

BNM/RH/CIR 028-1	Development Finance and Enterprise Department	Circular on New Definition of Small and Medium Enterprises (SMEs)
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1. INTRODUCTION

- 1.1 A new definition for Small and Medium Enterprises (SMEs) in Malaysia was endorsed by the National SME Development Council (NSDC), which is chaired by the Prime Minister, YAB Dato' Sri Mohd Najib Tun Haji Abdul Razak, with members from key Ministries and Agencies during its 14th Meeting on 11 July 2013.
- 1.2 The common definition for SMEs was first introduced by the NSDC on 9 June 2005. As the then Secretariat of the NSDC, Bank Negara Malaysia, had on 13 September 2005 issued the circular on Definitions for Small and Medium Enterprises (Appendix 1), for adoption by all Ministries and Agencies involved in SME development programmes as well as financial institutions.
- 1.3 The review of the definition is timely to account for many developments in the economy since 2005 such as price inflation, structural changes and change in business trends.

2. OBJECTIVE

- 2.1 The circular on New Definition of SMEs (the Circular) outlines the revision of definition for SMEs in Malaysia involving:
- (i) Raise of qualifying threshold for sales turnover and employment of SMEs for sectors and size of operation.
 - (ii) Simplify classification by sectors into 2 categories:
 - Manufacturing; and
 - Services and other sectors.
 - (iii) Specify the scope of SMEs for statistical purposes, eligibility criteria of SMEs for Government assistance and exclusions.
- 2.2 As a result of the change in definition, the share of SMEs to total establishments has increased from 97.3% to 98.5% based on the Economic Census 2011 - Profile of Small and Medium Enterprise.

The Circular:

- (i) Supersedes the circular on Definitions for Small and Medium Enterprises (SMEs) issued by BNM on 13 September 2005 (Appendix 1); and
- (ii) Consistent with the Guideline for New SME Definition, October 2013 issued by SME Corporation Malaysia, Secretariat to the NSDC (www.smecorp.gov.my).

3. NEW SME DEFINITION

3.1 Broadly, the definition has been simplified under two categories, namely:

- **Manufacturing:** Sales turnover not exceeding **RM50 million** OR full-time employees not exceeding **200 workers**; and
- **Services and other sectors:** Sales turnover not exceeding **RM20 million** OR full-time employees not exceeding **75 workers**.

The details by size of operation are as follows:

Category	Micro	Small	Medium
Manufacturing	Sales turnover of less than RM300,000 OR full-time employees less than 5	Sales turnover from RM300,000 to less than RM15 million OR full-time employees from 5 to less than 75	Sales turnover from RM15 million to not exceeding RM50 million OR full-time employees from 75 to not exceeding 200
Services & Other Sectors		Sales turnover from RM300,000 to less than RM3 million OR full-time employees from 5 to less than 30	Sales turnover from RM3 million to not exceeding RM20 million OR full-time employees from 30 to not exceeding 75

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3.2 A business will be deemed as an SME if it meets **either one of the two specified criteria**, namely sales turnover or full-time employees **whichever is lower**. The details of the definition are as follows:

A. Classification of sectors covered

- (i) **‘Manufacturing’** refers to physical or chemical transformation of materials or components into new products.
- (ii) **‘Services’** refer to all services including distributive trade; hotels and restaurants; business, professional and ICT services; private education and health; entertainment; financial intermediation; and manufacturing-related services such as research and development (R&D), logistics, warehouse, engineering etc.
- (iii) **‘Others’** refer to the remaining 3 key economic activities, namely:
 - **Primary Agriculture**
 - Perennial crops (e.g. rubber, oil palm, cocoa, pepper etc.) and cash crops (e.g. vegetables, fruits etc.)
 - Livestock
 - Forestry & logging
 - Marine fishing
 - Aquaculture
 - **Construction**
 - Infrastructure
 - Residential & non-residential
 - Special trade
 - **Mining & quarrying**

Classification of economic activities for purposes of definition will be based on the Malaysian Standard Industrial Classification (MSIC) 2008 codes (Appendix 2). This is to ensure comparability of data from various sources and to facilitate data harmonisation across the various providers of SME statistics. However, the list of activities is **not exhaustive** and may be subject to amendments from time to time.

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B. Qualifying criteria

- (i) **Sales turnover** refers to total revenue including other incomes.
- (ii) **Full-time employees** include all paid workers working for at least 6 hours a day and 20 days a month; or at least 120 hours a month. Full-time workers also include foreign and contract workers. However, the definition excludes working proprietors, active business partners and unpaid family members or friends who are working in the business and do not receive regular wages.
- (iii) **‘OR’ basis** means that a business will need to satisfy **either one of the two criteria** used in the definition (whichever is lower).

3.3 **If a business can fulfill either one criteria across different sizes of operation, then the smaller size will be applicable.** For example if a firm’s sales turnover falls under microenterprise but employment falls under small, the business will be deemed as a microenterprise.

3.4 If a business **exceeds the threshold** set under both criteria for **2 consecutive years** (based on its financial year/ accounting period) then it **can no longer be deemed as SMEs**. Similarly, a business that is previously large can become an SME if it fulfills the qualifying criteria of SMEs for **2 consecutive years**.

4. SCOPE OF SMEs

Statistical Purposes

4.1 For statistical purposes, all business establishments including foreign businesses that fulfill the SME definition will be classified as SMEs.

