

# PRESTASI DAN PROSPEK EKONOMI *ECONOMIC PERFORMANCE AND OUTLOOK*

## 2021

**PMKS ke arah Pemulihan yang Mampan**  
*MSMEs towards Sustainable Recovery*



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**Global Overview  
on Performance  
of MSMEs**

Chapter

**1**



## Chapter 1

# Global Overview on Performance of MSMEs

After a daunting period in 2020, MSMEs around the globe put on efforts in navigating their business towards recovery. Economic conditions in the last two years have required sufficient flexibility and agility from MSMEs and substantial financial assistance from Governments to survive the challenging times. The impact of the pandemic varied greatly across regions or countries with some experienced marked recovery in their revenue, supply chain and employment activities, while some had a tough time as the economic rebound had to be put on pause following the outbreak of new COVID-19 variants and consequent lockdowns happening worldwide.

### MSME PERFORMANCE IN THE EUROPEAN UNION (EU)

Micro, small and medium-sized enterprises (MSMEs) encompass about 22.8 million active firms in 2021 (2020: 22.5 million), representing 99.8% of all enterprises in the European Union (EU)-27 non-financial business sector (NFBS) <sup>[1]</sup>. Similar to the MSME demography across the globe, microenterprises are the most prevalent type of MSME size in the EU-27 NFBS, accounting the majority 93.1% of all enterprises. The growing number of MSMEs despite the pandemic was partly attributed to the financial assistance provided by Governments in 2020 and 2021, as well as various measures taken by many countries to prevent firms from bankruptcy. These includes leniency by creditors, temporary suspensions of the legal rules relating to when business owners must file for bankruptcy and temporary closures of legal & administrative entities dealing with bankruptcy declarations.

In terms of the definition, the official MSME definition set by European Commission takes into account three key criteria which are the sales turnover, employment size or the balance sheet. Table 1.1 describes the detailed definition of MSMEs by business size being adopted in the EU area.

Table 1.1: Definition of MSMEs in the European Union

Category	Sales Turnover	Employees	Balance Sheet Total
Micro	< €2 million	0 to < 10	< €2 million
Small	< €10 million	10 to < 50	< €10 million
Medium	< €50 million	50 to < 250	< €43 million

Source: Annual Report on European SMEs 2021/2022, April 2022

Focusing on the performance of MSMEs, the year 2020 was a challenging year as COVID-19 brought to an abrupt halt, or even reversed the gains made by MSMEs over the years. Nevertheless, MSMEs in the region managed to rebound in 2021, with their value-added registered a positive growth by 8.0% (2020: -5.5%). The recovery was reflected in all sectors, of which significant growth was recorded in the manufacturing sector (9.7%), construction (9.7%) and wholesale & retail trade (9.4%). In addition, large firms fared better than the MSMEs in terms of value-added growth as the former grew at a stronger double-digit pace of 10.8%, thus translated into a stagnant MSME contribution of 51.8% during the year.

Meanwhile, MSMEs faced difficulties throughout 2021 in hiring new staff to meet an unexpectedly strong rebound in demand and had to deal with sharp and rapid increases in the price of inputs. As a result, MSME employment improved marginally by 0.5% in 2021, whereby the slight improvement was observed in all industries except the accommodation & food services (-6.0%) and the manufacturing sector (-0.4%). Various business support measures being introduced during the pandemic had managed to minimise the employment impact to the economic activity. Hence, in overall, MSMEs in the EU-27 contributed 64.4% to the total employment in 2021. The contribution of MSMEs in 2021 in terms of establishments, value-added and employment by business size is summarised in Table 1.2.

Table 1.2: Number of Firms, Value-added and Employment by Business Size in 2021

Category	Establishments		Value-added		Employment	
	No. of Firms	Share (%)	Value (€ mil)	Share (%)	No. of Employees	Share (%)
Micro	21,264,305	93.1	1,284.4	18.2	36,885,901	28.5
Small	1,339,629	5.9	1,178.3	16.7	25,810,109	20.0
Medium	204,862	0.9	1,186.3	16.8	20,515,281	15.9
<b>Total MSMEs</b>	<b>22,808,796</b>	<b>99.8</b>	<b>3,649.0</b>	<b>51.8</b>	<b>83,211,291</b>	<b>64.4</b>
Large Firms	42,263	0.2	3,397.5	48.2	46,005,197	35.6

Source: Annual Report on European SMEs 2021/2022, April 2022

## MSME PERFORMANCE IN SOUTH ASIA AND ASEAN

MSMEs in these regions have been stimulating domestic demand, job creation, innovation and competition over the years. With South Asia covers five countries (Bangladesh, India, Sri Lanka, Nepal and Pakistan) and ASEAN covers ten countries, MSMEs are defined using different criteria primarily based on annual sales turnover, number of employees, fixed assets and paid-up capital <sup>[2]</sup>.

In South Asia region, the aftermath of the pandemic has been catastrophic for businesses in this region of which most countries individually recorded negative economic growth. Table 1.3 recorded the overall economic growth in each country which severely affected the MSMEs business performance indirectly.

Table 1.3: Overall Economic Growth in South Asia Countries (Annual Growth, %)

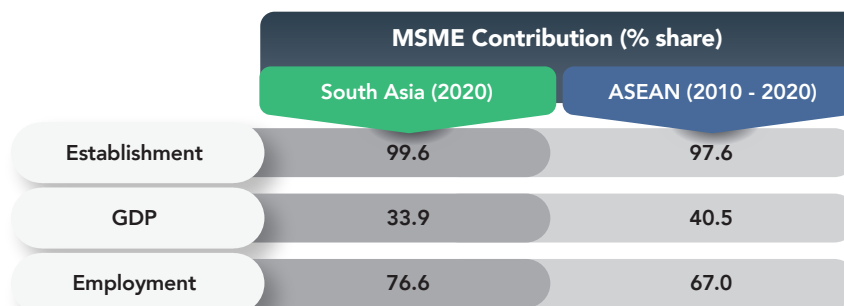
Countries	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021
India		4.0%	-7.3%
Sri Lanka	2.3%	-3.6%	
Nepal	6.7%	-2.1%	
Pakistan	2.1%	-0.5%	
Bangladesh	8.2%	3.5%	

Source: Asia Small and Medium-sized Enterprise Monitor 2021, December 2021

In the year 2020, South Asian MSMEs accounted for an average of 99.6% of all enterprises. Majority MSMEs involved in services sector with bulk 44.1% are in the wholesale and retail trade industry, while 23.8% MSMEs are in the manufacturing sector. Zooming on to the business performance, MSMEs in South Asia in 2020 contributed an average of 33.9% of the region's Gross Domestic Product (GDP) and employed an average of 76.6% of the region's workforce. In line with the sector composition of MSMEs, majority of MSME employees worked in the services sector, mainly in the wholesale and retail trade.

Comparing the performance of MSMEs in the ASEAN region, for the period of 2010 until 2020, ASEAN MSMEs accounted for an average of 97.6% of all enterprises, 40.5% of the region's overall GDP and 67.0% of the total workforce. The share of MSMEs to total enterprises marginally expanded across the region at a compounded annual growth rate (CAGR) of 0.2%. In addition, MSMEs' contribution to GDP also expanded slightly by 0.5% while share of MSME employees to total employees on the other hand declined by 0.5% during the ten-year period. Chart 1.1 summarises the recent MSME performance in South Asia and ASEAN.

Chart 1.1: Contribution of MSMEs to Total Establishment, GDP and Employment (%)



Source: Asia Small and Medium-sized Enterprise Monitor 2021, December 2021

## MSME Performance in Singapore

MSMEs in the country are defined as enterprises with operating receipts not more than SGD100 million or employment not more than 200 workers. Being an integral part of the business ecosystem, latest data showed the importance of Singaporean MSMEs to the economic growth. For the year 2021, there were more than 290,000 MSMEs in Singapore, representing 99.0% of the overall business establishment<sup>[3]</sup>. Number of MSMEs in Singapore grew by 3.4% in 2021 with an increment of almost 10,000 MSMEs.

As most economies gradually recovered from the effects of COVID-19 pandemic, MSMEs in the country too registered an expansion. This is reflected in the higher value-added whereby MSMEs nominal value-added rebounded by 6.5% to reach SGD213 billion in 2021 (2020: SGD200 billion). The growth rate of MSMEs was slower compared to non-MSMEs at 15.7%, of which stood at SGD272 billion in 2021 (2020: SGD235 billion). As a result, the contribution of MSMEs to the overall economy reduced to 44.0% during the year (2020: 46.0%).

In terms of employment, MSMEs in Singapore hired 2.41 million of workers during the year which constituted about 70.9% of total employment (2020: 70.5%). The number of MSMEs employment increased by 1.7% in 2021 as against the decline of 6.0% in 2020. The reduction in employment in 2020 which happened in Singapore as well as other economies during the pandemic is in line with the report by the International Labour Organisation (ILO). The Report cited that the pandemic has had a devastating effect on jobs and incomes in Asia and the Pacific region, wiping out an estimate of 81 million jobs in 2020.



Chart 1.2: Performance of MSMEs in Singapore in terms of Value-added and Employment in 2021 (%)

Indicator	MSME Contribution	
	2020	2021
Value-added – nominal (SGD billion)	200.0	213.0
Annual growth (%)	-2.0	6.5
Contribution to total (%)	46.0	44.0
Employment (million)	2.37	2.41
Annual growth (%)	-6.0	1.7
Contribution to total (%)	70.5	70.9

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



## MSME Performance in Thailand

As at end-2020, the total number of MSMEs in Thailand was at 3,134,442, which constituted 99.5% of total enterprises in the country <sup>[4]</sup>. There has been a slight increment of 0.9% or almost 30,000 MSMEs as compared to a total of 3,105,096 MSMEs recorded in the preceding year. Similarly, microenterprises are prominent as it made up the largest share of MSMEs component. Focusing on the definition, the MSMEs in the country are categorised based on annual income and employment to promote the targeted entrepreneurs effectively according to the current economic situation. Table 1.4 shows the detailed definition of MSMEs by business size being used in Thailand <sup>[5]</sup>.

Table 1.4: Definition of MSMEs in Thailand

Type of Business	Category	Annual Income (million baht)	Employment (person)
Manufacturing	Micro	≤ 1.8	≤ 5
	Small	≤ 100	≤ 50
	Medium	≤ 500	≤ 200
Services & Merchandising	Micro	≤ 1.8	≤ 5
	Small	≤ 50	≤ 30
	Medium	≤ 300	≤ 100

Source: Office of SMEs Promotion (OSMEP)

Zooming on to the performance of Thailand MSMEs, the industry players too were affected by the widespread of COVID-19 pandemic. In 2020, the GDP growth of MSMEs declined by 9.1%, of which microenterprises dragged the MSME performance and was the worst affected as it fell sharply at double-digit growth of 15.8%. The contraction has led to MSMEs contributing 34.2% to overall GDP during the year. In terms of exports, MSME exports dropped by 17.1% to reach 839,750.1 million baht in 2020. As a result of the discouraging exports landscape, MSMEs recorded lower contribution to total exports at 11.7% in 2020 (2019: 13.3%). The main markets for Thailand's exports activity including those by the MSMEs were the United States, China and Japan.

Table 1.5: Number of Establishments, GDP, Exports and Employment by Business Size in 2020

Category	Establishments		GDP		Exports		Employment	
	No. of Firms	Share (%)	Value (trillion baht)	Share (%)	Value (trillion baht)	Share (%)	No. of Employees	Share (%)
Micro	2,673,922	84.9	0.4	2.7	0.1	1.4	5,274,729	29.7
Small	415,673	13.2	2.3	14.6	0.2	3.4	4,997,999	28.2
Medium	44,847	1.4	2.7	17.0	0.5	6.8	2,442,188	13.8
<b>Total MSMEs</b>	<b>3,134,442</b>	<b>99.5</b>	<b>5.4</b>	<b>34.2</b>	<b>0.8</b>	<b>11.7</b>	<b>12,714,916</b>	<b>71.7</b>
Large Firms & Others	14,455	0.5	10.3	65.8	6.3	88.3	5,019,245	28.3

Source: OSMEP's Executive Summary White Paper on MSMEs, 2021

Meanwhile, the pandemic surprisingly has had less significant repercussions on the MSME labour market, but the same does not apply to the non-MSMEs. While the latter recorded negative employment growth, MSME employment data on the other hand registered an expansion of 5.4% in 2020. The number of workers employed by MSMEs has increased by more than 650,000 workers, from 12.1 million in 2019 to 12.7 million in 2020. In addition, MSME employment was mostly concentrated in the services sector with 5.6 million workers. Given the positive growth, contribution of Thailand MSMEs to overall employment rose to 71.7% in 2020 as compared to 69.5% recorded in 2019.

