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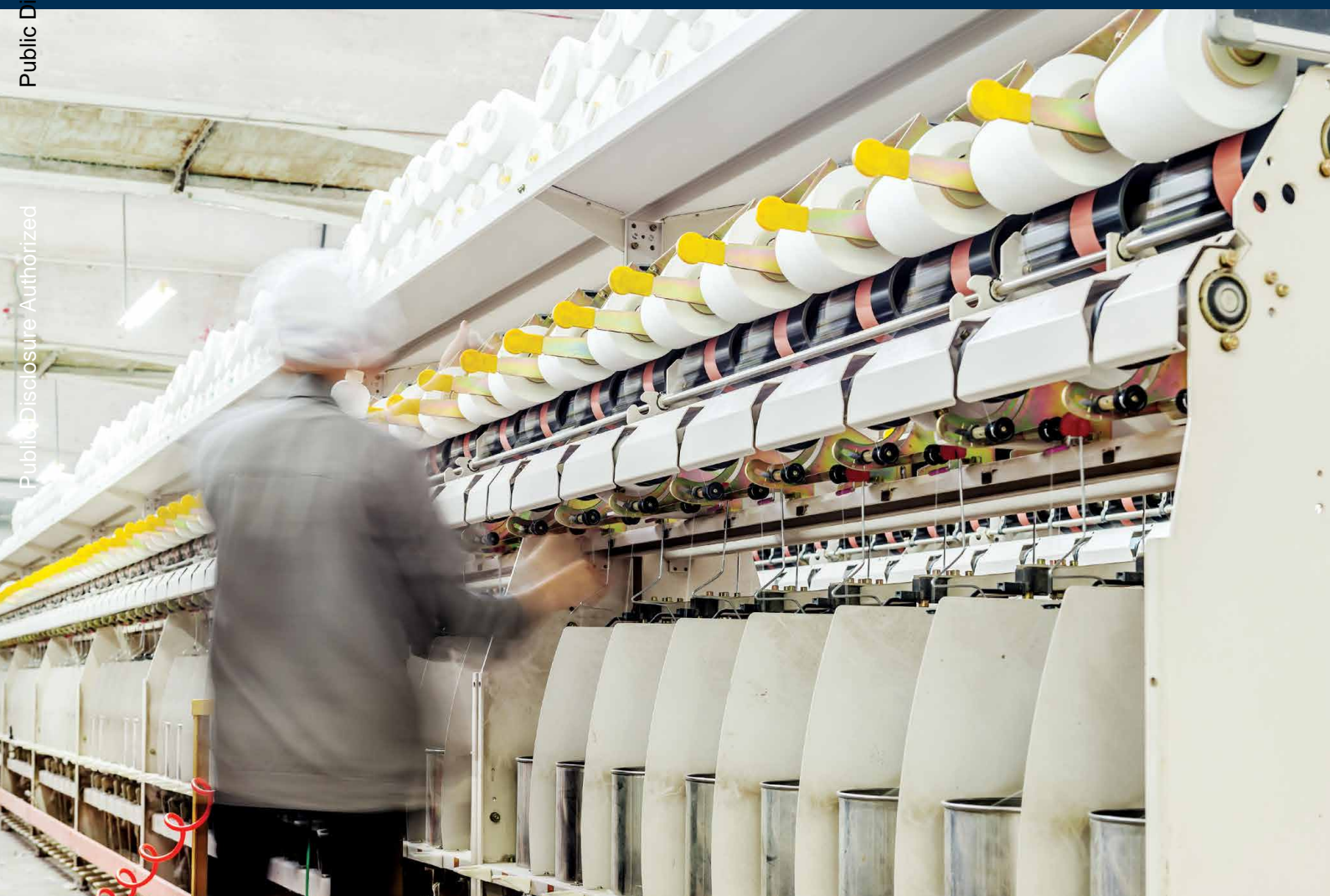
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FEBRUARY 2020

THE MALAYSIA DEVELOPMENT EXPERIENCE SERIES

## Malaysia's experience with the SME Masterplan

### Lessons Learned



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# List of Acronyms

AFAM	Air Freight Forwarders Association of Malaysia
AIM	Agensi Inovasi Malaysia
AFC	Asian Financial Crisis
BE	Business Environment
GDP	Gross Domestic Product
GoEx	Going Export Programme
GoM	Government of Malaysia
HIP	High-Impact Program
KPI	Key Performance Indicator
M&E	Monitoring & Evaluation
MAMPU	Malaysian Administrative Modernisation and Management Planning Unit
MATRADE	Malaysia External Trade Development Agency
MDTCC	Ministry of Domestic Trade, Cooperatives and Consumerism
MESTECC	Ministry of Energy, Science, Technology, Environment and Climate Change
MITI	Ministry of International Trade and Industry
MOA	Ministry of Agriculture and Agro-based Industry
MRRD	Ministry of Rural and Regional Development
MNC	Multinational Corporation
MOE	Ministry of Education
MOHE	Ministry of Higher Education
MOSTI	Ministry of Science, Technology and Innovation
NEP	National Entrepreneurship Policy
NESDC	National Entrepreneurship and SME Development Council
NSDC	National SME Development Council
PMO	Prime Minister's Office
POC	Proof of Concept
PSMB	Pembangunan Sumber Manusia Berhad
R&D	Research and Development
SBA	Small Business Administration
SIP	SME Investment Programme
SME	Small and Medium-Sized Enterprise
SME Corp	SME Corporation Malaysia
SMIDEC	Small and Medium Industries Development Corporation
SCM	Securities Commission Malaysia
SSM	Suruhanjaya Syarikat Malaysia
TCM	Talent Corporation Malaysia
TCP	Technology Commercialisation Platform
US	United States of America

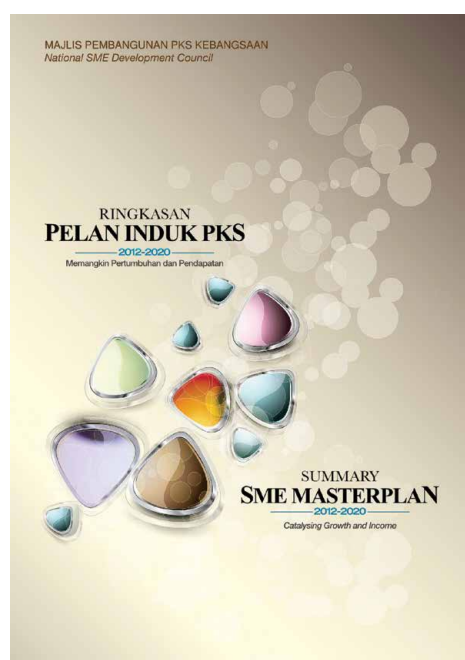


# Executive Summary

**Productivity-enhancing measures play a pivotal role in Malaysia's aspirations of becoming a high-income economy.** Malaysia has enjoyed an impressive growth performance over the past few decades, with growth rates of at least 7 percent per year for more than 25 consecutive years. However, with the rise of other emerging economies, notably China and India, Malaysia has faced challenges in pivoting away from a 'low-cost, high-volume' strategy towards a 'high-value' one.

**Small and medium-sized enterprises (SMEs) are a crucial component of Malaysia's strategy to become a high-income nation.** As SMEs account for all but 1.5 percent of firms and the bulk of production and employment, they are central to Malaysia's objective of becoming a high-income economy. SMEs form the bedrock of the private sector and innovation and can contribute to growth by supplying multinationals or accessing international markets directly. Despite their critical importance, the share of Malaysian SMEs in GDP (32 percent) and total exports (16 percent) was far lower than competitors in 2010. At the time of preparation of the Masterplan, the export share was more than 20 percent lower than that in countries such as the Philippines, Hong Kong, Taiwan and even the US, and there was also scope for greater sectoral and geographical diversification. It was recognized that specific policies to enable favorable conditions for SMEs to flourish were needed so that they can easily expand into fast-growing markets and increase the production of knowledge- and innovation-based products and services.<sup>1</sup>

**The Government of Malaysia decided to leverage the potential of SMEs to increase productivity and promote inclusive growth.** As part of its strategy to become a high-income, knowledge-based economy, the Government embarked on a multi-dimensional strategy to boost SME development and sustainability. The creation of the National SME Development Council (NSDC) in 2004, was the first key step in showing the Government's commitment to SME development. Chaired by Prime Minister, the NSDC convened 14 ministries and three agencies from throughout the government who worked together to oversee policy development and the coordination of tasks for policy implementation.



**The SME Masterplan 2012-2020**

**The launch of the SME Masterplan 2012-2020 sparked a major shift in the trajectory of Malaysian SMEs.** The Government developed a long-term growth strategy – the SME Masterplan 2012–2020 – to influence overall SME development by focusing on six high-impact programs (HIPs) and 26 policy measures (See Table E1). The SME Masterplan envisioned increasing the participation of SMEs in the national economy and set ambitious targets to attain by 2020, including increasing the contribution of SMEs in national GDP to 41 percent, employment to 65 percent, and exports to 23 percent. To achieve these objectives, the government developed four key strategic goals:

- a) Increasing the rate of business formation;
- b) Expanding the number of high growth and innovative SMEs;
- c) Raising the productivity of SMEs; and
- d) Intensifying the rate of formalization

<sup>1</sup> World Bank (2009)

**TABLE E1 List of High Impact Programs associated with the SME Masterplan 2012-2020**

HIP	Implementing Agency	Description
1	Malaysian Administrative Modernization and Management Planning Unit (MAMPU)	<b>Integration of registration and licensing of business establishments</b> to create a single registration point by interfacing the current National Business Registration System (MyCOID) and the National Business Licensing System (BLESS)
2	Malaysia Innovation Agency (through PlaTCOM Ventures)	<b>Technology Commercialisation Platform (TCP)</b> to remove market barriers to innovation by providing hand-holding to SMEs that have innovative ideas to proceed from proof of concept (POC) to the commercialization stage
3	SME Corporation Malaysia (SME Corp)	<b>SME Investment Programme (SIP)</b> to provide early-stage financing through development of investment companies which would invest in potential SMEs in the form of debt, equity or a hybrid of both
4	Malaysia External Trade Development Corporation (MATRADE)	<b>Going Export (GoEx) Programme</b> offers customized assistance to new SME exporters or those venturing into new products or markets to overcome the information barriers and to help link them to the final buyers
5	SME Corp	<b>Catalyst Programme</b> aims to create home-grown champions through a targeted approach, building up the capacity of the firms through support on certification, market access, entrepreneurial and human capital development and access to financing
6	Yayasan Inovasi Malaysia	<b>Inclusive Innovation</b> to empower the bottom 40% of the income group to leverage on innovation to promote the transformation of communities including microenterprise in the rural and urban areas

Source: Adapted from the SME Masterplan document, 2012-2020, SME Corp.

**Prior to the conception of the SME Masterplan, Malaysia had a fragmented approach to SME development.** Since 2005, the Government of Malaysia created around 500 SME development programs during the period 2006-2010 in 16 ministries and 60 agencies, and spent billions supporting SMEs.<sup>2</sup> There were a multiplicity of support programs and implementing agencies, with a variety of overlapping activities focused on enhancing SME competitiveness and growth. In 2010, more than 85 percent of the budget for SME development was allocated towards financial support, while technical and other types of support took a backseat. The absence of rigorous impact evaluations of SME programs made it difficult to identify which programs were effective. It is unsurprising, therefore, that SMEs were playing an insignificant role in the Malaysian economy. At the time, their share in GDP (32 percent) and total exports (16 percent) was far lower than regional competitors, with countries such as Singapore, Hong Kong and even Thailand far surpassing their threshold.<sup>3</sup>

**The design and approach of the SME Masterplan departed from the previous approach.** The SME Masterplan (2012-2020) introduced a novel design and implementation-based approach with a strong focus on evidenced-based policy and program development, successfully tackling underlying constraints to SME development, such as market imperfections and information asymmetries. The Masterplan was developed through a strategic assessment and evaluation of Malaysia's SME segment, its key features, and areas of improvement. The plan adopted a more innovative "implementation approach" that departed sharply from

<sup>2</sup> SME Corp (2017)

<sup>3</sup> Observatory of Economic Complexity (2016)

the prevailing “program-based” approach to SME development used in many other countries. As in many countries who adopt a program-based approach, programs are often overlapping and are too small to make a substantial difference in tackling the issues that underlay SME constraints, such as market limitations and productivity.<sup>4</sup>

