

Micro-enterprises need help

TO curb the spread of Covid-19 over the past two years, the government imposed several policies, such as strict movement control orders, mass vaccination campaigns and comprehensive contact tracing. Despite these positive measures, the pandemic impacted Malaysia's economy badly, especially affecting micro, small and medium enterprises (MSMEs).

Up to 2021, over 37,000 MSMEs had closed their businesses, and out of this total, 26,007 were micro-enterprises. MSMEs play a major role in the Malaysian economy. They account for nearly 40% of the country's GDP and employ almost two-thirds of its workforce. And in the MSME category, micro-enterprises account for the largest share. According to the **Department of Statistics Malaysia**, micro-enterprises made up 78.6% of total MSME establishments in 2021.

Similarly to small and medium enterprises, access to finance remains a key constraint for micro-enterprises. In fact, micro-enterprises received little financial and funding aid during the pandemic.

Recently, Bank Simpanan Nasional introduced a Micro/i Semarakniaga financing scheme aimed at micro-enterprises but it is restricted for use as working capital or purchasing assets. More needs to be done to assist micro-enterprises in reducing financial barriers and improving operational performances. The pandemic has highlighted that MSMEs must transform their businesses to become more resilient. MSMEs operators need training and development in business skills. Research has suggested informal supporting mechanisms such as mentoring and face-to-face contacts tailored to the needs of MSMEs can help. Hence, the government should consider a win-win strategy that financially aids micro-enterprises while incorporating informal supporting mechanisms.

The government could allocate funds through the SME Corporation Malaysia, allowing it to offer loans to micro-enterprises under Islamic finance's mudarabah (profit sharing) principle. The contract is built on an agreement that one party offers capital and the other party offers labour.

Under this principle, profits gained are shared between fund providers and entrepreneurs based on a mutually agreed profit-sharing ratio. In the event of failure, financial losses are borne by fund providers while entrepreneurs would lose their time and effort.

This facility has many advantages. For example, SME Corp could monitor, guide and support the micro-enterprises. In this way, it could be the "mentor" for micro-enterprise operators, helping to transform their businesses. With mudarabah financing having undergone various changes and modernisations, researchers have found that it has not significantly impacted bank credit risk as perceived by many.

As Malaysia transitions into the endemic phase, we must directly address the root causes of the challenges faced by micro-enterprises. If loans are provided under the mudarabah principle, micro-enterprises will be able to access finance and informal support mechanisms. This would help them get back on track which would, in turn, help the nation's economy in a win-win situation.

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