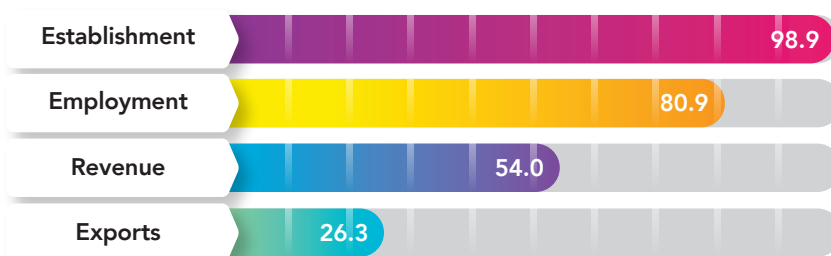


## MSME Performance in Taiwan

The country has redefined their MSME definition in June 2020 considering the trend towards capital-intensive development, blurring of the boundaries of industries as well as simplified identification. While the old definition concentrated on criterion namely paid-in capital, revenue or the number of employees, the new definition focuses on a single criterion which are applicable to all industries <sup>[6]</sup>. MSMEs are defined as those with paid-in capital of less than NT\$100 million or fewer than 200 employees hired. Using the latest definition, there were altogether 1,548,835 MSMEs in Taiwan in 2020, which accounted for 98.9% of total enterprises.

For employment, Taiwan MSMEs provided job opportunities to a total of 9.3 million workers, which represented the majority 80.9% of the overall employment of the country. This statistic signifies that MSMEs in Taiwan are the backbone of the economy, having to provide important foundations for job creations. The importance of MSMEs too is further reflected in the revenue, of which MSMEs generated more than half the country's total revenue at 54.0%. Of these revenue, biggest portion derived from domestic sales which makes up 88.6%, while export sales accounted for the remaining 11.4%. It is also interesting to note that the MSMEs exports declined at a much lesser extent than those of non-MSMEs in 2020, signalling competitive advantages of Taiwan MSMEs' products internationally. Consequently, higher contribution of MSME exports at 26.3% to total exports was achieved during the year.

Chart 1.3: Contribution of Taiwan MSMEs in 2020 (%)



Source: 2021 White Paper on Small and Medium Enterprises in Taiwan





**Performance  
of MSMEs  
in Malaysia**

Chapter

**2**



## Chapter 2

# Performance of MSMEs in Malaysia

The unprecedented health crisis brought about by the COVID-19 pandemic has affected a wide spectrum of businesses particularly MSMEs. After a sluggish performance in 2020, MSMEs were on track for gradual recovery with key macroeconomic indicators returned to positive growth in 2021 amidst challenging domestic and global environment. MSMEs regained their business momentum in terms of Gross Domestic Product (GDP), employment and exports growth, nonetheless contribution of MSMEs to the Malaysian economy decreased as non-MSMEs recovered at a faster pace during the year.

### OVERVIEW OF MSME GDP IN 2016 - 2020

The establishment of the National Entrepreneur and SME Development Council (NESDC) in 2004 has provided various supports to the development of MSMEs in Malaysia. During Rancangan Malaysia Kesebelas (RMKe-11) period of 2016 - 2020, the landscape of MSMEs has grown considerably well. In terms of the profile, there were altogether 1,151,339 MSMEs in 2020 which accounts for 97.2% of total establishments in Malaysia, as compared to 1,086,533 MSMEs recorded in 2016. There has been an increment of about 65,000 establishments, registering an average growth rate of 4.9% per annum from the year 2016 until 2020.

Looking at the MSME performance during the five-year period, MSME GDP expanded at an annual growth rate of 3.3% per annum with the contribution to total economy slightly increased by 0.8 percentage points, from 37.3% in 2016 to 38.1% in 2020 (refer to Table 2.1). In value term, MSME GDP at constant 2015 prices stood at RM512.9 billion in 2020 against RM458.7 billion generated in 2016. Further analysis on the sectoral performance showed that the services sector remained to be the primary contributing sector, followed by manufacturing and agriculture. All sectors recorded minor increment in terms of share contribution to the overall economy, except construction which has reduced by 0.3 percentage points.

The impact of the economic shock was evidenced through the key macroeconomic indicator as it has dragged the MSME performance during that five-year period. Comparing the situation prior to the pandemic (2016 - 2019), MSMEs experienced a stronger performance with the annual average growth rate were almost doubled at 6.2% against 3.3% in 2016 - 2020. The services and manufacturing sectors remained as the main contributors of MSME GDP activities which both sectors represented more than 80% of MSME GDP. Recognising the impact of the pandemic, all sectors in 2020 recorded lower contribution to MSME GDP compared to 2019 except the manufacturing and agriculture sectors as most of the industries under these sectors were categorised as essential industries that were allowed to operate during Movement Control Order (MCO).

Table 2.1: MSME GDP by Economic Sector (constant 2015 prices)

Sector	MSME Contribution to GDP			Increase / Decrease in Share		MSME GDP Growth (%)	
	2016 (% share)	2019 (% share)	2020 (% share)	2019 vs 2016	2020 vs 2016	CAGR <sup>1</sup> 2016 - 2019	CAGR <sup>1</sup> 2016 - 2020
Services	22.8	24.6	23.7	+1.8	+0.9	7.4	3.9
Manufacturing	7.6	7.7	7.9	+0.1	+0.3	5.4	3.7
Agriculture	4.0	3.8	4.0	-0.2	0.0	2.0	1.5
Construction	2.3	2.2	1.9	-0.1	-0.3	4.4	0.1
Mining & Quarrying	0.2	0.2	0.2	0.0	0.0	10.3	6.4
<b>Total</b>	<b>37.3</b>	<b>38.9</b>	<b>38.1</b>	<b>+1.6</b>	<b>+0.8</b>	<b>6.2</b>	<b>3.3</b>

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

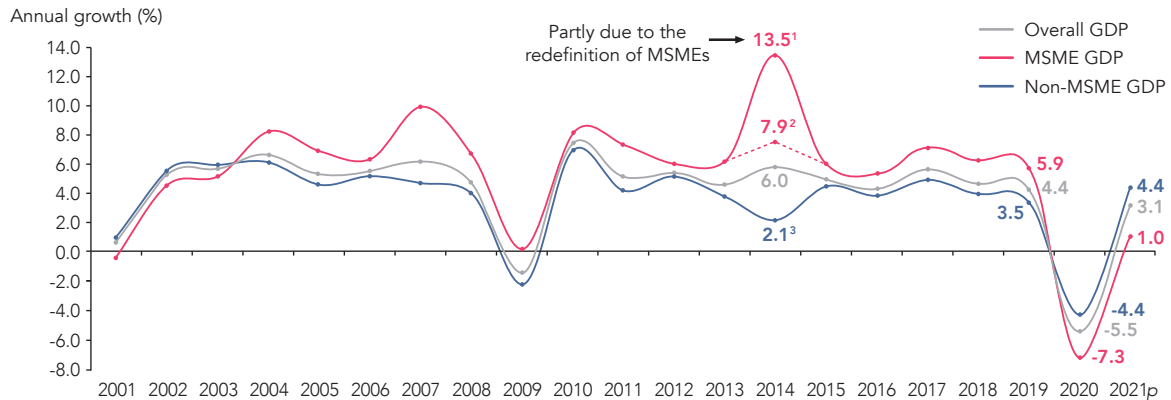
Note: Figures may not necessarily add up due to rounding

Source: Department of Statistics, Malaysia

## PERFORMANCE OF MSME GDP IN 2021

The COVID-19 pandemic has severely disrupted the Malaysian economy and significantly impacted the well-being of businesses. Nevertheless, MSMEs managed to sustain and gradually recovered in 2021. The MSME GDP growth expanded slightly by 1.0% against -7.3% in 2020, the lowest since statistics on MSME GDP were first kept in year 2000 (refer to Chart 2.1). In terms of value, MSME GDP at constant 2015 prices stood at RM518.1 billion in 2021 (2020: RM512.9 billion). In comparison, the growth pace of MSMEs did not surpass that of non-MSMEs as the latter experienced a faster growth of 4.4% during the year. As a result, the contribution of MSMEs to the overall GDP decreased to 37.4% as compared to 38.1% being achieved in 2020 (refer to Chart 2.2).

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



<sup>1</sup> Growth of MSME GDP based on 2014 New SME Definition versus 2013 Old SME Definition

<sup>2</sup> Growth of MSME GDP based on 2014 New SME Definition versus 2013 New SME Definition

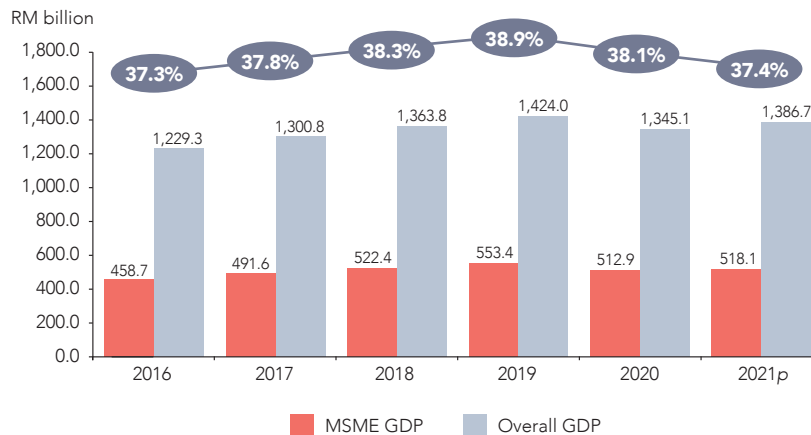
<sup>3</sup> Growth of Non-MSME GDP based on 2014 New SME Definition versus 2013 Old SME Definition

p: preliminary

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

As MSMEs were on recovery mode, the improvement and the pace of recovery were uneven across sectors. A deeper dive into sectoral performance in 2021 reveals that the MSME GDP growth was primarily driven by the manufacturing and agriculture sectors, particularly rubber- and chemical-related industries of which MSMEs in these industries benefitted from the pandemic-induced demand. Meanwhile, MSMEs in the services, construction and mining & quarrying sectors registered a smaller contraction than the preceding year (refer to Table 2.2). The contraction during the year was attributable to the continuous imposition of MCO and various measures taken to contain it which includes travel limitations i.e. inter-district and inter-state travel ban, temporary business closures and restricted social activities. Nonetheless, rapid progress in vaccination, higher adoption of digitalisation & automation as well as greater firms' adaptability to the new norms had partly lessened the negative impact.

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



p: preliminary

Source: Department of Statistics, Malaysia

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

Sector	Annual Growth (%)		
	2020 MSME GDP	2021 MSME GDP	2021 Overall GDP
Services	-9.0	-1.2	1.9
Manufacturing	-2.9	8.5	9.5
Agriculture	-0.7	1.9	-0.2
Construction	-15.4	-4.6	-5.2
Mining & Quarrying	-8.1	-3.1	0.3
<b>Total</b>	<b>-7.3</b>	<b>1.0</b>	<b>3.1</b>

Source: Department of Statistics, Malaysia

Comparing the growth between MSMEs and the overall economy, it can be seen that MSMEs in the services and mining & quarrying sectors were more negatively affected by the pandemic at -1.2% (against 1.9% of overall GDP) and -3.1% (against 0.3% of overall GDP) respectively. The larger decline in the services sector of MSMEs was partly due to the downfall of tourism industry of which bulk of MSMEs (55.6%) were heavily involved in the tourism-related industry. It is also worth to note that MSMEs in the agriculture sector were more resilient than the overall players (1.9% vs -0.2%) during the year. This was partly due to the robust growth of rubber, oil palm, livestock and other agriculture whereby it contributed more than 80% of MSME value-added in the agriculture sector. The cultivation of agricultural crops and livestock activities too were highly involved by MSMEs than the non-MSMEs.

