

Policies on SME and Entrepreneurship Development

Over the last one decade, SME and entrepreneurship development has emerged as a national agenda following the setting up of the National SME Development Council (NSDC). Initiatives over the years, including the institutional building and structured policy framework put in place, further reinforced by the implementation of the SME Masterplan has laid the foundation towards building a comprehensive ecosystem for SMEs. The policies in the New Economic Model (NEM), Economic Transformation Programme (ETP) and the Tenth and Eleventh Malaysia plans are consistent, focusing on the role of SMEs to bolstering economic growth and achieving the inclusiveness agenda. The SME Masterplan brings a new dimension to SME development, advocating public-private partnership and end-to-end facilitation, thus stimulating growth through productivity and innovation. Thus, despite the challenging economic environment, evidence shows that SMEs have continued to expand at a higher rate than large firms.

Moving ahead, the on-going trade liberalisation through the ASEAN Economic Community (AEC) and the Trans-Pacific Partnership Agreement (TPPA) is expected to open 'new doors' for market opportunity and access to greater resources. This is at a time when technological disruptions are also taking place with the advent of big data, robotics, cloud computing and other megatrends. Now as Malaysia steps into the final phase of its journey towards achieving a developed nation status, it is imperative that SMEs address these challenges and find new niches in the Fourth Industrial Revolution, for SMEs to assume a bigger role in the country's development process.

NATIONAL SME DEVELOPMENT COUNCIL AND KEY INITIATIVES

Since its inception in 2004, the **National SME Development Council (NSDC)** has continued to steer SME development in Malaysia by setting the strategic direction and formulating policies to promote the growth of SMEs across all economic sectors. As the highest policy making body, the Council has been crucial in promoting a more holistic and coordinated approach in SME development. The success of NSDC in this journey can be measured through a number of outcomes which includes adoption of a national definition for SMEs, developing SME database and statistics, monitoring and analysing SME performance to facilitate policy formulation, streamlining dissemination of information on SMEs, developing the SME financial infrastructure and endorsing the formulation of an SME Masterplan. As a result, SMEs have progressed well over the years with its contribution to GDP increasing steadily from 29.6% in 2005 to 36.3% in 2015.

The Tenth Malaysia Plan (10MP), from 2011 to 2015 was critical in setting the stage for a major structural transformation towards becoming a high income nation. Aligning SME development to this bigger aspiration, the focus under 10MP was to further develop SMEs and entrepreneurship as the engine of growth and innovation. This was the centrepiece that motivated the SME Masterplan. The Masterplan put in place the strategies, goals, measures, and programmes to create a conducive environment to transform SMEs to become the new growth engine. The main focus was on enhancing ease of doing business, access to finance and market access; promoting human capital and entrepreneurship development; and fostering innovative SMEs.

The **SME Masterplan (2012-2020)** introduced in July 2012 is aimed at bringing SMEs to the next level by raising its contribution to GDP to 41% by 2020. The implementation of the Plan is currently underway with some areas already showing results, particularly in innovation and enhancing ease of doing business. The Masterplan served as the basis for SME development in the Eleventh Malaysian Plan (11MP), as the country steps into the last mile to become a high income nation. With the various policy reforms underway, SMEs would also require adjustments and recalibration of their business operations to remain competitive. The Government through SME Corporation Malaysia (SME Corp. Malaysia) as the agency tasked to coordinate and drive the SME Masterplan concentrated on the implementation of the six High Impact Programmes (HIPs) which is critical for the success of the Plan. At the same time, the Plan also enlisted 26 other supporting measures to reinforce the ecosystem.

Taking into consideration the developments in the economy and statistics including the new SME definition introduced in 2014, the macro targets set under the SME Masterplan were reviewed in 2015. The SME GDP target for 2020 of 41% remained unchanged. SME share to employment was revised upward slightly to 65% in 2020 from 62% previously, while the share of SME exports was revised to 23% from 25% previously.

UPDATES ON THE SME MASTERPLAN (2012-2020)

At the recent NSDC meetings in December 2015 and June 2016, the focus of the deliberation was on the progress of the SME Masterplan. Early results were also noted in some of the programmes. For instance, under **HIP 2 – Technology Commercialisation Platform (TCP)** implemented by Agensi Inovasi Malaysia (AIM) through its subsidiary PlaTCOM Ventures Sdn. Bhd., has successfully brought eight new products to market. Some of these products were considered as ground-breaking innovations and game-changers in their respective industries.

