

# Special Highlights





## Special Highlights

**C**risis including pandemics, wars and natural disasters have impacts on MSMEs and entrepreneurs throughout the world. OECD's Future-Proofing SME and Entrepreneurship Policies Report 2023 highlighted that majority MSMEs lost their revenue and source of income, surveys across the world showed that 70.0% - 80.0% of SMEs experienced a substantial decline in revenues in the first year of the crisis. In consequence, MSME cash reserves came under severe strain.

Apart from this the COVID-19 hit the tourism economy hard, with unprecedented effects on jobs and businesses. Tourism was one of the first sectors to be deeply impacted by the pandemic, as measures introduced to contain the virus led to a near-complete cessation of tourism activities around the world.

Given their large weight in economic value added and their key role in communities that MSMEs play, steps need to be taken to future-proof their businesses against any crisis and ensure their survivability.

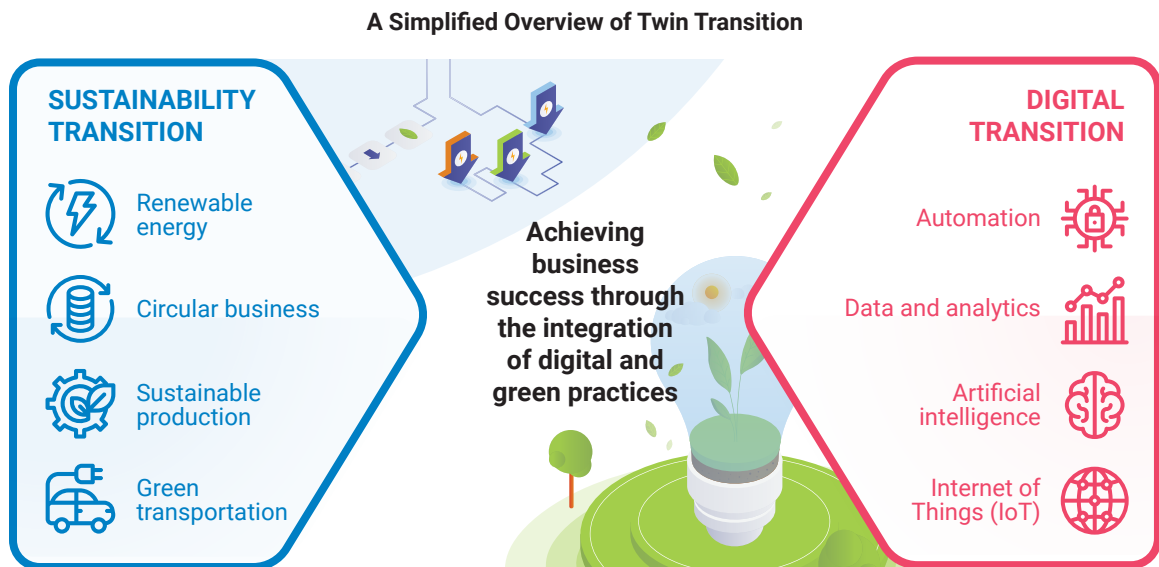
### **EMPOWERING MSMEs THROUGH TWIN TRANSITION**

In this decisive decade for climate action, digitisation has a major role to play in supporting sustainable growth. Indeed, digital solutions could reduce global carbon emissions by 20.0%, according to the World Economic Forum. By adopting the 'twin transition', organisations can bring the digital and sustainability agendas together to improve digital function, drive sustainability goals and future-proof their organisations.

The COVID-19 pandemic has shaken global trade and forced companies to redesign their supply chains. Twin transition is a critical imperative for businesses to thrive in this decisive decade. By embracing digitalisation and sustainable practices, businesses can reduce costs, improve efficiency, enhance brand reputation and drive innovation. The twin transition presents significant opportunities for businesses to create value and gain a

competitive advantage. However, it also requires a fundamental shift in business operations, strategies and mindsets. This is an eye-opener to most companies globally. Particularly affected were the MSMEs and their recovery in the post-pandemic era. MSMEs today are confronted with the twin challenges of sustainability and digital transformation.