In terms of contribution by economic sectors, despite that the services sector experienced a less upbeat performance, the sector remained to be the main contributor as it constituted the majority 60.8% of the MSME GDP in 2021 (refer to Table 2.3). Moreover, higher shares were recorded for the manufacturing and agriculture sectors at 22.3% (2020: 20.7%) and 10.5% (2020: 10.4%) respectively. In contrast, contribution by MSMEs in services and construction sectors shrank in prominence in 2021, while mining & quarrying sector contributed the smallest share contribution of 0.5%.

Table 2.3: MSME GDP and Overall GDP Share by Economic Sector (constant 2015 prices)

Sector	Percentage Share to Total (%)		
	2020 MSME GDP	2021 MSME GDP	2021 Overall GDP
Services	62.1	60.8	57.0
Manufacturing	20.7	22.3	24.3
Agriculture	10.4	10.5	7.1
Construction	5.1	4.8	3.7
Mining & Quarrying	0.5	0.5	6.7
Plus: import duties	1.1	1.1	1.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Note: Figures may not necessarily add up due to rounding

Source: Department of Statistics, Malaysia



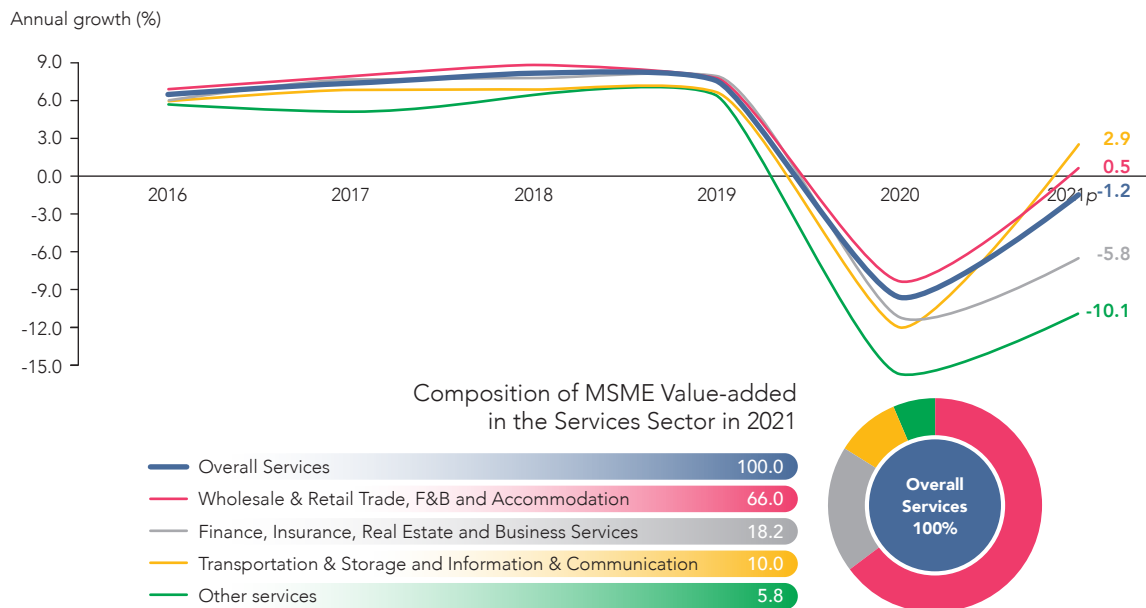
## MSME Value-added in the Services Sector

Signs of gradual recovery was observed for MSMEs in the services sector as they registered a smaller decline by 1.2% in 2021 as compared to 9.0% contraction recorded in 2020. The recovery momentum was spurred by MSMEs in the transportation & storage and information & communication which rebounded to 2.9% (2020: -11.2%) (refer to Chart 2.3). Detailed findings showed that the transportation & storage sub-sector benefitted from the increased use of delivery services. Meanwhile, the performance of information & communication industries continued to improve in 2021, driven primarily by higher demand for online activities amid greater digitalisation adoption and remote working arrangement during the year.



Moreover, the wholesale & retail trade, food & beverages (F&B) and accommodation sub-sector which formed the biggest component of the MSME value-added in the services (66.0% of total share) managed to record a marginal growth of 0.5% in 2021 from -7.7% in the preceding year. Nonetheless, closure of international border and travel restrictions continued to weigh on the tourism-related services and high-touch segments such as entertainment and recreational activities. The weak spending was also reflected in the finance, insurance, real estate and business services sub-sector which remained in contraction at 5.8% in 2021 (2020: -10.3%), hence dragging the performance of MSMEs in the services sector.

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



<sup>p</sup>: preliminary

Source: Department of Statistics, Malaysia

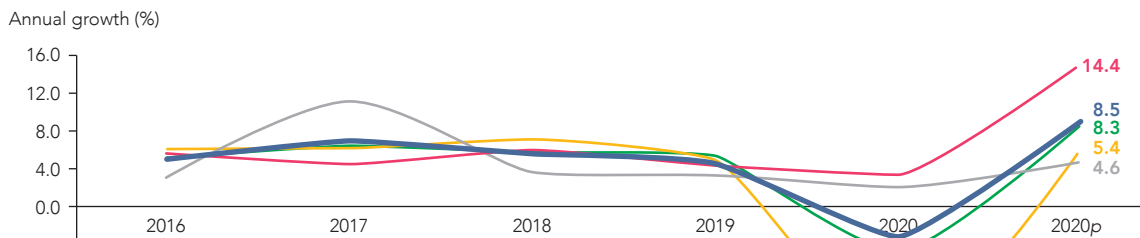
## MSME Value-added in the Manufacturing Sector

For the year 2021, MSMEs in the manufacturing sector anchored the growth of MSME GDP. Value-added of MSMEs in the manufacturing sector rebounded to register a robust growth of 8.5% (2020: -2.9%), mainly attributed by the double-digit expansion in the petroleum, chemical, rubber and plastic products at 14.4% (2020: 3.2%) and a significant pickup in the non-metallic mineral products, basic metal and fabricated metal products which grew by 5.4% (2020: -13.3%) (refer to Chart 2.4). Accounted for 41.5% of total value-added of MSMEs in manufacturing sector, these two sub-sectors were primarily benefitted from the strong pandemic-induced demand (such as rubber gloves, pharmaceuticals and medical devices) throughout the year.

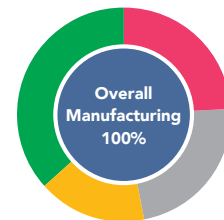


In addition, the higher growth trend was also observed for food, beverages and tobacco sub-sector as it improved by 4.6% in 2021 (2020: 1.9%) on the back of stronger demand and improved domestic household spending with most households were on phase-by-phase lockdowns. This sub-sector was categorised as essential activities, thus most MSME players in these industries were allowed to operate as usual. Similarly, other manufacturing sub-sector returned to positive growth at 8.3% (2020: -4.4%). As a whole, the movement restriction and temporary business closure especially for the non-essential activities may have led to supply chain disruption, but the impact has been partly mitigated by widespread adoption of digitalisation and automation among manufacturers, as well as administrative measures taken such as building inventory buffers and negotiating with clients to increase orders.

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



Composition of MSME Value-added in the Manufacturing Sector in 2021



p: preliminary

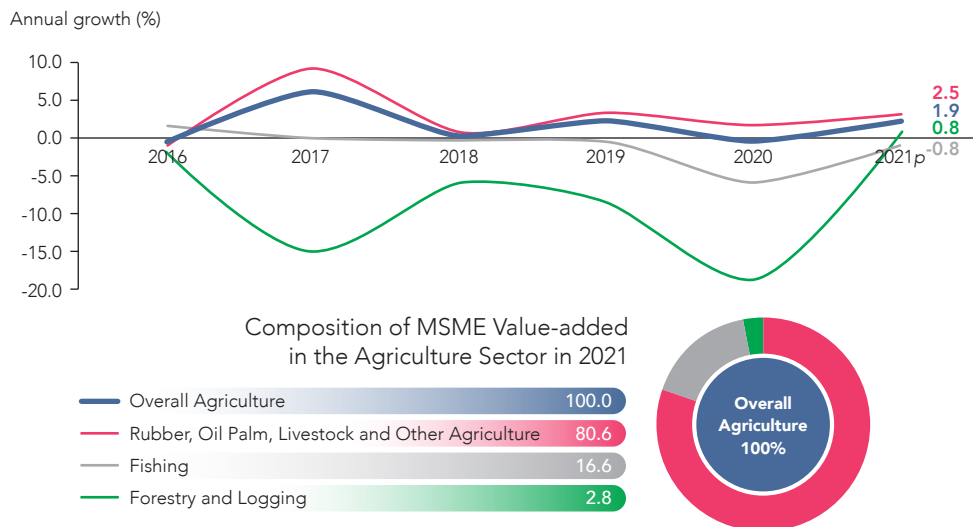
Source: Department of Statistics, Malaysia

## MSME Value-added in the Agriculture Sector

A modest pickup among MSMEs in the agriculture sector was observed as the value-added of firms in this sector rebounded by 1.9% in 2021 as compared to -0.7% in the previous year (refer to Chart 2.5). The growth was significantly driven by the rubber, oil palm, livestock and other agriculture sub-sector which expanded by 2.5% (2020: 1.0%), mainly benefitted from the pandemic-induced demand. This sub-sector accounted for bulk of 80.6% of the total MSME value-added in the agriculture, thus managed to boost the overall performance of MSMEs in the agriculture sector. Notably, the recovery too was aided by the turnaround in the forestry and logging activities throughout the year as it grew by 0.8% (2020: -19.3%). On the other hand, fishing sub-sector registered a slight decline by 0.8% (2020: -4.8%), partly due to restrictions on transportation and movement of people have led to some logistical challenges among fishermen.



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 Sectors

Recovery pace of MSMEs in the construction sector was on the right track as the sector registered a smaller decline of 4.6% in 2021, from a double-digit contraction of 15.4% in the preceding year (refer to Chart 2.6). The improvement was supported by the easing of the movement control measures and the gradual economic reopening during the year. Nevertheless, the movement control measures continued to affect MSMEs in the construction sector, though at a lesser extent. Limitations on operating capacity, shortage of labour following closure of international borders as well as disruption in supply chain were among the key factors that resulted in continuous contraction of MSME value-added in that sector.

Furthermore, similar recovery trend was observed in the mining & quarrying sector which experienced smaller decline of 3.1% in 2021 (2020: -8.1%). Strict restrictions from containment measures have disrupted mining activities, which then significantly affected almost 90% of MSMEs in this sector as they were highly involved in quarrying and mineral mining activities.



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



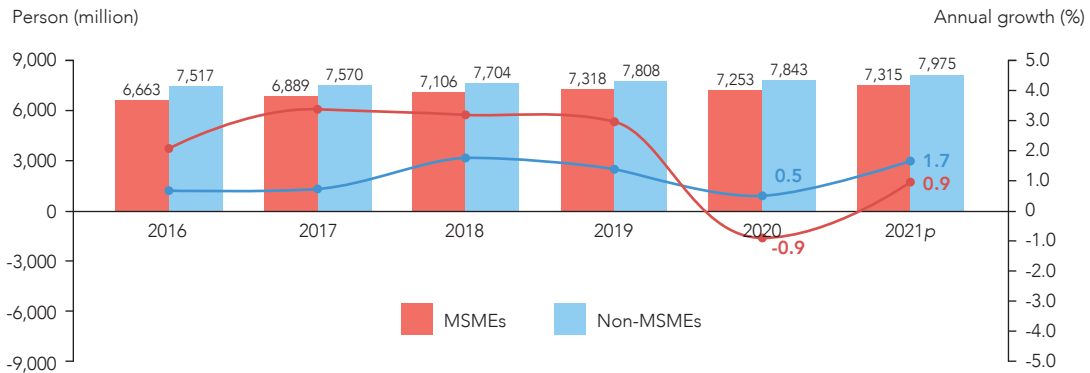
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Source: Department of Statistics, Malaysia

## PERFORMANCE OF MSME EMPLOYMENT IN 2021

Contributing nearly half of Malaysia's total employment, MSMEs play a vital role in fighting poverty while improving the living standards of its citizens. For the year 2021, MSMEs employed a total of 7.32 million people as compared to 7.25 million people being hired in 2020 (refer to Chart 2.7). This denoted a slight increase of 0.9% or around 62,000 workers. In comparison, the non-MSME employment implied a higher growth of 1.7% or an increase of around 132,000 workers, particularly in the services and manufacturing sectors. Consequently, contribution of MSMEs to total employment reduced to 47.8% (2020: 48.0%).

