

Section II :  
SME Development Policies  
and Programmes

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## Chapter 3

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Policies on  
**SME**  
and  
Entrepreneurship  
Development



## Chapter 3

# Policies on SME and Entrepreneurship Development

Over the last decade, various measures were introduced including progressive policies, enabling initiatives as well as structural and regulatory reforms with the ultimate aim of creating a conducive environment for micro, small and medium enterprises to thrive. Recently, along with the initiative to shift from input-driven to productivity-driven economy, much emphasis has been given to promoting innovation particularly among SMEs. These among others include putting in place the prerequisites for innovation culture as well as supportive policies and end-to-end facilitation to guide SMEs through the journey from concept to commercialisation.

The year 2017 saw the introduction of a few new policies which will have bearing on SME and entrepreneurship development in the country. For instance, the Insolvency Act 1967 has enabled a second chance for bankrupt entrepreneurs with automatic discharge to rebound and return to the business scene. In addition, the Employment Insurance Scheme was also introduced with the aim to improve social security of workers. Going forward, as Malaysia gears itself towards digital economy as the next frontline for economic growth, the National eCommerce Strategic Roadmap (NeSR) which was launched in 2016 gained momentum in 2017 with the implementation of the Digital Free Trade Zone (DFTZ) pilot project that has further provided a solid platform for SMEs to anchor on the internet economy.

## NATIONAL SME DEVELOPMENT COUNCIL AND KEY INITIATIVES

Since its establishment in 2004, the National SME Development Council (NSDC) has served as the highest policy-making body in formulating a comprehensive and coordinated approach for development of SMEs in the country. Various outcomes have been achieved by NSDC after 14 years which among others include the adoption of a standard definition for SMEs, establishment of an SME database, monitoring and analysis of SME performance to facilitate policy formulation, streamlining dissemination of information on SMEs, development of SME financial infrastructure and formulation of the SME Masterplan (2012-2020). The Masterplan, which was introduced in July 2012, targets to push further SME contribution to Gross Domestic Product (GDP) to 41.0% by 2020 while the target for exports and employment is 23.0% and 65.0% respectively.

One of the recent accomplishments in SME development was the introduction of the SME Central Incentives System (SCenIc) which aims to enhance transparency in reporting and coordination of SME programmes. The System is a centralised database of beneficiaries of Government aid and serves as an important referral hub to avoid duplication and thus optimises the utilisation of resources. SCenIc was developed by SME Corp. Malaysia and launched during the 23<sup>rd</sup> NSDC Meeting in November 2017.

The Meeting also recognised the importance of further enhancement of the digitalisation of SMEs. The NeSR comprising various Ministries and agencies was established towards doubling Malaysia's e-commerce growth rate to reach a GDP contribution of RM211 billion by 2020. Meanwhile, DFTZ is an initiative to capitalise on the confluence and exponential growth of the internet economy and cross-border e-commerce activities. DFTZ was set up to facilitate seamless cross-border trade and enable local businesses to export their goods with a priority for e-commerce.

## UPDATES ON SME MASTERPLAN (2012-2020)

Under the SME Masterplan, six High Impact Programmes (HIPs) and 26 supporting initiatives were introduced with the objective of accelerating the growth of SMEs in line with Malaysia's plan to be a high-income nation by 2020 through innovation-led and productivity-driven growth.

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

HIP 1 is led by the Malaysian Administrative Modernisation and Management Planning Unit (MAMPU) in collaboration with SME Corp. Malaysia, Companies Commission of Malaysia (SSM), Implementation Coordination Unit (ICU), Malaysia Productivity Corporation (MPC) and State Governments. The initiative





aims at encouraging the formation of new businesses and intensifying the rate of formalisation through a single gateway for business registration and licensing.

The MalaysiaBiz portal was developed as a 'quick win' under HIP 1. It provides information on 2,919 licenses for 1,174 business activities based on the Malaysia Standard Industrial Classification (MSIC) 2008, covering licensing issued by the federal, state and local authorities. As at end of 2017, a total of 1,163 License Information Partners have been appointed to ensure that information in the portal is current and valid.

