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15450

Distr.
LIMITED
ID/WG.461/4
17 March 1986
ENGLISH

United Nations Industrial Development Organization

Workshop on Technological Services
Delivery System (TSDS)

Vienna, Austria, 10-13 December 1985

TECHNOLOGICAL SERVICES DELIVERY SYSTEM (TSDS)

THE MALAYSIAN EXPERIENCE *

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1. Introduction

1.1. In recent years, small scale enterprises (SSE)¹ have come to be viewed as important contributors to the economic development process. The availability of an infrastructure, to foster their growth and improve their operating efficiency, has become a major public policy objective in both developing and developed countries.

1.2. As most countries are well on their way towards establishing the basic institutional framework to facilitate the initiation of SSEs, attention is increasingly being shifted towards finding ways to improve their operating efficiency and, thus, ensure their long-term viability. In an increasingly competitive world marketplace, an important way of insuring this viability is through continued access to, and adoption of technology² appropriate to the changing market environment.

1.3. Generally most technological development activities in developing countries occur outside the enterprises where they are most likely to be used. Furthermore, SSEs have limited resources to commit to research and development. There is, therefore, a continuing need to ensure that SSEs have access to technological advances taking place in

1 The SSEs will be identified in terms of the number of employees. Enterprises under 50 employees will be categorized as small and those with 50 to 199 employees will be categorized as medium.

2 For the purposes of this paper, the term 'technology' will include not only the machinery and industrial process relevant to an industrial sector but also all associated forms of organization and management.

research institutes³ and other external environments. Access to technological advances is only one part of the problem which SSE has in maintaining technological competitiveness. Even when accessible, many SSEs are incapable of adopting particular technologies due to constraints associated with existing physical facilities, financing the acquisition of the technology itself and managing the enterprises incorporating the new technology.

2. Small Enterprise in the Malaysian Economy

- 2.1. Small enterprise in Malaysia is defined as an enterprise with a shareholder's fund of less than M\$250,000 and employing below 25 people. However other definitions of small enterprise prevail and are currently being used by various institutions, such as Bank Negara, etc.
- 2.2. Data on small scale enterprise has been lacking in the past. In the absence of comprehensive statistical profile, planning and programming work for SSE becomes difficult. For this reason, mainly, there was little that could be done in the past to come out with effective and efficient measures in the form of programme and implementation. Inability to identify proper target groups among the existing or potential entrepreneurs, has resulted in the over-lapping of assistance given by various agencies to the same group of people/enterprises.
- 2.3. By 1984 there were not less than 14 Ministries and 35 government agencies which are involved in providing an assortment of entrepreneurial development, management training and technical assistance programmes to SSEs. However, virtually all of those agencies are also concerned with other programmes in

3 The term "Research Institutes" will include not only formally structured industrial research centres but also agencies, organizations and government departments which have ongoing involvements with the SSEs affecting some form of technology dissemination.

addition to SSE development. The types of technical assistance provided by the various government agencies are shown in the table below:-

**TYPES OF ASSISTANCE PROVIDED BY MAJOR GOVERNMENT,
QUASI GOVERNMENT AND GOVERNMENT SPONSERED
ORGANIZATIONS TO SMALL-SCALE ENTERPRISES**

Organization	Financial assistance	Group training	Advisory consultancy	Studies		Technological assistance
				Project-Sectoral	Feasibility-market Premises Facilities	
BPMB	xxx	xx	xx	xx		
CGC	xxx					
MARA	xxx	xxx	xxx	xx	x	
MARDI		xxx	xxx	xx	x	xx
MCYS	x	xxx	xxx	x		
MEDEC			x			
MIDA				xx		
MIDP	xxx	xx	x	xx	x	
MNRD		xx	xxx			x
MTISED			xxx	xx	xxx	
NPC		xxx	xx	xx		
PE		x	xxx	x		
SIRIM				x		xxx
PMD	xx		xx	xx		
UDA					xxx	

x = minor factor, xx = factor, xxx = major factor

Note: See Annex A for details of abbreviations used in the table

2.4. Very little formal TA programmes have been organized by private (nongovernment) organization for SSEs. The chambers of commerce associations, and trade groups for the most part serve large businesses and industry. In the real world SSEs often interact with LSEs through commercial relations. Many of these LSEs have fairly intimate knowledge of SSE problems and as a matter of enlightened self-interest they do transfer some TA through commercial interaction.

It is important to note that the government requirement for commercial banks to make 12% of their loans to SSEs has created additional effort within the private sector to package and service loans. However, that effort is not being handled by qualified personnel and is largely restricted to the necessities of lending practice; it cannot be categorized as a significant, broadly based TA effort, and is in urgent need of strengthening and reinforcement.

3. General Characteristics and Problems of SSE

- 3.1. Generally SSE in Malaysia are faced with a number of problems, of which the inability to raise equity capital constitutes the most important factor. Other problems include limited access to institutional credit, inability to attract and retain skilled labours, limited access to appropriate technology, difficulty to acquire business premises, inadequate market information, inadequate exposure to modern business method and inability to meet government regulations. Trained workers is limited to the bare minimum. All these are important considerations. This would almost invariably place the entrepreneur in a vicious circle in that SSE is continuously unable to command skilled labours, thus the level of production remain correspondingly at the low level.
- 3.2. SSE establishments in general are small in size and utilize mostly traditional technology. Their product lines are also limited and market demand is often stagnant or sluggish and they generate very little surplus for reinvestment or expansion of activities. Consequently, their access to institutional financial assistance is also restricted. This very structure of the SSE has caused the SSE sector to lag behind, relative to the development of other sectors.
- 3.3. Development linkages between SSE and the modern sectors are few, at best. Moreover, the system of government

financial and technical support has not really helped the growth of SSE as the larger firms generally have better access to these facilities.

