



# SECTION II

## SME DEVELOPMENT POLICIES AND PROGRAMMES

|  |     |
|--|-----|
| Chapter 3 : Policies on SME and Entrepreneurship Development                                       | 044 |
| Chapter 4 : SME and Entrepreneurship Development<br>Programmes in 2016                             | 058 |
| Chapter 5: SME and Entrepreneurship Development<br>Programmes in 2017                              | 066 |
| • Feature Programme: Mega TUBE Programme —<br>Strengthening Youth Entrepreneurship Towards<br>TN50 |     |
| Chapter 6: Access to Finance   | 078 |
| • Box Article: Leading Entrepreneur Accelerator<br>Programme (LEAP) Market                         |     |

# Policies on SME and Entrepreneurship Development

**T**he Government is committed towards creating a conducive business environment for SMEs to grow which is manifested in the introduction of enabling policies and initiatives for SMEs and entrepreneurship. With practicality in mind, the Government has introduced the Companies Act 2016 which aims to simplify the procedures of doing business in Malaysia.

The Government also introduced the Malaysia Productivity Blueprint to chart the journey specifically towards increasing the productivity of businesses, including SMEs. The need for SMEs to shift towards productivity-driven growth has now become more imperative. Thus, SMEs need to further shift towards automation and digitalisation by aligning their business to the latest trends, namely the Megatrends, 4<sup>th</sup> Industrial Revolution (IR 4.0) and the recently-launched Digital Free Trade Zone (DFTZ) in the country to further enhance productivity.

The coming new trends demand innovative and creative ways of doing business. SME policies and incentives must now be aligned with IR 4.0, smart manufacturing (Industry 4.0), e-commerce and increase the adoption of automation, mechanisation and robotics in order to harness the vast opportunities offered by these latest technological advancements.



## NATIONAL SME DEVELOPMENT COUNCIL (NSDC) AND KEY INITIATIVES

Since its inception in 2004, the National SME Development Council (NSDC) has been the driving force for SME development in Malaysia by setting strategic direction and formulating policies that act as catalysts for growth across all economic sectors. As the highest policy-making body, the NSDC has been crucial in promoting a more holistic and coordinated approach in the development of SMEs.

Several key initiatives bear witness to the success of the NSDC, among which are the adoption of a standard definition for SMEs, development of SME database, monitoring and analysis of SME performance, development of SME financial infrastructure and endorsement of the SME Masterplan (2012-2020) and its implementation exercises. The results from these initiatives are evident in the steady rise of the contribution of SMEs to GDP which rose from 29.6% in 2005 to 36.6% in 2016.

The Tenth Malaysia Plan (10MP) from 2011 - 2015 set the stage for a major structural transformation to push Malaysia towards becoming a high-income nation. To align SME development to the nation's bigger aspiration, the centrepiece of 10MP was to empower SMEs and entrepreneurship as the engine of growth and innovation. It was this objective that led to the formulation of the SME Masterplan.

The Masterplan puts in place the strategies, goals, measures and programmes to create an enabling environment to develop SMEs as the new engine of growth; with the focus being on facilitating ease of doing business, access to finance and market, human capital and entrepreneurship development as well as fostering innovation.

Under the Eleventh Malaysia Plan (11MP) from 2016 - 2020, the emphasis is on four key areas; namely productivity, innovation, entrepreneurship and inclusiveness which are aimed at promoting the growth, resilience and sustainability of SMEs so as to empower them to withstand economic challenges.

Among the key initiatives under 11MP are:

- Human capital development;
- Capacity building;
- Innovation;
- Market access;
- Financing; and
- Development of information and communications technology

SME Corp. Malaysia has also been tasked to coordinate entrepreneurship initiatives for the B40 households in collaboration with various Ministries and agencies. The B40 group includes entrepreneurs in rural and urban areas, Sabah and Sarawak, youth, women, Orang Asli, retirees and disabled people.



The objectives of these initiatives are to enlarge the size of the middle class, increase the use of ICT, improve support for entrepreneurship in an integrated manner and increase productivity by promoting the use of modern technology.

## UPDATES ON THE SME MASTERPLAN (2012 - 2020)

The SME Masterplan serves as a basis for the sector's development under 11MP as the country enters the last mile towards becoming a high-income nation. The Masterplan aims to bring SMEs to the next level of development in order to raise their contribution to GDP to 41% by 2020.

