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Client Alert

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Malaysia Post-MCO: The National Economic Recovery Plan (PENJANA) and Recovery Movement Control Order

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On 5 June 2020, the Malaysian Prime Minister introduced the National Economic Recovery Plan ("**PENJANA**") to stimulate the Malaysian economy in light of the impact of COVID-19.

PENJANA revolves around 3 key themes: (i) to empower people, (ii) propel businesses and (iii) stimulate the economy. To this end, the Government has introduced 40 initiatives valued at approximately RM35 billion, out of which RM10 billion comprises direct fiscal injection by the Government.

In light of the decrease in local COVID-19 infections, on 7 June 2020, the Prime Minister also declared that the Movement Control Order (and the Conditional Movement Control Order ("**CMCO**")) (collectively, "**MCO**") will end on 9 June 2020. The MCO will be replaced by the Recovery Movement Control Order ("**RMCO**"), which will be effective from 10 June 2020 until 31 August 2020.

In this alert, we discuss the key highlights of PENJANA[1] and the implications of the RMCO.

Key Highlights of PENJANA

1. Empower People

(a) Extended Wage Subsidy Programme ("WSP")

The WSP (first introduced by the Government on 27 March 2020 and as discussed in our **previous alert**) will be extended for a further period of 3 months. The key differences of the WSP under PENJANA are:

(i) Eligible employers will receive a fixed sum of RM600 per month per eligible employee, up to a maximum of 200 employees. This is in contrast to the different amounts of wage subsidy depending on the size of the company under the PRIHATIN stimulus package announced in March 2020.

(ii) Employers who receive a wage subsidy under the WSP are allowed to implement reduced work weeks (e.g., 4-day work week with a reduced pay of 20%). For employers in the tourism industry and businesses which are prohibited from operating during the CMCO, they can continue to receive the wage subsidy for employees who are placed on unpaid leave on the condition that such employees receive

[1] Note that the tax-related incentives under PENJANA, which include the tax incentives to attract foreign companies to relocate their businesses to Malaysia, are discussed in our **previous alert here**.

the subsidy directly. This can be contrasted to the WSP announced during the PRIHATIN stimulus package, where employers shall not impose unpaid leave or enforce a wage deduction on its employees for 3 months after the implementation of the WSP.

(b) RM1.5 billion on hiring and training assistance for businesses

The Government has introduced the following financial incentives (for up to 6 months) to encourage employers to hire those who are currently unemployed:

Types of employees	Incentive for each apprentice / employee hired (RM)
School leavers or graduates (Youth)	600 per month for apprenticeships
Persons below age of 40	800 per month for employment
Persons aged 40 and above, or persons with disability(ies)	1,000 per month for employment

Separately, a training allowance of RM4,000 will also be extended to each individual that has been retrenched but is not covered under the Employment Insurance System (EIS).

(c) RM2 billion allocated for reskilling and upskilling programmes for youth and unemployed workers

To increase the employability of youths and the unemployed, the Government has dedicated a RM2 billion fund to support various initiatives, including:

(i) place-and-train programmes;

(ii) upskilling programmes, with a particular focus on the electric and electronics industry and the information and communication technology industry;

(iii) apprenticeship programmes; and

(iv) entrepreneurship programmes.

These programmes will be administered as a joint-effort between the Government and various Ministries and bodies such as Malaysia Digital

Economy Corporation ("**MDEC**"), Human Resources Development Fund, Securities Industry Development Corporation and Majlis Amanah Rakyat.

2. Propel Businesses

(a) Micro, Small and Medium Enterprises ("MSMEs") E-commerce Campaign

To encourage MSMEs to digitalise their businesses, MDEC and certain participating e-commerce platforms will provide on-boarding training, seller subsidies and sales support to eligible MSMEs. This follows the RM20 million allocation to MDEC under the economic stimulus package announced in February 2020 designed to incentivise digital transformation amongst MSMEs in rural areas.

(b) Technical and Digital Adoption for Small and Medium Enterprises[2] ("SMEs") and Mid-Tier Companies[3] ("MTCs")

The Government will provide the following grants and loans to eligible SMEs and MTCs to encourage digitalisation:

(i) SME Digitalisation Matching Grant totaling RM100 million (in partnership with telecommunication companies);

(ii) SME Technology Transformation Fund totaling RM500 million; and

(iii) Smart Automation Grant totaling RM100 million, capped at up to RM1 million per company.

(c) Financing facilities for MSMEs

(i) *RM2 billion PENJANA SME financing*: The banking sector will offer an additional RM2 billion fund to SMEs at a concession rate of 3.5%. This financing facility will be available from mid-June 2020 with a maximum loan size of RM500,000 per SME.

(ii) *RM1 billion PENJANA SME tourism financing*: RM1 billion will be made available to SMEs operating in the tourism sector. Further details on this facility are expected to be announced by Bank Negara Malaysia (the Malaysian Central Bank) in July 2020.

