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In this Issue

More Assistance for Women Entrepreneurs

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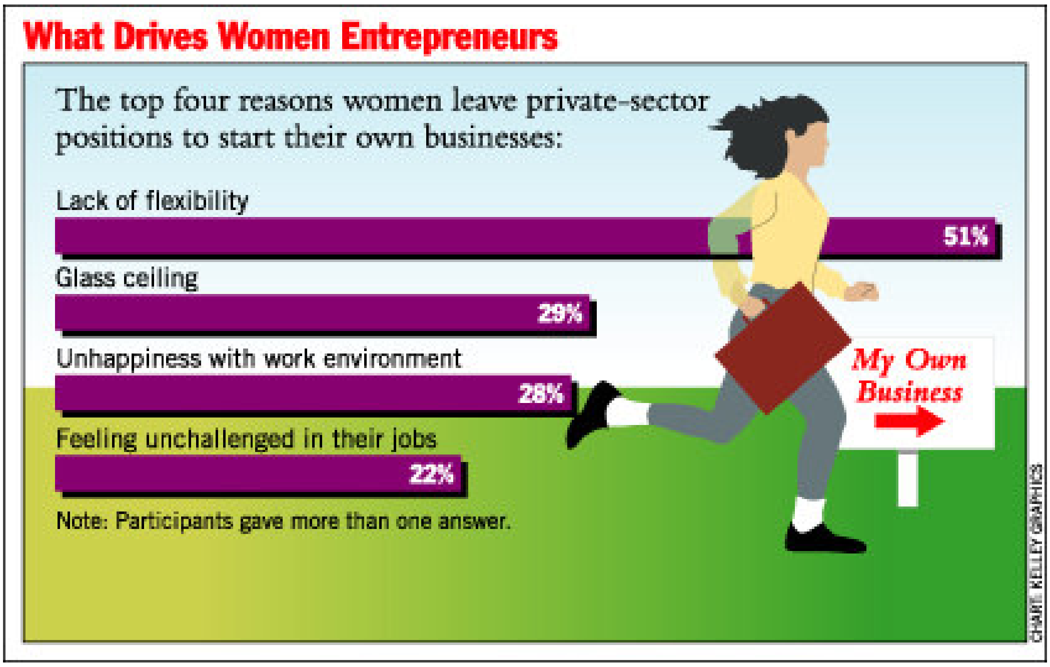
In India, where the purchasing power of women is still low (a survey reported that only 10 per cent of urban women own a credit card), women shoppers already account for a quarter of the total e-commerce sales last year, according to Accel Partners, an entrepreneurship consulting firm. Not surprisingly, 52 per cent of the online shopping transactions are in fashion and accessories, baby care, and home decor. Similar data for Malaysia is not yet available but anecdotal evidence suggests that the trend is the same — the role of women in driving e-commerce is significant and also increasing with time.

Social media commerce, or s-commerce, a subset of e-commerce, is becoming more popular in recent times. It is largely driven by Facebook commerce (f-commerce) and Instagram shops (instashops). In the s-commerce context, women are more than just shoppers. Social media shops set up by women, especially housewives, are mushrooming by the day. The reason is obvious — social media is the perfect platform for new women entrepreneurs with little capital. Drop shipping (where the retailer does not keep stock but transfers a customer's order to a manufacturer or wholesaler), for example, requires zero capital. It can be used as an avenue to test the market before operating on a larger scale.

S-commerce is often the only solution for certain types of entrepreneurs, such as differently abled persons and mothers, because it supports home based businesses. Working mothers who are struggling with maintaining a work-life balance, in particular, are increasingly making entrepreneurship a conceivable career option, motivated by the more flexible work arrangements. Many set up some form of social media venture as a side income before leaving their full-time jobs when their businesses grow.

