

REPORT

Landscape Study of Inclusive Business in Malaysia



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Inclusive Business in Malaysia**



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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.

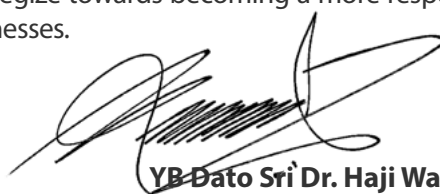
To align with the priorities of the Government to empower the bottom 40 per cent income groups (B40), IB has been included in the National Entrepreneurship Policy 2030 (Dasar Keusahawanan Nasional, DKN 2030). In addition, the Shared Prosperity Vision 2030 (WKB 2030) launched on 5 October 2019 aspires 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.

The small number of IB found is due to, among others, low awareness about IB, lack of incentives to make transition towards IB. More advocacy and dedicated support to IB will encourage the emergence and development of more IB. There is an opportunity to develop up to 100 inclusive business lines by 2025, especially through transitioning mainstream firms and social enterprises into IB models.

The study also assessed the social enterprise performance in Malaysia and its readiness to transition into IB. It found that the Malaysian Global Innovation & Creativity Center (MaGIC)², can help shifting social enterprises with low commercial viability and small social impact towards larger IB initiatives which are financially more sustainable, and socially more impactful (larger reach, deeper social depth, stronger systemic contribution to the B40 economy).

This study suggest that Small and Medium Enterprises Corporation Malaysia (SME Corp.) would be the best agency to coordinate IB promotion in Malaysia. Yet, actual IB promotion would need to be done in close collaboration with other agencies. It would involve key government agencies (such as MaGIC) and ministries

(such as Ministry of Entrepreneur Development and Cooperatives (MEDAC), Economic Planning Unit (EPU), Ministry of Agriculture and Food Industries (MOA) and Ministry of Rural Development (MRD). IB promotion would also include key business associations such as the SME Association of Malaysia, the Federation of Malaysian Manufacturers (FMM), the Malaysian Association of ASEAN Young Entrepreneurs (MAAYE), and the National Association of Women Entrepreneurs of Malaysia (NAWEM), as well as other stakeholders.

To effectively promote IB, inclusive business has to be endorsed by a national policy and by developing an IB strategy. This strategy should include mainstreaming IB in existing SME and SE development programmes (by adding specific IB targets) as well as six IB-specific programmes: 1) IB accreditation, 2) IB coaching, 3) IB risk reduction facility, 4) IB awareness, 5) further IB policy work, and 6) IB institutionalisation through an IB unit under SME Corp. Malaysia, IB focal points in government and business associations, and IB Steering Board.

Such IB promotion strategy could encourage up to 100 companies to create new IB business lines or transform their mainstream business and social enterprise into IB models. This would generate – between 2020 and 2025 – well-paid income opportunities benefitting 192,000 B40 people and provide essential and affordable goods and services for more than 240,000 B40 people. In total, and including benefits among the better-off income groups, IB companies would create benefits for over 600,000 people. This estimate is based on a total of 100 IB companies with different sizes emerging over 6 years.

SME Corp. Malaysia under the Ministry of Entrepreneur Development and Cooperatives (MEDAC) is the ideal agency to promote IB in Malaysia and would be a strong champion to initiate and lead the suggested recommendations for IB promotion under a strategy for an enabling environment for IB in Malaysia (IBeeM Strategy) to achieve strong results for low-income people, for businesses, and for Malaysia.

Figure 0. The IBeeM strategy and its implementation programmes

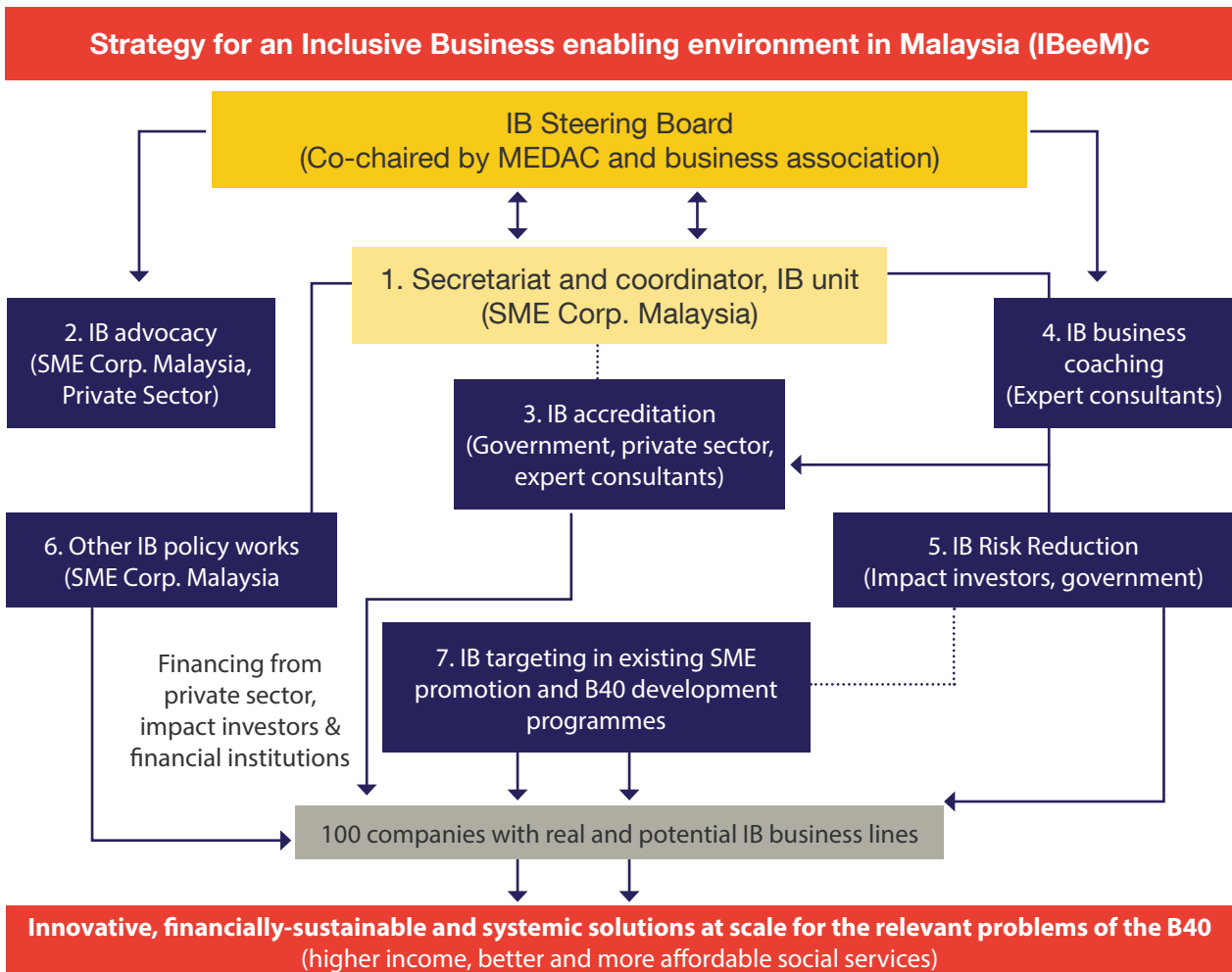


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ABBREVIATIONS

ACCMSME	ASEAN Coordinating Committee on Micro, Small and Medium Enterprises	EC	European Commission
ADB	Asian Development Bank	EPU	Economic Planning Unit
AfD	Agence Française de Développement (French Development Cooperation Agency)	ESCAP	Economic and Social Commission for Asia and the Pacific
AIM	Agensi Inovasi Malaysia	EU	European Union
ASEAN	Association of South East Asian Nations	FDI	Foreign direct investment
AVPN	Asia Venture Partners Network	FMM	Federation of Malaysian Manufacturers
B40	Bottom 40 per cent income groups	GDP	Gross domestic product
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Federal Ministry for Economic Cooperation and Development - Germany)	GIIN	Global Impact Investing Network
BoP	Base of the (economic) pyramid	GIZ	Gesellschaft für Internationale Zusammenarbeit (German Agency for Development Cooperation)
CEO	Chief Executive Officer	HDI	Human Development Index
CGC	Credit Guarantee Corporation Malaysia Berhad	IB	Inclusive business
CSR	Corporate social responsibility	IB-A	Inclusive business activity
DEWAN	Malay Chamber of Commerce Malaysia (Dewan Perniagaan Melayu Malaysia)	IB-M	Inclusive business model
DFAT	Department of Foreign Affairs and Trade (Australia)	iBAN	Inclusive Business Action Network
DFI	Development finance institution	IFC	International Finance Corporation
DKN 2030	Dasar Keusahawanan Nasional 2030 (National Entrepreneurship Policy 2030)	IR 4.0	Industrial revolution 4.0
E50	Enterprise 50	JICA	Japan International Cooperation Agency
EBITAR	Earnings before interest, taxes, depreciation, amortization, and restructuring or rent costs	KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
		KOICA	Korea International Cooperation Agency
		KPDNHEP	Ministry of Domestic Trade and Consumer Affairs
		M40	Middle 40 per cent income group
		MAAYE	Malaysian Association of ASEAN Young Entrepreneurs
		MaGIC	Malaysian Global Innovation and Creativity Centre

MasSIVE	Malaysian Social Inclusion and Vibrant Entrepreneurship	PENIAGAWATI	Persatuan Wanita Bumiputr Dalam Perniagaan Profesion Malaysia (Association of Bumiputera women in Business and Profession)
MAVCAP	Malaysia Venture Capital Management Berhad		
MBAN	Malaysia Business Angels Network	PUMM	Persatuan Usahawan Maju Malaysia (Malaysia Entrepreneurs' Development Association)
MCII	Malaysia Collective Impact Initiative		
MEA	Ministry of Economic Affairs		
MEDAC	Ministry of Entrepreneur Development and Cooperatives	RMKe-12	Rancangan Malaysia Kedua Belas 2021-2025 (Twelfth Malaysia Development Plan, 2021-2025)
MEF	Malaysian Employers Federation		
MIDA	Malaysian Investment Development Authority	SDGs	Sustainable development goals
		SE	Social enterprise
MITI	Ministry of International Trade and Industry	SE-I	Social enterprise initiative
MoA	Ministry of Agriculture and Food Industries	SJPP Prokhas	Syarikat Jaminan Pembiayaan Perniagaan (guarantee schemes by the Government of Malaysia)
MoF	Ministry of Finance	SME	Small and medium enterprise
MESTECC	Ministry of Energy, Science, Technology, Environment and Climate Change	SME bank	Small and medium enterprise development bank
MRD	Ministry of Rural Development	SME Corp.	Small and Medium Enterprises Corporation Malaysia
MSME	Micro, small and medium enterprises		
MWFCD	Ministry of Women, Family and Community Development	SMEAM	SME Association of Malaysia
MYR	Malaysia Ringgit	T20	Top (highest) 20 per cent income groups
YES	Young Entrepreneurs Association	UK	United Kingdom of Great Britain and Northern Ireland
NASE	National Association of Social Enterprises	UNDP	United Nations Development Programme
NAWEM	National Association of Women Entrepreneurs of Malaysia	UNIDO	United Nations Industrial Development Organization
NCCIM	National Chamber of Commerce and Industry of Malaysia	USA	United States of America
NESDC	National Entrepreneur and SME Development Council	USAID	United States Agency for International Development
NGO	Non-governmental organization	USD	United States dollar
P2P	Peer-to-peer (financing scheme)	VC	Venture capital

In this report \$ and USD refer to USA dollar. As of OANDA exchange rate conversion of 2 December 2019, an exchange rate of 1 MYR = \$0.23915 (or USD 1 = MYR 4.17848) was used..



CHAPTER 1. INTRODUCTION

Malaysia, an open and diversified economy, has achieved steady economic growth over the past 20 years and is expected to transition from an upper middle-income economy to a high-income economy by 2024³. Less than one per cent of its population live in extreme poverty and the government is focusing on improving the well-being of the bottom 40 per cent income groups (the B40). While the B40 in Malaysia live on the equivalent to USD 5.5 per day, a higher income level than the B40 in emerging ASEAN economies (\$3.2), the B40 remain vulnerable to economic shocks and to increases in the cost of living.⁴

The government of Malaysia has, historically, actively supported the B40 through a wide range of programmes. It has also keenly promoted private sector development as a key contributor to the country's wealth. More recently, the government is seeking to give more room to the private sector, and more responsibility to citizens for their own well-being. In this context, inclusive business can play an important role by providing scaled-up income and service solutions to the B40 on a commercially viable basis.

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 customers⁵. 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. These business lines are called inclusive business (IB) models.

By creating high bottom-line returns; relevant products, services and income opportunities for poor and low-income people; and scaled-up solutions for poverty reduction and social inclusion, inclusive business provide triple wins. They provide wins for the private sector, the poor, and for society and government. Promoting inclusive business is therefore a strategic avenue for governments seeking to promote a more inclusive growth that is beneficial for low-income groups.

In November 2017, during their annual summit meeting, the heads of states and leaders of ASEAN countries issued a statement⁶ "... calling for greater emphasis on creating an enabling environment for Inclusive Businesses in ASEAN Member States..."⁷ Since then, various governments in the region

(including Cambodia, Indonesia, Malaysia, Myanmar, the Philippines, and Viet Nam) have embarked on establishing IB promotion policies and raising awareness on IB, and an increasing number of companies – supported by impact investors – have established commercially viable and profitable inclusive business lines creating innovative solutions for poor and low-income people. ASEAN member states are interested in further promoting the IB at the regional level during ASEAN 2020.⁸

To explore the potential of inclusive business for supporting the B40 while promoting private sector development, the government of Malaysia has requested the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and the Inclusive Business Action Network⁹ (iBAN) to conduct the present landscape study.¹⁰ The study explores whether the relatively new and unfamiliar concept of inclusive business is relevant for an upper middle-income economy with a broad range of public social programmes. It includes a market study of current inclusive businesses in Malaysia and an assessment of the enabling environment, and provides recommendations for promoting inclusive businesses.

To this end, this study will answer the following questions:

- What is inclusive business?
- Is inclusive business relevant for Malaysia?
- Are there inclusive businesses in Malaysia?
- How can mainstream businesses and social enterprises transform into inclusive businesses?
- What is the link between inclusive business and social enterprise promotion?
- Which actors can promote the development of inclusive business in Malaysia?
- Which programmes, existing or new, could promote inclusive business in Malaysia?
- What is the estimated cost of promoting inclusive business?

Chapter 2 clarifies the concept of inclusive business and the rationale for promoting IB. Chapter 3 analyses the social and economic context of Malaysia and identifies market opportunities for IB. Chapter 4 presents the key features of the IB market in Malaysia, and annex 3 provides the profile of companies with potential IB models identified during the market study. Chapter 5 analyses the enabling environment for IB and Chapter 6 provides strategic recommendations for promoting IB in Malaysia.

CHAPTER 2. UNDERSTANDING INCLUSIVE BUSINESS

A. Defining Inclusive Businesses

Inclusive businesses are companies that: “provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the base of the economic pyramid making them part of the value chain of companies’ core business as suppliers, distributors, retailers, or customers. In addition to these commercially inclusive activities, businesses may also pursue broader socially inclusive goals. Inclusive business should promote sustainable development in all its dimensions – economic, social and environmental” as adopted by ASEAN member states in the ASEAN Inclusive Business Framework and defined by the Inclusive Business Framework of the G20.¹¹ In other words, inclusive businesses are innovative business models that provide solutions to the needs of the B40.

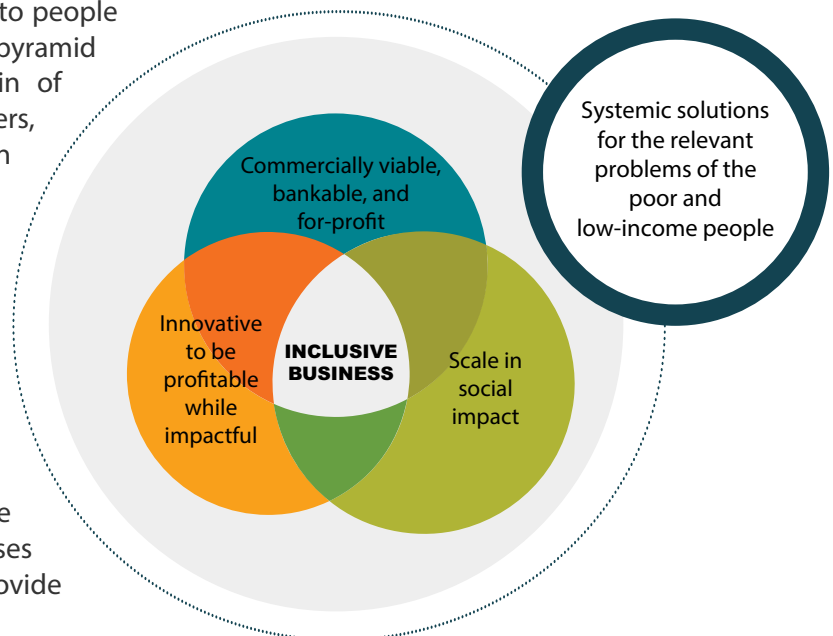
While IBs can be found across all sectors and operate a broad range of business models, they have four key common features (see figure 1):

- Have commercially viable, bankable and for-profit IB models that are core to business operations;
- Provide systemic solutions for the relevant problems of the poor and low-income people;
- Have scale in business operation, growth and social impact; and
- Display degrees of innovation, needed to reduce risks, be impactful and profitable while engaging the B40.

IB models deliver solutions to the B40 through two main ways:

- Providing goods and services to the B40 relevant to overcome poverty (and thus involve them as consumer) or
- Creating income opportunities for the BoP to bring them out of poverty or substantially improve their economic

Figure 1. Defining Inclusive Business



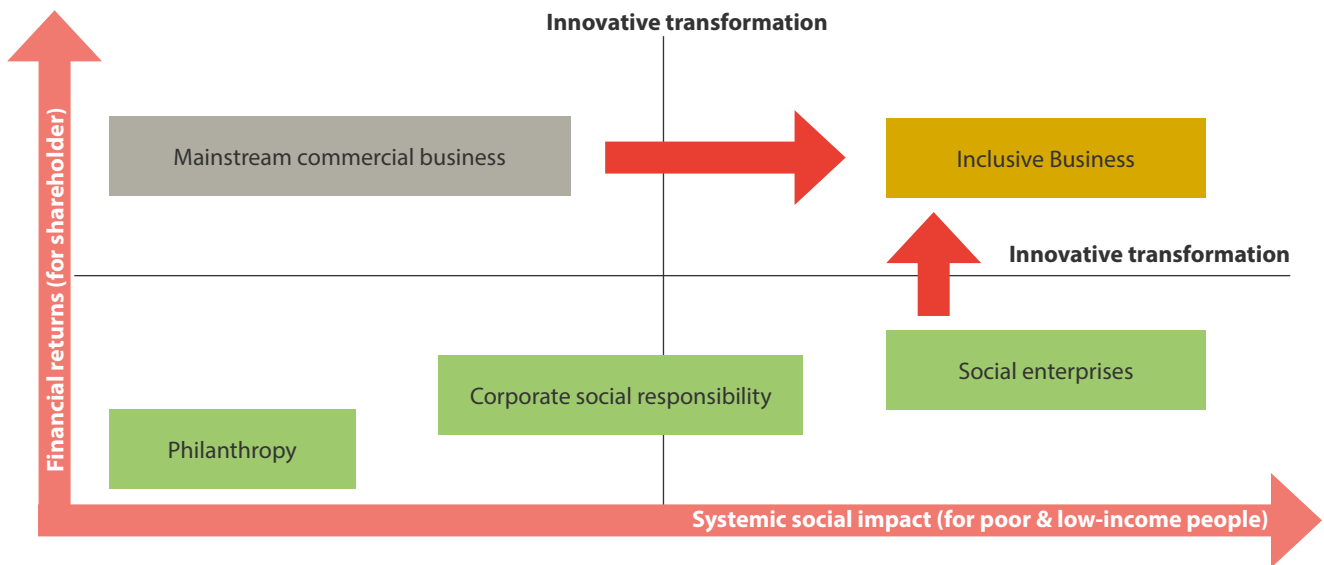
Source: United Nations ESCAP

basis by engaging them as suppliers (e.g. in agrobusiness and tourism), labourers (in manufacturing), distributors (in trading) or as shareholders. Most IB engage the poor as income earners.

IB apply business innovations that reduce the risk of the poor in their relations with the market. IB reduce the risk by, for example, guaranteeing the loan repayments of the B40, paying for essential parts of the business process required by the firms, staggering payments of product and services costs to meet the payment capacity of the BoP, or introducing delivery mechanisms that reduce the poor’s risks of high transport costs and losses.

Inclusive businesses models can be created by mainstream businesses and social enterprises. Through transformative innovation, mainstream businesses can transform their business models into inclusive ones or introduce specific inclusive business lines. In addition, social enterprise can also transform their models to increase their commercial returns and achieve higher social impact (figure 2).

Figure 2. Transitioning to Inclusive Business models



Source: Adapted from DaNa, DICA, DISI, UKAID (2018)

B. Characteristics of Inclusive Business

IB models are specifically designed for improving the income and living standards of poor and low-income people. To be inclusive, business models must not only work with or sell to the BoP but, more importantly, be specifically designed for improving the income and living standards of poor and low-income people.

Income-generating business models are inclusive when they generate better incomes (by paying substantially better than the market rate, increasing productivity or generating greater value added, and/or to diversify their income generation) and provide mechanisms that reduce the risks of the poor. Contract farming models that only pay the market rate are not necessarily an inclusive business model.

Business models providing goods and services to the BoP are inclusive when they provide relevant products at good (not only affordable) prices and with favourable delivery mechanisms.

IB models can be found in multiple sectors. IB solutions are often found in agribusiness but they can also be found in the delivery of essential social (health, education, job placement, social insurance) or municipal (housing, water, sanitation, energy) services, or in goods that are essential for the poor (e.g. nutrition products).

Profit drives social impact and vice versa. IB do not compromise profitability of the investment for achieving social impact, nor do they reduce social impact for achieving higher returns on investment. There is no trade-off between the two. IB are mainstream businesses with the peculiarity of being innovative and deliberately addressing relevant problems of the BoP. In IB models, social impact and economic returns reinforce each other. Being a responsible business with good management governance paying taxes, respecting the laws and having high social and environmental safeguards is a precondition to be classified as an IB.

IBs differ from social enterprises (SEs) and corporate social responsibility (CSR) in terms of their focus and impact scale. CSR and SE are driven by the principles of impact first, while financial returns are secondary. SEs are often required to reinvest their profits into social obligations. In CSR activities, profits are not even generated. IB also differs from SE and CSR in the scale of their operations and impact. Inclusive businesses are driven by growth, and inherently seek to scale up investments, returns and market penetration.

A company can be a fully dedicated inclusive business or operate both regular and inclusive business lines. For example, a hospital chain may focus on the B40 but have also a special ward for the M40 and U20, using the higher pay from these people deliberately to cross-subsidy treatment of the B40.

IBs require high levels of innovation: To serve the low-income market and make profit at the same time, companies must be innovative, particularly in their business design. In order to be inclusive, IBs often take on some of the risks of the BoP. IB companies reduce costs not through exploiting labour but by introducing innovations that enable the IB firm to move into higher value-added activities and/or that enable the IB firm to reduce the risks of involving the BoP in its value chain.

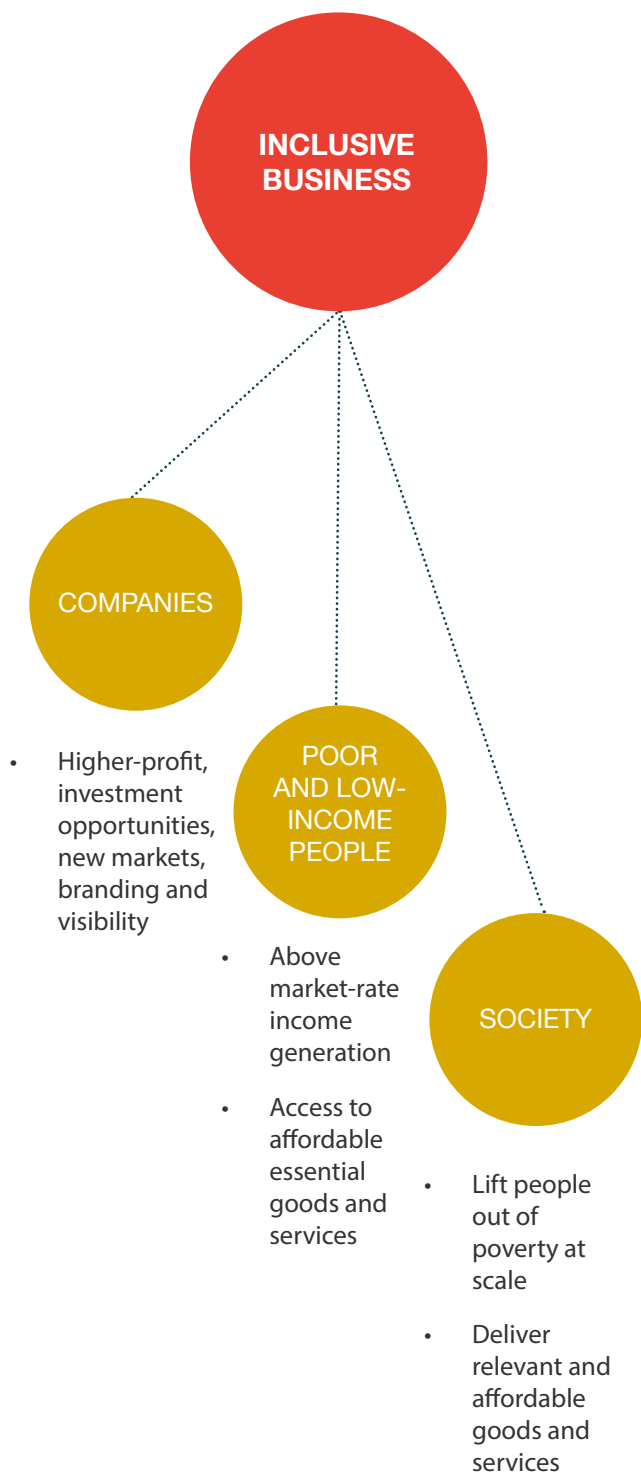
Inclusive business models can be created by mainstream businesses and social enterprises. Through transformative innovation, mainstream businesses can transform their business models into inclusive ones or introduce specific inclusive business lines (figure 2).

IB models are mostly found in medium-sized companies: To achieve business returns and social impact at scale and provide systemic solutions to the problems of the poor, IB need a certain size, be growth orientated, have market experience, and be willing to address business and social risks. IB models are therefore often found among medium sized enterprises with several years in the market, but smaller and larger companies can also have IB models.

Inclusive businesses generate triple wins (see figure 3):

- For the poor and low-income populations: IB models create income generation opportunities above the market rate and/or expand access to essential goods and services.
- For companies: IB models offer higher-profit business and investment opportunities, help reduce risks, develop new markets and foster innovation. IB models also enhance the branding and visibility of companies.
- For governments: IBs help governments create jobs and address essential needs of the poor, low-income and vulnerable people. This includes the generation of income opportunities that lift people out of poverty at scale and the delivery of relevant and affordable goods and services (including education, health, water, energy and housing).

Figure 3. Triple wins through Inclusive Business



C. Types of Inclusive Businesses

Inclusive businesses are different from mainstream businesses (profit first), and from social enterprises and CSR activities (impact first) (table 1).

Table 1. Types of businesses based on profit and social motives

Business Approaches						Non-business Approaches	
Profit first/ only profit	No trade-off between commercial and social returns			Impact first		NGO projects and Philantropy	Government programmes and others
Mainstream business	Inclusive Business			Business actors for social goods			
MB	IB model	IB activity	Social enterprise initiative	NGO- driven Social Enterprise	Traditional corporate social responsibility		
MB	IB-M	IB-A	SE-I	NGO-SE	CSR	NGO	Other

Source: Adapted from Bauer (2018)

Within IB, there are three distinct approaches¹² (see table 1):

- 1. IB models** are commercially viable, bankable investments¹³, for profit, scaled up solutions for relevant problems of the poor. An IB model is a business line that is a core operation of a company. IB models are mostly medium-sized enterprises and are specifically designed for realizing both market returns and large-scale social impact.
- 2. IB activity** is a commercially-oriented CSR investment (mostly of larger firms) that has relevant scale and aims to pilot for the company a new core business line that can potentially scale-up and develop into an IB model.

