

SME Developments and Outlook

Malaysian SMEs remained resilient, with real gross domestic product (GDP) sustaining a respectable growth of 6.1% in 2015 despite the weak external environment. The expansion was broad based, reflecting growth across all major economic sectors. SME GDP was supported by domestic demand, particularly consumption and investment activities. Proactive measures announced during the revised Budget 2015 in January and September 2015 helped to soften the impact on local SMEs as evidence showed that SMEs were less affected than the overall business community. Against a backdrop of a more challenging global and domestic economic environment, the Malaysian SMEs are expected to expand by 5.0 – 5.5% in 2016. This projection is barring any unexpected developments such as a sharp deterioration in private consumption, decline in tourism activity or fall in external demand.

DEVELOPMENTS OF SMEs IN ADVANCED AND EMERGING ECONOMIES

Since the global financial crisis in 2008/09, SMEs around the world particularly in the Organisation for Economic Co-operation and Development (OECD) countries have not fully recovered from the effects of the aftermath. It is believed that the journey towards recovery would need to rely on structural adjustments. Evidence shows that SMEs continue to face challenges particularly in accessing financing, which is key ingredient to the development of their business. Many governments in these countries were actively fostering SMEs to access to finance through provision of credit guarantees and also increasingly paying attention to financing innovative firms by introducing new programmes and encouraging venture capital.

Meanwhile in the developing countries, there is growing recognition on the important role of SMEs as an economic agent. Many governments have begun to place high priority to SME development as they strive to achieve sustainable and inclusive growth. In Africa and Asia, the financing gap is wide, especially larger when micro and informal enterprises are included. Some countries were looking at drawing up a proper SME policy framework and plan for future development while others were actively focusing on encouraging start-ups and small businesses as a means to creating jobs, reducing poverty and for overall social cohesion.

Some countries were looking at drawing up a proper SME policy framework and plan for future development while others were actively focusing on encouraging start-ups and small businesses as a means to creating jobs, reducing poverty and for overall social cohesion

At the Association of Southeast Asian Nations (ASEAN) level, the ASEAN Strategic Action Plan for SME Development (SAPSMED 2016-2025) was launched at the sidelines of the 27th ASEAN Summit in November 2015. The Plan, which was developed by the ASEAN SME Agencies Working Group (SMEWG), serves to strengthen the engagement with SMEs, including microenterprises, in an increasingly competitive economic environment. The aim is to support the growth and development of SMEs towards creating globally competitive and innovative SMEs by 2025. The Action Plan's five goals are to promote technology, productivity and innovation; increase access to finance; enhance market access and internationalisation; enhance the policy and regulatory environment; and promote entrepreneurship and human capital development.

Meanwhile, Asia-Pacific Economic Cooperation (APEC)'s Small and Medium Enterprises Working Group (SMEWG) is focussing on completing its own Strategic Plan for 2013–2016 and developing a new Plan for the period 2017–2020. As part of the plan, the Group has implemented a number of projects such as the Digital Economy Action Plan and Work Agenda (DEAP), which includes a workshop on Enhancing Micro, Small and Medium Enterprises (SMEs) Access to the Internet Economy. Through this workshop, SMEs are able to exchange information on the challenges they face. The workshop also highlights best practises for supporting SME access, and raises awareness of private sector efforts to integrate SMEs into global and regional markets.

In 2016, APEC is also funding the 'New Era of Growth for APEC SMEs through Online-to-Offline (O2O) Business Models' project. In cooperation with top e-commerce platforms such as eBay, Amazon and Alibaba, this project will advance and facilitate SMEs' access to global markets through O2O business models and best practices. Additionally, the Philippines, with support from member economies, is working on implementing the Iloilo Initiative, to focus on the establishment of the SME Marketplace, a virtual tool that is expected to promote SMEs participation in the Global Value Chains (GVCs) and international trade. This project dovetails with the APEC aim to mainstream SMEs into the global economy.

Other programmes in line with this objective include the APEC Workshop on Promoting SMEs Participation in the Food Supply Chain, which was held in May 2016. The recommendations from the workshop include: enhancing financial availability and access for SMEs; modernising SMEs through enhancing their access to innovation, advanced technology, e-commerce and digital trade; encouraging mentorship by big companies; establishing smart network leadership and coordination; and strengthening marketing ability.

PERFORMANCE OF SMEs IN MALAYSIA

Overview: Growth Trends of SMEs during 2011-2015

Since the establishment of the National SME Development Council (NSDC) in 2004, SME gross domestic product (GDP) growth has surpassed that of the overall GDP growth. Likewise in the Tenth Malaysia Plan period of 2011-2015, SMEs continued to perform favourably. In 2014, the SME definition was revised resulting in about 8,000 additional firms joining the category of SMEs. As a result, SMEs recorded a significant one-off growth of 13.5%. However, excluding the redefinition effect, the underlying growth for 2014 was 7.9% and the average annual growth for the period 2011-2015 was 6.7% versus the overall economic growth of the country of 5.3%. As a result, SME contribution to GDP increased from 32.2% in 2010 to 36.3% in 2015.

Table 2.1: SME GDP by Key Economic Activity (constant 2010 prices)

	SME Contribution to GDP			SME GDP Growth
	2010 (% share)	2015 (% share)	Increase / decrease in share	CAGR ¹ 2011 - 2015 (%)
Overall²	32.2	36.3	+4.1	6.7
Construction	0.9	2.1	+1.2	10.9
Services	19.6	21.4	+1.8	7.1
Mining & Quarrying	0.05	0.2	+0.15	9.3
Agriculture	4.3	4.3	0.0	2.9
Manufacturing	7.2	7.9	+0.7	6.7

1/ CAGR refers to compounded annual growth rate (underlying growth of 7.9% for 2014)

2/ Total value-added after taking into account import duties

Source: Department of Statistics, Malaysia

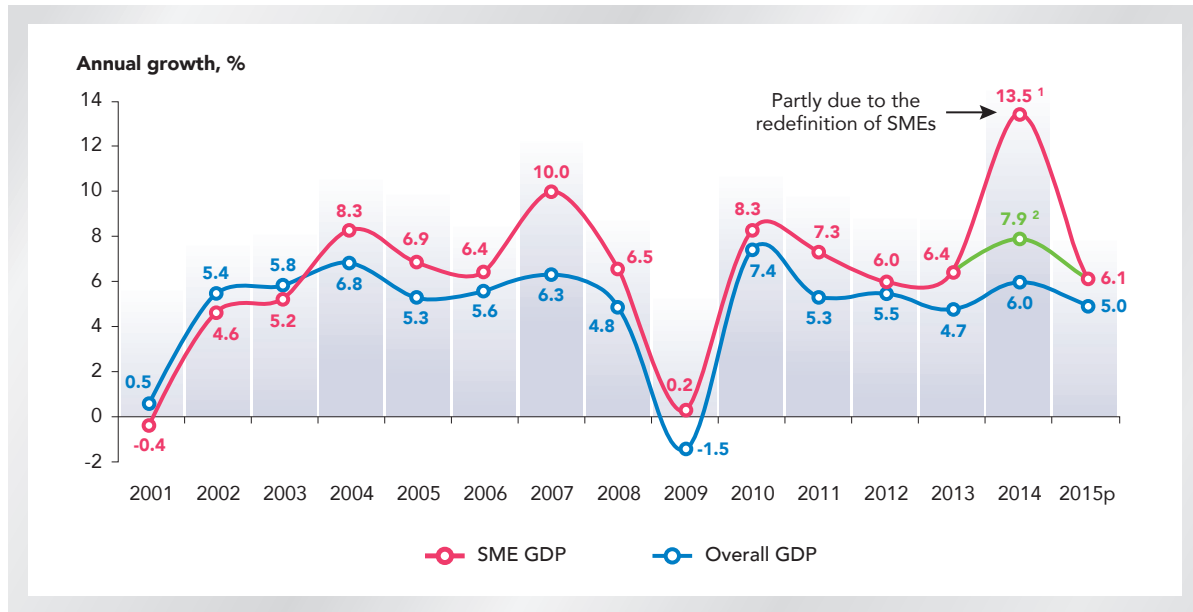
In terms of sectoral performance, SMEs in the mining and quarrying and construction sectors performed better than the other sectors expanding at an average growth rate of 9.3% and 10.9%, respectively during this period (refer to Table 2.1). Thus the shares of these sectors increased in 2015.

This Report has included a new series of statistics on exports of SMEs. The Department of Statistics, Malaysia (DOSM) is also currently undertaking the 2016 Economic Census for reference year 2015 which updates the statistics on SME profile across all sectors except distributive (wholesale and retail) trade. The Distributive Trade Census was undertaken in 2014. Report of both the Census will be used to produce the SME statistics and to be completed and published in stages starting June 2017.

Performance in 2015

SME GDP grew moderately by 6.1% in 2015 compared with the underlying growth of 7.9% recorded in 2014. The growth was nevertheless higher than the overall GDP of the country of 5.0% (refer to Chart 2.1). Growth of SMEs continued to be supported by consumption and investment activities, although moderating than the year before.

Chart 2.1: SME GDP and Overall GDP Growth, % (constant 2010 prices)



p: preliminary

1/ Growth based on 2014 New SME Definition versus 2013 Old SME Definition

2/ Growth based on 2014 New SME Definition versus 2013 New SME Definition

Source: Department of Statistics, Malaysia and SME Corp. Malaysia

All key economic sectors recorded moderation across the board. SMEs in non-major economic sectors, namely mining and quarrying, and construction, registered the highest growth of 8.9% and 7.6% respectively. SMEs in all sectors except construction grew at a faster pace than the overall GDP growth.

Table 2.2: SME GDP and Overall GDP Growth by Key Economic Activity (constant 2010 prices)

	2014 SME GDP Growth ¹ (underlying)	2015 SME GDP Growth	Overall GDP Growth
Mining & Quarrying	7.7	8.9	4.7
Construction	12.6	7.6	8.2
Services	8.3	6.6	5.1
Manufacturing	8.6	6.0	4.9
Agriculture	2.7	2.0	1.2
Total	7.9	6.1	5.0

1/ Growth based on 2014 New SME Definition versus 2013 New SME Definition

Source: Department of Statistics, Malaysia

Table 2.3: SME GDP and Overall GDP Share by Key Economic Activity in 2015
(constant 2010 prices)

	Year 2015 (percentage share to total, %)	
	SME GDP	Overall GDP
Services	58.9	53.5
Manufacturing	21.7	23.0
Agriculture	12.0	8.9
Construction	5.7	4.4
Mining & Quarrying	0.4	9.0
Plus: import duties	1.3	1.3
Total	100	100

