

# Chapter 1

## MSME Development Policies, Initiatives and Programmes



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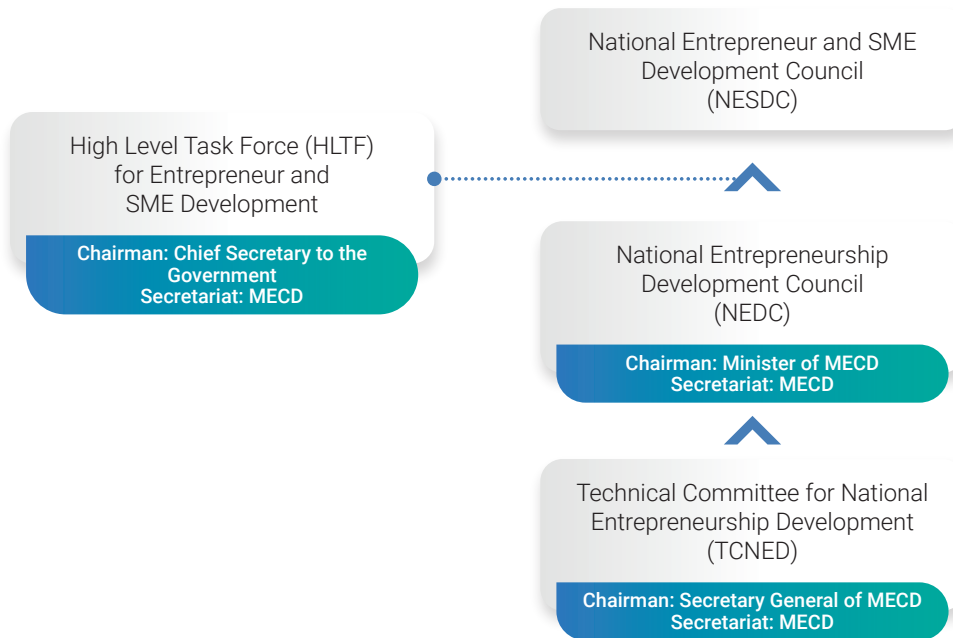
## MSME Development Policies, Initiatives and Programmes

While the structured policies and initiatives to MSME development has helped to support MSME recovery and resilience since the start of the COVID-19 pandemic crisis, the next phase would focus on integrating MSMEs into the economic mainstream to become an important engine of growth. Recognising the important role of MSMEs in the economy, the Government is committed towards creating the foundation to support and nurture the development of MSMEs. Thus, the revised 2023 Budget announced in early 2023 will be the first step in laying the Malaysia MADANI policy framework and subsequently will ensure local MSMEs are again competitive and able to increase their business capacity.

### GOVERNANCE STRUCTURE OF MSME DEVELOPMENT

The National Entrepreneur and SME Development Council (NESDC) is the highest policy-making authority on matters related to the micro, small and medium-sized enterprises (MSMEs). The council decides on policies, strategies and action plans with regard to the holistic development of entrepreneurs and MSMEs across all sectors of the economy. Chart 1.1 illustrates the governance structure that has been established to develop MSMEs in Malaysia. Several key initiatives bear witness to the success of the NESDC, among which are the adoption of a standard definition for MSMEs, development of MSME database, monitoring and analysis of MSME development programmes, development of MSME financial infrastructure and endorsement of the SME Masterplan (2012 - 2020) with its implementation exercises.

Chart 1.1: Governance Structure of MSME Development in Malaysia



The NESDC meeting held in March 2023 had emphasised the importance of a comprehensive programme implementation and reporting. The following key decisions were made at the meeting:

- implementation of programmes and initiatives needs to be strengthened with more focus to the achievement of the outcome of the programmes instead of only output performance;
- an integrated database is important to reduce work in silos among Ministries and agencies when implementing the MSME development programmes; and
- improvement of the existing ecosystem structure needs to be done to reduce duplication of assistance or programmes among Ministries and agencies.