SME Corp. Malaysia as the Central Coordinating Agency (CCA) tasked to coordinate and drive the SME Masterplan is focusing on the implementation of the six High Impact Programmes (HIPs) which are critical for its success. The Masterplan has made considerable progress in improving the SME ecosystem as evident by the results of the six HIPs in 2016.

- **HIP 1: Integration of Business Registration and Licensing**

The Integration of Business Registration and Licensing project, which aims to facilitate ease of doing business, is led by the Malaysian Administration Modernisation and Management Planning Unit (MAMPU). The project involves the creation of a single point for business registration and licensing and is being rolled out in stages according to the readiness of the systems in all registration and licensing authorities involved.

The first deliverable, MalaysiaBiz Portal was launched by the Prime Minister on 23 June 2016 and can be accessed by the public at <http://malaysiabizportal.mampu.gov.my>. Currently, all licences totalling 2,918 from 508 licensing authorities have been uploaded onto the portal. A pilot run has been conducted through the Government Online Services Gateway.

- **HIP 2: Technology Commercialisation Platform (TCP)**

The project is being implemented by Agensi Inovasi Malaysia (AIM) through its subsidiary PlaTCOM Venture Sdn Bhd. To date, a total of 125 projects have been approved for integrated assistance, 174 licensing deals have been made and 22 innovations commercialised. Some of these products were considered ground-breaking innovations and game-changers in their respective industries.

- **HIP 3: SME Investment Partner (SIP)**

The first SME Partner has been appointed. Under the project, the SME Partner receives seed capital of RM15 million from the Government. In April 2017, a Request for Proposal for a second SME Partner was issued and six proposals from potential players were received. Meanwhile the establishment of a new entity – COPE SME Opportunity Fund 1 – is also in progress.



- **HIP 4: Going Export Programme (GoEx)**

The Going Export Programme is managed by the Malaysia External Trade Development Corporation (MATRADE) with the objective to internationalise export-ready SMEs. A total of 156 companies from 12 sectors have participated in the programme. A total of 27 market immersions were conducted and RM57 million in potential export sales were generated.

- **HIP 5: Catalyst Programme**

The Catalyst Programme which was undertaken by SME Corp. Malaysia in collaboration with the Malaysian Bioeconomy Development Corporation Sdn Bhd for the LED and BioNext Initiative has been completed. The ten companies that participated in the Oxford Accelerator Programme implemented their own individually-designed action plans for them to become high-growth companies. From 2017 onwards, the focus is on creating high-growth SMEs in the aerospace, medical devices and rail sectors.

- **HIP 6: Inclusive Innovation**

The HIP Inclusive Innovation project aims to assist the bottom 40% of the income pyramid (B40). The project is implemented by Yayasan Inovasi Malaysia (YIM), an agency under the Ministry of Science, Technology and Innovation (MOSTI). To date, 1,282 innovations have been received of which 315 were short-listed and 44 admitted into the project. Fifteen of these are ready for diffusion and will benefit 620 people in 12 communities.

**Table 3.1:** The 6 HIPs of the SME Masterplan

| HIP 1:<br>Integration of Business<br>Registration and Licensing   | HIP 2:<br>Technology Commercialisation<br>Platform (TCP)  | HIP 3:<br>SME Investment<br>Partner (SIP)  |
|---|---|--|
| Create a single registration point through interfacing of the current National Business Registration System i.e. MyCoID and the National Business Licensing System i.e. BLESS | Establish a national network of privately-managed platform to promote innovative ideas from proof of concept to the commercialisation stage | Provide early stage financing through the establishment of investment companies to invest in potential SMEs in the form debt, equity or a hybrid of both |
| HIP 4:<br>Going Export Programme (GoEx)   | HIP 5:<br>Catalyst Programme  | HIP 6:<br>Inclusive Innovation   |
| Offer customised assistance to new exporters and SMEs venturing into new markets. Export-ready SMEs can avail to comprehensive support assistance                             | Create homegrown champions through a targeted approach with support in the area of financing, market access and human capital development   | Empower the bottom 40% of the income group to leverage on innovation through the transformation or rural community through hand holding approach         |



## SMEs UNDER BUDGET 2017

With an allocation of RM6.7 billion for SMEs, the focus of Budget 2017 is on developing entrepreneurship, financing for microenterprises and special assistance for the B40 group. The Budget also takes into account the Bumiputera Agenda in increasing opportunities for Bumiputera entrepreneurs. Measures towards internationalisation of SMEs are also being addressed in the Budget.