4. Factors Affecting Growth of SSE

- 4.1. Constraints to SSE development. Some of the constraints to SSE development and growth are inherent in their small size, while others can be alleviated. The constraints can be grouped into three principal categories: government policies which create unfavorable broad macro framework, inadequate managerial and technological/engineering knowledge, which results in inefficient operations and comparative cost disadvantages, and the inability to raise/attract the needed capital, which inhibits new entrants into commerce and industry and limits the expansion of existing entrepreneurs.
- 4.2. Being cognizant of the above-mentioned concerns, the Government is adopting an integrated and balanced approach to support the development and growth of SSEs. In respect of the macro framework, the aim of the Government is to provide a neutral incentive system. Towards this end, the Industrial Policy Studies Project is expected to provide detailed recommendations to eliminate the present policy biases towards capital as against labor and in favor of large versus small firms. In respect of the inadequate managerial and technological/engineering knowledge, the Government has, for quite some time, provided various kinds of training and other facilities. Unfortunately, the programs initiated were without any overall coherent plan and their development has been uncoordinated. The result is that the agencies are weak and their programs cost ineffective. As analyzed in more detail under the Technical Assistance Component, the project aims at strengthening key technical assistance agencies and their programs, and also enhance coordination. To try to alleviate the third principal constraint, i.e., inability of SSEs to raise/attract the needed capital, the Government has resorted to mandatory credit allocation schemes at subsidized rates.

4.3. In so far as the Government is concerned a number of factors have been associated with the unsatisfactory performance by government agencies. The factors are:-

- a) Programmes lack a common framework in objective and strategy setting, detailed planning and operational tools.
- b) Most programmes are not comprehensive in terms of providing the necessary support ingredients in all stages of the project life cycle i.e. project planning, implementation and management.
- c) Failure to coordinate or link the crucial technical support assistance and macro policy incentives with financial assistance.
- d) Inadequate government policies and preferences to provide a conducive environment for SSE development.
- e) There is no specific sub-sectoral industry focus thereby diluting and dispersing administrative and financial resources.

4.4. In response to the need of a coordinated approach to service the SSE sector the Small Enterprise Division was set up in the Ministry of Trade and Industry. The urgency for coordinating the programmes of numerous government agencies received priority attention. The Coordinating Council for the Development of Small Scale Enterprise was launched and entrusted with the important role.

5. Objectives of SSE

5.1. The development of small scale enterprises has been an integral part of the national development planning. The principal theme in Malaysia's development planning, consistent with the New Economic Policy is embodied in the government socio-economic programmes. Eradication of poverty and restructuring of society constitute the main

pillars of the socio-economic objectives, in order to create a prosperous and a just society. The attainment of these objectives is of paramount importance in a multiracial nation like Malaysia. Therefore, there is a need to formulate a policy and general direction for the small sector in line with the overall socio-economic programme of the country.

5.2. The overall strategies for the development of SSE has been the expansion and diversification of the manufacturing base. The tremendous potential which small scale sector has to offer in contributing towards upgrading of the living standard of the Malaysians in general and, increasing productive employment in particular has resulted in a more vigorous attempt to develop small scale enterprise in the country. In fact government is all geared towards creating a more favourable climate to stimulate the growth and development of this sector.

5.3. Towards this and Malaysian government is actively pursuing various programmes in the field of entrepreneurial development, financial assistance and technical assistance and currently examining existing constraints encountered by agencies which are involved in the delivery system so that the development of this sector can be further enhanced.

5.4. Government is aware of the potential that can be contributed by this sector to the economy. Hence, the following are the areas of contribution that this sector is expected to make:-

- a) Developing local entrepreneurship;
- b) Increasing productive employment;
- c) Increasing income for the largest and poorest segment of the population;
- d) Achieving regional dispersion of business and industrial activities; and
- e) Securing better use of non-urban and rural resources wherever economically possible.

5.5. The correlation between the development of small scale sector and the attainment of the government socio-economic objectives as outlined in the previous paragraphs was confirmed by a study carried out by the World Bank in 1981. This study was issued in mid 1982 and its conclusions indicate that certain categories of SSE in Malaysia will be useful vehicles in helping Malaysia attain its broad socio-economic objectives as underlined in its development plans.

6. Strategies For Overcoming the Problems

6.1. Realizing the need to meet the socio-economic objective and as Malaysia moves closer to being classified as a newly industrialized country (NIC), the pressure on its SSE's to become technologically competitive will increase. This is reflected in the Reviewed Fourth Malaysia Plan which has designated four manufacturing sectors where SSE involvement and performance are to received particular attention:-

- a) food processing;
- b) light engineering;
- c) construction material; and
- d) wood, rattan and bamboo products.

Towards this end the Government of Malaysia together with World Bank Financing has undertaken a project with an integrated/total package approach.

7. The Project

7.1. The main objective of the project is to develop Bumiputera SSEs in Malaysia. To give Bumiputera enterprises a more significant role has a very high priority for the Government as a means to gradually reduce the income and wealth disparities among the various ethnic groups. This was at the core of the New Economic Policy enunciated in 1971 and which has since guided the overall policies for economic

growth. More specifically, the objectives of the project are to: (a) expand and rationalize the technical assistance programs for the SSEs, and strengthen the institutions providing those programs; (b) increase the supply of institutional credit, particularly longer term credit which can be tapped by potential Bumiputera borrowers and undertake a major institution-building effort for BPMB, the principal institution providing financial assistance to the target group, and expand the SSE program of MIDF; and (c) improve the coordination of financial and technical services to Bumiputera entrepreneurs so that they receive, in an integrated fashion, the full range of services they need to modernize their enterprises.

