

ECONOMIC PERFORMANCE AND OUTLOOK

2022/23



*Reset with
New Perspectives*

National Entrepreneur and SME Development Council (NESDC)

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Chapter 1

Global Overview on Performance of MSMEs





Chapter 1

Global Overview on Performance of MSMEs

The MSME development holds a central position in propelling worldwide economic expansion, standing as a fundamental catalyst for the advancement of economies across the globe. Essentially, the story of MSMEs is one characterised by unwavering determination, expansion and inclusiveness. Though pandemic had a profound and unpredictable impact on businesses, many MSMEs demonstrated resilience and rebounded. Their survival, combined with its solid economic and employment contributions, accentuates their crucial function in shaping the prosperity of any nation. Governments and businesses worldwide continued to work together to strengthen MSMEs and sustain the hard-earned recovery momentum.

MSME PERFORMANCE IN THE EUROPEAN UNION

MSMEs in the European Union (EU) are businesses characterised by having a workforce of fewer than 250 employees and have either an annual turnover below EUR50 million or total balance sheet of less than EUR43 million. Looking at the profile, the EU-27 had around 24.3 million active MSMEs in 2022, demonstrating a yearly growth of 2.7% ^[1]. This profile makes up a substantial 99.8% of all enterprises in the non-financial business sector (NFBS). The cumulative increase in number of MSMEs can be partly due to substantial financial aid extended by the EU Governments to MSMEs during the critical pandemic period of 2020 and 2021 in curbing a significant surge in business bankruptcies.

Align with the global MSME landscape, microenterprises dominate the business size distribution within the EU-27 NFBS, constituting an overwhelming 93.7% of total MSME enterprises. A more detailed analysis of the distribution of EU-27 MSMEs by industries revealed that MSMEs in 2022 were prominently clustered in specific sectors, namely in the wholesale & retail trade industry (23.6%); professional, scientific & technical activities (19.6%); as well as the construction sector (15.4%).

Taking a close look at the performance, the post-pandemic period brought about a positive impact on MSMEs in the Euro area. Building on this momentum, EU-27 MSMEs continued to experience a robust recovery in 2022 with value-added growth expanded by 6.7% (2021: 8.7%) and employment witnessed a growth of 2.4% (2021: 1.4%) during the same year. As a result, MSMEs in EU-27 accounted for more than half of the total value-added and 64.4% of total employment in 2022.

Table 1.1: Share of MSMEs in Establishments, Value-added and Employment in 2022

Category	Share (%)		
	Establishments	Value-added	Employment
Micro	93.7	36.0	45.8
Small	5.5	31.9	30.2
Medium	0.8	32.1	24.1
% to Total MSMEs	100.0	100.0	100.0
% to Overall EU-27	99.8	51.8	64.4

Source: Annual Report on European SMEs 2022/2023, June 2023

MSME PERFORMANCE IN THE REGION OF ASIA

MSME Performance in India

Enterprises in India are classified into two divisions according to the Micro, Small and Medium Enterprises Development Act in 2006, i.e. manufacturing and services enterprises. The country has redefined the MSME definition in July 2020 considering the fear to outgrow among MSMEs given the low threshold limit in the old definition which prevent them to expand further as they may lose the benefits that MSMEs can enjoy. The old definition concentrated on only one criteria namely investment which further segregated between the manufacturing- and service-related MSMEs. Meanwhile, the new definition standardises the definition across manufacturing and services MSMEs based on the investment in plant, machinery or equipment (excluding land and building) as well as new indicator, that is annual turnover. Table 1.2 below describes the detailed definition of MSMEs in India by business size.

Table 1.2: Definition of MSMEs in India

Category	Investment in Plant and Machinery or Equipment	Annual Turnover
Micro	≤ Rs.1 crore	≤ Rs.5 crore
Small	≤ Rs.10 crore	≤ Rs.50 crore
Medium	≤ Rs.50 crore	≤ Rs.250 crore

Source: Ministry of Micro, Small and Medium Enterprises, Government of India

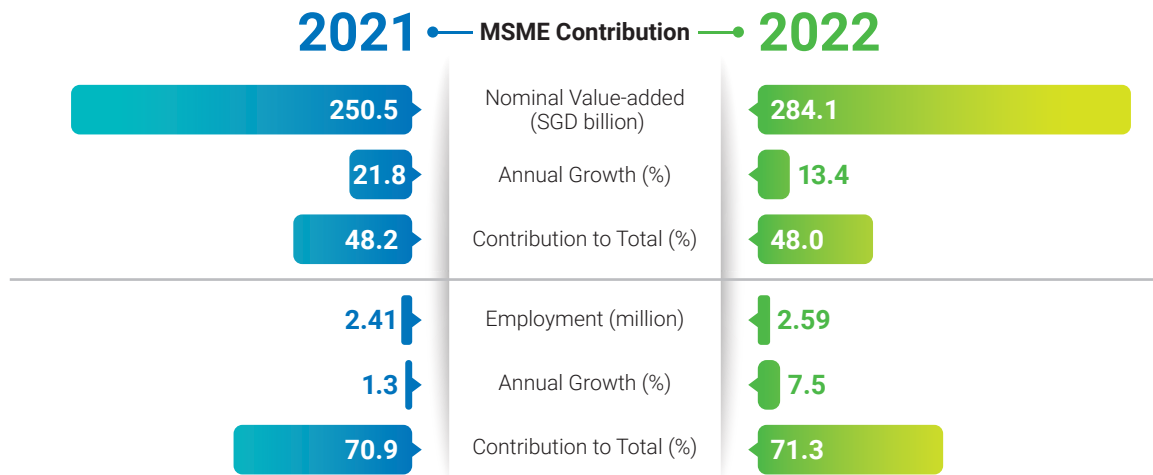
MSMEs form a highly dynamic segment of the Indian economy, boasting over 63.4 million enterprises spread across the geographical expanse ^[2]. According to the Ministry of Statistics and Programme Implementation, microenterprises were the most prevalent type of MSME size, comprising nearly 63.1 million which accounted for majority 99.0% of the country's total number of MSMEs. In addition, the small-sized firms totalled up to more than 330,000 enterprises (0.5% of total MSMEs), while the medium-sized firms encompassed only around 5,000 enterprises or 0.01% of total MSMEs.

On the economic performance, Indian MSMEs have been contributing significantly to the local economy. Data from the Ministry revealed that the contribution of MSME Gross Value Added (GVA) to India's Gross Domestic Product (GDP) has rebounded, with the contribution was recorded at 29.2% in the fiscal year of 2021-22 as compared to only 27.2% in 2020-21^[3]. Looking at the manufacturing sector, the share of output generated by MSMEs in the manufacturing sector was at 36.2% to total India's manufacturing output during the same period. Meanwhile, the exports contribution of MSME products to India's total exports lowered to 43.6% in 2022-23 (2021-22: 45.0%). MSMEs in India play a crucial role in providing a vast employment opportunity to the country whereby they hired an impressive 137.7 million people between 1 July 2020 and 30 October 2023 based on the Udyam Registration Portal ^[4].

MSME Performance in Singapore

In 2022, the profile of MSMEs in Singapore showed a count of more than 298,000 enterprises, forming 99.0% of total businesses in the nation ^[5]. This indicated an increase of 2.5%, approximately 7,400 MSMEs as compared to a total of 291,100 MSMEs recorded in the preceding year. In terms of the definition, MSMEs in the country are categorised based on its operating revenue, that is not more than SGD100 million or employment of not more than 200 workers.

Chart 1.1: Performance of Singapore MSMEs in terms of Value-added and Employment



Source: Department of Statistics, Singapore and Analysis by SME Corp. Malaysia

MSMEs in Singapore continued to record double-digit growth in value-added at 13.4% reaching SGD284.1 billion in 2022. Though the growth pace was slower (2021: 21.8%), the growth has led to MSMEs contributed 48.0% to the country's overall value-added for the year. On the labour market front, the number of workers employed by MSMEs showed a commendable rise of 7.5%, increased from 2.41 million in 2021 to 2.59 million in 2022. This substantial increase in MSME employment propelled their contribution to Singapore's overall employment to 71.3% in 2022, compared to 70.9% in the preceding year. This contribution highlights the significant role that MSMEs in Singapore play in the nation's economic landscape and labour market.

MSME Performance in Saudi Arabia

Aimed at nurturing MSME growth and promoting diversification within the economy, Saudi Arabia has established Small and Medium Enterprises General Authority in 2016, a dedicated Government agency to spearhead small business initiatives. MSMEs in the nation are defined as enterprises with a workforce of less than 250 full-time employees or annual revenue of SAR200 million and less. The detailed category of MSMEs in Saudi Arabia based on business size is outlined in Table 1.3.

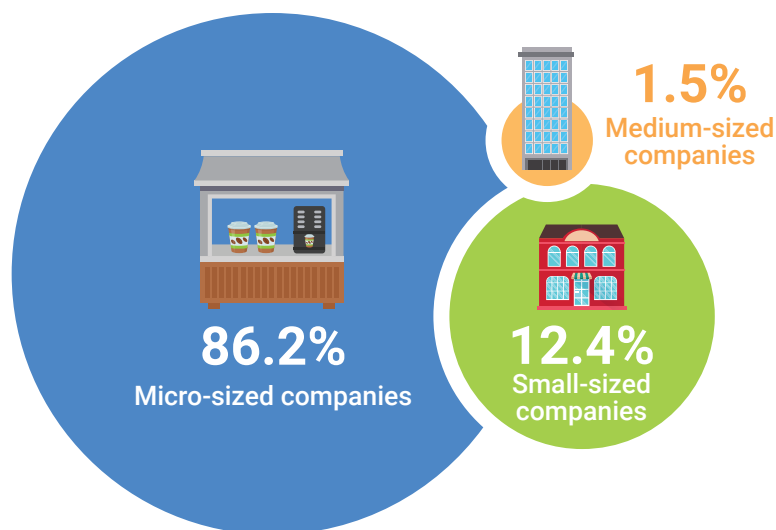
Table 1.3: Definition of MSMEs in Saudi Arabia

Category	Full-time Employees	Annual Revenue
Micro	≤ 5	≤ SAR3 million
Small	6 to ≤ 49	> SAR3 million to ≤ SAR40 million
Medium	50 to ≤ 249	> SAR40 million to ≤ SAR200 million

Source: Small and Medium Enterprises General Authority

Zooming on to the latest profile, the SME Monitor Q2 2023 Report cited that the MSMEs constituted majority 99.7% of total businesses in the country^[6]. The MSME ecosystem witnessed a moderate expansion at a pace of 2.6% in the second quarter of 2023 (growth against first quarter of 2023), reaching a total of 1.2 million MSMEs. With new MSMEs registered, this expansion was fuelled by a youthful population that eagerly showcased their entrepreneurial and innovative skills, thus underlines their potential to emerge as future business leaders. In addition, Saudi Arabia's vibrant MSME ecosystem spans across the nation, with Riyadh, Makkah and Eastern Province regions collectively host 71.8% of total MSMEs.

Chart 1.2: MSMEs in Saudi Arabia by Size



Source: SME Monitor Q2 2023, Small and Medium Enterprises General Authority

Moreover, the SME Monitor Q1 2023 Report cited that there were altogether 6.8 million of people employed by MSMEs in the first quarter of 2023^[7]. In terms of performance, latest available data for year 2021 revealed that MSMEs operating revenues rebounded impressively at a double-digit growth of 24.5% (2020: -16.3%) to reach SAR1.26 billion in 2021 from SAR1.02 billion recorded in 2020^[8]. The higher growth was driven mainly by accommodation & food service activities as well as real estate as it has increased tremendously by 46.4% (2020: -28.4%) and 41.9% (2020: -22.5%) respectively, recovering from the impacts of the COVID-19 pandemic. Composition of operating revenues in 2021 were mainly generated by the top three activities namely wholesale & retail trade (39.4%), followed by manufacturing (19.2%) and construction (13.5%).

MSME PERFORMANCE IN AUSTRALIA

Small and medium-sized businesses in Australia play a pivotal role in shaping the economic landscape. Looking at the employment criteria, the Australian Bureau of Statistics classified small businesses as firms with a workforce of fewer than 20 people while medium businesses as firms with a workforce between 20 to less than 200 people. With more than 2.56 million active businesses, SMEs in Australia make up a staggering 99.8% of the total business establishments during 2021-22 period, thus further emphasising their role as a driving force in the economy^[9].

Table 1.4: Number of Firms, Value-added and Employment by Business Size in 2021-22*

Category	Establishments		Value-added		Employment	
	No. of Firms	Share (%)	Value (AUD mil)	Share (%)	No. of Employees (mil)	Share (%)
Small	2,506,012	97.5	505,975	32.4	5,155	41.7
Medium	59,355	2.3	344,938	22.1	3,009	24.3
Total SMEs	2,565,367	99.8	850,913	54.5	8,164	66.0
Large Firms	4,533	0.2	711,119	45.5	4,202	34.0

Source: Australian Small Business and Family Enterprise Ombudsman, June 2023

* In Australia, a fiscal year or commonly called as 'financial year' (FY) starts on 1 July and ends on the next 30 June

Deep dive into the performance of Australian SMEs, their value-added contribution to total Gross Domestic Product (GDP) cannot be underestimated. For fiscal year 2021-22, these enterprises collectively contributed AUD850 billion or 54.5% to the country's total GDP^[10]. This reflected a remarkable double-digit growth of 17.5% in SME value-added as compared to 2.8% recorded during the period of 2020-21. Being an integral part of the business ecosystem, key contributors were from the professional, scientific & technical services (13.5% to total SME value-added), construction sector (13.2%) as well as rental, hiring & real estate services (10.0%).

