CHAPTER THREE

SMIs' POLICY ENVIRONMENT

3.1 Introduction

In 1989, there were 12 ministries and 30 government agencies, (each guided by slightly different objectives) to provide various types of support services directly to SMIs (Ministry of Finance, 1990). The Fifth Malaysia Plan (1986-1990) acknowledged the fact that although SMIs are an important component of the nation's industrialisation strategy, it's development was not fostered and integrated effectively into the overall industrialisation strategy (Thong Tim Sin, Mohd Iqbal and Samuel Abishsegam, 1990).

By the Seventh Malaysia Plan (1996-2000), the government realised that there was a need for a specialised agency to co-ordinate the overall development of SMIs in the country. There was also a need for a single agency to promote the development of SMIs through the provision of advisory services, fiscal and financial assistance, infrastructural facilities, technologies enhancement, human resource development, market access and other support programmes (Malaysia, 1996).

Hence, on 2nd May 1996, the Small and Medium Industries Development Corporation (SMIDEC) was established. SMIDEC would be responsible for the development of a modern and sophisticated indigenous SMIs as well as the development of SMIs into an efficient and competitive sector, capable of producing high value added and quality products, components and related services for the global market. However, SMIDEC will be given continued assistance by the other government agencies that are already responsible for various programmes implemented to promote SMIs.

As the objective of this paper is to analyse the contribution of SMIs to output, income and employment generation, this chapter seeks to review the various programmes and incentives that have been put in place to develop SMIs. The effectiveness of these various SMI policies would to a certain extend determine the contribution of SMIs to the above variables.

3.2 Fiscal Incentives

Fiscal incentives represent one of the most important instruments of industrial policy to promote SMIsi in Malaysia. These incentives include pioneer status, investment tax allowance (ITA) and reinvestment allowance (RA).

3.2.1 Pioneer Status

The pioneer status incentive is one of the most important fiscal policy instruments responsible for the industrialisation of Malaysia. Under the 1986 Promotion of Investments Act, SMIs engaged in 'promoted activities and products' are eligible for consideration of this incentive (see appendix A). Promoted activities or products will be determined by the Ministry of International Trade and Industry from time to time (MIDA, 1997).

The period of tax exemption is usually five years, commencing from the date of production, as determined by the Ministry of International Trade and Industry. However, under the 1991 Budget, companies applying for and granted pioneer status will have to pay a 30% tax of their statutory income. Extension of the pioneer period will not be granted to companies applying for pioneer status.

As added incentive, companies located in the states of Sabah, Sarawak and the designated 'Eastern Corridor States' will only have to pay tax on 15% of their statutory income for five years. The Eastern Corridor of Peninsular Malaysia covers Kelantan,Terengganu, Pahang, excluding the districts of Lipis, , Raub, Jerantut and Cameron Highlands (except for approved industrial estates located in these districts) and the district of Mersing in Johore.

3.2.2 Investment Tax Allowance (ITA)

Under the Promotion of Industrial Act 1986, SMIs that are not eligible for the pioneer status can apply for the Investment Tax Allowance. In order to qualify for the ITA, firms applying for it must be engaged in promoted activities or in producing promoted products. Under the 1992 Budget, the ITA provides an allowance of 60% of qualifying capital expenditure incurred within five years from the date of approval. This allowance can be used to offset against 70% of the statutory income in the year of assessment. Any unutilised allowances can be carried forward (MIDA, 1997).

However, firms located in Sabah, Sarawak and the 'Eastern Corridor'of Peninsular Malaysia will be granted an allowance of up to 80% of qualifying capital expenditure incurred. The allowance can be utilised to offset against 85% of the statutory income in the year of assessment. ITA will not be granted to firms which have enjoyed or are enjoying pioneer status or ITA in respect of a similar product or activity.

3.2.3 Reinvestment Allowance (RA)

Reinvestment Allowance is granted to existing manufacturing companies which do not enjoy pioneer status or investment tax allowance. RA is granted to existing manufacturing firms which incur qualifying capital expenditure on approved expansion of production capacity, modernisation and upgrading of plant and machinery, and product diversification. The RA is an allowance of 60% of capital expenditure which can be used to offset against 70% of the statutory income in the year of assessment. Any unabsorbed allowance can be carried forward to the following years until it is fully utilised. There is no time limit within which the unutilised allowance can be utilised (MIDA, 1997). RA is given in addition to normal capital allowances. The company's adjusted income, as equal to the allowances, will be exempted from tax.

