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time for CHANGE

MSMEs Transform:
Aligning MSMEs to the Megatrends and IR 4.0

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It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change.

Charles Darwin
MSMEs is the main contributor to GDP & employment worldwide

Establishments

OECD : 99%
APEC : 97 - 99%
ASEAN : 95 - 99%

GDP

OECD : 50 - 60%
APEC : 21 - 59%
ASEAN : 23 - 58%

JOBS

OECD : 70%
APEC : 25 - 92%
ASEAN : 43 - 97%
98.5% business establishments in Malaysia are MSMEs

MSMEs by Sector:
- Services: 89.2% (809,126 firms)
- Manufacturing: 5.3% (47,698 firms)
- Construction: 4.3% (39,158 firms)
- Agriculture: 1.1% (10,218 firms)
- Mining & Quarrying: 0.1% (865 firms)

MSMEs by Size:
- Microenterprises, 76.5% (693,670 firms)
- Small, 21.2% (192,783 firms)
- Medium, 2.3% (20,612 firms)
- 907,065 firms

Source: Economic Census 2016, Department of Statistics Malaysia (DOSM)

Latest profile of MSMEs in Malaysia

20.6% of MSMEs are women-owned
Beginning 2014, new Malaysian MSME definition came into effect to take into account changes in the economy.

**Threshold**
- **Manufacturing**: Sales turnover ≤ RM50 million (USD12 mil) OR full-time employees ≤ 200 workers
- **Services & other sectors**: Sales turnover ≤ RM20 million (USD5 mil) OR full-time employees ≤ 75 workers

**Registration**
- Locally incorporated under Companies Act 1965; or
- Registered under Registration of Business Act (1956) or LLP Act 2012; or
- Registered under authorities or district offices in Sabah and Sarawak; or
- Registered under statutory bodies for professional service providers.

**Equity Structure**
- Not public-listed in main board in Malaysia or other countries.
- Not subsidiary of large firms, MNCs, GLCs, Ministry of Finance Incorporated and State-owned enterprises.
- Not subsidiary of public-listed company on main board in Malaysia or other countries.
MSMEs an important economic agent in Malaysia

Contribution of MSMEs in 2016

- GDP: 36.6% (2015: 36.3%)
- Exports: 18.6% (2015: 17.7%)
- Employment: 65.3% (2015: 64.5%)

Source: Department of Statistics Malaysia (DOSM) and SME Corp. Malaysia
MSME policy has evolved over the years in line with the overall country’s development agenda.
MSMEs also need to **capitalise on the new trends** to enhance their productivity and economic contribution to the nation.
A **two-pronged strategy** need to be undertaken for sustainable and inclusive development.

1. **Ramping up creation of HIGH GROWTH & INNOVATIVE FIRMS** for quantum leap in GDP

2. **Increasing MICROENTERPRISES (B40) contribution to the economy**

- Creation of more global SMEs through **targeted assistance** in automation, digitalisation & robotisation
- **Reduction in income disparity** through **support** for microenterprises & startups
Four Megatrends which will have far-reaching impact on MSMEs

1. **High growth**
   - **M1**: Digital Future & IR4.0
   - **M2**: Globalisation

2. **Inclusiveness**
   - **M3**: Community Living
   - **M4**: Rising of entrepreneurship
Digital Future & IR4.0: MSMEs that seize the opportunities stand to gain significantly

Digital transformation changing business & delivery models

- Big data
- Cloud computing
- Social media
- Virtual stores
- Subscription-based models
- 3D printing
- Robots
- IoT
- AI
- On-line platforms
- Digital village

Increasing mobile device adoption, a “mobile first” world

Cloud, mobile and social technologies
Globalisation: Faster growth and favourable demographics in Asia & rapid-growth markets

- Global balance of power to BRIC & MINT nations
- Trading between emerging markets increasing
- ASEAN
  - Market size of 625 million people (60% - youth)
  - Internationalisation through regional cooperation
- Increased workers mobility and technological advances

- Asian middle class significant spending power
- "New knowledge world order" emerging, with Asia as a hub

Increased workers mobility and technological advances
Globally there will be more devices connected to the internet than people (50 billion devices vs 7.5 billion people by 2020)

**CURRENT CHARACTERISTICS**
- More microenterprises in developing world (77% in Malaysia)
- Lack of automation
- More mobile phones; cheaper and more powerful each day.

