CHAPTER 3

POLICIES AND AGENCIES ASSISTING SMALL AND MEDIUM SCALE INDUSTRIES IN MALAYSIA

The government has been emphasising the promotion and development of SMIs, and is clearly stated in all the seven Malaysia Plans. The First Malaysia Plan (1966-1970) emphasised on the promotion of Bumiputera entrepreneurs while the Second Malaysia Plan (1971-1975) emphasised on the promotion of small scale industries. The Third Malaysia Plan (1976-1980) emphasised on entrepreneurship developments while the Fourth Malaysia Plan (1981-1985) stressed on the promotion of small scale industries as one of the strategies to develop the manufacturing sector. The Fifth Malaysia Plan (1986-1990) emphasised on enhancing small scale industries in order to create intra-industry linkages.

The Second Outline Perspective Plan (1991-2000) places greater emphasis on further promoting, upgrading and improving the capability of SMIs to make them an important and viable sector for industrial expansion, creation of inter-industry linkages and support, as well as suppliers of production inputs for their large scale counterparts and MNCs, further to penetrate export markets. A massive institutional framework is in place providing various assistance to SMIs to enable them to be more competitive and resilient, both in the domestic and international markets.

Although there are various facilities and incentives offered, SMIs were faced with new challenges and need to be more sensitive, as well as to be more innovative and at the same time to improve their productive capacity. These will enable SMIs to penetrate global markets. Furthermore, due to the small domestic base with a population of 20 million, SMIs need to further seek out new markets to ensure further growth of their businesses.

3.1 INCENTIVES FOR INVESTMENT

The government has provided a wide range of incentives and facilities to promote investment in the manufacturing sector. Fiscal incentive is one of the most important industrial policy in Malaysia to promote SMIs.
3.1.1 General Incentives

Pioneer Status

The provision of this incentive has played a very significant role in the development of industrialisation. Before 1991, firms given pioneer status were exempted from corporate income tax, usually for five years. After 1991, firms that are granted pioneer status will pay tax on 30 percent of its statutory income. Under the Promotion of Investments act, 1986, SMIs engaged in 'promoted activities and products' are eligible for consideration of this incentives (see appendix B). The period of tax exemption is five years, commencing from the date of production as determined by the Ministry of International Trade and Industry. However, under the Promotion of Investments (Amendment)(No. 2) Act 1994, A 900, companies located in Sabah, Sarawak and the designated 'Eastern Corridor' of Peninsular Malaysia will only have to pay tax on 15 percent of its statutory income for five years.

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 products' are eligible for ITA which provides an allowance of 60 percent of qualifying capital expenditure incurred within five years from the date of approval. The allowance can be utilised to offset against 70 percent of the statutory income in the year of assessment. Any unutilised allowances can be carried forward. However, firms located in Sabah, Sarawak and 'Eastern Corridor' of Peninsular Malaysia will be granted an allowance of 80 percent of qualifying capital expenditure incurred. The allowance can be utilised to offset against 85% of the statutory income in the year of assessment.

Reinvestment Allowance (RA)

RA is an attractive incentive for firms that do not enjoy PS or ITA. RA of 60 percent is given to existing manufacturing companies incur for expansion of...
production capacity, modernisation and upgrading of plant and machinery, and product diversification. The allowance can be utilised to offset against 70 percent of the statutory income in the year of assessment. Any unabsorbed allowance will be allowed to be carried forward to the following years until it is fully utilised. This incentive is to garner greater amount of investment by existing companies. RA is given in addition to the normal capital allowances. The company's adjusted income, as equal to the allowances, will be exempted from tax. Dividends from the tax-exempt income received by shareholders are not taxable. Companies that reinvest in promoted areas, that is, the States of Sabah and Sarawak and the "Eastern Corridor" of Peninsular Malaysia will be allowed to utilise the allowance fully to offset against the statutory income for the year of assessment.

3.1.2 Specific Incentives

*Incentives for High-Technology Industries*: High technology companies that engage in promoted activities or products (see Appendix C) in areas of new and emerging technologies are eligible for full tax exemption on statutory income level for five years, and Investment Tax Allowance of 60 percent on qualifying capital expenditure incurred within a period of five years.

*Incentives for Strategic Industries*: Strategic industries are companies undertaking projects with heavy capital investment and high technology that can generate extensive linkages and have significant impact on the economy. A company given this incentive will enjoy full tax exemption at statutory income level for a period of ten years, or ITA of 100 percent in qualifying capital expenditure incurred within a period of five years.

3.1.3 Incentives for Export

*Export Credit Refinancing (ECR) Scheme*: The ECR Scheme provides short-term credit at a preferential interest rate (currently at the maximum rate of 5 percent per annum) for Malaysian exporters to enable them to compete more effectively in the international markets. It is operated

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5 Ibid.
6 Ibid.
7 Ibid.
by commercial banks. Under this scheme, the pre-shipment ECR facility provides working capital to direct and indirect exporters, while the post-shipment ECR facility enables Malaysian exporters to obtain immediate funds upon shipment of eligible goods sold on credit terms. However, the products should be listed in the 'negative list' (list of products not eligible for ECR), have a minimum value-added of 20 percent, and a minimum of 30 percent domestic resource content for each product.

