS, 2019).

Malaysia currently lacks mechanisms to simplify licensing procedures. Many countries have adopted specific tools to help new business to navigate licensing requirements. For example, some countries have adopted the "silence is consent" principle, under which if new business do not hear back from licensing authorities after a specified period of time then the license is automatically granted. Many countries also use "one-stop-shops" to provide a single platform for all business authorisations. Malaysia has recently introduced such a mechanism through the MalaysiaBiz portal, and this can hopefully service to simplify the process for new businesses.

The burden of licensing is compounded by onerous requirements. The barriers to entry can be further complicated when licensing regulations include onerous restrictions on business activity, such as

prescriptive conditions on business forms or conduct. These restrictions can take many different forms across different industries: for example, law firms are restricted to only a select forms of business and cannot be incorporated and e-hailing services are required to use certain vehicles subject to inspection by PUSPAKOM. The common feature of such restrictions is that they reduce choices for business and can therefore limit the entry of new firms and prevent existing firms from innovating.

Onerous restrictions can be identified in the licensing regime for tourism the industry, frustrating options for new and existing firms. The Tourism Industry Act 1992 (Act 482) requires separate licensing of tourism training institutions, tour operating businesses and travel agencies. The Act requires that such business conform to specific requirements, including the use of pre-approved vehicles (Section 20), and provides the Commissioner of the tourism industry with broad powers to dictate business activities, including determining the number of inbound and outbound tours (Section 16(1)). Tourism enterprises are restricted to employing only licensed tour guides (Section 19(1)), for whom the licenses are only valid for a period of three years.

Reform of these regulations could promote the adaptability of tourism enterprises. Reducing the restrictions on tourism enterprises could enable firms to adopt different business practices and enable new firms to enter the market more easily. Firms themselves are likely to be better placed to sudden changes in market conditions – such as have been induced by the pandemic – and therefore increasing the scope for business flexibility within the regulatory framework should be an important component of the strategy to support firms during the current crisis.

For the longer term, the Malaysian Productivity Corporation (MPC) and the Malaysian Competition Commission (MyCC) should assess the potential to modernise the regulatory framework for the tourism industry. MPC champions effective regulation as part of its Reducing Unnecessary Regulatory Burdens (RURB) programme and MyCC champions market-based competition through its in-depth market reviews. These exercises have had a positive impact in the past, for example MPC's review of the retail sector led to the liberalisation of restrictions on cheap sales and MyCC's review of professional services resulted in the liberalisation of fees for accountants. However, neither institution has assessed the scope for regulatory reform in the tourism industry.

7.0 CONCLUSION

The COVID-19 pandemic was the perfect storm that hit Malaysia's economy and its citizens hard in 2020. The severe downturn has led to countless jobs lost and businesses going under. Despite the numerous adversities caused by COVID-19, the pandemic has helped to highlight structural challenges within Malaysia's economy. Even before the pandemic, there was an increasing sense among Malaysians that there has been a stagnation in economic growth or more specifically, there were gaps within the policy framework that impeded growth as discussed in this report. Looking ahead, although Malaysia's path to recovery will be long, a good place to start is by addressing the gaps in the policy frameworks.

Themes	Gaps in policy framework	Recommendation
<p>Implementation gaps in the government's crisis respond measures should be addressed to better prepare for future crises.</p>	<p>Several economic stimulus packages have been launched to help sustain businesses. However, measures within the packages may not have benefited a majority of SMEs due to implementation gaps. Examples:</p> <ul style="list-style-type: none"> • Disbursement of working capital relief funds may have been skewed towards existing customers of private banks. • Delays in the disbursement of cash subsidies reduced the effectiveness of those measures in helping businesses survive. • Untargeted ePenjana cash subsidies meant most of the credits may have been spent on larger notable brands and not SMEs. • Loopholes in firm size determination guidelines prevented businesses who had to scale down from receiving much needed cash assistance. • Lack of timely updates on port operations guidelines resulted in shipment delays for businesses. • Information asymmetry between industry players and policymakers prevented businesses from applying for beneficial measures. 	<ul style="list-style-type: none"> • Explore alternative funding distribution mechanisms for future crises. • Explore alternative welfare programmes or enhance current programmes to increase likelihood of funds reaching the targeted group (i.e., targeted cash subsidies) • Explore flexible thresholds for grants and support. • Pro-actively assess and provide timely updates on vital business areas such as port operations. • Expand mediums to disseminate important information for future crises.

