

CHAPTER 4: PROBLEMS, PROSPECTS AND GOVERNMENT POLICIES TOWARD SMIs DEVELOPMENT

4.1 PROBLEMS

SMIs in Malaysia faces many problems which are similar to those of its large-scale counterpart. Many of these problems are also similar to other countries. Some of the major problems faced by SMIs are also inherent in their small size. The major problems of SMIs are lack of commercial bank credit and intra-industry linkages between SMIs and large scale industries (LSIs). Others problems are related to technological know-how, marketing, management, labour and industrial base.

4.1.1 Lack of Credit

SMIs face problems in obtaining loans and other types of financial and credit facilities from commercial banks and other financial institutions. This inadequacy arises because of the small size of the firms and the lack of adequate collateral and guarantors. Other factor would be the conservative lending policies of licensed financial institutions which would not dispose them to lend to new and innovative proposals as they lack expertise to process and evaluate the risks associated with such new proposals. In addition, loans especially to tiny and small firms are perceived to be more risky. Survey of Companies 1995 conducted by Bank Negara Malaysia

reported that only six percent of the SMIs sourced their paid-up capital through development bank. The remaining sourced their paid-up capital from their own funds and other sources such as the pooling of funds from individuals or other companies (Star, 1996).

Survey conducted by Pazim @ Fadzim Othman and Mohd. Rosli Mohamad (1995) also showed that SMIs, especially small scale industries have limited access to credit. This is due to their smallness coupled with the lack of technical know-how. Moreover, most of the loans provided to small scale industries have not been utilised, but most of the loans have instead benefited the medium scale industries which have relatively larger amount of self-financed funds to start and operate their industries. The result from their survey conducted on SMIs in Kelantan and Selangor show that 26.2 percent of the small scale entrepreneurs still depend on self-raised funds to start their business while 52.2 percent used self-raised funds to run their business. Only 40.3 percent of them have been granted loans under the Credit Guarantee Corporation (CGC) loan Schemes to start their business while none have utilised loans to run their business. Most of the small-scale entrepreneurs have relied upon past savings to start and run their business and borrowings are only made through agencies which require no collateral (Pazim @ Fadzim Othman, 1995).

Table 4.1 Sources of capital to start business

Sources of capital	No	Percent	Amount (RM'000)	Percent
Own	29	40.85	371	26.23
Parents	-	-	-	-
Other Family members	9	12.68	97	6.86
Friends	-	-	-	-
Shareholders	-	-	-	-
Bank/Financial Inst.	1	1.41	40	2.83
Government Loan Assistance				
- MARA	11	15.49	200	14.14
-Rancangan Belia Niaga	7	9.86	136.5	9.65
Loans under CGC	14	19.71	570	40.30
Total	71	100.00	1414.5	100.00

Source: Pazim et al. (1995)

4.1.2 Inadequate Linkages with Large Industries

There is lack of linkages and complementarity in both the resource-based and non resource-based industries. The resource-based industries have low forward-based linkages, thus resulted in low value added activities. In Japan, 60 percent of the SMIs are involved in subcontracting while only a small number of SMIs in Malaysia produce intermediate products for bigger industries (Ismail 1990).

Lack of inter-industry linkages between large companies and SMI was due to the quality of products manufactured by SMIs, where some MNCs indicated that the reluctance in sourcing component parts from local SMIs were due to their concern for quality. They are more concern over short term profit and benefit and lack of long term planning especially based on forecasted

changes in market and technology. SMIs often perceived quality as additional costs, thus made them unaware of quality, which is a major concern for many MNCs and large enterprises.

Furthermore, SMIs have insufficient quality control, improper storage of semi-finished and finished products, and insufficient machinery and equipment. So, strong intra-industry linkages are necessary for accelerating the process of technology transfers, the development of indigenous R&D, the development of a dynamic domestic entrepreneur class and most importantly reducing our dependence on imported inputs and thereby contributing towards improving our balance of payments position.

4.1.3 Technological Problem

We are aware that the majority of SMIs are still at the lower end of technology. For example, a study on Malaysian SMIs in four subsectors (food, wood, light engineering and construction materials) revealed that the majority of SMIs (72 to 82 percent) were still using a low level of technology (UP-ISIS, 1988). In light engineering, while the majority of SMI owned some machinery, only 30 percent used milling machine and none had a numerically-controlled milling machine. Of the food processing factories surveyed, the most common method of drying was sun drying. Solar, freeze or vacuum dryers were not widely used.

The use of traditional technology by SMIs is manifested in their low productivity and low quality of their products which are either often defective or have a high rejection rate. In addition, production methods have failed to keep up with new technique or modern technology. Factory layout is poor, and only simple or outdated machinery is used. Many SMIs employ untrained workers and operate in congested or unsuitable buildings. Consequently, a large proportion of SMIs products are often defective.

In general, SMIs did not use the latest manufacturing management techniques. Decisions on quality control, product design and development, plan maintenance and production planning are primarily made by the manufacturing owner of the firm.