*Double Deduction of Expenses for Promotion of Exports*§

This incentive is eligible for resident companies in their search for export markets for Malaysian products that incurred certain expenses on overseas advertising and publicity; export market research or obtaining market information; preparation of tenders for the supply of goods overseas; exhibits and/or participate in trade or Industrial exhibitions approved by MITI; fares in respect of travel overseas; accommodation and subsistence expenses incurred during overseas travel; and cost of maintaining sales offices overseas for the promotion of exports.

*Double Deduction of Export Credit Insurance Premiums*§

This incentive allowed double deduction on premium payments in respect of insurance of products exported paid by Malaysian exporters to local insurance companies.

*Industrial Building Allowance*¹⁰

This incentive is eligible for companies in respect of building used as warehouses for storing goods for export. This allowance comprises of initial allowance of 10 percent and an annual allowance of two percent.

### 3.1.4 Incentives for Research and Development (R&D)¹¹

The tax incentives offered for R&D acts as an important instrument for the promotion of R&D activities to improve productivity and upgrade the quality of

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§ Ibid.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Ibid.
products manufactured by SMIs. Various tax incentives offered for R&D are as follows:

a. Revenue expenditure incurred by an individual on business-related research and directly undertaken by him or on his behalf, is eligible for deduction. Revenue expenditure incurred for research approved by the Minister of Finance is eligible for double deduction.

b. Investment Tax Allowance of 50 percent for in-house research on qualifying capital expenditure (related to R&D activity) for a period of 10 years. This allowance will be granted at the statutory income level and abatement for each assessment year will be limited to 70 percent of statutory income.

c. Industrial building allowance in the form of an initial allowance of 10 percent and an annual allowance of two percent is available for buildings used for purposes of approved research.

d. Plant and machinery used for purposes of approved research are eligible for capital allowances.

e. Double deduction is given for cash contribution made to approved research institutions.

3.1.5 Incentives for Training

Training of employees are encouraged by the government to develop and upgrade skills, improve productivity and quality. Therefore, the incentives for training are available to promote domestic companies to train their employees. Below are incentives offered by the government to promote training:

a. Investment Tax Allowance of 100 percent for a period of 10 years is given to companies intending to undertake technical or vocational training. Existing companies providing technical or vocational training that incur new investment to upgrade their training capacities are also eligible for this incentives.

b. Companies that contribute in cash to a technical or vocational training institution established and maintained by a statutory body is eligible for single deduction.

c. Machinery, equipment and material used for training are eligible for exemption from import duties, sales tax and excise duties.

d. For companies that employ less than 50 Malaysian workers and having a paid-up capital of less than RM2.5 million, expenses incurred for training is eligible for double deduction.

Ibid.
However, for training in designated approved institutions, automatic approval on
double deduction of expenses incurred is given. Those designated approved training
institutions recognised by the Ministry of Finance are National Productivity
Corporation (NPC), SIRIM, Mara Institute of Technology, Malaysian Agricultural
Research and Development Institute (MARDI), Forest Research Institute of Malaysia
(FRIM), Centre for Instructors and Advanced Skills Training (CIAST), Penang Skills
Development Centre (PSDC), Institut Kemahiran Mara (IKM), Industrial Training
Institute (ITI), Malaysian Timber Industry Board (MTIB), German-Malaysian Institute
(GMI), Perak Entrepreneur Skills Development Centre (PESDC), TUAS Polytechnic,
and ASEAN Timber Technology Centre.

e. Industrial Building Allowances is granted to a company that has incurred
expenditure on buildings for approved industrial training, that consists of an initial
allowance of ten percent and an annual allowance of two percent.

3.1.6 Incentives for Industrial Adjustment for the Wood-based, Textiles, Machinery
and Engineering Industries\(^5\)

Incentives for participation in approved adjustment programmes are available
to companies operated before 31 December 1990. ‘Industrial adjustment’ is defined
as any restructuring activity proposed by a manufacturing company with the
objective of strengthening the basis for industrial self-sufficiency, improving
technology, increasing productivity and enhancing the efficient use of natural
resources and manpower. The Industrial Adjustment Allowance (IAA) provides an
allowance of up to 100 percent of qualifying capital expenditure incurred on approved
‘industrial adjustment’ programmes. An Industrial Adjustment Fund has also been set
up to provide loans at concessionary rates to qualifying companies undertaking
adjustment programmes.

3.1.7 Incentives for Small-Scale Manufacturing Companies\(^4\)

Small-scale manufacturing companies (see Appendix D) are those with
shareholders funds of not exceeding RM500,000. The government offers the

\(^5\) Ibid.
\(^4\) Ibid.
following incentives for small-scale manufacturing companies incorporated in Malaysia under the Companies Act, 1965 and have Malaysian equity of at least 70 percent:

a. Pioneer Status for companies engaged in promoted products or activities;
b. Full exemption from customs duty on raw material, components, machinery and equipment that are not available locally;
c. A reinvestment allowance at the rate of 50 percent.

3.1.8 Incentives for Storage, Treatment and Disposal of Toxic and Hazardous Waste

Companies that are principally engaged in an integrated operation for the storage, treatment and disposal of toxic and hazardous waste are eligible for the Pioneer Status for a period of five years. A special capital allowance at an initial rate of 40 percent and an annual rate of 20 percent for five years on all capital expenditure incurred in waste storage, treatment and disposal will be granted to companies that generate toxic and hazardous waste, and intend to set up facilities to store, treat and dispose them. Furthermore, the government will also extend the current import duty and sales tax exemption scheme for machinery, equipment, raw materials and components for both categories of the companies above.

