SMEs Experience in Malaysia
Second Series 2011
Foreword

Small and Medium enterprises have been considered the backbone of the promising economies in most countries for a long time. In Malaysia, where they operate in all industries and sectors of the economy, SMEs contribution to the Malaysian economy is very significant. The similarity of the Malaysian and Egyptian environment gives the privilege to this study to grasp some of the success stories and learning lessons to be applied in the Egyptian environment.

Realizing their economic contributions, as well as their potential for further growth in the national economy, the Malaysian government has been playing a crucial role in providing an enabling environment for the growth and development of globally competitive sector since 1981. SME strategy in Malaysia has designed and implemented many programs to strengthen the performance of SMEs in a unique package.

The SME Unit, in its second study among a series of studies that will be published, has chosen to shed lights on the Malaysian experience in SMEs development due to its success in achieving high sustained growth and rapid development, which can be summed up as “getting the basics right,” through long-term planning and visionary leaders, instituting sound development policies, good economic management, promoting private investment, developing human resource as well as providing good physical and institutional infrastructure.

I am sure that, the study includes remarkable learned lessons and policy implications which can be adapted and applied to the Egyptian environment.

Dr. Mohamed Zakaria
Director SME Unit
Acknowledgments

The SMEs experience in Malaysia is the second study to be published by the SME Unit at EBI, reviewing best practices and success stories. It was initiated due to EBI belief in the essential role of SMEs in the National strategy of sustainable development. Moreover, a success study-tour was conducted by selective delegates of the Central Bank of Egypt and the Egyptian Banking Institute to Malaysia as an invitation from Bank Negara Malaysia to share knowledge and enhance the mutual cooperation towards SME sector; as the major player in the socio-economic development programs. This study is the consorted effort of the SME Unit team represented by all its members. Special gratitude goes to Reem Abdel Aziz, former researcher at SME unit, who exerted much effort in collecting materials and searching for valuable information in different sources.
SMEs Unit Publications

Best Practices and Success Stories Reviews

SMEs experience in Malaysia

April 2011
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<td>ACCA</td>
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</tr>
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<td>BAS</td>
<td>Business Advisory Service Session</td>
</tr>
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<td>BNM</td>
<td>Bank Negara Malaysia</td>
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<td>BMB</td>
<td>The Banking Mediation Bureau</td>
</tr>
<tr>
<td>CCM</td>
<td>Companies Commission of Malaysia</td>
</tr>
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<td>CGC</td>
<td>Credit Guarantee Corporation</td>
</tr>
<tr>
<td>DAGS Start-up</td>
<td>Direct Access Guarantee Scheme Start-Up</td>
</tr>
<tr>
<td>DFIs</td>
<td>Development Financial Institutions</td>
</tr>
<tr>
<td>DoS</td>
<td>Department of Statistics</td>
</tr>
<tr>
<td>FMB</td>
<td>The Financial Mediation Bureau</td>
</tr>
<tr>
<td>HDC</td>
<td>Halal Industry Development Corporation</td>
</tr>
<tr>
<td>ICT</td>
<td>Information &amp; Communication Technology</td>
</tr>
<tr>
<td>IMB</td>
<td>The Insurance Mediation Bureau</td>
</tr>
<tr>
<td>IMP2</td>
<td>Second Industrial Master Plan</td>
</tr>
<tr>
<td>IMP3</td>
<td>Third Industrial Master Plan</td>
</tr>
<tr>
<td>IRFGS</td>
<td>Industry Restructuring Financing Guarantee Scheme</td>
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<tr>
<td>9MP</td>
<td>Ninth Malaysia Plan</td>
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<tr>
<td>NPFs</td>
<td>Non-Performing Financing</td>
</tr>
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<td>NSDC</td>
<td>National SME Development Council</td>
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<tr>
<td>MAVCAP</td>
<td>Malaysia Venture Capital Management Berhad</td>
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<tr>
<td>MEF</td>
<td>Micro Enterprise Fund</td>
</tr>
<tr>
<td>MITI</td>
<td>Ministry of International Trade and Industry</td>
</tr>
<tr>
<td>MOHE</td>
<td>Ministry of Higher Education</td>
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<tr>
<td>MSMEs</td>
<td>Micro, Small and Medium Enterprises</td>
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<tr>
<td>SAGS</td>
<td>SME Assistance Guarantee Scheme</td>
</tr>
<tr>
<td>SCORE</td>
<td>SME Competitiveness Rating for Enhancement</td>
</tr>
<tr>
<td>SDRS</td>
<td>Small Debt Resolution Scheme</td>
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<tr>
<td>SMIDEC</td>
<td>Small and Medium Industries Development Corporation</td>
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<td>SMEs</td>
<td>Small and Medium Enterprises</td>
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<td>WCGS</td>
<td>Working Capital Guarantee Scheme</td>
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Executive Summary