The Programme which started in May 2014, has exceeded the target set in 2015 whereby 63 Intellectual Property (IP) have been transferred to the industry for commercialisation compared with 23 IPs targeted earlier. This programme has also led to commercialisation of 5 innovations last year compared with only 2 commercialisation targeted. As of August 2016, the programme had screened over 776 innovative projects and out of these, 88 have been approved and a total of 110 license deals have been signed. In 2016, TCP has also undertaken the Dengue Tech Challenge involving 14 innovations in diagnostic, treatment, vector control, vaccine and awareness solutions as well as the Halal Hi-Tech Challenge which is a national effort to drive Malaysian innovations to boost the Halal industry through strategic partnerships with Agensi Inovasi Malaysia (AIM), SME Corp. Malaysia, Jabatan Kemajuan Islam Malaysia (JAKIM) and Halal Industry Development Corporation (HDC).

For the bottom 40% of the income pyramid (B40), innovation is facilitated through the **Inclusive Innovation Programme (HIP 6)** which is implemented by Yayasan Inovasi Malaysia (YIM), an agency under the Ministry of Science, Technology and Innovation (MOSTI). Since its inception, the programme has received 262 innovations from various sources, with 22 shortlisted under the programme. Currently, Inclusive Innovation has six on-going projects namely, Portable Water Filter, Multi-purpose Truck, Sopa Dibbling Machine, Micro Hydro, CNC Machine and Paddy Thresher. Apart from that, there are 11 other new projects in the pipeline through the Inclusive Innovation Challenges.

Meanwhile, 111 SMEs have reaped the benefits of participating in the **Going Export Programme (HIP 4)** managed by Malaysia External Trade Development Corporation (MATRADE), to internationalise export-ready SMEs. These companies have managed to achieve potential export sales contracts amounting to more than RM14.5 million.



The Catalyst Programme (HIP 5), undertaken by SME Corp Malaysia in collaboration with Malaysian Bioeconomy Development Corporation Sdn. Bhd. (Bioeconomy Corporation) for the BioNext segment, has been completed with 10 companies that participated in the Oxford Accelerator Programme implementing the individually designed action plans for them to become high growth companies. Moving forward, the focus for 2016 will be in three sub-sectors namely medical devices, oil, gas & energy and shipbuilding & ship repair.

The project on **Integration on Business Registration and Licensing (HIP 1)** led by The Malaysian Administrative Modernisation and Management Planning Unit (MAMPU) on ease of doing business towards creating a single gateway for business registration and licensing is being rolled out in stages. The first deliverable, i.e an information portal, the MalaysiaBiz Portal, was officially launched by YAB Prime Minister on 23 June 2016 and can be accessed by public at <http://malaysiabiz.mampu.gov.my>. As at May 2016, a total of 1,917 licenses at the Federal level and 10 states agencies have been uploaded to the portal for 1,174 activities across all economic sectors. The portal is targeted to be fully complete with business registration and licensing information throughout Peninsular Malaysia by December 2016. First glimpse of the HIP 1 is expected to be realised in November 2016 when application for business registration and licensing can be done online through the Government Digital Gateway (MOSP). As this is a huge project, the ultimate integration of online services will be done in stages based on the readiness of the systems in other registration and licensing bodies.

Meanwhile, the **SME Investment Partner (SIP) Programme - HIP 3** is expected to begin towards end of 2016 as the SME Partner is appointed with seed capital of RM15 million from the Government. The supporting initiatives to reinforce implementation of HIPs in achieving the Masterplan goals are being implemented with substantive progress in the areas of policy reforms, human capital development and ease of doing business.

KEY INITIATIVES ON SME DEVELOPMENT UNDER THE ELEVENTH MALAYSIA PLAN (11MP)

Under the 11MP, emphasis is on four key areas namely, productivity, innovation, entrepreneurship, and inclusiveness aligned towards promoting growth, resilience and sustainability of SMEs able to withstand the economic changes. Among the key initiatives for SMEs under 11MP are:

a) Human capital development

- Reskilling and upskilling talent including through Technical Vocational Education and Training (TVET);
- Incentivise industries to mechanise and automate;
- Implement Productivity Linked Wage System;
- Implement certification programme to motivate SMEs in training employees;
- Implement training programmes on management of modern businesses; and
- SMEs co-fund local scholars to secure top talent.

b) Capacity building

- Increase scale through partnership with large corporations (LCs) or form multi-disciplinary consortia for bidding of international projects;
- Form a multi-disciplinary consortium for bidding of Government projects; and
- Expand factory-in-factory concept whereby SMEs to operate within multinational corporations (MNCs) facilities.

c) Innovation

- Scale up platforms such as AIM-Steinbeis, SIRIM-Fraunhofer, Public Private Research Network (PPRN) and PlaTCOM Ventures Sdn. Bhd.; and
- Establish joint-collaborative research and development (R&D), and design and development (D&D) with MNCs, LCs and SMEs.

