Melaka SME Resilience Profile
Activating Melaka Riverfront to Achieve the SDGs
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Introduction

Catalyzing City Resilience Solutions

In Melaka (Malaysia), the Resilient Cities Network (R-Cities) is running the Catalyzing City Resilience Solutions (CCRS) program with support from the Citi Foundation to help the local economy recover from the Covid-19 pandemic. This recovery will catalyze urban resilience by empowering and strengthening a selection of critical small and medium enterprises (SMEs) to develop locally relevant solutions.

Together with the Melaka Historic City Council (MBMB), R-Cities has identified the opportunity to use the CCRS program to revitalize economic activity along the Melaka riverfront in innovative ways. By co-creating interventions or solutions with MBMB and local SMEs as the main program beneficiaries, the program will promote economic diversification, new tourism models and a more flexible and adaptable approach to dealing with the uncertainty of future shocks.

SME Resilience Profile

To ensure that all program activities are responding to the city’s needs and are grounded in the realities that the critical SME sectors are facing, the CCRS program starts with assessing the challenges that both the Melaka River and the surrounding tourism sector are facing to understand the industry’s role in, relationship to, and impact on the community.

This Melaka SME “resilience profile” presents the results of the assessment process, summarized from two documents. The first is the SME Recovery Assessment & Accelerator Concept, prepared by Think City in December 2021 to better understand and design effective solutions that address Melaka’s unique SME recovery needs for long-term resilience. The second document is the Accelerator Report and Pilot Concept prepared by the current local implementation partner Urban Scale in close coordination with MBMB in May 2023, which identifies key issues, suggestions and ideas to empower the local economy through engagement with the SMEs, communities and other stakeholders.

Context

Melaka River – From trade and transport to tourism

Sungai Melaka – the Melaka River – has been critical to Melaka’s historical development, from trade and transport to tourism. Melaka experienced its “golden era” in the 15th century as a key trading hub along the Melaka Straits – drawing in people and business from East and West. However, Dutch and British rule resulted in the fall of Melaka’s prominence. Trade was diverted to Singapore and Penang, and Melaka became a backwater city.

In 2008, Melaka became a UNESCO World Heritage Site, leading to an explosion of tourism. The Melaka River rehabilitation and beautification program contributed hugely to Melaka’s thriving tourism industry. However, the Covid-19 pandemic has eroded much of this success. Furthermore, Phase II of the Melaka Riverfront, the next stretch beyond the main tourism attractions, has not fully benefited from this revitalization program and is experiencing even less economic activity.

Indeed, the Covid-19 pandemic has severely disrupted Melaka’s economy – many major industry players were forced to lay off workers in a bid to weather the pandemic, and several SMEs were forced to close. The tourism industry was among the hardest hit due to the drastic fall in visitors, with 70% fewer tourist arrivals in 2020 compared to 2019, 2.5 million Malaysian ringgit (540,000 US dollars) lost per day in Jalan Hang Jebat (Jonker Street) during the first lockdown. Jonker Street is known for its historical houses dating back to the 17th century, and its Chinatown area called Jonker Walk is a popular tourist attraction. Meanwhile, 50% of Melaka’s tourism stakeholders did not renew their memberships with Malaysian Association of Tour and Travel Agents.¹

A new strategy is needed to evolve Melaka into a more economic and socially resilient city. Melaka can re-position the role of its river as a key catalyst for local economic recovery and development in the “new normal”. To re-adapt its economy, Melaka should diversify and shift away from the mass tourism model to cultivate authentic and tailored cultural experiences that prioritize the local community and space, as well as targeting specific tourist groups.

¹ Source: The Star (2021): Covid-19: Half of Melaka’s tourism stakeholders have closed shop, says MATTA rep
Understanding the SME ecosystem

Melaka’s SME landscape

SMEs are the backbone of Melaka’s economy

SMEs are the backbone of Melaka’s economy, representing 98.5% of business establishments overall and contributing 38.2% of the national gross domestic product (GDP). On a national level, SMEs were particularly hard hit by the pandemic, with their GDP growth rates dropping to -7.3%, compared to national (-5.6%) and non-SME (+4.6%) GDP growth. Prior to 2020, SME annual employment growth was positive. However, due to the impact of Covid-19, the growth rate in employment for SMEs fell by -0.9% in 2020.