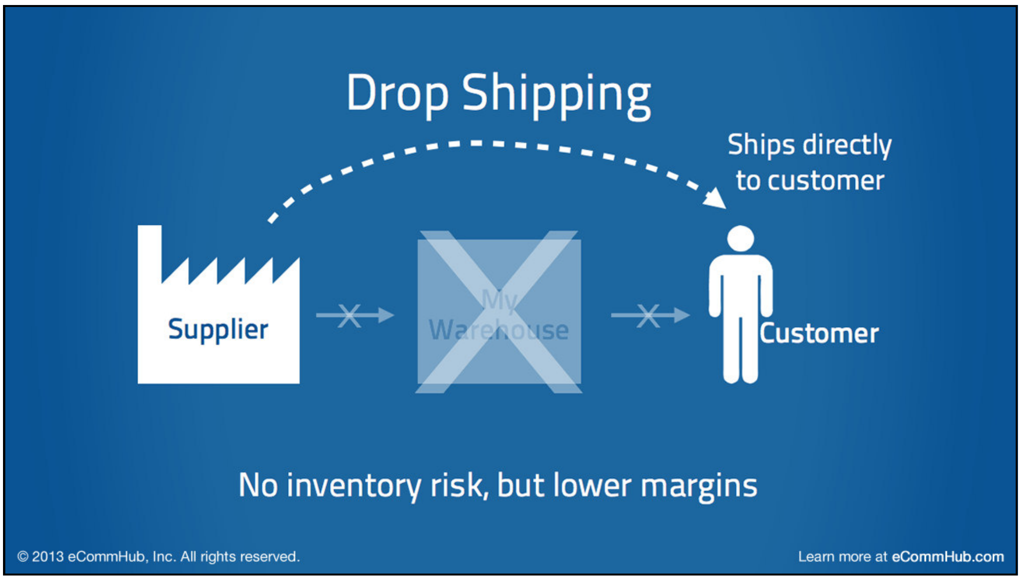
Although there have been numerous highlights of women social media entrepreneurs earning quite handsomely, a large number of women still consider their endeavour as a supplementary rather than a main source of income for the household. Many do not separate business funds from their personal savings, and as such, are neither able to track their income nor develop strategies for expansion. This is especially true of women operating on a part-time

