

MESSAGE

from YAB Prime Minister

The development of micro, small and medium enterprises (SMEs), has always been a high priority for the Government given the fact that they make up 98.5% of business establishments and contribute 38.9% to gross domestic product (GDP) in 2019. In 2019, SMEs employ about 7.3 million people, thus contribute 48.4% to the country's employment. The very essence of survival of this significant employer to the country is hanging in the balance due to the unparalleled impact of COVID-19. On that note, I am pleased that this year's Report is aptly themed 'SMEs in the New Normal: Rebuilding the Economy'. A worthy endeavour indeed, given the significance of accurate and deep understanding on SME issues, challenges, catalysts and performance that are timely to guide our progressive actions in the SME development space as well as in framing our response to the COVID-19 crisis.



The Government take cognisance that the SME sector is one the most vulnerable groups affected by the pandemic with 89.9% experiencing a sudden drop in sales during the initial containment period. Cash flow emerged as the key challenge during the pandemic, followed by reduction in demand and disruptions in supply chains. These unprecedented challenges warrant resolute determination to employ everything within our means to ensure SMEs continue to survive. The Government has therefore placed a special emphasis on the needs of SMEs into various facets of the stimulus packages, namely the RM320 billion worth of packages comprising RM250 billion PRIHATIN Rakyat Economic Package, the RM10 billion Additional PRIHATIN Package for SMEs, RM35 billion National Economic Recovery Plan (PENJANA), RM10 billion Kita Prihatin package and RM15 billion *Perlindungan Ekonomi dan Rakyat Malaysia* (PERMAI) assistance package. The economic initiatives introduced under these stimulus packages have been instrumental in addressing critical pandemic-related issues faced by businesses, especially SMEs in the area of financing, cost of doing business, cash flow, job retention, human capital development, infrastructure development and adoption of technology and digitalisation.

The crisis has brought into sharp focus the need to build resilient, sustainable and inclusive ecosystems for SMEs with technology and digitalisation taking the centre stage. Anchoring these standpoints, the Government will continue the momentum of the economic recovery that has been mobilised since May 2020 to provide a variety of assistance to SMEs, including through the PENJANA and Kita Prihatin packages which are still ongoing. The sheer persistence of the Government to uphold SME development agenda amid the crisis is evident through Budget 2021 which allocated a total of RM38.7 billion, the highest allocation thus far, to either exclusively benefit the SMEs or can be accessed by SMEs along with other businesses.

While the success in restoring the country's economy partly depends on the success to curb this COVID-19 pandemic, an efficient and timely implementation through close monitoring of Budget 2021 measures would be fundamental to encourage recovery, growth and investment among Malaysian businesses. On this particular note, the structured monitoring through SME Integrated Plan of Action will continue to be the yardstick of output and outcome of SME development programmes implemented by the Government. In 2020, a total of 211 programmes with financial expenditure amounting to RM12.99 billion have been reported, recording a notable increase from RM9.59 billion channelled through 175 programmes in 2019. These 2020 programmes, which will ultimately benefit 656,097 SMEs, have been implemented through 17 Ministries, six dedicated SME agencies and 59 other agencies. Programmes under access to financing continue to absorb the bulk of the funding in 2020 followed by other focus areas deemed important for SMEs namely human capital development; market access; innovation and technology adoption; infrastructure; and legal and regulatory environment.

The Government is firm in its conviction that SMEs who can navigate a digital, service-driven business environment as well as able to re-shape their business models to meet the demands of the new normal, will gain an advantage over competitors as regional and global supply chain players. Nevertheless, SMEs must be able to discern and seize the opportunities along the value chain as well as leverage on strong global linkages that Malaysia has with its trade partners. Thus, the signing of Regional Comprehensive Economic Partnership (RCEP) agreement recently offers a huge market potential which will now grow from 32 million domestic population to 2.2 billion regional population, an opportunity simply should not be missed by Malaysian SMEs.

Echoing the mantra 'change is the only constant', there is no going back to the old normal, especially with indications that COVID-19 is likely to be followed by other disruptive changes such as new technologies, trade tensions as well as climate and social change. In some manner, the COVID-19 crisis has inadvertently become the boosting factor for innovation, digitalisation and technology adoption. A myriad of activities in e-commerce, digital payments, teleworking, remote learning, video conferencing, online health services, and end-to-end logistics services are prevalent in today's economy, out of absolute necessity amid increasing demand and opportunities. These online activities are complemented with the mushrooming app-based logistics providers which in turn create a new breed of entrepreneurs who will play a vital role in shaping our economy going forward. Indeed, the rapid change in the business models and ecosystem, partly accelerated by COVID-19, is a testimony of every challenge is a disguised opportunity, a lesson to learn and a chance to grow.



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