State-led development in Malaysia resulted in economic growth and significant gains in living standards. The expansion of social and solidarity economy (SSE) organizations such as cooperatives and social finance have contributed to this process. Both the role of the state and the strengthening of market relations in recent decades have influenced the trajectory and nature of the SSE in the country. Drawing on ongoing ILO research on SSE in Asia (see Box 1), this Brief provides an overview of the SSE landscape in Malaysia, identifies the main types of SSE organizations, and highlights policy challenges and pathways to realize the SSE’s transformational potential.

The development of SSE in Malaysia

Social and Solidarity Economy or social economy, as it is more commonly referred to in Malaysia, is a new
concept that is gradually emerging in public policy discourse and dialogue. While attention has focused primarily on organizations and enterprises that generate income through economic activities that have an explicit social objective, other principles and practices related to autonomy and participation are also relevant. It is these three features – income generation, social purpose and democratic governance – that characterize ideal types of SSE organizations and enterprises (SSEOEs) (see Box 2).

Although the concept is nascent, SSE practices involving mutual aid and community-based collaboration have a long history in Malaysia. The phrase gotong royong (mutual assistance) refers to cooperative action in village and rural life, such as activities related to maintaining villages or neighbourhoods; family and community events such as weddings and funerals; and agricultural work, such as rice planting and harvesting. Cooperatives were first established under British colonial rule to counter credit problems among rural farmers and public servants in the urban areas. The Cooperative Societies Act law led to the establishment of the first cooperative in 1922. Another legacy of the colonial period was the Societies Ordinance of 1890 which laid the legal foundation for non-governmental organizations. During the British colonial period migrant Chinese workers came to British Malaya. Concerned with both Chinese secret societies and the spread of communist ideology, rules governing the creation of associations became restrictive.

As a multi-ethnic society, diverse religious philosophies and cultural backgrounds propagated non-materialist values aligned with SSE. Guided by Shariah principles, philanthropy and mutual aid have deep cultural and historic roots. These principles later influenced financial services related to credit, insurance and investment (see Box 3). Formal organizations that applied these principles to their members or to the poor, more generally, emerged. The first formal Islamic finance institution was created in 1963. The first credit unions, established in the 1960s, had cultural roots linked to Catholicism and Liberation Theology ideals.

Following Independence in 1957 both democratization and national development strategy facilitated the growth of certain types of SSE organizations. A growing number of civil society organizations started engaging in both service delivery and advocacy initiatives. Following ethnic violence, the government also adopted a development strategy that emphasized the need to reduce poverty and inequality, especially among the Malaya and other indigenous communities.

A major programme involved the development of agriculture-based settlements for hitherto landless families through the Federal Land Development Authority (FELDA) and various support agencies. Approximately 112,000 settlers were resettled in FELDA colonies between 1958 and 1990 when resettlement was discontinued. After 1980 settlers were encouraged to form cooperatives under the Koperasi Permodalan FELDA Malaysia Berhad (KPF), which now operates as a second-tier cooperative.

Limited accountability, however, allowed for political interference and mismanagement which distorted the Authority’s mission. In the context of top-down development, many cooperatives not only lacked autonomy but also the key resources and assets needed for sustaining cooperative enterprises, notably aspects of social and human capital. FELDA later adopted a more corporatized model, centred heavily on the palm oil value chain.

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1 The term ‘social economy’ was preferred as it related to the perception that it was reformist and less radical in nature. Whereas the notion of social economy added an uncontroversial social dimension to the prevailing market economy, the term ‘solidarity economy’ was perceived by some stakeholders to have socialistic overtones.


3 A second tier cooperative has at least three individual cooperatives under its umbrella. In the case of KPF it has 212 individual cooperatives with a total membership of about 261,572 members.

4 See interview with Jose Barrack, “The mess at Felda”. 1 November 2018. The Edge Malaysia.
The post-Independence period from the 1970s saw the expansion of different forms of state- and NGO-led microfinance institutions. Initially serving small farmers connected with FELDA, microfinance later diversified. In the late 1980s, the Grameen lending model took root and the rural and urban poor, primarily women, received loans for micro-enterprise activities.

As in the case of the cooperative movement, some MFIs were diverted from their original goals and values due to political interference and a shift in approach from empowerment to charity. In the case of Amanah Ikhtiar Malaysia (AIM), this caused a serious distortion in the model in the 1990s until major reforms were introduced during the following decade.