This study addresses the analytical situation of the Malaysian experience toward SME sector as a backbone of the promising socio-economic development. Malaysia is a resource-based economy depending on natural resources and exploitation of the land, since it is rich in natural resources including oil, gas, tin, timber, palm oil and rubber. However, after independence, industrialization led to the transformation of the Malaysian economy from resource and agriculture to industry. The study includes five sections in addition to the executive summary, introduction and lessons as well as policy implications to the Egyptian SME’s sector. The first section indicates the Malaysian profile which reflects that the GDP growth rate is about 5.8%, gross national savings is 38.2% of GNP and the unemployment rate is 3.5%. The industrialization strategy was based on state capitalism that aimed at achieving international competitiveness. The second section explored the SMEs status in Malaysia. The Malaysian small and medium enterprises (SMEs) represent about 99.2% of the total business establishments that provide employment for about 56% of the total labor force as in 2009.

The third section introduces the challenges faced by SMEs in Malaysia, which indicated that the common challenges were mainly due to the lack of a comprehensive framework in terms of policies towards SME development, inadequate data and information, too many agencies lacking effective coordination, agencies’ use of inconsistent definitions, limited access to finance and capital, difficulties in accessing loans and other forms of financial assistance, inability to survive in the mainstream of industrial development, underutilization of technical assistance, advisory services, lack of skilled and talented workers, and intensified global competition from other producers. All of the mentioned challenges are almost similar to the situation of Egyptian SMEs.

The forth section indicates the key players in supporting SMEs sector in Malaysia. It consists of the Council, which is chaired by the Prime Minister of Malaysia, while Bank Negara Malaysia (BNM) is taking the role of Secretariat to the Council, but now it is the SME Corporation Malaysia. Members of the council include 15 ministries and more than 60 government agencies, which all work together towards a common goal of developing resilient and competitive SMEs of global standards. Moreover, the Small and Medium Industries Development Corporation (SMIDEC)/SME Corporation Malaysia (SME Corp. Malaysia) provides infrastructure facilities, financial assistance, advisory services, market access and other support programs. The final aim was to develop capable and resilient Malaysian SMEs to become competitive in the global market. On the other hand, BNM offers financial advisory services. Banking institutions, DFI (The SME Bank) and other avenues of financing SMEs are specialized financial institutions, which are established and funded by the government that aim at accelerating the growth of strategic sectors identified by the government. One of these DFIs is the SME Bank; known as Bank Perusahaan Kecil & Sederhana Malaysia Berhad, was designed to function as a one-stop financing and business development center for Malaysian SMEs.