Moreover, the impact of Australian SME businesses extends beyond financial metrics. In the same fiscal year of 2021-22, altogether almost 8.2 million people were hired by SMEs which represent two-third of the workforce (2020-21: 7.9 million people)^[11]. This contribution underscores the significant role they play in creating job opportunities and fostering economic stability. Notably, the construction sector emerges as a formidable player, contributing a substantial 13.1% to the overall SME employment. In addition, the professional, scientific & technical services (12.2% of SME employment) and accommodation & food services (9.8% of SME employment) also command a noteworthy share in the labour market.






Chapter 2

Performance of MSMEs in Malaysia





Chapter 2

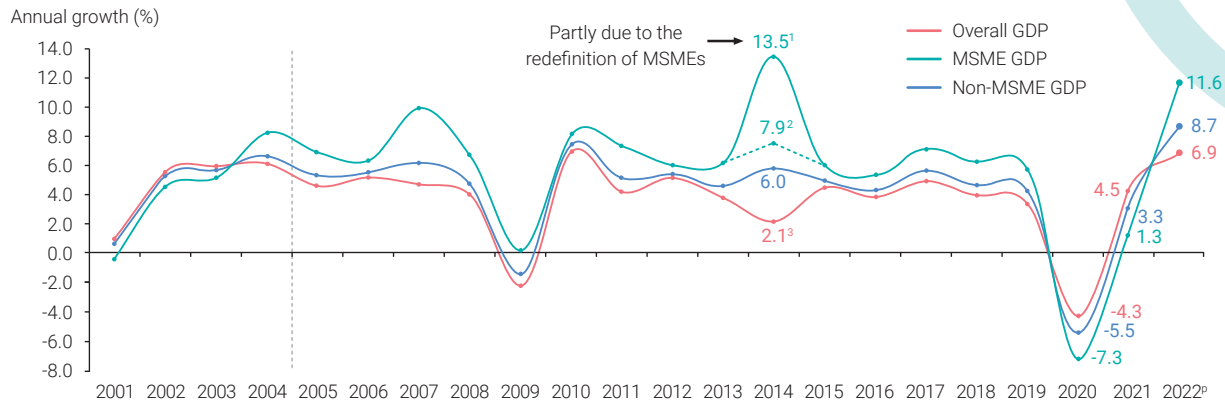
Performance of MSMEs in Malaysia

With the robust growth of the Malaysian economy in 2022, MSMEs also experienced promising performance during the year. This is reflected in the significant expansion of macroeconomic indicators namely the Gross Domestic Product (GDP), exports, employment and productivity. In navigating through challenging domestic and global business landscape, MSMEs managed to demonstrate remarkable resilience by not only sustaining their competitive edge but also embarking on a steady path of recovery post-pandemic period. The unwavering determination and adaptability exhibited by these MSMEs reflect their significance as key players in advancing the economic prosperity of Malaysia.

PERFORMANCE OF MSME GDP IN 2022

MSME GDP experienced an impressive double-digit growth of 11.6% in 2022 (2021: 1.3%), marking the fastest expansion since 2014. This growth was consistent with Malaysia's robust recovery, even in the face of the global economic slowdown following the Russia-Ukraine conflict and China's economic deceleration. This recovery serves as evidence of both the country's economic resilience and the determination of its MSME players. Furthermore, the growth performance of MSMEs not only surpassed the overall GDP growth of 8.7% (2021: 3.3%) but also exceeded the Non-MSME GDP growth of 6.9% (2021: 4.5%) as reflected in Chart 2.1. In value terms, the MSME GDP at constant 2015 prices reached RM580.4 billion in 2022, higher than RM520.0 billion recorded in the preceding year. As a result of the faster growth pace in 2022, the contribution of MSMEs to the overall GDP rose significantly to 38.4% as compared to 37.4% achieved in 2021 (refer to Chart 2.2).

Chart 2.1: Growth of MSME GDP, Non-MSME GDP and Overall GDP (%)



¹ Growth of MSME GDP based on 2014 New SME Definition versus 2013 Old SME Definition

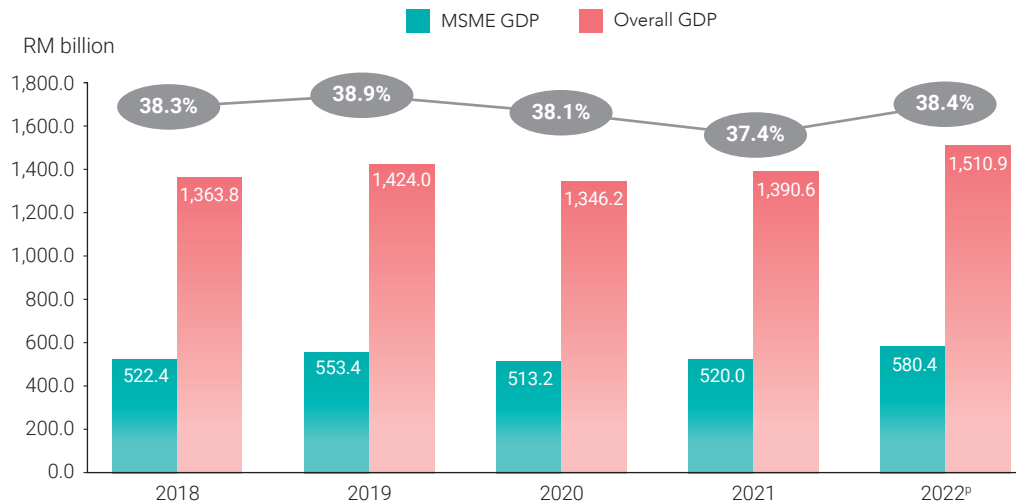
² Growth of MSME GDP based on 2014 New SME Definition versus 2013 New SME Definition

³ Growth of Non-MSME GDP based on 2014 New SME Definition versus 2013 Old SME Definition

p: preliminary

Source: Department of Statistics, Malaysia

Chart 2.2: Value of MSME GDP and Overall GDP (constant 2015 prices)



p: preliminary

Source: Department of Statistics, Malaysia

Focusing on the sectoral performance, most economic sectors of MSMEs registered higher growth in 2022 compared to the previous year, except for agriculture sector (refer to Table 2.1). MSMEs in three sectors namely the services, mining & quarrying and construction managed to bounce back from the negative growth recorded in 2021, as they recovered strongly at 16.4% (2021: -0.6%), 8.0% (2021: -3.6%) and 4.9% (2021: -4.4%) respectively. Meanwhile, MSMEs in the manufacturing sector continued to expand at a more moderate pace of 6.0% (2021: 8.4%). The pace of Malaysian MSMEs' recovery across most sectors gained momentum in 2022, attributable to the full upliftment of containment measures and the reopening of international borders starting 1 April 2022.

When making a comparative analysis between the overall economy and MSMEs, a noteworthy observation emerges. Firstly, the GDP growth of MSMEs in the services and mining & quarrying sectors outpaced the overall businesses throughout the year. Secondly, MSMEs in the agriculture sector recorded a negative GDP growth as compared to overall agriculture sector which registered a marginal growth of 0.1%. This disparity can be partly attributed to the less favourable growth of MSMEs in the rubber & other agriculture sub-sector, while the overall businesses in this sector benefited from the strong performance in oil palm production in 2022. The oil palm output recovered during the year as harvesting activity improved following the re-entry of migrant workers to the plantation sector in the fourth quarter of 2022.

Table 2.1: Growth of MSME GDP and Overall GDP by Economic Sector (constant 2015 prices)

	Annual Growth (%)		
	2021 MSME GDP	2022 MSME GDP	2022 Overall GDP
Services	-0.6	16.4	10.9
Manufacturing	8.4	6.0	8.1
Agriculture	2.0	-0.6	0.1
Construction	-4.4	4.9	5.0
Mining & Quarrying	-3.6	8.0	2.6
Total	1.3	11.6	8.7

Source: Department of Statistics, Malaysia

In terms of contribution by economic sectors, the services sector continued to be the main contributor to the MSME GDP in 2022. Its share increased significantly to 63.6% from 60.9% recorded in the preceding year (refer to Table 2.2). On the other hand, contributions from MSMEs in other sectors namely manufacturing, agriculture and construction have reduced. Meanwhile, the mining & quarrying sector made the smallest contribution at 0.5% to total MSME GDP. The composition trend of the MSMEs slightly mirrors the overall GDP, except for mining & quarrying sector that carries more weightage and prominence to the overall GDP structure at 6.4%. This was due to structural differences as MSMEs in the mining & quarrying sector are predominantly engaged in activities related to other mining & quarrying and supporting services, while crude oil & condensate and natural gas activities played pivotal roles in contributing to the mining & quarrying sector of the overall GDP.

Table 2.2: MSME GDP and Overall GDP Share by Economic Sector (constant 2015 prices)

	Percentage Share to Total (%)		
	2021 MSME GDP	2022 MSME GDP	2022 Overall GDP
Services	60.9	63.6	58.3
Manufacturing	22.1	21.0	24.1
Agriculture	10.5	9.3	6.6
Construction	4.8	4.5	3.5
Mining & Quarrying	0.5	0.5	6.4
Plus: import duties	1.1	1.1	1.1
Total	100.0	100.0	100.0

Source: Department of Statistics, Malaysia

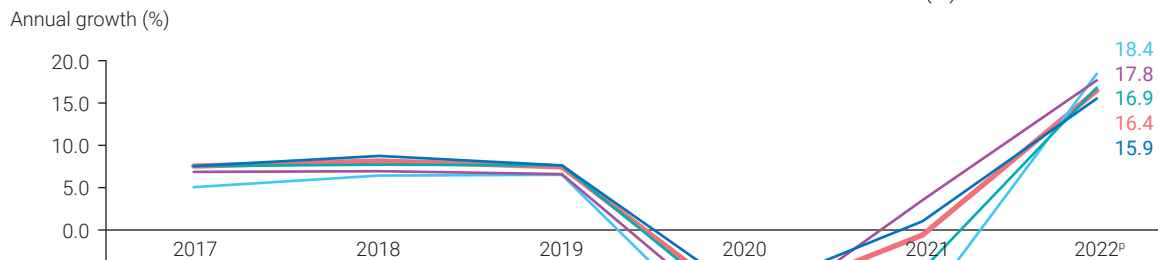
MSME Value-added in the Services Sector

For the year 2022, MSMEs in the services sector experienced a strong surge in growth as they took the lead in bolstering the MSME GDP. Value-added of MSMEs in this sector rebounded at a remarkable growth of 16.4% in 2022 (2021: -0.6%), underpinned by double-digit expansion across all sub-sectors. The wholesale & retail trade, food & beverages and accommodation sub-sector which accounted for 65.6% of MSME value-added in the sector grew at 15.9% (2021: 0.9%). Growth in this high-touch segment was anchored by the full upliftment of containment measures and gradual recovery of tourism activities as the international borders reopened on 1 April 2022. The finance, insurance, real estate and business services sub-sector expanded by 16.9%, marking a significant recovery from the declining growth of 4.9% in 2021. Real estate and business services improved throughout the year, reflecting the pickup in manufacturing and construction activities.

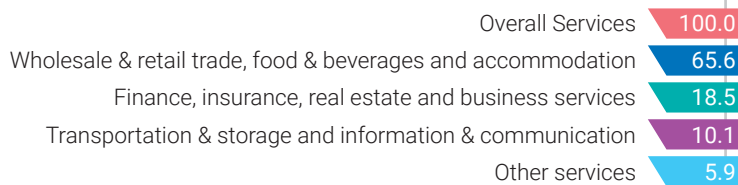


Moreover, it is imperative to highlight that the growth of the transport & storage and information & communication sub-sector continued to demonstrate a sustained growth trajectory and spur the growth momentum of the services sector as a whole, growing by 17.8% in 2022 (2021: 3.4%). The growth was benefited from the increased use of delivery services and e-commerce as well as high online retail trade activities that were prevalent throughout the year. In addition, other services sub-sector grew at the fastest pace of 18.4%, this is a substantial recovery from a sharp decline by 9.3% in 2021. The increase in other services sub-sector was supported by private health and education activities.

Chart 2.3: Value-added Growth of MSME in the Services Sub-sectors (%)



Composition of MSME Value-added in the Services Sector in 2022



p: preliminary

Source: Department of Statistics, Malaysia

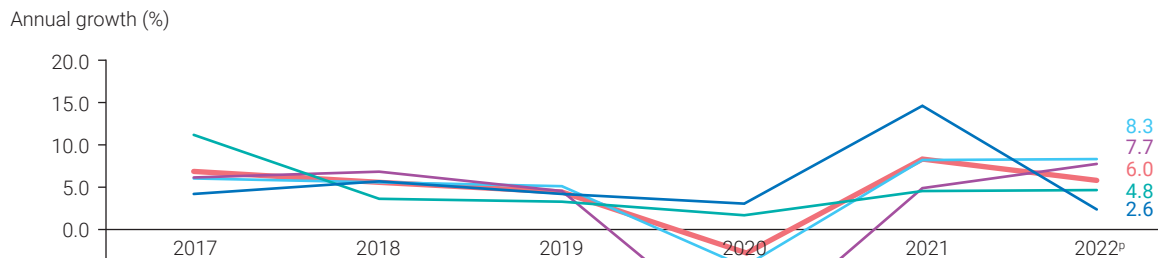
MSME Value-added in the Manufacturing Sector

The positive recovery momentum for MSMEs in the manufacturing sector persisted throughout 2022 with the value-added of MSMEs moderately grew by 6.0% (2021: 8.4%). All sub-sectors recorded positive growth as the full upliftment of containment measures lent support to production activity. Focusing across each sub-sector, strong expansion was observed in the non-metallic mineral products, basic metal and fabricated metal products which grew by 7.7% (2021: 5.2%), benefiting from the strong consumption and construction-related activities in the domestic economy (refer to Chart 2.4). Meanwhile, other manufacturing sub-sector posted an impressive growth of 8.3% as compared to 8.1% in 2021. These two sub-sectors collectively constituted 53.4% of total MSME value-added in manufacturing, thus primarily boost the overall performance of the sector.