d) Market access

- Encourage SMEs to leverage online retails through e-commerce and e-payment;
- Impose tighter conditions to MNCs to encourage sourcing of SME inputs; and
- Strengthen Vendor Development Programme.

e) Financing

- Establish independent panel of experts to evaluate business and innovation projects;
- Standardise loan procedures, reduce demand for collateral and monetise intellectual properties (IPs); and
- Simplify process for securing loans through PARTNER Programme.

f) Information and communications Technology (ICT) development

- Promote e-commerce, cloud services, IoT applications and services, e-payment and crowdfunding;
- Offer on-boarding programmes for SMEs, including platforms for online businesses;
- Match ICT start-ups with potential funders and technology partner; and
- Link entrepreneurs through digital platforms in telecentres with LCs.

In addition, SME Corp. Malaysia has been tasked to coordinate entrepreneurship initiatives for B40 households in collaboration with various Ministries and agencies. These initiatives will be implemented to achieve the following objectives:

- Enlarge the size of the middle-class society;
- Increase the use of ICT;
- Improve support for entrepreneurship in an integrated manner; and
- Increase productivity by promoting the use of modern technology.

The target group for these initiatives will include B40 entrepreneurs in rural and urban areas, Sabah and Sarawak, youth, women, Orang Asli, retirees and disabled people.

Highlights of Key Achievements on SME Development under TENTH MALAYSIA PLAN (10MP)

Technology & Innovation

- Creation of specialised agencies to drive innovation programmes such as AIM, YIM and National Science & Research Council.
- Intermediaries such as PlaTCOM Ventures and Steinbeis Malaysia Foundation were also set up to enhance collaboration and provide advisory services to both researchers and SMEs.

Human Capital Development

- Skills Development Fund expanded in 2011 to offer loans to employees for skills upgrading, which until 2014 has benefited 3,424 employees.
- Skills upgrading programmes for employees of SMEs benefited 32,850 employees as of 2014.
- Labour market transformation through Minimum Wage Order to benefit 1.9 million wage earners.

Bumiputera

- 413,278 entrepreneurs benefited from RM8.6 billion loans by Amanah Ikhtiar Malaysia and TEKUN Nasional.
- RM495.2 million financial assistance to 760 Bumiputera SMEs by MTDC, MAVCAP, MDV and MDEC.

Microenterprises

- Mean monthly household income of the B40 households increased to RM2,537 in 2014 (2009: RM1,440).
- A total of 1,726 GIATMARA incubators developed.
- More than 16,000 participated in various support programmes.
- Entrepreneurship and skills training programmes for poor Indian community, benefiting 167,500 individuals including youth.
- 10,812 youths participated in entrepreneurship programmes such as 3K Programme, Belia Bestari, Outreach Usahawan and Smart Partnership Usahawan Belia.

Liberalisation and Regulatory Reform

- 18 services sub-sectors were liberalised in 2012 that allowed up to 100% foreign equity within the wholesale & retail trade, healthcare, professional services, environmental services, telecommunications, courier and education sub-sectors.
- Competition Act 2010 enforced on 1 January 2012 provides a regulatory framework against anti-competitive practices such as the information of cartels, as well as horizontal and vertical agreements.

SMEs UNDER BUDGET 2016

On 23 October 2015, the Government announced the Budget 2016 with a total allocation amounting to RM267.2 billion. The 2016 Budget supports the long-term development of SMEs with a total of RM9.5 billion allocation, including RM107 million under the SME Masterplan to continue with the implementation of the High Impact Programmes. The highlights of the Budget include allocations for:

- Enhancing access to financing by reducing the cost of funds through the Shariah compliant scheme;
- Developing entrepreneurship;
- Promoting automation and technology transformation;
- Modernising microenterprises;
- Formalising the agriculture sector through Goods and Services Tax (GST) registration;
- Internationalisation of SMEs and mid-tier companies to becoming global champions;
- Commercialisation of R&D products particularly benefiting SMEs, youth and the bottom 40% of the pyramid; and
- Various tax incentives to encourage R&D activities (double tax deduction) and to promote exports (tax exempt on 10-15% of export receipts).