Based on article by OECD on SME Digitalisation & Sustainability: The Twin Transition, MSMEs can accelerate their transition towards sustainable models by implementing digitally based eco-innovations, such as, carbon footprint testing technologies, tracing of sustainable materials in supply chains through distributed ledger technology or the use of ecological sensors connecting with IoT devices to promote ecological practices through social media. By adopting eco-innovations and developing 'green' products, services, practices and business models, MSMEs can tap new opportunities, increasing their market share and capturing new markets.



**Among the key success factor of Twin Transition, MSMEs need to:**

**i. Embrace Digitalisation**

The digital transition is a crucial enabler of the green transition. Digitalisation helps businesses to optimise operations, reduce waste and improve efficiency, thereby minimising their environmental footprint.

**ii. Adopt Sustainable Practices**

MSMEs must adopt sustainable practices across their entire value chain to reduce their environmental impact. This involves rethinking product design, raw material sourcing, production processes, logistics and disposal. By adopting sustainable practices, businesses can reduce costs, increase operational efficiency and enhance brand reputation.

**iii. Collaborate and Engage with Stakeholders**

Transitioning towards a sustainable future requires collaboration and engagement with stakeholders, including customers, suppliers, investors, employees and communities. Businesses need to involve stakeholders in their transition journey, listen to their feedback and address their concerns.



## Drivers of a Twin Transition

### i. Increase Efficiency and Cost Savings

Adopting sustainable practices and digital technologies, will enable MSMEs to reduce costs, optimise operations and improve efficiency. This can result in significant cost saving and enhancing the bottom line.

### ii. Improve Brand Reputation

MSMEs that embrace sustainability can enhance their brand reputation and differentiate themselves from competitors. Consumers are increasingly conscious of the impact of their purchasing decisions on the environment, society and businesses that prioritise sustainability are likely to gain their trust and loyalty.

### iii. Innovation and New Business Models

The twin transition presents significant opportunities for businesses to innovate and create new business models that leverage digital technologies and sustainability practices. This can result in the development of new products and services that meet evolving customer needs and preferences.

### iv. Access to Capital

Investors are increasingly looking to invest in businesses that prioritise sustainability. By embracing sustainability, businesses can access a broader pool of capital and secure funding for their transition journey.



# Box Article

## Building Sustainable MSMEs with PKSlestari

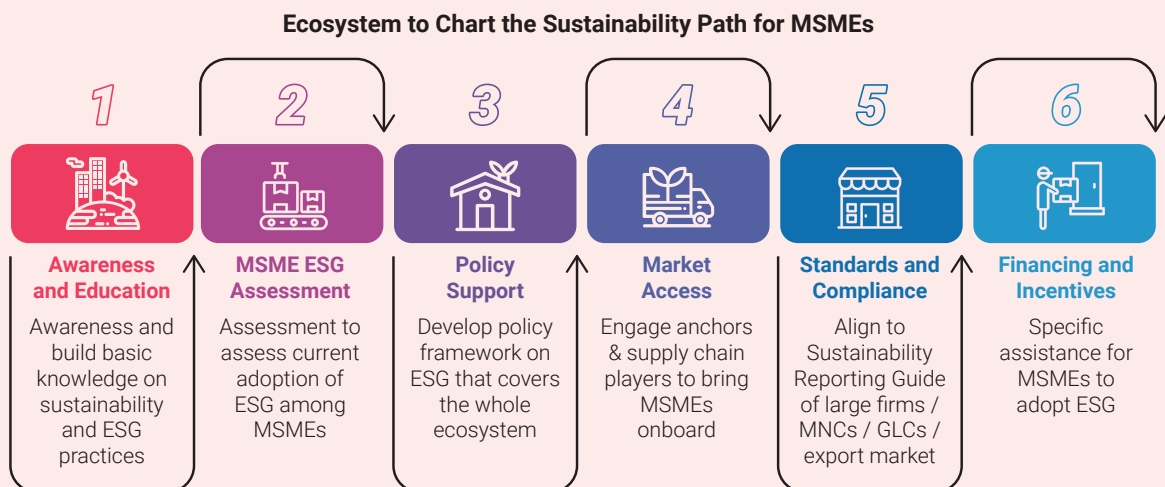
### Background

Two global megatrends are based on the principle of sustainability, namely scarcity due to unsustainable use of natural resources and dematerialisation, which the United Nations Environment Programme (UNEP) defines as “the reduction of total material and energy throughout of any product and service, and thus the limitation of its environmental impact”.

