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KEMENTERIAN PEMBANGUNAN USAHAWAN
MINISTRY OF ENTREPRENEUR DEVELOPMENT

YAYASAN HASANAH
A foundation of Khazanah Nasional

THE STATE OF SOCIAL ENTERPRISE IN **MALAYSIA**

In association with

TANDEMIC

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FOREWORD FROM MINISTER OF ENTREPRENEUR DEVELOPMENT MALAYSIA

KEMENTERIAN PEMBANGUNAN USAHAWAN
MINISTRY OF ENTREPRENEUR DEVELOPMENT

Social entrepreneurship in Malaysia is a growing sector that has the potential to contribute to the socio-economy of the nation. There are many social enterprises that have been actively delivering social values and addressing social and environmental issues in the community. While they have delivered significant impact to the community and the environment, there are still many challenges and barriers in their journey to scale and increase their impact.

One of the biggest hurdles social enterprise encounter is the lack of a legal definition and recognition of social enterprise as a business entity in Malaysia. This issue has led to many social entrepreneurs operating under a variety of legal forms, which are governed by different acts and regulations.

With the lack of institutional and community support available, this sector faces difficulty in attracting and retaining quality talents. Significant support and resources must be given to train and develop knowledge, capability, and skills of quality talent in social enterprises. This will help social enterprises to grow their businesses and increase their impact.

The other challenge faced by social enterprises in Malaysia is the lack of access to funding. Many social enterprises in Malaysia are still funded mainly through charity, foundation work, and corporate responsibility programme. Therefore, a conducive financing ecosystem is needed for social enterprises to accelerate their growth.

With the re-establishment of the Ministry of Entrepreneur Development (MED) in July 2018, we aim to lead the Government's efforts in developing Malaysian social enterprises. Through the National Entrepreneurship Framework, MED will spearhead the effort to address the challenges that exist within the social entrepreneurship sector. MED will formulate and execute the required strategies to empower social enterprises to drive and deliver long term benefits for the society and environment.

To achieve this, MED will work closely with all the social entrepreneurship stakeholders and industry players to create an integrated social entrepreneurship ecosystem.

This survey report is timely to complement our effort to formulate a holistic social entrepreneurship development policy that is inclusive and competitive, including driving the development of the B40s (bottom 40 per cent) and M40s (middle 40 per cent) in Malaysia.

YB Datuk Seri Mohd Redzuan bin Md Yusof
Minister of Entrepreneur Development
Ministry of Entrepreneur Development Malaysia

ABOUT THE BRITISH COUNCIL

OUR WORK IN MALAYSIA

The British Council is the UK's international organisation for cultural relations and educational opportunities. We create friendly knowledge and understanding between the people of the UK and other countries. We do this by making a positive contribution to the UK and the countries we work with – changing lives by creating opportunities, building connections and engendering trust.

We work with over 100 countries across the world in the fields of arts and culture, English language, education, and civil society. Last year we reached over 75 million people directly and 758 million people overall including online, broadcasts and publications. Founded in 1934, we are a UK charity governed by Royal Charter and a UK public body. We have been working with Malaysia since 1948.

We aim to contribute to inclusive economic growth in Malaysia through our social enterprise programme. We promote the development of social enterprise as a means of addressing entrenched social and environmental problems and delivering positive change to our communities and societies. Our Global Social Enterprise programme draws on UK and global experience and is delivered across more than 30 countries with local and international partners.

In 2012, we led a three-year programme to support business development of social enterprises which are today leading advocates for the ecosystem.

In 2017, our Social Economy and Investment Conference brought together 500 delegates, including a number of international experts, and saw the launch of a Social Outcomes Fund. In the same year, the British Council brought former MP and author of the UK Public Services (Social Value) act, Chris White, to support social procurement initiatives in Malaysia.

The State of Social Enterprise in Malaysia is the tenth in a series of surveys undertaken by the British Council around the world (https://www.britishcouncil.org/society/social-enterprise/reports).

This survey builds and expands upon the excellent State of Social Enterprise in Malaysia survey 2014/2015 produced by the Malaysian Global Innovation and Creativity Centre (MaGIC).

The objective of this survey is to provide a summary of the current size, scale, and scope of the social enterprise sector in Malaysia.

In addition, this study aims to contribute to the development of social enterprise globally by allowing other actors to assess the sector's progress, and identify possible entry points for supporting growth or for participating in social enterprise.

www.britishcouncil.my

ABOUT THE UNITED NATIONS ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC (UNITED NATIONS ESCAP)

The Economic and Social Commission for Asia and the Pacific (ESCAP) serves as the United Nations' regional hub, promoting co-operation among countries to achieve inclusive and sustainable development. The largest regional intergovernmental platform with 53 Member States and nine associate members, United Nations ESCAP has emerged as a strong regional think-tank offering countries sound analytical products that shed insight into the evolving economic, social and environmental dynamics of the region.

The Commission's strategic focus is to deliver on the 2030 Agenda for Sustainable Development, which is reinforced and deepened by promoting regional co-operation and integration to advance responses to shared vulnerabilities, connectivity, financial co-operation and market integration. United Nations ESCAP's research and analysis coupled with its policy advisory services, capacity building and technical assistance to governments aims to support countries' sustainable and inclusive development ambitions.

ABOUT THE UNITED NATIONS ESCAP - BRITISH COUNCIL PARTNERSHIP

In February 2017, the British Council and United Nations ESCAP signed a collaborative agreement to promote the growth of social enterprise and impact investment across the Asia-Pacific region as a means of supporting progress on the Sustainable Development Goals (SDGs).

Together we are co-operating to provide research, analysis, training, policy dialogues, and offer guidance to support policy makers and other stakeholders in formulating and implementing policies and strategies that foster social enterprise and create enabling environments for impact investment.

This survey of social enterprise in Malaysia is an example of this work and will provide information as to the size and scale of the social enterprise sector in the country.

Social enterprises harness trade, investment and business activity towards social and environmental objectives and are increasingly recognised as critical drivers of innovation for sustainable development.

ABOUT YAYASAN HASANAH

YAYASAN HASANAH
A foundation of Khazanah Nasional

BUILDING TRUE VALUE

A leading foundation that promotes Malaysia's global sustainability through solutions that empower communities, encourage social inclusivity and improve the environment.

Yayasan Hasanah (Hasanah) is the impact-based foundation of Khazanah Nasional Berhad (Khazanah), the strategic investment fund of the Government of Malaysia.

We were set up as an independent entity on 1 July 2015, building on nine years of corporate responsibility efforts previously driven under Khazanah.

Where Khazanah oversees creation of true value for Malaysia through financial and strategic initiatives, Hasanah focuses on the country's pressing community and social issues, the upscaling of civil society organisations (CSOs), and working in collaboration through a social sector ecosystem.

Together, Khazanah and Hasanah drive a nation-building agenda of progressing Malaysia as a globally competitive nation.

As a grant-giving foundation, our approach goes beyond dollars and cents. We continue to facilitate an ecosystem of transformation, working in collaboration with multiple stakeholders, infusing a spirit of advocacy and building capacity in the areas we focus in. Collectively and collaboratively, we hope to shift the needle of social and community reform for Malaysians, towards a better Malaysia.

MANDATE

Hasanah's vision is to become a leading impact-based foundation that promotes Malaysia's global sustainability through solutions that empower communities, encourage social inclusivity and improve the environment.

Hasanah's focus areas are education; community development; environment; arts, heritage, and culture; knowledge; and initiatives in capacity building, social enterprise and public spaces, anchored to its core foundations of long-term nation building.

Built on Hasanah's commitment to stakeholders in upholding the principles of transparency and innovation in the work we do, we are guided by Hasanah's values of empowerment, trust, integrity, inclusiveness, connectedness and authenticity.

ACKNOWLEDGEMENTS

This study is led by the British Council and supported by United Nations ESCAP, the Malaysian Ministry of Entrepreneur Development and Yayasan Hasanah. It was conducted by Tandemic with input from Social Enterprise UK.

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- Adam Pillsbury, British Council
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- Eisya Azman, British Council
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- Agensi Inovasi Malaysia
- AirAsia Foundation
- Impact Hub Kuala Lumpur
- myHarapan
- Yayasan Sime Darby
- Sime Darby Property
- neOOne Associates
- Petrosains

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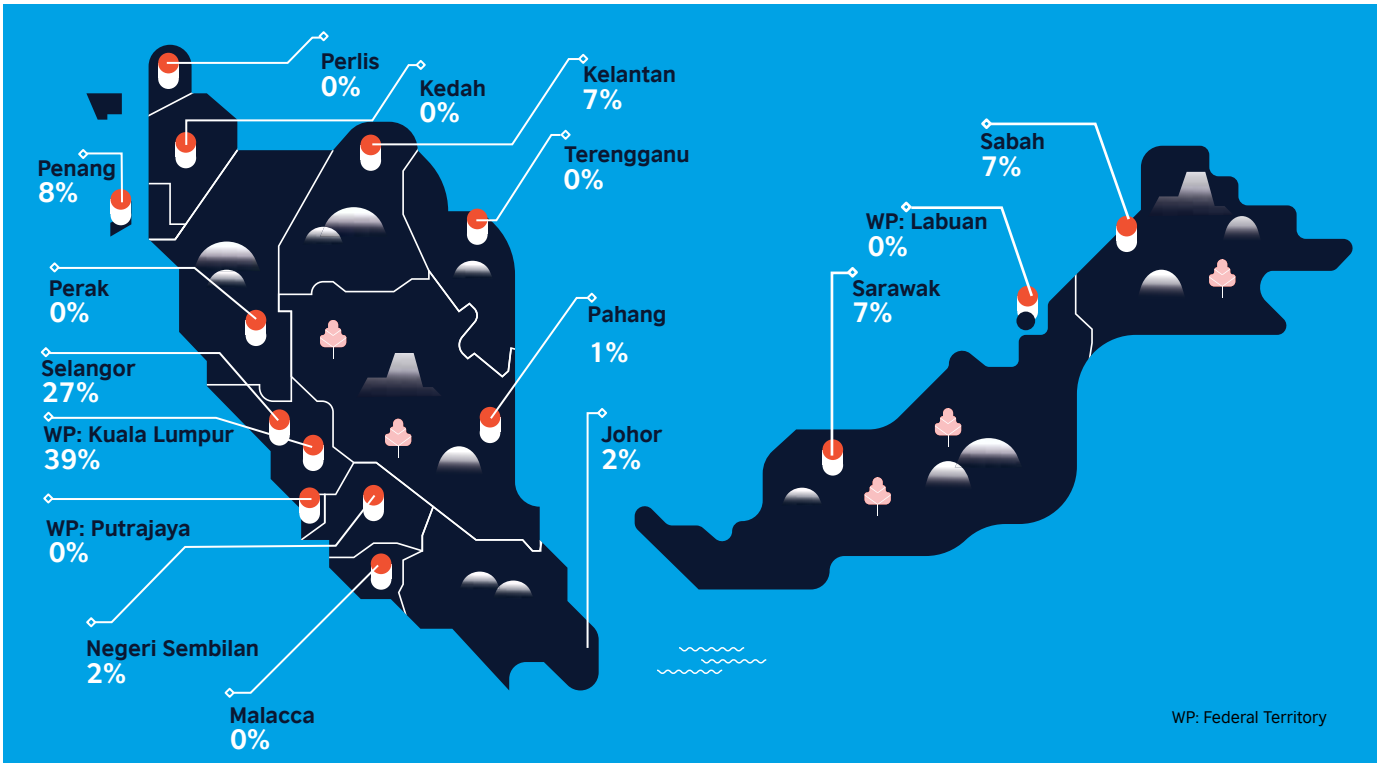
ACRONYMS

A	AIM	Agensi Inovasi Malaysia
C	CLBG	Company Limited by Guarantee
G	GDP	Gross domestic product
	GEM	Global Entrepreneurship Monitor
K	KL	Kuala Lumpur
	KPWKM	Women, Family, and Community Development Ministry
L	LLP	Limited Liability Partnership
M	MaGIC	Malaysian Global Innovation and Creativity Centre
	MED	Ministry of Entrepreneurship Development
	MSEB	Malaysian Social Enterprise Blueprint
	MSME	Micro, small, and medium enterprise
N	NGO	Non-governmental organisation
R	RM	Ringgit Malaysia
	RoS	Registrar of Societies
S	Sdn Bhd	Sendirian Berhad
	SE	Social enterprise
	SME	Small and medium enterprise
	SRI	Sustainable and responsible investment
	SKM	Malaysia Co-operatives Societies Commission
	SSM	Companies Commission of Malaysia
T	TEKUN	The Economic Fund for National Entrepreneurs
U	USD	United States Dollar
V	VBI	Value-based intermediation
W	WP	Federal Territory
Y	YUM	Yayasan Usaha Maju

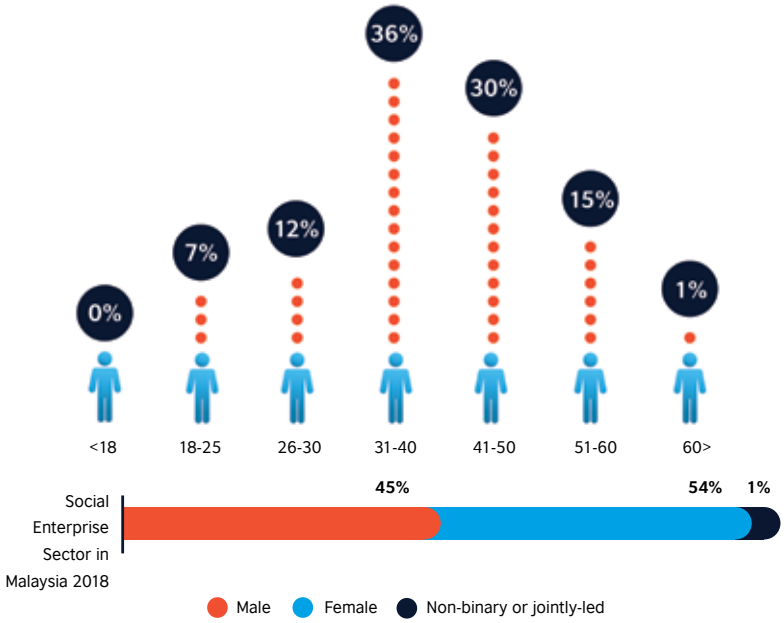
EXECUTIVE SUMMARY

Our survey of 132 social enterprises across Malaysia presents a picture of a vibrant space with a promising future, with respondents being optimistic about their reach and impact. The key things we learnt were:

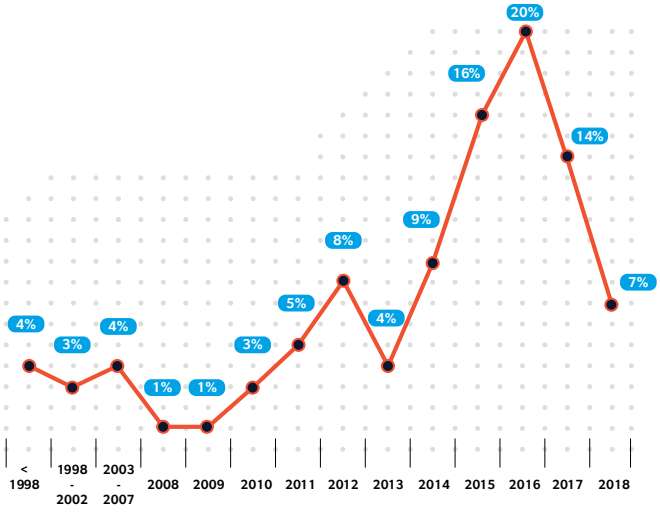
Most social enterprises are based in the Klang Valley, which is Malaysia's central economic region.



Social enterprise leadership is young and diverse

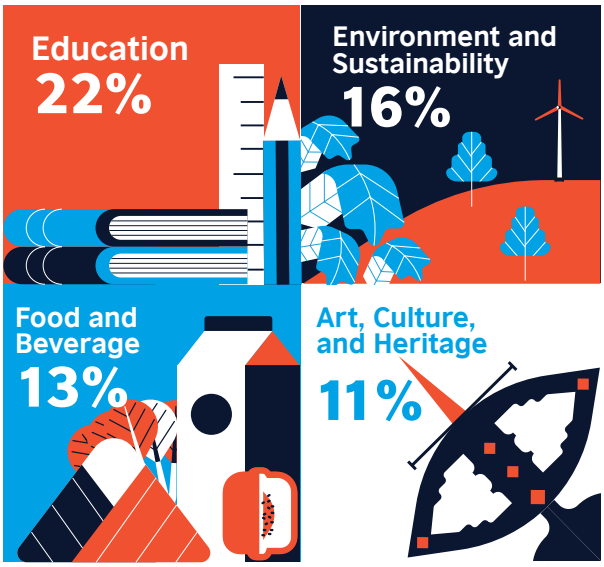


Social enterprises are relatively young

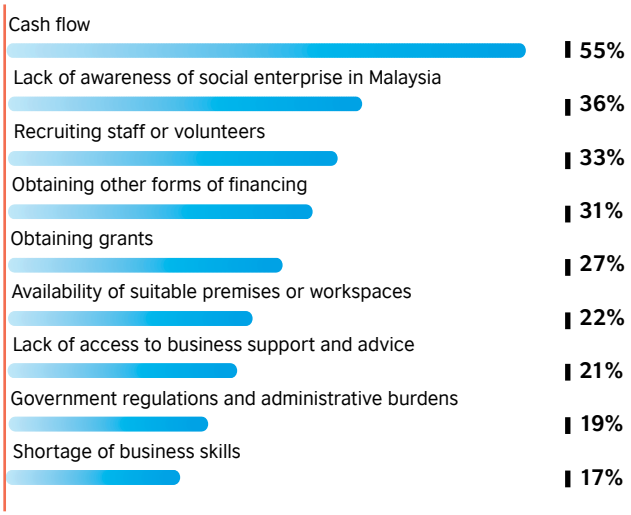


Percentage of social enterprises established by year

Main areas of focus

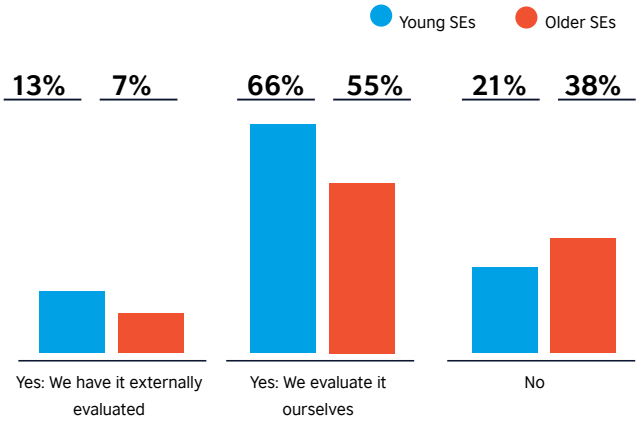


Common challenges

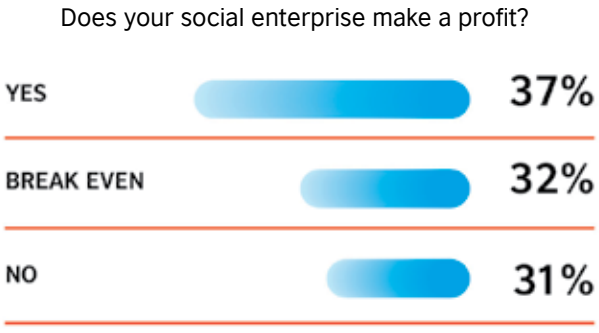


Mission and goals

There is interest in assessing impact



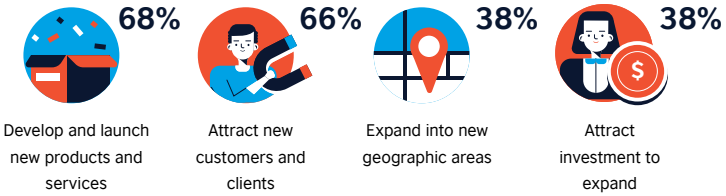
Social enterprises are viable



However, both social enterprises and funders expressed a need for better and more easy-to-use impact assessment tools.

Social enterprises benefit multiple groups

Preferred growth strategies



1

INTRODUCTION

© EPIC Homes

In the past decade, interest in social enterprise and social entrepreneurship has grown exponentially in Malaysia, not only among budding entrepreneurs but also among civil society organisations, policy makers, funders, and academics.

Despite this, Malaysia continues to grapple with social challenges such as urban poverty, unequal access to public health and education, and the need for environmental sustainability.

This study is based on quantitative information obtained from a total of 132 survey respondents across Malaysia. This data is further supported by in-depth interviews and roundtable sessions with social entrepreneurs, government agencies, funders, support organisations, and other key stakeholders.

This study was commissioned by the British Council and supported by United Nations ESCAP and Yayasan Hasanah. The purpose of the study is to map the Malaysian social enterprise landscape and to identify key opportunities and issues that need to be addressed to create a healthy and sustainable ecosystem for social enterprises to thrive. This study also builds on the findings of the 'State of Social Enteprise in Malaysia 2014/2015' report published by MaGIC.

This study is part of the British Council's effort to contribute to a global body of work around social enterprise, with the goal of informing future policy. This is particularly timely, as Malaysia progresses along its journey of economic development and societal change. From a funder's viewpoint, Yayasan Hasanah hopes to better inform potential financiers and enable them to make choices based on data, rather than values alone.

2 METHODOLOGY

2.1 PURPOSE

The primary aim of this study is to provide an insight into social enterprise in Malaysia, including providing an estimate of the scale and scope of the sector.

It also assesses existing policies that are relevant to social enterprise and analyses how these have been implemented. This work builds on past surveys and research, notably the report 'State of Social Enterprise in Malaysia 2014/2015'.

We aim to highlight the changes social enterprises go through, and offer deeper insight into measures that have helped their growth, as well as obstacles that have yet to be addressed. Finally, we hope this evidence will provide guidance for future interventions to further develop social enterprises.

The authors acknowledge that there are limitations to our research; this survey is an indication of social enterprise activity rather than a fully representative sample of such activity. We hope that other actors will benefit from this study and build upon these findings.

2.2 RESEARCH OVERVIEW

The research for this study was conducted between July and November 2018. The study draws from a database of more than 300 organisations compiled from the existing databases of support organisations (funders and financiers, accelerators etc.). Data was collected from a structured web-based questionnaire (made available in English and Malay), in-person and phone interviews, workshops, and roundtable discussions.

The survey of social enterprises sought the following information:

- Year of establishment and form of legal registration
- Turnover and profit generation and use
- Employees, by gender, type of contract (i.e. full-time or part-time), and in comparison to the previous year
- Number and type of beneficiaries reached
- Gender and age of leadership
- Social enterprise sector and focus/core objectives
- Location and sphere of operation (regional, national, international)
- Profit/impact focus
- Growth expectations and plans, and barriers faced
- Sources of finance and funding, including proportion of income from grants/donations
- Top three financing constraints
- If respondents would describe their organisation as a social enterprise

2.3 DATA COLLECTION PROCESS

The primary methodology used to collect this data was a survey of social enterprises, carried out between July and November 2018. Snowballing[1] and volunteer sampling were used to identify study participants that might not have been within our initial networks.

As awareness of social enterprise is not widespread, many social entrepreneurs may not identify themselves as such. In order to be inclusive and to gather as many potential respondents as possible, our sampling approach was non-randomised[2] and is not necessarily a representative sample of social enterprises in Malaysia.