**Key features of the SME Masterplan are as follows (Figure E1):**

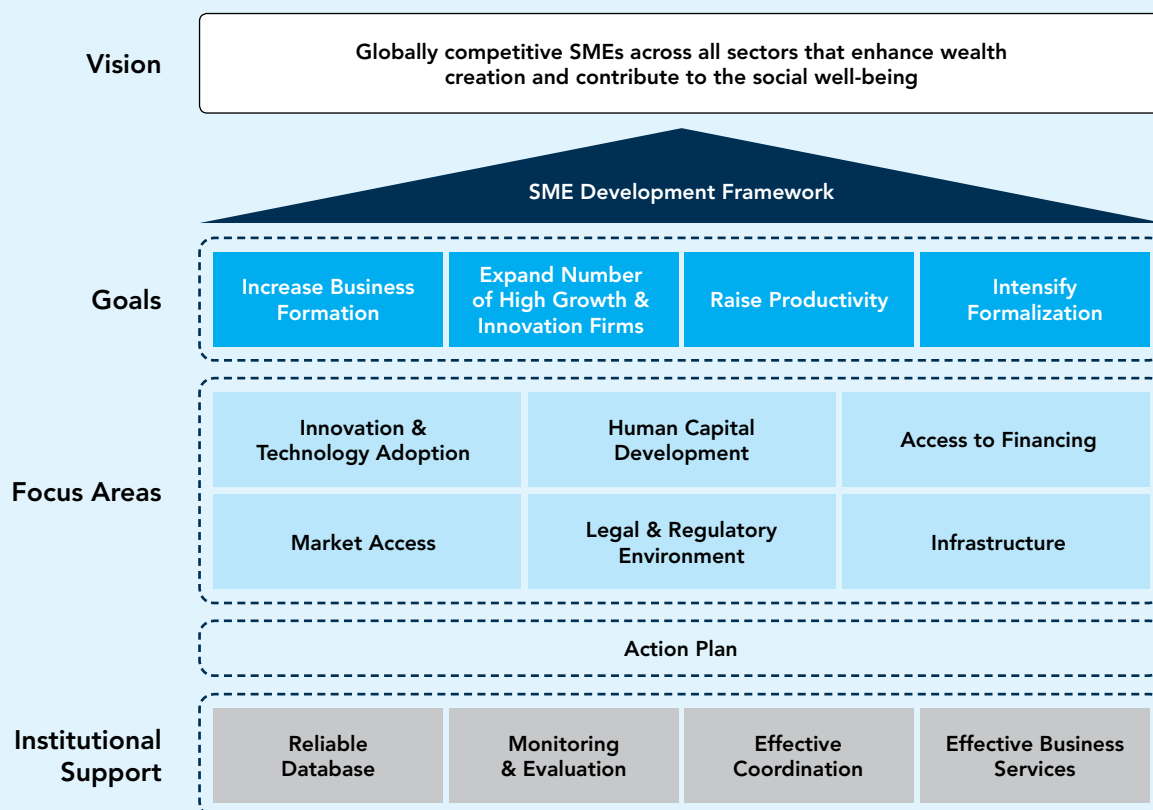
- a) It is aligned with the broader Government growth and development strategy (New Economic Model and Economic Transformation Programs);
- b) It consists of six “high-impact” programs or platforms and 26 policy and administrative measures that function as consolidating mechanisms for the nearly 150-200 SME programs that are implemented annually;
- c) These platforms (except for business registration and licensing integration platform) address specific market imperfections and information asymmetries and are therefore designed to be phased out over time, eliminating the need for continued Government budgetary support once relevant markets are created;
- d) The Masterplan is evidence-based, with a comprehensively built-in monitoring and evaluation (M&E) system. Each of the 6 High Impact Programs are assigned between 2 to 3 outcome indicators around jobs and overall GDP growth;
- e) The small number of platforms and agencies, together with the comprehensive M&E approach would make implementation coordination more practical.
- f) The Masterplan is adaptive, a necessary trait to have when aiming to stay relevant amid shifting operating circumstances. Thus, if M&E indicators show that some of the programs are not meeting their development outcomes, or are likely to be derailed, this “live” Masterplan would make necessary adjustments;
- g) All platforms are implemented through public-private partnership approaches with the government “owning” the programs and the private sector “marketing and implementing” them.

**Today, under the leadership of NESDC and the numerous policy initiatives thereafter, SMEs have started to show more dynamism in the economy.** SMEs have consistently provided substantial gains to Malaysia’s overall GDP, frequently outperforming overall economic growth, particularly since the establishment of the National Entrepreneurship and SME Development Council in 2004 (formerly known as the National SME Development Council (NSDC)). In Malaysia, SMEs contribute more than one-third of the economy.

**There has been growing dynamism amongst SMEs in Malaysia, however, there is room for further improvement.** In 2018, SMEs contributed RM521.7 billion to the economy with a GDP growth rate of 6.2 percent, a slower growth compared to the 7.1 percent growth rate achieved in 2017. The GDP contribution of SMEs increased further to 38.3 percent in 2018 from 37.8 percent in 2017. SME employment also grew at 3.2 percent during the year, resulting in SME contribution to overall employment at 66.2 percent, a marginal increase from 66 percent in 2017. While recording an increase in export value from RM166.2 billion in 2017 to RM171.9 billion in 2018, SME contribution to the total exports remained at the same rate as 2017 at 17.3 percent attributed to higher export growth by large firms.<sup>5</sup>

<sup>4</sup> In 2010, there were 269 SME support programs, all varying in the size and scale. The average budget in 2010 was about RM26.8 million, but there was tremendous variation: 20 percent of programs had reported budgets of less than RM60,000 and 20 percent had budgets greater than RM6.8 million. While one program – Agensi Inovasi Malaysia (AIM) – had a financial commitment of roughly RM1 billion.

<sup>5</sup> SME Corp (2019)

**FIGURE E1 The Masterplan's implementation approach**

Source: SME Masterplan Document, 2012-2020, SME Corp.

**Being grounded in solid analysis, designed with the agility to adapt, the SME Masterplan continues to be highly relevant.** To ensure that the Action Plan was relevant, pragmatic, and properly addressed the issues at hand, a process of co-creation, validation, and ratification was undertaken in addition to the plan being designed after rigorous analytical analysis was undertaken to gain a greater understanding of the obstacles to SME development. The changes arising from the 4th Industrial Revolution (Industry 4.0) in the production and value creation process are radical and pose a real challenge to SMEs. To benefit from the opportunities offered by Industry 4.0, SMEs need to develop strategies to exploit the new possibilities of digitalization, to improve established processes and develop new business models. The SME Masterplan continues to remain very relevant in today's global scenario.

**Given the ambitious scope of the Masterplan and the significant coordination challenges posed by its execution, progress to date has been noteworthy.** As of January 2020, all six HIPs are being implemented, with some at highly advanced stages. Challenges are expected when implementing a radical and innovative public policy such as Malaysia's SME Masterplan. To reap the full benefits of the Masterplan towards achieving its goal of raising world-class SMEs that contribute to Malaysia's growth, the principles outlined in the design need to be fully integrated into the execution of the HIPs and assimilated into the culture of the coordinating and implementing agencies.



**The main findings of an early assessment conducted on the implementation of the Masterplan are twofold.** First, the implementation of the HIPs is uneven, with some functioning largely as intended and others requiring more attention. Second, more consistent monitoring and evaluation is needed across the Masterplan. Without serious attention to regular data collection, data management and analysis, it will be difficult for the Government of Malaysia to track the efficiency and impact of the SME programs in place and maximize the economic additionality from the programs over the longer term. Encouragingly, implementation has demonstrated that functioning as a platform and providing end-to-end facilitation, while challenging, is possible and beneficial to SMEs. PlaTCOM Ventures has become the prominent technology commercialization platform in Malaysia, with linkages to other relevant programs and resources.

**Specific lessons from relatively more successful HIPs can provide some very useful guidance.** As of January 2020, seven years into the implementation of the Masterplan, all the six HIPs are being implemented. The platforms which are relatively more effective in meeting their intended outcomes have the following elements in common:

- a) Function as platforms, providing end-to-end facilitation to SMEs or innovators in view of achieving clear outcomes and KPIs;
- b) Adopted a public-private partnership model of implementation, with the private sector management infusing a corporate culture into platform execution;
- c) Implemented by agencies that are not under a line Ministry; instead, they report to a higher authority such as the Prime Minister's Office;
- d) Adopted active promotional strategies with continued awareness building, using workshops, forums and workshops, a wide range of social media, press, TV, and other channels to convey the idea of platforms and their relevance to business development;
- e) Have sufficient operational budgets;
- f) Incorporated built-in M&E systems that are focused on the outcomes of the platform; and
- g) Beneficiaries have paid all or part of the costs of the assistance provided through the platforms.

**Given the ambitious, comprehensive nature of the SME Masterplan, some implementation challenges have emerged.** Coordination among agencies has been fragmented. Further, not all HIPs operate with a sufficient budget.

**Coordination of SME development programs across Ministries and agencies has been particularly difficult.** While SME Corp played a critical, active role in building awareness and outreach around the HIPs, contributing to their design and facilitating their rollout, the agency has somehow been constrained in its ability to coordinate across Ministries and other agencies. Most importantly, Malaysia lacks the legislative framework on SME Development that provides the legal authorizing environment for SME Corp, unlike in the United States, Japan and Korea, where SME Development, its governance, and clarity of responsibilities and accountability for implementation among implementing agencies were clearly mandated. Further undermining SME Corp's ability to coordinate across agencies is the fact that it also implements two HIPs since the 2 programs had no agency taking the lead to implement them. This is unlike the Small Business Administration in the USA, for example, which coordinates across 11 Departments (or ministries) that provide research & development funding to ensure that 2.5% is set aside for small businesses but does not provide any direct funding.

**BOX E1**

# What is a High Impact Program?



**A key feature of the Masterplan is the concept of High Impact Programs (HIPs).** The concept of these HIPs being “platforms” is at the core of the Masterplan’s innovative approach. It was introduced to tackle the problems with the program-based approach, opening the door for more coordination between stakeholders in Malaysia, increasing resources, and becoming more structurally efficient. The following key points should be noted:

- 1) HIPs take a platform-based approach and not the typical program-based approach.
- 2) HIPs provide end-to-end assistance to achieve desired outcomes, which may include a range of services such as technical assistance, financing, marketing, promotion, and others to bridge existing gaps in the system. The unique feature of the HIPs is that rather than providing all these services itself, the platform taps into the country’s existing SME programs and serves as a mechanism that creates synergy among resources and skills that exist within a range of related and complementary programs from the public sector, or resources from the private sector.
- 3) A platform consists of a professional management team from the private sector working together with the public sector.
- 4) The main budget requirement for the platform is for additional management and operational expenditure and/or “gap” funding to complement existing resources (availability of operational budget is important because of intensive hands on management, expertise, skills and outreach required for the success of the platform).

**More broadly, some key lessons can be distilled from Malaysia's experience in designing and implementing a comprehensive SME development strategy, both for Malaysia and for other countries wishing to boost SME growth and competitiveness:**

- 1. Critical to have buy-in from the highest levels.** Given the number of implementation agencies involved in SME Development, it was critical to have a champion at the highest level who endorsed the Masterplan. The NESDC being chaired by the Prime Minister was pivotal in getting all the ministries and agencies on board.
- 2. Design based on rigorous analytical underpinnings.** To better design the Masterplan and properly allocate scarce public resources towards SME development, it was important to gain a stronger understanding of the diverse nature and dynamics of SMEs in Malaysia. This required taking a deep-dive into the dynamics of SMEs' existence and performance to assess the factors that hamper the growth and competitiveness of SMEs; and an assessment of the nature and effectiveness of government-funded SME development programs.
- 3. The design involved extensive consultations to gather buy-in.** The SME Masterplan was developed after extensive engagement with key stakeholders from throughout Malaysia, including SMEs, SME Associations, public sector agencies involved in SME development, public institutes, financiers and private entities that support SMEs.
- 4. Promising results can be achieved if the platform design principles are clearly thought out and implemented.** As stated earlier, HIPs are successful if they function as platforms, facilitating coordination among existing programs, adopt an effective public-private partnership model of implementation; report to a higher authority such as PMO; actively adopt promotion strategies; have sufficient operational budgets; incorporate built-in M&E systems that are focused on the outcomes of the platform; and beneficiaries pay all or part of the costs of the assistance provided through the platforms.
- 5. Adequate resources, independence, and mandate provided to the central agency to ensure success.** To be effective, the mandate/mission of SME Corp needs to be aligned to the SME Masterplan and different from that of line Ministries and agencies. This needs to be clearly understood by all stakeholders involved. SME Corp also needs to be adequately funded and staffed to deliver on this mandate/mission, with the independence to make decisions. Moreover, SME Corp's role could be further reinforced through a legislative framework which includes an explicit statement of goals for SME Development, the responsibilities of each implementing organization (SME Corp, line ministries), and definitions of SMEs. The governance of an independent SME Corp through the NESDC will continue to be an important platform for policy decisions on SME development and implementation of the SME Masterplan.
- 6. A different model of budget allocation needs to be adopted.** This model would reward programs that provide effective coordination and end-to-end facilitation to address key constraints to SME growth and competitiveness.
- 7. Mechanisms required for effective coordination among stakeholders.** There need to be mechanisms to stimulate the participation of the different stakeholders for effective implementation of the Masterplan. With external stakeholders, this will require frequent consultations and participation in working groups/boards to improve the transparency and accessibility of information.
- 8. Importance of monitoring & evaluation.** Evaluations of SME programs, when done, are done by an independent, external body. Without serious attention to regular data collection, data management and analysis, it will be difficult for the Government of Malaysia to track the efficiency and impact of the SME programs in place and maximize the economic additionality from the programs over the longer term. In addition, the traditional M&E methodologies may not be appropriate for evaluating platforms that have an indirect impact on the success of several other programs that they draw on.