3.2 FINANCIAL AND CREDIT FACILITIES

At the current stage of development, SMIs in Malaysia have a high potential for growth. However, they still need adequate financing in order to fully utilise their growth potential and at the same time develop their businesses. Therefore, at the initial stage of the development of SMIs, they must have ready access to institutional financing at reasonable costs, with minimum of time and red tape, procedure or paperwork involved. Realising these problems, the government has drawn up several financial and credit facilities to develop SMIs.

3.2.1 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

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15 Ibid.
modern industry sector, capable to support 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).

At the initial stage, utilisation of the fund was slow. As at 15 December 1992, only 159 applications, amounting to RM6.9 million were approved. This amount was small as compared to the initial allocation of RM50 million. Therefore, the government had made a few amendments effective January 1993 to facilitate the usage of ITAF.

- Changing the name of Feasibility Study Scheme (ITAF 1) to Consultative Service Scheme;
- widening the qualifying criteria to include:
  - companies registered with the registrar of business (previously only companies registered with the Registrar of Companies were eligible for the fund);
  - companies that have not started commercial operations but are covered under other schemes, such as those in the incubator scheme and technology park programme;
  - service industries directly involved in the manufacturing activities such as electroplating and packaging, but excluding the tourism industry.
- widening the covering of the Market Development Scheme (ITAF 4) to include costs of promotional samples for foreign exhibitions and participation in trade missions and exhibitions abroad;
- increasing the maximum grant for ITAF 1 Scheme from RM10,000 to RM40,000 and ITAF 4 Scheme from RM20,000 to RM40,000, ITAF 2 and ITAF 3 from RM100,000 to RM250,000; and
- allowing payment of grants directly to the consultant undertaking the study, on approval by the implementing agency.

Assistance for the ITAF scheme is given in the form of a matching grant (subject to a maximum stipulated amount), where 50 percent of the project cost is borne by the government and the remaining 50 percent by the applicant company.
Consultancy Services Scheme (ITAF 1)

ITAF 1 is managed by Bank Pembangunan Malaysia Berhad, 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 technical and management capabilities, and improving quality and increasing productivity.

Product Development and Design Scheme (ITAF 2)

ITAF 2 is managed by Standard Industrial Research Institute of Malaysia (SIRIM). The maximum grant offered is RM250,000. This scheme aims to help 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.

Quality and Productivity Improvement Scheme (ITAF 3)

This scheme is also managed by SIRIM. Maximum grant offered is RM250,000. The objectives are to improve product quality and productivity as well as management and production systems, and certification of products and/or quality systems (the National Certification Scheme, the ISO 9000 and other standards schemes of SIRIM).

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 the company to export its products and build up export marketing expertise.

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 facility, the utilisation of the fund by SMIs has been low. As at 31 December 1995, only RM26.63 million, or 53.25 percent 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-
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 (see Table 3.1).

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

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


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

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

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

Source: MITI
Out of all the applications approved, Selangor accounted for 384 out of 908 applications (42.3 percent), followed by the Federal Territory of Kuala Lumpur (184), Johor (80), Penang (47) and Sarawak (28).17

Clearly, the ITAF was meant to enhance the development of SMIs to enable them to provide ancillary and auxiliary support to the country's large industries or MNCs.

3.2.2 Bank Negara Malaysia (BNM)

BNM has established a number of financial and credit schemes 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. These efforts would further contribute towards expanding productive capacity and exports, as well as help to stimulate expansion in new growth industries with high potential to earn foreign exchange.

Table 3.3 shows types of funds administered by BNM, year established, allocation as at 1995 and the objective of these funds, while Table 3.4 shows the utilisation of funds administered by BNM as at end of 1994 and 1995. The New Entrepreneurs Fund received overwhelming response in 1994, thus was converted to a revolving fund. Hence, an additional allocation of RM150 million was announced in 1995 to further encourage its utilisation. It is the most popular scheme where the increased in allocation has been fully utilised in 1995. As at end of 1995, a total of 1,839 applications amounting to RM831 million were approved (see Table 3.4).

The utilisation of Bumiputera Industrial Fund was slow. As at end of 1995, only 20 applications, involving RM21 million were approved. To further promote the utilisation of this fund, the Bank revised the guidelines effective 1 January 1996 by increasing the number of participating financial institutions from 6 to 41, and include 42 new anchor companies under the Vendor Development Programme of the Ministry of Entrepreneurs Development (see Table 3.4).

_The Star, August 19, 1996, p. 8._
Table 3.3: Funds Administered by Bank Negara Malaysia - Types of Funds

<table>
<thead>
<tr>
<th>Fund</th>
<th>Year Established</th>
<th>Allocation (RM mil)</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Entrepreneurs Fund</td>
<td>December 1989</td>
<td>750</td>
<td>To encourage New Bumiputera Entrepreneurs to venture particularly into manufacturing, tourism and export oriented industries.</td>
</tr>
<tr>
<td>Bumiputera Industrial Fund</td>
<td>January 1993</td>
<td>100</td>
<td>To promote the participation of Bumiputera community in industrial sector.</td>
</tr>
<tr>
<td>Enterprise Rehabilitation Fund</td>
<td>March 1988</td>
<td>500</td>
<td>To assist Bumiputera Entrepreneurs who had been affected by the recession in 1985-1986.</td>
</tr>
<tr>
<td>Industrial Adjustment Fund</td>
<td>February 1991</td>
<td>500</td>
<td>To further facilitate the rationalisation and restructuring of certain selected industry.</td>
</tr>
</tbody>
</table>

Source: Bank Negara Malaysia Annual Report, various issues.