(iii) *RM400 million PENJANA microfinancing*: MSMEs may apply for funding at an interest rate of 3.5%. There will be an aggregate

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[2] SMEs are businesses (1) in the manufacturing sector with sales turnover from RM300,000 to RM50 million or 5 to 200 full-time employees, or (2) involved in other sectors with sales turnover from RM300,000 to RM20 million or 5 to 75 full-time employees.

[3] The Government has not clarified what companies constitute MTCs. The Malaysia External Trade Development Corporation has defined "MTCs" to be companies with annual revenues between RM50 million to RM500 million in the manufacturing sector and between RM20 million to RM500 million in other sectors. It remains to be seen whether a similar definition will be adopted in the implementation of the Technical and Digital Adoption grants/loans.

approved financing cap of RM50,000 per enterprise. This is in addition to the various other incentives provided to MSMEs under the PRIHATIN package, such as the RM300 million micro enterprises facility, where the maximum financing amount is RM50,000 for a tenure of 5 years.

(iv) *RM500 million Bumiputera relief financing*: Perbadanan Usahawan Nasional Berhad (PUNB) will provide RM200 million in financial assistance to Bumiputera-owned shariah compliant businesses for, among others, working capital and operational expenditure purposes. The financing facilities will range from RM100,000 to RM1 million for a term of up to 5 years at an interest rate of 3.5% per annum.

Majlis Amanah Rakyat (MARA) will also allocate RM300 million for working capital loans of up to RM1 million per enterprise at a 3.5% interest rate per annum to assist Bumiputera entrepreneurs affected by COVID-19.

(d) RM 1.6 billion SME-Go Scheme for liquidity support

SME Bank will provide financing to eligible G2 and G3 grade contractors that have received small Government projects under the Economic Stimulus Package and the PRIHATIN Stimulus Package.

(e) To encourage new business establishments and merger and acquisition ("M&A") activities

The Government has introduced the following measures to encourage the establishment of new businesses and M&A activities:

(i) income tax rebate of up to RM20,000 per annum for 3 years of assessment for SMEs established between 1 July 2020 to 31 December 2021;

(ii) stamp duty exemption for SMEs on any instruments executed for mergers and acquisitions between 1 July 2020 to 30 June 2021. For context, instruments typically executed as part of M&A transactions include (i) share transfer forms (the usual stamp duty rate being 0.3% on the higher of the consideration or market value of the shares); and

(iii) business transfer agreements (the usual stamp duty rate being 1-4% on the higher of the consideration or market value of the business).

It is expected that further details regarding the financing facilities or grants will be announced in the coming days by Bank Negara Malaysia.

3. Stimulate the Economy

(a) RM 1.2 billion PENJANA Nasional Fund

The Government will establish an investment fund, which will match institutional private capital investment with selected venture capital and early stage tech fund managers for the following funds:

(i) seed stage / co-creation funds;

(ii) series A / B funds;

(iii) growth-stage tech funds;

(iv) venture debt funds; and

(v) opportunistic funds (e.g., e-sports, healthcare).

(b) Industry-specific financial support

Industry / Sector	Financial incentive / support
Property	• *Home Ownership Campaign*: Stamp duty exemptions on instruments of transfer (up to RM 1 million of the purchase price) and loan agreements (full amount) for the purchase of residential homes priced between RM300,000 to RM2.5 million. The exemptions only apply where the sale and purchase agreements are signed between 1 June 2020 and 31 May 2021 ("**HOC Period**"). • *Real Property Gains Tax ("**RPGT**") exemption*: Gains from the disposal of residential homes between 1 June 2020 and 31 December 2021 will also be exempt from RPGT, up to a maximum of three residences per individual. • *Lifting of financing limit*: The current 70% margin of financing limit which apply to a third housing loan onwards for properties

Industry / Sector	Financial incentive / support
	valued at RM600,000 and above will be lifted for the HOC Period.
Arts, culture and entertainment	• RM100 million in soft loans with interest rate of 3.5% and RM30 million in grants for the creative, events and exhibitions industries under MyCreative Ventures and RM10 million for the Cultural Economy Development Agency. • Grant of up to RM5,000 per event for selected events, exhibitions or productions. • RM35 million Dana Kandungan Digital under MDEC for projects in the creative sector with a focus on animation and visual effects.
Agriculture and food	• Under the Agrobank micro credit financing facility, entrepreneurs in the agrofood sector (including commodity players) may apply for loans with interest rate of 3.5% per annum up to a maximum loan size of RM50,000 with a loan tenure of 5 years. • In-kind benefits for urban farming (e.g., fertilisers, seeds, infrastructure, equipment, advisory and training) worth RM500 per person and RM50,000 per community.