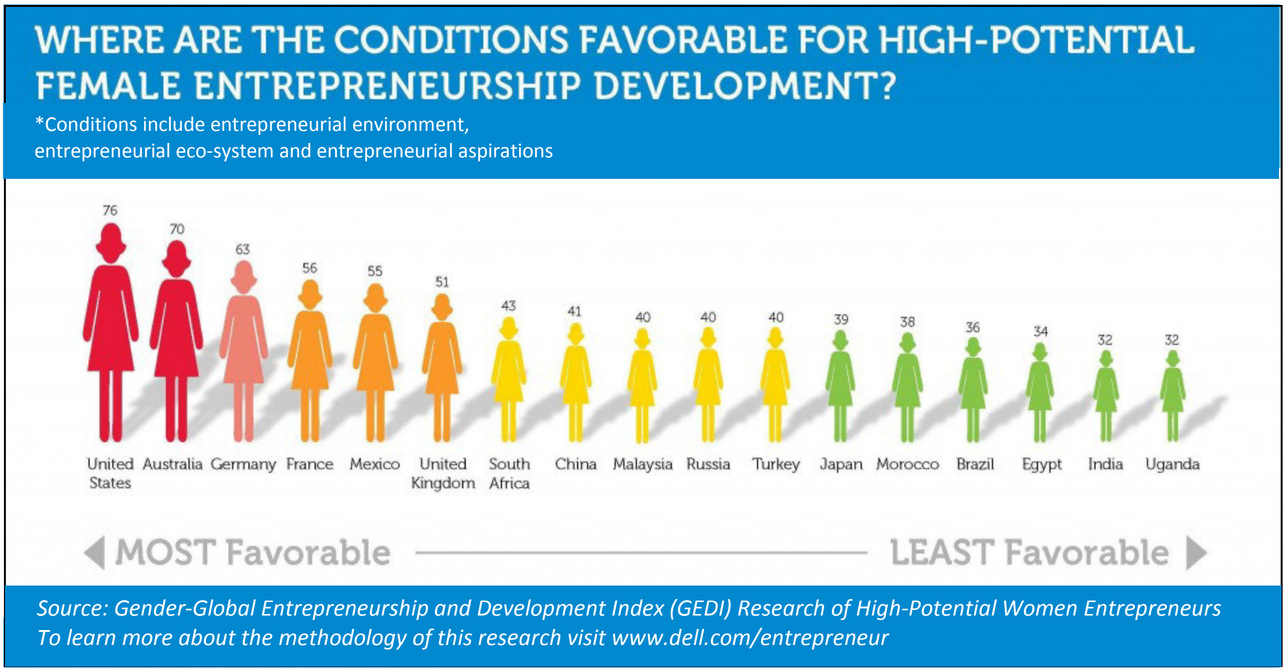


Source: Survey of 800 business owners by Catalyst, Inc., www.catalystwomen.org, and the National Foundation for Women Business Owners, www.nfwbo.org

basis. Businesses are often unregistered and are, therefore, considered informal. As much as s-commerce opens up opportunities for higher income, the trend points to a growing informal economy, at a time when women are already traditionally more prone to informality than men.

Some women, however, are more creative and seek to make a transition to formality. One example is the emerging trend of vendor concept stores, where store owners, apart from selling their own products, rent out small floor spaces to vendors in return for reduced or zero profit from the latter's goods. The vendors manage their own inventories while store owners provide customer service, either through themselves or by employing staff. Most of the vendors are fellow social media entrepreneurs, making up a small network in each store. Some vendors maintain their informality while accumulating experience, capital and customer base before setting up their own stores.





The above is only an example of the many ways women entrepreneurs progress (or return, depending on their pre-venture experience) from informality to formality. But the reality is that those who make the leap are outnumbered by those who do not.

A major barrier for online and offline women entrepreneurs alike is the lack of knowledge to develop their businesses. In the case of social media businesses, although faced with lower barriers to entry, they also operate in a competitive environment, which results in very thin profit margins.

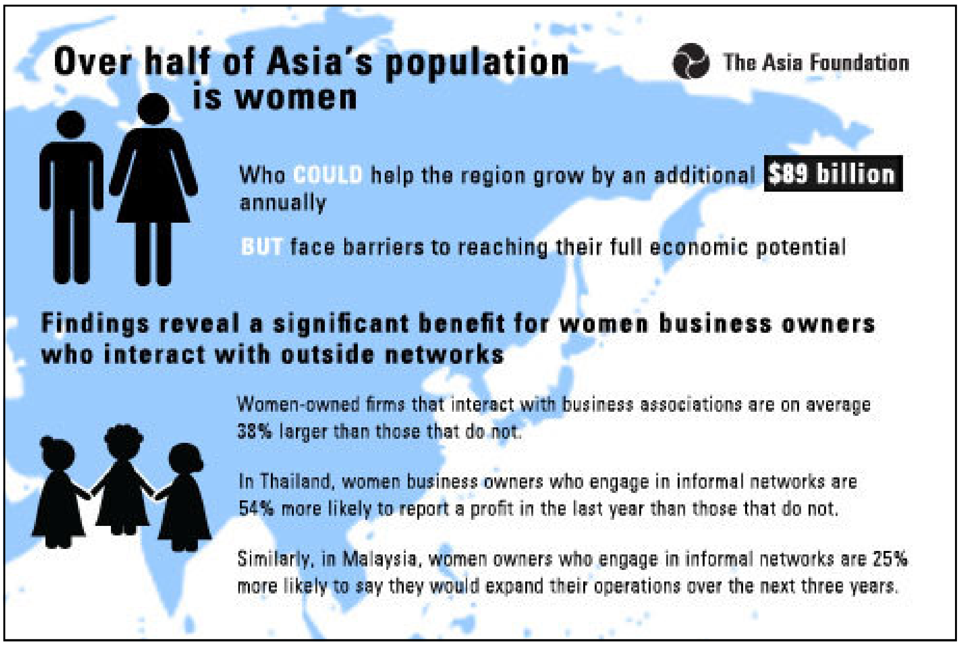
Due to the part-time nature of their businesses, many women entrepreneurs, especially those who have never been employed, lack even the most basic skills, such as bookkeeping and financial management. Additionally, a great number of them, particularly those operating exclusively in the social media, focus on the final end of the supply chain with very little value creation. They also lack access to important offline social networks where they would be able to gain more information on business and financing strategies. Access to capital, such as microfinance, which would enable them to achieve economies of scale, remains limited.