4.1.4 Limited Market and Lack of Export Penetration

Marketing is of crucial importance to SMIs in penetrating a market. However, SMIs faced problems in expanding both their domestic and foreign market shares. Marketing problems include seasonality of demand, customer problems, delivery, and keen competition. A number of SMI have problems in marketing their products because of a number of factors such as poor designs which are both inefficient and inartistic, low quality of finished products due to the use of poor quality raw materials and insufficient quality control, lack of after-sales service and precision due to inadequate equipment and lack of skilled personnel.

The level of marketing knowledge and skills among the small entrepreneurs are very limited. Systematic market analysis and forecasting are not within the realm of their managerial capacity. They have very little access to market information, particularly about the potentials and specifications of the export markets. Further, their product design, packaging, pricing and servicing are generally inferior, and certainly could not meet the exact requirements of the export market.

The SMIs Census and Study 1993/94 revealed that only 20 percent of all the SMIs exported their products. For medium scale industries, 47 percent exported their products as compared to only 15 percent of the small scale industries. The major product exported were chemicals, petrol, rubber and plastics (34 percent), textile, wearing apparel and leather (25 percent), fabricated metal and machinery equipment (22 percent) and wood and wood products (21 percent) (MITI, 1995).

Survey carried out by Sieh Mei Ling, Mohd. Nazari Ismail and Abdul Latif Hj. Salleh (1995) divided marketing problems into two categories: internal and external marketing problems. Internal marketing problems include identifying, contracting and getting customers, pricing decisions, distribution and final selling method as well as promoting products. External marketing problems include economic, political, government and legal problems, technological, financial, social-cultural problems and problems of competition.

As a result of these problems, SMIs in Malaysia do not contribute significantly to the export earnings. Indirectly, SMIs may play an important role in the manufacturing of parts and components that are incorporated into the finished product exported by large industries.

4.1.5 Management

Management is another major problem of SMIs. Most SMIs are controlled and managed by the owners themselves, often with the help and support of only their family members. The quality of management and marketing, therefore depends very much on the education, experience and training of the owners themselves. Since many of them do not have any formal education in the principles of business management, they generally operate their businesses as traditional family-type businesses.

A study of SMI in selected industries showed that in terms of manufacturing management techniques, most SMI did not use statistical quality control and inspection was carried out by sampling or whenever there was a problem (Ismail 1988). Only 18 per cent of the SMI surveyed manufactured their products according to international standards, while the rest used their own standards. In such cases, the SMI's real problems may not be really of a technical nature but more a problem of poor management. Even with

adequate machinery and skilled workers, efficient production processes require proper planning and careful quality control to ensure the manufacture of high quality products at minimal costs.

4.1.6 Narrow Industrial Base

One of the problems is that SMIs are still characterised by a narrow industrial based and still concentrated on food manufacturing, wood-based products and light engineering. This eventually lead towards weak inter-industry linkages. This attitude is the result of the emphasis by government on certain industries such as food processing, wood based products and light engineering. In order to achieve the objective of widening and deepening the industrial base, government should emphasis on capital intensive production process, encourage on high value-added and high technology industries.

4.2 PROSPECTS

The Malaysian economy has undergone a major structural transformation with the manufacturing sector taking over the agriculture sector as the country's engine of growth. The contribution of this sector have seen a significant increase. The government's emphasis on SMI promotion reflects the official recognition of the importance of SMIs in generating employment

opportunities, providing training for future entrepreneurs, meeting socio-economic objectives of the nation and penetrating the market through a sub-contracting system whereby the SMIs provide specialised services of parts and components to the parent companies. Besides, the important role SMIs can play in terms of generating export earnings is also recognised.

The success of the efforts in developing the SMI sector in meeting the above objectives will hinge on the ability to modify financial assistance packages and systems to the more specific needs of this sector and the ability to raise the level of skills of their employees, technology and managerial capability and the marketing know-how. This calls for a comprehensive strategy for the development of SMIs with the aim of creating a risk-taking and a more aggressive SMI sector which is outward-looking and thus capable of participating in the competitive world market.

Malaysia is encouraged by the ability to attract and retain foreign investment, the government is aware that the products of multinationals still a high import content. Hence, various initiatives have been taken by the government to nurture SMIs into reliable and cost effective suppliers of parts and components and related services to the larger industries, including multinationals. Therefore, enhancing inter-industry linkages among SMIs and Multi-National Corporations (MNCs) is of crucial importance.

As a major step to enhance SMIs' contribution to industrial development, the Small and Medium Industries Development Corporation (SMIDEC) was established in May 1996. It was a specialised agency to spearhead the promotion and development of SMIs into becoming dynamic and efficient support and ancillary industries. Realising the importance of the role of SMIs in the country's industrialisation process, SMIDEC has recently launched the Industrial Linkage Programme (ILP). ILP is a cluster-based industrial development programme in tandem with the Second Industrial Master Plan (IMP2). It aims at enhancing the linkage and integration between SMIs and large companies or MNCs to further expand and develop the manufacturing base. The ILP involves identifying and developing SMIs into becoming Suppliers of products and services to large companies. Under this programme, large companies and MNCs will be identified on the basis of their requirements of parts and components and services for their existing production facilities, as well as expansion or diversification.