Traditional CSR approaches (charity oriented) invest in activities that are not linked to the core business of the firm, while strategic CSR links these activities to the core business of the firm ensuring often better quality of the intervention with more relevant impact.

- 3. A Social Enterprise initiative** is a smaller IB line with often smaller impact. These initiatives are commercially viable but accept lower market returns. These are mostly implemented by for-profit and growing social enterprises with a clear objective to scale their impact

and are distinct from NGO-driven social enterprises. In some countries, these SE initiatives are called social businesses.¹⁴

All three IB types are equally relevant for promoting the IB agenda and should be considered when designing an IB incentive programme. Interestingly, in Malaysia most IB business lines are real or potential SE initiatives, while in emerging countries most IBs are real or potential IB models. However, with more IB awareness and coaching, larger and medium sized companies could develop IB models.

IB models are difficult to identify because IB is a relatively new concept, because such models are not simply determined by sector, company size or year of establishment, and because there is not yet an IB registration system. Moreover, there is no country-wide monitoring system for measuring IB's social impact, and companies do not have a comprehensive impact reporting system.¹⁵

In summary, IBs are dynamic companies that innovate secure business returns and social impact. Hence promoting IB models is closely linked to other key government agenda such as encouraging innovation, productivity, modernisation, growing SMEs, financial and environmental sustainability, and social inclusion. Encouraging transformation of businesses to create more impact for society and address future challenges is a major objective of the new government strategy. IB can be a strong contributor to this objective.

CHAPTER 3. IS INCLUSIVE BUSINESS RELEVANT FOR MALAYSIA?

A. Are there unmet social needs the private sector can address?

Yes, the B40 have unmet social needs that the private sector can address. While Malaysia is an upper middle-income economy, the B40 have unmet social needs. The private sector can provide relevant solutions to some of these needs (e.g. access to low-cost housing, affordable and quality health services and education). In addition, the government, which has traditionally directly invested in and managed a wide range of social programmes, is also seeking to give more space to the private sector for providing solutions, where relevant, to the needs of the poor. Hence, there are unmet needs and a new market opportunity emerging.

The B40 in Malaysia

Malaysia is an upper middle-income economy with a per capita gross development product (GDP) of 11,080 dollars by December 2018, up from only 227 dollars in December 1961.¹⁶ Since gaining independence in 1957 the country has made substantial progress in improving the living conditions of its population. Today, less than 1 per cent of the population live under the national poverty line.

The national poverty line is established at MYR 980 per household per month (about \$1.7 per day per person¹⁷) and was revised in 2020 to MYR 2,208. Based on the official national poverty line, in 2019, 0.4% of Malaysian households (1% in rural and 0.2% in urban areas) are poor.¹⁸ Poverty rates are higher in Sabah and Sarawak, and some provinces of Peninsular Malaysia (e.g. Kelantan). For instance, in Sabah, 2.9 per cent of the population (5.3 per cent in rural and 1.6 per cent in urban area) live under the national poverty line¹⁹. The national minimum wage was MYR 1,100 in 2019, and about 10 per cent of the population live below that minimum wage.²⁰

The national income-based poverty line is lower than the international expenditure-based poverty line of \$1.9 for low-income countries, and that of \$5.5 for upper middle-income countries.²¹ According to the World Bank PovCalNet database, in Malaysia in 2016, 2.7 per cent of the population (about 113,000 households) lived on less than

\$5.5 per capita per day.²²

Social indicators show high living quality for all people in Malaysia. In 2018, the country is ranked number 61 out of 189 countries in UNDP's Human Development Index (HDI) with a HDI score of 0.804, life expectancy at birth was 76 years and the mean years of schooling were 10.2 years.²³

Gender equality indicators show similar levels of secondary education for girls and boys (79% of girls and 81% of boys), a low maternal mortality rate of 40 for 100,000 life-births in 2016, and a lower female labour force participation rate of 51% (versus 77% for men).²⁴ There are opportunities for increasing women participation in the labour force that would bring increased economic growth and gender equality. For instance, raising women's employment levels by 30 per cent would raise Malaysia's GDP by around 7 to 12 per cent.²⁵ However, there are cultural challenges for engaging more women in out-of-house employment. Inclusive business models often focus on income generation, and often address some of the social norms that limit women's participation in the labour force (for example, companies in the wellness industry and the crafts sector, as described in annex 3).

Given the low incidence of absolute poverty (0.4% of population or 25,000 households in 2016)²⁶, the government of Malaysia is focusing its efforts not only on the very poor, but also on raising the living conditions of the bottom 40 per cent income groups and the underprivileged people.

The latest (2017) Household Income and Basic Amenities Survey from the Department of Statistics Malaysia shows that 6.9 million registered households²⁷ have a mean income of MYR 6,958 per month. The B40 have a mean household income of MYR 2,848, while the mean income of the top 20 per cent (T20) population groups is MYR 16,088 and that of the middle 40 per cent (M40) is MYR 6,502. There are important geographic differences (between rural and urban areas and in different provinces). Eastern Malaysia (Sabah and Sarawak) and four provinces of Peninsular Malaysia (Kelantan, Kedah, Pahang and Perak) recorded a mean income below the national level of MYR 6,958 (table 2).

Table 2. Monthly household income, per income group and location, 2016 (MYR)

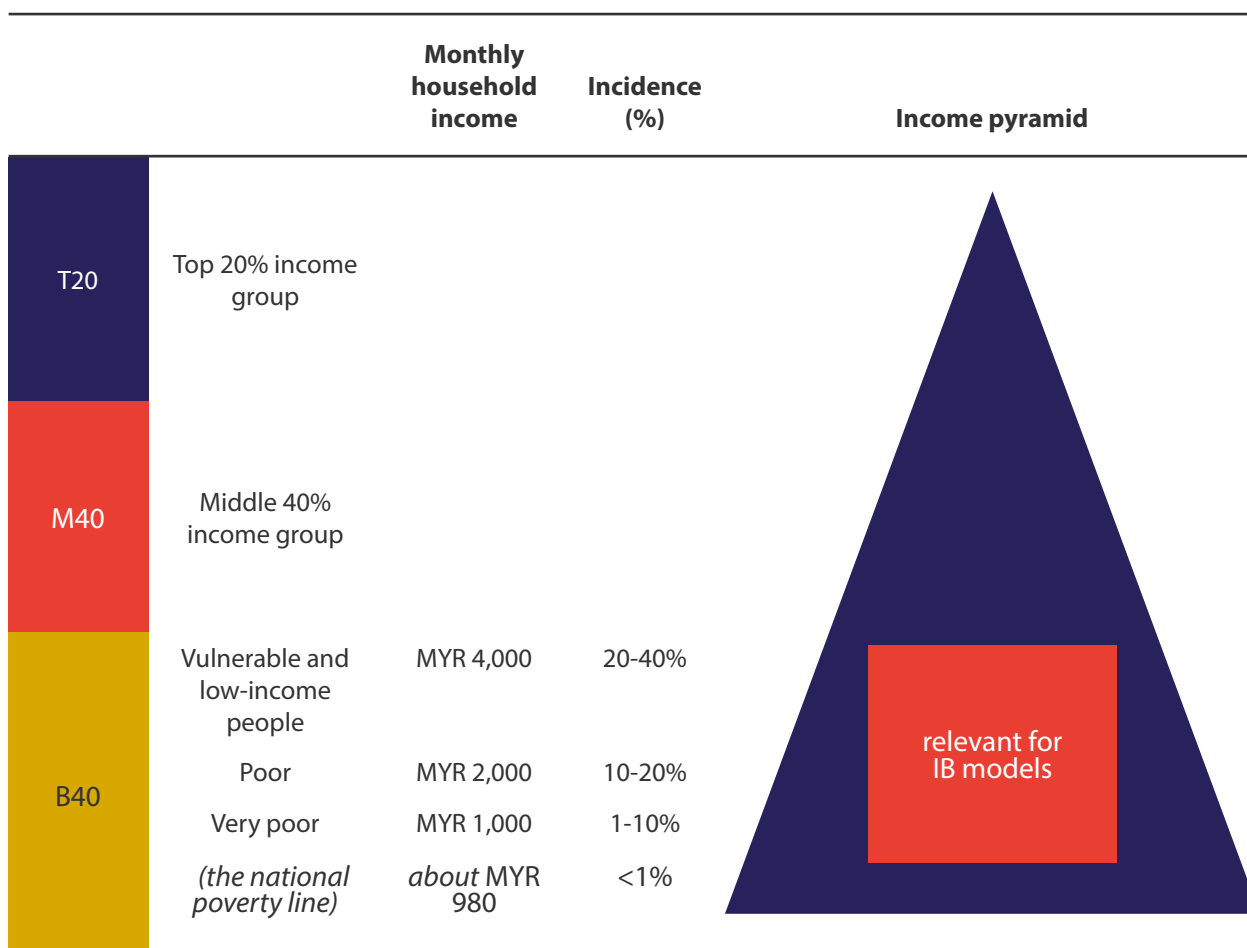
	Per income group						Per region: Poorer provinces (all income groups)					
	All	Rural	Urban	B40	M40	T20	Sarawak	Sabah	Perak	Pahang	Kedah	Kelantan
Median	5,228	3,471	5,860	3,000	6,275	13,148	4,163	4,110	4,006	3,979	3,811	3,079
Mean	6,958	4,359	7,671	2,848	6,502	16,088	5,387	5,354	5,065	5,012	4,971	4,214

Source: Department of Statistics, 2017.

For this study, simplified national income thresholds have been used as follows: household with monthly income (or expenditures) below MYR 4,000 are considered to be the B40. The income threshold for targeting the poor is MYR 2,000

and for the very poor is MYR 1,000 (figure 4). This guideline is adjusted to the specific local conditions. For instance, in rural areas and in poorer provinces the threshold would be lower.

Figure 4. B40 thresholds used for the Inclusive Business landscape study



Unmet needs of the B40 can be addressed by Inclusive Business models

The inclusive development agenda of the Government of Malaysia, as other middle-income countries, focuses on improving the well-being of the poorest 40 per cent of the population (B40). This poor and low-income group remains vulnerable to economic, environmental and family-related shocks as well as to increasing costs of living. In addition, some low-income groups – mostly in remote areas — may also lack access to affordable essential and social services. Furthermore, while income inequality has been declining²⁸, the absolute income gap continues to increase.²⁹ In the past two decades, even if the relative difference of earnings has been reduced, the absolute gap in household income, adjusted to income, has almost doubled between the top 20 per cent households and the middle and bottom 40 per cent households, respectively.³⁰

While poverty incidence is lower, and poverty may be less visible in Malaysia than in other poorer ASEAN economies, there are a number of poverty and social development challenges³¹:

- Access to quality education services (less so in access), pre-schools, training cum job placement;³²
- Access to quality health and nutrition services;
- Access to energy, water and sanitation, financial and transport services in remote areas;
- Access to quality low-cost housing in cities and also in rural areas (especially where people work for large farm estates such as in the palm oil industry);³³
- Social protection for vulnerable groups such as the elderly, single mothers, homeless persons, drug addicts, people with mental health issues, school dropouts, and women exposed to abuse;
- Excluded population groups (foreign workers, refugees and informal settlers) have no formal right to access government social services, and often

live in poor housing conditions and have very low-paid jobs. In 2018, Malaysia had a population of 32.4 million, of which 3.2 million are considered non-citizens,³⁴

- Ensuring all ethnic groups have affordable access to quality education services;
- Generating good income opportunities for poor and low-income people. Despite the low unemployment rate (below 3.5%) and a small informal sector, there is a need to create good income opportunities for poor and low-income people. IB can be particularly relevant for developing new jobs in sectors with low productivity (palm oil) or with high involvement of middlemen (rice, fruits, vegetable);
- The emerging challenge of the living and income conditions of the urban poor;
- Scaling up income opportunities in rural areas. For example, while the One-District-One-Product government programme has revealed some good results, they are often at a small scale. Linking the programme more to private sector driven market expansion would probably create higher income for the rural B40; and
- Improving the living and income conditions of the poorest provinces and regions of Malaysia.

These needs are currently not fully served by the government or the private sector, and there are market opportunities for the private sector to take an increasing role in addressing them. However, while the B40 have unmet needs, they may not necessarily demand for such services from the private sector.

One reason may be their limited disposable income. There is no specific data on consumption patterns among the B40 that can be used to assess the consumption of the B40³⁵. However, given that the median monthly household income of the B40 is over \$690, higher than in other poorer countries, one may think that income alone does not explain the low demand for social solutions from the private sector.

A large caring government for the B40 has limited the space for private sector initiatives

Traditionally, social inclusion has been mostly promoted through the substantial involvement of the government, using large social spending for general subsidies and contracted social programmes.

Government support for the B40 has often been through large, cash transfers such as broad-based subsidies. For example, the development budget for 2019 was MYR 54.7 billion (while the operational budget was MYR 259.8 billion). The social assistance budget was MYR 26 billion, and more than 30 per cent of the social assistance budget was for subsidies (especially related to palm oil).³⁶ And there is a shared view in the Ministry of Economic Affairs for the need to reduce redundancies, and better target subsidies, especially palm oil subsidies.

The 2019 budget introduced, in line with the caring approach of the Government of Malaysia, new programmes for the B40 such as:

- Fiscal aid transfers to the B40, including MYR 1,000 per month to households with income below MYR 2,000, a transfer of MYR 750 for households earning between MYR 2,001 and MYR 3,000, and a supplement of MYR 500 for those between MYR 3,001 and MYR 4,000, as well as child aid of MYR 120 per child aged 18 and below, to be limited to 4 children per family; and child aid in the same amount to disabled persons with no age limit.
- A one-off MYR 500 assistance for Government pensioners with a pension income of less than MYR 1,000.
- An affordable housing fund worth MYR 1 billion for families earning less than MYR 2,300 and with housing needs up to MYR 150,000 at interest rates of 3.5 per cent.
- Electricity subsidies worth MYR 80 million will be given to 185,000 poor households registered with e-Kasih at a subsidy rate of MYR 40 per month.

- A MYR 10 million fund for NGOs and SEs to help underprivileged and marginalised communities.
- Raising the minimum wage to MYR 1,100 per month for the whole of Malaysia.

A number of stakeholders have indicated during the interviews that NGOs and social enterprises have successfully undertaken similar programmes that were implemented by government agencies.

In total, it is estimated that 4.1 million households (53 per cent of households of the country) will continue to receive financial assistance from the government with a total allocation of MYR 5 billion (\$1.2 billion) per year. The share of households receiving financial support is very high in Malaysia. This is now gradually changing as the government is seeking to scale down subsidies and target social assistance programmes to the B40, in particular to those most in need. The government is also seeking to engage more stakeholders, beyond public agencies and NGOs in helping to provide solutions for the needs of the B40.

Increasing space for the private sector to address B40 needs

The 12th Malaysia Plan 2021-2025 (RMKe12) will support Malaysia's 2030 Shared Prosperity Vision (WKB 2030) and seek to improve the living standards of the Malaysian people, focusing particularly on the B40 and on reducing the regional and inter-household income gaps. It is expected that the RMKe12 will support social inclusion through more targeted programmes and seek means to encourage the private sector to address social issues of the B40.

While social enterprises, NGOs and CSR address social needs, they (particularly those operating under more traditional charity approaches→) may not necessarily address efficiently and at-scale the challenges the B40 face. Consequently, the government of Malaysia has indicated interest in promoting inclusive business to facilitate commercially viable business approaches that address the needs of the poor and low-income people at scale with innovative business models. The government is seeking to encourage

companies to transition their mainstream business or social enterprise investments into SE initiatives, IB activities and IB models.

In general, the private sector has not indicated a keen interest in the B40 market. There are some CSR, large NGOs, foundation projects and small social enterprises addressing the needs of the B40. However, the majority of these interventions are not at scale, systemic in addressing the poor's problem, or commercially self-sustainable at large scale. Unlike in other countries, the medium-sized and large firms in Malaysia have not delivered substantive innovations that provide solutions for the B40. Only a few medium and larger companies have, so far, shown interest in the B40 market. This is perhaps because the private sector overall feels quite comfortable in their current business lines given sound government support and good returns. However, this is changing as the government is slowly stepping back from providing a high-level of support for the private sector and is reducing social spending, and new needs are emerging.

B. There is a market in Malaysia for companies with Inclusive Business models

A robust economy in need for further change and innovation

Since the 1960s, Malaysia has successfully diversified its economy from a predominantly agriculture and commodity-based economy to a higher-value and export oriented industrial and service economy. Malaysia has achieved steady economic growth since the Asian economic crises of the late 1990s. Growth, however, is slowing due to global trade disturbances, internal restructuring needs, and the COVID-19 crisis.

The business environment in Malaysia is very conducive, especially for foreign investors.³⁷ Malaysia has a sound economy, a well-developed infrastructure, a well-educated workforce, and good quality of life. Malaysia is one of the most open economies in the world (e.g. about 40% of the jobs in Malaysia are linked to export activities). There are many supportive pro-business

incentives, and the country has a very good investment climate. In the 2019 Doing Business Index, Malaysia ranks 12 out of 190 countries with an overall score of 81.5.³⁸ This is much higher than the Asia-Pacific average (score of 63.4) and better than most ASEAN countries.

To fulfill its aspiration of becoming a high-income economy by 2024³⁹, Malaysia will need to undergo move towards higher value-added activities and increasing productivity through innovations in new technologies and in business processes, to be able to compete in an increasingly challenging international market. It will also have to engage more women in the labour-force to address shortage of skilled and other personnel.⁴⁰ In addition, as the country becomes a high-income economy, it will need to make further advances in education, health, and reducing income inequalities.

Firms with IB models can make a significant contribution in this process, as they are innovative, explore new markets, enhance the income opportunities of the B40, and are commercially viable without being dependent on government subsidies. However, IB models need to be developed. Firms, particularly medium sized and larger companies, need to be encouraged and supported to develop new inclusive business models.

While currently there are only few IB models in Malaysia; there is strong potential for promoting more IB models through awareness raising and support.

A strong SME promotion culture

As in other countries, most companies in Malaysia are micro, small and medium-sized enterprises (MSMEs). MSMEs are an important economic sector in Malaysian economy as they provide 66.6 per cent of employment in 2019. Despite their large number, MSMEs contributed only 38.9 per cent to overall GDP in 2019. While MSMEs offer jobs or deliver goods and services for the B40 (as larger companies also do), they often are not able to pay as well or provide sufficiently relevant products at affordable rates (given their lower productivity and smaller scale).

Table 3. SMEs in Malaysia, 2016 and 2018

Company size		Definition (Sales turnover or employment)		Number of companies (2016) (1)		Share of employment (2019)(3)	Value addition
		Annual sales / revenue (million MYR)	Full-time employees (number)				% of GDP (2018) (2)
Large	Manufacture	>50	> 200	13,813	1.5%	33.8%	61.7%
	Services	>20	> 75				
Medium	Manufacture	15-50	75-200	20,612	2.2%	66.2%	38.3%
	Services	3-20	30-75				
Small	Manufacture	0.3-<15	5-<75	192,783	20.9%	66.2%	38.3%
	Services	0.3-<3	5-<30				
Micro	Manufacture	<0.3	<5	693,670	75.3%	15.1 million	MYR 1,362.1 billion
	Services	<0.3	<5				
Total				920,878	100%	15.1 million	MYR 1,362.1 billion

Source: Based on data from SME Corp website (Data taken from the 2016 Economic Census) and SME Corp. Malaysia, 2019

(1) SME Corp. website - profile of SMEs based on Economic Census 2016

(2) SME Corp. Website - contribution of SMEs in 2018

(3) SME Corp. Malaysia, 2019

The SME agenda, which is open to bridging SMEs to larger enterprises, can be a good anchor for promoting IB. The National Entrepreneurship Policy 2030 (DKN 2030) incorporates IB under Strategic Thrust 3.

SME Corp. Malaysia is the nodal agency for SME development in the country, and together with other agencies under MEDAC has various programmes to support SME development including: (a) schemes for linking to access to finance⁴¹, (b) capacity building programmes including business accelerators and mentoring, (c) market access support, (d) outreach programmes, including awards⁴² and brand development programmes⁴³, and (e) a competitiveness diagnostic rating tool (SME Competitiveness Rating for Enhancement, SCORE).

Malaysia has one of the largest SME support programmes in ASEAN. In 2019, the Government had —across 17 ministries and 60 agencies— 164 SME development programmes with financial commitment of MYR 13.7 billion (\$3.4 billion) to over 550,000 MSMEs. Most (96 per cent) of the financial expenditures is dedicated to the 33 programmes facilitating access to financing, benefitting 78 per cent of the firms. The second largest expenditure (with only 1.4% of total funding) was for 53 human capital development programmes, benefitting 18 per cent of the companies.⁴⁴ Other programmes are for technology adoption, market access, infrastructure and regulatory environment (table 4). On average, an MSME company would receive only MYR 24,669 (less than \$6,000) in access to finance, training, and other support. This may not be sufficient to support increases in productivity.

Table 4. SME support in Malaysia, 2019

Focus area	Programs	Financial commitment		Targeted SME beneficiaries	
	Number	MYR million	Percent	Number of companies	Percent
Access to finance	33	13,172.9	96.1%	434,502	78.2%
Human capital development	53	192.1	1.4%	103,684	18.7%
Innovation and technology adoption	28	148.0	1.1%	5,613	1.0%
Market access	34	124.4	0.9%	10,191	1.8%
Infrastructure	15	44.0	0.3%	1,418	0.3%
Legal and regulatory environment	1	20.0	0.1%	0	0.0%
Total	164	13,701.4	100.0%	555,408	100.0%

Source: SME Corp. Malaysia, 2019.

Note: Initiatives under the focus area 'Legal and regulatory environment' will benefit the overall SME ecosystem.

Instead of spreading the available financial resources to so many companies, the government may consider focusing some of its spending on companies that provide results relevant for shared prosperity. By allocating a small percentage of its access to finance resources (for instance, about 3 per cent or MYR 400 million (\$96 million)) to promoting investments in IB, the government could unleash greater private sector financing for the B40.

Such policy shift would require formal discussions and a decision by the highest policy-making authority. MEDAC, as the lead Ministry in SME and entrepreneurship development, could launch such discussions, and link it to the IB discussion. For example, a pre-determined percentage of all programmes and especially the financial support could be given to accredited real or potential IB companies.

Inclusive Business companies in Malaysia emerging from social enterprise initiatives

In Malaysia, MSMEs are officially defined as companies having either annual sales of up to MYR 50 million (for manufacturing) or MYR 20 million (for services sector), or full time employed of up to 200 or 75 people respectively (table 5).

For defining inclusive business, employment is not a sufficient indicator for measuring the social impact of a firm. Hence, for defining IB, criteria of reach and targeting are used. For example, in terms of reach, in addition to employment, the criteria will also consider the number of suppliers the firm engages and have an income opportunity or the number of clients purchasing the affordable goods and services. In terms of targeting, the criteria will also seek to determine how many of these suppliers or clients are poor or at the B40. Furthermore, the revenue thresholds as given under the MSME definition in Malaysia are a bit high for the type of potential IB companies found in Malaysia.

For the IB market study, sector specific benchmarks for defining the size of a company (in terms of revenue and social reach) have been introduced (table 5). The benchmarks are adjusted to market realities. For instance, revenue benchmarks are lower than those used for defining SMEs in Malaysia as most potential IB companies in Malaysia are small in revenue and reach.

The IB rating benchmarks used in this market study (table 5) could be used for the initial phase of implementing IB accreditation in Malaysia. Once more medium-sized and larger companies develop IB models, the benchmarks can be adjusted upwards.

Table 5. Inclusive Business rating benchmarks for Malaysia and common international thresholds

SME Definition		Annual sales turnover (million MYR)				Employment (number of employees)			
		Micro	Small	Medium	Large	Micro	Small	Medium	Large
Malaysia SME definition (in MYR)	Manufacturing	<0.3	0.3-15	15-50	>50	<5 (micro)	5-75	75-200	>200
	Services	<0.3	0.3-3	3-20	>20	<5 (micro)	5-30	30-75	>75
IB Definition		Annual sales turnover (million MYR)				Reach (number of suppliers, distributors or clients served)			
		Micro	Small	Medium	Large	Micro	Small	Medium	Large
IB Rating		0	1-2	3-4	5-6	0	1-2	3-4	5-6
Malaysia IB definition by sector (in MYR)	Agrobusiness, income based	<0.5	0.5-2	2-10	>10	<50	50-300	300-3,000	>3,000
	Agrobusiness, services based	<0.5	0.5-2	2-10	>10	<1,000	1,000-8,000	8,000-20,000	>20,000
	Manufacturing and crafts	<0.5	0.5-2	2-10	>10	<50	50-200	200-1,000	>1,000
	Education and skills training	<0.5	0.5-2	2-10	>10	<50	50-300	300-1,000	>1,000
	Health	<0.5	0.5-2	2-10	>10	<100	100-500	500-1,000	>1,000
	Social protection, insurance	<2	2-10	10-20	>20	<3,000	3,000-10,000	10,000-100,000	>100,000
	Housing	<1	1-5	5-15	>15	<100	100-500	500-2,000	>2,000
	Tourism	0.5	0.5-2	2-5	>5	<50	50-300	300-1,000	>1,000
	Fintech	<0.5	0.5-3	3-10	>10	<500	500-10,000	10,000-50,000	>50,000
	Energy, water	<1	1-5	5-20	>20	<300	300-1,000	10,000-10,000	>10,000
International IB definition	Million USD	Not eligible for IB	0.2-3	3-10	>10	Not eligible for IB	300-1,000	1,000-5,000	>5,000
	Million MYR	Not eligible for IB	0.8-12	12-40	>40	Not eligible for IB	300-1,000	1,000-5,000	>5,000

Stepping back a bit from too much traditional handholding

Malaysia's has a long tradition of supporting private sector development. There are many programmes to encourage businesses in Malaysia. In 2019, there were about 164 SME development programmes, implemented by 17 ministries and 60 agencies.⁴⁵ Some of these programmes may overlap and have narrow targeting and scope.

While many stakeholders in the private sector welcome those support programmes, there is space to review the value of some of them. Based on the feedback received from stakeholders, there is scope to increase efficiencies, reduce the crowding out of private investments, increase the additionality of support programmes (that is, greater investments and outcomes from the private sector beyond what would have occurred in the absence of the programme), and encourage innovation.⁴⁶

For example, in the low-cost housing Project Perumahan Rakyat (PPR) the private sector is the constructor of government-designed housing rather than a developer that designs and sells different quality solutions at fair prices to the B40. Unlike other countries in Asia - there is no private low-cost housing development at scale in Malaysia.

A number of business stakeholders willing to innovate noted during the interviews that they would like to see the government leave more space to the private sector to take risks and design solutions to address the need of citizens and the B40.

On the other side, private sector stakeholders in Malaysia are often reticent to take risks and innovate. For instance, when conducting the IB market, it was very difficult to identify medium and large companies willing to make a transition from mainstream to inclusive business. Similarly, many social enterprises are reluctant to transition into larger social enterprise initiatives and prefer to continue with grant funding and small-scale impact. Therefore, awareness raising, advocacy and rewards for companies that do change will be very important for promoting inclusive business in Malaysia.

In sum, there are four paths in which business leaders may consider more inclusive business models:

- Chief Executive Officers (CEOs) of commercially oriented social enterprises may be interested in upscaling their business to generate more impact and larger bottom line returns;

- CEOs of mainstream businesses may wish to modify their current business to target more the B40 – for example through shared value models - and access new markets;
- Experienced businesspeople with a successful business career may wish to give back and establish new business lines that create more value for society and the poor; and
- Businesspeople implementing publicly funded social programmes may consider being more innovative and establish new business models.

For this transition to inclusive business models to occur, the concept of IB must be known, the value of IB must be appreciated, and government social programmes must be leave space for IB to emerge.

The government is seeking to reduce the number of programmes and subsidies and there are market opportunities to make a return on investment while doing good. Investing in IB is an attractive proposition for CEOs seeking greater social impact and is aligned with efforts that promote responsible business and impact investing. Moreover, there are opportunities to learn from businesses in other countries are doing to target the B40 market.

As a result, the government of Malaysia is strategically interested to encourage companies making the transition to IB as part of the new five-year development plan and SME Corp. Malaysia is considering setting up IB promotion policies and programmes.