What these women need is a bridge to help them transition to formality. Public policy can help build this bridge.

A lot more can be done to assist these businesswomen. For many women entrepreneurs, their businesses are real and viable. They have the potential to grow and become an important source of household income. What these women need is a bridge to help them transition to formality. Public policy can help build this bridge. Among the policies that can be considered are as follows:

- Support women to get entrepreneurship started. These include financial assistance for working capital, skills training and coaching. Many women would appreciate easy access to information on the available funding programmes, training courses and networking events.

- Help women stabilise their businesses. Ensuring that a business does not close down after much financial and nonfinancial assistance is just as important as ensuring that a business takes off.



- Inspire women to expand their businesses. Many women are struggling to take their ventures a step further. Others have the know-how but simply lack the confidence to make the leap. For example, many women entrepreneurs are unwilling to hire staff and become an employer due to various reasons, such as a lack of trust towards outsiders, or the lack of knowledge on how to delegate their roles and on human resource regulations.

- Advocate risk-taking. This can be done through mentoring and coaching. Research by the National Women's Business Council in the US showed that the right advisors can help women business owners develop confidence and become less risk averse. The study also found that women who are most risk tolerant have higher expectations of their businesses, and as a result, are more likely to see their businesses grow.

- Recognise that the needs of women entrepreneurs are different than their male counterparts. Although men are increasingly willing to share childcare responsibilities, the Malaysian culture of seeing women as primarily responsible for childcare still prevails. Hence family responsibilities often impede women's ability to be as active as men in developing social and business networks and gaining knowledge. Entrepreneurship policies should be accommodative and cognisant of their special needs. Examples of actions that can be taken include more child-friendly and family-friendly net-working events and training courses.

- Encourage innovation. More often than not, successful businesses are characterised by a strong brand presence, originating from either a differentiated product or an effective marketing strategy, or both. Innovation remains a critical success factor. Women should be encouraged to add value to their goods, which may in turn require skills training.

Women-led businesses have much room to grow and can be harnessed as an important economic generator. It is therefore important to eliminate the barriers to women entrepreneurship. For a long time, we have recognised its potential; it is high time to take concrete actions.

Malaysia's GST — Well-intentioned but Architecture Potentially Flawed

By
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Scheduled to take effect on 1st April 2015, the proposed Goods and Services Tax (GST) in Malaysia is turning out to be a text book case of a Federal Government policy conceived with good intentions but marred by potential flaws in its architecture.

Conceptually, the proposed GST is a no-brainer. Properly implemented, GST offers several advantages to the Federal Government and to businesses.

First, because it is difficult to avoid, it is a highly efficient system of taxation. In contrast, corporate behemoths and high net worth individuals can find ways to either avoid or minimise their liability significantly for corporate and personal income taxes.

Out of a workforce of 12 million in Malaysia, only 1.7 million individuals pay income tax. This suggests two equally unwelcome interpretations: either 85.8 per cent of employees in this country do not earn more than the threshold of taxable income or Malaysia is teeming with artful tax dodgers.

Second, the implementation of GST will enable the Federal Government to broaden its tax base and boost government revenue significantly. Further down the road, this, in turn, will enable corporate and personal income taxes to be reduced sharply.

Singapore's experience is illuminating.