7.2. The project supports over the next three years, of a long-term program to develop SSEs. It will have two broad components: technical assistance (TA) and credit. The TA component aims to overcome the qualitative deficiencies in the existing programs and expand them selectively. Under the credit component, some 1,200 loans will be made by BPMB and MIDF to individual borrowers for fixed assets and permanent working capital. Mechanisms are also built into the project design to improve the integration of TA and credit services, and to set up, for the first time, a comprehensive system for monitoring and evaluation of TA.

7.3. The project's primary thrust will be on qualitative improvement of the existing programs through program rationalization and modifications, improvements in physical facilities (laboratory and workshop equipment, buildings), training of staff and fellowships (mostly foreign) and recruitment of advisors/experts (mostly expatriate, some for as long as two years). Emphasis will also be on improvement of coordination mechanisms and on monitoring and evaluation of all programs on continuing basis. There will also be an expansion of programs to reach a larger number of beneficiaries on a wide geographic basis.

8. Participating Agencies

8.1. In addition to the Small Enterprise Division (SED) of the Ministry of Trade and Industry, which is operationally responsible for all SSE development programs in the country, five major agencies will be participating in the project. The National Productivity Center (NPC) and Malaysian Entrepreneurial Development Center (MEDEC) will provide managerial assistance to existing and new entrepreneurs respectively. The Food Technology Division (FTD) of Malaysian Agricultural Research and Development Institute, the Standards and Industrial Research Institute of Malaysia (SIRIM) and the Forest Research Institute (FRI) will provide technical/engineering assistance to specific sectors. These are the principal institutions in the country offering technical assistance to SSEs and account for the bulk of the TA programs. Of the 5 TA agencies, two will offer managerial assistance, one of which will be exclusively for new and potential entrepreneurs; the other three offer sector-specific technical assistance. Any client under the program will consequently deal with two TA agencies at most.

9. Small Enterprise Division

9.1. Effective coordination of all SSE programs is of utmost importance. Overall policy and program planning is done through CCDSE. However, actual program coordination at the agency, as well as at the client level, is not very effective at present. As a long-term measure, the SED has proposed, and the Bank has supported, the creation of an autonomous Corporation into which would be merged all the existing agencies providing technical assistance to SSEs. However, the creation of such an overall autonomous body is not practical in the short run because of the need to develop a consensus among several ministries, and for subsequent detailed planning leading to major legislative action. Therefore, for this project, the participating agencies, including the two financial institutions, will form committees and hold periodic

meetings to discuss the status of the individual clients they are serving and to coordinate their work with those clients. The coordination mechanism for this Small Enterprise Development programme is as in Annexe B.

10. National Productivity Centre

10.1. The National Productivity Centre (NPC) is the principal institution in the country to provide entrepreneurship, management training and consultancy to SSEs. It has given up providing assistance to new or potential entrepreneurs to avoid duplication of functions with the Malaysian Entrepreneurial Development Centre and now concentrates on providing assistance to established SSEs. It is under the direction of a Council which is appointed by the Minister of Trade and Industry. The Bumiputera Service Section, which will be the focal point for the project, currently has a total staff of 58; it will be increased to 79 in the next two years to meet the project demands. The budgetary process to add the additional staff has already started.

10.2. Under the proposed project, NPC will assist BPMB and MIDF by providing training for some of their existing and new clients. In addition, under the coordination mechanism being set up, NPC will also be closely in touch with the technological agencies that are involved in the proposed project and provide management training, advisory and counseling services to the SSE clients of those agencies. These agencies will, in turn, provide NPC with technological information and support for its managerial programs.

10.3. NPC has also been holding "how to" one-day workshops on such subjects as: inventory control; quality control purchasing; cash flow management; cost analysis; record keeping; pricing; and marketing. The workshop programs will account for about

20% to 25% of the total NPC training work during future years. These workshops enable small business owners and employees who cannot leave their businesses for more than one day to benefit from NPC training.

10.4. NPC's past concentration has been on training rather than on-site counseling. It has recognized that to benefit fully from classroom training, clients need to be visited at their place of business. It has therefore planned a substantial expansion of extension work and, in the future, more trainees will be followed up by NPC extension officers. This program of field visits has already started. It is expected that about 2,500 trainees will be visited in about 400 enterprises in 1985, increasing to about 3,000 trainees in about 775 enterprises in 1987 and thereafter. - Between 1973 and 1982, NPC had provided training to some 21,000 persons; in 1982 alone some 5,000 persons were trained. However, the past and future figures are not comparable because, in the past, the emphasis was on training of very small and new entrepreneurs.

11. The Malaysian Entrepreneurial Development Centre (MEDEC)

11.1. The Malaysian Entrepreneurial Development Centre (MEDEC) is the second agency which will provide managerially-oriented TA programs. It is part of the MARA Institute of Technology (Institute Teknologi MARA or ITM), of the Ministry of Education. MEDEC is, at present, relatively small, with a total staff of 14, including 7 full time lecturers. ITM has agreed to provide MEDEC with 10 new lecturers/trainers and 1 new support staff as of January 1, 1985 to meet the project's requirements. This additional manpower has been included in the 1985 budget request of the Ministry of Education.