The High Level Task Force (HLTF) for Entrepreneur and SME Development chaired by Chief Secretary of the Government provides a platform for synergy at the Federal Government level. Meanwhile the National Entrepreneurship Development (NEDC) serves as a platform between the Federal and State Governments pertaining to policy-making decisions on the MSME development at national and state level.

To ensure the NEDC to run effectively, a Technical Committee for National Entrepreneurship Development (TCNED) is established to play a role in identifying problems, challenges and barriers in developing MSMEs, cooperatives and informal entrepreneurs at national and state levels. JTPKN is responsible to submit strategic measures as well as proposals on the solution to NEDC for consideration and approval of implementation.

## MSME DEVELOPMENT IN BUDGET 2023

On 24 February 2023, the Government announced the revised Budget 2023 with allocations amounting to RM388.1 billion (including RM2 billion in contingency reserves), which is 16.2% higher than the 2022 Budget (RM334.1 billion). Formulated as Belanjawan MADANI, the budget reflects the principle of accountability and pure value system that can confront the current challenges including the highly uncertain global economic

challenge. With the theme 'Building Malaysia MADANI', a total of RM42.7 billion has been allocated to either exclusively benefit the MSMEs or can be accessed by MSMEs along with other businesses (of this amount, RM3.7 billion is existing funds). Among the key initiatives include:

- Access to Financing – RM37.3 billion
- Development of Microenterprises and Inclusiveness – RM1.9 billion
- Enhancing Digitalisation, Technology and Innovation – RM1.7 billion
- Development of Human Capital – RM1.2 billion
- Development of Agriculture Sector – RM266 million
- Development of Tourism Industry – RM250 million

Among the key tax incentives and regulation that MSMEs can benefit:

- MSMEs' tax rate on taxable income for the first RM150,000 is reduced from 17.0% to 15.0%;
- Provide accelerated capital allowance and 100.0% tax exemption on capital expenditure for the use of technology in the agricultural sector;
- Extend tax deduction of up to RM1.5 million for listing expenses on the ACE and LEAP Markets until assessment year 2025. The tax deduction is also extended to cover the cost of listing technology-based companies on the Bursa Malaysia Main Market;
- Extend income tax incentives and investment tax allowances until 31 December 2025 in aerospace industry to encourage capacity expansion of existing companies and attract investment from new companies;
- Consumer Credit Act will be amended and Consumer Credit Monitoring Board will be established to regulate the credit business and protect consumer rights;
- Drafting of Government Procurement Act will be accelerated; and
- Insolvency Act 1967 will be amended so that bankruptcy cases can be automatically discharged. Cases with debts of less than RM50,000 and fulfil the requirement will be discharged immediately from 1 March 2023.

# Box Article

## MSME Development Programme in 2022 and 2023

SME Integrated Plan of Action (SMEIPA) has been implemented since 2006. The main objective of SMEIPA is to coordinate, monitor and evaluate the implementation of entrepreneurship and MSME development programmes by Ministries and Agencies. Programme monitoring through SMEIPA is footing through programme achievements in the previous year as well as planned programme in the current year.

### PROGRAMMES IN 2022

A total of 231 programmes with financial expenditure amounting to RM17.8 billion were reported for 2022. These programmes that were implemented by 15 Ministries, six Sole Agencies and 52 Agencies has benefitted 807,556 MSMEs. In 2022, human capital development was the focus area that implemented the highest number of programmes with 95 programmes (29.0%). These programmes utilised a total of RM3.9 billion and benefitted 213,539 MSMEs. Meanwhile, access to financing programmes received the main bulk of the funding amounting to RM16.5 billion to implement 90 programmes (27.4%) that benefitted 540,248 MSMEs. In order to facilitate MSME access to markets, 57 programmes (17.4%) were implemented during the year with an expenditure of RM116.4 million and benefitted 72,685 MSMEs. Balance 26.2% of the number of programmes were in other focus areas namely innovation & technology adoption and infrastructure.

