

# International Conference on “Developing Public Policies for Upgrading Productivity in Traditional Small Enterprises”

## Malaysia’s Policies to Support Productivity in Microenterprises



“IF WE BOOST  
**PRODUCTIVITY**, WE  
CAN IMPROVE ECONOMIC  
**GROWTH”**

*Tony Abbott*

**small is the new big**

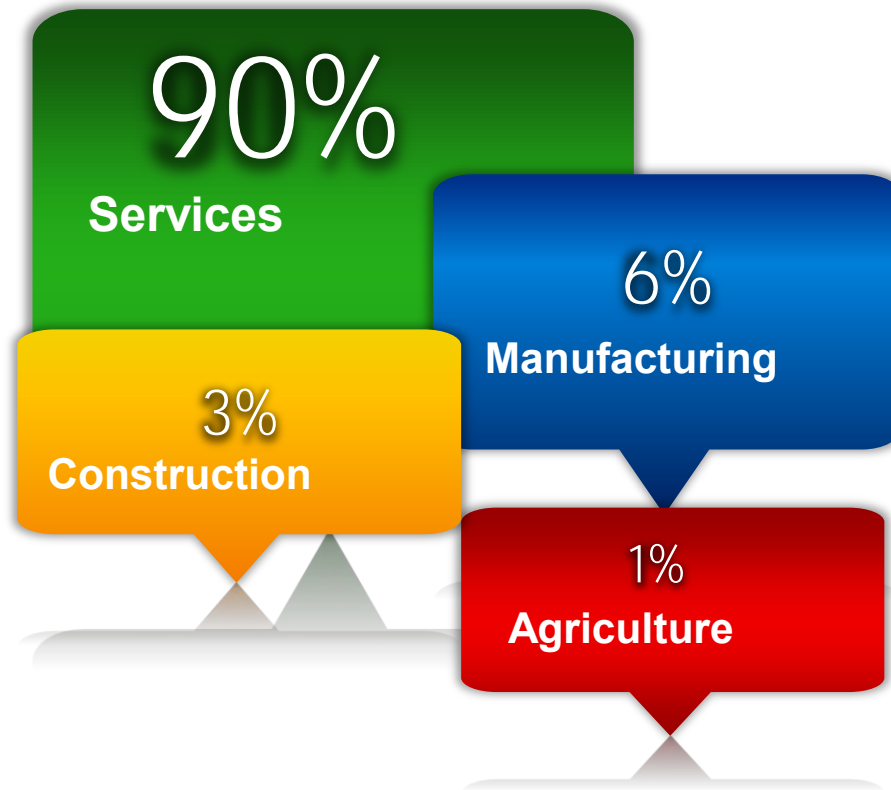
and 193 other riffs, rants, and  
remarkable business ideas