In addition to Development Financial Institutions (DFIs), there are other avenues of financing SMEs including SME Credit Bureau, Agro-bank, venture capital, leasing and factoring companies, all of which undertook a diverse range of financial initiatives. More tasks were given to Credit Guarantee Corporation (CGC). Currently there are 11 active guarantee schemes categorized as main schemes and programmed lending schemes, backed-up by loan able/guarantee fund. SMEs arbitration and Financial Mediation Bureau (FMB) was established as an independent body set up to help settle disputes between SMEs and their financial services providers who are members in the FMB. To integrate among all of the mentioned players, Business Chambers and Associations in Malaysia have been urged to actively disseminate information to their members on the availability of the various financing schemes offered by the government and financial institutions.
As a role of the government toward boosting such important sector, it was reflected by following an annual SME Integrated Plan of Action/National SME Development Blueprint: The Three Main Strategic Thrusts by the NDSC were emphasizing strengthening the enabling infrastructure, building the capacity and capability of domestic SMEs, and enhancing access to financing by SMEs. Many programs have been developed with the vision of improving the competitiveness and development of SMEs, and are coordinated and administered by SMIDEC. Moreover, the government funds and schemes for SMEs were established together with the SME Assistance Fund and the SME Modernization Fund with various supportive schemes.

In conclusion, Malaysia’s success in achieving high sustained growth and rapid development can be summed up as “getting the basics right” through long-term planning and visionary leaders, instituting sound development policies, good economic management, promoting private investment, developing human resources, as well as providing good physical and institutional infrastructure.

The study includes remarkable learned lessons and policy implications, which can be adapted and applied to the Egyptian environment. A top management commitment by establishing an effective steering committee engaged in policy, planning management and coordination or having just one identity, a god father, responsible for MSME movement with a strong coordination and amalgamation with all stakeholders are extremely essential. Various supplementary activities are crucially needed to complete the package of developing SME sector such as guarantee schemes, SME data base, training, technical assistances provided to banks and additional investment for R&D to encourage innovation by the entrepreneurs.
Introduction

The Best Practices Reviews Series are one of the research activities done by the SME Unit at the Egyptian Banking Institute (EBI), Central Bank of Egypt. The SME Unit offers a wide range of capacity building services to SME units and staff in all banks. Moreover, it enhances awareness of entrepreneurs about various tools, policy, and procedures to accelerate their access to finance. It is expanding its services to include knowledge management by availing various studies and applied researches that reflect the Int'l best practices, success stories and current status of SMEs in Egypt. Therefore, more attention is given to investigate the different countries experiences in the field of SMEs development and improving their access to finance. Such investigation is important to draw the applicable lessons from each experience; whether it was a success or failure to add crucial advice to the SME Egyptian environment.

Ultimately, this second series is expected to contribute and achieve remarkable objectives by studying and analyzing the development efforts and policies adopted in Malaysia, to boost the SMEs sector within the circumstances and culture of the country in a very limited time. During the last decades, many SME models were applied with respect to the role of the government or/private sector to take the lead, as well as a real initiative of using SME as a core mechanism in socio-economic development in developed and developing countries. The Malaysian model is considered one of the SME unique models, which can be adopted with most of its pillars in the Egyptian environment due to the similarity in culture and common environmental aspects. In this regard, this study aims at achieving the following objectives:

- Describe the complete image of the socio-economic characteristics of Malaysia
- Define what is exactly meant by SMEs in Malaysia
- Highlight the economic importance of the SMEs sector
- Analyze the key challenges facing Malaysian SMEs, especially after the recent financial crisis
- Identify the main actors in developing this sector
- Specify the important implemented policies and exerted efforts that took place to improve the SMEs status in the country
- Conclude the main lessons that can be relevant to the Egyptian environment.
Malaysia is an East Asian country with about 26,160,256 population and population growth rate 1.704% in 2010 with mainly 3 major races, which are Malays (Bumiputera or indigenous), Chinese and Indians. The official religion is Islam. The land area is 329,750 sq.km, while the climate is tropical with average temperature of 25°C to 35°C. The country practices a system of Parliamentary Democracy; with Constitutional Monarchy, after 53 years have passed since the country’s independence from Britain. It has 3 chambers of administration, namely the Legislature, Judiciary and Executive. (Yunos 2008 and The World FactBook 2010)

