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The Pitch Deck: Budget 2023 provides an opportunity to reboot

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Budget 2023, which was presented on Oct 7, had a lot of goodies for wide segments of the nation, including the tech sector. However, with the dissolution of parliament, it is highly likely that there will be a different government in place after the 15th general election. This likely means there could be a different budget being presented or, if the current government, perhaps made up of a slightly different coalition, returns to power, then the same budget could be implemented, with changes still possible.

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That being so, I have a few suggestions on how the budget could be strengthened further for the tech ecosystem.

Funding

This is one area in which the proposed budget really excels. There is so much in there for everyone.

Starting with early-stage funding, the government announced the extension of the Angel Tax Incentive for three more years up to 2026 and this will help get more angels investing into start-ups.

The government is providing RM30 million to the Malaysia Co-investment Fund (MyCIF), which was set up to co-invest in micro, small and medium enterprises (MSMEs) and social enterprises alongside private investors via equity crowdfunding (ECF) and peer-to-peer financing platforms. ECF has taken off like a rocket and one reason for that is the matching of grants by MyCIF, so the government's allocation bodes well for early-stage funding.

Additionally, the government proposes to expand the scope of tax incentives for individual investors in start-up companies via ECF. Thus, these individuals will also get a tax break for their investments and retail investment in ECF companies will be increased.

There is also a RM102 million allocation for a digital content fund to help with the marketing of artistic products, which is great for the creative industry.

Cradle Fund Sdn Bhd has been allocated RM50 million, another boost for early-stage start-ups. I would like to suggest that the government consider an additional allocation of RM20 million as a matching grant with angel investors. The amount per company can be up to RM250,000, matched 1:1 with angel investment. This will help an extra 80 companies. This matching model will put extra funds into the very-early-stage companies and will help to de-risk investments made by angels. This could add an extra RM40 million for very-early-stage companies.

There is also an allocation by government-linked companies (GLCs) and government-linked investment companies (GLICs) of up to RM1.3 billion for technology investment. While the mechanism for this is unavailable, if this is done via a fund-of-fund structure as was adopted by Penjana Kapital, where the government matched private-sector funding 1:1, this could be a game changer for the tech ecosystem. Imagine RM2.6 billion being funnelled into start-ups, it's almost mouthwatering. I hope it will be done via the Penjana Kapital model as that will add far more money than just one-off direct investments without matching funds.

For research and development (R&D), there is a RM364 million allocation under the Ministry of Higher Education and the Ministry of Science, Technology and Innovation. While the amount is not large, it is still a strong endorsement by the government that R&D is critical for the nation.

There are many other funding and financing initiatives in the budget.

Impact investments

Khazanah Nasional will invest RM1 billion in Dana Impak in 2023. As a boost for the technology sector, RM230 million will be for investment in locally owned, high-tech companies.

We will need more clarity on what “impact” means but having it top of mind is crucial, especially if Malaysia wants to achieve its Sustainable Development Goals as set out by the United Nations General Assembly.

There are also tax exemptions for electric vehicles as well as extensions of the Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE) until Dec 31, 2025, for eligible green activities, including solar and battery energy storage systems.

Ensuring connectivity and 5G coverage

We are all aware of two things: firstly, many rural areas still do not have telecommunications coverage and 5G is the future for connectivity. Hence, it is encouraging that the government is making this a priority with a RM700 million allocation for the National Digital Network (Jendela) to implement digital connectivity in 47 industrial areas and nearly 3,700 schools. This will ensure students in rural areas can keep up with their city cousins and businesses can now benefit from better coverage to increase their productivity and digital engagement with customers.

There is also a RM1.3 billion infrastructure allocation for Digital Nasional Bhd to expand the 5G network nationwide to cover 70% of highly populated areas. Malaysia is a little late to the 5G party so we need to do this pronto just to keep up with our neighbours.

Technology adoption

The small and medium enterprise (SME) sector has for years been slow in adopting technology, but their experience during the pandemic has changed their perspective. Hence, this is an opportune time to push harder for technology adoption to take place.

Under Bank Negara Malaysia, RM10 billion has been allocated for SMEs in the automation, digitalisation, tourism and agriculture sectors. This is excellent. There is also a RM1 billion allocation for a Bank Negara Agrofood Financing Scheme to help SMEs increase agro-food production. SMEs should use this allocation to increase the use of technology and even Internet of Things (IoT) devices to ensure better utilisation of fertilisers and pesticides, as well as procure higher-quality seeds or seedlings.

There are also tax exemptions and lowering of taxes, more loans at low interest rates and plenty more. Clearly, the government is showing its intent to help the SME sector, which comprises more than 90% of registered companies in Malaysia.

On the whole, it is a very business-friendly budget with a strong emphasis on technology and SME.

I have proposed some improvements which the new government could adopt to further strengthen Budget 2023 and I hope whoever comes into power will continue to be business and technology-friendly.