To secure survey respondents, particularly those outside the main economic hub of the Klang Valley, the team reached out to social enterprises via social media, at networking events, and through phone calls. The team also held workshops in three locations across Malaysia, namely in the Klang Valley; Kota Kinabalu in Sabah; and Kota Bharu in Kelantan.

In addition to this, in-depth interviews were held with selected social enterprises, including some who have ceased operations since the last nationwide survey in 2014. The aim was to gain a better understanding of the constraints faced by social enterprises and to glean lessons from their experiences.

[1] Snowball sampling is where survey respondents are asked to help source or identify other potential participants.

[2] This means that survey participants were not selected at random. As such, there may be groups of social enterprises that are not represented by our study.

2.4 CLASSIFYING SOCIAL ENTERPRISES

While the definition of social enterprise may be relatively formalised in some parts of the world, there is no single, universal definition. In Malaysia, there is also no legal definition of social enterprise.
Based on our conversations with stakeholders in the sector, we decided on an inclusive approach in identifying social enterprises. For the purposes of our work, we classified social enterprise as business activity that is primarily motivated by social good where profits are reinvested towards a social cause.

When filtering the survey responses, we used three main questions to identify an organisation as a social enterprise as opposed to a business or non-profit organisation:

1

Is profit or social good the primary motivation of the business, or are both prioritised?

2

If it is a profit-driven enterprise, how are the profits used?

3

What is the proportion of revenue earned from grants or endowments?

Organisations reporting their core mission as 'profit first' were mostly eliminated. However, if the organisation reported that the majority of their profits are 'directed to/reinvested in a social or environmental purpose (including growth)', then they were nevertheless, accepted.

Organisations selecting 'directed to external owners/shareholders' were only eliminated if they had also selected that they were 'profit first'. We introduced this secondary criteria to place stricter constraints for organisations who had selected 'profit first' as opposed to those who select 'social/environment' or 'both jointly'.

Organisations reporting '75 -100 per cent' revenue from grants were eliminated as this indicates that trading is not a significant part of their business model. Seven organisations were eliminated based on this criteria as the bulk of their funding was drawn from grants.

2.5 CAVEATS

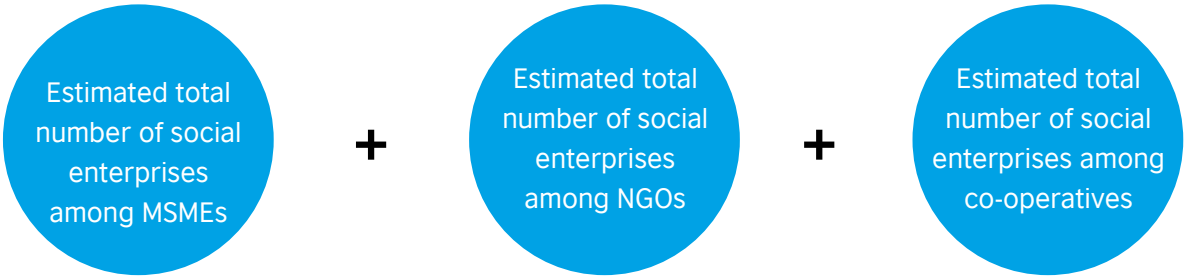
While we sought to be inclusive in gathering respondents, we recognise that representation from some groups that may qualify as social enterprises was relatively low. This includes, for example, recreational associations, such as sports and hobby clubs, as well as religious organisations. Additionally, access to potential social enterprises from rural areas was relatively limited due to their geographical location.

2.6 ESTIMATING THE NUMBER OF SOCIAL ENTERPRISES IN MALAYSIA

One component of the study was to estimate the total number of social enterprises operating in Malaysia. This calculation was challenging for a range of reasons. It is important to note that the figure provided here should only be viewed as a rough estimate and as a basis for further investigation.

In order to produce this estimate, we looked into three wider categories or organisations that include social enterprises in Malaysia: micro, small, and medium enterprise (MSME), co-operative and non-governmental organisation (NGO). Based on other relevant research, we estimated the prevalence rate of organisations that exhibited social enterprise characteristics for each category.

Total Estimate Number of Social Enterprises in Malaysia



2.6.1. Estimated number of social enterprises among MSMEs

Table 01: Prevalence rate and estimated number of social enterprises among MSMEs

Source	Total number of MSMEs [1]	Social enterprise prevalence rate	Expected total number of social enterprises
MSMEs	907,065	0.80%	**7,257**

MSMEs are the backbone of the Malaysian economy. It is reported that 98.5 per cent of business establishments in Malaysia are MSMEs [2] and they contribute 37.1 per cent to Malaysia's gross domestic product (GDP) [3].

For the purpose of estimating the number of social enterprise among MSMEs in Malaysia, we needed to understand the prevalence rate of social enterprises among MSMEs. A study by the Global Entrepreneurship Monitor (GEM) in 2015 (Special Topic Report on Social Entrepreneurship)[3] estimates that **0.8 per cent of all enterprises in Malaysia could be classified as social enterprises, based on the criteria that the enterprise has a social goal and market activity** [4]. We have therefore used this number as the prevalence rate of social enterprise among MSMEs as it is broadly aligned with our social enterprise definition. This gives us an estimate of 7,257 social enterprises out of 907,065 MSMEs in Malaysia.

[3] The GEM study monitors each economy's proportion of working-age individuals who are either in the process of starting a business, also known as the nascent entrepreneurs (individuals who are, alone or with others, currently involved in entrepreneurial activity and have taken concrete actions in the past 12 months to help start this venture) or owner-managers of businesses. To align the denominator for estimation purposes, we had make an assumption that each nascent entrepreneur represents one enterprise and there's no overlap.

1 Economic Census 2016: Profile of small Small and Medium Enterprises. Department of Statistics, 2015
2 Economic Census 2016: Profile of small Small and Medium Enterprises. Department of Statistics, 2015
3 SME Annual Report 2017/18. SME Corporation Malaysia, 2018
4 Global Entrepreneurship Monitor 2015 to 2016: Special Topic Report Social Entrepreneurship. Global Entrepreneurship Research Association, 2016

2.6.2 Estimated number of social enterprises among co-operatives

Table 02: Prevalence rate and estimated number of social enterprises among co-operatives

Source	Total number of co-operatives [5]	Social enterprise prevalence rate	Expected total number of social enterprises [6]
Co-operatives	14,094	78.57%	**11,073**

Co-operatives were first introduced in Malaysia in the 1920s to combat pervasive rural and urban indebtedness in Malaysia. As of now, Malaysian law defines a co-operative society as an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise in accordance with co-operative principles [7].

Often, co-operatives can be understood to be social enterprises. While in practice, some co-operatives in Malaysia may not necessarily meet all observers' defining criteria of social enterprise, it is not within the scope of this study to resolve such debates. **We have therefore taken an inclusive approach, and looked at all co-operatives that are deemed to be active in the Malaysia Co-operatives Societies Commission (SKM) database**[4].

An active co-operative must be engaged in upholding its governance responsibilities and its accountability to the community it serves. This includes actively managing organisational activity, accounting and holding an annual general meeting. This broad definition yields a prevalence rate of roughly 78 per cent or around 11,000 social enterprises from among the 14,094 co-operatives registered in Malaysia.

[4] Due to the lack of access to quantitative studies that explore the governance and accountability of co-operatives, there was limited choice in identifying co-operatives that qualify as social enterprises.

5 Malaysia Co-operatives Societies Commision Interim Statistic 2018. Malaysia Co-operatives Societies Commision, 2018
6 Malaysia Co-operatives Societies Commision Interim Statistic 2018. Malaysia Co-operatives Societies Commision, 2018
7 Co-operatives Societies Act 1993. Laws of Malaysia, as at 2015

2.6.3 Estimated number of social enterprises among NGOs

Table 03: Prevalence rate and estimated number of social enterprises among NGOs

Source	Total number of NGOs [8] [9]	Social enterprise prevalence rate	Expected total number of social enterprises
NGOs	69,760	3.47%	**2,419**

NGOs and the social sector at large are increasingly demonstrating an interest in social enterprise. In the previous study, it was reported that 28 per cent of surveyed social enterprises began as non-profit organisations, and later adopted commercial business models [10].

In Malaysia, NGOs are usually incorporated either as charitable corporations in the form of Company Limited by Guarantee (CLBG) or as societies/ associations. The former are regulated by the Companies Commission of Malaysia (SSM), the latter by the Registrar of Societies (RoS).

Fuze Ecoteer members with local community members during a site visit. © Fuze Ecoteer

8 Statistics of registered societies by category and year. Ministry of Home Affairs, 2018
9 Annual Report 2017. Companies Commission of Malaysia, 2018
10 State of Social Enterprise in Malaysia 2014/2015. MaGIC, 2015

In this study, we calculated the total number of NGOs based on organisations registered as societies/ associations under RoS and CLBGs under SSM. This may exclude other non-for-profit organisations which are not registered in any category mentioned above.

Table 04: Total number of NGOs

Category	Organisational Units
Societies/associations	67,355
CLBGs - With and without the word "Berhad"	2,405
TOTAL	69,760

To estimate the number of social enterprises among NGOs, a brief survey of a small sample of 49 NGOs was conducted to better understand their income sources. NGOs which had less than 75 per cent of income comprising from grants were considered as social enterprises. This proportion of the sample was used to provide us with a tentative social enterprise prevalence rate among NGOs.

The ratio of MSME social enterprises to NGO social enterprises identified in this study was also used to validate whether the small sampling exercise generates a reasonable prevalence estimate. The exercise was expected to yield an estimated number of NGO social enterprises that are roughly three times fewer than the estimated number of MSME social enterprises[5].

However, estimation of NGO social enterprises derived in the small sampling exercise was overinflated. Hence we have prudently capped NGOs that are classified social enterprises at roughly 2,500[6]. The final adjustment yields us a more sensible prevalence rate of 3.47 per cent or 2,419 social enterprises among NGOs.

[5] The ratio of MSME social enterprises to NGO social enterprises identified in this study is 3:1.

[6] Estimated number of social enterprise among MSMEs identified above were used as a based to apply the 3:1 ratio to derive the capped amount for estimated number of NGO social enterprises.

2.6.4 Estimated total number of social enterprises

Based on the criteria and assumptions above, it is possible to make a provisional estimate of the total number of social enterprises in Malaysia. This would give us a figure of around 20,749 enterprises. This calculation is the first attempt of its kind and is far from statistically robust, hence it should not be interpreted as an accurate estimate but merely the basis for further research.

Table 05: Estimated total number of social enterprises

Source	Total number	Social enterprise prevalence rate	Expected total number of social enterprises (Total x Prevalence rate)
MSMEs	907,065	0.80%	7,257
Co-operatives	14,094	78.57%	11,073
NGOs	69,760	3.47%	2,419
TOTAL			**20,749**

© Fuze Ecoteer

3 OVERVIEW: COUNTRY CONTEXT AND EXISTING RESEARCH ON SOCIAL ENTERPRISE

3.1 OVERALL COUNTRY PROFILE

Malaysia is among Southeast Asia's most developed countries, with decades of industrial growth and political stability that have fuelled a vibrant economy.

The country consists of two broad regions separated by the South China Sea: West Malaysia located on the Malay Peninsula bordering Thailand and Singapore, and East Malaysia on the northern part of Borneo. Almost 80 per cent of Malaysians live in Peninsular Malaysia, with Selangor as the most urbanised state in the country.

The population of 32.5 million comprises several major ethnic groups, with the majority being Malay (69.1 per cent), followed by ethnic Chinese (23 per cent) and Indians (6.9 per cent). The country has long had a pluralistic religious and ethnic population, with a secular system of law in place. However, it also has a Syariah legal system (or Islamic law) operating in tandem with the Malaysian constitution. Even so, policymakers and state leaders have repeatedly stressed that the country is a liberal Muslim state.

MALAY

69.1%

CHINESE

23%

INDIAN

6.9%

Since gaining independence from the British colonial state in 1957, Malaysia has progressively moved from an agricultural and resource-based economy to one focused on manufacturing and services. By the 1990s, the country had largely met the criteria for a newly-industrialised country status, with 30 per cent of its exports consisting of manufactured goods.

Having achieved upper-middle-income status, the country continues to push towards gaining high income status.

While the economy continues to deliver positive growth, with a 5.7 per cent GDP growth in 2017, this is expected to slow slightly in the coming years. Analysts expect growth to moderate to 4.9 per cent in 2018, 4.7 per cent in 2019, and 4.6 per cent in 2020 [11].

Even so, there is sufficient optimism that Malaysia is set to achieve its coveted developed status [12]. The country scores highly on the Human Development Index with a score of 0.82 and ranks 57th out of 189 nations [13].

11 East Asia Pacific Economic Update, World Bank, 2018
12 Malaysia Economic Monitor, World Bank, 2017
13 Human Development Indices and Indicators: 2018 Statistical Update, UNDP, 2018

This is further buoyed by the ease of doing business, with the Economic Intelligence Unit placing Malaysia in the top 20 destinations for investors, and ranking it 15th out of 144 countries for the ease of carrying out business [14] [15].

As of 2018, the Malaysian labour force numbered some 15.3 million, with a headline unemployment rate of 3.4 per cent. However, youth unemployment is over three times higher at 10.7 per cent.

Department of Statistics projections, 2018

Despite increasing levels of education, job creation has remained concentrated in low and mid-skilled jobs, with domestic industries relying on cheap labour. The issue of youth unemployment is frequently a political priority and drives the government's efforts to encourage growth through innovation and entrepreneurship.

Perhaps the most significant recent change for Malaysia has been the historic 2018 general elections, in which the ruling Barisan Nasional coalition were voted out of government after five decades in power. While markets initially responded negatively due to fears of political instability, they soon recovered following a relatively smooth transition of power. Economically, the biggest change undertaken by the new government has been the abolishment of the Goods and Services Tax. While this has been replaced with the Sales and Service Tax, analysts project a two per cent shortfall in government revenue for 2019 [16] [17]. Several large scale infrastructure projects initiated by the previous administration have also been delayed or cancelled, leading to slightly lower growth projections for the coming years [18].

14 Business Environment Rankings, EIU, 2014
15 Doing Business 2019, World Bank, 2018
16 Malaysia's Budget 2019: The New Government's Fiscal Priorities, Challenges and Opportunities, ISEAS–Yusof Ishak Institute, 2018
17 Malaysia Budget 2019, 2018
18 East Asia Pacific Economic Update, October 2018, World Bank, 2018

A Chocolate Concierge employee inspects a cocoa pod at the enterprise's partner community farm. © Chocolate Concierge

While civil society has long played a strong role in Malaysia, institutional and public support for non-governmental organisations has overall been relatively low. In the regional assessment of philanthropic giving in Asia, the Doing Good Index 2018 found that while an ecosystem to support philanthropic activity exists, there is insufficient institutional support for non-profits. In Malaysia in particular, non-profits generally rely heavily on grants and donations and often report not receiving enough public support to fully carry out their activities [19].

Based on our interviews with social enterprises, funding issues have partly been the reason that more non-profits have been inspired to explore social entrepreneurship to ensure the sustainability of their organisations.

19 Doing Good Index 2018, Centre for Asian Philanthropy and Society, 2018

3.2 POLICY REVIEW IN RELATION TO SOCIAL ENTERPRISE

The Malaysian government has been supportive of the idea of social innovation, having introduced a number of policy initiatives and programmes that seek to integrate social innovation within various public institutions.

The Eleventh Malaysia Plan, which is the country's 2016-2020 development plan, makes great mention of social innovation in its framework of strategies to realise the government's goal of achieving high-income status by 2020 [20]. Meanwhile, ministries that deal with social challenges and marginalised groups such as the Women, Family, and Community Development Ministry (KPWKM) and the Department of Orang Asli Development have included social innovation in their internal strategy and policy documents.

The KPWKM's Strategic Plan places particular emphasis on social innovation and productive welfare and efforts to increase self-sufficiency.

The promise of plugging these gaps through viable businesses has encouraged government initiatives to promote social enterprise in particular. This has been reflected in the establishment of two agencies that have social enterprise as part of their mandate; MaGIC and Agensi Inovasi Malaysia (AIM). In a 2016 survey, the Thomson Reuters Foundation ranked Malaysia as the ninth best country for social enterprises [21].

Members of the AC Mushroom project in an interview about their social enterprise model. © British Council

20 Eleventh Malaysia Plan 2016 - 2020, Economic Performance Unit, 2015
21 The best place to be a Social Entrepreneur 2016, Thomson Reuters Foundation, 2016

A key policy document related to social enterprise is the Malaysian Social Enterprise Blueprint 2015 - 2018 (MSEB), released in 2015. The MSEB outlined a three-year plan to develop a social enteprise sector that 'will transform the nation's economy to one that is more equitable and sustainable'. The blueprint identified three strategic 'thrusts' to support this growth:

Social Entrepreneurship:

Inspire a movement

Ecosystem:

Create an enabling environment

Institution:

Affect systemic changes

The Blueprint further sought to remedy several identified barriers for social entrepreneurs, namely the absence of legal forms of social enterprise, insufficient funding options, and the lack of networking opportunities and support such as accelerators and hubs.

As it stands, however, there is neither specific legislation nor a legal framework to govern social enterprise in Malaysia. While MaGIC has been pushing for legal reform to give greater legitimacy to social enterprises, results have been slower than some expected. As such, social enterprises are still caught in what they may perceive to be a no-man's land in terms of registration status since they blend non-profit motives with business and trading activities.

Members of Pangrok Sulap pose for a photograph at their base in Kota Kinabalu. © Pangrok Sulap

To make up for this legal gap, MaGIC launched the Impact Driven Enterprise Accreditation (IDEA) initiative in 2017. Social enterprises who meet MaGIC's criteria are validated as 'impact driven enterprises', with the aim of of giving them more legitimacy when connecting with potential funders and clients [22].

At the other end of the spectrum is the sustainable and responsible investment (SRI) Fund Framework introduced by the Securities Commission, a statutory body responsible for developing capital markets in Malaysia [23]. The framework enables funds to be designated as SRI funds, and aims to widen the range of SRI products and investors.

The latest initiative for social enterprise came with the revival of the MED. Re-established by the new government in 2018, the MED includes social enterprise as a key agenda to its mission to develop entrepreneurship in the country. Here, the MED identifies social entrepreneurship as a driver in 'empowering the people to address social and environmental issues through enterprising means' [24].

A Backyard Tour guide educates tourists about pepper plants during a village farm tour in Kuching. © Backyard Tour

22 https://mymagic.my/idea/
23 Guidelines on Sustainable and Responsible Investment Funds, Securities Commission, 2017
24 National Entrepreneurship Framework, MED, 2018

3.2.1 Legislation and policies relevant to social enterprise

Legislation	
Co-operative Societies Act 1993 (Amendment) 2007	The Act governs the establishment and running of co-operatives.
Companies Act 1965 (Amendment) 2016	The Act facilitates the setting up of both private companies limited by shares and companies limited by guarantee.
Societies Act 1966 (Amendment) 2006	The Act governs the setting up of societies in Malaysia, including non-profits and NGOs.
Accreditation	
Impact Driven Enterprise Accreditation	An accreditation programme by MaGIC that aims to validate and improve the visibility of social enterprises.
Strategies, policies, and guidelines	
Eleventh Malaysia Plan, 2016 - 2020	Malaysia's latest five-year development plan, which outlines strategies to support the country's vision of being a high-income economy. Social innovation is highlighted as a key strategy to improve social welfare delivery, while social enterprise is outlined as a method to improve the lives of the poor.
Guidelines on Sustainable and Responsible Investment Funds	The guidelines by the Securities Commission are a way of promoting SRI funds and encourage more SRI products.
Malaysian Social Enterprise Blueprint 2015 - 2018	A three year roadmap outlining the three strategic building blocks for the development of Malaysia's social enterprise sector.
National Entrepreneurship Framework	The MED's strategic plan to develop entrepreneurship in the country, and includes plans to encourage social enterprise through existing co-operatives.
Value-based intermediation (VBI) guides	A set of three guidelines by Bank Negara to help Islamic financial institutions implement VBI. VBI refers financial models that generate positive and sustainable impact to the economy, community and environment. The three guides are: The Implementation Guide for VBI; the VBI Financing and Investment Impact Assessment Framework; and the VBI Scorecard.

3.2.2 Agencies

Historically, some of the earliest social enterprise initiatives in Malaysia were microfinance initiatives. Early efforts in this area were developed around the 1970s, as the country sought to decrease poverty levels and lift more Malaysians into the middle-income category.

Amanah Ikhtiar Malaysia was the earliest microfinance institution established in Malaysia, followed by Yayasan Usaha Maju (YUM) and The Economic Fund for National Entrepreneurs (TEKUN). Both Amanah Ikhtiar Malaysia and YUM replicate the Grameen Bank model from Bangladesh, targeting poor people, whereas TEKUN provides loans to both poor and wealthier customers alike.

In 2015, a dedicated unit within MaGIC was set up to spearhead the development of Malaysia's social enterprise sector. In fulfilling its mandate, MaGIC Social Enterprise (SE) ran several key activities such as raising awareness of social entrepreneurship; developing networks and strengthening relationships with local communities to encourage them to explore social entrepreneurship; and conducting training programmes such as SE Workshops, SE Boot-camps and the MaGIC SE Accelerator Programme for social entrepreneurs. However, the SE unit underwent a realignment exercise in 2017.

AIM meanwhile, is a statutory body that was set up to 'promote innovation'. In 2015, AIM was tasked with leading the Social Public-Private Partnership a new model for public services aimed at addressing gaps in provision by delivering high value services at a lower cost and focused on collaborative action between government and the private and social sectors. The scheme is modelled after social impact bonds and aims to match social impact investors with social purpose organisations to carry out social interventions. The government will reimburse investors if certain agreed outcomes are achieved. In 2017, the Social Outcome Fund was launched with RM3 million in investments.

3.2.3 List of key players in the social enterprise ecosystem

Incubators, accelerators, and support programmes These are initiatives and programmes that offer support such as business development services, training and mentorship, or other resources to fledgling enterprises	
AirAsia Foundation	The philanthropic arm of AirAsia, the foundation offers Southeast Asian social enterprises seed funding as well mentorship.
Amplify Accelerator by MaGIC	A six-week capacity-building programme for 'impact driven enterprises' to scale their growth and impact. The accelerator offers upskilling workshops on areas such as impact assessment, financial management and business model optimisation, alongside mentorship and networking opportunities.
Asian Venture Philanthropy Network	A Singapore-based funders' network that aims to build a vibrant and high impact social investment community across Asia.
The British Council's Global Social Enterprise Programme	An international initiative that supports the development of social enterprise and social investment in the UK and other countries, shares best practices, and facilitates opportunities between them.
Global Accelerator Programme by MaGIC	A regional programme aimed at building a start-up community within ASEAN, by helping start-ups to be investment-ready in four months.
Impact Hub KL	A collaborative learning space that is part of the larger global Impact Hub network. Aside from acting as a physical co-working space and social innovation lab, Impact Hub KL also provides workshops and training programmes for social enterprises.

MaGIC IDEA Accelerator	An accelerator programme aimed at early-stage social enterprises, that guides start-ups from ideation to execution. Successful participants are also given IDE accreditation.
PurpoSE Malaysia	A private entity that provides advisory and consulting services to social enterprises as well as companies interested in investing in social enterprise.
Social Enterprise Academy	The academy provides learning and development for people and organisations enabling social change, particularly focusing on leadership and impact assessment skills.
Social Impact Exchange	A platform for social purpose organisations managed by AIM, that seeks to connect social enterprises with potential funders.
Social Outcome Fund	A government initiative that utilises the 'pay for success' model to fund social purpose organisations. If funded projects are proven to be effective and cost-efficient, the government will reimburse the third-party funder of the project.