Malaysia was a resource-based economy depending on natural resources and exploitation of the land, since it is rich in natural resources including oil, gas, tin, timber, palm oil and rubber. However, after independence, industrialization led to the transformation of the Malaysian economy from resource and agriculture into industry. The GDP growth rate is about 5.8%, gross national savings is 38.2% of GNP and the unemployment rate is 3.5%. The industrialization strategy was based on state capitalism that aimed at achieving international competitiveness through two main industrialization strategies; the first was the import substitution industrialization (ISI) during the 1960s, and the second was the export oriented strategy during the 1970s and 1980s. While during the early 1970s greater emphasis on the development of SMEs became evident and this is what this series of review publication is going to cover how it took place. (Ndubisi and Saleh 2006 and Yunos 2008)

2- SMEs Status in Malaysia

2.1 MSMEs definition in Malaysia

Until recently, there was not a single standard definition of micro, small and medium enterprises in the Malaysian economy. Nevertheless, on the June 9, 2005, the National SME Development Council (NSDC) approved one unified definition according to the different economic sectors; in order to better identify them across sectors. This definition was then adopted by all ministries, financial institutions and agencies dealing within this sector on both federal and state levels. Consequently, such definition is one of the main reasons behind the success of the governmental
efforts in the formulation of the right policies for developing this sector and the effective monitoring of its performance and providing them with both technical and financial support. (SME Corp Malaysia Official website & BNM 2005)

The definitions approved by the NSDC are considered flexible (NOT exhaustive). In other words, the NSDC is totally opened for amending and expanding it; in order to absorb the continuous change in operations and business circumstances. These definitions consider an enterprise to be a MSME if it meets one or two of the following criteria according to each economic sector (see table 1):

a. Annual Sales Turnover
b. Number of full-time employees

Table 1: Definition of MSMEs in Malaysia:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Micro enterprise</th>
<th>Small enterprise</th>
<th>Medium enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Making, Manufacturing-Related Services and Agro-based industries</td>
<td>Sales turnover of less than RM250,000 (U$ 81,860)* or Full time employees less than 5</td>
<td>Sales turnover between RM250,000(U$ 81,860) and less than RM10 million(U$3,274,394) or Full time employees between 5 and 50</td>
<td>Sales turnover between RM10 million (U$3,274,394) and RM25 million (U$8,185,985) or Full time employees between 51 and 150</td>
</tr>
<tr>
<td>Services, Primary Agriculture and Information &amp; Communication Technology (ICT)</td>
<td>Sales turnover of less than RM200,000 (U$65,488) or Full time employees less than 5</td>
<td>Sales turnover between RM200,000 (U$65,488) and less than RM1 million (U$ 327,439) or Full time employees between 5 and 19</td>
<td>Sales turnover between RM1 million (U$327,439) and RM5 million (U$1,637,197) (or) Full time employees between 20 and 50</td>
</tr>
</tbody>
</table>

*Exchange rate: “U$ = RM 3.054”


Accordingly, all relevant stakeholders mentioned above are required to keep their data on companies and businesses they are dealing with based on these two criteria and to harmonize their data collection methods based on the categorization mentioned above. All data and information has enabled a comparable database among institutions with valuable and appropriate statistics regarding the needs and current status of SMEs across all sectors. (BNM 2005)

2.2 Importance of SMEs in Malaysian Economy

Statistics produced by the Small and Medium Industries Development Corporation (SMIDEC) and the Bank of Negara Malaysia (BNM) show the important role played by SMEs in the economic development in Malaysia. The Malaysian Small and Medium Enterprises (SMEs) represent about 99.2% in 2007, (while it was 89.3% in 2000) of total business establishments that provide employment for about 56% of the total labor force. Therefore, the Malaysian
government has prioritized SMEs development on the national agenda by developing a competitive, productive and resilient SME sector in order to achieve balanced economic development with higher standards of living. This is totally opposite to the situation in the past when the Malaysian economic growth was mainly driven by exports and investments of Multinational Corporations. (BNM 2007)