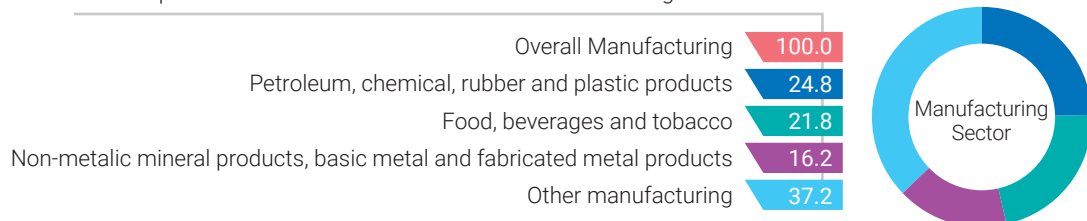


The higher growth trend was also observed for food, beverages and tobacco sub-sector as it improved by 4.8% in 2022 (2021: 4.5%) driven by stronger demand and improved domestic household spending. In addition, accounted for a quarter of total MSME value-added in the manufacturing sector, the value-added growth of MSMEs in the petroleum, chemical, rubber & plastic products sub-sector slowed down to 2.6% as compared to their outstanding double-digit growth of 14.7% in the preceding year. Although the growth pace has moderated, the higher production of this resource-based industries continued to make significant contributions to the sector's overall growth during the year following the recovery in global and domestic demand.

Chart 2.4: Value-added Growth of MSME in the Manufacturing Sub-sectors (%)



Composition of MSME Value-added in the Manufacturing Sector in 2022



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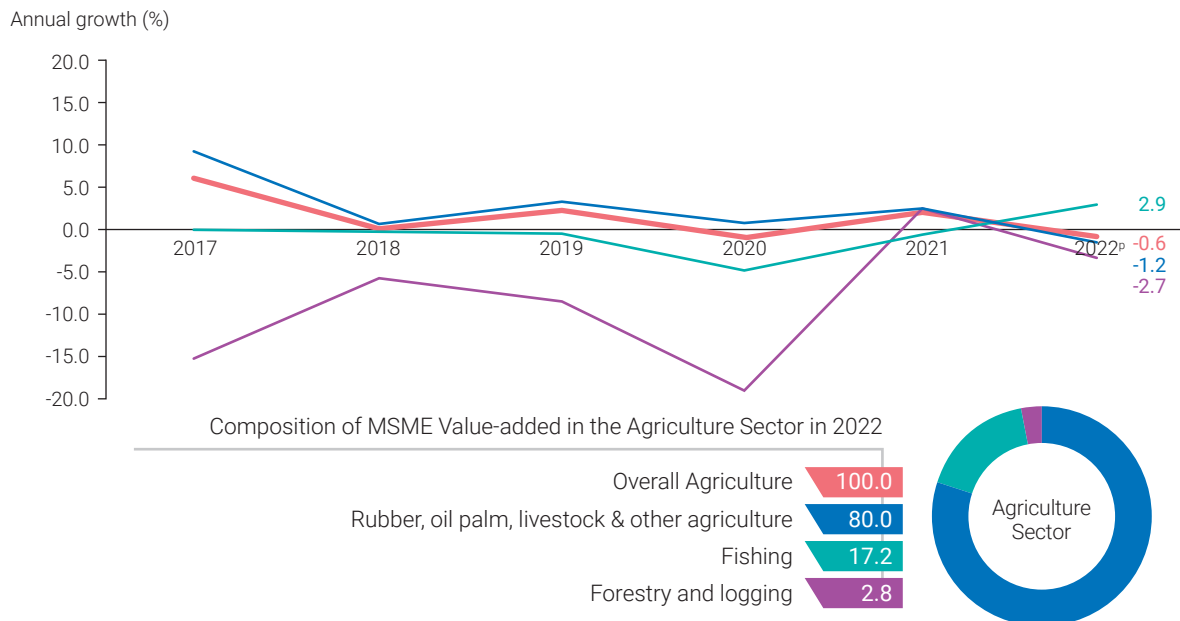
Source: Department of Statistics, Malaysia



MSME Value-added in the Agriculture Sector

The growth in value-added of MSMEs in the agriculture sector registered a contraction of 0.6% in 2022, in contrast to the 2.0% expansion achieved in year 2021 (refer to Chart 2.5), attributed to the lacklustre performance of rubber & other agriculture MSME players. This is reflected in the negative growth of rubber, oil palm, livestock & other agriculture sub-sector by 1.2% (2021: 2.5%). This sub-sector constituted majority 80.0% of the total MSME value-added in the agriculture sector, thus exerting a substantial drag on the overall performance of MSMEs in this sector. The rising input costs particularly for animal feed and fertiliser may partly contribute to the underwhelming performance of the sub-sector. Furthermore, the contraction in agriculture sector was also affected by the forestry and logging activities throughout the year as it contracted by 2.7% (2022: 2.2%). On the other hand, there was a discernible recovery among MSMEs in the fishing sub-sector, with the value-added of firms rebounded by 2.9% in 2022, compared to a marginal decline of 0.5% in the preceding year.

Chart 2.5: Value-added Growth of MSME in the Agriculture Sub-sectors (%)



p: preliminary

Source: Department of Statistics, Malaysia

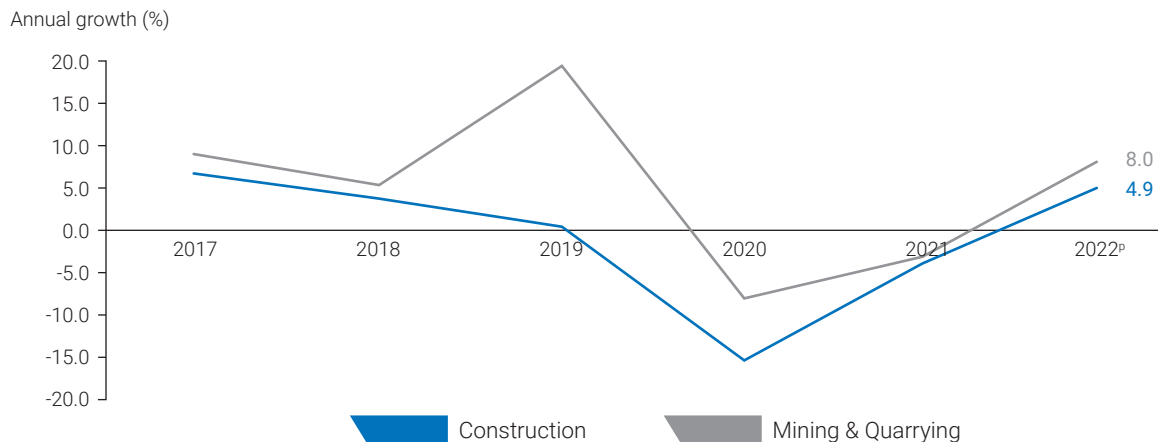
MSME Value-added in the Construction and Mining & Quarrying Sector

Aligned with the firm expansion of Malaysia's construction industry, MSMEs in the construction sector also managed to bounce back, achieving a positive growth rate of 4.9% in 2022. This marked a significant improvement from a sharp contraction of 4.4% recorded in previous year (refer to Chart 2.6). The specialised trade sub-sector which predominantly propels the industry and mainly composed of MSMEs, received a boost from early- and end-stage activities like site preparation and installation, along with the ongoing execution of smaller-scale projects. Furthermore, the non-residential sub-sector also improved, driven by the accelerated advancement of large-scale commercial real estate and industrial projects.

Meanwhile, a similar pattern of recovery was evident in the mining & quarrying sector, rebounded to grow at 8.0% in 2022 (2021: -3.6%), underpinned by the expansion of its sub-sectors, namely other mining & quarrying and supporting services. This growth surpassed the overall GDP growth rate for the mining & quarrying sector, which stood at 2.6%. Notably, the activities related to mining support services played a pivotal role in driving the sector's recovery, underscoring the fact that majority of MSMEs in this sector were engaged in mineral mining and quarrying activities.



Chart 2.6: Value-added Growth of MSME in the Construction and Mining & Quarrying Sub-sectors (%)



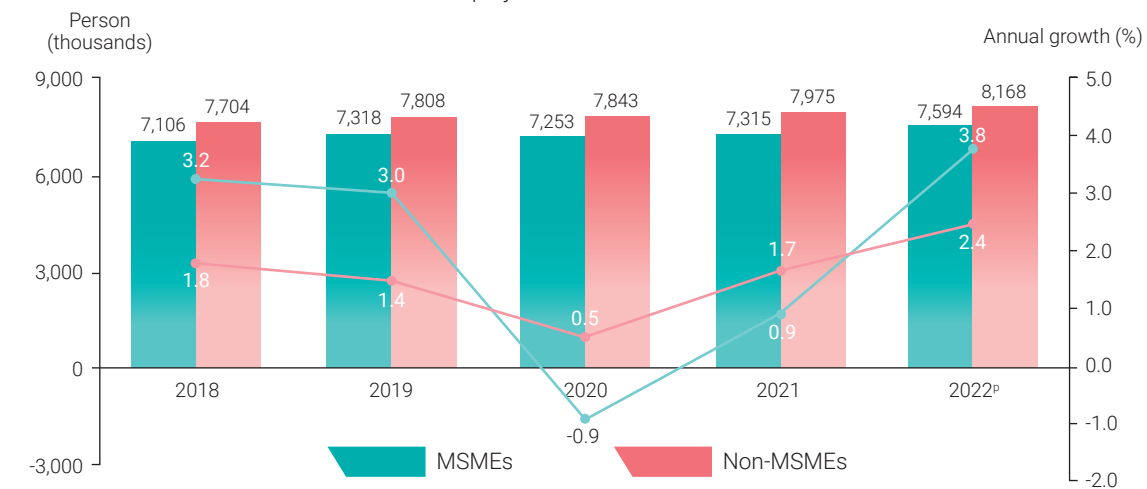
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Source: Department of Statistics, Malaysia

PERFORMANCE OF MSME EMPLOYMENT IN 2022

MSMEs play a crucial role in Malaysia's employment landscape, significantly contributing to the nation's total workforce. The MSME employment growth increased to 3.8% (7.6 million workers) in 2022, the highest recorded since redefinition of MSMEs in 2014 (refer to Chart 2.7). This translated to an increase of approximately 280,000 workers employed, supported by firmer economic growth following the easing of COVID-19 containment measures, normalisation of economic activity and reopening of international borders. On the contrary, the non-MSMEs experienced a modest growth in employment at 2.4% or an increase of about 193,000 workers. The robust expansion in employment by MSMEs has led to an increased share of MSMEs in the overall employment landscape, accounting for 48.2% in 2022 as compared to 47.8% in the preceding year. The increase in shares highlights the persistent role that MSMEs continue to play in fostering job opportunities and supporting livelihoods across various sectors of the economy.

Chart 2.7: Number of Employment and Annual Growth from 2018 - 2022

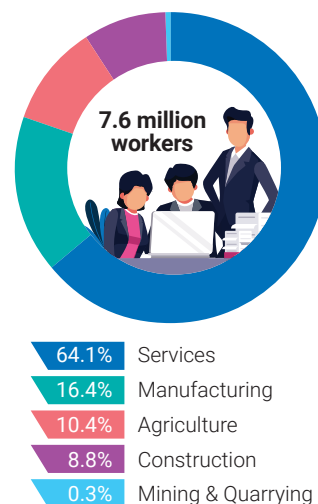


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Source: Department of Statistics, Malaysia

Analysing the performance of economic sectors, it is evidenced that all segments of the economy exhibited positive growth in MSME employment, with the exception of the agriculture sector which recorded a marginal decline of 0.4% (2021: 1.5%). In line with the contraction in the overall agriculture employment, the hiring trend of MSMEs in the agriculture sector may be affected due to labour shortages. Despite Malaysia has eased COVID-19 restrictions on hiring foreign workers in February 2022, shortages in the workforce still persist, thus causing disruptions in productivity particularly in the palm oil industry. Meanwhile, services sector which made up almost two-third of MSME employment primarily pushed the growth of MSME employment in 2022 with growth registered at 5.3% or increment of around 244,000 workers. Chart 2.8 provides a visual representation of the distribution of MSME employment across economic sectors, with the services sector dominating at 64.1%, followed by manufacturing (16.4%), agriculture (10.4%), construction (8.8%) and mining & quarrying (0.3%).