Impact investors Institutions and groups that seek to make a positive impact by investing in enterprises that advance specific social and/or environmental missions in addition to financial gain	
Social Enterprise Ventures	A collaboration between MaGIC and the non-profit myHarapan, this is the pilot fund for the IMPACT micro-financing scheme. IMPACT offers funds for social enterprises who wish to franchise their business to those from underprivileged communities.
Sukuk Ihsan by Khazanah	Announced in 2015, this is Malaysia's first SRI sukuk (Islamic bond), and its proceeds are generally earmarked for educational projects.

Higher education institutions, research institutes and support organisations	
Enactus Malaysia	Aiming to nurture the entrepreneurial skills of university students, Enactus has a presence across many university campuses in Malaysia. The organisation runs workshops, networking sessions, and competitions to encourage the entrepreneurial spirit.
iLabs at Sunway University	A non-profit innovation lab that draws on the resources of the university's parent Sunway Group, including its venture capital arm. The lab aims to foster entrepreneurship and stimulate market-driven innovations.
Monash University Malaysia's Entrepreneurship and Innovation Hub	A space within the university for idea incubation; the hub also frequently hosts workshops and talks by social entrepreneurs for its students.
Universiti Malaysia Kelantan's (UMK) Social Entrepreneurship Centre	UMK is the only public university in Malaysia that focuses on entrepreneurship education. Through its Social Entrepreneurship Centre, it plans to offer niche programmes on social entrepreneurship, part-time skills training, and create better research on social enterprise in Malaysia.
Universiti Teknologi Mara's Social Innovation Support Unit	Funded by the Erasmus+ Southeast Asia Social Innovation Network, the unit acts as a hub for social innovators to meet and network.

3.3 EXISTING RESEARCH ON SOCIAL ENTERPRISE

The study of social enterprise in Malaysia is relatively new, with a range of existing local research focused on defining social enterprise, and highly-specific case studies of individual enterprises [25] [26]. More recently, international agencies, such as the World Bank, have provided reviews of Malaysian efforts at establishing a sustainable ecosystem for the development of social enterprise [27].

Among the notable studies of the Malaysian social enterprise environment is 'A Review of Social Innovation Initiatives in Malaysia' by Nasir and Subari (2017). Nasir and Subari suggest that the drive towards social enterprise was influenced by the New Economic Policy of the 1970s, which sought to provide solutions to systemic poverty and income inequality. The government then played – and arguably still play – an important role as the main facilitator to create an environment that can support social enterprise.

Fuze Ecoteer volunteers examining leopard droppings during a conservation exercise. © Fuze Ecoteer

25 Cheah, Jeffrey & Amran, Azlan & Yahya, Sofri. Internal oriented resources and social enterprises' performance: How can social enterprises help themselves before helping others, 2019

26 Abdul Kadir, Mohd Ali Bahari & Sarif, Suhaimi. Social Entrepreneurship, Social Entrepreneur and Social Enterprise: A Review of Concepts, Definitions and Development in Malaysia, 2016

27 Government Support to the Social Enterprise Sector: Comparative Review of Policy Frameworks and Tools, World Bank, 2017

The first nationwide survey that sought to offer a broad picture of social enterprise in Malaysia was the State of Social Enterprise in Malaysia 2014/2015. The survey identified several key features of the social enterprise sector. These included findings that social enterprises are not yet fully developed and struggle to achieve financial stability; the sector is more vibrant and diverse than other sectors as it offers more leadership pathways for women and younger professionals; and that the biggest challenges for social entrepreneurs were the lack of legal legitimacy, and public and government recognition.

4

SURVEY FINDINGS

© Chocolate Conciergé

4.0.1 SOCIAL ENTERPRISE SURVEY SAMPLE

This section describes the findings from our survey of social enterprises across Malaysia. A total of 132 organisations participated in this survey. Of these, a total of 122 organisations met the criteria we used for defining social enterprise for the purposes of this study.

A member of Pangrok Sulap holds up a sundatang (a traditional Sabahan musical instrument) that the group sometimes plays while making artwork. © British Council

Our survey sample is not necessarily representative of the social enterprise population across the country as a whole. Two-thirds (66 per cent) of social enterprises in our survey were based in the Klang Valley, the country's largest urban and economic area. The Klang Valley comprises the capital city of Kuala Lumpur and almost all the districts in the neighbouring state of Selangor. The region is of key economic importance for Malaysia as a whole, with over 37 per cent of the country's GDP said to be generated by Kuala Lumpur and Selangor [28].

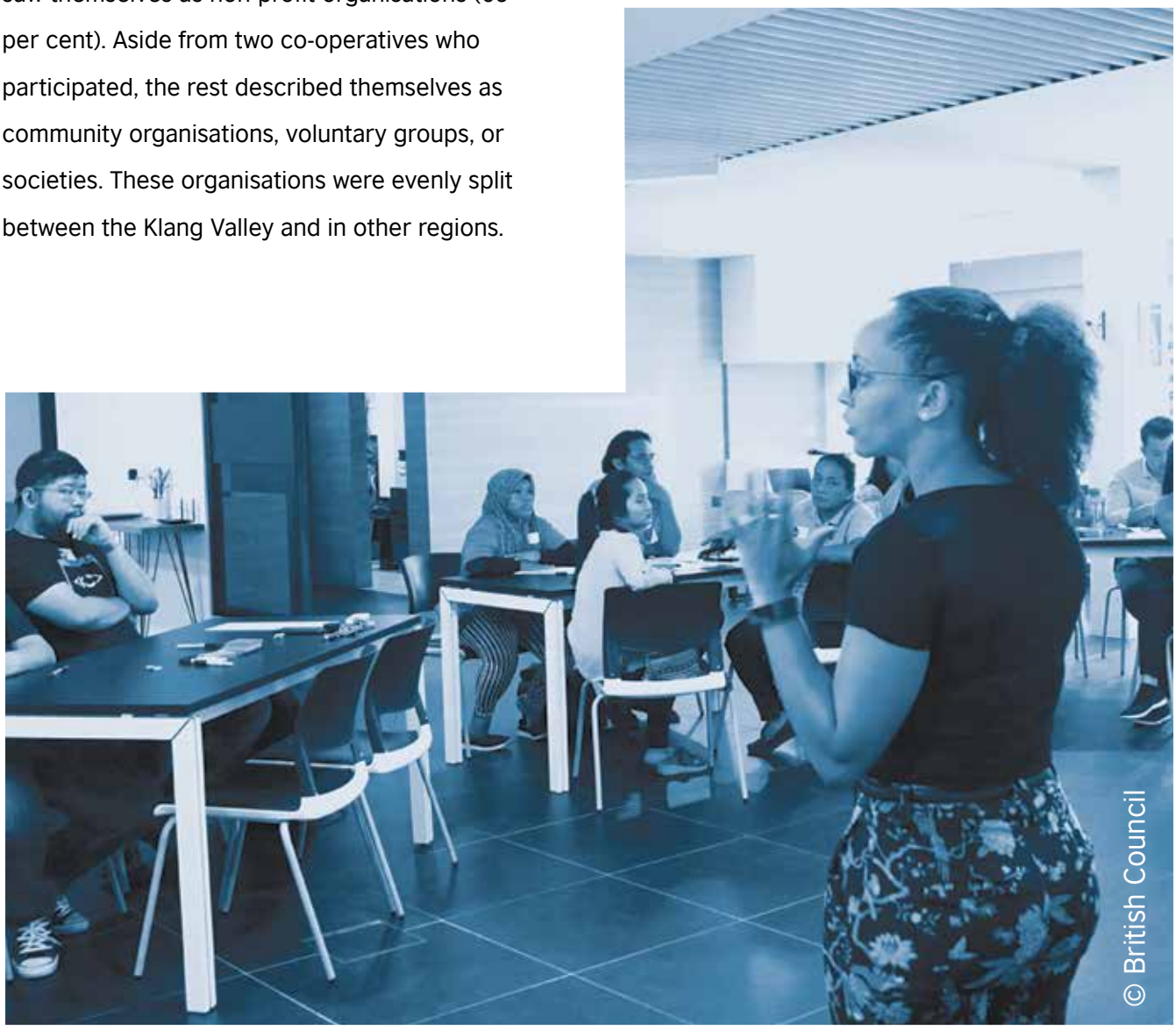
28 Economic Transformation Programme Update, Pemandu, 2014

4.0.2 DEFINING SOCIAL ENTERPRISE

From the respondents who met our social enterprise criteria, 87 per cent regarded themselves as social enterprises. Three respondents said they were unaware of social enterprise as a concept before participating in the survey.

Of the 32 organisations who did not identify themselves as social enterprises, the majority saw themselves as non-profit organisations (69 per cent). Aside from two co-operatives who participated, the rest described themselves as community organisations, voluntary groups, or societies. These organisations were evenly split between the Klang Valley and in other regions.

Based on our interviews and discussions with entrepreneurs, particularly outside of the Klang Valley, there is anecdotal evidence that not all entrepreneurs or NGOs are aware that they are in fact involved in social enterprise. As one Kelantan-based social entrepreneur said: “I’ve always seen myself (the enterprise) as just a business reaching out to the visually-challenged; this is the first time I’m hearing the term.”



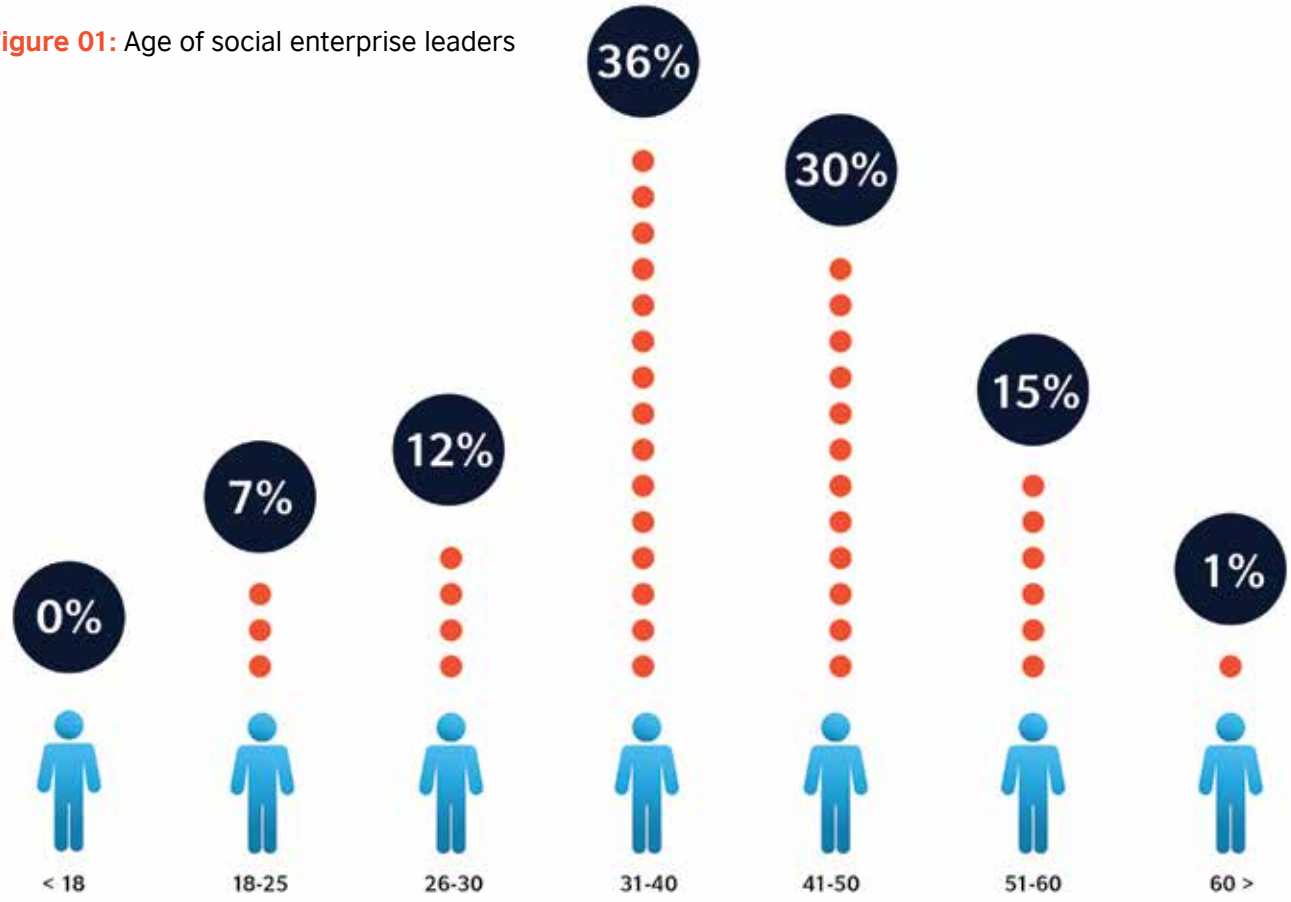
4.1 SOCIAL ENTERPRISE LEADERSHIP

4.1.1 Age

Our findings suggest that the average leader of a social enterprise is relatively young with the largest group of social enterprise leaders (36 per cent) aged between 31 and 40 years old. Seven per cent are aged between 18 and 25 years old and 12 per cent are aged between 26 and 30 years old, which means that over half are under 40 years old.

Additionally, 30 per cent of leaders are between the ages of 41 and 50, and around half that are aged between 51 and 60 years old (15 per cent). This is in keeping with the previous survey, which found that 64 per cent of Malaysian social enterprise leaders were below 40, while those aged 41 and above comprised 36 per cent of social enterprise leadership [29].

Figure 01: Age of social enterprise leaders

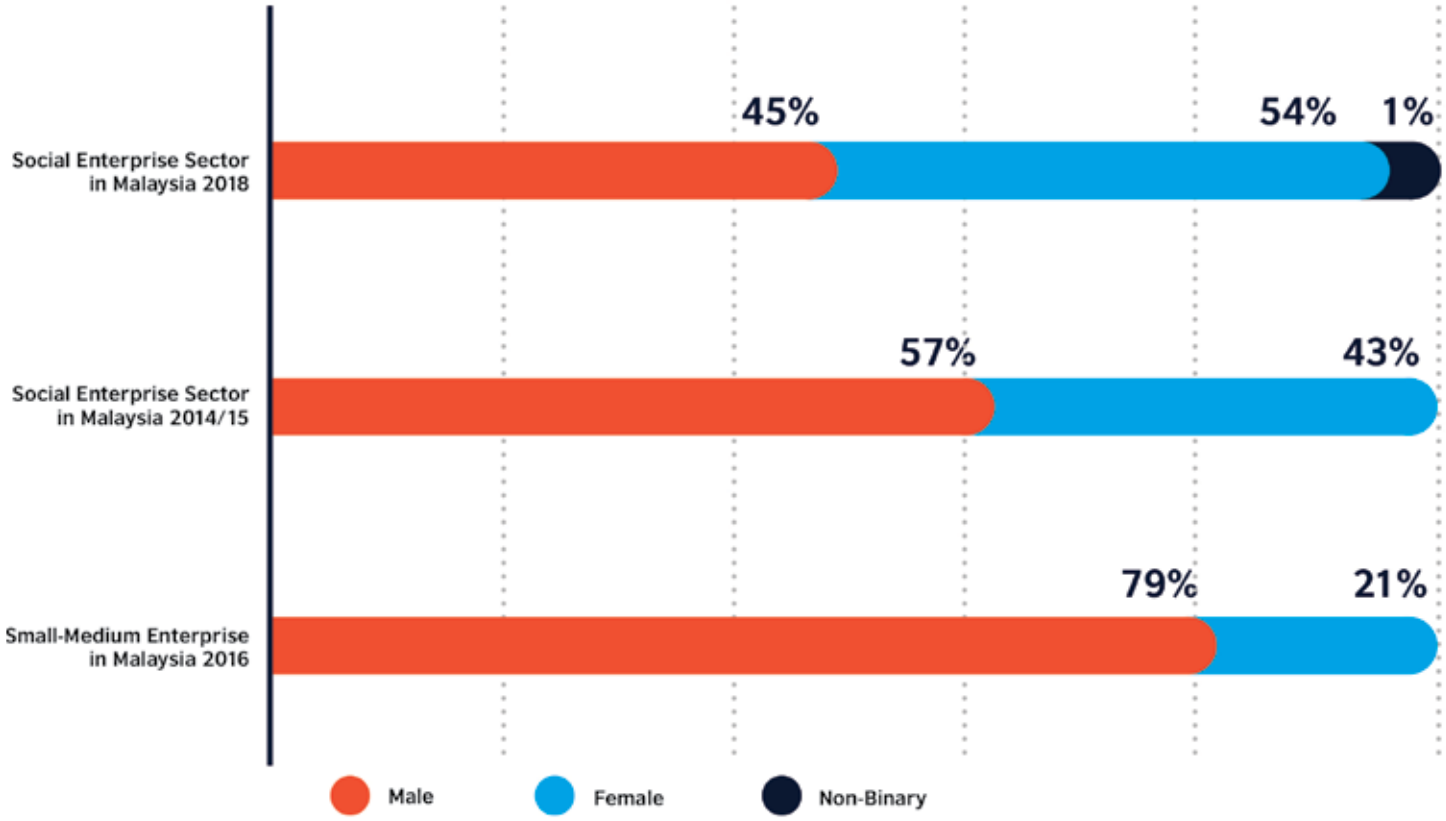


29 State of Social Enterprise in Malaysia 2014/2015, MaGIC, 2015

4.1.2 Gender

Malaysian social enterprises are more likely to be led by women. Our survey found that women held leadership positions in 54 per cent of social enterprises, up from 43 per cent in 2014 [30]. In contrast, just 21 per cent of the wider small-medium enterprise sector reported female leadership [31].

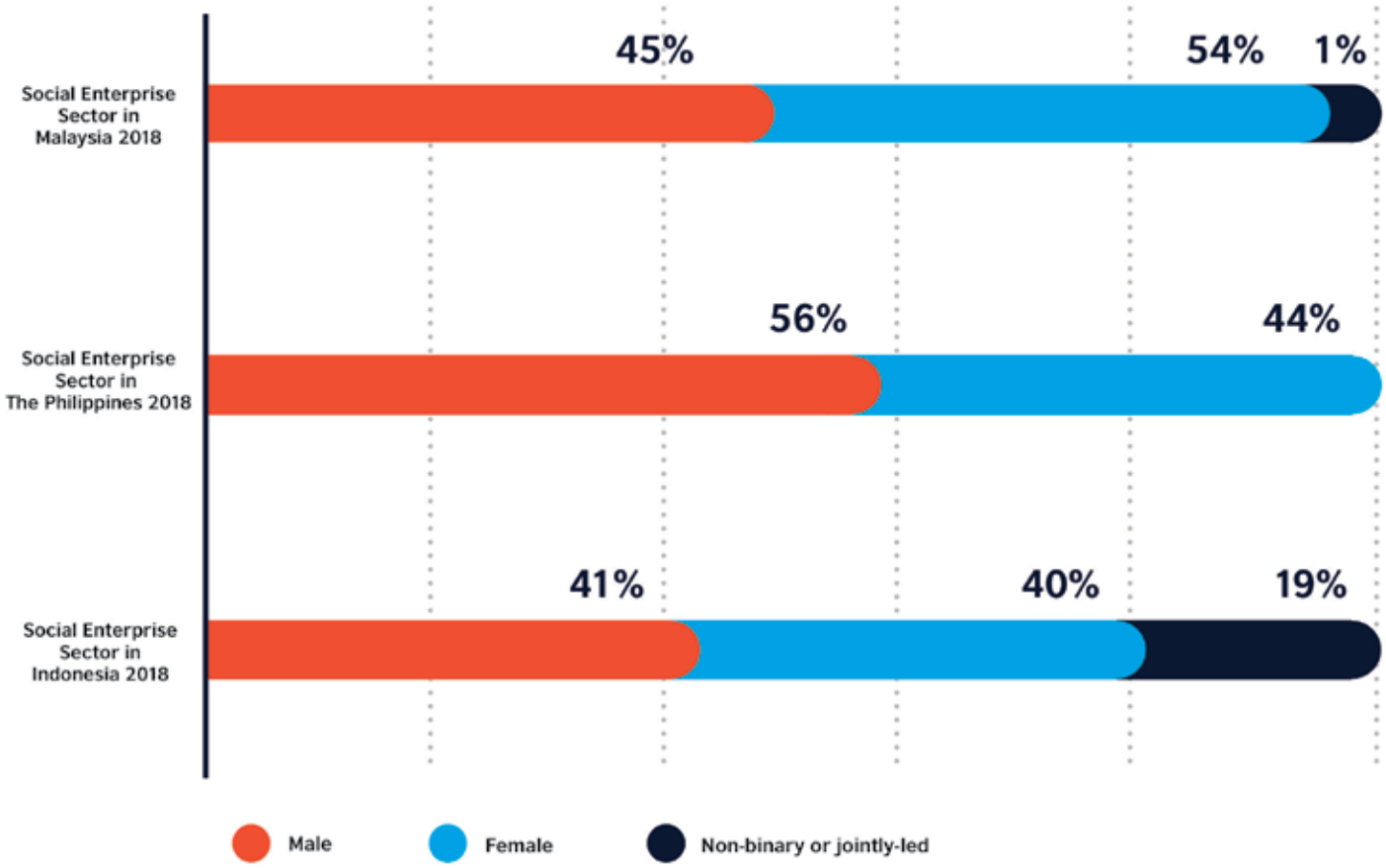
Figure 02: Gender balance in leadership (comparison between social enterprises and SMEs in Malaysia)



30 State of Social Enterprise in Malaysia 2014/2015, MaGIC, 2015
31 Economic Census 2016, Department of Statistics, 2017

Compared to data from similar studies conducted by the British Council in Southeast Asia, there are slightly more women-led social enterprises in Malaysia than in the Philippines, and Indonesia where women leadership stands at 44 per cent and 40 per cent respectively [32] [33]. One per cent of respondents chose to identify as non-binary.

