

Breaking Barriers: Exploring the Landscape of Youth Entrepreneurship in Malaysia

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Introduction

Entrepreneurship is one of the pathways that can transition Malaysia out of its middle-income status as it can contribute to the creation of high-paying and high-quality jobs within the economy¹. According to Joseph Schumpeter, entrepreneurs are defined as “individuals who exploit market opportunity through technical and/or organisational innovation”². These individuals are pivotal in ensuring a dynamic economy through the process of creative

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¹ MEDAC (2019)

² Schumpeter (1965)

destruction³ as innovative entrepreneurs “contribute to economic growth, employment creation, productivity and social welfare through knowledge spillovers and radical innovations”⁴. Besides the overall potential for economic growth that entrepreneurs could bring, it should be emphasised that entrepreneurship can also be utilised to evoke social change within the local community through social entrepreneurship.

Even so, it is worth noting that there are different types of entrepreneurs, ranging from small petty traders, home-based digital marketers, brick-and-mortar business owners, as well as disruptive innovators at a global scale.

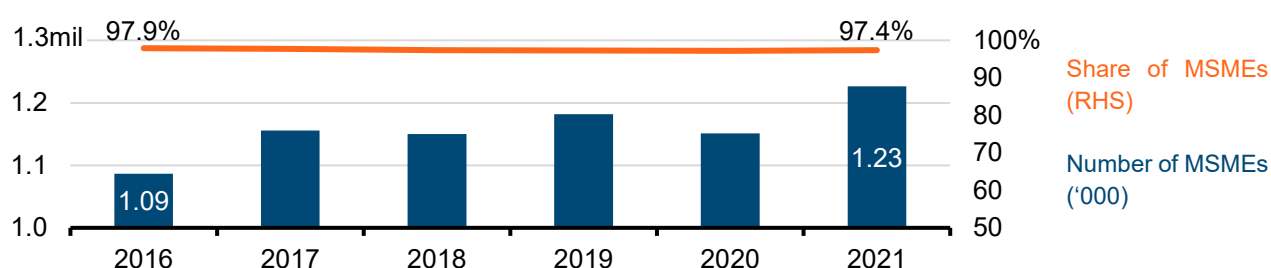
As the economy is rapidly transforming from a traditional economy that is resource-focused into a new economy that is primarily knowledge-focused, the government has increasingly recognised that “entrepreneurial culture is the driver of innovation”⁵. Towards this end, a concrete policy direction and conducive environment are critical to allow businesses with high-growth potential to thrive and succeed.

Thus, this paper intends to provide a brief overview of the entrepreneurial landscape, highlighting the challenges and existing support mechanisms for young entrepreneurs as well as explore the various policy frameworks that the government has introduced over the years.

The Landscape of Entrepreneurship in Malaysia

In recent years, the government has identified that entrepreneurship and the creation of new, innovative businesses could be one of the main drivers for economic growth in Malaysia. In the Malaysian context, entrepreneurship and micro, small, and medium enterprises (MSMEs) go hand in hand and policies should be designed to foster the growth of both entrepreneurs as well as MSMEs.