Table 3.4: Funds Administered by Bank Negara Malaysia: Funds Utilisation

<table>
<thead>
<tr>
<th>Funds</th>
<th>Total as at end 1994</th>
<th>Total as at end 1995</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. Approved</td>
<td>Amount (RM mil)</td>
</tr>
<tr>
<td>New Entrepreneurs Fund</td>
<td>1542</td>
<td>608</td>
</tr>
<tr>
<td>Bumiputera Industrial Fund</td>
<td>19</td>
<td>20</td>
</tr>
<tr>
<td>Enterprise Rehabilitation Fund</td>
<td>757</td>
<td>1000</td>
</tr>
<tr>
<td>Industrial Adjustment Fund</td>
<td>16</td>
<td>56</td>
</tr>
</tbody>
</table>

*Due to withdrawal of approved & exclusion of contingent liability figure.

Source: BNM Annual Report 1996

3.2.3 Bank Industri Malaysia Berhad (BIMB)*

Established on 7 August 1979, the objective of BIMB is to promote and finance the development of production capacity in capital intensive and high technology industry, especially for industries which are export oriented.

Small and Medium Scale Industry Promotion Programme

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

Manufacturing Sector Financing Facility

Companies disqualified under the above scheme can be considered under this scheme. This scheme also provides financial assistance to engineering (metal-based industries including electrical and electronics), plastics and pharmaceutical. BIMB offers up to 85 percent of the project cost.

Islamic Development Banks’ Funds

BIMB is an agent to the Islamic Development Bank (IDB), based in Jeddah, Saudi Arabia. BIMB offers guarantee facility under IDB to companies as follows:

- **Import Trade Financing Facilities (ITF):** This facility is to assist Malaysian importers to purchase needed developmental inputs from members and non-member countries of IDB. Goods eligible under this facility are industrial raw materials, industrial intermediate goods and construction materials.

- **Long Term Trade Financing Facilities (LTTF):** This facility is to assist Malaysian exporters in their export to any member countries of the Organisation of Islamic Conference. This facility offers up to 80 percent of the value of the export item on consumer commodities, intermediate and capital goods.

- **Instalment Sale:** This facility is offered for the financing of ocean going ships, industrial machinery and equipment at a minimum amount of Islamic Dinar (ID) 100,000 (US$130,000).

- **Leasing:** This facility is offered for the financing of industrial machinery and equipment, with a minimum amount of ID100,000, with 5 to 15 years of instalments with interest set at 7.5 to 8.5 percent per annum.

- **Islamic Banks’ Portfolio (IBP):** This facility is offered for the financing of raw materials, industrial intermediate goods and capital goods, with a minimum amount offered at US$200,000. The repayment period is from 6 to 18 months with interest based on London Interbank Offer Rate (LIBOR) plus margin of one to two percent.

Supplier Credit

This facility is part of the Export Credit Refinancing (ECR) Scheme that provides facility to companies involved in exporting Malaysian products that fulfil a minimum of 50 percent local content and 30 percent value added. The Pre-shipment Supplier Credit is available to local manufacturers to finance a maximum of 85 percent of their export order value at a minimum interest rate of 9 percent per
Post-shipment Supplier Credit is available to local exporters to enable them to provide attractive credit terms to foreign buyers for the export of their capital goods. It offers a maximum of 95 percent of their export invoice value for financing satisfied under Letter of Credit (LC), or a maximum 85 percent of export invoice value for financing transacted without LC.

3.2.4 Bank Pembangunan Malaysia Berhad (BPMB)\textsuperscript{19}

BPMB was established in 1973. The bank’s services are primarily reserved for Bumiputera individuals and Bumiputera designated companies or projects. BPMB can participate in the equity of a company, but the maximum limit is 30 percent of the paid-up capital. Financial facilities provided by BPMB are available in either the conventional way, or through Syariah Financing.

**Fixed Assets Loan**

This facility is eligible for the financing of land, factory, warehouse, office building, machinery and transportation equipment. For certain funds, the minimum loan amount is RM30,000 and 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.

**Working Capital Loan and Skim Pinjaman Kontrak (SPK):**

Both the facilities are offered by BPMB to finance the purchase of raw materials and to meet other working capital requirements. However, SPK is also offered to services sector that have been awarded contracts by Telekom or Tenaga Nasional Berhad only.

**Leasing**

This facility is offered by BPMB to Bumiputera firms and Bumiputera designated companies for equipment leasing facilities either for a single unit or a list of equipment. This facility offers up to 100 percent of cost of equipment at a minimum of RM100,000.

\textsuperscript{19} Ibid., pp. 41-44.
Share Financing Scheme

Share financing scheme is a unique facility offered by BPMB aimed to increase Bumiputera ownership in the industrial sector through the acquisition of shares including new issues, right issues, existing shares and increase of partnership contribution. It includes the Maju Scheme, the Setia Scheme, and the Nawasan Scheme.

Although BPMB focuses on the development of Bumiputera entrepreneurship, the bank also opens some of the financial and credit facilities to non-Bumiputera companies, in line with the national industrial policy to further promote SMLs.

3.2.5 Malaysian Industrial Development Finance Berhad (MIDF)

Established in March 1960, the primary objective of MIDF is 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.

MIDF's Scheme

Project Loan: This facility offers up to 70 percent financing of the fixed assets (land, factory building, plant and machinery) of the project based on actual cost. 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.