In order to further promote SME development, the SME tax rate will also be reduced from 19% to 18% on chargeable income for the first RM500,000 effective from year of assessment 2017. Budget 2017 is inclusive and encompassing all target groups, benefiting particularly SMEs.

## STARTUP & SMEs PROMOTION YEAR (SSPY) 2017

In the 2017 Budget speech, YAB Prime Minister announced 2017 as the 'Startup and SMEs Promotion Year' where a whole range of activities to elevate and promote the startups and SMEs will be run throughout the year. This announcement also came as a recognition to the role of SMEs in significantly contributing to the nation's economic growth, labour market and social integration.

The Startup & SMEs Promotion Year 2017 (SSPY 2017) campaign was launched on 30 March 2017 by Finance Minister II. With its tagline "Shaping Ideas, Building Future", SSPY 2017 is the unifying campaign for all ecosystem players; be it entrepreneurs, corporate entities, NGOs and Government agencies to find the right focus and fit to move forward together. Young entrepreneurs who are very talented and creative in their business ventures are encouraged to take advantage of SSPY 2017.

Realising the need to have a one-stop reference point and directory for entrepreneurs, the mySSPY apps was introduced by the National Entrepreneurship Development Office (NEDO), Ministry of Finance, in collaboration with the Malaysian Global Innovation & Creativity Centre (MaGIC) with the objective of assisting entrepreneurs to chart their own development roadmap through the various programmes available. The mySSPY app is available for download from the Google and Apple App Store.

## NEW DEVELOPMENTS WITH IMPACT ON SMEs

The Government launched two new initiatives – the Companies Act 2016 and the Malaysia Productivity Blueprint – which will bring positive impact on the development of SMEs and entrepreneurship. The revamped Companies Act 2016, among others, aims to facilitate the setting up and operation of businesses by introducing a new legal framework, simplifying of laws and procedures and removal of obstacles to encourage growth. Meanwhile, the Malaysia Productivity Blueprint aims to raise productivity levels at the national, sectoral and enterprise levels. The target is to double labour productivity growth from 1.8% per annum during the 10MP period to 3.7% per annum in the 11MP period. The Blueprint recommends various initiatives specific to addressing productivity challenges in the SME sector.



“ The Government launched two new initiatives – the Companies Act 2016 and the Malaysia Productivity Blueprint – which will bring positive impact on the development of SMEs and entrepreneurship ”

### i. The Companies Act 2016

Laws governing business establishments were previously defined by the Companies Act 1965. To ensure that Malaysia's company laws are in alignment with the developments in the global business community, the Government has replaced the 1965 Act with the Companies Act 2016.

The revamped Act which adopts the tenets of simplification, comprehensiveness and flexibility in order to create a conducive and integrated corporate legal framework for businesses and organisations puts Malaysia in line with international standards of doing business. The Act, which is being implemented in stages starting from 31 January 2017, also aims to make it easier to do business in Malaysia in order to promote the growth of local SMEs which are key agents of the economy as well as to attract more investments to the country.

### Basic Philosophies of Companies Act 2016

The underlying philosophies of the new Act:

- The introduction of a new legal framework applicable to all companies;
- Simplification of laws and procedures for businesses
- Removal of obstacles to facilitate the growth of private companies
- Provision of a regulatory framework to facilitate starting a business and reduce cost of doing business
- Providing protection to corporate directors and other stakeholders of a company
- Enhancing internal control, corporate governance and corporate responsibility
- Providing flexibility in managing company affairs
- Simplification of compliance provisions