Chart 2.8: Components of MSME Employment by Economic Sector in 2022 (%)

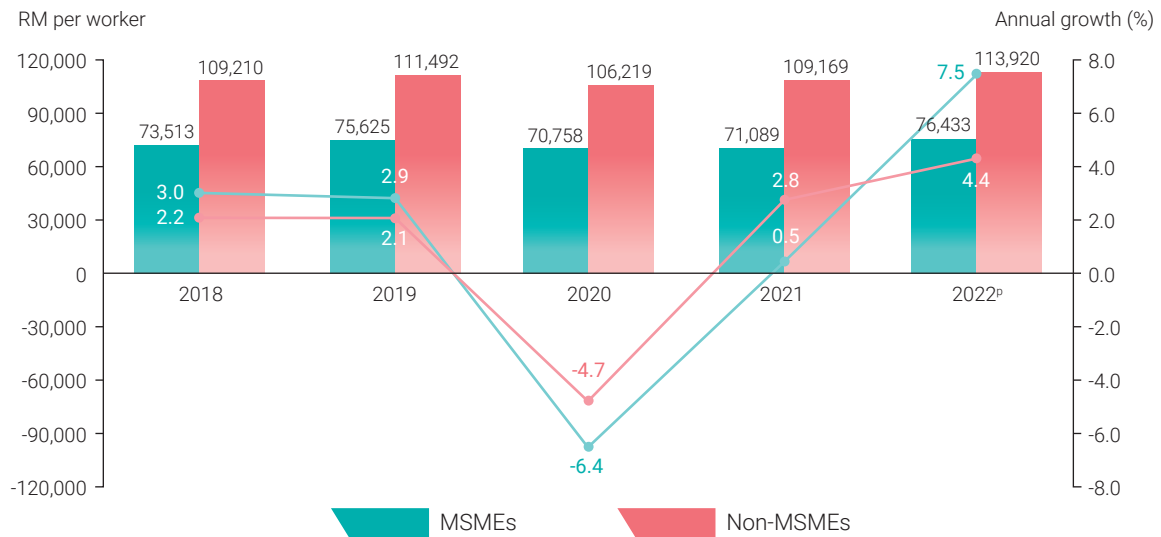


Source: Department of Statistics, Malaysia

PERFORMANCE OF MSME LABOUR PRODUCTIVITY IN 2022

MSME labour productivity as measured by real value-added per worker continued to expand further at a significant growth of 7.5% in 2022 (2021: 0.5%), thus resulted in a productivity value of RM76,433 as compared to RM71,089 in 2021 (refer to Chart 2.9). The surge in productivity was driven by strong growth in the services (10.6%) and mining & quarrying (7.9%) sectors throughout the year. Notably, productivity of MSMEs in the services, mining & quarrying and construction sectors rebounded from the negative productivity growth being recorded in the previous year. While all sectors recorded positive growth in productivity, MSMEs in the agriculture sector on the other hand turned negative at 0.2% in 2022 (2021: 0.5%), in line with the contraction in GDP and employment among agriculture MSMEs.

Chart 2.9: Labour Productivity and Annual Growth from 2018 - 2022



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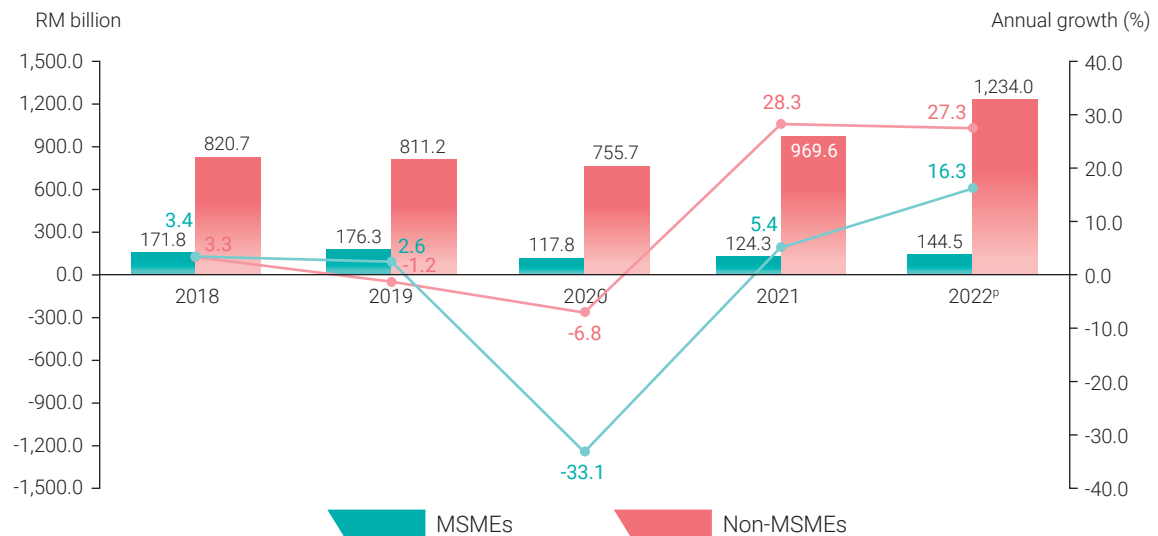
Source: Department of Statistics, Malaysia

Comparing the productivity level between MSMEs and non-MSMEs, the latter recorded slower growth of 4.4% to reach RM113,920 per worker in 2022 (2021: 2.8%). Despite the slower growth, non-MSME labour productivity has consistently remained 1.5 times higher than that of MSMEs since 2015. This disparity is attributed partly to the productivity gains of larger firms which have been supported by increased capital investment and a greater presence of highly skilled workers. The most significant labour productivity gap was observed in the mining & quarrying sector, standing at 12.3 times higher for non-MSMEs. Nonetheless, MSMEs in this sector achieved the highest productivity value, reaching RM137,490 per worker in 2022 while the construction sector reported the lowest productivity at RM39,080 per worker. In a nutshell, improvement in back-end digitalisation and continuous adoption of cutting-edge technologies are needed for MSMEs to further boost its value-added generation. Implementation of better management practices can lead to heightened productivity by enhancing operational efficiency and minimising cost.

PERFORMANCE OF MSME EXPORTS IN 2022

On the external front, the exports of MSMEs grew significantly by 16.3% in 2022 as compared to 5.4% registered in 2021 (refer to Chart 2.10). MSME exports achieved a total of RM144.5 billion in value terms (2021: RM124.3 billion), with positive growth observed cut across all sectors. In comparison, non-MSME players experienced even faster expansion in their exports, benefiting more from the global economic growth and increased trade activities. Consequently, the contribution of MSME exports to total exports during the year was lowered at 10.5% (2021: 11.4%) (refer to Chart 2.11). The robust exports by large firms were partly supported by the higher exports in electrical & electronics (E&E) products. This is true due to Malaysia's prominent position as a major E&E exporter (38.3% of total national exports in 2022), especially with the rising demand for E&E components amid the rising technological megatrends such as electric vehicles, artificial intelligence and Internet of Things.

Chart 2.10: Exports Performance and Annual Growth from 2018 - 2022

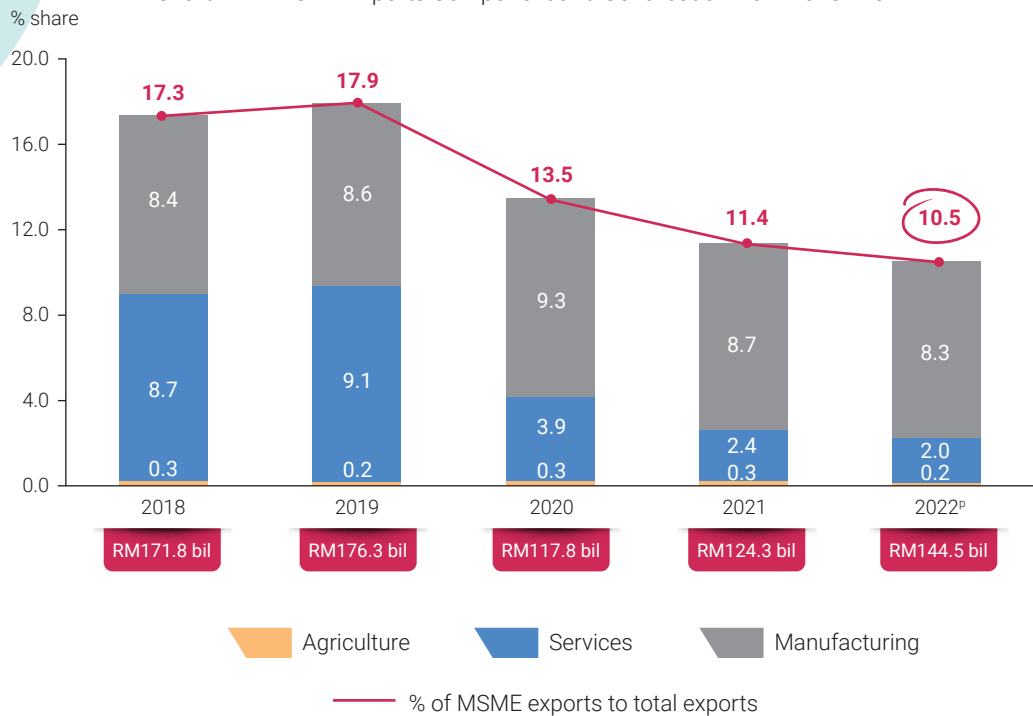


p: preliminary

Source: Department of Statistics, Malaysia

Focusing on performance by sector, the exports growth momentum was led by MSMEs in the manufacturing sector which contributed the bulk 78.8% of total MSME exports in 2022. Statistics indicated that the MSME exports growth performance in the manufacturing sector continued to strengthen by 19.5% in 2022 (2021: 16.7%), resulting in an export value of RM113.8 billion. The growth was bolstered primarily by high exports in manufactured goods and machinery & transport equipment, which recorded a strong expansion of 39.6% and 41.7% in 2022 respectively. Looking at key destinations for MSME exports in the manufacturing sector, Singapore emerged as the top destination with a share of 17.4%, followed by China (15.0%) and the United States (11.6%).

Chart 2.11: MSME Exports Component and Contribution from 2018 - 2022



p: preliminary

Source: Department of Statistics, Malaysia

The services sector which contributed around one-fifth of total MSME exports, bounced back from a sharp decline of 22.6% in 2021, as the sector registered a positive growth of 5.7% in 2022 to reach RM27.7 billion. The sector's recovery in exports was driven by industries such as travel; telecommunications, computer & information; and transportation. These industries benefited from the gradual recovery of tourism activities following the reopening of international borders as well as high online retail trade and e-commerce activities during the year. The growth of MSME services exports were also partly supported by higher exports growth in transport services in 2022 at 43.3% (2021: 24.7%), such as delivery, postal & courier services.

Meanwhile, agricultural exports recorded a moderate growth of 6.2% in 2022 (2021: 20.4%), contributing 2.1% to total MSME exports. The growth of the agriculture sector was mainly driven by the increase in MSMEs' exports of fruits and vegetables. The primary destination of MSME agricultural exports was Singapore (48.3%), followed by Thailand (8.7%) and Japan (6.1%). In a nutshell, MSME penetration into global market needs to be further pushed, as internationalisation activity is crucial to enhance their performance. Targeted policy measures and initiatives must be put in place to elevate exports among these MSMEs, with tailored strategies aimed at strengthening their capacity and capability.






Chapter 3

Prospect of MSMEs in Malaysia





Chapter 3

Prospect of MSMEs in Malaysia

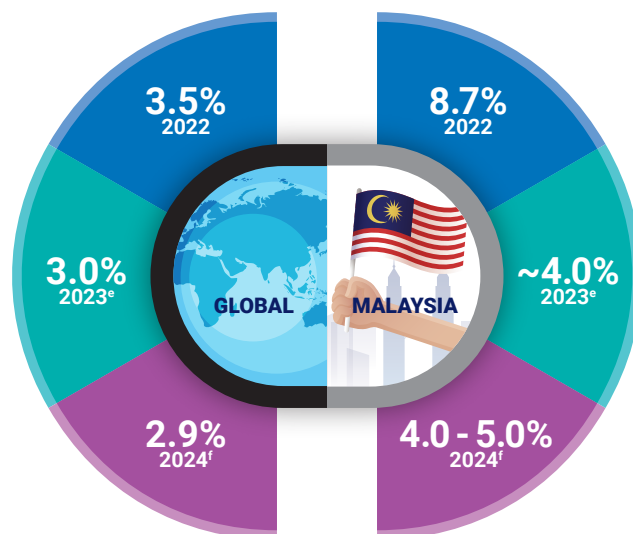
Post-pandemic recovery was in great momentum with many countries globally experienced notable upticks in trade, investment and consumer spending. However, this momentum is slowly fading given persistent challenges such as inflationary pressures and geopolitical uncertainties, thus warranting for prudent economic management. Considering unforeseen circumstances, MSME players globally and in the domestic market should be able to adapt and respond swiftly. A proactive approach to risk management ensures that MSMEs remain agile and resilient, allowing them to not only survive but thrive in a volatile economic landscape.

OUTLOOK OF THE GLOBAL AND MALAYSIAN ECONOMY

Since the onset of the COVID-19 pandemic, the world economy has been grappling with a challenging landscape. After a strong initial rebound from the depths of the pandemic, the pace of global recovery has moderated. Findings from the World Economic Outlook (WEO) in October 2023 published by the International Monetary Fund (IMF) showed that the global growth is forecasted to slow from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024. These projections for the global growth remain below the historical average of 3.8% (2000-2019). Escalating geopolitical tensions particularly Russia's conflict in Ukraine, tightening of monetary policies to combat inflation and increasing climatic changes have impeded the recovery and amplified the risk of global slowdown.

