PENERAJU BUMIPUTERA

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SMEs cautiously optimistic

They think incentives and initiatives will help, but have differing views on how the efforts will pay off

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THE 2017 Budget is viewed as a step in the right direction for smaller companies as it recalibrates efforts to continue the traction from last year's initiatives and programmes.

Various associations and organisations welcome the incentives and initiatives which they believe will help SMEs. However, they have differing views on how the slew of efforts will pay off.

SME Association of Malaysia president (SMEAM) **Michael Kang Hua Keong**, and Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM) SME and Human Resource Development Committee chairman **Koong Lin Loong** think the budget is good as it will benefit SMEs.

Despite the positives for SMEs, Kang says implementation and execution will be key. "That's the problem every year. We need to set a KPI (key performance index) to monitor results and ensure the budget is carried out as it should be," he tells ***FocusM***.

Apart from financial incentives, he stresses the government must simplify and make policies more transparent to enable SMEs to leverage existing initiatives to grow, instead of creating more policies that make it difficult for companies to do business.

Federation of Malaysian Manufacturers (FMM) president **Tan Sri Saw Choo Boon** also gives a thumb-up to the positive impetus for SMEs and entrepreneurs, but offers a more critical view.

"The programmes and additional funds are expected to boost further development and growth of SMEs and entrepreneurship. While FMM is happy with these, we hope more funds could have been allocated to develop SMEs," he says.

SME Bank views the declaration of 2017 as a Start-up and SME Promotion Year as timely as there are only four years to achieve the targets of the SME Masterplan. However, it says the SME sector statistically will need to record a minimum annual growth of over 10%, higher than the annual GDP growth of 4-5%.

The export initiatives, reducing tax for productive SMEs, widening and enhancing broadband quality, digital programmes and insurance credit facility for SMEs should contribute directly to achieving the SME Masterplan, it adds.

According to the SME Annual Report 2015-2016, the Department of Statistics' preliminary figures show that SMEs contribute 36.3% to GDP, and 17.6% to total exports, versus the SME Masterplan's targets of 41% and 23% respectively.

SME allocations

More than RM5.3 bil has been set aside to develop the SME sector next year, with the biggest allocations of RM75 mil for the continued implementation of the High Impact Programmes under the SME Masterplan, and RM2 bil for women entrepreneurs via I-KIT, I-KeuNita and Women Career Comeback.

Another RM1.4 bil has been allocated to empower bumiputera entrepreneurs through programmes implemented by several agencies, including SME Bank (RM100 mil), Amanah Ikhtiar Malaysia [AIM] (RM100 mil), Tekun (RM300 mil), Perbadanan Usahawan Nasional Bhd (RM200 mil), Mara (RM120 mil) and Teraju (RM600 mil).

SME Bank's allocation will be channelled into programmes such as the Skim Anjakan Usahawan to accelerate the businesses of SME bumiputera entrepreneurs. The scheme received RM20 mil in the previous budget.

In addition, RM200 mil has been set aside for business financing programmes via Tekun and AIM, as well as programmes to increase capacity and income for Indian entrepreneurs. Chinese entrepreneurs will get RM90 mil in SME loans through Kojadi (RM50 mil), micro-credit loans under the Malaysian Chinese Women Entrepreneurs Foundation (RM20 mil) and loans to hawkers through 1Malaysia Hawkers and Petty Traders Foundation (RM20 mil).

The budget has several initiatives to support the start-up ecosystem

Welcoming the budget, Malaysian Associated Indian Chambers of Commerce and Industry president **Tan Sri K Kenneth Eswaran** says: "There is more in the budget that the Indian business community could benefit from, including SME development initiatives, innovation and creativity incentives, and more."

According to the SME Annual Report 2015-2016, AIM's micro-financing initiatives had disbursed RM15.7 bil financing to over 3.7 million businesses as of June 30.

ACCCIM's Koong says the RM80 mil allocation for initiatives to invigorate the arts and cultural sector, and higher tax deduction from RM500,000 to RM700,000 to encourage sponsorship by the private sector in local and foreign arts, culture and heritage shows and performances, will trigger a chain reaction effect that will benefit SMEs' bottomlines via higher tourist arrivals.

FMM's Saw says SMEs will also benefit if there is extension of reinvestment allowances and incentives to promote innovation, research and development, productivity and accelerated capital allowances for automation.

Ongoing measures

Koong says it is important for the 2017 Budget to be viewed together with previous budgets.

A case in point is the slew of measures in the 2016 Budget for SMEs for years of assessment 2016 to 2018. Among them are relaxation of conditions for SMEs to claim income tax exemption for value of increase for manufactured products exports and the automatic double tax deduction for expenditure on R&D projects up to RM50,000.