Figure 1: Number and percentage of MSMEs to the total business establishments



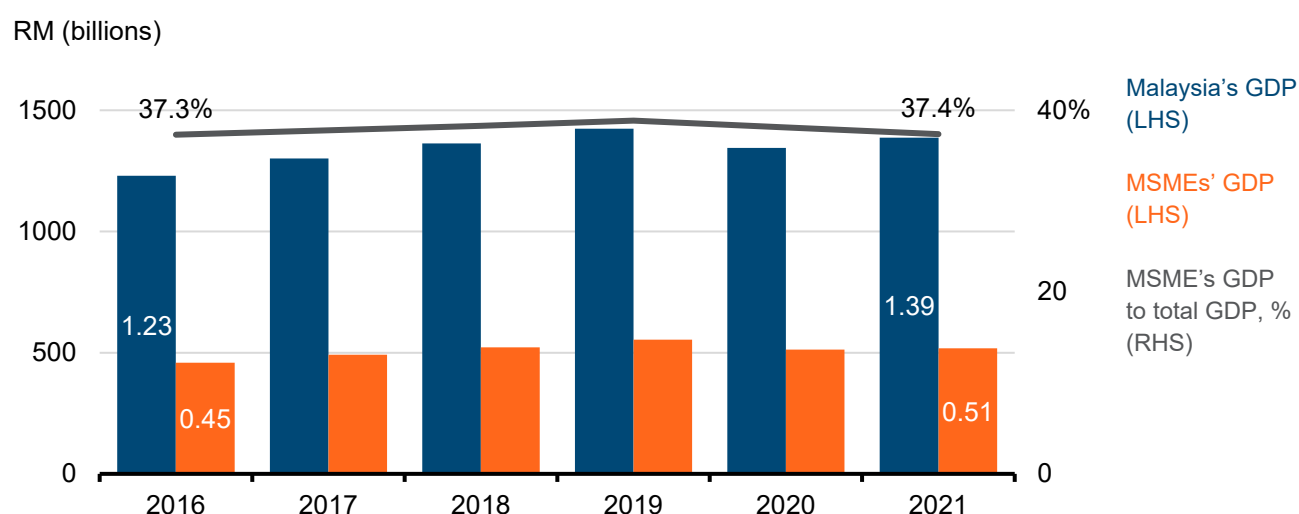
Source: DOS (2022)

³ Process in which the economic structure experiences a dramatic change from within, where old processes are constantly replaced by new innovations.

⁴ Kritikos (2014)

⁵ MEDAC (2019)

Figure 2: Contribution of MSMEs' GDP to Malaysia's GDP, at constant 2015 prices, 2016-2021



Source: DOS (2022)

As it stands, Malaysia can still greatly improve the role that MSMEs play in expanding economic activities. In 2021, MSMEs comprise the majority of business establishments within the economy at 97.4% (Figure 1), with the number of MSMEs increasing from 1.09 million in 2016 to 1.23 million in 2021. Despite the pivotal role that MSMEs have in employment (at 47.8% of the total labour force), the overall contribution that these MSMEs have to the economy is lacking. This is because, despite the high employment, MSMEs only contributed to 37.4% of Malaysia's GDP in 2021⁶ (Figure 2).

The government should address what actions need to be taken for MSMEs and entrepreneurs to be further supported in improving their efficiency and be able to bring additional value to the economy. Working towards this end, the National Entrepreneurship Policy 2030 (NEP2030) is a long-term policy document that set the overarching plans for entrepreneurship for the next ten years (see Box 1). Additionally, the Malaysia Social Entrepreneurship Blueprint 2030 (SEMy2030) set the framework to support budding entrepreneurs who intend to adopt social entrepreneurship as their business mode. With similar goals to the NEP2030, SEMy2030 seeks to develop an all-encompassing regulatory environment and ecosystem for social enterprises to thrive with the hopes of building an inclusive and sustainable Malaysia⁷.

Over the medium term, in the 12th Malaysia Plan (12MP), the government has set a vision of what entrepreneurship entails for the country as the focus has been given on creating firms in high-potential, high-growth sectors such as agriculture, halal products, aerospace, biotechnology, medical devices & digital economy' industries⁸.

⁶ DOS (2022)

⁷ MEDAC (2022)

⁸ EPU (2021)

These three policy documents highlight the government's commitment to promoting the contribution of entrepreneurs and small businesses in the country. Furthermore, the recently tabled Budget 2023 also allocated a considerable fiscal allocation towards these two groups. To name a few, there was an allocation of RM20 billion for MSMEs as a government guarantee through *Syarikat Jaminan Pembiayaan Perniagaan (SJPP)* as well as a microfinancing scheme worth RM1 billion through *Bank Simpanan Nasional (BSN)*⁹.

Through these allocations and programmes, the government hopes that it could replicate the success of local entrepreneurs and businesses that have managed to carve a niche market and establish themselves as global player within the industry. Aerodyne, a Malaysian company that utilises drone technology and AI-powered analytics has done this over the years and has been ranked 1st globally in the Global Drone Service Provider Ranking for 2021-2022¹⁰.

