



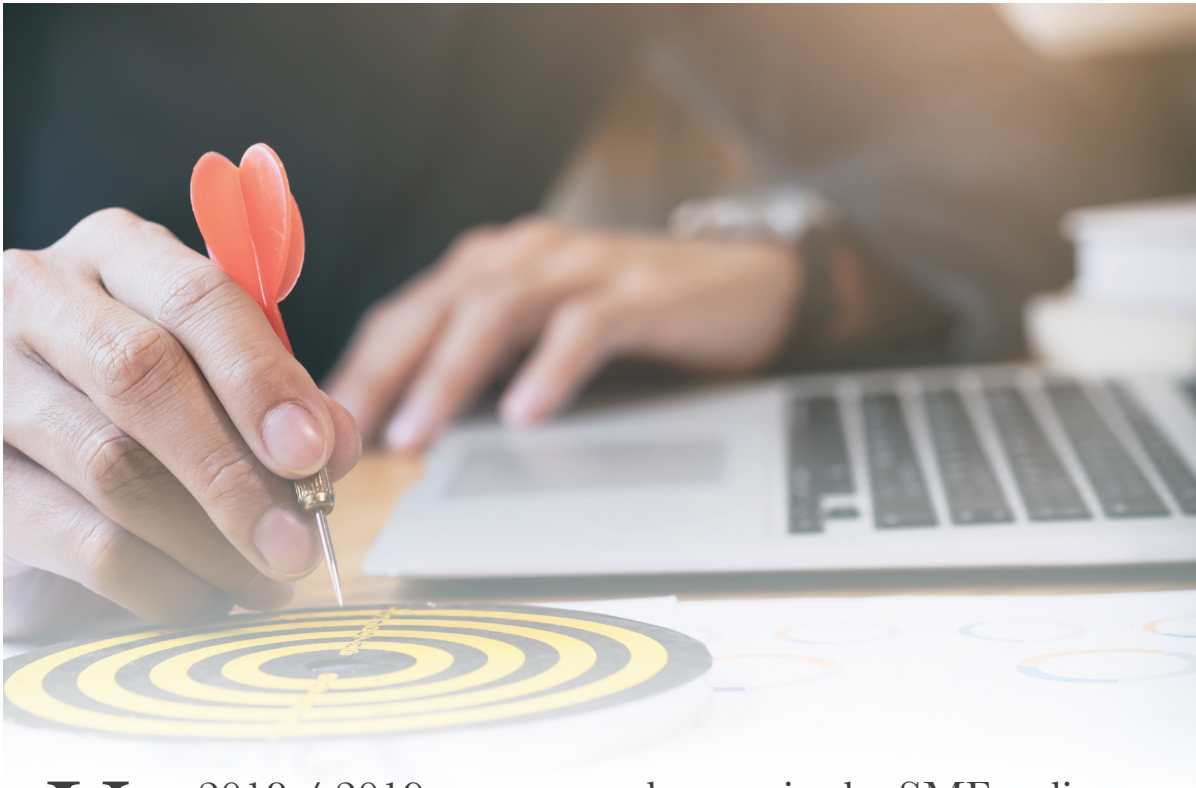
Section 2

SME Development Policies and Programmes

Chapter **THREE**

Policies on **SME** and Entrepreneurship Development

Chapter THREE | Policies on **SME and Entrepreneurship Development**



Year 2018 / 2019 saw many changes in the SME policy front in line with the new administration and direction of the Government. Among which include efforts to provide greater emphasis on entrepreneurship development, namely establishment of the Ministry of Entrepreneur Development (MED), formulation of the National Entrepreneurship Policy 2030 (*Dasar Keusahawanan Nasional, DKN 2030*) and the Shared Prosperity Vision 2030.

NESDC AND KEY INITIATIVES

Since 2004, the National SME Development Council (NSDC) has been the highest policy-making authority with its strategic functions that embodies the overall development of small and medium enterprises (SMEs) across all sectors of the economy in Malaysia. As greater emphasis is placed on entrepreneurship development, the Council forges ahead and shall now be known as the National Entrepreneur and SME Development Council (NESDC), with its inaugural meeting on 8 April 2019. The second meeting for the year was convened on 29 October 2019. These two meetings in 2019 discussed various policy measures to increase SME contribution to the economy. Among the key decisions of the Council were:

a) Introduction of Eight Broad Measures to Boost SMEs' Growth

- Intensify digitalisation of SMEs;
- Enhance SMEs integration in the supply chain;
- Increase support to high growth SMEs through relevant incentives;
- Increase SMEs' readiness and competitiveness in adoption of 'innovative-disruptive-compelling technologies and business models;
- Facilitate alternative financing for SMEs;
- Recoup external SMEs value chain into the country;
- Drive growth, strengthen uptake and promote export of home-grown payment gateway and fintech by SMEs; and
- Enhance SMEs participation in the tourism industry.

b) Introduction of a Government Procurement Policy Framework for SMEs

In general, many has the perception that SME products and services lack quality and the practice of contracting to low bidders is a hindrance for SMEs to obtain Government contracts. In addressing these issues, the Government will introduce a policy framework to encourage the public sector to purchase from qualified SMEs. The use of the National Mark for Malaysian Brand will be intensified as one of the validation methods of Malaysian manufactured goods.

The High Level Task Force (HLTF) on SME Development is now the HLTF for Entrepreneur and SME Development. HLTF, chaired by the Chief Secretary to the Government was established as a conduit to strengthen cooperation and coordination among Ministries and agencies to ensure effective implementation of policies and action plans for entrepreneurs and SME development. In 2019, HLTF agreed to establish Strategic Committees to effectively manage cross functional agenda in entrepreneurship and SME development. These Committees will have an important role to:

- Drive concentrated effort by Government to spur domestic economy;
- Ensure strategic direction of SME development is in line with objective of ministries leading the initiatives; and
- Minimise duplication and silos in Government policies.