C. Is there a need for Inclusive Business if there are already social enterprises?

Social enterprises – a distinct business undertaking

Unlike with inclusive businesses, the government of Malaysia has already been supporting social enterprises for a few years. This chapter reviews the history of social enterprises in Malaysia, the current state and impact of the social enterprise sector, and potential steps for linking and strengthening social enterprises and inclusive businesses.

Social enterprises are distinct from inclusive businesses. They are organisations whose primary

mission is to address a social or environmental issue and use a business model to sustain themselves (social impact first). There are several types of social enterprises (table 6). Some SEs are driven and funded by grants (which will be referred as common or NGO-oriented social enterprises), and other SE (which will be referred to as social enterprises initiatives) generate a profit and seek to grow their operations and impact.

Amanah Ikhtiar Malaysia, a microfinance institution, is an example of SE initiative or even – given its scale and commercial viability– IB model. An example of a SE that is viable but has limited reach is Picha Eats, a food catering company that employs refugees as chefs. An example of an NGO-driven SE that is not commercially viable and has limited social reach is BTop — a SE providing after school football training for a few out of school youth.

There is no single universal definition of social enterprise in Malaysia.^{47 48} The Malaysia Global Innovation and Creativity Center (MaGIC), the government agency promoting social enterprises, refers to such companies as a “...business entity that is registered under any written law in Malaysia that proactively creates positive social or environmental impact in a way that is financially sustainable.”⁴⁹ While this definition is quite broad, the following characteristics – among others - are applied by MaGIC in their accreditation system to further select social enterprises⁵⁰:

- 51 per cent of workforce is from target beneficiary groups; and/or
- 35 per cent of the business cost is channeled towards providing income, training or subsidized goods or services to target beneficiary groups; and/or
- 35 per cent of the production raw materials or resources is spent on achieving the environmental mission; and/or
- 51 per cent of the profits is distributed towards solving the social mission.

Inclusive businesses are for-profit companies that support low-income and marginalised groups in their value chain at scale through innovative business models. While mainstream businesses have profit maximisation as their primary focus, inclusive businesses model are driven by commercial and social objectives. To make profit and have large-scale social impact, IB companies must innovate, introducing technological and, especially, business innovations.

Inclusive businesses focus on the B40 while social enterprises have primarily environmental or social objectives which may benefit different income level groups (as shown in table 7).

Inclusive businesses often operate at scale while social enterprises tend to operate at small scale in their impact and commercial sustainability, particularly in Malaysia.

Table 6. Classification and characteristics of social enterprises

	Non-commercial SE	Commercially viable SE	Commercially sustainable SE
Commercial viability	Often reliant on grants and donations, similar to non-governmental organisations (NGO)	Manage to break even, but often still make use of grant funding	Profitable business models
Growth strategy	Limited growth strategy	Inconsistent	Everpresent
Scaling of social impact	Do not scale	Only some scale	Scale to target a medium to large reach
Focus on B40	Focus can range from B40 to environment and development	Focus can range from B40 to environment and development	B40 is the primary target of the business value chain
Estimated percentage	60 percent of all social enterprises	30 percent of all social enterprises	10 percent of all social enterprises
Naming in this study	Common social enterprise (NGO-driven social enterprise)	Common social enterprise	Social enterprise initiative

Table 7. The difference between mainstream businesses, inclusive businesses and social enterprises

	Mainstream business	Inclusive business	Social enterprise
Strategic intent	Profit oriented	Social impact drives commercial returns and vice versa	Impact first
Impact	Business, people, environment	Solutions for the B40	People, environment, target groups
Social reach	Not intended	Medium to high	Limited
Commercial viability	Low to high	Medium to high	Low

History of social enterprise in Malaysia

Malaysia’s earliest SEs emerged nearly three decades ago, in 1986, when Amanah Ikhtiar Malaysia, the first microfinance institution founded in the country, was established.⁵¹ However, most SE growth has taken place in the 2010s.

There have been two major phases in the history of SE in Malaysia. In the first phase, the development of SE was defined by civil society organizations, while in the second phase it was characterized by government involvement.

Phase 1: Organic growth

The popularisation of the SE concept led to a number of civil society organisations promoting and supporting the ecosystem. In the first half of the 2010s, the British Council was one of the most prominent supporters of SE Asia-wide. In particular, its Entrepreneur for Good programme supported the growth of early SEs and publicised the SE concept across Asia, including Malaysia.

Phase 2: Broad and institutionalised government support

The government started playing a more active role in recognising and promoting social entrepreneurship with the launching of the Malaysian Global Innovation and Creativity Centre (MaGIC) in 2014. MaGIC was launched with a dedicated SE department with US\$4.8 million in government funds.⁵² Those funds were used to carry out programmes to raise awareness regarding social entrepreneurship and conducting training programmes for social entrepreneurs.

In the following year, the government launched the Malaysian Social Enterprise Blueprint for 2015-2018⁵³, outlining its vision to have 1,000 SE in Malaysia by the year 2018, at a time when there were only 100 such enterprises in Malaysia.

While Malaysia does not have a law governing SE, it started promoting and encouraging social entrepreneurs after including social innovation in its framework of national strategies under the 11th Malaysian Development Plan in 2016.

The government’s involvement in SE played a significant role in increasing the legitimacy of SE. However, that support has not always been consistent, as purview of social entrepreneurship changed ministries over the years, which also resulted in change of guidelines concerning SE.

MaGIC’s SE department went through a realignment in 2017 and ceased to operate, after a change in leadership. In 2018, MaGIC subsequently started the Malaysian Social Inclusion and Vibrant Entrepreneurship (MasSIVE) initiative in order to build a set of programmes aimed at SE. Since its inception in 2014, the government has maintained a roughly MYR 50 million (US\$12 million) annual budget for MaGIC,⁵⁴ of which about MYR 10 million was for supporting social enterprises, and the rest for other activities to promote innovation.⁵⁵

In April 2019, the Ministry of Entrepreneur Development and Cooperatives (MEDAC) launched the Social Enterprise Accreditation (SE.A) guidelines. The accreditation builds on an earlier accreditation programme launched by MaGIC in 2017. Social enterprises seeking accreditation have to go through a three-step process before gaining accreditation from MEDAC (i.e. SE Basic, SE Accredited and SE Plus). The criteria requires the enterprises to have a clear social or environmental mission, at least 51 per cent revenue based on business transactions, and resources are allocated for impact creation. As announced by the Government during the 2019 budget, accredited social enterprises are allowed to issue tax deduction receipts to their donors and investors upon approval from the Ministry of Finance

and the Inland Revenue Board. Some SEs however are hesitant to get accredited as the guidelines restrict how profits can be used (e.g. a minimum of 51% of their revenue has to be allocated directly to their social or environmental goal). Very few companies make it to the final stage of “accreditation plus”. For example, in December 2020, out of 37 SEs accredited, only 11 were accredited for accreditation plus.

In addition to MaGIC, the National Innovation Agency (AIM) – under the Prime Minister’s Office - led an initiative to match social impact investors with social purpose organisations. AIM was set up in 2008 to drive innovation in Malaysia, and promoted two major pilot projects:

- In March 2017, AIM launched the Payment for Social Outcome Fund⁵⁶ with an initial government investment of MYR 3 million (USD 690,000). This fund serves as a crowd funding facility from foundations, high-net-worth individuals, and institutional investors for SE projects. Between 2017 and the end of 2019, the fund mobilised about MYR 3 million (less than \$1 million) from 6 funders for 8 projects with an average project cost of only \$120,000.⁵⁷ Most of the funders are charity related and there are very few real investors. Only a quarter of the projects are commercially viable. While the investments have supported social enterprises, they have been less successful in supporting growing commercially viable social enterprises that could be able to scale up and bring transformative change for the B40.
- Another AIM programme was a MYR 5 million grant fund spent on five SE, mostly with a start-up focus.

As AIM will be commercialised in 2020, these two funds may cease operation.

The state of social enterprise development in Malaysia

A small and slowly growing sector

There is no official estimate of the number of SE in Malaysia. The British Council, under a broad definition of SE that includes cooperatives and other entities, estimates there are around 20,000 SEs in Malaysia.⁵⁸

However, the more commonly used definition of SE in Malaysia is an organisation whose primary purpose is to address a social or environmental issue that aims to use a commercial business model to sustain itself. Using this definition, Tandemic, a

social innovation consultancy firm, estimates that in early 2020 there were about 277 SE in Malaysia.⁵⁹ MEDAC and MaGIC report that as at 14 December 2020 there were a total of 353 SEs approved. Out of this, 37 SEs have been accredited.⁶⁰

Around 22 per cent of Malaysia’s SE operate in the education sector. They also operate in the environment and sustainability⁶¹, food and beverage, culture and heritage, social care, agriculture, and healthcare sectors.

SEs are typically small. Only a small share of SEs have a revenue above MYR 1 million (\$0.23 million).⁶² Most of the SE would not be eligible for IB readiness given their small revenue. The consultants of this report estimate that potential IB initiatives could be mostly developed from the estimated 10-30 SE with larger revenue streams and social impact.

The impact of Social Enterprise in Malaysia

The main beneficiaries of these enterprises are local communities, other organisations, employees, women, and the urban poor. The most common missions of SEs revolve around creating employment opportunities for their beneficiaries, supporting vulnerable and marginalised communities, improving a community, protecting the environment, and promoting education and health.

Social enterprises are growing in number, but not in reach of social impact

The social enterprise sector is expanding. Over half of the SEs surveyed in 2018⁶³ were formed following the announcement of the Social Enterprise Blueprint in 2015.

Data on the national impact of SE are not available. However, we know that the reach of these organisations remains limited. Over half of SE directly support between 1 to 100 beneficiaries. These beneficiaries may include those benefiting from high-intensity employment programmes to those participating in a low-intensity one-day training. In contrast, an IB such as a rice company in Cambodia is engaging 30,000 farmers in its value chain and generate income 20-30 per cent higher for the farmers.⁶⁴

Social entrepreneurs cite lack of public understanding as a challenge

The social enterprises face many challenges and finance is their main problem. Over half of the SEs have cash flow problems and a third have difficulties in obtaining other forms of financing (figure 5).

Figure 5. Challenges faced by social enterprises in Malaysia.



Source: British Council, 2018.

The social entrepreneurs feel that a poor understanding of the SE concept has been a challenge. Even if public awareness has increased significantly, the idea of having profit motives in a social impact organisation is still regarded with suspicion by many.

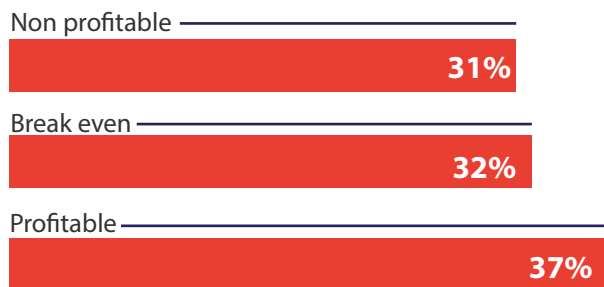
Some of Malaysia’s larger SE have shied away from branding themselves as social entrepreneurs. They feel it limits their flexibility to experiment with different business and impact models because of public expectations about what it means to be a SE.

Limited commercial viability for Social Enterprises

Over a third of Malaysia’s social enterprises are currently profitable, one third can break even, and the other third are not profitable and would need to develop alternative business models to be sustainable (figure 6). Profit making is not the same than being commercially viable, as for the later the source of profit making should not be attributed to grant financing. The data available does not provide this information, but many SEs in Malaysia still depend on grants.

Only nine per cent of Malaysia’s social enterprises generate an annual revenue of MYR 1 million (about \$0.23 million) or more. The estimated average revenue for a social enterprise in Malaysia is small, less than MYR 220,000 (US\$ 56,000).⁶⁵

Figure 6. Commercial viability of social enterprises in Malaysia



Source: British Council, 2018.

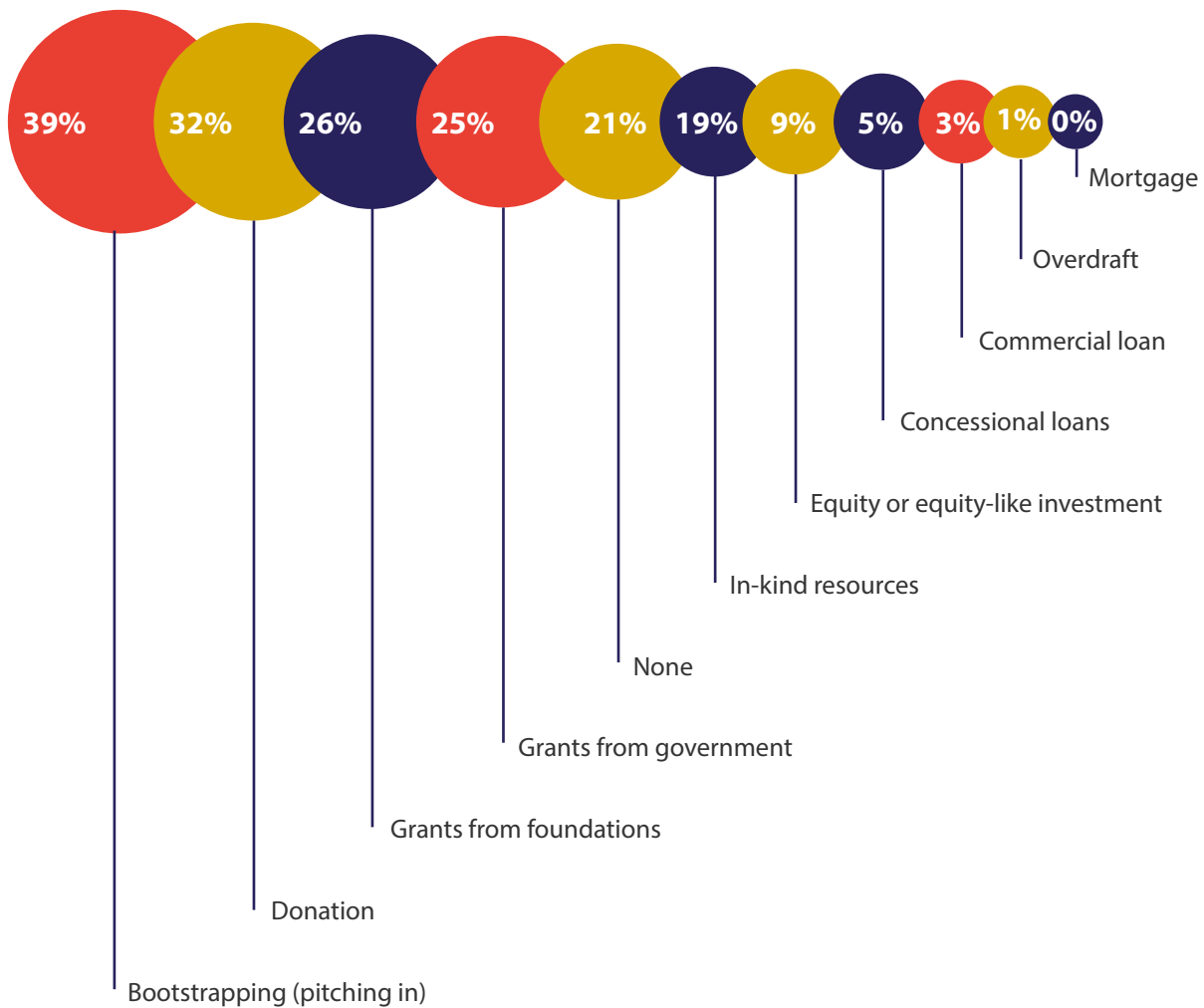
Few investors have stepped into the social enterprise arena

While there is a global and growing interest in impact investing, very few impact investors have invested in Malaysia’s social enterprises.

The most common sources of finance for SEs were non-commercial: bootstrapping, donations, grants, and in-kind resources. Over 80 per cent of the SEs received donations or grants in 2018. Equity or equity-like investments amounted to only nine percent of total investments garnered by social enterprises and commercial loans only 3 per cent (figure 7).

Total impact investing in Malaysia was calculated by GIIN as only \$48 million in 2017⁶⁶. Most of this investment is in microfinance and, typically, only a small percentage is invested in SEs. The low SE targeting of impact investors may be because of the low visibility of Malaysia in the international SE and IB discussions, the limited interest to invest in projects that are not innovative and designed for impact at scale, and most SE still depend on donations and grants.

Figure 7. Sources of finance for social enterprises, 2018



Source: British Council, 2018.

Looking forward

Growing interest in Malaysia’s social enterprise sector has manifested in more social enterprises — but not yet more scale-ups in the sector. This creates an important opportunity to link the social enterprise and inclusive business agendas, with inclusive business providing a pathway and an approach for creating more impact at scale.

The government’s promotion of SE, through MaGIC and AIM, has played a significant role in increasing the legitimacy of SEs. However, public support has not always been consistent. MaGIC’s major focus has been providing training courses and advocacy, but direct financial support for SE has been limited and commercial financing of SME has been even more limited. The key performance indicators for MaGIC were set on the number of SE registered, rather than on the impact achieved (e.g. well-paid jobs created or

services provided). There are no targets on the number of beneficiaries nor their social strata or gender impact.

MaGIC has done a sound work for promoting and advocating for SEs, and the next step would be to support SE scale up their impact, revenue or returns. This requires greater focus on scaling up the impact of SE and, in this context, it makes sense to link the agendas of promoting SE and IB.

The Ministry of Entrepreneur Development and Cooperatives (MEDAC) can play the pivotal role in linking these agendas through various Ministries and agencies in Malaysia.

How the Ministry of Entrepreneur Development and Cooperatives can support the development of inclusive business?

As part of DKN 2030, the MEDAC has a specific goal on increasing the number of SEs in Malaysia. This

goal has potential to be expanded to generate significant benefits for the B40 given the current trajectory of small-scale SEs.

To promote reforms in SE support and to set up a new venue for inclusive business promotion, the Ministry could:

- Extend its strategic objectives for SEs to include specific social, B40-related, environmental, and social impact goals. Such an extension would increase the focus of public programmes on scaling impact, and create a stronger ecosystem for both SE and IB.
- Embrace the new IB agenda - social impact at the B40 in scale, establishing a dedicated unit in SME Corp. Malaysia that is responsible for promoting more and better IB models, activities and initiatives, and allocate suitable funding for IB support programmes.
- Encourage cooperation between agencies such as SME Corp. Malaysia, INSKEN and MaGIC on IB and SE promotion, especially with regards to IB and SE Accreditation, and business coaching.

How SME Corp. Malaysia can support the development of inclusive business?

The promotion of inclusive business should be delegated to a public agency able to: (i) influence policy making and (ii) access businesses that are sufficiently large and have value chains that would allow them to become inclusive businesses. SME Corp. Malaysia is the ideal agency to promote IB. It has policy influence as the secretariat of the enterprise development cluster in the Malaysian government. It also has a large database of enterprises whose value chains could be transformed into IB models.

How MaGIC can support the development of inclusive businesses?

In contrast to SME Corp. Malaysia, MaGIC is focused on start-ups and SEs. MaGIC could play a crucial role in helping social enterprises scale up towards inclusive business initiatives by supporting social enterprises to scale up to become SE initiatives, and participating in the inclusive business accreditation committee.



CHAPTER 4. MARKET STUDY OF INCLUSIVE BUSINESS IN MALAYSIA

A. Methodology

The market study of IB in Malaysia is based on structured interviews with business leaders, interviews with key informants and an analysis of information available online.

For the policy work, over 50 meetings have been held with over 120 key informants from government, business associations, business leaders, investors, facilitators and development partners. A total of six workshops and policy seminars have been carried out in Kuala Lumpur and Sabah to discuss the concept of inclusive business, possible policies to promote IB and the accreditation of IB.

For the market study, a longlist of 129 potential IB companies was established. The longlist was screened for their social impact and strategic intent and reduced to a shortlist of 73 potential IB companies for possible interviews. Fifty-one of those were prioritised for interviews. However, it was difficult to schedule and interview (particularly larger ones) as many firms are not familiar with the IB concept, they see no incentive for participating in the interview (as there is no public incentive for IBs), or are very comfortable with their current business models. Of the 51 shortlisted companies, 27 were interviewed (table 8).

Table 8. Potential Inclusive Business assessed, by sector

	Manufacturing		Trade and other services			Social services			Municipal services		Economic infrastructure			
	Agrobusiness	Manufacturing and crafts, textile	Tourism	Trade	Other	Education, training, job placement	Health and nutrition	Social protection	Housing	Urban services (water, waste)	Energy	Transportation		Finance and fintech
Total														
Longlist	129	27	13	6	8	24	15	5	1	7	2	4	3	14
Shortlist	73	14	10	6	4	9	8	3	1	3	1	3	3	8
Prioritized for interview	51	10	8	5	3	6	6	2	1	1	0	2	3	4
Interviewed	27	2	3	6	2	2	4	1	1	2	0	1	2	1
Rated	24	2	3	4	2	2	4	1	1	1	0	1	2	1
IB	12	2	2	3	1	1	2	0	0	0	0	0	1	0
non-IB	12	0	1	1	1	1	2	1	1	1	0	1	1	1

Source: IB company assessment for Malaysia

Efforts were made to interview firms with impact in Sabah and Sarawak. Of the 24 companies assessed: 14 had impact in Peninsular Malaysia, against eight in Sabah and Sarawak and two with impact all over the country. Firm interviews were conducted based on a semi-structured guide, whereby questions were adjusted during the interview. Interviews took on average one hour and a half and, in some cases, additional questions were asked in a follow up face-to-face or phone discussion. The interviews were held in English and Bahasa Melayu – depending on the company.

The consultant team applied the IB rating criteria (see annex 1) to identify whether a company is a real or potential IB. The assessment identified 12 companies to be IB models, of which two are real IB models and ten are potential IB models.⁶⁷ Most of the potential IB models were social enterprises.

A short write-up of the IB case was prepared for each company based on the information provided during the interviews (see annex 3). The write-ups were shared with the companies for verification and approval to publish. For confidentiality reasons, this study does not publish individual company data (beyond the write-ups). The market analysis is provided at sector and thematic levels (chapter 4).

During the company interviews, the consultant team also provided suggestions to the companies' management on how to change the business to become more relevant for IB. Most meetings were attended by staff from SME Corp. Malaysia.

In addition to the company interviews, there were also three internal workshops with SME Corp. Malaysia's management. The policy

recommendations were shared in various meetings with the senior management of SME Corp. Malaysia, and in two meetings with the Ministry for Entrepreneur Development and Cooperatives (MEDAC) and the Economic Planning Unit (EPU). The preliminary results of the study and the way forward for the proposed IB policy support were shared by the former CEO of SME Corp. Malaysia during the 2nd ASEAN IB summit on 1st November 2019.

The research for the study was carried out between June 2019 and November 2019.

B. Key findings of the market study

The following analysis is based on the 12 identified potential and real IB models among the 27 companies interviewed. It is likely that there are more firms having or developing potential IB business models that were not identified in this study.

Ten of the 12 IB business lines (83%) create impact for the B40 through income increases, while only a third of the non-IB companies create impact through income increases. Most IB models engage the B40 through supplier models (75% of the IB companies), while non-IB companies have mostly consumer models (67%) (table 9). This is consistent with the fact that the main mean to generate impact in IB models is through income creation.

Interestingly, there are relatively more IB companies in Sabah and Sarawak than in Peninsular Malaysia. The majority of IB companies (83 per cent), while only a third the non-IB companies, focus on the rural B40 (table 9). This may suggest that there are more business opportunities for IB companies in those regions.⁶⁸

Table 9. Impact channel, B40 engagement, and geographic impact of real and potential Inclusive Business models

	Impact channel on B40		Main BoP engagement area					Geographical impact					
	Income increase	Access to goods and services	Supplier	Laborer	Distributor	Consumer	Shareholder	Nationwide	Peninsular	Sabah	Sarawak	Rural	Urban
All companies rated	14	10	13	0	0	11	0	2	14	5	3	14	10
Non IB companies	4	8	4	0	0	8	0	2	10	0	0	4	8
IB companies	10	2	9	0	0	3	0	0	4	5	3	10	2
Real IB	2	0	2	0	0	0	0	0	0	2	0	2	0
Potential IB	8	2	7	0	0	3	0	0	4	3	3	8	2

Source: Malaysia IB company assessment

There are four options for the emergence of IB companies:

1. Companies with distinguished IB business models;
2. Mainstream businesses that transition into IB models;
3. SE that wish to transition into SE initiatives or into IB models; and
4. Mainstream business that wish to change their CSR activities into an IB activity and consequently into an IB models.

In other ASEAN countries, most IB companies (real and potential) are either established IB models or mainstream businesses changing into IB models. In Malaysia, however, most IB companies are transitioning from social enterprises. Ten out of the 12 IB companies are potential IB models, meaning they wish to transition into IB. Six of the potential IB models will transition from SE into SE-I, one from mainstream business into SE-I, and three from mainstream business into IB Model (figure 8).

There are no potential IB companies that may transition from CSR.⁶⁹ While there is a strong CSR culture in Malaysia, encouraged by government (see chapter 5), most companies interviewed were not open to transition their traditional CSR into a core business line. This was due to lack of strategic interest, but also because of limited awareness and lack of encouragement. Business coaching could help those companies with strategic IB

intend to make a possible IB transition.

The high number of potential IBs (that is firms transitioning into IB models) and the limited number of real IBs suggests that efforts should be made to support and recognise those transitioning into IB, and generate greater awareness among mainstream IBs, SE and CSR on IB and on how they could transition into IB (based, among others, on the experience of those doing the transition).

Most of the potential IBs are transitioning from a SE to an IB-I. This indicates that there are large opportunity for SEs, that in their current business model are stuck between low and non-systemic social impact and the low commercial return, to transition into IB-I. This is a new opportunity for the government that has been promoted SE to increase the scale of their social impact and financial viability.

In 2018, the 12 IB companies had a revenue of MYR 16.5 million. This is low compared to international and Malaysia standards. It can be explained through the small number of IBs found (only 12) and because IB companies in Malaysia are mostly transitioning from SEs with small returns. However, the IB companies have indicated a strong wish to transition into companies with larger sales. In five years, the 12 IB companies expect to increase their revenues to nearly MYR 50 million in revenues (Table 10). Their expected revenue will be higher than the revenue of the 239 social enterprises approved. The expected growth of IB companies is higher than among Malaysian mainstream businesses.

Figure 8. Transitioning into Inclusive Business model and social enterprise initiative

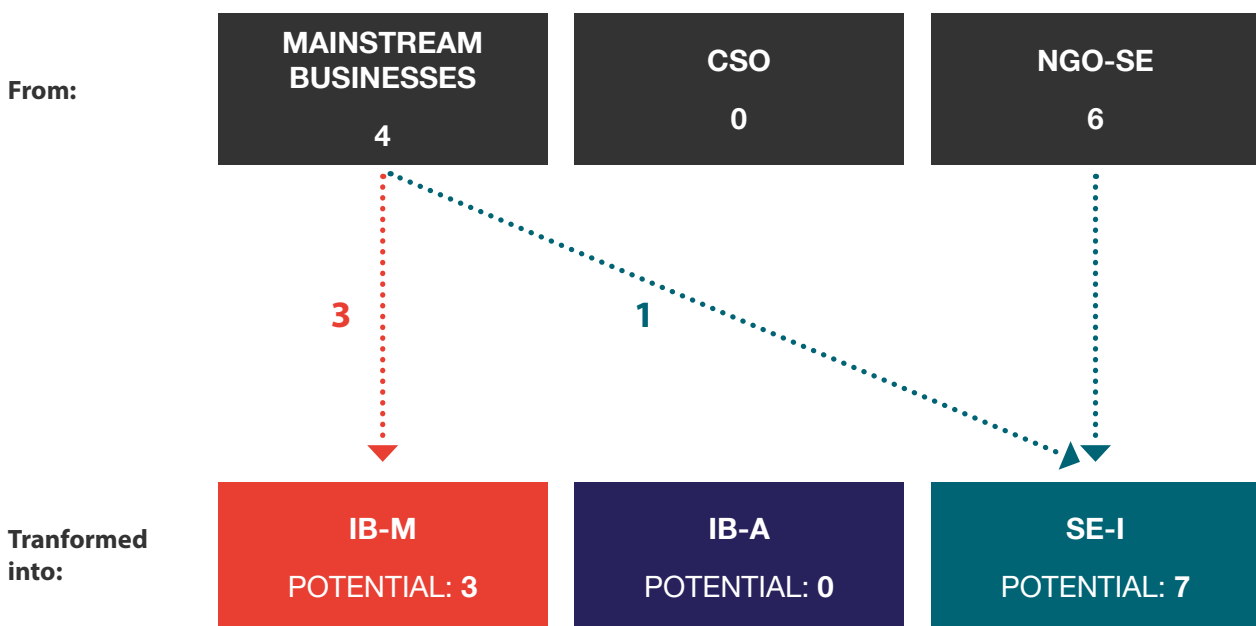


Table 10. Revenue and social reach, interviewed inclusive businesses, 2018 and 2023

	Number of companies	Revenue (MYR million)			Social reach (1)				
					Households		People		
		2018	2023	Growth	2018	2023	2018	2023	Growth
IB companies	12	16.5	48.9	197%	2,230	10,645	7,900	36,580	363%
By transition grade									
Real IB	2	7.9	19.6	148%	800	1,615	3,200	6,460	102%
Potential IB	10	8.6	29.3	242%	1,430	9,030	4,700	30,120	541%
By potential IB type									
IB-M	5	10.3	31.8	209%	1,250	4,115	5,000	16,460	229%
SE-I	7	6.2	17.1	177%	980	6,530	2,900	20,120	594%
Non-IB companies	12	13.5	95.4	609%	2,630	2,826	8,600	9,384	9%
MB	3	1.2	3.3	172%	244	376	976	1,504	54%
SE	5	3.9	5.5	41%	436	490	1,744	1,960	12%
CSR	2	7.3	85.5	1,071%	1,840	1,840	5,440	5,440	0%
NGO	2	1.0	1.0	0%	110	120	440	480	9%

Source: Based on data provided by firms during the interviews conducted as part of this landscape study

Note: (1) For income generating activities (agrobusiness, crafts, tourism), it is assumed that the income is shared by the household (4.1 persons). For training activities and other consumer services, the number of total beneficiaries is not being multiplied by the household size.