11.2. MEDEC's role under the project will be to train potential entrepreneurs to create new small-scale businesses. MEDEC's record in this area has been very good. During the late 1970's

and early 1980's, about 40% of the potential entrepreneurs that attended MEDEC's Entrepreneur Development Program (EDP) established businesses and few failed. MEDEC attributes this high success rate to its rigorous selection and to continued association with the trainees after they have completed the formal programs. MEDEC's work will focus on its entrepreneurial development program which includes studies in motivation, management skill, project selection, feasibility studies, project preparation, financing, and company formation. It also provides for field follow-up and short refresher seminars at the Shah Alam campus for graduates of EDP programs.

12. The Food Technology Division (FTD) of MARDI

12.1. The Food Technology Division (FTD) of MARDI has been included in the project because it is the principal organization in Malaysia engaged in developing the food processing industry. Its present staff is 285, organized into five sections. FTD has identified about 700 small-scale food processors which are well suited for development into firms which can compete in the domestic and export markets. Most of these 700 SSEs are quite ignorant of equipment selection, plant layout, food processing techniques, handling procedures, packaging methods which will give adequate shelf life, and marketing techniques. They also need more instruction in raw material purchasing and production management techniques. Under the proposed project, FTD will be equipped to carry out more training and extension work to bring the level of expertise of these small food processors up to a point where they can compete more effectively. In addition, its program will be better integrated with the programs of other organizations to insure that all of its clients needs are well met; and those organizations will call on FTD when they need technological help with their small food processing clients.

- 12.2. FTD will also continue to work with other organizations that will provide aid in marketing the products of small food processors, including Pemas Fdar (PE), the largest food wholesaler in Malaysia, with a large network of retailers. Although the marketing organizations will not be funded under the project, the small, independent retailers and wholesalers with whom these organizations work will be eligible for both financial and technical assistance under the project.
- 12.3. The proposed project will enable FTD to expand and improve the quality of its TA program for small-scale food processors. Suitable buildings and equipment for SSE TA work will be provided at the four FTD regional locations to provide complete geographic coverage. Each center will be provided with quality control and testing equipment for training and problem solving. The FTD headquarters at Serdang will also have well equipped central processing and training facilities for formal, major training programs, additional research facilities, and a workshop for the fabrication of new designs of processing equipment suitable for small-scale food processing plants. FTD's on-site advisory and consulting work will be expanded significantly under the project and an appropriate number of vehicles has been included for each center to enable the extension officers to cover the states assigned to them. FTD would also receive funds for two expatriate advisors (one each in mechanical engineering and food engineering) for 12 months each, and a relatively small amount for overseas training of its staff.

13. The Forest Research Institute of Malaysia (FRIM)

- 13.1. The Forest Research Institute of Malaysia (FRIM) of the Forestry Department (under the Ministry of Primary Industry) had 541 employees in 1982. Plans are being made for FRIM to become an independent statutory body and to intensify its research activities and to develop a greater outreach to provide information and advice to both the Government and commercial enterprises.

- 13.2. At present, there are no satisfactory arrangements to provide technical assistance to SSEs engaged in forest-based product manufacturing. FRI was selected to participate in the proposed project because it is the most knowledgeable and best suited organization in Malaysia to provide technologically-oriented training and consultancy in wood, bamboo, and rattan products. Although its research in the development, management, and utilization of forest products has provided the FRI with extensive knowledge in wood and woodworking, it has done little in the past for SSEs other than to provide individual advisory service for those who have made inquiries.
- 13.3. Since FRI decided very recently to launch this new effort, its fullscale operation is not expected to be underway until the second half of 1985. FRI plans to offer 15 courses to 92 trainees in eight subjects in 1985-86 and double this in 1987. FRI programs will provide SSEs with both design and manufacturing training. The wood products training will include several basic courses in the kiln drying, turning, moulding, and preserving of wood. These foundation courses will enable entrepreneurs to manufacture a variety of wood products, such as building components, industrial products, and commercial and household furniture. Separate six-week courses will be offered in rattan and bamboo-based products.
- 13.4. The training programs will start at FRI headquarters in Selangor where FRI has available extensive research and experimental processing facilities, a library, research files and a well trained professional staff. A hostel facility adjacent to the Institute's compound can be used to house trainees. FRI is willing to develop training facilities at other locations as needed. Separate training workshops will be constructed for the wood, bamboo, and rattan courses, and made available on a fee basis for certain production operations by SSEs that have not yet been able to justify the purchase of certain pieces of equipment. FRI will also establish a wholesale depot for certain desirable, lesser known woods which are not commonly available.

13.5. FRI will continue to provide individual advisory service to entrepreneurs who visit FRI headquarters; their number is expected to multiply as its SSE program becomes well known. It also expects to provide extension services to BPMB and MIDF clients and to NPC and MEDEC management program trainees throughout the country. FRI consultants will complement the work of these agencies by providing technological support in design, plant layout, equipment selection, processing techniques, and problem solving for SSE entrepreneurs in the wood, bamboo, and rattan manufacturing sectors.