3.3 Financial Incentives

One of the problems in the development of SMIs is the difficulty in obtaining finance. Some of the financial assistance provided by the government and local financial institutions are as follows.

3.3.1 Industrial Technical Assistance Fund (ITAF Scheme)

The ITAF scheme was introduced by the federal government in 1990 with an initial allocation of RM50 million to support technological development in SMIs. Its main objective is to enhance the development of SMIs into a high quality and modern industry sector, capable of supporting the large industries. The grant is given to companies that participate in the following schemes: Consultancy Services Scheme (ITAF 1); Product and Development Design Scheme (ITAF 2); Quality and Productivity Improvement Scheme (ITAF 3); and Market Development Scheme (ITAF 4). To be eligible for the ITAF, companies must fulfil the following conditions (SMIDEC, 1997):

- Possess production facilities or have access to facilities approved by the government;

- Involve in manufacturing or services or any related projects under the government franchise scheme
- Incorporated under the Companies Act 1965
- Have a shareholders' fund not exceeding RM2.5 million
- Have at least 70% of its equity held by Malaysians
- Have at least 51% of its equity owned by SMIs or individuals

Priority will be given to SMIs which manufacture or intend to manufacture products promoted under the Promotion of Investment Act, 1986.

Consultancy Services Scheme (ITAF 1)

ITAF 1 is managed by Bank Pembangunan Malaysia Bhd., with an initial grant of RM5 million. The maximum grant offered is RM40,000. The main purpose of this grant is to enable the companies to obtain consultancy and advisory services for project expansion and/or diversification; modernisation and upgrading of technical and management capabilities, and improving quality and increasing productivity (SMIDEC, 1997).

The expenses eligible to be claimed under this assistance are:

- Consultancy service fees
- Testing costs for products/materials
- Registration cost for the quality scheme
- Expenses for the training of managers and staff of the company
- Costs of purchasing computer software such as accounting, finance, budget, production management programmes related to the operation of the company.

Product Development and Design Scheme (ITAF 2)

ITAF 2 is managed by Standard Industrial Research Institute of Malaysia (SIRIM). The maximum grant offered is RM25,000. This scheme provides grants to SMIs to improve and upgrade local product development and design, build up indigenous technologies through development of new products or processes, and improve existing products or processes. The expenses eligible to be claimed include (SMIDEC, 1997):

- Cost of technical manpower directly involved in the development work during the project implementation period;
- Consultancy costs
- Cost of acquiring technology and skills through technical agreement and acquiring information including documents such as standards or technical regulations (the maximum grant allowed for acquiring technology should not exceed 30% of the total grant;
- Service costs for related schemes, testing in labourites accredited or recognised by the government and other service costs such as subcontracting, leasing, preparation of project proposals or documentation's;
- Cost of acquiring equipment and designing, testing, securing, pollution prevention and equipment modification including acquiring software.
- Cost of materials used in designing and building prototypes
- Incidental costs amounting to 10% if the total grant approved.

Quality and Productivity Improvement Scheme (ITAF 3)

This scheme is also managed by SIRIM where the maximum grant offered is RM250,000. The objectives are to help SMIs improve product quality and productivity as well as improve management and production systems. The expenses eligible to be claimed under this scheme are (SMIDEC, 1997):

- Involvement cost of the manager or management representatives and assistants during the implementation of the project. The maximum cost should not exceed 30% of the total grant approved;
- Consultancy costs;
- Costs of acquiring technology and skills through training, acquiring information including documents such as standards, technical regulations, directives,ets.;
- Service costs for related schemes, testing and calibration at SIRIM or laboratories accredited by SIRIM or recognised by the government;
- Cost of acquiring equipment for development and designing, testing, securing and pollution prevention, including software;
- Costs of materials used in designing and building prototype;
- Incidental costs amounting to 10% of the total grant approved.

Market Development Scheme (ITAF 4)

The ITAF 4 scheme is managed by Malaysia External Trade and Development Corporation (MATRADE), with a maximum grant of RM40,000. Its main purpose is to assist SMIs to enter the export market by developing export marketing expertise. Expenses eligible to be claimed are (SMIDEC, 1997):

- Costs of producing promotional materials of overseas publicity
- Costs of participation in overseas
- Consultancy fees to assist SMIs overseas "Certificate of Recognition".

All the above schemes allow foreign experts or consultants to be engaged if qualified local consultants are not available. However, the development work must be carried out in Malaysia.