Phase 1 of the project involved applications for licensing through the Government Online Services Gateway from four licensing authorities, namely, Kuala Lumpur City Hall, Ministry of Domestic Trade and Industry, the Department of Wildlife and National Parks and the Fisheries Department. Phase 1 of the integration system project involved 17 online systems covering 10 registration bodies, three federal agencies and four local authorities. Other licensing authorities will be added into the portal in the integration phase which will be implemented between 2018 and 2020.

### **HIP 2: Technology Commercialisation Platform**

The Technology Commercialisation Platform (TCP) or HIP 2 is being led by Agensi Inovasi Malaysia (AIM) through its subsidiary, PlaTCOM Ventures Sdn. Bhd. The Platform aims to provide end-to-end facilitation for commercialisation of SMEs' products and services. This is to encourage innovation by SMEs through a seamless move from proof of concept to commercialisation via a single platform which provides access to financing, incubation and testing facilities, market intelligence and other linkages.

SMEs derive significant benefits from TCP as it removes the risks involved in their development of products and services by leveraging on trusted technologies within Malaysia or overseas, thus helping to lower the costs of creating their innovations and a faster time-to-market. This has led to outstanding progress achieved under HIP 2 as at end of May 2018, with 165 projects approved, 205 licensing deals signed and 40 innovations commercialised. The projects have in turn generated RM44 million in sales.

### **HIP 3: SME Investment Partner**

The SME Investment Partner (SIP) programme is a public-private sector co-funding initiative designed to attract private investments in viable SMEs. SIP enhances access to financing for SMEs through its four unique features which are:

- Caters to early-stage SMEs (between 3 to 5 years of operation);
- Covers SMEs in all sectors including the traditional wholesale and retail businesses;
- Public-private sector co-funding initiative; and
- Flexibility to offer both equity and debt funding.

As at end of May 2018, three SME Partners have been appointed to raise funds from the private investors and subsequently to channel funds to viable SMEs.

#### HIP 4: Going Export

The Going Export (GoEx) programme which is managed by the Malaysia External Trade Development Corporation (MATRADE) is aimed at internationalising export-ready SMEs. For this purpose, MATRADE has targeted 12 high-value sectors namely, automotive, building materials, electrical and electronics, food and beverage, healthcare, lifestyle, ICT, oil and gas, aerospace, machinery and equipment, chemicals and logistics services.

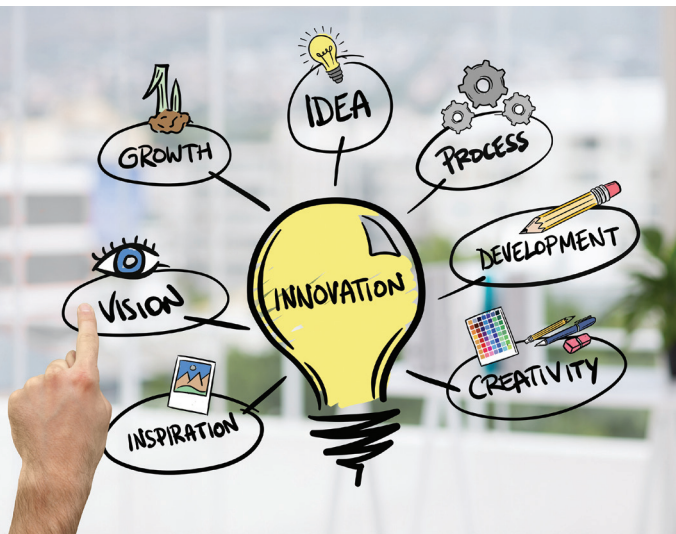
As at end of May 2018, a total of 227 SMEs were admitted into the GoEx programme. 58 SMEs have participated in the market immersion programme and RM267 million in potential export sales were generated.

#### HIP 5: Catalyst Programme

The Catalyst Programme which is undertaken by SME Corp. Malaysia aims to develop homegrown champions. A total of seven sub-sectors have been identified under the Programme namely, LED/SSL, biotechnology, aerospace, medical devices, oil & gas, ship building & ship repair and rail. To date, SME Corp. Malaysia has undertaken Catalyst Programme in four sub-sectors which are LED/SSL, biotechnology, medical devices and aerospace. As at end of May 2018, eight SMEs have obtained AS9100 certification under the aerospace sub-sector while capacity building initiatives in the medical devices and rail sub-sectors are still ongoing. Under the Programme, the target is to have at least 70.0% of participants achieving an average annual sales growth of 20.0% for three consecutive years.