As the potential IB transition into IB companies, the social reach of IB companies could quadruple and rapidly increase from benefiting about 8,000 people in 2018 to nearly 37,000 in 2023 (table 10). This is remarkable because the social reach increase of the interviewed non-IB companies is only 10 per cent over 5 years.

In sum:

- There are only few potential and real IB companies in Malaysia, partly due to small market opportunities, as the government provides a wide range of programmes for the B40, but also to limited private sector awareness and interest in offering IB solutions.
- Most IB create income for the rural poor and engage the B40 as suppliers in agrobusiness, tourism, and crafts. Some

companies are also providing training and job placement services.

- IB companies are mostly small companies and transitioning from being social enterprises towards SE initiatives. There are only three mainstream business with potential to develop an IB model.
- IB companies are commercially viable and sustainable and have better profit and growth perspectives than non-IB companies.
- Of particular importance is the strong contribution to social change and impact that IB companies can make. Only 12 IB companies could reach about 37,000 B40 people in 2023, up from 8,000 today. This is more than a comparable number of SE or mainstream businesses can do.



CHAPTER 5. BUILDING AN ENABLING ENVIRONMENT FOR INCLUSIVE BUSINESS

The enabling environment for IB requires the contribution of several actors (institutions and influential individuals) that can provide relevant information for IB, adequate policies and incentives, facilitate access to finance and develop the capacity of business leaders and their supply chain to develop IB models (figure 9). This chapter discusses the contribution that different

actors, including government agencies, business associations, business accelerators, investors and other experts, can make towards building an enabling environment for IB in Malaysia.

Figure 9 gives an overview of the IB ecosystem and its key promoters in Malaysia. These key agencies should be invited to participate in a steering board for IB promotion in Malaysia (see chapter 6).

Figure 9. Overview of the Inclusive Business ecosystem in Malaysia



Source: ESCAP based on G20 Inclusive Business Framework

A. Government champions to promote Inclusive Business

Inclusive business operate in different sectors and have different size. Designing inclusive business lines requires special skills and not only business knowledge but also understanding of social dynamics and realities. Promoting IB therefore must be sector agnostic and requires the involvement of different organisations in the government. It cannot be done by one agency alone.

To effectively promote IB, it will be necessary to:

1. Have a strong high-level commitment to promote IB in order to ensure different agencies are interested / have a mandate to promote IB. Including IB in the national policy is a key condition for successfully promoting IB. Such high-level endorsement, would then be matched with an adequate budget for promoting IB. In addition, IB need to be integrated in strategic speeches of the Prime Minister's office and representatives of key government agencies. Raising public awareness (e.g. through seminars, newspaper articles) would also be helpful.
2. Designate a key government champion responsible for promoting IB and coordinate government action. This champion must have the legitimacy to work across ministries; have a sound reputation of being a strategic as well as capable to implement such programme; and be backed by a ministry.
3. Promoting the IB agenda needs to come with very tangible support mechanisms other agencies can relate to. The Malaysian business culture and the way public administration works is characterised by result-oriented expectations, dynamic conceptual grounding⁷⁰ and strong pragmatism to get things done. This means that clearly identifiable programmes for IB promotion need to be designed with direct and tangible benefits for companies.

The Ministry of Entrepreneur Development and Cooperatives (MEDAC) to lead Inclusive Business promotion

The Ministry of Entrepreneur Development and Cooperatives (MEDAC) and the Economic Planning Unit (EPU) could anchor IB.

MEDAC, which oversees SME Corp. Malaysia, was established in 2018 with the objective to spearhead the development of entrepreneurship and SMEs in Malaysia that could drive SMEs contribution to GDP to 50 per cent by 2030. The National Entrepreneurship Policy 2030 (DKN 2030) highlights the importance of innovation and productivity, the role of SMEs in economic and social development and the need to focus more on the market of the B40 to achieve that goal. As a new Ministry, MEDAC is developing its strategic direction and establishing its position within the government.

Moreover, as the secretariat to the National Entrepreneur and SME Development Council (NESDC), MEDAC influences the agenda setting and the coordination of private sector development policies and programmes. MEDAC also attends the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME), where the ASEAN IB promotion agenda is discussed. In addition, MEDAC is responsible for SE accreditation.

However, the IB agenda would also need a strong and pragmatic implementer. An initial institutional analysis suggests that the best agency for promoting IB would be SME Corp. Malaysia, an implementing body under MEDAC.

SME Corp. Malaysia as proposed coordinating agency for Inclusive Business promotion

SME Corp. Malaysia is the central agency coordinating the implementation of development programmes for SMEs across all related ministries and agencies. SME Corp. Malaysia is the point of reference for research and data dissemination on SMEs and entrepreneurs and provides business advisory services for SMEs.

SME Corp. Malaysia leadership, led by the Chief Executive Officer (CEO), has embraced the IB agenda and effectively promote the first steps for its development. Given its strong institutional capacity and ability to effectively implement

programmes, its strategic linkages and partnerships, the mandate of the organisation, its focus on commercially viable companies of all sizes, and its interest in the IB agenda, SME Corp. Malaysia would be one of the ideal agencies for promoting IB in Malaysia.

Cooperation with MaGIC on promoting Social Enterprise agenda

The Malaysian Global Innovation and Creativity Centre (MaGIC)⁷¹ was established in 2015 to catalyse creativity and innovation among Malaysian entrepreneurs. Within these broad objectives, it has mainly focused on ecosystem development for social entrepreneurs and for start-ups. It has about ten programmes around four work areas:

- Programmes for community development and outreach – including seminars and information sharing on SEs and start-up development, an open innovation challenge platform to connect companies, and a networking programme with Stanford University (USA);
- Business capability development - entrepreneurial mentorship activities, an online academy, a problems-solver bootcamp, a platform to support launch green businesses, a business development and product management academy, an accelerator programme for speeding SEs and start-ups to the global economy;
- Social impact measurement initiatives focused on SE accreditation; and
- Various programmes for SE promotion under MasSIVE.

MaGIC has a strong reputation on promoting SEs. MaGIC's work to promote innovation beyond small start-up companies and with systemic impact for Malaysia has been limited. While the IB agenda has an innovation dimension, placing IB promotion under MaGIC is not recommended because:

- MaGIC's focuses on traditional SE that can limit success to scale up such enterprises (see chapter 3);
- MaGIC's limited connection to dynamic medium and larger industries (potential IB models);

- The promotion of innovation under MaGIC focuses on start-ups rather than on established business that could innovate to scale-up their impact;
- MaGIC's capacity development for business acceleration is directed to smaller firms and start-ups; and
- Companies may be reluctant to engage as businesses, even when interested in social impact, prefer to not be considered a SE.

This study recommends that IB promotion is led by MEDAC through SME Corp. Malaysia and SE promotion to continue to be led by MaGIC. To further enhance impact of the SE promotion agenda, MaGIC could work with SME Corp. Malaysia to:

- Promote awareness on IB, including through introducing the notion of IB in SE seminars, training and knowledge products of MaGIC, and prepare and disseminate examples of SEs transitioning into IB (e.g. through Business Radio Station), and share information on SE on the IB webpage of the SME Corp. Malaysia website;
- Broaden capacity development under MaGIC's SE clinics to also include IB business coaching, and provide advice to SE with the objective to become IB ready;
- Join the IB accreditation system led by SME Corp. Malaysia by encouraging larger SEs to become IB accredited, social depth and systemic transformation, and the innovations introduced to benefit the B40; and
- Establish a joint reporting system on IB's and SE's contribution to Malaysia's social and economic development.

Working with other key line agencies on Inclusive Business promotion

Other agencies can also make a significant contribution to IB, and it would be important to formalise cooperation on IB promotion. Such cooperation could be formalise through the establishment of an IB Steering Board, chaired by MEDAC and co-chaired by a business association. The members of the Board would also comprise key government agencies relevant for IB promotion, such as:

- The **Economic Planning Unit (EPU)** is the nodal agency for socio-economic planning and strengthening the inclusive development agenda, including supporting the B40. EPU is currently drafting the new Malaysia Plan 2021-2025 (RMKe-12).
- **The Ministry of Agriculture and Food Industries** is responsible for agriculture livestock and fisheries, food industry, agritourism, agricultural research, agricultural development, agricultural marketing, food security and agrobusiness standards. As shown in other countries, agribusinesses have a great potential to become IBs. However, in Malaysia there are very few IBs identified so far in agribusiness. The agrobusiness department of the Ministry is interested in the IB and suggested some companies that might be ready to become IB⁷². The study suggests involving the Ministry in the accreditation system, and make specific efforts to advocating IB in the agrobusiness sector together with the Ministry. As part of the mainstreaming activities, it suggests looking also at which programmes of the Ministry can include IB firms and set up a target in those programmes for IB support.
- **The Malaysian Investment Development Authority (MIDA)**, established in 1967, is the principal agency for promoting the manufacturing and services sectors. It provides investment promotion benefits (including licensing, tax and duty incentives) for prioritised sectors. MIDA runs specific tax incentives for green industries, priority sectors and technologies, and less developed regions. A major part of MIDA work is to encourage large foreign businesses and multinational corporations to invest in Malaysia; this however is not so much relevant for IB, as IB are mostly local medium-sized companies. In other countries, the MIDA equivalent is the key promotor of IB and IB is included in the country's investment promotion activities. So far, MIDA is not interested in setting up specific incentives for accredited IB companies, but IB can be included in other MIDA programmes.

For doing so, however, IB needs to be specifically included in national strategic policies and action plans. This study does not recommend establishing other special tax incentives for IB at this stage because the number of IB is still too small and such tax breaks may not be a very effective investment stimuli, especially if they are the only support mechanism for IB. Instead, this study suggests follow up discussions with MIDA on integrating IB in existing tax incentives. Provided tax incentives are established for IB, MIDA could also be part of the proposed IB accreditation system.

- **Other agencies** that may also be involved in IB promotion are the Ministry of Domestic Trade and Consumer Affairs (MDTCA), and the Ministry of Women, Family and Community Development. This study suggests to generally involve these agencies in IB advocacy activities, explore with them which existing programmes could include IB, and then set a target for allocating funding from their existing budgets for IB accredited companies.

B. Supporters among the business associations

There are many business associations active in Malaysia. Most of them have sector-specific agenda. Business associations that might be interested to engage in the IB agenda are the following:

- The **SME Association of Malaysia**, established in 1995, has a training academy, runs a business award, and organises conferences, seminars and exhibitions. SME Association is the main private sector partner with SME Corp. Malaysia for policy discussions on SME development. During the preparation of this study, SME Association was the most active business association and the one that better understood the potential of IB and how it can be promoted. While SME Association may not yet be a champion for the IB discussion in Malaysia, it could develop into such role, once SME Corp. Malaysia has established an IB promotion programme and secured funding to

promote awareness on IB with business associations.

- The **Federation of Malaysian Manufacturers (FMM)**, established in 1968, is Malaysia's main manufacturing trade organisation. FMM, the largest private sector economic organisation in Malaysia, represents over 3,000 manufacturing and industrial service companies, mostly large ones. FMM is the official voice of industry and very influential. It showed some (small) interest in IB.
- The **National Chamber of Commerce and Industry of Malaysia (NCCIM)**, established in 1962 and restructured in 1974, is the umbrella platform of the main five private sector organisations concerned with commerce and industry; the Malay Chamber of Commerce Malaysia, The Associated Chinese Chambers of Commerce and Industry of Malaysia, the Malaysian Associated Indian Chambers of Commerce and Industry of Malaysia, the Malaysian International Chamber of Commerce and Industry, and FMM. A key objective of NCCIM is to promote Malaysian exports and investments abroad, as well as to help attract foreign investments to Malaysia. NCCIM also organises the National Economic Forum annually, as high-level meeting between public and private sector. As IB mostly work in the domestic market, NCCIM may not be among the first prioritised business association to be involved in the IB discussions.
- The **Malaysian Association of ASEAN Young Entrepreneurs (MAAYE)** and the Malaysia Entrepreneurs' Development Association (Persatuan Usahawan Maju Malaysia – PUMM) are also relevant to engage in the IB discussions. PUMM was established in 1993 to share best business practices with aspiring entrepreneurs. Both organisations are traditionally open for new business ideas and could be engaged in IB promotion. However, unlike in other countries (e.g. Cambodia and Myanmar) where young businesspeople organisations are the thriving force behind the IB agenda, in Malaysia they may not be

yet the main IB promoters among business associations.

- The **National Association of Women Entrepreneurs of Malaysia (NAWEM)** was founded in 1993 and has about 1,000 members. In addition to NAWEM, there are 35 more women associations. In other countries (e.g. Viet Nam) women business associations are very active promoters of the IB agenda. However, for Malaysia their interest in this topic is still nascent.
- The **National Association of Social Enterprises (NASE)** is small and could potentially expand its role.

Overall, unlike in neighbouring ASEAN countries, there has been, so far, little commitment from business associations to support the IB agenda. The key reason put forward in discussions was that business associations see themselves mainly as advocators for more government incentives to their client group. Given that so many industry promotion programmes already exist, and that IB is not yet a specific point in the government agenda, business associations are reluctant to embrace IB. Some associations, such as SME Association has suggested that it will be important to first include IB in RMKe-12 and then establish specific IB promotion programmes (including financing and business coaching) for IB companies. Thereafter, they would be more willing to participate in the IB accreditation system and in promoting awareness on IB. However, they indicate that awareness raising activities should be paid (or cost-shared) by the government.

C. The Inclusive Business relevant impact investing industry

Malaysia has a vast banking network. By 2015, all 144 districts of the country, and 97.4% of all the 886 subdistricts had access to financial services. There were about 1.4 bank branches and 4.7 ATMs per 10,000 adults, and 10.7 point of sale terminals per 1,000 inhabitants, which are among the highest ratios in South East Asia. The penetration rate of internet banking was 72 percent and 92 per cent of the population had active deposit accounts with financial institutions.⁷³ Looking forward, a meaningful financial inclusion strategy would not focus on access but on providing relevant financing services to address, directly or

indirectly, the needs of the B40. This may mean going beyond financing of self-employment or micro-businesses, but also ensuring that IB investment opportunities are properly financed. This requires enabling financing to more dynamic medium-sized companies that deliberately create transformative impact for the B40.

Investing in IB can come from various sources. Unlike SE financing which is mostly from philanthropic giving, government grants, and some (small) impact investing, IB companies would meet their funding needs mostly through commercial and impact financing. There are different avenues for addressing IB financing. These are discussed below.

An overview of Inclusive Business financing opportunities

At the end of 2017, total outstanding financing for 800,808 business accounts was MYR 315.7 billion (and new financing about MYR 70 billion). Of the total outstanding loans, the SME sector

got 50.6 per cent. The approval rate for SME loans by financial institutions remained high at 90 per cent.⁷⁴

IB financing is for large and smaller companies alike. However, as most IB business lines currently are from medium (or even smaller) sized companies, SME Annual Reports can give a good overview of the financing landscape for IB. Figure 10 provides an overview of the financial landscape for SMEs in Malaysia. It also comprises suggestions on the sources for IB financing (in orange) that the government of Malaysia may wish to explore. There is currently no specific financing scheme for IB and IB financing – to be effective – should be provided by different types of financial institutions, and not only by impact investors. Therefore, it is recommended that a) IB financing is mainstreamed (by establishing targeted lending under a few of the relevant existing schemes), b) a dedicated IB financing scheme is explored, and c) a risk reduction facility for unleashing potential funds of IB investors is established.

Figure 10. Financing options for SMEs and opportunities for financing Inclusive Business in Malaysia

	FINANCIAL INSTITUTIONS	PUBLIC FINANCING AVENUES	PRIVATE FINANCING AVENUES	OTHER FINANCIAL INCENTIVES
	Private banks Development financial institutions (public banks and schemes)	Guarantee schemes (CGC, Prokhas) Government funds	Venture capital Private equity funds Leasing companies	Corporate tax reductions Equity crowdfunding and other alternative financing avenues
Financing opportunities for IB	Targeting IB under existing financing schemes	IB risk reduction financing (proposed) IB credit lines (proposed)	Impact investors (in Malaysia and abroad) IB financing platforms Angel investors	Including IB on a selective basis in existing financial incentives
% of capital provided for SME financing	97% of total capital provided currently to SME financing	1.2% of total capital provided to SME financing	1.6% of total capital provided for SME financing	0.2% of total capital financing provided to SME

Source: Based on NESDC (Sept 2018) Annual Report

Table 11. Portfolio of the SME bank

	Micro	Small	Medium (low)	Medium (high)	Large
Company size, by revenue (million MYR)	0.05-0.25	0.25-1	1-5	5-50	> 50
Percent of firms in the country (estimates)		40%	30%	29%	1%
Credit portfolio of the SME Bank		30%	35%	25%	5%

Source: SME bank

Credit lines for SME and Inclusive Business development

Almost all of SME financing (97 per cent) is provided by financial institutions (i.e. public and private sector banks and development finance institutions). The amount provided by venture capital, private equity and microfinance schemes is very small, around 1.6 per cent of total financing.⁷⁵

To promote IB financing, the government could encourage private banks to monitor IB financing and to pay more attention to such type of investments. A good start point would be to encourage development finance institutions (DFIs) that belong to the government, such as the SME bank.

The SME Bank provides loans (no equity) to SME companies at market interest rates (6 to 7 per cent) or through special government programmes (e.g. for tourism development or for special regions and special ethnic entrepreneur groups) with subsidised interest rates (4-5%). For many of its investments, it also guarantees 70 per cent of the agreed financing through a low cost 1 per cent guarantee fee, further adding to the investment cost of the entrepreneur. The bank has a market share of only 3 per cent, while the rest of the SME lending comes from 90 commercial banks and other government schemes. About 65 per cent of the SME Bank's portfolio is invested in smaller enterprises (with an annual revenue below MYR 5 million), while a quarter in medium sized companies with revenue from MYR 5 to MYR 50 million (table 11).

SME Bank has indicated that it is not in favour of establishing a specific IB credit scheme given the small market-share of the bank. It has also indicated that a specific IB scheme would be more effective if all banks are mandated to do more on IB financing. The SME Bank however suggested introducing specific targets for IB financing under some of its special programmes. For example, SME Bank is running a MYR 100 million tourism financing scheme and, given the potential for IB in this sector, the bank could establish a specific target (e.g. 5 per cent) for IB companies. However,

for SME Bank this would only be possible if two conditions are met: 1) there is an effective IB accreditation system in place, so that the bank knows which companies to target under the IB component; and (2) there is a clear commitment for IB from the Government through RMKe-12, and SME Corp. Malaysia develops an action plan that includes the SME Bank.

Government sponsored programmes

In addition to the financing provided by SME bank, there are many government sponsored SME finance programmes implemented by various institutions and banks, where IB support could be linked to. In 2017, government funding to the level of MYR 9.8 billion (93.5% of overall financial commitments to SMEs) was provided through 41 programmes to 406,600 entrepreneurs (table 12).

The average public investment is only MYR 24,138 per MSME (table 12), far too small for IB financing. If micro-enterprise financing is excluded, investment per SME ranges between MYR 0.1 to MYR 0.5 million.

Current SME financing in Malaysia is large by overall size and number of companies involved, but small by investment size. Growing businesses, such as those developing IB models, tend to require larger investments. An IB company requires a revenue of at least MYR 1 million for creating relevant social impact, and therefore needs to access at least MYR 0.5 million, or even MYR 1-5 million, to make an IB investment. The government may wish to reorient its programmes towards more upper small (revenue of MYR 0.3-5 million) and medium-sized (revenue of MYR 5-50 million) enterprise financing. It may also want to encourage the use of a wider range of innovative deal structures in its SME finance portfolio.

Apart from opening opportunities that provide larger financing to a given company, the government may also establish funding or encourage funding for business models that meet the criteria of creating substantial, sustainable and systemic impact for the B40. Assessing the viability of such larger investments requires professional expertise.

Table 12. Government-sponsored support programmes for SMEs and their Inclusive Business relevance

Scheme	Purpose	implemented by	Amount allocated in 2017 (MYR million)	Number of beneficiaries	Amount per beneficiary (MYR)	IB readiness
Ikhtiar Financing	Microfinance for poor and B40 micro-entrepreneurs	Amanath Ikhtiar Malaysia (AIM)	2,300	354,525	6,488	No
Penyaluran Pembiayaan Perniagaan	Small-enterprise financing	Majlis Amanah Rakyat (MARA)	397	3,900	101,718	No, still too small
TEKUN financing scheme	Bumiputera entrepreneurs	TEKUN Nasional	290	23,548	12,315	No
Mobilepreneur Programme	Mobile entrepreneurs	TEKUN Nasional	20	3,000	6,667	No
Tunas Usahawan Belia Bumiputera (TUBE)	Youth entrepreneurship	SME Corp.	15	994	14,990	No
36 other programs		Various implementing agencies	6,778	20,033.0	338,362	Possible but still small
Total (41 programs)		Various agencies	9,800	406,000	24,138	Most programs do not provide sufficient funding for IB

Source: SME Corp. Malaysia, 2018.

Guarantee schemes for SME and Inclusive Business financing

Guarantee schemes can also play an important role for unleashing financing. In addition to the banks' guarantee mechanisms build in their risk assessment and the pricing of their finance products, there are two specialised credit guarantee schemes set up by the government:

- The Credit Guarantee Corporation of Malaysia (CGC) established in 1972 by the Central Bank has provided since its creation MYR 67.1 billion in guarantees to 453,800 SMEs (an average guarantee investment of MYR 150,000). In 2017, CGC approved MYR 3.4 billion for 8,637 companies (about MYR 0.4 million in guarantee value per deal). Assuming an average risk guarantee ratio of say 10 per cent per investment, CGC investment would have unleashed at least MYR 36 billion in additional private sector (bank) financing in 2017. Since early 2018, CGC has also a special SME platform and works with 14 banks to benefit 2,000 SMEs by 2018 through various financing products including financial advice to firms.⁷⁶
- The SJPP Prokhas established by the Ministry of Finance set up a separate scheme that guarantees 70 per cent of the funding with a guarantee fee

of 1 per cent. Another main objective of SJPP is to provide housing loan guarantees and working capital guarantees. As of 30 September 2019, Prokhas had approved MYR 447.9 million in housing finance for 7,012 loan accounts (MYR 64,000 on average), and working capital worth MYR 21.7 billion for 18,234 loan accounts (MYR 1.2 million on average). Similar to CGC, SJPP Prokhas has a very good non-performing credit ratio of about 1 per cent.⁷⁷ Various working capital schemes under SJPP could be targeted towards IB, but a high-level commitment to IB will be required for this to happen.

Credit guarantees can help unleashing investments into IB. However, none of these two government financed institutions are interested in including specific guarantee schemes for IB. This may not be necessary given the small number of IB so far, the fact that guarantee schemes are available, and that such guarantees may not be sufficient to mobilize core funding from banks for a company with a business line that the banks do not understand much yet. Rather, this study recommends a two-leg approach: a) integrating IB under existing guarantee schemes, and b) establishing a novel risk reduction mechanism outside of guarantee schemes.

Table 13. Financing of the Malaysian Economy 2018 (MYR million)

	Businesses		Households	Government	Sub-total
	Total	of which SMEs			
Financial intermediaries	31,411	2,353	60,894	2,747	95,052
Banking system	35,633	352	50,763	2,747	89,143
Development finance institutions	-1,974	1,666	1,492	0	-482
Other domestic intermediaries	-2,248	335	8,639	0	6,391
Capital markets	47,554	0	0	51,973	99,527
Bond market	45,189	0	0	51,973	97,162
Equity market	2,365	0	0	0	2,365
External financing	58,964	0	0	140	59,105
Direct foreign investments	32,648	0	0	0	32,648
Offshore borrowinfg	26,316	0	0	140	26,457
Sub-total	137,929	2,353	60,894	54,861	253,683

Source: Bank Negara Malaysia, 2019.

Venture capital and private equity

In 2018, the Malaysian economy, to a total of MYR 253.7 billion, is financed by external financing (43 per cent) and capital markets (34 per cent), and then by financial intermediaries (23 per cent). The main borrowers were the business sector (54 per cent). However, SME financing is only 2 per cent of the total business financing.⁷⁸ Bank Negara Malaysia data show no capital market investments (bonds or equity) nor external financing for SMEs (table 13).

Venture funding and private equity funding is a fast-growing industry in Malaysia. The net asset value of funds grew from MYR 87 billion in 2004 to MYR 418 billion in 2017, and the assets under management from MYR 377 billion in 2010 to expected MYR 1.6 trillion in 2020. There are 110 registered venture capital (VC) corporations of which nine are private equity (PE) funds. By end 2017, the total committed PE and VC funds was MYR 7 billion, total cumulative investments were 2.5 billion, and the investments in 2017 were MYR 418 million. 30% of the VE funding comes from sovereign wealth funds and addition 30% from government agencies, while 27% is from corporate investors, 7% from funder-fund and asset managers, and 2% from financial institutions; the rest is from individuals and family offices (2%), as well as pension and provided funds, and insurance companies. Over half of the investments

went to life sciences, a quarter to manufacturing, and 14 per cent to ICT.⁷⁹

Some of the most known private sector funds in Malaysia include 1,337 Venture, the Billion Fund for Women, Different, Gobi, JoGal Venture, Libra Invest, Malaysia Dust Venture, Rethink Impact, and Soft Bank.⁸⁰ These investors typically look for large deals in consumer products, health and education services benefitting exclusively those who can pay for the services, and in economic infrastructure. A typical venture fund investor is NAVIS which made 70 investments since 1998 worth more than MYR 20 billion (\$5 billion) in deal sizes of \$30-50 million each.⁸¹ Such large investments would not, at this stage, be suitable for IBs.

An example of a government financed venture capital fund is the Malaysia Venture Capital Fund (MAVCAP). It is a 100% government owned equity fund established in 2001. In the first phase of its operation (2001-2010) MAVCAP invested about MYR 1 billion. Since then, MAVCAP focuses more on start-ups especially in the ICT and green technology sectors, with investment ticket sizes of MYR 2 million to MYR 5 million in equity representing 10% to 30% of the total investment of a company. MAVCAP also co-invested with other venture funds. In the last five years, for example it co-invested in 11 venture capital funds, up from three in 2010, an example of the strong

increase in venture capital funding in Malaysia.⁸²

Other government agencies have also started recently to set up venture funds. MEDAC is setting up a SE venture fund for start-up financing, and the Ministry of Finance launched an SME Fund with \$21 million, managed by Warisan Quantum and RHL Ventures. The Ministry of Finance also invested about MYR 300 million in the state-owned Cradle Fund, providing pre-seed and commercialisation grants in the amount of MYR 0.15 to MYR 0.5 million for (900 so far) start-up companies with innovative technologies (average investment of MYR 350,000).⁸³

There are also state owned investment funds such as Khazanah, the Federal Land Development Authority (FELDA) (oversees the resettlement of rural poor into newly developed areas and organises smallholder farms growing cash crops, especially in palm oil), and Ekuinas (a government supported private investment fund for investing in established growth companies – not start-ups – with ticket sizes of MYR 50 million in targeted sectors of oil and gas, fast moving consumer goods, retail, food and beverage, and healthcare and other services).