While there were some signs of economic resilience in early 2023 and efforts to lower headline inflation, the global economy is still not performing as well as it did before the pandemic, particularly in emerging market and developing economies. Looking ahead, the balance of risks to global growth remains tilted to the downside. Coupled with tight labour market and high inflation expectations may lead to ongoing inflation pressures, thus requiring higher policy rates than anticipated. Climate and geopolitical disruptions could also contribute to further hike in food and energy prices. On top of that, escalating geoeconomic fragmentation could hinder the trade flow across markets, thus leading to more price fluctuations and making the shift to green economy more complicated.

Chart 3.1: Global and Malaysia's Growth Projection



e: estimate f: forecast

Source: IMF World Economic Outlook, October 2023 and MOF's Economic Outlook 2024

As a small and open economy, Malaysia will inevitably be affected by these global developments. The increasing uncertainties in the external environment are poised to present risks to the country's economic growth. For the whole year of 2023, it is anticipated that the Malaysian economy will demonstrate a more moderate growth of around 4.0% as compared to the stronger 8.7% growth being witnessed in the preceding year. Shifting the focus to 2024, the economy is projected to expand within a range of 4.0 – 5.0%, with growth is expected to be broad-based. The services sector will play a pivotal role in supporting the growth in 2024, driven by sustained domestic consumption and improved export activities.

From the angle of demand, strong private sector expenditure and an uptick in global demand will be the driving forces of growth. The encouraging performance of the private sector could be partly attributed to the deliberate measures taken by the Government in fostering a more dynamic and thriving business environment. This will be made achievable through the comprehensive MADANI Economy Framework, complemented by strategic policies and initiatives such as the National Energy Transition Roadmap (NETR) and the New Industrial Master Plan 2030 (NIMP 2030). Meanwhile, consumer spending is anticipated to be robust, supported by improved conditions in the labour market and provision of cash assistance by the Government such as special aid for civil servants, retirees, and e-wallet credit for youths, students and Malaysians earning annual wages of RM100,000 and below. The growing trend of digital lifestyle following higher e-commerce income and the implementation of Payung Rahmah initiative are also expected to provide additional boost in consumer spending.

The encouraging performance of the private sector could be partly attributed to the deliberate measures taken by the Government in fostering a more dynamic and thriving business environment. This will be made achievable through the comprehensive MADANI Economy Framework, complemented by strategic policies and initiatives such as the National Energy Transition Roadmap (NETR) and the New Industrial Master Plan 2030 (NIMP 2030).

BUSINESS OUTLOOK FROM THE PERSPECTIVE OF BUSINESS ASSOCIATIONS

The prospect of moderating global and Malaysian economy is being translated into a more cautious sentiment by the business players. According to the Business Conditions Survey by Federation of Malaysian Manufacturers (FMM) released in September 2023, the business outlook among Malaysian manufacturing players remains cautious in the second half of 2023 ^[12]. Forward-looking indicators namely business conditions, local sales and production volume, are softening and fall below optimistic levels. External headwinds such as sluggish trade flows, China's fragile economic rebound and the United States Federal Reserve's monetary policy, as well as the domestic issues such as the rising inflation, shortage of raw materials and supply chain disruptions, may continue to put pressure on firms in the manufacturing sector. Moreover, respondents cited a cautiously optimistic view of the economic outlook for 2024 whereby 39% maintain a neutral stance, 35% anticipate improvement, while 25% express pessimism.

Shifting the focus to retail segment, the Malaysia's annual retail industry growth rate for 2023 has been reduced to 2.7% from 4.8% estimated earlier ^[13]. The Retail Group Malaysia (RGM) has revised downwards the short-term prospect of the retail industry following weakening spending power of Malaysian consumers even though shopping traffic has returned to level prior to COVID-19. While the monthly inflation rate has gradually stabilised, the price increments of many basic necessities and consumer goods are still higher than those prior to COVID-19. The depreciation of the Malaysian currency has also resulted in price hikes, stemming from higher import costs of raw materials, semi-finished goods and finished retail goods. On top of that, the industry players continue to grapple with several challenges including rising labour costs, increased rental rate and electricity bill, which has then further dampened the business outlook.

Meanwhile, findings from the Business and Economic Conditions Survey conducted by Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM) between April until July 2023 showed that most respondents also taking a safe approach by indicating a neutral business prospect in 2023 and first half of 2024. Detailed analysis however offered a breather whereby there was an increasing trend of respondents citing an improved outlook. This can be seen whereby a total of 20.8% of respondents expecting a better business performance in the second half of 2023 (1H 2023: 11.0%), while 32.6% anticipate better business performance in the first half of 2024 ^[14]. Moreover, there was also lesser respondents who indicated a worse outlook, that is from 23.5% in the first half of 2023, down to 22.6% in the second half of 2023, to only 12.7% in the first half of 2024. Sales revenue and production too are expected to pick up slightly in the latter half of 2023.

In addition, the release of the 3Q 2023 Vistage-MIER CEO Confidence Index (CCI) in September 2023 highlighted a more upbeat perspective in the business landscape. This index, which surveyed CEOs, business owners and key executives of small and medium-sized enterprises, reflected a shift towards optimism and a heightened confidence in the anticipated economic conditions in Malaysia ^[15]. The bullish sentiment among CEOs is likely influenced by promising indicators, potential business opportunities and improved market conditions, thus may result in increased investments and strategic planning in the forthcoming quarters. A positive outlook on revenue, growth and employment signals a buoyant CEO prospect which could further impact both business expansion and the overall economic well-being.

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PROJECTION FOR MSME GDP

MSMEs form a major component of business establishment in any countries, thus driving much of the growth across the world. Given the ongoing uncertainty in the global economy, it is crucial to uphold a dynamic MSME landscape to ensure their consistent contribution towards fostering inclusive and robust growth. While the expectation of moderating global and Malaysian economies may induce a sense of caution among business players, it is anticipated that Malaysian MSMEs will maintain their positive growth trajectory in 2023 and 2024. With the growth of overall economy is projected to expand around 4% in 2023 (2022: 8.7%), the MSME GDP is projected to increase by 4.8% during the year (2022: 11.6%). Heading towards 2024, against the backdrop of a challenging business environment, MSMEs are projected to sustain its growth momentum and remain resilient throughout the year.

Looking at the distribution of MSMEs in Malaysia, they are mainly concentrated in the services sector namely wholesale & retail trade, food & beverages, accommodation and transportation, which highly involved in the tourism industry. Thus, growth in tourism demand affects the growth of MSMEs in the country either directly or indirectly. Acknowledging this situation, the rebound in tourism industry in the post-pandemic period will certainly give positive impact to the local MSMEs. Also, worth noting that the Malaysian Ringgit (MYR) had experienced some depreciation compared to major international currencies. While a weak exchange rate is generally considered detrimental to a country's economy, this however will provide some support to the tourism industry as weaker Ringgit puts Malaysia as an affordable and attractive destination for foreign tourists compared to other countries. This can lead to an influx of international tourists, hence boosting the local economy through increased spending on accommodation, dining, shopping and various leisure activities.

Furthermore, the future holds great promise and vast opportunities for the MSMEs if they adopt sustainability practices and digitalisation in the business operation. The increasing emphasis on sustainability particularly through environmental, social and governance (ESG) practices present MSMEs an avenue to establish niche positions in environmentally conscious markets. Embarking on ESG can optimise cost efficiency, improve risk management and enhance firms' reputation. ESG adoption will also contribute to a healthier financial position and recognise the MSMEs as ethical players in the market. More importantly, the integration of sustainability and ESG practices will not only bolsters the resilience and competitiveness of MSMEs but also fosters a positive impact on the environment and society at large.

With the advent of digitalisation and innovation, MSMEs now are more flexible to reach global markets and expand their customer base. To accelerate growth of MSMEs, it is imperative that these businesses embrace the power of technology. It stands as a dynamic force which unlock doors to heightened productivity, streamlined operations and substantial cost-cutting measures. Embracing a paradigm shift from traditional brick-and-mortar models to automation not only provides a competitive edge but also allow MSMEs to harness the technological significance in the post-pandemic period.

Moreover, continuous Government initiatives and policies aimed at nurturing MSMEs are creating a conducive environment for their sustained growth. Under the recent Budget 2024, the Government has allocated a total of RM43.6 billion for MSME development through various focus areas that will directly or indirectly benefit the MSMEs, with a large portion of 73.7% is highly prioritised for financing. Furthermore, initiatives being introduced under the MADANI Economy Framework, Rancangan Malaysia Kedua Belas (RMKe-12) 2021-2025, New Industrial Master Plan 2030 and other policy documents will further empower firms to thrive and scale up in the coming years. As the business landscape continues to evolve, MSMEs stand poised to play a pivotal role in shaping its future landscape. Their capacity, agility and adaptability will position them as key driver of economic prosperity and resilience.



Box Articles



Box Article

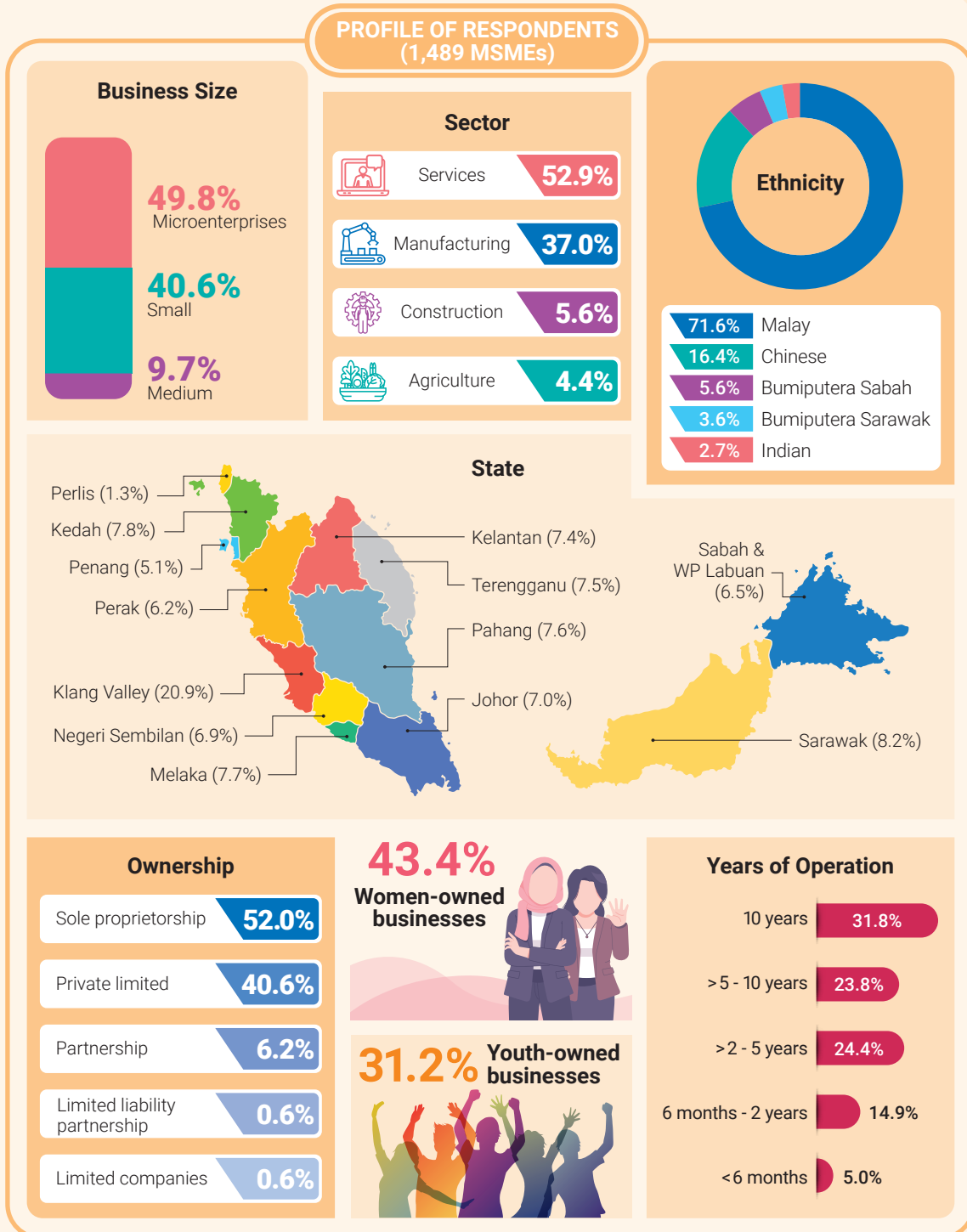
Findings of MSME Survey 2023

Over the years, SME Corp. Malaysia as the central point of reference for research and data dissemination on MSMEs has been conducting surveys under the leadership of Ministry of Entrepreneur and Cooperatives Development (MECD). These efforts complement the organisation's role in monitoring MSMEs' business performance and recognising emerging challenges within the present economic landscape. Aimed at understanding the whole MSME ecosystem, the implementation of these surveys has been comprehensive in nature encompassing qualitative and quantitative indicators.

For the MSME Survey 2023, an online survey was conducted in the period of January until February 2023 involving a total of 1,489 MSME respondents. The survey coverage was well represented in terms of economic sectors, geographical spread and size of establishment. As part of SME Corp. Malaysia's ongoing efforts to better comprehend the business needs, the findings shed light on key areas such as sales performance; cost of doing business; human capital; exports; environmental, social and governance (ESG) as well as adoption of information and communication technology (ICT).