Subcontracting provides a useful mechanism for developing linkages between small and large enterprises. However, the level of subcontracting in Malaysia is relatively low. The reason commonly given are the relatively high prices and low quality of locally produced components. The reluctance of assembly firms to purchase locally produced components makes it difficult for ancillary firms to achieve economies of scale and improved quality. Hence, SMIs must be restructured in order to go into subcontracting.

For most SMI entrepreneurs, especially those belonging to the small scale categories, financial matters have become the major constraints in promoting and expanding their industrial operations. Their smallness coupled with the lack of technical know-how and other characteristics have led to their limited access to credit. Hence, various financial and credit facilities have been launched recently to enable SMIs, especially small scale industries to secure larger loans for expanding their industrial and business activities.

The provision of adequate physical infrastructures are equally important for the development and expansion of SMIs. Various initiatives have been taken by the government such as construction of industrial projects and Free Zones (FZs) are aimed at providing SMIs to utilise facilities available to improve their competitiveness. As at December 1996, a total of nine industrial projects being developed by Malaysian Industrial Estates Sdn Bhd (MIEL), were in various stages of completion. Of these projects, four were fully completed, comprising 377 units of factory buildings. The remainder would be able to provide, upon completion, 960 units. (refer table 4.2).

Table 4.2: SMI Industrial Projects/Sites (as at January, 1997)

Location	Area (Hectares)	Units Planned	Completed
Pedas, Negeri Sembilan	78.8	396	-
Mukim Batu, Kuala Lumpur	22.5	207	189
Kuala Kangsar, Perak	40.8	198	-
Bandar Seri Alam, Johor	41.6	185	75
Teluk Kalong, Terengganu	20.2	116	-
Sungai Petani, Kedah	35.6	114	79
Masjid Tanah, Melaka	23	89	-
Jaya Gading, Pahang	3.6	16	-
Muara Tebuan, Sarawak	3.1	16	16
Total	269.2	1337	377

Source : Malaysian Industrial Estates Sdn Bhd.

The government have also emphasised on industrial dispersion, especially in Sabah, Sarawak and "Eastern Corridor" of Peninsular Malaysia. This policy will not only lessen the regional disparity among various states but will at the same time reduce some of the critical problems associated with rural-urban migration.

Although Malaysia have an elaborate system to promote SMIs, there are still room for improvement as compared to Japan, Korea and other Newly Industrialised Country (NICs). The development of SMIs in the manufacturing sectors in Japan and Korea is quite unique. SMIs in both countries are basically subcontractors to bigger companies and multinational corporations. They have a close relationship or structure referred to as "Keiretsu" (Ismail 1991). Furthermore, in Germany, most of the apprenticeships are being carried out in Small and Medium Scale Enterprises (SMEs) to enable them to have many highly qualified skilled workers, providing quality machinery and equipment. However, this aspect is not given much consideration in Malaysia (Guether Fitchner 1992).

As noted in IMP, the SMIs in Malaysia have not been modern and have yet to make a significant contribution to industrial development. It is essential for Malaysia to augment its effort to develop and modernize the SMIs for its successful future industrialisation. A more comprehensive development

policies and strategies to stimulate the development of the SMIs therefore need to be developed.

4.3 GOVERNMENT POLICIES

The Malaysian government's concern for SMIs are prescribed in the country's Five Year Development Plan and embodied in activities and programmes of the various government departments and agencies that are involved in assisting SMIs. Serious government involvement in local SMIs development began during the Second Malaysia Plan (1971-1975) which saw the formulation of the New Economic Policy (NEP). The important role of SMIs was reaffirmed in the Third Malaysia Plan (1976-1980). During this period, the focus government policy was on the training of entrepreneurs. The next five year plan, the Fourth Malaysia Plan (1981-1985) emphasised on efforts to promote the development of SMIs through the provision of loan, training, consultancy and advisory services by relevant government agencies. In the Fifth Malaysia Plan (1985-1990), the role of SMIs was further enhanced to ensure the development of sound industrial structure for long-term sustained growth. The Sixth Malaysia Plan (1991-1995) placed greater emphasis on improving the capability of SMIs to supply the required production inputs of the larger enterprises and also to penetrate exports markets. In the Second Outline Perspective Plan (OPP2), SMIs will be further promoted and upgraded, with the objective of making them an important and viable vehicle for industrial expansion and the creation of inter-industry linkages and

support. A massive institutional framework is in place providing various assistance, such as financial assistance, fiscal incentives, market promotion, advisory services, training and infrastructure support.

These programmes and schemes are aimed at equipping or upgrading SMIs with the requisite skills and capabilities, as well as opening up new market opportunities, to enable them to initiate and operate their businesses successfully.