None of the PE or VC funds is specialised in IB financing, nor do they have IB in the focus of their portfolio. As a result, there is no IB investment so far from VC and PE funds. As IB companies are currently most small in scale, and impact investment is mostly given in form of equity, the data suggest that there is barely any impact investor active in Malaysia providing funds for IB companies. This was also confirmed through the interviews.

Other financing schemes for Inclusive Business - Islamic financing and crowdfunding

Some private banks in Malaysia implement Islamic financing schemes. These programmes typically reduce the cost of borrowing from 6% to 2%. However, project financing is only for products and services compliant to Islamic law (sharia) (e.g. halal food, non-alcoholic drinks). In principle, Islamic law prohibits interest paid on loans (riba). Banks all over the Islamic world have developed innovative Islamic banking principles that can be relevant for IB financing, such as mudarabah (an investor is sharing profit based on a pre-

determined agreement, while loss is typically with the bank and not with the investor), musharakah (an investor becomes an equity shareholder like a joint venture), murabahah (an investor covers costs and other financial needs, and profit and loss is distributed under a pool-based management), wadiah (an investor establishes safekeeping mechanism for the company), and ijara (leasing arrangements). Islamic financing has showed a strong growth in Malaysia since the mid-1980s. By May 2019, Islamic banks, commercial banks (such as Maybank, CIMB, HSBC Amanah) and other Islamic finance special purpose vehicles (e.g. the Malaysia Building Society) are practicing Islamic financing schemes through 16 banks to the amount of MYR 549 billion (approx. USD 132 billion), of which 13% were invested in businesses.⁸⁴

SMEs are also increasingly accessing new financing platforms such as equity crowdfunding, peer-to-peer (P2P) financing, angel investments, and others. The Security Commission reports that, as of March 2019, the crowd funding market has provided close to RM350 million (USD \$84 million) to nearly 900 Malaysian MSMEs.⁸⁵ The SME Corp Annual Report 2018/2019 states that crowdfunding has raised MYR 48.8 million in equity capital for companies supported by SME Corp.⁸⁶ Since most of these investments are less than MYR 0.5 million per deal, crowdfunding, given its smaller funding and deal size, may be more relevant for SE initiatives.

Impact investing

Impact investing is a broad term that may refer to different concepts:

- All investments that go beyond the bottom-line. In this view, all public sector and private investments from development finance institutions (such as the Asian Development Bank or World Bank/IFC) and all government development expenditure would qualify as impact investing.
- Private sector financing. In this view, all investments of financial institutions promoting private sector are considered as impact investing.
- Private sector investments with environmental and social purposes. In this notion, government investments and

development-type of investments are not considered impact investment.

- Allocations for social enterprises, no matter whether such investments go for environmental or social purposes, or B40 or better-off social groups.
- For IB, impact investing refers to providing finance – public and private - to private sector companies that design their business line for achieving tangible impact (higher income or better and more affordable services) for the B40. This definition excludes environmental and other development financing.

There are barely any impact investors active in Malaysia serving the market of the poor and low-income people.⁸⁷ There are a few grant-financed schemes supported by government and angel investors that are mainly supporting SEs and start-ups through small investments between MYR 0.1 million and MYR 0.5 million. However, commercially viable impact funds targeting bigger deals up to MYR 20 million and focusing on companies serving the B40 needs have not yet entered the Malaysia market. There is basically no real IB investment, nor is there a specialised IB fund in Malaysia. Some impact investors (e.g. from Singapore) have tried to target the Malaysian market but have not yet been successful.

There is no up-to-date information on impact investing in Malaysia. The Global Impact Investing Network (GIIN) estimates that the cumulative impact investing in Malaysia by 2016 was only MYR 200 million (\$30 million from private impact investors and \$18 million from development finance institutions).⁸⁸ This data comprises investments benefitting the B40 and broader investments for the environment and other development purposes.

The Agency for Innovation in Malaysia (AIM) has initiated impact investing for people and the environment. Its Malaysia Collective Impact Invest (MCII) works with family foundations, and has established four pilot schemes, i.e. the Social Impact Exchange (working with listed companies), an education finance fund, a crowd funding platform, and a pay-for impact investment bond.

In addition to impact investors, angel investors can be important players for the IB agenda.

The Malaysia Business Angel Network (MBAN) consolidates angel investors in Malaysia. While the organisation claims that it is easy in Malaysia to find angel investor for purposeful projects, the amount these angel investors provide is relatively small, and most go as grants to either social enterprises or NGOs or to tech start-ups. According to MBAN, there have been no investments in IB companies. MBAN considers it would be possible to find co-investors for the proposed IB technical assistance work and the risk reduction facility, especially if high-level commitment for IB is noted in RMKe-12. It would be very useful for the IB initiative to explore this further, and further work with MBAN on advocating the IB agenda to potential angel investors in Malaysia.

Some impact investors- like those in the AIM and MBAN networks – focus on grant financing in social enterprises.

Most impact investors, however, seek a good return for their investments and, during the interviews and discussions, noted that the ecosystem for impact investing in Malaysia is weak. They highlighted that there is limited of awareness about inclusive business, a lack of investable deals, weak support mechanisms for IB firms, limited space for the private sector to serve the needs of the B40 due to the strong government presence, and that the wide offer of grants reduces incentives for business people to take risks and innovate.

Impact investors also noted that the firms' path to have a social impact is often not sufficiently elaborated, and many firms only vaguely substantiate how they are targeting the B40 or delivering social and environmental goods and services. Impact investors, however, require more solid impact analysis. Most companies, including SEs and IBs, in Malaysia have limited expertise and resources to do such analysis.

To promote impact investing in IB and for the B40 it will be important to work on enhancing the overall ecosystem through implementing programmes to generate greater awareness on IB, provide business coaching for firms to develop IB models, reduce the assumed or real risks of impact investors, and advocate and reward impact investing in IB (for example, through tax incentives for investors).

D. Other Inclusive Business facilitators

In Malaysia, currently, there is no IB facilitator, even if there are some government facilitation programmes (through MaGIC) and some established business advisory firms for larger and medium sized enterprises. The Kuala Lumpur Impact Hub could serve as a facilitator but it is mainly active in advocacy and dissemination work (plus providing some grant-financed consultancy advice, mostly for SEs). There may be other organisations – especially business consulting firms that could develop interest in the IB agenda and serve as IB business facilitator or accelerator.

There are also no development partners' financed programmes for IB support or where IB support could be linked to. This is also because, as Malaysia is an upper middle-income economy, development partners are not very active in the country.

CSR activities are common. An annual CSR award for public listed firms is organised by CSR Malaysia in cooperation with the Ministry for Women, Family and Community Development. CSR features in the Malaysia's national development plans since 2011 and is mentioned in the 2016 Company Act. Since 2006 (and revised in 2015), the stock exchange (Bursa Malaysia) requires public listed companies to do CSR reporting. While 90 per cent of all stock exchange listed companies comply with this requirement, the quality of reporting is weak⁸⁹. Furthermore, half of the CSR is charitable. Only 36 per cent of firms allocate sustainable financing to their CSR, and only 12 per cent of the companies report the value of CSR for their business. This last category of CSR spending signals the potential for CSR to transform into an IB activity.

However, beyond the Bursa Malaysia data, there is no systematic listing of companies doing CSR nor an analysis of the impact such activities have.

In 2018, CSR Malaysia, carried out a survey on the CSR engagement of 100 SMEs. The findings indicated that out of the 100 SMEs contacted, 17 did not spend anything on CSR. Those SMEs that do CSR, spend actually very little - only 7% of the companies have annual CSR allocations of more than MYR 50,000, 13% spend between MYR 10,000 and MYR 50,000, 35% between MYR 1,000 and MYR 10,000, and 28% below MYR 1,000. Most CSR spending is for festivals and celebrations during the year, followed by cash donations to orphan children and the elderly, and by food donations.⁹⁰ CSR of larger companies is much higher.

The Global Compact Network in Malaysia has about 50 members, most of them being large companies with MYR 80 million sales annually on average. The United Nations Development Programme (UNDP) is currently establishing an internet platform registering companies in Malaysia that actively do CSR work and link them to the Global Compact programme⁹¹. In the pilot phase for developing the dashboard, 20 large companies have been approached to provide information on their CSR. Ten of those companies reported spending about MYR 80 million since 2016 (under \$1 million per company per year) for CSR work.⁹² Information on IB models could be added to this platform with the purpose of showing the commercial return, innovation and social impact of IB investments as alternative for CSR spending, and of encouraging larger companies to transform their traditional CSR into IB activities.

To promote an enabling environment for IB, it is recommended to budget some funds for doing advocacy on IB with Impact Hub, Global Compact, and CSR Malaysia. However, these organisations may not be the most adequate to provide advisory services to businesses seeking to develop IB models, as their current programmes provide general capacity building activities that do not match the requirement of coaching business to develop IB models.



CHAPTER 6. HOW TO PROMOTE INCLUSIVE BUSINESS IN MALAYSIA?

To promote the emergence, growth and development of IB models, three elements are essential:

1. Establishing a high-level government commitment to IB through a separate IB strategy linked to broader government sectoral or development policies. In the case of Malaysia, this means integrating IB in the national policy and in strategic speeches of high-level government and private sector officials.
2. Mainstreaming IB promotion in existing SME promotion and other development programmes. In the case of Malaysia, this means reviewing the 160 or so SME development programmes and some of the social development initiatives, funded by the government and, in the relevant programmes (only a few might be relevant for promoting IB), establish mechanism to target IB and allocate about 5 per cent of the budget of those programmes to IB.
3. Developing a dedicated programme and implementation structure to promote and monitor IB. In Malaysia, the recommendation is to establish an IB promotion programme championed by SME Corp. Malaysia, and implemented through various government agencies, business associations, impact investors, and other facilitators involved in private sector development.

This chapter summarizes recommendations to set up an IB promotion policy, programme, and implementation structure for Malaysia. The proposed recommendations have been discussed with various government agencies, and especially with the management of SME Corp. Malaysia as the proposed champion for implementing IB promotion. Feedback and further guidance from business associations and other stakeholders were integrated.

A. Strategic policy commitment to promote Inclusive Business

It is a very good time for introducing IB promotion and linking it to ongoing high-level strategic discussions on the future development of Malaysia. There are various complementary avenues to promote IB at the strategic level.

To promote IB, it is recommended to establish specific IB targets under key existing development programmes as well as a specific IB initiatives under SME Corp. Malaysia. This should be matched by financial resources.

a) The National Entrepreneurship Policy 2030 (DKN 2030)

Another avenue for integrating IB at a strategic level is the new National Entrepreneurship Policy (DKN 2030). DKN 2030 was launched in July 2019, and already makes a reference to IB.

The National Entrepreneurship Policy⁹³ has six focus areas, of which three (innovation and technology, market access and finance access) are of particular relevance for IB. The action plan for NEP 2020 could comprise a special chapter on purposeful enterprises, discussing IBs, SE, and companies that contribute to the environment and to new technology development. The plan could also emphasize the importance of impact investing, in addition to banks, government and venture and private equity funds, to spur new shared prosperity. Furthermore, the document could have a special section on impact reporting and refer to the IB accreditation system.

b) A strategy for an Inclusive Business enabling environment in Malaysia (IBeeM strategy)

SME Corp. Malaysia may also wish to summarize the key elements of the strategic commitments to IB and the key features of an IB programme in a separate short strategic document for promoting an Inclusive Business enabling environment in Malaysia (IBeeM strategy).⁹⁴

B. Targeting IB in existing SME and other development promotion programmes

There are two complementary ways of promoting IB. One is to mainstream IB in existing programmes, the other one is setting up dedicated schemes and implementation structures for IB promotion. Mainstreaming IB is important but sufficient. The introduction of a fundamentally different approach to development requires well-structured and dedicated support. IB promotion is very different from private sector development, because it focuses on the strategic intent and social impact of firms and seeks to generate results for poor and vulnerable people, unlike traditional investment decisions seeking only financial returns. Furthermore, IB promotion – to be effective – needs specific expertise and backing.

The government is financing about 160 SME promotion programmes and at least 50 social development programmes. Some of these programmes can target IB companies. This may be done by adding IB as a special programme objective (for example credit lines for specific sectors, regions, or development purposes that add a special allocation for IB) or reshaping the programme to provide firms with more freedom to design new ways of supporting the B40 (for example a scholarship programme for B40 groups where part of the budget could be used for the private sector to offer new ways of improving quality and access in education or technical training).

C. Specific Inclusive Business support – six programmes

In addition to integrating IB in existing programmes, additional specific IB support programmes could be established and implemented through SME Corp. Malaysia. This is necessary to provide specific IB support that cannot be under existing programmes, and to provide SME Corp. Malaysia, as IB coordinating agency, and other implementing agencies (e.g. business associations) the financial means to promote IB.

We recommend six IB-specific programmes: (1) institutionalising IB support through focal points, oversight board, and an IB coordination unit; (2) IB awareness promotion; (3) IB accreditation and awards; (4) IB business coaching; (5) IB risk reduction financing, and (6) further policy

analysis. Similar support programmes are also implemented in other countries. This report makes recommendations for implementing IB support programmes in Malaysia and gives a rough estimate of its costs.

1. Institutionalising Inclusive Business support

The study recommends institutionalising IB support through three major approaches:

First, establishing an **IB coordinating unit at SME Corp. Malaysia under the purview of MEDAC** to coordinate the strategic IB initiative, oversee the implementation of SME programmes for IB (steering IB accreditation, facilitating IB coaching, coordinating the IB risk reduction financing, and promoting IB awareness), as well as monitoring and reporting on results of the new IB strategy. The unit could be established in the policy monitoring and inclusive development division under the strategy and policy department.

Second, formally establishing **focal points** in agencies participating in IB implementation to coordinate IB promotion within their own agencies; raise awareness on IB; monitor IB results and contribute to a national IB report; and help steering the IB initiative at the national level.

Focal points are very important as most IB support will be mainstreamed through selected SME and other social development programmes. MEDAC through SME Corp. Malaysia may coordinate efforts with Ministries/Agencies that are involved in implementing its own programmes (eg Ministry of Trade and Industry, Ministry of Agriculture and Food Industry, Economic Planning Unit, MaGIC), business associations (SME Association, FMM, MAAAYE, NAWEM) as well as representative for investors (eg MBAN).

Finally, establishing an **IB Steering Board** to provide strategic advice and guidance on IB implementation; endorse the annual action plan for promoting IB; certify IB accreditation; and endorse the annual report on IB results prepared by SME Corp. Malaysia as secretariat to the Board.

The IB Steering Board would be chaired by MEDAC and co-chaired by a business association, and comprise key members implementing IB strategy from government, business associations, investors, facilitators and other partners. SME Corp Malaysia would be the secretariat to this board.

2. Promoting Inclusive Business awareness and links to the Social Enterprise agenda

IB is not much known in Malaysia and promoting IB requires further knowledge sharing and advocacy. Business associations are best suited to generate awareness among firms. However, some government agencies would also need to prepare and disseminate knowledge on IB. Information material could include an IB website, workshops and seminars, and capacity building programmes. It is recommended to allocate, under SME Corp. Malaysia's IB budget, some funds for these activities and to channel them directly to business associations to do IB advocacy work.

3. Establishing sound Inclusive Business accreditation

While experts and some impact investors have a clear understanding on what IB is, companies and traditional financial institutions often do not have. For many, IB is a blurry concept. If public funds are provided to support IB, it is essential to create a transparent and accepted system that can clearly distinguish IB from non-IB. Without such system, support programmes cannot target IB companies, the programme may be criticized for favouritism, and the B40 may not fully benefit.

This study proposes introducing an IB accreditation system as basis for targeting IB support. Only IB accredited companies would have access to financing, business coaching and other IB support programmes. IB accreditation system is also used in other countries in Asia.

The principles of IB accreditation are based on a composite rating tool that assesses business performance, social impact and innovation through 30 criteria. The rating is based on the inclusive business line, and not the whole company. Each criteria is rated from 1 to 6 (based on a pre-established guidance with different targets depending on sector and size of the company) and allocated a weight to provide an overall scoring for the IB line. To qualify as an IB model, companies must achieve a minimum scoring in each category (business performance, social impact, innovation, governance, and environmental and social safeguards). The rating design allows for small and large companies to be eligible for IB accreditation. Weak rating in one criterion does not necessarily exclude a company from being IB eligible. Companies whose rating

is close to the minimum scoring, have a strong strategic IB intend, and concrete plans to change their business into IB are rated as potential IB.

The proposed IB accreditation tool for Malaysia (see table 14 and appendix 2) was also used in this study to assess the 24 interviewed and rated companies. As many potential IB companies in Malaysia are currently small in impact and commercial viability, and many IB initiatives are coming from upscaling social enterprise business models, the international benchmarks for IB rating were slightly adjusted downwards. While the IB characteristics emphasise an equal importance of commercial viability and social impact, for the Malaysia case, social impact and innovation had a slightly higher weight. This can be re-adjusted once the IB system is institutionalised and more companies – especially medium sized and larger ones - come forward with IB models. The overall weights proposed are:

- For commercial viability the proposed weight is 40%, comprising an assessment of revenue and growth, profitability, bankability, ways of addressing business risks, company governance, and adherence to social and environmental safeguards; some of the criteria are assessed for company and the business model.
- For assessing the social impact, the weight was determined at 46%, comprising reach and targeting (19%), social depth (15%), and contribution to systemic transformation for the B40 (12%).
- For innovation the proposed weight is 14%, with emphasis on business innovations (5%), while technological, social, and environmental innovation have a weight of 3% each.

IB accreditation would be done twice a year by a team of representatives from government and business association, based on in-depth company interviews done by an independent expert. The IB accreditation is an ex-ante assessment of the IB model. The results of the IB rating would be summarised by the consultant in a brief write-up including also suggestions for IB promotion. The rating will be decided by the IB accreditation team and further confirmed by the IB Steering Board. Based on the rating, a formal IB award could be given to the companies at the SME Corp. Malaysia's annual Enterprise 50 awards.

Companies that are rated as potential IBs will receive business coaching to make their business line more IB ready. Only thereafter, investment support can be considered. Investment support for potential and real IB companies will only be given based on the actual achievement of implementation

targets towards IB, as agreed between the company and SME Corp. Malaysia in a separate IB agreement. This IB agreement lists the objectives and activities of transforming the company to a better IB, and provides clear targets, implementation steps, timing and cost estimates for achieving that goal.

Table 14. Proposed Inclusive Business accreditation for Malaysia

Name of company:								
Impact area:								
Sector (subsector):								
Date of interview and name of interviewer:						Date of rating:		
IB business line (summarize):								
IB strategic intend (analysis and rating):						Rate:		
B40 engagement model (B40 as supplier, laborer, distributor, consumer, shareholder)								
Company type: IB (SE-I, IB-A, IB-M); potential IB; non-IB (MB, SE, CSR, NGO)								
	Weight	Rate (1-6)	Score (W*R)	Benchmark	Company actual	Company own rating	Team rating	Score
The commercial return	40%							0.00
Company (size, profit, bankability)	11%							
IB model (revenue, growth, business risks, profitability)	19%							
Company governance	5%							
Environmental and social safeguards	5%							
The social impact of IB model	46%							0.00
Reach beneficiaries, targeting, women empowerment)	19%							
Depth and relevance	15%							
For supplier (labor, distributor) models: (before-after, market rate, competitor, sustainability)	15%							
For consumer models (relevance, affordability, delivery mode)	15%							
Systemic change for poverty reduction and inclusion (sector, geographical, gender, relevance and transformation)	12%							
Innovation	14%							0.00
Business	5%							0.00
Technological	3%							0.00
Social (CSR, ...)	3%							0.00
Environment	3%							0.00
Total	100%							0.00
Challenges and suggestions:								
Comment:								
Suggestion for possible IB agreement:								
To qualify as an IB business lines, companies must achieve: (a) an overall IB rating > 3.2, (b) a business rating > 1.3, (c) a social impact rating > 1.5, (d) an innovation rating > 0.4, (e) a governance rating of minimum 0.15, (f) an environment and social safeguard rating of minimum 0.15, and (g) an IB strategic intend score of minimum 3. Companies which are close to these numbers, have a strong strategic IB intend, and concrete plans to change their business into IB are rated as potential IB.								
IB strategic intend score					minimum	3		
IB rating (total)					minimum	3.20		0.00
Business (commercial + business + technology)					minimum	1.30		0.00
Social (social impact + social innovation and CSR)					minimum	1.50		0.00
Innovation (sum of innovation)					minimum	0.40		0.00
Governance					minimum	0.15		0.00
Environmental and social safeguards					minimum	0.15		0.00

4. Facilitating IB business coaching

Most of the IB companies analysed in this landscape study are potential IB. Only 2 of the 12 IB models exceed all the thresholds, while the other 10 company cases had challenges in either social or commercial or innovation performances, although they were close to the thresholds. However, the managers of the potential IB models indicated a strong strategic intent to become IB and some have already started exploring potential IB transformation, following the advice and discussions held in the context of the rating exercise. Experiences from the company interviews done under this landscape study show that such discussions and advice are critical to guide and encourage businesses how they can develop into IB models, and that many companies are interested in such advice. Since knowledge about IB is still limited in Malaysia, establishing a business coaching facility early on (a pilot by SME Corp. Malaysia in 2020) would be very helpful.

The IB business coaching would be fundamentally different from existing government capacity development programmes, which are often for smaller firms or social enterprises, focus on general business development for new firms, do not provide in-depth training on proper social impact assessment (which goes beyond reach towards discussing targeting, gender issues, social depth, systemic change for B40), and do not provide advices on business reengineering to achieve large scale social impact through high commercial returns. Similarly, business coaching done by consultancy companies are also short in understanding or advising on the social dimensions beyond social safeguards. Hence, a separate, new IB business coaching, outside existing programmes of government agencies, should be established under SME Corp. Malaysia.

The IB business coaching facility will provide company specific guidance rather than general training or seminars. The target audience would be the high-level decision makers of the company, such as the CEO, the chief operation officer or in exceptional cases, the chief financial officer. Business coaching services may vary depending on the IB need of the company. They would generally start with an overall discussion of the strategic and its social and commercial impact that provides a general orientation on

what type of IB model could be developed. This can be done in an initial coaching of 1-3 days. In addition, further coaching could be provided to develop a concrete IB model or to access impact investors. The facility could also provide support to identify new market or advice on business processes, for which sector experts would be needed. Business coaching services typically provides several focused short-time advisory services sustained over a longer period of time. They may be provided through phone discussions, although a company visit and a personal exchange is essential for achieving thrust and results. Training of B40 in the value chain or research on technological innovations should not be part of business coaching under this programme.

To raise ownership, the receiving company would co-pay part of that business coaching. The implementation of the business coaching should be flexible and demand based. To meet the diverse requirements of expertise, SME Corp. Malaysia should create a small network of IB trained experts in Malaysia and internationally.

5. Creating an Inclusive Business risk reduction facility

The Malaysian government finances many credit lines and guarantee schemes, implemented either by government institutions or by the private sector. There is no shortage of funding for possible investments. The availability of funding is also supported by low interest rates globally and large availability of finance in banks and other institutions.

However, as in other ASEAN countries, there are not many investments in IB, even if funds are available. This is because of two major reasons: 1) proposed project are not investment ready, and 2) investors perceive risks –real or assumed – and prefer to see the potential before investing in a new, different business model. While business readiness will be addressed through business coaching services, investors' readiness can be encouraged by establishing a risk reduction financing facility.

An IB risk reduction facility is different from a traditional guarantee instrument. The risk reduction facility does not ensure an investor that its investment risks are covered, but

provides an opportunity for the government shares risks providing social value, without subsidising that investment. Such risk reducing financing tools are used for example in Latin America by the Inter-American Development Bank for IB and other financing and they are also emerging in Asia.

Through the proposed facility, the government co-invests (15 to 20 per cent of the total investment value) in the first phase of an IB model (e.g. the first one or two years). The investor(s) provide(s) the other 80 to 85 per cent. The IB model which will then be upscaled by the investor(s) alone in phase 2. The government's co-investment

will be designed for the whole investment (the two phases), but the money will be released in the first phase. The investor(s) cover(s) most of the investment and of the risk. The financing will be used to reduce the investment risk and unleash actual financing from impact investors in accredited IB companies. The government investment is in the form of equity (or quasi loan) and if the investment achieves the planned social outcomes but does not meet the agreed financial returns, the government investment will be converted into a grant. Otherwise, it will be paid back (without interest) starting from year 2 of the project implementation and completing the repayment by year 5.

Box 1. Risk reduction facility for investing in Inclusive Business models – example from an ASEAN country

An impact investor was in a two-year discussion with a company providing low-cost housing. The company is profitable, and the business case is in line with the impact investors' objective. The company has successful experience in building a small number of houses (200 units) and wanted to scale up to 1,000 houses. The investment would have been to buy the land and carry out the initial land development for the 1,000 housing project, while the actual cost for building would be financed through the company's own funding and the houses built and sold in a staggered way. Housing for the poor is an important social good in that country, and the highest cost share is buying land.

The company wanted to buy a large plot at once because the land price would be lower, the housing would then be more affordable for the poor, and the business achieve a higher return. The impact investor, while trusting the company's ability to build 200 houses, was reluctant to invest in a 1,000 housing project because of the company's lack of experience in handling such a bigger project. The impact investor finding that the deal with the company was 90-95% ready, suggested the government co-invests 15% of the total land costs through the risk reduction facility. Total investment costs for purchasing the 5 hectares land (housing for 1,000 families) and doing some initial investments for land development was USD 2 million, of which the government should shoulder \$0.3 million as an initial equity investment (patient capital to be repaid within 5 years) through the risk reduction facility.

The agreed rate of return for the risk reduction deal was 20%, while actual calculations between company and investor gave a profitability of over 30%. The proposed agreement between the investor and the government would be that if the houses in phase 1 of the total investment (200 houses) sell at a profit margin less than 15%, the government financing would be transformed into a grant. However, if the houses sell at a profit rate higher than 15%, the government share would be repaid by the investor as a loan. The likelihood that the return would be lower than initially calculated was estimated by the two partners at less than 5%. Even if the investment would not be financially successful in the first two, it would be successful from a social perspective as it would allow to build 200 houses in the first year and 250 more houses in the next year, more than double than the initial project.

The risk reduction facility would be open for various investors, both impact investors and financial institutions, but limited only to support accredited IB companies. To allow various potential IB investors to access the risk reduction facility, the facility will not be managed by a fund manager. Rather, eligible investors will be pre-screened and an IB Investment Board will decide on the IB deals to be supported. The risk reduction facility can be established directly under SME Corp. Malaysia and can work with a very lean decision body, as the screening of the actual investments will be done by the eligible impact investor. To ensure that the funding goes to those companies that create the expected social results, only IB accredited companies can receive funding from the risk reduction facility. It is suggested that decisions on deal financing being made by an IB Investment Board comprising of representatives from Ministries/Agencies, business associations and development banks.

6. Other Inclusive Business policy work

IB promotion is new to Malaysia, and during implementation of the IB initiative other policy work may be needed, especially for doing further studies and initiating new programmes, and therefore it would be recommended to allocate some funds for other policy work.

Further studies could be conducted to examine the possibility of prioritising IB and SE in public procurement, to analyse the impact of IB for women empowerment, or to explore whether tax incentives for impact investors, and eventually also for IB companies, should and could be offered by the government of Malaysia.

D. Inclusive Business implementation arrangements

The IB promotion initiative will be implemented by various agencies. SME Corp. Malaysia will be the overall coordinating executing agency and a special IB unit will be created in SME Corp. Malaysia to initiate and coordinate IB implementation.