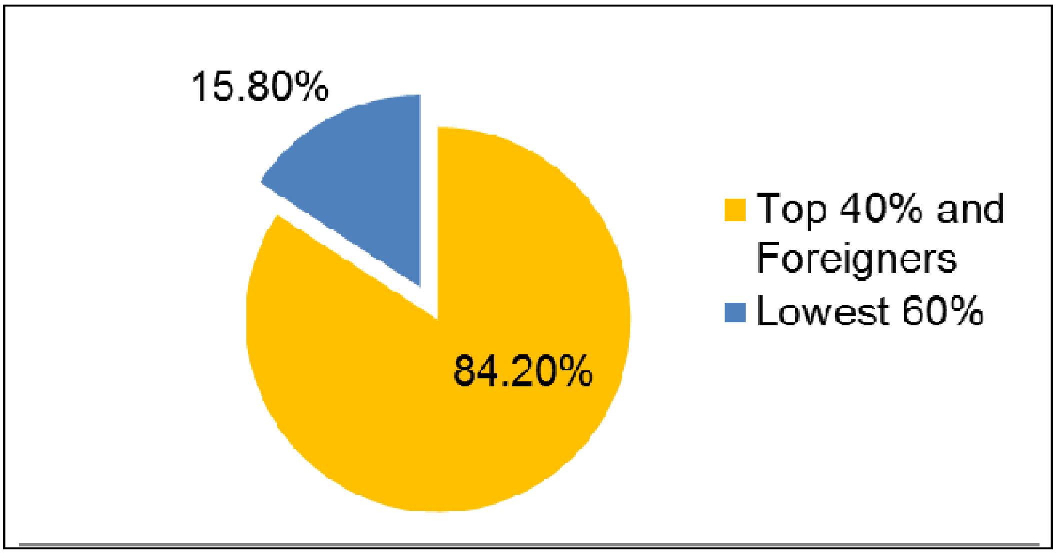
Ms Chia-Tern Huey Min, Deputy Commissioner of International Investigation and Indirect Taxes Group of the Inland Revenue of Singapore (IRAS) spoke at an ISIS Forum on GST some months ago. According to Ms Chia-Tern, after a 3 per cent GST was introduced on 1st April 1994, the republic has progressively raised the levy to the current 7 per cent level.

Table 1: Changes in GST, Corporate and Personal Tax Rates in Singapore

With effect from	GST rate	Corporate tax rate	Personal Income (in SGD)	
			Tax rates	Exemption Threshold
1 Apr 1994	3%	From 30% to 27%	From 3.5% to 33% to 2.5% to 30%	$0
1 Jan 2003	4%	From 24.5% to 22%	From 0% to 26% to 0% to 22%	From $7,500 to $20,000
1 Jan 2004	5%			
1 Jul 2007	7%	From 20% to 18%	–	–
Prevailing rate	7%	17%	0% to 20%	$20,000

Source: Taken from Ms Chia-Tern Huey Min's presentation at ISIS National Forum on Malaysia's GST: Possible Lessons from the UK and Singapore, 26 February 2014, Kuala Lumpur

Chart 1: Contributions to Total GST Collections, 2010



Source: Budget Speech 2011, Ministry of Finance, Singapore.

During the corresponding period, the corporate tax rate has been slashed from the 30 per cent to 27 per cent range to the current flat rate of 17 per cent, the lowest level in Asia after Hong Kong.

Individual tax payers have also benefitted significantly from GST — the top personal tax rate of 33 per cent in 1994 has been shaved to 20 per cent currently. (See Table 1)

Third, a broad-based GST coupled with targeted assistance given directly to lower income households was better placed to meet redistribution objectives, Ms Chia-Tern stated.

The biggest contributors to Singapore's GST were the high income earners and foreigners. Collectively, this group contributed 84.2 per cent while the contribution from the lowest 60 per cent of income payers was 15.8 per cent, she claimed. (See Chart 1)

Fourth, despite the introduction of GST, Singapore's tax structure remains highly equitable, she said. The top 40 per cent of top income households pay 71 per cent of all taxes, including income and property taxes, GST and other indirect taxes while the lowest 20 per cent of income earning households contributed only 7 per cent of all taxes. (See Table 2)

Fifth, the cost of collecting GST in the island republic is among the lowest of all taxes, Ms Chia-Tern said.