Machinery Loans: This facility offers up to 75 percent of the cost of plant and machinery, depending on the shareholders' funds of the project and other existing borrowings.

Tbid., pp. 47-51.
Factory Mortgage Loan: This facility is an alternative to the machinery loan, tailored to assist small operators who require higher percentage financing that is possible with machinery loans, because this facility offers up to 100 percent lease financing to assist companies in acquiring plant and machinery. This facility is only offered to ongoing ventures with acceptable track records.

Special Loan Scheme

ASEAN-Japan Development Fund (AJDF): This scheme is to promote the development of Malaysian controlled small and medium-scale enterprises in the manufacturing, agricultural and tourism sectors in Malaysia. There are two types of plans under this scheme — Overseas Economic Cooperation Fund of Japan (OECF) and EXIM Bank of Japan scheme. OECF scheme offers loans up to RM5 million for companies with paid-up capital not exceeding RM5 million and interest rate at 6.5 percent per annum. While for loans to larger enterprises under the EXIM Bank scheme, maximum loan offer is RM20 million with interest at a flat rate of 7.75 percent per annum.

Small and Medium-scale Industry Promotion Programme (SMIPP)/OECD Fund: This scheme was introduced in May 1992 with the same objectives as the AJDF scheme, offering facility to Malaysian controlled enterprises with paid-up capital of less than RM5 million. However, there is no limitation on the size of the paid-up capital for enterprises purchasing environmental control equipment. The maximum loan offered is up to RM5 million with interest rate set 7.0 percent per annum.

Industrial Adjustment Fund (IAF): 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 to Malaysian controlled companies operated on or before 31 December 1990, with loan between RM100,000 to RM10 million, at an interest rate of 7.75 percent per annum.

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 to promote the modernisation and automation of SMIIs through the utilisation of new technology. It was launched in 1993 and the fund has
been raised to RM70 million. Malaysian incorporated/registered manufacturing enterprises with shareholders' funds not exceeding RM2.5 million are eligible for this fund. The scheme offers loan up to RM1 million with an interest rate of 4.0 percent per annum. At the end of 1995, a total of 75 applications were approved amounting to RM34.6 million.

**Bumiputera Industrial Fund (BIF):** BIF was established in January 1993 with an initial allocation of RM100 million. The objective is to further promote the participation of Bumiputera entrepreneurs (with shareholders' funds not exceeding RM2.5 million and with at least 70 percent Bumiputera shareholding and management control) in the industrial sector under the "umbrella concept" and expanding their operations. Loan offered is up to RM2.5 million with interest rate at 5.0 percent per annum. However, due to the slow utilisation of this fund, the government has revised the guidelines effective 1 January 1996, to further promote it. The number of participating institutions have been increased from six to 41, and 42 new anchor companies have been included under the Vendor Development Programme of the Ministry of Entrepreneur Development.

**Swedish Fund for Environmental Protection and Control:** This credit facility is the first in Malaysia solely attribute for environmental protection and control activities with an allocation of US$15 million. The objective is to provide soft loans, particularly to enterprises in the manufacturing sector, for the purchase of Swedish machinery and equipment for environmental projects. This facility offers loan up to US$5 million at 5.0 percent interest rate per annum.

Table 3.5 shows lending to the industrial sector by MIDF, BPMB and BIMB for 1985, 1991, 1994 and 1995. There is a significant increase in loans offered by these banks to the industrial sector from 1985 to 1995.

**Table 3.5: Loans to the Industrial Sector, 1985-1995**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>MIDF</td>
<td>377.4</td>
<td>378.0</td>
<td>590.6</td>
<td>685.8</td>
</tr>
<tr>
<td>BPMB</td>
<td>117.7</td>
<td>369.4</td>
<td>542.7</td>
<td>631.1</td>
</tr>
<tr>
<td>BIMB</td>
<td>87.5</td>
<td>375.1</td>
<td>525.2</td>
<td>594.0</td>
</tr>
</tbody>
</table>

Source: BNM Annual Report, various issues.
3.2.6 Majlis Amanah Rakyat (MARA)\textsuperscript{21}

MARA was established in 1951 with the objectives of motivating and guiding Bumiputera to participate in the commercial and industrial sectors. This is in line with the NEP and the National Development Policy, focusing on the creation and development of a viable Bumiputera Commercial and Industrial Community as an effective step towards increasing participation and control of their interest in the corporate sector. MARA provides Islamic credit services to small Bumiputera commercial and industrial enterprises with net assets or shareholders' funds not exceeding RM500,000. The credit is given to entrepreneurs for working capital and the purchase of fixed assets.

3.2.7 Credit Guarantee Corporation Malaysia Berhad (CGC)\textsuperscript{22}

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. General Guarantee Scheme (GGS) was the first guarantee scheme introduced by CGC in 1973. This was followed by the Special Loan Scheme (SLS) introduced in 1981 to complement the GGS. Both the schemes were formulated along the principles adopted by the Credit Guarantee System in India, where the basic concept of the schemes is the sharing of credit risk with the lending banks in the ratio of 60 percent by CGC and 40 percent by the banks. Since the introduction of both schemes, more than 150,000 small borrowers with loans amounting up to RM2.8 billion were guaranteed.\textsuperscript{23}

However, there were some problems encountered in the implementation of both schemes, and the relationship between CGC and the banks had not been working as expected. Therefore, the Principal Guarantee Scheme (PGS) was implemented on 3 April 1989 to replace the two earlier schemes. The main objective of PGS is to assist the small scale enterprises that have no track records, no or inadequate collateral to qualify for bank credit at reasonable terms, but are badly in need of credit facilities in order to operate and grow.