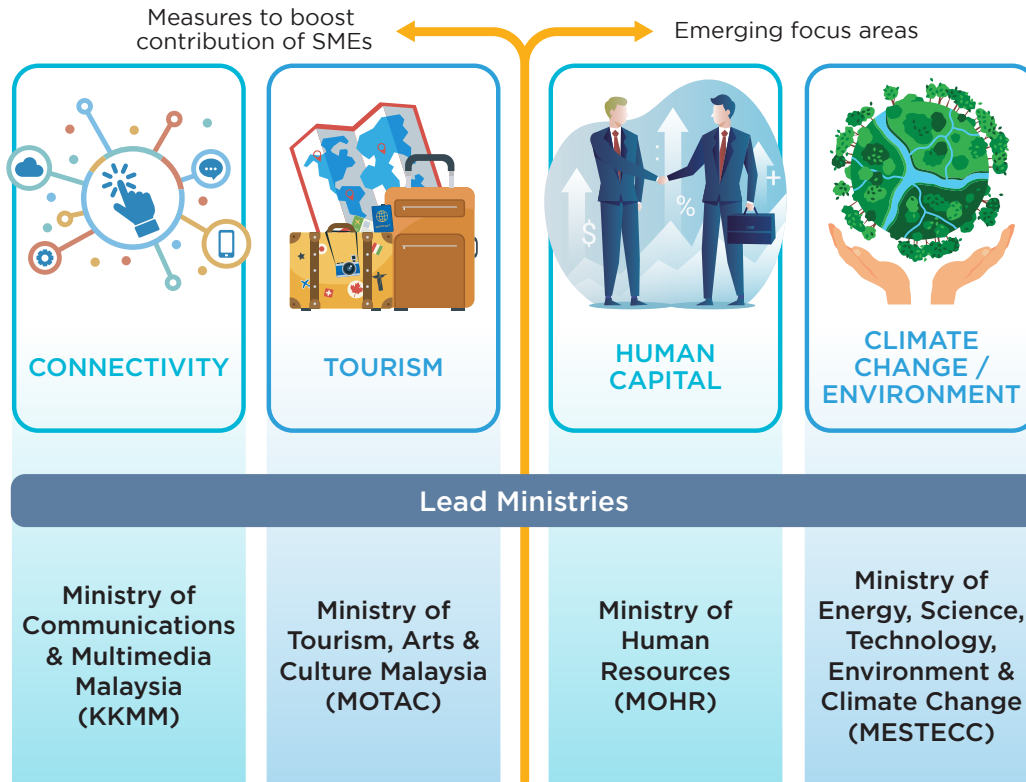
The **four** initial Committees were:

1. **Connectivity** by Ministry of Communications & Multimedia Malaysia (KKMM)
2. **Tourism** by Ministry of Tourism, Arts & Culture Malaysia (MOTAC)
3. **Human Capital** by Ministry of Human Resources (MOHR)
4. **Climate Change / Environment** by Ministry of Energy, Science, Technology, Environment & Climate Change (MESTECC)

These Committees shall set broad-based policies and propose measures which go beyond a single ministry.


FOUR HLTF STRATEGIC COMMITTEES AS INITIAL SET UP

**Committees to recommend policies and propose measures which
may go beyond a single ministry**



Note: The role of Strategic Committees under HLTF can be assumed by existing relevant committees / institutional arrangements within the Ministries with an added scope on SMEs and entrepreneurship.

Leads of the HLTF Strategic Committees Correspond with the Core Functions of the Respective Ministries



	Strategic Committee on Connectivity KKMM	Strategic Committee on Tourism MOTAC	Strategic Committee on Human Capital MOHR	Strategic Committee on Climate Change MESTECC
Identify gaps	Intensify digitalisation of SMEs	Amplify SMEs participation in conventional & non-conventional tourism	Up skilling of employees to meet requirements of future jobs	Support SMEs transition to sustainable business models
Review legislation	Broaden coverage and increase speed of connectivity for SMEs	(sports tourism / medical tourism) industry chain	Productivity-linked wages measures	including production & supply chain
Supply chains & business models	Enhance cybersecurity in SMEs		Transition of labour-intensive industries	Strengthen SMEs' resilience & Government advocacy role in climate change
Set growth targets for SMEs (GDP, exports, jobs)				
Characterise champions				

Feedback from Key Stakeholders via Multiple Channels

Note: Other Committees to be added on need/voluntary basis

The Strategic Committees are proposed to work based on five guiding principles namely:

- Assist HLTF in coordinating responsibilities relating to strategic direction in SME development;
- Discuss related operational and compliance issues affecting entrepreneurs and SMEs;
- Ensure strategies for SME development are incorporated in the strategic plan within their respective jurisdictions;
- Engage relevant external experts to stimulate ideas and strategic thinking; and
- Provide advice and expertise to HLTF on the area or sector.

The role of these Strategic Committees can be assumed by existing relevant committees or institutional arrangements within the Ministries with an added scope on SMEs and entrepreneurship and as long as the guiding principles are met. The Strategic Committees will be required to report twice a year to HLTF for entrepreneur and SME development and subsequently to NESDC.

UPDATES ON SME MASTERPLAN (2012 - 2020)







The SME Masterplan (2012 - 2020) which serves as the platform for the sector's development under RMKe-11 aims at raising SME contribution to GDP to 41% by 2020. The targets, goals and programmes under the Plan aim to create an environment that would drive the

SME segment as the new growth engine. The SME Masterplan (2012 - 2020) identified **32 initiatives** comprising:

- **Six High Impact Programmes (HIPs)** which are critical towards achieving the Masterplan goals. These HIPs are the drivers of change that would make the difference and to take SMEs to the next level of development;
- **14 initiatives** clustered into four thematic areas, namely creating demand for SME products and services, resource pooling and shared services, reducing information asymmetry, and building capacity and capability;
- **Specific measures** for Sabah and Sarawak. The measures relating to infrastructure development has been integrated into the Tenth and Eleventh Malaysia Plans; and
- **Other measures** that are macro in nature and affect SME businesses relating to trade facilitation, taxation policy, bankruptcy law and the foreign worker policy.

Considerable progress has been made in the development of the SME ecosystem as evident by the performance of these programmes.