Chart 2.7: Number of Employment and Annual Growth from 2016 - 2021

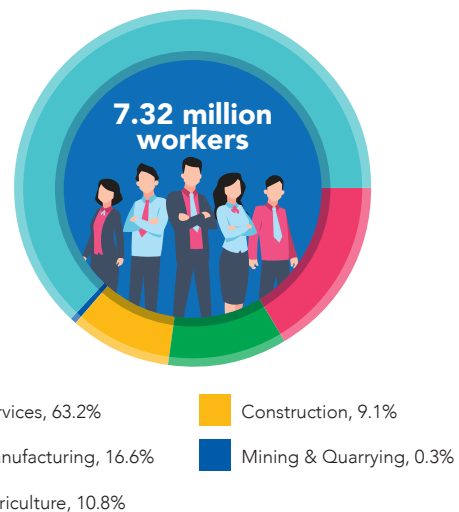


p: preliminary

Source: Department of Statistics, Malaysia

Looking at the sectoral performance, all economic sectors recorded positive growth in MSME employment except for the construction sector which declined by 0.7%. Partly being a relatively labour-intensive industry with high reliance on foreign workers, the negative growth in the construction sector was due to factors such as temporary border closure, reduction in income and halting of construction project sites. The positive growth of MSME employment in 2021 was primarily driven by higher hiring in the manufacturing and agriculture sectors at 2.0% and 1.5% respectively. Meanwhile, services sector which made up almost two-third of MSME employment grew slightly by 0.7% or around 31,000 workers. Chart 2.8 reflects the composition of MSME employment by economic sector which was dominated by the services sector (63.2%), followed by the manufacturing sector (16.6%), agriculture (10.8%), construction (9.1%), and mining & quarrying (0.3%).

Chart 2.8: Components of MSME Employment in 2021

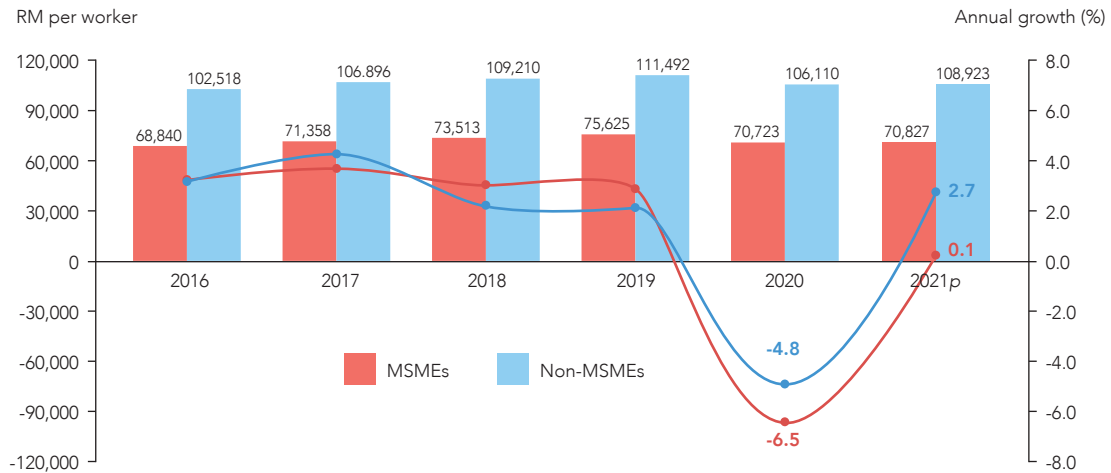


Source: Department of Statistics, Malaysia

## PERFORMANCE OF MSME LABOUR PRODUCTIVITY IN 2021

Labour productivity of MSMEs is measured by using the ratio of value-added generated by MSMEs at constant prices to the total MSME employment in Malaysia. During the year, MSME labour productivity increased marginally by 0.1% to reach a value of RM70,827 per worker as compared to RM70,723 per worker recorded in the preceding year (refer to Chart 2.9). Though firms in the manufacturing sector registered a solid productivity growth of 6.3%, the overall labour productivity performance of MSMEs was dragged down by the declining productivity of workers in the construction, mining & quarrying and services sectors, thus led to the almost stagnant MSME productivity growth in 2021.

Chart 2.9: Labour Productivity and Annual Growth from 2016 - 2021



*p: preliminary*

Source: Department of Statistics, Malaysia

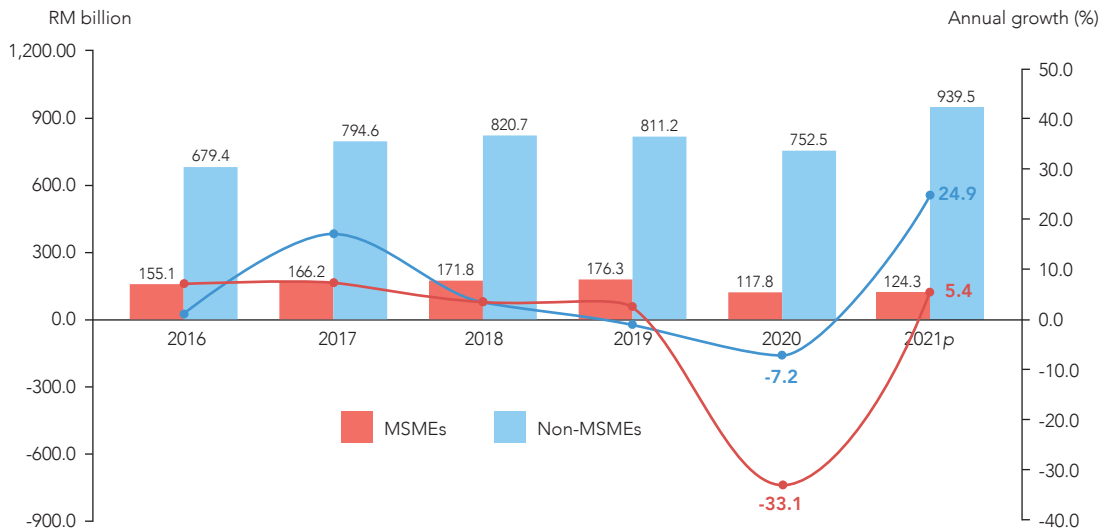
Comparing the productivity level between MSMEs and non-MSMEs, the latter recorded higher productivity growth of 2.7% to reach RM108,923 per worker in 2021. As a result, the non-MSME labour productivity was 1.5 times higher than the MSMEs. The labour productivity gap was significant primarily in the mining & quarrying sector at 13.1 times. Nevertheless, MSMEs in the mining & quarrying sector generated the highest productivity value at RM128,121 per worker in 2021, while the construction sector had the lowest at RM37,280 per worker. In a nutshell, improvement in digitalisation and continuous adoption of modern technologies are needed for MSMEs to further enhance its value-added generation which will translate into higher MSME productivity in the long run.

In a nutshell, improvement in digitalisation and continuous adoption of modern technologies are needed for MSMEs to further enhance its value-added generation which will translate into higher MSME productivity in the long run

## PERFORMANCE OF MSME EXPORTS IN 2021

Despite COVID-19 pandemic continued to disrupt global trade and hampers supply chain, export-oriented Malaysian MSMEs managed to be resilient. The exports of MSMEs expanded by 5.4% in 2021, rebounded from a sharp drop of 33.1% in 2020 (refer to Chart 2.10). MSME exports achieved a total of RM124.3 billion in value terms (2020: RM117.8 billion), with growth was supported mainly by MSMEs in the manufacturing and agriculture sectors. In comparison, the exports growth of non-MSME players recovered strongly by 24.9% (2020: -7.2%), thus signifying their strong linkages within the global value chain and wider access to international markets. As a result, the contribution of MSMEs to total exports during the year was lowered to 11.7% (2020: 13.5%).

Chart 2.10: Exports Performance and Annual Growth from 2016 - 2021



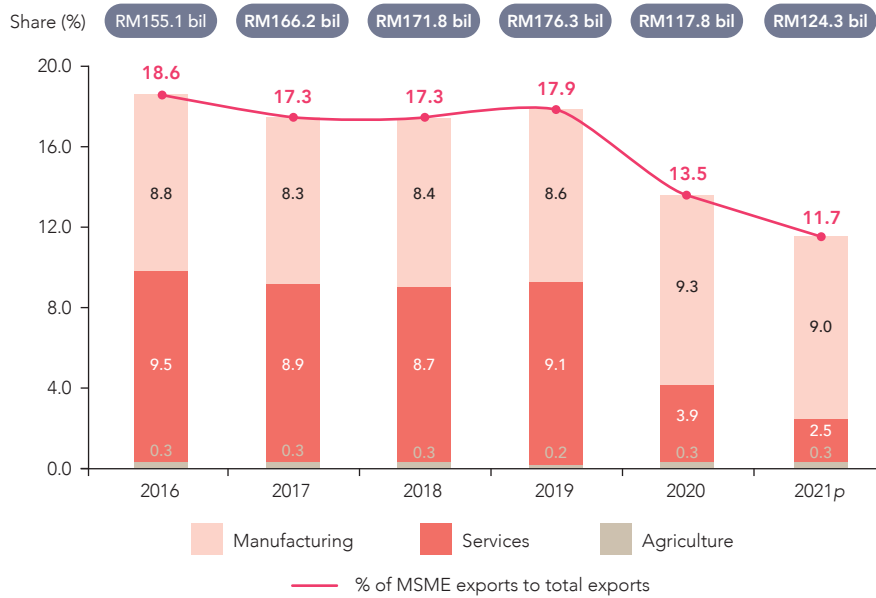
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Source: Department of Statistics, Malaysia

Zooming on to the economics sector, statistics showed that the MSME exports performance in the manufacturing sector improved significantly by 16.7% in 2021 (2020: -3.6%). The positive growth was attributed by miscellaneous manufactured articles, manufactured goods and chemical products sub-sector. For the component of MSME exports, the manufacturing sector emerged as the biggest contributor to total MSME exports value since pandemic hit the country, thus overtaking the services sector. The manufacturing sector increased its prominence to account for more than three-quarter of MSME exports in 2021 (2020: 69.3%), while services sector remained as the second highest at 21.1% (2020: 28.8%). The main destination for MSME exports of the manufacturing sector was Singapore (18.8%), followed by China (16.5%) and the United States (10.3%), while there was growing demand trend from India for MSME manufactured products.

Moreover, exports of agriculture have been benefitted from the pandemic as the trend of positive momentum growth in 2020 continued and further strengthened in 2021. A total of RM2.8 billion was generated in 2021, with a growth rate at 20.4% which accounted for 2.3% of the total MSME exports. The growth was mainly driven by the increase in exports for fruits, poultry and vegetables, while MSMEs' exports of durian which includes fresh, frozen, pulp and paste denoted an increase of 73.5% in 2021. The main destination for MSMEs exports of the agriculture sector was Singapore (53.3%), followed by Japan (7.7%) and Thailand (7.2%).

Chart 2.11: MSME Exports Component and Contribution from 2016 - 2021



p: preliminary

Source: Department of Statistics, Malaysia

However, the expansion in MSME exports in 2021 was affected by the double-digit contraction in the services sector for two years in a row (2021: -22.6%, 2020: -62.1%), as travel industry was badly hit. This is in line with the closure of international borders, travel restrictions and temporary shutdowns nationwide following the MCO implementation throughout the year. Tourism industry, which prior to the pandemic contributed more than one-third of MSME exports, experienced a historical decline of 97.2% to only RM0.3 billion in 2021 (2020: RM9.2 billion). The discouraging exports landscape highlighted the country's overreliance on tourism activities which may need a second look on how best MSMEs in this industry can be better facilitated to be more sustainable in the long run. Moreover, the lower exports performance in 2021 was also due to the weaker external demand as well as lack of internationalisation among MSMEs.