**3 PUSH FACTORS FOR ICT ADOPTION**
- Low cost
- Easy access
- Peer pressure

**Go Global Malaysia**
#MYGoGlobal
- build up business capabilities
- connect with digital ecosystem partners
- promote exports
- to be globally competitive companies

Going forward, microenterprises in rural area need to be part of digital economy
Future villages: Digitalisation of MSMEs

Digitalisation of MSMEs in a village in Malaysia

Digital Village

- Internet speed & accessibility
- Precision farming
- Mobile devices
- Apps utilisation for daily activities (grocery, pay bills)
- e-commerce & e-payment

To leverage on existing infrastructure and initiatives by relevant agencies such as MCMC, MDEC & MIMOS

To enhance and expand by adding value via Entrepreneurial components
Collaboration Framework among Ministries and Agencies

Entrepreneurial content & other capacity building programmes

Infrastructure Digital Accessibility

Digital Platforms, ICT adoption initiatives

Digital Tools IoT Data Analytics

Collaboration Framework among Ministries and Agencies
Future villages: Example of **Precision Chili Farming**

**Smart Precision Farming**
- Control panels
- Temperature, CO2 & humidity monitoring sensors
- Production data

**Internet Cloud**
- Stock monitoring
- Quality monitoring
- Product tracking
- Order confirmations
- Real time information

**Smart Control Panel**
- Wired/wireless systems
- Remote monitoring

**E-Commerce / e-Payment**
- Online markets
- Efficient transactions
- Promote brands cross border

**Closing the gaps between customers and product**

**Mobile Apps**

**Future villages: Example of Precision Chili Farming by IC Microsystems**
Rising of Entrepreneurship: The drivers of entrepreneurial activity moving from Necessity to Opportunity

Start-ups with innovative ideas, making a high-impact

The face of entrepreneurship is increasingly female

The face of entrepreneurship is increasingly young
Examples of strong **Government** support in digitalisation and IR4.0 of MSMEs in various countries

**DENMARK:** Innovation Fund (USD179 mil)

**FRANCE:** Industrie du Futur (USD11 bil)

**GERMANY:** Industries 4.0 (USD1.18 bil)

**SOUTH KOREA:** Technology & Innovation (USD11.4 bil)

**CHINA:** “Internet Plus” & “Made in China 2025” (USD5.9 bil)

**AUSTRALIA:** Advanced Manufacturing Industry Growth Centre (USD0.23 bil)

**ITALY:** Italia 4.0 Plan (USD14 bil)

**SINGAPORE:** Industry Transformation Programme (USD3.3 bil)

**THAILAND:** 4.0 Start-ups (USD8.2 mil)

**US:** Manufacturing USA (USD0.5 bil)

**BUDGET 2018 MALAYSIA:**

- Industrial Revolution 4.0 (USD1.7 bil)
  - USD1.17 bil: Guarantee Scheme
  - USD0.74 bil: Loan
  - USD57 mil: Matching Grant
On the global front, enabling incentives such as alternative financing and fintech has gained momentum in recent years.

**UK:** Grew to £3.2 billion in 2015, an 84% increase in growth compared to the £1.74 billion of 2014.

**European:** Market to grow to around €8 billion in 2016, while €5.43 billion in 2015.

**Asia Pacific:** $102.81 billion USD in 2015. China is the world’s largest online alternative finance by transaction volume, $101.7 billion in 2015.

**Australia:** Online alternative finance $348.37 million (2015).

Alternative Finance Models:
- Peer-to-Peer (P2P) Lending (Consumer & Business)
- Invoice Trading
- Community Shares
- Equity Crowdfunding Platform
- Debt-Based Securities
- Pension-Led Funding

Of late, also in Malaysia there is emergence of new market-based funding to meet MSMEs' changing needs

**Equity & Debt**

- Introduction of equity crowdfunding and peer to peer platform operators by Securities Commission (SC)
- Shariah Investment platform - Investment Account Platform (IAP) with various financing structures
- Enhance financing for start-ups and early stage via debt, equity or hybrid of both.

**Guarantee Scheme**

- New Portfolio Guarantee (PG) deals worth USD0.5bil. with strategic commercial banks

**Regional**

- Growth Accelerator Exchange (GAX) platform
- Comprises GAX Payments, GAX Finance and GAX Logistics
Equity Crowdfunding (ECF) and Peer to Peer Funding (P2P)

ECF Players
- ata+plus
- CROWDO
- CrowdPlus.asia
- FundedByMe
- pitchIN

P2P Players
- eureeca.com
- ETHIS KAPITAL
- FundedByMe
- ManagePay
- MODALKU
- fundaztic
Leading Entrepreneur Accelerator Platform (LEAP) Market

Key Guiding Principles of LEAP Market:

1. Cost-efficient fund raising & listing
2. Rules on a light touch basis balanced with prudential standards
3. Qualified Market for Sophisticated Investors

- Bring together SMEs, Intermediaries, Sophisticated Investors and Advisers on a single platform
- Create a conducive marketplace to raise funds, efficient and transparent capital formation and price discovery mechanisms

NEW
In ensuring Success… Concerted Effort is Imminent!

MSMEs
- Innovate
- Automate
- Adopt ICT
- Reskilling & Up skilling

Government
- Facilitate
- Act as Catalyst
- Provide conducive business environment

Private Sector
- Support MSMEs
- Mentor MSMEs
- Increase participation of MSMEs in the supply chain
Points to Ponder

“The World is Changing quickly and we must be ready to Change with it or risk being left behind”

Najib Razak
Prime Minister of Malaysia