The development of SSE in the second half of the 20th century was affected by a major trade-off. On the one hand, state intervention in the economy and development planning were crucial factors underpinning Malaysia’s rapid transition from a poor agrarian society to an ‘Asian miracle’ economy. Such intervention encouraged the growth of certain types of SSE organizations but constrained their ability to expand whilst adhering to core principles related to autonomy, democratic governance and self-reliance. The SSE would also be affected by the gradual shift from state-led service provision to a more privatized economy and/or market-principles, which also exacerbated inequality.

New directions in the 21st century

Since the late 1950s, a series of five-year national development plans outlined objectives and priorities for inclusive growth and structural change. Government-linked companies (GLC) and government-linked investment companies (GLIC) played a key role in this transformation. Strong policy and institutional support for addressing poverty and inequality in Malaysian society has been a recurrent feature of the development

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5 Majlis Amanah Rakyat (MARA) was formed by an Act of Parliament in 1966. It originally began as the Rural Industrial Development Authority (RIDA), which was a program established by the British colonial administration in 1951. RIDA aimed to provide economic assistance and to support Malay farmers and rural inhabitants. Haque et al. 2019.

6 The Grameen model is a poverty reduction approach developed by the Grameen Bank, started by Dr. Mohammed Yunus in Bangladesh in 1983. It is a development intervention in which credit is provided based on a group lending structure, which fosters mutual accountability for loans among borrowers.


8 Suraya Hanim Mokhtar et al. 2012. The Malaysian microfinance system and a comparison with the Grameen Bank (Bangladesh) and Bank Perkreditan Rakyat (BPR-Indonesia).
plans. While cooperative development has long been promoted as part of development strategy, it is only relatively recently that references to a variety of SSEOEs have featured more explicitly in development plans.

A key policy direction announced in 2015 was to develop ‘community and social-based enterprises’.11 The Eleventh Malaysia Plan (2016 – 2020)10, which incorporates the United Nations Sustainable Development Goals (SDGs), places considerable emphasis on the role of cooperatives in agricultural modernization and supply chain development, as well as ‘alternative service delivery’ via NGOs and community-based organizations in areas related to elderly care, persons with disabilities, disaster aid and drug rehabilitation. It also promotes a social financing model with NGOs and community-based organizations (CBOs) involved in implementation, incentives for social impact investing, a public-private partnership model that includes cooperatives, capacity-building for fisherfolk associations, and performance-based incentives for social enterprises, and volunteerism and community engagement for the elderly.

The most recent policy development related to SSE concerns social enterprise. In 2015, the federal government launched the Malaysian Social Enterprise blueprint, Unleashing the Power of Social Entrepreneurship.11 This is one of the first documents that refers in a direct manner to social enterprises as “impact driven” and a “new form of enterprise.” This document states that “social entrepreneurship is the only form of enterprise that has the potential to radically transform capitalism by resolving social or environmental issues that are neglected by the traditional sectors” (Malaysian Social Enterprise 2015, 9). In 2019, the Social Enterprise Accreditation (SE.A)12 Guidelines were introduced allowing for different levels of certification. The same year, a strategy for social enterprise promotion and capacity building was launched, outlined in the ten-year National Entrepreneurship Policy 2030 (DKN 2030).

The range of support measures for social enterprises is continually growing as the objective of enabling entrepreneurship becomes a key strategic priority of the government (see Box 4). The 2021 budget included an allocation of 20 million ringgit (approximately US$ 4 million) for social enterprises as part of a social procurement pilot programme. In light of the COVID-19 pandemic, other forms of support have emerged. Certain social enterprise are eligible for funding relief provided under the RM 100 million (US$ 23.6 million) facility for technology start-ups. Under the COVID-19 recovery programme, social enterprises can apply for a Social Impact Matching (SIM) Grant to support their activities. An additional fund for foundations and Government-Linked Companies (GLCs), encourages them to work with NGOs and social enterprises to foster socio-economic development amid the pandemic.13

The SSE Landscape

Referring to core features of SSE related to social, economic and democratic orientation, the mapping of SSE in Malaysia identified three types of organizations that fit within this frame: cooperatives, social enterprises and certain faith-based initiatives. These models contrast with both ‘for profit companies’ which have profit as their major objective, with little or no social purpose or democratic governance, and non-profit organizations and companies that depend primarily on donations and grants.

In this classification, SSEOEs are co-operatives, social enterprises, FELDA organizations – especially cooperatives formed by settlers and cooperatives related to the microfinance institution AIM. Both cooperatives and social enterprises have the greatest potential due to the sheer number of members and/or outreach and impact, as well as the supportive legislative framework of the Cooperative Act.