from the bestselling author of *Purple Cow* and *Permission Marketing*

**SETH GODIN**

# SMEs are the **backbone** of the economy

SMEs cut across **all sectors** of the economy

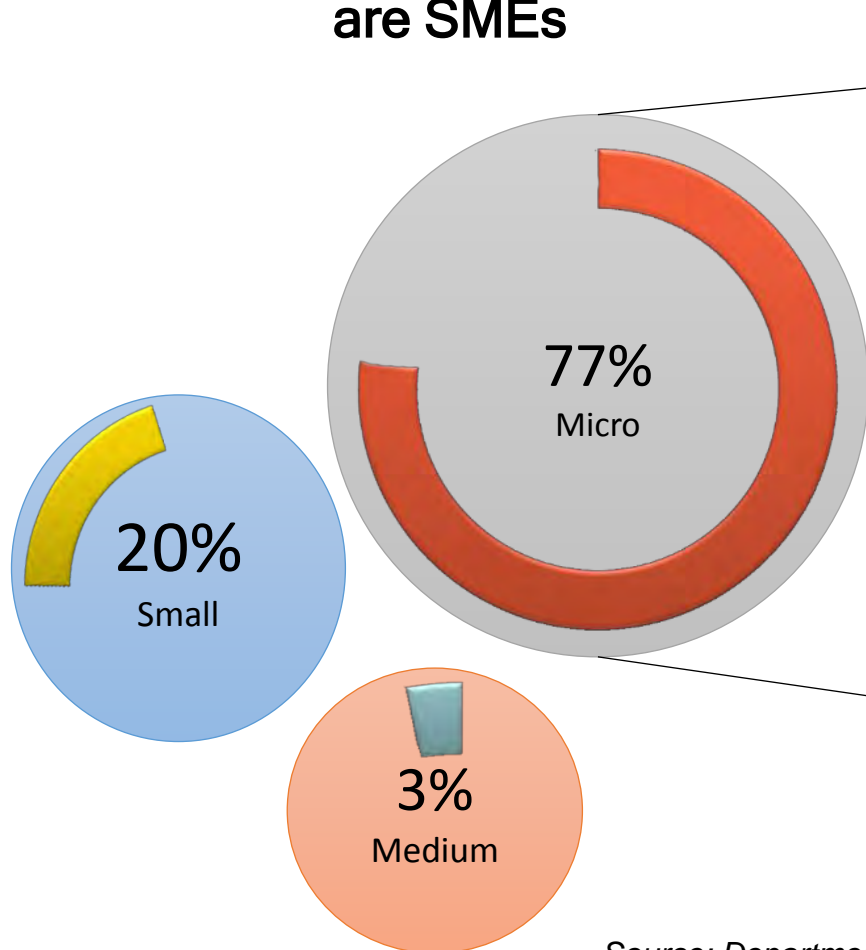


SME **contribution** to the economy in 2015

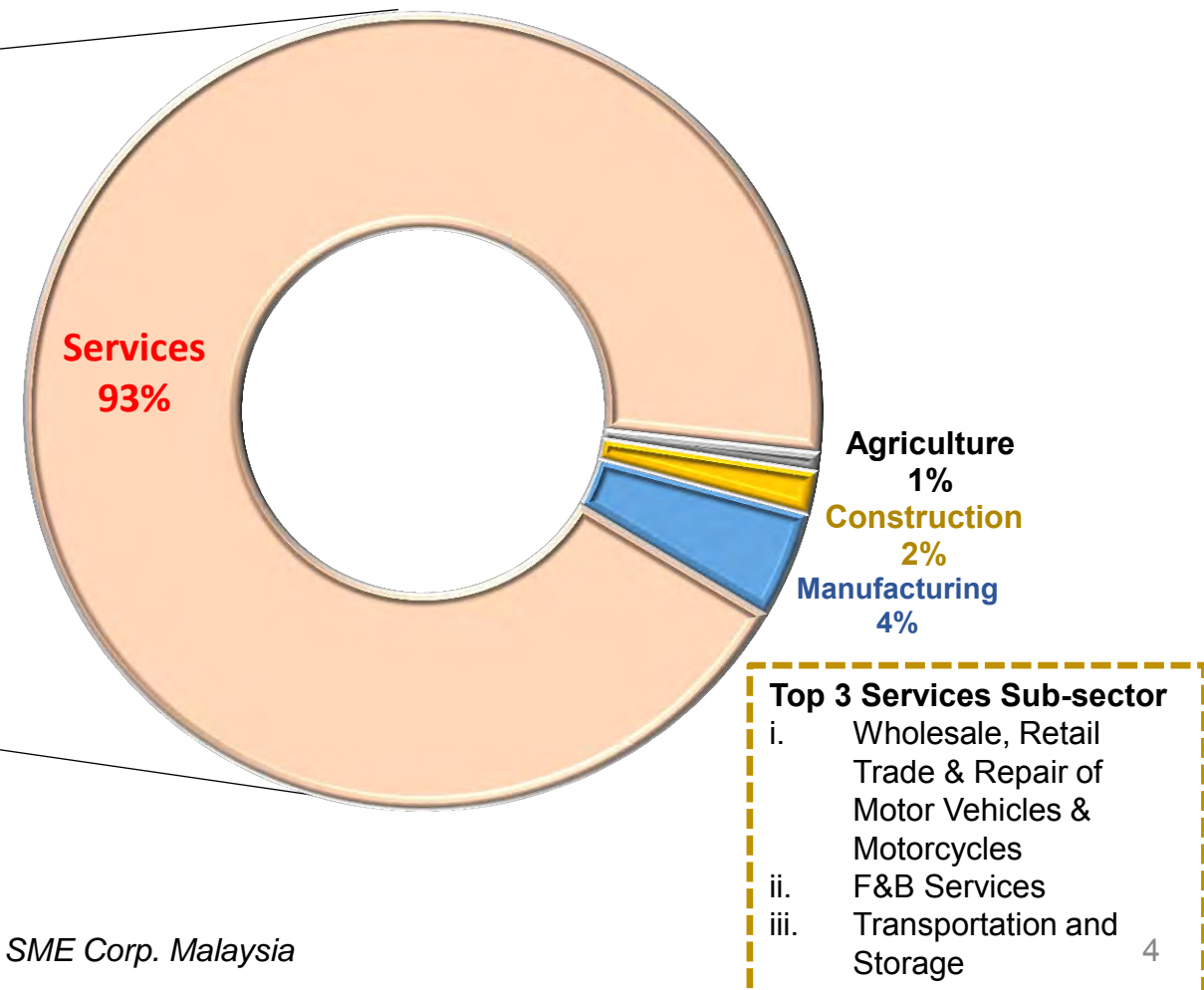


Of which **77%** are **microenterprise**, denominated by **Services** at **93%**

**97.3% (645,136)** business establishments in the country are SMEs

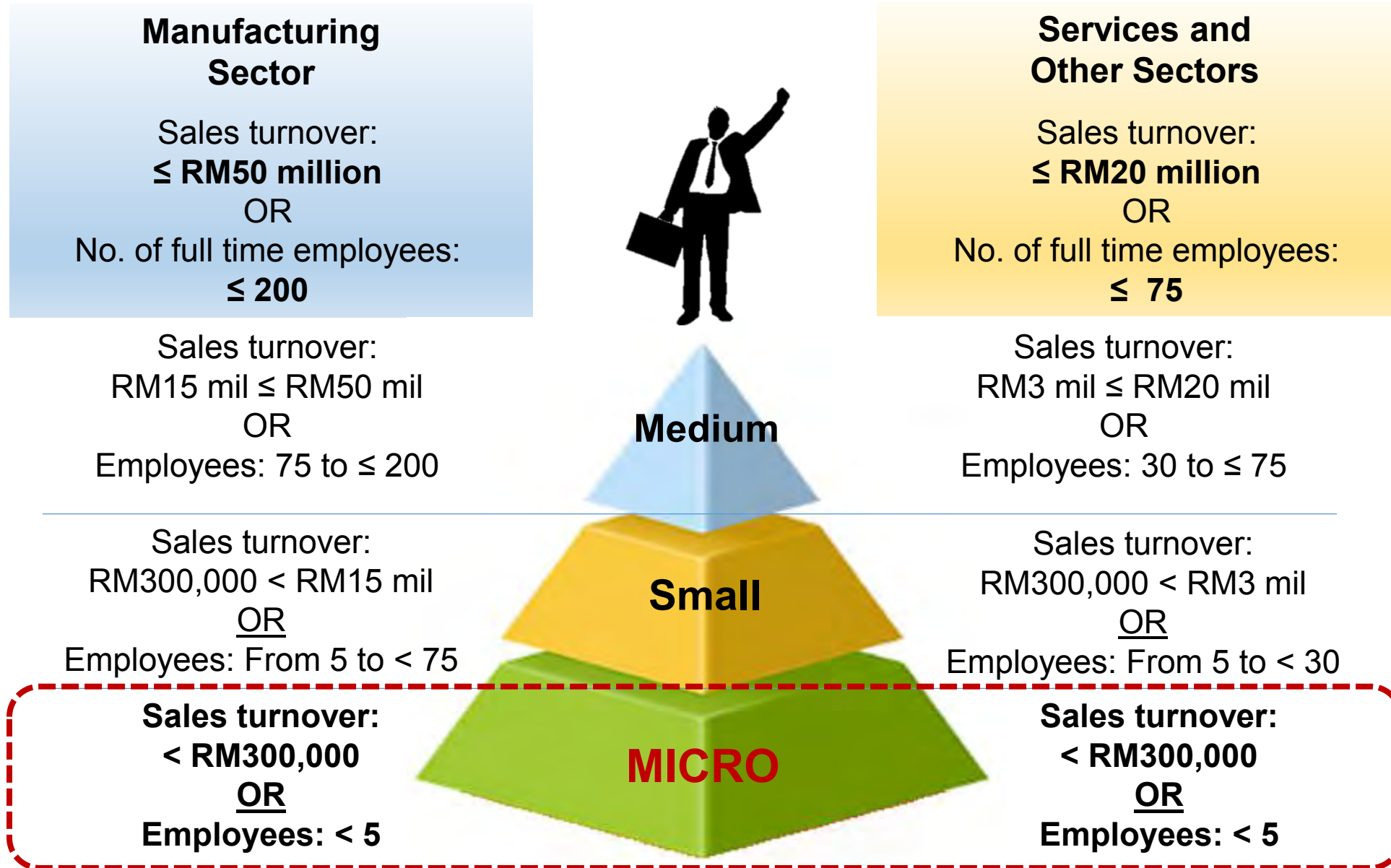


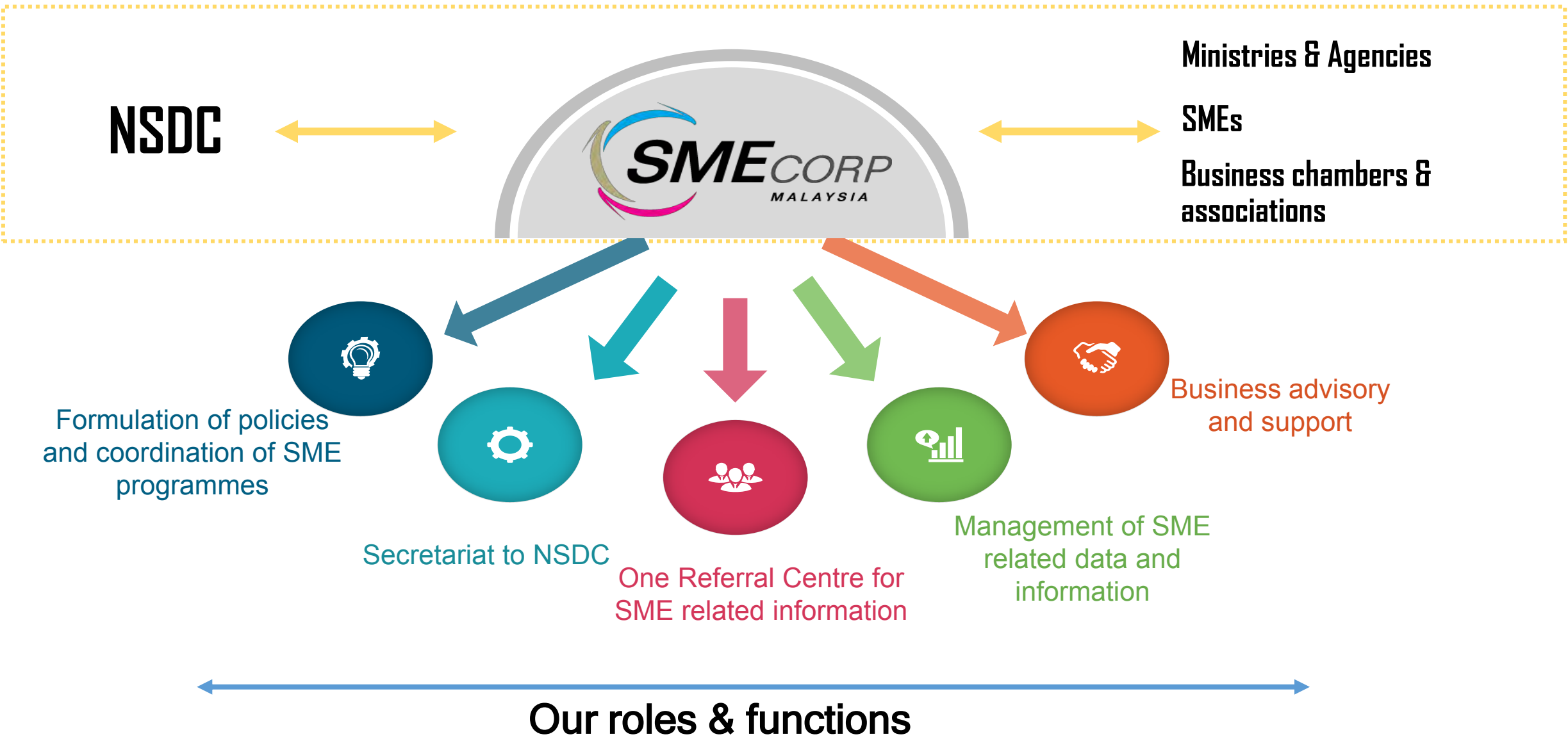
Breakdown of Microenterprises in Malaysia by Sector