Performance of the HIPs

HIPs	KPIs	Performance (as at Oct 2019)
1 Integration of Business Registration & Licensing 	<ul style="list-style-type: none"> • Development of info portal • System integration completed 	Info Portal developed 100% licenses uploaded
2 Technology Commercialisation Platform (TCP) 	<ul style="list-style-type: none"> • No. of commercialised project • Revenue from commercialisation 	79 commercialised innovation & 219 license deals RM86.9 million sales generated
3 SME Investment Partner (SIP) 	<ul style="list-style-type: none"> • No. of SME Partners • No. of SME Investees 	2 SME Partners appointed 6 Investment into SME
4 Going Export Programme 	<ul style="list-style-type: none"> • No. of SMEs assisted • Total potential export sales 	287 projects approved RM585 million potential export sales generated
5 Catalyst Programme 	<ul style="list-style-type: none"> • 70% of SMEs growing at 20% or more p.a. for three years 	17% avg. growth of LED SMEs (2012-2017) 59% avg. growth for SMEs growing at 20% or more p.a.
6 Inclusive Innovation 	<ul style="list-style-type: none"> • No. of innovations identified • No. of innovations diffused • No. of underserved communities impacted 	32 innovations for diffusion from 743 shortlisted 43 communities benefitting 3,162 people

Snapshot of Macro Targets, Performance and Goals of SME Development under the SME Masterplan (2012 - 2020)

	2012 (Inception of Masterplan)	2017	2018	2020 Targets
	← 5 years →		← 2 years →	
Share to GDP	33.0% (RM300 bil)	37.8% (RM491.2 bil)	38.3% (RM521.7 bil)	41% (RM606.1 bil)
Share to Export	17.5% (RM134.7 bil)	17.3% (RM166.2 bil)	17.3% (RM171.9 bil)	23% (RM243.2 bil)
Share to Employment	57.2%	66.0%	66.2%	65%
Increase business formation (6% p.a.)	370,127	2,133,821	2,606,135	3,883,119
Expand no. of high growth & innovative firms (10% p.a.)	140	339	411	500
Raise productivity	RM47,000 / worker	RM71,301 / worker	RM73,399 / worker	RM76,400 / worker
Intensify formalisation	31% to GNI	29% to GNI	26% to GNI	15% to GNI

SME DEVELOPMENT IN BUDGET 2020

With the theme 'Driving Growth and Equitable Outcomes towards Shared Prosperity', Budget 2020 is reflective of the Governments' aspiration to steer Malaysia towards an Entrepreneurial Nation as envisaged under the DKN 2030. A total of RM4.3 billion has been earmarked for SME development in 2020. Digitalisation initiatives to encourage businesses to automate and go digital with an allocation of RM1.2 billion supports the strategic plan to create more innovative and high-growth enterprises. Greater emphasis was also given to develop Bumiputera entrepreneurs with an allocation of RM1.3 billion. Measures to enhance access to financing for SMEs and entrepreneurs also received an allocation of RM1.3 billion. The Budget reinstated the importance of halal industry for economic growth through specific measures amounting to RM310 million. Among the key initiatives include:

Digitalisation

- RM20 million will be allocated to Malaysian Digital Economy Corporation (MDEC) to grow local champions in creating digital content, especially in e-games, animation and digital arts.
- RM70 million under MDEC to set up 14 one-stop Digital Enhancement Centres to facilitate access to financing and capacity building of businesses, especially SMEs in line with the Fourth Industrial Revolution (IR 4.0).
- RM500 million allocated for matching grants of up to RM5,000 per company, limited to the first 100,000 SMEs applying to upgrade their systems.
- RM550 million to provide Smart Automation matching grants to 1,000 manufacturing and 1,000 services companies (matching basis up to RM2 million per company) to automate their business processes.
- RM10 million under MDEC to train micro-digital entrepreneurs and technologists to leverage on e-Marketplaces and social media platforms to sell their products.

Access to Financing

- RM500 million for Guarantee Facility for Women Entrepreneurs via Skim Jaminan Pinjaman Perniagaan.
- RM200 million fund specifically for women entrepreneurs, offering loans of up to RM1 million per SME.
- RM50 million to assist finance the underserved SMEs through My Co-Investment Fund (MyCIF) under the Securities Commission Malaysia.
- RM10 million to MyCIF specifically for social enterprises to fundraise via Peer-to-Peer (P2P) Financing platforms. MyCIF will co-invest with private investors on a one-to-one basis, by providing financing at affordable rates for social enterprises.
- RM100 million for Small Business Loans for the Chinese community via Bank Simpanan Nasional, at an interest rate of 4%.
- RM20 million under TEKUN Nasional for Skim Pembangunan Usahawan Masyarakat India (SPUMI) at an interest rate of 4%.



Development of Bumiputera SMEs

To support Bumiputera entrepreneurial development, assistance will be provided in terms of access to financing which includes loans and guarantee schemes, provision of business premises and entrepreneur training. These include:

- RM150 million for overall entrepreneurship development and upskilling by Perbadanan Usahawan Nasional Berhad (PUNB).
- RM75 million by SME Corp. Malaysia for capacity building and export focus for Bumiputera SMEs, which includes enhancing marketing, packaging, and financial literacy.
- RM170 million in total for access of financing via TEKUN, SME Bank and Pelaburan Hartanah Berhad.
- RM50 million for entrepreneurship under Unit Peneraju Agenda Bumiputera, Ministry of Economic Affairs.
- RM1 billion of financing for Bumiputera SMEs through Syarikat Jaminan Pembiayaan Perniagaan (SJPP) and SME Bank.



Halal Industry Development

- RM300 million fund to support Bumiputera SMEs with the potential to become regional champions, with priority given to producers of halal products and manufacturers with high local content with an annual interest subsidy of 2% through SME Bank.
- RM10 million will be allocated for the Ministry of Entrepreneur Development (MED) to focus on advocacy and awareness for halal certification, halal product development and providing platforms for local players to tap on the USD3 trillion global halal market.

Export Promotion

- RM50 million to encourage SMEs to engage in more export promotion activities.
- The ceiling per company for the Market Development Grant (MDG) initiative by Malaysia External Trade Development Corporation (MATRADE) will be increased from the current RM200,000 to RM300,000 yearly.
- The ceiling for the participation in each export fair will also be revised upwards from RM15,000 to RM25,000.