## Box Article

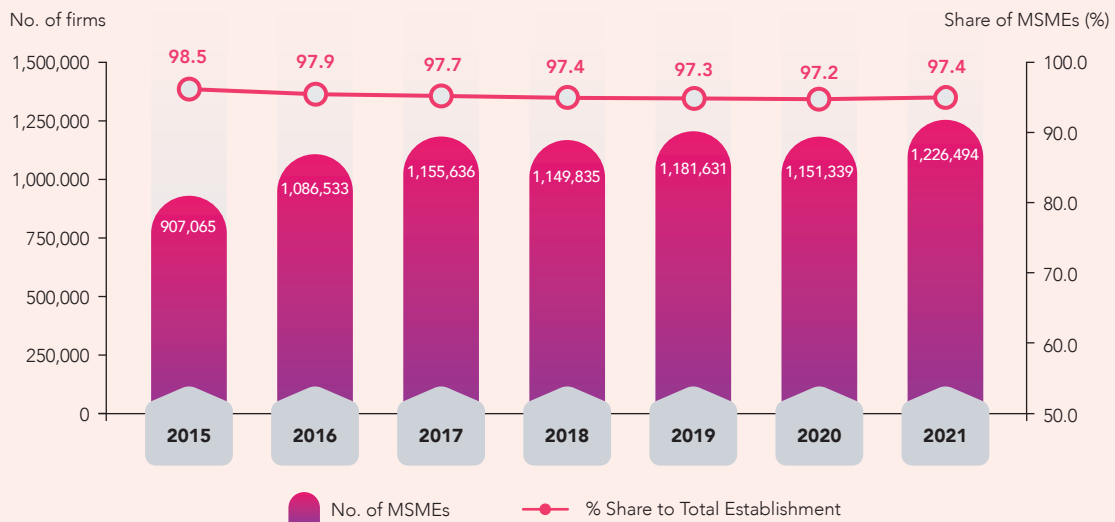
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Economic Performance and Outlook

# Profile of MSMEs from 2015 until 2021

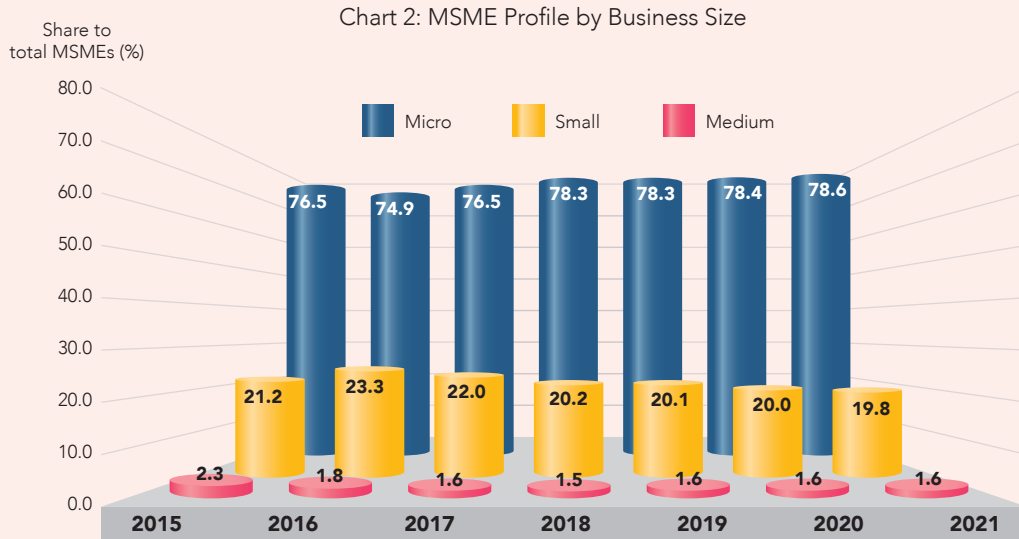
The landscape of MSMEs has grown considerably well from 2015 until recently in 2021. Looking at the recent statistics for the year 2021, there were altogether 1,226,494 MSMEs operating in Malaysia which represent 97.4% to overall establishments of 1,258,763 firms (refer to Chart 1). There has been an increment of almost 320,000 MSMEs as compared to a total of 907,065 MSMEs recorded in 2015. As a whole for the period of 2015 - 2021, the number of MSMEs expanded at an average growth rate of 5.2% per annum.

Chart 1: MSME Profile from 2015 - 2021



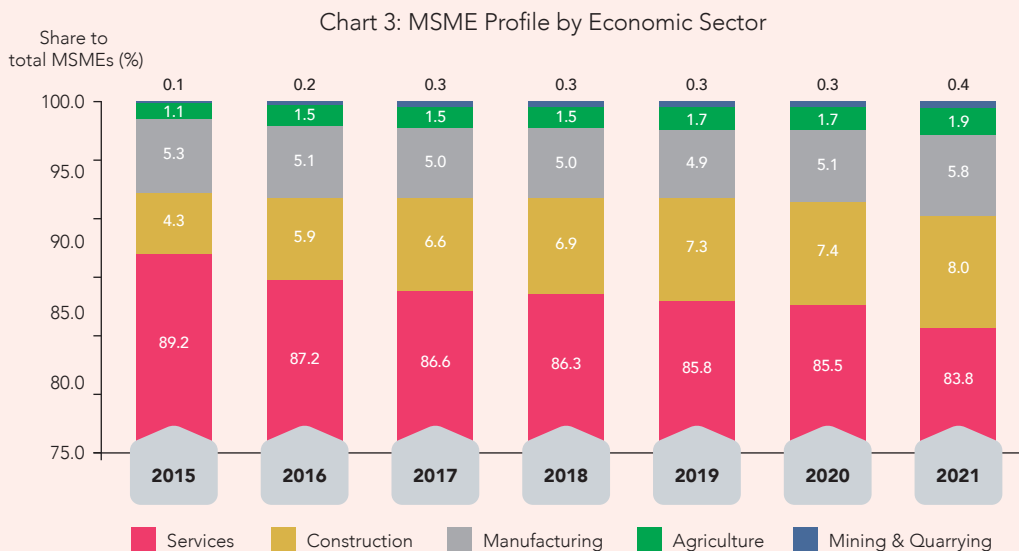
Source: Malaysia Statistical Business Register, Department of Statistics, Malaysia

Zooming on to the business size, microenterprises are prominent as it accounted for the largest share of MSMEs component (refer to Chart 2). From 2015 until 2021, more than 270,000 new microenterprises were established, registering an average growth rate of 5.6% every year. This achievement reflected successful initiatives by the Government in instilling entrepreneurship culture among Malaysian citizens and continuing efforts to improve business formalisation. Furthermore, comparing the structure of these MSMEs, small-sized firms also recorded a positive growth in terms of the number of establishments at 3.9% per annum, but medium-sized firms shrank by 1.0% throughout the period. Lower total number of medium-sized firms in 2021 could be due to graduation of MSMEs to become large players, thus signifying a fruitful outcome of MSME development over the years. Focusing on the latest composition in 2021, microenterprises constituted a total of 78.6% (964,495 firms) of the total MSME establishments, small-sized firms formed 19.8% (242,540 firms) and the balance 1.6% (19,459 firms) were medium-sized MSMEs.



Source: Malaysia Statistical Business Register, Department of Statistics, Malaysia

In terms of economic activities, the services sector (including wholesale & retail), has consistently accounted for more than 80% of all MSMEs and grew at an annual growth rate of 4.1% every year throughout 2015 - 2021 period. It is interesting to note that from 2016 onwards, the construction sector emerged as the second biggest sector after services, managed to outnumber the players in the manufacturing sector which used to be the second highest in 2015 (refer to Chart 3). Moreover, detailed findings across sector showed a double-digit growth in the MSME participation in agriculture, construction and mining & quarrying sectors during the period at 15.0%, 16.6% and 32.0% per annum respectively. In 2021, services sector remained to be the largest sector constituting 83.8% (1,028,403 firms) and construction sector at 8.0% (98,274 firms). Meanwhile, about 5.8% of MSMEs (71,612 firms) were involved in the manufacturing sector, followed by 1.9% (23,633 firms) in the agriculture sector, while the balance 0.4% (4,572 firms) in the mining & quarrying sector.



Source: Malaysia Statistical Business Register, Department of Statistics, Malaysia





**Prospect of MSMEs  
in Malaysia**

Chapter

**3**



## Chapter 3

# Prospect of MSMEs in Malaysia

COVID-19 has not only disrupted the health welfare of the society, but has remarkably taken a heavy toll on any country's economy. Governments across the globe are putting immense efforts to bring it under control, while prioritising the livelihood of people, businesses and jobs at the same time. Amidst significant changes brought about by the pandemic in the way businesses operate, MSMEs are gradually adapting and embracing the new normal. Lessons learnt about resilience in the face of disruption will be vital for future prospect in ensuring business sustainability.

### OUTLOOK OF THE GLOBAL AND MALAYSIAN ECONOMY

In the face of ongoing pandemic spread, countries all over the world were forced to face tough challenges simultaneously, namely saving lives and livelihoods while ensuring economic stability. In 2021, the global economy managed to rebound but the recovery momentum weakened towards the end of the year. Containment measures being put in place in response to a rise in COVID-19 cases following the emergence of the highly contagious Omicron variant in some countries have led to increasing uncertainty in the global economic growth. Findings from the World Economic Outlook (WEO) Update July 2022 published by the International Monetary Fund (IMF) showed that the global economy grew by 6.1% in 2021 (2020: -3.1%).

Recognising the crisis triggered by the Russia-Ukraine war and the slowdown in China, the growth of global recovery for 2022 has been revised downward for the third time and is projected to expand at a slower pace of 3.2% in 2022 (refer to Chart 3.1). The revised figure was 0.4 percentage points lower than the one estimated previously at 3.6% in WEO April 2022 and 1.2 percentage points lower than 4.4% estimated in WEO Update January 2022, reflecting weaker-than-expected recovery momentum as the crisis contributed to a significant gloomy development in 2022. The economic effects of the war are spreading far and wide mainly through commodity markets, trade and financial linkages. Against a backdrop of potential soaring inflation, war-related supply shortages will lead to price increase of energy, metals and food, thus squeezing living standards worldwide.

Furthermore, with the pandemic maintains its grip, China's economic slowdown has added to the global supply chain disruptions as the country implemented lockdown recently in its key trade hub. Emergence of more contagious variants have driven a worrisome surge in COVID-19 cases, which may lead to worse-than-anticipated deceleration in China. Further escalation of the country's property sector too might further suppress its growth. Also, other risk to the outlook includes renewed outbreak of the pandemic should new variant of virus arises and geopolitical fragmentation which may impede global trade and cooperation.

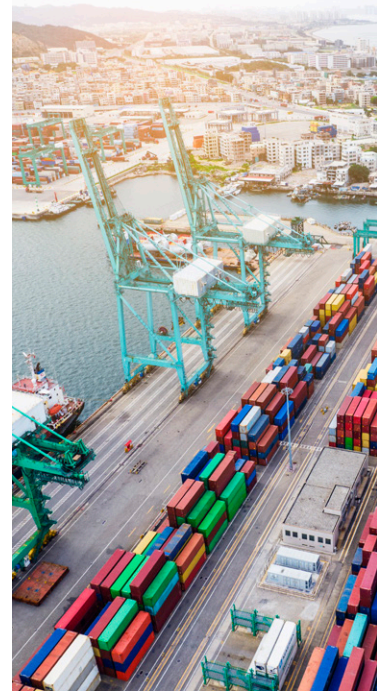
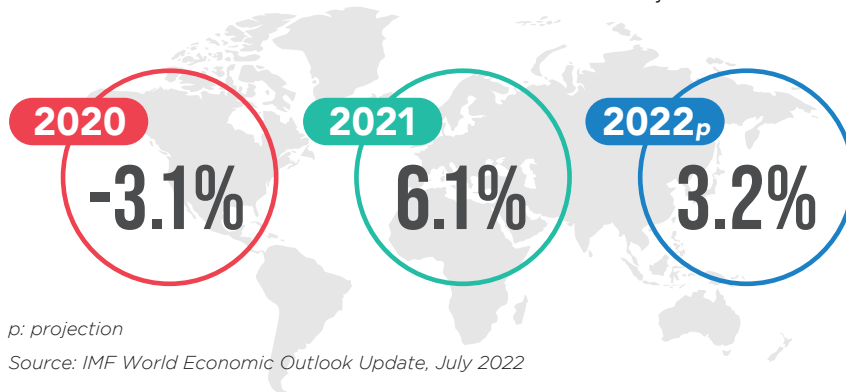


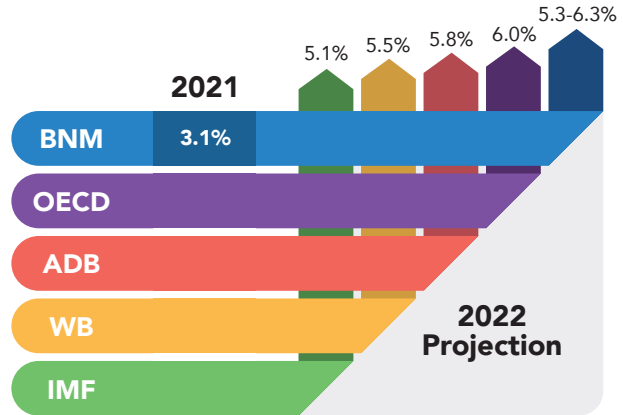
Chart 3.1: World's Growth Performance in 2021 and Projection for 2022



Zooming on to the domestic economy, the year 2021 was rather tense as Malaysia too was not spared from the resurgence of COVID-19 cases which in turn led to prolonged lockdowns. This was reflected in declining year-on-year growth of Malaysian economy in the first and third quarter of the year following renewed demand and supply shocks arising from measures to combat the outbreak. Nevertheless, the economy rebounded to register positive growth in the second and fourth quarters, of which the latter was anchored by an improvement in domestic demand and recovery in the labour market as economic activities resumed with the relaxing of containment measures across states. Rapid vaccination progress, greater firm adaptability and more widespread adoption of digitalisation and automation had also enabled firms and households to partly mitigate the impact. For 2021 full-year performance, the Malaysian economy expanded by 3.1% as compared to a contraction of 5.5% in the preceding year.