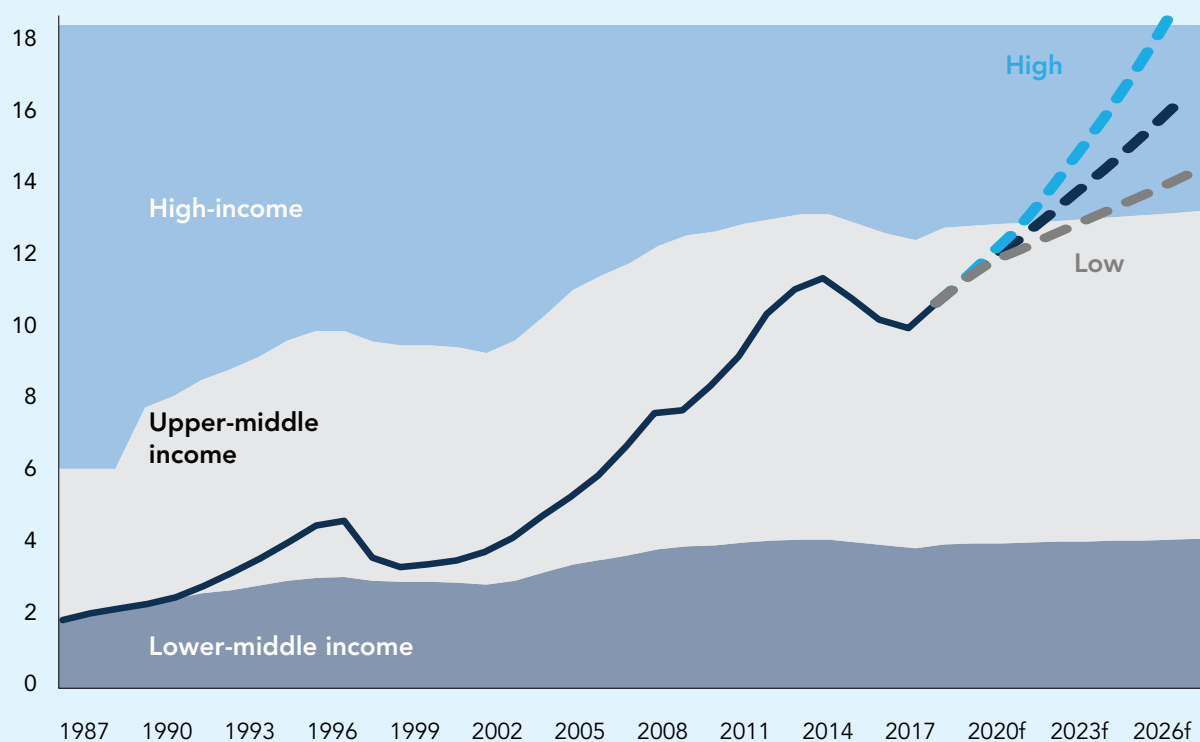


## CHAPTER 1

# Why was the Masterplan Developed?

**Malaysia's economic development is a success story in East Asia.** Malaysia is one of the few countries in the world that has, since 1950, sustained an economic growth rate of at least 7 percent per year for more than 25 years.<sup>6</sup> Extreme poverty, which affected almost half the population in 1990, has almost been eliminated by 2017.<sup>7</sup> As a result of the financial reforms implemented after the Asian Financial Crisis, Malaysia's financial sector has become: sound, resilient, and diversified. From 2006 to 2018, Malaysia's GDP increased from \$162.69 billion to \$358.58 billion and GDP per capita from \$6,209.13 to \$11,373.23. Malaysia successfully diversified from a commodity-based nation into an industrialized nation and is one of the most open economies in the world.<sup>8</sup> Reliance on net capital inflows has declined, and GDP growth which has been varied throughout the past 20 years, continued to be varied as it accelerated to 5.8 percent in 2017 but decelerated to 4.7 percent in 2018. The deceleration in GDP growth rate was attributed to weaker export performance amidst uncertain global trade tension as well as continued inventory drawdowns amongst Malaysian firms.<sup>9</sup> Recent projections from the World Bank suggests that Malaysia's transition to high-income status is likely to occur between 2021 and 2024 (Figure 1.1).

**FIGURE 1.1** Malaysia's transition to high-income status



Source: World Bank staff projections

<sup>6</sup> Commission on Growth and Development (2008)

<sup>7</sup> Defined as the proportion of the population living below US\$1.90 a day in 2011 PPP terms.

<sup>8</sup> Malaysia's trade to GDP ratio is 136.3 percent (average 2010 - 2014) compared to 58 percent in developing countries in East Asia and Pacific, and foreign direct investment inflows have been above the average of upper and middle-income countries.

<sup>9</sup> World Bank (2018)

**Notwithstanding its success, Malaysia has faced challenges in achieving its objective of becoming a high-income, inclusive, and sustainable economy by the year 2020 (“New Economic Model”).** Although economic growth has bounced back since the 1997-1998 Asian Financial Crisis (AFC), structural constraints are emerging as capital accumulation faces headwinds associated with declining oil and gas output. Real GDP growth averaged 4.7 percent over 2001-2010, nearly half the rate of 9.1 percent in the decade before the AFC. Recently, the average growth rates remained moderate at 5.2 percent from 2011-2018. Despite measures to diversify the economy, about a fifth of economic output is linked to commodities, especially oil and gas. It is also becoming increasingly difficult for Malaysia to remain competitive as a high-volume, low-cost producer, especially given the rise of other regional competitors. Moreover, labor productivity has grown more slowly in Malaysia at an average rate of 2.65 percent compared to Singapore (3.95 percent), South Korea (3.39 percent) and Thailand (3.08 percent).<sup>10</sup>

**To tackle these challenges, the Government of Malaysia (GoM) embarked on an agenda of comprehensive structural reform to raise average income levels through productivity growth, promote inclusive growth, and ensure sustainability.** The New Economic Model, launched in 2010, identifies bold structural reforms that, if undertaken, could lift the real growth rate to an average of 6.5 percent per year over 2011-2020. These include measures to re-energize the private sector, create a competitive domestic economy, and build the knowledge base and infrastructure. Through the Economic Transformation Programme, the Government also identified new opportunities for greater private sector investment and liberalization.

**In this context, the GoM recognized that leveraging small and medium-sized enterprises (SMEs) is critical for Malaysia’s transition to a high-income economy.** SMEs form the bedrock of private-sector dynamism and innovation in any country and can build a productive route to generating endogenous sources of growth. Furthermore, if capacity building does not take place in the SME segment, liberalizing markets may result in a hollowing out of certain sectors such as services, which has generally been less exposed to competition than the manufacturing sector. However, in 2010, Malaysian SMEs’ share of GDP (32 percent) and total exports (16 percent) was far lower than regional competitors such as Singapore, Hong Kong and Thailand.<sup>11</sup> Moreover, the SMEs were not very diverse, with most businesses concentrated in some sub-sectors of the services sector. One reason for this is that Malaysia’s economic growth had largely been driven by multinational corporations through foreign direct investment, while the GoM undertook SME development mainly to achieve socio-economic objectives.<sup>12</sup>

**The GoM thus set out to revamp its institutions to create a dynamic and competitive SME development policy that could help Malaysia in making the transition to a high-income nation by 2020.** To show its commitment, it created the National SME Development Council (NSDC) in 2004 (currently known as the National Entrepreneurship and SME Development Council (NESDC)). Chaired by the Prime Minister, the NSDC convened with 14 Ministries and three Government agencies who worked together to oversee policy development and coordination of tasks for the policy implementation. In 2007, the Small and Medium Industries Development Corporation (SMIDEC) was transformed into the Small and Medium Enterprise Corporation Malaysia (SME Corp) under the Ministry of International Trade and Industry (MITI). SME Corp was designated as the central coordinating agency tasked with formulating policies and strategies for SMEs and coordinating programs across all related Ministries and Agencies. SME Corp has since taken the lead in SME development policy formulation and implementation coordination. SME Corp also serves as the focal point for all SMEs seeking information and advisory services, capacity building programs and support

10 World Bank (2016)

11 The Observatory of Economic Complexity (2016)

12 World Bank (2009) and World Bank (2016)





through financial and non-financial incentives. SME development remains a key priority for the government today. There is a recognition by the government that SMEs in Malaysia need to be more competitive to actively participate in the global value chains and Industrial Revolution (IR) 4.0.

**SME Corp spearheaded the development of the SME Masterplan 2012-2020 with the aim of increasing the contribution of SMEs to the Malaysian economy.** The Masterplan was developed through a strategic assessment and evaluation of Malaysia's SMEs, their key features, and areas of improvement. The Plan takes a more innovative "implementation approach" that departed sharply from the prevailing "program-based" approach to SME development used in other contexts.<sup>13</sup> At the core of this approach was monitoring and evaluation which also departed from traditional M&E frameworks. The approach is bold given the wide range of vested interests and "locked-in" resources involved in existing programs and institutional set-up to support SMEs. The next chapter details how the Masterplan was developed.

<sup>13</sup> Since 2005, Malaysia saw the creation of nearly 300 SME development programs in 16 ministries, involving 60 agencies, and spending RM 6 billion supporting SMEs (Source: SME Corp).



## CHAPTER 2

# How was the Masterplan Developed?

**From 2010 to 2012, the Malaysian Government developed the SME Masterplan 2012-2020, an ambitious plan to support SME development, which was endorsed by the NSDC and has received strong support from the World Bank Group in the design and execution phases.** The SME Masterplan launched in 2012, introduces a novel design and implementation-based approach with a strong focus on evidence-based policy and program development, implemented through High Impact Programs (HIPs) or “platform” mechanism for coordination and implementation purposes, as well as a built-in monitoring and evaluation system.

**The Masterplan was carefully prepared through a series of explorative and consultative steps:**<sup>14</sup>

## CO-CREATION WITH STAKEHOLDERS

**To ensure that the Action Plan was relevant, pragmatic, and properly addressed the issues at hand, a process of co-creation, validation, and ratification was undertaken with representatives from SMEs, ministries and agencies, think-tank groups, financiers and business associations, who were engaged through a series of workshops.** Discussions were conducted with the relevant stakeholders to: 1) gain a deeper understanding of the obstacles to SME development; 2) seek remedial measures and solutions to these constraints; 3) obtain feedback on the details of the proposed Implementation Plan and; 4) get buy-in for subsequent implementation. Two rounds of discussions were held, namely, to identify the constraints and challenges and to seek feedback on recommendations proposed. These were corroborated with the analytical work including the impact assessments of the programs that were undertaken based on the census data. Once the HIPs were designed, follow up discussions were held with the stakeholders to validate and endorse these (see details in Box 2.1).

## ANALYTICAL UNDERPINNINGS FOR THE MASTERPLAN

- 1) To better design the Masterplan and properly allocate scarce public resources towards SME development, it was important to gain a stronger understanding of the diverse nature and dynamics of SMEs in Malaysia. This required taking a deep dive into the dynamics of SMEs’ existence and performance in terms of their actual competitiveness and productivity both locally and globally, as well as the jobs and wages they generate;
- 2) Assessment of the factors that hamper the growth and competitiveness of SMEs;
- 3) Assessment of the nature and effectiveness of existing government-funded SME development programs. This provided a better sense of the issues and challenges faced when implementing many programs through an even larger number of ministries and agencies.

<sup>14</sup> Throughout the process, consultations were held with all public and private stakeholders, who provided invaluable feedback and to verify the findings and design options.

**BOX 2.1**

## The Plan Based on Consensus

**The SME Masterplan was developed after extensive engagement with key stakeholders from throughout Malaysia, including SMEs, SME Associations, public sector agencies involved in SME Development, Public Institutes, financiers that support SMEs.** The engagements began in June 2010, with the initiation of a diagnostic study on Malaysian SMEs. This was followed in July 2011, by workshops to discuss each of the six focus areas, namely innovation and technology; human capital development; access to financing; market access; infrastructure; and legal and regulatory environment conducted. A specific Action Plan for Sabah and Sarawak was also developed based on stakeholder engagement in Miri, Sarawak from 18 -19 July 2011.

Subsequent to these workshops, focus group meetings were held, convening select stakeholders from: the Ministry of Science, Technology and Innovation (MOSTI) (currently known as the Ministry of Energy, Science, Technology, Environment and Climate Change (MESTECC)), Ministry of Higher Education (MOHE) (currently under the Ministry of Education (MOE)), Bank Negara Malaysia (BNM), Pembangunan Sumber Manusia Berhad (PSMB), Talent Corporation Malaysia (TCM), Agensi Inovasi Malaysia (AIM), Securities Commission Malaysia (SCM), Suruhanjaya Syarikat Malaysia (SSM), SMI Association (currently known as the SME Association of Malaysia), Air Freight Forwarders Association of Malaysia (AFAM), venture capitalists, and SMEs, to verify and strengthen the proposed measures in the Masterplan. The Concluding Session was held on 29 September 2011 in Kuala Lumpur and was attended by 114 participants representing 63 organizations. In all these sessions, special emphasis was placed on the concept of “platforms” as implementing mechanisms for the Masterplan.