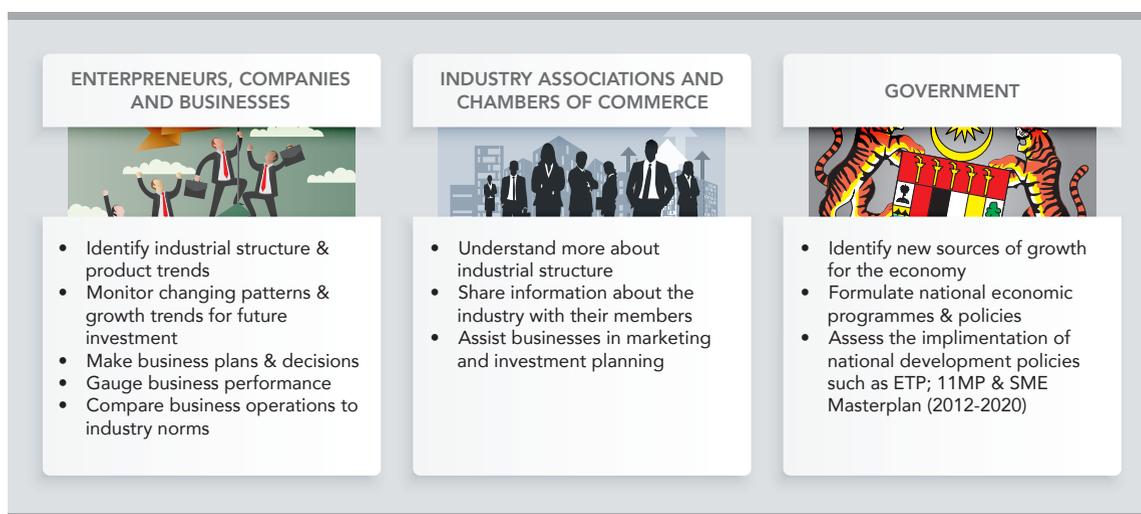
The initiatives under Budget 2016 are in line with the direction of 11MP and the goals of the SME Masterplan, in addition to reducing the burden of SMEs in the current economic situation. Taking into account the changes in global and domestic economic condition, on 28 January 2016, the Government announced the recalibration of the 2016 Budget, which was centred on two main pillars namely, to ensure that the economy remains on a strong growth trajectory as well as to protect and safeguard the welfare and well-being of the *rakyat*.

Overall, the measures announced under the revised budget is supportive of SME activities as it will help to cushion the impact from the current economic challenges. Measures on enhancing private consumption and tourism activities will have a multiplier effect on increasing demand for SME products and services. At the same time, the measures are also intended to ensure that viable businesses continue to remain and grow through restructuring of loans and having access to finance; reductions in cost of doing business; as well as improving market access including making inroads to the ASEAN market. The measures should help to enhance the overall resilience of SMEs to tide over the current challenging period.

OTHER INITIATIVES RELATED TO SMEs

i) Economic Census 2016

The Department of Statistics Malaysia (DOSM) is conducting the Economic Census 2016 for reference year 2015. In April 2016, DOSM began distributing questionnaires to 700,000 registered entrepreneurs, companies or businesses that operate in the agricultural, mining and quarrying, manufacturing, construction, and services sector (excluding distributive trade) via mail. The data obtained from the Census provides benefits to various stakeholders as follows:



Besides updating the SME profile, the Census is also meant for rebasing of GDP and other economic indices (Index of Industrial Production, Index of Services and Producer Price Index) as well as compilation of the Input-Output Tables and satellite accounts.

ii) New Levy for Foreign Workers

During the recalibration of Budget 2016, the Government announced few measures pertaining to the new levy for foreign workers, among which:

- Streamline the management of foreign workers' system by clustering the levy into just two categories (exclude maids);
- Implement the Rehiring Programme by issuing valid work permits to Foreign Workers without Permits (PATI) to fulfil the industry demand; and
- 30% levy contribution from HRDF amounting to RM200 million to be provided to enhance employees' (including retrenched workers) competency and skills through reskilling and upskilling.

Effective 18 March 2016, the new levies for foreign workers were implemented:

Levy for Foreign Workers	Old Rates	New Rates
Manufacturing	RM1,250	RM1,850
Construction	RM1,250	RM1,850
Services	RM1,850	RM1,850
Plantation	RM590	RM640
Agriculture	RM410	RM640

** Rates are effective for Peninsular Malaysia only*

The difference in rate increase is reflective of the income or incentives offered to workers in the particular sectors. In addition, the revised monthly Minimum Wages of RM1,000 in Peninsular Malaysia (from RM900) and RM920 for Sabah, Sarawak and Labuan (from RM800) came into effect on 1 July 2016.

As the country has moved towards full employment, foreign workers have been important in supplementing the workforce for Malaysia's economic success. Nevertheless there have been concerns that overdependence on foreign workers may be detrimental in the long run as it deters firms from investing in automation and mechanising their operations which has constrained productivity efforts. The policy focus is now towards better management of foreign works and having an appropriate number and right skill mix of foreign workers. At the same time, the Government is looking at incentivising firms to move up the value chain and to step up productivity through support programmes and even possibly tax measures.

