

THE MSME FUNDING ECOSYSTEM: THE NEED TO STRENGTHEN DEMAND-SIDE CAPACITY

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The government has recently announced further measures to strengthen Malaysia's MSME ecosystem, aimed at expanding access to financing and helping small businesses manage rising costs.

In the financing space, Bank Negara Malaysia (BNM) will channel an additional RM2.5 billion through banks and financial institutions to improve MSMEs' access to credit, with a particular focus on first-time borrowers. The central bank will also introduce a financing guarantee scheme that will eventually amount to RM10 billion. In parallel, RM30 billion has been allocated under the SJPP guarantee scheme, of which RM10 billion is specifically earmarked for Bumiputera businesses.

These measures are welcomed especially the earmarking of funds for first time borrowers as it prevents already thriving businesses with good credit profile and history from crowding out newcomers.

On the supply side, business financing in Malaysia has generally been ample, and where funding frictions arise, the government and the banking regulator have historically been willing to adjust the financing programmes.

However, changes in nature of commerce, evolving and higher compliance requirements and emerging demand for dynamism and scale also require adaptation from the demand side. Existing financing and guarantee schemes primarily cater to MSMEs that can qualify through regulated financial institutions' credit assessment processes, thereby addressing a significant but also incomplete set of MSMEs in Malaysia.

Many micro and small enterprises remain unable to access these schemes due to incomplete formalisation or the high cost of meeting professional requirements such as auditing. Beyond these formal constraints, most small businesses operate as do-it-yourself enterprises, managing all aspects of their operations independently and without the support of dedicated IT, finance, or compliance departments.

As such, future MSME programmes should also consider strengthening demand-side capacity in financing. Targeted investments in basic digital, accounting, and business skills particularly for first-time entrepreneurs, would enhance MSMEs' ability to navigate an increasingly complex business and regulatory environment.

A micro enterprise may remain a micro enterprise even after some years of operation. However, with stronger business literacy and formal skills, entrepreneurs would be better positioned to scale, diversify, or transition into higher-value activities, should they choose to do so.

Additionally, a basic literacy in finance would help entrepreneurs navigate the myriad of programmes available to them. The world of business funding is increasingly complex, along with the developments in business practices. The types of funding available in Malaysia range from financing for home businesses, roadside burger stalls to startups aspiring to scale internationally. Each programme is designed with distinct structures, requirements, and suitability criteria. Greater awareness of business and financing fundamentals would help entrepreneurs make more informed choices and, in doing so, raise the potential ceiling for small business growth.



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