Although there is such a facility, the utilisation of the fund by SMIs has been slow. As of 31 December 1995, only RM26.63 million, or 53.25% of the initial RM50 million has been utilised. However, there is an increase in the applications from year to year, which shows that SMIs are more aware of this fund. From 1990 to 1995, a total of 1433 applications had been considered by the implementing agencies, where a total of 1010 applications were approved while 423 were rejected (Table 3.1).

Table 3.1. Status of the Industrial Technical Assistance Fund (ITAF), 1990-1995

Year	No. Of Applications Considered	Approved	Rejected	Total Grant Approved (RM mil)
1990	38	23	15	1.21
1991	191	93	98	3.73
1992	84	48	36	2.25
1993	196	137	59	3.76
1994	371	291	80	7.21
1995	553	418	135	8.46
TOTAL	1433	1010	423	26.62

Source: The Star, August 19 1996.

ITAF 1 was mainly utilised by the machinery and engineering industry that contributed 16.1% of the total applications. ITAF 2 had benefitted the electrical and electronics industry that contributed 22.6% of a total of 106 approved applications. ITAF 3 again benefited the electrical and electronics industry that contributed 18.6% of the total approved applications. ITAF 4 benefited the wood industry that contributed 25% of the total applications (Table 3.2).

Out of all the applications approved, Selangor accounted for 384 out of 908 applications (42.3%), followed by the Federal Territory of Kuala Lumpur (184), Johor (80), Penang (47) and Sarawak (28).

Table 3.2: ITAF – Approval by Industrial Sectors, 1990-1995

Industrial Sector	No. Of Applications Approved	ITAF 1	ITAF 2	ITAF 3	ITAF 4
Wood	107	39	6	18	44
Food	147	35	3	4	105
Electrical & Electronics	104	22	24	21	37
Textiles	81	17	2	1	61
Machinery & Engineering	68	44	12	3	9
Plastics	66	27	6	17	16
Iron & Steel	55	21	14	13	7
Chemical & Petrochemical	49	9	14	4	22
Non-metallic mineral	44	8	4	10	22
Rubber	38	3	2	9	24
Automotive	29	5	11	11	2
Others	120	43	8	2	67
Total	908	273	106	113	416

Source: MITI

3.3.2 Bank Industri Malaysia Berhad (BIMB)

BIMB was established on 7 August 1979 with the objective to promote and finance the development of production capacity in capital intensive and high technology industry as well as ancillary and auxiliary industries (MIDA, 1997). The various financial assistance offered by the bank are as follows:

1. Small and Medium Scale Industry Promotion Programme

The main objective of this programme is to provide financial assistance to SMIs. Malaysian companies with paid-up capital or shareholders' funds not exceeding RM5 million, and engaged in engineering (metal-based industries including electrical and electronics), plastics, pharmaceuticals, shipping/shipyard and marine-related industries are eligible for this programme.

2. Manufacturing Sector Financing Facility

This facility is offered mainly to assist start-ups and on-going projects seeking expansion or upgrading. Companies not qualified for the earlier scheme can be considered under this scheme which also provides financial assistance to engineering (metal-based industries including electrical and electronics), plastics and pharmaceutical industries. BIMB offers up to 85% of the project cost, subject to a gearing ratio not exceeding 3:5:1, at an interest rate of 6.5% to 8.5%.

3. Islamic Development Bank's Funds

As an agent of the Islamic Development Bank which is based in Jeddah, Saudi Arabia, BIMB offers the following guarantee facilities:

a. Import Trade Financing Facilities: Malaysian manufacturers who need to import industrial raw materials, industrial intermediate goods and construction materials from member or non-member countries of the IDB can use this facility to purchase their goods. The minimum amount of this facility is equivalent to US$100,000.

b. Long Term Trade Financing Facilities: This facility is to assist Malaysian exporters in their export of consumer commodities, intermediate goods and capital goods to any member countries of the Organisation of Islamic Conference. It offers up to 80% of the value of the export item.

c. Instalment Sale: This facility is offered for the financing of ocean going ships, industrial machinery and equipment at a minimum amount of Islamic Dinar 10,000.

d. Leasing: This facility is offered for the financing of industrial machinery and equipment. The minimum amount offered is equivalent to Islamic Dinar 100,000, with 5 to 15 years of instalments at an interest rate set at 7.5% to 8.5% per annum.