Table 4.3 : SMI Development Programmes

Issue	Programmes
Marketing	Vendor Development Programme
	Integrated Marketing Programme
	SMI Expos and Industrial Fairs
	Sub-Contract Exchange Scheme
Technical Assistance	Industrial Technical Assistance Fund
	Experts Under JICA
	Malaysia-Japan Technomart Workshop
Finance	Industrial Technical Assistance Fund
	Soft Loan for Modernisation and Automation of SMIs
	Soft Loan for Quality Enhancement of SMIs
Infrastructure	SMI Industrial Park
Information Support	Malaysian Industrial Technology Information Centre

Source: MITI

4.3.1 Fiscal Incentives

Fiscal incentive is one of the most important industrial policy in Malaysia to promote SMIs. Fiscal incentives for SMIs include :

(1) Pioneer status.

Firms granted pioneer status were free of corporate income tax for a period of time (5 year) following the investment in question. However, under the 1991 Budget, firms that are granted pioneer status will pay tax on 30 per cent of its statutory income.

(2) Investment Tax Allowance (ITA).

Under the Promotion of Industrial Act 1986, SMIs that are not eligible for the Pioneer Status can apply for ITA. SMIs engaged in promoted activities or in producing promoted products may be granted the investment tax allowance up to 100 per cent in respect of qualifying capital expenditure incurred within 5 years from the date of approval of the project. However, there is some changes after 1992 Budget. The ITA granted will be given an allowance of 60 per cent on the qualifying capital expenditure incurred, instead of the maximum of 70 per cent of the statutory income for the year of assessment. Besides, ITA will not be granted to companies which have enjoyed or are enjoying pioneer status or ITA in respect of a similar product or activity.

(3) Reinvestment Allowance (RA).

It is granted to existing manufacturing companies which incur qualifying capital expenditure on approved expansion. RA of 40 per cent is given to medium and large industries while 50 per cent is granted to small industries with the aim of encouraging industries to expand their operation.

Table 4.4: Approvals Granted for establishment of Manufacturing Projects by Incentives (1991-1995)

Incentives	No. of Approvals					Potential Employment				
	1991	1992	1993	1994	1995	1991	1992	1993	1994	1995
Investment Tax Allowance	50	34	47	71	66	19,203	9,805	8,830	11,748	11,173
Pioneer Status	404	173	147	196	184	87,008	23,914	19,946	45,789	39,216
Industrial Adjustment Allowance	-	-	-	3	-	-	-	-	200	-
Without Tax Incentives	519	667	492	600	648	73,197	73,322	65,816	78,750	67,218
Total	973	874	686	870	898	179,408	106,041	94,592	136,487	117,607

Source: MIDA

Table 4.4 show that in 1995, there is 898 approvals for Investment Tax Allowance and the potential employment for this incentive is 117,607.

4.3.2 Financial Incentives

Government has established a number of specialised financial institutions and has implemented various policy measures and programmes to make credit more readily available to SMIs.

(i) Industrial Technical Assistance Fund (ITAF)

The Industrial Technical Assistance Fund (ITAF) was launched in 1990 with an initial allocation of RM50 million. The objective of the fund is to develop SMIs into a progressive and modern sector capable of supporting the large industries. It provides matching grants for SMIs in the areas of consultancy

services (ITAF 1), product development (ITAF 2), quality and productivity improvement (ITAF 3) and development and assistance for venturing into the export market (ITAF 4) as shown in the following table.

Table 4.5 : Industrial and Technical Assistance Fund: Type of Schemes

Scheme	Implementing Agency	Allocation	Maximum Grant
Consultancy Service Scheme (ITAF 1)	Bank Pembangunan	RM 5 million	RM 40,000
Product Development and Design Scheme (ITAF 2)	SIRIM	RM 20 million	RM 250,000
Quality and Productivity Improvement (ITAF 3)	SIRIM	RM 20 million	RM 250,000
Market Development Scheme (ITAF 4)	MATRADE	RM 5 million	RM 40,000

Source: MITI

Up to June 1994, 422 SMIs have been approved matching grants valued at RM 14.76 million under the ITAF. As at end-December 1994, 211 projects were completed under the various schemes including 199 projects under ITAF 4, 56 projects under ITAF 1, 32 projects under ITAF 2 and 3 projects under ITAF 3.

Generally, the response of SMIs has been encouraging, as reflected by the utilisation of the various schemes. In 1996, 534 applications were received, of which 392 were approved with grants valued at RM9.4 million. The largest number of approvals was for ITAF 4 (182 approvals with grants valued at RM0.9 million).

Table 4.6 : Performance of ITAF Schemes

	Performance			
	1996		1990 - 1996	
Scheme	No. of Approvals	Grant (RM Mil)	No. of Approvals	Grant (RM Mil)
ITAF 1	117	1.8	422	7.2
ITAF 2	14	1.3	145	10.8
ITAF 3	79	5.4	212	14.0
ITAF 4	182	0.9	623	4.1
Total	392	9.4	1402	36.1

Sources: BPMB, MATRADE and SIRIM

As at December 1996, 1402 applications, with grants totalling RM36.1 million, had been approved (refer table 4.6). In terms of industries, the wood-based and wood products industry registered the largest number of approvals (231), followed by electrical and electronic products (162), food and beverages (158) and metalworking and metal products (103) (refer table 4.7).

