Chapter 15

Financial Accessibility and Small–Medium Enterprises (SMEs) in Malaysia: The Role of Crowdfunding and Islamic Finance

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ABSTRACT

One of the common problems faced by worldwide SMEs including Malaysia is accessing external financial services. Given this fact, this chapter offers a sustainable model of source of financing for Malaysian SMEs in meeting their financial need, which is known as Islamic Crowdfunding-Small and Medium Enterprises (ICSMEs) model. Authors review comprehensive literature by focusing on the issues of financial accessibility faced by Malaysian SMEs, and the existing studies relating to SMEs, crowdfunding, and Islamic finance in support to construct ICSME model. Authors discuss the modus operandi of the proposed ICSME model and offer several significances of the model.

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Table 1. Number of establishments in Malaysia by firm sizes and by economic sectors.

Year	2015			2010		
Sector	SME	Large Firms	Total	SME	Large Firms	Total
Services	809126	9185	818311	580985	10898	591883
Manufacturing	47698	1403	49101	37861	1808	39669
Agriculture	39158	1400	40558	6708	2121	8829
Construction	10218	1410	11628	19283	2857	22140
Mining and quarrying	865	161	1026	299	119	418
Total	907065	13559	920624	645136	17803	662939

Source: SME Annual Report, various issues.

INTRODUCTION

Small Medium Enterprises (SMEs) in Malaysia accounted for more than 90 percent of the total number of business establishments in the years 2010 and 2015 as presented in Table 1. Of this, the services sector consisted of about 90 percent share, which was followed by the manufacturing and agriculture sectors. SMEs in Malaysia participate in almost all business activities of various economic sectors. SME Malaysia is classified based on the annual sales turnover of a business or the number of employees working in SMEs and by different economic sectors. Drawing on SME Annual Report 2015-2016 (2016), from the year 2014 onwards, the annual sales turnover of not exceeding RM50 million or full-time employees of not exceeding 200 workers employed for the manufacturing sector is defined as SME Malaysia. While, for services, primary agriculture and other sectors, annual sales turnover of not exceeding RM20 million or full-time employees of not exceeding 75 workers are categorized under SME Malaysia.

ECONOMIC PERFORMANCE OF SMEs MALAYSIA

SMEs are increasingly important to the Malaysian economic activities in terms of its contribution to value-added, employment and exports. Since the year 2004, SMEs in Malaysia charted gross domestic product (GDP) growth of 7.4 percent per annum over the period of 2012 – 2017 as compared to its overall GDP growth of 5.2 percent, drawing on authors' calculation based on data obtained from NSDC (2018). SME employment grew by an average annual rate of 7.3 percent, which exceeded the total

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