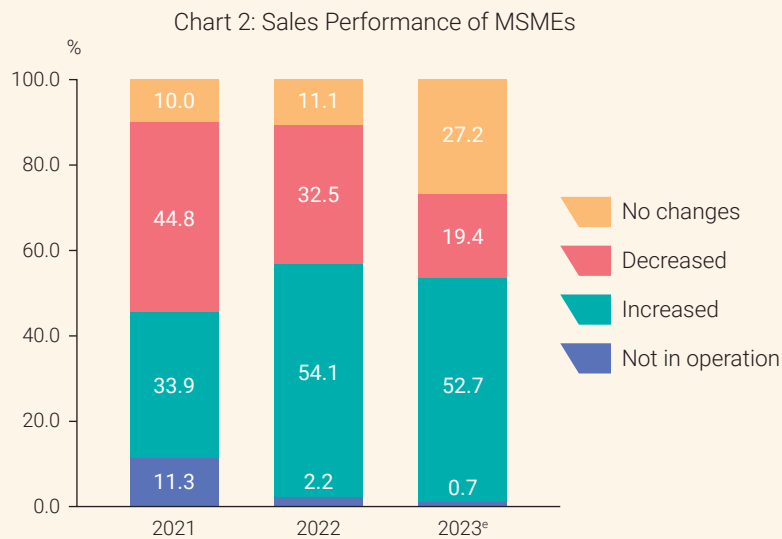


Chart 1: Profile of Survey Respondents



SALES PERFORMANCE

The survey findings unveiled a trend of which MSMEs encountered a decline in sales in 2021 but bounced back on a positive note in 2022, attributed to the economic reopening following the COVID-19 pandemic. Taking a close look into the data, the year 2022 witnessed a significant improvement in sales, of which 54.1% of respondents recorded an increase in sales as compared to only 33.9% in 2021 (refer to Chart 2). This upbeat trend was particularly pronounced among MSMEs engaged in the manufacturing of textiles and clothing; machinery and equipment; construction; wholesale and retail of vehicles; private education and accommodation. Also, it is worth to note that lesser number of MSMEs cited experiencing a decrease in sales, from 44.8% in 2021 to only 32.5% in 2022.



e: estimate

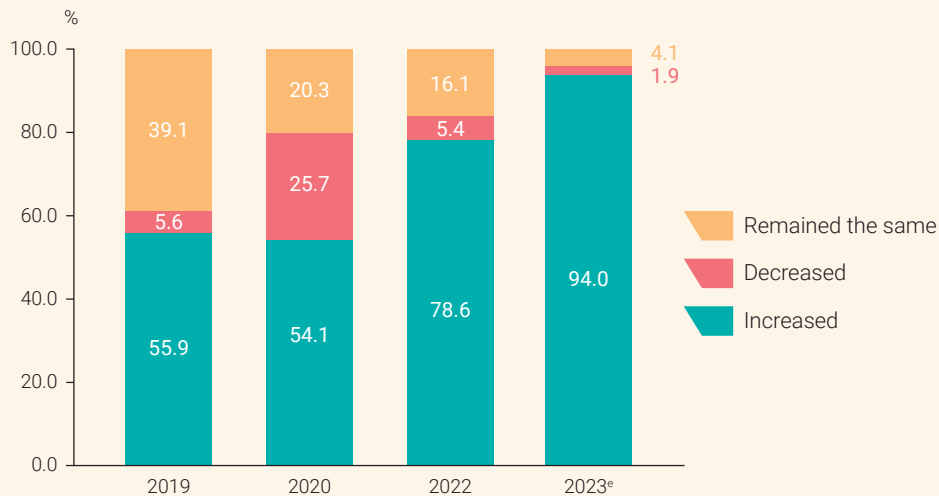
Meanwhile, the optimistic sales trajectory is expected to spillover into 2023. A higher optimism is evident especially among the small and medium-sized firms and MSMEs in the manufacturing of textiles and clothing; machinery and equipment; ICT services; private healthcare and private education. On top of that, an important finding to highlight is the gradual increase in the number of operational MSMEs, from 11.3% cited not operating in 2021 down to only 0.7% cited not operating in 2023, thus underscoring the resilience and revival of MSMEs.

COST OF DOING BUSINESS

Similar with previous survey findings, it is persistent that the high cost of doing business and insufficient cash flow remained the top challenges for MSMEs over the years. Nearly two-third of MSMEs were concern about the high cost and a total of 58.1% expressed their worries about cash flow. Among key factors affecting the MSMEs' business cash flow were the rising price of raw materials and packaging; late payment by debtors or payers; labour cost as well as rent and utility payments. This concern over high cost was further highlighted by the fact that more than three quarter of firms or 78.6% reported an increase in their cost of doing business in 2022 (refer to Chart 3).

Among key factors affecting the MSMEs' business cash flow were the rising price of raw materials and packaging; late payment by debtors or payers; labour cost as well as rent and utility payments.

Chart 3: Operating Cost of MSMEs



e. estimate

Looking ahead, majority 94.0% of respondents anticipated further cost increase in 2023 with higher costs to be driven by raw materials and other input costs (82.3%); labour costs such as wages and levy (62.1%) and marketing & advertising (40.4%). With an overwhelming 82.3% respondents highlighted raw materials as a significant concern in the future, a close look at the manufacturing sector showed that two sub-sectors namely the food & beverages (F&B) and textiles & clothing, stood out prominently and found itself at the forefront of grappling with these cost pressures. Similar trend was mirrored in the services sector, whereby the F&B services and the wholesale & retail trade MSMEs too found themselves navigating the challenges in terms of rising cost of raw material and other inputs.

HUMAN CAPITAL

Taking into account the talents development required by MSMEs in running their business, it is shown that soft skills related to marketing & promotion (69.5%), communication (54.2%) as well as customer management (53.5%) are of higher priority (refer to Chart 4). However, realising the current landscape of a more digitalised business environment whereby traditional jobs are evolving to incorporate technology to increase productivity, safety and quality of work, survey findings highlighted the MSMEs' interest in equipping their workers with digital literacy skills (54.7%), technical & vocational skills (51.3%) as well as data literacy (42.1%).

Based on the Future of Jobs Report 2023 by World Economic Forum, technology literacy is ranked the third-fastest growing core skill. In light of this trend, there is a pressing need to train and upskill MSME workers to adapt to technological advancement as they may need to operate higher technology machines and systems instead of being replaced by these automated processes. Fostering a technology-adoption mindset and cultivating a digital-first culture would be a significant value for MSMEs in the long run.



Chart 4: Top Employees' Skills Required by MSMEs



On retrenchment of employees, there was a noticeable decrease in the number of retrenchments among MSME employees in 2022, from 27.8% reported in 2021 to 13.8% in 2022. The retrenchment was mainly driven by cost-cutting measure and slower business activity. For year 2023, the estimated retrenchment rate is quite low with only 5.6% of MSME respondents had the intention to lay off their workers. This signifies a more positive employment outlook with a reduced likelihood of extensive workforce reductions.

EXPORTS PERFORMANCE

Focusing on the external front, the survey showed that a total of 15.0% of respondents have exported their products & services abroad, primarily among the small & medium-sized firms. The exporters are mostly concentrated in Central and Northern Regions. Thus, there is a clear need to further promote MSME penetration into foreign market as internationalisation activity promises significant potential in enhancing MSME performance. In terms of exports destination, MSME exports activities were concentrated within the ASEAN region, mainly in Singapore, Indonesia and Thailand. Selection of these export destinations were stem from the high demand and purchasing power received from these markets.

If we were to look at the current non-exporters, more than half of them (51.8%) expressed optimism as they have planned to venture into international markets in the near future. A close look at the survey findings showed that among requirements needed to boost exports are building networking with people in the targeted export market (59.2%); conducting market research (52.8%); introducing new export-specific products or services (51.8%) and venturing into online business including e-commerce platform (49.8%) (refer to Chart 5).

Chart 5: Requirement by MSMEs to Boost Exports



ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) PRACTICE

Delving deeper on sustainability agenda, ESG practices are currently not the focus of MSMEs but it is encouraging to see that awareness is picking up with more firms are gradually adopting it. Based on the survey findings, a total of 39.9% of MSMEs are now aware about ESG as compared to only 26.0% of MSMEs who did aware of green practices back in 2021 based on the Business and Economic Conditions Survey 2H 2021 and 1H 2022 by Associated Chinese Chambers of Commerce and Industry Malaysia (ACCCIM). The awareness level is higher among small & medium-sized firms and those in professionals, scientific & technical services; ICT; and manufacturing of electrical & electronics (E&E). Meanwhile, of those who are aware of ESG, majority 81.0% have adopted ESG in the business operation, especially the small-sized firms and MSMEs in professionals, scientific & technical services.

Focusing on the driving factors behind MSMEs' ESG implementation, the top three reasons being cited were that ESG helps to improve the firm's image (67.2%); remain competitive in the market (60.5%); and optimise cost efficiency and reduce operating costs (58.6%) (refer to Chart 6). Despite the added value ESG offers, challenges in embracing ESG are still there. A significant stumbling block is the lack of information and guidance on ESG implementation, which was highlighted by more than two-third of respondents. Moreover, the limited ESG experts and funds pose difficulties for MSMEs looking to adopt ESG practices. Overcoming these challenges would likely require collective efforts and support from key stakeholders to create a more conducive environment for ESG integration among MSMEs.

Chart 6: Factors and Challenges in Implementing ESG



One of the angles of sustainability is for MSMEs to place risk management measures to ensure business can continue to operate in any incidence of calamity and in uncertainty. Business insurance protects firms from potential losses and helps mitigate financial risks from natural disasters, employee injuries, premise damage and others. However, survey findings revealed that only 30.0% of MSME respondents have business insurance to protect their firms from natural disaster, which partly implies the low-risk management measures.

INFORMATION & COMMUNICATION TECHNOLOGY (ICT) ADOPTION

Consistent with past surveys, MSMEs exhibited strong computerisation given the high usage of personal devices such as smartphones, tablets and laptops and robust usage of internet connection, which is above 80.0%. Over the years, efforts by the Government including SME Corp. Malaysia have been successful in getting MSMEs to modernise their businesses, as reflected in this major utilisation of computers and internet. Despite the strong computerisation, MSMEs are still caught in computerisation trap, unaware that they are limiting potential productivity gains and sales growth by not investing further in digitalisation. These findings are in line with the findings from the previous SME Digitalisation Whitepaper conducted by SME Corp. Malaysia in collaboration with Huawei Technologies in June 2018.

While computerisation allows MSMEs to benefit from administrative processes, the true potential lies in digitalisation and automation as it offers greater and more sustainable benefits to the businesses. For instance, failing to fully leverage on the internet for e-commerce could lead to missed growth opportunities, stagnant sales productivity and hinder wealth creation for business and the economy in general. Based on the survey findings, it can be seen that online presence is trending upward with majority 80.6% have online presence via website, social media or e-marketplace platforms (refer to Chart 7). This statistic demonstrates improvement from 75.8% recorded in 2021 and much lower 35.3% recorded in 2019.

Chart 7: MSME's Digitalisation and Automation Activities



Moreover, investment in ICT tools and software empowers MSMEs to expand their business and enhance productivity. To be truly digitalised, MSMEs must re-engineer their operation by ensuring that their business strategies, processes and infrastructures are aligned and fully integrated to support their digital transformation. The survey highlighted the need for greater emphasis on the back-end digitalisation as only 53.8% of MSME respondents have access to back-end business processes. This process includes accounting and financial systems such as Universal Business Systems (UBS) and System Applications and Products in Data Processing (SAP); human resource management systems for salary and claims; point-of-sales; and operation management systems such as Enterprise Resource Planning (ERP) and Customer Relationship Management (CRM).

COMPARISON OF FINDINGS BY STATES IN SELECTED AREAS

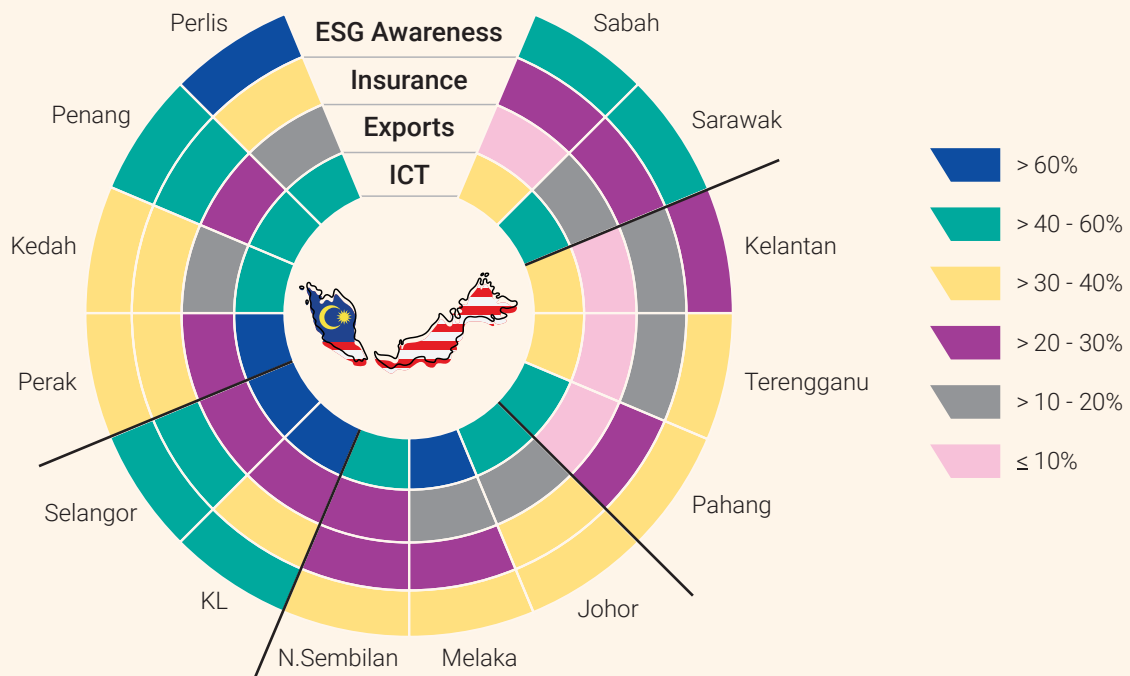
Looking at the MSME export activities nationwide, survey findings showed that exports penetration for MSMEs in Central and Northern Regions (Penang, Negeri Sembilan, Kuala Lumpur, Selangor and Perak) as shown in purple colour are relatively higher than other states in Malaysia (refer to Chart 8). There is a clear distinction with those MSMEs in the East Coast Region (Kelantan, Terengganu and Pahang) as well as in Sabah as they displayed a very low exports penetration (below 10%), partly due to infrastructure and logistics limitations.