Box 1: Overview of the National Entrepreneurship Policy 2030 (NEP2030)

The NEP2030 is a long-term strategy introduced by the Ministry of Entrepreneurial Development in 2019 that envisioned a vision for Malaysia to be the *“nucleus and catalyst to drive a culture of entrepreneurship ... in line with the government's shared prosperity concept”*¹¹
The objectives of NEP2030 are as follows:

1. Creating a holistic and conducive environment for entrepreneurship to support Malaysia's inclusive, balanced and sustainable socio-economic development agenda
2. Creating a nation that possesses and nurtures the entrepreneurial mindset
3. Increasing the supply of Malaysian entrepreneurs that have the characteristics needed for success on a global stage (viable, resilient, competitive, etc.)
4. Improving the capabilities of micro, small and medium enterprises as well as co-operatives
5. Making entrepreneurship a preferred career choice among graduates

Within the policy document, the ministry has also outlined six strategic thrusts designed to tackle the issues and challenges faced by entrepreneurs, these include:

1. Fostering entrepreneurship culture across all segments of Malaysian society
2. Optimising the regulatory environment and access to funding
3. Stimulating holistic and integrated entrepreneurship development
4. Accelerating economic growth through innovation-driven enterprises
5. Strengthening entrepreneurial capabilities and performance of micro, small, and medium enterprises (MSMEs)
6. Internationalising high-growth enterprises

Source: MEDAC (2019)

⁹ MOF (2023)

¹⁰ Aerodyne (2023)

¹¹ MEDAC (2019)

Trends regarding youth entrepreneurship

In an approach that would address high instances of youth unemployment, low wages as well as low MSME contribution to GDP, one area the government has identified to focus on since 2015 is in promoting entrepreneurship amongst Malaysia's youth. This is also in line with the aspirations set in the Malaysian Higher Education Blueprint 2015-2025 (Higher Education) that wanted to shift the mindset of graduates from being job-seekers to being job-creators¹². Recently, the government announced that 13 ministries would be working collaboratively to support youth entrepreneurship by channelling technical and vocational education and training (TVET) graduates into its various entrepreneurship programmes¹³.

An examination of the Graduate Tracer Survey¹⁴ (GTS) data showed that there has been an increase in the number of graduates that are reported to be self-employed as well as those that have become more interested in entrepreneurship in general¹⁵. The analyses show that among working graduates, there has been an increase in those that are identified as being self-employed¹⁶, rising from 3% in 2010 to around 20% in 2020¹⁷. Figure 3 shows that, among all graduates who reported that they had already been working shortly after study completion, there has also been an increase in self-employed graduates who are business owners. In 2014, the percentage was only 0.5% for those that have registered or non-registered businesses, but this figure has slightly risen to 5.1% and 4.2% respectively by 2020.

Furthermore, Figure 4 shows that among young self-employed in 2019 and 2020, a vast majority of them have not attended an entrepreneurship course even though they have decided to start their career through self-employment. This may be a target group that the Ministry of Entrepreneur Development and Cooperatives (MEDAC) and other related government agencies could put their focus on as these individuals may not be exposed to the intricacies and challenges that self-employment might entail thus having a greater risk of failure.

¹² MOHE (2015)

¹³ The Sun (2023)

¹⁴ The Graduate Tracer Survey is a survey conducted by the Ministry of Higher Education (MOHE) on individuals that have recently graduated from their respective Higher Education Institution (HEI) in order to obtain their current employment status, within six to twelve months of their convocation.

¹⁵ Mohd Amirul Rafiq Abu Rahim and Shazrul Ariff Suhaimi (2022)

¹⁶ Self-employment encompasses individuals who operate their own farm, e-hailing drivers, freelancers, and food stall owners, as well as those who embark in business or trade without employing any paid workers in the conduct of the enterprise.

¹⁷ MOHE (various years)

Figure 3 Percentage of graduates involved in self-employment, by business type, aged 15–30, 2014–2020