Figure 03: Gender balance in social enterprise leadership across Malaysia, the Philippines, and Indonesia



32 Reaching the Farthest First: The State of Social Enterprise in the Philippines,The British Council, 2018
33 Building an Inclusive and Creative Economy: The State of Social Enterprise in Indonesia, The British Council, 2018

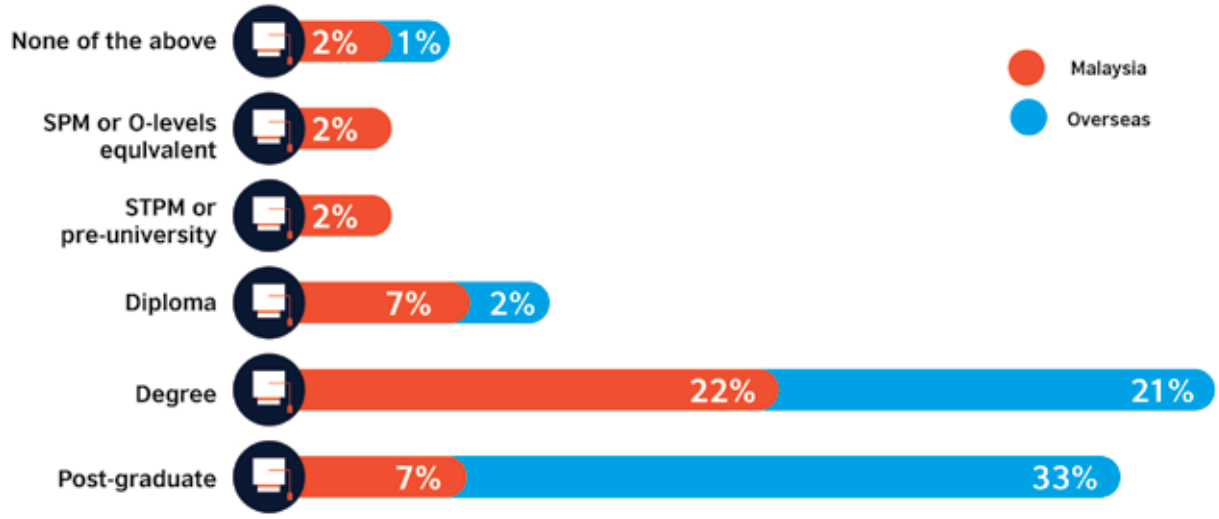
4.1.3 Educational attainment

The majority of social enterprises surveyed are led by those with a high level of education. Eighty-three per cent of social enterprise leaders have at least a degree-level qualification, with a further 40 per cent possessing a postgraduate qualification. A significant proportion of leaders also received education abroad (see Fig 04), and overall educational attainment is significantly higher than the general workforce.

According to the latest labour statistics, only 28 per cent of Malaysia's 15 million labour force had tertiary level qualifications; the majority of the working-age population only possess a secondary school level education (56 per cent) [34].

Several other small scale studies imply that social enterprise leaders tend to have higher education attainment than the broader SME leadership. One study of almost 300 respondents found that 59 per cent of entrepreneurs stated that their highest education qualification was the Malaysian secondary school certificate [35].

Figure 04: Educational attainment of social enterprise leaders



34 Labour Force Survey Report 2017. Department of Statistics, 2018
35 Hanafiah, Mohd Hizam. Entrepreneurs' intention to invest in current business: An empirical study of Malaysian SME entrepreneurs, 2016

Furthermore, 18 per cent of social enterprises reported having leadership drawn from vulnerable or marginalised communities, including those from low-income group backgrounds and minority indigenous populations. Social entrepreneurs from such populations, particularly those based in more rural areas, reported being overlooked in terms of support and funding because they are perceived as being 'less able'.

Artisans of Tanoti producing handwoven songket at Tanoti House, Kuching. © Tanoti

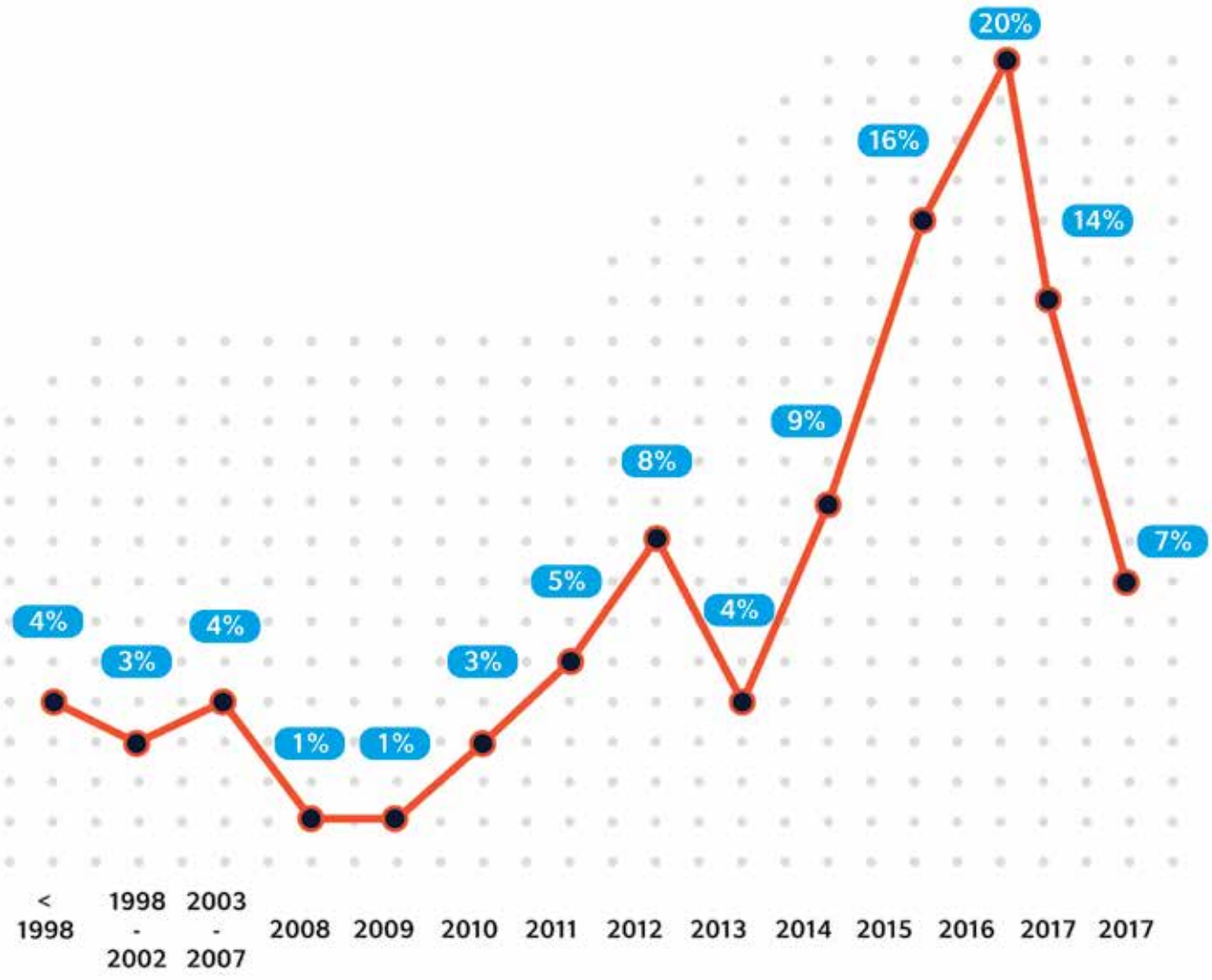
4.2 YEARS OF OPERATION

Our survey suggests that the majority of social enterprises are relatively young, with many operating for less than five years. The rate of new social enterprises established slowed somewhat in 2017.

In line with the previous study, the significant rise in new social enterprises began in 2014 [36], coinciding with the creation of MaGIC and the release of the MSEB.

These policy measures appear to have had a clear impact in generating interest in social enterprises and enabling more social entrepreneurs to start up.

Figure 05: Number of social enterprises established across time



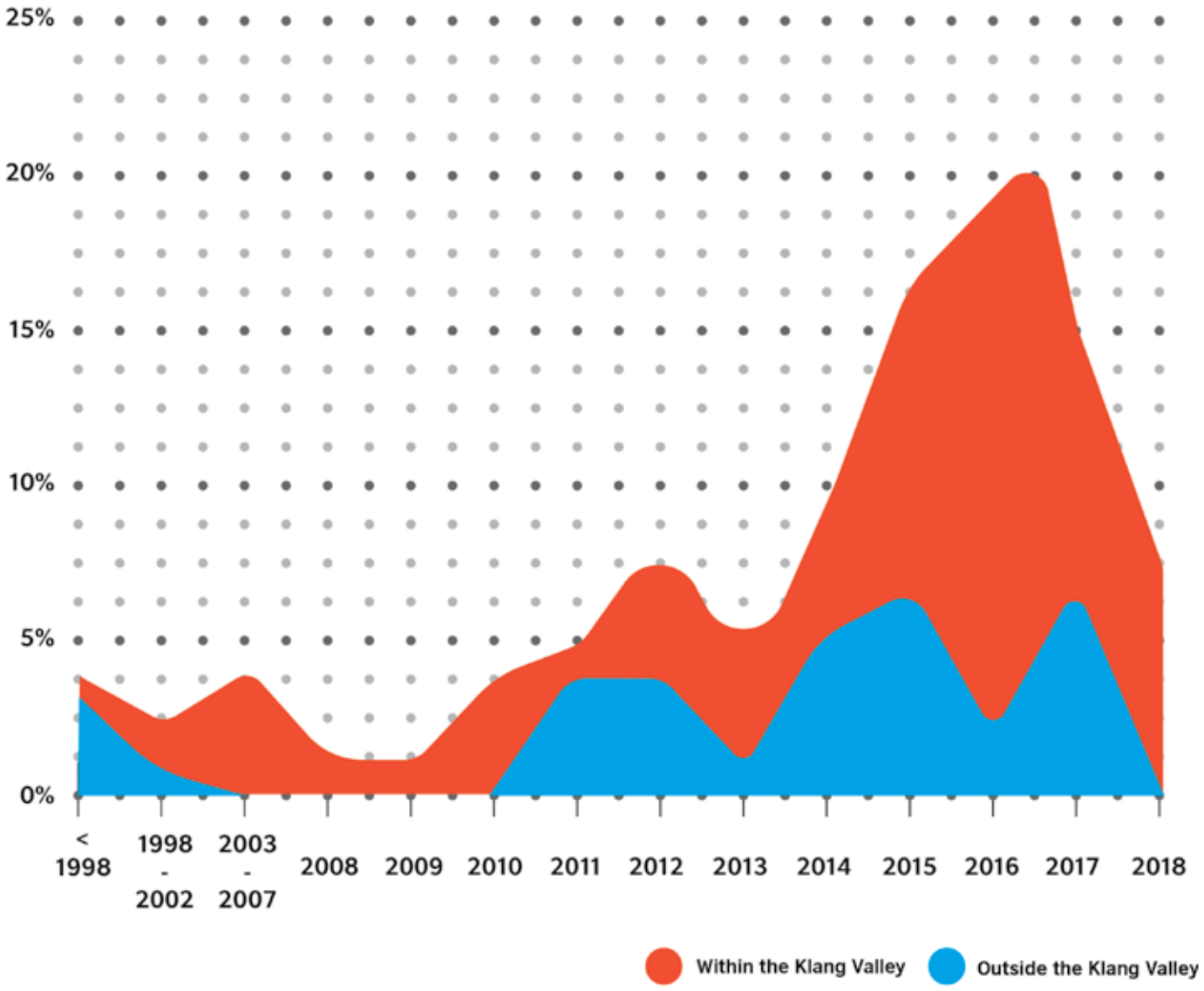
36 State of Social Enterprise in Malaysia 2014/2015, MaGIC, 2015

There was a slowdown in social enterprise creation in 2017, the same year MaGIC SE went through its 'realignment' process. Since 2018 however, MaGIC has reinstated several of its dedicated social entrepreneurship programmes.

However, there are slight variations in the pattern of social enterprises setting up in areas outside the Klang Valley.

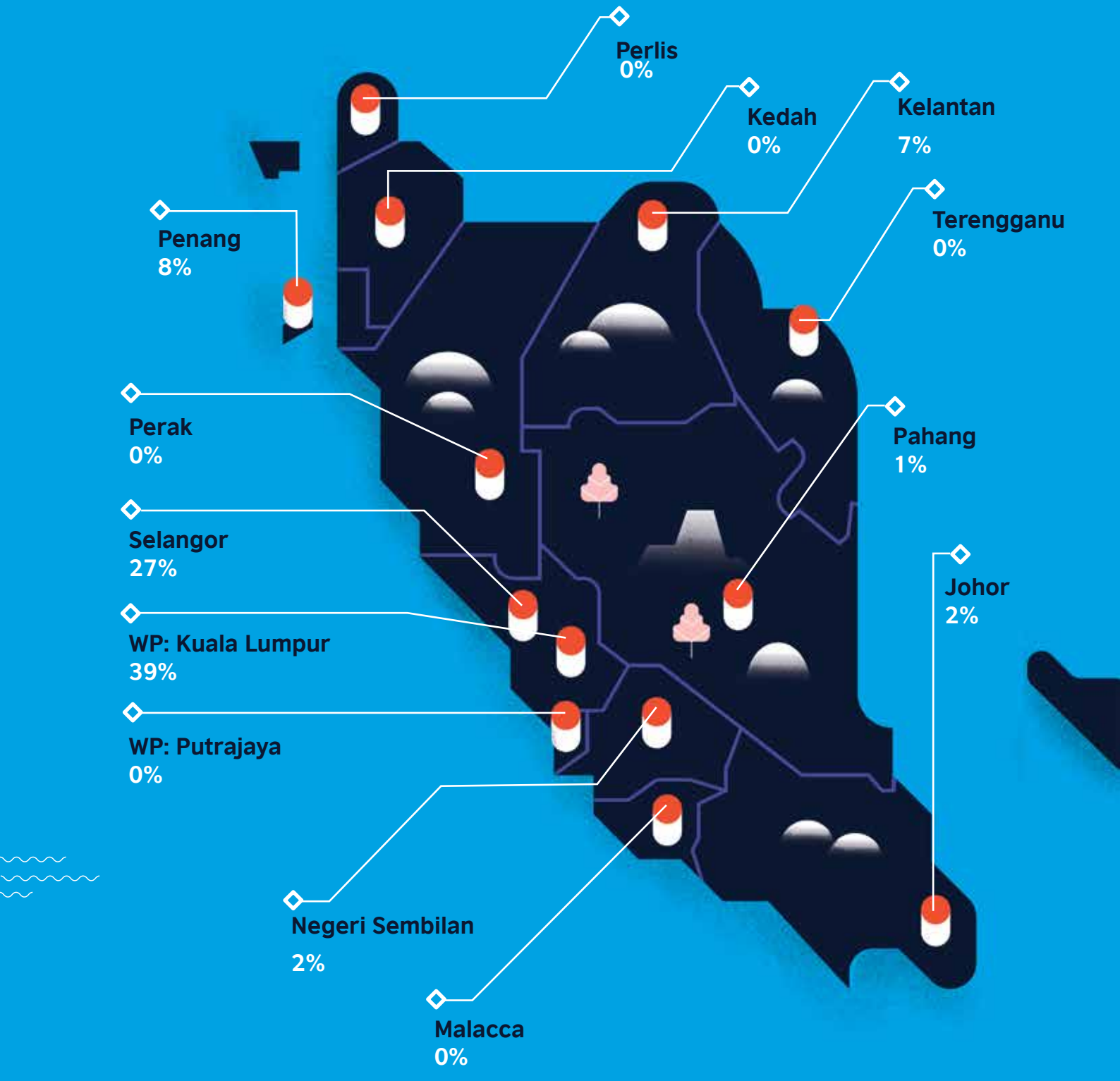
In these areas, there were fewer start-ups in 2016 and a rise in numbers in 2017. This may reflect the distance from policy levers or how social enterprise workshops and outreach programmes were first tested out in the Klang Valley region, before being replicated in other states.

Figure 06: Number of social enterprises established across time (comparison between SEs established within and outside the Klang Valley)



4.3 GEOGRAPHY OF OPERATIONS AND REACH

Figure 07: Location of social enterprises' headquarters by state



Most social enterprises operate within Malaysia, with 17 per cent describing themselves as working internationally. While some social enterprises operate across multiple states or on a national level, the majority of organisations focus their efforts within their own state or communities (38 per cent).

Social enterprises based within Klang Valley tend to operate on the national level while also having an impact on their immediate location of operations. Meanwhile, those based outside the Klang Valley tend to focus their efforts within their respective state of operations.

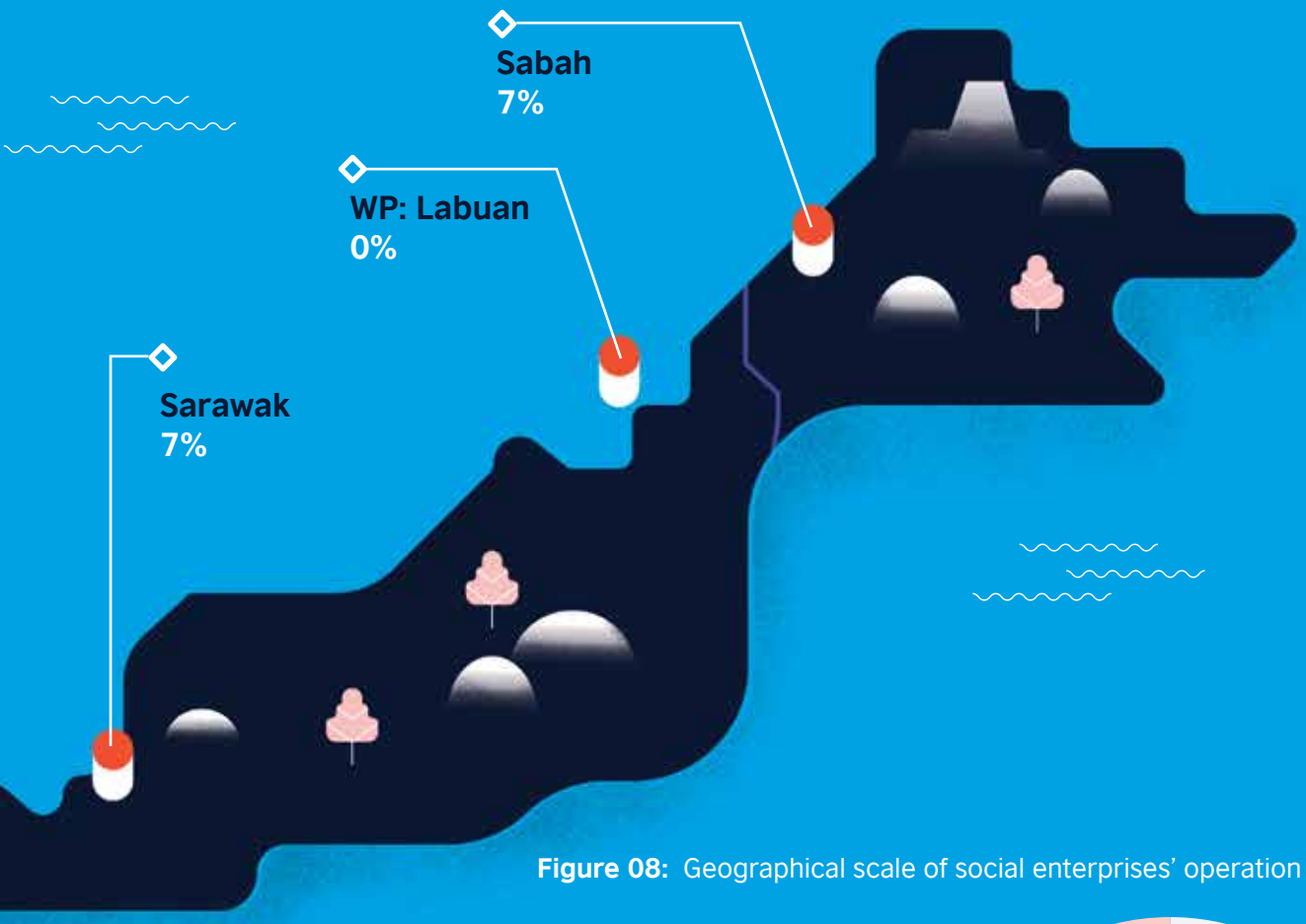


Figure 08: Geographical scale of social enterprises' operation

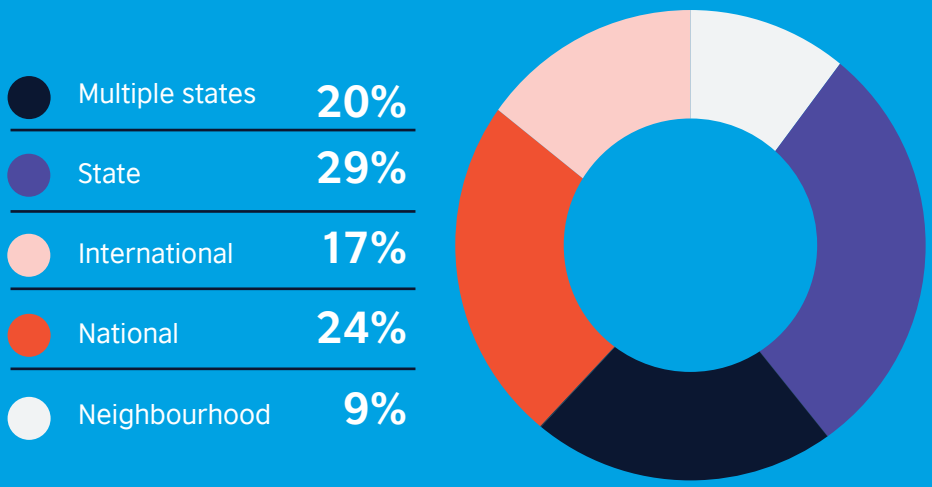


Figure 09: Geographical scale of social enterprises' operation (comparison between SEs established within and outside the Klang Valley)

Based on our workshop discussions and interviews with social enterprises, the heavy concentration of organisations within the Klang Valley is linked to the availability of a supportive ecosystem, such as incubator programmes, networking events, and access to investors. Organisations outside the Klang Valley report barriers to accessing such tools of support, including travel challenges and costs.

Organisations beyond the reach of Kuala Lumpur also voiced dismay at the perceived 'KL-centric' mindset of social enterprises and civil society organisations. There is a perception that KL-based actors see local players as uninformed about how to solve issues within their communities, despite their track record in carrying out grassroots work and deep understanding of the local context.

"Government and funders don't see that this (social purpose) is the right need we should tackle, but we are the ones on the ground and we know best what is the need (of the community)."

– participant, Kota Kinabalu SE workshop

© British Council

There is also a perception that funders tend to gravitate towards more 'well-known' (and usually KL-based) organisations to carry out work in these areas. This may have to do with funders feeling more secure with 'reliable brands' and preferring to work with organisations whose reach is at a national level.

CASE STUDY: JUNAIDA AZIZ, THE ONE-WOMAN ENABLER

A financial consultant with Noble Management & Consultancy, Junaida Aziz is more than just a trainer. The Kelantan native is a passionate advocate for social enterprise, particularly among women in her home state. By bringing together similar-minded people, Junaida has established an informal network of women who lean on each other for business opportunities, mentorship, and exchanging ideas.

© Junaida Aziz

Junaida's localised effort is a prime example of how small-scale initiatives plug in the gaps left by the larger ecosystem. Explaining that while Kelantan has an entrepreneurial culture, Junaida adds that "not many are aware of what social enterprise is... some also see it as another unnecessary label when they just want to get things done." This is further compounded by the lack of formal support programmes for social entrepreneurs, especially for those in rural areas, as well as a lack of exposure to technology and the possibilities beyond the immediate local market.

Junaida's primary aim with her networking activities is to create a pool of women who will be 'economic multipliers', by changing the mindsets of entrepreneurs from just making products to seeing themselves as service providers. She also places an emphasis on women from marginalised groups such as single mothers, who need support in their journey to becoming more financially independent.

4.4 LEGAL STATUS OF SOCIAL ENTERPRISES

As Malaysia lacks a distinct and clear framework for the registration of social enterprises, like in many other countries, organisations have to be creative in the way they formally register themselves.

Our findings show that most choose to register as a private company limited by shares (Sdn Bhd), with 43 per cent doing so. This is similar to past findings where 48 per cent of social enterprises were registered under this category [37]. The second most popular form of registration was sole proprietorship (19 per cent). These two choices are seen as the easiest to navigate and the least cumbersome in terms of paperwork and adherence to the law.