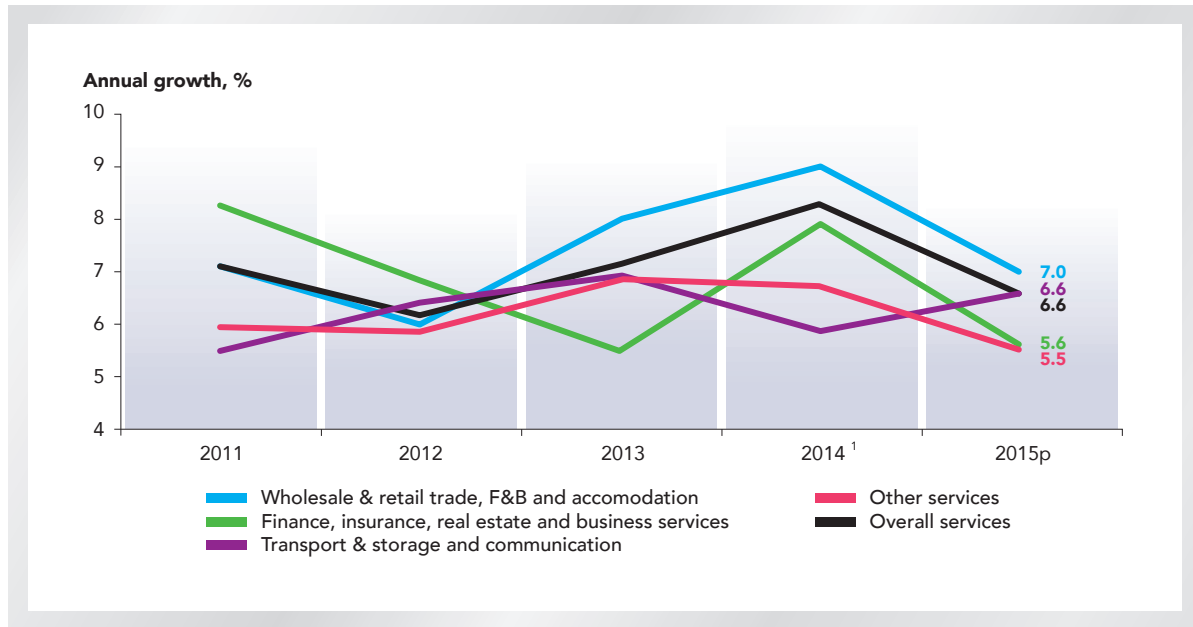
Source: Department of Statistics, Malaysia

In terms of sectoral contribution, the services, agriculture and of late construction have become important contributors with higher shares recorded compared with the overall GDP structure.

SME Valued-added in the Services Sector

Value-added of SMEs in the services sector grew by 6.6% in 2015 (2014: 8.3%) in line with the moderate expansion in consumption activity and weaker tourism activity. The performance was reflected in slower growth in the wholesale and retail trade, food and beverages and accomodation sub-sector which account for 60.0% of SME value-added in the services sector and moderation in the finance, insurance, real estate and business services sub-sector that account for 20.0% share (refer to Chart 2.3). In contrast, the performance of transport and storage sub-sector continued to remain favourable, supported to some extent by trade related activities, benefiting from the weaker ringgit exchange rate. The information and communications technology (ICT) sub-sector also recorded a strong growth due to the higher demand for data communication services.

Chart 2.2: SME Value-added Growth of Sub-sectors in the Services Sector, %

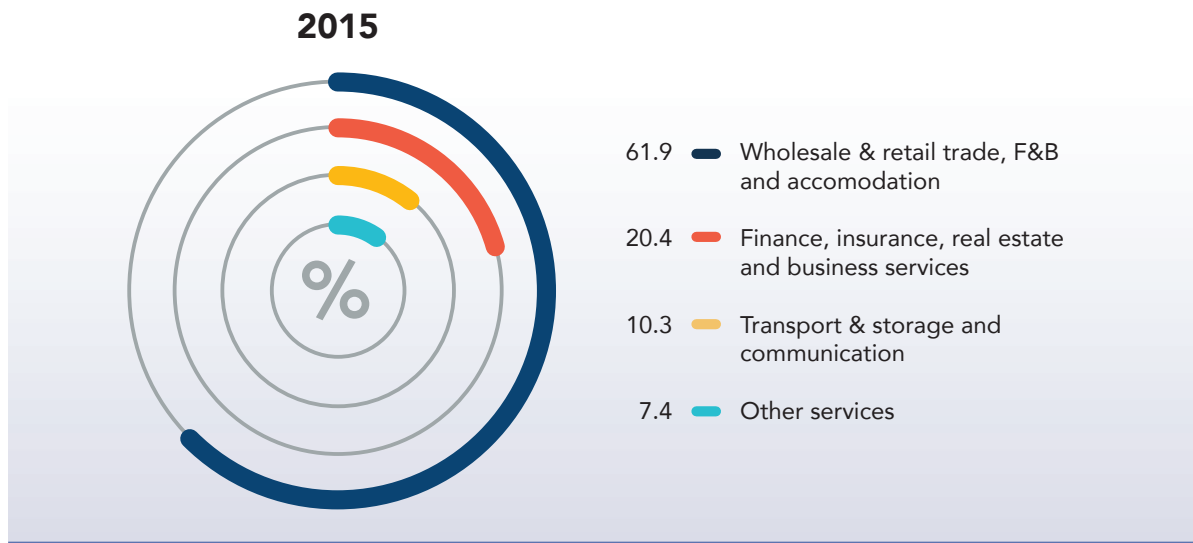


1/ Growth based on 2014 New SME Definition versus 2013 New SME Definition (redefinition effect has been eliminated)

p : preliminary

Source: Department of Statistics, Malaysia

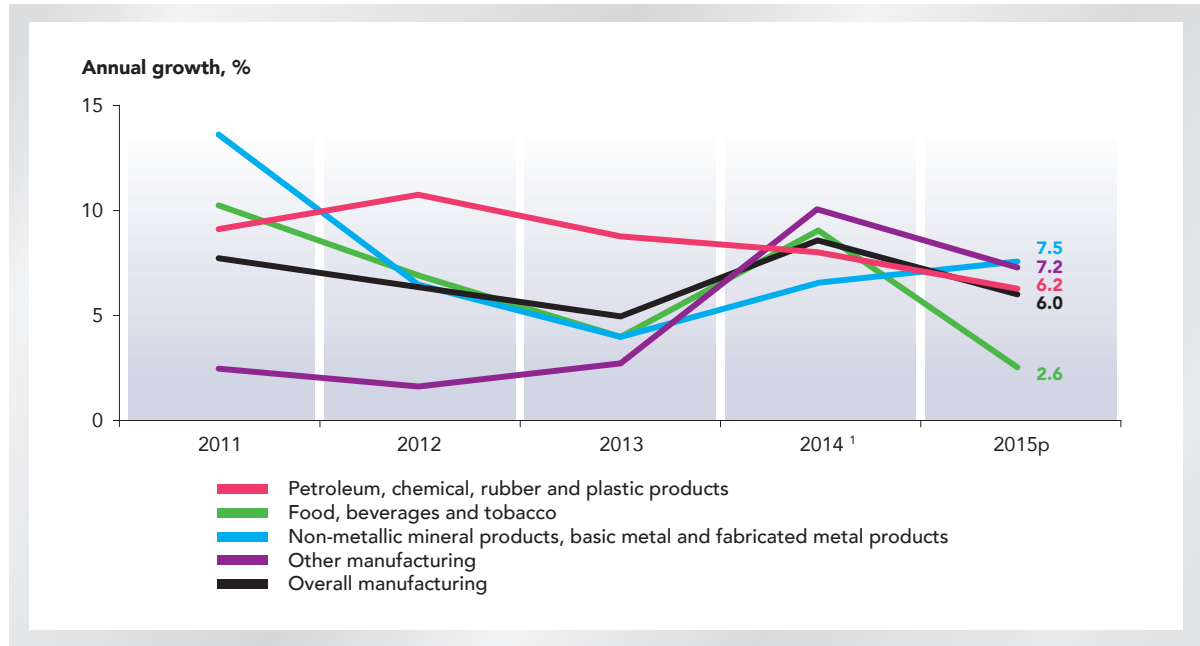
Chart 2.3: Components of Value-added of SMEs in the Services Sector, %



Source: Department of Statistics, Malaysia

SME Value-added in the Manufacturing Sector

Chart 2.4: SME Value-added Growth of Sub-sectors in the Manufacturing Sector, %



^{1/} Growth based on 2014 New SME Definition versus 2013 New SME Definition (redefinition effect has been eliminated)

p : preliminary

Source: Department of Statistics, Malaysia

Value-added growth of SMEs in the manufacturing sector expanded by 6.0% (2014: 8.6%), reflecting the moderation in consumer-related cluster mainly food and beverages (F&B) and tobacco products (21.3% of total value-added of SME manufacturing sector) and primary-related cluster such as petroleum, chemical, rubber and plastic products (about one-quarter of total value-added of SME manufacturing sector). This was partly offset by higher growth in the non-metallic mineral products, basic metal and fabricated metal products (refer to Chart 2.4), which grew by 7.5% (2014: 6.5%).

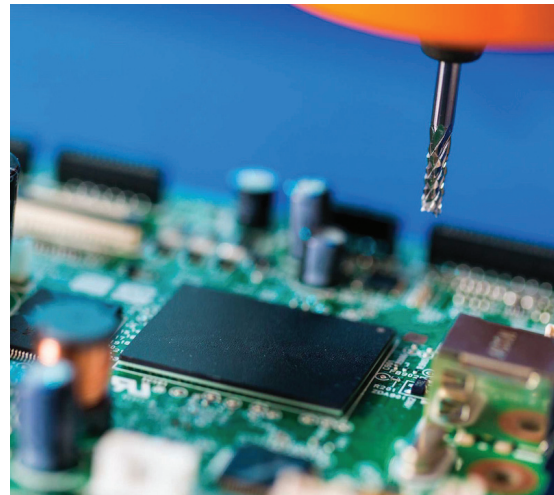
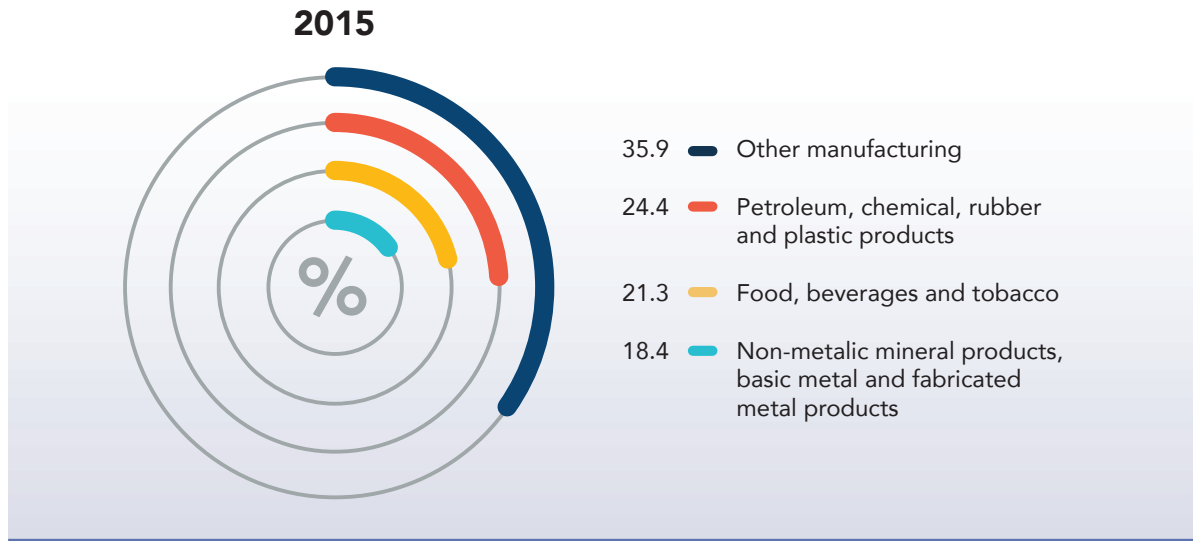


