

Getting Ready for those Business Black Swans

Covid. Tropical depressions. Landslides. Massive flooding across western peninsular Malaysia. These are just some of the events that have happened to Malaysian communities in the last few years. What will the country face next?

Businesses can't predict the future, nor the consequences of these sort of unexpected events. But governments can help them prepare in advance for such disasters, and mitigate the damage they are likely to cause.

At present, though, many such measures are introduced on an ad-hoc basis. For example, in the wake of last year's flooding, Bank Negara Malaysia (BNM) announced in December 2021 the availability of loans and other financing facilities for businesses, offering funding of up to RM 500,000 per small and medium enterprise (SMEs) and RM 75,000 for each micro business. Businesses were able to apply from a range of participating financial institutions, including commercial banks, Islamic banks and other bodies regulated by BNM.

This is a worthy initiative, but these are merely post-disaster responses. It is not part of a proactive long-term strategy to keep small business afloat when the next disaster hits.

In practice, there seems to be few support schemes that can be quickly rolled out to support the backbone of the country's national economy: its 900,000 micro-, small- and medium-sized businesses. These firms employ almost half of the workforce, so it is an oversight that needs to be corrected.

An unexpected misfortune can quickly kill a small business. Small firms typically trade on very low turnover levels, and make thin profit margins. Most have little, if any, cash reserves. And many have only basic levels of insurance. It does not take much for them to go belly up — a week or two of forced closure can be enough to start the inevitable decline. Only very basic data has been collected by the **Department of Statistics Malaysia** on the actual financial impact of the floods on businesses, but it is estimated to be at least RM1.4 billion RM.

And when those businesses shut their doors, it can trigger ripples of misfortune that quickly spread throughout the broader community. Employees stand to lose their jobs. Business loans cannot be repaid. Rents are unmet. Suppliers and creditors (most of whom are other small businesses) do not get their cash. The situation can be even more pronounced in rural areas, where local economies depend on SMEs for their viability.

It should be stressed that developing small business disaster resilience is not about enriching their owners — it is about maintaining the necessary economic infrastructure of the community.

Yet, in spite of the increasingly frequent occurrence of natural disasters, there is still no national response plan in Malaysia. The ad-hoc responses seem more of an afterthought: disparate, unequal and unclear to those who need the help. There is an urgent need first to develop small business resilience to disasters,

then put in place a network of available responses that can be automatically rolled out quickly and depended upon in the event of disaster.

There is an emerging body of research into the features that do — and do not — make for effective emergency business support. For example, cash grants are often more useful than in-kind assistance. The money can be quickly re-circulated into local economies as businesses pay bills and their employees. This approach has proven successful in helping many firms survive Covid-19, for example.

In contrast, support loans are often problematic for smaller traders, because they represent further debt that can quickly become insurmountable. Such well-intended on-the-spot initiatives like soft loans might actually have little practical utility.

Other issues also need to be considered. Financial assistance application systems should be simple, effective and provide aid immediately. Otherwise, many cash-short small entrepreneurs will permanently shut shop rather than trying to hold on until money arrives at an unknown distant point in the future.

It wasn't raining when Noah built the ark. This is a matter of strategic risk management, and of future-proofing local businesses and their dependent communities, as well as state and national economies.

The division of responsibilities between national and federal/territorial governments should also be clearly spelt out in advance to ensure there is a clear line of accountability, the risk of corruption is reduced, and businesses know where to seek help. Overlaps in jurisdiction between state and federal governments have led to confusion and, at times, a power tussle when the most important focus should be to save people and businesses in the aftermath of a disaster. More needs to be done before calamity strikes so that systems are ready to roll and the public is aware of where to turn to when the inevitable happens.

As some accounting bodies have publicly noted, SME accountants also need to be briefed in advance about available support, since small businesses often turn to their book keepers as the first source of advice.

Consideration should also be given to how and who will provide support. The SME Corporation of Malaysia has offices across the country and can act as a key distribution channel. However, its staff will need to be trained in effective disaster response and administration. It needs to be clarified whether the self-employed and informal sector traders will be included in such schemes, and what criteria can be used to prevent fraudulent support claims.

It was not raining when Noah built the ark. This is a matter of strategic risk management, and of future-proofing local businesses and their dependent communities, as well as state and national economies. Business resilience needs to be built now. Disaster response systems need to be created and fine-tuned before the next disaster hits. With a clear pattern of regular extreme weather events now emerging, it is better to be well-prepared and ready, than to merely pick up the pieces afterwards. Noah's ark was built in time, Malaysia's flood response system can no longer wait.

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