



The missing middle: Bridging gaps for SMEs

SMALL and medium enterprises (SMEs) are often described as the backbone of Malaysia's economy.

They make up roughly 96% of all registered businesses, contribute more than a third of gross domestic product, and provide nearly half of national employment.

However, in the aftermath of the pandemic, this engine is still under challenges and has yet to recover to its previous momentum.

Rising costs, financing hurdles, and digital barriers have left many SMEs stranded in a vulnerable "missing middle" – too large for micro-financing schemes, yet too small to attract significant private investment.

As Budget 2026 approaches, this is a timely opportunity for policymakers to address these gaps and deliver a more inclusive support framework – one that treats SMEs not as peripheral players, but as the true drivers of Malaysia's economic future.

Cost and compliance pressures: Rising strain on the bottom line

One of the most pressing challenges for SMEs today is the operating cost controls.

Inflation, higher wage demands, and new regulatory requirements – such as the mandatory e-invoicing implementation and the gradual rollout of environmental, social and governance (ESG) reporting – have contributed to the financial and administrative burden, making it more difficult for many SMEs to sustain their operations.

Even well-intentioned policies could carry unforeseen costs. E-invoicing, for instance, requires system upgrades, process overhauls, and external expertise, and all these can escalate costs depending on the SME's digital readiness.

At the same time, the expansion of the Sales and Service Tax, rising global trade costs including logistics and import-related expenses, and higher foreign worker levies, have contributed to further narrowing the profit margins.

Without targeted reliefs, these pressures risk accelerating closures or push more firms into the informal economy.

To ease these pressures, Budget 2026 could consider:

- > Phased implementation timelines for levies or wage adjustments, giving SMEs room to adapt.
- > Targeted tax relief measures, such as temporary tax credits or rebates for labour and compliance costs, alongside a higher threshold for preferential SME tax rates.
- > Reinvestment allowances linked to

innovation, expansion, or job creation.

Financing: To broaden access

Despite substantial allocations for SME lending in previous budgets, many firms – particularly those outside major urban centres – still find credit out of reach. Banks continue to perceive them as risky borrowers, especially those without collateral, stable cash flow, or formal records.

The paradox is stark: billions earmarked for SMEs, yet much of it remained untapped. Entrepreneurs with viable ideas often report being turned away, simply because their balance sheets do not fit the conventional banking models.

It would be conducive if the government could consider certain measures to narrow this financing gap, such as:

- > Expanding credit guarantee schemes for working capital and technology investments.
- > Designing tailored financing products for women-led enterprises and rural SMEs.
- > Strengthening development financial institutions to better serve underbanked firms.

Digitalisation: From optional to essential

Digital adoption has shifted from competitive advantage to basic survival. Yet many SMEs remain digitally under-equipped, constrained by high costs, limited literacy, and lack of tailored support.

The SME Digitalisation Grant has provided some relief, but its "one-claim-only" design limits long-term transformation.

A business may adopt basic tools, but few progress to advanced solutions such as cloud platforms, customer relationship management systems or artificial intelligence integration.

The disparity is most apparent outside of the Klang Valley area, where there are greater gaps in infrastructure and awareness.

Budget 2026 could strengthen this area by:

- > Allowing multiple grant claims tied to progressive digital milestones.
- > Investing in SME-focused digital upskilling, especially in underserved states.
- > Incentivising corporate-SME partnerships to foster mentorship and build digital ecosystems.

Market access: Going global, not just local

Malaysia's export ecosystem remains heavily weighted toward large corporations, which typically have the resources, networks, and compliance capabilities to navigate international markets.

By contrast, many SMEs find themselves locked out of global opportunities, despite having competitive products or services.

The barriers are multifaceted – limited technical expertise, complex regulatory requirements (both domestic and foreign), and inadequate logistical support, often prevent smaller firms from scaling abroad.

This is a missed national opportunity. Even a modest increase in SME export participation could diversify Malaysia's trade base and build resilience in an uncertain global economy.

To better facilitate global market access for SMEs, the government could consider:

- > Introducing export facilitation grants for international certification, logistics, or eCommerce onboarding.
- > Offering double tax deductions for overseas marketing, legal, and translation services.
- > Expanding SME-focused support via the Malaysia External Trade Development Corp, with dedicated trade missions and structured buyer matchmaking.

ESG and sustainability: Time to transition

ESG standards are cascading across supply chains, making compliance unavoidable for SMEs.

Global buyers are already screening suppliers for ESG practices, and those who fail to adapt risk losing clients and market access. Yet readiness is low.

Most SMEs lack the systems, expertise, and resources for credible audits or sustainability reporting.

Without timely support, they risk being sidelined at a time when Malaysia is advancing toward its net-zero 2050 target and regulators expanding disclosure requirements across the supply chain.

The government could consider certain measures to support their transition, such as:

- > Create ESG transition grants for green audits, certifications, and low-carbon technologies.
- > Roll out training and advisory programmes to strengthen SME sustainability capabilities.
- > Implement tiered compliance timelines to give SMEs a realistic adjustment period.

Bureaucracy: Streamline support, restore trust

Bureaucracy continues to be one of the most stubborn barriers for SMEs. While funding and incentives exist, many firms struggle to access them due to lengthy application processes, opaque eligibility criteria, and slow disbursements.

For smaller and informal businesses, navigating multiple ministries, agencies, and schemes often becomes an exercise in persistence rather than entrepreneurship.

The result is a paradox: well-intended support measures end up underutilised, and many SMEs remain excluded from programmes designed to help them. Some even opt out altogether, choosing to forgo potential assistance rather than enduring a complicated application process.

A digital-first approach may improve delivery. The government could consider:

- > Create a single-window SME portal for all grant and loan applications.
- > Enable pre-approved grant channels through industry associations.
- > Deploy auto-screening tools based on tax records to fast-track approvals.

Cutting red tape is not just about efficiency; it is about trust. When processes are transparent, predictable, and user-friendly, more SMEs are willing to participate in formal programmes.

This, in turn, enhances policy impact, reduces leakage to informal channels, and creates a more inclusive business ecosystem. Ultimately, simplification ensures that vital support reaches the business communities it was intended for – swiftly and fairly.

Conclusion: No SME left behind

If the government is to realise its Madani vision in driving an equitable economic growth, it must see to closing the gaps that hold back Malaysia's "missing middle."

That means looking beyond headline allocations and addressing the real friction points SMEs face every day.

From targeted cost relief and simplified access to support for digital adoption, export readiness, and ESG compliance, our local SMEs can be empowered – not just as some economic contributor numbers, but as innovators, employers, and community builders for Malaysia's next phase of growth.

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