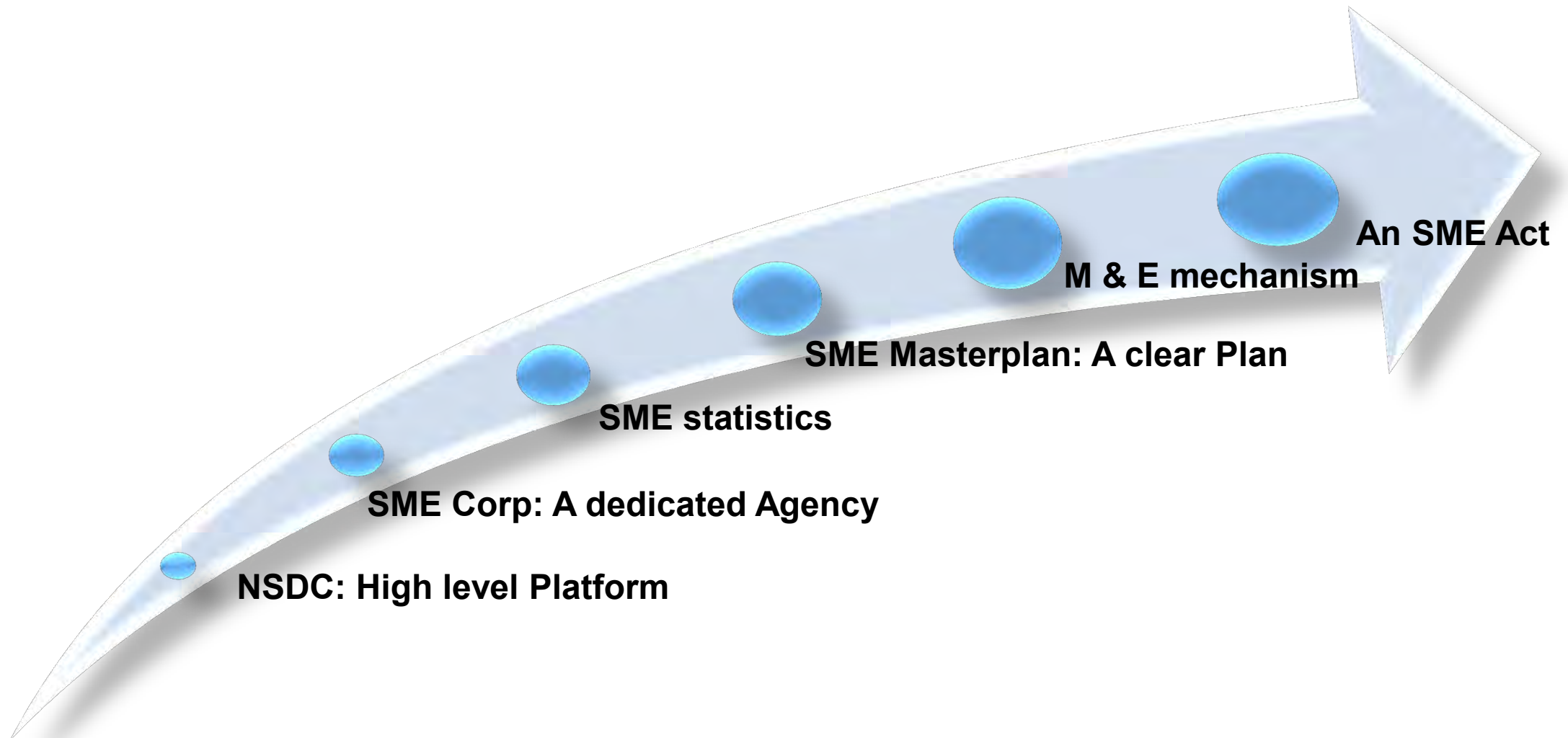


Source: Department of Statistics Malaysia and SME Corp. Malaysia

# New definition beginning 2014...

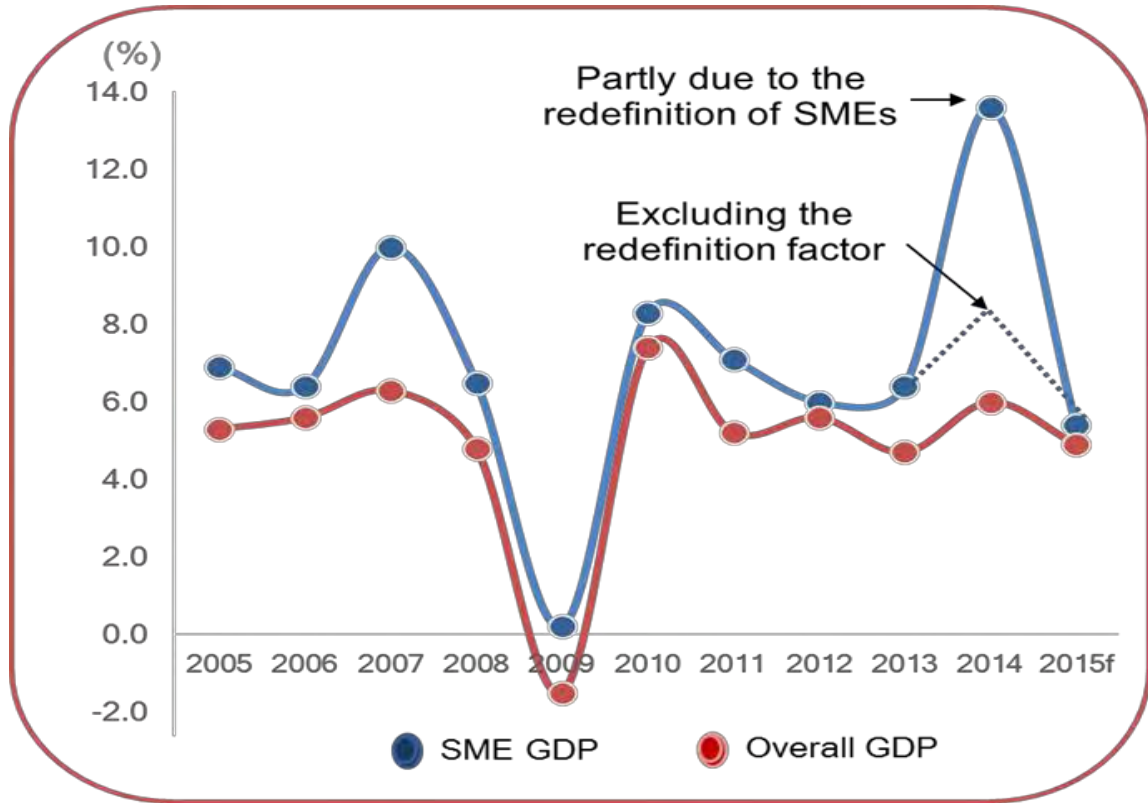




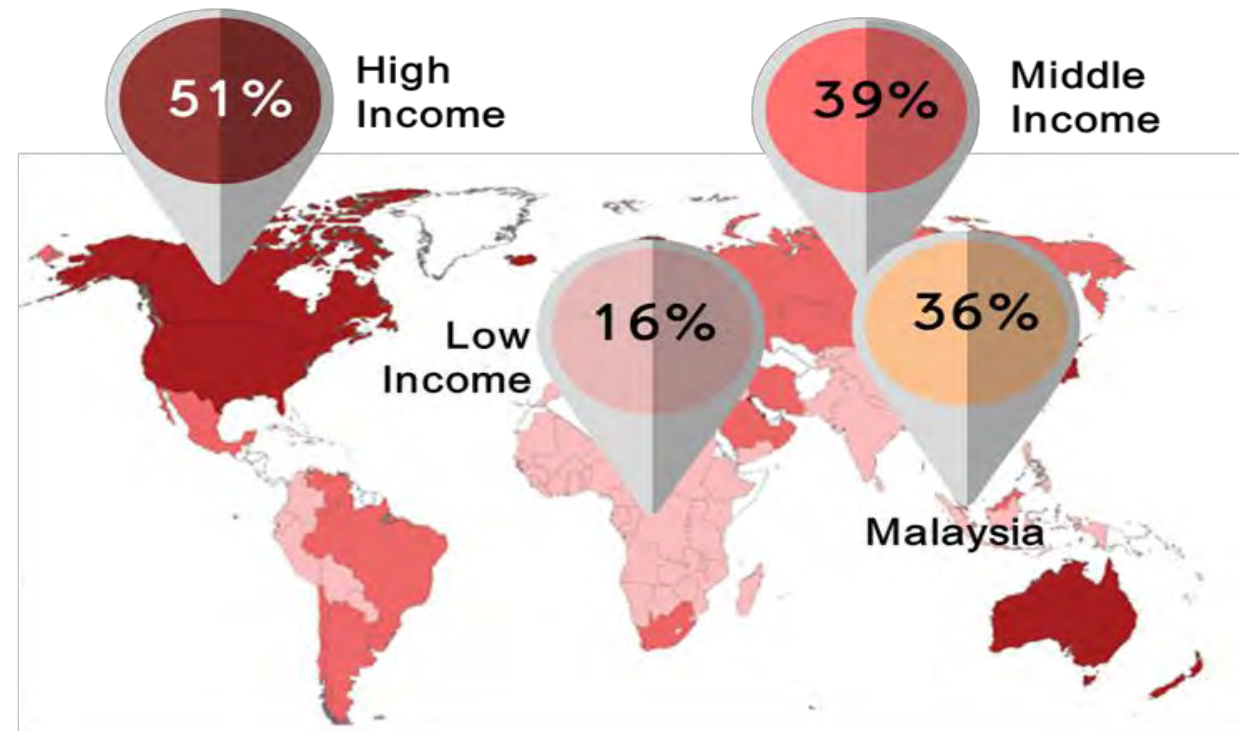


# SME growth performance impressive ... but **contribution still lagging** than other countries

- Contribution of SMEs to GDP much lower than other middle-income & high income-nations
- SMEs currently concentrated in low value-added activities