In 2015, only 0.8% of Malaysian MSMEs were found to have expenses related to environmental compliance. The majority of MSMEs who had spent on environmental compliance were from the services sector (55.4%) while 24.8% were from manufacturing and 14.5% from construction. In 2021, green practice awareness had risen to 26.0% of MSMEs and by 2023, 40.0% of MSMEs have reported awareness of environmental, social and governance (ESG).

The top three challenges in addressing sustainability issues faced by MSMEs are a lack of information and guidance, lack of ESG expertise among MSMEs and lack of funds. Conversely, the top three drivers for the MSME sustainability agenda are to improve brand image and reputation, to stay competitive and to reduce business.

SME Corp. Malaysia, as the central coordinating agency for MSME development, has a vital role in facilitating MSME adoption of ESG principles. The PKSlestari initiative was thus conceived to develop a holistic ecosystem that will drive the sustainability agenda for MSMEs. The ecosystem will be based on six elements, namely awareness and education; ESG assessment; policy support; market access; compliance and standards; and financing and incentives.



### i. Awareness and Education

As the awareness level of sustainability and ESG practices is still low among MSMEs, awareness and education programmes are central to the *PKIestari* agenda. In 2023, SME Corp. Malaysia intensifies awareness campaigns by organising the 2023 SME Sustainability Series to provide MSMEs basic knowledge on ESG practices, including the effect on their business.

The series of workshops cover the following topics:

- Introduction to sustainability and ESG practices
- Framework for ESG and sustainable practices
- Assessing risks and opportunities from ESG
- Developing an ESG strategy
- Measuring and monitoring ESG performance

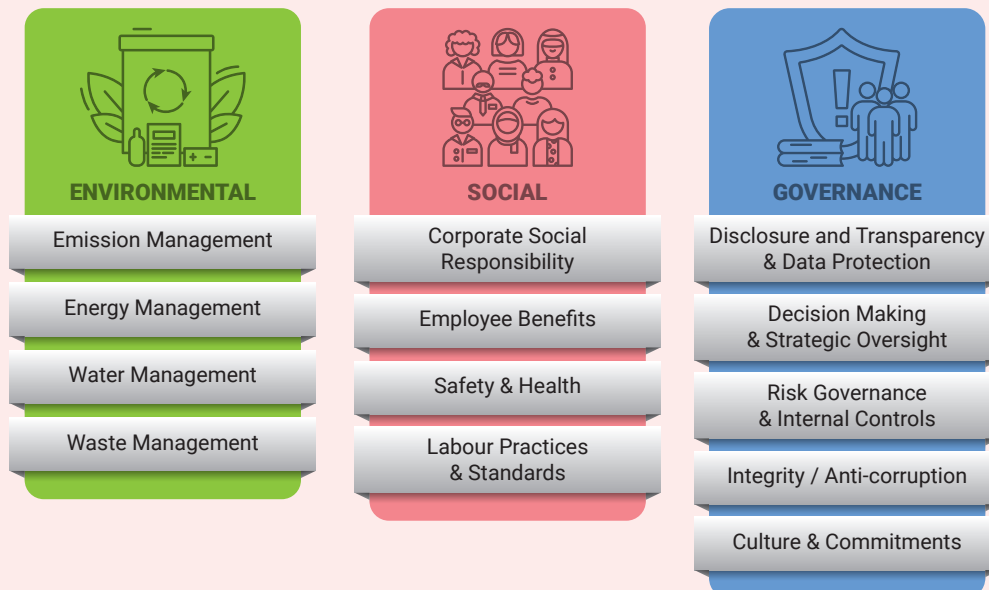
A total of 2,153 MSMEs participated in workshops and training organised by SME Corp. Malaysia in 2023, as follows:

- SME Sustainability Training under Action Center for Sustainable SMEs (ACCESS) with UN Global Compact Network Malaysia & Brunei from September 2022 - March 2023 in which 17 MSMEs were trained and graduated from the programme;
- MSME Sustainability Series 2023: Charting the ESG Path for MSMEs in collaboration with PETRONAS (1<sup>st</sup> Session) on 21 March 2023 attended by 151 PETRONAS SME vendors;
- MSME Sustainability Series 2023: Charting the ESG Path for MSMEs in collaboration with PETRONAS (2<sup>nd</sup> Session) on 14 June 2023 attended by 250 PETRONAS SME vendors;
- Procedural Workshop on Complies of Act Section 17A MACC was co-organised with Institute Integriti Malaysia (IIM) Session 1 & 2 on 29 August 2023 and 26 September 2023 attended by 82 participants.
- National Climate Governance Summit & Climate Governance Workshops for SMEs on 5 - 7 September 2023 was co-organised with Climate Governance Malaysia (CGM) attended by 1,425 participants online and physically; and
- MSME Sustainability Series 2023: Charting an ESG Path for MSMEs and Business Matching for High Growth Industries on 26 September 2023 was attended by 228 MSMEs.

### ii. MSME ESG Assessment

The MSME ESG self-assessment has 13 indicators to help firms gauge their current ESG adoption level as well as identifying strengths and weaknesses in their management system.

#### 13 Indicators of MSME ESG Assessment





The scoring obtained by a firm will determine its categorisation, namely have not started, basic, developing, intermediate and advanced. The type of action plans, financial assistance and capacity building plans needed by each firm will be determined by its scoring.

### iii. Policy Support

SME Corp. Malaysia is taking on a bigger role in ESG policy support for MSMEs through policy recommendations based on surveys and assessments. Towards this end, the agency is collaborating with various Ministries and agencies like Bank Negara Malaysia, Securities Commission Malaysia and Bursa Malaysia to accelerate the adoption of ESG in MSMEs.

### iv. Market Access

SME Corp. Malaysia will engage with large corporates, multinationals (MNCs), or anchors to attract vendors or MSMEs into their supply chain through a targeted industry approach, for example, oil & gas and electrical & electronics.

### v. Standards and Compliance

In Malaysia, there is currently no official ESG standards or requirements as well as sustainability reporting for MSMEs. Hence, lack of clear guidelines is a stumbling block to the ESG journey of MSMEs. SME Corp. Malaysia is collaborating with SIRIM to formulate the ESG Management System: Requirement and Guidance as well as the ESG Management System: Reporting. These will guide MSMEs that are seeking to adopt or enhance ESG practices.

### vi. Financing and Incentives

Specific assistance in the form of soft loans, grants and tax incentives are crucial to encourage and support MSMEs to adopt ESG practices. Apart from the initiatives of SME Corp. Malaysia, the Government is playing a key role in spearheading the sustainability agenda by providing tax and non-tax incentives to support firms, particularly MSMEs, to embed ESG practices in their operations.



# Box Article

## Tourism Recovery Plan 2022

### Tourism Recovery Plan 1.0

The tourism industry continued its rebound in 2022, with the removal of domestic and international travel restrictions and remains one of the pillars of the economy. Gross Value Added Tourism Industries (GVATI) in 2022 amounted to RM251.5 billion contributing 14.0% to Gross Domestic Product (GDP) as compared to 12.8% in 2021. Providing employment to 3.61 million people (2021: 3.52 million) or 23.4% of total employment in 2022. This outstanding performance is in tandem with the reopening of the country's borders to international travellers on 1 April 2022 and the abolishment of quarantine requirements and COVID-19 screening tests from 1 August 2022.

To further accelerate the recovery of tourism industry, the Ministry of Tourism, Arts and Culture (MOTAC) has also implemented the Tourism Recovery Plan (TRP) 1.0 which introduced several key strategies to strengthen the country's tourism industry.