Chart 2.5: Components of Value-added of SMEs in the Manufacturing Sector, %



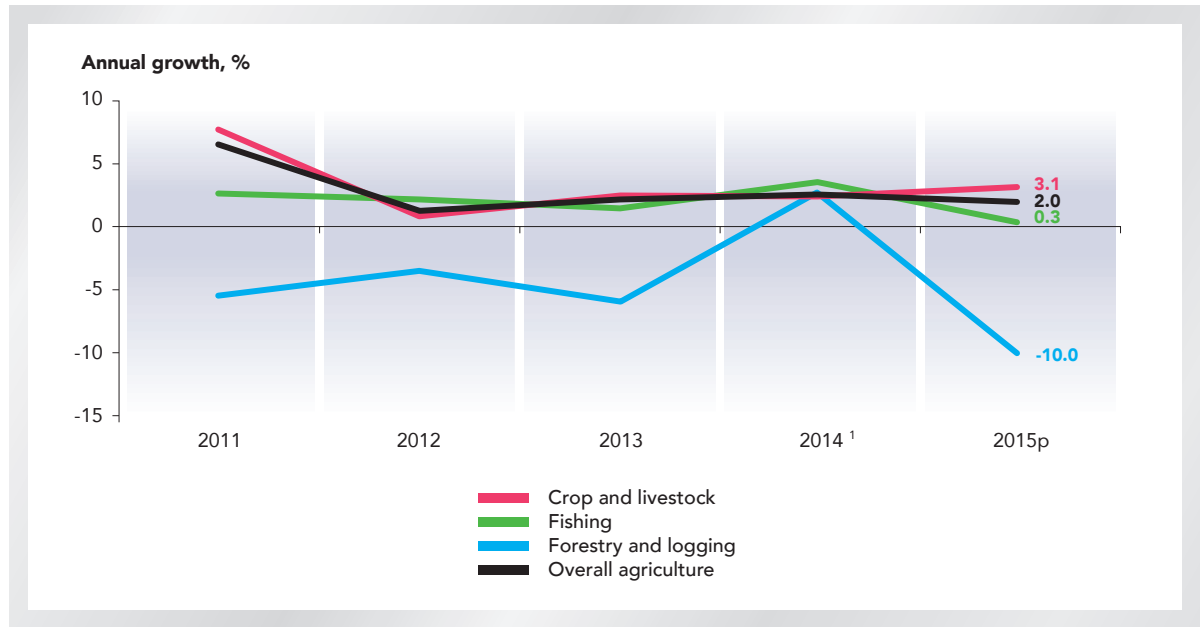
Source: Department of Statistics, Malaysia

SME Value-added in the Agriculture Sector

In the **agriculture sector, value-added growth of SMEs** also moderated albeit slightly to 2.0% (2014: 2.7%), due partly to the lower crude palm oil (CPO) output of smallholders following unfavourable weather conditions. This includes excessive rain in the first quarter of 2015 causing floods in the east coast of Peninsular Malaysia and the strong haze and El Niño weather phenomenon in the second half of the year, which led to lower yields affecting SMEs' income. Forestry and logging activities and livestock production recorded a decline in value-added growth during the year. Almost 80.0% of the SME value-added in the agriculture sector are involved in agriculture crops and livestock activities, besides fishing and forestry activities.



Chart 2.6: SME Value-added Growth of Sub-sectors in the Agriculture Sector, %

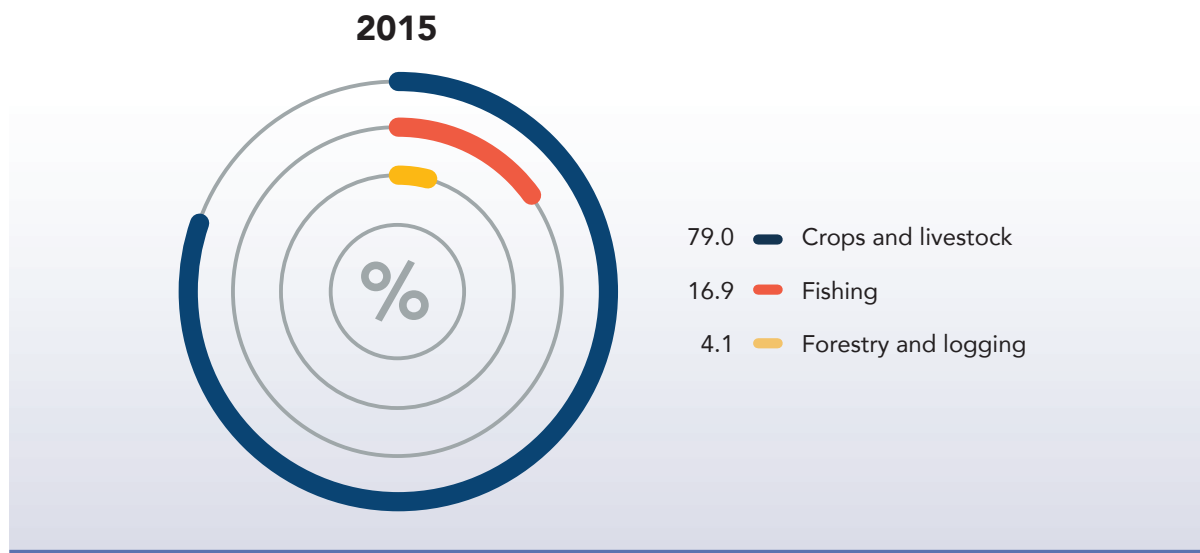


1/ Growth based on 2014 New SME Definition versus 2013 New SME Definition (redefinition effect has been eliminated)

p : preliminary

Source: Department of Statistics, Malaysia

Chart 2.7: Components of Value-added of SMEs in the Agriculture Sector, %



Source: Department of Statistics, Malaysia

SME Value-added in the Construction and Mining & Quarrying Sectors

SME value-added growth in the construction sector grew at a more moderate pace of 7.6% in 2015 compared with the double-digit growth of 12.6% in 2014. This in line with the moderating growth of the overall value-added in the construction sector during the year. The moderation was in special trades, non-residential and residential sub-sectors, while activity in civil engineering segment which account for about 20.0% of the total SME value-added in the construction sector was sustained.



Chart 2.8: SME Value-added Growth in the Construction and Mining & Quarrying Sectors, %

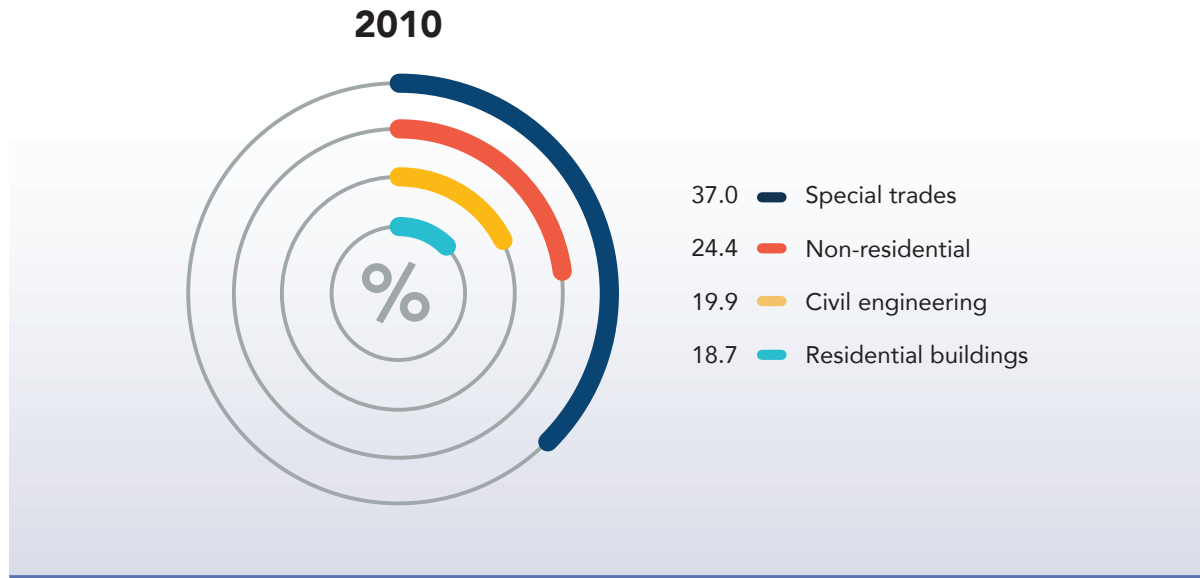


^{1/} Growth based on 2014 New SME Definition versus 2013 New SME Definition (redefinition effect has been eliminated)

p : preliminary

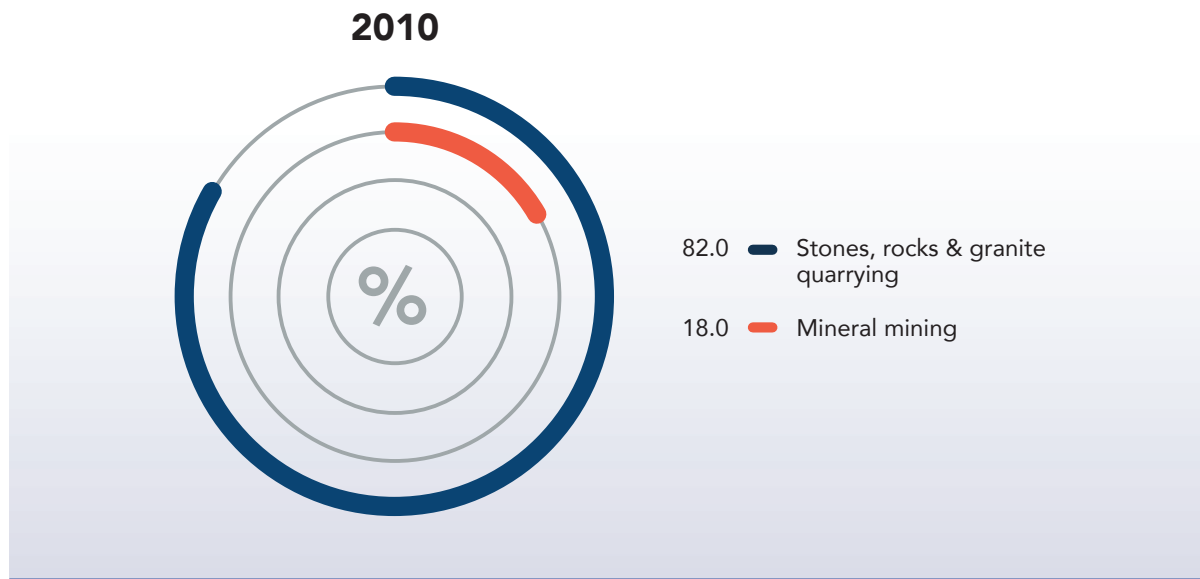
Source: Department of Statistics, Malaysia

Chart 2.9: Components of Value-added of SMEs in the Construction Sector, %



Source: Economic Census 2011, Profile of Small and Medium Enterprises, Department of Statistics, Malaysia

Chart 2.10: Components of Value-added of SMEs in the Mining & Quarrying Sector, %