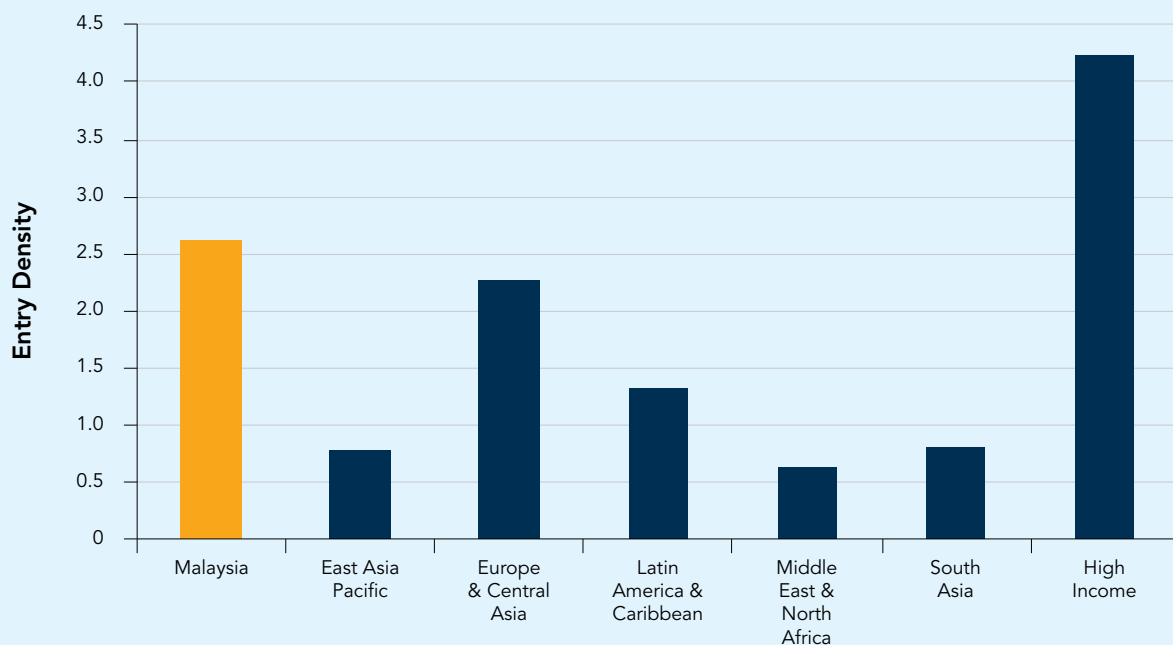
Throughout the formulation period, the SME Masterplan was scrutinized at several levels i.e.: at the Technical Committee headed by the Secretary General of the Ministry of International Trade and Industry (MITI) and the Steering Committee chaired by YB Minister of MITI before being endorsed by the National SME Development Council (NSDC), chaired by YAB Prime Minister of Malaysia on 23 November 2011.

## Step 1: Analyzing the dynamics of Malaysian SMEs

**The analysis<sup>15</sup> revealed that SMEs were far from achieving their full potential to contribute to the Malaysian economy.** Although over 98 percent of firms in Malaysia were classified as SMEs and accounted for about 55 percent of employment, they only generated about 31 percent of the total value-added of the country. SMEs operated in mainly low value-added industries, where informality was high, and productivity was low. This was due to a range of factors, including, slower investment, shortage of skills, and the lack of significant innovation. Malaysian SMEs typically have lower labor productivity than those in high-income countries. For example, on average, SMEs in Singapore and South Korea were two to three times more productive than those in Malaysia.

**The rate of business formation in Malaysia was relatively high, but lower than in high-income countries.** Entrepreneurship and SME activity centered on the creation of new businesses, which was essential for continued dynamism in the economy, fostering competition, and contributing to economic growth. Every year, new firms enter the market and incumbent firms slowly give way to waves of new companies. In Malaysia, however, the average entry density<sup>16</sup> of new businesses was substantially lower than in high-income countries, although higher than the East Asia & Pacific average (Figure 2.1).

**FIGURE 2.1 Average Entry Density (2004-2010)**



Source: World Bank Entrepreneurship Survey and Database

<sup>15</sup> The data sources are from the combination of the 2000 and 2005 Census of Establishments and Enterprises; and the 2009, 2010 and 2011 Census of Services and Trade (DOSM)

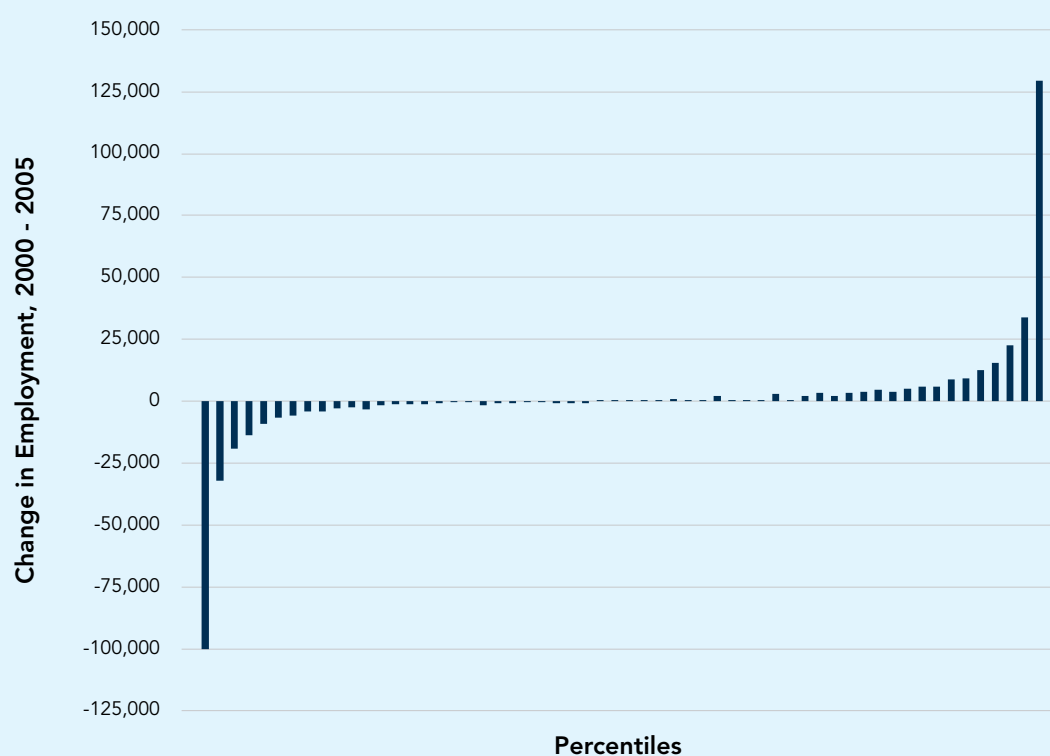
<sup>16</sup> Defined as the number of newly registered, limited liability firms as a percentage of the working age population (ages 15-64)

**Like other countries, young and fast-growing companies accounted for a significant share of employment and value-added gains created by Malaysian SMEs.** Most firms start out small and do not grow over the course of their lives. There are, however, some firms that increased in size very quickly. As illustrated in Table 2.1, 15 percent of large companies were in operation for five or fewer years, while only 12 percent of SMEs lasted more than 20 years. It is important for SME policy to nurture the creation and development of high growth firms.

**TABLE 2.1 Age Distribution of Firms in Malaysia**

Age (Years)	Micro	Small	Medium	SMEs	Large	All
Five or fewer	45%	47%	30%	45%	15%	45%
6-10	23%	22%	23%	23%	23%	23%
11-20	20%	20%	28%	21%	36%	21%
More than 20	12%	11%	19%	12%	27%	12%
Total	100%	100%	100%	100%	100%	100%

Source: World Bank staff calculations based on the 2005 Census of Establishments and Enterprises (DOSM)

**FIGURE 2.2 Change in Employment (2000-2005) by Percentile**

Source: World Bank staff calculations based on 2003 and 2007 Census of Establishments and Enterprises (DOSM)



**Although SMEs generated nearly half the jobs, only the top one percentile of firms were responsible for the bulk of new jobs created.** These firms added more than 1,000 jobs over the five-year period between 2000 and 2005, accounting for roughly 129,000 new jobs. These high growth companies generated around 46 percent of all jobs created in the manufacturing sector by firms in the 2000 cohort. In summary, new firms accounted for 90 percent of net job creation, and the top one percent of manufacturing firms accounted for 70 percent of additional GDP and 46 percent of new jobs created. Finally, regardless of age, all these high-growth manufacturing firms were medium-sized firms<sup>17</sup> that subsequently grew extremely rapidly.<sup>18</sup>

**Within the population of SMEs in Malaysia, high growth firms merit special attention given their potential contribution to growth and jobs.** Lessons from other countries have shown that when creating policies for high-growth firms, policy makers should avoid targeting sectors, technologies, or even types of firms. The heterogeneous nature of high growth firms in terms of sector, size, age, and origin, make it impractical to target sectors, technologies or type of firms, (e.g., new or R&D intensive), especially considering, as Nesta suggests, high growth firms tend to be more prevalent in “basic industries.”<sup>19</sup>



<sup>17</sup> 51 to 150 employees or annual turnover between RM10 million and RM25 million

<sup>18</sup> It was not possible to determine whether these companies grew organically or through acquisition

<sup>19</sup> Nesta (2014)

## Step 2: Assessing the drivers of SME performance and constraints to growth

The second step of developing the SME Masterplan involved assessing the constraints hindering SME growth and competitiveness. Understanding the factors that influence SME performance was important for the design of effective policies and programs to help improve productivity and contribute to job creation and income growth. To do so, regression analysis was used on firm-level data from productivity and investment climate surveys to identify the key drivers of SME performance (in order of importance)<sup>20</sup>: (i) the ability to innovate, (ii) skill sets, (iii) access to finance, (iv) access to markets, (v) regulation, and (vi) infrastructure (Figure 2.3).

**FIGURE 2.3** Key Challenges faced by SMEs in Malaysia



Source: Adapted from SME Masterplan Document, 2012-2020, SME Corp.

Correspondingly, the constraints to SME growth and competitiveness are constraints to innovation and technology adaptation, the inability to sufficiently access needed skills and markets, insufficient access to formal sources of finance, and a range of regulatory barriers. Infrastructure is also identified to pose constraints to SMEs in certain regions, notably in Sabah and Sarawak. It became clear that well-designed targeted interventions in these areas were necessary to boost SMEs' contribution to productivity, wages, and employment growth.

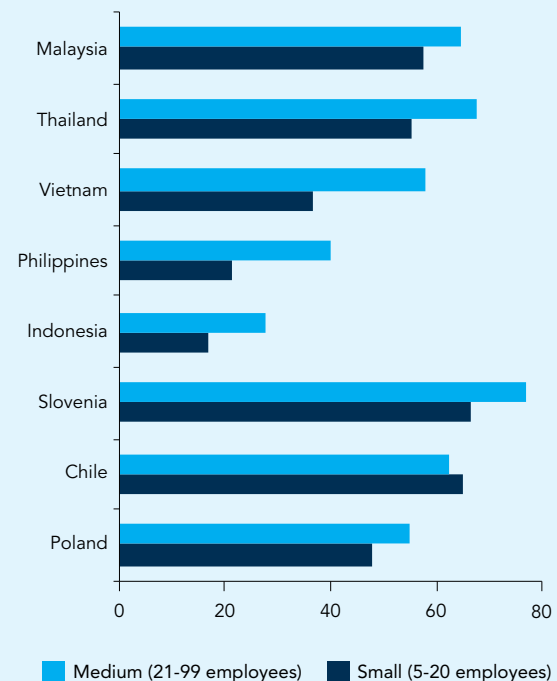
<sup>20</sup> This analysis did not only focus on factors that have had the largest impact on performance, but also detected whether these effects vary by firm size. The analysis was based on data on over 2,000 enterprises in two surveys of the manufacturing sector – the World Bank 2002 and 2007 Malaysia Productivity and Investment Climate Surveys (PICS).