Other Measures

- RM20 million will be channelled to Cradle Fund for the provision of training and grants to seed companies to promote early stage innovations.
- RM10 million for Malaysian Global Innovation & Creativity Centre (MaGIC) to support the growth of social enterprises, which help to improve the socio-economy of local communities.
- To further support the growth of SMEs, the chargeable income subjected to 17% rate will be increased to RM600,000 from RM500,000, for companies with paid-up capital of not more than RM2.5 million and annual sales of not more than RM50 million.

RE-INTRODUCTION OF SALES AND SERVICE TAX

Malaysia re-introduced the Sales and Service Tax (SST) effective from 1 September 2018, three years after the Goods and Services Tax (GST) was launched on 1 April 2015. Sales tax is a single-stage levy charged at the manufacturer's level while service tax is a single-stage levy charged at the consumer's.

With the SST, a 5% or 10% tax - depending on the goods in question - is imposed on sales of manufactured or imported goods by a business with an annual turnover exceeding RM500,000 while a 6% levy is applied on taxable services. A key feature that distinguishes the SST from the GST is the former provides exemptions for 5,443 items of good compared with only 545 in the latter.



Some **key features** of the SST are:

- The number of items of goods exempted from SST is 10 times more than that for GST;
- The service tax is only applicable to food and beverage outlets with an annual revenue of RM1.5 million; and
- Exemptions are also given to some daily essentials, such as fresh food (meat, eggs, vegetables and fruits), rice, coffee, tea, milk powder, sugar, palm and coconut cooking oil together with medicines and pharmaceuticals, personal hygiene products, vehicles, such as bicycles, motorcycles below 250cc and forklifts as well as petrol and diesel. Goods made in or imported into the duty-free islands of Langkawi, Labuan and Tioman are also exempted though a 5% or 10% sales tax is applicable.

The administration of both taxes is conducted online through the MySST system.

Sales Tax

The sales tax is a single levy imposed at the import or manufacturing level. The SST requires companies with sales revenue exceeding RM500,000 in a twelve-month period to be registered for the tax, the rate of which varies from 5% to 10% depending on the goods in question.

Registration is mandatory for all manufacturers of taxable goods with annual sales exceeding the annual threshold and voluntary for those who are below the threshold. Manufacturers who had been registered under GST are automatically lodged under the new regime.

Service Tax

Broadly, the Service Tax Act 2018 requires the registration of a company or individual providing taxable services if the value of the services in a twelve-month period exceeds the threshold of RM500,000. The threshold for operators of restaurants, bars, canteens, cafes or any premises that provide food and drinks is RM1.5 million.

The 6% service tax is charged and levied on taxable services provided by any taxable person in Malaysia in the course and furtherance of business, including imported services. Services subject to the tax include hotels, insurance, gaming, legal and accounting services, employment agencies, parking services, couriers, advertising and electricity.



SHARED PROSPERITY VISION 2030 (SPV 2030) TO ENSURE THE EQUITABILITY OF OUTCOMES FOR ALL MALAYSIANS

Shared Prosperity Vision 2030 (SPV 2030), the latest policy document for the country was launched by the Prime Minister on 5 October 2019. SPV 2030 envisions a sustainable growth model, with goals of fair and equitable distribution across income groups, ethnicities, regions and supply chains. The intended outcome is to ensure decent standard of living for all citizens.

Strategic Thrust of the SPV 2030

The **seven** strategic thrusts in the SPV 2030 are:



Overall, SPV 2030 is aimed at achieving fairer economic growth and adding value to the economy by ensuring development for all, address wealth and income disparities and build a united, prosperous and dignified nation.



BOX ARTICLE

ASEAN SME Policy Index 2018 Malaysia Has Best SME Institutional Framework in ASEAN

The ASEAN SME Policy Index (ASPI) 2018 - Boosting Competitiveness and Inclusive Growth is a collaborative effort between the Organisation for Economic Cooperation & Development (OECD), the Economic Research Institute for ASEAN and East Asia (ERIA) and the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME). The initiative was undertaken with the Governments of the ten ASEAN member states as well as various stakeholders involved in SME development. The document was officially launched in Singapore on 1 September 2018.

The ASPI 2018 surveys and benchmarks SME development policies across ASEAN member states, with the primary focus being on eight different SME-centric policy areas, namely, productivity, technology and innovation; environmental policies and SMEs; access to finance; access to market and internationalisation; institutional framework; legislation, regulation and tax; entrepreneurial education and skills as well as social enterprises and inclusive SMEs.

ASPI 2018 Findings on Malaysia

In the ASPI 2018, Malaysia has not only maintained its ranking as one of the region’s leaders in SME development but also as having the most advanced institutional framework for SME development among ASEAN member states. Overall, Malaysia did well in the Index with its scores for all the eight policy dimensions exceeding the median score for ASEAN. Malaysia was also ranked second in six of the policy dimensions in the document, namely on productivity, technology and innovation, environmental policies and SMEs, access to finance, access to market and internationalisation, legislation, regulation and tax as well as entrepreneurial education and skills.

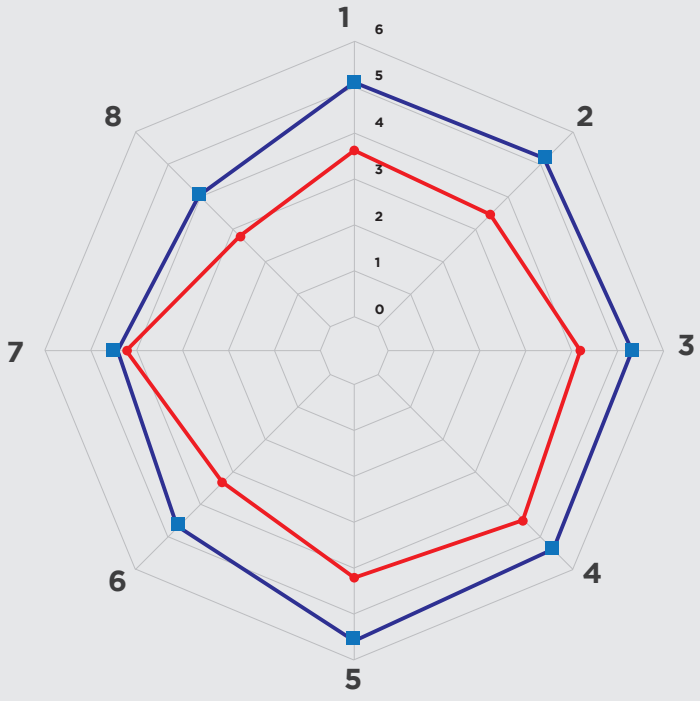
“Overall, Malaysia did well in the Index with its scores for all the eight policy dimensions exceeding the median score for ASEAN.”

