

INCLUSIVE BUSINESS IN MALAYSIA

Initial Results of a Market Study and Strategic Policy Recommendations for Promoting Inclusive Business

Background document:
National Forum on Inclusive Business for Malaysia
SME Corporation Malaysia, Kuala Lumpur,
3 October 2019

In September 2017, ASEAN adopted its first Inclusive Business Framework. In November of that year, the Heads of States and leaders of ASEAN countries issued a statement calling for "...greater emphasis on creating an enabling environment for inclusive businesses in ASEAN Member States..." Since then, various governments in the region have embarked on raising awareness and establishing inclusive business (IB) promotion policies. Aligned, an increasing number of companies are investing in developing innovative and profitable inclusive business lines.

Inclusive business unleashes the potential of the private sector to make growth more beneficial to the poor and low-income populations. As such, it is aligned to the development priorities of the Government of Malaysia to empower the B40. Inclusive business has been included in the National Entrepreneurship Policy 2030 (DKN 2030) and could be a strategic recommendation of the Twelfth Malaysia Plan, 2021-2025 (RMKe12) currently being discussed.

In June 2019, the Government of Malaysia, through SME Corporation Malaysia under the Ministry for Entrepreneur Development, decided to explore policy opportunities to promote inclusive business and partnered with the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and the Inclusive Business Action Network (iBAN) to conduct a national inclusive business landscape study. The study includes a market study of inclusive business in Malaysia, an assessment of the enabling environment in which they operate, and it identifies policy options for promoting inclusive business.

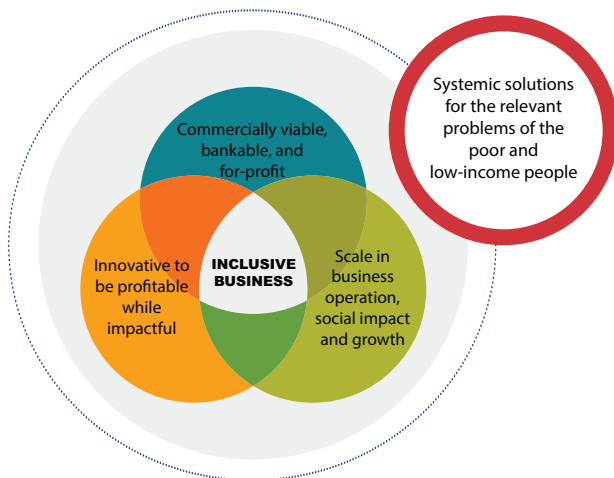
The study will be published by the end of 2019 and this document provides a briefing on inclusive business and some preliminary findings as background information for the first national Forum on Inclusive Business for Malaysia.



INCLUSIVE BUSINESSES

Definition and Target Group

Elements of Inclusive Businesses



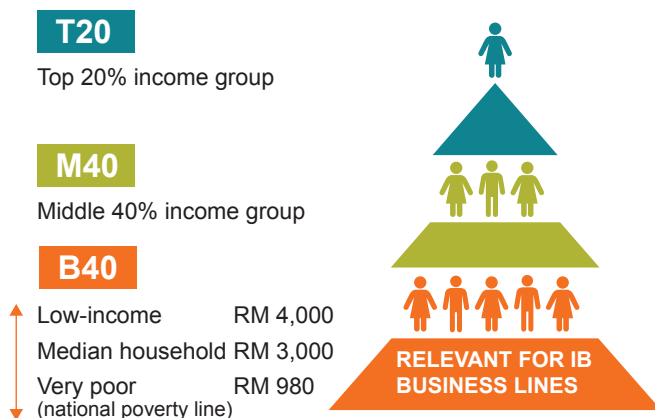
Inclusive businesses provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the base of the economic pyramid (BOP)¹ making them part of the value chain of companies' core business as suppliers, distributors, retailers, or customers.

To serve this market while being profitable, inclusive business companies must innovate, developing new business models and/or solutions to address the challenges of poor and low-income populations. Through innovation, inclusive businesses contribute to transforming the economy towards benefiting those that need the most.

While many firms work with or sell to the B40, only few provide systemic solutions that enable low-income populations to secure sustainable additional income needed to improve living conditions or access, at affordable rates, goods and services relevant to overcoming poverty and exclusion. Only such companies can be called inclusive business.