"Ideally, I'd like to register as an entity that would give me tax-exempt status, but it is troublesome to get approval from RoS (Registrar of Societies)."

– participant, Kota Bharu SE workshop

© British Council

A small number of organisations chose to not register themselves at all (seven per cent). Of these, many are operating as informal networks or hubs for specific communities. Several are also involved in causes that are seen as controversial in Malaysia, such as refugee and land rights; such organisations have a perception that legal registration would be a hindrance in the work that they do.

Figure 10: Legal registration structure of social enterprises in Malaysia

Approximately 11 per cent of social enterprises surveyed are registered as societies, a sharp decline from the 38 per cent who registered under this category four years ago [38]. The journey of registering as a society can be a long and complicated one. The RoS, which is the governing body for societies, institutes multiple checks on the authenticity of applicants. Societies are bound by more stringent rules, particularly around administrative processes, sources of funding, and distribution of profits, than other forms of incorporation.

37 State of Social Enterprise in Malaysia 2014/2015, MaGIC, 2015
38 State of Social Enterprise in Malaysia 2014/2015, MaGIC, 2015

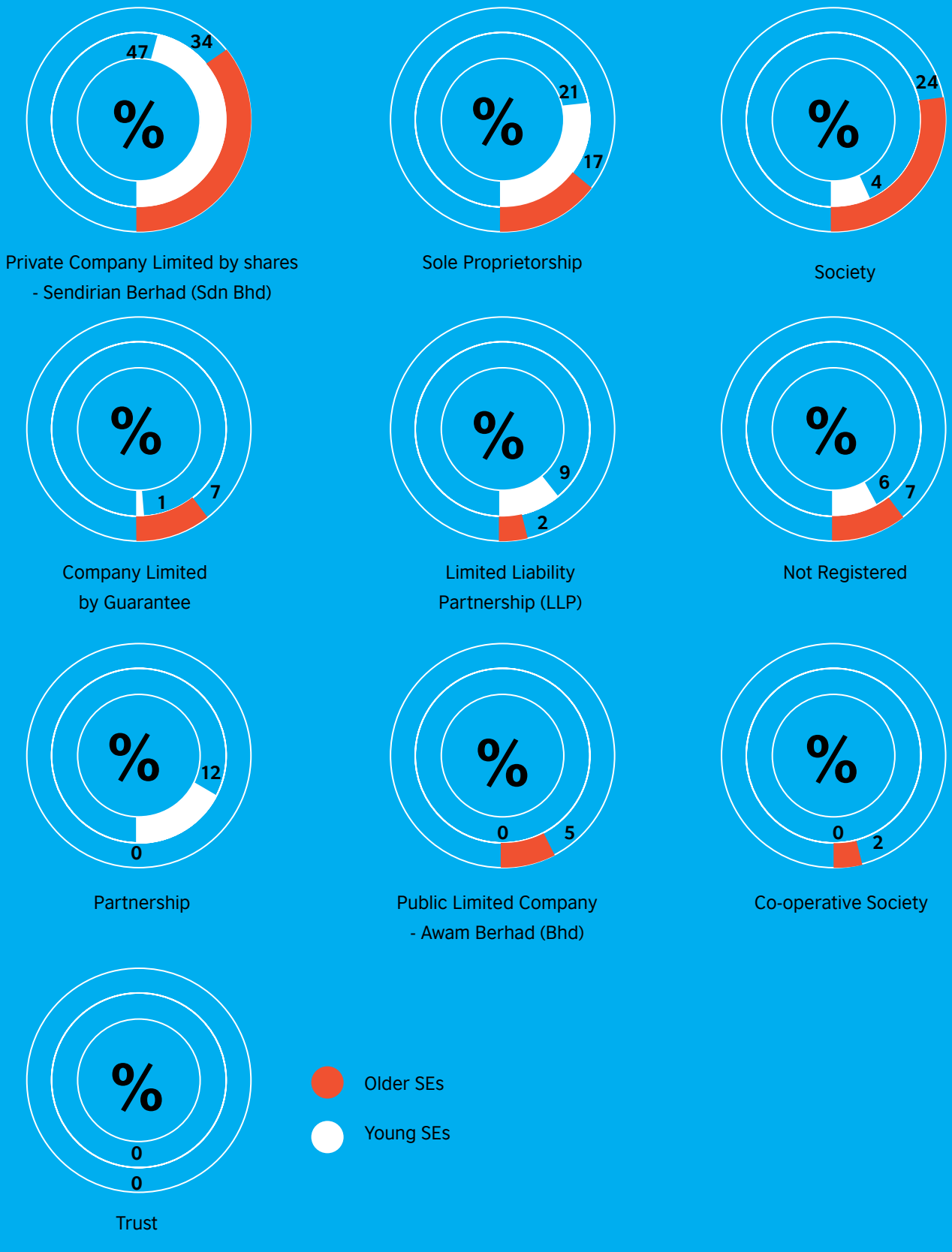
"Companies who offer grants will always look at tax exemption, and is a disadvantage to those who doesn't have the status."

– participant, Kota Kinabalu SE Workshop

These relatively strict parameters make it harder for social enterprises to reconcile their profit-making activities with serving their social causes. For instance, the RoS requires societies to spend 50 per cent of their revenue annually. Several social enterprises in Sabah expressed their difficulties of working within this timeframe, as this restricts them from rolling over funds towards another programme or initiative. This is further amplified by unexpected delays in grants or other payments.

Most social enterprises registered as societies are often quite well established, with almost a quarter (24 per cent) of older social enterprises under this category. These social enterprises might have started off as NGOs, before pivoting towards commercial activities to fund their work. This was reflected by organisations present at our workshop who reported that they had to start thinking about earning traded income in order to survive.

Figure 11: Legal registration structure of social enterprises in Malaysia (comparison between younger and older SEs) [6]



[6] In this report, young social enterprises are defined as social enterprises that were established in and after 2014. Older social enterprises are defined as social enterprises that were established in 2013 and before 2013.

4.5 AREA OF FOCUS (SECTOR)

4.5.1 Objectives

Survey respondents were asked about their key objectives; they were given the option of providing multiple answers. The most commonly reported objective was to create employment opportunities (34 per cent). Although Malaysia's unemployment rate has remained stable, hovering around three per cent for the past 10 years and standing at 3.42 per cent in 2017 [39], there are particular concerns in the country with regard to young people, both graduates and non-graduates, who have had trouble entering the job market. Youth unemployment in 2014 stood at 9.8 per cent, with the International Labour Organisation estimating that it rose to 10.8 per cent in 2017 [40][41].

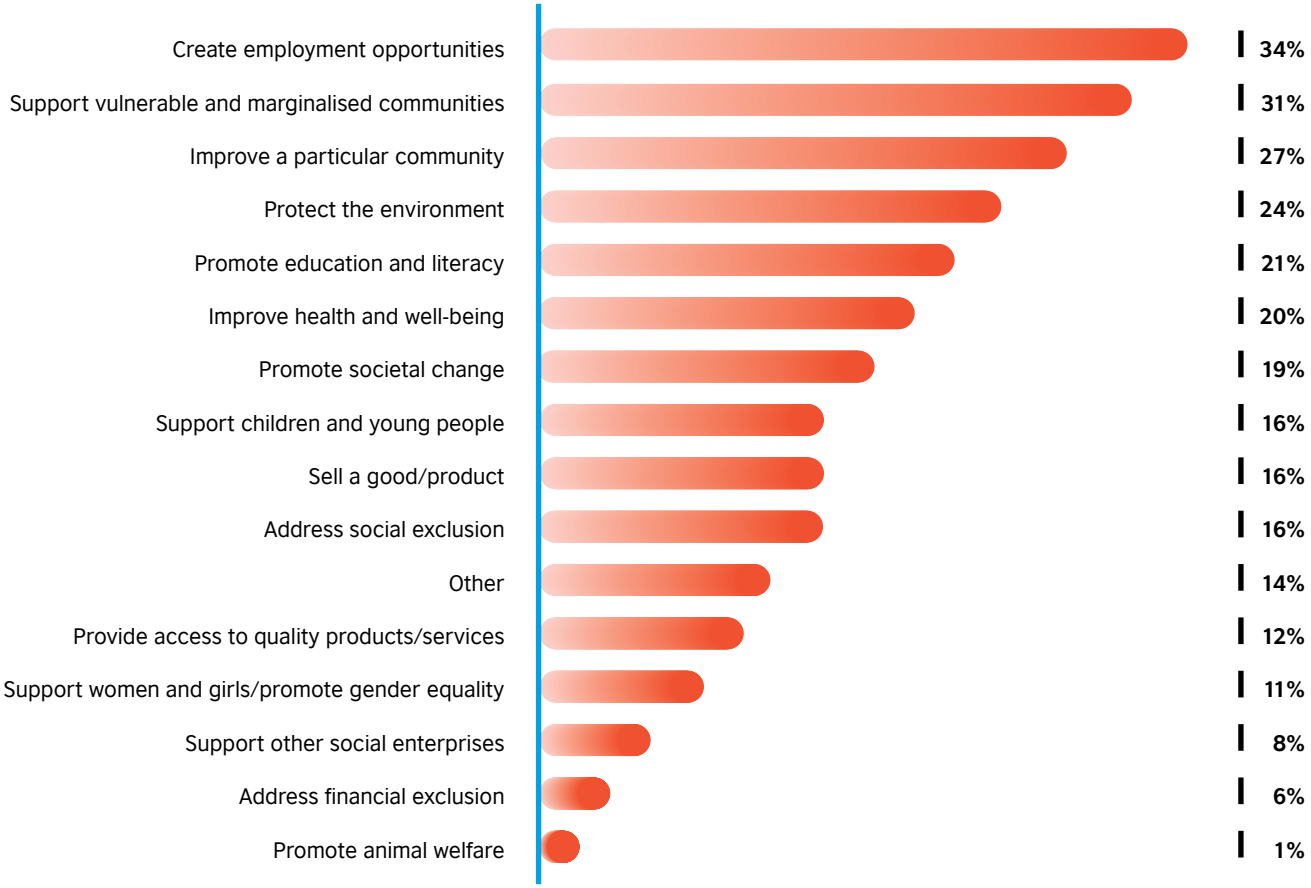
As such, this focus on job creation and skills development is not surprising.

The second most commonly reported objective was offering support to vulnerable and marginalised communities (31 per cent), followed by working to improve a particular community (27 per cent). Other common goals were environmental protection, promoting education and literacy, and improving health and well-being. Relatively few organisations dedicated themselves to promoting gender equality or addressing financial exclusion.

Volunteers and staff from EPIC Homes on a home-building project. © EPIC Homes

39 Labour Force Survey Report 2017, Department of Statistics, 2018
40 Labour Force Survey Report 2017. Department of Statistics, 2018
41 ILOSTAT database, ILO, 2018

Figure 12: Social enterprises' objectives



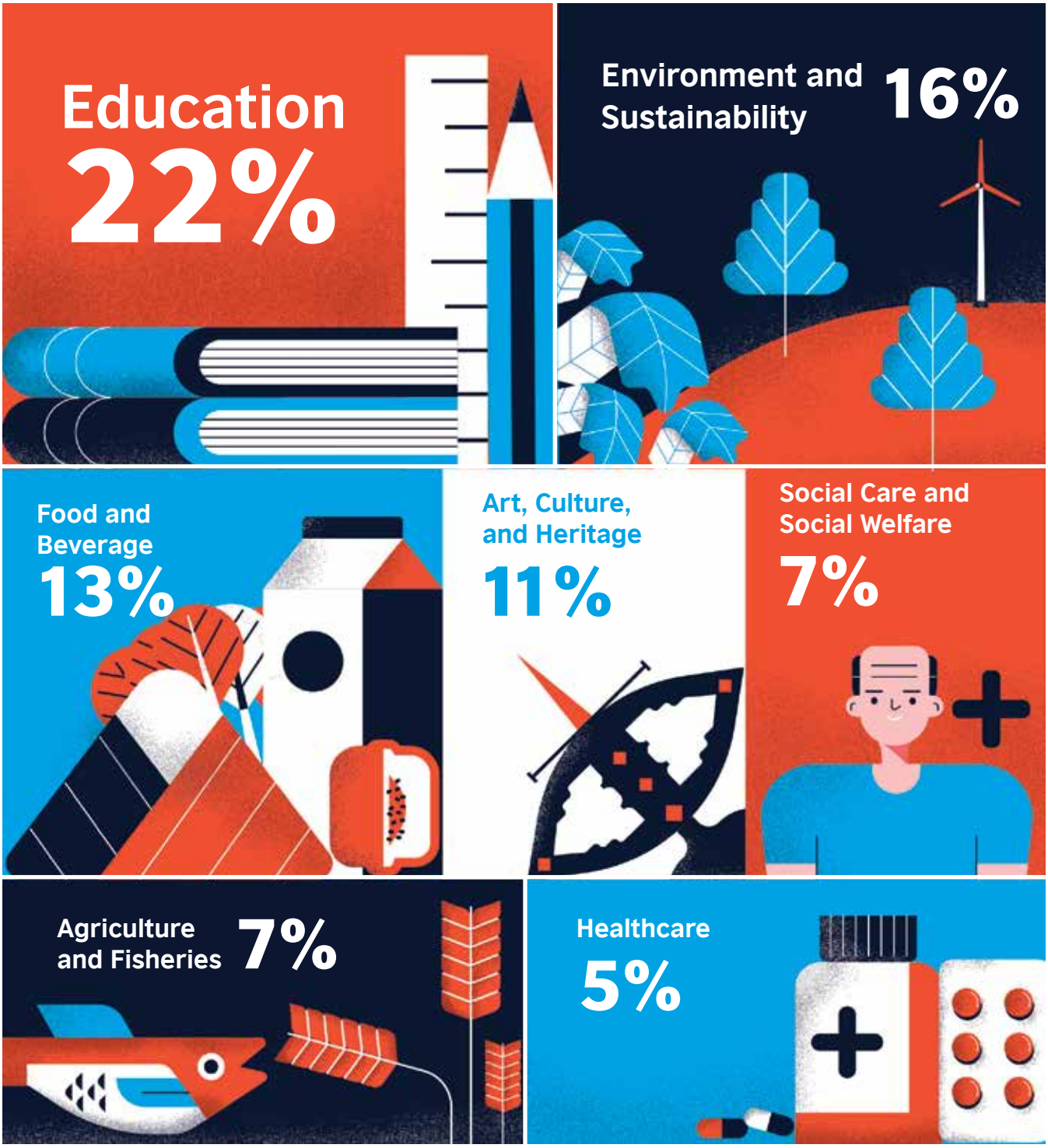
Newer social enterprises surveyed tend to focus on improving health and well-being, with 24 per cent of younger organisations focused on this area compared to 13 per cent of older social enterprises. This reflects a growing interest in wellness among the general population. The prevalence of obesity in Malaysia, at 13.3 per cent, is said to be the highest in the region [42] resulting in a number of public health campaigns from the Ministry of Health to raise awareness of non-communicable diseases (diabetes, heart disease, obesity, and cancer) [43].

42 Tackling obesity in ASEAN: Prevalence, impact and guidance on interventions, EIU, 2017
43 National Strategic Plan For Non-Communicable Disease 2016 - 2025, Ministry of Health, 2016

4.5.2 Sectors

The most common sector in which Malaysian social enterprises operate in is education, with 22 per cent of respondents working in this sector. A further 16 per cent of social enterprises operate in the environment and sustainability sector. These two sectors are the most common regardless of the age or location of social enterprises.

Figure 13: Social enterprise sector



The third most common sector is food and beverages (13 per cent), with younger social enterprises being more likely to operate in this space. This may be due to the sector's lower barriers to entry, making it more accessible for less experienced entrepreneurs.

Social enterprises operating outside the Klang Valley are more likely to work in the Arts, Culture, and Heritage sector (23 per cent of non-Klang Valley respondents). Considering that the Malaysian arts industry is heavily concentrated within the Klang Valley, these social enterprises may be attempting to introduce and grow arts-based opportunities in their respective localities.

However, these results may not fully represent all the sectors social enterprises are operating in, particularly those who are less likely to view themselves as enterprises. This includes recreational associations, such as sports or hobby clubs, and faith-based organisations.

Community organisers from PACOS Trust at their nursery garden, which is used to educate the local community about sustainable agriculture. © British Council

CASE STUDY: PANGROK SULAP

Set up in 2010, Pangrok Sulap is a Sabah-based arts collective that promotes the arts both as a means for self-expression and societal change, as well as for economic benefit. The collective primarily works with young people and marginalised communities, teaching them arts-based skills such as t-shirt printing with the purpose of creating marketable products. Their approach is a collaborative one, working together with beneficiaries and local craftsmen to identify local arts and crafts that can be sold in the wider Malaysian market. Profits are then channelled back into the community.

True to its name, which means "punk rock hut" in the indigenous Dusun dialect, Pangrok Sulap has battled infamy and censorship from the authorities for their own artistic work. The group is particularly known for its woodcut prints, which starkly highlight local issues faced by the indigenous peoples of Sabah such as illegal logging, corruption, land grabs, and poverty. Pangrok has seen its artwork taken down from galleries, faced threats by authority figures, and had exhibitions shut down overnight.

© British Council

Their experience is a familiar one to other Malaysian rights-based organisations who face similar censorship for speaking up about issues deemed as "controversial". As a result, Pangrok has had a hard time attracting investment or receiving government-based grants.

In the current political climate, however, the group has expressed optimism for their future work. Following the 2018 general election, there has been increased public support and a fewer clampdowns on their art – and more importantly, their work with indigenous communities. Recently, the group even had one of their previously banned artworks published on the front page of a national newspaper – something unthinkable just a year ago.

4.6 SOCIAL IMPACT

4.6.1 Organisational mission

Over half of the survey respondents reported that they place an equal emphasis on profit and their respective social or environmental mission (60 per cent), while 38 per cent reported that their social or environmental mission was their primary focus. Two social enterprises reported that profit was their priority while reporting that the majority of their profits are directed or reinvested into a social or environmental purpose.

Figure 14: Primary focus of the organisation

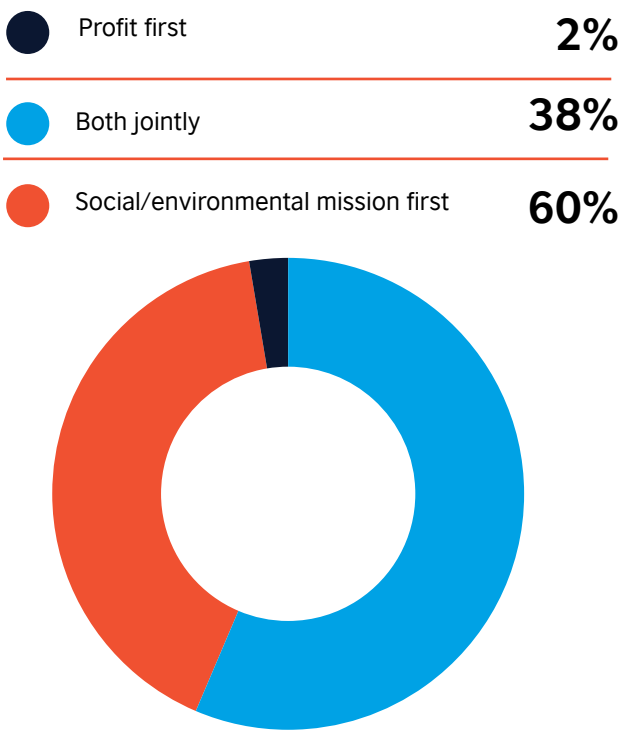
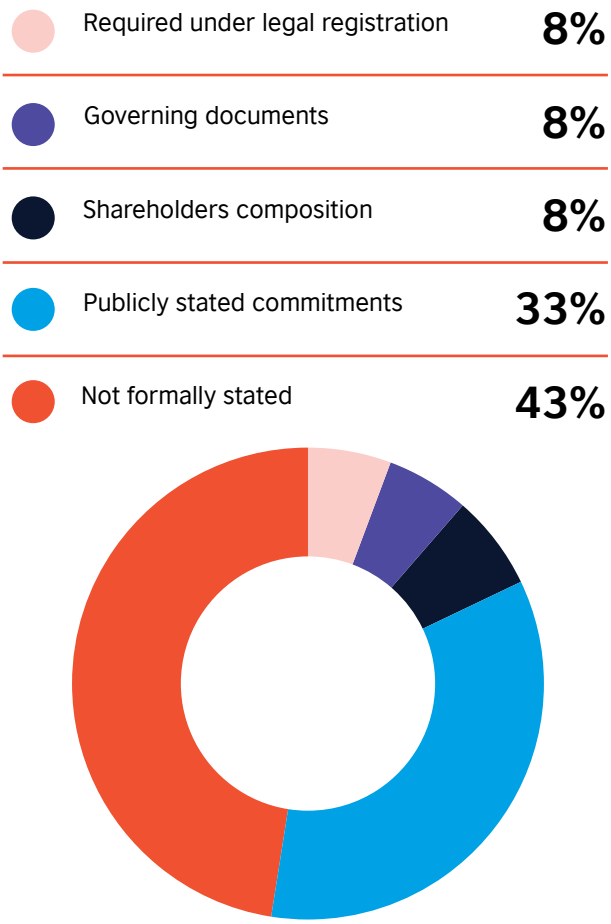


Figure 15: How organisations formalise their social commitment



One third (33 per cent) of social enterprises have publicly stated their commitment to a social or environmental purpose but most have not formalised their commitment to their organisation's mission. Only a quarter of social enterprises have legal documentation that formalises their commitment. Of these, the formal commitments were made either because it is a requirement for legal registration (eight per cent); as a part of their governing documents (eight per cent); or it is reflected in the shareholders' composition (eight per cent).

While social entrepreneurs may often have good intentions, funders and investors suggested in discussions that they are sometimes sceptical about whether they have a genuine commitment to a social or environmental cause. Funders identified a frequent lack of public or formalised pledge to a social mission. Public opinion can also sometimes suggest that entities doing social good should not be simultaneously making a profit. Social entrepreneurs in our workshops discussed how this was a recurring stumbling block when seeking funding and recruiting volunteers.

> *"I have found it hard to even discuss it with people, because the minute I bring up making money, they look at me like I'm being opportunistic and up to no-good."*
>
> **— social entrepreneur, Kelantan**

> *"A lot of volunteers have the mindset that should be with 'I'm a volunteer.' When money gets involved, things change - it turns a lot of people off."*
>
> **— social entrepreneur, Sabah**

This concern emerges against a background of distrust by the general public of the country's various societal institutions. In 2017, only a slim majority of Malaysians said they trusted businesses (58 per cent) and NGOs (56 per cent), although this was ahead of trust levels in the government (37 per cent) and the media (42 per cent) [44]. Following the recent general election, however, optimism in all institutions seems to have increased slightly [45].