These included revitalising domestic tourism by offering more attractive travel packages via digital platforms, incentives and promotions in the form of rebates or discounts as well as promoting rural tourism. In 2021, Malaysians have fully redeemed the incentives given by MOTAC in the form of discounts, rebates and vouchers offered to consumers of airlines, hotels, and cultural products with a total value of RM10.1 million, resulting in an expenditure of RM 66.7 million.

The Langkawi International Tourism Bubble Project (LITB) was launched on 15 November 2021 to attract international travellers in tandem with the opening of the country's borders. The LITB is a pilot project to test the preparedness of Malaysia's tourism ecosystem to adjust to new norms in handling foreign tourists. A total of 5,800 foreign visitors came to Langkawi in the three-month period of the LITB project, with only 2.4% of the total testing positive for category 1 and 2 Covid-19 at Kuala Lumpur International Airport and the Langkawi International Airport (LIA). The visitors contributed over RM28 million to the Langkawi economy. The success of the LITB project prompted the Government to fully open the country's borders on 1 April 2022.

MOTAC also provided financial and non-financial aid to affected industry players. A total of RM61 million was allocated in 2020 and 2021 to support more than 20,000 tourism-related businesses licensed by or registered with MOTAC, including travel agencies, Malaysian My Second Home (MM2H) agents, homestay operators, tour guides and operators of spas and foot massage centres. MOTAC had also provided non-financial aid in the form of relaxed licensing conditions for travel agencies and payment of compounds as well as fee exemption for travel agencies and tour guides.

The LITB is a pilot project to test the preparedness of Malaysia's tourism ecosystem to adjust to new norms in handling foreign tourists.



## Review of Tourism Recovery Plan 1.0

The World Tourism Organisation Panel of Experts projected brighter prospects for tourism in 2022 while the majority of experts expect international arrivals to return to 2019 levels only in 2024 or beyond. MOTAC anticipates a time-frame of between two to three years to revive the tourism industry.

The ministry has since then reviewed and improved upon TRP 1.0 to ensure the competitiveness of Malaysia's tourism industry with its Strategic Framework: 5 Pathways which focuses on increasing revenue, securing smart international and national partnerships, inclusivity and sustainability for the industry amid mounting uncertainties for the future.

### Strategic Framework: 5 Pathways

#### Pathway

# 1

#### Support Tourism and Cultural Business Recovery

MOTAC's budget allocation of RM265 million in Budget 2022 will help to accelerate recovery for the industry through financial and non-financial aid like providing training, reskilling and upskilling, easing regulatory burden as well as providing a support structure for tourism MSMEs.

#### Pathway

# 2

#### Restore Travellers' Confidence and Seamless Intra-Regional and International Travel

COVID-19 has changed travellers' tastes and behaviour. There is also a trend towards niche tourism like adventure, ecotourism and experiential travel as well as domestic and regional vacations. The strategy aims at restoring travellers' confidence in the security, health and convenience aspects of holiday destinations.

#### Pathway

# 3

#### Reinvent Tourism and Cultural Products and Services to Drive Competitiveness

With the changing behaviour of tourists in picking holiday destinations as well as the trend towards niche and community-based tourism and off-the-grid experiences, products and services must be reinvented for the sector to remain competitiveness vis a vis regional competition.

#### Pathway

# 4

#### Align Tourism with Sustainability and Inclusivity

Sustainable and responsible tourism enhances the sector's role in economic development. Negative impact on the environment, culture and heritage resources and values will be minimised while women, youth and indigenous communities will be empowered to ensure that tourism wealth is shared equitably.

#### Pathway

# 5

#### Reinforce Recovery with Long-Term Resilience and Crisis Preparedness

The pandemic has revealed gaps in the preparedness and resilience of the tourism industry in facing crises. The strategy will be to help industry players strengthen resilience and crisis preparedness through digital transformation and innovation.

# Box Article

## Malaysian Homestay Experience Programme

### Introduction

The Malaysian Homestay Experience Programme bundles tourism promotion with a cultural immersion experience for tourists. The emphasis is on experiential and community-based tourism whereby tourists stay with a host family in a traditional Malaysian home and participate in cultural activities such as cooking local food and traditional dance performances as well as handicraft workshops. Other options include exploration of the surrounding area and learning about a community's history and culture.