On ESG awareness level, MSMEs in most of the states have generally moderate level of awareness in the range of 30 - 40% as shown in yellow colour, thus highlighting the need for further support in guiding the businesses through their sustainability endeavours. However, awareness of Kelantan MSMEs as shown in purple colour is below Malaysia's average of 39.9% and the lowest compared to other states in the country. This underscores the imperative need of a more focused and targeted ESG outreach for MSMEs in certain states.

Risk management is a strategic approach aimed at ensuring the viability of a business in the face of unforeseen events and uncertainty. Unfortunately, only 30.0% of MSME respondents have business insurance to protect their firms from casualties and natural disaster. Breaking it down to state level, important to note that MSMEs in the East Coast Region, namely Kelantan and Terengganu that are more prone to flood has the lowest rate of insurance purchase across the country that is below 20%, as depicted in grey colour.

As for utilisation of ICT, back-end business process is more prominent among MSMEs in Central Region and Perak, as reflected in blue colour. Notably, states with less access to connectivity tend to have lower rate of ICT utilisation, whereby Kelantan, Terengganu and Sabah utilised ICT in the range of 30 - 40%, lower than the Malaysia's average of 53.8%.

Chart 8: Comparison of Selected Areas by States in Malaysia



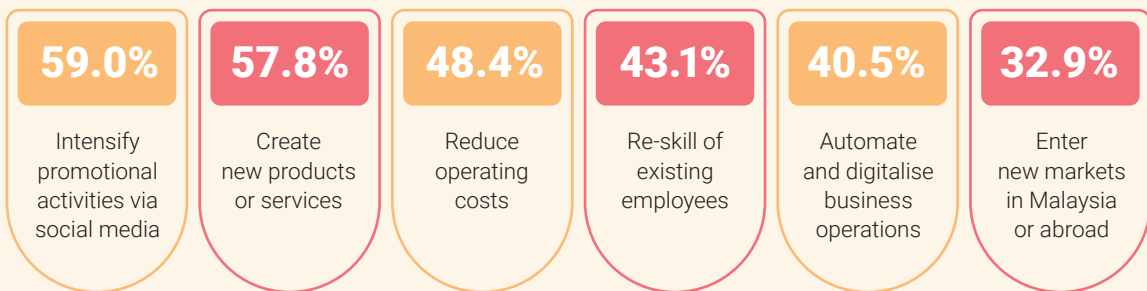
MOVING FORWARD

The survey findings depict a multi-faceted approach among MSMEs toward fortifying their market positions in the near term. One significant finding, MSMEs placed immense emphasis on integrating digitalisation into their core strategies. This focus on digitalisation emerges as a paramount approach in sustaining their growth and importance in the market landscape. Findings from the survey revealed that 59.0% of MSME respondents expressed their intention to intensify promotional activities via social media (refer to Chart 9). In addition, a total of 40.5% are actively seeking to automate & digitalise their business operations. These statistics underscore the priorities of MSMEs, showcasing their strategic orientation towards leveraging digital advancements to thrive in an increasingly competitive environment.

Furthermore, in maintaining a competitive edge over time, a total of 57.8% showed their keen interest in innovating and diversifying their offerings by creating new products or services. Simultaneously, nearly half of the MSMEs (48.4%) are resolute in enhancing their bottom line by strategically reduce the operational cost. This dual emphasis on both innovation and cost efficiency highlights the balanced approach to be undertaken by MSMEs, recognising the interdependent connection between resource management and the ability to bring cutting-edge products or services to market.

Moreover, the survey findings also shed light on another critical area of MSME strategies, namely skills development. A total of 43.1% cited the need to reskill their existing employees, thus signifying the crucial value of continuous learning and adaptation in the evolving business environment. Additionally, about 32.9% MSMEs would like to venture into new markets both within Malaysia and abroad, thus showcasing a desire for geographical diversification and growth beyond current boundaries. All of these diverse strategies highlighted a concerted effort by MSMEs to adapt, innovate and expand, while keeping a firm eye on business growth in the long run.

Chart 9: Strategies by MSMEs to Remain Competitive

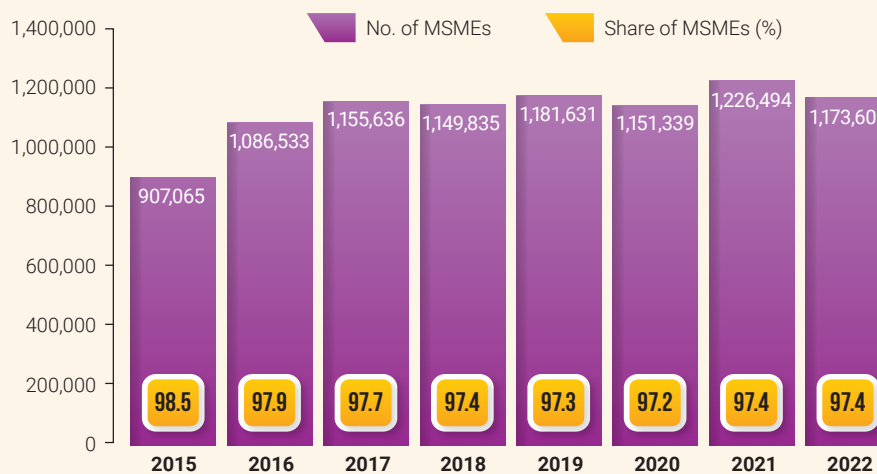


Box Article

Profile of MSMEs from 2015 until 2022

The structure of MSMEs has witnessed a significant growth from 2015 up to 2022. Examining the most recent statistical data for the year 2022, a total of 1,173,601 MSMEs are operating in Malaysia. These MSMEs constituted a majority 97.4% to the overall business establishments which amounts to 1,204,987 firms (refer to Chart 1). This marked a substantial increase of nearly 270,000 MSMEs when compared to the 907,065 MSMEs reported in 2015. From 2015 to 2022, the aggregate number of MSMEs expanded at an average growth rate of 3.7% every year.

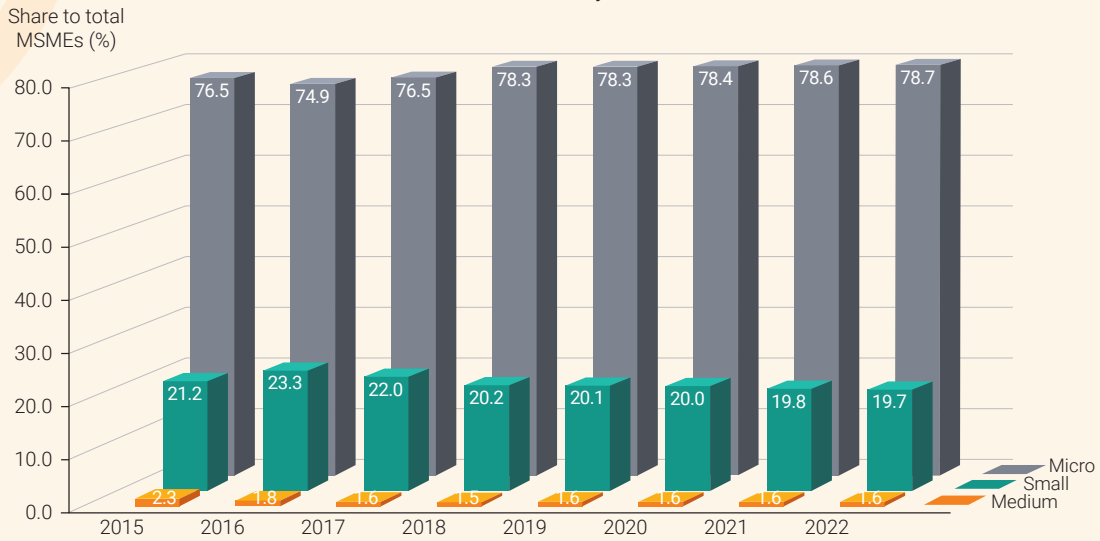
Chart 1: MSME Profile from 2015 until 2022



Source: Department of Statistics, Malaysia

In terms of business size, microenterprises were the largest component of MSMEs (refer to Chart 2). From 2015 until 2022, close to 230,000 new microenterprises were formed, registering an average growth rate of 4.2% every year. This accomplishment underscores the effectiveness of Government initiatives in fostering an entrepreneurial mindset among Malaysian citizens and staying committed to enhance business formalisation. Moreover, detailed analysis of the MSME landscape reveals that small-sized firms experienced a favourable growth in the number of establishments, with an annual increase of 2.7%. In contrast, medium-sized firms recorded a contraction of 1.6% over the same time frame. The reduced number of medium-sized firms in 2022 could be partly attributed to the progression of MSMEs advancing into becoming large players, thus signifying a fruitful result of MSME development efforts throughout the years. In summary, microenterprises accounted for 78.7% (923,667 firms) of the total MSME establishments in 2022, small-sized firms comprised of 19.7% (231,546 firms) and medium-sized firms constituted the balance 1.6% (18,388 firms).

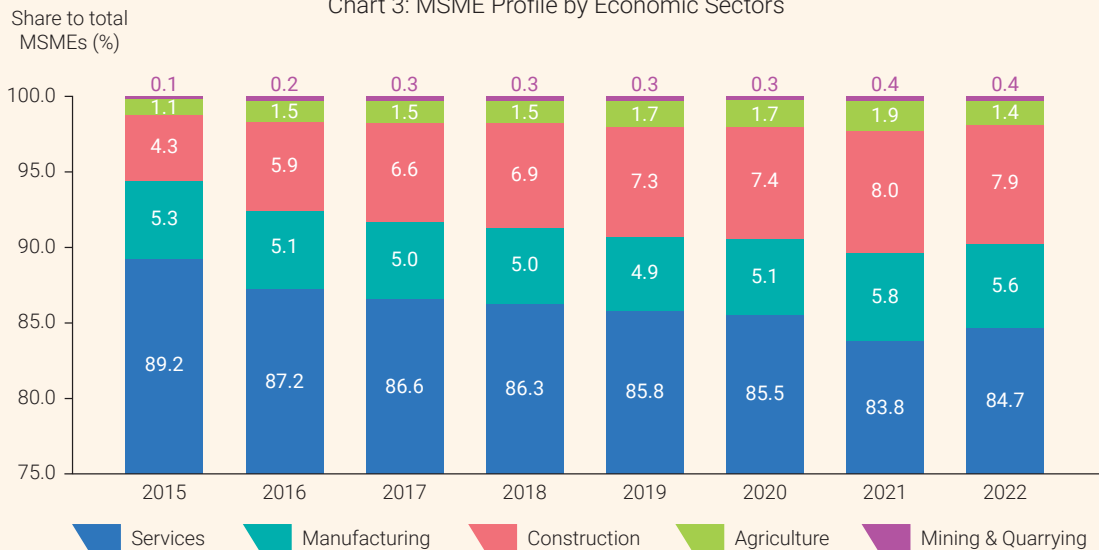
Chart 2: MSME Profile by Business Size



Source: Department of Statistics, Malaysia

Focusing on economic activities, the services sector which encompassing mainly wholesale & retail activities, has consistently contributed more than 80% of all MSMEs and expanded at an annual growth rate of 3.0% every year throughout the span of 2015 to 2022 period. Interestingly, a notable shift occurred in 2016 of which the construction sector emerged as the second largest until now (refer to Chart 3), surpassing the manufacturing sector which used to be ranked second previously. Furthermore, detailed findings across sector showed a double-digit growth in terms of MSME involvement in construction and mining & quarrying sectors during the period, at 13.1% and 25.4% per year respectively.

