

Struggle of Malaysian SMEs During the COVID-19 Pandemic

Findings from Webinar:
*SMEs Beyond the MCO –
Lessons from the PRIHATIN Stimulus*



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The following is a link to the video recording of the webinar from which most of the opinions found in this policy brief is based upon:

<https://www.facebook.com/ksinsti/videos/575396893103375>

Introduction

The COVID-19 pandemic is an unforeseen global phenomenon which has thrown the economy into chaos and effectively put commerce at a standstill. It has affected most businesses, including the small medium enterprises (SMEs) and micro SMEs which make up a significant 98.5 percent of Malaysian businesses (SME Corporation Malaysia, 2020).

The Malaysian government responded to the coronavirus threat by introducing PRIHATIN or the Prihatin Rakyat Stimulus Package, the purpose of which was to ease financial burdens of the people and businesses coping with the pandemic (Ministry of Finance Malaysia, 2020), especially with the enforcement of a movement control order (MCO) issued by the federal government. However, SME representatives have argued that the allocations in the stimulus were insufficient to help the SMEs (Fong, 2020). This led to the introduction of additions to PRIHATIN by the federal government specifically for SMEs (Prime Minister's Office of Malaysia, 2020). This relief was lauded by some SMEs (Radhi, 2020) while others have commented that the stimulus only allowed SMEs to last an additional two months during the MCO (Tan, 2020).

This underscore concerns from the SMEs and the millions working for them. Solutions need to be devised to enable SMEs to survive and thrive in an environment where unemployment is on the rise as the situation has become financially unsustainable for some businesses, giving many no option but to go out of business. In the United States, unemployment figures have already reached 26.5 million people (as at 23 April 2020) (Pickert, 2020). The Department of Statistics Malaysia has also reported rising levels of unemployment in Malaysia. This presents an urgent need for a means to halt and reverse these trends as high levels of unemployment can eventually give way to social woes such as higher rates of crime.

Engagement with SMEs and relevant government agencies is necessary to ensure constant review of the effectiveness and sufficiency of government policies in dealing with the effects and after-effects of the MCO and coronavirus to facilitate dynamic and appropriate responses. This policy brief is a result of one such engagement, which raised concerns from the SMEs and generated valuable feedback which the necessary stakeholders can examine and apply in terms of appropriate public policy.

Identified Issues

SMEs of different sizes have different challenges

Feedback from the SMEs has often been from the perspective of the larger SMEs during the process of consultation. When addressing the COVID-19 issue, making a general assessment of SMEs presents an inaccurate representation of the micro SMEs to their larger counterparts as they may not share the same issues. Larger SMEs may have millions in cash reserves to sustain their payroll, making their experience during the COVID-19 pandemic a different one. While several larger SMEs have reported that they may not last beyond two months, the micro SMEs may struggle even briefer durations due to the lack of savings. Although micro SMEs may not have high overheads, they still have financial commitments in terms of employee salaries and rent totalling between MYR3,000-5,000 per month.

Micro SMEs are more adaptable as they can change their business model very quickly due to their size. On the other hand, SMEs with a high number of employees will struggle to sustain overheads and apply changes in business direction.

Delay and rejection by banks in obtaining loans

Several SMEs encountered issues obtaining the Special Relief Facility (SRF) for SMEs as banks prefer to deal with existing customers (Free Malaysia Today, 2020). Bank procedures requiring KYC (know your customer) guidelines use a traditional scoring method which has led to longer processing durations. The long wait is another factor as to why banks prefer dealing with their existing customers as they can be approved more quickly.

Wage Subsidy Programme limits options for some businesses

The Wage Subsidy Programme (WSP) introduced in PRIHATIN and managed by the Social Security Organisation (SOSCO) was not taken up by some businesses as they want to retain the option to downsize or review salaries in order to optimise their workforce should the business's financial resources deplete. These conditions are not allowed under the WSP which requires businesses to retain their staff for at least six months and salaries cannot be reduced. Therefore, for some SMEs, the cost of upkeeping payroll outweighs the benefits of the WSP.

Exclusion of unregistered SMEs

SMEs without a business tax file with the Inland Revenue Board (LHDN) and failing to register their businesses with the Companies Commission of Malaysia (SSM) will lose out on micro grants and other government benefits. The lack of business registration denies these SMEs in the informal sector access to SOSCO, and in turn, access to cash handouts provided by PRIHATIN and the existing *Bantuan Sara Hidup* programme (Cheng, 2020). Informal businesses are also less traceable, giving banks much cause for concern in terms of special relief facility (SRF) repayment ability.

E-commerce had varying effects on different types of SMEs

While the CMO has accelerated the uptake of e-commerce adoption, some SMEs have reported lesser earnings, such as those in F&B, as they no longer were able to capitalise on higher profit margins from beverage and dessert sales. The opposite effect is true for other businesses that were able to capitalise on positive earnings due to increased exposure when they established an online presence.