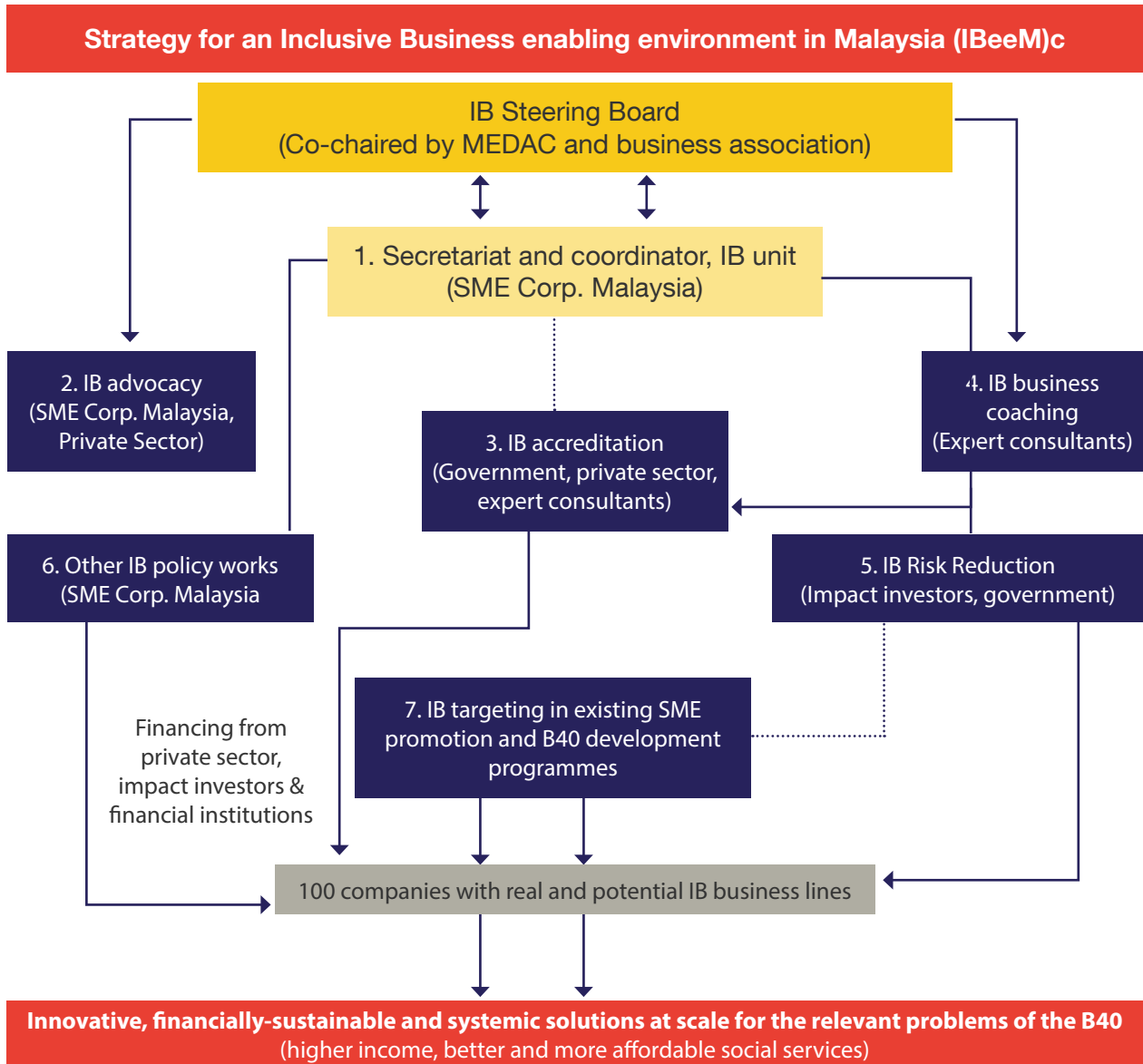
The IB initiative will be overseen and guided by an IB Board composed of representatives from government, business associations, impact investors, facilitators and experts.

The following division of labour for promoting IB is recommended:

- IB awareness will be promoted by business associations (and SME Corp. Malaysia)
- IB accreditation will be done jointly by representatives from government and business associations.
- IB coaching will be provided by individual experts hired through SME Corp. Malaysia, and implemented in cooperation with business associations.
- The IB risk reduction facility will be implemented by impact investors and coordinated by SME Corp. Malaysia as an executing agency.
- SME Corp. Malaysia will also be responsible for further policy work and coordinating with other government agencies that commit to some IB targeting under their existing programmes.

Figure 11 provides an overview of the IB initiative, its programme features, and key actors involved, as well as its result chain.

Figure 11. Proposed Inclusive Business implementation structure



E. Development results for the new shared prosperity strategy

The following are estimations on real impact, and not just outputs, that the IB initiative could generate. Impact is estimated along three dimensions: (1) Impact for Malaysia’s economic growth through new private sector investments; (2) Impact on improving the B40s income and living condition; (3) impact on stimulating productivity increase, innovation and company transition and growth.

Revenue created

The authors assume that through the IB initiative and over 6 years, about 100 companies will make IB investments. Of these, 70 to 80 will make

investments using the proposed IB risk reduction facility, and the rest will finance their IB model without using the IB risk reduction facility.

The contribution to GDP depends on the revenue size of the IB model, the number of IB models in the respective revenue category, the different growth assumptions, and the number of new IB models being established every year. Table 15 below provides an estimation of IB contributions to GDP based on these criteria. The revenue generated is calculated by the sum of annual revenues of the IB models, plus the growth in the revenue of the IB models in the previous year. The table shows that over six years, IB models would create a revenue of MYR 2.38 billion. This represents the contribution that IB models through their sales make to GDP.

Table 15. Inclusive Business models' contribution to GDP

	Annual revenue		Number of IB companies active						Annual growth assumption	Revenue generated (MYR million)							
	Revenue range (MYR million)	Average revenue (million MYR)	Per year (cumulative)							Total (2020-2025)	Per year					Total (2020-2025)	
			2020	2021	2022	2023	2024	2025			2020	2021	2022	2023	2024		2025
Small companies	0.5-3	1	8	18	28	38	45	45	45	10%	8	18,8	30	41	49	50	196
Medium-sized companies	3-15	5	5	10	18	28	35	35	35	8%	25	52	94	147	186	189	693
Large companies	>15	20	2	5	10	15	20	20	20	5%	40	102	205	310	415	420	1,492
All IB companies	>0.5		15	33	56	81	100	100	100		73	173	329	498	650	659	2,381

Note: Revenue generated is calculated by the revenue of the number of companies per year plus the growth in the revenue of the previous year.

In addition to the GDP contributions, IB create income opportunities and new access to affordable and relevant social services for the B40. Of the 100 firms that may engage in IB models in the coming 6 years, one may assume that 57 firms will be doing business models that generate income for the BoP people, and the rest delivering essential and affordable services and goods to the B40. For the 57 companies generating income for the B40, additional GDP contribution will be easy to calculate.

Social reach and social depth of income models

Through income generating IB models (such as agrobusiness, handicrafts, tourism etc.), small companies may reach on average 300 households, medium-sized companies would reach 1,000 households, and larger companies 3,000 households. In total, 57 companies with IB income generating activities would benefit about 52,000 households, of which about 47,000 would be BoP households. As income is shared within a household, by 2025 the total number of B40 beneficiaries from IB income models would be about 192,000 people (table 16).

Table 16. Social reach of income generating Inclusive Business companies

Company size	Annual revenue (MYR million)	Number of IB models (cumulative)	Percentage of IB models based on income-generation models	Income opportunities created		B40 beneficiaries (1)	
				Number of income earners per company	Total income earners	B40 households	B40 people
Small	0.5-3	45	65%	300	8,775	7,898	32,380
Medium	3-15	35	55%	1,000	19,250	17,325	71,033
Large	>15	20	40%	3,000	24,000	21,600	88,560
All		100	57 companies	4,300	52,025	46,823	191,972

Note: (1) The number of B40 beneficiaries is calculated assuming 10% of total beneficiaries going to the M40. (2) It is estimated that households have on average 4.1 members.

Table 17. Income increase among the B40 through Inclusive Business investments

Income group	Monthly household income (up to MYR)	Beneficiary households (2025)		Number of beneficiary households per year							Income all households			Value addition from IB			
		Percent	Number	2020	2021	2022	2023	2024	2025	Average number of households	Average per year at market rates	Average per year at IB rates	6-years total income at IB rates	Total per year (MYR million)	Per household per year (MYR)	Per household per month (MYR)	
Number of companies active per year				15%	33%	56%	81%	100%	100%								
B40	very poor	1,000	12%	6,243	936	2,060	3,496	5,057	6,243	6,243	4,006	48	58	346	10	1,540	128
	poor	2,000	45%	23,411	3,512	7,726	13,110	18,963	23,411	23,411	15,022	361	433	2,596	72	3,080	257
	low income	3,000	33%	17,168	2,575	5,666	9,614	13,906	17,168	17,168	11,016	397	476	2,855	79	4,620	385
M40	>4,000	10%	5,203	780	1,717	2,913	4,214	5,203	5,203	3,338	160	192	1,154	32	6,160	513	
Total			100%	52,025	7,804	17,168	29,134	42,140	52,025	52,025	33,383	965	1,159	6,951	193	3,711	309
Total B40 only			90%	46,823	7,023	15,451	26,221	37,926	46,823	46,823	30,044	805	966	5,797	161	3,439	287

Notes: (1) Assuming that B40 have 15-20% higher income being engaged in IB models than with mainstream businesses or social enterprises paying typically the market rates.

Given that IB business models, to be eligible as IB, require payments of about 15-20% above market rates, the income increase for the 47,000 BoP household beneficiaries would be substantial. Over 6 years of programme implementation, IB companies with income models would create a total gross income of MYR 5.7 billion for the B40. The average B40 value addition from the IB investments in income models is MYR 161 million per year, which translates on an average income increase of MYR 287 per month for the B40 (Table 17).

Social reach and social depth of service models

Estimating the overall impact of IB models providing essential services and goods for the B40 are more difficult. Social reach of such investments is sector-specific, and social depth

is harder to quantify⁹⁵. Table 18 provides an overview of the estimated benefits of IB service models over 6 years.

The figures show that the 43 companies assumed to become involved in delivering essential goods and services between 2020 and 2025 would benefit a total of 2.4 million people, of which roughly 1.45 million would be B40 people. It would benefit annually on average 404,000 people, of which roughly a quarter million people (60%) would be B40 people.

These 43 IB companies would provide annual social services (health, education, social insurance, social assistance) to about 20,000 B40 people; affordable housing and municipal services for 15,000 BoP people; infrastructure for 64,000 people; fintech products to 72,500 BoP people, and consumer goods to 70,000 BoP citizens.

Table 18. Social reach of Inclusive Business service models

	Assumed number of IB companies operating							Benefits go to:	Beneficiaries per investment model		Number of services provided over 6 years		Number of total beneficiaries (1)		Average annual number of B40 beneficiaries
	2020	2021	2022	2023	2024	2025	Total		Average per company per year	of which B40 (%)	Total	of which B40	Total	B40 only	
Social sectors											169,500	119,700	169,500	119,700	19,950
Education, training, job placement	2	4	6	8	8	8	8	Individual	1,000	90%	36,000	32,400	36,000	32,400	5,400
Health	1	2	3	5	5	5	5	Individual	1,000	80%	21,000	16,800	21,000	16,800	2,800
Insurance	0	1	0	2	2	2	2	Individual	15,000	60%	105,000	63,000	105,000	63,000	10,500
Other social assistance	1	2	3	3	3	3	3	Individual	500	100%	7,500	7,500	7,500	7,500	1,250
Municipal services											33,000	23,100	135,300	94,710	15,785
Housing	0	1	2	3	3	3	3	Household	500	70%	6,000	4,200	24,600	17,220	2,870
Water and sanitation, waste	0	1	2	2	2	2	2	Household	3,000	70%	27,000	18,900	110,700	77,490	12,915
Economic infrastructure											180,000	126,000	552,000	386,400	64,400
Transport	1	1	1	1	1	1	1	Individual	10,000	70%	60,000	42,000	60,000	42,000	7,000
Energy	0	1	2	3	3	3	3	Household	10,000	70%	120,000	84,000	492,000	344,400	57,400
Financial services, fintech, ICT	1	2	4	6	8	8	8	Individual	30,000	50%	870,000	435,000	870,000	435,000	72,500
Other consumer goods	2	4	6	7	8	8	8	Individual	20,000	60%	700,000	420,000	700,000	420,000	70,000
Total number of companies	8	19	29	40	43	43	43				1,952,500	1,123,800	2,426,800	1,455,810	242,635

Note: (1) Unlike income models where the beneficiaries are individual (workers) but the benefits go directly to the whole household, benefits in services models mostly go only to individual persons. However, some benefits (e.g. municipal or energy services) also benefit the whole household. Hence the difference between the number of direct beneficiaries and the total number of beneficiaries.



CHAPTER 7. CONCLUSIONS AND RECOMMENDATIONS

Inclusive Business are private sector's contribution to make economic growth more inclusive for the bottom 40 per cent income groups (the B40). The government of Malaysia is currently finalising the drafting its new Malaysia Plan 2021-2025 (RMKe-12), which its overarching goal is shared prosperity. In addition, the government also seeks to limit its public spending and to support SMEs to become more innovative and resilient firms. Inclusive businesses can address these strategic goals.

The study finds that IB is highly relevant for Malaysia, as there are unmet social needs the private sector can address and as there is a market potential for IB companies to make money from. The IB concept is also a welcomed addition to the social enterprise movement in the country, which is facing limitations to generate large scale social impact and financially sustainable companies.

The study assessed the IB market in Malaysia and 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. The small number of IB found and the smallness of the companies can be explained by the fact that the IB concept is very new to Malaysia. More advocacy and dedicated support to IB will encourage the emergence and development of more IB. There is an opportunity to target up to 100 IB business lines by 2025.

This study suggest that SME Corp. Malaysia would be the best agency to coordinate IB promotion in Malaysia. Yet, actual IB promotion would need to be done in close collaboration with other stakeholders. Other ministries and agencies (e.g. MEDAC, EPU, Ministry of Agriculture and Food Industry, and MaGIC) and

key business associations (e.g. SME Association of Malaysia, FMM, MAAAYE, NAWEM) as well as other facilitating organisations would be core partners in promoting IB.

To effectively promote IB, IB should be endorsed at the high-level, including adding IB in the national policy and an IB strategy should be developed. This strategy should include mainstreaming IB in existing SME and SE development programmes (by adding specific IB targets) as well as six IB-specific programmes - 1) IB accreditation, 2) IB coaching, 3) IB risk reduction facility, 4) IB awareness, 5) further IB policy work, and 6) IB institutionalisation through an IB unit under SME Corp. Malaysia, IB focal points in government and business associations and IB Steering Board.

Such IB promotion strategy could encourage up to 100 companies to create new IB business lines or transform their mainstream business and social enterprise into IB models. This would generate – between 2020 and 2025 –well-paid income opportunities benefitting 192,000 B40 people and provide essential and affordable goods and services for more than 240,000 B40 people. In total, and including benefits among the better-off income groups, IB companies would create benefits for over 600,000 people. This estimate is based on a total of 100 IB companies with different sizes emerging over 6 years.

SME Corp. Malaysia under the Ministry of Entrepreneur Development and Cooperatives (MEDAC) is the ideal agency to promote IB in Malaysia and would be a strong champion to initiate and lead the suggested recommendations for IB promotion under a strategy for an enabling environment for IB in Malaysia (IBeeM Strategy) to achieve strong results for low-income people, for businesses, and for Malaysia.

ANNEX 1. INCLUSIVE BUSINESS ACCREDITATION TEMPLATE

Table A1. Malaysia Inclusive Business accreditation

Number and name of company:						
Impact area:						
Sector (subsector):						
Date of interview:		Interviewer:		Date of rating:		
IB business line:						
IB strategic intend (analyse and rating):						Rate:
B40 engagement model (B40 as supplier, laborer, distributor, consumer, shareholder)						
IB type: IB (IB-I, IB-A, IB-M), other (MB, CSR, NGO-IB)						
		Sector benchmark	Company actual	Company rating	Initial assessor	Team rating
The commercial return	40%					0.00
Company	11%					0.00
Size	4%					0.00
Profitability	3%					0.00
Bankability	4%					0.00
IB model	19%					0.00
Revenue (today)	4%					0.00
Growth (3 years)	4%					0.00
Addressing business risks	6%					0.00
Profitability	5%					0.00
Company governance	5%					0.00
Environmental and social safeguards	5%					0.00
The social impact of IB model	46%					0.00
Reach	19%					0.00
Beneficiaries now	5%					0.00
Beneficiaries future	5%					0.00
Targeting	6%					0.00
Women empowerment	3%					0.00
Depth and relevance	15%					0.00
For supplier (labor, distributor) models	15%					0.00
Before - after	4%					0.00
Market rate	3%					0.00
Competitor	3%					0.00
Sustainability for B40, addressing the B40s' risks	5%					0.00
For consumer models	15%					0.00
Relevance of product (incl. Income increase)	6%					0.00
Affordability of product	5%					0.00
Delivery mode and how the company addresses risks of the poor	4%					0.00
Systemic change for poverty reduction and inclusion	12%					0.00
Sector impact	4%					0.00
Geographical impact	3%					0.00
Gender	2%					0.00
Relevance and transformation	3%					0.00
Innovation	14%					0.00
Business	5%					0.00
Technological	3%					0.00
Social (CSR, ...)	3%					0.00
Environment	3%					0.00
Total	100%					0.00
Challenges and suggestions:						
Comment:						
Suggestion for possible IB agreement:						
To qualify as an IB business lines, companies must achieve at the same, (a) an overall rating > 3.2, (b) a business rating > 1.4, (c) a social impact rating > 1.5, (d) an innovation rating > 0.4, (e) a governance rating of minimum 0.15, (f) an ES rating of minimum 0.15, and (g) a IB strategic intend score of minimum 3.						
IB strategic intend score		minimum	3	actual	0	
IB rating (total)		minimum	3.20	actual	0.00	
Business (commercial + business + technology)		minimum	1.40	actual	0.00	
Social (social impact + social innovation and CSR)		minimum	1.50	actual	0.00	
Innovation (sum of innovation)		minimum	0.40	actual	0.00	
Governance		minimum	0.15	actual	0.00	
Environmental and social safeguard		minimum	0.15	actual	0.00	

ANNEX 2. TARGETING INCLUSIVE BUSINESS IN SME AND SOCIAL DEVELOPMENT PROGRAMMES - EXAMPLES

Table A2. Inclusive Business targeting in SME development and other relevant B40 development programmes

Name of the existing program	Programme objectives	Executing agency	Implementing agency	Budget allocation (2018 or 2019) (million MYR)	Number of companies benefiting	Average funding available per company (MYR)	IB relevance		Estimated costs for targeting IB (MYR million)	Expected number of IB firms benefiting	
				H	I	J	Approach	Estimates share of the program relevant for B40			Recommended share for targeting IB
Programs under SME Corp				244.9	1,294.0	?				3.0	?
Shariah compliant SME Financing	Government pays 2% of profit rate to financial institution	SME Corp.	13 Islamic Finance institutions	80	300	266,667	IB can be targeted under Islamic finance; but funding still small	15%	10%	1.2	5
Tunas Usahawan Belia Bumiputera (TUBE)	Entrepreneurship for youth	SME Corp.	SME Corp	15	994	14,990	not relevant for IB, funding too small	0%	0%	0.0	0
SMEs in the halal industry				100	?	?		15%	10%	1.5	
Business Accelerator Programme				?	?	?		15%	10%	?	?
Other programs				50	?	?		10%	5%	0.3	
SME promotion programs under other agencies				?	?	?				126.9	?
Financing schemes (48 programs)				13,500	413,200	32,672					
Ikhtiar	Microfinance scheme	Amanah Ikhtiar Malaysia	Amanah Ikhtiar Malaysia	2,700	350,000	7,714	not relevant for IB (it does not targets the right entrepreneur for IB)	0%	0%	0.0	0
Penyaluran Pembiayaan Perniagaan		Majlis Amanah Rakyat (MARA)	MARA	300	3,085	97,245	not relevant for IB (funding too small)	10%	3%	0.9	9
Prosper TERAS	Retail business, focus on Bumiputera entrepreneurs	Perbadanan Usahawan Nasional Berhad (PUNB)	PUNB	30	128	234,375	some could be targeted	10%	3%	0.1	0
TEKUN Financing	Financing and advice to Bumiputera entrepreneurs			290	23,548	12,315	not relevant for IB (funding too small)	0%	0%	0.0	0
SMEs in the halal industry				100	?	?		15%	5%	0.8	?
Syarikat Jaminan Pembiayaan Perniagaan Berhad (SJPP)	Credit guarantee facility	Ministry of Finance (under 2019 budget)	SJPP	4,500	?	?		5%	5%	11.3	?
Capacity development					?	?		?	?	?	?
Rural Business Challenge	Youth entrepreneurship in rural areas	MRRD	MRRD		?	?		?	?	?	?
Change Upgrade Product		MoA			?	?		?	?	?	?
Other programs					?	?		?	?	?	?
Other development programs for the B40				17,430.0	?	?				56.9	
Social sectors and municipal services											
education scholarships for B40 under budget 2019			MARA	3,800	?	?		10%	5%	19.0	?
cash assistance for B40 student under budget 2019				2,900	?	?		10%	5%	14.5	?
B40 health protection insurance industry					?	?				?	
assistance for housing purchase of B40 under budget 2019				1,000	?	?		10%	5%	5.0	?
affordable housing construction fund				1,500	?	?		5%	5%	?	?
Green technology											
green technology financing scheme		under budget 2019	2% interest rate subsidy	2,000	?	?		5%	3%	3.0	?
sustainable development financing fund		under budget 2019	2% interest rate subsidy	1,000	?	?		5%	3%	1.5	?
Industry 4.0 programs											
Digitalization transformation fund		Bank Pembangunan Malaysia Berhad	under budget 2019	3,000	?	?		5%	3%	4.5	?
Transition and migration of industries to 4.0		under budget 2019		210	?	?		10%	3%	0.6	?
Tourism											
SME Tourism Fund		under budget 2019	2% interest rate subsidy	500	?	?		5%	5%	1.3	?
Promoting medical tourism		Malaysia Healthcare Tourism Council	under budget 2019	20	?	?		5%	5%	0.1	?
Other programs				1,500				10%	5%	7.5	?
Prioritizing IB and SE in public procurement schemes					?	?		?	?	?	?
Education, health, social protection				?	?	?		?	?	?	?
Housing and urban services				?	?	?		?	?	?	?
Food security				?	?	?		?	?	?	?
Others				?	?	?		?	?	?	?
Total				?	?	?		?	?	?	?

Notes: (1) Data are taken from the NSDC (Oct 2018) SME ANNUAL Report 2017/2018, and the Ministry of Finance Budget 2019. (2) Column L gives the estimates share of the program actually relevant for and or implemented with the B40 relevant. (3) Column M gives the estimate of companies that can transition into providing IB models under the respective programmes.

ANNEX 3. PROFILES OF COMPANIES WITH INCLUSIVE BUSINESS MODELS

This annex provides the profiles of the 12 companies assessed in this market study that have real and potential IB models and that have agreed to have their profile published. The descriptions

summarise the results of the company interviews and the following IB assessment and IB rating. The companies have vetted the write-ups and provided their consent for their profile to be published.

Table A3.1 List of profiled companies

	Company	Sector	Mode of BoP engagement	Impact through	Classification
1	Backyard Tour Sdn. Bhd.	Tourism	Supplier	Income generation	Potential SE initiative
2	Biji-Biji Initiative Sdn. Bhd.	Manufact.: waste recycling	Supplier	Income generation	Potential SE initiative
3	Boomgrow Productions Sdn. Bhd.	Food and nutrition	Consumer	Service model	Potential IB model
4	Borneo Eco Tours Sdn. Bhd.	Tourism	Supplier	Income generation	IB model
5	Borneo Rides Sdn. Bhd.	Transport - Taxi services	Supplier	Income generation	Potential IB model
6	Everlasting Mus	Manufact.: handicrafts	Supplier	Income generation	SE initiative (& potential IB model)
7	Inner Peace Spa Academy	Training, job placement	Consumer	Service model	Potential SE initiative
8	Jari Spa & Training Academy	Training, job placement	Consumer	Service model	Potential SE initiative
9	Langit Collective (M) Sdn. Bhd.	Agribusiness	Supplier	Income generation	Potential SE initiative
10	Life Green Charcoal Sdn. Bhd.	Agribusiness - coconut	Supplier	Income generation	Potential IB model
11	Tanoti Sdn. Bhd.	Handicrafts	Supplier	Income generation	Potential SE initiative
12	YK Travel Sdn. Bhd.	Tourism	Supplier	Income generation	Potential SE initiative

These are only a few examples of companies with real or potential IB models and SE initiatives. Many more IB models or activities and SE initiatives might be found or emerge in Malaysia, once the IB concept is further advocated and IB promotion is institutionalised.

1. Backyard Tour Sdn. Bhd.

The company: Backyard Tour was established in 2015 as a social project to create employment for young adults in villages of rural Sarawak. The core business of the Kuching-based company is to provide tour guide services to local and international tourists in Sarawak. They also host NGOs that want to conduct community projects in Sarawak.

The IB business: The current business model is based on an NGO-driven social enterprise approach. Whether or not this can be transformed into a social enterprise initiative is subject to the success of initial business coaching.

Commercial performance: The company started with the help of a MYR 25,000 grant from the National Innovation Agency Malaysia (AIM) in 2015 and a further MYR 30,000 grant from the Malaysian Global Innovation and Creativity Centre (MaGIC) in 2016. By 2018 the company had a revenue of MYR 0.07 million, up from MYR 0.04 million in 2017. The company aims to generate a revenue of 0.2 million by 2023 and 0.3 million by 2025; however, it is not clear how it will achieve this target. Despite its lean management, the company only expects to achieve the breakeven point of an annual revenue of MYR 0.1 million in 2020; thereafter it is targeting a profitability of 10 per cent.

Social impact: In 2018, Backyard Tours worked with seven villages conducting an average of two tours a month (ranging from one-day trip to 6-days/5 nights trip) for small groups. Each of the villages has on average two tour guides, one to show them around and another to cook; hence total income opportunities were for up to 504 days per year (7 villages x 2 persons x 3 days average per month x 12 months). To have some more systematic impact in this small geographical area, the company aims at upscaling social reach to 50 B40 people by 2023 and 100 by 2025. The tour guides earn about MYR 200 per tour, summing up to MYR 33,600 per year (or MYR

2,800 per month) for 14 villagers. In addition to the direct earnings to the tour guides, the villages might also provide raw material for food or crafts and accommodation; hence the local economy benefits as well (indirectly). Backyard Tour aims to increase its reach by including more local villages in its portfolio. The company also intends to conduct traditional dance classes (taught by villagers) in Kuching for tourists who do not intend to venture out of the city.

Innovations for the B40: The current business model is following a rather traditional NGO driven approach. Changing to an IB model would require introducing several business innovations.

IB readiness and recommendations: The current business model is a traditional social enterprise with low social reach, low social depth, no commercial viability, and little business innovations to improve the life of the B40 in a scaled-up environment. It is still uncertain, whether business coaching could help Backyard Tour transitioning into an IB initiative. However, if at least funding is available, some (small) money should be invested in initial business.

2. Biji-Biji Initiative Sdn. Bhd.

The company: Biji-Biji was established in 2013 as a social enterprise, with the mission of turning waste into valuable items. To date, it has four production lines. Three of them (Ethical Fashion, Circular Solution and Energy) are currently run like a traditional social enterprise and could transition into a social enterprise initiative. The fourth production line, Mereka Makerplace, operates more like an NGO providing training to B40 (and other) people.

Transitioning to an IB business: This profile joins together Ethical Fashion, Circular Solution and Energy to examine them as one IB business line that generates income opportunities to the B40 by engaging them as suppliers. Ethical Fashion turns waste banners and seat belts into bags, accessories and apparels. Essentially these things are produced when an order comes in. Single mothers are trained by Biji and make the products at home. Circular Solution turns plastic waste into products for daily use such as coasters, place mats and cup holders. Biji-Biji trains members of indigenous Malaysian communities (orang asli), such as the Tioman at the East Coast of Peninsular

Malaysia, and gives them a machine to segregate and break the plastic, and make products out of it. The energy business line is currently used more for awareness raising. It would have to be redesigned to become a sustainable business line. Somewhat unsatisfied with its overall commercial performance, low-reach, difficulties in targeting the B40, and challenges to scale the energy line into a business, the company's management is considering transitioning the social enterprise into an Inclusive Business. While keeping the overall objective of recycling waste, the new Biji-Biji would produce very different products, and would also need a different strategy to address new markets demands.