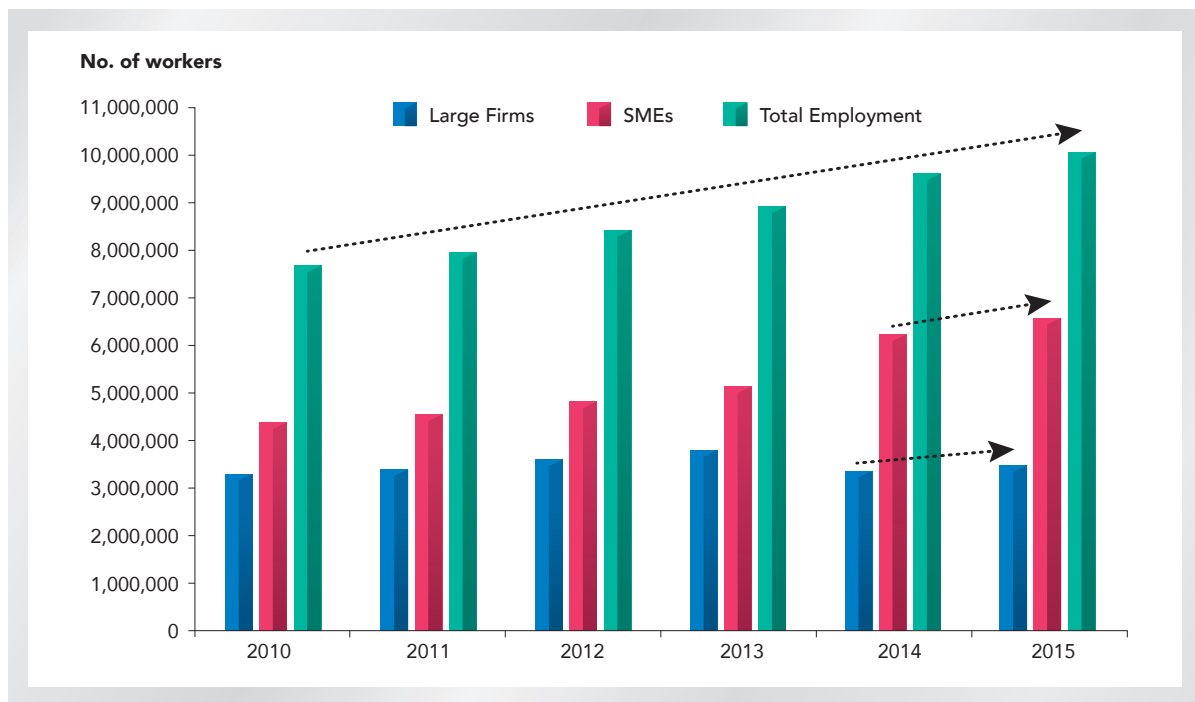
Source: Economic Census 2011, Profile of Small and Medium Enterprises, Department of Statistics, Malaysia

Meanwhile **SMEs growth in the mining and quarrying sector** continued to be sustained at a high level of 8.9% in 2015 (2014: 7.7%), driven by stone quarrying activity. The SME growth was higher than the overall sector growth of 4.7% as the latter was weighed down by weaker oil and gas production which are mostly owned by large firms.

SME Employment

Contribution of SMEs to total employment has been increasing as a result of the steady increase in employment by SMEs compared to that of large firms. In 2015, SME employment grew by 5.6% to 6.6 million workers compared with the employment growth of large firms of 3.4%. However, the SME employment growth was lower than in 2014 since there was an adjustment made in 2014 due to the one-off effect of the SME redefinition that came into force in January 2014 where about 8,000 firms previously considered as large firms were categorised as SMEs. This resulted in an abnormal double-digit employment growth of 21.6% in 2014.

Chart 2.11: Employment by Firm Size

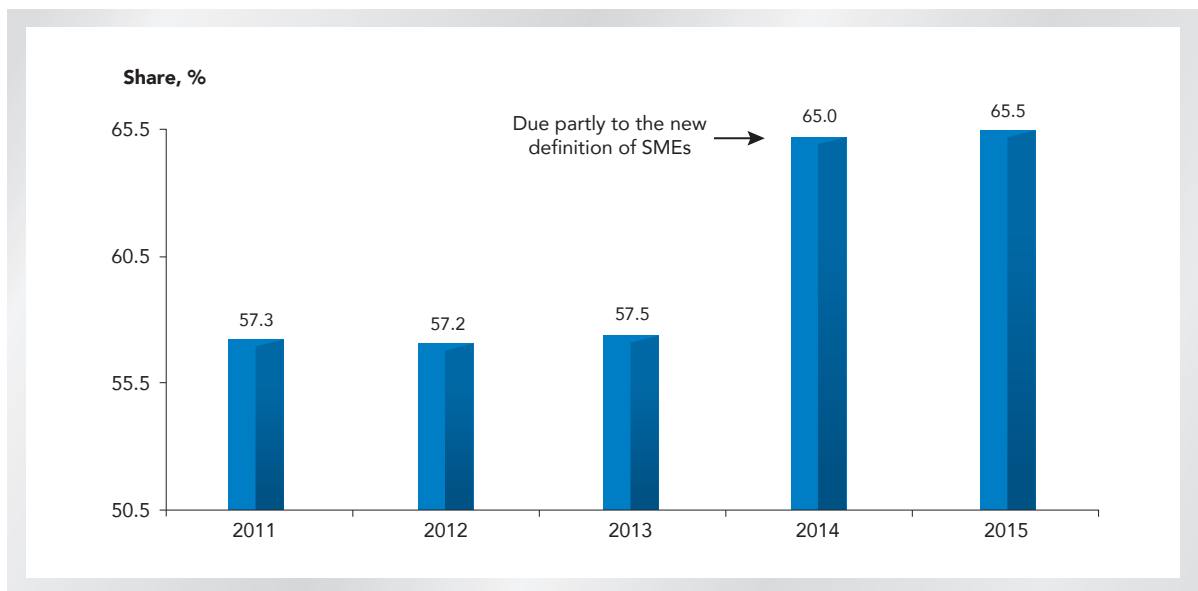


Source: Department of Statistics, Malaysia

As a result of the higher employment growth of SMEs versus large firms, the percentage share of employment by SMEs to total employment increased from 57.5% in 2013 to 65.5% in 2015. The higher employment share was contributed mainly by the services sector (62.6%), followed by the manufacturing sector (15.8%), construction (11.8%), agriculture (9.6%) and mining and quarrying (0.2%). In recent years, it is important to note that the share of SME employment in manufacturing to total employment has declined from 19.9% in 2010 to 15.8% in 2015 as more SMEs in the sector have automatised and mechanised their activities compared to SMEs in other sectors.

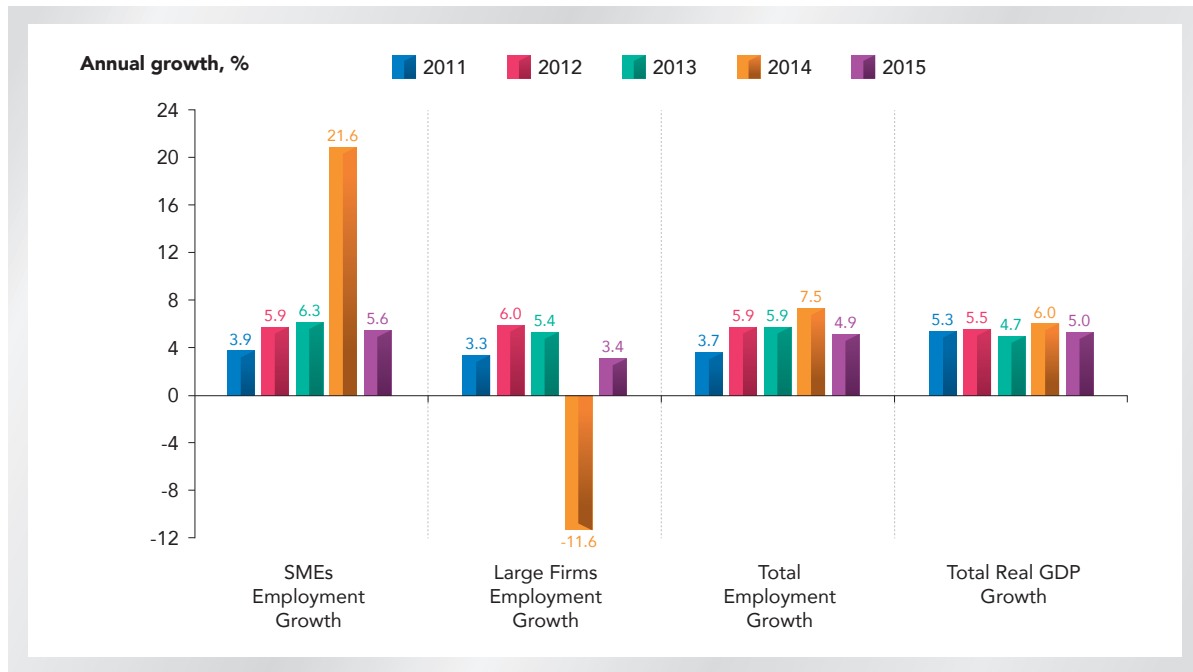


Chart 2.12: Employment Share of SMEs to Total Employment, %



Source: Department of Statistics, Malaysia

Chart 2.13: Employment Growth Performance by Firm Size, %



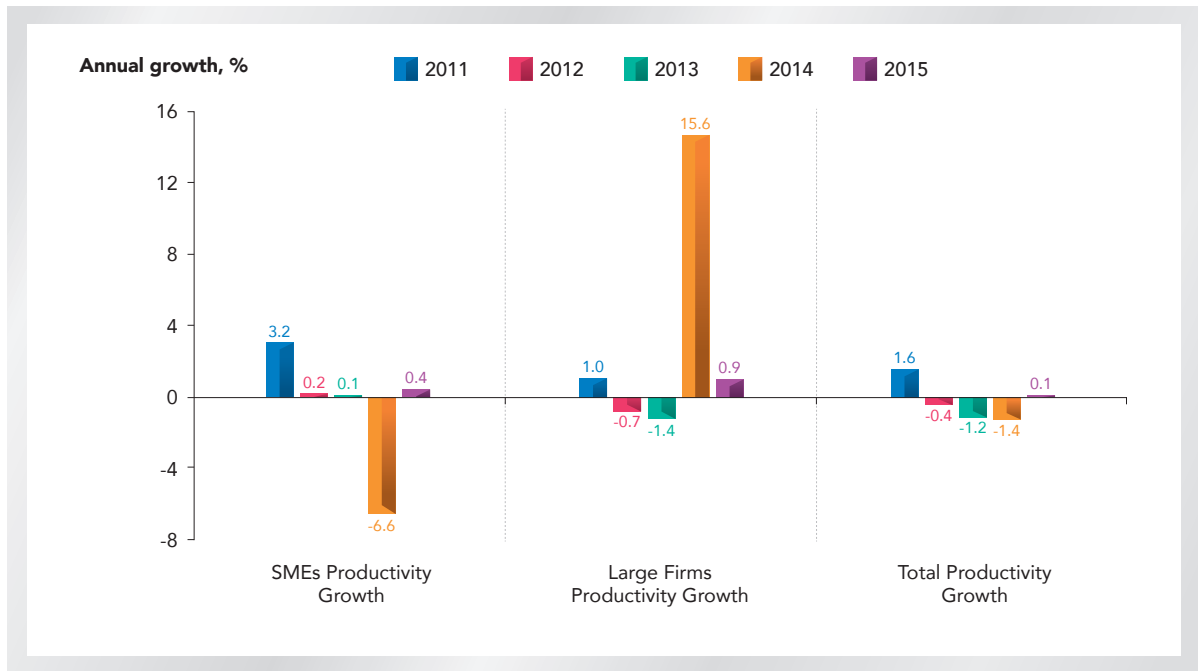
Source: Department of Statistics, Malaysia

SME Productivity

In 2015, labour productivity of SMEs as measured by real value-added per worker, grew marginally by 0.4% after declining by 6.6% in 2014 (refer to Chart 2.14). The turnover was due to higher SME GDP growth of 6.1% against SME employment growth of 5.6%. Nevertheless, the marginal growth demonstrates the fact that SME productivity remains low due to being input-driven rather than productivity-led as reflected in increase in labour, particularly in the services sector.