14. Standards and Industrial Research Institute of Malaysia (SIRIM)

14.1. Standards and Industrial Research Institute of Malaysia (SIRIM) is responsible for establishing industrial standards in Malaysia and for undertaking various kinds of industrial research. It also assists industry directly by providing TA in the light engineering, metalworking, plastic and construction material subsectors. It is administered by a Council appointed by the Minister of Science, Technology, and Environment. In addition to its headquarters in Selangor, it has branches in Trengganu and Johore. SIRIM has a staff of about 200 engineers, scientists and economists. The Industrial Extension Unit (IEU), within the Division of Consultancy and Technology Transfer, will be the focus of the proposed project as it is this unit primarily concerned with small-scale industry. The IEU provides technologically-oriented consultancy and extension services. It includes problem solving, upgrading production processes, improving plant layout, raw materials selection, quality control, the design and fabrication of equipment and anti-pollution measures. SIRIM receives many referrals for these services from other agencies, such as NPC, MEDEC, BPMB and MIDF. Demonstration projects are geared to introduce new technology to SSI; and SIRIM-designed, special machinery is displayed.

14.2. Under the proposed project, SIRIM will provide technologically-oriented training and consulting in the light engineering, construction material, and plastics subsectors. Although work with SSIs has been a minor part of SIRIM's overall work, it has the potential to make very large contribution to SSI. By developing a more meaningful training and consultancy program for small industry within SIRIM, some of the very considerable fund of knowledge which has been developed through its extensive research facilities and workshops can be provided to SSIs.

15. Credit Component

- 15.1. Under the credit component of the proposed project, medium and long-term loans will be made by BPMB and MIDF to individual Bumiputra SSEs for fixed assets and for permanent working capital. The average loan size is expected to be about M\$170,000 and M\$200,000 for BPMB and MIDF respectively. The maximum size of a subloan would be M\$750,000. An estimated 1,100-1,200 subloans will be made under the project over a period of up to three years.
- 15.2. BPMB and MIDF were selected because they are the major existing specialized development finance institutions with long experience in term lending to SSEs and close relationship with the extension service institutions. BPMB was established by the Government for the sole purpose of providing financial assistance to Bumiputra enterprises. MIDF is a predominantly private-owned and managed development bank and was the first institution of its kind in the country when it was set up in 1960. As part of its development role, it established a Bumiputra Division in 1978, which will be the focal point for the proposed project. MIDF's present Bumiputra loan portfolio is relatively small (less than 20%); it is expected that, as a result of the project, MIDF's role in providing assistance to the Bumiputras will be significantly enhanced.

15.3. Because of BPMB's pivotal role in providing financial assistance to small and medium scale Bumiputra enterprises, a major institution-building program is being undertaken under this project to enhance its long-term institutional performance.

16. Bank Pembangunan Malaysia Berhad (BPMB)

16.1. Nature and Role. BPMB was established in 1974 as one of the special institutional vehicles to help redress the serious economic imbalances between Bumiputras and other ethnic groups, which is the core of the NEP. The Government determined that in the long run, greater Bumiputra participation in business and industry was essential, and BPMB was expected to play a critical role in achieving this objective. To develop, increase and accelerate the active participation of Bumiputra entrepreneurs in the industrial and business sector of the economy was, therefore, made BPMB's principal objective. This mandate called for BPMB to provide services beyond the scope of conventional development banks, and BPMB has been encouraged in this endeavor by the Government. Promotional orientation is essential. Its operations are by their nature costly. However, to ensure its financial health, the Government has provided BPMB with the necessary resources at highly subsidized interest rates. This assured supply of subsidized funding has had an important, perhaps inevitable adverse effect: BPMB has no particular pressure to contain cost ineffective programs and improve operational efficiencies. In view of the current budget constraints, however, the Government is no longer able to meet all the funding requirements, and BPMB is expected from now on to raise part of its total resource requirements in the capital market at market rates. This is bound to increase BPMB's overall resource costs. BPMB has, consequently, reached a period of transition, where it has to reposition itself to ensure long-term financial viability without abandoning its basic objective. The World Bank will not only provide a new source of funding to help BPMB begin to rely less heavily on highly constrained budgetary resources but will also provide institutional support during BPMB's transition phase towards becoming a more commercially-oriented financial institution.

16.2. Action Program and Technical Assistance for BPMB. In the past, BPMB was able to secure all its resources at highly subsidized budget allocations from the government. The emphasis was on expending functions and adding new activities, and there was no pressure to contain costs. In the future, however, BPMB will have to tap the capital market which will inevitably result in raising resource costs. This, in conjunction with relatively high administrative expenses, large number of loans in arrears, and a poor collection performance has forced BPMB to rethink its approach. In the context of the preparation of the proposed project, the Bank helped BPMB evolve a strategy, the full text of the Statement of Operational Strategies, approved by BPMB's Board, which, inter alia, foresees:

(i) an increase in BPMB's lending rates; (ii) a review of its more subsidized programs aimed at containing costs and implying a redeployment of increasingly scarce and costly resources; and (iii) an action program which deals with BPMB's organizational weaknesses and inefficiencies.

17. The Malaysian Industrial Development Finance Berhad (MIDF)

17.1. Nature and Role

MIDF was established in 1960 as the country's first development bank to promote the growth of Malaysia's then nascent manufacturing sector. In conjunction with a capital increase (from M\$10 million to M\$25 million), MIDF was restructured in 1963 and the majority of its shares, initially held by foreign investors, were transferred into Malaysian hands with the Government together with the central bank accounting for 20% of the total shareholding. This capital increase (including an investment by IFC), an interest-free government loan (M\$37.5 million) and a World Bank loan (US\$8.0 million in 1963) provided MIDF with the necessary resources for a faster growth performance. MIDF has committed, since its inception, some 2,700 loans amounting to M\$1,20 billion for all major subsectors in manufacturing which resulted in a fixed capital formation of almost M\$4 billion and the creation of some 130,000 new jobs.