Table 4.7: ITAF Approvals by Sector (as at December 1996)

Sector	Number of Applications Approved	ITAF Scheme			
		1	2	3	4
Wood and wood-based products	231	56	3	21	151
Electrical and electronics	162	33	36	32	61
Food and beverages	158	53	6	26	73
Metalworking and metal products	103	38	20	30	15
Machinery and engineering	96	65	17	2	12
Textile and apparel	89	26	2	1	60
Plastic products	84	43	13	13	14
Chemical and petrochemical	58	13	16	6	23
Rubber-based products	50	5	3	15	27
Non-metallic products	40	14	4	10	12
Automotive components	34	6	15	13	-
Paper and printing	9	-	3	6	-
Others	254	70	7	6	171
Total	1,402	422	145	212	623

Sources: BPMB, SIRIM, MATRADE

(ii) Bank Industri

Bank Industri was established in 1979 by the government of Malaysia with the objective of providing Long Term Financial assistance to high-technology and capital intensive industries in Malaysia. The financing programmes provided by the Bank to assist the SMIs are as follow :-

(a) Technical Consultancy Programme

This programme is aimed to improve and upgrade the technical know-how of SMIs, emphasizing on the technical aspects of the operations. In addition, this is extended to other areas such as marketing, accounts and management. This facility was set-up to help SMIs in the manufacturing sectors, particularly those owned and operated by Bumiputras.

(b) Integrated Lending Approach (ILA)

The ILA is a tripartite arrangement between Bank Industri, Credit Guarantee Corporation Malaysia Berhad (CGC) and five participating commercial banks. It is aimed to assist the Malaysian SMIs to gain greater access to credit and if necessary, to provide them with extension services, under a single arrangement. The credit facilities provided to the SMIs will be processed and packaged in an integrated manner by the Bank. The financing package under the ILA will involve financing partly by the Bank, term loan and the other part, usually working capital loan, by one of the participating commercial banks.

CGC will provide guarantee cover on the credit facilities provided by the commercial banks.

(iii) Bank Negara Malaysia

Bank Negara Malaysia has established a number of financial and credit schemes (table 4.8) to enable SMIs to source for medium to long term funds at a concessionary rate. Funds have also been set up to rehabilitate business enterprises and to promote investments in the priority sectors at reasonable costs.

Funds have also been set up by the Government as part of its efforts to make available new resources at reasonable cost to rehabilitate ailing business enterprises and promote investments in the priority sectors. All these would contribute towards expanding domestic productive capacity and exports. As well as stimulate expansion in new growth industries with high potential to earn foreign exchange.

Table 4.8 : Funds Administered by Bank Negara Malaysia

Fund	Year Established	Allocation (RM mil)	Objectives
Fund for food	January 1993	300	To promote investment in new productive capacity and to finance new investments for primary food production.
Special Fund for Tourism	March 1990	200	To develop the tourism industry and to finance tourism related projects.
New Entrepreneurs Funds	December 1989	400	Encourage New Bumiputera Entrepreneurs to venture particularly into manufacturing, agriculture, tourism and export oriented industries.
Bumiputera Industrial Fund	January 1993	100	To promote the participation of Bumiputera community in industrial sector.
Enterprise Rehabilitation Fund	February 1988	500	To assist Bumiputera Entrepreneurs who had been affected by the recession in 1985-1986.
Abandoned Housing Projects Fund	June 1990	600	To assist in the revival of abandoned housing projects where construction had commenced and where there were committed house-buyers.
Industrial Adjustment Fund	February 1991	500	To further facilitate the rationalisation and restructuring of certain selected industry.
Ship Financing Facility	Early 1994	300	To expand cargo carrying capacity in the Malaysian shipping industry.

Source: BNM Annual Report 1993

Bank Negara Malaysia has also established the following funds to help the small and medium-sizes Bumiputra enterprises in the manufacturing and export oriented sectors:

(a) New Entrepreneurs Fund (NEF)

The NEF is extended to new and existing Bumiputra entrepreneurs. The objective of this fund is to help stimulate the growth of small and medium-sized Bumiputra enterprises and to direct funds at a reasonable rate to finance investments in the development of SMIs.

In line with the Government's efforts to meet the objectives of the New Economy Policy (NEP), the Central Bank launched the NEF in December 1989 with an initial allocation RM250 million to encourage new Bumiputera entrepreneurs, especially SMIs, to venture into various fields of business, in particular manufacturing, agriculture, tourism and export oriented industries. In view of the encouraging response to the Fund, its allocation had been increased to RM400 million in 1993 and to RM600 million in 1994. In 1995, the Fund received an additional allocation of RM150 million bringing the total allocation to RM750 million. In addition, the fund was converted into a revolving fund to meet the overwhelming response from the borrowers. In 1995, a total of 297 applications involving RM223 million was approved. Of this amount, the manufacturing sector took the largest share (102 applications; RM89 million), followed by trading services (49 applications; RM32 million), and other sectors (97 applications; RM70 million). As at end 1995, a total of 1,839 applications involving RM831 million (table 4.9) was approved by the participating financial institutions. The fund was fully utilised

addition, the Fund had also allocated RM50 million to Permodalan Nasional Berhad for on-lending to Perbadanan Usahawan Nasional Berhad (PUNB), a venture capital company established to assist Bumiputera entrepreneurs.