Table 1: Summary of Programmes in 2022 by Focus Area

Focus Area	Number of Programmes		Financial Expenditure		Number of MSME Beneficiaries	
	Total	Share (%)	RM million	Share (%)	Total	Share (%)
Human Capital Development	95	29.0	3,880.0	18.3	213,539	21.4
Access to Financing	90	27.4	16,490.0	77.9	540,248	54.1
Market Access	57	17.4	116.4	0.6	72,685	7.3
Innovation & Technology Adoption	45	13.7	575.2	2.7	63,935	6.4
Infrastructure	41	12.5	100.8	0.5	107,920	10.8

Note: Similar programmes may cater for multiple focus area

## PROGRAMMES IN 2023

For 2023, with a total allocation of RM10.6 billion, the Government is currently implementing 225 programmes, which are expected to benefit 644,731 MSMEs. These programmes will be implemented by 12 Ministries, four sole agencies, 52 agencies and seven State Governments. Bulk of the programmes being implemented are for access to financing which a total of 96 programmes (30.5%) with an expenditure of RM10.4 billion and benefitting 361,419 MSMEs. In terms of types of financing, the programmes comprise mainly of soft loan including micro financing (44.1%), guarantee scheme (39.3%), venture capital (13.2%), grant scheme (2.2%), equity & debt financing (0.7%) and others (0.5%).

Table 2: Summary of Programmes in 2023 by Focus Area

Focus Area	Number of Programmes		Financial Expenditure		Number of MSME Beneficiaries	
	Total	Share (%)	RM million	Share (%)	Total	Share (%)
Access to Financing	96	30.5	10,440.0	80.4	361,419	51.0
Human Capital Development	94	29.8	2,040.0	15.7	197,683	27.9
Market Access	60	19.0	118.2	0.9	43,273	6.1
Innovation & Technology Adoption	46	14.6	316.8	2.4	28,112	4.0
Infrastructure	19	6.0	65.8	0.5	78,416	11.1

Note: Similar programmes may cater for multiple focus area

# Box Article

## National Agricommodity Policy 2021- 2030: Empowering Entrepreneurs and Agricommodity MSMEs

### BACKGROUND

The empowerment of entrepreneurship and MSMEs in the agricommodity sector is one of the main focuses of the National Agricommodity Policy 2021 - 2030 (DAKN2030). In Rancangan Malaysia Kesebelas (RMKe-11) 2015 - 2020 period, the Ministry of Plantation and Commodities through its agencies offered 11 programmes to develop and train palm oil, rubber, timber, cocoa and pepper entrepreneurs. These included skills upgrading for entrepreneurs and business-owners through short-term courses, machine and equipment loans as well as incubation programmes. Incentives were also given to entrepreneurs involved in the production of chocolate and palm oil-based food products. The Malaysian Timber Industry Board (MTIB) had also introduced a furniture design programme for the timber industry which successfully matched local and international designers to produce better design for furniture. Similar programmes have been planned for implementation under Rancangan Malaysia Kedua Belas (RMKe-12) 2021 - 2025.

### PROFILE OF AGRICOMMODITY MSMEs

Agricommodity MSMEs are directly engaged in downstream activities and support services. In 2021, 2,787 MSME were identified under the sector with more than 70.0% engaged in the timber sector while the rest were in the palm oil, rubber, cocoa, pepper and plant-based fibre sector (kenaf).

The role of MSMEs at the upstream level is primarily as suppliers of products and services such as seeds, fertilisers, transportation and marketing. They have a bigger role downstream as supplier of machines, technology and chemicals or provider of automation expertise and training as well as serving as technical services advisor or consultant in palm oil commodities activities, including the production of processed palm oil and basic oleochemicals.