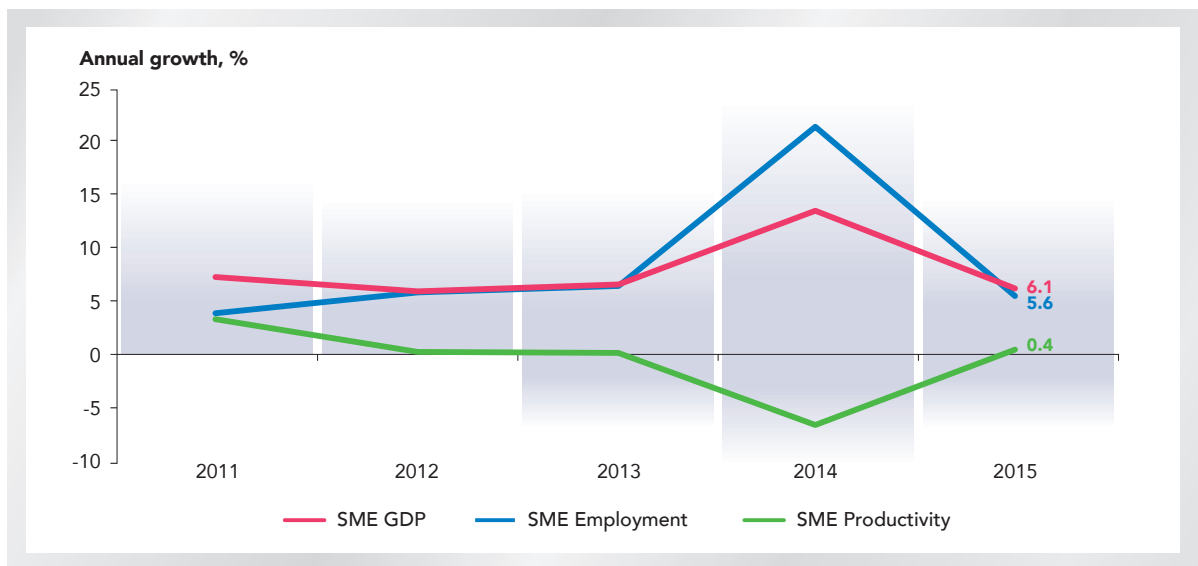


Chart 2.14: Productivity Growth by Firm Size, %



Source: Department of Statistics, Malaysia

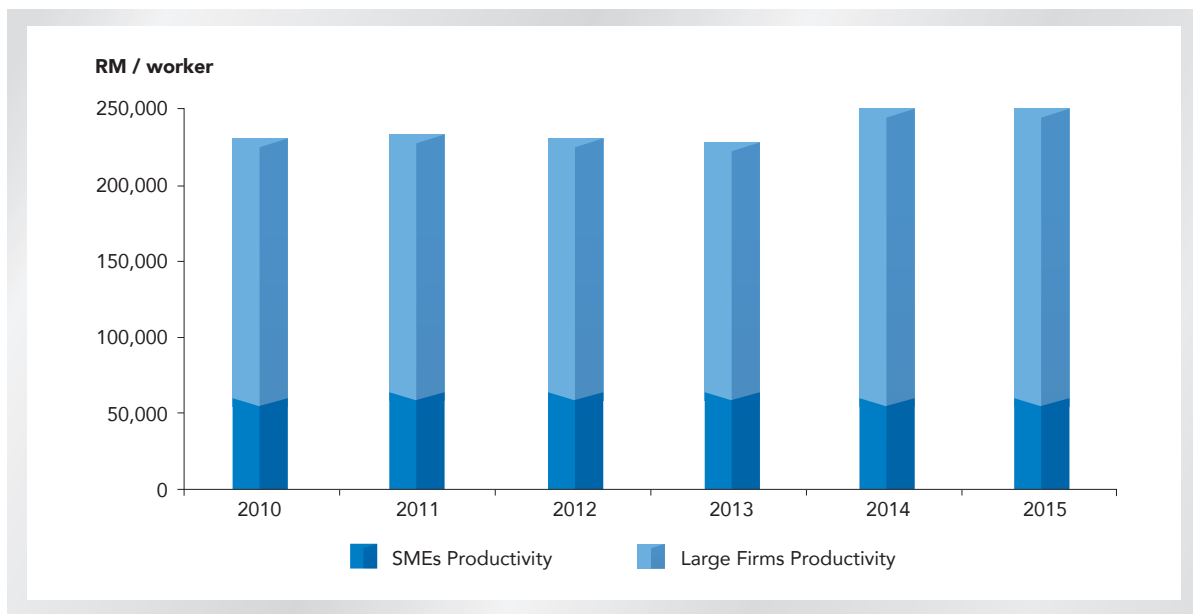
Chart 2.15: Growth for SME GDP, SME Employment and SME Productivity, %



Source: Department of Statistics, Malaysia

As shown in Chart 2.16, the productivity gap between SMEs and large firms was relatively high as SME labour productivity was 3.3 times lower than the large firm productivity for two consecutive years, i.e. in 2015 and 2014. The gap has widened in comparison with 2.8 times in 2010. The deterioration of SME productivity versus the large firms was mainly seen in the services (5.6 times), agriculture (2.2 times) and construction sectors (1.2 times). Meanwhile, the productivity gap of the manufacturing sector remained unchanged at 1.5 times as in 2014. The issue is serious particularly in the services sector given the dominance of SMEs in low valued-added activities mainly in the distributive trade, F&B and accommodation sub-sectors rather than in business services and finance related activities. Overall, SMEs need to improve labour productivity through continuous shift from labour-intensive to knowledge and innovation-based economic activities.

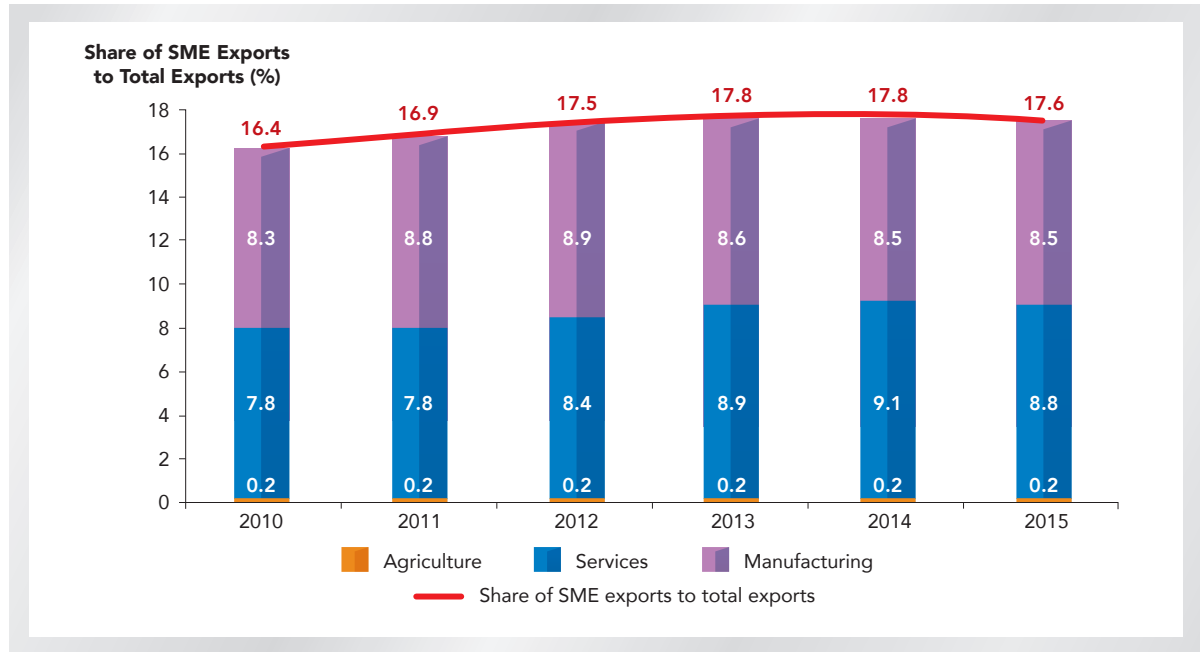
Chart 2.16: Productivity of Firms by Size



Source: Department of Statistics, Malaysia

SME Exports

Chart 2.17: Share of SME Exports by Economic Sector, %

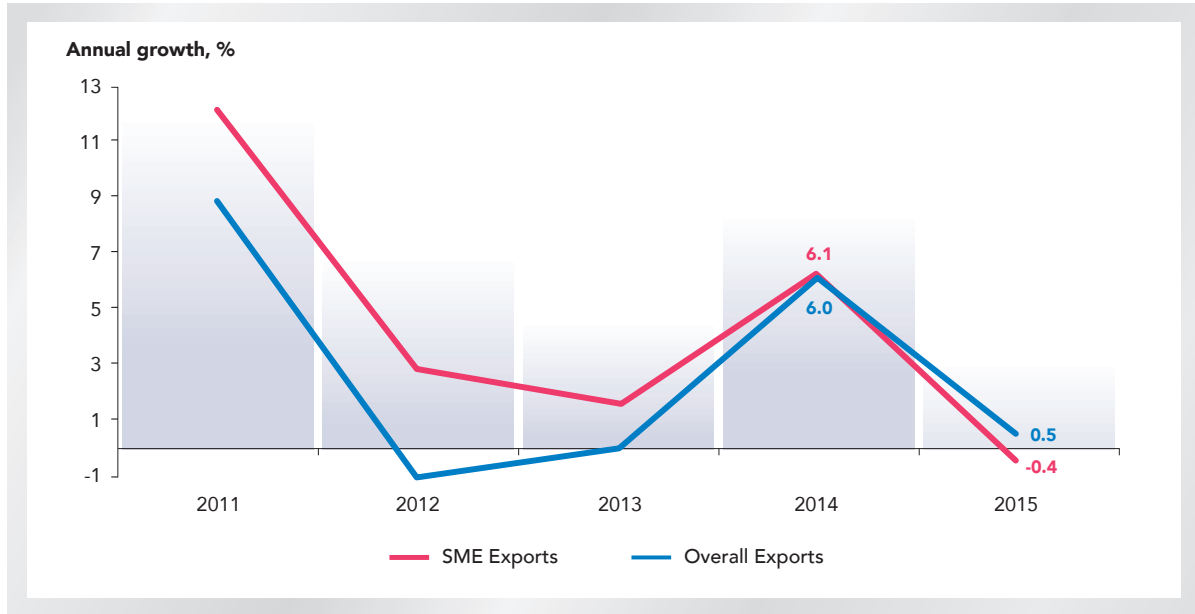


Source: Department of Statistics, Malaysia

New statistics released by the Department of Statistics, Malaysia showed that share of SME exports to total exports increased very gradually in the period 2010 to 2014 from 16.4% to 17.8% before declining to 17.6% in 2015. Since 2013, contribution (percentage share) of services exports has superseded that of the goods sector (refer to Chart 2.17). In 2015, the marginal decline of the SME exports by 0.4% was mainly influenced by lower tourism-related and other services activities.