Commercial performance: Biji-Biji is currently earning a revenue of MYR 3 million (excluding Mereka), with a 30-40 per cent gross profit. Seventy per cent of the revenues come from circular solutions, 10 per cent from ethical fashion and 20 per cent from energy. The Mereka space and education line is not a commercial activity and Biji Biji is running those programmes with an annual MYR 1.2 million budget financed by donations. In the current business model, Biji-Biji is expecting a revenue of MYR 3.6 million by 2023 (only a 20

per cent increase over five years), and achieve an overall profit margin of 25 per cent. In the new business model, the company could substantially increase its revenue by 2023 to up to MYR 230 million (optimistic scenario), and also gain a much higher profit margin of MYR 59 million, compared to MYR 1 million under the current model.

Social impact: The company currently sources from only 230 households and under the current business model, this number will not increase substantially by 2023. If, however, the company decides to transition to an inclusive business model, it would be able to provide income opportunities to 1,300 households by 2023, 4 greater than the current model. B40 targeting would also improve, especially since the energy business line would have more beneficiaries and a higher percentage from the B40. Targeting the B40 (and women and single mothers) is good and the new business model would substantially increase the numbers of such beneficiaries. Currently, the B40 people earning income from Biji Biji are paid RM15 to RM20 an hour, which is 50 per cent more than market rate. With the new model, this good social depth will not change but many more B40 people will benefit.

Table A3.2 Biji-Biji business model (current versus new)

	Revenue (million MLR)			Gross profit margin (%)			Reach			Targeting B40			
	2019	2023 Current SE model	2023 New IB model	%		Profit margin (MLR million)			2019	2023 Current SE model	2023 New IB model	2019 and 2023, Current SE model	2023 New IB model
				Current SE model	New IB model	2019	2023 Current SE model	2023 New IB model					
Current SE model and potential IB model	3.0	3.6	230.0	25%	26%	0.75	0.97	59.00	230	300	1,300	92%	94%
Ethical fashion	0.3	0.5	10.0	30%	30%	0.09	0.15	3.00	10	20	100	100%	100%
Circular solution	2.1	2.1	200.0	20%	25%	0.42	0.42	50.00	200	250	1,000	100%	100%
Energy	0.6	1.0	20.0	40%	30%	0.24	0.40	6.00	20	30	200	10%	60%
Mereka (NGO)	1.2	1.2	1.2	45%	45%	0.54	0.54	0.54	120	120	120	30%	30%
Total Biji Biji	4.2	4.8	231.2	31%	26%	1.29	1.51	59.54	350	420	1,420	71%	88%

Innovations for the B40: Under the current business model, the company has introduced means to improve the income of the poor. However, while most of them are technology innovations, there are few business innovations to scale-up reach, revenue and value addition. The new business model would have to introduce many more product and business innovations. The opportunity is to scale-up Ethical Fashion and Circular Solution in making products that are commoditized, partnering with large corporations to reach larger markets. Energy can also be scaled-up by placing the bicycles at areas where the B40s reside and get the children to generate the electricity power for houses in those areas, and by designing new business lines such as wind, solar, hydro, waste burning.

IB readiness and recommendations: The current business of Biji-Biji can be considered as a social enterprise, and would not qualify as IB due to its low commercial, social reach and innovation rating. However, given the high IB strategic intend of the company, the company (and the B40) would strongly benefit from transitioning into an IB model. This would help more orang asli and women. To do so, business coaching would be very helpful. The new model would probably also need new investments. Biji-Biji is a good case for what IB transition can achieve for the B40, for business, and for society.

3. BoomGrow Productions Sdn. Bhd.

The company: BoomGrow Productions Sdn. Bhd. was established in 2014 to revolutionize farming by using emerging technologies for clean indoor vegetable production in urban areas. The company developed a high-tech production unit that miniaturizes a one-acre vegetable farm into a 30 square metre shipping container by employing hydroponic techniques and modern technology. The container farm is climate controlled with water recycling technology that can grow healthy vegetables even in the harshest of environments while using only 2 per cent of the water. The farm is fully automated, with its proprietary software and robotic technology it does not need human intervention between planting. BoomGrow has developed the formula to grow 33 varieties of fully organic, pesticide free leafy plants. The company has been operating a pilot container farm since 2018 and claims to be able "...to bring healthy food

from farm to plate within 45 minutes...". Currently the vegetables from the farm are bought by a restaurant with high paying (not B40) customers, and the container farm is operating on a profit.

The IB business: The current business model is producing safe food. This food is much cheaper than traditional organic food. The company in its current business model, however, does not target the B40. While safe food has a high social value, the company is a mainstream business as its safe food is not consumed by the B40. BoomGrow would only qualify as an inclusive business, if the company can assure through the deliberate business model that its affordable safe food is also consumed by the B40.

Commercial achievement: Currently the company has one pilot container from which it sells directly food. Other containers are currently being produced for sale. By 2020, it will deliver 11 containers, and by 2023 it will sell 30 containers per annum. A high-tech vegetable producing container costs MYR 200,000 plus MYR 25,000 per year service charge for farming software, seeds, nutrition and solutions, as well as operational maintenance. The company expects a revenue in 2023 of around MYR 5 million. The company expects to breakeven by 2021 and is then expecting to achieve a high gross profit of 40 per cent. The founders have invested MYR 0.5 million in the business and to support their expansion plans, they are seeking to raise MYR 4 million from impact investors. Raising funds has been a challenge as, while they are willing to dilute their shareholding and take on a board of directors, they are concerned with the over emphasis on profits that venture capital funds are putting as a condition for investment. Funds from impact investors are also difficult to get because, while the social impact of safe food is obvious, the B40 targeting is missing.

Social impact: Each container is estimated to feed the vegetable needs of 250 families or about 1,000 people. This is the equivalent a farmer with 1 acre of land can produce. The difference is that the container food is not dependent on agricultural seasons and not affected by diseases. Container food yields more than double than field food. By 2020 (once all 11 containers are delivered), the vegetable needs of 11,000 people can be covered by BoomGrow's container farm, and by 2023 with 30 containers 30,000 people. The BoomGrow

container vegetables cost half the price than organic vegetables from the field and only 30 per cent higher than the non-organic vegetable from neighbouring countries found in the urban markets. Safe organic vegetables from BoomGrow are affordable for the B40, while other organic vegetables are not. The B40 would consume such vegetable if they were available in their vicinity.

Innovations for the B40: BoomGrow is very strong on technological and environmental innovations. It is using only 1 per cent of the space and 2 per cent of the water of conventional farms. The company is also experimenting to reduce the high energy costs in the operation of container vegetables. The business is well designed. However, in the current model, the company is not innovative in targeting the B40.

IB readiness and recommendations: BoomGrow's container farm has the potential to be a profitable and highly impactful IB model by providing healthy vegetables to the B40 at reasonable prices. However, their main focus now is to sell the container farms which does not guarantee that the vegetables will reach the mouths of the B40. It is suggested that BoomGrow is accredited as a potential IB and be offered business coaching to develop an IB model that enables the B40 to purchase healthy vegetables at reasonable prices. This could be achieved by:

- Selling containers to places where poor people live or where they work (e.g. low-cost housing areas, disaster relief places, near hospitals and schools or universities), or
- Marketing the healthy food directly to the B40.

The company currently favours the first option. However, the pilot container showed that there is also very good money to make with selling the vegetables at prices that are also affordable for the B40.

In addition, for the IB model the choice of vegetables needs to be adjusted to serve better the preferences of the B40.

BoomGrow is a very interesting example, where a potential IB in the high-tech sector serving currently the affluent, could become a real IB model serving the whole society, including the B40. From a commercial sustainability perspective the current mainstream business model and the

potentially new inclusive model are equally viable. From a social perspective, the IB model would have much more benefits. While the founders of BoomGrow started the business with social impact goals and are not willing to compromise on them, they may wish to expand on their objective by including the B40 in the company's value chain. Business coaching, branding, recognition, and some investment support could help the company making this transition into an IB model, bringing benefits not only for the company and for society, but also for the B40.

4. Borneo Eco Tours Sdn. Bhd.

The company: Borneo Eco Tours (BET) was established in 1991 as a travel and tour company, specialising in ecotourism in Sabah & Sarawak, especially in the East Coast of Sabah. The company is well established and is one of the larger ecotourism companies in Malaysia.

The IB business: BET's IB model is called the Sukau Rainforest Lodge (SRL). The Lodge started operations in 1995 and is located in the remote rural community of Sukau village. BET's previous mainstream business, obtained buy-in from the locals by giving handouts, such as providing – as part of the company's strong CSR work - water tanks and providing medical camps for the community while running a mainstream business in the area. Under its new inclusive model BET and SRL aim to empower the local community by providing well paid income opportunities to the B40. SRL trains the local people to conduct tours. In addition to becoming tour guides and boat captains, both BET and SRL also creates other job opportunities for the local B40 people in the lodge resort (e.g. cooks, housekeeping, front office, front office, guest services, maintenance), and as service suppliers (e.g. transportation, food, and other raw materials).

The commercial results: BET is a well-established tourist company employing over 140 women and men with SRL. The IB model of BET and SRL constitute a revenue of about MYR 35 million. The company has a good financial return and does not sacrifice profitability to support the B40.

Social impact: In the new IB model, about 500 - previously hunter gatherers villagers - are directly benefiting from SRL by being involved in the value chain of the company such as by being tour guides,

cooks, housekeeping, maintenance and drivers. In addition, after 24 years of operations, some of the villagers are economically empowered as 30 of them now own their tour operating business that provides tours for SRL and other companies, making on average about RM15,000 a year. SRL plans to double the beneficiaries to 1,000 villagers by 2024. BET will create even bigger impact if it manages to build another lodge in a different village downstream in the coming years.

The innovations for the B40: SRL have a structured training programme to increase the skill of the villagers to either make them employable or to become suppliers for SRL. BET is also looking at innovations to use and conserve the natural resources in Borneo through its training division, Mind Vistas, and its NGO, BEST Society. The company has already bought land for nature conservation and for the Sukau research centre. For example, they are establishing a bamboo industry for the local community in Kiulu (where bamboo grows well in the wild) through a local NGO they have established and funded. The locals will harvest the bamboo sustainably and use it to make household products that can be sold commercially and to build bamboo structures for the hotel and tourism industry.

The IB readiness and recommendations: Borneo Eco Tours and Sukau Rainforest Lodge should be certified as an IB as they have shown that neither the environment nor profits needs to be sacrificed in order to empower the B40. BET continues to experiment with new IB models and financial assistance should be provided to allow BET to reduce its risk in undertaking the new IB entrepreneurship ventures, and coaching should be provided to help BET to accelerate the implementation of the new ventures.

5. Borneo Rides Sdn. Bhd.

The company: Borneo Riders was established in 2016 as an e-hailing company, right after the exit of Uber from the Malaysian market. Between 2016 and 2018, the company developed an application so that it could offer taxi services in Kota Kinabalu, competing with Grab since January 2019. This business is a mainstream business.

The IB business: During the inclusive business workshop held by SME Corp. in October 2019, the company launched the idea of adding another

business line for car leasing to B40 families. This would expand the Borneo Rides business to sub-urban and rural areas in the interior of Sabah. This new business line (BORRIDE) could qualify as IB. Currently, drivers in rural areas are not eligible to officially offer taxi services, as that would require having new cars. So, they resort to illegal taxi or 'taxi sapu'. The intent is for BORRIDE to convert these illegal 'taxi sapu' drivers to legitimate e-hailing drivers. The new business line would offer an "car and career" opportunity to these drivers. Borneo Rides would buy new cars through the company and then lease them to rural and semi-urban drivers through a bank loan, with a down payment but no commission to the company. When the instalments are fully paid, the driver will own the car. With that, the drivers will have a job as well as a new car for their job and their own use. Initially, the company will focus on the Kota Marudu, Kota Belud, Beaufort and Sipitang regions of Sabah with relatively large young working population and big transport needs. The features of this new business line are further summarized below.

Commercial performance: For the initial investment, the company would need MYR 5 million (USD 1.2 million) for the cars and another MYR 0.3 million for the platform and office. In 2023 and 2025, it would need another MYR 2.4 million each. The estimated revenues would be MYR 0.5 million in the first year and increase to MYR 2.4 million in 2023 and to MYR 5 million in 2025. The estimated profit margin would be 20 per cent. For every ride, the driver will earn 85 per cent of the fare, which he or she will partly use to repay the car loan. BORRIDE will get 15% to do further market development and scaling up the business to other areas. The business model is initially planned for 10 to 15 areas. All financial data would need to be further confirmed and carefully assessed.

Social impact: The company intends to start with 300 drivers, and to scale-up to 500 by 2023 and 800 by 2025. All drivers would be in the B40 group. The company will also proactively encourage women as taxi drivers, and engage in helping the drivers having access to institutionalized businesses (e.g. schools, business drivers, public services). Illegal taxi sapu driver earn about RM80 to RM130 a day. By becoming a legal BORRIDE e-hailing driver, they can potentially earn about 15-20 per cent more (i.e. RM100 to RM150 a day). That makes about MYR 2000-3000 a month, which is enough to pay for the car instalment. In addition, they will have a legitimate PSV license, which BORRIDE will subsidize.

Table A3.3 Estimations for the new BORRIDE inclusive business model

	2020	2023	2025	2030
Reach	300	500	800	1,200
Investment costs (paid by the drivers to the bank but partially guaranteed by the company) (million MYR)	14.9	10.0	24.9	34.9
Revenue for driving the taxi (million MYR)	3.3	16.0	33.3	33.3
For the company (million MYR; 15% (half of the GRAB rate))	0.5	2.4	5.0	5.0
For the drivers (million MYR; 85%)	2.8	13.6	28.3	28.3
Profit margin for the company	15%	20%	25%	30%
Average income per taxi driver				
per year	9,444	27,200	35,417	23,611
per month	787	2,267	2,951	1,968

Innovations for the B40: The business idea is innovative, but not yet sufficiently developed. Purchasing cars through leasing arrangements with a bank and structuring the financing in a way that the B40 can afford it may require some innovative deal structuring. Structuring this potential IB model would require IB coaching, and some risk reduction funding for the investor.

IB readiness and recommendations: In this case, the company is adding a new business line to target the B40. The new model is highly relevant for the B40 and, if the business model works, it can be quite transformative to many B40 in rural Sabah. If implemented, the scheme would need clear contracts between the three major parties involved (the company, the driver, the bank) to ensure transparency and fairness in the transaction. Currently, BORRIDE is only a business idea that would need further assessment and adjustments. A preliminary assessment (see table A3.3) leaves several questions open in particular regarding the commercial viability of the model and its social depth. As per IB rating the proposal

could make it as a potential IB model. If this accreditation rating is confirmed, some initial investments in business coaching are needed before any further commitments to investment support can be made.

6. Everlasting Mus

The company: Everlasting Mus was established in 2007 in Kota Kinabalu (Sabah) as a training provider. Its vocational training center, the Swepp Academy, addresses especially the demand for training from tourism (especially spa therapists), hospitality and creative industries. The training focuses on the B40 community, school dropouts, single mothers and the unemployed youth. In 2014, the company also established a social enterprise sales platform for local handicraft products called MJbyMUS. In addition, the company runs a spa. The training of the spa therapists and the artisans is partly funded by the company (20 per cent), from the CSR programme of other companies (40 per cent) and from government development programmes (40 per cent).

The IB business: While the spa is a mainstream business and the therapist training a CSR activity, the handicraft platform is a social enterprise initiative with the potential of becoming an inclusive business model. The handicraft platform and the production center were set up to allow women to work part-time from home, while taking care of their family. The company provides training, product design, and some production inputs such as pandan and mengkuang (leaf product for weaving), the women make finished or semi-finished beadings, jewellery from precious stones, and the company then processes them in its finishing center and markets them widely in Sabah (65 per cent of revenue), other Malaysia (30 per cent) and in export markets (5 per cent). Some women also market directly but the income achieved by marketing through Everlasting Mus is at least 20 per cent higher and the sales are more stable.

The commercial performance: The company has currently a revenue of MYR 2.9 million (approximately \$0.7 million) from its three business lines and is planning to scale this to MYR 8.6 million in 2023. MYR 0.5 million of this revenue (17 per cent) is from the inclusive business line. However, the planned growth is mainly coming from the handicraft sale, which will then comprise 58 per cent (MYR 5 million) of total revenue by 2023, up from 17 per cent today. Given that most of the current earning is reinvested in outreach training, the overall profit margin of the company is still low (8 per cent). In the inclusive business line, the profit margin is higher and the company aims at 30 per cent EBITAR (earnings before interest, taxes, depreciation, amortization, and restructuring or rent costs) in 2023. For the IB business, the company is looking

for new investments of about MYR 3 million to upgrade the equipment in the production center in Kota Kinabalu, for providing machinery and production inputs to the artisans, and for scaling the number of villages with artisans supplying to the company. The company is looking for loans from Government agencies, such as MARA or SME Bank, but wishes to pay lower interest rates and better conditions than currently being offered by the finance industry.

The social impact: By 2019, Everlasting Mus – in its IB-related business - was working in 12 villages in Sabah with about 200 artisans, of which 78 are selling through EM and the rest are doing self-marketing while receiving training and inputs from the company's CSR program. The 200 artisans are represented by their village artisan leader. Ten of these artisan leaders have transformed into own entrepreneurs. The company plans to scale its direct sourcing to 500 artisans by 2023 and to reduce its CSR spending for training of women doing self-marketing. The artisans are being paid by items, and the rates vary depending on the quality (to motivate artisans to provide a higher quality crafts and deliver on time). Since EM is emphasizing quality through its training, on average the women entrepreneurs earn 15-20 per cent better than other women in Sabah doing similar handicrafts for other companies. However, overall income generation for the women is still low, due to the preference for working part-time work. It is estimated that 10 per cent of the artisans working with EM generate a monthly income of MYR 1,000 and 2,000, while 65 per cent generate an income between MYR 500 and MYR 1,000 per month, and the remaining 25 per cent below MYR 500.

Table A3.4 Revenue and reach of Everlasting Mus

	Revenue (in million MYR)			Percent of the business		Reach (number of persons)	
	2018	2020	2023	2018	2023	2018	2023
Non IB	2.4	2.7	3.6	83%	42%	55	145
Spa	0.4	0.5	0.6	14%	7%	20	30
Training of therapists	2.0	2.2	3.0	69%	35%	35	115
(Potential) Inclusive business model						196	500
of which producing directly for EM	0.5	1.0	5.0	17%	58%	78	400
of which for self-marketing (CSR financed)						60%	20%
Total	2.9	3.7	8.6	100%	100%	251	645

Innovation for the B40: The company has introduced various product innovations to ensure market compatibility of the handicrafts. The company seeks to further upgrade its product line and quality, to increase its value addition (which it can then partly pass on to the B40 women and provide them with higher income opportunities). While the company's current business philosophy is for the small entrepreneurs to be independent, most artisans do not want to be independent as they do not have links to markets that pay better than Everlasting Mus. The company may therefore introduce business innovations that give their supply chain more stability and, more importantly, higher pay.

IB readiness and recommendations: The inclusive business line engages the B40 – mainly women – in an income generating model. The company has a strong strategic intent for IB. Everlasting Mus is a social enterprise initiative already in the process of transforming its business model to increase commercial and social impact in scale, with the potential to become an IB model. EM particularly works to create much larger social impact in reach (more people engaged) and depth (higher pay), be more transformative in the sector and in the geographical area, share the business risks of the poor, and improve commercial returns. The company articulated the need for initial IB business coaching to enhance impact and commercial viability. Thereafter, it might also benefit from innovative financing options that reduce the risks of the B40 micro-businesses, the company and investors.

7. Inner Peace Spa Academy

The company: Inner Peace was established as a spa in 2016 and also trained in Inner Peace some therapists. In 2018, responding to the large demand for spa therapists in Sabah and beyond, the company created Inner Peace Spa Academy as a new business line for supplying spa therapists to other companies. Inner Peace acquires talents from all over Sabah especially from the interior villages in Sabah. They mainly work with the Department of Labour to scout for people living in the interior of Sabah that could become spa therapists.

The current social enterprise approach: The Inner Peace Spa Academy currently offers

12-month free spa training (including 11 months on the job training) for about 100 trainees per year. The revenue is based on a placement fee of MYR 2,500 from the spa plus a MYR 1,000 bonus payment from the spa when the therapist graduates to become a full-time employee. In the current social enterprise model, the training is free for those receiving the training and during the training period the trainees are provided with accommodation and basic necessities. Upon completion of the one-month training program, the trainees will be placed as an intern in a spa in the country and given a certificate upon completing their 11 months internship. This current business model is commercially not viable and has a small social reach. Also, the long (11 months) on the job training period results in low income for the B40 just at the minimum wage rate (MYR 1,100 per month).

The new IB business: The company wishes to change the current non-sustainable social enterprise model into an inclusive business model. To do so, many innovations are needed for enhancing commercial viability and social impact (see below).

Commercial performance. In the current business model, the company has a revenue of only MYR 0.5 million in 2019, which does not cover its full training and lodging expenses. In the new business model, the company seeks to implement from 2020 onwards, the expected revenue will increase from MYR 0.8 million (2020) to MYR 1.8 million and MYR 3.0 million by 2023 and 2025 respectively. Profitability will increase from currently 2 per cent to 20 per cent, and many of the business risks will be addressed.

The social impact:

- In the current business model, due to the long training period, the high costs of training, and the revenue stream coming only from the recruiting spas, only 100 spa therapists can be trained per year. In the new business model, the company intends to increase reach from 200 (2020) to 500 and 1000 women and men by 2023 and 2025 respectively. In the current social enterprise model, the long training period results in low compensation for the trainees (MYR 1,100 a month, just the minimum wage) for 11 months.

- In the new business model, trainees will be trained 2 months with a fee of RM2,500. The fee will be deducted from their job placement salary. Trainees can earn a minimum of RM1,500 upon placement. Inner Peace will also receive RM2,500 placement fee from the spa (employer). After completing two months of internship the employer will adopt the intern as permanent staff. The business model of 12 months became one of four months. With that, the intern (now a permanent employee) will receive a RM1,500 monthly basic salary with additional incentive/commission. The employers will provide accommodation for the employees and other necessities. Typically, a spa therapist can then earn up to RM3,000 a month with allowances and overtime.

Innovations for the B40: The new business line would need to introduce many business innovations to become viable. It would have to:

- address profit making,
- diversify revenue streams, including payments from the trainees,
- ensure earlier and better pay for the trainees,
- expand social reach and deepen social impact,
- respond better to the high demand from

spas and resorts for qualified therapists,

- shorten the training time from 12 to 4 months, making the training more efficient, and balancing the gender composition for spa training,
- diversify the training programme within a stronger wellness industry focus potentially including unemployed nurses, caregivers, physiotherapists, post-natal care,
- ensure that trainees stay longer with the recruiting spas or in the industry (currently, 20-30 per cent of the people trained drop out within the first 12 months) through introducing an innovative 'bonding' period linked to refinancing training costs,
- expand training programmes to cover also management training (supervisory, spa management etc.),
- work with parents to give permission to their daughters to go to Kota Kinabalu to be trained and employed in the wellness industry (the spa industry is often seen as a 'dirty business'),
- introduce innovations (for example through social media networks) to reduce logistical costs to reach out to more villages in the interior for acquiring talents, and
- further professionalize the training.

Table A3.5 Inner Peace Spa Academy

	Current business model		New business model	
	2019	2020	2023	2025
Revenue (million MYR)	0.5	1.0	2.5	3.6
Profitability (%)	2%	8%	15%	20%
Profit margin (million MYR)	0.01	0.08	0.38	0.72
Social reach (number people trained and job placed)	100	250	700	1,200
Training costs per person trained	5,000	4,000	3,500	3,000
Sources of training financing				
Recruiting spa	85%	52%	50%	45%
Trainee	0%	40%	45%	50%
Company subsidy/CSR, and other sources	15%	8%	5%	5%
in million MYR	0.08	0.08	0.12	0.18

IB readiness and recommendations: The current social enterprise model would not qualify as inclusive business, while the new inclusive business model would be a potential SE initiative. Addressing the many challenges of the new business models would require a good investment in IB coaching. It would also be useful to encourage cooperation with other companies in the same training business, such as Jari Jari (see next), as some of the business challenges could be addressed collectively.

8. Jari Jari Spa & Training Academy

The company: Jari Jari Spa was established in 2005 with one spa in Kota Kinabalu. It now has four outlets in Sabah. Jari Jari trains their own spa therapists by recruiting underprivileged youth from rural Sabah. After a while, realizing the strong demand for trained spa therapists from spas all over the country, the founder of Jari Jari (an active member of the Association of Malaysian Spas) identified the need to address this market demand and, in 2012, established the Jari Jari Spa Training Academy which was mainly financed from its CSR funding. The Jari Jari Spa Training Academy is accredited by the Federation of Holistic Therapies Association and all trainees get a certification upon graduation.

The IB business: In the current business model, the trainee does not contribute any fee, which is restricting the growth potential of the company. The current model does not address affordability to pay for the training, work payment issues, nor other potential issues with recruiting spas. Jari Jari is now considering transitioning its training activities into an IB model, which would increase its revenue and profits and make its training activities more financially sustainable while generating greater social impact. In the new business model, Jari Jari Spa Training Academy would train the trainees for three months at Kota Kinabalu (as currently) and then place the trainees graduated in various high-end spa establishments across Malaysia. Jari Jari is well connected in the industry and has partnerships with various government agencies, Future of Wellness, the Healthland Capital Group and the wellness industry and tourism business associations.

Commercial performance: Currently, the Academy has the capacity to train 10 to 20 trainees

for six weeks, which provides a revenue of about MYR 400,000-500,000 a year, up from MYR 360,000 in 2012. The revenue under the current business model comes mainly from the spa recruiting the trainees, plus some CSR funds from the company. Typically, Jari Jari will get paid from the employers a fee of MYR 2,500 to MYR 3,000 per person placed. The spa therapist pays back to the recruiting spa these costs through their salaries. The company is currently servicing a few bank loans, and further bankability for new investments is good. In the current business model, the Academy is breaking even at best. The main issue for breaking even is cashflow, where employers pay their fees with long delay. The company has a very strong intent to reach out to the marginalized community and contribute in the betterment of their lives. At present, they are looking at establishing an academy in Kuala Lumpur.

Social impact: By 2018, Jari Jari had trained more than 1000 young persons from various villages in rural Sabah. Most of them are young woman, but there are also some young men (10 per cent). Jari Jari guarantees employments to all trainees and places them in various quality accredited spa outlets (including hotels, resorts and independent spas) as employees. When placed in jobs, the spa therapists get paid about RM1,500 basic salary per month (which is higher than the national minimum wage of MYR 1,100 per month). On top of that, they will get paid overtime, receive commissions where applicable, and are also entitled to other employee benefits. Their accommodation is also provided by the employer. On average, a spa therapist from Jari Jari Spa Training Academy can earn over MYR 3,000 a month. This is much more than what spa therapists trained elsewhere can earn, and it is possible because of the good training provided and the dedicated high-end job placement done by Jari Jari. Already in the current, but even more systematically in the future, business model, Jari Jari ensures the wellbeing of their trainees through regularly checking on them. The trainees can also reach out to Jari Jari if there is any employment-related issue and Jari Jari serves as a mediator between the therapist and the employee. Jari Jari is considered as a model for spa therapist training in Malaysia, and the company can strongly influence the sector through its business case and example. Making the described transition, Jari Jari would be the first and perhaps largest IB company in the spa training sector.

Table A3.6 Jari Jari: revenue and reach of its training and job placement activities

	Revenue (in million MYR)		Profit margin		Social reach (number of people)	
	2018	2023 New model (SE initiative)	2018	2023 New model (SE initiative)	2018	2023 New model (SE initiative)
Total revenue	0.7	1.7	break-even	10%	240	600 by 2023 and perhaps 1,000 by 2025
from recruiting spas	60%	45%				
from trainees	0%	50%				
from company's CSR	40%	5%				

Innovations for the B40: In the current and future business model, the company guarantees employers the quality of the services provided by the spa therapist, and offers to replace the therapist if it does not meet the employer's requirements within 3 months of employment. As 'spa' has somewhat of a negative image in Malaysia, in 2011, Jari Jari collaborated with Ministry of Tourism in providing ratings for spa establishments in Malaysia. The ratings are based on the facilities and the types of wellness services provided. This effort is to get a 'clean image' of spa establishments. This effort also would provide assurance to the trainees' parents that their daughters' have a good employment with prospects in advancing their careers. The demand for spa therapist and wellness therapists are high in Malaysia, with many spas employing (much lower paid) foreigners from Indonesia and Thailand as therapists. There is a shortage of Malaysian therapists, which Jari Jari would like to address, especially by training Orang Asli (indigenous) people in Klang Valley. The company also joins roadshows by Government agencies such as Jabatan Tenaga Kerja, Jabatan Pembangunan Kemahiran Negeri Sabah, and uses social media, and word of mouth to recruit more trainees.