Chart 1: Malaysia’s Performance in ASPI 2018

Dimension

1. Productivity, Technology and Innovation
2. Environmental Policies and SMEs
3. Access to Finance
4. Access to Market and Internationalisation
5. Institutional Framework
6. Legislation, Regulation and Tax
7. Entrepreneurial Education and Skills
8. Social Enterprises and Inclusive SMEs

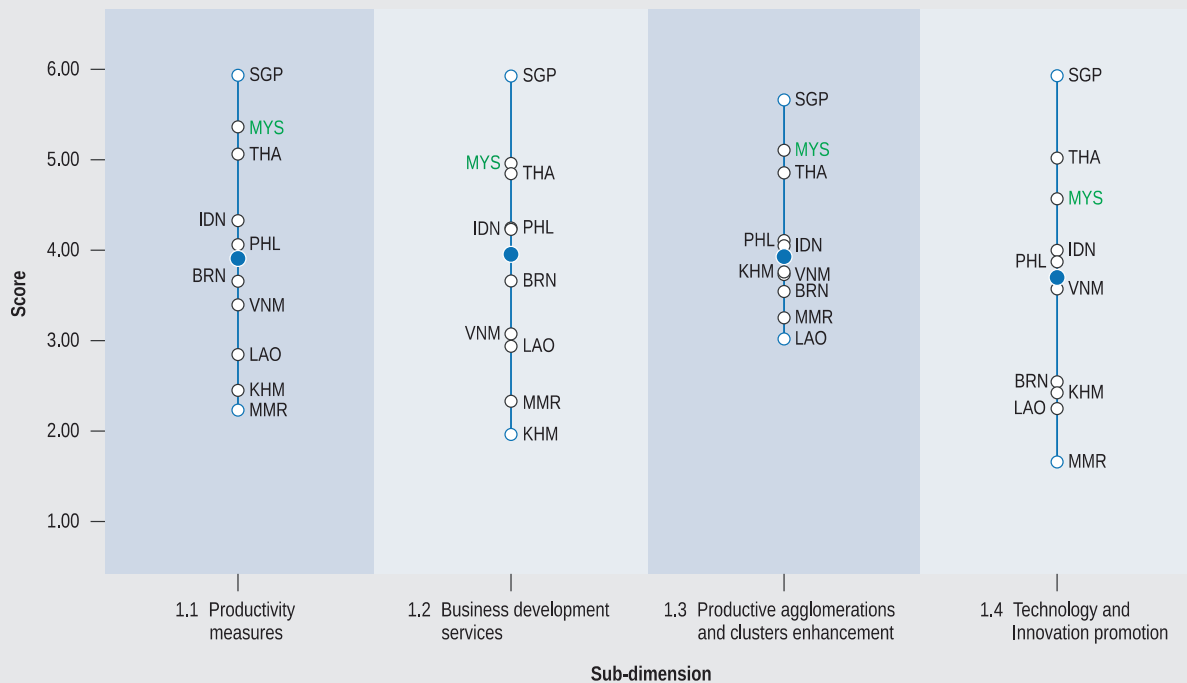
Note:
● ASEAN (median)
■ MALAYSIA



DIMENSION 1

Productivity, Technology and Innovation

The framework to assess Dimension 1 covers four sub-dimensions. Malaysia ranked number 2 in ASEAN in three sub-dimensions, i.e. productivity measures, business development services as well as productive agglomerations and cluster enhancement with average score of above 5.00. While the sub-dimension technology and innovation promotion saw Malaysia at rank number three in the region of an average score of 4.77. The ASPI described Malaysia's overall gross expenditure of 1.1% and business spending of 0.7% of GDP on research and development (R&D) as high commensurate with the country's income level. The Government has put in place a number of SME-centric policies which are specifically focused on the promotion of innovation and productivity. Overall, Malaysia scored 5.06 against the ASEAN median 3.78 in Dimension 1 for efforts to boost productivity, innovation and adoption of new technologies.