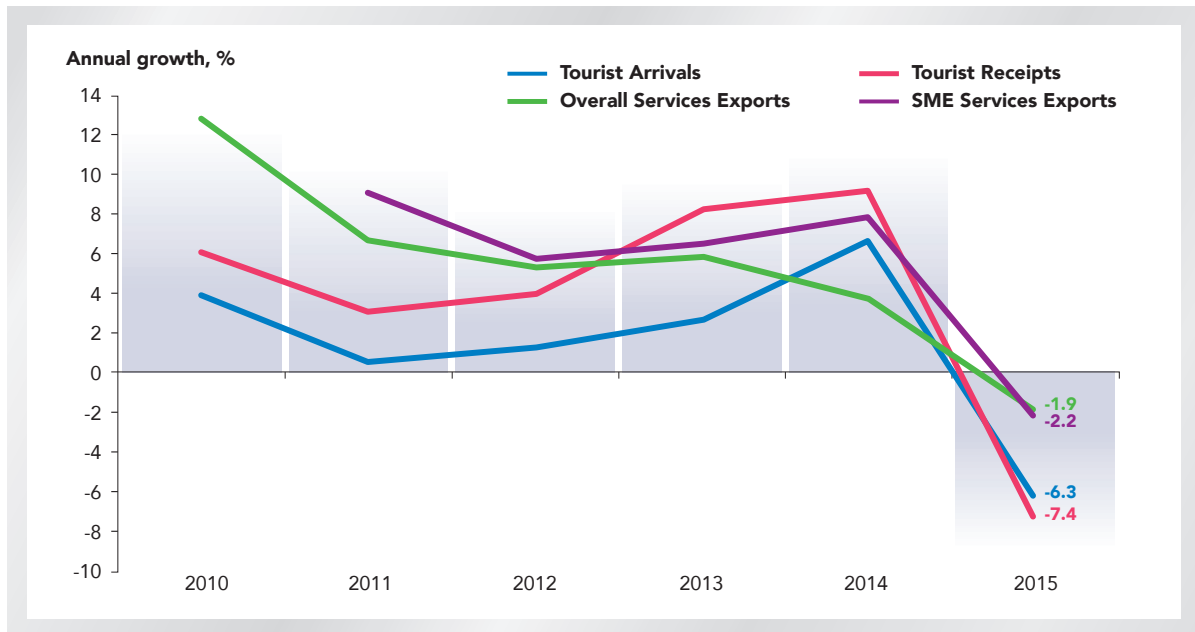


Chart 2.18: SME Exports Growth, %



Source: Department of Statistics, Malaysia

Chart 2.19: Annual Growth of Tourism Activity has a Correlation to Overall and SME Services Exports, %

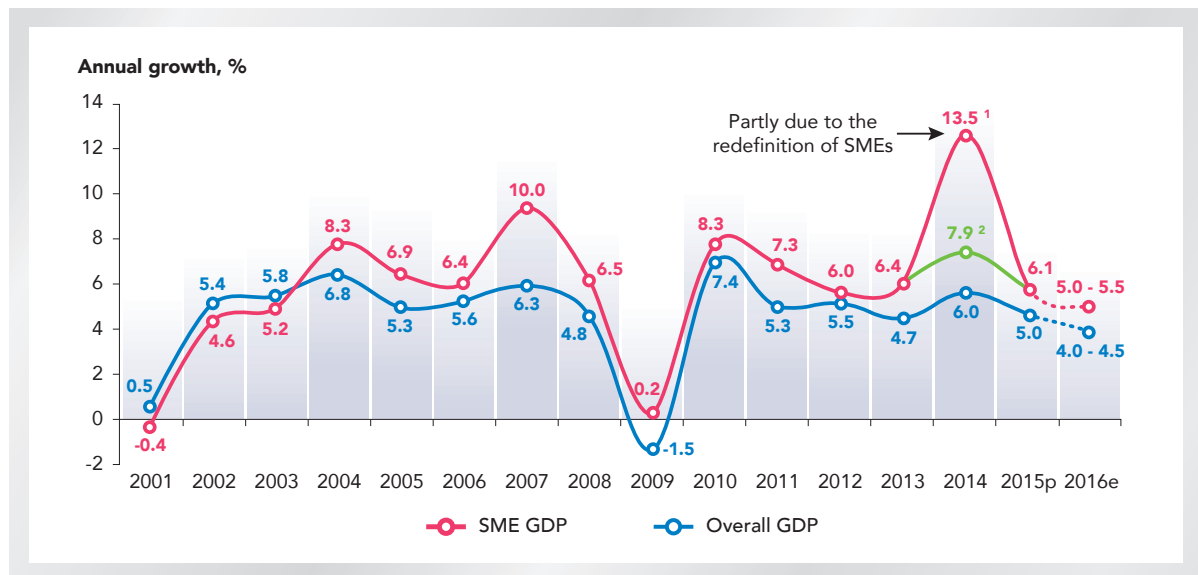


Source: Department of Statistics, Malaysia and CEIC

Evidence suggest that tourism has a strong multiplier effect on SMEs through backward and forward linkages. There is positive correlation between foreign tourist arrivals, tourist receipts and SME services exports (refer to Chart 2.19). Tourist arrivals consolidated to normal levels of 25.7 million in 2015 from 27.4 million in 2014 following the Visit Malaysia Year 2014. The impact on tourism also translated to weaker demand for SME goods and services via retail trade, restaurant, F&B manufacturing, accommodation, transportation services and demand for leisure and local products.

OUTLOOK FOR SMEs IN 2016

Chart 2.20: Growth Projections of SME GDP and Overall GDP, %



p : preliminary e : estimate

1/ Growth based on 2014 New SME Definition versus 2013 Old SME Definition

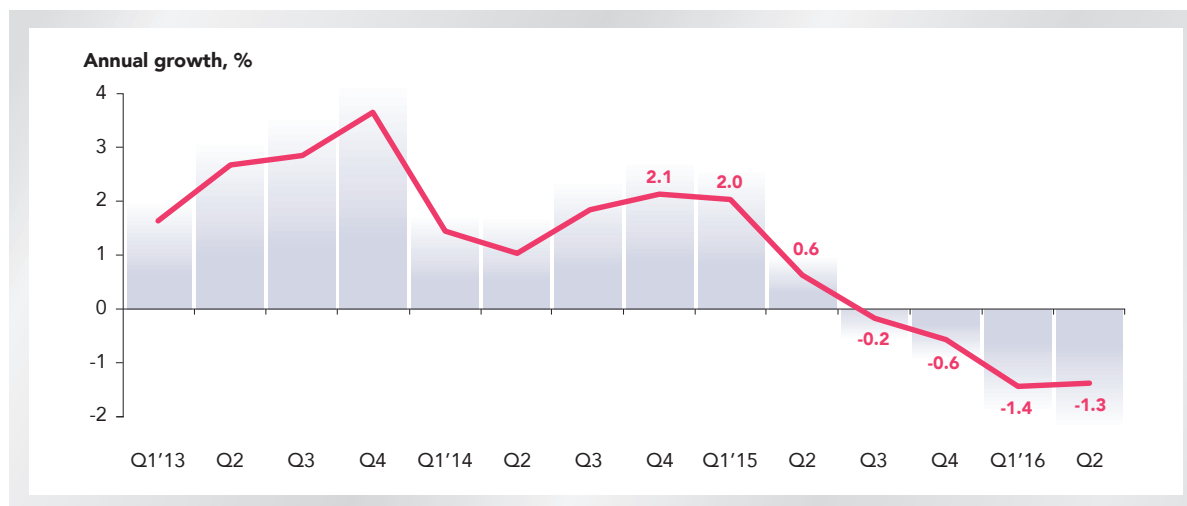
2/ Growth based on 2014 New SME Definition versus 2013 New SME Definition

Source: Department of Statistics, Malaysia and SME Corp. Malaysia

Given the continued weakness in the global economy and high degree of uncertainty, SME business are likely to face a more challenging year in 2016. SME GDP growth is projected to expand by 5.0% - 5.5% in 2016 (2014: 13.5% due partly to the SME new definition, refer to Chart 2.20). The growth is premised on barring any sharp deterioration in external demand, volatility in financial markets due to uncertainty in the policy direction of developed markets and also unexpected fall in domestic demand. The impact of BREXIT on SMEs is expected to be negligible given the relatively low exposure of SMEs to the UK market. Nevertheless, the impact for BREXIT could be through the indirect impact of lower

global growth. Forward looking indicators, such as the DOSM Leading Index as well as Malaysian Institute of Economic Research (MIER) indices on retail trade and tourism activity points towards modest SME activity in 2016. Notwithstanding, some support from tourism activity is expected due to the weaker exchange rate that places Malaysia as an attractive destination for tourists compared to the developed countries.

Chart 2.21: DOSM's Leading Index, %



Source: Department of Statistics, Malaysia

Table 2.4: 1Q 2016 SME Survey Findings on Business Performance versus 3Q 2015

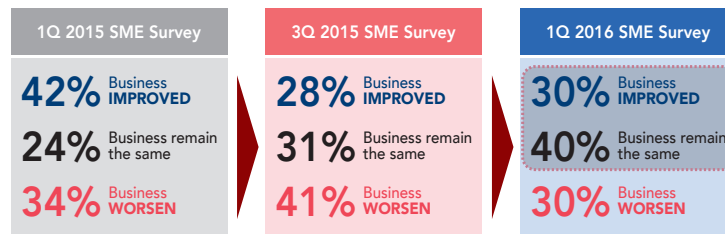
Indicators	Percentage share of total respondents, %					
	Decreased		Same		Increased	
	1Q 2016	3Q 2015	1Q 2016	3Q 2015	1Q 2016	3Q 2015
Sales Turnover	32.8	30.7	25.0	32.0	42.2	37.3
Pre-tax Profit	28.4	24.4	39.5	47.9	32.1	27.7
Exports Sales	16.3	20.7	50.7	46.9	33.0	32.4
Domestic Sales	30.9	28.4	29.2	38.6	39.9	33.0
Average Selling Price	14.4	11.3	53.0	55.2	32.6	33.5
Production (manufacturing & agriculture)	13.0	16.4	61.1	55.7	25.9	27.9

Source: SME Corp. Malaysia

* Note: The business performance of SMEs in 1Q 2016 is compared against the one in 4Q 2015, while the business performance of SMEs in 3Q 2015 is compared against the one in 2Q 2015.

Findings from the First Quarter 2016 (1Q 2016) SME Survey, undertaken by SME Corp. Malaysia (sample size of 2,176 SMEs) showed that the business performance of SMEs have gradually improved in the first quarter of 2016. More respondents experienced an increase in sales and profits as compared to the findings in the Third Quarter 2015 (3Q 2015) SME Survey. About 42.2% of respondents recorded increased sales in 1Q 2016 compared to the previous quarter, which was higher than 37.3% of respondents recorded in the 3Q 2015 SME Survey (refer to Table 2.4). Nevertheless, there was also slightly more respondents who indicated a worse performance in the 1Q 2016 survey compared to the previous survey.