4. Islamic Bank's Portfolio

This facility is offered for the financing of raw materials, industrial intermediate goods and capital goods, at a minimum amount of at US$200,000. The repayment period is from 6 to 8 months with interest based on the London Interbank Offer Rate plus a margin of 1% to 2%.

3.3.3 Bank Pembangunan Malaysia Berhad (BPMB)

BPMB was established in 1973 to primarily service bumiputera individuals and bumiputera designated companies or projects (those in which bumiputera holding is at least 51%). The financial facilities provided by BPMB are at present limited to the purchase of fixed assets for industrial, mining and quarrying activities and projects connected with the tourist industry. All loans and guarantees provided by BPMB must be covered by adequate collateral. BPMB is allowed to participate in the equity of a company, with a maximum limit of up to 30% of the paid-up capital. However, the equity held by the bank should be disposed off as soon as possible to the borrower or other bumiputeras. Some of the facilities provided by BPMB are as follows:

1. Fixed Assets Loan

This facility is available for the financing of land, factory, warehouse, office building, machinery and transportation equipment. For certain funds, the minimum loan amount is RM30,000 while the percentage of financing for other funds will vary accordingly. The repayment period is normally three to six years for plant, machinery and equipment; and up to ten years for land and building.

2. Working Capital Loan and Skim Pinjaman Kontrak (SPK)

These facilities are offered by BPMB to finance the purchase of raw materials and to meet other capital requirements. Companies applying for these facilities must be bumiputera-owned and must be either from the manufacturing; tourism; transportation; storage; professional business or general services sectors only. However, SPK is offered only to the manufacturing and services sectors only. Even then, SPK will only be granted to businesses that have been awarded contracts by either Telekom Malaysia or Tenaga Nasional Berhad or other government privatised projects.

3. Leasing

Bumiputera firms and bumiputera designated companies are eligible to apply for this facility which offers equipment leasing facilities for either a single unit or for a list of equipment. BPMB offers up to 100% of the cost of the equipment at a minimum of RM100,000, with a flat interest rate of 5%. The maximum leasing period is 5 years.

3.3.4 Credit Guarantee Corporation Malaysia Berhad (CGC)

CGC was established in 1972 to assist small businesses to have greater access to credit facilities through the provision of guarantee cover to the commercial banks on loans extended to them. The credit schemes offered by CGC include the New Principal Guarantee Scheme, the New Entrepreneurs Fund and the Integrated Lending Scheme (MIDA, 1997).

1. The New Principal Guarantee Scheme (NPGS)

The NPGS scheme came into effect from 14 February 1994 to assist small businesses, especially those without or with inadequate collateral/track record to have ready access to credit facilities at reasonable cost.

Those who wish to apply for this scheme must be Malaysians operating registered businesses with net assets or shareholders' fund not exceeding RM1 million for ordinary businesses, RM1.5 million for businesses in the priority sectors and RM2.5 million for those involved in manufacturing activities.

In addition, if the business is a limited company, it must be Malaysian controlled with shareholders' funds not exceeding RM1 million for ordinary businesses, RM1.5 million for businesses in the priority sector and RM2.5 million for those involved in manufacturing activities. The existing borrowings of the company must not exceed RM3 million for ordinary businesses, RM5 million for businesses in the priority sectors and RM7.5 million for those involved in manufacturing activities.

Under this scheme, the CGC guarantee cover is as follows:

- Manufacturing activities: 90% (secured portion), 80%(unsecured portion) and RM2.5 million (maximum guarantee cover);
- Priority sector: 90% (secured portion), 80%(unsecured portion) and RM1.5 million (maximum guarantee cover);

- Other sectors: 80% (secured portion), 70%(unsecured portion) and RM1.0 million (maximum guarantee cover).

For loans between RM10,000 and RM50,000, CGC provides guarantee cover under the Block Guarantee Scheme. Credit facilities are limited to term loans and overdrafts only and is 80% guaranteed by the CGC. The NPGS scheme is offered by all commercial banks and finance companies.

2. New Entrepreneurs Fund (NEF)

The CGC also guarantees loans under the NEF which is aimed at assisting the growth of small and medium Bumiputera entrepreneurs.

Those who are eligible for this fund are only registered bumiputera SMIs with net assets or shareholders' funds not exceeding RM2.5 million. Businesses from the manufacturing, especially export-oriented industries, tourism and agriculture sectors are given priority. The maximum loan is RM2 million while the extend of CGC's guarantee is 80% of the loan in excess of collateral value (if any), subject to a maximum cover of RM1.5 million.