\textsuperscript{21} Ibid., p. 52.

\textsuperscript{22} Ibid., pp. 45-47.

At end of 1993, the PGS was reorganised and liberalised. The New Principal Guarantee Scheme (NPGS) came into effect on 14 February, 1994. Since then, the role of CGC has been expanded to meet the financing needs of the SMIs, especially those engaged under MITI's "promoted activities or products" list. CGC also provides guarantee cover for loans extended to Bumiputera entrepreneurs by 11 participating banks under the New Entrepreneurs Fund (please refer to section 3.2.2 Bank Negara Malaysia), and loans granted to SMIs under the Integrated Lending Scheme which was introduced in January 1995.

Under the NPGS, Malaysian citizen operating a registered business with net assets or shareholders' funds not exceeding RM1 million or RM1.5 million for priority sector, and RM2.5 million for manufacturing sector are eligible for this facility as compared to the previous limit of RM500,000. The limit of guarantee has also been increased from RM500,000 to RM3 million or RM5 million for the priority sector. Table 3.7 shows statistics on banks lending under the CGC scheme.

Table 3.7 shows bank lending under the CGC scheme. In 1995, 7,935 loan applications valued at RM1,758.7 million were guaranteed by CGC. These represented an increase of 126.8 percent in terms of number of accounts approved over the previous year. Of the number of loan approved in 1995, 2,464 (31 percent) were for loans amounting to RM50,000 and below. Total guarantee cover issued during 1995 amounted to RM1,428.4 million, of which 27 percent (RM385.6 million) was granted to Bumiputera borrowers.

Moreover, starting from September 1994, the CGC cover has been extended to 40 licensed finance companies. For the six-month period which ended on 31 March 1995, the finance companies were required to extend loans with total NPGS guarantee cover of at least RM30 million, of which RM15 million had to be extended to the Bumiputera borrowers. However, as at compliance date of 31 March 1995, the overall performance of the finance companies in complying with the 1994 guideline on lending under the NPGS was below target. This could partly be attributed to the fact that it was the first time the finance companies had to promote the NPGS scheme as well as the general lack of awareness of the SMIs on the availability of the NPGS scheme at the finance companies.
Table 3.6: Bank Lending under the CGC Scheme

<table>
<thead>
<tr>
<th>Small scale industries</th>
<th>1994</th>
<th>1995</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM million</td>
<td></td>
<td>%</td>
</tr>
<tr>
<td>of which sub-sectors:-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food, Drinks and Tobacco</td>
<td>6.5</td>
<td>34.9</td>
<td>436.9</td>
</tr>
<tr>
<td>Timber products and furniture</td>
<td>12.8</td>
<td>60.9</td>
<td>375.8</td>
</tr>
<tr>
<td>Textiles and clothing</td>
<td>8.3</td>
<td>38.0</td>
<td>357.8</td>
</tr>
<tr>
<td>Building Materials</td>
<td>2.1</td>
<td>12.3</td>
<td>485.7</td>
</tr>
<tr>
<td>Printing and Publishing</td>
<td>7.0</td>
<td>19.0</td>
<td>171.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>94.4</strong></td>
<td><strong>409.2</strong></td>
<td><strong>335.5</strong></td>
</tr>
</tbody>
</table>

Note: Total guaranteed by CGC in 1994 amounted to RM551.4 million, and RM1,758.7 million in 1995
Source: BNM Annual Report 1995

3.3 MARKETING

Marketing is of crucial importance to SMIs. However, SMIs in Malaysia are facing various marketing problems. In view of this, the government has offered Malaysian manufacturers a number of support services to market their products. Ministry of International Trade and Industry (MITI) acts as a lead agency for market promotion, provides support services to SMIs and the manufacturing sector as a whole to market their products, for both domestic and export markets.

Certificate of Origin for Export under Generalised System of Preference (GSP)\textsuperscript{24}
This facility is provided to Malaysian manufacturers in getting preferential rate of duty when they export their products to 14 "preference-giving" countries. This is important for Malaysian SMIs where a number of them are facing the problem of incompetent international price level. Here, MITI provides the service of processing, endorsing and verification of Certificates of Origin, a requirement imposed by importing countries for export to qualify under this scheme.

\textsuperscript{24} Malaysian Industrial Development Authority (1995), op. cit., pp. 67.
Quota Allocations for Exports of Textile Products

Exporters of textile products need to seek advice from MITI to export their products. MITI regulates and issues export licences for items subject to quota imposed under the Multi-Fibre Arrangements by importing countries.

Vendor Development Programme (VDP)

VDP was started in 1988 with the main objective of developing Malaysian SMIs into reliable manufacturers and suppliers of industrial inputs, machinery and equipment for the large-scale industries or MNCs. 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. On 2 August, 1995, the implementation of VDP was taken over by the Ministry of Entrepreneurs Development. As at December 1995, there were 54 large companies and MNCs, 18 financial institutions and 79 vendors participating in this programme.

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/MNCs 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 is an increase in the number of companies registered, from 2763 companies in 1993, to 3,108 companies, of which 2,737 are SMIs in 1995.