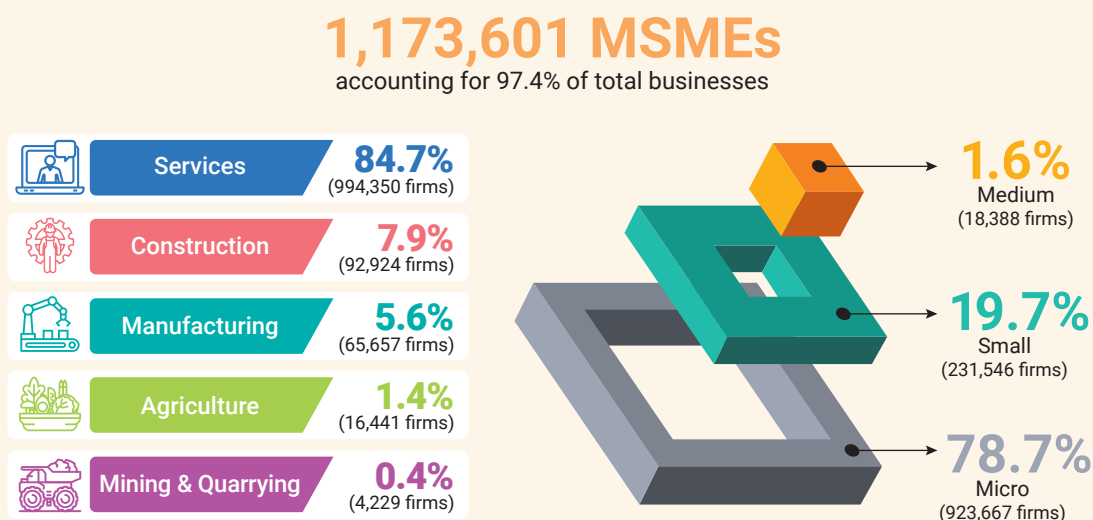
Chart 3: MSME Profile by Economic Sectors



Source: Department of Statistics, Malaysia

Zooming on to 2022 structure, services sector retained its position as the largest sector at 84.7% (994,350 firms) and construction sector at 7.9% (92,924 firms). About 5.6% of MSMEs (65,657 firms) were concentrated in manufacturing sector, followed by 1.4% (16,441 firms) in agriculture sector, with the remaining 0.4% (4,229 firms) in mining & quarrying sector (refer to Chart 4).

Chart 4: MSME Profile in 2022 by Size and Economic Sectors



Source: Department of Statistics, Malaysia

In terms of distribution of MSMEs across the country, all states experienced a surge in the number of MSME establishments from 2015 to 2022. The most notable annual growth rates were observed in Selangor, Sabah and Sarawak at 6.2%, 5.4% and 4.6% respectively. Comparing the state composition throughout the same period reveals the consistent pattern of higher growth, whereby there was a substantial increase in the shares of MSMEs in Selangor (+3.4 percentage points), Sabah (+0.7 percentage points) and Sarawak (+0.4 percentage points). Collectively, more than 55.0% of MSMEs are concentrated in the top four industrialised states namely Selangor (23.2%), WP Kuala Lumpur (14.3%), Johor (10.9%) and Penang (7.2%).

Table 1: Annual Growth and Composition of MSMEs by State

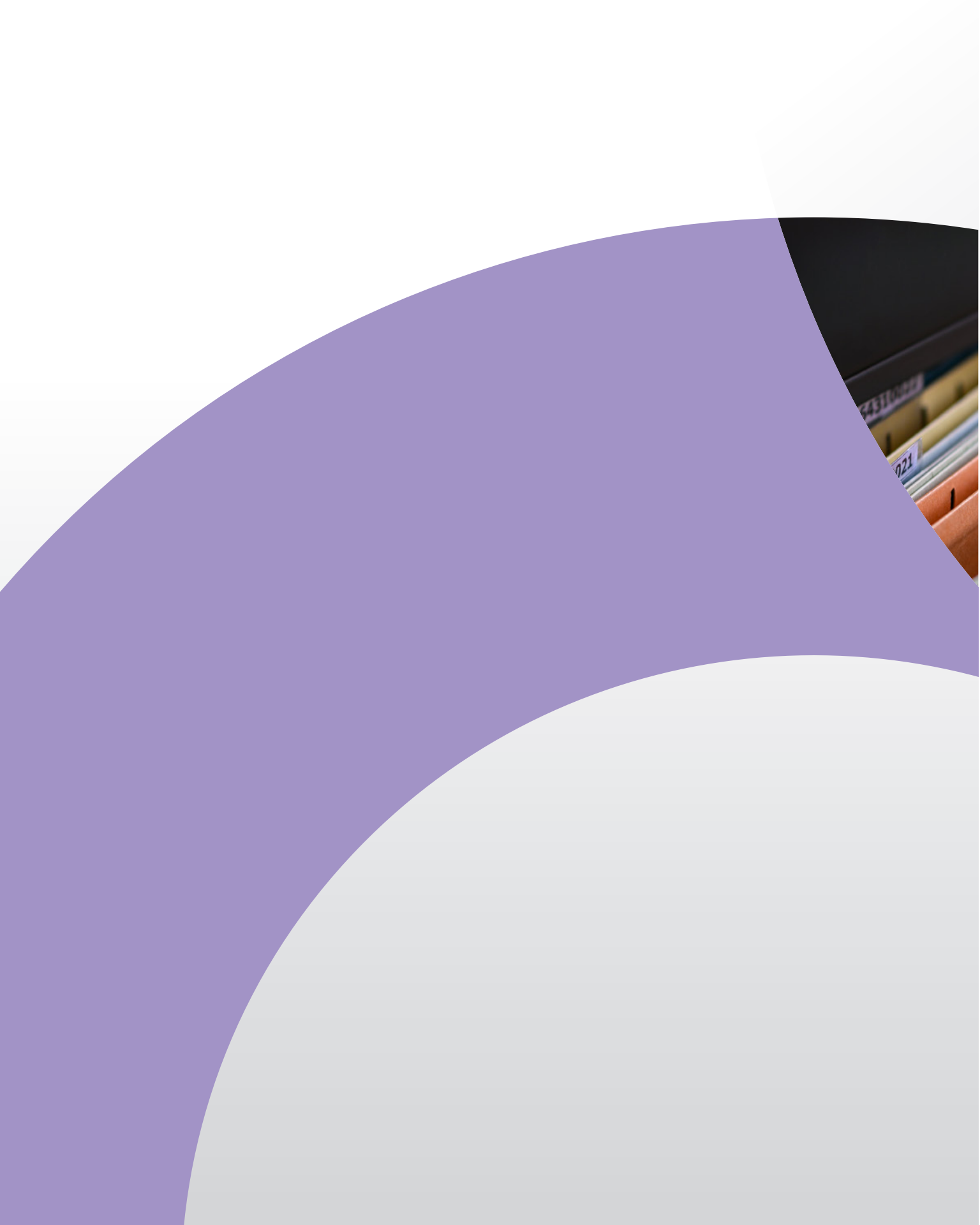
State	CAGR 2016 - 2022	Share to Total MSMEs (%)		
		2015	2022	Percentage Point Increase / Decrease
Selangor	6.2	19.8	23.2	3.4
WP Kuala Lumpur	3.3	14.7	14.3	-0.4
Johor	3.8	10.8	10.9	0.1
Penang	3.4	7.4	7.2	-0.2
Sarawak	4.6	6.7	7.1	0.4
Sabah	5.4	6.2	6.9	0.7
Perak	0.8	8.3	6.8	-1.5
Kedah	1.4	5.4	4.6	-0.8
Kelantan	1.1	5.1	4.3	-0.8
Pahang	3.4	4.1	4.1	0.0
Negeri Sembilan	3.3	3.6	3.5	-0.1
Terengganu	3.6	3.2	3.2	0.0
Melaka	1.5	3.5	3.0	-0.5
Perlis	1.5	0.8	0.6	-0.2
WP Labuan	1.1	0.3	0.2	-0.1
WP Putrajaya	1.3	0.1	0.1	0.0
Total MSMEs	3.7	100.0	100.0	

Note: Figures may not necessarily add up due to rounding

CAGR: Compounded Annual Growth Rate

Source: Department of Statistics, Malaysia





Appendices



Appendix 1

Key Statistics on MSMEs

Table 1: Number of Establishments in 2022 by Sector and Size

Sector	Number of MSME Establishments				Share of MSMEs (%)	Large Firms	Overall Establishments
	Micro	Small	Medium	Total MSMEs			
Services	806,947	177,435	9,968	994,350	84.7	25,867	1,020,217
Construction	64,029	24,154	4,741	92,924	7.9	1,400	94,324
Manufacturing	38,926	24,200	2,531	65,657	5.6	2,440	68,097
Agriculture	10,574	4,946	921	16,441	1.4	1,527	17,968
Mining & Quarrying	3,191	811	227	4,229	0.4	152	4,381
Total	923,667	231,546	18,388	1,173,601	100.0	31,386	1,204,987

Source: Department of Statistics, Malaysia

Table 2: Number of MSMEs in 2022 by State

State	Total MSMEs	%
Selangor	272,262	23.2
WP Kuala Lumpur	168,176	14.3
Johor	127,747	10.9
Penang	84,355	7.2
Sarawak	83,708	7.1
Perak	79,244	6.8
Sabah	80,547	6.9
Kedah	54,063	4.6
Kelantan	50,502	4.3
Pahang	47,638	4.1
N. Sembilan	41,089	3.5
Terengganu	37,671	3.2
Melaka	34,905	3.0
Perlis	7,559	0.6
WP Labuan	2,778	0.2
WP Putrajaya	1,357	0.1
Total MSMEs	1,173,601	100.0

Source: Department of Statistics, Malaysia

Table 3: Number of Women-owned MSMEs by Sector

Sector	Total MSMEs	%
Services	173,323	92.7
Manufacturing	9,519	5.1
Construction	2,570	1.4
Agriculture	1,498	0.8
Mining & Quarrying	20	0.01
Total Women MSMEs	186,930	100.0

Source: Economic Census 2016: Profile of Small and Medium Enterprises (reference year 2015), Department of Statistics, Malaysia

Table 4: MSME GDP by Economic Sector (RM million) (constant 2015 prices)

	2015	2016	2017	2018	2019	2020	2021	2022 ^p
Services	263,588	280,683	301,301	325,746	350,296	318,927	316,910	368,873
Manufacturing	88,614	92,991	99,331	104,763	109,511	106,252	115,161	122,024
Agriculture	49,619	49,349	52,414	52,602	53,788	53,388	54,459	54,144
Construction	26,005	27,735	29,571	30,746	30,853	26,104	24,951	26,167
Mining & Quarrying	2,036	2,203	2,399	2,524	3,017	2,771	2,671	2,884
Plus: import duties	5,211	5,725	6,552	6,032	5,960	5,731	5,865	6,322
MSME GDP	435,072	458,686	491,568	522,415	553,426	513,174	520,017	580,415

Note: Figures may not necessarily add up due to rounding

p: preliminary

Source: Department of Statistics, Malaysia

Table 5: Annual Growth of MSME GDP by Economic Sector (%) (constant 2015 prices)

	2015	2016	2017	2018	2019	2020	2021	2022 ^p
Services	6.6	6.5	7.3	8.1	7.5	-9.0	-0.6	16.4
Manufacturing	5.9	4.9	6.8	5.5	4.5	-3.0	8.4	6.0
Agriculture	2.3	-0.5	6.2	0.4	2.3	-0.7	2.0	-0.6
Construction	7.8	6.7	6.6	4.0	0.3	-15.4	-4.4	4.9
Mining & Quarrying	8.9	8.2	8.9	5.2	19.5	-8.1	-3.6	8.0
Plus: import duties	20.3	9.9	14.5	-7.9	-1.2	-3.8	2.3	7.8
MSME GDP	6.2	5.4	7.2	6.3	5.9	-7.3	1.3	11.6

p: preliminary

Source: Department of Statistics, Malaysia

Table 6: Contribution of MSMEs to Overall GDP by Economic Sector (%)

	2015	2016	2017	2018	2019	2020	2021	2022 ^p
Services	22.4	22.8	23.2	23.9	24.6	23.7	22.8	24.4
Manufacturing	7.5	7.6	7.6	7.7	7.7	7.9	8.3	8.1
Agriculture	4.2	4.0	4.0	3.9	3.8	4.0	3.9	3.6
Construction	2.2	2.3	2.3	2.3	2.2	1.9	1.8	1.7
Mining & Quarrying	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Plus: import duties	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.4
% of MSME GDP to Overall GDP	37.0	37.3	37.8	38.3	38.9	38.1	37.4	38.4

Note: Figures may not necessarily add up due to rounding

p: preliminary

Source: Department of Statistics, Malaysia

Appendix 2

Glossary of Abbreviations

Organisations / Associations / Institutions

Name	Acronym
Associated Chinese Chambers of Commerce and Industry Malaysia	ACCCIM
The Association of Southeast Asian Nation	ASEAN
Department of Statistics, Malaysia	DOSM
European Union	EU
Federation of Malaysian Manufacturers	FMM
International Monetary Fund	IMF
Ministry of Entrepreneur and Cooperatives Development	MECD
Ministry of Finance	MOF
Retail Group Malaysia	RGM

Other Terms

Name	Acronym
Australian Dollar	AUD
CEO Confidence Index	CCI
Chief Executive Officers	CEOs
Coronavirus Disease	COVID-19
Customer Relationship Management	CRM
Electrical and Electronics	E&E
Enterprise Resource Planning	ERP
Environmental, Social and Governance	ESG
Euro Currency	EUR
Food and Beverages	F&B
Gross Domestic Product	GDP
Gross Value Added	GVA
Information and Communication Technology	ICT
Micro, Small and Medium-sized Enterprises	MSMEs

Other Terms

Name	Acronym
Malaysian Ringgit	MYR
National Energy Transition Roadmap	NETR
New Industrial Master Plan 2030	NIMP 2030
Non-financial Business Sector	NFBS
Rancangan Malaysia Kedua Belas	RMKe-12
Indian Rupees	Rs.
System Applications and Products in Data Processing	SAP
Saudi Riyal	SAR
Singapore Dollar	SGD
Small and Medium-sized Enterprises	SMEs
Universal Business Systems	UBS
World Economic Outlook	WEO

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