The participating banks include Bank Bumiputera Malaysia Berhad, Maybank Berhad, Bank of Commerce Malaysia Berhad, Perwira Affin Bank Berhad, Public Bank Berhad, Oriental Bank Berhad, Sabah Bank Berhad, DCB Bank Berhad, BSN Commercial Bank and Bank Utama Berhad.

3. Integrated Lending Scheme (ILS)

CGC has launched two separate ILS schemes; one with the cooperation of Bank Industri in January 1995 and the other with the cooperation of Perbadanan Usahawan National Berhad in September 1995.

The ILS is aimed at making available credit facilities for SMIs in an integrated nature where the project financing is provided by Bank Industri or Perbadanan Usahawan National Berhad and working capital financing is provided by one of the participating commercial banks. CGC will guarantee the commercial bank's loan in advance.

Only registered businesses with net assets or shareholders' fund not exceeding RM2.5 million and existing aggregate borrowings not exceeding RM7.5 million are eligible for this scheme. Furthermore, the business must be Malaysian-owned or Malaysian controlled and not listed under Biro Maklumat Cek of the Central Bank. The ILS guarantees credit facilities of up to RM7.5 million where the CGC's guarantee is limited to a maximum of RM2.5 million.

The commercial banks participating in this scheme with Bank Industri are Maybank Berhad, Bank Bumiputera Malaysia Berhad, OCBC Bank Malaysia Berhad, Hongkong Bank Malaysia Berhad and Hock Hua Bank Berhad. Those participating with Perbadanan Usahawan National Berhad include Maybank Berhad, Bank Bumiputera Malaysia Berhad, Bank of Commerce Malaysia Berhad, BSN Commercial Bank Berhad and Bank Utama Berhad.

3.3.5 Malaysian Industrial Development Finance Berhad (MIDF)

MIDF was established in March 1960 to assist in a speedy and sound development of the manufacturing sector through loans and direct equity participation. MIDF provides financing of new fixed assets (machinery and factory building) to all new industrial ventures and existing enterprises undertaking modernisation and/or expansion. The facilities are implemented to meet the specific needs of each individual borrower, whether small, medium or large, domestic or foreign controlled, as long as the manufacturing operation takes place in Malaysia. The facilities offered by MIDF can be categorised into MIDF's own schemes and special loan schemes. MIDF's schemes include project loan, machinery loan, factory mortgage loan and leasing. The special loan schemes include the ASEAN-Japan Development Fund, the Industrial Adjustment Fund, the Modernisation and Automation Scheme for SMIs and the New Entrepreneurs Fund (MIDA, 1997).

MIDF's Schemes:

1. Project Loan

This facility offers up to 70% financing of the fixed assets (land, factory building, plant and machinery) of the project based on actual cost. The borrower has to put up equity capital of not less than the loan amount to pay for the balance of the fixed assets cost and to meet pre-operating expenses and part of the working capital.

For existing projects undertaking expansion programmes, the percentage for financing the fixed assets cost can be flexible depending on the past track records and credit standing of the borrower such as shareholders' funds, existing loans, etc. The loans granted are for a period from five to twelve years, including a grace period of three to twenty-four months while the interest charged is between 9.5% and 10.5% per annum on a reducing balance payable quarterly.

2. Machinery Loans

This facility offers up to 75% of the cost of plant and machinery, depending on the shareholders' funds of the project and other existing borrowings. The shareholders' funds should not be less than the loan applied for. The tenure of the loan varies from three to six years, including a grace period of one to twelve months. The interest rate charged is between 9.5% and 10.5% per annum on a yearly rest, payable monthly.

3. Factory Mortgage Loan

MIDF will finance up to 70% of the cost of land and factory building, including the cost of basic installations such as electrical installations, fire fighting equipment and air conditioning.

The tenure of the loan is similar to project loans, which is between five to twelve years inclusive of three to twenty four months of grace period. The interest rate charged is 9.5% to 10.5% per annum on yearly rest. For loans above RM1 million, the interest is based on a reducing balance. At the same time, loans that are below RM250,000 will be repayable on a monthly basis while loans amounting to more than RM250,00 will be repayable on a quarterly basis.