The recovery of Malaysian economy is translated into a strong growth of 6.9% in the first half of 2022, while it is projected to expand further for the remainder of the year. Malaysia is anticipated to continue its recovery momentum in the range of 5.3 - 6.3% in 2022, in line with the projected improvement in global growth. The Malaysia's growth prospect will be underpinned by several factors including global and domestic demand, recovery in tourism-related sectors following the reopening of international borders and further improvement in labour market conditions. Recovery too will be aided by implementation of investment projects and targeted policy measures for households and businesses that will provide further support to economic activity and aggregate demand. Nevertheless, the growth trajectory in 2022 is also subject to some risks, mainly from the weaker-than-expected global growth, further escalation of geopolitical conflicts and worsening supply chain disruptions. Chart 3.2 depicts recovery projection by Bank Negara Malaysia (BNM) and various international agencies towards Malaysia's economic outlook for 2022.

Chart 3.2: Malaysia's Growth Performance in 2021 and Projection for 2022



Sources:

- 1) *BNM Economic and Monetary Review 2021, March 2022*
- 2) *OECD Economic Outlook for Southeast Asia, China and India 2022, March 2022*
- 3) *Asian Development Outlook Supplement, July 2022*
- 4) *World Bank East Asia and the Pacific Economic Update, June 2022*
- 5) *IMF World Economic Outlook Update, July 2022*

## BUSINESS OUTLOOK FROM THE PERSPECTIVE OF BUSINESS ASSOCIATIONS

According to the survey conducted by World Bank in February - March 2022 on Malaysian firms, significant recovery signs in term of sales and demand are evidenced<sup>[7]</sup>. Sales of firms across all sectors are gradually reverting towards pre-pandemic level, led by manufacturing sector whose sales already hit beyond the pre-pandemic level. In terms of size, small firms are catching up with average sales growth is 10.0% lower than pre-pandemic level, while sales for medium and large firms have more than fully recovered. Prospect for future sales too is positive with more respondents (34.0%) expected sales to increase in the near-term. Moreover, demand for MSMEs' goods and services is seen to be rising following the economic reopening with 29.0% firms cited increased demand. Firms that reported reduced orders have also significantly decreased to 31.0% in February 2022 (July 2021: 51.0%). Nevertheless, issues on cash flow and rising cost of doing business remained a major challenge and may hinder potential growth of MSMEs.

In line with the favourable outlook, the retail industry too is gearing up towards positive momentum in 2022 after experienced a challenging period for almost two years from the pandemic outbreak. As projected by Retail Group Malaysia (RGM) in September 2022, the retail industry growth forecast has been revised upward further and estimated to expand by 31.7% compared to 13.1% (projected in June 2022) and 6.3% (projected in March 2022), on the back of anticipated strong sales and recovery of the industry<sup>[8]</sup>. The reopening of international border would provide ample support to the industry especially for retail businesses that heavily dependent on leisure travellers. Shopping traffic also has gradually improved in major shopping malls across the country, giving better prospect towards recovery. Nevertheless, some lingering concerns may impact the growth of the retail segment. The recent rising price of consumer goods will reduce the purchasing power of Malaysian households, thus affecting the business operation of MSMEs given that 36.2% were involved in the wholesale & retail industry in 2021<sup>[9]</sup>.

This promising performance is aligned to Malaysia's leading index published by the Department of Statistics, Malaysia (DOSM). The leading index increased annually by 5.3% to reach 111.7 points in June 2022 after a rise of 2.3% in May 2022 (111.3 points). The index which measures the future direction of the overall economic activity in the three-month ahead also signals positive economic outlook, thus allow MSMEs to re-strategise their business. Moving forward, efficient and effective inflation management by the Government is vital to ensure sustainable economic growth. Meanwhile for manufacturing sector, the survey conducted by the Federation of Malaysian Manufacturers (FMM) in January - February 2022 depicted that majority 61.0% respondents are confident they can recover their business in 2022, with interestingly almost one-third believe they can achieve better than the pre-COVID level <sup>[10]</sup>. However, manufacturers cited that factor such as labour shortages, supply chain disruptions and ongoing pandemic would be key risks to the industry's growth outlook apart from the implementation of higher minimum wage which is not agreeable among most respondents (72.0%).

Based on a survey conducted by the Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM), businesses are somehow cautiously optimistic about the prospect of economic and business recovery for 2022 amid lingering risk from the easily transmissible variant as well as domestic and external headwinds <sup>[11]</sup>. Findings showed that a total of 42.1% expected better economic prospect and 41.3% anticipated better business outlook, an improved data than the one recorded in 2021 at 15.5% and 17.5% respectively. In addition, taking into account the rising importance of sustainability element in businesses, majority 61.6% of MSMEs being surveyed would like to learn more about green practices while 36.6% respondents including MSMEs have intention to undertake green investment in the future.

Moreover, the anticipation of sanguine, yet cautious economic prospect in the near term is also reflected in the recent 2Q 2022 Vistage-MIER CEO Confidence Index (CCI) <sup>[12]</sup>. The CCI that surveyed CEOs, business owners and key executives of small and medium-sized businesses indicated a less upbeat economic conditions in the year ahead. This is shown with 58.0% of CEOs perceived that the domestic economy would improve in coming months, slightly lower than 62.0% recorded previously in 1Q 2022. Other forward-looking indicators namely revenues and profits registered lower readings but fairly above the confidence threshold, signifying CEOs' stance on the firms' outlook held up quite well. Higher orders from local and abroad are expected in the second half of 2022 as the economy gains recovery momentum. The CEOs had previously cited that shortage of talents will pose as key business risk in 2022. With the country's transition into endemic phase, more than a quarter of CEOs (26.0%) cited that their company needs more than six months to a year to recover to profitable or pre-pandemic levels.





## PROJECTION FOR MSME GDP

Despite the unprecedented disruption from the COVID-19 pandemic has slowed down the economic growth and challenged the business strength, the outcome from the economic disruption has also proven the resilience of entrepreneurs and MSMEs as they are able to adjust and adapt to the new normal. With health risks slightly moderated and the economy continued to recover, Malaysian MSMEs are projected to sustain its trend of positive growth for the year 2022. Taking into account that the overall economy is estimated to expand between 5.3 - 6.3% in 2022 (2021: 3.1%), MSME GDP is projected to increase by 2.4% during the year (2021: 1.0%). The improved outlook is supported by strong private consumption and increased Government assistance through SemarakNiaga, Bantuan Keluarga family assistance programme as well as Budget 2022 that will directly and indirectly benefit the MSMEs.

The recovery pace of MSMEs is expected to gain further momentum in 2022, in line with projected recovery in the global economy as most countries gradually transition towards normalcy, albeit at varying degrees and expected improvement in Malaysian economy underpinned by continued recovery in private sector expenditure. The continued expansion in external demand, full upliftment of containment measures, reopening of international borders and improvement in labour market conditions will provide further impetus to growth of MSMEs. The relaxed COVID-19 rules and standard operating procedures (SOPs) starting 1 May 2022 will help to revive the economy of Malaysia, particularly MSMEs. The new SOPs which are part of its transition to an endemic phase include physical distancing is no longer required between individuals, entry to premises is allowed regardless of vaccination status, all economic sectors are allowed to operate (including banned activities / negative list) and relaxation on testing requirements for travellers entering the country.

Though the pandemic is not over yet, economies around the world are learning to live with it. Those that ignore the fast-paced and uncertain business landscape, will risk being left behind and ultimately find their businesses unable to survive. Meanwhile for those that embrace changes, opportunities will turn into a commercial gain, deliver a competitive advantage over less proactive rivals and potentially discover whole new opportunities for business expansion. Looking ahead for 2022, strategies must now evolve to account for medium and long run strategies for MSMEs to better withstand future shocks as well as to increase contribution of MSMEs to the economy. Hence, there is a need to emphasise on three focus areas to ensure a sustainable growth of MSMEs moving forward, namely value chain in high impact industries; internationalisation activities; and digitalisation & automation (refer to Chart 3.3).

Chart 3.3: Three Focus Area for MSMEs Recovery



MSMEs will gain wider market access by participating in the value chain of large firms in high impact industries such as smart farming, aerospace, electrical & electronics (E&E), medical devices, halal industry and others, while at the same time upgrade their skills and capability to supply their products and services to these large firms. In order to enhance internationalisation of MSMEs, strategies should be towards developing a targeted market-based focus for MSMEs to engage in international trade. Besides that, it is very important to facilitate export assistance and advisory services as well as strategic alliances to engage MSMEs into the global value chain. Moreover, a structured approach to support the digitalisation and automation of MSMEs is needed to improve MSME productivity, operational efficiency and help to expand their market outreach. These strategies will lend further impetus to MSME growth in achieving the long-term targets under the RMKe-12.







**Box**  
**Article**

## Box Article

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# Outcome Evaluation on MSME Development Programmes by SME Corp. Malaysia under Rancangan Malaysia Kesebelas (RMKe-11)

SME Corp. Malaysia conducted an outcome evaluation exercise to assess the effectiveness of development expenditure (DE) programmes implemented by SME Corp. Malaysia under RMKe-11 (2016 - 2020) in supporting the development of MSMEs in Malaysia by:

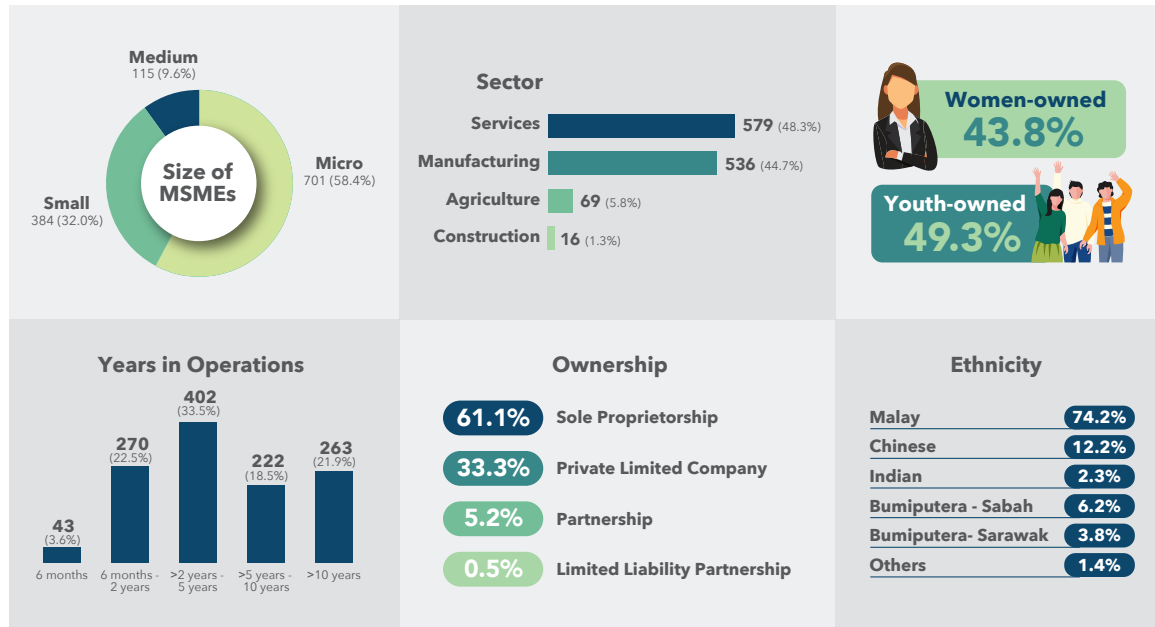
- evaluating whether the output and outcome of each programme have been achieved;
- evaluating the economic impact of those programmes towards MSMEs' performance in terms of sales turnover, employment, exports and productivity; and
- identifying issues and challenges faced by MSMEs from the aspects of financing, skills, market access, technology and digitalisation.