## ACCESS TO EARLY-STAGE AND START-UP FINANCE

**Over the years, substantial progress has been made in improving SMEs' access to financial services in Malaysia, particularly through banks.** The share of SME financing outstanding to total business financing increased from 30% in 1999 to 41% in 2011. The share of SMEs with access to credit was relatively high in Malaysia compared to regional peers in East Asia including Thailand, and comparable to the levels of many OECD countries (Figure 2.4). Additionally, the government also supported SMEs to have greater access to financing through loan guarantees.<sup>21</sup>

**An especially financially constrained group were start-ups.** As in most countries, particularly start-ups faced challenges in accessing financing from financial institutions. New firms were found to be less likely to have access to finance, controlling for other firm characteristics.<sup>22</sup> This was due to a variety of reasons, ranging from firm age, but also particular challenges facing their operations in often more innovative growth areas including a lack of public understanding of the product or service.<sup>23</sup>

**FIGURE 2.4** Share of SMEs with credit (%)



Source: Enterprise Surveys, World Bank

## ABILITY TO INNOVATE

**Production capabilities were already existing in Malaysia, in large part due to the country's outward orientation in participating in global and regional production networks, with some level of technology transfer taking place.** However, this model was reaching its limits, and if Malaysia aimed to compete as an advanced economy, the country needed to innovate and move up the value chain.<sup>24</sup> This would require SMEs to become more innovative and introduce new and improved goods and services and develop and adopt innovative production processes and better modes of business operation.

**Among the contributing factors was the lack of incentive for SMEs to innovate.** Most SMEs did not engage in any Research and Development (R&D), and those that did, had scarce resources to really commit to this activity. Further, while Malaysia had established tax incentives for R&D, most small businesses, particularly startups, were not able to utilize these credits given their limited income. Moreover, only a small fraction of SMEs in Malaysia operated at the technological frontier, developing novel products or processes based on scientific or engineering advances.

<sup>21</sup> A loan guarantee is a contractual obligation between the government, private creditors and a borrower—such as banks and other commercial loan institutions—that the Federal government will cover the borrower's debt obligation in the event that the borrower defaults.

<sup>22</sup> World Bank staff estimates based on the 2005 Census of Establishments and Enterprises (DOSM). Note: the calculation presents coefficient estimates from a probit regression including regional controls.

<sup>23</sup> Bank Negara Malaysia (2016)

<sup>24</sup> World Bank (2010)

**The analysis revealed several challenges.** Despite heavy public expenditure to support innovation, the take-up by SMEs had been weak with low R&D activity. Further, the focus was mainly on basic science and less on commercialization. The national innovation system was also not functioning well with weak collaboration and cooperation between industry, government and the universities. As such, there was a need for mechanisms to remove market barriers to innovation and foster linkages in the innovation system by providing services, such as: financing, technical assistance, market information, policy advice and capacity building programs. The Masterplan aimed to address these challenges by creating synergies and focusing on commercialization.

## ACCESS TO MARKETS

**The existing and potential exporters in Malaysia, especially SMEs, faced big challenges entering new export markets.** SMEs had to: (a) identify the right target market, product segment, and selling channel; (b) learn how to adapt their products for these markets; (c) understand their competitors; (d) launch a marketing and selling campaign; and (e) deliver the product on time and collect on sales. These activities require significant investments, not only in terms of financial resources and market intelligence, but also in skilled and albeit scarce managerial resources.<sup>25</sup> While there were many government support programs, they focused mainly on export promotion for Malaysia and there wasn't much support and investment for SMEs actively working to cultivate export markets.

**Further, it was discovered during the early analysis that only 12.6 percent of SMEs undertook marketing and promotion activities for their products and services.**<sup>26</sup> To address this challenge, the Government had implemented several market intelligence and promotion programs. MATRADE had broadened their offerings to a range of services<sup>27</sup> to help expand exports. Additionally, the Ministry of Agriculture and Agro-based Industry (MOA), Ministry of Rural and Development (MRRD) (currently known as Ministry of Rural Development), and Ministry of Domestic Trade, Cooperatives and Consumerism (MDTCC) (currently known as Ministry of Domestic Trade and Consumer Affairs) also designed targeted programs to help SMEs market their products in Malaysia and abroad.

**These programs had been implemented primarily by state agencies that provided commercial intelligence, marketing information, assisted foreign buyers, advise on transport and packaging, and facilitated group promotion.** However, the actual effectiveness of these agencies had been questioned.<sup>28</sup> It has been recognized that a range and variety of expertise is needed to build international competitiveness that cannot be adequately provided by public export promotion agencies alone. It is a much better approach to enact policies and strategies that actively court institutions and firms that have specialized marketing expertise.

25 All these efforts must be undertaken in an environment where many firms already must cope with existing constraints such as poor infrastructure (especially in the case of East Malaysia), inadequately trained work force, delays in securing inputs, complying with procedural requirements, accessing credit from a conservative banking system, and inefficiencies in trade and transport logistics. For detailed discussion of trade logistics inefficiencies, see the report on Competition Issues in the Transport and Logistics Sector, 2014.

26 Department of Statistics Malaysia (2005)

27 Especially with limited private sector representation or do not address specific, firm-level, exporter needs such as providing market information, organizing trade promotion events, supplying trade leads and tender notifications, and providing training on various issues related to exporting

28 Keesing, D. and Singer, A. (1990); De Wulf, K., Iacobucci, D., Odekerken-Schröder, G. (2001); Klinger, B., Lederman, D. (2006).

## Step 3: Assessing the nature and effectiveness of existing Government support to SMEs

**Before the SME Masterplan was introduced, the GoM was already implementing many programs to help facilitate SME development.** In 2010, during the preparation of the Masterplan, SME Corp identified nearly 500 SME programs across 16 ministries and 60 different agencies (during the period 2006-2010) with a combined reported budget of roughly RM7.0 billion.<sup>29</sup> These programs were divided into three main strategic thrusts, with the focus on financial support:

- 1. Enhancing access to finance.** This accounted for almost 86 percent of the reported budget and roughly 15 percent of identified programs. The government channeled financing to support the establishment and growth of SMEs through working capital, debt financing, venture capital, and guarantees.
- 2. Building SME capacity and capability.** This accounted for 75 percent of the identified programs but only 11 percent of the allocated budget. It aimed to equip SMEs with the knowledge, competencies, and skills that are required to be competitive in the global economy. The focus was on four main areas: product development, entrepreneurship development, human capital development, and marketing and promotion.
- 3. Strengthening enabling infrastructure.** This accounted for 10 percent of identified programs and less than three percent of the reported budget, aimed to create an enabling environment that is conducive to the formation and growth of SMEs. It included providing business facilities (incubators, factories, and industrial estates) as well as “soft” infrastructure including information and regulatory infrastructure.

**The multitude of actors involved in implementing these programs led to the fragmentation and duplication of efforts to support SMEs.** Although three ministries – Ministry of Finance (MOF), Ministry of Agriculture and Agro-Based Industry (MOA), and Ministry of International Trade and Industry (MITI) – were responsible for almost two-thirds (65 percent) of the total funding allocated for SME programs, the nearly 300 programs were executed by 16 Ministries and 60 agencies in total. Agencies showed little cooperation, coordination, and synergy in achieving the broader objectives. Moreover, the programs were often duplicated, and agencies ended up competing despite working toward the same goals. There was also substantial variation in the scale of SME programs, with the bulk of the programs being very small.<sup>30</sup>

**This approach, therefore, fell short of enabling SMEs to play a bigger role in the economy, as indicated by the sluggish SME performance described earlier.** Furthermore, the absence of rigorous impact evaluations of SME programs led to the non-optimal allocation of resources. It was with a view to address these challenges that the SME Masterplan was designed and implemented.

<sup>29</sup> The list of the programs excludes guarantee programs, including those established within the CGC and MOF.

<sup>30</sup> The average budget for 2010 was about RM26.8 million, but there was tremendous variation: 20 percent of programs had reported budgets of less than RM60,000 and 20 percent had budgets greater than RM6.8 million. One program – AIM – had a financial commitment of roughly RM1 billion.



## CHAPTER 3

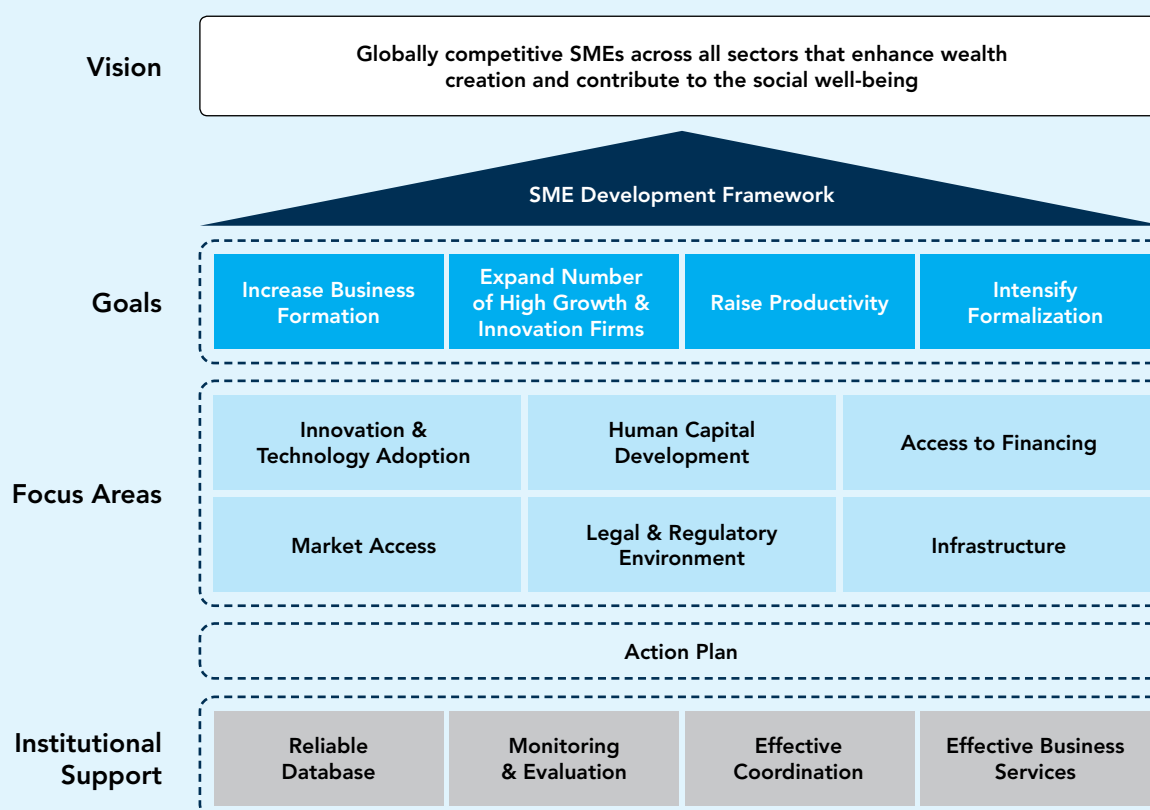
# The SME Masterplan 2012-2020



**The SME Masterplan was developed based on a situational analysis of the dynamics of SME entry, operation, and exit in Malaysia before 2010.** Prepared by the Government of Malaysia in collaboration with the World Bank, the Masterplan was designed to be an adaptive, and long-term strategy for SME development from 2012 to 2020. The Masterplan was endorsed by the former Prime Minister Dato' Sri Najib Razak, as the chairman of NSDC, and launched in July 2012. It charts policy directions for comprehensive SME development across all ministries and agencies, and through different economic sectors, with the vision of igniting, “globally competitive SMEs that enhance wealth creation and contribute to social well-being.” More specifically, it aims to increase the overall contribution SMEs make towards economic growth, albeit with conservative targets (Figure 3.1).<sup>31</sup>

**During the preparation of the Masterplan, the government made a careful decision not to replicate its past SME development approach and SME development strategies followed in many other countries.** This is because these strategies do not normally focus on market imperfections and information asymmetries, which underlie constraints to SME development. Instead, they commonly involve multiple, and often overlapping, programs managed by numerous line ministries and agencies with mandates that are independent of the SME development agenda instead of investing in building a better enabling environment for SMEs to thrive.

**FIGURE 3.1 The Masterplan's implementation**



Source: SME Masterplan Document, 2012-2020, SME Corp.

<sup>31</sup> Achieving these goals per se do not necessarily reflect improvements in the quality or performance of SMEs, since the contribution of SMEs to GDP, employment and exports could increase if the contribution of large firms declines. Conversely, if SMEs grow so fast that they become large firms, their contribution might decrease. A more ideal metric may be to compare SME growth under the Masterplan to what SME growth would have been without the Masterplan or comparing the growth rates of SMEs versus large firms. Good quality data from monitoring and evaluation activities would be essential to perform these comparisons and gain a more nuanced picture of SME performance under the Masterplan.

**Instead of an output-focused programmatic approach, the SME Masterplan focused on generating outcomes that would indicate a positive shift in SME development and established a mechanism called, HIPs to facilitate this.** The concept of the HIPs is a key design feature of the Masterplan, as a means through which existing programs can be coordinated and synergized to collectively achieve desired outcomes. The Masterplan framework was envisioned to promote competitive SMEs across all sectors that enhance the creation of wealth and contribute to social well-being. This vision was meant to be achieved through four strategic goals:

- 1) Increase business formation to facilitate business dynamism through a constant stream of new entrants into the market;
- 2) Expand the number of high growth and innovative firms to help generate a substantial share of employment and output in the country, while scaling up global competitiveness;
- 3) Raise the productivity of SMEs to boost incomes and raise standards of living; and
- 4) Intensify formalization to incentivize innovation and growth and promote fair competition.<sup>32</sup>

**The Masterplan adopts an innovative “implementation approach” that departs from the prevailing “program-based” approach to SME development used in many other countries.** This approach aimed to:

- 1) Provide a mechanism through which existing programs can be coordinated and synergized to collectively achieve desired outcomes;
- 2) Adopt a public-private partnership approach in the marketing and delivery of these platforms;
- 3) Through the design of the platforms, explicitly address market failures and information asymmetries which hamper the creation and growth of companies; and
- 4) Introduce a built-in M&E framework to monitor and maximize impact.