Eligibility Criteria for Government Programmes

4.2 To be eligible for Government assistance, SMEs have to fulfill the following eligibility criteria:

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A. Types of Establishment

Only pure business entities registered with the following bodies will be eligible for assistance:

- (i) **Companies Commission of Malaysia (SSM)** either under the Registration of Business Act (1956) or Registration of Company Act (1965) or Limited Liability Partnerships (LLP) Act 2012; or
- (ii) **Respective authorities**, particularly local authorities or district offices, in **Sabah and Sarawak**; or
- (iii) **Respective statutory bodies** for **professional service providers**.

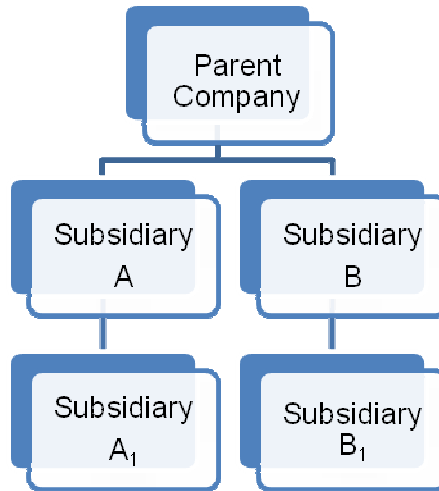
B. Shareholding Structure

- (i) Companies that are **public-listed but are in the secondary bourses** such as the ACE market, Malaysia Online Trading Platform for Unlisted Market (MyULM) or in secondary markets / SME exchanges / unlisted markets in other countries will still be considered as SMEs for as long as they fulfill the qualifying criteria.
- (ii) **Subsidiaries of firms in (i)** will also be considered as SMEs for as long as they fulfill the definition.
- (iii) To have access to SME development programmes, a **minimum local equity of more than 50%** maybe imposed depending on the objectives of the programmes.

Subsidiaries refer to entities where the **parent company has controlling power** over the entities either via:

- The **composition** of its **board of directors**; or
- **Has more than 50%** of its **voting power/ share capital** (excluding preference shares); or
- **Indirectly**, through another entity which is a subsidiary that is owned by the parent company (two level subsidiary). For this, again the conditions in (i) and (ii) will apply (refer to Illustration 1.1).

Illustration 1.1



Exclusions for Government Programmes

4.3 The following businesses **will not be eligible for Government assistance** programmes even though they fulfill the SME definition:

A. **Public-listed companies in the main board** such as the Kuala Lumpur Stock Exchange or main bourses in other countries.

B. **Subsidiaries of the following entities:**

- (i) Public-listed companies in the main board.
- (ii) Large firms, multinational corporations (MNCs), Government-linked companies (GLCs), Syarikat Menteri Kewangan Diperbadankan (MKDs) and State-owned enterprises.

In this case, if the parent company in the Illustration 1.1 falls under (i) and (ii), then its subsidiaries (A and B) and their next level of subsidiaries (A1 and B1) are not eligible for assistance.

5. APPLICABILITY

5.1 The Circular is applicable to the following FIs:

- (i) Banking institutions licensed under the Financial Services Act 2013 (FSA 2013);

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- (ii) Islamic banking institutions licensed under the Islamic Financial Services Act 2013 (IFSA 2013); and
- (iii) Development financial institutions prescribed under the Development Financial Institutions Act 2002.

6. EFFECTIVE DATE

6.1 The New SME Definition Guidelines and the circular will be effective from 1 January 2014.

7. ADDITIONAL CRITERIA FOR SME FINANCING

7.1 For the purpose of this circular, the Special Purpose Vehicle/Entity (SPV/SPE) which is a subsidiary company either having asset/liability structure and legal status that makes its obligations secure from the parent, created to fulfill narrow, specific or temporary objectives mainly used to isolate from financial risk, or a subsidiary corporation designed to serve as a counterparty for swaps and other credit sensitive derivative instruments or also named as a "derivatives product company" is to be **excluded** for statistical purposes of SME financing.

8. REPORTING REQUIREMENTS

8.1 All statistics compiled prior to 2014 will remain status quo and will not be affected by the new definition.

8.2 FIs are required to undertake the following:

- (i) To use new definition for **identification of eligibility status** for SME development programmes, SME product and services as well as compilation of SME statistics. However, in addition to these criteria, additional eligibility criteria may be imposed by financial institutions depending on the scope and objectives of the SME development programmes as well as products and services.

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- (ii) For purposes of data collection, at all times, to maintain **data on companies and businesses based on both criteria** i.e. sales turnover and number of full-time employees. If for any particular reason the stakeholders are unable to compile or maintain both these data, then they should notify the Secretariat.
- (iii) To **harmonise data collection** procedures based on the size and sectoral classifications mentioned. This will enable comparability of data across institutions and provide valuable statistics to better understand the status, issues and development needs of SMEs across all sectors.

9. COMPLIANCE

- 9.1 FIs are required to comply with other current requirements imposed by the Bank. This includes, but not limited to CCRIS Guidelines.

10. CONTACT

- 10.1 Should there be any queries on this circular and SME financing statistic submission, please contact the Development Finance and Enterprise Department of Bank Negara Malaysia:
 - (i) Pn. Zarina Abd Rahman (03-26988044 ext. 8828/zar@bnm.gov.my)
- 10.2 For any other inquiries on the SME definition, please contact the Economics and Policy Planning Division of SME Corporation Malaysia:
 - (i) Cik Kausalya Gopal (03-27756288/kausalya@smecorp.gov.my)
 - (ii) Pn. Suraini Mohd Sulaiman (03-27756290/suraini@smecorp.gov.my)