SMEs are important drivers of Melaka’s economic activity. Relative to the national-level, Melaka has a higher proportion of SME establishments, SME value added to GDP, and persons engaged in SMEs. Service-sector SMEs are particularly important to Melaka’s SME landscape, with 89% of SME establishments in Melaka being from the service sector (Figure 1, left). The 73% drop in Melaka’s tourist arrivals (Figure 1, right) has inevitably created significant pressure, particularly on tourist-dependent businesses.

Activating Phase II of the Melaka riverfront

Phase I of the Melaka River is the main attraction for domestic and international tourists, where the UNESCO World Heritage Site is located. As Phase I is already a famous tourist destination, Phase II was selected as the focus area for the SME recovery assessment based on the criteria of opportunity and potential for impact (Figure 2).

In October 2021, surveys and interviews were carried out with key stakeholders across Phase II, including local SME owners, government agencies, a local property developer, and a city councilor, to gain a greater understanding of Melaka’s SME recovery needs and riverfront improvement opportunities. Responses were analyzed and resulted in five key categories of SME recovery needs and six key recovery themes that were frequently mentioned by the SMEs (Figure 3).
Based on the rapid assessment and MBMB’s scope and priorities, the team identified the Sustainable Development Goals (SDGs) Park as the intervention area. **SDGs Park, along the Melaka Riverfront, is an MBMB initiative to promote SDG awareness among the community in Melaka City.** It is located at Plaza Melaka Sentral and within the DUN Pengkalan Batu area, with a total area of 3 acres and a pedestrian path 1 km in length. According to MBMB data, there are around 37 SMEs in DUN Pengkalan Batu as of 2022.

Although Phase II is equipped with pedestrian walkways and existing facilities such as public toilets, business areas, shelters and more, the area is underused as only a limited amount of people use the facilities within Phase II. At Plaza Melaka Sentral, fewer than 50% of shophouses are occupied and a majority of the ground floor storefronts are inactive.

While there are a few kiosks within SDGs Park, they do not perform well. During an interview, one of the kiosk owners said, “as a merchant in Melaka, I really felt the impact during Covid-19, when I had to close my business.”
Shocks and stresses

The impact of Covid-19 and climate change risks in Melaka

Shocks

- Pandemic
- Flooding

Stresses

- Urban heat
- Unemployment
- Inequality
- Traffic congestion
- Air pollution

Covid-19 has severely affected Melaka's economy, particularly its SMEs. It has caused significant disruption to SMEs' financial flows and operating models, forcing the closure of many businesses. According to the Jonker Walk management committee deputy chairman, interviewed in August 2021, “businesses and eateries renting shops along the street have decided to give up, but traders and hawkers in the night market are holding on”.

Climate change is likely to pose additional uncertainty and long-term risk to SME operations in Melaka due to increased flooding and the likely limited capacity of SMEs to recover from multiple natural shocks, such as the 2006 monsoon and 2017 flash floods. Mapping Melaka Central's flooding risk (Figure 4) highlights the vulnerability of SMEs along the riverfront to future disruptions, which will affect Melaka's overall economy. Additionally, Melaka has been facing rising temperatures, which will likely continue to climb as climate change worsens.

7 Source: Climate Central – Coastal Risk Screening Tool
Gaps and opportunities for resilient recovery

Integrating SDGs into the economic and social revitalization of the Melaka riverfront

The CCRS program offers an opportunity to co-design SDGs Park with the surrounding community to activate the area and promote local tourism in support of SME businesses in DUN Pengkalan Batu. A new design concept is being proposed for a more vibrant and livelier park that drives local economic activity, promotes an active lifestyle, and improves accessibility, while highlighting the importance and integration of urban resilience and SDGs in Melaka. In addition, this development will involve multiple stakeholders and have an impact on communities in Melaka with the concept of leaving no one behind and equality and prosperity for all, regardless of background.