

THAT small and medium enterprises (SMEs) are an important contributor to Malaysia's gross domestic product (GDP) and workforce make it crucial to ensure they are resilient. And that calls for a coordinated approach by the government in building a robust ecosystem for the sector.

Elaborating on this, Asia School of Business deputy CEO and practice professor of finance Joseph Cherian tells *StarBizWeek* it is imperative to have an aggregated as opposed to a fragmented or siloed approach towards supporting and strengthening the SME ecosystem, as SMEs play a vital role in the local economy.

"In Malaysia, SMEs account for around 38% of the nation's GDP, reflecting their significance in driving growth and employment.

"Similarly, just across the border, Singapore's SMEs contribute a significant portion of value-add to its GDP, close to 45%, thus underscoring their pivotal role in the city-state's economic landscape as well," he says.

Cherian notes that Singapore provides a good case study with its all-of-government approach to supporting SMEs, epitomised by institutions like Enterprise Singapore and the Economic Development Board (EDB). Enterprise Singapore is a government agency championing enterprise development.

Cherian says Enterprise Singapore's multifaceted support, ranging from development grants, upskilling and talent development, productivity enhancements to international networking, sales and marketing, illustrates the comprehensive manner of assistance provided to its SMEs for them to thrive.

Moreover, he says initiatives like EDB's venture fund, which invests in promising SMEs in technology and select high-growth industries, demonstrates the government's commitment to fostering innovation and growth within the SME ecosystem.

"During times of crisis, such as the recent global pandemic, the coordinated efforts of these gov-

Coordinated approach crucial to strengthen SMEs

S'pore offers good case study with its complete support

"By emulating successful models and embracing innovative financing mechanisms, we can build a resilient ecosystem that empowers SMEs to thrive in an ever-evolving global economy."

Joseph Cherian



ernment agencies become paramount. Enterprise Singapore's role in channelling subsidised bank loans to vetted SMEs showcases the importance of a streamlined and efficient support system."

He says fragmented or siloed approaches risk diluting the impact of assistance, which may leave SMEs vulnerable to unanticipated economic shocks.

"Drawing parallels, the US Small Business Administration (SBA) also offers a plethora of support mechanisms for American SMEs, underscoring the importance of a diverse toolkit. From concessionary loans to counseling, training, upskilling and networking sessions, the SBA takes a multifaceted approach necessary for SME resilience, especially for minority and women-owned businesses.

"Private initiatives like Alignable in the United States, which fosters online networking among SMEs and functions like a conjoined LinkedIn and Facebook for SMEs, demonstrate the potential of leveraging technology and business-focused social media

platforms to enhance collaboration and resource-sharing within the SME community, especially in areas such as information sharing, continuing education and thought leadership.

"Establishing a similar platform in Malaysia can facilitate knowledge exchange and business referrals, fostering a supportive ecosystem for SME growth," he adds.

On the capital markets, he says, specific solutions, as exemplified by the Securities Commission's five-year roadmap for SMEs, offer these enterprises access to diverse funding mechanisms.

These solutions not only stimulate economic growth but also create employment opportunities and enhance market liquidity, Cherian points out.

To mitigate negative economic and social consequences, and save organisational capital, especially organisation-specific human capital, he says, alternative financing schemes are necessary.

Capital market solutions, particularly those involving tradeable funding vehicles that partner

with both the public and private sectors to fund large-scale infrastructure and green projects around the world, and which include a credit enhancement component, are especially useful in the current context.

He says this type of financing mechanism is referred to as "blended finance".

Equally important, Cherian says the Managed Co-Lending Portfolio Programme (MCPP) by the International Finance Corp (IFC), the World Bank's investment arm, is a good vehicle structure to replicate in Malaysia for public-private financing of its SMEs.

The MCPP is a syndication lending structure with credit enhancement, specifically designed for infrastructure projects, he says, noting that it allows the IFC to co-invest in a diversified portfolio of loans for due-diligence projects, attracting institutional investors from both the public and private sectors.

The IFC recently announced the launch of its MCPP One Planet (climate change) facility, which

comprises a portfolio of Paris Agreement-aligned emerging market senior loans.

A corresponding example is the IFC/Amundi Green Cornerstone Bond Fund, which channels capital from institutional investors into anchor investments in sustainable bond issuances from corporates and financials in developing countries, he says.

He says fund proceeds are primarily used to buy green bonds issued by banks in developing countries, adding that blended finance in this case helps unlock private capital.

Cherian says: "Malaysia can draw on its strengths and comparative advantage by considering utilising credit-enhanced Islamic blended finance vehicles for innovative SME financing, which by construction are environmental, social and governance compliant.

"Quasi-equity financing can also emerge as a promising avenue, especially during times of crisis, by offering SMEs an alternative funding mechanism to traditional debt financing.

"By providing first-loss protection for lenders and enabling flexible repayment structures, quasi-equity schemes mitigate financial risks for SMEs while promoting sustainable growth."

He says fostering SME resilience demands a holistic and coordinated approach that encompasses financial assistance, technological innovation and regulatory support.

"By emulating successful models and embracing innovative financing mechanisms, we can build a resilient ecosystem that empowers SMEs to thrive in an ever-evolving global economy," Cherian says.