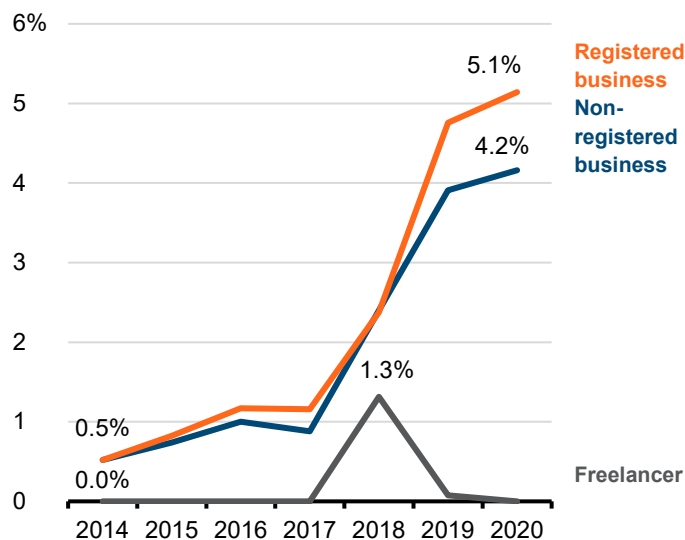
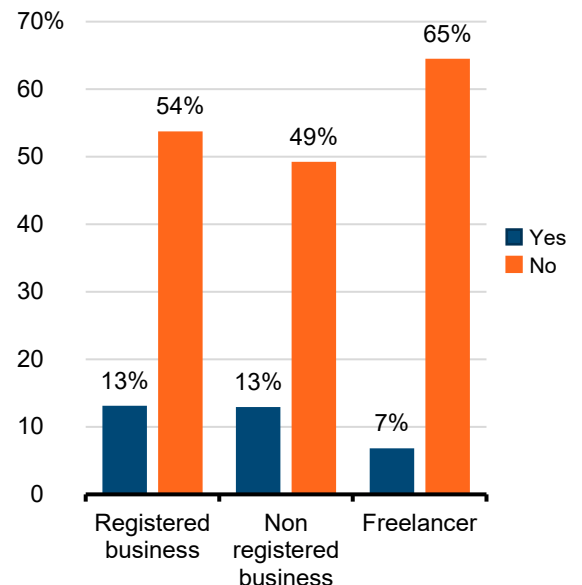


Figure 4 Percentage of self-employed graduates who have attended an entrepreneurship course, aged 15-30 years old, 2019-2020



Note: Figure 4 excludes participants who did not provide a response
Source: MOHE (various years)

Challenges faced by youth entrepreneurs

The challenges that young entrepreneurs face are often distinct as they have only just begun their journey into the cutthroat world of business. Although entrepreneurs are generally quite agile to cater to the rapidly changing market, young entrepreneurs, in particular, would face numerous difficulties largely due to their inexperience and age.

According to Munirah et al., young Malaysian entrepreneurs often face difficulties in access to financing. This largely stems from their age which places a natural limitation on their access to traditional sources of finance as they would often lack (1) collateral, (2) a convincing business plan, and (3) credibility as they do not have a prolonged track record in business operation¹⁸. In addition, traditional financial institutions would often perceive these young entrepreneurs as being high-risk which would only result in high interest rates if they were to be successful with their applications for a loan¹⁹.

Youth entrepreneurs also lack social capital as they have not acquired the wide social network needed in finding a suitable mentor or establish credibility within their industry. Potential

¹⁸ Munirah Binti Salim et al. (2020)

¹⁹ Ibid.

customers or clients may be sceptical towards a new product or service if the business has yet to establish itself.

Furthermore, the 12MP also outlined that Malaysian entrepreneurs also face structural issues that may hinder their performance in the market. This could stem from the low quality of investment received, slow structural economic transition and weak linkages to the global value chain (GVC)²⁰. According to the Global Entrepreneurship Index, Malaysia is ranked 58th in 2019, with the lowest indicators being technology absorption, high growth, internationalisation as well as start-up skills²¹. Within that index, Malaysia had scored only 12% in the Product Innovation sub-indicator and only placed 130 out of 137 countries listed²². This would support the argument that a number of our entrepreneurs have to be given further support for them to move away from traditionally low value-added sectors such as retail trade and services with its sector's MSMEs employing 4.6 million Malaysians (29.1 % of the total labour force) whilst only contributing 22.7% of GDP in 2021²³.

However, the challenges stated above are not unique to Malaysian entrepreneurs. Ceptureanu and Ceptureanu (2015) found that young entrepreneurs in the European Union also face similar issues regarding the lack of financing opportunities as traditional banks would also require credit history and past business performance as a pre-requisite for a loan²⁴. In contrast to the Malaysian experience, the authors also argue that education and training programmes in existing formal institutions may be insufficient in nurturing the entrepreneurial spirit as their curriculum is designed to prepare students for standard employment²⁵.