4. Leasing Facilities and Leasing Lines

MIDF also offers up to 100% lease to assist manufacturers in acquiring plant and machinery. It is offered as an alternative to the machinery loan, tailored to assist borrowers who require higher percentage of financing than is possible with machinery loans. This facility is offered only to on-going projects with acceptable track record. The interest rate charged is a flat rate between 5.2% and 6.5% per annum. Bumiputera applicants will be eligible for preference interest rates.

Special Loan Schemes:

1. ASEAN-Japan Development Fund (AJDF)

The objective of this fund is to promote the development of Malaysian controlled (shareholding of 51% or more) SMIs in the manufacturing, agriculture and tourism sectors in Malaysia. The type of loan offered under this scheme is know as the Overseas Economic Cooperation Fund of Japan (OECF).

The OECF scheme offers loans up to RM5 million for companies with paid-up capital not exceeding RM5 million. The interest rate charged is 6.5% per annum. The scheme offers up to 75% of the cost of the eligible items and is only offered to the manufacturing sector.

Of the 169 loans and leases approved by MIDF in 1995, 25 loans for a total value of RM61.3 million were approved under the AJDF scheme (MIDA, 1997).

2. Industrial Adjustment Fund (IAF)

The IAF was launched by the government in January 1991 with an initial allocation of RM500 million to help finance the restructuring and adjustment programmes of the wood-based, machinery and engineering, as well as textile and garment industries. This facility is offered only to Malaysian controlled companies operated on or before 31st December 1990.

The minimum loan offered is RM100,000 while the maximum loan offered is RM10 million. An interest rate of 7.75% per annum will be charged for a loan period of up to eight years. In 1995, one loan for a value of RM1.5 million to the wood-based sector was approved.

3. Modernisation and Automation Scheme for Small and Medium Scale Industries

This scheme was approved under the Sixth Malaysia Plan with an allocation of RM50 million, with the objective of promoting the modernisation and automation of SMIs through the utilisation of new technology. It was launched in 1993 and since then, the fund has been raised to RM70 million.

Malaysian incorporated/registered manufacturing enterprises with shareholders' funds not exceeding RM2.5 million and with at least 70% Malaysian equity ownership are eligible for this fund. The scheme offers loan up to RM1 million with an interest rate of 4.0% per annum. The loan can be used to finance up to 75% of the cost of machinery and equipment with a tenure of between five and ten years, including grace period. At the end of 1995, a total of 34 applications were approved amounting to RM16.7 million (MITI, 1996).

4. New Entrepreneurs Fund

This fund was set up to assist bumiputera entrepreneurs in new business ventures in the manufacturing, agriculture, tourism and export-oriented industries. Only whollyowned bumiputera companies with shareholders' funds of RM2.5million and below are eligible for this fund. The loan size is up to RM2.0 million with interest charged at 5% per annum. The loan is granted for a maximum of 8 years, including grace period. The fund will finance up to 85% of the cost of eligible items which include plant and equipment, and working capital.

3.3.6 Majlis Amanah Rakyat (MARA)

MARA was established in 1951 with the objectives of motivating and guiding bumiputera to participate in the commercial and industrial sectors. MARA provides Islamic credit services to small and medium bumiputera commercial and industrial enterprises with net assets or shareholders' funds not exceeding RM2.0 million. The credit is given for working capital and the purchase of fixed assets (MIDA, 1997).

The maximum loan offered for small businesses is RM250,000; RM1 million for manufacturing and franchising businesses and RM250,000 for other businesses. For loans of RM20,000 and below, the repayment period is between 1 to 3 years; 1 to 5 years for loans between RM20,000 and RM50,000 and 1 to 10 years for loans above RM50,000.

3.4 Marketing

Prior to the establishment of SMIDEC, the Ministry of International Trade and Industry (MITI) was the lead agency for market promotion, providing support services to SMIs and the manufacturing sector as a whole to market their products, for both domestic and export markets. As of 1996, SMIDEC became responsible for the promotion of SMIs while MITI concentrated on the exports for Malaysian manufacturers as a whole.

Some of the marketing incentives for SMIs are as follows:

3.4.1 Industrial Linkage Programme (ILP)

One of the biggest obstacles in the development Malaysia's industrialisation has been identified as the weak industrial linkage between the SMIs and the LSIs due to the narrow industrial base. As such, the country has had to depend on imports of intermediate products and inputs, which causes a weak balance of payment position, especially with an unstable currency situation (SMIDEC, 1997)..