**Table 3.2:** Key Features of Companies Act 2016

| Simplification of Company Incorporation and Decision-making  | Facilitate Share Capital Management and Restructuring | Reaffirm Importance of Audit and Financial Reporting   | Enhance Corporate Governance and Responsibilities          | Modernise Insolvency Laws to Manage Distressed and Insolvent Companies   |
|--|---|--|--|--|
| Single shareholder and director for private companies' incorporation   | Introduction of no par value regime                   | Removal of 9 <sup>th</sup> Schedule and subsidiaries' audit reports<br><br>(Companies need only prepare financial statements in compliance with approved accounting standards)   | Directors' remuneration to be approved at general meetings | Enhancement of receivership provisions   |
| For private companies removal of:<br><br>- Unanimity rule for written resolutions<br><br>- Annual General Meetings | Introduction of solvency requirements                 | Decoupling of annual return and audited financial statements<br><br>(Annual returns submitted on the anniversary of incorporation and financial statements to be circulated to members within six months of the company's financial year end and a copy lodged with the Registrar) | Removal of maximum age limit for directors                 | Introduction of corporate rescue mechanisms:<br><br>- Judicial management<br><br>- Corporate voluntary arrangement |



| Simplification of Company Incorporation and Decision-making    | Facilitate Share Capital Management and Restructuring                       | Reaffirm Importance of Audit and Financial Reporting  | Enhance Corporate Governance and Responsibilities     | Modernise Insolvency Laws to Manage Distressed and Insolvent Companies |
|--|---|---|---|--|
| Optional Memorandum & Articles of Association and constitution | Share buy-backs and alternative procedures for a reduction of share capital | Audit exemptions<br><br>The Registrar of Companies reserves the right to exempt certain private companies from appointing an auditor for the financial year | Introduction of solvency statements by directors      | Refinement of winding-up provisions                                    |
| Single electronic incorporation template - Superform           | Explicit requirements for dividend distribution                             | Mandatory auditor attendance at public company AGMs   | Director indemnification and insurance                | Enhancement of provisions on arrangements and reconstructions          |
| Unlimited capacity for companies                               | Introduction of flexible financial assistance                               | Auditor resignation - termination date specified  | Increased sanctions for breaches of directors' duties | Enhancement of creditors' rights                                       |

### Impact of Companies Act 2016 on SMEs

The Act is a boon for SMEs as one of its objectives is to help reduce costs of incorporation, maintenance and operations for businesses in Malaysia. The new Companies Act 2016 encapsulates the dynamic business environment in today's global corporate scenario, in line with the consistent growth of the Malaysian economy which demands a pragmatic reformation of local business laws and procedures in order for companies, particularly SMEs, to be competitive and capable to maintain sustainable growth.

The Companies Act 2016 is on par with global standards as it ensures that the route to starting a business in Malaysia is easier, cost-effective and flexible in order to enhance competitiveness, which in turn will attract more investments and promote the growth of SMEs.





## ii. Malaysia Productivity Blueprint

The Malaysia Productivity Blueprint, launched on 8 May 2017 by YAB Prime Minister, intends to serve as a holistic measure to target initiatives to raise productivity levels at the national, sectoral and enterprise levels. The Blueprint aims to double labour productivity growth from 1.8% per annum during the 10MP period to 3.7% per annum in the 11MP period.

Malaysia's Gross Domestic Product (GDP) has been steadily growing for over 25 years and this inclusive growth model has changed the very character of the economy, from one that was highly dependent on primary products to a more diversified economy that exports not just oil and gas and palm oil but also electrical and electronic products. Malaysia's labour productivity level is still growing in recent years, although at a slower rate compared to the high-growth period during the 1990s. Input-driven growth is becoming increasingly costly to sustain, with every unit of input injected into the economy yielding a decreasing rate of GDP growth.

To sustain its growth momentum, Malaysia needs to focus on improving its productivity performance to continue achieving sustained economic growth. It is imperative that there is a shift from input-driven to productivity-driven growth as an effective productivity increase will serve as the foundation for sustained economic growth and contribute towards Malaysia's aspiration to become a high-income nation.

### National Labour Productivity Growth Under 11th Malaysia Plan: 3.7% per annum

To achieve the national target, each sector must raise labour productivity to the targeted level as shown in the table below.

**Table 3.3:** Target for Each Economic Sector

| Manufacturing | Services | Agriculture | Mining & Quarrying | Construction |
|---------------|----------|-------------|--------------------|--------------|
| 2.6%          | 4.1%     | 3.6%        | 1.1%               | 9.6%         |



Successful implementation of the Blueprint will ensure that the outcomes will create more competitive and productive mindsets and uplift the nation's productivity to meet the 11MP targets.