(b) Bumiputra Industrial Fund (BIF)

In line with the increased pace of economic growth towards industrialisation, the Government had also taken steps to further promote the participation of Bumiputera community in the industrial sectors by establishing the BIF in January 1993, with an allocation of RM100 million. The BIF is extended to Bumiputra SMEs entrepreneurs under the Vendor Development Programme who are seeking to expand their existing operations. For this fund, loan applications will be channelled through the principal companies for approval by Bank Industri.

The BIF is envisaged to stimulate the growth of small and medium scale Bumiputera enterprises, with at least 70% Bumiputera management and equity control, improve the design and quality of their products, upgrade the technology and market their products effectively with the assistance of participating principal companies which operate under the umbrella concept. The Fund provides a maximum loan of RM2.5 million and at an interest rate of 5% per annum for a maximum tenure of 8 years. The response towards the Fund has not been as encouraging, with only two applications involving RM1.03 million being received for funding as at end December 1993 and only

17 applications involving RM20 million approved in 1994. The utilisation of continued to remain low in 1995. As at 31 December 1995, only 20 applications with the value of RM21 million were approved. This may be attributed to the implementation of a similar scheme by the Ministry of International Trade and Industry (MITI) i.e. the Vendor Development Programme Tripartite Arrangement (VDP) which has long been established and covers more principal companies. The main objective of the VDP is to enable Malaysian SMIs to become the suppliers and manufacturers of industrial inputs, machinery and equipment used by large scale industries as well as the multi-national companies. Efforts are being made to streamline and rationalise the Fund vis-a-vis the VDP to encourage the development of targeted Bumiputera entrepreneurs. In its effort to promote the scheme, the Central bank has revised the guidelines effective 1 January 1996, by increasing the number of participating financial institutions from the present 6 to 41 and expanding the list of anchor companies to include 42 new anchor companies listed under the Vendor Development Programme of the Ministry of Entrepreneurs Development.

Table 4.9: Funds Administered by Bank Negara Malaysia : Funds Utilisation

Type of Funds	Total as at			
	end 1994		end 1995	
	No approved	Amount (RM mil)	No approved	Amount (RM mil)
Fund for food	111	60	758	260
Special fund for Tourism	161	179	182	206
New Entrepreneurs Fund (NEF)	1,542	608	1,839	831
Bumiputera Industrial Fund (BIF)	19	20	20	21
Fund to accelerate Construction of Low-Cost Houses	14	121	36	241
Enterprise Rehabilitation Fund	757	1,000	762	850
Abandoned Housing Projects Fund	97	425	82	383
Industrial Adjustment Fund	16	56	18	66
Ship Financing Facility	10	141	26	390

Source: Bank Negara Malaysia Annual Report 1996

(iv) Soft Loan Scheme For Modernisation And Automation

The soft loan scheme for modernisation and automation (SMA) launched in February 1993 was set up as a revolving fund to promote modernisation and automation among SMI manufacturers. The soft loan is to be used for the purchase of replacement machinery and machinery parts to improve the capability of the manufacturing process for better quality products and higher productivity. Under this scheme, SMIs engaged in manufacturing activities as supplier of parts and components to large industries are accorded priority for the loans.

In mid 1994 the scope of the scheme was reviewed and expanded to cover all manufactured products of Bumiputera SMI manufacturers. As at December

31, 1994, 58 applications had been received by the implementing agency, Bank Pembangunan Malaysia, for a total loan of RM 24.6 million. All applications were approved and RM 13.6 million was disbursed to the successful applicants.

Table 4.10: Soft Loan for Furniture & Food-based Production

Scheme	Soft Loan for Furniture & Food-based production
Size	RM 50 million
Utilisation up to December 31, 1994	RM 13.58 million
Launched	Maximum 10 years
Implementing agency	Bank Pembangunan Malaysia

Source: MITI

4.3.3 Market Promotion

(i) Vendor Development Programme (VDP)

The main objective of the VDP is to create an industrial market in which Malaysian SMIs can become reliable manufacturers and suppliers of industrial inputs, machinery and equipment used by the large-scale industries and MNCs. The VDP also provides greater integration and linkages between SMIs, large-scale industries/ MNCs and financial institutions to further enhance industrial development.

In 1988, the PROTON Component Scheme under the VDP was implemented on a dual basis arrangement involving MITI funding technical grants and PROTON as the pioneer anchor company providing the captive market.

In 1988, the PROTON Component Scheme under the VDP was implemented on a dual basis arrangement involving MITI funding technical grants and PROTON as the pioneer anchor company providing the captive market. Similarly, the Electrical and Electronics Component Scheme with SAPURA and SHARP, as the anchor companies, was introduced in 1992. Under this arrangement the Anchor Companies managed the grant for the purpose of providing technical, management and consultancy services in addition to providing relevant machinery and equipment to upgrade the vendors.