An online survey was conducted from 6 May 2021 to 12 July 2021 on MSMEs that had received financial assistance under the following 10 DE programmes and completed their cycle of participation:



A total of 1,200 MSMEs responded to the survey whereby 83.1% (997) were beneficiaries and 16.9% (203) were non-beneficiaries of development programmes by SME Corp. Malaysia.

Chart 1: Profile of Respondents



## OVERVIEW

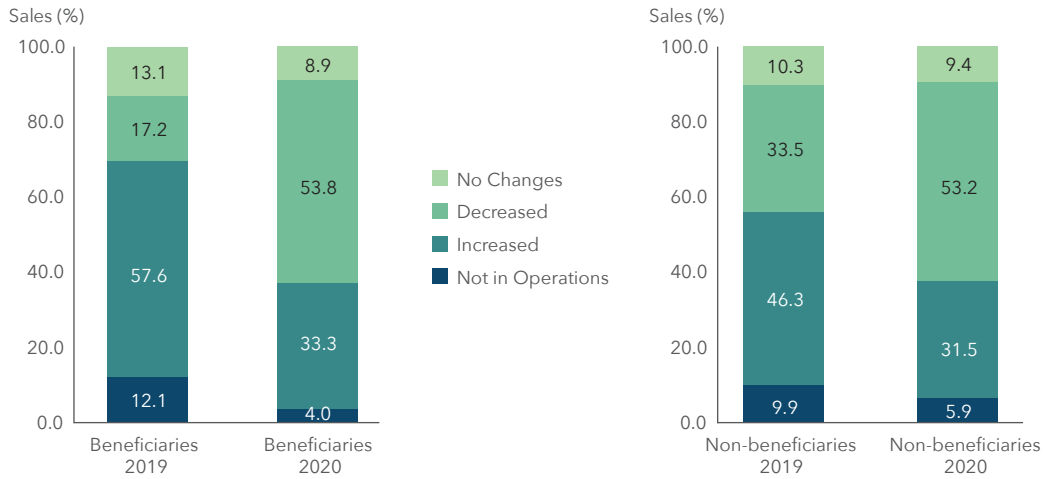
The COVID-19 pandemic exacted a heavy toll on businesses across all sectors. Before the pandemic, sales had grown by 27.8%, but after the onset of the pandemic, growth moderated to 11.8% with microenterprises being the most affected. In terms of employment, the hiring of local and foreign workers was also markedly affected. Employment growth softened from 24.4% pre-pandemic to 19.1% after the outbreak. This was partly due to MSMEs switching to online business, thus businesses restructured their workflow. There was, however, an increase in hiring by small-sized firms after COVID-19, from 15.9% to 25.4% with increases in the numbers of both local and foreign workers. Meanwhile, a declining productivity growth was observed after COVID-19 at -6.1%, particularly among the microenterprises and small-sized firms, following movement restriction of goods and people, as well as the lockdown being imposed. Looking at the operational cost, a slight decrease was reported after the pandemic, from 11.8% to 10.8%, of which majority of firms have reduced their cost to cope with cash flow shortages.

## KEY FINDINGS ACROSS PROGRAMMES BEFORE AND AFTER COVID-19

### i. Sales Performance

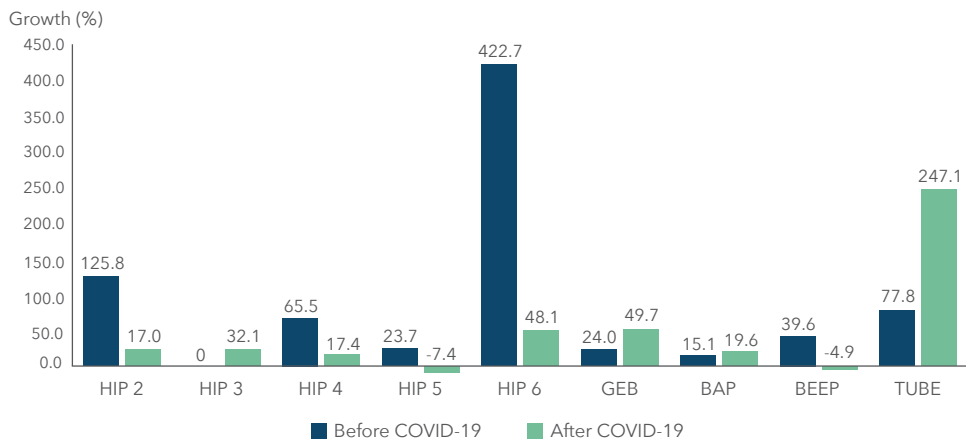
In contrast to non-beneficiaries, respondents who were beneficiaries of MSME development programmes experienced better sales. Both non-beneficiaries and beneficiaries reported an upward trend in sales before the pandemic, but this plummeted thereafter in 2020 with the implementation of MCO (refer to Chart 2).

Chart 2: Sales Performance between Beneficiaries and Non-beneficiaries



Zooming on to the performance of beneficiaries, before COVID-19, triple-digit sales growth of 125.8% was recorded by HIP 2 beneficiaries, specifically in the information & communication services and production of agricultural crops sectors. Meanwhile, sales of HIP 6 beneficiaries soared significantly by 422.7% mainly driven by firms in the manufacturing of furniture and E&E products. After the pandemic, higher growth of 247.1% was seen among TUBE beneficiaries as they gradually moved towards online business, with one-third generating more than 40.0% of online sales to their total sales, such as through social media, websites and e-commerce platforms. Similarly, GEB beneficiaries that experienced high sales growth, were mainly firms in the manufacturing of food & beverages, textiles & apparel, non-metallic mineral products as well as wholesale & retail industry (refer to Chart 3).

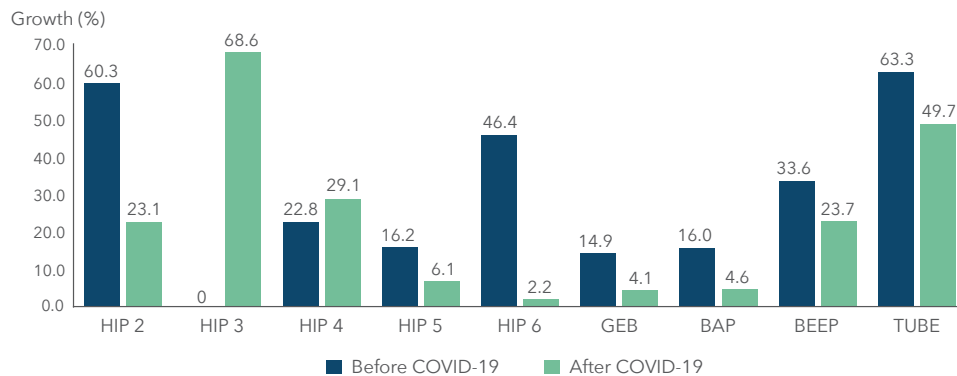
Chart 3: Sales Growth Before and After COVID-19



## ii. Labour Market Performance

Comparing the performance across all programmes, the beneficiaries of MSME development programmes reported a higher increase in the hiring of skilled workers compared with non-beneficiaries, with a double-digit growth of 44.0% recorded for the former and 14.5% for the latter. Meanwhile, hiring of semi-skilled workers by beneficiaries increased by 39.0% while non-beneficiaries employed only 4.7%. Seven out of nine programme beneficiaries experienced growth of more than 20.0% in the hiring of local skilled workers after participating in the programmes. On the downside, HIP 5 and BEEP had a growth increase of more than 50.0% in foreign skilled workers, mainly in machine & engineering equipment including components manufacturing sector, F&B manufacturing and wholesale & retail sector (refer to Chart 4).

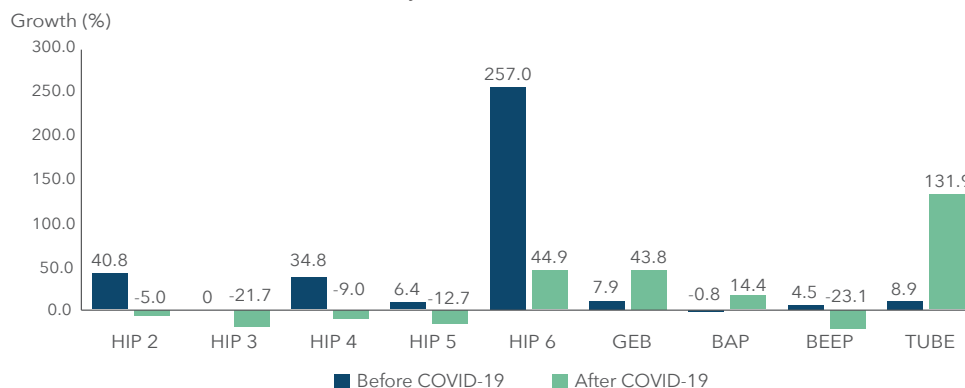
Chart 4: Employment Growth Before and After COVID-19



## iii. Productivity Level

Focusing on the productivity performance, majority of the beneficiaries experienced an adverse effect after the pandemic outbreak. This was observed among HIP 2, HIP 3 and HIP 6 beneficiaries that recorded lower productivity after COVID-19, further reflecting on the objectives of the programmes that focus more on innovation rather than productivity improvement. Meanwhile, HIP 5 recorded negative productivity growth due to production disruptions in the global supply chain which weighed on the manufacturing sector. On a positive note, beneficiaries of BAP, GEB and TUBE programmes reported higher productivity growth after the pandemic. This was partly due to the digital transformation and adoption of automation & mechanisation by MSME respondents, which is timely and a crucial strategy for businesses to survive and thrive in the post-pandemic economy (refer to chart 5).