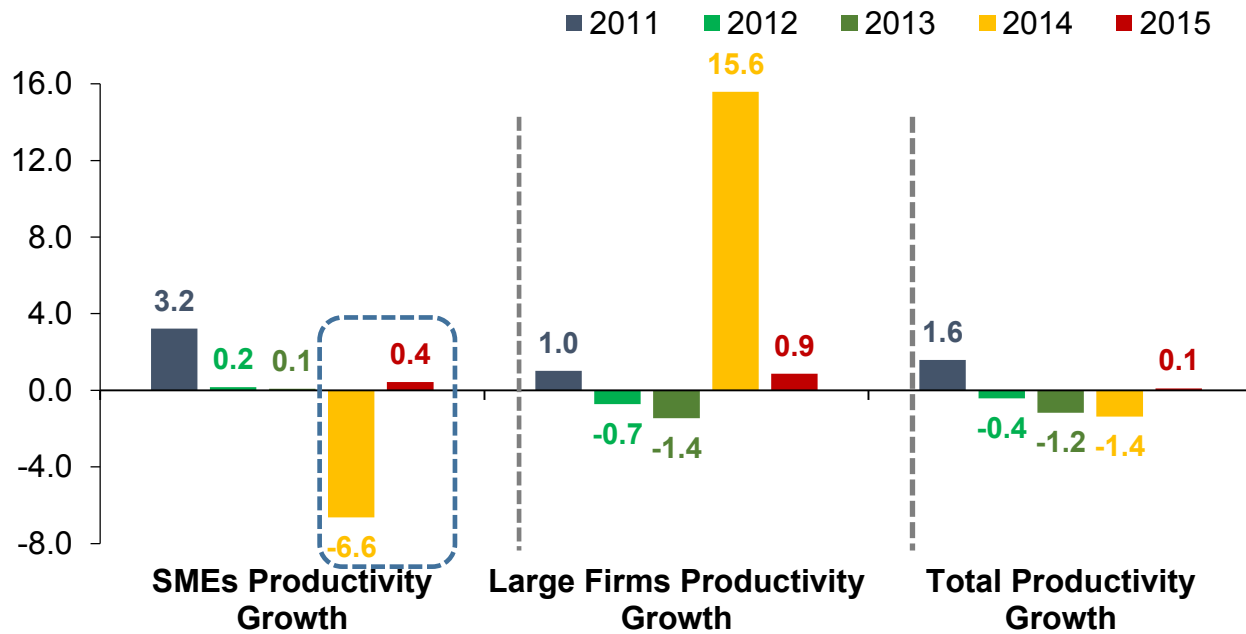
**SME vs Overall GDP Growth**



**Contribution of SMEs to GDP**



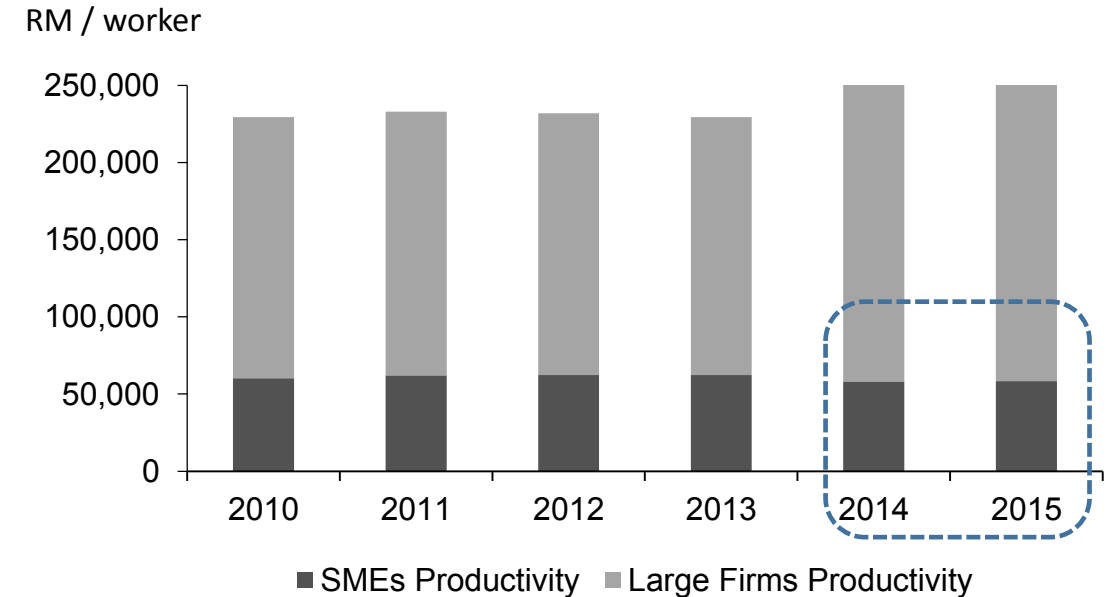
## Productivity Growth by Firm Size (% annual change): 2011 - 2015



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

- Labour productivity of SMEs grew **marginally by 0.4%** due to higher SME GDP growth of 6.1% against SME employment growth of 5.6%
- Marginal growth demonstrates **SME productivity remains low** due to being **input-driven** rather than productivity-led

## Productivity of Firms by Size: 2010 - 2015



- SME labour productivity was **3.3 times lower** than the large firm productivity for 2014 and 2015
- Deterioration of SME productivity mainly in **services** (5.6 times), given the dominance of SMEs in **low valued-added activities** mainly in distributive trade, F&B and accommodation

SMEs need to improve from labour-intensive to knowledge and innovative-based economic activities

# SME Masterplan a “game changer”... to expedite growth

**Public-private  
partnership**

**Innovation and  
productivity-led**



**NEW**

**Approach**

**Outcome-based**

**'Live' plan**

# Challenges that curtail SME productivity performance

## Innovation and Technology

- Low tech. adoption
- Low innovation capacity
- Disincentives for innovation
- Lack of participation in National Innov. System

## Human Capital

- Skill shortages & mismatches
- Over-reliance on unskilled foreign labour
- Limited success in attracting foreign talent

## Access to Finance

- Overall SME credit mkt well developed & ranks high internationally
- Further scope for access to micro and small.
- Expand non-bank fin. & new products suitable for SMEs
- Information asymmetries

## Access to Market

- Lack of info. on markets (incl. exports) & competitors
- Lack of mktg. capability
- Inadequate participation in production networks

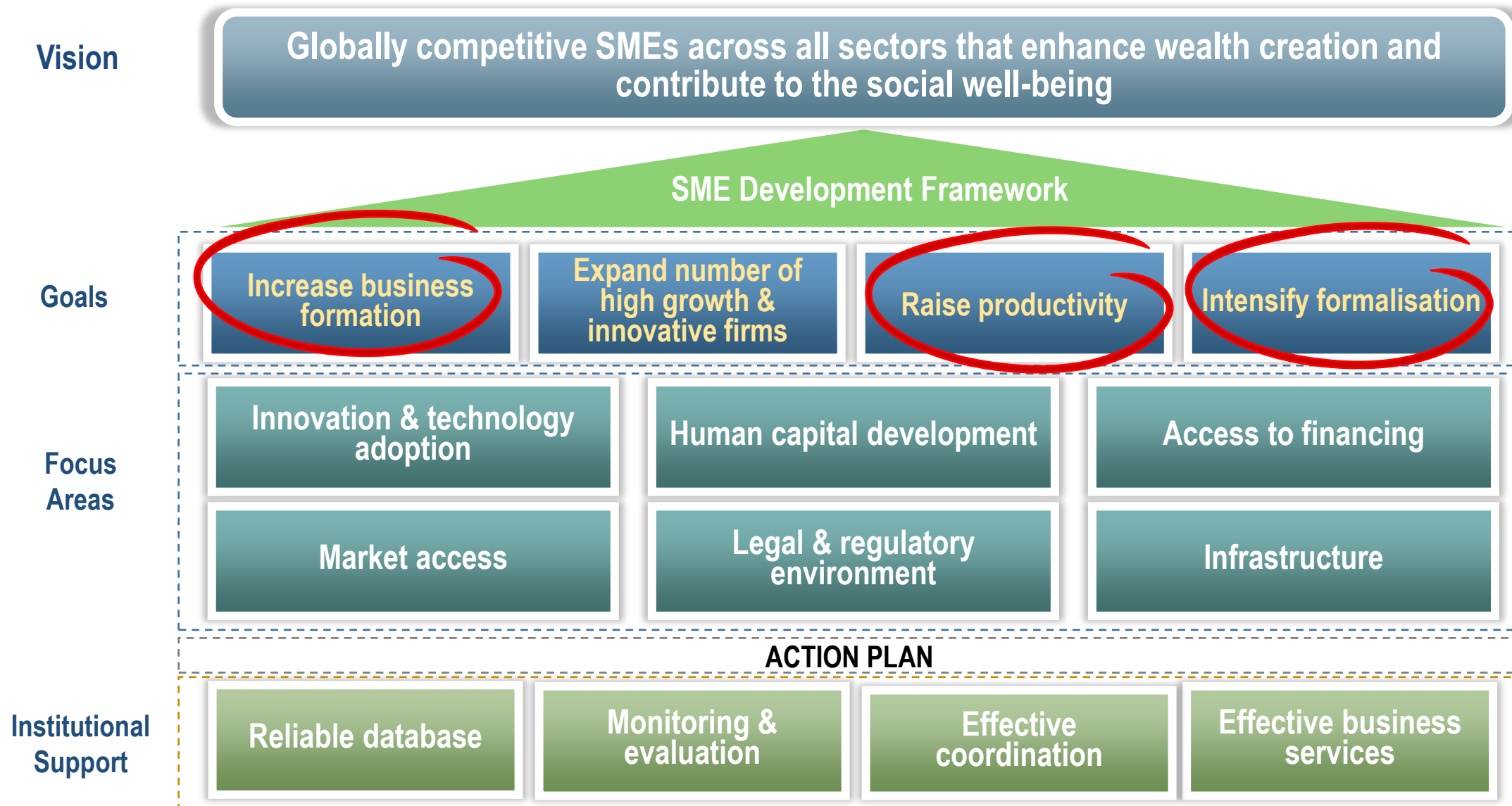
## Regulations and Bureaucracy

- Administrative burden disproportionate to SMEs
- Inadequate competition, bankruptcy and IP laws
- Current tax regime disincentives to business growth

