

REPORT

Landscape Study of Inclusive Business in Malaysia



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The Inclusive Business Action Network (iBAN) is a global initiative supporting the scaling and replication of inclusive business models. Through its strategic pillars iBAN blue and iBAN weave, iBAN manages an innovative online knowledge platform (www.inclusivebusiness.net) on inclusive business and offers a focused Capacity Development Programme for investment seeking companies and policymakers in developing and emerging countries.

iBAN creates a space where evidence-based knowledge transforms into learning and new partnerships. With its focus on promoting the upscale of inclusive business models and consequently improving the lives of the poor, iBAN is actively contributing to the achievement of the United Nations Sustainable Development Goals.

iBAN is jointly co-funded by the German Federal Ministry for Economic Cooperation and Development and the European Union. It is implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.

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FOREWORD

Stimulating the creation of successful businesses across all groups of the society is an important requirement to achieve not only sustainable and inclusive growth but also in responding to today's socio-economic challenges. Entrepreneurship can create significant income and employment opportunities especially for the poor and low-income population. Inclusive business (IB) has now emerged as one of the new strategies to cater to those at the bottom of the income and economic pyramid.

The IB model generates significant profits, relevant products and services, as well as income opportunities for the poor and low-income population, in addition to scaled-up solutions for poverty reduction and social inclusion. In Malaysia, inclusivity has always been a key principal for the national socio-economic development agenda and a fundamental goal of the National Plan. Recognising this fact, the Government of Malaysia has commissioned the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and the Inclusive Business Action Network (iBAN) to conduct a market study of IB in Malaysia.

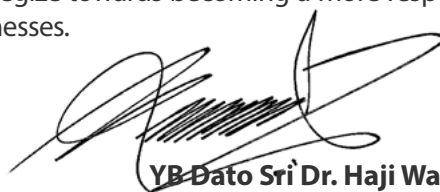
To align with the priorities of the Government to empower the bottom 40 per cent income groups (B40), IB has been included in the National Entrepreneurship Policy 2030 (Dasar Keusahawanan Nasional, DKN 2030). In addition, the Shared Prosperity Vision 2030 (WKB 2030) launched on 5 October 2019 aspires to propel the nation towards high value-added economic activities in a more inclusive manner.

With its profound impact on social and economic development, IB can serve as an essential avenue in supporting the agenda to make better policies for inclusive growth and empower the B40 group. IB will provide opportunities for the B40 to be in the value chain of their core business as suppliers, distributors, retailers or customers and encourage the role that private sector play in economic and social development. Interestingly, the study has indicated relatively more IB companies in Sabah and Sarawak suggesting greater potential of business opportunities for IB companies in these states.

The insights and policy recommendations contained in this study are very valuable for the Government to promote the transformation of mainstream businesses into IB models. Moreover, the study will also be helpful for all stakeholders involved, particularly Government Ministries and agencies as well as business associations, to join efforts to create new opportunities for enterprises to develop and invest in solutions to address at scale relevant problems of the B40 in Malaysia. IB through the private sector can provide relevant solutions to some of the unmet social needs of the B40, such as access to low-cost housing, affordable and quality health services and education.

IB is recognised as a prospect to contribute and complement policies and programmes supporting SME growth. Malaysia has a strong and advanced institutional framework for SME development with a dedicated SME strategy and conforms to the ASEAN Strategic Action Plan for SME Development (SAPSMED) 2016-2025 objectives that can be expanded to include IB by mainstreaming IB support in its SME framework as well as integrating IB into the SME strategy. To achieve this, the Government will work closely with the private sector in order to create an integrated IB ecosystem.

The Government of Malaysia is keen to ensure a holistic and equitable development for all. This report is timely as the nation embarks on a new economic development narrative. In addition, this report comes at a significant period to complement the Government's effort to formulate an effective policy that is inclusive and competitive, including the development of the B40 in Malaysia. I would like to thank SME Corp. Malaysia, ESCAP and iBAN, for the efforts that they have put in to make this research insightful. Also, I would like to express my gratitude to the team of consultants that conducted the company assessment and provided significant policy advice to promote inclusive business in Malaysia. The partnership, efforts and expertise are deeply appreciated. I hope the study encourages wide-ranging discussions among all relevant stakeholders. Finally, I urge all Malaysian companies to look through the lens of IB and start to strategize towards becoming a more responsible corporate citizen while maintaining sustainable and profitable businesses.



YB Dato Sri Dr. Haji Wan Junaidi bin Tuanku Jaafar
Minister of Entrepreneur Development and Cooperatives
Malaysia

PREFACE

Inclusive businesses provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the base of the pyramid making them part of the value chain of companies as suppliers, distributors, retailers, or customers¹.

To meet the ambitions of the 2030 Agenda for Sustainable Development, the private sector will need to play a greater role in supporting development objectives. Inclusive businesses offer the opportunity to address development challenges and leave no one behind. While most private sector firms work with or sell to low-income people in some way or another, only few business lines provide low-income people with enhanced income opportunities or with goods and services relevant to overcome poverty and exclusion.

Governments can encourage more inclusive businesses to emerge and thrive through policies that generate greater awareness on these business models, recognise and reward them with targeted incentives, and facilitate services and investments that enable firms to be inclusive while meeting profit targets.

The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and the Inclusive Business Action Network (iBAN) teamed up in 2019 to support governments enhance the policy environment for inclusive business in ASEAN.