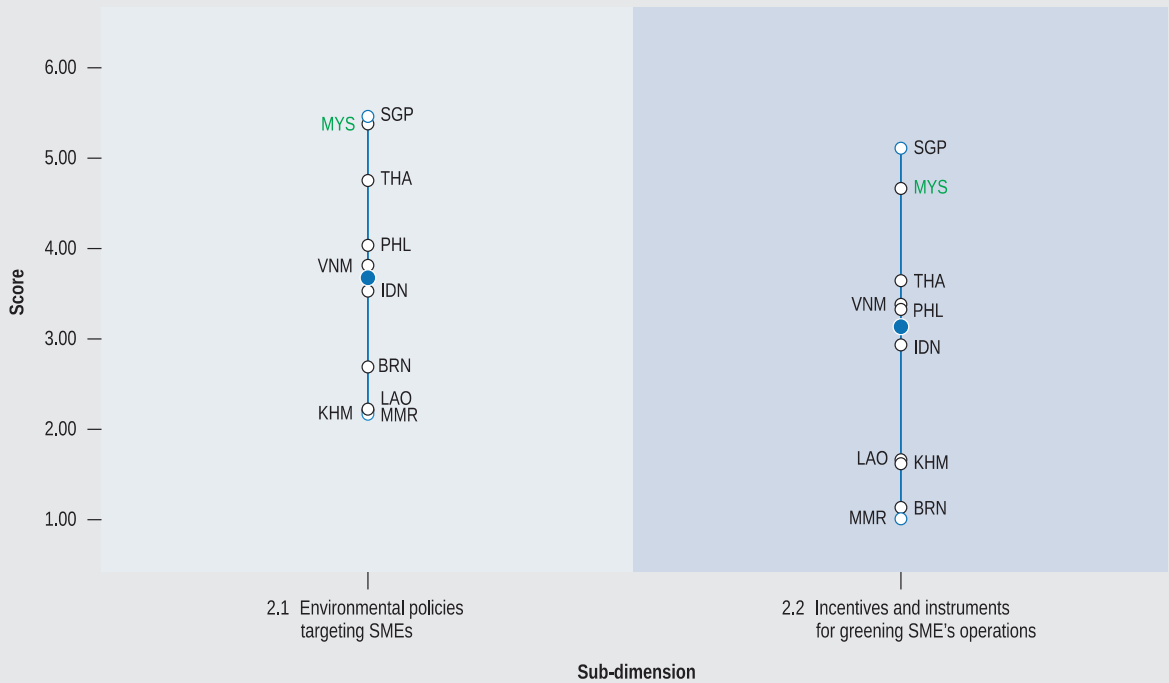


DIMENSION 2 Environmental Policies and SMEs

Dimension 2 is weighted by two sub-dimensions. Again Malaysia was ranked number 2 in the region in the both sub-dimensions of environmental policies as well as incentives and instruments for greening SMEs' operations. The country's environmental policies, which are set out in the 11th Malaysia Plan 2016-2020 and the Malaysia Green Technology Plan 2017, contain provisions to encourage greener practices by SMEs. The policy objectives are supported by various financial incentives and support schemes, such as MyHIJAU SME & Entrepreneur Development Programme, Green Technology Financing Scheme (GTFS), Fund for Small and Medium Industries 2 (FSMI2) and the New Entrepreneur Fund - to help SMEs adopt green practices. Nevertheless, the below 5 score in the area of incentives and instruments reflect the need for continues and new support for sustainable and green SMEs. As reflected in its overall score of 5.08 (ASEAN: 3.45), Malaysia is considered as among the most advanced countries in ASEAN for SME-centric environmental policies.



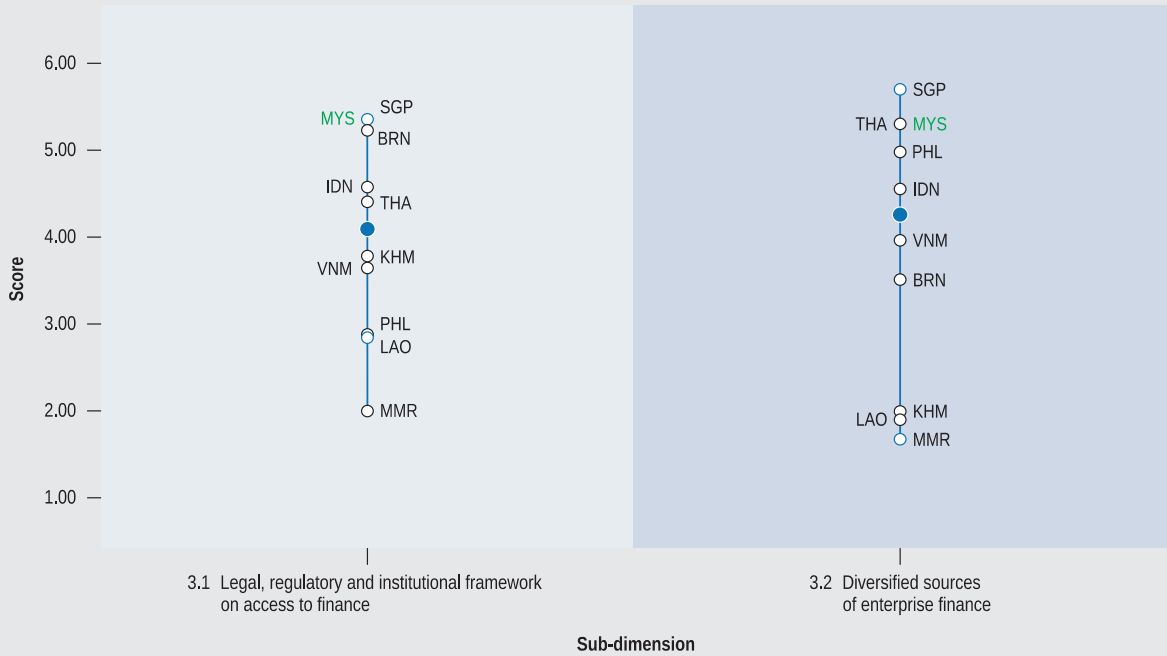
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DIMENSION 3