Themes	Gaps in policy framework	Recommendation
<p>Public policy nudges towards automation and digitalization needs to match with current industry needs and capabilities.</p>	<p>SMEs may not have fully benefited from the government's initiatives to increase automation and digital adoption rate among businesses due to the limitation in capacity and available talents in the field. Examples:</p> <ul style="list-style-type: none"> • IR4.0 grants and loans are targeted towards high-tech projects that SMEs would normally not have the technical skills to undertake. • Lack of effective communications between policymakers and industry stakeholders. • Initiatives to get retailers onto e-commerce have not accounted for major costs and skills needed for a sustainable pivot towards digitalisation (i.e., digital marketing, high commission fees, uncertain returns for businesses). • Lack of industry ready local graduates to accelerate the jump towards automation and digitalization. 	<ul style="list-style-type: none"> • Widening scope of upscaling grants provided to include utility innovations. • Have frequent consultations between policymakers and industry stakeholders in addition to utilising feedbacks from those consultations • Having a comprehensive long-term perspective when devising initiatives to digitalise businesses • Reforming TVET and upskilling courses to create industry ready graduates and increase digital literacy of Malaysians.
<p>Regulatory reforms are recommended to increase adaptability of industry players to all situations.</p>	<p>Although regulations are necessary to protect the legitimate interest of businesses and the community, Malaysia's complex regulatory framework and the lack of enforcement could have stunted business innovation and reduce the incentive for SMEs to formalize. Examples:</p> <ul style="list-style-type: none"> • Lack of coordination between federal and state government resulted in long waiting times for project approval. • Burdensome guidelines on obtaining the necessary licenses de-incentivised businesses to formalize and consequently limited their access to funds included in the economic stimulus packages. • Unequal enforcement of regulations and laws on all stakeholders could have led to the creation of an uneven playing field. 	<ul style="list-style-type: none"> • Simplify and streamline business formalization mechanisms • Provide one-stop centers across the country for SMEs to apply or receive information on the proper procedure to formalize • Strengthen enforcement of current regulations for all stakeholders.

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Appendix

We would like to thank the following stakeholders for their sectoral and market insights through our engagement with them:

1. British High Commission in Kuala Lumpur
2. Economics Planning Unit
3. SME Corp
4. Invest KL
5. Malaysia SME
6. SME Malaysia
7. Malaysia Competition Commission (MyCC)
8. Malaysian Investment Development Authority (MIDA)
9. PwC Malaysia
10. Socio Economic Research Centre Malaysia (SERC)
11. Federation of Manufacturers Malaysia (FMM)
12. Malaysia Palm Oil Board
13. Malaysia Biomass Industries Confederation (MBIC)
14. Malaysian Association of Tour and Travel Agents (MATTA)
15. Malaysia Association of Hotels (MAH)
16. Malaysian Association of Hotel Owners (MAHO)
17. Bumiputera Retailers Organisation (BRO)
18. Hexa Food Sdn Bhd
19. IGL Coatings
20. Franccastle Confectioneries (M) Sdn Bhd
21. Chriszen Malaysia Sdn Bhd
22. DougHappy
23. MyBurgerlab
24. Pink & Proper
25. Langkawi Chantique
26. Frangiapni Resort and Spa
27. University Malaya
28. Universiti Teknologi MARA (UiTM)
29. Fave
30. Sunway University
31. Universiti Kuala Lumpur (UniKL)
32. Grab Malaysia



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