In 1964, MIDF established the Industrial Estate Sendirian Bhd. (MIEL), a wholly-owned subsidiary company, for the construction, sale and lease of modern factory buildings, and, in 1971, established the MIDF Industrial Consultants Sendirian Bhd. (MIDFIC), to provide management consultancy services. In 1971, MIDF also pioneered merchant banking in the country by establishing the Malaysian International Merchant Bankers Bhd., followed by the formation of the Arab-Malaysian Development Bank in 1975, the shares in which were sold in 1983. Considerable emphasis was put upon the development of Bumiputra enterprises when the NEP was enunciated in 1971 and, in 1978, MIDF established a special Bumiputra Development Department (BDD).

MIDF is a conservative institution financing small, medium and large Bumiputra and non-Bumiputra projects in the private sector. It has decided as a matter of policy to finance projects in the manufacturing sector only. The emphasis is not on rapid growth and increasing market share but on financial health and maintaining its character as a sound development bank, financing good projects in the manufacturing sector. The result is a relatively small institution in the financial system but with a sound portfolio and a reputation in the country for professionalism and competence.

17.2 MIDF'S Operations

MIDF provides project lending for the purchase of land, buildings and machinery and other lending facilities including leasing for the acquisition of machinery. In addition to this, Bumiputra projects are also eligible for working capital financing, equity financing in conjunction with loan financing and factory mortgage financing (purchase of factory buildings without machinery). Since leasing has only been introduced in FY85, term lending constitutes MIDF's main activity.

18. Other programme

A variety of other programmes have also been identified for inclusion in the overall strategy development of SME sector in Malaysia. Some of these programmes are designed to fulfill the void in the three main components of support system namely financial and technical assistance and policy and infrastructure support system. The programmes will complement the integrated approach which has been outlined in detail in the foregoing paragraphs for the systematic development of SME. In fact all the programmes will form a parcel of proposals of how to upgrade the SME consistent with the objective of realizing the role of this sector in the context of economic development in Malaysia.

(i) Development of Industrial Parks

Development of industrial parks is receiving serious attention. In line with the integrated approach, two areas have already been developed with emphasis on common facilities concept. Pilot project for food processors was launched in Kelantan, and for furniture (wooden) in Kedah. Two more industrial estates for SSEs are under the stage of construction and both are in Pahang. A big piece of land has been earmarked in Kuala Lumpur to be developed into an industrial park for small enterprises also.

(ii) Technology and Resources Centre

Technology and Resources Centre which serves as a reference on all aspects of technological requirement of SSE was also set up in Kuala Lumpur in 1983. Besides exhibiting the latest machinery and innovation, audio visual representation is also part and parcel of its programme.

(iii) Subcontracting

Government is also seriously considering measures to promote subcontracting between SSE, medium scale and large scale enterprises. Efforts to provide necessary linkages between them have so far produced very insignificant results. An expert

from UNIDO was sent to Malaysia to carry out a survey on subcontracting in this country. He had recommended a few measures to be considered by government for the development of subcontracting in Malaysia. The most pertinent recommendation is the establishment of Subcontracting Exchange.

(iv) Government Procurement

Government procurement is another area which is receiving serious attention. Since SSE's ability to compete in the open market is limited due to its structural constraints, it is felt that the government sector will provide better chances for SSE to market their products. This is especially true for the new entrepreneurs since this opportunity will give them enough breathing space before they attempt to channel their products into the open market.

(v) Integrated Marketing Programme

The Ministry of Trade and Industry has also implemented the intergraded marketing programme for small scale enterprises in collaboration with Pernas Edar Sdn. Bhd. Under this programme Pernas Edar is given the responsibility of marketing the products of small scale enterprises. As a beginning, 11 food products have been chosen for implementation under this programme. The small scale enterprises will be given assistance in upgrading the quality of their products, acquisition of raw material, promotion of products, training etc.

(vi) Interfirm Comparison

Another programme which is currently being undertaken by the Ministry is the Interfirm Comparison programme. This is done in collaboration with National Productivity Centre and Universiti Pertanian. The objective of this programme is to make comparisons on performances of companies in the same industry with the hope that the unsuccessful companies will learn from the experiences of the successful companies.

(vii) Consultancy Services

Consultancy services programme is also being planned by the Ministry. This programme has the objective of assisting the small scale entrepreneurs in overcoming problems faced by them in the course of operating their enterprises. Experts from various fields like accounting, marketing, factory layout, quality control etc. will be sent to the factories to give on-the-spot advice to the entrepreneurs. The experts are yet to be identified but they will comprise mostly from retired businessmen, government servants, university lecturers etc.

(viii) Reserved Items

Another important role which the Ministry plays to develop the small scale enterprises (SSEs) is in terms of protecting the interest of the SSEs. For example the Ministry has reserved 46 products to be produced only by the SSEs. Under this arrangement manufacturing licences will not be issued to big companies unless they are meant for export or its is an expansion of the production of the same product in the same premise or area.

(ix) Nursery Factory Schemes

Bank Pembangunan Malaysia Berhad (BPMB) through this scheme makes available clusters of factory units for SSEs at subsidized rates and venture capital financing.

19. Future Strategies

In retrospect, problems of co-ordination have been areas of great concern to the government as well as the private sector alike. Enormous duplication in terms of functions and target group among agencies has not only resulted in wastage but to a certain extent had created confusion. Numerous agencies which have to be visited by an entrepreneur for financial, technical and advisory services assistance not only meant delaying his project unnecessarily but

offer, proved to be costly, something which small scale entrepreneurs can illafford.