To operationalize the goals embedded within the Masterplan’s approach, six HIPs were established across the areas of business registration and licensing, technology commercialization, access to early-stage finance, access to markets, promoting high growth firms, and inclusive innovation (Table 3.1).

**These Platforms provide a coordinating and consolidating mechanism to enhance the effectiveness of support programs for SME development and competitiveness.** Ownership was allocated to five implementing ministries and agencies, chosen based on their expertise and mandate to ensure accountability and ownership of each platform. Table 3.2 describes the goal of each platform and its corresponding implementing ministry and/or agency.

<sup>32</sup> The economic analysis underlying the selection of these four goals are explained in detail as part of Phase 1 report of the Masterplan

**TABLE 3.1 Overview of the HIPs****HIP 1 - Integration of Business Registration & Licensing Platform, implemented by Prime Minister's Office (MAMPU)**

- Aims to streamline licensing and permits and integrate registration and licensing of business establishments to create a single registration and licensing point (Single Window). This would involve interfacing the current National Business Registration System (MyCOID) and the National Business Licensing System (BLESS). The platform is being implemented by MAMPU through a working group consisting of central and local agencies as well as the private sector.

**HIP 2 - Technology Commercialization Platform (PlaTCOM Ventures), implemented by Malaysia Innovation Agency under the Prime Minister's Office**

- Designed to remove market barriers to innovation by providing end-to-end facilitation to SMEs that have innovative ideas to proceed from proof of concept (POC) to the commercialization stage or productivity enhancements. It covers the entire spectrum of commercialization and draws on existing programs under various agencies to facilitate commercialization, thereby de facto consolidating all programs and measures towards innovation commercialization outcome. It provides gap funding where existing programs fall short or are not available. The platform is managed by PlaTCOM Ventures, a public-private partnership, under AIM.

**HIP 3 - SME Investment Partners (SIP) Platform, implemented by SME Corp under MITI**

- Provides early stage financing by incentivizing investment companies that would invest in potential SMEs in the form of debt, equity or a hybrid of both. These SME partners are not expected to behave like a typical VC in that they will focus mostly on the lifestyle and average growth segment and not necessarily high growth businesses. This SME segment is underserved (or not served at all) on the one hand by VC and private equity, whose transactions costs are similar for small and large investments and are after very high growth rates, and banks, on the other hand, who consider this segment high-risk and under-secured. HIP3 will enable partners to perform due diligence "en masse" on businesses in the underserved segment, therefore reducing transactions costs and expanding coverage (and thus spreading risks).

**HIP 4 - Going Export (GoEx) Platform, implemented by MATRADE under MITI**

- Designed to offer customized, end-to-end assistance through a matching grant scheme to new SME exporters or those existing ones venturing into new products or markets to overcome information barriers. This scheme is very different in design and implementation compared to traditional export support programs or matching grants in that it will rely mainly on practitioners/experts from the market to bring buyers closer to potential exporters. In addition, support will be provided only when there is "additionality" in terms of new exports, new exporters and/or new markets. Firms that already export are only eligible if they are promoting new products/services in markets that have already been penetrated.

**HIP 5 - Catalyst Platform for High Growth Companies, implemented by SME Corp under MITI**

- Facilitate the development of homegrown champions through a targeted approach with support in financing, market access (in collaboration with HIP4) and developing institutional capacity at the firm level.

**HIP 6 - Inclusive Innovation Platform, implemented by Ministry of Science and Technology through Yayasan Inovasi Malaysia (YIM)**

- Aims to empower the bottom 40% of the income distribution by leveraging on innovation to transform communities including microenterprises in rural and urban areas. HIP 6 will be closely linked to HIP 2, and will nurture and support innovations with the following characteristics: Affordability; sustainability, similar quality with less cost, and broad outreach to the B40 market.

Source: Adapted from SME Masterplan Document, 2012-2020, SME Corp.

**TABLE 3.2 Objectives of each Platform**

Goals	Platforms
<b>Increase business formation</b> to facilitate business dynamism through a constant stream of new entrants into the market;	HIP 1: To facilitate business entry HIP 3: To facilitate access to early-stage finance HIP 6: To empower SMEs within BOP and in informal sectors to conceive of and deliver inclusive innovation solutions, products and services
<b>Expand the number of high growth and innovative firms</b> as they generate a substantial share of employment and output in the country as well as having the scale to be globally competitive;	HIP3: To facilitate access to growth finance HIP4: To expand international markets, a necessary condition for high growth HIP5: To facilitate access to relevant technical assistance and financing for potential high growth firms
<b>Raise the productivity of SMEs</b> to boost incomes and raise standards of living; and	HIP 2: To commercialize innovations for productivity enhancement and for new products and services HIP5: To increase productivity and unleash high growth firms HIP6: To unlock productivity gains to enable greater access to cost-effective products
<b>Intensify formalization</b> to incentivize innovation, growth and promote fair competition	HIP 1: To facilitate business entry HIP 6: To enable excluded groups into the economic mainstream and to enhance and grow these businesses

In addition to the HIPs, the Masterplan identified 26 other supporting policy measures to further enhance the overall business environment for SME development. About half of these fall under the following 'developmental themes': (a) promoting resource pooling and shared services for SMEs, (b) creating demand for SME products, (c) reducing information asymmetry among SMEs and (d) building capacity and knowledge to widen the talent pool for SMEs. The remaining measures address specific constraints for SMEs in Sabah and Sarawak, as well as broader measures that affect the overall business environment.

## Main features of the SME Masterplan

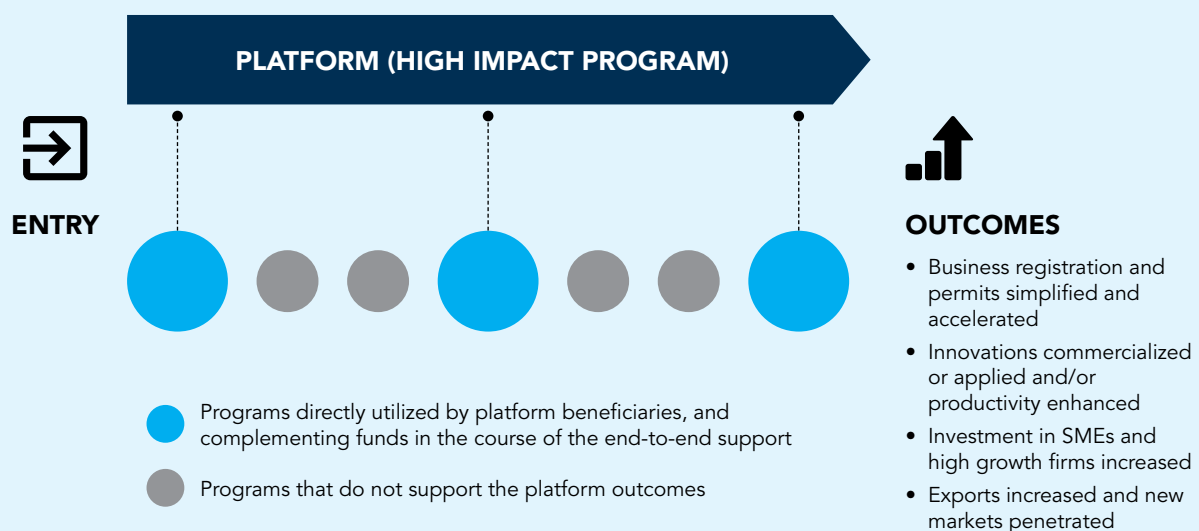
After convening stakeholders from throughout Malaysia, and working to co-create an exhaustive and all-encompassing Masterplan, the following key features emerged:

- The Masterplan is aligned with broader economic strategies.** It is aligned with a broader Government growth and development strategy (New Economic Model, Economic Transformation Program, etc.).
- There would be greater coordination and synergies across the various programs through the platforms introduced under the Masterplan.** The 6 platforms are as follows:
  - Business registration and licensing integration;
  - Technology commercialization program;
  - Start-up and growth financing program;
  - Export market access program (GoEx);
  - Catalyst program; and
  - Inclusive innovation program.

3. **These platforms would address specific market imperfections and information asymmetries** (except for HIP1) and therefore all but (1) are designed to be phased out over time, eliminating the need for government budgetary expenditure once relevant markets are created.
4. **There would only be a small number of “lead” implementing agencies.** It limited implementation to 5-line ministries and agencies. Each implementing ministry/agency has a direct mandate on the SME programs they manage.
5. **The Masterplan would be evidence-based with a comprehensive M&E system** built into all programs, with each of the 6 platforms assigned 2 to 3 outcome indicators centered on GDP growth and jobs.
6. **The Masterplan would be adaptive.** This would be a necessary trait to have when aiming to stay relevant amid shifting operating circumstances. Thus, if M&E indicators show that some of the programs are not meeting their development outcomes, or are likely to be derailed, this “live” Masterplan would make necessary adjustments.
7. **The objective of having a small number of platforms and agencies,** together with the comprehensive M&E approach, would make implementation and coordination much more practical than was previously done.
8. **All HIPs to be implemented through public-private partnership approaches** with the government “owning” the platforms and the private sector “marketing and implementing” them.

**Coordination and facilitation of existing programs through platforms would enhance the effectiveness of government support for SME development compared to a program-based approach.** Through the end-to-end facilitation mechanism of Platforms (Figure 3.2) complementary programs under various agencies are more easily able to work together in addressing constraints SMEs might face, such as helping firms in the agricultural sector digitize, thus each becoming more effective together, both monetarily and programmatically than when they operate in isolation.

**FIGURE 3.2 High Impact Program Framework**



**BOX 3.1**

## National Entrepreneurship Policy 2030

To enhance the development of SMEs and entrepreneurship in Malaysia, the Government of Malaysia, under the Ministry of Entrepreneurship Development, launched **Dasar Keusahawan Nasional 2030 (National Entrepreneurship Policy 2030 (NEP))** in July of 2019. The policy is a long-term strategy with an aim to transform Malaysia into an entrepreneurial nation by 2030 and is in line with the government's aim to exalt the Malaysian economy into a prosperous, fair and inclusive economy.

**Key issues and challenges pertaining to entrepreneurship were identified and the policy aims to alleviate some of those problems.** Eight main issues and challenges were brought up:

- 1) Entrepreneurial culture and mindset
- 2) Demographic changes and socioeconomic trends
- 3) Planning, implementation and performance monitoring
- 4) Inadequate procedures, policies and law
- 5) Limited access to funds
- 6) Slow technology adoption
- 7) Capacity, capability and scale of micro, small and medium enterprises
- 8) Education and skills

**Considering the global economic developments, current entrepreneurial achievements as well as issues and challenges faced internally in the nation, the policy outlined six different core strategies to rectify the issues identified and create a conducive entrepreneurial ecosystem in Malaysia.** The six core strategies are supported by 19 supporting strategies and 62 initiatives as support mechanisms for the implementation of National Entrepreneurship Policy 2030. The six core strategies are:

- 1) Inculcation of entrepreneurship at every level of society
- 2) Optimizing regulatory systems and access to financing
- 3) Stimulating integrated development and holistic entrepreneurship
- 4) Spurring growth through innovative enterprises
- 5) Improving capabilities and performance of SMEs
- 6) Internationalizing high growth companies.

**The SME Masterplan remains relevant to achieving many of the objectives set forth in the NEP.**

The core strategies of the policy have differing numbers of supporting strategies and initiatives each. What is common among the supporting strategies and initiatives is the emphasis on inclusivity and the focus on entrepreneurship development among marginalized communities such as the B40 households, the indigenous people, the disabled and others. At the same time, the goals set forth by the NEP rely on the platforms and programs within the SME Masterplan to support the development of entrepreneurship and SMEs in Malaysia. Furthermore, the GoM further emphasized that for Malaysia to transform into an entrepreneurial nation, effective cooperation, coordination, commitment and support from a variety of stakeholders would be required. Focus should be given to the efforts of building a balanced, working relationship between the public and private sectors collectively.