Chart 5: Productivity Growth Before and After COVID-19

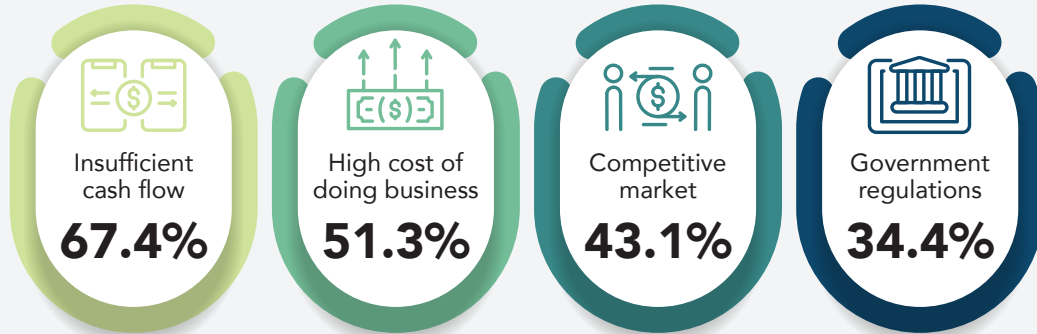




## ISSUES AND CHALLENGES FACED BY MSMEs

### 1. Insufficient Cash Flow and High Cost of Doing Business

Insufficient cash flow was the top concern among MSMEs, mainly due to the higher price of raw materials & packaging, rental & utility charges and lower demand for goods & services. Key issues faced by MSMEs were as follows:



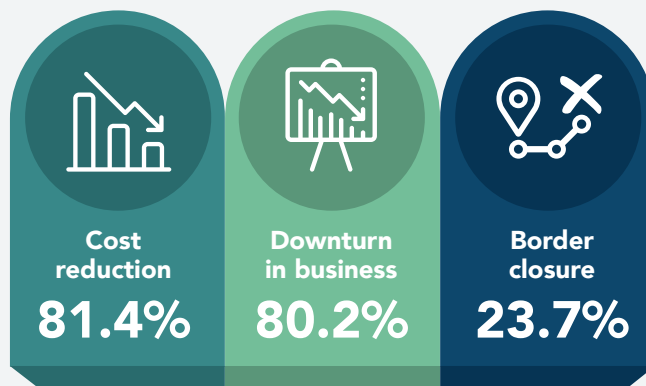
### 2. Late Payment Issue

Late payment by debtors remains a major hurdle for MSMEs, with 39.0% of the respondents, particularly those from manufacturing and construction, reported facing late payment issues. The composition of late payment debtors was as follows:



### 3. Labour Issue

As a matter of survival, MSMEs have to resort to cost-cutting measures, including reducing their workforce. In-depth assessment revealed that a total of 27.8% respondents, primarily from the services and manufacturing sectors had retrenched their workers due the pandemic for the following reasons:



#### 4. Lack of ICT, Digitalisation and E-Commerce Adoption

MSME online presence had doubled from 35.3% in 2019 to 75.8% in 2021, particularly among those in manufacturing and services (specifically the F&B industry). E-commerce adoption had also increased from 27.8% in 2019 to 37.9% in 2021, which had partly contributed to higher online sales intensity during the year. Nevertheless, there were still some MSMEs who had low adoption of technology and continued to opt for physical stores only, largely due to these reasons:

##### **No need for online sales in their business (65.5% of respondents)**

Comprising mainly MSMEs in the F&B industry (manufacturing); wholesale & retail trade, repair of motor vehicles & motorcycles and other services sub-sectors; and agriculture



##### **Unfamiliar with online business and e-commerce platforms (17.2% of respondents)**

Comprising mainly MSMEs in the F&B industry (manufacturing) and wholesale & retail trade

##### **Lack of qualified employees to develop, maintain and manage online systems (16.6% of respondents)**

Comprising mainly MSMEs in the F&B industry (manufacturing & services)

##### **Prefer traditional way of doing business (12.4% of respondents)**

Comprising mainly MSMEs in the F&B industry (manufacturing & services)

#### 5. Exports Issues

Majority 82.3% of total respondents did not exports their products and services overseas, particularly the microenterprises. Among key issues faced in exporting (for non-exporters and exporters) were:

**58.5%**

Expect to incur higher operating costs

**54.1%**

Inadequate information on global demand for products & services



**63.9%**

Inadequate information on the targeted market

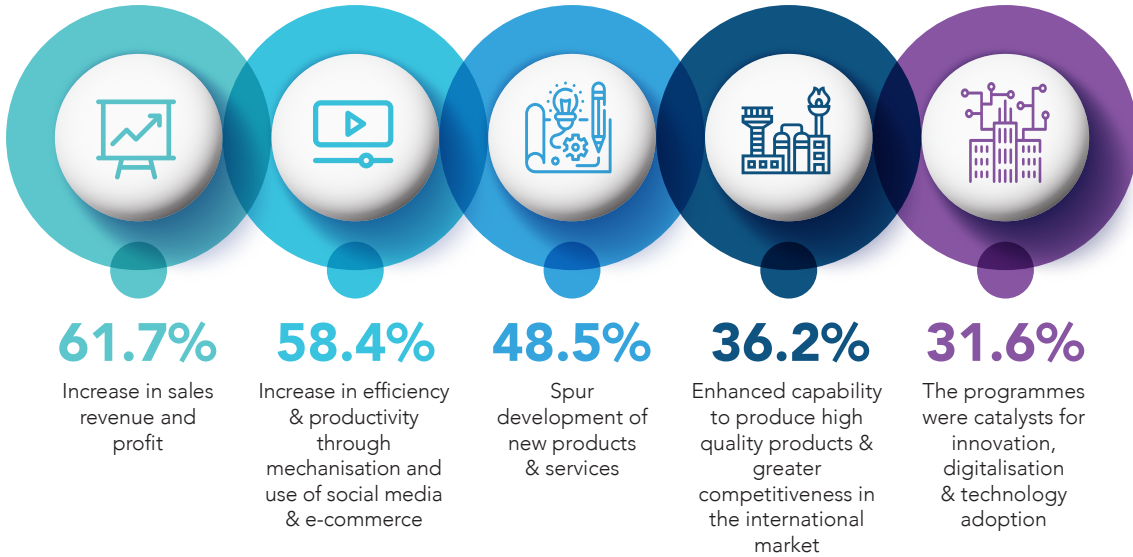
**58.0%**

Inadequate source of financing for exports

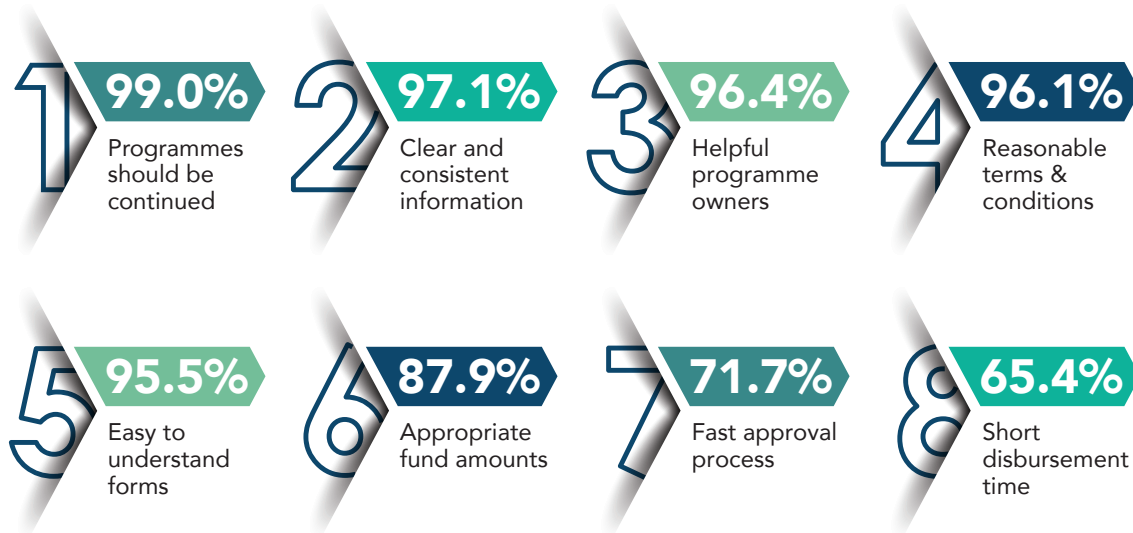
**51.1%**

Inadequate knowledge on competitors & distribution channels

### 5 KEY BENEFITS OF MSME DEVELOPMENT PROGRAMMES



### FEEDBACK PERTAINING TO DEVELOPMENT PROGRAMMES BY SME CORP. MALAYSIA









# Appendices

## Appendix 1

## Key Statistics on MSMEs

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Table 1: Number of Establishments in 2021 by Sector and Size

Sector	Number of MSME Establishments				Share of MSMEs (%)	Large Firms	Overall Establishments
	Micro	Small	Medium	Total MSMEs			
Services	830,728	187,274	10,401	1,028,403	89.2	26,153	1,054,556
Construction	68,732	24,713	4,829	98,274	4.3	1,637	99,911
Manufacturing	44,215	24,473	2,924	71,612	5.3	2,778	74,390
Agriculture	17,223	5,337	1,073	23,633	1.1	1,501	25,134
Mining & Quarrying	3,597	743	232	4,572	0.1	200	4,772
<b>Total</b>	<b>964,495</b>	<b>242,540</b>	<b>19,459</b>	<b>1,226,494</b>	<b>100.0</b>	<b>32,269</b>	<b>1,258,763</b>

Source: Malaysia Statistical Business Register, Department of Statistics, Malaysia

Table 2: Number of MSMEs by State

State	Total MSMEs	%
Selangor	179,271	19.8
WP Kuala Lumpur	133,703	14.7
Johor	98,190	10.8
Perak	75,140	8.3
Pulau Pinang	66,921	7.4
Sarawak	61,036	6.7
Sabah	55,702	6.2
Kedah	48,894	5.4
Kelantan	46,618	5.1
Pahang	37,573	4.1
N.Sembilan	32,721	3.6
Melaka	31,361	3.5
Terengganu	29,324	3.2
Perlis	6,808	0.8
WP Labuan	2,567	0.3
WP Putrajaya	1,236	0.1
<b>Total MSMEs</b>	<b>907,065</b>	<b>100.0</b>

Source: Economic Census 2016: Profile of Small and Medium Enterprises (reference year 2015), 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
<b>Total Women MSMEs</b>	<b>186,930</b>	<b>100.0</b>

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 <sup>p</sup>
Services	263,588	280,683	301,301	325,746	350,296	318,646	314,961
Manufacturing	88,614	92,991	99,331	104,763	109,511	106,292	115,284
Agriculture	49,619	49,349	52,414	52,602	53,788	53,387	54,388
Construction	26,005	27,735	29,571	30,746	30,853	26,104	24,914
Mining & Quarrying	2,036	2,203	2,399	2,524	3,017	2,771	2,685
Plus: import duties	5,211	5,725	6,552	6,032	5,960	5,722	5,843
<b>MSME GDP</b>	<b>435,072</b>	<b>458,686</b>	<b>491,568</b>	<b>522,415</b>	<b>553,426</b>	<b>512,922</b>	<b>518,075</b>

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 <sup>p</sup>
Services	6.6	6.5	7.3	8.1	7.5	-9.0	-1.2
Manufacturing	5.9	4.9	6.8	5.5	4.5	-2.9	8.5
Agriculture	2.3	-0.5	6.2	0.4	2.3	-0.7	1.9
Construction	7.8	6.7	6.6	4.0	0.3	-15.4	-4.6
Mining & Quarrying	8.9	8.2	8.9	5.2	19.5	-8.1	-3.1
Plus: import duties	20.3	9.9	14.5	-7.9	-1.2	-4.0	2.1
<b>MSME GDP</b>	<b>6.2</b>	<b>5.4</b>	<b>7.2</b>	<b>6.3</b>	<b>5.9</b>	<b>-7.3</b>	<b>1.0</b>

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 <sup>p</sup>
Services	22.4	22.8	23.2	23.9	24.6	23.7	22.7
Manufacturing	7.5	7.6	7.6	7.7	7.7	7.9	8.3
Agriculture	4.2	4.0	4.0	3.9	3.8	4.0	3.9
Construction	2.2	2.3	2.3	2.3	2.2	1.9	1.8
Mining & Quarrying	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
<b>% of MSME GDP to Overall GDP</b>	<b>37.0</b>	<b>37.3</b>	<b>37.8</b>	<b>38.3</b>	<b>38.9</b>	<b>38.1</b>	<b>37.4</b>

Note: Figures may not necessarily add up due to rounding

p: preliminary

Source: Department of Statistics, Malaysia



## Appendix 2

# Glossary of Abbreviations

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### ORGANISATIONS / ASSOCIATIONS / INSTITUTIONS

Name	Acronym
Associated Chinese Chambers of Commerce and Industry of Malaysia	ACC CIM
Asian Development Bank	ADB
Association of Southeast Asian Nations	ASEAN
Bank Negara Malaysia	BNM
Department of Statistics, Malaysia	DOSM
European Union	EU
Federation of Malaysian Manufacturers	FMM
International Labour Organisation	ILO
International Monetary Fund	IMF
National Entrepreneur and SME Development Council	NESDC
Organisation for Economic Co-operation and Development	OECD
Retail Group Malaysia	RGM
World Bank	WB

### OTHER TERMS

Name	Acronym
Compounded Annual Growth Rate	CAGR
CEO Confidence Index	CCI
Chief Executive Officer	CEO
Development Expenditure	DE
Electrical & Electronics	E&E
Food & Beverages	F&B
Gross Domestic Product	GDP
Movement Control Order	MCO
Micro, Small and Medium-sized Enterprises	MSMEs
Non-financial Business Sector	NFBS
Rancangan Malaysia Kedua Belas	RMKe-12
Rancangan Malaysia Kesebelas	RMKe-11
Standard Operating Procedure	SOP
World Economic Outlook	WEO

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