Targeting the B40

Malaysia B40



IB investments are consciously designed to provide solutions to the income and access problems of the poor and low-income people; the income groups that make the bottom of the economic pyramid.

Across ASEAN, the composition of this group varies as countries adopt different poverty, vulnerability and low-income thresholds depending on their socio-economic status

In Malaysia, the BOP comprises the lowest 40% income groups (B40), as well as particularly vulnerable population groups. The B40 includes households with average monthly income of up to approximately RM 4,000.

Triple Wins for the Poor, the Private Sector, and for Society

Inclusive businesses are private sector contributions to poverty reduction and the Sustainable Development Goals (SDGs) and create multi-faceted wins for society:

- **For the B40:** inclusive business creates additional income generation opportunities or expand access to essential goods and services.
- **For companies:** inclusive business offers profitable business and investment opportunities, help reduce risks, develop new markets and foster innovation.
- **For governments:** inclusive business helps create jobs and address essential needs of the B40 at scale, reducing poverty, exclusion and inequality in society.

¹ Inclusive businesses may not exclusively focus on the B40, however, they always have specific features designed to target this specific income group. In many cases, the B40 are the largest beneficiaries of inclusive businesses.

Types of inclusive Businesses

Inclusive business refers to a specific business line of a company, rather than to the company. This is because a company might operate several business lines, some of which might be inclusive, while others are not. Inclusive business lines typically have an annual revenue of 0.5-10 million dollars. However, these can be much larger and reach hundreds of millions of dollars.

Inclusive businesses can be found in all sectors, and they are particularly established in finance, agribusiness, health, education, urban utilities, and renewable energy. Inclusive businesses are categorized in three distinct approaches:

- **Inclusive business model:** a business line that is a core operation of a company. IB models are mostly operated by medium-sized enterprises and are specifically designed for realizing both market returns and large-scale social impact.
- **Social enterprise (SE) initiative:** a smaller inclusive business line with small, but potential to scale, impact. These initiatives are commercially viable yet accept lower market returns. These are mostly implemented by for-profit and growing social enterprises with a clear objective to scale and become an inclusive business. As such, they are distinct from NGO-driven social enterprises. In some countries, these SE initiatives are called social businesses.
- **Inclusive business activity:** a commercially oriented corporate social responsibility (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 inclusive business model.

B40 engagement models

Inclusive businesses engage the B40 and other vulnerable people typically in two ways:

- **As consumer:** inclusive businesses provide goods or services relevant to overcoming poverty and exclusion (e.g. education, housing, health, etc.) at affordable prices, and through market mechanisms appropriate to address their needs.
- **As income earner:** inclusive businesses engage the B40 as suppliers, distributors, laborers, or shareholders. They provide additional income opportunities that support households to significantly improve living conditions and overcome vulnerability. They also help reduce the risk of the B40 (e.g. by guaranteeing loans or absorbing the costs of essential parts of the business process).

Most inclusive businesses engage the B40 as income earners.

Inclusive Business, Social Enterprises and Corporate Social Responsibility

IB differs from the traditional, charity-oriented, CSR work of large firms and from not-for-profit and NGO-driven social enterprises in their profit orientation and scale of social impact. IBs seek large profit as well as large impact.

IB is also distinguished from mainstream business in its emphasis on not compromising systemic social impact for profit maximization. Rather, social impact drives profit and vice-versa.

Certain mainstream businesses, social enterprises and CSR initiatives can be supported to become inclusive businesses. In this regard, policy plays a key role in encouraging transformation and growth.



INCLUSIVE BUSINESSES IN ASEAN

The ASEAN region offers a rich environment for inclusive businesses. In the past years, IB has gained ground in the private sector and countries have made important progress towards creating enabling environments:

Businesses: There are many examples of successful IB companies in South-East Asia. In the Philippines, Manila Water is expanding access to safe and reliable water to 2.8 million households in the slums of the city and Kenner Foods is creating income opportunities for over 10,000 coconut farmers by promoting inter-cropping with cacao. In Myanmar, OnDoctor is creating a profitable and non-subsidized business model to provide free medical advice – mainly to mothers and their children – to 3.4 million remote rural households.