MSMEs in the rubber commodities sector are engaged in the production of Standard Malaysian Rubber (SMR) and basic rubber products with limited technical standards. For those in the timber commodities sector, most of their activities involve serving as Original Equipment Manufacturer in furniture production while those who are in cocoa commodities engage in seed grinding and small-scale chocolate production. MSMEs are also involved in traditional fields of business such as logistics services, packaging, trading and ICT services.

Studies have shown that MSMEs in most agricommodity sectors have created many innovations, most of which were developed internally without any formal assistance from Government agencies.



## ISSUES FACED BY ENTREPRENEURS AND MSMEs IN AGRICOMMODITY SECTOR

Entrepreneurs and MSMEs play a key role in innovation, job creation and in the wider socio-economic development. While large industry players are the main contributors to the agricommodity sector, entrepreneurs and MSMEs too have important roles to play across the supply chain.

Though the wider adoption of automation and mechanisation as well digital technology has increased demand for related services and created opportunities for businesses, especially for those in the rural areas, MSMEs are still contending with key issues in their growth and development, including access to financing, limited access to skilled talent and inability to explore their potential in high value activities.

Agricommodity MSMEs, like their counterparts in other sectors, lack the financial means to support growth, development and expansion of their business. Accessing financing is a major challenge as investors, venture capitalist and financial institutions are averse to the risks involved in financing new businesses or unproven innovations.

A 2018 World Bank study on the Malaysian digital economy described access to capital as a 'moderate to high level problem' for the majority of companies in Malaysia, including MSMEs. Although there are various financing programmes for qualified MSMEs, these are generally difficult for them to access due to their limited ability to deal with the complex application process.

The agricommodity sector's value is generally trending towards downstream activities, especially in production, export value and skilled labour employment opportunities. MSMEs need to accelerate the transition to high value-added economic activities through technology adoption, product development and new innovative applications as well as adoption of e-commerce, the rate of which is much slower than that of other sectors such as manufacturing and services.

However, the transition process is not only hampered by difficulty in accessing financing but also by a lack of skilled talent. Employment of skilled talent is a big challenge for agricommodity MSMEs as they are unable or perceived to be unable to pay the market rate for such talent, especially when work in the sector is perceived as 3D (dirty, dangerous, difficult) and has poor career advancement opportunities. Consequently, the MSMEs are unable to take on emerging opportunities, bear the high cost of technology, conduct research & development as well as commercialisation & innovation and, ultimately unable to even explore their potential to move into high value-added activities.

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## EMPOWERING AGRICOMMODITY MSMEs

The integrated development of entrepreneurs and MSMEs is pivotal in realising the Government's aspiration for sustainable and equitable socio-economic development as espoused in the National Entrepreneurship Policy 2030 agenda. The Government has consistently focused on upskilling entrepreneurs in the agricommodity sector through training and transfer of technology as well as by initiating measures to improve market access. These efforts will continue in the DAKN2030 period.

The future strategy for the sector will be to expand the services and drive innovation among MSMEs. Three main strategies to be implemented towards this objective are:



**STRATEGY 1**

Develop smart services to enable entrepreneurs and MSMEs in the sector to provide digital services including development of technology applications, automation and mechanisation equipment repairs, logistics and stock management. New business models which can transform the entire value chain of the sector through digital technology applications will be prioritised.

Support innovation by MSMEs by raising their innovation capability through industry networking, including providing guidance and training for greater exposure to new technology. The Innovation Venture Fund will be established for agricommodity sector, based on the electronics industry's Collaborative Research in Engineering, Science and Technology (CREST) model. The fund will finance innovation, R&D, development of prototypes and upscaling of production.





**STRATEGY 3**

Attract upstream agricommodity entrepreneurs to engage in technology applications and new work procedures to ensure they would not be left behind. Entrepreneurs will be funded to collaborate with cooperatives through partnerships to introduce commercial agriculture practices, digital procurement and marketing methods. Social enterprises will also be encouraged to collaborate with smallholders to improve agricultural best practices, develop farm-to-table products and create access to market, including through storytelling and digital marketing.



