

# MESSAGE

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from YAB Prime Minister

Over the last decade, SME development in Malaysia has navigated a journey like no other. We have witnessed a growth momentum consistently sustained at a higher level than the overall GDP growth of the country. In 2015, SMEs contributed 36.3% to GDP from slightly below 30% in 2005, while employment share rose to 65.5% (2005: 56.8%) and exports to 17.6% (2010: 16.4%). The foundation has been laid with the institutional framework and a clear policy plan in place.

While not all SMEs can become the next 'Apple' or 'Microsoft', but collectively SMEs create jobs, uplift incomes, change the lives of communities and form essential building blocks for larger corporations. Hence, there is growing realisation worldwide on the role of SMEs to a well-functioning market economy. Similarly in Malaysia, SME is becoming a key catalyst to growth towards achieving a high income and inclusive nation by 2020. The implementation of the six High Impact Programmes and 26 other initiatives under the SME Masterplan are critical in meeting the goals and targets set for 2020.

Today, despite the increasingly challenging economic environment, SMEs remain a priority to the Government. In 2015, 150 SME development programmes were implemented with total funding of RM5 billion that reached out to more than 580,000 SMEs and its employees. Evidence suggests that despite the subdued business environment, SMEs were affected to a lesser extent compared to large firms. During the year, SMEs continued to remain resilient, expanding by 6.1% versus the overall economic growth of 5%. The encouraging performance was due in part to a series of proactive measures undertaken by the Government since early last year to cushion the impact of the economic slowdown. SME growth was sustained by continued domestic demand, particularly consumption and investment activities as well as provision of additional financial assistance.

Meanwhile, the execution of the High Impact Programmes under the SME Masterplan gathered momentum to lend further support to SMEs during the year. Greater focus was given for start-ups and existing companies to bring in innovation. These are not only sophisticated products or services, but also those affordable for the excluded group - the bottom 40% of the pyramid and rural communities. Innovative SMEs also depicted double-digit sales and export growth, and have generally higher productivity and wage levels than industry norms. New forms of alternative financing have emerged specifically to cater to innovative and high growth firms, while funding for microenterprises has widened to greater outreach.



The first phase of the High Impact Programme 1 was realised with the launch of a new information portal entitled 'MalaysiaBiz'. The Portal provides details on business registration and licensing requirements for business activities across all economic sectors, hence enhancing ease of doing business. To strengthen the long-term prospects of SMEs, the Government is also in the midst of finalising the National SME Bill 2016 which is expected to be tabled at the Parliament by end of this year.

On the outlook for 2016, SME GDP growth is expected to be sustained at around 5.0 - 5.5% amidst the continued headwinds from external challenges. The Government remains committed to SME development, with 125 programmes amounting to RM4.4 billion being undertaken by the various Ministries and agencies, mainly in the area of financing, human capital development, market access and innovation / technology adoption. Surveys by SME Corporation Malaysia indicate that SMEs are responding to the current economic challenges by undertaking cost-cutting measures, finding new markets and enhancing efficiency to remain competitive.

Moving forward, a new world order is emerging that will shape the business landscape. Key megatrends that will transform businesses all over the world include, Industrial Revolution 4.0; digitisation and technological convergence giving rise to Financial Technology firms, Big Data Analytics and e-commerce; as well as regional integration and opening up of markets. As businesses enter the new era, SMEs need to adjust and reap the benefits. In addition, economic forces have changed with the advent of the ASEAN Economic Community (AEC) in 2015 and the commitment towards the Trans-Pacific Partnership Agreement (TPPA) in 2018 leading to an expanded potential market size of over 1 billion for Malaysian SMEs. Indeed, SMEs need to rise to compete globally and at the same time, maintain the local flavour - 'think global, act local'.

I am confident that the progress thus far demonstrates the resilience and agility of Malaysian SMEs to transform their businesses and align to the new trends. SMEs need to shift their mind set and overcome barriers from the convergence of these forces which is themed in the 2015/2016 SME Annual Report — *Breaking Barriers*. Integrating into the global supply chain, meeting global standards, adopting best practises and sound governance will pave the pathway to creation of a new breed of world class firms. The public sector is also adjusting to remain relevant to the needs of SMEs and creating a conducive ecosystem for businesses. The goals and aspiration remain the same, as SMEs are mainstreamed and their growth trajectory is accelerated to increase their contribution to GDP to 41% and exports to 23% by 2020.



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Chairman of National SME Development Council  
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