Governments: Governments in ASEAN are designing special policies and programs to involve the private sector in providing solutions to the poor and low-income people. For example, the Philippines has included IB in their priority investment plan, granting incentives to accredited IB investments. Myanmar and Cambodia are in the process of institutionalizing a comprehensive strategy for IB support. Viet Nam and Malaysia are conducting landscape studies to inform the promotion of IB including through existing private sector support initiatives (such as those promoting SMEs and social enterprises). In addition, there are focused SEs and CSR laws, regulations and policies in Indonesia, Malaysia, Thailand, Singapore, and Viet Nam, and opportunities exist to link them to IB.

Investors: The IB market is becoming a new asset opportunity for investors. Currently, the deal flow is low in ASEAN countries (compared to India and China for example). However, individual profit margins of deals are good. Impact investors, therefore, actively promote business coaching and risk reduction methods to increase their investment potential in the region. It is estimated that around 20 relevant impact investors are active in the region, and have placed an estimated \$30 billion in equity and loan investments in impact companies between 2012 and 2017. While some of these investments are large (generally from institutional investors such as the International Finance Corporation or the Asian Development Bank), most investments are between \$0.2 and \$5 million.

Support programs: Accelerators, incubators and other support programs are emerging in all countries. While these often focus on start-ups with a technology or environmental focus, there is an increasing interest in broadening services to encourage companies establishing IB lines that target the poor and low-income people.

Business associations: Private sector associations are increasingly interested in promoting awareness and knowledge sharing on IB companies. Some, for instance, promote IB awards. In Myanmar and Cambodia, leading business associations have appointed IB focal points that are involved in joint IB accreditation with the government.

Development partners: Development actors support many private sector development programs in the region including business coaching, business development, marketing support, and access to finance. However, this private sector development support has rarely focused on companies that create value for the poor on a commercially viable basis, that is on promoting inclusive businesses. Where IB support programs exist, selected development partners are increasingly interested in adjusting their approach and adopting a stronger IB focus.

At the regional level: ASEAN through its ASEAN Coordinating Committee on SME development is promoting Inclusive Business following the ASEAN leaders call for creating an enabling environment for inclusive business. Policy work and advocacy in the region is supported by iBAN and ESCAP.

INCLUSIVE BUSINESS IN MALAYSIA

Malaysia is an upper middle-income country with a GDP per capita of USD 10,460 in 2018.³ Since the 1970s, the Government has actively supported improving the living standards of Malaysian population and has put in place a wealth of programs to support the B40 and the small enterprises they operate.

Income inequality, however, is higher than in other upper middle-income countries. There are still significant differences in living standards, especially between states, rural and urban areas, and remote places. Malaysia's gender gap is also the fifth highest among upper-middle-income countries. There are also unmet needs related to affordable housing, last-mile access to education and health and well-paid income opportunities.

While the Government has played a key role in reducing poverty, the private sector can be more innovative in creating solutions to problems present in the society. In addition, the strong involvement of the Government is likely to reach a financial limit.

Market opportunity for inclusive business

There is a market opportunity for the private sector to address the needs of the B40 that until now has not been fully explored. The current interest of the private sector in social innovation is small, given the strong Government involvement in economy and society. However, there are still unmet social needs that the private sector could address given the reasonable purchasing power among the bottom 40% income group.

Inclusive businesses in Malaysia

Efforts to identify inclusive business in Malaysia have surfaced very few cases and even fewer may be confirmed as inclusive businesses. Of a total of 122 companies identified with potential IB models, 59 were shortlisted given their potential and 39 were prioritized for interviews. Interviews are still ongoing but based on the current results, there are about 15 potential and real inclusive businesses in Malaysia.

Compared to other countries in the region (e.g. Indonesia, Philippines, Cambodia, Viet Nam and Myanmar are examples of countries with mapped IB landscapes) the number of potential IB models, the current scale of impact for society, and the revenue that these companies create remain low. This can be explained by:

- the low levels of awareness about the triple wins of inclusive business;
- the lack of risk-taking spirit among the Malaysian private sector for generating new business innovations that can help the B40, and;
- the somewhat restricted market potential due to a comprehensive and well-financed government sponsored social protection system in Malaysia.