IB readiness and recommendations: While the current business model is not commercially successful and it is reaching limits in terms of social reach, the company wishes to reform its

business model into an inclusive one. The new business model will:

- create a more financially sustainable business by getting revenues from the employer and the trainees,
- take responsibility to structure the trainees' payment in a more affordable way by introducing innovative financing schemes,
- introduce more innovations in the services provided to the innovations,
- substantially increase social reach from 240 to 600 by 2023 and 1000 by 2025,
- provide more services to the spa therapist after job placement, including checking that the trainees are well placed and received adequate employment conditions and assessing the wider social impact on her or his family, and
- widen the skills from spa therapists to wellness therapists, for the trainees to have multi-skills and thus be able to earn more.

Business coaching to design the new business model would help making the new business more successful. The company may also benefit from IB accreditation and branding, as well as potential risk reduction funding.

9. Langit Collective (M) Sdn. Bhd.

The company: Langit was established in 2015 in Sarawak. For the first 2 years, the founders worked for Langit part-time and focused on R&D both on securing the supply and stimulating the demand for the product. Only since March 2018, the managers are working full time for the company. The company and the IB line are the same.

The IB line: In the interior highlands of Sarawak, high-quality, non-GMO and agrochemical free rice is produced by indigenous farmers. However, a lot of the harvested rice is being wasted as the farmers do not have proper access to markets. The business philosophy is to work with local farmers in remote Sarawak and sell their high-quality excess rice at fair prices. Langit buys the excess rice that the subsistence farmers produce at their doorstep at a price 67 per cent higher than the price the farmers would get at the market in Lawas and sell it as agrichemical free gourmet rice to high-end restaurants and hotels in Kuala Lumpur.

Commercial performance: The company started with an initial investment of MYR 0.05 million of which 60 per cent came from MaGIC as start up support and the rest from their own sources. In 2018, the company borrowed MYR 0.2 million from family members. Revenue grew from MYR 0.02 million in 2018 to projected MYR 0.3 million in 2019, and is expected to further increase to MYR 0.6 million by 2020 and MYR 1.2 million by 2023. The company has currently a good profit margin of 20 per cent and will break even in 2020 when revenue streams reach MYR 0.6 million. Despite the seemingly ambitious revenue growth targets, the company would only be selling 10 per cent of the excess rice produced by the farmers by 2023, indicating a potential to sell more excess rice from the villages in Sarawak. Scaling the business is also feasible from the supply side as more than half of the land is currently not being used and the farmers begin to rent land from other B20 groups, produce organic rice and sell it to Langit. However, all this is still at a small number.

Social impact: The company currently works with 150 farmers from 7 villages in Long Semado and Lawas districts of Sarawak. It sources directly only from 40 of these farmers. The company but plans to source from 80 farmers by 2023 and from all 150 farmers by 2025. Most of those farmers would be from Lawas. Farmers are all subsistence

farmers, 10 per cent belong the bottom 10 per cent poorest income groups (the B10) and 90% to the 10 percent poorest income group (the B20). Most of the farmers (70-80%) are women, who - unlike the men - are unlikely to earn a wage as laborers in the formal economy. Farmers earn an average of MYR 2,700 per annum by selling their excess rice to Langit, while they would only earn about MYR 700 by selling in the market. On a monthly basis, this income increase is low (MYR 225). However, for the farmers it is considerable, as it is a net income increase, since it comes from excess rice for which the farmers do not have additional expenses. Despite the seemingly low pay-out from Langit, changes to the farmers lives (and specifically for women) can already be seen as they have started family planning and investing their income in government ran mutual funds. Other systemic changes have also beginning to sprout with the presence of Langit in their community. For example, farmers are starting to rent the abandoned lands in their villages and growing more rice, switching from a mere subsistence to a market economy.

Innovations for the B40: The business model of Langit is by itself very innovative, as without major investments in production technology, the company can buy and market high quality organic rice. Langit has also introduced various non-powered tools to reduce the labour intensity of farming. The company helped increasing the yield of the farmers by a third from 0.9 tons per acre to 1.2 tons per acre by introducing a combination of HK-SRI biotech fertilizer with Biodynamic (buffalo dung) fertilizer. This business and technology innovation results in further increase of the income opportunities of the farmers. The company also regularly conducts a census on the number of farmers, their yield, available arable land to understand the excess rice supply potential of Long Semado, and assesses the income increase, and its use to better understand the social impact dynamics on the community. The impact on the environment is particularly interesting: Farmers are beginning to switch back to chemical free traditional farming methods as Langit has demonstrated that high quality agrichemical free rice can fetch a higher price in the market. Langit is compiling the traditional best practices from the farmers and disseminate these practices to the community in order to weed out their reliance on chemicals.

IB readiness and recommendations: In the current business philosophy, the company is very small in business returns, social impact, as well as geographical and sectoral transformation, and would not qualify as an IB. However, given the very strong strategic IB intend and the good understanding of the company that social impact is being driven by good business performance and vice versa, Langit can be classified as a potential IB initiative and once it achieves more growth as an IB model. Langit has the potential to be transformative for the rice farmers in rural Sarawak. However, the company would need to continue experimenting and finding out the right business model, before it can scale at a more rapid pace. In this process, professional IB coaching would be very helpful for the company.

10. Life Green Charcoal Sdn. Bhd.

The company: Life Green Charcoal (LGC) was established in 2014 in Bachok Kelantan and is the largest coconut plantation in the east coast of peninsular Malaysia. The company spent the first two years experimenting on the processes as well as on the structure for getting coconut shells and coconut shell charcoals from the villages in Bachok. Business is fully operational since January 2019. LGC customers are both from local (25 per cent) and foreign markets (especially Thailand, China, Jordan and Serbia). The company needs to scale-up production to meet the large demand from abroad.

IB business: Charcoal Vendors, most of them are also farmers, supply the coconut shells charcoal to LGC. Each of these vendors work with average of four farmers (collectors). LGC is perhaps the only company in Malaysia which sources directly from low income households or villagers in rural Malaysia. Currently, the company produces only charcoal in natural form which does not need sophisticated processes. The current business model is a mainstream business. However, the company has plans to produce more value-added products that yield higher profit margin and better pay for the B40 suppliers (such as bio briquettes, super compost biochar and activated carbon) and as well as charcoal-based consumer products (such as deodorant and odour neutralizers). To make this transition, further grow, and pay better to more B40 the company wants to transform into an inclusive business.

Commercial results. The company's initial investment was MYR 0.7 million, and by end of 2019, the company revenue was estimated to be MYR 0.7 million, with a net profit of about 10--15 per cent. To date LGC has a demand to produce about 162-216 tons of charcoal a month, but can meet only 54-81 tons, because the Charcoal Vendors network is still relatively small. The company is planning to double the production by doubling the charcoal vendors by 2023 and triple them by 2025. The envisaged new IB model would increase revenue to MYR1.1 million by 2023 and MYR3.3 million by 2025, and – by adding more modern and downstream products – would also increase the profit rate. The supply for the increased production is guaranteed, as Malaysian consume estimated 1 billion coconuts per year which would result in 200,000 tons of coconut shells, of which 50 per cent are unused by the market and lay around as garbage in streets and rivers and clogging drains. The profit margin under the new business model would increase substantially from currently MYR 0.7 million to MYR 1.1 million in 2023 and MYR 3.3 million in 2025.

Social impact: The company currently works with 59 registered charcoal vendors, of which half are from Kelantan, a third from Terengganu and 20 per cent from Pahang, Negeri Sembilan, Kedah, Perak and Johor. Each vendor works currently with about four farmers (collectors). Therefore, the total reach of the company was 150 people in 2019. The company is aiming to scale this up to 300 suppliers by 2023 and 500 by 2025. The vendors are all exclusively from the B40 group, while half of the supplying farmers are from the B40, and the rest are wealthier coconut farmers. Vendors earn well through the business and could increase their family income from about MYR 1200 to MYR 2000 a month. However, the company does not have yet a strategy to also increase the coconut farmers to whom the vendors typically pay the market rate.

Innovations: The company provides training to the vendors on how to pre-process the coconut shells to charcoal before sending them to the company. To encourage villagers to start out as vendors, LGC subsidizes half of the vendors' investment costs (such as for the coconut shells carbonization retort - drum), as well as half of the vendors' transportation costs of bringing the coconut shell charcoals from the farmers to LGC.

Table A3.7 Life Green Charcoal: Current and new business model estimations

	Current business model	Possible targets new IB model	
	2019	2023	2025
Commercial results			
Revenue (million MYR per year)	0.4	0.3	1.7
Charcoal	0.4	0.0	1.0
Higher value products (estimated 30% revenue increase)	0.0	0.3	0.7
Net profit margin (MYR million per year)	0.08	0.09	0.41
Charcoal	0.08	0.00	0.20
Higher value products	0.00	0.09	0.21
Social impact			
Total reach	120	250	600
Vendors	30	50	100
Supplying farmers	90	200	500
IB-relevant reach (B40)	75	170	450
Percent	63%	68%	75%
Social depth (earning in comparison to market rate, and more than before)			
Vendors	20% more	25% more	30% more
Farmers	market rate	10% more	15% more

IB readiness and recommendations: In the current model, the company is a mainstream business which works with B40; however, the company does not yet ensure that the supplying farmers get incomes higher than the market average and does not work at scale. To transform to an inclusive business, the company would need to:

- engage more farmers,
- ensure that the income for the B40 farmers and vendors would be at least 15-20 per cent higher than market rate and competitors,
- substantially scale-up the sourcing from the B40,
- engage in higher value-added products and pass on the higher income to the farmers and vendors through higher pay,
- innovate to get larger supply at cheaper logistical costs,

- introduce other business innovations (beyond training and purchase guarantee) that share risks with the B40, and
- strengthen the targeting of B40 by using new forms of collection techniques and involving a higher share of B40 people (collectors, farmers).

The company has a strong strategic IB intent and can be considered a potential IB. Business coaching is needed to help the company make the transition from a mainstream business to a real IB. If the business coaching results in an agreement on transforming into an IB model, investment support through the proposed risk reduction facility, branding (through accreditation) and, perhaps, priority procurement in government purchase of charcoal would be helpful. If the company makes the necessary changes to become an IB, LGC would be a model in the coconut sector for other companies.

11. Tanoti Sdn. Bhd.

The company: Tanoti was incorporated in May 2012 as a Songket weaving workshop, and in 2015, it established its objectives into a social enterprise for heritage craft preservation, women empowerment and rural community development. The company's mission is to improve the livelihoods and the quality of life of rural and remote villagers, by generating sustainable income sources for women artisans while preserving traditional techniques in Malaysian arts and crafts.

The IB business: The company now wishes to transform from a social enterprise to an inclusive business, emphasizing more on commercial sustainability and the opportunity for larger social impact through a growing company.

Commercial performance: The company generates a small revenue and has achieved net profit since 2019. It seeks to grow substantially by 2023. The company is planning to secure a working capital loan for hiring new talents and developing new business pillars.

Social impact: Tanoti is currently working with about 250 artisans and plans to increase its community of artisans to 1,000 by 2023. All Tanoti's artisans are women residing in rural and remote villages in Sarawak. The income that these artisans make from their craft is low, but Tanoti aims to increase their income through the development of additional business lines creating further income opportunities for the artisans.

Innovations for the B40: To enable the value enhancement of the artisans' products, Tanoti is investing in research and development for upgrading the quality and marketability of their products. New business lines will allow access to alternative sources of income for artisans.

IB readiness: The company currently does not qualify as an inclusive business due to its low commercial viability, social impact, and innovation. However, the management of Tanoti has a strong IB strategic intent and wishes to change her business into a inclusive business (social enterprise initiative). The company would require good business coaching to move forward on this.

12. YK Travel Sdn. Bhd.

The company: YK Travel was established in 2006 as a tour and travel operator with primary business providing inbound services. Due to intense competition in inbound business, after seven years in operation, the company decided to expand its business and later on added outbound services, such as ticketing services. YK Travel is an established tourist company (mainstream business) with strong social intent.

The proposed IB line: In order to sustain its business and to have a positive impact on the B40, the company embarked on an expansion plan for a new 30 housing units over the water villa resort with a semi luxury architectural design at Kuala Penyu, and designing that resort as an inclusive business.

A resort in which B40 people work is not sufficient for being classified as IB, and the company is looking to introduce more innovations to make the new business line inclusive. It seeks to assist the B40 by creating new and well-paid income opportunities through tourism. The company would target customers from overseas especially Europeans that appreciate the rustic, nature related, and authentic tour experience of the area and environment. Another target market would include tourists from Singapore, West Malaysian, Korea and Japan. The company will also welcome domestic tourists, in particular government or corporate personnel with their family.

Kuala Penyu is in southern part of Sabah province, about 100 km from Kota Kinabalu, (1.5 hours drive). It has a population of more than 20,000 people of different ethnic groups (e.g. Dusun, Bisaya, Melayu Brunei, Kedayan, Bajau, and Chinese). Currently, they work mostly as subsistence farmers or in unstable informal sales activities and as low paid laborers in palm oil and rubber plantations. In the value chain of the new inclusive model, the company will actively promote the sourcing of goods and services from the B40, and seek to generate for them income opportunities above the market rate. For example, YK Travel will engage the locals as guides for cycling and trekking tours or as boat operators for fishing or Klias Wetland Safari and fireflies cruises. Furthermore, the company will encourage local crafts to be sold to its clients, and it will source food at fair prices from the B40 directly rather than through

traders, resulting in higher income for the B40. The company will also offer local community tours to familiarize the tourists with the feel and experience of every-day life in the village, and generate additional income opportunities especially for women (cooking classes, food sale etc.). Furthermore, the company would assist the locals to actively pursue homestay business. The company may also consider a shareholder model to deepen the involvement of the B40 in the business.

Commercial performance: The initial investment for the business is estimated at MYR 2 million for which the company is planning to get a loan, equity, and grant financing. In addition, the company already bought three acres of land close to the beach and will invest this as its own share. An initial assessment of the potential IB line gives a revenue of MYR 0.5 million (2021), MYR 1.1 million (2023) and MYR 1.8 million (2025). The gross profit would increase during the same time from 2 per cent to an estimated 20 per cent.

Social impact: The company would initially reach 200 B40 people, which it would increase to 1,000 by 2025. As it scales up its business, the company might reach out to vicinity areas (e.g. Keningau, Beaufort). The company would provide training and tourism skills, invest in infrastructure and assist with funding for the B40 (for example, for establishing homestays). It is estimated that one person can earn MYR 800-

1,500 a month depending on the type of job they are doing and type of engagement (full time, part time, temporary etc.). While the income earned is low, it is additional income as there are very few alternative income opportunities in the remote area. As such the IB model would have high transformative impact for the B40 in this geographical area.

Innovations for the B40: The new IB model would require many innovations as described above. These need to be designed adequately, to ensure sufficient benefits for the B40. As there is no such resort in the vicinity, and as YK Travel has good connections to other tourism operators eager to learn from the company's experience, the sectoral impact can also be expected to be high, provided the business case is successful, the expected social impact is achieved and properly documented.

IB readiness and recommendations: The new business line could be rated as a potential inclusive business (social enterprise initiative). Establishing this business line would require solid business advisory services for projecting revenues and costs more accurately, as well as for generating ideas in creating better impact to the B40s. The commercial viability and social impact may need to be reassessed. After the initial business coaching assessing the viability of the new IB line, some financing incentives may be required for developing the IB line.

ENDNOTES

- 1 G20 definition of inclusive businesses
- 2 During the course of the study, MaGIC was an agency under the Ministry of Entrepreneur Development and Cooperatives (MEDAC) and has now been placed under the Ministry of Science, Technology and Innovation (MOSTI).
- 3 <https://www.worldbank.org/en/country/malaysia/overview>
- 4 Based on international poverty comparison data from World Bank PovCalNet and data from the statistical office of the Government of Malaysia (see: <https://www.malaymail.com/news/malaysia/2020/07/10/statistics-dept-malysias-new-poverty-line-income-is-rm2208-over-400k-house/1883285>)
- 5 G20 definition of inclusive businesses
- 6 Association of Southeast Asian Nations, 2017b.
- 7 The ASEAN leaders' call to promote Inclusive Business was reiterated in the 2019 and 2020 ASEAN Inclusive Business summits. The ASEAN Economic Ministers' endorsed in August 2020 the Guidelines for Promoting Inclusive Business in ASEAN. The guidelines provides recommendations on strategic actions that governments can take to promote inclusive business. Several of these actions are also suggested in this landscape study.
- 8 For further information see: https://artnet.unescap.org/sti/policy/inclusive-business/ib_in_asean
- 9 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. Since 2017, iBAN supports the ASEAN Secretariat and ASEAN member countries to promote inclusive business as part of their industrial policies.
- 10 Similar landscape studies have been done by the Asian Development Bank for Bangladesh, the People's Republic of China, India, Indonesia, Pakistan, Philippines, Sri Lanka, Tajikistan, Viet Nam, as well as for the ASEAN and the APEC regions. Landscape studies have also been carried out in Cambodia and Viet Nam (supported by ESCAP and iBAN) and for Myanmar (supported by DFID). For more details see the list of references.
- 11 G20, 2015 and Association of Southeast Asian Nations, 2017a.
- 12 G20, 2015.
- 13 There is a difference between commercial viability and bankability (or commercial sustainable). A firm is commercially viable when it breaks even. However, a company may break but have low net profits or depend on grants. To be able to make further investments to scale-up its business and social impact, a company will also need to be bankable.
- 14 There is no single definition for social enterprises. The British Council defines social enterprises as 'Business activity that is primarily motivated by social good where profits are reinvested towards a social cause (British Council, 2018)'. There are multiple types including a) NGO-driven enterprises - these are seldom self-sustainable (they depend on grants), are not bankable and have low profit margins (i.e. below 5 per

- cent); b) social enterprise initiatives – which are commercially viable social enterprises, and c) social enterprises that provide social or environmental solutions at large scale for the government – these firms are commercially viable and bankable, but they do not have profit maximization as their business goal.
- 15 Sustainability reports often only report on adherence to social and environmental safeguards, and traditional CSR generally do not report the level of investment, the actual number of people supported or to what extent the support targets low-income groups or includes gender considerations.
- 16 <https://www.ceicdata.com/datapage/en/indicator/malaysia/gdp-per-capita>
- 17 Khazanah Research Institute, 2019.
- 18 In 2020, a new poverty line was introduced (see <https://www.malaymail.com/news/malaysia/2020/07/10/statistics-dept-malaysias-new-poverty-line-income-is-rm2208-over-400k-house/1883285>). Based on this new poverty line, about about 5.6% of the households would be classified as poor in 2019.
- 19 Department of Statistics, 2017
- 20 In February 2020, the Malaysian government increased the minimum wage to MYR 1.200 (USD 283) per month. See <https://www.aseanbriefing.com/news/malaysia-increases-minimum-wage/>
- 21 For a full discussion on measurement of national poverty lines see Khazanah Research Institute, 2019. For comparing the Malaysia national poverty line within the international context, see also World Bank 2018a and UNOHCHR 2019.
- 22 Expenditure-based and 2012 PPP
- 23 <http://hdr.undp.org/en/content/2019-human-development-index-ranking>
- 24 UNDP, 2019.
- 25 Khazanah Research Institute, 2018.
- 26 Khazanah Research Institute, 2019.
- 27 The average household size is 4.1 and total eligible population was 28.3 million, of which 1.5 million (22%) lived in rural and 78% in urban areas. Each household has on average 1.8 people receiving income. Country-wide, household income is coming from paid employment (63% of total income of all household groups), self-employment (15.6%), property and investments (12.9%), and transfers (8.5%).
- 28 Between 2009 and 2014 the real average household incomes of the bottom 40 grew at 11.9% per year, compared to 7.9% for the total population (World Bank 2019 Malaysia country website).
- 29 Khazanah Research Institute, 2018.
- 30 Khazanah Research Institute, 2018.
- 31 These challenges are based on the 14 key social needs identified in a 2015 Khazanah Research Institute report mentioned by national stakeholders.
- 32 The government has licensed 80 private schools which mostly serve the better off urban households that can afford to pay a school fee of MYR 40,000-60,000 a year (more than the monthly income of a typical B40 household). However, B40 parents would also pay for better schools for their children, if they are affordable. In other countries, there are IB models in the education sector.
- 33 Property developers estimate a deficit of over 400,000 affordable houses in Malaysia. Developers currently target the middle-income market with still high price between MYR 250,000-500,000 (\$60,000-120,000). Based on the market study interviews, only two developers are interested in low-cost housing projects with price between \$20,000 and \$50,000. Even these developers' business models are not very innovative, as they mostly only implement building orders from government and do not develop and sell (or rent out) better and more affordable low-cost housing.

- 34 Department of Statistics Malaysia Official Portal <https://www.dosm.gov.my/>
- 35 The World Bank's Global Consumption Database provides data on household consumption patterns, which can be used to estimate investment potential for the private sector in specific sector markets. Unfortunately, Malaysia is not covered in that database.
- 36 Data and analysis provided by the Economic Planning Unit (EPU) during the interviews.
- 37 There are more than 5,000 foreign companies registered in Malaysia. Some of them ,especially those in the agrobusiness sector, could qualify as inclusive business or be interested in developing an inclusive business model.
- 38 World Bank, 2020.
- 39 World Bank, 2019a.
- 40 For decades, Malaysia relied on cheap foreign labor for its electronics parts factories, palm oil plantations, and construction industries. There are about 2 million migrant workers in the country according to official data. However, the abundance of cheap labor is not any more given, and the country needs to innovate and introduce technological changes to raise productivity.
- 41 The www.smeinfo.com.my mentions 23 grant schemes, 33 loan schemes, and 3 equity schemes with specific focus on SME development. In addition, SME Corp. Malaysia has a scheme to link SME companies to potential investment partners (the SIP scheme) for raising funds. Furthermore, there is a dedicated bank for SME development.
- 42 The Enterprise 50 Award is a prestigious event and SME Corp. Malaysia may consider including a special recognition for IB in this award.
- 43 With the new IB accreditation institutionalized IB companies can get a special branding from the government and business association as companies that help society and B40 with commercially viable private sector approaches. Such branding is also proposed at the regional ASEAN level.
- 44 SME Corp. Malaysia, 2019.
- 45 Data are from SME Corp. Malaysia
- 46 Stakeholders interviewed have commented that some support programmes run beyond their usefulness, some businesses are established to get government funding, and that government support and programmes may be too pervasive and directing and may be stifling private sector innovation and/or crowding out investments.
- 47 See: British Council, 2018
- 48 MEDAC is reviewing in 2021 the definition of Social Enterprise and the Social Enterprise Accreditation criteria.
- 49 See: <https://central.mymagic.my/sea>
- 50 See MaGIC SE Accreditation (SE.A) in <https://central.mymagic.my/sea>
- 51 Note that in the international discussion microfinance institutions that follow commercial approaches (not NGO-driven) form part of the IB discussion.
- 52 MaGIC, 2015. However, MaGIC has also other functions such as promoting innovation, and the non-SE programme of MaGIC is actually bigger than the SE agenda.
- 53 MaGIC, 2015.
- 54 See also <https://www.theedgemarkets.com/article/government-allots-about-rm50m-year-magic>
- 55 See <https://www.thestar.com.my/tech/tech-news/2019/10/11/budget-2020-magic-gets-rm10mil-to-develop-social-enterprises>
- 56 This is a fund where an investor (either private or government or a fund) sets impact targets and buys services from a social enterprise. This is not the same as an IB investment where the private sector takes full risks (and profit return) fir successfully implementing an IB business line.

- 57 Information provided during interviews with AIM management, and further verified through key informants.
- 58 British Council, 2018.
- 59 The number of SE in Malaysia is small, given its population of 32.4 million. Neighboring Singapore, with a population of 5.6 million people, had 401 registered social enterprises as of 2017.
- 60 As reported by MEDAC.
- 61 Twenty of the 250 SE assessed by Tandemic in 2018 were in the environmental and climate change field.
- 62 British Council, 2018.
- 63 British Council, 2018.
- 64 ESCAP/iBAN, Unpublished (a).
- 65 British Council, 2018.
- 66 GIIN and Intellectap, 2018.
- 67 A potential IB is a company or social enterprise that does not fully reach the required IB scoring but has a strategic intent and business plan to develop an IB model.
- 68 Due to time limitations, it was not possible to conduct specific assessments in other regions in Peninsular Malaysia.
- 69 Two of companies assessed undertake CSR activities. However, none of them indicated any interest to change their CSR activities into an IB activity.
- 70 For example, the country has many innovative ideas for establishing new support programmes. They are often named through very embracing terms with catchy abbreviations. Some people however suggest that too many ideas with similar context might confuse people and it would be better to consolidate the many support programmes the government is giving.
- 71 During the course of the study, MaGIC was an agency under the Ministry of Entrepreneur Development and Cooperatives (MEDAC) and has now been placed under the Ministry of Science, Technology and Innovation (MOSTI).
- 72 While this study, as part of the company assessment, approached some large agrobusinesses, very few were interested in the study because of lack of awareness on the relevance of IB for their current or future business, and because of lack of incentives to make the transition into IB agrobusinesses.
- 73 See World Bank, 2017 and Bank Negara Malaysia 2010 and 2016.
- 74 SME Corp. (2019).
- 75 Data from SME Corp. Malaysia (2019).
- 76 Based on information provided by CGC management as part of this study.
- 77 Based on information provided by SJPP as part of this study.
- 78 Bank Negara Malaysia, 2019a.
- 79 Bank Negara Malaysia 2017a, 2018, 2019b and Grant Thornton 2019
- 80 See also <https://www.aurigininc.com/c/Malaysia/Private-Equity-Funds/MY/2/All/1>
- 81 Information based on interviews with various key informants from the Malaysian finance industry and government institutions and on information available at <https://www.naviscapital.com/>.
- 82 Information provided by MAVCAP during interviews conducted in the context of this study.
- 83 Information provided through interviews with various key informants from the Malaysian finance industry and government institutions such as MAVACP.
- 84 See Islamic Corporation for the Development of the Private Sector 2019) and Bank Negara Malaysia (2017b), and Security Exchange Commission and World Bank (2020).
- 85 See Crowdfund insider, 2019.
- 86 https://www.smecorp.gov.my/images/SMEAR/SMEAR2018_2019/final/english/SME%20AR%20-%20English%20-%20Chapter%206.pdf
- 87 In other ASEAN countries, there are often 5 to 15 impact investors with an IB focus, half of

them located in the country.

⁸⁸ This is part of the regional study done by GIIN and Intelicap, 2018. While GIIN made various country assessment of Asian markets, there is no such on Malaysia, suggesting the expected small size of impact investing in the country based on GIIN data.

⁸⁹ Bursa Malaysia, 2019.

⁹⁰ See: CSR Malaysia, 2019

⁹¹ The United Nations Global Compact is a voluntary initiative based on CEO commitments to implement universal sustainability principles and to take steps to support UN goals. However, the Global Compact is not a performance or assessment tool. It does not provide a seal of approval, nor does it make judgments on performance.

⁹² Information provided during an interview

with the Global Compact Office Malaysia.

⁹³ See <https://www.medac.gov.my/admin/files/med/image/portal/NEP2030-Final.pdf>

⁹⁴ Note that similar abbreviations are also being used by neighboring countries. For example, Cambodia is currently discussing its IBeeC strategy, and has proposed to the IB working group under the ASEAN Coordinating Committee on MSME (ACCMSME) the use of similar names for IB strategies developed in other ASEAN countries.

⁹⁵ Services IB models may benefit a household (like in housing) or an individual (like in health or education). In addition, some benefits are one-time benefits (like microfinance which is invested only once) or accumulate over several years (a water connection benefits every year). Thus, the terms beneficiaries and benefits are used to differentiate.

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