Access to Finance

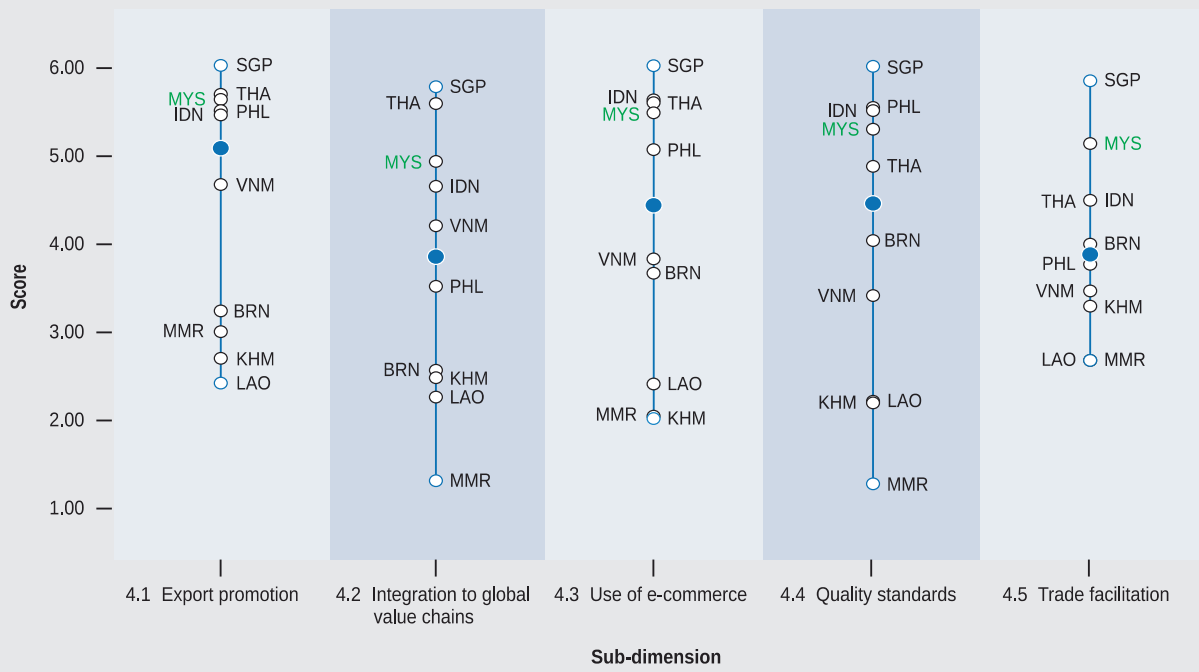
Malaysia scores 5.35 (ASEAN: 4.15) in facilitating SME's access to finance, a reflection of the Government's concerted efforts over the years to facilitate access to finance in order to create a more inclusive financial landscape, particularly for SMEs and microenterprises. In 2017, 88.3% of public funding for SME development was channeled into SME financing programmes, targeted at the growth of innovative sectors, financial inclusion and support for Bumiputera enterprises. Greater efforts can be taken to diversify sources of finance for SMEs to move the rank of Malaysia in the said sub-dimension.



DIMENSION 4

Access to Market and Internationalisation

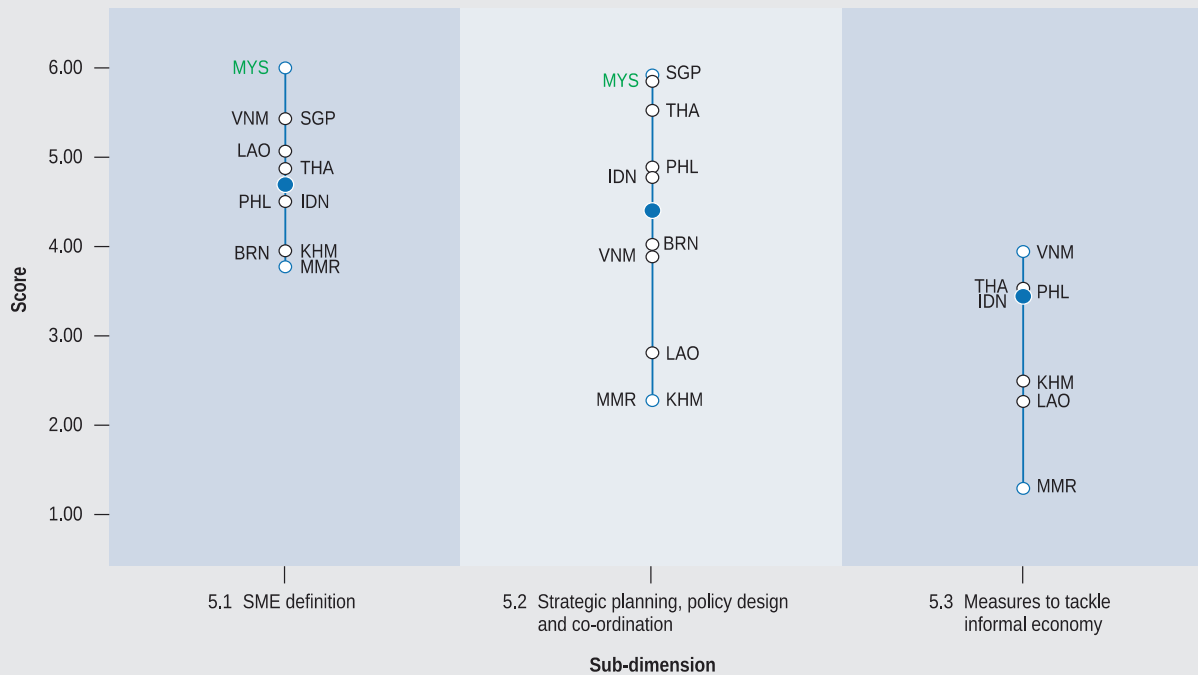
Malaysia recognises the need to create opportunities for SMEs by exposing them to the international market. The Government has long been committed to creating greater market access and internationalisation of SMEs. The results were apparent with Malaysia scoring above 5 in four of the five sub-dimensions i.e. export promotion, use of e-commerce, quality standards and trade facilitation. Efforts need to be intensified in the sub-dimension integration to global value chain as an important aspect to SME internationalisation. Overall the country's score is 5.43 against ASEAN's 4.55.