Among the sector-based activities to empower entrepreneurs and MSMEs are:

RUBBER					
Core Policy	Indicator	Baseline 2020	Target 2025	Target 2030	Strategy
INCLUSIVITY Increase Bumiputera participation and safeguard the wellbeing of smallholders	Agricommodity MSME contribution to agricommodity production	RM2.4 billion	RM3.4 billion	RM4.4 billion	-
	Percentage of Bumiputera MSMEs in mid and downstream levels, particularly Next Gen Bumiputera Entrepreneurs	4.0% (13/325)	7.0% (23/325)	9.0% (33/367)	
TIMBER					
Core Policy	Indicator	Baseline 2020	Target 2025	Target 2030	Strategy
INCLUSIVITY To increase Bumiputera participation in the timber industry	Number of Bumiputera entrepreneurs	370	500	600	Empower Bumiputera participation in timber industry through smart partnerships  Improve the wellbeing of workers
	Agricommodity MSME contribution to agricommodity production	RM65 million	RM85 million	RM100 million	
	Percentage of Bumiputera MSMEs in mid and downstream levels, particularly Next Gen Bumiputera Entrepreneurs	43.8% (370/845)	59.2% (500/845)	71.0% (600/845)	
COCOA					
Core Policy	Indicator	Baseline 2020	Target 2025	Target 2030	Strategy
INCLUSIVITY To increase the income of smallholders and develop entrepreneurs	Total income of entrepreneurs / MSMEs	RM5 million	RM12.5 million	RM25 million	-
	Agricommodity MSME contribution to agricommodity production	RM5.8 million	RM12.5 million	RM25 million	
	Percentage of Bumiputera MSMEs in mid and downstream levels, particularly Next Gen Bumiputera Entrepreneurs	93.0% (216/232)	90.0% (254/282)	80.0% (257/321)	

PEPPER					
Core Policy	Indicator	Baseline 2020	Target 2025	Target 2030	Strategy
INCLUSIVITY Forging collaboration between smallholders and industry	Number of pepper entrepreneurs established	52	50	50	Implement special programmes to create pepper entrepreneurs
	Agricommodity MSME contribution to agricommodity production	RM20 million	RM24 million	RM25 million	
	Percentage of Bumiputera MSMEs in mid and downstream levels, particularly Next Gen Bumiputera Entrepreneurs	20.0% (11/55)	30.0% (600/2,000)	40.0% (800/2,000)	Facilitate collaboration between producers and players in the pepper industry
PLANT-BASED FIBRES					
Core Policy	Indicator	Baseline 2020	Target 2025	Target 2030	Strategy
INCLUSIVITY Increase participation of Bumiputera in kenaf industry	Agricommodity MSME contribution to agricommodity production	9.4 million	22.5 million	45.5 million	Increase the development of Bumiputera entrepreneurs and MSMEs through new industry programme
	Percentage of Bumiputera MSMEs in mid and downstream levels, particularly Next Gen Bumiputera Entrepreneurs	99.0% (125/126)	80.0% (210/263)	60.0% (520/867)	Form smallholder cooperatives to build a sector economy via mechanisation and other initiatives

Source: DAKN2030

# Box Article

## Inclusive Business

The Inclusive Business (IB) concept in Malaysia is based on the ASEAN Inclusive Business Framework which was endorsed by the grouping in 2017.

The IB model sees business as a provider of commercially viable goods, services and livelihoods, scale to the community at the bottom of the economic pyramid (BoP) and make them part of the company's core business value chain either as a customer, manufacturer, supplier, distributor, retailer or franchisee.

In 2019, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the Inclusive Business Action Network (iBAN) initiated a Report on Landscape Study of Inclusive Business in Malaysia which was completed in 2021 and published on UNESCAP's website in 2022.

The report touches on the relevance of IB for Malaysia as well as analyses and assessments of the environment along with the promotion of IB in the country. The report serves as a referral document for Malaysia's IB agenda.