#### HIP 6: Inclusive Innovation

The Inclusive Innovation programme aims to assist the bottom 40.0% of the income pyramid (B40) by providing affordable, quality products and services to the excluded population. The Programme is led by Yayasan Inovasi Malaysia (YIM), an agency under the Ministry of Science, Technology and Innovation (MOSTI). As at end of May 2018, 1,440 innovations were received with 424 shortlisted. 60 innovations were admitted into HIP 6. Ultimately, 23 innovations were ready for diffusion and benefited 8,460 people in 21 communities.



Moving forward, SME Corp. Malaysia plans to undertake a new long-term plan to chart entrepreneurship and SME development beyond 2020. The proposed SME Masterplan 2.0 (2021-2030) will lay out strategies for entrepreneurship and SME development for business sustainability and competitiveness in order to compete in more globalised and high tech marketplace. To achieve this, the Masterplan will need to take into account the changing demographics, economic and business landscapes as well as to identify new opportunities and challenges that need to be addressed by Malaysian SMEs. The Masterplan will among others look into aligning SMEs to reap the benefits from the Megatrends, such as Industrial Revolution 4.0 and digitalisation as well as to explore new business models arising from new emerging financial technology, inclusive business, sharing economy and circular economy.

## UPDATES ON MALAYSIA PRODUCTIVITY BLUEPRINT (MPB)

The Malaysia Productivity Blueprint (MPB) which was launched in 2017, 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 10<sup>th</sup> Malaysia Plan period to 3.7% per annum in the 11<sup>th</sup> Malaysia Plan period. Malaysia's GDP has grown from RM116.1 billion in 1991 to RM1,174 billion in 2017, an average of 3.0% labour productivity growth.

Labour productivity in 2017, in terms of value per person employed, was at RM81,268. This represents a growth of 3.8% as compared to RM78,294 in 2016. Under the 11<sup>th</sup> Malaysia Plan, a minimum target of annual labour productivity growth of 3.7% must be achieved. At current levels, Malaysia is about 12% off its target of RM92,300 in year 2020.

In 2017, labour force participation was at 15 million comprising 14.5 million (96.7%) employed and 0.5 million (3.3%) unemployed labour. In terms of skill level, medium-skilled employment accounted for bulk of the workforce with 8.6 million (59.3%) workers, followed by high-skilled workers at 4 million (27.6%) and low-skilled at 1.9 million (13.1%) workers.

To boost productivity at the national, sectoral and enterprise levels, as envisioned by MPB, initiatives will be implemented under five key strategic thrusts. These include building the workforce of the future, driving digitalisation and innovation, making industry accountable for productivity, forging a robust ecosystem and securing strong implementation mechanism.

A total of 43 sector-level initiatives are currently being implemented through nine Productivity Nexus. The introduction of the Productivity Nexus at sectoral and enterprise levels, are intended for both the public and private-sector to collaborate closely towards enhancing the productivity and competitiveness for the betterment of the *rakyat*. The priority sub-sectors have been established comprising retail and food & beverage; professional services; tourism; information communication and technology (ICT); private healthcare, electrical and electronics (E&E); chemicals and chemical products; and machinery and equipment (M&E) and also agro-food from the agriculture sector.

**Chart 3.1:** Sub-sectors of Productivity Nexus



The initiatives at enterprise level include the cross-industry embrace of the Industry 4.0, promotion of Good Regulatory Practices, adoption of LEAN Management and other productivity-enhancing methodologies, and the upskilling of the labour pool. The outcome of the outlined initiatives will certainly be a game changer for the nation's efforts to improve productivity.