DIMENSION 5

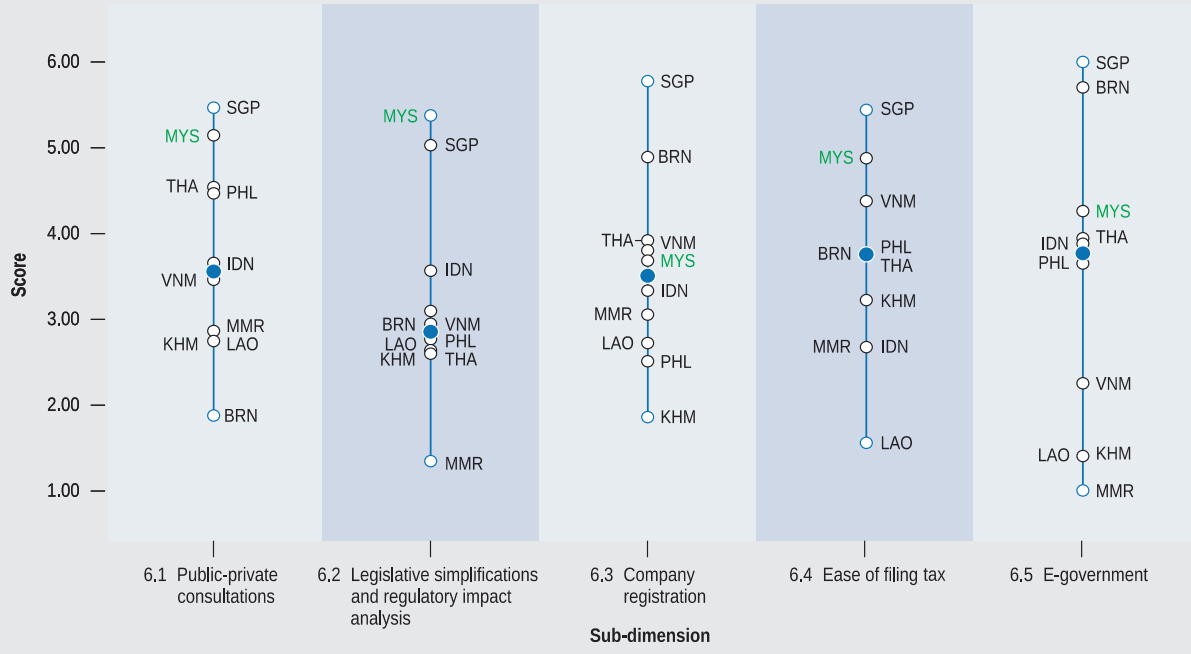
Institutional Framework

The presence of SME Corp. Malaysia as the central coordinating agency in SME development reflected the country’s advanced institutional framework in SME development. The work of the Agency brought a full score of 6.00 in the sub-dimension of SME definition while a score of 5.89 in the sub-dimension of strategic planning, policy design and co-ordination. The SME Masterplan (2012 - 2020) outlined the long-term strategy in line with the country’s economic plans. Overall, Malaysia recorded a score of 5.86 against ASEAN’s 4.20.



DIMENSION 6 Legislation, Regulation and Tax

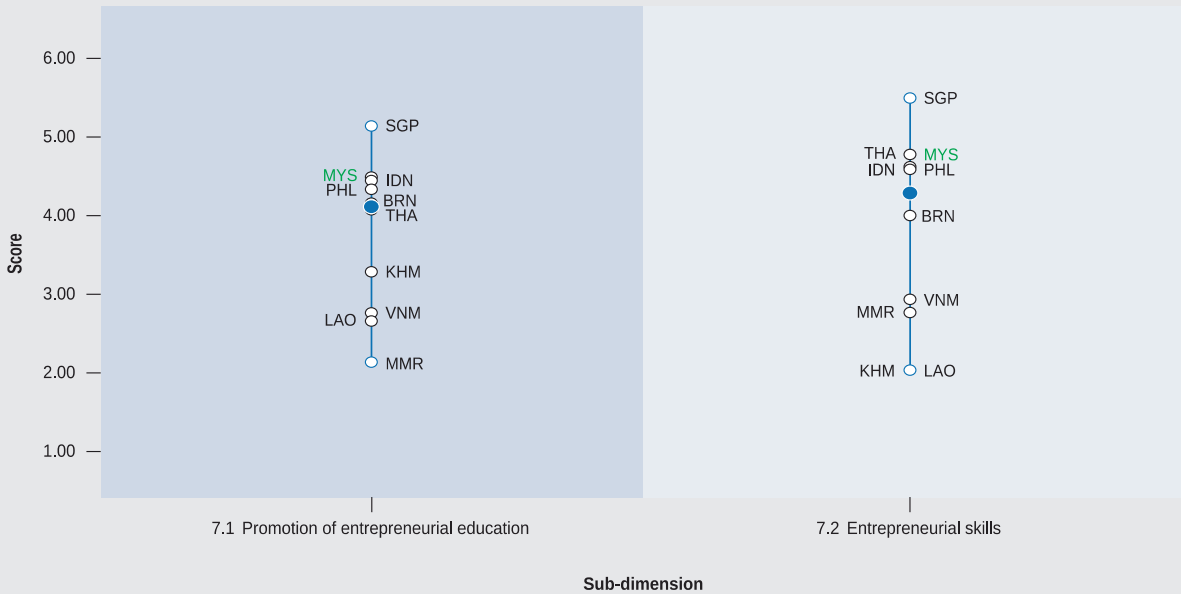
Malaysia's score of 4.71 (ASEAN: 3.43) for its legal and regulatory framework for SME development is supported by the higher rating in the sub-dimensions of public-private consultations, legislative simplifications and ease of filing tax. On company registration, Malaysia has relatively a lower score due to the time taken to complete a full registration. Another area for improvement is the effort on establishing e-government platforms that need to be expedited.



DIMENSION 7

Entrepreneurial Education and Skills

The score for this dimension is weighted by two sub-dimensions of promotion of entrepreneurial education and entrepreneurial skills. Malaysia scored 4.50 and 4.63 respectively and the overall is at 4.58 (ASEAN:4.27). Under Malaysia's Education Blueprint (2013-2025), entrepreneurship values are integrated into leadership skills and taught at all education levels while programmes on entrepreneurial skills are conducted by various Government ministries and agencies.



DIMENSION 8 Social Enterprise and Inclusive SMEs

Malaysia scored 4.00 (ASEAN: 2.77) for Social Enterprise and Inclusive SMEs (Dimension 8) reflecting this agenda as one of the significant items for enhancing socio-economic well-being in Malaysia. The country has developed a Social Enterprise Blueprint and the private sector has taken a crucial role in Malaysia's ecosystem to promote social entrepreneurship. These efforts were reflected in the score of 4.57 in the sub-dimension of social enterprise. While Malaysia is one of the few ASEAN countries to offer a package of services for each of the target groups, namely, women, youth and persons with disabilities, more work need to be undertaken in the sub-dimension of inclusive entrepreneurship which had the score of 3.81, one of the lowest scores of Malaysia in the Index.