Various tax incentives are also granted to the tourism, automotive and commodity sectors. Please see our **previous alert here** for more details.

(c) National "Buy Malaysia" Campaign

The Government and relevant agencies will promote the consumption of Malaysian-made products and services by:

(i) making local product tagging or identification compulsory for big supermarket chains; and

(ii) creating dedicated Malaysian products channels on major digital platforms.

(d) Proposed COVID-19 Temporary Measures Act

The Government is contemplating a COVID-19 Temporary Measures Act to mitigate the negative impact of contractual breaches and insolvency actions on businesses affected by COVID-19 and the MCO.

The COVID-19 Temporary Measures Bill is expected to be tabled in Parliament in July 2020.

(e) RM500 Million Sukuk Issuance Under the Sukuk PRIHATIN Scheme

The Malaysian Ministry of Finance plans to issue a sukuk (Islamic bond) under this scheme in the third quarter of 2020. Proceeds will be utilised for specific development programmes including funding for micro enterprises and research grants for infectious diseases.

RMCO

The Malaysian Government has issued the Prevention and Control of Infectious Diseases (Measures within Infected Local Areas) (No. 7) Regulations 2020, which is in effect from 10 June 2020 to 31 August 2020 ("**Regulations (No. 7)**"). The Regulations (No. 7) governs the RMCO, where certain restrictions previously enforced under the CMCO ("**Restrictions**") have been lifted. We have discussed these Restrictions in a **previous alert**.

Businesses and activities allowed under the RMCO

The businesses and activities (previously prohibited under the CMCO), which are now allowed to resume, include:

(i) interstate travel, except for areas that have been put under an Enhanced Movement Control Order (i.e. places under more stringent MCO measures);

(ii) commercial activities that involve sales and promotional activities outside of business premises;

(iii) meetings and workshops, subject to health and safety protocols;

(iv) barbers, hairdressers and beauty salons;

(v) various markets, bazaars, food courts, hawker stalls/centres, food truck and food stalls;

(vi) training activities for sports teams, and non-contact sports such as bowling, badminton, archery and shooting;

(vii) motorcycle convoys and group bicycle rides;

(viii) museum visits, indoor busking, self-service laundry facilities, recreational fishing and film shoots;

(ix) tourism activities catering to domestic tourists;

(x) Hari Raya Aidiladha and sacrificial rites (subject to Standard Operating Procedures ("**SOP**") issued by religious authorities), and religious activities and gatherings (subject to further guidance to be provided by the Director General of Health); and

(xi) schools will be opened in phases (further details to be provided by the Ministry of Education and Ministry of Health).

These permitted businesses and activities will be subject to the new SOPs issued by the relevant authorities[4]. Further, note that the SOPs issued for businesses and activities allowed during the CMCO will continue to be in force during the RMCO.

Businesses and activities prohibited under the RMCO

Businesses and activities which are still prohibited under the RMCO include:

(i) organising sports events and tournaments;

(ii) contact sports such as rugby, wrestling, boxing, football, basketball and hockey;

(iii) swimming pool activities (other than those in private residences and pools for private use in accommodation premises), except for the training of national athletes participating in the Tokyo Olympic Games 2020;

(iv) foreign travel by a citizen and inbound tour activities involving foreign tourists entering Malaysia;

(v) activities in karaoke centres, children's playground in shopping malls and family entertainment centres;

(vi) activities in pubs and night clubs, except restaurant business in pubs and night clubs;

(vii) fitting of clothes, using fitting rooms in clothes stores, trying on fashion accessories in stores and providing cosmetic testers in stores;

(viii) reflexology and massage activities in a health and beauty establishment;

[4] Available at https://www.mkn.gov.my/web/ms/sop-pkp-pemulihan/

(ix) cruise ship activities; and

(x) any activity with many people in attendance at a place making it difficult to carry out social distancing, and to comply with the directions of the Director General of Health.

Arrival in Malaysia

Expatriates, skilled workers, knowledge workers (with or without an active employment pass) and their dependents (collectively "**Foreign Expatriates**") abroad may now apply for permission to enter Malaysia ("**Entry Permission**"). These applications should be made by the employer to the Director General of Immigration Department of Malaysia ("**DGIM**") and should be accompanied with a supporting letter from the relevant approving agency or regulatory body. The DGIM will grant Entry Permission for Foreign Expatriates holding key or technical posts only.

Upon obtaining Entry Permission, Foreign Expatriates must (among others):

(a) undergo COVID-19 test abroad and be tested negative prior to entering Malaysia (the results of which, along with the Entry Permission) must be presented to the immigration officer at the entry point);

(b) obtain a visa from the respective Malaysian Embassy (if required or if the Foreign Expatriates do not have an active employment pass);

(c) undergo a 14-day home quarantine; and

(d) undergo a COVID-19 / swab test if instructed by the Ministry of Health.

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