## **NEW POLICY MEASURES WITH IMPACT ON SMEs**

### **INSOLVENCY ACT 1967**

The Bankruptcy Act 1967 which has been renamed as the Insolvency Act 1967, came into force in October 2017. The Act adopts a more humane approach in dealing with bankrupts with salient features as follows:

- Increase in the minimum threshold to be declared as bankrupt from RM30,000 previously to RM50,000;
- Introduction of a pre-bankruptcy rescue mechanism called the voluntary arrangement to assist in loan settlement. Through this mechanism, the debtor will appoint a nominee – a chartered accountant, an advocate and solicitor or any other person determined by the Minister – to oversee the voluntary arrangement which is essentially where the creditors agree to compromise or discount the debts owing to them;
- Absolute prohibition in commencing bankruptcy action against a social guarantor – persons who do not profit and essentially provide a guarantee for an education loan, hire purchase transaction for personal or non-business use or a housing loan for personal dwelling;
- Declaration of Creditors will not be able to declare a bankruptcy to the lender unless enough proof of intention to defeat, delay or evade personal service is obtained; and
- A new provision allows for an automatic discharge of bankruptcy after three years from the submission of a bankrupt's statement of affairs and subject to achieving the target contribution set by the Director General of Insolvency (DGI) and having rendered an account of monies and property to the DGI.

The act also provides for the establishment of the Insolvency Assistance Fund which will be administered and controlled by the DGI to enhance bankruptcy actions processes.

From SMEs' perspective, the Insolvency Act will create a more equitable enabling environment to restart, restore and rebuild enterprises by giving entrepreneurs an opportunity to make a come-back.

### **EMPLOYMENT INSURANCE SCHEME (EIS)**

In Malaysia, social security protection for workers has been provided by the Social Security Organisation (SOCSSO) since 1971 while the Employees Provident Fund (EPF) has been serving as a pension fund for private and non-pensionable public sector employees since 1951.

Malaysia's unemployment rate is considered to be relatively low and stable at approximately 3.4% in 2016. The Organisation for Economic Co-operation and Development (OECD) defines a country as in full employment when its unemployment rate is below 4%. However, data from the Labour Department revealed that almost 40,000 Malaysian workers lost their jobs in 2016 owing to redundancy.



To widen the social safety net, the Government has set up the Employment Insurance Scheme (EIS) which will be managed by SOCSO. The Government has started off the scheme with an allocation of RM70 million for the payment of financial benefits.

#### **Mechanism of the Employment Insurance Scheme**

Employers and employees will contribute 0.2% each of the latter's salary to EIS with the minimum eligible monthly salary for participation at as low as RM300 while the maximum monthly salary eligibility is capped at RM4,000.

EIS will provide immediate financial assistance to workers who lost their jobs owing to retrenchment or insolvency of their employers or who left their jobs owing to threats at the workplace, including sexual harassment. Assistance is provided within a six-month period while a member searches for employment.

The Scheme also offers other benefits such as assisting a member in job search by providing a re-employment or reduced income allowance and career counseling. Retrenched workers will also qualify for a cash allowance of RM600 per month for up to three months. The monetary value of each of these benefits will be deducted from his claim. As an example, if a member is re-employed before the end of the six-month period, he will receive an Early Re-employment Allowance amounting to 25.0% of his remaining job search allowance entitlement. The quantum of the financial aid is subject to the length of time a worker has contributed to the scheme and is calculated based on his last drawn salary.

The Scheme's operation is structured similarly to that of SOCSO and EPF. The compulsory contributions go into a pooled fund and are aggregated for the purpose of investment. As this is a compulsory scheme, employers who do not comply with EIS regulations will be penalised with a jail term of up to two years and a maximum fine of RM10,000. EIS will cover 430,000 SOCSO-registered employers and 6.6 million employees.