## Infrastructure and Security

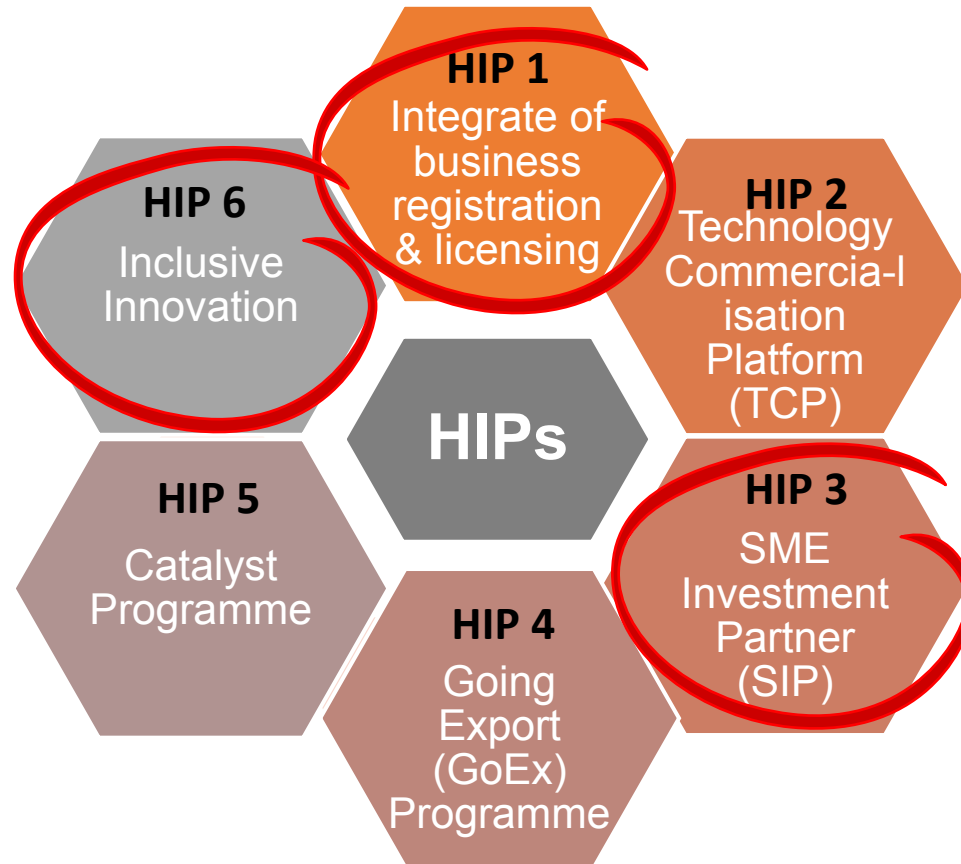
- Inadequate infra. notably in East Malaysia
- Lack of specialised facilities and logistics services for SMEs

# SME Development Framework for innovation-led and productivity-driven growth



# Three of six High Impact Programmes relate to the development of microenterprise and to boost productivity

## 1 6 High Impact Programmes (HIPs)



 **Result-based approach** with monitoring & evaluation

## 2 4 Thematic Measures

Resource pooling & shared services

Create demand for SME products & service

Reduce information asymmetry

Building capacity & knowledge

## 3 East Malaysia

Improve connectivity & basic amenities

Review restrictive laws & policies

Ease market access

## 4 Other Measures

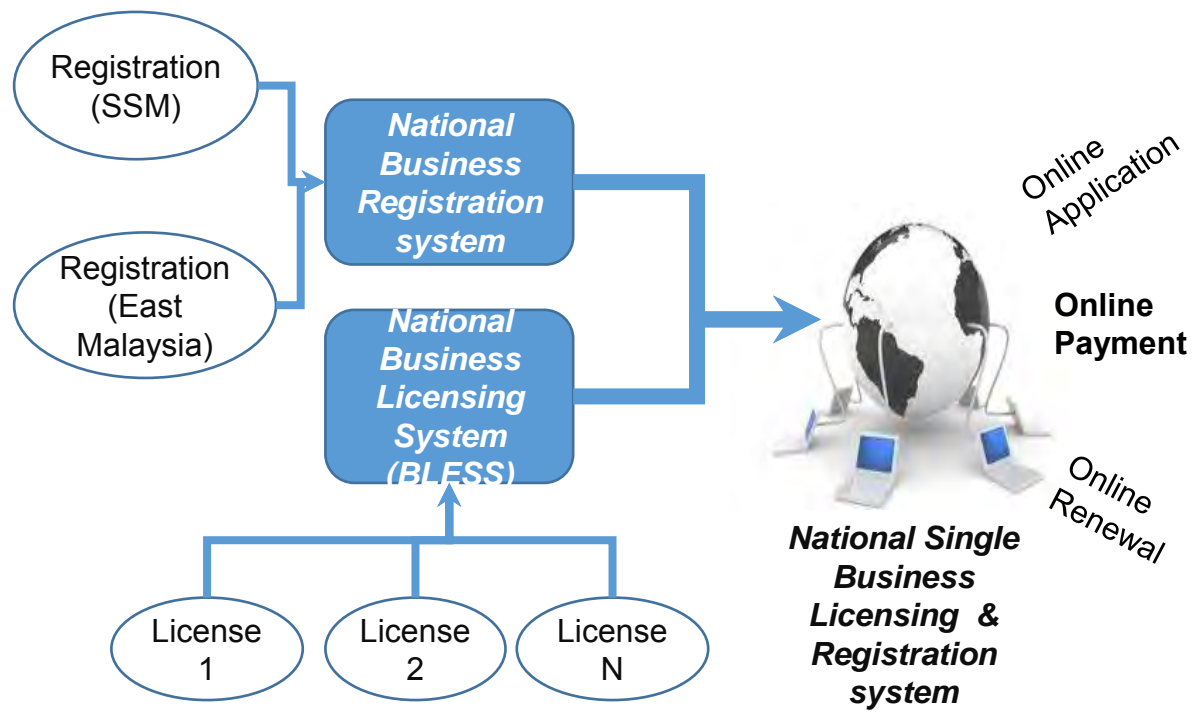
Completion of Integrated trade system (single window)

Bankruptcy Law to give entrepreneurs 2<sup>nd</sup> chance

Review SME taxation policy

Synchronise measures on productivity enhancement

## HIP 1: Integration of Business registration & Licensing



## HIP 6: Inclusive Innovation

Promote transformation of communities, including microenterprise in the rural areas with comprehensive assistance package

**H-Micro hydro system has enabled more households to access electricity**

Hamid Jasmin, Tambunan, Sabah



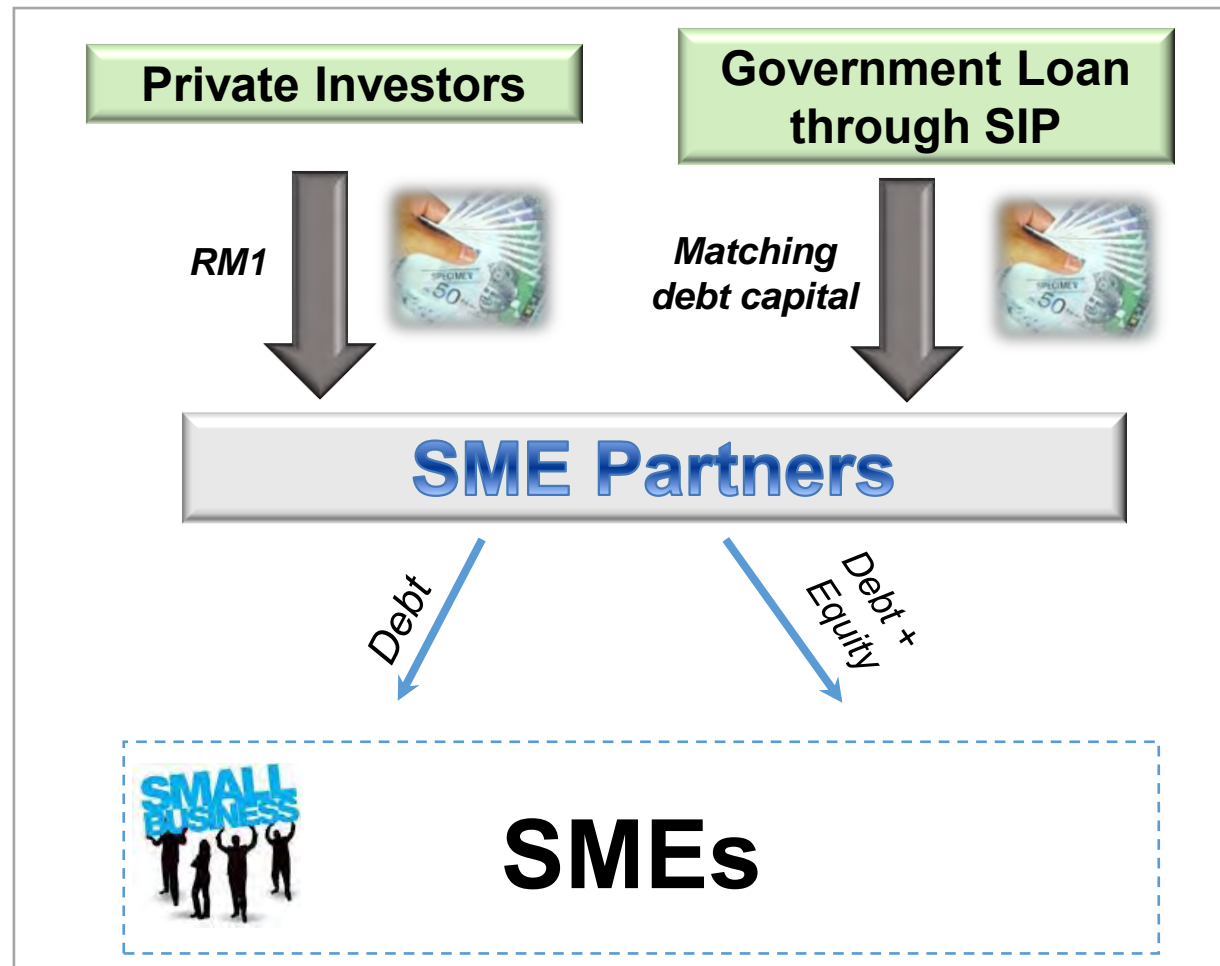
- Generating 3-5kW electricity for 15 to 20 households
- Developed enhanced version with technical support from ILPKK capable of producing 20kW
- Installed in 2 areas with no access to electricity, i.e Kimawanan and Semenyih. 3rd installation in pipeline