## Five Key Strategic Thrusts

The Blueprint defines five key strategic thrusts that will form the basis for recommendations to raise productivity:

1. Building Workforce of the Future
2. Driving Digitalisation and Innovation
3. Making Industry Accountable for Productivity
4. Forging a Robust Ecosystem
5. Securing a Strong Implementation Mechanism



## National Level Initiatives

At the national level, ten initiatives which are anchored on the five strategic thrusts, require urgent action as outlined below.

**Table 3.4:** Five Strategic Thrusts of Malaysia Productivity Blueprint

| THRUSTS   | NATIONAL INITIATIVES  |
|---|---|
| Thrust 1:<br>Building Workforce of the Future             | Enforce structural changes to the workforce by formulating a comprehensive labour market policy including reducing reliance on low-wage and low-skilled workers |
|   | Conduct national strategic workforce planning in anticipation of changing needs across sectors  |
| Thrust 2:<br>Driving Digitalisation and Innovation        | Strengthen readiness, knowledge and adoption of technology by enterprises across sectors  |
|   | Strengthen digitalisation among SMEs through e-commerce and adoption of innovative technology   |
| Thrust 3:<br>Making Industry Accountable for Productivity | Gradually reduce reliance on non-critical subsidies, and ensure liberalisation efforts are linked to productivity outcomes                                      |
|   | Realign key grants, incentives, soft loans and other funding mechanisms to productivity metrics and outcomes  |



| THRUSTS   | NATIONAL INITIATIVES   |
|---|--|
| Thrust 4:<br>Forging a Robust<br>Ecosystem                    | Accelerate efforts to enhance whole-of-government approach towards addressing regulatory constraints   |
|   | Establish an accountability mechanism for the implementation of regulatory reviews by the Government   |
| Thrust 5:<br>Securing a Strong<br>Implementation<br>Mechanism | Institutionalise a strong coordination and governance model to secure implementation certainty across Government, sector and enterprise levels |
|   | Launch nationwide productivity movements to inculcate a stronger culture of productivity across all segments of society                        |

To roll out the national-level initiatives, among the immediate priorities which are considered game-changers that will significantly contribute to improvement in productivity include, among others:

- **Actively encourage adoption of 4<sup>th</sup> Industrial Revolution (IR 4.0) technologies by companies, across main economic sectors**

To meet the impact of IR 4.0, the creation of a dedicated pool of investment funds is proposed – or existing funds realigned – to drive the IR 4.0 agenda at the national level. To support industry adoption of IR 4.0, centres of excellence are to be identified and that the quality and coverage of digital infrastructure, particularly broadband, are to be improved.

- **Strengthen digitalisation among SMEs through e-commerce and adoption of innovative technology**

SMEs should be taken through the entire innovation process seamlessly under a single platform by providing access to technical assistance, market information, incubation and testing facilities. Promotion and marketing on the benefits of e-commerce to SMEs should be enhanced in collaboration with various platform providers while incentives should be streamlined towards ICT-based business solutions for productivity gains. Efforts should also be intensified for the internationalisation of SMEs through eTRADE and strategic market alliances.

To facilitate ease of doing businesses, the establishment of a single window for both business registration and licensing need to be expedited so as to reduce regulatory burden and facilitate targeted intervention. This is being implemented under HIP 1 of the SME Masterplan (2012 - 2020).



## Impact of Thrust 2 (Driving Digitalisation and Innovation) on SMEs

The thrust for digitalisation and innovation is of particular importance for SMEs as it focuses on technology as a game-changer of productivity growth. The thrust aims to encourage increase in investment for research and development, greater adoption of technology to improve efficiency and the development of an integrated business environment.

The two national initiatives which were recommended to achieve these goals:

- Strengthen readiness, knowledge and adoption of technology by enterprises across sectors by actively encouraging the adoption of IR 4.0 technologies by companies across the main economic sectors
- Strengthen digitalisation among SMEs through e-commerce and adoption of innovative technology

The Blueprint states that the path towards the adoption of smart manufacturing (Industry 4.0) and IR 4.0 technologies are unclear and that challenges with human capital and access to these new expertise prevails as well as the need for dedicated centres of excellence to provide an immersive experience to drive industry adoption. There is also a need to strengthen innovative practices and partnerships between industry and world-class technical players, beginning with priority sub-sectors such as electrical and electronic manufacturing.