Chart 2.22: Near-term Business Outlook



Source: SME Corp. Malaysia

The gradual improvement in business performance was further reflected in a better near-term outlook (refer to Chart 2.22). About 30.4% of the respondents were expecting their business to improve compared to 28.3% in the previous quarter survey, while the number of respondents citing a worsening outlook reduced significantly to only 30.2% as compared to 40.5% recorded in the previous survey. The improved outlook was also reflected by the higher orders or bookings received (27.5%) during the quarter (refer to Chart 2.23).

Chart 2.23: 1Q 2015 SME Survey Finding on New Orders / Bookings of Products and Services, %



Source: SME Corp. Malaysia

BOX ARTICLE

SME Surveys in 2015 and 2016

Since 2009, SME Corporation Malaysia (SME Corp. Malaysia) as the Secretariat to the National SME Development Council (NDSC) has been conducting surveys on SMEs as part of the surveillance work in monitoring their business performance and outlook. The surveys are also meant to identify current challenges on the ground and structural issues faced by SMEs in Malaysia. Through the SME Corp. Malaysia state offices, as well as support from Bank Negara Malaysia, various Government agencies and SME-related associations, the surveys were conducted comprehensively, covering SMEs across all economic sectors, regions (including Sabah and Sarawak) and establishment size.

Third Quarter 2015

The Third Quarter 2015 (3Q 2015) SME survey covering 2,336 respondents indicated that there was a sign of weakening business performance among SMEs. More respondents recorded weaker sales and exports as compared to the previous quarter, particularly among the small and medium-sized firms. Findings also highlighted that SMEs were concerned on the weakening demand for their goods and services and rising cost of doing business, arising partly from the Goods and Services Tax (GST) implementation and ringgit depreciation effects. The weak performance and concerns on the current economic conditions were further reflected in a less optimistic short-term outlook, as 40.5% cited worsening outlook for the next six months i.e. outlook for the month of October 2015 till March 2016. This is a significant change in perception compared to only about 13.8% citing a worsening outlook in the previous year (3Q 2014 SME Survey). Respondents who did indicate worsening outlook were particularly from the medium and small-sized firms as well as from the agriculture, construction and services sectors.

As in the previous surveys, high cost of doing business continued to be one of the key challenges faced by SMEs. During the quarter under review, majority of the respondents (83.2%) experienced on average an increase in operating cost of 10.0% year on year. In terms of selling price, half of the respondents (54.3%) cited that they had to increase prices of their goods and services with majority of them increasing the selling price by 1.0 -10.0%. Besides the one-off effect from the GST implementation, the ringgit depreciation had also partly contributed to the higher costs of imported raw materials and other inputs. Meanwhile, SMEs also found the volatility of the ringgit added further uncertainty to their business operations.

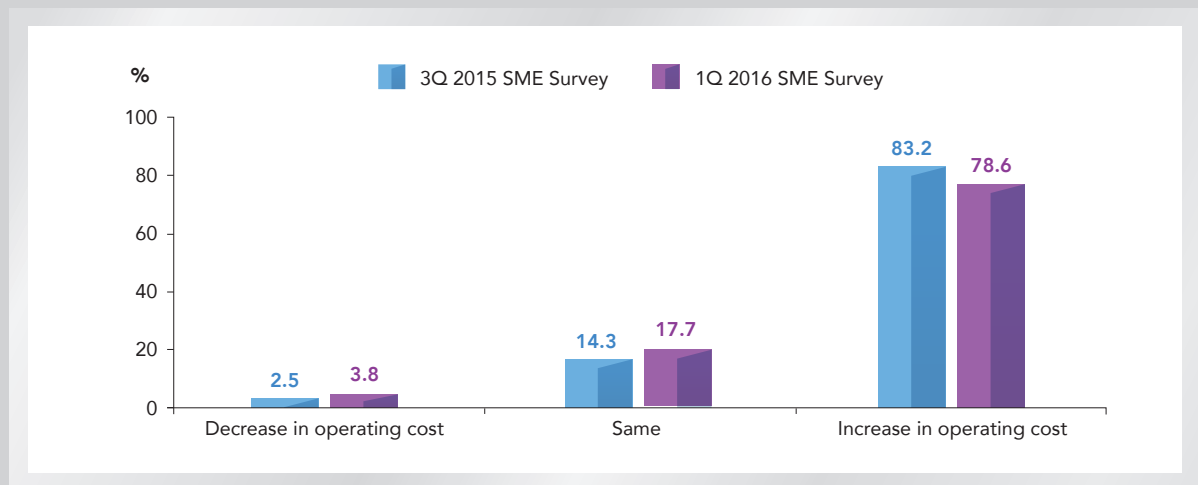
Relating to the cost issue and also some delays in GST refunds, more SMEs cited cash flow problems. In managing the cash flow issue, about 40.6% of respondents required additional capital, particularly medium-sized firms and those in the manufacturing sector. Given the increasingly challenging business environment, respondents planned to undertake various initiatives in the near term such as reducing the operating cost, entering new markets and intensifying promotional activities to remain competitive.

First Quarter 2016

The First Quarter 2016 (1Q 2016) SME Survey which covered 2,176 respondents was aimed at gauging the SME business performance as well as identifying challenges pertaining to cost of doing business, GST, financing, human capital, adoption of information and communications technology (ICT) and export market, especially with the ASEAN Economic Community (AEC) and Trans-Pacific Partnership Agreement (TPPA) coming on board.

Cost of Doing Business

Chart 1: Operating Cost of SMEs, %



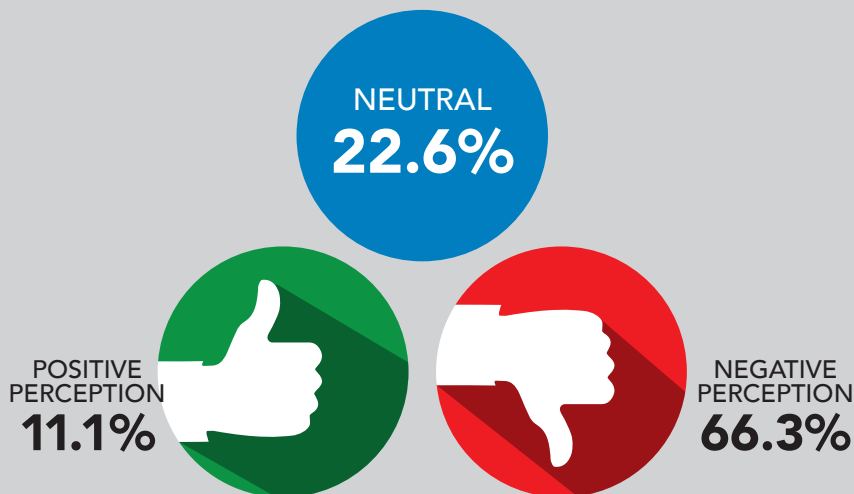
Source: SME Corp. Malaysia

The business operation of SMEs was affected by the series of cost increases in recent years. Findings of the Survey indicated that respondents continued to face an increase in operating cost, but to a much lesser extent as compared to the findings in the 3Q 2015 SME Survey. About 78.6% of respondents reported an increase in their operating cost, particularly microenterprises and firms in the manufacturing sector, with an average increase of 8.0% year-on-year during the 1Q 2016 (refer to Chart 1). The higher cost was due to higher raw materials and other input costs, higher electricity bill and higher cost of imports due to ringgit depreciation.

Goods and Services Tax (GST)

With the implementation of the GST, most respondents were affected with two-third perceived that the GST brought negative impact. Some respondents (72.7% of those cited negative impact) cited that the GST implementation has led to higher operating cost of their business operation. Meanwhile, another 11.1% believed that GST gave positive impact to their businesses in the aspect of better business management including bookkeeping system (refer to Chart 2). In terms of selling price, almost half of the respondents (48.8%) tried not to increase their prices in order to stay competitive following the GST implementation, particularly among the medium-sized firms and those in manufacturing sector.