The Ministry of Trade and Industry (MTI) is thinking very seriously a solution to this problem. A corporation or an Authority exclusively for the development of SSE is being looked into especially from the aspect of feasibility and its role vis-a-vis existing agencies.

20. Conclusion

The SMEs are handicapped in almost every factor of production especially their technical knowledge of running their enterprises and credit facilities that are available. The strategy that is taken by the Malaysian Government through the integrated approach by solving simultaneously the financial, managerial, technical and marketing problems is to strengthen the SMEs further to ensure its greater contribution towards the economy. Noting the fact that these programmes has just been launched, its progress is closely monitored so that any shortcomings could be rectified swiftly and confidently.

ANNEX A

Abbreviations

BPKB	- Bank Pembangunan Malaysia Berhad (Development Bank of Malaysia)
CGC	- Credit Guarantee Corporation
MARA	- Trust Council For The Indigenous People
MARDI	- Malaysian Agriculture Research and Development Institute
MCYS	- Ministry of Culture Youth and Sports
MEDEC	- Malaysian Entrepreneurial Development Centre
MIDA	- Malaysian Industrial Development Authority
MIDF	- Malaysian Industrial Development Finance
MNRD	- Ministry of National and Rural Development
MTISED	- Ministry of Trade and Industry, Small Enterprise Division.
NPC	- National Productivity Centre
PE	- Pernas Edar (Distributing Company)
PMD	- Prime Minister's Department
SIRIM	- Standards and Industrial Research Institute of Malaysia
UDA	- Urban Development Authority

ANNEX B

COORDINATION MECHANISM FOR
SMALL ENTERPRISE DEVELOPMENT PROGRAM

1. OBJECTIVE

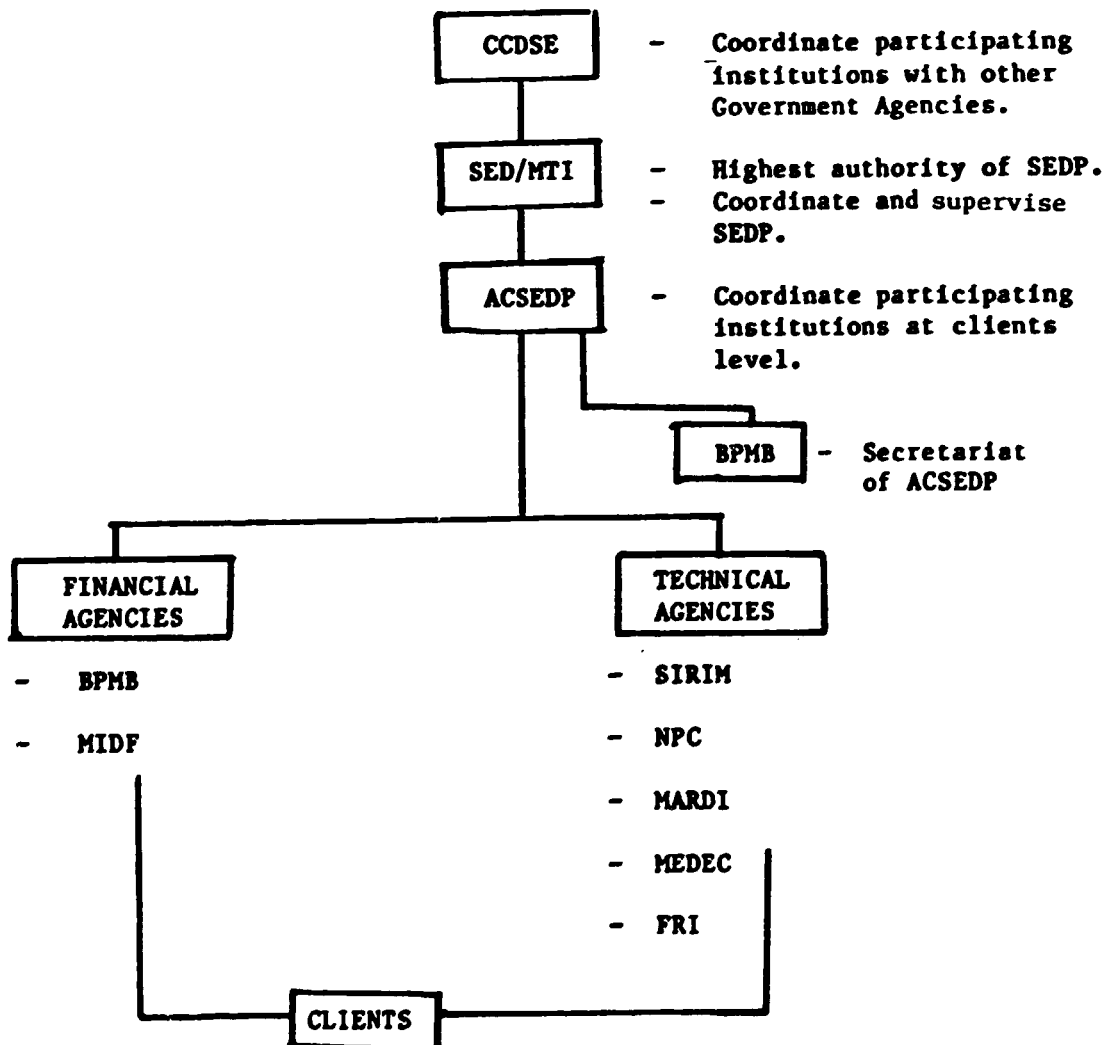
The main feature of this Small Enterprises Development Project is that the financial and technical programme of government agencies will be formally integrated coordinated through a formalized relationship and implemented for the benefit of small enterprises.