#### **NATIONAL eCOMMERCE STRATEGIC ROADMAP**

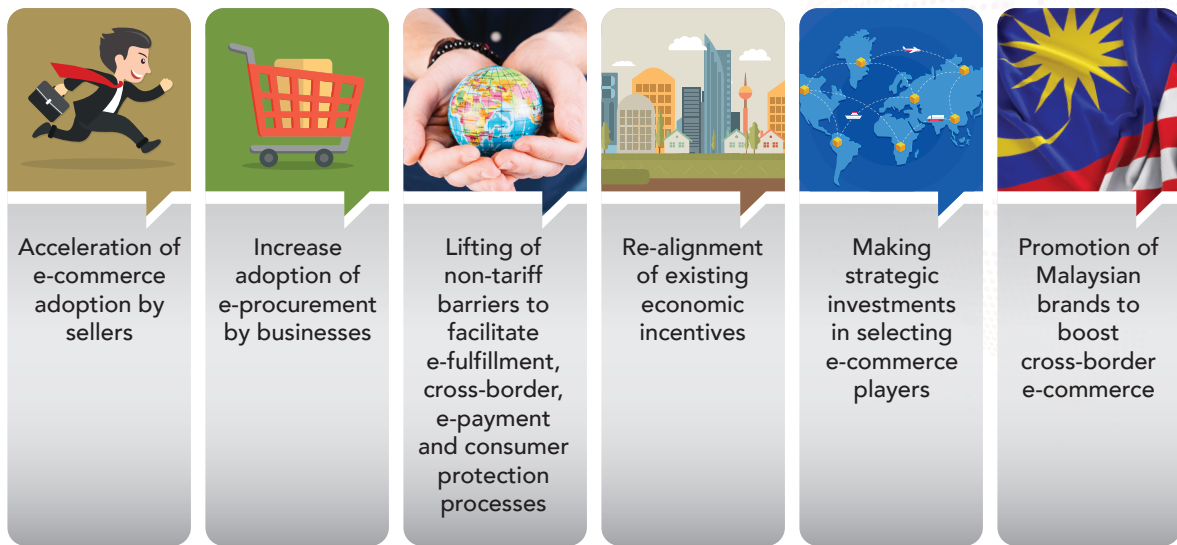
The National eCommerce Strategic Roadmap (NeSR) which was launched in 2016 is the outcome of five mini-labs, focused interviews and input from over 100 stakeholders across 54 public and private organisations.

The Roadmap addresses two of the key components of Malaysia's e-commerce agenda:

- To future-proof existing businesses by ushering approximately 80.0% of SMEs into the international e-commerce arena and ensuring they have the capabilities to keep pace with developments in the digital economy; and
- To expand market access beyond the 16 million domestic digital customers to the ASEAN region's 87 million and ultimately to the one billion customers worldwide.



**Chart 3.2:** Thrust Areas for Government Intervention



11 programmes and the associated initiatives covering the six thrust areas have been prioritised for the near term. The programmes are led by eight public sector agencies namely, SME Corp. Malaysia, Ministry of Finance (MOF), Malaysian Communications and Multimedia Commission (MCMC), Ministry of Domestic Trade, Co-operatives and Consumerism (MDTCC), Malaysian Investment Development Authority, Ministry of International Trade and Industry (MITI), Bank Negara Malaysia and Malaysia External Trade Development Corporation (MATRADE).

The National eCommerce Council (NeCC), comprising representatives from 21 Government Ministries and agencies, will drive the implementation of 11 programmes aimed at doubling Malaysia's e-commerce growth rate and increasing the contribution of e-commerce to GDP to RM211 billion by 2020.

Complementary action plans drawn up by the NeCC include the formation of a technical committee to undertake detailed discussions and solutions of a taxation system for e-commerce activities in Malaysia and the Go Global Malaysia programme. The latter is a public-private sector partnership – comprising Google, Alliance Bank, Mastercard and Maxis together with MITI, MATRADE, SME Corp. Malaysia and MDEC – to assist SMEs to build their business capabilities, connect with digital ecosystem partners, promote international exports and grow to become globally competitive companies.