Chart 2: Respondents' Perception on GST Implementation

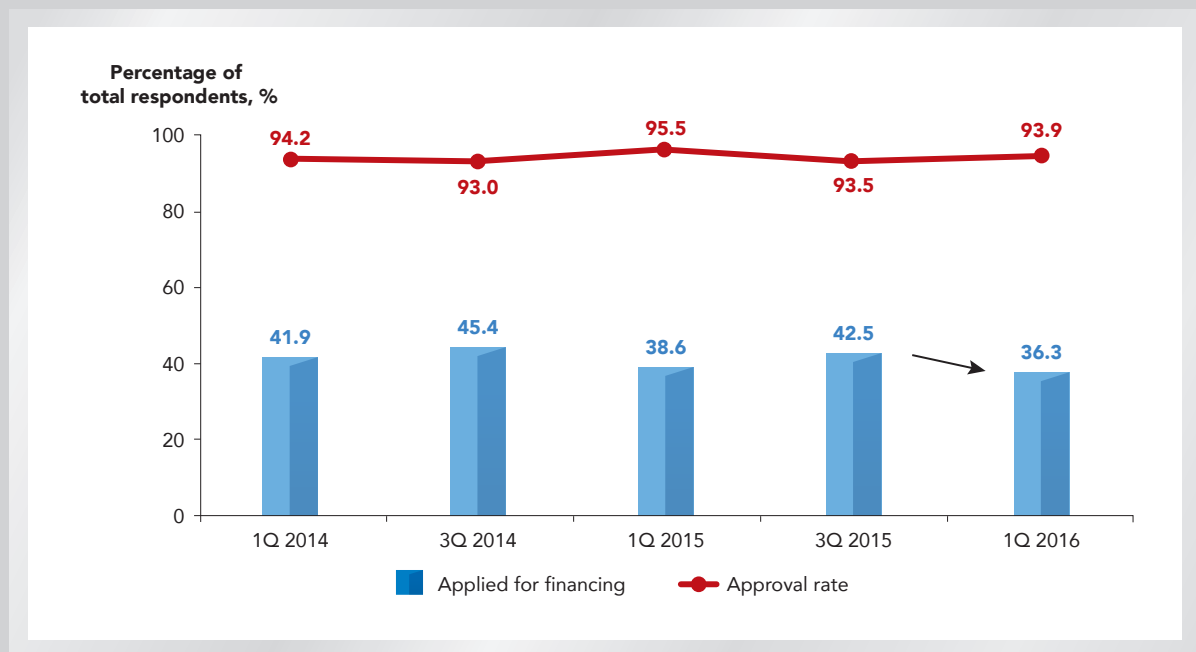


Source: SME Corp. Malaysia

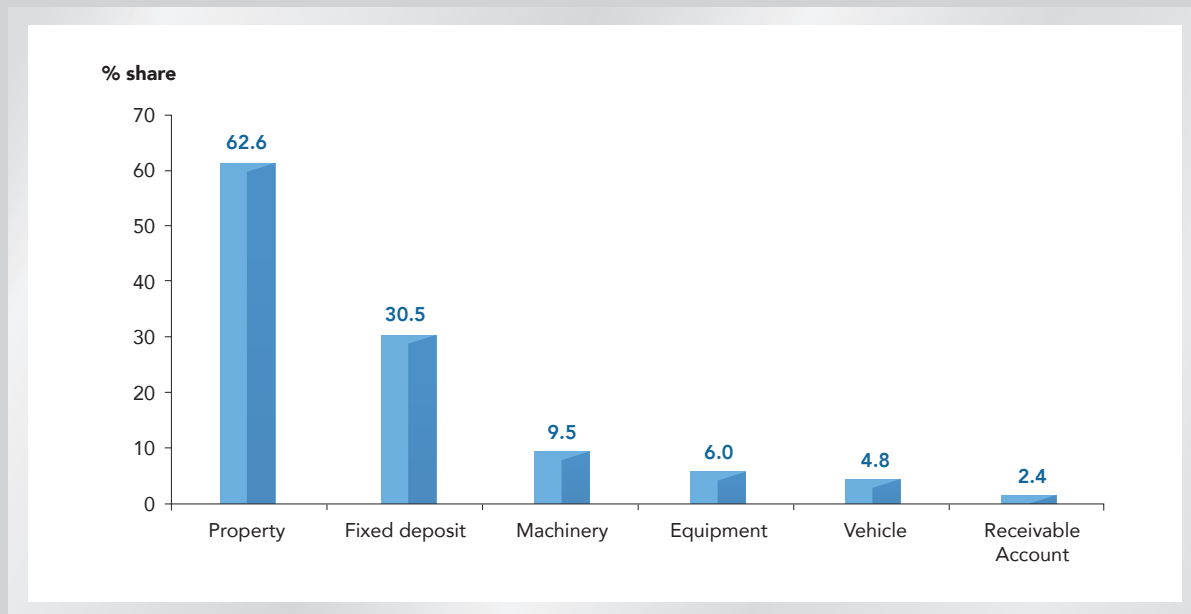
Business Financing

With the continuing challenging business environment, the survey findings highlighted that about 44.8% of respondents cited facing cash flow or liquidity problem, particularly microenterprises and SMEs in manufacturing and agriculture sectors. While the SMEs need funds and liquidity to sustain their business operation, demand for financing from financial institutions has decreased. This may indicate that SMEs were reluctant to further widen the debt exposure of their businesses.

Chart 3: Financing Demand and Approval Rate, %



Source: SME Corp. Malaysia

Chart 4: Type of Collateral, %

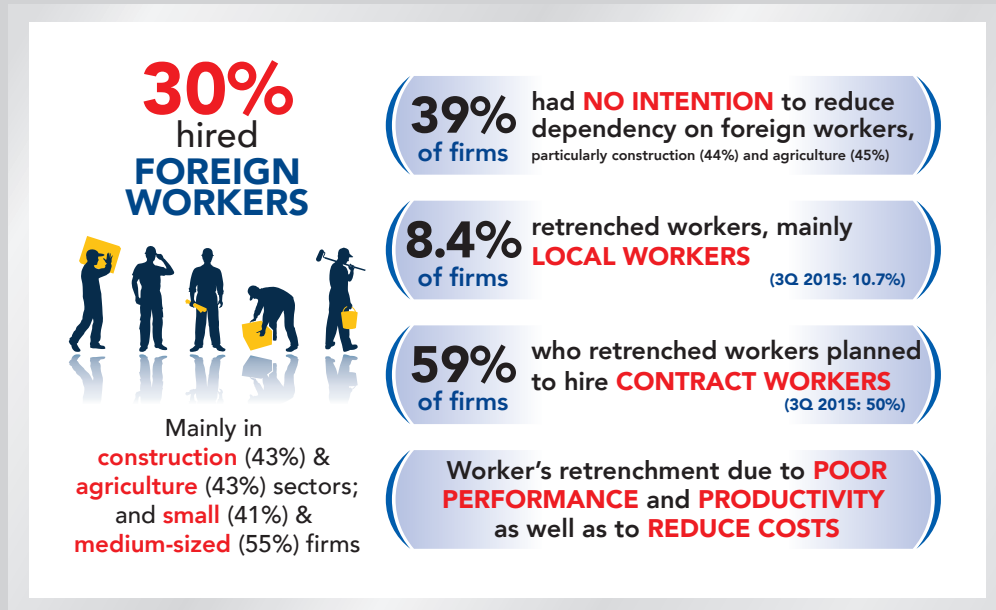
Source: SME Corp. Malaysia

During the quarter, only about 36.3% of respondents requested for new or additional financing for business purposes as compared to 42.5% recorded in the previous survey (refer to Chart 3). With high approval rate of 93.9%, SMEs continued to have access to financing and interestingly about 40.3% of those approvals were from the first-time borrowers. Nevertheless, financial institutions are also becoming more cautious, as reflected by the increase in request for collateral such as property and fixed deposit (refer to Chart 4).

Human Capital

Focusing on labour market issues, the survey findings revealed that only about 30.4% of respondents hired foreign workers, which is considered relatively low (refer to Chart 5). Despite the low hiring of foreign workers, SMEs that hired foreign workers are highly dependent on them as about 39.0% of them had no intention to reduce the dependency on foreign workers. In fact, SMEs tend to retrench local workers, instead of foreign workers. A close look at the findings showed that about 8.4% of respondents retrenched their workers, which are mainly local workers partly due to their poor performance and as a part of cost-cutting measure. Of those respondents who retrenched their workers, 58.8% of them intend to hire temporary or contract workers, irrespective of whether they are local or foreign contract or temporary workers.

Chart 5: Foreign and Local Workers



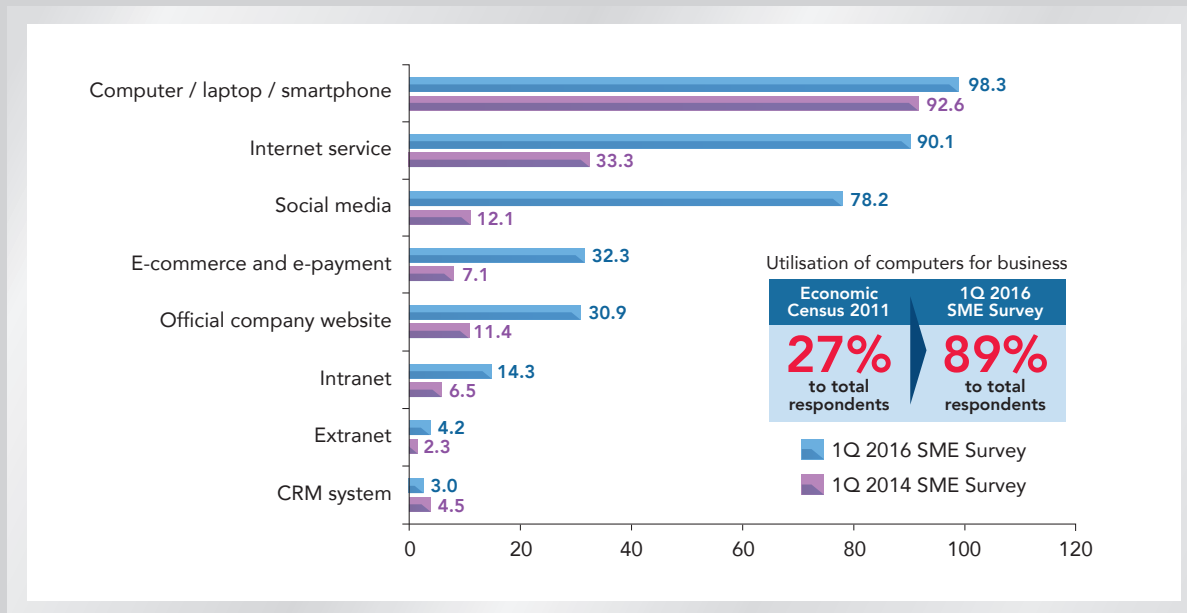
Source: SME Corp. Malaysia

ICT Adoption

On the utilisation of ICT among SMEs, there has been discernible increase among SMEs in recent years. Findings revealed that majority of respondents utilised computers, smartphones and internet in their daily life, both for business operation or for personal use (refer to Chart 6). Looking at the business usage, about 89.1% of the respondent cited that they have utilised computers for business as compared to only 27.0% recorded in 2010 based on the Economic Census 2011 conducted by the Department of Statistics, Malaysia. In addition, there was a big improvement among respondents in the use of internet and social media since the last two years indicating greater exposure to ICT and better awareness of its benefits. Respondents had also leveraged on the social media platform to promote their businesses and attract new customers.



Chart 6: ICT Adoption among SMEs in Recent Years



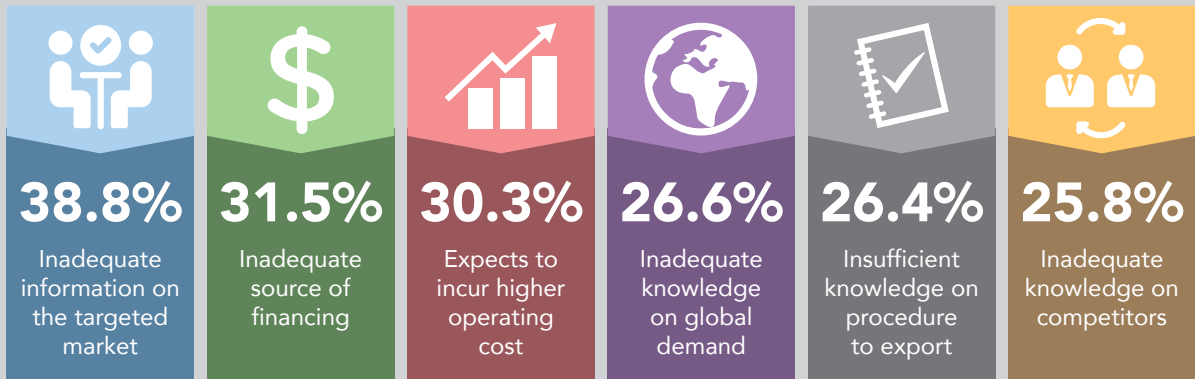
Source: SME Corp. Malaysia

Meanwhile, about 20.3% of respondents were involved in online transactions to better reach out to their customers. Respondents involved in online business were particularly microenterprises and firms in services and manufacturing sectors. The use of e-payment facilities such as internet banking, credit card and debit card helped to expedite the online transaction processes. Going forward, SMEs should further capitalise on ICT and social media to modernise and upgrade their businesses.

Export Market

With regards to the exports market, about 14.2% of respondents have penetrated into the international markets, with an average of 25.0% of their total products or services were sold abroad. These exporters concentrated their export activity mainly in ASEAN, People’s Republic of China and the United States. Taking a closer look at the constraints in exporting, the survey findings cited that inadequate market intelligence and trade financing were the main concerns among respondents (refer to Chart 7). Access to market information such as on global demand and business competitors is very crucial as it gives better picture (more information) to current or potential exporters, thus allowing them to strategise their business needs with regard to exports. Also, inadequate source of financing might also hinder SMEs to export. Survey findings showed that only 16.6% of total respondents use trade financing facilities, which include for both exports and imports activities.

Chart 7: Constraints in Exporting



Source: SME Corp. Malaysia

Moving forward, SMEs are very much interested in boosting export. About 23.7% of total non-exporters intend to penetrate markets abroad, while 9.9% of total respondents plan to increase their exports activity following the implementation of the AEC and the newly signed TPPA. Meanwhile, SMEs are showing interest and readiness to take advantage of the huge market abroad by undertaking these measures:

- upgrading current procedures or systems of doing business (48.0%);
- attending trainings, seminars or conferences.(39.9%); and
- building business networking to face competition (28.2%).

Furthermore, respondents also undertook various initiatives to further boost their export such as diversifying into new markets, participating in international trade and customising its products or services according to international standards.