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Aaron Sarma on Budget 2023: Double Down On Digital Development

By Aaron Sarma October 2, 2022

- *Best time to invest in startups, more money to Penjana Kapital*
- *To be a digital nation, coding must be fixture of national curriculum*



For Budget 2023, Aaron Sarma expects to see significant allocations for capacity building, broad based digital adoption and facilitation of investment capital in the market.

The time has arrived again for us to discuss the national budget and in this case, its implications on the innovation and entrepreneurship sector in Malaysia. Over the last few years we have seen some really meaningful programmes come to bear which I believe have had a nett positive impact on the digital economy.

Examples of such innovations include the SME Digitisation Grant, e-Wallet Credits for B40, commercialisation grants for Startups and Dana Penjana. The investments we have made over

the last few years have already been shown to bear fruit. We are on track to having the digital economy be 25% of GDP in the next 18 months.

This year, however, while we are dealing with macroeconomic headwinds, is a great time to invest in the future which will yield results in the years to come. My expectation is to see significant allocations for capacity building, broad based digital adoption and facilitation of investment capital in the market.

To that end there are six main areas that I hope to see addressed in this upcoming budget:

1. Access to digital solutions for the rakyat

In previous budgets we saw allocations for credits that are deposited in eWallets. This was designed to help encourage financial inclusion for the B40 community using fintech. We should continue to encourage greater access to these solutions to help support marginalised groups.

Given the current challenges around fuel prices, perhaps a similar scheme can be used to subsidise fuel costs using e-wallets.

Infrastructure in rural areas needs to be further prioritised using JENDELA. It's good to see that 4G coverage is at 92.3% as of Q1 this year. We now need to expedite the roll out for 5G in our country lest we be left behind in the race for 5G solutions and applications.

2. SME Digital Adoption

I hope that we see an increase in allocation of the SME Digitisation Grant in this upcoming budget. In the last budget US\$43.13 million (RM200 million) was allocated. Not only did this help thousands of SMEs get access to digital solutions but it also impacted the supply chain for digital solutions in a positive way. Hundreds of software providers were able to sell their solutions to more customers even during the pandemic and many traditional SMEs were introduced to all kinds of software solutions.

We hope to see this allocation be increased to US\$86.26 million (RM400 million) and refocused to ensure coverage of SMEs and micro-SMEs who had not previously benefited from this program.

3. Talent development & retention

In the innovation economy the most important resource is talent. Our ability to develop, attract and retain talent will determine our success in the next decade. Unfortunately we are currently lagging some of our regional counterparts.

I've been writing for years about the need to educate our children with the basic ability to code. Arguably, if we want to develop a digital nation, we need to be able to wield technology. Coding needs to become a fixture of our national curriculum.

From a defensibility standpoint this will ensure that we are not dependent on foreign technical talent. We also need to be able to hire top talent from abroad should local talent be lacking while we build our own bench of technical talent. We hope to see subsidies for technology firms to hire top tier talent from around the world. Not only will this talent help local entrepreneurs and corporations build top tier solutions but the slipstream of knowledge transfer will ensure local acceleration of skills development in our local talent base.

4. Startup incubation and commercialisation

This item is certainly close to my heart. In the last budget Cradle fund was allocated RM20 million to create 5,000 startups. Cradle plays a really important role in developing new startups in the pre-seed space. What I hope to see is that this budget is increased to at least RM30 million to fund the prototyping of new ideas instead of commercialisation or investment.

[RM1 = US\$0.22]

MRANTI also needs to be supported further with at least RM50 million to develop 4IR solutions. If we are truly serious about building a 4IR economy we need to triple down our investments in R&D centres that MRANTI can support. This will spur more innovation and ideas that can be commercialised for entrepreneurs to create a new generation of startups.

MDEC should also be supported with an allocation for market access to facilitate digital exports for our startups. What's clear is that if we want to build hyper growth and valuable startups, we need to facilitate expansion for these companies outside Malaysia.

What is equally important is that there's a sense of connectivity and synergy between these agencies. There should be less overlap between the offerings of each agency so entrepreneurs can extract maximum value and deliver meaningful impact.

5. Funding Ecosystem

One of the most exciting things to come out of the last budget was Dana Penjana or Penjana Kapital, a RM1.4 billion fund of fund program. The key feature of Penjana Kapital was that it would leverage expertise from eight VC firms. It's a good example of how the government can use its reach and capital to facilitate investments through private sector participation. 40 startups have benefitted from this program already, supporting thousands of jobs.

Now that the allocation for the first round of funding is complete my hope is that we will see a new round of capital deployed to create new venture capital partnerships through the next batch of Penjana Kapital allocations. This is the best time for us to invest in the best startups in Malaysia and the region. We should at least double the last allocation to raise RM3 billion for our ecosystem, launch a dozen new funds, fund hundreds of startups and create tens of thousands of new highly skilled jobs.

6. Government Transformation

Finally, one of the new initiatives announced last year was the MyDigital Roadmap. A significant element of this roadmap was government transformation. I believe if we are serious about building a robust digital economy, we need to ensure that all our ministries and agencies are digitised with highly competent expertise. Processes need to be updated and tools should be re-engineered to deliver value to the rakyat. Perhaps we need a Chief Technology Officer for Malaysia to help bring us into the future.

Conclusion

While the next year is going to be a challenging one for the economy at large, not just in

Malaysia but around the world, I think this is an opportune moment to really invest in our digital economy. We've made some really important strides over the last few years and this year is a year for us to double down on these opportunities. The next breakout story is upon us. This is not the time to take the foot off the gas.

Like many Malaysians I look forward to seeing what the government has in store for us in 2023 and I remain optimistic that together we can make a change for a brighter future.

Onwards & Upwards!

Aaron Sarma is an entrepreneur, speaker and investor. He is a co-founder and serves as General Partner at ScaleUp Malaysia Accelerator and Co-Founder of a startup studio called Remote Ventures. He is the founder of Touristly/Vidi which was acquired by AirAsia in 2017. Subscribe to his newsletter for more information.