Inclusive business versus social enterprises

There are various (complementary) ways through which the private sector can contribute to social development. Social enterprises tend to be of smaller scale, not necessarily focus on the poor and low-income people and may depend on financial grants. Inclusive business operates at scale and are fully commercially viable.

Investments in inclusive business have not taken up in part because of the limited knowledge of what inclusive business is and a misperception that helping the poor is necessarily compromising financial returns. Moreover, government-driven support to social enterprises, which are typically small and not attractive for private investors, may have further encouraged the perception that servicing the poor requires public support. The government may consider reforming its support to social enterprises to encourage larger social enterprise initiatives and inclusive business models.

³ World Bank. Malaysia. Available at: <https://data.worldbank.org/indicator/SI.POV.LMIC.GP?locations=MY> (accessed May 2019).

Malaysia's move to integrate inclusive business in the RMKe12, its new 5-year development strategy, is particularly interesting, and it would be the first middle-income country in Asia developing a coherent strategy for inclusive business promotion and linking it to reforms in social enterprise support.

To make social enterprise support programs more relevant for achieving better commercial viability and scaled-up social impact, it will be important to ensure that investors see opportunities to grow their business and to realize good bottom line returns while delivering for the B40.

Changing context for inclusive business

The context for inclusive business in Malaysia is changing, mainly due to three reasons:

- To respond to the need to reduce public spending and leave more space for the private sector to share responsibility, the Government is interested in reducing its direct involvement in the protection of the B40, while at the same time ensuring that their living standards continue to improve. This is only possible if the private sector is encouraged to do investments that benefit the poor more and in a way that is different from the past.
- The private sector is increasingly less supported by comprehensive government incentives. Consequently, it is slowly understanding the need for more risk-taking and innovative investments and exploring new markets not only in exports but also among the B40 in Malaysia.
- There are outstanding social issues that have not been yet sufficiently addressed, and to which the B40 are looking for solutions. These include higher income opportunities and decent jobs, affordable housing, health and education, last-mile connections in remote areas and addressing the needs of informal migrants in Malaysia.

Inclusive Business Ecosystem in Malaysia

SME Corporation Malaysia, under the Ministry of Entrepreneur Development (MED), is leading discussions on inclusive business in the country. Involved in the discussions are also other government ministries and agencies, such as, the Ministry of Economic Affairs, the Ministry of Rural Development, the Ministry of Agriculture and Agro-Based Industry, the Ministry of Women, Family and Community Development, the Ministry of Domestic Trade and Consumer Affairs, the Malaysian Global Innovation and Creativity Centre (MaGIC) and the Innovation Agency of Malaysia (AIM).

On the business side, good support comes from associations such as the SME Association of Malaysia, the National Chamber of Commerce and Industry of Malaysia, the National Association of Women Entrepreneurs, and the Malaysian Association of ASEAN Young Entrepreneurs.

While there are support institutions and facilitators active in the country, most of them focus on mainstream businesses, start-ups or social enterprises. Similarly, very few impact investors relevant for IB are active in Malaysia, although there are active investors supporting social enterprises.

EXAMPLES OF INCLUSIVE BUSINESSES IN MALAYSIA

The landscape study identified several companies that could be strengthened as inclusive businesses. The following are examples of businesses whose owners have expressed strong intent to develop inclusive business models, and that could be encouraged to do so through business coaching and other support mechanisms.

For improving living standards (consumer):

- A market chain that involves the poor in its value chain and at the same time provides lower-priced products for the B40 (e.g. 99 Supermarket, others)
- An urban organic food producer that produces green vegetables and is currently exploring sales models so that the B40 can also afford healthy food (e.g. BoomGrow).

The consultant team could not identify IB cases in health, education, housing, energy, as well as water and sanitation. However, with more inclusive business awareness, business coaching and other incentives, inclusive businesses might emerge or existing companies in those sectors may transform their business models.

STRATEGIC RECOMMENDATIONS FOR INCLUSIVE BUSINESS IN MALAYSIA

Based on the early findings of the landscape study for Malaysia, the most important areas of action are the institutionalizing of an inclusive business promotion culture, the fostering of awareness raising on the opportunities of inclusive business and the provision of technical assistance, specially business coaching, to potential and existing inclusive businesses.