The promotion of IB is in line with the key principle of the national socio-economic development agenda and a fundamental goal of the RMKe-12 which addresses poverty and inclusivity consistent with the principle of leaving no one behind in efforts to achieve a decent standard of living.

Towards this end, SME Corp. Malaysia has implemented several initiatives to promote IB in Malaysia, including IB promotion and outreach activities and an Inclusive Business Value Chain Development Initiative (IB-VCDI) Pilot Project. Promotion and outreach activities include seminars and forum on IB as part of advocacy and promotion activities to increase awareness and understanding of IB among Government agencies, MSMEs and financial institutions.

IB-VCDI Pilot Project launched on 2 August 2022 aimed at developing microenterprises and potential inclusive communities, including the B40 group, women and youth, to enable them to generate income through integration into the value or supply chain of companies.

Under the project, four strategic partners, namely Farm Fresh Berhad, Serai Malaysia Sdn Bhd, Pepper Labs Sdn Bhd and Mostwell Sdn Bhd which have adapted elements of the IB model in their respective business operations were appointed as IB Principal Companies and given the responsibility to provide the appropriate intervention to implement IB projects for inclusive communities with the aim of integrating them into the companies' value chain.

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### **IB Entrepreneurs and Home-Dealer Development Project in Dairy Milk Industry**

Farm Fresh Berhad is the leading home-grown brand for dairy milk in Malaysia. Through its Farm Fresh IB Entrepreneurs and Home-Dealer Development Project, the company seeks to empower single mothers, housewives and the urban poor to become home-dealers (as direct seller and / or through their network agents in targeted localities).

Participants are equipped with initial stocks, training, monitoring and kits including a chiller. Farm Fresh supervised the sales of the participants who would eventually grow to become their UHT and fresh pasteurised milk distributors to generate income in their respective communities.

Farm Fresh's efforts in improving the livelihood of under-served communities earned it the ASEAN Business Awards 2020 under the IB Category.

### **IB Project through Lemongrass Crops**

Serai Malaysia Sdn Bhd, a subsidiary of medical device manufacturer Star Medik Group Sdn Bhd, was established as a vehicle to involve communities, particularly the village poor, in the IB value chain. Under the Serai Malaysia Project, the company undertook a guaranteed and consistent bulk purchase of lemongrass at higher than market price from participants from five villages. The participants are supervised and guided by the company to ensure their crops are of premium quality.

Serai Malaysia was awarded the ASEAN IB Awards 2022 for their excellence and conformance to the IB concept and in generating socio-economic impact on people at the bottom of pyramid.

### **IB Project in Food & Beverage Industry**

Pepper Labs Sdn Bhd through its IB Pilot Project in F&B industry helped underprivileged communities such as single mothers living in the city to improve their livelihood by providing training on recipe formulation, raw material procurement as well as sales and marketing in F&B.

The women, from various backgrounds, who participated in the project have not only increased their monthly income but also in generating a steady and constant revenue stream through food catering orders for events and festive celebrations.

Pepper Labs won recognition for their work by winning the distinguished IB Category at the ASEAN Business Awards 2021.

### **IB Project in Eco Printing Industry**

Mostwell Sdn Bhd's Entrepreneurship Project through natural dye and eco printing has enabled artisans from the B40 community to earn a steady income by providing them training in sewing. Most of the project participants are women and one of them is now selling handcrafted clothing at the Kuala Lumpur City Centre (KLCC) shopping mall, with the KLCC management fully bearing the rental for her outlet's space.

### **APEC Workshop on Inclusive Business**

SME Corp. Malaysia hosted the APEC Workshop on Inclusive Business: Charting the Path for Shared Prosperity through Inclusivity from 29 - 30 November 2022.

A total of 116 local and international participants attended the two-day event. The workshop comprised a dialogue session and three panel discussions on topics related to the role and potential of IB in socio-economic development, women empowerment, support for the IB ecosystem as well as showcasing Malaysian IB champions.