The programme was first launched in 1995 in Temerloh, Pahang, as a part of the Rural Tourism Master Plan which aimed to increase the participation of rural communities in tourism. Participation in the programme is open to individuals in rural communities as well as any interested individuals (those who can offer products and cultural attractions as well as accommodation for tourists) to join the nearest registered homestay community. Accommodation is provided by homestay operators (comprised largely of traditional households) that are registered with MOTAC.

MOTAC has expanded the homestay concept to the Kampungstay programme. With Kampungstay, tourists do not stay with the host but are provided with comfortable though basic accommodation representative of rural life but are still able to interact with and observe the culture and daily routine of the community they are staying in. The programme aimed at boosting the socio-economic development of those participating in tourism, especially of those in rural areas, by creating MSMEs in tourism and culture; empowering community-based tourism; maintaining community identity and heritage; and raising the quality of joint ventures between the public and private sector. Another objective is to attract youths into tourism by creating greater awareness of the homestay concept and its business potential.

**Participants Registered with Malaysia Homestay Experience Programme**

State	2018	2019	2020	2021	2022
	Number of Participants				
Perlis	56	56	56	56	47
Kedah	345	356	356	356	211
Penang	234	234	243	246	121
Perak	305	305	305	305	145
Selangor	449	449	454	449	115
Melaka	137	137	137	138	595
Negeri Sembilan	288	288	300	300	138
Johor	522	556	557	557	441

State	2018	2019	2020	2021	2022
	Number of Participants				
Kelantan	152	152	152	152	124
Terengganu	185	216	223	223	115
Pahang	323	323	323	333	304
Sarawak	601	653	653	683	391
Sabah	394	406	406	436	82
Labuan	79	79	79	79	568
<b>Total</b>	<b>4,070</b>	<b>4,210</b>	<b>4,244</b>	<b>4,313</b>	<b>3,397</b>

### Annual Income Derived from Malaysia Homestay Experience Programme

State	2018	2019	2020	2021	2022
	RM				
Perlis	120,361.00	183,199.09	45,008.76	19,445.00	90,010.29
Kedah	452,240.00	555,843.20	317,165.60	259,935.00	1,168,050.03
Penang	401,117.00	455,113.00	89,340.00	206,177.00	1,001,261.00
Perak	712,138.00	683,860.30	173,389.00	148,969.00	648,290.00
Selangor	1,624,595.00	924,459.00	252,255.00	98,618.00	1,408,517.00
Melaka	1,263,845.00	1,303,604.52	209,190.00	575,891.00	1,897,314.00
Negeri Sembilan	680,583.00	638,156.00	180,981.00	364,477.89	1,490,691.55
Johor	1,319,185.40	744,678.00	539,986.00	772,031.00	2,562,257.00
Kelantan	119,035.00	60,825.00	47,364.00	218,809.50	190,173.50
Terengganu	606,600.00	1,078,952.50	400,420.00	72,900.00	428,140.00
Pahang	9,814,823.90	10,107,348.28	3,538,251.56	120,730.00	6,007,350.05
Sarawak	4,032,311.50	4,547,507.91	1,263,052.06	820,246.50	1,876,495.10
Sabah	6,235,688.20	7,950,954.46	1,940,289.68	2,140,965.25	8,113,591.87
Labuan	254,551.00	427,710.00	127,430.00	307,107.00	1,674,361.75
<b>Total</b>	<b>27,637,074.00</b>	<b>29,662,211.60</b>	<b>9,124,122.66</b>	<b>6,126,302.14</b>	<b>28,556,503.14</b>

### Tourist Arrivals under Malaysia Homestay Experience Programme

Type of Tourists	2018	2019	2020	2021	2022
	Number of Tourists				
Domestic	290,153	373,558	114,639	82,704	549,986
International	82,322	85,341	19,378	54	13,915
<b>Total</b>	<b>372,475</b>	<b>458,899</b>	<b>134,017</b>	<b>82,758</b>	<b>563,901</b>