To do so, ESCAP and iBAN have at the request of national governments, conducted national landscape studies and provided policy advice to help design and implement national strategies to promote inclusive business. This study is one of the five studies or advice on inclusive business that at the request of five ASEAN member states (Cambodia, Indonesia, Malaysia, The Philippines and Viet Nam) are being developed. ESCAP and iBAN have also helped sharing policy learnings across ASEAN member states.

The insights and recommendations contained in this landscape study, when implemented, will help Malaysia maximize the contribution that the private sector can make for more inclusive growth and shared prosperity. It will also help maximise the impact of government spending and encourage more innovative and resilient firms.

ACKNOWLEDGEMENTS

This study has been prepared by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), in cooperation with the Inclusive Business Action Network (iBAN), following a request from Small and Medium Enterprises Corporation Malaysia (SME Corp.) through Ministry of Entrepreneur Development and Cooperatives of Malaysia.

The work has been carried out by the United Nations ESCAP team of consultants, Armin Bauer, Rozina Mat Rawi, Khizer Kaman and Kal Joffres, under the overall direction of Yann Duval, Officer-in-Charge, a.i., Trade, Investment and Innovation Division, and Jonathan Tsuen Yip Wong, Chief of Science, Technology and Innovation Section, under the supervision of Marta Pérez Cusó, Economic Affairs Officer, Technology and Innovation Section, and with the support of Vivian Marcelino, Consultant, ESCAP.

Armin Bauer, international Inclusive Business expert, was the lead consultant and developed the study methodology, conducted company ratings, analysed the enabling environment for Inclusive Business, supported the policy discussions, and drafted the background report. Rozina Mat Rawi and Khizer Kaman from Metrix Research Sdn. Bhd. did the company interviews and Kal Joffres, Tandemic provided the analysis on the social enterprise landscape.

The study has been conducted in close collaboration with SME Corp. Malaysia. The strategic stewardship and support for IB promotion provided by Noor Azmi Mat Said (CEO), Sharifah Najwa Syed Abu Bakar (Chief Knowledge Management and Strategy Officer), Kausalya Gopal (Director of Knowledge Management and Strategy Division), Mohd Shahriza Sulaiman (Deputy Director of Knowledge Management and Strategy Division) and Farah Yasmin Yahya (Assistant Manager of Knowledge Management and Strategy Division) from SME Corp. Malaysia has been extremely valuable. The final version of the study has been reviewed by the Ministry of Entrepreneur Development and Cooperatives (MEDAC). Datin Dr. Syahira Hamidon, Undersecretary for Policy and International Relations Division and Ms. June Suhaila Saran, Deputy Undersecretary (Strategic Planning), Ministry of Entrepreneur Development and Cooperatives provided detailed comments.

The study has also benefited from the insights provided by government officials from other ministries and their agencies. The information provided by business associations has also been very valuable.

Finally, this study has also benefited from the information provided by the 27 companies interviewed. Their interest in inclusive business models and their openness to share information about their business is highly appreciated.

EXECUTIVE SUMMARY

Malaysia is in the process of developing its new 5-year national development plan, the 12th Malaysia Plan 2021-2025 (RMKe-12), which seeks to promote shared prosperity. The Government, through the National Entrepreneurship Policy 2030 (Dasar Keusahawanan Nasional, DKN 2030) has also outlined support measures for SMEs to become more innovative and resilient. In addition, the government is also seeking to use public spending efficiently. Inclusive Business (IB) can support these strategic objectives by creating better shared prosperity and an entrepreneurship culture that is more financially sustainable, innovative and dynamic, as well as more inclusive for the bottom 40 per cent income groups (B40).

Inclusive business (IB) are innovative business models that provide solutions to the needs of the B40 at scale. IBs have four key common features: (1) they are commercially viable, bankable and for-profit business models; (2) provide systemic solutions for the relevant problems of the poor and low-income people; (3) have scale in business operation, growth and social impact; and (4) are innovative. Inclusive businesses are different from social enterprises and corporate social responsibility (CSR), which are also other forms for the private sector to support social outcomes. Existing mainstream business, social enterprises and CSR initiatives can be transformed to develop into inclusive business models.

Since 2017, when ASEAN leaders called for greater emphasis on creating an enabling environment for inclusive businesses, various governments in the region (including Cambodia, Indonesia, Myanmar, the Philippines, and Viet Nam) have embarked on promoting IB, and an increasing number of companies – supported by impact investors – have established IB models.

In this context, the government of Malaysia has requested the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and the Inclusive Business Action Network (iBAN) to conduct this study to explore the relevance of inclusive business for Malaysia, analyse the status of inclusive businesses in Malaysia and assess the environment in which they operate, in order to provide recommendations, where relevant, for promoting inclusive businesses.

The landscape study notes that even if Malaysia is a high middle-income country and its government actively supports the B40 through a wide range of programmes, there are still unmet needs, market opportunities, and companies who want to serve the B40 market.

The study assessed the IB market in Malaysia and examined 129 companies, assessing 27 of them through structured interviews and a rating system. The study has identified and profiled 12 real and potential IB business lines. Unlike in other ASEAN countries, in Malaysia most of the IB companies are small, and making transitions from social enterprises to social enterprise initiatives. While those potential IB companies are small in numbers and have yet to develop a fully-fledge inclusive business model, they can create large impact.

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