Recommendations emerging from the inclusive business landscape study:

1. **Coordination:** Institutionalization of inclusive business champions and focal points in government institutions and private sector associations.
2. **Awareness:** Raise awareness and information sharing about of inclusive business.
3. **Accreditation:** Establish a transparent and simple IB accreditation system with joint ownership by business associations and various government agencies. IB accreditation is a necessary condition for any targeted support to IB companies.
4. **Technical Assistance:** Create a facility to provide business coaching to potential inclusive businesses.

Together, these measures could support companies to develop inclusive business models. Other, and perhaps less crucial, strategic areas to promote inclusive business in Malaysia would include: a) reducing the perceived investment risks, b) including inclusive business in the financial business incentives system of the country, c) prioritizing inclusive business in public procurement, d) promoting the upscaling of social enterprises towards inclusive business initiatives and models, and e) setting up an impact monitoring and reporting system.

The way forward

The inclusive business landscape study for Malaysia will be finalized by November 2019 and reveal further information and examples of companies, as well as more details on the above-mentioned policy recommendations. In parallel, SME Corporation Malaysia has initiated discussions to include inclusive business as a strategic objective in the new SME strategy and the government's 5-year development plan. It is also currently exploring financing opportunities from the public budget for business coaching, a risk reduction facility, awareness raising activities in close cooperation with business associations, and other technical assistance work such as IB accreditation, and a study on priority procurement. SME Corporation Malaysia is committed to set up a strong system for inclusive business promotion.

For income generation and improvements of the B40 (income earner):

- A food distribution company that creates income opportunities for refugees (e.g. Picha Eats)
- Handicraft companies in that pay higher rates to producers (e.g. Everlasting Mus, Tanoti Craft)
- Agrobusiness companies that engage the B40 in their value chain and pay better rates while at the same time introducing other innovations to help smallholder farmers grow (e.g. Nestlé, FreshMilk, others)
- Tourism companies in Sabah and Sarawak that pay suppliers higher prices for their inputs (e.g. Panorama).
- Companies developing skills in the wellness industry, in areas demanded by the youth of rural Sabah, and providing employment in reputable companies, guaranteeing them employment and upscaling their skills and general wellbeing (e.g. Jari-Jari Academy, Everlasting Mus)
- Companies providing opportunities for villagers and smallholders to collect discarded coconut shells and supply them to producing bio charcoal, which is in demand locally and globally. In turn the villagers are able to increase their income significantly. (e.g. Life Green Charcoal)
- A heirloom rice distributor that buys rice from farmers in highland Sarawak and sell as premium rice in the market. These farmers are paid more for the rice than if they sold it locally (e.g. Langit Collective)

United Nations ESCAP and the Inclusive Business Action Network (iBAN) partner to strengthen the policy environment for Inclusive Businesses in Cambodia

The development of the Landscape Study of Inclusive Business in Cambodia as well as of the IBeeC strategy have been supported by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and the Inclusive Business Action Network (iBAN).

In 2019, ESCAP and iBAN launched a joint initiative to help governments to enhance the policy environment for Inclusive Business in South-East Asia. The iBAN-ESCAP partnership focus on three main areas: country-level analysis and advice, regional policy dialogue, and knowledge exchange.

ABOUT ESCAP

The Economic and Social Commission for Asia and the Pacific (ESCAP) serves as the United Nations' regional hub promoting cooperation among countries to achieve inclusive and sustainable development. The largest regional intergovernmental platform with 53 Member States and 9 associate members, ESCAP has emerged as a strong regional think-tank offering countries sound analytical products that shed insight into the evolving economic, social and environmental dynamics of the region. The Commission's strategic focus is to deliver on the 2030 Agenda for Sustainable Development, which is reinforced and deepened by promoting regional cooperation and integration to advance responses to shared vulnerabilities, connectivity, financial cooperation and market integration. ESCAP's research and analysis coupled with its policy advisory services, capacity building and technical assistance to governments aims to support countries' sustainable and inclusive development ambitions.

<https://www.unescap.org>

<https://www.artnet.unescap.org/sti>

About iBAN

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 on-line knowledge platform (www.inclusivebusiness.net) on inclusive business and offers a focused Capacity Development Programme for selected 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 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.

<https://www.inclusivebusiness.net/>

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