It is important to note, however, that broad generalizations about the inherent qualities of different forms of SSEOEs are difficult to sustain. In practice, many co-operatives imitate private sector firms as opposed to emphasizing objectives that are community-centred and promoting social solidarity and collective action. Social enterprises generally have a clear income generating orientation and a social mission but may not practice forms of democratic governance. Similarly Islamic finance institutions may differ substantially both in their ownership structure and lending approach. This is why the research refers to only two such institutions as fully-fledged SSEOEs while others are classified as PHOs.

Cooperatives

The Cooperative Movement in Malaysia has the legislative framework, regulatory body and government incentives to undertake community-based economic projects for the common good. There are over 14,000 cooperatives with more than six million members, half of whom pertain to four types: consumer, agricultural,
service and banking cooperatives (see Figure 1). Total assets of all cooperatives are estimated to be 143.7 billion ringgits (approximately US$36 billion).

Two of the largest cooperative entities are the cooperative of micro-loan borrowers, Amanah Ikhtiar Malaysia (AIM) and cooperatives established by the FELDA land settlers and staff. AIM membership expanded rapidly, from 66,683 in 2000 to 380,000 in 2020. Over the same period, annual loan disbursement increased from RM 107 million to RM 2.7 billion (approximately US$ 28 million to US$ 643 million). A strategy to diversify the lending portfolio and extend coverage to urban areas contributed to this expansion.
growth. Under the AIM model, members, who are mainly women, pool their savings and loans to provide for the rural and urban poor for income generating activities, asset acquisition, and welfare and well-being in situations of extreme events. Borrowers operate in a group of five and a number of groups form a ‘Centre’. This emphasis on group formation, distinguishes AIM from other microfinance institutions that focus on service provision (loans and capacity building) to individuals. Members benefit from the returns on their savings.\(^{14}\)

Concerning the FELDA cooperatives, following the establishment of Koperasi Permodalan Felda Berhad (KPF) (Felda Investment Cooperative) in 1980, land settlers and FELDA staff joined to invest their savings. Currently there are 212 cooperatives with 261,572 members. KPF is estimated to have an investment portfolio exceeding 2.3 billion ringgits (approximately US$ 575 million) in a diverse asset range. Cooperative members receive regular dividends and job opportunities are provided for family members.\(^{15}\)

**Social enterprises**

Another type of SSEOE are social enterprises registered with the Ministry of Entrepreneur Development and Cooperatives (MEDAC) that qualify for different levels of certification\(^{16}\) under the Social Enterprise Accreditation scheme. Since the Accreditation guidelines were announced in 2019, 320 social enterprises have acquired Level One Basic SE accreditation. Of these, 29 have received accreditation at Level Two: SE.A accreditation. Only eight have reached the third level of SE A Plus accreditation, which is fully accredited with tax-exempt status.

MaGIC provides loans and funding as well training and other support to build capacity and grow local start-ups.\(^{17}\) Once it reaches its maturity at national level, the strategy is to scale their activities regionally. Social enterprises that receive accreditation from the Ministry of Entrepreneur Development and Cooperatives (MEDAC) have access to funding, training and other forms of support from multiple institutions. These include MaGIC for the social innovation fund or access through cooperative banks for project funding or training through INSKEN\(^{18}\), which is a training institution for entrepreneurs including social entrepreneurs.

**Partial Hybrid Organizations (PHOs)**

As part of the mapping exercise, the research also identified organizations and enterprises that share some of the economic, social and democratic features of SSEOE. Different combinations yielded three types of organizations which are referred to as PHOs.

One category combines **social and economic features**. It comprises five specific organizational types. While focused on profit maximization, state-owned Government-Linked Companies (GLCs) and Government-Linked Investment Companies (GLICs) have an explicit socio-political agenda of balancing economic ownership and partnerships to ensure that the Malay-Muslim majority including the Bumiputra ethnic communities

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16 Level 1: Basic SE- self-declaration on the register but not certified. Level 2: SE.A – Accredited based on criteria (social & environmental objective). There is a business plan and multiple sources of funding which are not grants-based but generated from the enterprise. Level 3: SE A Plus – Fully accredited with tax exemption status. https://central.mymagic.my/sea

17 See SME Corporation Malaysia, 7 July 2020.

18 https://www.insken.gov.my/

have an equitable share of the corporate wealth of the nation. These organizations are answerable to parliament, and there is some public oversight.

Another organizational type relates to Ar-Rahnu Islamic pawn shops. They are established as economically viable businesses with a strong social objective of providing fair and secure returns for borrowing especially by the poor and low-income families. Microfinance institutions that are not organized along cooperative lines and organizations like the FELDA Board can also be classified under this category.