However, since April 1993, it was expanded under a new concept known as the "Tripartite Concept" with MITI as the co-ordinator of the scheme. The MNCs and large companies provide the market, while the financial institutions provide the necessary funding.

Up to date 1994, a total of 40 large corporation and MNCs are participating in both the dual and tripartite arrangements of the VDP. They are mainly concentrated in the automotive, electrical and electronics and wood-based sectors.

Effective from 1 May 1995, the implementation of the VDP was taken over by the Ministry of Entrepreneurial Development. As of December 1995, there were 54 large companies and MNCs (refer table 4.11).

Table 4.11: VDP Anchor Companies By Sectors (as of December 1995)

Sector	No. of Anchor Companies
Electrical and electronics	37
Wood-based	5
Automotive	3
Telecommunication	2
Building Materials	2
Shipbuilding and Repairing	1
Film Production	1
Ceramic	1
Engineering	1
Trading and Export	1
Total	54

Source: MITI and MED

To ensure dynamic development of local SMIs, there is a need for the VDP to expand to other industrial sectors such as machinery engineering, mould and die and areas of high-tech industries including ship-building and aerospace sectors. In this regard, MITI anticipates a participation of 50 large corporations and MNCs as anchor companies under the Sixth Malaysian Plan (1996-2000). A total of 90 vendor schemes are to be developed by the year 2000. MITI is in the process of having negotiation with several large local companies and MNCs with a view to bring them on board the programme.

In addition, Bank Pembangunan Malaysia Berhad has provided start-up capital facilities and business advisory services for potential entrepreneurs in the food, plastic and light engineering industries through its nursery projects. The government intends to initiate new programmes in strategic areas, such

as transport equipment, telecommunications, electrical and electronics as well as machinery and engineering.

(ii) Integrated Marketing Programme

The integrated marketing programme was introduced in 1984 to assist Bumuputera vendors to gain initial market access through government procurement and subsequently into the open market. This programme is spearheaded by two anchor companies namely Besta Distributors Sdn. Bhd. (BESTA) for the food-based SMI vendors and Guthrie Furniture Sdn. Bhd. (GFSB) for the furniture-based vendors.

A total of 155 SMI vendors are operating under these two anchors by the end of 1994. In 1994, the total sales of the vendor companies under the scheme amounted to RM 97.67 million, an increase of RM 20 million over the previous year.

Table 4.12: Integrated Marketing Programme

	Furniture	Food
Managed by	GFSB	BESTA
No. of Companies involved	95	60

Source: MITI

Various programmes have been implemented by MITI with the co-operation of technical support institutions to further develop the capabilities of the vendors. These include subjecting all vendors to a rating mechanism under which they are categorised based on specific criteria such as attitude, technical skills,

management capability, quality assurance, capitalisation and performance under GFSB.

To initiate and instill a quality conscious culture, all vendors are required to undergo and qualify themselves under a training programme on 'Quality Improvement Practice' organised and managed by Standard and Industrial Research Institute of Malaysia (SIRIM).

As part of the market expansion and diversification programme, the range of products under Guthrie Furniture Sdn. Bhd. has been expanded and diversified from that of government procurement for furniture to include garden furniture for the export market, household furniture and interior design furnishing work for the open market. Under Besta Food Distributors Sdn. Bhd. eight food product items are manufactured by the vendors.

For market development purposes anchor companies have undertaken promotional activities such as in-store promotion, advertisement, exposition and participation in trade fairs and exhibitions.

(iii)The Subcontract Exchange Scheme (SCX)

The main objective of the Subcontract Exchange Scheme (SCX) is to provide a computer-based matchmaking mechanism which enables potential SMI

vendors to cater to the needs of large companies in the supply of industrial inputs.

This exchange, which was launched in 1986, has shown an increase in the number of companies registered by 8 per cent from a total of 2,560 companies in 1992 to 2,763 companies in 1993, out of which 2,419 are SMI companies.

The performance of this Exchange has not been very satisfactory for a number of reasons such as the reluctance of MNCs in sourcing inputs from local vendors and the inability of most SMI vendors in meeting the exacting requirements of MNCs.

As a strategy to enhance the usefulness of the Subcontract Exchange, action has been taken to expand its functions by the development of several new information systems. The database at the subcontract exchange is being enhanced and updated with additional information from the SMI Census and Survey which was completed in March 1995.

Besides promoting sub-contracting activities between large companies and MNCs and SMIs operating in Malaysia, the Division also facilitates sub-contracting requirements and joint-venture promotions between foreign large and small and medium companies and Malaysian SMIs. Up to 1996, matchmaking activities have been conducted for two companies from Italy and two from Germany.

(iv) SMI Expos and Industrial Fairs

The main objective of this programme is to assist SMI manufacturers enter the market in a more organised manner. Activities under this programme relate to special promotion, product adaptation, seminars and workshops and participation in overseas trade fairs and exposition also at national and regional levels.