**On the contrary, traditional SME “programs,” usually have the following elements in common:**

- a) They are implemented by civil servants within ministries or line agencies.
- b) They operate as stand-alone programs, independent of other programs, with little collaboration.
- c) There is often significant duplication by other agencies and ministries, within the latter’s mandates.
- d) They focus on their own KPIs which normally output measures are (number of beneficiaries, disbursements, etc.), as opposed to outcome measures as in “platforms”.
- e) They do not incorporate M&E in their design.<sup>33</sup>

**Starkly departing from this format, it was imperative to formulate operating principles to help ensure the operability and sustainability of the HIPs.** These included:

- **Accountability:** The HIPs were designed to make 1) each lead agency accountable for end-to-end facilitation and delivery (through their platform), 2) the provision of beneficiary and other data for M&E and impact evaluation to the central coordinating agency (SME Corp), and 3) coordination with other HIPs with support from SME Corp.
- **Public-Private Partnerships:** HIPs were supposed to be owned by the Government, however, managed and delivered by the private sector. This would infuse a corporate culture that is necessary for effective implementation.
- **Clear reporting structure:** The lead agencies responsible for the HIPs are supposed to report to the National SME Development Committee (NSDC) through the central coordinating agency, SME Corp.
- **Coordination and facilitation:** The coordinating agency should act as an independent unit, empowered to facilitate and provide effective monitoring for HIP implementation. Ideally, this agency should not implement HIPs on its own, as it would conflict with its coordinating roles. It should also play an active role in awareness building and outreach to promote HIPs, both at the central level and through local offices. The coordinating agency’s role could be further reinforced and empowered by an SME Development Act, as is done in the United States, Korea, and Japan, where the goals of the SME Masterplan, its governance, and clarity on responsibility and accountability for implementation among all implementing agencies are clearly mandated.

**When properly implemented based on these principles, the HIPs are expected to promote and scale-up SMEs that enhance wealth creation, contribute to the social well-being and reduce income inequality.**

<sup>33</sup> Some level of monitoring exists but not robust to indicate the effectiveness and impact of the program.





## CHAPTER 4

# Implementation Experience and Challenges

**The old model of doing business in Malaysia was to exploit a model of high volume, low value-added assembly operations for exports, relying on low wages, and access to natural resources.** This was a successful way of doing business that played a key role in growing the economy, effectively competing through their core industries. However, the changes arising from the 4th Industrial Revolution (Industry 4.0) in the production and value creation process are radical and pose a real challenge to SMEs. To benefit from the opportunities offered by Industry 4.0, SMEs need to develop strategies to exploit the new possibilities of digitalization, to improve established processes and develop new business models (see Box 4.1). The SME Masterplan continues to remain very relevant in today's global scenario.

**Operating in an increasingly innovative world, where new technologies and ways of doing things have dramatically changed, it is important for Malaysia to catch up, increase productivity, and innovate.** According to the 2016 Census, the number of SMEs in Malaysia's manufacturing sector more than doubled, sitting at 47,698, creating 1,039,662 jobs for the economy.<sup>34</sup> This substantial growth occurred in nearly a decade of activity from the government focused on SME promotion and support. SMEs continue to play a vital role in job creation and economic growth and the Masterplan is an important tool to unlock this potential for SMEs to increase their productivity in Malaysia.

**Given the ambitious scope of the Masterplan and the significant coordination challenges posed by its execution, progress to date has been noteworthy.** As of January 2020, all six HIPs are being implemented but at differing stages. Challenges are expected when implementing a radical and innovative public policy such as Malaysia's SME Masterplan. To reap the full benefits from the SME Masterplan towards achieving its goal of raising world-class SMEs that contribute to Malaysia's growth, the principles outlined in the design need to be fully integrated into the execution of the HIPs and assimilated into the culture of the coordinating and implementing agencies.

**The main findings of an early assessment conducted on the implementation of the Masterplan are twofold.** First, the implementation of the HIPs is uneven, with some functioning largely as intended and others requiring more attention. Second, more consistent monitoring and evaluation is needed across the Masterplan. Without serious attention to regular data collection, data management and analysis, it will be difficult for the Government of Malaysia to track the efficiency and impact of the SME programs in place and maximize the economic additionality from the programs over the longer term. Encouragingly, implementation has demonstrated that functioning as a platform and providing end-to-end facilitation, while challenging, is possible and beneficial to SMEs. PlaTCOM Ventures has become the prominent technology commercialization platform in Malaysia, with linkages to other relevant programs and resources.

## Challenges in Executing the HIPs

**The implementation of HIPs is uneven.** The HIPs that are facing challenges operate in a vacuum, and as programs (rather than platforms), independent from other related programs and platforms, as has been the case with traditional government support programs in the past. This is partially because budget allocations (from the Economic Planning Unit (now the Ministry of Economic Affairs) to line ministries and agencies) and M&E systems are designed to fit "programs" and not the more dynamic "platforms." Thus, HIPs are not rewarded for developing linkages and synergies. When HIPs are implemented as "programs," without coordination between ministries/agencies and proper reporting, they don't result in the desired outcomes.

<sup>34</sup> Department of Statistics Malaysia (2016) and World Bank (2016)

**BOX 4.1**

## Challenges posed by Industrial Revolution 4.0

**Industry 4.0 is a term for the so-called “fourth industrial revolution.”** The changes arising from the digital revolution in the production and value creation process are radical and pose a real challenge to SMEs. To benefit from the opportunities offered by IR 4.0, SMEs need to improve established processes and develop new business models. In this context, the proper implementation of the Masterplan’s platforms becomes even more critical.

**Despite the enormous economic potential of IR 4.0, most SMEs lack awareness, economies of scale, resources, skills, knowledge to go into automation and beyond, and lack capacity to adopt new processes and technologies.** Per a survey conducted by the Federation of Malaysian Manufacturers, only 20 percent of SMEs actively use ICT applications, only 16 percent embark on e-commerce activities, only 45 percent know how to use the Internet, 40 percent believe they do not need the Internet, and there is low level of investment in automation as technological upgrading is mainly viewed as cost rather than investment.

**Globalization and trade liberalization have, in general, ushered in new opportunities as well as challenges for SMEs.** Presently, only a small part of the SME sector can identify and exploit these opportunities and deal with the challenges. Many SMEs, however, have been less able or unable to exploit the benefits of globalization and Industry 4.0. To add to the situation, they are frequently under pressure in the local or domestic markets from cheaper imports and foreign competition. A major objective of the Masterplan is to equip SMEs to better meet the challenges of globalization and to benefit from its opportunities.

**To build awareness and encourage the adoption of latest technology by the local industry, the Government has put in place several macro level initiatives and training programs.** The Malaysian Industry-Government Group for High Technology (MIGHT) has been assigned as the main agency to promote and help accelerate the use of modern technology. Under this initiative, programs and activities are being developed to build strategic partnerships and alliances, promote technology acquisition, build capacity, and implement flagship programs.

**Furthermore, in response to Industry 4.0, the Ministry of International Trade and Industry (MITI) launched a policy called Industry4WRD: National Policy on Industry 4.0.** This initiative was set out to drive labor productivity growth, innovation capacity and creating high-skilled jobs in the face of industry 4.0. SMEs in manufacturing and its related services sector can have their firms assessed for their readiness for Industry 4.0. The SMEs may also benefit from a



multitude of financial incentives to support the SMEs growth and transition into firms that adopt the machineries and technologies of industry, mainly in the form of loans or grants.

**Another initiative is the Global Malaysia-Korea Robotics Collaboration and Development Program where both parties have agreed to exchange robot human capital development programs, to undertake robot standardization cooperation, to launch robot exhibition and international cooperation.** MIMOS, which is Malaysia's national R&D center in ICT, is collaborating with China on research and development on smart manufacturing technology. Therefore, the development of automation and robotic industry has the potential to lead Malaysia towards Industry 4.0 through key initiatives by government and industry players alike.

**It is not easy for SMEs to assess the technological maturity of the relevant solutions and their business uses.** Thus, many SMEs do not have a comprehensive Industry 4.0 strategy, while several large companies in Malaysia are adopting such strategies. The adaptive nature of the SME Masterplan enables it to become a pivotal tool in equipping SMEs with the expertise to take advantage of the opportunities that Industry 4.0 presents.

## Competition from Government programs

The HIP concept was introduced to tackle the problems with the program-based approach, with the intention to increase coordination between stakeholders in Malaysia, promoting optimal resource utilization, and becoming more structurally efficient. Through the end-to-end facilitation mechanism of Platforms, complementary programs under various agencies were to be able to work more easily together in addressing constraints SMEs might face, thus becoming more effective together, both monetarily and programmatically, than when they operate in isolation. However, in practice, the program-based approach was already heavily ingrained in most public agencies' cultures and throughout the institutional environment, making it difficult for these players to understand the concept of the HIPs and fully adopt the new system in its intended form.

Further, in the program-based approach, budgets and human resources were allocated based on disbursements and the number of beneficiaries, rather than SME development outcomes to be achieved (Table 4.1). Therefore, while it was easy to set up programs (but hard to dismantle them), there were no M&E mechanisms in place to monitor and demonstrate impact and outcomes from these existing programs, making it difficult to ensure these agencies would be able to effectively implement the Masterplan.

**TABLE 4.1** The difference between a Program and a Platform approach

	Program	Platform
<b>Management</b>	Focused on the execution of the program and meet the KPIs for individual program	Focused on the end-to end-facilitation by tapping into existing complementary programs, and only providing gap funding when needed. Focused on meeting the outcomes.
<b>Marketing</b>	Passive or non-existent	Intensive marketing and promotion.
<b>Budgets</b>	Mainly for financing client needs	Mainly for the management team and hand-holding. Incentives for achieving outcomes.
<b>M&amp;E</b>	Mainly a-posteriori but when done only on KPIs	Outcomes-based and interlinked with the performance of underlying programs

## Coordination challenges

The SME Masterplan takes a bold and different approach to SME development, recognizing the importance of M&E, addressing key market barriers, and ultimately creating a market for SME development services (with the added benefit of reducing budgetary expenditures on SME development programs over time). However, the mandate/mission of the coordinating agency- SME Corp needed to be aligned to the SME Masterplan for full adoption, and this needed to be clearly understood by all agencies and stakeholders involved in the facilitation of the HIPs.

**Overlapping interests and the lack of a clear, differentiated mandate inhibited the potential of SME Corp to act as an effective coordinating agency for SME development.** While SME Corp played a critical and active role in: 1) awareness building and outreach around the HIPs, both at the central level and through local offices; 2) contributing to the design of the Platforms; and 3) facilitating the rollout of HIPs, the process was still somehow constrained in its coordination function, even when acting as an independent unit without a direct stake in the outcome. Malaysia lacks the legislative framework on SME Development that provides the legal authorizing environment for SME Corp, unlike in the United States, Japan and Korea, where SME Development, its governance, and clarity of responsibilities and accountability for implementation among implementing agencies are clearly mandated. This ultimately undermined the coordinating and facilitating role of SME Corp and led to challenges with agencies who were unwilling to apply the design principles. Causing further tension, SME Corp led the implementation of two of the HIPs, as no other agency would commit to them, which may have undermined their credibility and capacity to act as a coordinator and evaluator of the HIPs and the implementing agencies.

**For the coordinating agency, perceived and actual impartiality or independence is essential.** Coordination and evaluation of the HIPs should be done by an agency that is not directly involved in the programs that are being coordinated or evaluated. There is an inherent conflict of interest if SME Corp both implements HIPs, and coordinates and evaluates them. Even the perception of this conflict of interest could be damaging for SME Corp's credibility. For example, in the US, the Small Business Administration (SBA) coordinates across 11 departments that provide R&D funding of \$100 million or more to ensure that 2.5% of these funds are set aside for small businesses. The SBA does not provide any direct R&D funding and can be independent of the results of these activities.

## Budget processes

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**Commitment to the SME Masterplan needs to move beyond “buy-in” from implementing agencies and ministries to action.** To stimulate participation from different stakeholders for effective implementation of the Masterplan, frequent consultations and participation in working groups/boards to continuously improve the transparency and accessibility of information related to the SME Masterplan are required.

**HIPs do not necessarily require more budgetary resources.**<sup>35</sup> Greater certainty is needed regarding budgetary allocations, especially for operating expenditure. Currently, a challenge for proper implementation of the HIPs is the current program-based budget allocation for SME development. Platforms, unlike programs, require extensive operational budget as they need to connect complementary programs and resources for the beneficiaries in their end-to-end facilitation process. Presently, the current budgetary allocation to the platforms appears to be insufficient to achieve the specific outcomes. A deeper analysis is required to gauge the operational needs of the HIPs to operate effectively and ensure the efficacy of the resources employed.

<sup>35</sup> They draw on existing resources in the process of end-to-end assistance to beneficiaries

**BOX 4.2**

## Rationale for HIPs as Platforms – example of GoEx

**HIP4 (GoEx)**, was initially designed to tackle market failures due to missing markets and information imperfections, which can impinge the ability of companies to link up to national, regional, and global supply chains.<sup>36</sup> Market access, particularly for exports, is a challenge for SMEs. To internationalize their operations and export within regional and global supply chains, SMEs must first identify the right target market; learn how to adapt their products for these markets so that they are able to meet the price and quality standards demanded; understand who their competitors are. SMEs should launch a marketing and selling campaign to deliver the product on time and collect on sales. However, many Malaysian SMEs lack adequate knowledge of export markets and their requirements in terms of product design, international standards and specifications, production technology, packaging and labelling, market entry pricing, negotiations, promotion, and distribution. These activities require significant – and often up-front – investments and know-how, not only in terms of financial resources but also in terms of skilled managerial resources, which are scarce among SMEs.<sup>37,38</sup>

**Public-Private Partnership:** As such, the type of services that new SME exporters required would not be easily provided by civil servants that often run the SME programs. It would need to link up to other facilities and programs to help build a network of experts that can be used by SMEs for support and advice at market prices.