Supporting youth entrepreneurship in Malaysia

Many of the above-mentioned challenges are interrelated and would require a package of policy tools rather than a single general solution that applies to all the challenges that entrepreneurs face especially the youth.

Therefore, there is an argument to be made for intervention to begin at an earlier stage in either primary or secondary education. Instilling the entrepreneurial spirit may not be something that could be achieved at the point of tertiary education as entrepreneurs require unique skills and characteristics that need to be honed at an early age. Entrepreneurial education is important to develop a sense of proactiveness and enhance creativity and self-confidence²⁶. Lackéus (2015) outlined that entrepreneurial education is separated into three distinct phases:

1. Teaching “about” entrepreneurship – a content-laden, theoretical approach; the most used approach in higher education institutions

²⁰ EPU (2021)

²¹ GEDI (2020)

²² MEDAC (2019)

²³ DOS (2022)

²⁴ Ceptureanu and Ceptureanu (2015)

²⁵ Ibid.

²⁶ EUR-Lex (2006)

2. Teaching “for” entrepreneurship – occupationally oriented approach to equip the entrepreneur with the knowledge and skills for that particular occupation
3. Teaching “through” entrepreneurship – a process-based approach or learning-by-doing, a more hands-on approach that focuses on practical learning²⁷

Potential entrepreneurs would therefore not only be equipped with the skills needed for future ventures into entrepreneurship but would also be provided with another avenue for their creativity and innovative skills to flourish.

More specifically for youth entrepreneurs, the intervention needed would largely be towards establishing and building upon their social and financial capital. This group of entrepreneurs should have the opportunity to be given more support and guidance at all stages of their business as the challenges are distinct at each phase of business. With regards to building social capital, there should be programmes available for budding entrepreneurs to connect themselves with a wider professional network that could aid them as mentors to aid them throughout their journey.

In the public sector, youth entrepreneurs can look to Malaysia Digital Economy Corporation (MDEC) with their GAIN programme which is a year-long programme targeting technology companies that are looking to compete on the world stage²⁸. There are also private initiatives such as futurelab.my²⁹, an online platform which matches entrepreneurs to individual mentors, as well as Endeavor, a company that has helped generate over RM 1.4 billion in revenue for participating companies in 2018³⁰.

In terms of financial support, the government and its agencies have implemented various programmes designed to tackle issues regarding access to financing. For example, TEKUN Nasional has a microfinancing scheme designed to improve the business capacity of MSMEs with an allocation of RM330 million in the recent budget with a reservation of RM10 million for youth from underprivileged families³¹. Another notable programme that should be highlighted would be the Youth Entrepreneurship Fund 2.0 by SMEBank which is a grant of RM100,000 – RM 1 million for young entrepreneurs aged 21-40 to acquire capital or equipment for their business³². There are also other means of financing outside of traditional financial institutions and these funds would be sourced from venture capitalists, equity crowdfunding and peer-to-peer financing³³.

²⁷ Lackéus (2015)

²⁸ MDEC (2023)

²⁹ Futurelab.my (2023)

³⁰ Endeavor Malaysia (2023)

³¹ MOF (2023)

³² SME Bank (2023)

³³ OECD (2023)

Conclusion

It should be lauded that there have been noticeable efforts to promote entrepreneurship among Malaysian youth as a method to address youth unemployment, low wages and low MSME contribution to GDP. With the introduction of various frameworks that support youth entrepreneurship such as NEP2030 and SEMy2030, budding entrepreneurs could look out for support made available by the government to overcome some of their problems.

It is worth noting that the government over the years has strived to provide a more systematic framework and ecosystem for young entrepreneurs in Malaysia. However, what is equally important is continuously evaluate how the policies prescribed in the framework are executed and implemented.

The annual allocations and programmes might only serve as a short-term measure if the structural issues with the economy persist as the MSMEs that currently exist are largely confined to traditional, low-value-added sectors of the economy. Furthermore, business mentorship programmes should be expanded to ensure that entrepreneurs are given proper guidance on how to scale up their business ventures or expand the business to international markets.

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