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### Programmes Led by Ministries and Agencies

- **Ministry of Finance:** Implement mandatory use of e-procurement by public agencies for the purchase of goods and services in line with the objectives of the NeSR and fostering the use of e-procurement by Government-linked companies.
- **Malaysian Communications and Multimedia Commission:** Transform Malaysia's last-mile delivery network with best-in-class capabilities, including information transparency, updated standards and relevant service-level agreements.
- **Ministry of Domestic Trade, Co-operatives and Consumerism:** Protect consumers' rights through advocacy programmes.
- **Malaysian Investment Development Authority:** Turn Malaysia into a regional e-fulfillment hub by providing resources such as special commerce zones, bonded warehouses and special provisions on trans-shipment tax policies.
- **Ministry of International Trade and Industry:** Reduce border clearance time for inbound and outbound parcels, beginning with the timely rollout of uCustoms, Malaysia's National Single Window.
- **Bank Negara Malaysia:** Increase awareness of e-payment innovations, benefits and security.
- **Malaysia External Trade Development Corporation:** Promote Malaysian brands in international marketplaces by developing go-to-market strategies for various countries, platforms and products.
- **SME Corp. Malaysia:**
  - a) Promotion and marketing of e-commerce to SMEs to create awareness of its benefits;
  - b) Improvement of the scale and effectiveness of e-commerce training and development of talent for SMEs by providing multi-platform and multi-tool training opportunities that cover their entire life cycle, from entry point to maturity; and
  - c) Creation of a one-stop e-business portal, Go eCommerce, to serve as a resource platform to guide SMEs towards e-commerce, including providing information, e-commerce readiness surveys, e-business apps, training opportunities, financial incentives, community FAQs as well as profiling of SMEs to gauge their readiness to adopt e-commerce.

### BUILDING A SUSTAINABLE AND EQUITABLE ECONOMY

The new Government has announced various reforms to spur sustainable and equitable economic growth. Among these include reforming the tax system, spurring investment through economic cooperation, encourage innovation and productivity as well as introducing policies to facilitate entrepreneurial success. One of the main focus of the Government will be to develop and empower SMEs to be more competitive abroad so that they can play an active role in the global value chain, as well as contribute towards the Industrial Revolution 4.0.

For this purpose, the Government will provide incentives in the form of financial and technological support to encourage companies to expand into the global marketplace. The Government will also strategise Malaysia's participation in the regional value and supply chain through groupings such as ASEAN, the Regional Comprehensive Economic Partnership (RCEP) as well as by being a party in

bilateral and multilateral agreements. Aside from that, bilateral negotiations will be initiated with the European Union and other countries to pursue easier access into their markets for Malaysian products and services. Parallel with these initiatives, the Government will also promote Malaysia as a quality investment destination. These initiatives are expected to benefit SMEs in strengthening their position domestically and abroad and ultimately pushing further their contribution to the economy.

### Re-establishment of the Ministry of Entrepreneur Development

The new Government has recently announced the establishment of the Ministry of Entrepreneur Development or MED. The announcement marks the revival of the Ministry of Entrepreneurship & Cooperative Development which was abolished in 2009. The Ministry is expected to coordinate and streamline the policy and implementation of all programmes related to entrepreneurship and SMEs. The key functions of MED are:

- |  |   |
|--|---|
| <p><b>1</b> To formulate entrepreneurship and SME development policy which are inclusive and competitive including to spur the development of B40 and M40 groups as well as social entrepreneurs</p> | <p><b>4</b> To forge cooperation and strategic networking with private sector at the federal, state and international level</p>   |
| <p><b>2</b> To coordinate the implementation of Bumiputera equity ownership policy</p>   | <p><b>5</b> To plan and implement activities that could enhance and acculturate entrepreneurship and SMEs</p>   |
| <p><b>3</b> To facilitate entrepreneurs and SMEs in starting up businesses which includes the streamlining of fund for entrepreneurship and SMEs</p>   | <p><b>6</b> To coordinate the development of SMEs as well as Bumiputera in the strategic industries such as automotive, aerospace, renewable energy, digital economy and halal industry</p> |



To date, the new Ministry has undertaken various engagements with the industry stakeholders to understand issues and challenges faced by entrepreneurs and SMEs. MED has also established an Entrepreneur Development Advisory Council (EDAC) with members consisting of industry captains and experts to assist in the development of entrepreneurship in the country.

The first Council Meeting was held on 16<sup>th</sup> August 2018 chaired by the Minister of Entrepreneur Development. The Council's main role is to study policies and new strategies to develop inclusive and competitive entrepreneurs and SMEs. It will also identify strategies for establishing cooperation and strategic networking with the private sectors at federal, state and international level.