Delays due to bureaucratic processes

SMEs have misgivings toward the complicated processes required by the various government agencies to obtain financial relief due to a lack of explanation of the processes required, leading to delays (Chern, 2020).

Policy gaps affecting e-commerce processes

During the MCO, some SMEs were keen to carry out e-commerce activities as it was listed as an essential service by the federal government. However, SMEs were prevented from carrying out the necessary ordering processes as personnel were not allowed to access warehouses which then prevented the necessary processes of sorting, packing, and dispatch necessary in completing an order. Hence, intent in recognising e-commerce as an essential service did not synchronise with its execution.

Receivables management

Companies managing receivables have experienced difficulties in collecting payments from customers, while still owing suppliers payments. They find themselves caught in a cycle and are unable to access the SRF or other forms of additional working capital. Other forms of financing can be considered, such as peer-to-peer lending, invoicing, and factoring. However, businesses must be confident in managing the higher levels of interest rates.

Recommendations for SMEs

SMEs need to review business models

SMEs need to reassess if their business models are suitable for the new normal, post MCO. They must reassess expectations of the market and be more sensitive to the changes in habits. SMEs need to explore new markets, new customer segments, introduce new products, redesign packaging sizes and quantities which are suitable and relevant for the new marketplace, and determine what consumers are willing to spend on. They need to predict what may emerge from the new normal.

Adoption of new technologies to enhance operational efficiency

Changes need to be made in terms of budgeting and spending. SMEs cannot merely depend on the lower wages of foreign workers or expect costs to fall. Hence, SMEs must consider the adoption of new technologies, digitalisation, and implementing e-commerce solutions to reduce costs, and save time and resources (Kergroach, 2020). Barriers to technology adoption, such as the lack of capital investment, poor managerial skills, lack of skilled employees, limited capacity for technology management and knowledge acquisition, and limited access to finance and capital (Prabuwono, Burhanuddin, Arif, & Azizah, 2009) need to be overcome. SMEs need to realise the benefits of technological adoption for their businesses, overcome skill gaps, perceived costs, and the risk of change to proactively develop a digital strategy to bring transformative change to their businesses and serve the needs of their customers (Fan, 2016)

SMEs also need to learn how to leverage on social media platforms for the purposes of marketing and branding, ultimately to reach out to a higher volume of customers.

Improve risk management

SMEs should build cash reserves when the opportunity presents itself. This will allow them to protect their business during times of difficulty. They should refrain from over-investing through the expansion and purchase of major assets, such as properties, which are difficult to liquidate during difficult times.

The customer base should be diversified, instead of depending on a single group of customers.

SMEs trading internationally should also practice foreign exchange hedging for the purpose of risk management.

Implement cashless payments

SMEs should implement cashless means of transactions, such as cloud-based point of sales (POS) systems and account reconciliation packages (ARP). With the risk of coronavirus contamination present on physical bank notes and coins, cashless payments such as mobile e-wallets and contactless debit and credit cards are expected to experience a higher uptake. In other countries, financial companies providing cashless payments are willing to provide small loans to SMEs as they will possess data on their cashflow and are able to determine their repayment capacity (Cho, 2019), a prospect which could be possible in Malaysia that will be an added benefit to SMEs, especially the micro SMEs.

Formalise the informal sector

SMEs in the informal sector should register their businesses with SSM and LHDN, register their employees with the Employees Provident Fund (EPF) and SESCO, and move forward by conducting their businesses in a proper manner to gain access to the benefits of social protection.

Implement high occupational health and safety standards

Many SMEs have failed to practice high levels of occupational health and safety (OHS) standards in the past, but this needs to be improved post MCO. Government SOPs and precautionary measures such as wearing face mask, body temperature screens, social distancing, and sanitisation processes need to be practiced. Apart from being a regulatory measure, the onus is on the businesses themselves to realise that an outbreak within their premises will be a costly affair should workers or customers contract the virus.

Physical layouts of some offices will present difficulties for the practice of social-distancing. Staff rotations (where staff alternate working from office/home on different days to minimise the number of persons physically present in the office) may be a solution but this could also have an adverse effect on productivity.

The commute to work will pose a challenge as public buses and trains in Malaysia are crowded, especially during rush hour. SMEs that have the option to allow their employees to work from home should consider this as a “semi-permanent” solution until the virus threat has been minimised. This will ease congestion for employees of SMEs who need to be present at the workplace, particularly those in industries requiring access to equipment and materials.

Keeping informed

SMEs must be up to date with government announcements made from time to time, especially ones from MITI relating to SMEs.