**A successful Platform Example: Tunisia Export Platform (Export Market Access Fund – EMAF):** In 1999, Tunisia developed an Export Platform to link a network of local and foreign consultants to SMEs seeking to increase their rate of imports. This Fund developed a network of local and foreign consultants, who were experts in exporting in several industries and service fields and could in turn effectively train and support interested exporters in completing their export plans. The management team developed credibility among exporters and the experts were eventually employed at market prices by SMEs (market imperfection addressed). It was an extremely successful program with an initial budget of \$10.9 million, where \$418 additional

36 The market imperfection is the disparity between demand (by exporters or potential exporters) and supply (the lack of skilled and experienced export service providers).

37 Hausmann, Ricardo and Dani Rodrik (2003)

38 There is therefore a high degree of uncertainty perceived by SMEs in the initial stages of regional and global market entry. Such perceptions often seriously reduce organizations' commitment to success in market entry and can lead to early withdrawal in the face of unanticipated setbacks. There are also costs associated with the gathering of foreign market information about competitors, consumer preferences, business opportunities, technical requirements, selling channels, supply chain intermediaries, etc. Private firms, particularly first-time exporters, will hesitate to gather such information for the fear that their research and marketing costs can also benefit competitors. Higher uncertainty associated with selling in foreign markets with different legislation has also presented challenges for SMEs.



exports were generated, 20,000 direct and indirect jobs were created, and an additional \$39 million of tax receipts were generated.<sup>39</sup>

**The public-private partnership approach to implementing this platform created an export consulting industry in Tunisia.** Tunisian enterprises are now able to obtain relevant information and know-how that can help SMEs enter export markets. At the outset, a target of 350 new exporter enterprises that would enter new export markets was set. Eventually, a record-breaking 595 enterprises met this goal. The participants in the platform indicated that the program had transformed the private sector's views on export services, and drastically shifted the traditional public-sector led export promotion in Tunisia to market provisions through export consultants.

**The significance of public-private partnerships for effective export development cannot be overstated.** The innovative matching grants scheme developed under this platform shows that a public-private approach is more effective in export development than purely public and centralized support. It helped consolidate and complement all relevant export services support to SMEs. Though some Tunisian enterprises are still unwilling to pay the full price for export services, EMAF clients now pay half of the technical assistance costs of export business development services and 60 percent are ready to cover the full costs of export consultants. This demand-driven approach has simultaneously helped to stimulate a new local market of business development services focused on the export market. The success of this partnership depends upon a delicate balance of public policy and financial support and a light, flexible and efficient private sector-like program execution.



<sup>39</sup> World Bank (2005)



## CHAPTER 5

# Lessons Learned

**As of January 2020, seven years into the implementation of the Masterplan, all the six HIPs are being implemented. In this time, there have been many valuable lessons learned from the early implementation experience of the SME Masterplan to help Malaysia improve its effectiveness.** There are also many lessons for other countries that may wish to emulate the Malaysian experience in making their SMEs more competitive and global.

**The implementation of the SME Masterplan brought about some improvements in the overall performance of SMEs in Malaysia.** It allowed performance measures prioritized by the GoM to inch closer to the targets that were set. Prior to the SME Masterplan in 2010, SMEs' share of GDP was 32 percent and share of total exports was 16 percent. In 2018, those figures increased to 38.3 percent and 17.3 percent respectively. Though the latest metrics are still substantially lower than the targets that the GoM has set to achieve by 2020 (41 percent GDP contribution and 23 percent share of exports by SMEs), some useful lessons can be taken away from the implementation of the SME Masterplan in Malaysia.

**The early experience reveals both the conditions under which the implementation has succeeded in achieving outcomes and the factors that have negatively affected implementation outcomes.** Malaysia's experience shows that promising results can be achieved if the platform design principles are fully integrated into the implementation process. However, over time it became clear that disappointing results can emerge when HIPs are executed as programs rather than platforms, and when competition among programs and agencies dominate actual collaboration. In addition, more consistent monitoring and evaluation is needed across the Masterplan. Without greater attention to regular data collection, data management, and analysis, it will be difficult for the Government to allocate its resources to the most effective and cost-efficient efforts to support SME development in the longer term.

**Although each HIP had its own successes and failures, distilling lessons from the more successful implementation of HIPs provide the following lessons:**

**1. They function as platforms, providing end-to-end facilitation to SMEs or innovators in view of achieving clearly outcomes and KPIs**

The desired outcomes are directly linked to the four goals of the Masterplan. As end-to-end facilitation mechanisms, the platforms collaborate with other agencies, tap into their existing programs and resources and thereby enhancing the effectiveness of those programs in achieving the goals and macro-level outcomes. As a result, they also ensure that there is no duplication of programs and resources.

**2. They have adopted a public-private partnership model of implementation with the private sector management infusing a corporate culture into the execution of the platform**

Platforms that have attracted management teams from the private sector possess quantitative, qualitative, as well as soft skills. These skills include expertise in marketing, negotiations, creative problem solving, and collaboration and teamwork, with teams employed based on clear terms of reference and reporting requirements. The HIP2 management team, which was hired on this basis, performs substantial outreach, marketing and awareness building, is active in building alliances and cooperation with line ministries and agencies, and plays the role of the focal point for technology commercialization. There are several account managers within the HIP2 management structure, each responsible for one to four clients throughout the end-to-end assistance process. Through active involvement and support, account managers obtain intimate knowledge of the clients' businesses and can therefore provide timely and relevant support in their operation or commercialization efforts. A collaboration agreement was signed between SME Corp Malaysia and Agensi Inovasi Malaysia (AIM) in 2014 wherein both parties would actively collaborate in the design, development and implementation of the program. AIM as the lead agency appointed its affiliate

PLaTCOM Ventures as the implementing agency and worked together with SME Corp to develop clear KPIs and targets to assess the success of the program.

All this, together with the results that its beneficiaries have achieved in terms of commercialization of innovations, have established significant credibility among the business community and visibility within high levels of Government.

**3. They are implemented by agencies that are not under a line Ministry; instead, they report to a higher authority.**

Well performing platforms, are under the Prime Minister's office. The fact that the platforms cut across several disciplines, sectors, and agencies, being under a line ministry could create political tensions when it comes to accessing programs from other agencies and could even create conflicts of interest in execution (because every agency would want to show their programs are better disbursing).

**4. They have adopted active promotional strategies with continued awareness building, using workshops, forums and workshops, a wide range of social media, press, TV, and other channels to convey the idea of platforms and their relevance to business development.**

As an example, in an innovation conference, HIP2 showcased 20 of its clients who succeeded in commercializing their innovations through HIP2 assistance, and this created momentum and credibility for the platform and government support in general.

**5. They have had access to sufficient operational budgets.**

The end-to-end facilitation is operationally intensive and requires continuous promotion and marketing, as well as contacts and linkages to potential resources and clients. Operational budgets are required to ensure high-quality delivery of services. Besides highly skilled human capital, the lead agency would need to subscribe to databases and market intelligence tools, and strongly promote their services. All this requires operational budgets that are higher than the average operating expenditure normally allocated to SME programs since management teams of the latter do not perform such functions. In the case of HIP2, a sufficient operational budget was allocated in the beginning (or reallocated from AIM budget to PLaTCOM Ventures) to allow for initial promotional activities and roll out. Subsequently, this was becoming an issue for PLaTCOM Ventures as the operating expenditure had been decreasing, risking undermining the required activities and staffing.

**6. They have incorporated built-in M&E focused on the outcomes of the platform.**

The M&E mechanism is different from the usual program-based M&E. The outcome indicators are interlinked with the performance of all programs used during the end-to-end assistance, and as such, the programs' performance is interlinked. The preliminary assessment found that HIPs (except for HIP 1, which does not target specific firms, and HIP2 which collects relevant information and data on beneficiaries and programs and resources used) do not have sufficient data to conduct M&E in an evidence-based, coherent manner. This is due to weak monitoring systems, which thus prohibit impact evaluations from being conducted. Although all HIPs collect some data on beneficiaries, this is mostly at the program level and not always properly stored or digitized, or systematically collected.

**7. The beneficiaries have paid all or part of the costs of the assistance provided through the platforms.**

When beneficiaries pay for a substantial share of the costs associated with the support they get, it ensures buy-in and greater commitment from them and has proved to be an important factor in ensuring that they are able to achieve their intended objectives.







**So, what are the core lessons for continuing to improve the implementation of the SME Masterplan?  
Lessons can be grouped across six themes:**

**A. Design and Outreach**

- a. Buy-in at the highest levels is essential (such as the PMO in the case of Malaysia).
- b. Design based on rigorous analytical underpinnings.
- c. Outreach and promotion are particularly important at the design stage with stakeholders being involved right at the outset.
- d. Malaysia's experience shows that promising results can be achieved if the platform design principles are clearly thought out prior to the implementation to focus on coordination among agencies.

**B. Governance**

- a. The mandate/mission of SME Corp needs to be aligned to the SME Masterplan and this needs to be clearly understood by all stakeholders involved.
- b. An effective mechanism to better stimulate participation of the different stakeholders for effective implementation of the Masterplan is essential. With external stakeholders, this will require frequent consultations and participation in working groups/boards to improve the transparency and accessibility of information.
- c. Clarity on responsibilities for implementation among all the implementing agencies is required, as the current lack of clarity undermines implementation.
- d. The governance of an independent SME Corp through the NESDC will continue to be important for policy decisions on SME development and implementation of the SME Masterplan.

**C. Implementation**

- a. Malaysia's experience shows that promising results can be achieved if the platform design principles are fully integrated into the implementation process.
- b. It also shows that disappointing results can emerge when HIPs are executed as programs rather than platforms, and when "competition" among programs and agencies dominate actual collaboration.
- c. High level of management expertise and dedication required through effective public-private partnerships.
- d. It is important to leverage technical expertise from within and outside the country.
- e. Implementing agencies should ideally not be under a line Ministry as this could create inherent conflicts and tensions with SME programs being managed by these agencies.
- f. Clarity regarding responsibilities for implementation among all the implementing agencies is required.

**D. Coordination**

- a. The mandate/mission of the Coordinating Agency (SME Corp) needs to be aligned mainly to the SME Masterplan and this needs to be clear and understood by all staff of SME Corp and external stakeholders. A clear mandate is required to differentiate SME Corp from the line ministries and other agencies.
- b. Institutional capacity of SME Corp needs to be aligned to the SME Masterplan and SME Corp must be adequately funded and staffed to deliver on this mandate/mission.
- c. For the Coordination Agency, perceived and actual impartiality or independence is essential.
- d. SME Corp as a coordinating agency needs to be an independent unit and with sufficient empowerment to enable access to resources.
- e. SME Development and SME Corp's role should be further empowered by an SME Development Act. This includes an explicit statement of goals for SME Development, the responsibilities of each implementing organization (SME Corp, line ministries), and definitions of SMEs.

**E. Budgetary Resources**

- a. A different model of budget allocation needs to be adopted to reward programs and resources that provide effective end-to-end facilitation of the platforms while addressing key constraints to SME growth and competitiveness. Those that prove effective should get preference in the budget.
- b. The availability of sufficient operational budget is important because of the supervision and technical assistance intensity of the Platforms.

**F. Monitoring and Evaluation**

- a. Evaluations of SME programs, when done, are done by an independent, external body.
- b. More consistent monitoring and evaluation is needed across the Masterplan. Without greater attention to regular data collection, data management, and analysis, it will be difficult for the Government to ensure accountability and allocate its resources to the most effective and cost-efficient efforts to support SME development in the longer term.
- c. A new methodology for M&E required that is different from program-based M&E.
- d. M&E can provide important inputs/information into budget allocation processes/decisions.

**BOX 5.1**

## How to Effectively Implement the SME Masterplan

**Based on the accumulated knowledge from nearly a decade of experience in SME Development, the following 14 features have been identified as success factors of a Masterplan to launch, improve, and scale up SMEs.**

1. Leadership and buy-in at the highest levels is essential at the outset
2. Adherence to platform principles
3. High levels of management expertise and dedication
4. Public-Private-Partnerships
5. Commitment at the highest levels of Government
6. Effective management and implementation capacity
7. Alignment of institutional mindsets and budget processes
8. Effective coordination and facilitation
9. Acquiring the "Right" Implementing agencies
10. Continuous awareness building
11. Collaboration
12. Leveraging technical expertise from external sources
13. Establishing an effective M&E system to monitor outcomes
14. Ensuring accountability through frequent data collection
15. Coordinating agency should be solely focused on the delivery of the Masterplan.



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