In 2012, the cost of collection per tax Singapore dollar for GST was 0.61 Singapore cents compared with SGD 1.23 for property tax and 0.55 Singapore cents for corporate tax, she pointed out.

Sixth, contrary to popular belief, Ms Chia-Tern said GST's impact on the cost of living only lasted for one year. In 1994, the year GST was introduced in Singapore, inflation rose to 3.1 per cent, significantly higher than the 2.3 per cent the year before.

Equally noteworthy, one year later, inflation fell and has been consistently lower than that in 1993. The sole exception was in 2008 when inflation accelerated to 6.6 per cent from 2.1 per cent the previous year. (See Table 3)

Out of a workforce of 12 million in Malaysia, only 1.7 million individuals pay income tax.

Table 2: Singapore's Tax Contribution Structure

Household Income Percentile	Tax Contribution
0% – 20%	7%
21% – 40%	9%
41% – 60%	13%
61% – 80%	18%
81% – 100%	53%

Source: Budget Speech 2011, Ministry of Finance, Singapore.

Table 3: Consumer Price Index

Year	Annual Inflation Rate (%)	Year	Annual Inflation Rate (%)
1990	3.4	2000	1.3
1991	3.4	2001	1.0
1992	2.3	2002	-0.4
1993	2.3	2003	0.5
1994	3.1	2004	1.7
1995	1.7	2005	0.5
1996	1.4	2006	1.0
1997	2.0	2007	2.1
1998	-0.3	2008	6.6
1999	0.0	2009	0.6

Source: www.singstat.gov.sg

What is worrying is three features of Singapore's well-designed GST are either absent or differ significantly from the Malaysian version.

Singapore's GST was intentionally designed from its inception to be revenue negative, Ms Chia-Tern said. For the first two years after implementation, Singapore's GST collection was less than the offsets claimed.

In the republic, GST-registered businesses can offset the GST paid for their purchases — known as the input tax — against the GST collected from the sale of their products — known as the output tax, a *Straits Times* article explained.

Singapore's GST was intentionally designed from its inception to be revenue negative...

This system of input and output tax is similar to that for Malaysia.

During the financial year 1994/1995, the city-state garnered only SGD 1.5 billion from GST against SGD 1.7 billion of offsets while the following year, SGD 1.6 billion was generated by GST against SGD 1.8 billion in offsets.

Thereafter, GST payments swelled to become the next largest source of Singapore government revenue, second after corporate tax.

For the fiscal year ended 31 March 2013, GST netted SGD 9 billion for the Singapore Government, more than four times the SGD 2.2 billion collected 10 years earlier, according to a *Straits Times* article.

Continually reiterating the increased revenue that the Malaysian Government hopes to collect from GST is the fiscal equivalent of an own goal.

Not surprisingly, Malaysian taxpayers believe they will be the biggest contributors to the Federal Government's coffers while reinforcing the unfounded suspicion that Putrajaya's finances are in dire straits, hence the need to boost revenues.

Equally notable, Singapore's threshold for GST was based on corporations' annual turnover of SGD 1 million in 1994 — a level that required only 15 per cent of all businesses to register for the levy, Ms Chia-Tern said.

This small number of businesses liable to pay GST has made this levy the cheapest in terms of collection costs.

In contrast, Malaysia's threshold has been set at RM 500,000 — a level that is far too low and could require thousands — if not millions — of medium-sized and small enterprises (SMEs) to register and possibly pay this levy.

Even if the SMEs are not required to pay GST, the paperwork involved in registering as well as setting up the appropriate accounting system for claiming input tax and for paying the output tax could be administratively onerous and could add significantly to businesses' operating costs.