The previous budget also extended the 100% income tax exemption on statutory income for tour operators, providing relief to SMEs in the tourism sector, as well as the RM1.2 bil Green Technology Financing Scheme to Dec 31 next year.

This year, RM4.3 bil was allocated for 125 programmes implemented for SME development, which are expected to benefit 453,945 companies. Access to financing has the biggest chunk of the pie with 31 programmes (24.8%) and the highest amount of financial commitment (RM3.8 bil), followed by human capital development, market access, innovation and technology adoption, and infrastructure.

An additional 27 programmes with a RM2.9 bil allocation are also being implemented in collaboration with the private sector.

Kang says SMEs need to adopt technology and reskill their workers

Koong sees tax for SMEs reducing over the years, but urges the government to commit to the reduction

Annual growth of SME GDP by key economic activities (%) (constant 2010 prices)

Year	2010	2011	2012	2013	2014	2015p
Agriculture	-	6.6	1.3	2.3	17.3	2.0
Mining & Quarrying	-	7.3	14.5	8.1	182.8	8.9
Construction	-	4.4	16.6	14.0	97.8	7.6
Manufacturing	-	7.8	6.2	5.0	10.9	6.0
Services	-	7.1	6.2	7.2	8.7	6.6
Plus: import duties	-	32.9	29.6	18.2	21.6	20.2
Total SME GDP	**-**	**7.3**	**6.0**	**6.4**	**13.5**	**6.1**

p : preliminary

Contribution of SMEs to overall GDP by key economic activities (%)

Year	2010	2011	2012	2013	2014	2015p
Agriculture	4.3	4.3	4.1	4.0	4.5	4.3
Mining & Quarrying	0.05	0.05	0.1	0.1	0.1	0.2
Construction	0.9	0.9	1.0	1.1	2.0	2.1
Manufacturing	7.2	7.4	7.4	7.5	7.8	7.9
Services	19.6	19.9	20.0	20.5	21.1	21.4
Plus: import duties	0.2	0.3	0.3	0.3	0.4	0.5
Total SME GDP	**32.2**	**32.8**	**33.0**	**33.5**	**35.9**	**36.3**

p : preliminary

Source: **Department of Statistics**

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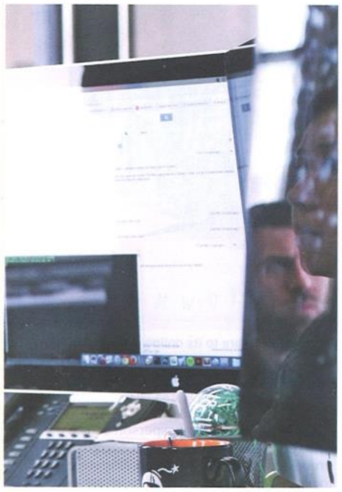


Last year, 150 programmes worth about RM5 bil were carried out, benefiting over 580,100 SMEs. Another 20 programmes with RM3.1 bil funding were carried out in collaboration with the private sector, which benefited 593,000 companies.

Need to invest more in human resources

SKILLS and expertise of the workforce must be upgraded for companies to move up the economic value chain.

Under the 2017 Budget, RM4.6 bil has been allocated for technical vocational education and training programmes. Malaysian Associated Indian Chambers of Commerce and Industry president Tan Sri K Kenneth Eswaran says this is a positive move, noting that industrial skills can be used to help the workforce.

SME Association of Malaysia president Michael Kang Hua Keong says a human resource masterplan is needed in line with the future economic direction. "I've always said SMEs need to adopt technology and reskill their workers to be able to integrate automation into businesses and increase productivity."

According to the SME Annual Report 2015-2016, RM79.4 mil was spent on 39 programmes last year to help 97,095 SMEs develop human capital into a highly skilled and creative workforce.

The new Digital Maker Movement under the Malaysia Digital Economy Corporation (MDEC) announced in the budget is another example of an initiative to identify and nurture young talents to be future digital innovators.

MDEC CEO Datuk Yasmin Mahmood forecasts that Malaysia will need one million digital workers, such as coders, application developers and software engineers, by 2025.

Easing cashflow concerns

One of the key concerns of SMEs is cashflow management, especially after the implementation of the revised minimum wages on July 1, and the foreign worker levy on March 18.

Minimum wages were increased from RM900 to RM1,000 in Peninsular Malaysia, and from RM800 to RM920 for Sabah, Sarawak and Labuan. The levy for manufacturing and construction was increased from RM1,250 to RM1,850 per worker, plantation and agriculture from RM590 and RM410, respectively, to RM640. The levy for services remained unchanged at RM1,850.