# HIP 3 to enhance early-stage & small growth business financing

## SME Investment Partner (SIP) Programme

Context

- Limited avenues for **early stage financing**
- **VC industry lacks vibrancy**; highly dependent on public funds (87%)



- Govt. provide long-term capital into authorised investment companies
- Investment companies to provide loans or loans + equity to promising SMEs

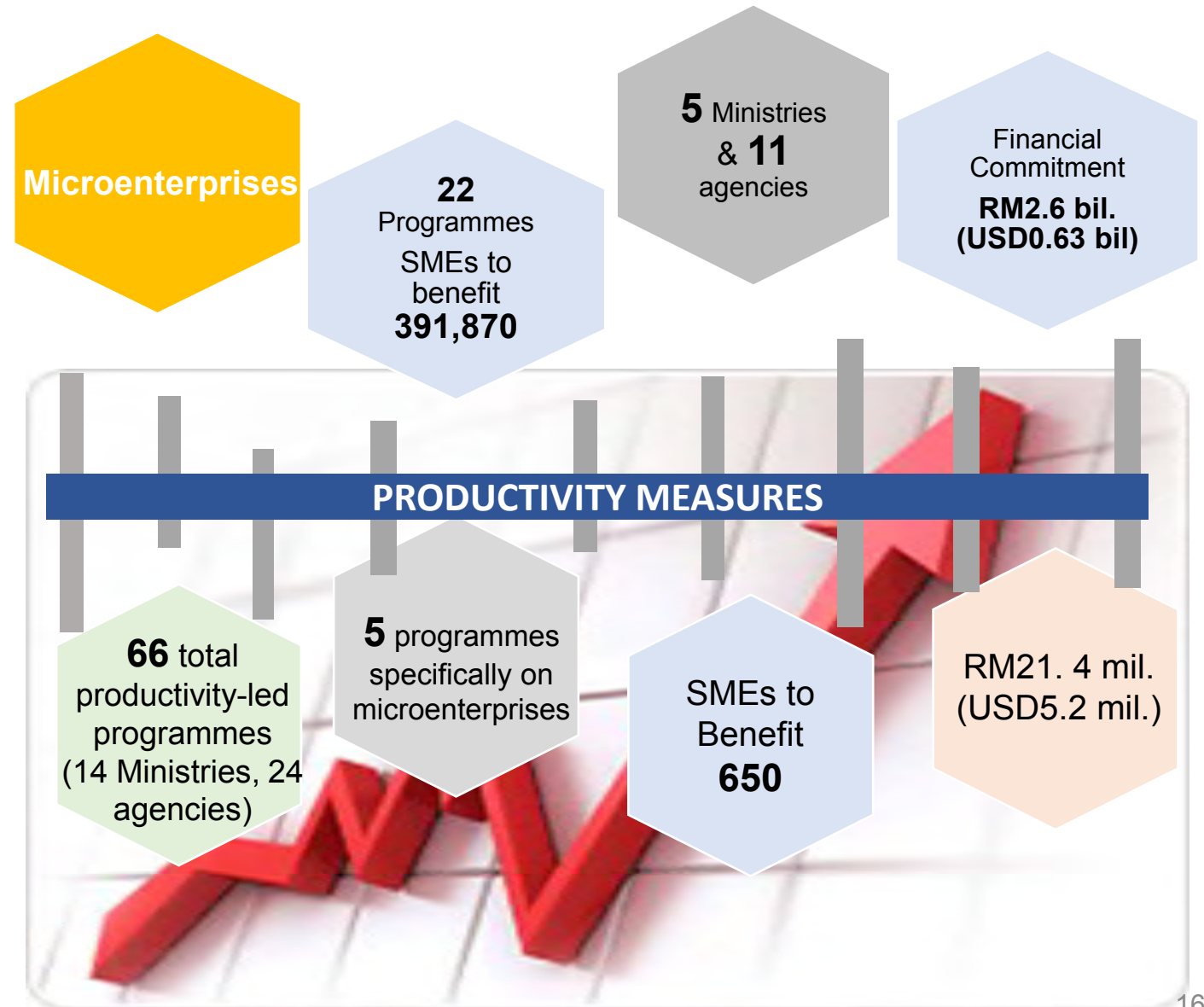
### Characteristics

- Debt or Debt + Equity
- Has monitoring & evaluation
- Managers are mainly from industry

# SME Integrated Plan of Action (SMEIPA) presents a comprehensive SME development programmes

## Summary of SMEIPA 2016

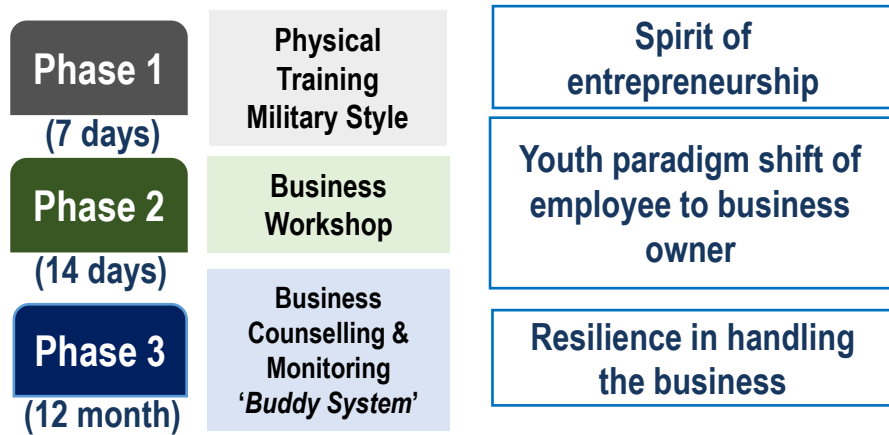
**152 Programmes** Planned in 2016 from six (6) focus areas namely Human Capital Development, Access to Financing, Innovation & Technology Adoption, Market Access and Infrastructure with the **financial commitment of RM7.33 bil.** (approximately **USD1.74 bil.**) to benefit **484,216 SMEs**





# SME Corp **flagship programmes** for Microenterprise

## 1 TUBE Programme



<b>TUBE 1.0</b> (23 Nov – 6 Dec 2014)	448 Participants @ 5 NS Camps
<b>TUBE 2.0</b> (1 – 21 Nov 2015)	495 Participants @ 10 NS Camps
<b>TUBE 3.0</b> (2 – 22 Oct 2016)	493 Participants @ 10 NS Camps



## 2 SME Breakout Strategy

5 programmes, comprise of **35** initiatives have been identified, targeting MEs across the various stages of the lifecycle



# Outcome is measured at 3 levels



# Assessment for **microenterprises** using M-CORE

A comprehensive diagnostic tool to enhance competitiveness of Micro Enterprises developed in February 2010

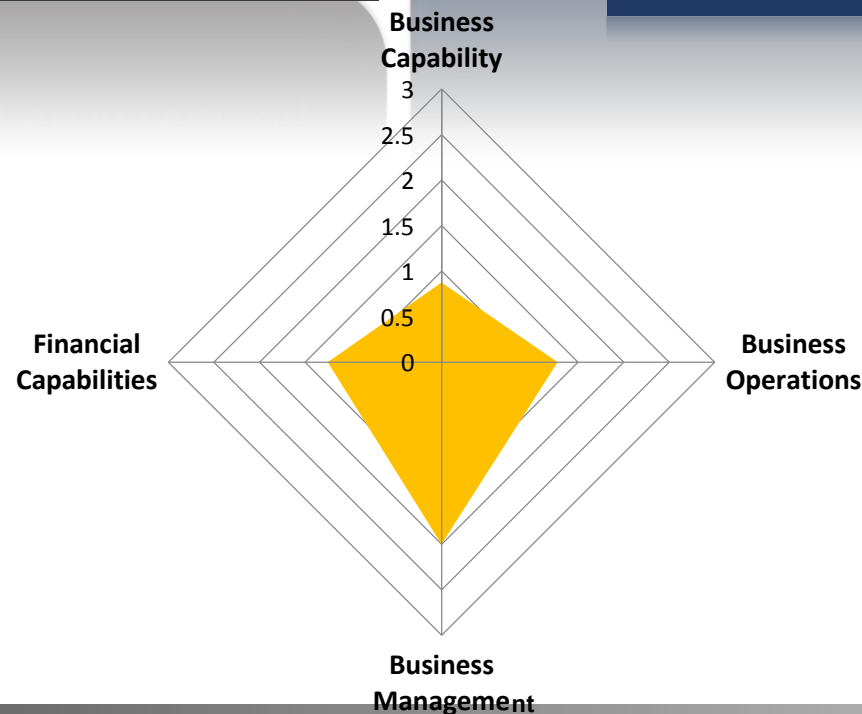
**M-CORE**

Identify strengths and weaknesses for improvements

**Function**

**Level 1:**  
Basic business operations  
**Level 2:**  
At average and has a potential  
**Level 3:**  
Complete the criteria