The majority of the organizations which are in the ‘not for profit’ category are classified as a type of PHO that has socio-democratic characteristics. Based on donations and grants, they lack resources derived from income-generating activities but have a strong community or public interest orientation and often practice forms of democratic or participatory governance. Neighborhood Watch associations, which have their own legislation and a mandate for undertaking not only safety but also economic and welfare objectives, have potential as SSEOEs.

Other organizations are CLBGs (Company Limited by Guarantee), which are for-profit companies serving the public interest and often promoting economic empowerment and capacity building at the community level. Likewise, certain trust institutions, such as societies, have moved away from welfare approaches towards enabling self-help and self-reliance through educational and training empowerment efforts.

A third type of PHO combines economic and democratic features. They include publicly listed companies, which are for-profit entities accountable to shareholders. Moreover, the Securities Commission monitors them closely with regard to their governance and accountability processes, as do minority shareholder monitoring processes and independent non-executive directors. Public companies generally adopt CSR guidelines and often establish foundations or undertake community-based development projects in partnership with social enterprises, cooperatives and societies.

**Policy challenges**

Whether the SSE landscape can expand by SSEOEs or PHOs reinforcing their social, economic and democratic attributes, depends crucially on addressing the following policy challenges.

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20 Todd, Laurence. 2020. GLCs and the Shared Prosperity.
21 With a total membership of approximately 200,000, a few of the 8,130 neighbourhood committees are beginning to establish community-based enterprises and income-generating activities. Following the introduction of small seed grants in 2016, there were 99 initiatives in place by the end of 2019 with activities centered on organic vegetable production, fish farming and waste management, among other activities.
Moving beyond a fragmented policy approach

While SSE organizations have clearly been supported by the government, the focus has been on incentives and regulation related to specific types of organizations rather than fostering an enabling institutional ecosystem conducive to SSE as a whole. Lessons can be learnt from the experience of countries such as the Republic of Korea (see Brief 2 in this series), Italy and Costa Rica that are transitioning from a fragmented approach to one that is more encompassing:

I. fostering public-private-SSE partnerships and synergistic relations;
II. adopting laws and policies aimed at the SSE sector as a whole and not only specific types of organizations;
III. better policy coordination and coherence across Ministries and departments; and
IV. recognizing the need to build a broad spectrum of capabilities and assets related to human, financial, social and knowledge capital.

Managing trade-offs and correcting biases

The increasing prioritization of market principles in development strategy in recent decades has introduced various risks for SSE. While the cooperative model, for example, continues to be actively promoted by the government, the contemporary focus leans towards achieving economies of scale and building managerial capacity, entrepreneurial skills and supply chain and competitive capabilities. In this process, key SSE objectives related to the social and political empowerment of the disadvantaged, democratic participation, autonomy and other cooperative principles can be sidelined. Many large and well-managed co-operatives appear to adopt a conventional corporate business model as opposed to one that seeks to transform the social and economic system through collective action and solidarity. Biases within fiscal policy may inadvertently disadvantage SSE organizations. Organic vegetable producers, for example, may find themselves at a competitive disadvantage given the subsidies provided for chemical fertilizers. Small organizations, lacking managerial capacity, often find it difficult to comply with administrative procedures for registering and obtaining finance. This can lead organizations to choose the legal form of a company, which is relatively easy to set up, rather than a cooperative or society. It is often large cooperatives with substantial human capital and connections that can operate best within this system.

Concerning societies and non-profits, various legal provisions enable organizations engaged in philanthropy and service delivery but have constrained advocacy-based organizations concerned with human rights, democracy and the environment.

Filling legislative and policy gaps

Apart from the need for laws and policies promoting SSE as a whole, specific gaps need to be addressed. While the role of social enterprises is gaining recognition in policy discourse and development plans, there is no specific legal definition or framework governing social enterprises. This, in turn, can generate confusion regarding the concept and core features of social enterprises. Lacking a legal status that recognizes their social value can also restrict the pool of financial, fiscal and other incentives that this sector needs to grow and compete on a level playing field. Furthermore, given that the scale and contribution of the SSE is poorly documented, the government can play an important role in gathering data and incorporating SSE into the national statistics system.

Notwithstanding these issues, SSE has considerable potential. Apart from the scale and developmental impact achieved by the cooperative sector and social finance, SSE has been incorporated in numerous areas of the economy. In sectors such as agriculture, where SEEOEs in many countries often produce low-value products, participation in higher value segments of the value chain is important. And whereas governments often promote SSE primarily as a means of enhancing welfare services and work integration, SSE in Malaysia seems well positioned to avoid this narrow approach. Beyond social policy objectives, SSE’s role in promoting multiple development goals including environmental protection, affordable and accessible finance, and supply chain and technological development could be strengthened.