The Umbrella Concept - Integrated Marketing Programme

This scheme was established in 1985 to assist Burniputra vendors in the furniture and food sub-sectors to market their products. This programme is spearheaded by two anchor companies, Besta Distributors Sdn Bhd (BESTA) for the food product producers and Guthrie Furniture Sdn Bhd (GFSB) for the furniture producers. Until

25 Ibid.
26 Ibid., p. 68. See also Ministry of Entrepreneur Development’s homepage, internet.
27 Ibid., pp. 68-69.
end of 1994, there are 155 SMI vendors operating under these two anchor companies, and their total sales amounted to RM97.67 million.

**Product Development and Market Segment Studies**

The main objective of this scheme is to provide SMIs with relevant information on potential products and processes that can be adopted for their business. A number of product and market segment studies have been carried out by MITI with the assistance of Japanese International Corporation Agency (JICA), Confederation of British Industries (CBI), International Trade Centre (ITC), Institutions of Higher Learning, and private sector management and industrial consultants.

**SMI Exposition**

The main objective of this programme is to assist SMIs to enter into new market in a more organised manner. 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.

**Malaysia External Trade Development Corporation (MATRADE)**

MATRADE was established in July 1992 and began operation in March 1993. Among the services organised and offered by MATRADE to Malaysian manufacturers are:

- Commercial intelligence on export markets
- Foreign trade enquiries on specific products
- Training programmes, services and workshops to upgrade marketing skills particularly SMIs
- Advisory services with regard to market access, pricing, packaging and shipping

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29 Ibid., p. 69.
30 Ibid., p. 69.
31 Ibid.
32 Ibid., pp. 69-70.
• Participation in international trade fairs, local exhibitions and displays and selling missions, incoming trade/buying missions.

3.4 INFRASTRUCTURE FACILITIES

SMIs need a sound infrastructure to develop their businesses. Therefore, both the public and private sectors have provided various infrastructure facilities to meet the demand of industries.

Free Zones (FZ) and Licensed Manufacturing Warehouses (LMW)

FZs and LMWs are specially designed for companies manufacturing or assembling products 80-100 percent for export, and import most of the raw materials and components. Twelve FZs have been established so far: Bayan Lepas, Prai, Prai Wharf, Batu Berendam, Tanjung Kling, Sungei Way, Ampang Hulu Kelang, Telok Panglima Garang, Johor Port Authority Industrial Land, Jelapang, Kinta and Muara Tabuan.

Industrial Land/Estate and Ready Built Factories

The SMI Infrastructure development programme was formulated to mitigate infrastructure problems faced by the SMIs such as the shortage of industrial land/estates, to enable affordable industrial sites for SMIs. These industrial sites are equipped with necessary common-user facilities for testing, marketing, waste disposal and also housing facilities for workers in order to attract SMIs to move into these designated areas. Moreover, SMIs are scattered and many operate in areas and premises not designated for industrial or manufacturing purposes, thus causing problems to the environment, the neighbourhood and also the local authorities.

In view of the above problems, under the Fifth 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 percent had been expanded, involving 10 projects for industrial sites of SMIs, covering 275.5 hectares and 1624 factory buildings (see Table 3.10). Besides this, MIEL also carries out its own industrial estates development projects and ready built factories for sale for lease. There are also other developers carry out industrial development projects to provide modern factory buildings and industrial lands to cater for the needs of SMIs.
### Table 3.7: SMI Industrial Sites Under MITI Programme

<table>
<thead>
<tr>
<th>Project Site</th>
<th>Area (Hect.)</th>
<th>Units of Factory Buildings</th>
<th>Projected Date of Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Muara Tabuan, Sarawak</td>
<td>3.2</td>
<td>16</td>
<td>May 94</td>
</tr>
<tr>
<td>Sg. Petani, Kedah</td>
<td>35.6</td>
<td>114</td>
<td>December 96</td>
</tr>
<tr>
<td>Bandar Sri Alam, Johor</td>
<td>41.7</td>
<td>185</td>
<td>December 97</td>
</tr>
<tr>
<td>Mukim Batu, Kuala Lumpur</td>
<td>22.5</td>
<td>207</td>
<td>July 96</td>
</tr>
<tr>
<td>Pedas, Negeri Sembilan</td>
<td>48.9</td>
<td>396</td>
<td>December 98</td>
</tr>
<tr>
<td>Teluk Kelong, Terengganu</td>
<td>20.2</td>
<td>116</td>
<td>January 98</td>
</tr>
<tr>
<td>Tanjong Gelang, Pahang</td>
<td>36.0</td>
<td>180</td>
<td>July 97</td>
</tr>
<tr>
<td>Masjid Tanah, Melaka</td>
<td>23.1</td>
<td>194</td>
<td>September 97</td>
</tr>
<tr>
<td>Jaya Gading, Pahang</td>
<td>3.2</td>
<td>18</td>
<td>December 96</td>
</tr>
<tr>
<td>Kuala Kampar, Perak</td>
<td>40.9</td>
<td>200</td>
<td>January 97</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>275.5</strong></td>
<td><strong>1624</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: MITI

### 3.5 TRAINING AND ADVISORY SERVICES

The growing need for Skilled labour in the manufacturing sector has led to an increase and expansion of vocational and technical institutes and polytechnics by both the public and private sectors. Moreover, the shortage of labour, especially skilled ones, has led the government established the Human Resources Development Fund (HRDF) to encourage manufacturing companies to provide training for their employees, at the same time to ensure the development of a skilled workforce.