Other initiatives to encourage adoption of IR 4.0 include providing a dedicated fund to promote the types of technologies and associated benefits of IR 4.0 to enterprises across sectors. The fund should also focus on the human capital development required for the successful set-up and implementation of IR 4.0 technologies. The alignment of financial programmes is also needed to facilitate the flow of funds to wider and more diverse types of enterprises. Sectoral centres of excellence will be established to undertake R&D for IR 4.0 to drive industry transformation. The roll-out of IR 4.0 should be prioritised according to sectors and industries that will have the highest impact from its application.

Initiatives under Thrust 2 are focused specifically on strengthening digitalisation among SMEs with the objective of increasing availability of technological infrastructure for SMEs so as to facilitate automation of current business models and, potentially, enhance their value-adding services. The strengthening of digitalisation among SMEs through e-commerce and adoption of innovation technology is an immediate priority activity to ensure SMEs are well-supported for the process.

SMEs need to have seamless movement through the entire innovation process under a single platform and supported by technical assistance, market information as well as incubation and testing facilities in line with HIP 2 in the SME Masterplan.

The establishment of a single window for both business registration and licensing also needs to be expedited to reduce regulatory burden and to facilitate interventions in line with HIP 1 of the SME Masterplan where the information portal for business registration and licensing is being rolled out in stages.



SMEs would need to be encouraged to venture into e-commerce. The promotion and marketing on the benefits of e-commerce to SMEs should be enhanced through collaboration with platform providers. Incentives for SMEs to participate in e-commerce would be streamlined towards ICT-based business solutions that will drive productivity gain and also provide support for SMEs to enter international markets through the eTRADE platform and strategic alliances.

## ACCELERATING BUMIPUTERA SMEs AGENDA

To enhance Bumiputera SMEs, SME Corp. Malaysia, SME Bank and MIDF provide an integrated assistance package based on the business phases from start-up to growth, expansion and export-ready. The assistance covers from microenterprises to export-ready SMEs which provide assistance such as working capital, ICT adoption, automation and branding.

From a total of 169 SME programmes amounting to RM5.85 billion implemented in 2017, 58 programmes are for Bumiputera SMEs amounting to RM1.01 billion that are inclusive and towards the wellbeing of the rakyat. These programmes include access to financing, human capital development, market access, innovation & technology adoption and infrastructure.

SME Corp. Malaysia implements four dedicated programmes that assist Bumiputera SMEs from start-up to exports. The programmes are Bumiputera Youth Entrepreneurship (TUBE) Programme which is to encourage and assist youths in business start-up; Bumiputera Enterprise Enhancement Programme (BEEP) which is to assist Bumiputera SMEs in product & process, certification, packaging, labelling and advertising; *Galakan Eksport Bumiputera* (GEB) which is to assist export-ready Bumiputera SMEs in export-related activities and programmes; as well as LGC Ascend 800 which is to transform high performance companies to large-sized companies / mini GLCs / MNCs.

To accelerate the growth of Bumiputera SME, three targets have been identified to be achieved by 2020:

- To increase Bumiputera-owned SMEs from 37.4% to 50%
- To increase large-sized Bumiputera companies from 400 to 800 companies
- To increase Bumiputera Start-ups from 1,436 to 12,000 entrepreneurs

To achieve the target 50% Bumiputera-owned SMEs, three main strategies have been identified:

- Strategy 1 is to increase youth entrepreneurs reaching 50,000 through Mega TUBE and e-Usahawan.
- Strategy 2 is to increase to 5,000 high-performing Bumiputera SMEs through LGC Ascend 800, TERAS, Vendor Development Programme (VDP) & Mid-Tier companies.
- Strategy 3 is to elevate 50,000 enterprises from micro to small through DFTZ, 6 HIPs (SME Masterplan), e-commerce initiatives and the Malaysia Productivity Blueprint. This strategy is also to encourage recipients from AIM and TEKUN to formalise their businesses.



**Chart 3.1:** Accelerating Bumiputera SMEs Agenda