Recommendations for government

Involve SMEs in procurement process

Government agencies and government linked corporations (GLCs) can allocate at least 30 percent of all its contracts to SMEs. It can go further by making allocations for women entrepreneurs (refer to US Small Business Administration).

Introduce the COVID-19 Act

Enact COVID-19 Act and/or bolster the Prevention and Control of Infectious Disease Act as there will be numerous legal ramifications after the lifting of MCO (Bashir, 2020). For example, there will be additional risk of forfeiting of rental deposits and evictions. Such laws will be designed to protect both parties.

Reduce bureaucratic processes

For businesses to obtain EPF's 6-month deferment would require the approval of special committees. The process is time-consuming, particularly when time and resources are limited. Instead, a blanket deferment regardless of business size should be given to provide businesses with savings in terms of working capital.

The government must actively find ways to reduce red tape and the cost of doing business to allow businesses to go back to their normal routine.

Transparency and oversight on cash transfers

While PRIHATIN's allocation of MYR3,000 micro grants and zero-interest micro credit facility were much welcomed initiatives, oversight is needed on how these funds are channelled to micro enterprises, particularly with calls to simplify the process for direct transfers. Digitising these processes will allow greater transparency in terms of tracing applications.

Review internal procedures and regulations to facilitate digital adoption

Digital adoption should be a new norm, yet many traditional requirements are still demanded (e.g. need for a company stamp, signing a declaration form) which is challenging to do online and goes contrary to the message of wanting businesses to adopt new technologies and digitise. Laws and regulations need to be changed to reflect and encourage digital adoption.

Referral system for loans as alternative to KYC

To speed up the recognition and processing of new clients, banks can consider the use of a referral system with the business chambers and business associations. Such practices are used and recognised by banks and financial institutions overseas.

Provide more electricity discounts

As the decision for electricity rebates are within government control, a discount of up to 50 percent should be considered. This will help businesses in rented premises to negotiate rental rebates with their owners

Ministry of Human Resources Mediation

Guidance and mediation are required from the Ministry between employers and their employees as disputes in work arrangements arising from the MCO are bound to lead to numerous legal actions should such conditions not be remedied.

Resume Employment Retention Programme (ERP)

The suspension of the ERP is poorly timed as SMEs should be given more options. They may be forced to downsize and may not want to opt for the Wage Subsidy Programme and be bound by its requirements.

Facilitate business registration

The government must take a proactive role to persuade SMEs in the informal sector to register their businesses. As many of these SMEs are dissuaded by cost in licensing, taxation, and the administrative and technological complications in registration, the government can establish specialised units to render step-by-step assistance and provide these SMEs with a grace period for fees and tax waivers. It must however reach a point where strict enforcement is necessary with penalties applied in accordance to the law for businesses operating without license and registration. Full compliance will enable all SMEs in the informal sector to enjoy the benefits of social protection and at the same time increase the government's source of revenues (in terms of taxes and business licenses) which can be used in a cycle of financial assistance programmes.

Other recommendations

- Increase Special Relief Facility (SRF) by another MYR5 billion which will help SMEs to last an additional 3 months.
- Take the lead in organising digital EXPOs for trade promotion.
- Loosen regulations to speed up the entry of new businesses by making it simpler for them to obtain business licenses.
- Suspend all statutory notices for at least 6 months.
- SSM late submission fees are deterring businesses from registering. Such cost of doing business must be reduced.
- Combat corruption to allow businesses to thrive.
- Coordinate tourism packages to generate business (example of Bali's post-terrorist bombing recovery – Gurtner, 2004).
- Allow businesses to keep the government in check to ensure policies are not politically-driven but serves a pragmatic purpose.
- The government needs to cultivate an ecosystem that allows SMEs and businesses to thrive, which are conditions necessary after the lifting of the movement control order (MCO).

Predicted trends

- Increase in demand for health products and services customised to sterilisation/quarantine of viruses and those that provide human comfort in the social distancing process. SMEs able to offer products and services safely and conveniently at reasonable prices stand to gain an advantage over their competitors.
- Rise in legal action arising from force majeure clause is expected as many contracts may not have included pandemic conditions such as the one wrought by COVID-19.
- Longer queues into restaurants, malls, retails, and office complexes as a result of social distancing measures. This will result in lesser revenues due to reduced patronage. It will have an effect on the ability of some SMEs to pay rent, salaries, and other expenses.
- There will be opportunities for equity investors as an alternative to loans which comes with the strategic advantage of technologies and market access.
- Surviving businesses will face less competition.
- More business acquisitions and collaborations will take place, particularly among businesses not in strong financial positions.
- Traditional forms of physical sales and marketing will not be severely affected as customers still yearn for the human factor and familiarity before committing to a sale, rather than to receive emails from salespersons.
- Wider practice of occupational health and safety measures. This will be necessary for businesses to be allowed to operate.

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