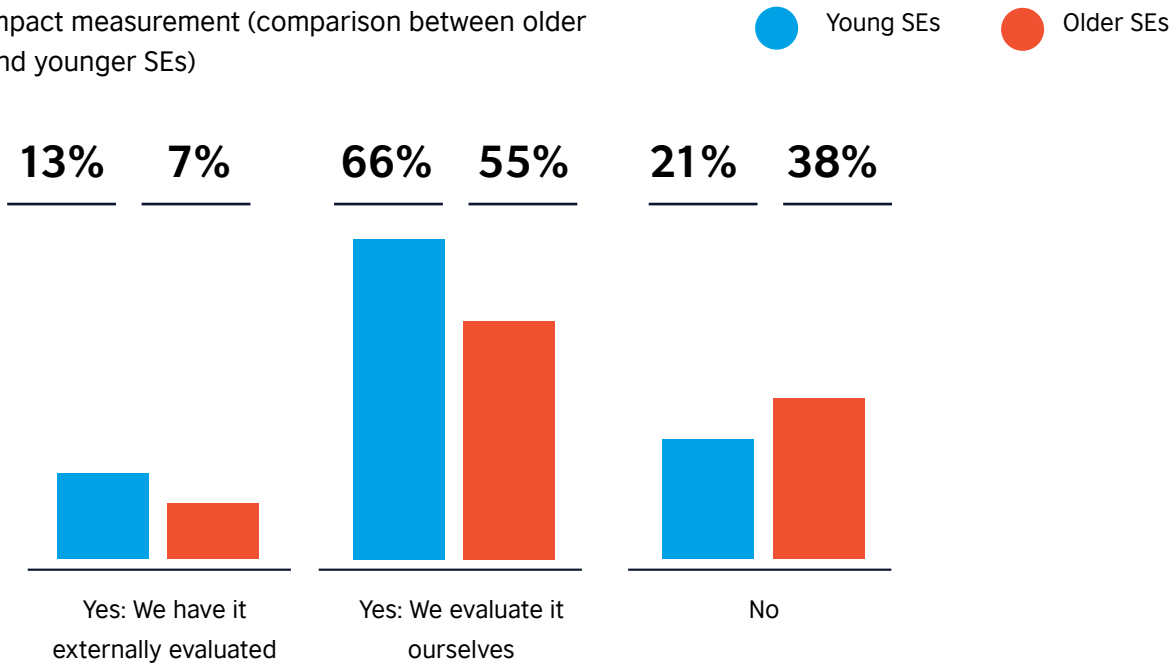
44 Edelman Trust Barometer 2017, Edelman, 2017
45 Edelman Trust Barometer 2018, Edelman, 2018

4.6.2 Social impact metrics

Most social enterprises say they evaluate their social impact. The bulk of these carry out their own evaluations (62 per cent) while a small number employ external parties to assist in evaluating their social impact (11 per cent). Over a quarter of social enterprises (27 per cent) stated that they do not measure their social impact.

Previously, many organisations reported that the primary reasons preventing them from measuring social impact revolved around a lack of capacity to do so, as well as insufficient data [46].

Figure 16: Impact measurement (comparison between older and younger SEs)



Newer social enterprises are more likely to have social impact assessment systems or processes in place, be they self-evaluations or externally measured efforts. This could be due to an increasing number of funders and eco-system enablers (those who help grow social enterprises, such as incubators and support organisations) requiring some form of impact measurement as a condition of support.

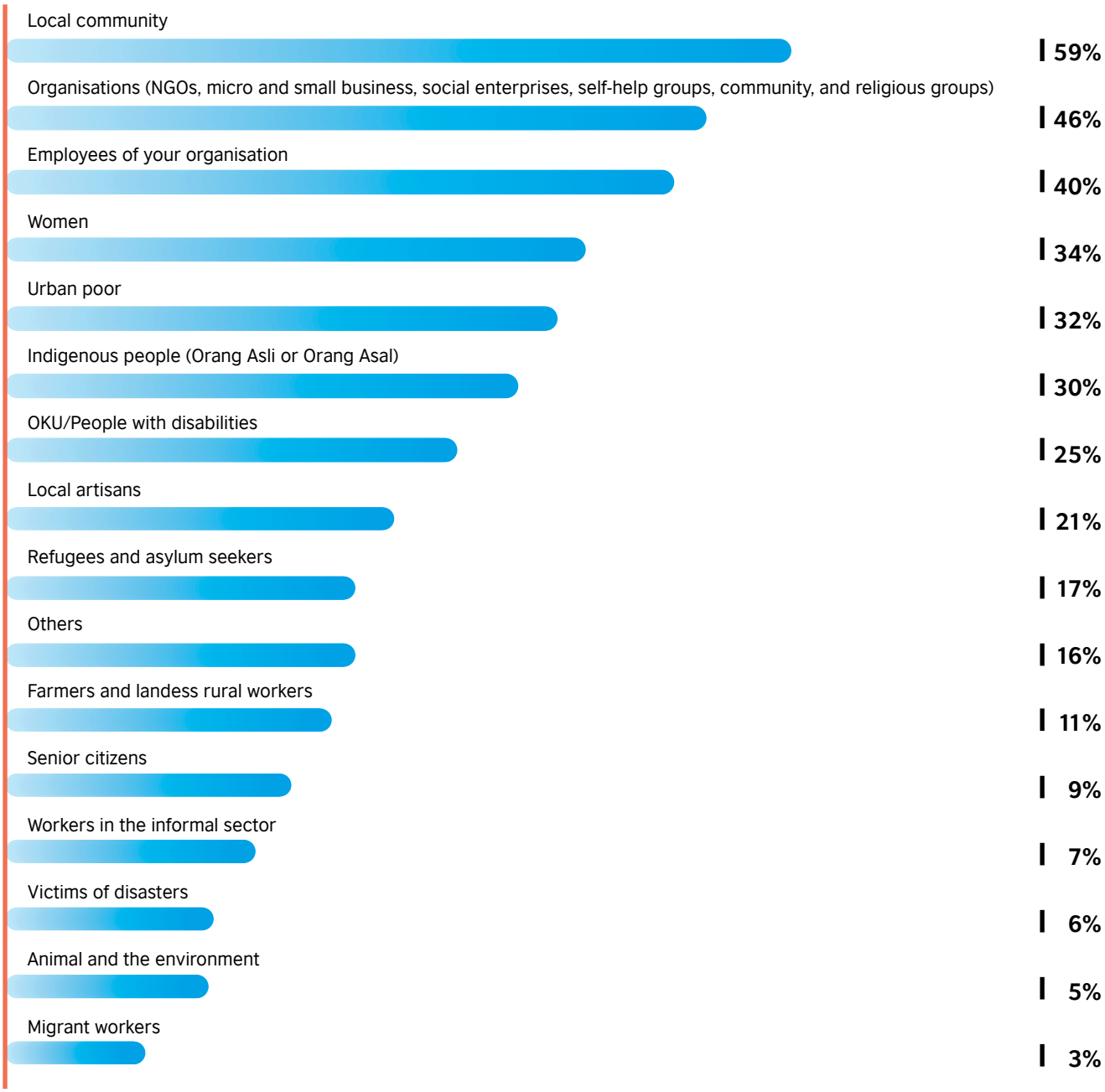
Funders in our workshops and discussions suggested that increasingly, grant-awarding organisations are developing their own impact assessment checklists or tools in order to evaluate the reach and sustainability of the social enterprises they support. As a result, social enterprises report that they are under more pressure to deliver these metrics, but that the complexity of such assessments is often beyond their capacity. Furthermore, if they receive support from more than one organisation, the lack of a standardised approach creates additional work.

46 State of Social Enterprise in Malaysia 2014/2015, MaGIC, 2015

4.6.3 Beneficiaries

Survey respondents were asked about their primary beneficiaries. The majority of social enterprises reported that their beneficiaries were within the local community (59 per cent). The second most frequent group of beneficiaries, selected by 46 per cent of respondents, were other organisations such as NGOs, micro and small businesses, fellow social enterprises, as well as community and religious groups. Around 40 per cent of social enterprises included their own employees as their primary beneficiaries.

Figure 17: Types of direct beneficiaries supported by social enterprises



Social enterprises which participated in the survey have supported an average of 205[7] direct beneficiaries each. Yet many organisations are still operating at a small scale, with over half (59 per cent) of the social enterprises surveyed directly benefitting between one to 100 beneficiaries in the last 12 months.

The majority of social enterprises believe that replicating their successful initiatives, products, or services will help increase their social impact in the future (44 per cent). A high number of respondents also identified network and partnership building as a way in to improve their social impact (32 per cent).

Relatively few organisations, however, identified the need to analyse the root cause of the social issue they were addressing (five per cent). As many Malaysian social enterprises are still operating on a small scale, with limited resources, the primary aim of many organisations is simply to address the immediate problems at hand.

Volunteers at river clean-up organised by Fuze Ecoteer. © Fuze Ecoteer

[7] Our estimations use the mean of the range selected as the absolute number to multiply with the organisation that falls within the particular range. This is because survey respondents only selected a range of the number of beneficiaries they have helped. For organisations who reported benefitting over 1,000 beneficiaries, our estimation only selects the minimum in the range (1,001) as the absolute number to prevent an overly inflated total.

Figure 18: How organisations plan on increasing their social impact

Cross-cutting: Seeking new resources	4%
Scaling up: Developing new policies and/or laws and advocating for new sources of funding	4%
Cross-cutting: Analysing root causes and commit to regular evaluation and learning of the problem/ solution	5%
Scaling-deep: Establishing communities of practice to support the translation of new beliefs into practice	11%
Cross-cutting: Building network and partnerships	32%
Scaling-out: Replicating successful initiatives/ products/services to impact more people or communities	44%

4.7. JOB CREATION FROM SOCIAL ENTERPRISES

Malaysian social enterprises are operating with relatively small teams, with the average social enterprise employing seven full-time staff and four part-time staff.

There are a few outliers, mostly more established organisations, that have larger teams of over 20 people. One social enterprise currently employs 101 full-time staff.

Social enterprises in Malaysia are creating jobs, fast. According to our survey, job creation has increased between 2017 and 2018, by 23 per cent for full-time employees and by 33 per cent for part-time staff. A good number of these jobs are also going to women, with a 20 per cent increase in full-time female staff from 2017 to 2018.

The slightly larger increase in part-time job creation is also reflected in a shift towards more hybrid teams of full-time and part-time staff. In 2018, 61 per cent of the social enterprises surveyed have a mixture of full-time and part-time members in their team, compared to just 49 per cent in 2017. This reflects broader economic shifts, namely the growth of the gig economy.

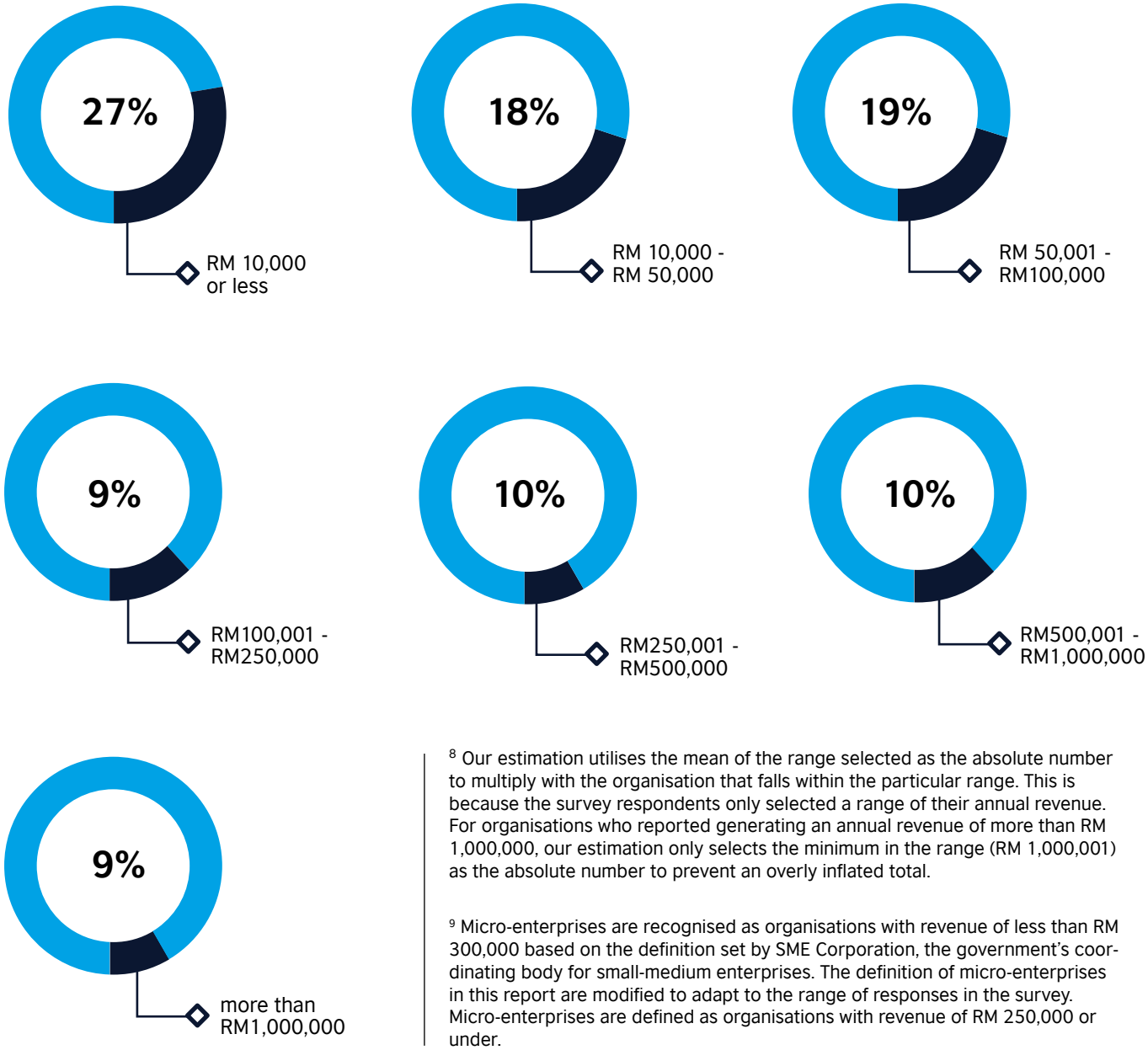
More social enterprises are moving away from being purely founder-run organisations. While 15 per cent of social enterprises were run solely by their founders in 2017, only five per cent report being founder-run in 2018. This reflects the growing maturity of the sector. It also suggests that more social enterprises recognise the value of growing their teams and succession planning to maintain the sustainability of their organisations – and are able to do so.

4.8. PROFITS

4.8.1 Revenue and turnover expectations

In 2017, social enterprises surveyed generated an average revenue of RM 234,071[8] (USD 56,010). More than two-thirds of social enterprises (72 per cent) are still operating as micro-enterprises[9], generating an annual revenue of RM250,000 or under. This closely mirrors the SME sector, where 76 per cent of businesses classified as micro-enterprises [47].

Figure 19: Annual revenue of social enterprises in 2017



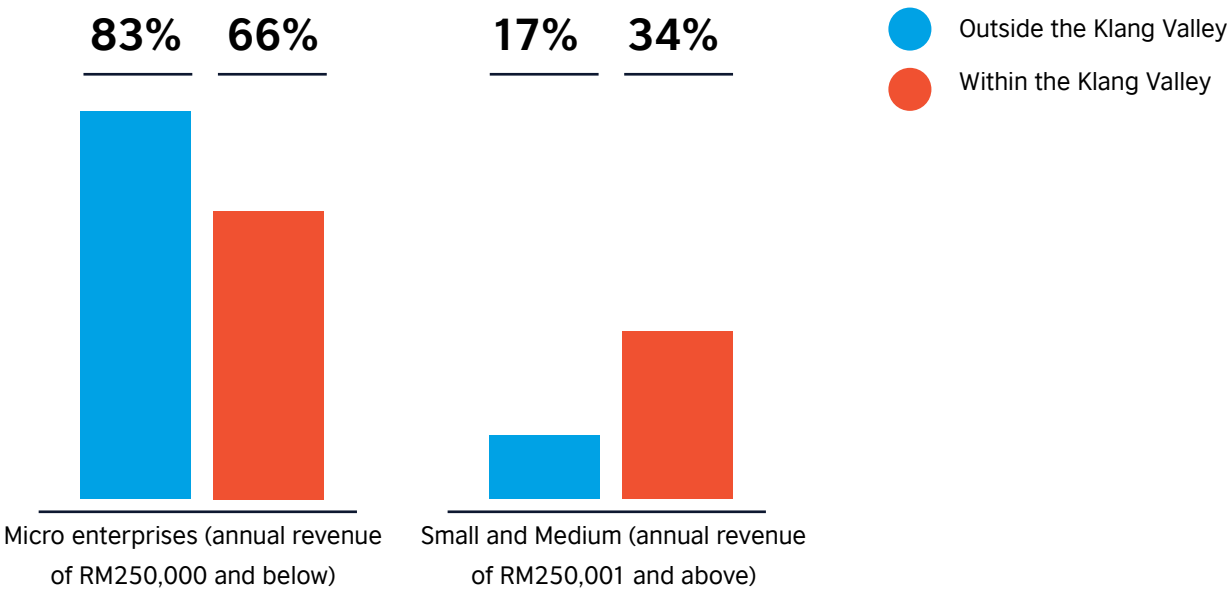
[8] Our estimation utilises the mean of the range selected as the absolute number to multiply with the organisation that falls within the particular range. This is because the survey respondents only selected a range of their annual revenue. For organisations who reported generating an annual revenue of more than RM 1,000,000, our estimation only selects the minimum in the range (RM 1,000,001) as the absolute number to prevent an overly inflated total.

[9] Micro-enterprises are recognised as organisations with revenue of less than RM 300,000 based on the definition set by SME Corporation, the government's coordinating body for small-medium enterprises. The definition of micro-enterprises in this report are modified to adapt to the range of responses in the survey. Micro-enterprises are defined as organisations with revenue of RM 250,000 or under.

47 Economic Census 2016, Department of Statistics, 2017

Social enterprises outside the Klang Valley (83 per cent) are more likely to operate as micro-enterprises compared to those within the Klang Valley (66 per cent).

Figure 20: Scale of operations in terms of turnover (comparison between SEs within and outside the Klang Valley)

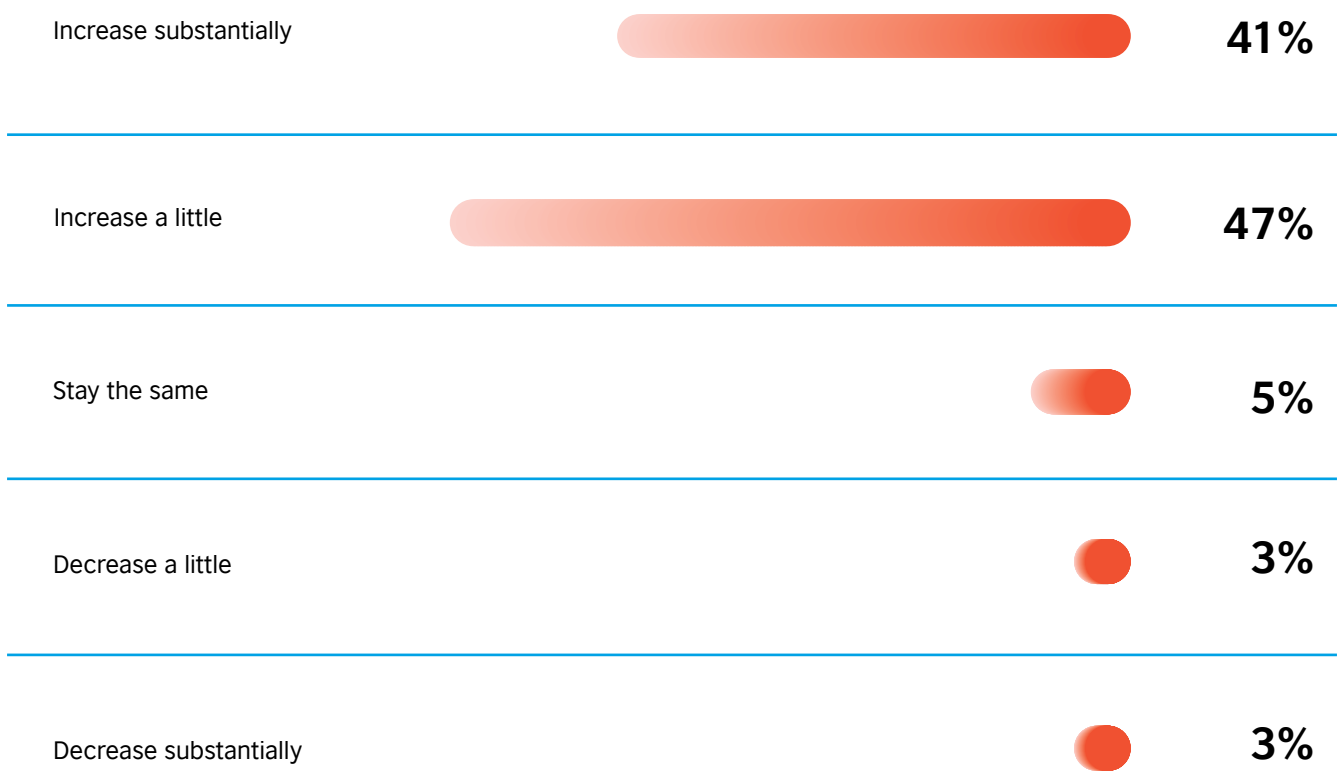


Malaysian social enterprises are optimistic. In terms of their prospects for revenue generation, a majority of organisations are expecting their revenue to increase a little (47 per cent) or increase substantially (41 per cent) in the coming year. Only six per cent expect it to decrease.

Similarly, SMEs in Malaysia remain cautiously optimistic about the near future. Despite a readjustment of the economic outlook of Malaysia from five per cent in 2018 to 4.9 per cent for 2019 [48], there are plans for ample government support for SMEs in terms of productivity and capability development. The 2019 Malaysian Budget for instance, has outlined a range of measures to boost SME growth, including tax exemptions and specialised loan schemes to encourage "Industrial Revolution 4.0" [49].

48 Economic Outlook 2019, Ministry of Finance, 2018
49 Malaysia Budget 2019, Ministry of Finance, 2018

Figure 21: Expected changes in revenue



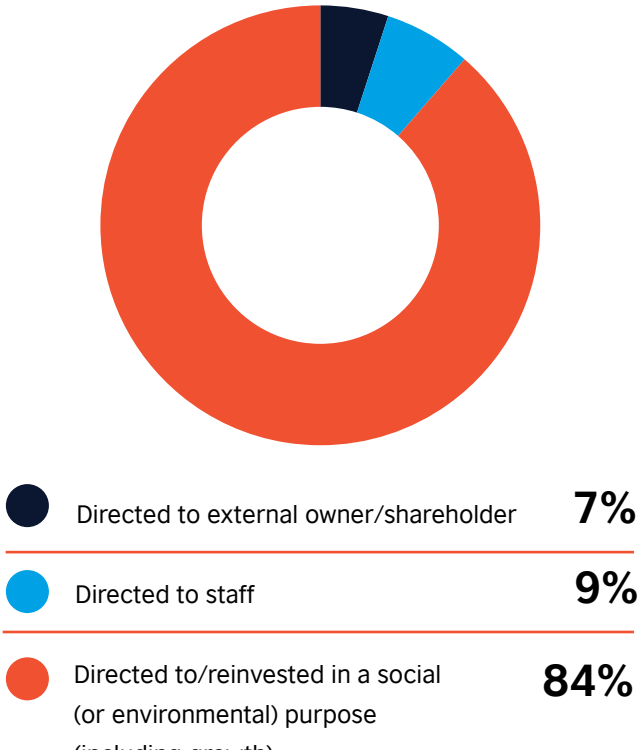
A teacher from the SK(C) Anglo Chinese primary school explains the school's oyster farm project, in Kota Kinabalu, Sabah. © British Council

4.8.2 Profit and surplus use

Social enterprises in Malaysia are largely viable and successful businesses. Slightly over one-third of respondents are making a profit (37 per cent), while 32 per cent of social enterprises are breaking even. However, 31 per cent of respondents say that they have yet to generate profits.