A specialised expo for SMI products and services, 'SMI Expo 1992', was held from 14-18 December, 1992. The theme of the Expo was "Strengthening SMIs through Industrial Linkages". A total of 123 SMI companies participated in the Expo. It received 5,622 visitors and 3,028 enquiries with 101 contracts valued at RM20.24 million. A SMI seminar was also held on 15-16 December 1992 in conjunction with the Expo.

In response to the high level of participation in the 1992 Expo, it was decided that SMI Expo and seminars would be held annually. In 1993, 4 SMI Expos were held in Kuala Lumpur from 24-28 August at Putra World Trade Centre; in Penang from 10-13 June; in Kuantan from 26-30 October and in Kuching from 1-4 November.

Two SMI Expos were held in 1994. The national level Expo was held from 8th - 12th of November at the Putra World Trade Centre Kuala Lumpur. A total of

140 SMIs, 11 large scale Companies and three financial institutions participated at this Expo. The total value of on the spot sales transacted was RM 1.35 million whilst the value of sales under negotiation was reported as RM 60.8 million over the 5 days fair.

The regional level SMI Expo for 1994 was held at Kuching, Sarawak on 25th - 28th August. A total of 50 SMIs including two from Sabah, and four large scale companies participated in this Expo. The value of sales transacted on the spot was RM 0.26 million, whilst the amount of sales under negotiation during the four days was reported as RM 14.1 million.

Another national level SMI expo, "SMI Showcase ' 96 - Excellence and Competitiveness of SMIs ", was held from 18th - 22th January 1996 at the Putra World Trade Centre, Kuala Lumpur. A total of 188 companies and associations, comprising 139 SMIs, 19 large scale companies, 3 financial institutions, 7 associations and 20 lead agencies, participated in the exhibition.

In addition, the ASEAN SMI Showcase that organised by SMIDEC was held from the 4-8 August 1997. Apart from Malaysian SMIs, participation is also extended to SMIs from other ASEAN and East Asian countries.

4.3.4 Technical Assistance

(i) Joint Venture Promotion Project (JVPP)

MITI Japan, through Japan International Cooperation Agency (JICA) has provided assistance to the SMI development effort by initiating a project for joint venture development between Malaysian SMIs and Japanese investors. This project will complement and utilise the existing services of RICOM at MIDA. Under this project, Malaysian Banks and Japanese Banks with operations in Malaysia are to introduce potential joint venture partners from among their SMI customers. Under this project, JICA has in April 1993 assigned an expert to MITI to initiate work on this project. Since reporting for duty, the expert has been working on establishing networking between Malaysian and Japanese banks, and businesses. Through this networking, potential joint venture partners will be able to initiate business contacts leading to the formation of joint ventures.

(ii) Foreign Technical Assistance For SMIs

The Japanese Government, through the Japan International Cooperation Agency (JICA) and the Japan External Trade Organisation (JETRO) has assigned two experts to MITI to provide assistance for the SMI development.

The first expert was assigned to initiate a project for joint venture development between Malaysian SMIs and Japanese investors. The second expert was assigned to initiate and develop a SMI Consultancy Registration System. This system is aimed at reducing the problem of the lack of affordable consultants for SMIs.

During 1994, JETRO implemented a project to assist supporting industries under which JETRO officials and experts comprising SMI manufacturers from Japan were assigned to visit SMI manufacturers in the automotive supporting industry. A series of specialised seminars on Plastic Injection Moulding Techniques, Trouble Shooting for Injection Mould, Quality Control and Productivity Improvement were held for technical staff of Malaysian SMIs and large companies in the automotive industry. These seminars were well participated and from feed back received from participants, such seminars/workshops were found to be very useful for SMIs.

Besides Japan, there are other foreign expert services organisations that provide advisory services on export market and managerial skills. They are Australian Executive Service Overseas Programmes (AESOP), Canadian Executive Service Overseas (CESO) and German Senior Expert Service (GSES).

4.3.5 Conclusion

The implementation of various development programmes has provided the SMIs with a more conducive investment climate. It is envisaged that the SMIs would become a modern sector and be more involved in the mainstream of industrial activities.

The private sector should also share the responsibility of creating a conducive environment for SMIs' investment and development by providing more subcontracting market opportunities for SMIs. Thus SMIs would become viable concerns making them more accessible to commercial loans and modernisation programmes. Through this mean, more SMIs would acquire the capabilities to produce quality industrial inputs competitively.

Given a more challenging business environment in the future, the SMIs would have to develop innovative ways of overcoming operational and business problems such as through the optimum use of R&D facilities provided by the government agencies and private firms. SMI competitiveness can also be enhanced through more self-help efforts among SMIs, either through industry associations or business consortiums.

Finally, it can be concluded that those programmes and facilities discussed above have to a certain extent been able to upgrade the performance of SMIs.

However, there are still some schemes that have not achieved encouraging results. Therefore, a comprehensive and integrated programme for the promotion and development of SMIs is required to ensure the success of SMIs as a base for our country to be ranked as one of the industrialised nations.