Hence, the ILP programme was introduced. The ILP is a cluster-based industrial development programme in tandem with the Second Industrial Master Plan (1996-2005). Through this programme, SMIs will be further promoted and nurtured into becoming reliable manufacturers and suppliers of needed components and services to the larger companies or multi-national companies (MNCs) which are involved in core manufacturing activities within a particular industry cluster as well as across clusters.

The ILP will initially focus on industry groups which have the biggest potential for linkages, and critical for the country's industrial development programme. These groups are:

I. Electrical and electronic industry group which consists of the following industry cluster:

- Semiconductor and electronic components
- Computer, peripherals and telecommunications
- Electrical/electronic appliances and apparatus
- Consumer electronics

II. Transportation equipment industry group which consists of the following clusters:

- Automotive and motorcycles
- Marine transportation
- Aerospace

III. Machinery and engineering industry group which consists of

- Machines and equipment
- Machine tools
- Mould and die
- Materials handling system and utilities

Other industry groups included in this programme are the chemical and petrochemical, and the resource and agro-based industries.

SMIDEC will be the co-ordinator of this programme. The Linkages or SMI companies will act as first or second tier suppliers while the Lead or Principal companies can be MNCs or local LSIs. The financier may consist of participating financial institutions or banks or venture capitalist while the technology supplier may be the lead companies or any independent technical or research institution.

In order to participate in this programme, the SMI supplier companies must satisfy the following criteria:

a) Incorporated under the Companies Act.

b) Paid up capital of not less than RM250,000.

c) At least 70% of the equity must be held by Malaysians of which 60% must be directly held by the linkage/supplier companies.

To encourage companies to undertake and participate in this programme, the government will grant the following incentives:

- SMIs which produce intermediate goods in an approved scheme will be granted pioneer status with full tax exemption for 5 years;
- The manufacture of components and parts by companies participating in the ILP will be exempted from the CIPE criteria of RM55,000 for labour intensive projects;
- Expenses incurred by Lead companies in developing the SMIs suppliers such as training, factory auditing, and the technical assistance will be given tax deduction;
- Sales made by large companies located within free trade zones or licensed manufacturing warehouses who are participants in the programme will be treated as export for purposes of determining equity in these companies;
- Participating companies in the programme which have yet to comply with the equity condition in the licence, can use the ILP as trade-off for non-compliance in the equity condition; and
- All other incentives under the Promotion of Investment Act 1986.

3.4.2 Vendor Development Programme (VDP)

The VDP was started in 1988 with the main objective of developing Malaysian SMIs into reliable manufacturers and suppliers of industrial parts and components required by the large-scale industries and MNCs. It also provides integration and linkages between SMIs and LSIs, MNCs and financial institutions (MITI, 1995).

In 1988, the Proton Development Programme Scheme was launched for the automotive parts manufacturers in order to assist bumiputera SMIs to become Proton parts and components suppliers. In 1992, Sapura Holdings and Sharp Corporation anchored a scheme for the electrical and electronics components producers.

In April 1993, the "Tripartite Arrangement" concept was introduced to further enhance the implementation of VDP, with MITI as the co-ordinator. Under this concept, the anchor companies are also involved in providing assurance of market for the vendors with the financial institutions providing the necessary financial facilities based on the market assurance. The first scheme involved the furniture component producers; Syarikat Land & General and Bank Pembangunan Malaysia Berhad (MITI, 1994).

On 2nd August 1995, the implementation of VDP was taken over by the Ministry of Entrepreneurs Development. As of December 1995, there were 54 large companies and MNCs, 18 financial institutions and 79 vendors participating in this programme.

3.4.3 Sub-contracting Exchange Scheme

The Sub-contracting Exchange Scheme was launched in 1986. The main objective of this scheme is to provide a computer matchmaking database that compiles information on both large scale industries and capable SMIs. This is to enable potential SMI vendors to cater for the needs of large companies in the supply of industrial inputs. There was an increase in the number of companies registered, from 2763 companies in 1993, to 3108 companies in 1995; of which 2737 are SMIs (MITI, 1996).

3.4.4 The Umbrella Concept

This scheme was established in 1984 to assist bumiputera vendors to gain initial market access through government procurement and eventually, into the open market.

Under this concept, three anchor companies were established, namely Besta Distributors Sdn. Bhd. for the food-based SMI vendors; Guthrie Furniture Sdn Bhd for the furniture-based vendors; and Guthrie Malaysia Trading Corporation to cater for the stationery vendors (MITI, 1996).