Hence, a strong reliable structure to formally link the participating institutions and Government Departments responsible for development of small enterprises is vital for the success of this programme. The need for a proper and formalized coordination framework becomes more critical since the participating institutions are under the jurisdiction of different Ministries.

The objective of this paper is to outline the coordination mechanism framework for this programme to improve and strengthen current support system to Bumiputera small enterprises.

2. ORGANIZATIONAL STRUCTURE OF PROGRAMME

The organizational structure of this programme can be depicted as follows:



Ministry of Trade and Industries

The operational Ministry for this project will be the Ministry of Trade and Industry since the development of small enterprises is now placed under the charge of MTI with the establishment of the Small Enterprises Division. The MTI will be responsible for the overall implementation and coordination of this programme.

Specifically the functions of MTI in this programme shall be:

- (i) To provide broad policy guidelines to the implementing agencies.
- (ii) To coordinate, supervise and monitor the activities of the implementing agencies related to this programme.
- (iii) Designing complementary programmes to support small enterprises development.
- (iv) To act as the link between the Government, other Ministries and agencies and the implementing agencies.
- (v) To discuss and resolve administrative problems faced by implementing agencies related to this programme.

In implementing this programme, MTI will institute a two-tier coordination structure under a Project Coordinator:

(i) Micro Level

To coordinate activities of implementing agencies in providing financial and technical assistance to small enterprises through Action Committee for Small Enterprises Development Programme chaired by BPMB.

(ii) Macro Level

To coordinate the various Government Departments and agencies involved in the development of small enterprises at the institutional level through the Coordinating Committee on the Development of Small Enterprises chaired by Deputy Minister of MTI.

Role of Project Coordinator

The terms of reference of the Project Coordinator are as follows:

1. The Project Coordinator is responsible for ensuring that problems pertaining to clientele needs which are discussed at Micro Level Committee are coordinated and that actions required of TA/FI is followed through.

2. The Project Coordinator is responsible for monitoring the progress of the Micro Level Committee and to ensuring that the Terms of Reference as set out are adhered to.
3. The Project Coordinator is required to monitor the progress of the respective TA agencies in terms of their planning and program implementation. This is to ensure that the TA agencies comply with whatever commitments they had made in respect of the TA inputs.
4. To oversee the progress of the FIs in terms of their planning and work implementation.
5. To provide progress reports on all activities of the Micro Level Committee to CCDSE, which will then decide on the necessary lines of action.

Action Committee For Small Enterprises Development Project

In addition to the Project Coordinator, an important role will be played by an Action Committee for Small Enterprises Development Project and is the most vital part of the coordination mechanism.

The purpose of this committee is to coordinate and monitor the activities of the implementing agencies related to this programme.

Specifically, the functions of this committee are:

- (i) To review all loan applications under consideration to enable technical agencies to provide advice and opinion on technical aspects.
- (ii) To review approved applications in order to determine the training requirement for the approved applicants before the loan is disbursed.
- (iii) To review progress reports of disbursed projects in problem submitted by BPIB and MIDF in order to identify the causes of the problems and the nature of technical assistance required by the projects.
- (iv) To identify the technical agencies to be responsible for the technical assistance to be given to the client and to develop a proper action plan.
- (v) To receive and discuss progress reports from the technical agencies and decide on further necessary actions.
- (vi) To liaise with other agencies and departments who are not in this Action Committee in order to obtain certain technical assistance, e.g., Pernas Edar Sdn. Bhd. for channel of distribution.

- (vii) To report the progress of this programme to Ministry of Trade and Industry.
- (viii) To refer problems faced by the implementing agencies and clients which could not be solved at the Action Committee level to the Ministry of Trade and Industry.
- (ix) To receive and discuss any instructions and information received from the Government related to this programme.

The Members

The members of the committee will comprise all the financial and technical agencies participating in this programme, namely:

BPMB
MIDF
SIRIM
MARDI
NPC
FRI
MEDEC

BPMB will be the Chairman of the committee with MIDF as the Deputy Chairman. BPMB - Small Enterprises Department (BPMB - SED) will provide the Secretariat for the committee. In order to ensure a close rapport with the Ministry of Trade and Industry, the committee will have the Project Coordinator (of Small enterprise Division of the Ministry) to sit in the committee as an adviser.

To ensure effectiveness, the committee will insist the participating agencies to appoint permanent representatives to the committee who are also directly responsible for Small Enterprises Programmes in their respective agencies.

Meetings

The meetings for this committee will be held once a fortnight. All meetings will be called by the Secretariat of the committee which is BPMB - SED.

The following reports will be tabled at every meeting:

- (i) Summary of loan applications.
- (ii) Summary of follow-up reports of projects requiring technical assistance.
- (iii) Progress reports on projects financed.
- (iv) Progress report on the programme.

Long Term Coordination

As a long-term measure, it will be desirable for the coordinating mechanism to be further strengthened. For this purpose, it is felt that the establishment of a central authority is essential, to assume responsibility over the various agencies that are now directly involved in the development of small scale enterprises. This implies the merger and consolidation of the present proliferation of institutions.

This long term objective of setting up a consolidated institution has been in principle accepted by the Government. However, it should be recognized that institutional consolidation of such major nature would eventually call for legislative action. This would require careful planning.