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. All these agencies are Centre for Instructor and Advanced Skill Training (CIAST), MARA, Malaysian Entrepreneurial Development Centre (MEDEC), SIRIM, MARDI, Rubber Research Institute of Malaysia (RRIM), Palm Oil Research Institute of Malaysia (PORIM), Forest Research Institute of Malaysia (FRIM), and also Federation of Malaysian Manufacturers (FMM).

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 managerial personnel
and also skilled labour force to cater for the needs of the industrial sector and the economy as a whole. Some of these institutions are 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 Australian Executive Service Overseas Programmes (AESOP), British Executive Service Overseas (BESO), Canadian Executive Service Overseas (CESO), German Senior Expert Service (SES), Japan Overseas Development Corporation (JODC), Canadian Investment Adviser at MIDA, and French Investment Adviser at MIDA.

3.6 CONCLUSION

As discussed in Chapter 2, SMIs accounted for about 70 percent of the manufacturing sector. Hence, various industrial development policies have been set up to give special emphasis to SMIs are aimed at developing SMIs to be reliable manufacturers and suppliers for the large scale industries.

As for financial and credit facilities, they have to a certain extent help to upgrade SMIs. The ITAF scheme clearly was meant to enhance the development of SMIs to enable them to develop into key suppliers of components/inputs, and service provider for large industries or MNCs. However, utilisation of this fund have been slow. As at 31 December 1995, only RM26.63 million (53.25 percent) of the initial RM50 million have been utilised. Moreover, most of this fund benefited SMIs located in the urban areas. Of 908 applications, Selangor accounted for 384 applications (42.3 percent), followed by Kuala Lumpur (184), Johor (80), Penang (47), Perak (44) and Sarawak (28). However, the benefits of this programme could only be seen in the long term as more SMIs become aware of it.

According to current Entrepreneur Development Minister Datuk Mustapa Mohamed, many funds launched by the government were not very successful because the borrowers were irresponsible in servicing the loans. There were also
complaints by entrepreneurs that the Credit Guarantee Corporation was not doing enough to help entrepreneurs. However, according to him again, the most successful fund managed by the CGC was the RM800 million Entrepreneur Rehabilitation Fund which saved many Bumiputera businessmen from bankruptcy.\textsuperscript{32}

As for other financial and credit facilities, although they have also been able to help SMIs, most of the funds provided for small scale industries have not been fully utilised. Hence, most of the loans have instead benefited the medium scale industries which have relatively higher ability to finance their businesses. Many SMIs still do not have adequate access to financial and credit facilities. This is supported by Bank Negara's survey conducted in 1995, which showed only six percent of the SMIs sought funding from the banks.\textsuperscript{33}

Marketing promotion programmes are spearhead by Vendor Development Programme, aimed at creating Malaysian SMIs to become reliable manufacturers and suppliers of industrial inputs, machinery and equipment to large scale industries and MNCs. This programme also aims at creating linkages between the MNCs and SMIs. As at December 1995, there were 54 large companies and MNCs, 18 financial institutions and 79 vendors participating in this programme. The Sub-contract Exchange Scheme is another marketing programme aimed at providing computer matchmaking database which enables potential SMI vendors to cater to the needs of large companies. Although it has shown an increase in the number of companies registered, the number is still small. In Malaysia, only about 20 percent of the SMIs supply parts to MNCs and large companies as compared to about 60 percent in Japan.

Besides various market promotion programmes, SMIs need to produce good quality products in order to remain competitive on both the domestic and export markets. Hence, various training programmes and advisory services have been set up by both the private and public sector for this purpose as discussed earlier. For example, to meet with the requirement of the SMIs, SIRIM have introduced a number of programmes aimed at product development such as the Industrial Incubator, Quality Enhancement Procedures (APK), and Regional Quality

\textsuperscript{32} Business Times, November 1, 1996, p. 2.
Programmes (PWK). These provide SMIs with the necessary inputs that would prescribe certain standards and quality for their products. Moreover, SIRIM has also achieved commendable success by securing a RM2 million research contract from the private sector. Besides that, various training institutions as discussed earlier have also provided a number of skilled manpower for industrial needs.

Although training programmes and advisory services stated earlier do provide valuable help to SMIs, they still could not provide adequate supply of skilled manpower to meet the industrial demand. As for R&D programmes, there are still expectations from the industry towards public sector R&D as follows:

- To further upgrade and improve the testing and technical consultancy services, leading to the strengthening of confidence building and rapport with the industry and consequently, industry-institute collaboration in contract research projects.
- To be equipped with up-to date machinery and thereby, provide R&D "training facilities" by allowing industries, especially SMIs, to make use of these machinery for their company training, in return for lectures by trained technicians to university students or practical training at their factories. This would also further reinforce confidence of the industry in public research institutions.
- To seek out, identify and carry out R&D activity in technologies of relevance to the industry. This is especially important for locally-owned SMIs which do not have the capacity nor capability to invest or conduct their own R&D.  

Hence, it is important for the government as well as public research institutes to expand greater effort in providing the necessary support and guidance to the industry, particularly the locally-owned companies, before a more equitable "partnership" could be achieved in industry-institution R&D collaboration.

It can be concluded that those programmes and facilities discussed above have to a certain extend been able to upgrade the performance of SMIs. However, there are still some schemes that have not achieved encouraging results. This can be attributed to the lack of awareness among SMIs on various programmes and

33 *The Star*, December 16, 1996, p. 3.
34 *The Star*, October 21, 1996.
35 Ibid.
facilities offered. 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.