Figure 22: Do social enterprises make a profit?

Figure 23: Profit utilisation



This appears to be a more positive picture than for SMEs in general. According to Malaysia's SME Masterplan 2012 - 2020, 42 per cent of enterprises registered in 2000 closed down by 2005 [50]. While more recent and concrete data on the failure rate of SMEs is unavailable, researchers estimate that this may be anywhere between 40 per cent to 60 per cent [51].

Of the profitable social enterprises, 84 per cent allocated their surpluses towards a social or environmental purpose.

Relatively few organisations redirected their profits to staff (nine per cent) or to external owners/shareholders (seven per cent). As these organisations prioritised their social/environmental missions over profit, or placed an equal emphasis on both their social purpose and profit, they are still classified as social enterprises for the purposes of this report. In this case, their staff or external owners and shareholders are the direct beneficiaries of the organisation's social cause.

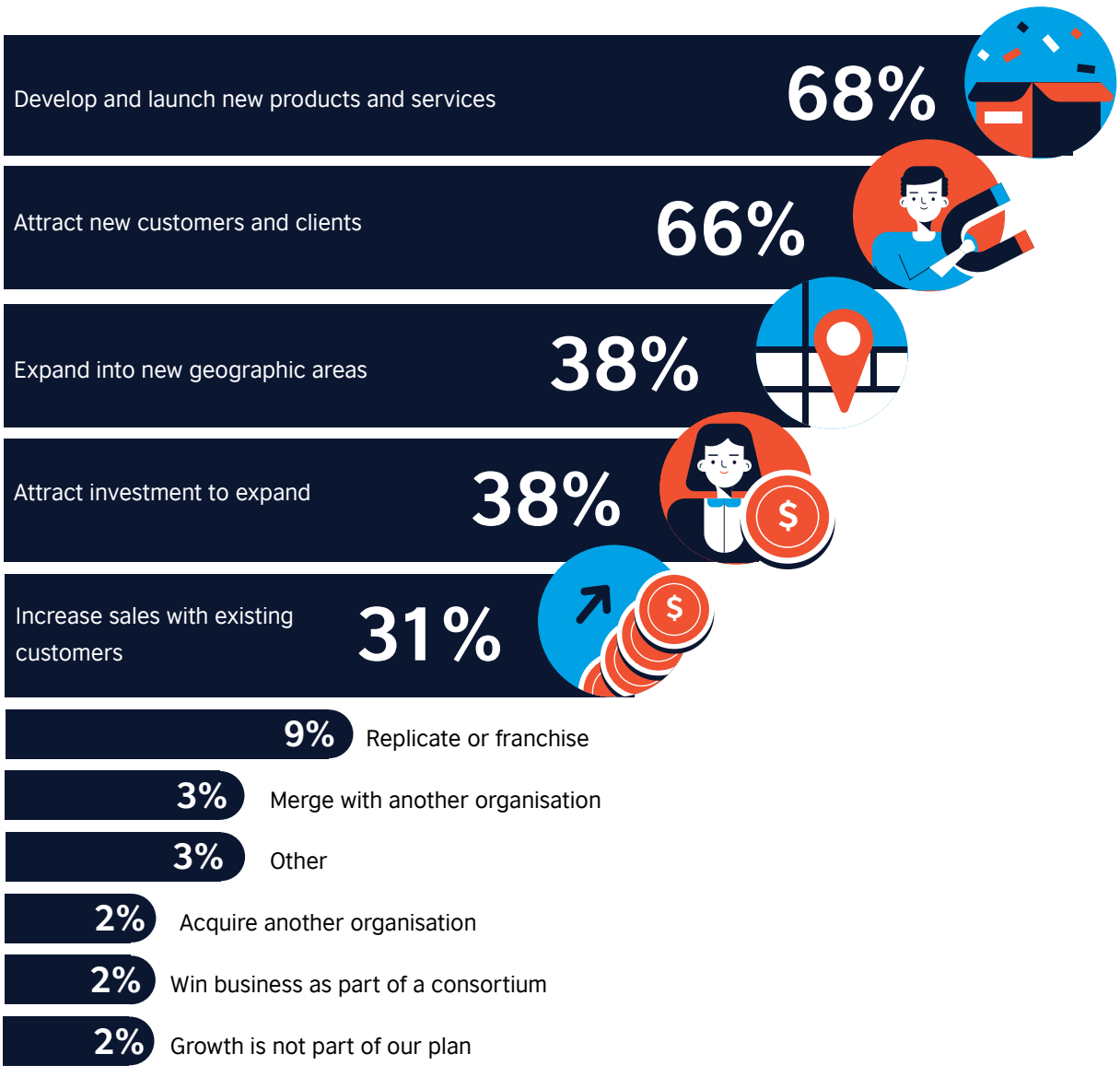
50 Economic Census 2011, Department of Statistics, 2012
51 Yusoff, Tairuddin & Abdul Latiff, Ahmad & I W Osman, Suzana & M.Z, Nur & Fazal, Syed & Abdul Wahab, Prof Dr Sazali. Sustainable Growth in SMEs: A Review from the Malaysian Perspective, 2018

4.9. GROWTH PLANS AND BARRIERS

4.9.1 Growth plans

Almost all social enterprises have plans for scaling (98 per cent). The most popular growth strategies are introducing new products and services (68 per cent) and attracting new clientele (66 per cent). Social enterprises are also keen on expanding into new locations (38 per cent), drawing in more investment (38 per cent), and increasing their sales among existing customers (31 per cent). At the other end of the spectrum, far fewer were interested in collaborating or merging with other organisations to expand their operations (seven per cent).

Figure 24: Social enterprises' growth plans



4.9.2 Barriers to growth

Survey respondents were asked to rate their barriers to growth. Multiple responses were allowed.

Malaysian social enterprises rate cash flow issues as one of their biggest challenges (55 per cent). This is slightly higher than for SMEs in general, with around 44 per cent of micro and small enterprises reporting that cash flow and liquidity issues were their main barriers to growth [52].

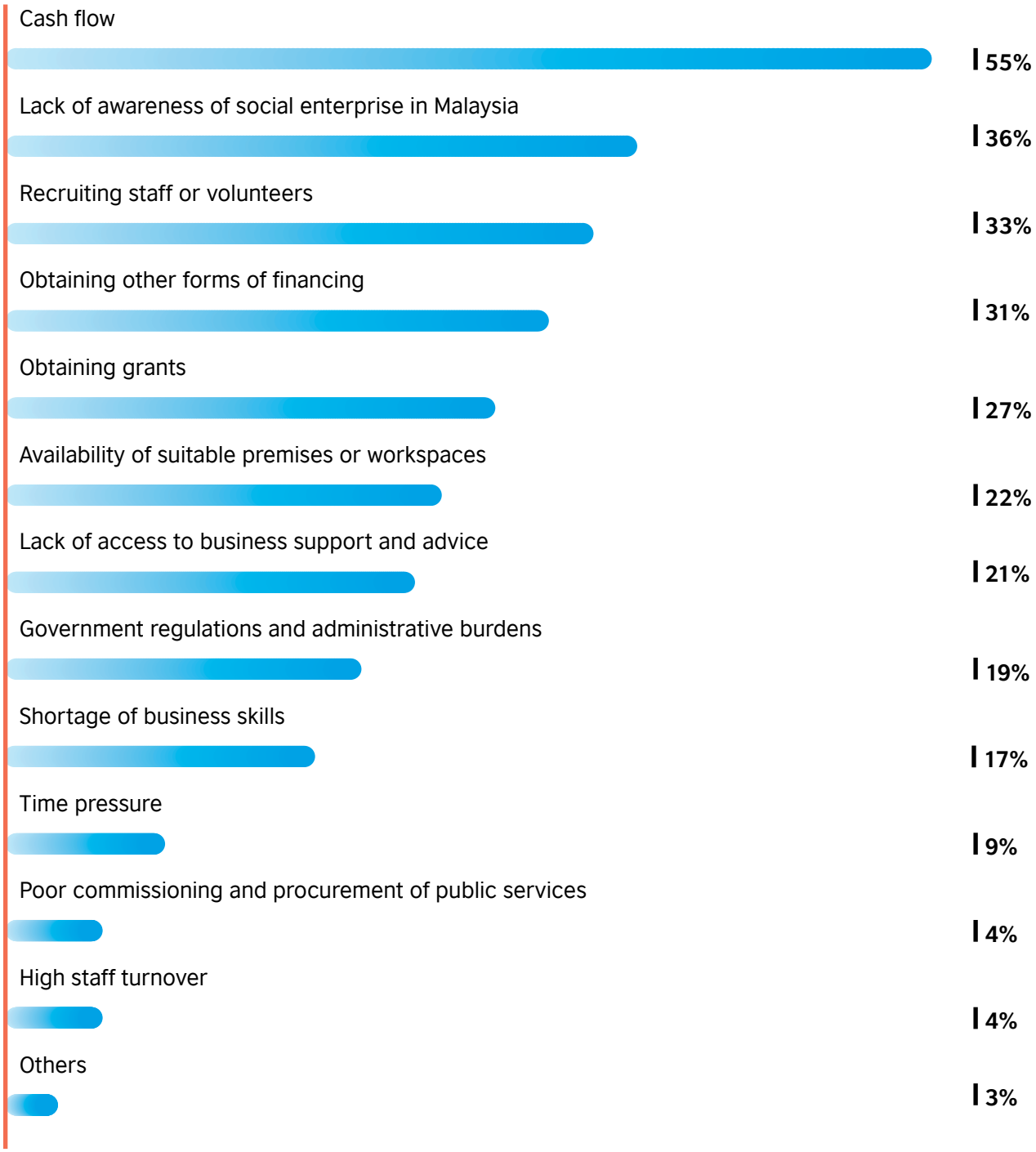
Social enterprises also reported that the lack of awareness of social enterprise in Malaysia (36 per cent), challenges in recruiting staff or volunteers (33 per cent), and difficulty in obtaining other forms of financing (31 per cent) and grants (27 per cent) have hindered growth opportunities. These challenges were similar to those reported in the 2014 study [53].

"Staff retention is an issue because of commitment and money – people were really unhappy with how little they were being paid."
– participant, Kuala Lumpur SE Workshop

"People are on board with the mission of my social enterprise. But the minute they know we want to make a profit, they think I'm a charlatan."
– participant, Kota Bharu SE Workshop

52 SME Annual Report 2016/2017, SME Corporation Malaysia, 2017
53 State of Social Enterprise in Malaysia 2014/2015, MaGIC, 2015

Figure 25: Barriers to growth



Cash flow, the lack of awareness of social enterprise in Malaysia and recruiting staff or volunteers remain the top challenges regardless of how well established an organisation is. However, a higher percentage of older social enterprises (31 per cent) reported that the shortage of business skills are a barrier to growth compared to younger social enterprises (10 per cent).

This might reflect the efforts of intermediaries and enablers in building the social enterprise ecosystem through accelerator and incubation programmes. Large numbers of younger social enterprises have come through such programmes, perhaps giving them an upper hand in terms of business skills, with greater access to training and mentorship compared to their older counterparts.

At the other end of the scale, a higher percentage of younger social enterprises (27 per cent) reported the unavailability of suitable premises or workplace as hindering their growth compared to older social enterprises (14 per cent).

4.9.3 Support for growth

Social enterprises can face twice the challenges of 'traditional' start-ups, as they are aiming to build both a viable business and an organisation that creates social impact. Enablers and intermediaries have made a range of efforts to help social enterprises overcome these challenges, with training and mentorship as common interventions.

In our survey, half of the social enterprises reported benefitting from mentoring or coaching. Incubation or accelerator programmes (43 per cent) and training (36 per cent) were also amongst the support that they found beneficial.

Figure 26: Support programmes that have benefited social enterprises

CASE STUDY : B-TOP SPORTS ACADEMY

A family-led social enterprise founded in 2016, B-TOP Sports Academy runs sports programmes for marginalised youth in the rural town of Bachok, Kelantan. The organisation's primary goal is to use sports as a tool to keep young people interested in continuing their schooling and to build their self-confidence.

© British Council

Kelantan suffers alarming rates of drug addiction, and the state has one of the highest rates of drug misuse among young people in the country. The toll is particularly harsh on youth from marginalised communities as they are also more likely to be involved in crime and have much higher rates of dropping out of the school system.

Through its football, softball, and archery lessons, B-TOP aims to give young people a healthy outlet, while encouraging better communication between its young participants and their parents. These programmes have sparked results in just two years, with teachers reporting better school attendance and improved test scores among participating students.

B-TOP's founder, Rudie Yaakub, credits the organisation's success to the mentoring support he has received from various incubator and accelerator programmes. "I didn't even know we qualified as a social enterprise," says Rudie, who left the corporate sector to run B-TOP full-time.

"Getting into the MaGIC incubator programme opened up doors - it wasn't just the mentoring and coaching, it was also getting the right contacts. By meeting people there, I learnt about other funding sources, and it was easier to convince people to give you money when they have met you in person. But it also meant a lot of travelling to Kuala Lumpur - not many people who live here (Kelantan) can afford the time and money to do this," he adds.

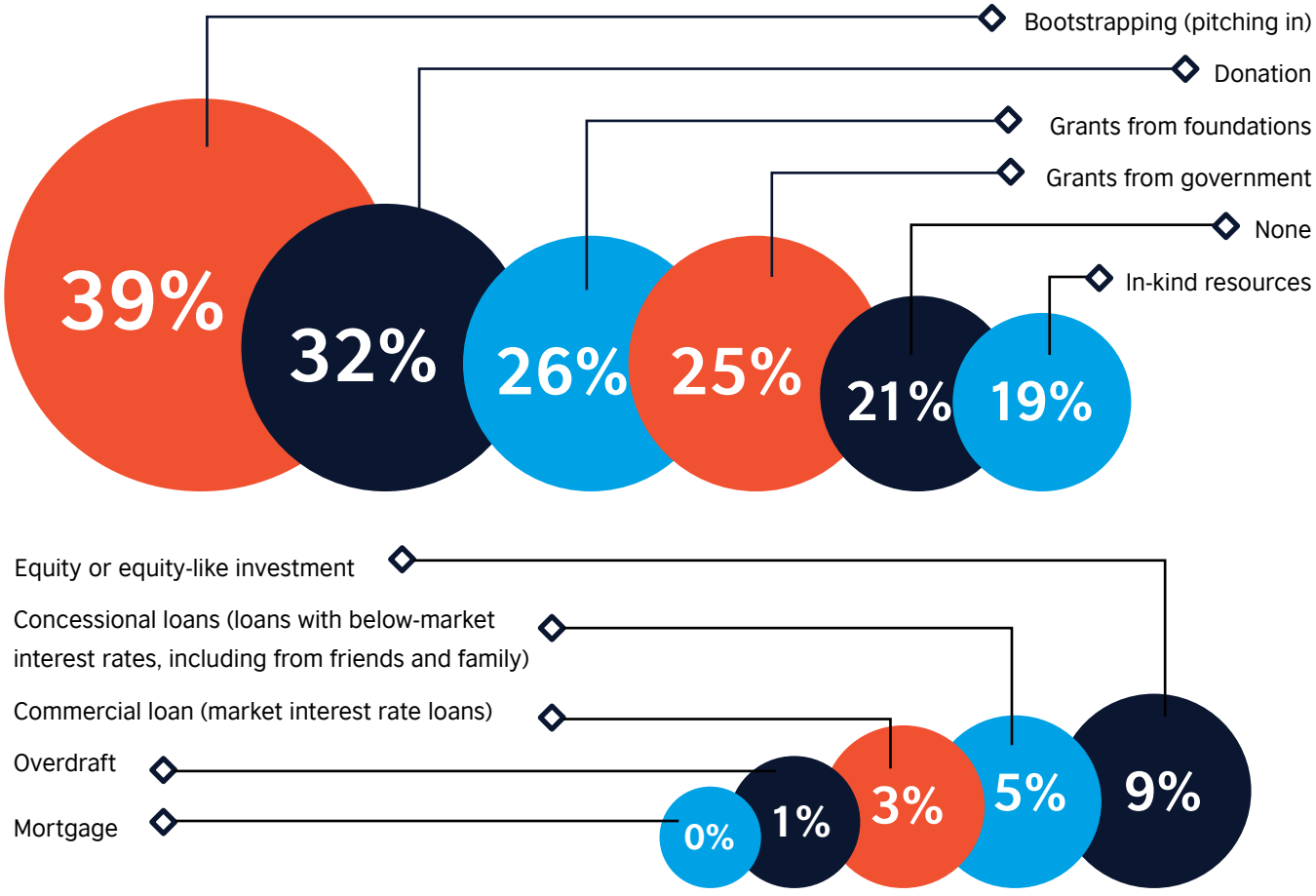
4.10. FINANCE SOURCES AND CONSTRAINTS

4.10.1 Sources of funding and finance

Survey respondents were asked about their sources of funding for 2017, with multiple responses allowed. The most common source of funding was bootstrapping (39 per cent), with many social entrepreneurs pitching in their own resources to start their ventures or sustain their operations.

Social enterprises have also drawn upon external funding sources for their ventures, with 32 per cent utilising donations, 26 per cent receiving foundation grants, and 25 per cent receiving grants from government. However, some 57 per cent of all respondents said that they have not received any form of grant. Twenty-one per cent of respondents said they did not receive or raise any form of external funding in 2017.

Figure 27: Forms of finance and funding of social enterprises in 2017

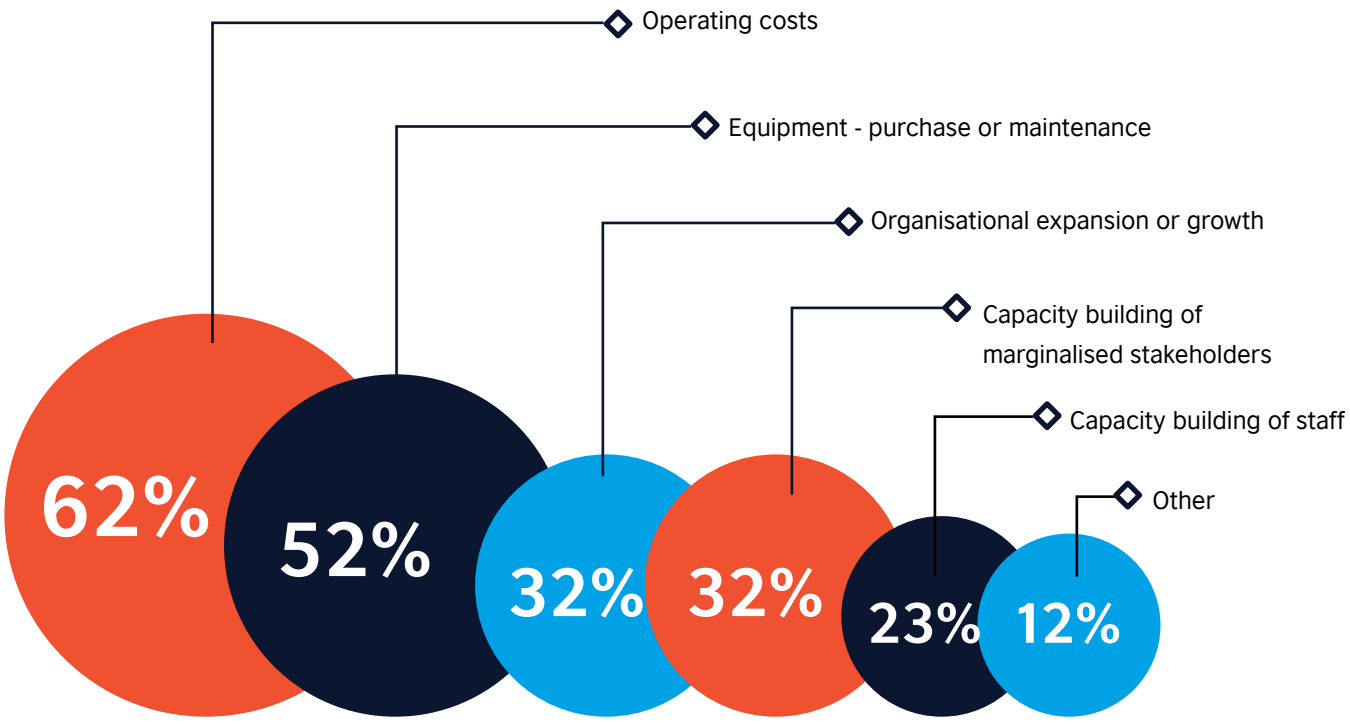


Older social enterprises (43 per cent) are more likely to rely on donations as part of their financing sources as opposed to younger social enterprises (26 per cent). Similarly, a higher percentage of older social enterprises (38 per cent) access grants from foundations, compared to younger social enterprises (20 per cent). As previously suggested, this may be reflective of the transition that a number of former NGOs have made towards a social enterprise model in an attempt to diversify their funding streams.

On the flipside, younger social enterprises (43 per cent) rely more on bootstrapping to finance their ventures compared to their older peers (31 per cent). In 2017, only younger social enterprises explored financing in the form of equity or equity-like investment.

Of the social enterprises who managed to obtain grant funding, most reported using these funds for operational costs (62 per cent) and purchasing or maintaining equipment (52 per cent). Operating costs remain a huge obstacle for social enterprises as they often report having insufficient revenue to cover these costs.

Figure 28: Utilisation of grant funding



CASE STUDY : EPIC COLLECTIVE

EPIC is a well-known Malaysian social enterprise, and has earned numerous awards and public acclaim for their work with indigenous villages across Malaysia. With its core mission of building safe and sustainable homes under the EPIC Homes banner, the enterprise has since expanded to include broader community development initiatives.

EPIC began with a simple pilot project in 2010, recruiting volunteers over social media to assist an indigenous family in rural Selangor with making improvements to their home as well as that of neighbours within the village. After subsequent similar short-term projects, the enterprise partnered with a property developer to create a model affordable housing prototype – which still forms the basis of their home-building projects.

By establishing relationships with the communities in which it works, EPIC broadens its impact beyond housing, adding access to healthcare, education, and a clean water supply to its outreach package. While relying heavily on volunteers

© EPIC Homes

at first, the enterprise has since moved on to more commercial initiatives to fund its social purpose. This includes working with the corporate social responsibility arms of large businesses, as well as offering training programmes to the public.

Since 2017, EPIC has kick-started various other arms under its brand. For example, EPIC Communities which offers urban development and rejuvenation expertise, works with municipal councils, property developers and educational institutions to engage and collaborate with grassroots stakeholders in building a sustainable community. Meanwhile EPIC DNA is a learning arm that provides leadership training and capacity building programmes for corporations and government agencies.

4.10.2 Financing constraints

The survey sought to further understand the financial challenges facing social enterprises. Respondents were asked to select the three main financial challenges faced by their organisation.