3,4.5 SMI Expos and Industrial Fairs

The main objective of this programme is to assist SMIs enter into new market in a more organised manner. The activities under this programme include special promotions, product adaptation, seminars and workshops, as well as participation in trade fairs and expositions at local, national and international levels (MITI, 1996).

A national level SMI Expo is held annually. SMI Expos at regional level are also held from time to time. Recently, the "SMI Showcase '96 – Excellence & Competitiveness of SMIs" was held from 18-22 January 1996 at the Putra World Trade Centre, Kuala Lumpur. There were 188 companies and associations, comprising 139 SMIs, 19 large-scale companies, three financial institutions, seven associations, and 20 lead agencies participated at this Expo.

3.5 Infrastructure Facilities

The SMI infrastructure development programme was formulated to mitigate infrastructure problems faced by SMIs such as the shortage of industrial land/estates, to enable affordable industrial sites for SMIs. Many SMIs are operating as backyard industries and some have no proper premises and facilities or even approval by the authorities (Ismail Muhd Salleh and Latifah Rahim eds, 1992). In order to attract SMIs to move into these designated areas, common-user facilities such as testing, marketing, waste disposal as well as housing facilities for workers are provided.

Under the Sixth Malaysia Plan, the government allocated RM54.9 million to be channelled through MITI and implemented by Malaysia Industrial Estates Sdn Bhd (MIEL). Up to the end of 1995, RM30.7 million or 55.9% had been expanded, involving 10 projects for industrial sites of SMIs, covering 275.5 hectares and 1624 factory buildings. Besides this, MIEL also carries out its own industrial estates development projects and ready built factories for sale or for lease. There are also other developers carrying out development projects to provide modern factory buildings and industrial lands to cater for the needs of SMIs (MITI, 1996).

3.6 Human Resource Development Programme

The human resource development programme for SMIs has the objective of providing human resource training for SMI manufacturers in the area of management and skills upgrading. The growing need for skilled labour in the manufacturing sector had led to an increase and expansion of vocational and technical institutes and polytechnics by both the public and the private sectors (MITI, 1996).

The human resources development programme for SMIs is implemented by the National Productivity Corporation (NPC), an agency under MITI, together with other training institutions and advisory agencies. These agencies include the Centre for Instructor and Advanced Skill Training, MARA, Malaysian Entrepreneurial Development Centre, SIRIM, MARDI, Rubber Research Institute of Malaysia, Palm Oil Research

Institute of Malaysia, Forest Research Institute of Malaysia, and also the Federation of Malaysian Manufacturers.

Besides these institutions, there are also other public and private institutions that provide training facilities and advisory services to SMIs. The establishment of various private institutions also helps to create a large pool of managerial personnel as well as skilled labour force to cater for the needs of the industrial sector and the economy as a whole. Some of these institutions are the Malaysian Institute of Microelectronics System (MIMOS), Industrial Training Institute, German-Malaysia Institute (GMI), Penang Skills Development Centre (PSDC), vocational and technical schools and institutes, as well as local universities.

Besides active support and assistance from the government and other local agencies and institutions, there are also assistance provided by foreign expert services organisations to cater for the need of SMIs, especially advisory services on export market as well as advises on managerial skills. They are the Australian Executive Service Overseas Programmes, the British Executive Service Overseas, the Canadian Executive Service Overseas, the German Senior Expert Service, Japan Overseas Development Corporation, the Canadian Investment Adviser at MIDA and the French Investment Adviser in MIDA.

3.7 Conclusion

Although the government has introduced and implemented various programmes and incentives, it has been found that the utilisation of these incentives by SMIs is not encouraging.

Choo Sau Ling (1997) found that although most of the firms were aware of the availability of the incentives for investment, many did not utilise them. Reasons given for this negativeness include being disqualified, unaware of procedures, not needing the incentive and unaware of the source of the incentive.

However, the utilisation rate of financial and credit facilities were more encouraging where it was found that 49% of SMIs in the Klang valley have access to them (Choo, 1997). On the other hand, only 1.5 to 16.4% of the SMIs in the Klang valley utilised 11 out of 12 marketing programmes provided by MITI and SMIDEC. Furthermore, only 18% and 34% of the SMIs utilise industrial land/estates and ready-built factories respectively (Choo Sau Ling, 1997).

Hence, it would be important to note that even if the government were to increase the number of programmes and incentives to encourage the development of SMIs, it would only be effective if the SMIs themselves made the effort of utilising them.