Given the fact that Malaysia's GST is scheduled to take effect more than 10 years after its introduction in Singapore, a more appropriate threshold for this country would be a corporate revenue of RM 2 million annually.

Yet another striking departure from the norm in the island republic, the UK as well as many other countries, the Royal Malaysian Customs Department (RMCD) — instead of the Inland Revenue Board of Malaysia (IRBOM) — will oversee and collect GST.

According to a Malaysian tax expert, the rationale for giving the mandate to the RMCD is because it is the entity charged with collecting indirect taxes in this country.

... a more appropriate threshold for this country [Malaysia] would be a corporate revenue of RM 2 million annually.

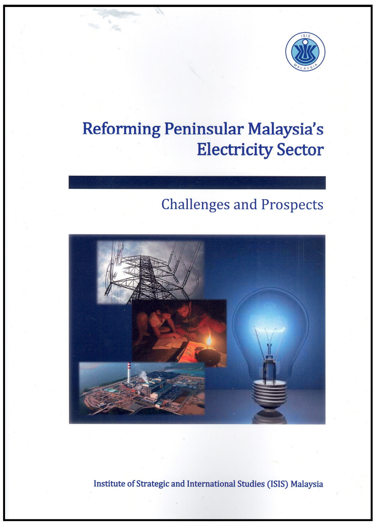
While RMCD is undoubtedly competent to oversee and collect GST, it lacks the one advantage the IRBOM enjoys — the ability to cross-check whether all companies that are potentially liable to pay GST do in fact register and whether the GST paid is commensurate with the company's turnover.

… the IRBOM [Inland Revenue Board of Malaysia] should be authorised to collect GST ...

Adopting the three salient features of Singapore's GST — GST designed as revenue negative for the first two years of its implementation; the threshold for the levy to be raised significantly higher; and the IRBOM should be authorised to collect GST — will go a long way towards dissipating public hostility.

Conversely, failure to do this could be a gift in public relations terms to the publicity hounds in the opposition parties.

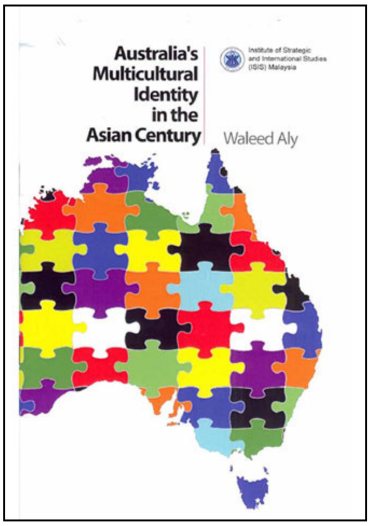
Latest ISIS Publications



Reforming Peninsular Malaysia's Electricity Sector: Challenges and Prospects (E-book)
Kuala Lumpur: ISIS Malaysia, 2014

The e-book discusses the prospects and challenges associated with the objective of reforming the power sector in Peninsular Malaysia. It revolves around four themes, namely energy market outlook and regional experience with electricity market reform; electricity tariff review in Malaysia and its expected impact; reforms to increase competitiveness in Malaysia's electricity sector; and transition and adaptation to a new sectorial structure. These themes were drawn from the discussions that took place during the *Public Forum on Reforms in Peninsular Malaysia's Electricity Sector*, which ISIS Malaysia and MyPower Corporation co-organised on 7 November 2013.

Available at: http://www.isis.org.my/attachments/e-books/Electricity_Reforming_Final-book.pdf



Australia's Multicultural Identity in the Asian Century
Author: Waleed Aly
Kuala Lumpur: ISIS Malaysia, 2014

This monograph is based on a talk titled, 'Australia's Multicultural Identity in the Asian Century', given by the author at an ISIS International Affairs Forum on 30 April 2013 in Kuala Lumpur.

Available at: http://www.isis.org.my/attachments/e-books/Waleed_Aly.pdf

INSTITUTE OF STRATEGIC AND INTERNATIONAL STUDIES (ISIS) MALAYSIA

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