**Characteristics**



## Radar Diagram with 4 Parameters

- Analysis:**  
Low in business capability.
- Assistance:**  
To provide hand holding assistance

Financial inclusion framework was first introduced in 2011 and is one of the three pillars in the ASEAN financial integration beyond 2015

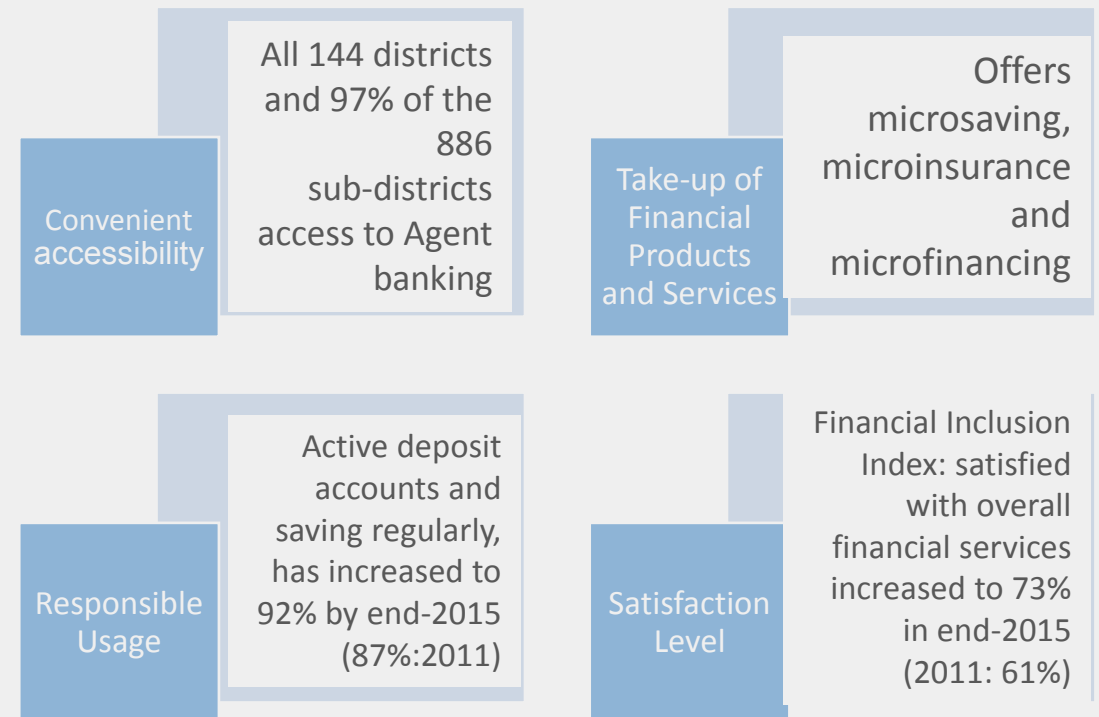
## Skim Pembiayaan Mikro

- Support from financial institutions (FIs)
- Allows microenterprises to receive **financing** up to **RM50,000 (USD12,165)** for business purposes in an easy, fast and convenient way without the need to put up collateral
- Since its inception in 2006 until end-2015:
  - Financed **185,000 microenterprises** (RM3.1 bil./ USD0.75 bil.) via 10 FIs
  - Total financing outstanding by the Scheme stood at RM912.5 million as at end-2015 and grew further to RM919.7 million as at end-Feb 2016.



Malaysia expects that the remaining 8% that constitutes the **unbanked population** to be **further reduced to 5% by 2020.**

## Financial inclusion in Malaysia has significantly improved due to the following factors:



# Other financing avenues for the microenterprise include **risk capital** & **market-based** financing

Malaysia is the first ASEAN country to have a legal framework on crowdfunding after Parliament approved the Capital Markets and Services Bill 2015 in July 2015

## Fintech in Malaysia

- 1H2016: Online transactions in Malaysia totalled USD6.37 million
- Central Bank of Malaysia introduces **Financial Technology Enabler Group (FTEG)**, formulating and enhancing regulatory policies to facilitate the adoption of technological innovations in Malaysian financial services industry

## Malaysian fintech:

- **Banks:** Maybank, CIMB Bank, RHB Bank and HongLeong Islamic Bank
- **Equity Crowdfunding Framework (ECF):**
  - ECF is a component of SC's strategy to democratise finance
  - AtaPlus, Crowdo, FundedByME Malaysia, CrowdPlus.asia, Eurecca and PitchIN
- **Peer-to-Peer (P2P)**
- **Investment Account Holders (IAP)**

### Equity Crowdfunding Framework (ECF)

### Peer-to-Peer (P2P)

### Investment Account Platform (IAP)

Alliance of FinTech Community (aFINity@SC)



SC has announced the regulatory framework for P2P financing in April 2016



# Globalising local SMEs through ECF

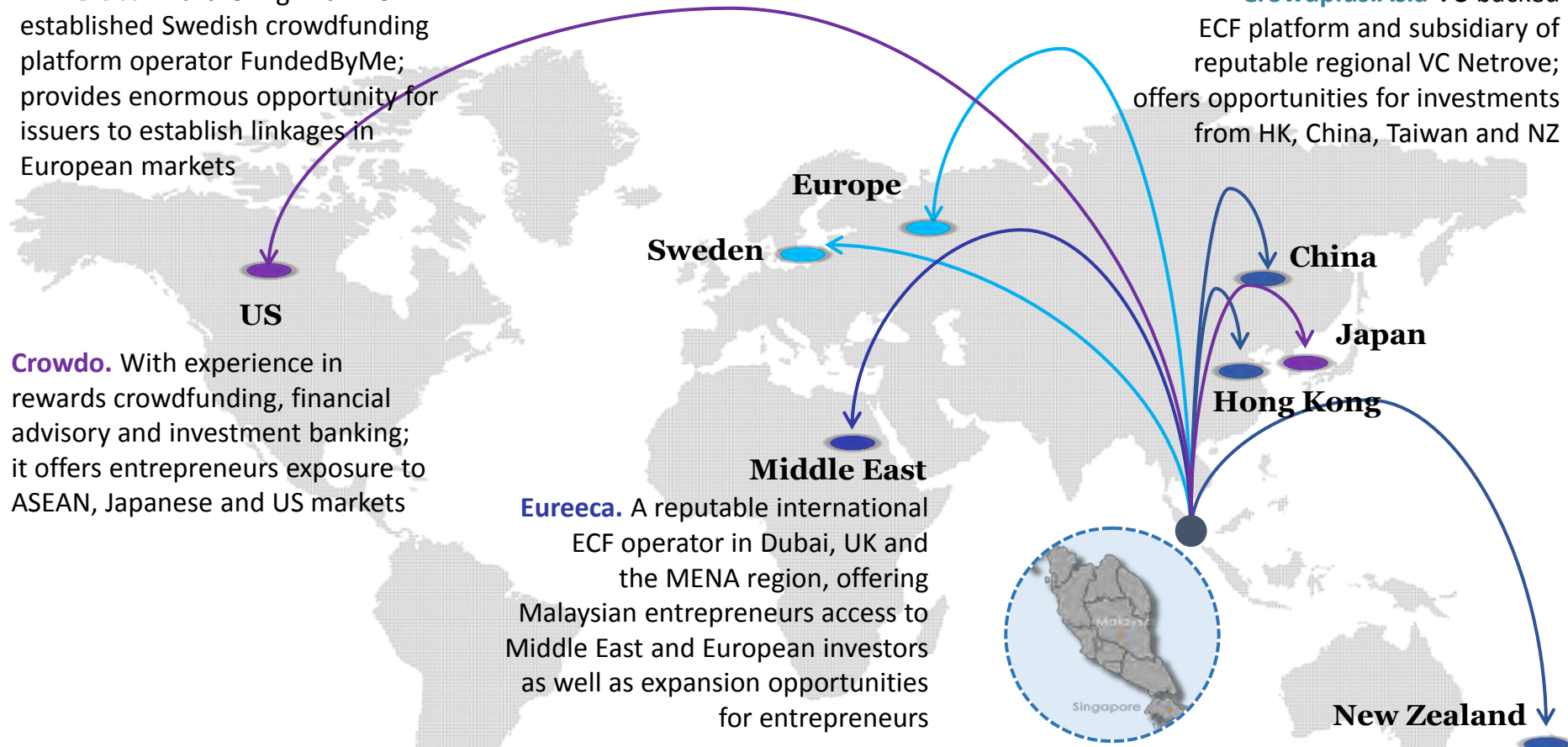
**Alix Global.** Partnering with well established Swedish crowdfunding platform operator FundedByMe; provides enormous opportunity for issuers to establish linkages in European markets

**Crowdo.** With experience in rewards crowdfunding, financial advisory and investment banking; it offers entrepreneurs exposure to ASEAN, Japanese and US markets

**Ata Plus.** Malaysian ECF platform offering fundraising services to locally incorporated start-ups with social impact dimension

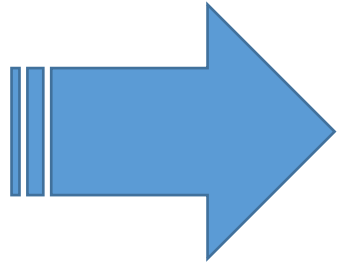
**Eureeca.** A reputable international ECF operator in Dubai, UK and the MENA region, offering Malaysian entrepreneurs access to Middle East and European investors as well as expansion opportunities for entrepreneurs