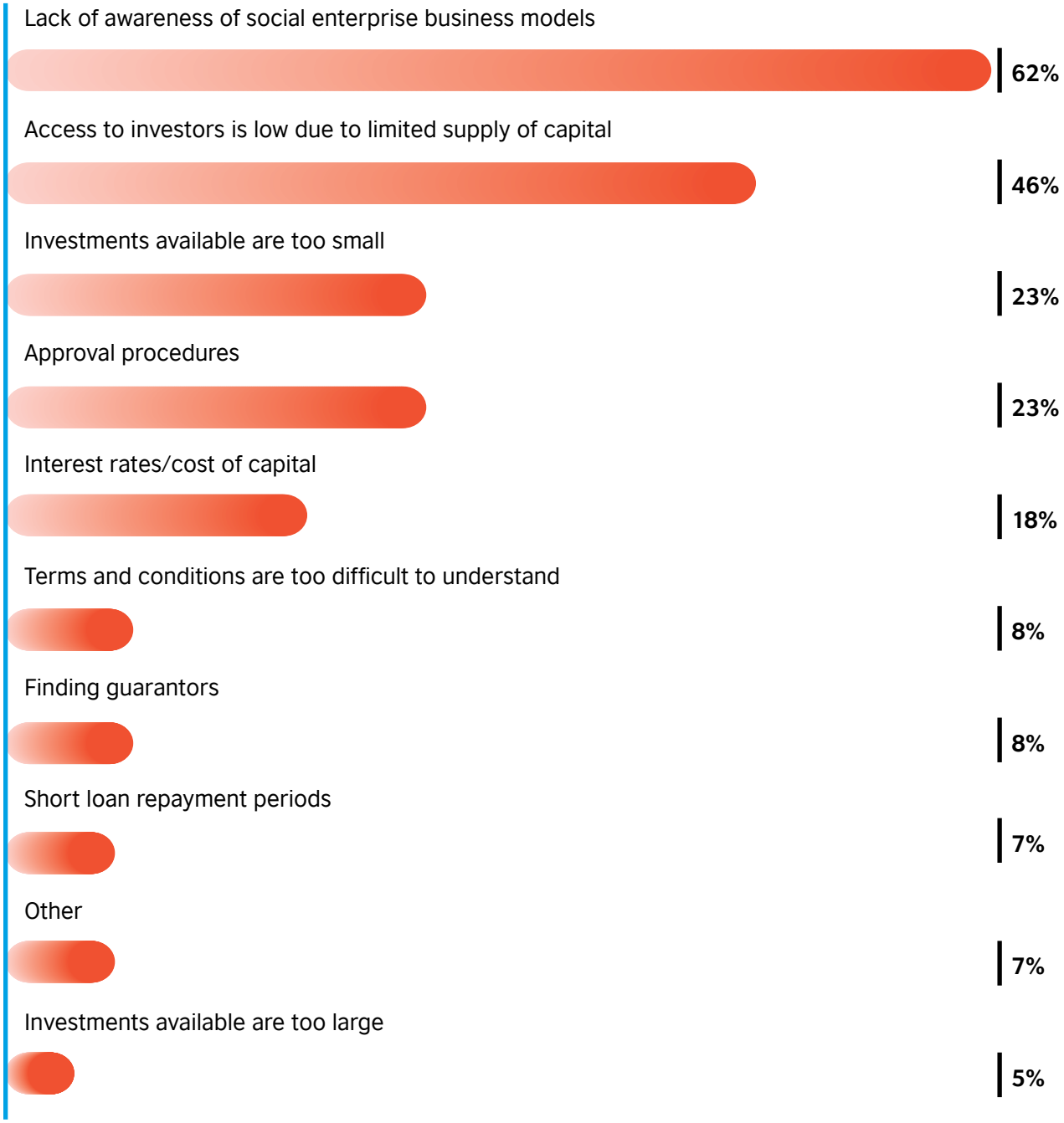
Nearly two-thirds of respondents (62 per cent) reported that the lack of awareness of social enterprise business models was one of their top three financial challenges. Social enterprise business models can be relatively complicated due to the dual objective of financial sustainability and creating social impact. In addition, the perception of doing social work is often associated with charity and volunteerism in Malaysia. This can pose challenges for social enterprises when it comes to gathering support from the public and investors.

The second most common financial challenge faced by social enterprises is low access to investors due to a limited supply of capital (46 per cent). Meanwhile, investors remain cautious when it comes to investing in social enterprises due to a lack of reliable or independent information and data.

Approval procedures from funders or banks were also amongst the most frequently cited financial challenges (23 per cent). This was reflected in one of the social enterprise workshops conducted in Sabah, where participants raised concerns around cash management when approval procedures of investors were delayed.

A site visit to PACOS Trust in Kota Kinabalu. © British Council

Figure 29: Financial challenges of social enterprises



CONCLUSION

The social enterprise sector in Malaysia is vibrant and growing. The majority of social enterprises that participated in this study have been operating for less than four years, with 2016 recording the highest number of new start-ups. The top sectors social enterprises operate in are education (22 per cent); environment and sustainability (16 per cent); food and beverage (13 per cent); and arts, culture, and heritage (11 per cent).

Social enterprises are also proving to be nurturing spaces for women and young people to take on leadership roles. Over half of social entrepreneurs are under 40 years old, and 54 per cent of social enterprises are led by women. Social enterprise leaders are also more educated than the general Malaysian workforce, with 83 per cent being degree-holders.

Most social enterprises are concentrated in the Klang Valley (66 per cent), which is Malaysia's central economic region. However, 83 per cent are focused on developing their immediate communities, by working within their local states or districts.

Social enterprises are making a positive impact for communities in need, across multiple beneficiary groups. Most report that they work for the benefit of their local communities, other organisations such as NGOs and MSMEs, as well as their own employees. Many social enterprises further state that their primary objectives are to create employment opportunities within their communities, support vulnerable groups, or improve the well-being of an existing community.

Over two-thirds (73 per cent) of social enterprises assess their impact, either through self-evaluation or by employing an external party. However, many say that social impact assessment can be an arduous task as they sometimes lack capacity or sufficient data to do so. Both social enterprises and funders expressed a need for better and more easy-to-use impact assessment tools.

Awareness and understanding of social enterprise business models still have a way to go. Approximately 62 per cent of social enterprises report a lack of knowledge of existing and workable social business models, making this their top financial challenge. Another challenge for social enterprises is cash flow management, with over half (55 per cent) facing this issue. Many also say that low public awareness of the sector has made it challenging for them to garner support, and recruit staff or volunteers.

Despite the challenges they face, Malaysian social enterprises are tenacious as two-thirds of those surveyed say they are either making a profit or breaking even. Many are also confident about their plans to scale, with 88 per cent expecting their profits or sustainability to increase in the coming years. The preferred strategy for growth is developing and launching new products or services. Other popular options are: attracting new customers; expanding into new geographic areas; and attracting more investment to expand their organisations.

With these promising indicators, social enterprises in Malaysia can be encouraged to thrive with more support from the government and private sectors. In the following pages, we make several recommendations as to how the social enterprise ecosystem can be further developed.

Coaches from B-TOP Sports Academy during a training session with their participants. © British Council

RECOMMENDATIONS

Improving the flow of finances

Cash flow management, in particular, remains a significant challenge for many social enterprises. While most Malaysian financial institutions cater to SMEs and larger corporations, there are not as many avenues available to social enterprises seeking capital. This may be due to the nascent stage of the social enterprise sector, as well as a lack of awareness by financial institutions to view social enterprises as viable investment opportunities.

Financial regulators should emulate and promote initiatives such as the Securities Commission's SRI guidelines and Bank Negara's VBI guides to educate more financial institutions on investing in social-impact enterprises. The provision of more financial services for micro-enterprises, such as micro-financing, overdraft facilities, and working capital grants, can go a long away in assisting social enterprises as well.

Alternative funding models such as capital funds, social stock exchanges, and social impact bond schemes have just emerged in Malaysia; many of these were introduced by the government as part of implementing the MSEB. Given Malaysia's robust Islamic financing system, policy makers could look into adopting a similar framework for funding enterprises driven by social-good.

The cash flow issues of social enterprises also mirrors the challenges faced by other MSMEs, with late payments by clients said to be a reason for the problem [54][55]. Here, there needs to be stronger commitment from government agencies and corporates who are clients of social enterprises to disburse their payments within the agreed-upon time-frame.

54 Delays or non-payments posing huge risk to SMEs, The Star, 2016
55 Consolidation ahead as SMEs look to increase efficiency, 2019

Improving business models and sustainability

Social enterprises are, rightly, driven as much or more by their social motivation than by profit-making. However, funders have voiced concerns that some social enterprises lack a clearly defined unique selling point or competitive pricing for their goods and services. Funders reported a sense that social enterprises have become over-reliant on grants, creating a new class of 'grantrepreneurs' that do not have robust business models in place. Indeed, some interviewees from former social enterprises also stated that they were unable to continue their operations once they could no longer secure funding through grants.

There is a promising trend of social enterprises recognising this gap and implementing changes. Approaches include attempting to diversify their revenue streams, reaching out to new consumers, and introducing new products. The survey results also show that social enterprises are already moving towards being more sustainable in their operations and management - what they require is more support to make this transition.

Social enterprises can go further to improve their business skills and hone their business models. Many social entrepreneurs themselves voiced a need for more guidance and support in helping them get beyond the initial start-up stages.

We recommend increased government support in this area, particularly in nurturing social enterprises beyond the ideation stages. Both the government and corporate sectors should collaborate on programmes that offer social enterprises access to more structured and tailored mentoring that is suited to their growth needs.

More higher education institutions can be encouraged to establish programmes that can be a focal point for long-term support initiatives such as on-going workshops and peer-to-peer learning sessions. While social enterprises may have unique business support needs, they should also be given access to programmes that are available to other entreprises. This will not only encourage more knowledge-sharing, but also help social enterprises build broader networks that can assist them in their long-term growth.

Developing impact assessment practices

The importance of impact assessment as an evaluation tool is recognised by both funders and social enterprises, however, there is a gap between expectation and capacity.

According to funders, there is an acute lack of information for assessing the social impact of social enterprises. Policymakers meanwhile, increasingly want to see better data to monitor the impact of the social enterprise sector as a whole.

From the business perspective, some conventional economic benchmarks used in the SME sector can be relevant for social enterprise, such as contribution to the GDP or employment creation. However, the current situation has led to funders developing their own metrics, some of which are confusing and complicated for social enterprises to implement.

For many social enterprises, finite human and financial resources are mostly being channelled into day-to-day operations or immediate beneficiary concerns. At present, social return on investment processes can be too burdensome for smaller social enterprises to implement; the effort required to carry out the assessment exercise often outweighs any value they bring and there is little external additional funding available to cover the costs.

There is an opportunity to develop simpler, more coherent and consistent impact assessment approaches, and translate them into methods and tools that small-scale social enterprises can practically carry out without negatively impacting their work.

Funders working with social enterprises should collaborate with each other to develop common protocols and tools that can be implemented by all stakeholders. At the central level, relevant ministries and agencies (such as the MED and MaGIC) can act as clearinghouses for resources, and establish an overall guideline framework that can be adapted based on the needs of both funders and social enterprises.

Bridging geographical and social gaps

Incubators and accelerators can be important in helping social enterprises grow – or even kick-off in the first place, as reflected in the boom of start-ups in periods of institutional support.

However, location is a major determinant for Malaysian social enterprises in their ability to access such programmes, particularly for those based outside of the Klang Valley. As many resources for social enterprises tend to be in English, this is a hindrance to a substantial number of social entrepreneurs who do not have a firm grasp of the language.

While MaGIC has carried out programmes outside the Klang Valley, these need to be expanded to more geographic locations and sustained for the long-term. Government-led programmes can also collaborate with private partners to replicate these initiatives on a smaller-scale in more rural locations. As there is at least one university in every state, higher education institutions can play a part in providing spaces and facilitation for such programmes. Additionally, more resources should be made available in Malay, and other major languages such as Chinese and Tamil, to benefit a wider range of social enterprises.

Funders meanwhile, should look into working with and supporting local players in the communities they wish to work in. Here, agencies such as MaGIC and AIM can act as facilitators in connecting interested funders with local organisations.

Ensuring succession

Social enterprises can be encouraged to include succession planning into their strategies. Our conversations with social enterprises that have shut down showed that of seven interviewed, three reported ceasing operations after the organisation's mission no longer matched the founder(s) goals. This reflects concerns among funders and enablers that many social enterprises lack a succession plan to ensure that the organisation can operate without its founder(s).

Here, there is an opportunity for either public or private services offering succession planning tools and training, including assistance with documenting systems and building operations manuals. The MED, perhaps in tandem with the Ministry of Human Resources, can set up a talent pool for the provision of these skills. The latter ministry's Skills Training Fund can also be utilised to encourage qualified human resource professionals and consultancies to be matched with social enterprises in need.

Improve system-wide co-ordination

The Malaysian Government has been very encouraging towards social enterprises, particularly with initiatives such as the MSEB and tax breaks for investors supporting social enterprise. However, there needs to be greater alignment between various policy measures, and harmonisation between the various ministry and department-level initiatives that currently seem somewhat scattered.

A central policy team on social enterprise should be established within the MED to co-ordinate all existing policies and initiatives related to social enterprises. Through this streamlining process, initiatives that overlap or have been unnecessarily duplicated can be identified, and resources can be more efficiently allocated.

Funders should take a pro-active approach in establishing a network to share resources such as databases, best practices, impact assessment tools, and even 'failures'. Instead of attempting to re-invent the wheel with each new initiative, funders can utilise this network to identify like-minded partners and strengthen support for their own programmes.

Similarly, social enterprises should consider setting up an alliance or membership body of their own to not only exchange ideas, but also better advocate for positive changes within the sector.

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ANNEX 1
SURVEY QUESTIONS

Section 1: Introduction

1. What is the name of your organisation?

2. In what year did your organisation formally begin operating?

3. Where in Malaysia does your organisation have its headquarters?

- ○ Johor
- ○ Kedah
- ○ Kelantan
- ○ Malacca
- ○ Negeri Sembilan
- ○ Pahang
- ○ Penang
- ○ Perak
- ○ Perlis
- ○ Sabah
- ○ Sarawak
- ○ Selangor
- ○ Terengganu
- ○ WP: Kuala Lumpur
- ○ WP: Labuan
- ○ WP: Putrajaya

4. At what geographic scale does your organisation operate?

- ○ Neighbourhood
- ○ State
- ○ Multiple states
- ○ National
- ○ International

5. How would you describe your organisation?

- ○ Social enterprise
- ○ Co-operative
- ○ Voluntary group
- ○ Non-profit organisation
- ○ Community organisation
- ○ Mutual aid organisation
- ○ Society

Section 2: Area of Focus

1. What is the main sector your business operates in?

- ○ Agriculture and Fisheries
- ○ Arts, Culture, and Heritage
- ○ Capacity Development and Training
- ○ Childcare
- ○ Consulting Services
- ○ Education
- ○ Environment and Sustainability
- ○ Food and Beverage
- ○ Healthcare
- ○ Housing
- ○ Infrastructure Development and Maintenance
- ○ Justice and Rehabilitation
- ○ Livelihoods and Employment
- ○ Manufacturing
- ○ Religion
- ○ Retail
- ○ Sports and Leisure
- ○ Social Care/Social Welfare
- ○ Tourism
- ○ Transport

2. What is the main sector your business operates in?

(Choose up to three options)

- ○ Address financial exclusion
- ○ Address social exclusion
- ○ Create employment opportunities
- ○ Improve a particular community
- ○ Improve health and well-being
- ○ Promote animal welfare
- ○ Promote education and literacy
- ○ Promote societal change
- ○ Protect the environment
- ○ Provide access to quality products/ services
- ○ Sell a good/product
- ○ Support vulnerable and marginalised communities
- ○ Support children and young people
- ○ Support other social enterprises
- ○ Support women and girls/promote gender equality

3. Does your organisation place emphasis on: profit first, social/environmental mission first, or both jointly?

- ○ Profit first
- ○ Social/environmental mission first
- ○ Both jointly

4. How is this commitment formalised?

- ○ Governing documents
- ○ Publicly stated commitments
- ○ Required under legal registration
- ○ Shareholders composition
- ○ Not formally stated

Section 3: Impact

1. Do you consider any of the following groups to be direct beneficiaries of your organisation's core business activities?

(Choose all that apply)

- ○ Employees of your organisation
- ○ Farmers and landless rural workers
- ○ Indigenous peoples (Orang Asli or Orang Asal)
- ○ Local artisans
- ○ Local community
- ○ Migrant workers
- ○ OKU/People with disabilities
- ○ Organisations (NGOs, micro and small businesses, social enterprises, self-help groups, community, and religious groups)
- ○ Refugees and asylum seekers
- ○ Senior citizens
- ○ Urban poor
- ○ Victims of disasters
- ○ Women
- ○ Workers in the informal sector
- ○ Animals and the environment

2. Is your organisation a subsidiary of another organisation?

- ○ Yes: We have it externally evaluated
- ○ Yes: We evaluate it ourselves
- ○ No

3. How many beneficiaries in total do you estimate that you have supported in the last 12 months?

- ○ 1 - 20
- ○ 21 - 50
- ○ 51 - 100
- ○ 101 - 500
- ○ 501 - 1000
- ○ > 1000

4. How does your organisation plan on increasing its social impact?

- ○ Cross-cutting: Analysing root causes and commit to regular evaluation and learning of the problem/solution
- ○ Cross-cutting: Building networks and partnerships
- ○ Cross-cutting: Seeking new resources
- ○ Scaling deep: Establishing communities of practice to support the translation of new beliefs into practice
- ○ Scaling up: Developing new policies and/or laws and advocating for new sources of funding

Section 4: Legal and Organisational Structure

1. In what legal form is your organisation registered?

- ○ Company Limited by Guarantee
- ○ Co-operative Society
- ○ Limited Liability Partnership (LLP)
- ○ Partnership
- ○ Private Company Limited by shares - Sendirian Berhad (Sdn Bhd)
- ○ Public Limited Company - Awam Berhad (Bhd)
- ○ Society
- ○ Sole Proprietorship
- ○ Trust
- ○ Not Registered

2. Do you measure your social and/or environmental impact?

- ○ No
- ○ Yes - Association
- ○ Yes - Co-operative
- ○ Yes - Foundation
- ○ Yes - Stock for profit

3. Please tell us which of the following best describes your organisation:

(Choose all that apply)

- ○ Democratically controlled/ participatory governance
- ○ Formally constituted
- ○ Independent of the state
- ○ Rules on limits to profit distribution
- ○ Trading (selling goods and services for money)

4. Which practices do you implement?

(Choose all that apply)

- ○ Engaging in transparent negotiations with supplier communities
- ○ Paying premium prices to suppliers
- ○ Paying workers a living wage
- ○ Providing capacity building and other services to marginalised stakeholders
- ○ Staff providing capacity development to marginalised stakeholders

Section 5: Finances

1. What are your organisation's three main financial challenges?

- ○ Access to investors is low due to limited supply of capital
- ○ Approval procedures
- ○ Finding guarantors
- ○ Interest rates/cost of capital
- ○ Investments available are too large
- ○ Investments available are too small
- ○ Lack of awareness of social enterprise business models
- ○ Short loan repayment periods
- ○ Terms and conditions are too difficult to understand

2. What forms of financing and funding have you received in the last year?

- ○ Bootstrapping (pitching in)
- ○ Commercial loans (market interest rate loans)
- ○ Concessional loans (loans with below-market interest rates, including from friends and family)
- ○ Donations
- ○ Equity or equity-like investments
- ○ Grants from foundations
- ○ Grants from government
- ○ In-kind resources
- ○ Mortgage
- ○ Overdraft
- ○ None

3. What proportion of your total income in the last year came from grants?

- ○ 0 per cent
- ○ 1 - 25 per cent
- ○ 26 - 50 per cent
- ○ 51 - 75 per cent
- ○ 76 - 100 per cent

4. How did you use the grant funding?

(Choose all that apply)

- ○ Capacity building of marginalised stakeholders
- ○ Capacity building of staff
- ○ Equipment - purchase or maintenance
- ○ Operating costs
- ○ Organisational expansion or growth

Section 6: Revenue

1. What was your organisation's annual revenue in the last financial year?

In Ringgit Malaysia

- ○ RM 10, 000 or less
- ○ RM 10, 001 - 50,000
- ○ RM 50, 001 - 100, 000
- ○ RM 100, 001 - 250,000
- ○ RM 250, 001 - 500, 000
- ○ RM 500, 001- 1, 000, 000
- ○ more than RM 1, 000, 000

2. What do you expect to happen to your organisation's revenue in the coming financial year?

- ○ Increase substantially
- ○ Increase a little
- ○ Stay the same
- ○ Decrease a little
- ○ Decrease substantially
- ○ I don't have information on revenue

3. Do you currently make a profit?

- ○ Yes
- ○ Break even
- ○ No

4. What happens to the majority of your profits?

- ○ Directed to external owners/ shareholders
- ○ Directed to staff
- ○ Directed to/reinvested in a social (or environmental) purpose (inc. growth)

Section 7: Talent

1. How many paid full-time employees (35+ hours per week) do you currently employ?

2. Number of current full-time employees

3. Number of current full-time female employees

4. Number of full-time employees a year ago

5. Number of full-time female employees a year ago

6. How many paid part-time employees (<34 hours per week) do you currently employ?

7. Number of current part-time employees

8. Number of current female part-time employees

9. Number of part-time employees a year ago

10. Number of part-time female employees a year ago

11. How do you expect the number of people you employ to change by this time next year?

Please provide your best estimate

- ○ Increase substantially
- ○ Increase a little
- ○ Stay the same
- ○ Decrease

Section 8: Leadership

This section refers to the person leading your organisation.

1. What is the highest qualification level of your organisation's leader?

- ○ Post-graduate
- ○ Degree
- ○ Diploma
- ○ STPM or pre-university
- ○ SPM or O-level equivalent
- ○ None of the above

2. Did this person conduct any part of their studies overseas?

- ○ Yes
- ○ No

3. What is the organisation's leader nationality?

- ○ Malaysian
- ○ Non-Malaysian

4. What is the gender of the organisation's leader?

- ○ Female
- ○ Non-binary
- ○ Male

5. In what age range is the organisation's leader?

- ○ < 18
- ○ 18-25
- ○ 26-30
- ○ 31-40
- ○ 41-50
- ○ 51-60
- ○ 60+

6. Is your organisation's leader from a vulnerable or marginalised group?

- ○ Yes
- ○ No

Section 9: Challenges and Priorities

Challenges and Priorities

1. What major challenges does your organisation face?

(Choose up to three options)

- ○ Availability of suitable premises or workspace
- ○ Cash flow
- ○ Government regulations and administrative burdens
- ○ High staff turnover
- ○ Lack of access to business support and advice
- ○ Obtaining grants
- ○ Obtaining other forms of financing
- ○ Poor commissioning and procurement of public services
- ○ Recruiting staff or volunteers
- ○ Shortage of business skills
- ○ Time pressure

2.How does your organisation plan on achieving growth over the next year?

(Choose up to three options)

- ○ Acquire another organisation
- ○ Attract investment to expand
- ○ Attract new customers or clients
- ○ Develop and launch new products and services
- ○ Expand into new geographic areas
- ○ Increase sales with existing customers
- ○ Merge with another organisation
- ○ Replicate or franchising
- ○ Win business as part of a consortium
- ○ Growth is not part of our plan

3. Has your organisation benefited from any supporting programmes?

(Choose all that apply)

- ○ Exchanges and visits
- ○ Financing
- ○ Incubation or accelerator programmes
- ○ Membership of network or professional/industry associations
- ○ Mentoring or coaching
- ○ Peer support
- ○ Training

Section 10: Perception of Social Enterprises

Perception of Social Enterprise

1. Have you previously heard of the concept of 'Social Enterprise'?

- ○ Yes
- ○ No

2. Would you describe your organisation as a social enterprise?

- ○ Yes
- ○ No

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