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The government had tabled the 12<sup>th</sup> Malaysia Plan 2021-2025 (12MP) last month. The agenda lays out the medium-term plan for the next 5 years, which is also a new phase of the longer-term Shared Prosperity Vision 2030. It entails transformational approaches mainly based on 3 themes and 4 catalytic policy enablers.

The development spending is estimated to skyrocket 53.8%, ballooning to RM400 billion (11MP: RM260 billion). Some of the yet-to-be-disclosed budgeted expenses will be used to rehabilitate public agencies that are in financial difficulties, namely Lembaga Tabung Haji and the Federal Land Development Authority (FELDA). Nonetheless, it is expected that more than half of the gigantic expenditure will be channelled to the conventional, social, and economic infrastructures – roads, hospitals and schools.

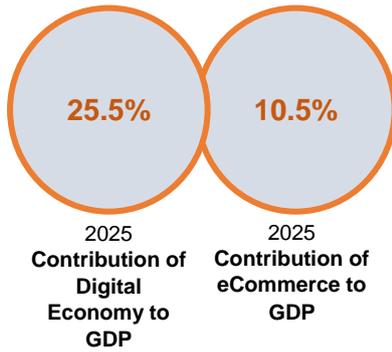


As SMEs play a pivotal role in Malaysia’s economy, which accounted for 97.2% of total registered companies in 2020, we expect them to benefit from the sizeable allocation.

Under the 12MP, the government eyes to achieve several SME related targets by 2025, such as:

- (1) increase SME’s contribution to GDP to 45% (2020: 38.5%)
- (2) raise SME’s contribution to total exports to 25% (2020: 13.5%)
- (3) attain average annual growth of labour productivity at 3.5%
- (4) digitalise 90% of SMEs’ operations.

To strengthen SMEs’ participation in the economy and their export performance, Malaysia will be leveraging on the 4<sup>th</sup> Industrial Revolution technologies such as automation, digitalisation, big data and Artificial Intelligence. The Digital On-Boarding for Micro Businesses, Digital Transformation Acceleration Programme, The Digital Compass, Warongku initiatives, among others, are expected to enhance their competitiveness, help move up the value chain, boost labour productivity and expand export markets.



According to the latest available data, the contribution of digital economy and eCommerce to Malaysia’s GDP stood at about 20% and 6%, respectively. SMEs are encouraged to be more involved in the eCommerce industry for better market reach and to adopt digital technologies in their day-to-day operations. Holistic financing platforms such as the eBerkat initiative will help accelerate the adoption of digital solutions. Furthermore, the government also plans to look into SMEs & entrepreneurs’ digitalisation needs and peer-to-peer financing

to help them to strive in bigger markets and grow their businesses globally. Programmes under the Malaysia Digital Economy Corporation – eRezeki and eUsahawan – will be enhanced to assist SMEs on marketing and funding needs.

We are of the view that these financing initiatives are steps in the right direction, over and above the available funding options from the financial industry. This is evinced by the Smart Automation Grant launched by the Ministry of International Trade and Industry (MITI) last year, which were well received. As at end-January 2021, a total of RM6.2 million had been awarded to 66 SMEs and mid-tier companies. The grant has pushed the adoption of automation among industry players, particularly local service providers and manufacturers.

According to Bank Negara Malaysia, the banking industry approved more than a quarter of SME loans to first-time borrowers as at June 2021. Overall outstanding SME loans grew 6% y-o-y (2020: 9.6%), with approval rates improving to 77.3% (2020: 73.3%). Banks are also expected to act as a catalyst in facilitating the digitalisation of SMEs.

Meanwhile, it is mentioned under the 12MP that the role of development financial institutions will be revitalised to ensure financial assistance to better reach targeted groups. As a bank with the mandate to serve the SME community, SME Bank will continue to provide financial products and services catered to SMEs.

While the Covid-19 pandemic has impinged on the earnings of SMEs, recent relaxation to allow interstate travel should help boost local businesses, especially the tourism industry. We believe the country’s economic recovery is on the right track. This is the best time for SMEs to ride on the recovery trend and transform their businesses.

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