**Crowdplus.Asia** VC-backed ECF platform and subsidiary of reputable regional VC Netrove; offers opportunities for investments from HK, China, Taiwan and NZ



**Equity.pitchIN.** Established Malaysian rewards-based crowdfunding platform to operate ECF with strategic partners such as government funding agency for tech entrepreneurs Cradle Fund

## Encouraging Cashless Transaction



Using dongle that fits into the bottom of a **smartphone or tablet device** equipped with software for processing financial transaction



**Farmers' Market**



**Roadside Stalls**

**INCLUSIVE INNOVATION (HIP 6)**  
To empower the bottom 40% of the income group to leverage on innovation



**ePAYMENT**  
To encourage cashless transaction



**TUNAS USAHAWAN BELIA BUMIPUTERA**  
To inculcate spirit of entrepreneurship among youth



**INTEGRATION OF BUSINESS REGISTRATION & LICENSING (HIP 1)**  
To enhance ease of doing business



## Touch Points &

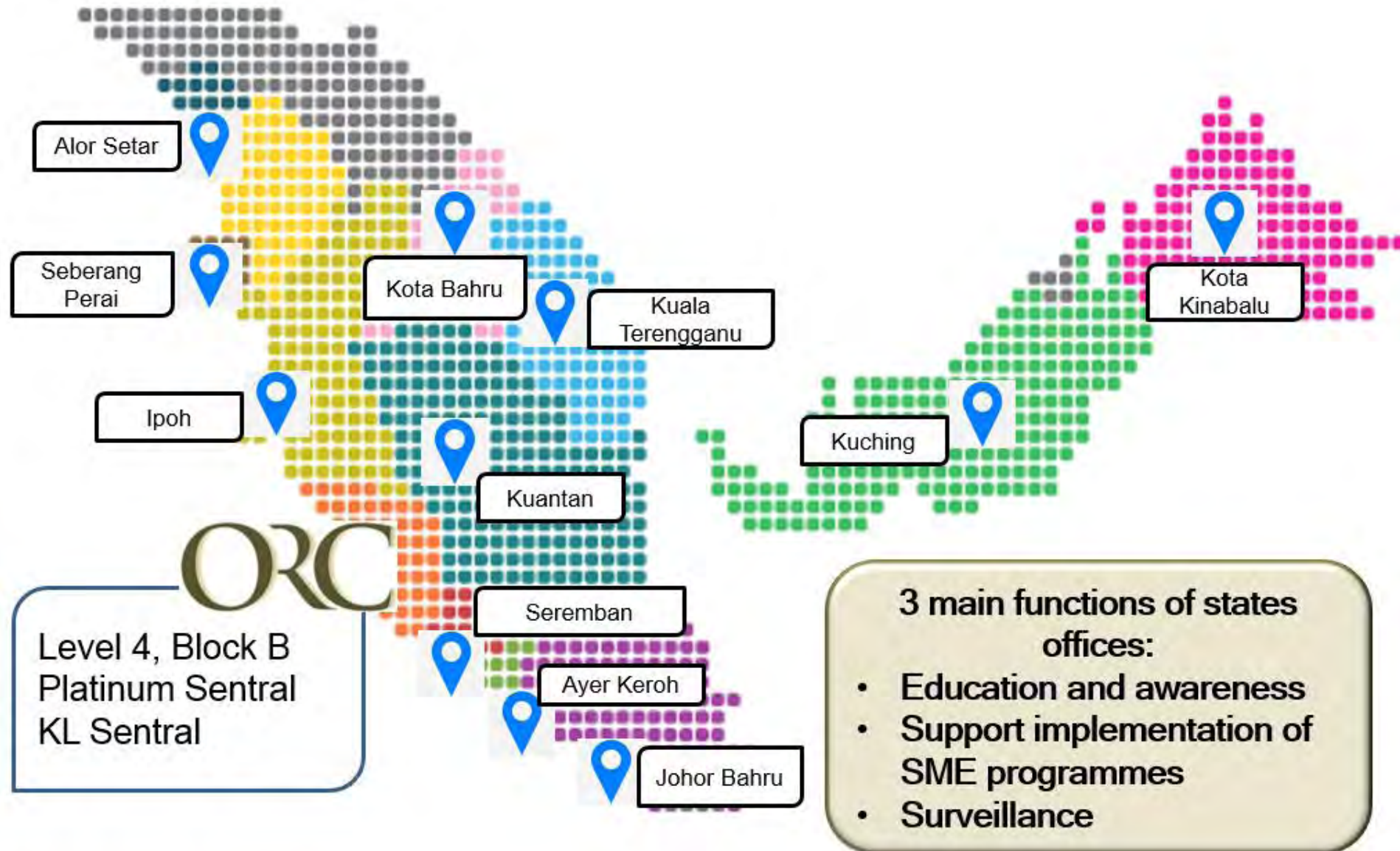
## Flash Points

**SME COMPETITIVENESS RATING FOR ENHANCEMENT**  
Diagnostic tool used to rate and enhance competitiveness of SMEs





# Outreach and hand holding at 11 states offices...





Adjust to challenging business environment  
( Cost cutting, increase efficiency & finding new markets)



Improve productivity by pushing more mechanisation and innovation

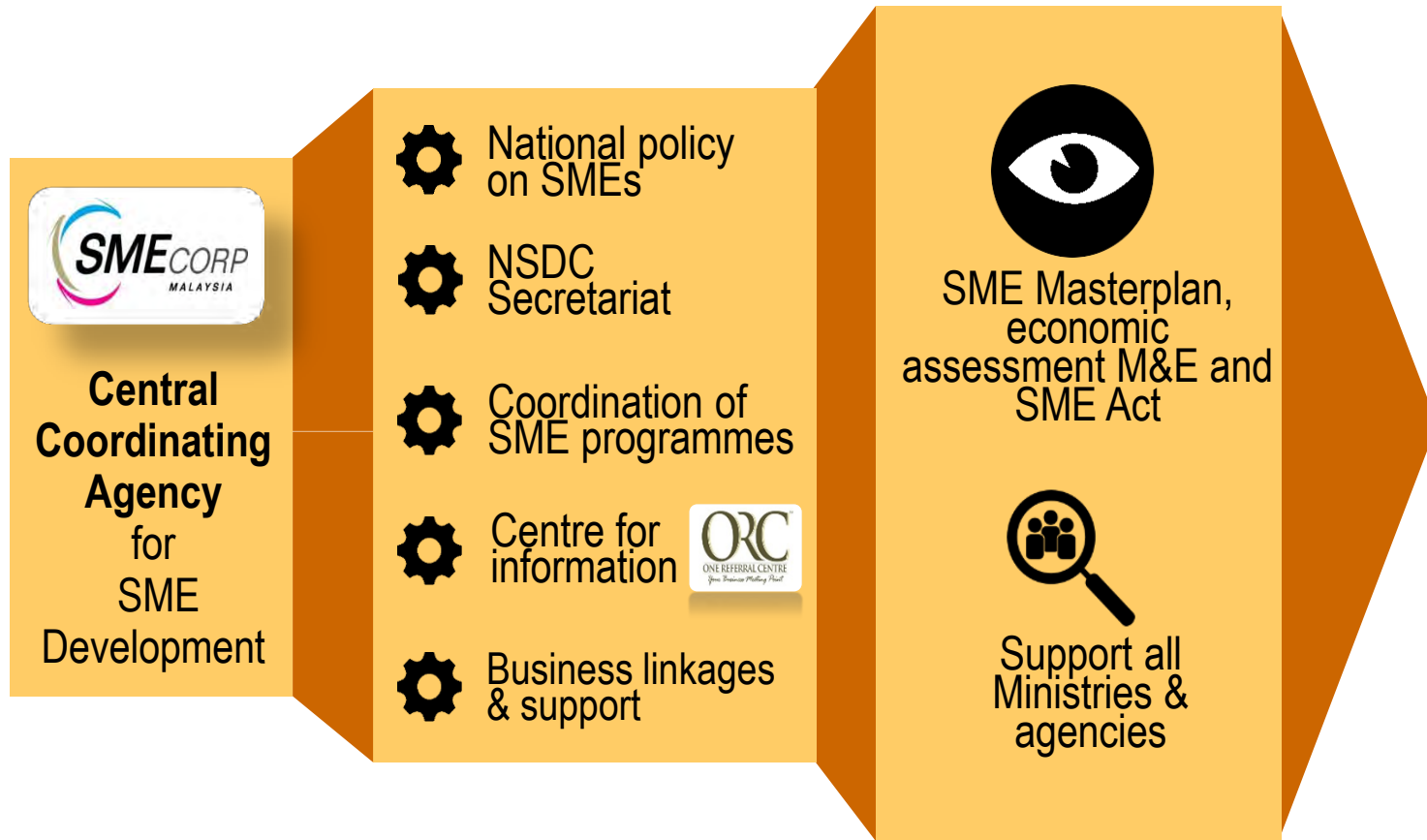


Capitalise on ICT and social media for modernising businesses and greater market access



Leverage on trade agreements, i.e. AEC & TPPA for wider market access

# In summary...



## GOALS

Increase business formation  
Average per year **6%**



Increase no. of high growth & innovative firms  
**10%** per year



Raise productivity  
**RM76,400** per worker



Intensify formalisation  
**15%** of GNI



## MACRO TARGETS



**8%**  
SME growth path



**41%**  
GDP Contribution



**65%**  
Employment



**23%**  
Export

Thank you!

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