In addition, the monthly salary threshold for mandatory contribution to the Social Security Organisation (Socso) was increased from RM3,000 to RM4,000. Monthly contributions by employees and employers were also raised.

However, SME associations welcomed the reduction of income tax for productive SMEs.

The tax rate on chargeable income up to the first RM500,000 is reduced from 19% to 18% effective from year of assessment 2017, which SMEAM's Kang and ACCCIM's Koong say will help SMEs manage their cashflow.

Kang notes that the tax reduction by stages for years of assessment 2017 and 2018, based on percentage increase in income, will encourage SMEs to grow.

The move will see a 1% reduction for increase in chargeable income of 5% and below 10%, 2% (between 10% and below 15%), 3% (between 15% and below 20%) and 4% (20%).

This means if a company's chargeable income for year of assessment 2016 is RM10 mil and increases to RM12 mil in year of assessment 2017, income tax imposed for the first RM10 mil is 24% (RM2.4 mil). The RM2 mil increase in year of assessment 2017 will be taxed at 20%, resulting in savings for the company.

Kang says while the new tax structure will encourage SMEs to grow, the 18% rate will impact more companies. "This is because it is a significant difference for SMEs after the Goods and Services Tax implementation and increases in costs of doing business."

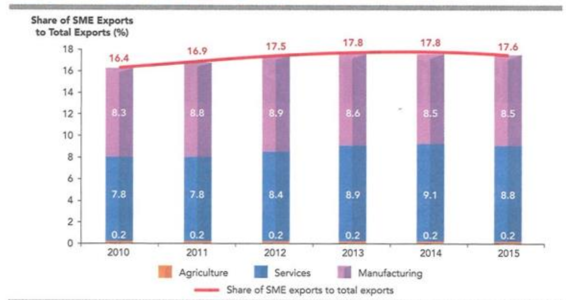
FMM's Saw says the tax reduction will motivate businesses to increase revenues. "However, FMM hopes to see the extension of this incentive to the overall chargeable income, in view of competition from regional economies that have taken steps to reduce their corporate tax rates aggressively."

Koong sees tax for SMEs reducing over the years, but urges the government to commit to the reduction, citing Hong Kong's 16.5%.

The RM350 mil allocation to boost SME export through export promotion programmes is expected to encourage more SMEs to venture overseas. The last budget allocated RM235 mil for the 1Malaysia Promotion Programme, Services Export Fund and the Export Promotion Fund under the Malaysia External Trade Development Corporation (Matrade).

Next year's allocation includes RM130 mil from the National Export Promotion Fund to Matrade, SME Corp and the Malaysian Investment Development Authority. It also covers RM200 mil financing and insurance credit facilities with coverage up to RM1 bil by EXIM Bank, and RM20 mil (RM100 mil for five years) through a 2% interest rebate on guarantees provided under the Syarikat Jaminan Pembiayaan Perniagaan Scheme.

Share of SME exports by economic sectors (%)



Source: **Department of Statistics**

FMM hopes more funds could have been allocated to develop SMEs in the 2017 Budget, says Saw

Yasmin says the Malaysia Digital Hub will offer the start-up community much-needed support

Digital entrepreneurship

Another positive development are initiatives to support the start-up ecosystem, such as the RM200 mil for Working Capital Guarantee Scheme and a new pass category called Foreign Knowledge Tech Entrepreneurs to encourage investment in high technology start-ups.

The Malaysia Digital Economy Corporation(MDEC) was also given RM162 mil to implement programmes such as the e-commerce ecosystem and Digital Maker Movement, as well as introducing a new location category called the Malaysia Digital Hub.

"It also offers the start-up community the much-needed support of an ecosystem that suits the nature of their businesses. With the implementation of Malaysia Digital Hubs, they can enjoy the full benefits of the MSC Bill of Guarantees, including tax incentives," says MDEC CEO **Datuk Yasmin Mahmood.**

FMM's Saw says the allocation to promote digital connectivity is timely. "We look forward to the introduction of the Digital Free Zone and higher broadband speed for the same price, and further reduction in costs in the next two years.

"The RM1 bil allocated to the Malaysian Communication and Multimedia Commission to ensure wider coverage and quality of broadband is welcomed. We hope these initiatives will also benefit businesses, especially industrial estates."

Those in the lower income groups have not been forgotten. Some RM290 mil has been allocated for several programmes to stimulate development for B40 entrepreneurs.

It includes RM30 mil for GiatMara's Mobilepreneur Programme, RM100 mil for agropreneur development, an additional RM100 mil to revitalise the eRezeki and eUsahawan initiatives launched last year, and RM5,000 each for taxi drivers to purchase new vehicles with individual taxi permits given, with RM60 mil allotted. FocusM

RM350 mil has been allocated to boost SME export through export promotion programmes