The Malaysian government aims at increasing the contribution of SMEs in different aspects. Table 2 shows that the contribution of SME in Gross Domestic Product (GDP), exports, and employment are 31.2%, 19%, 56% respectively. According to the SMEs Annual Report for the year 2008, conducted by BNM, the SMEs are mainly concentrated in the services sector representing 87% of total establishments. Reference to their size SMEs are mainly “Small” representing 35% to 42% of whole economy. Concerning the future expectations, this sector's value-added production is expected to be worth about 50% of the whole manufacturing sector production by the year 2020. Chart 1 shows SME value added in various activities in the Malaysian economy. Services have the higher contribution by 64.6%, however, construction becomes the lower contribution by 2.8%.

Table 2: SMEs’ Contribution to the Malaysian Economy:

<table>
<thead>
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<th>Performance of SMEs</th>
<th>2009 (%)</th>
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<tr>
<td>SME’s contribution to GDP</td>
<td>31.2</td>
</tr>
<tr>
<td>SME’s contribution to employment</td>
<td>56</td>
</tr>
<tr>
<td>SME’s Share of total exports</td>
<td>19.0</td>
</tr>
</tbody>
</table>

Source: SME Annual Report 2009/10

Chart 1: Contribution by Key Economic Activity in 2009 (constant 2000 prices)

Source: Malaysia SME Annual Report 2009/10, chapter 2, P.32

3- Challenges facing SMEs in Malaysia

As a matter of fact almost all SMEs around the world face a number of challenges in such a globalized environment; some of which are common and some are not. Such challenges were highlighted and identified by a huge number of studies including the SMEs low productivity,
their limited access to finance, right management practices, training and recent technology in addition to the complicated and bureaucratic regulations that they have to follow.

Similar challenges are also faced by the Malaysian SMEs such as the absence of adequate finance, narrow implementation of recent technologies, absence of skilled human resources and the huge competition that they face from big multinationals. (Ndubisi and Saleh 2006)

3.1 Constraints facing Malaysian SMEs

Despite the important contribution of SMEs in Malaysia to exports, employment and economic growth, there is a wide range of challenges and barriers that hinder their further growth arising from globalization, liberalization and extensive organizational, institutional and technological changes that can be summarized as follows:

- Lack of a comprehensive framework in terms of policies towards SME development in Malaysia
- Inadequate data and information on the development of Malaysian SMEs
- Too many agencies, or channels, for SMEs without effective coordination
- Agencies use inconsistent definitions to categorize SMEs at the operational level
- Limited access to finance and capital, and the infancy of venture funds in initial or mezzanine financing
- Difficulties in accessing loans and other forms of financial assistance
- Inability to be in the mainstream of industrial development
- Many SMEs in Malaysia are still occupying land sites which have not been approved for industrial use purposes
- Underutilization of technical assistance, advisory services and other incentives made available by the government and its agencies
- Lack of skilled and talented workers, affecting the quality of production as well as efficiency and productivity
- Intensified global competition from other producers (e.g. China and India) besides the limited capability to meet the challenges of market liberalization and globalization (Ndubisi and Saleh 2006)

Furthermore, Malaysian SMEs’ access to finance in particular is constrained by the following three main limitations:
a. The high cost of loan administration for micro, small and medium credit, which is high accounting to approximately double the cost of administration of other retail loans. The reasons behind this are the supervised credit, the close and frequent monitoring, the small-size loan and the needed specialized staff.

b. The high risk, due to the inadequate or absence of collaterals and guarantees to this type of credit. Additionally, in small businesses entrepreneurs can easily abandon the project, as they are also highly affected by the price-risk due to external changes in input and output prices. Additionally, family needs are first prioritized, which affect their payment capacity.

c. The need for a relatively higher financial support by the government (BNM Agro-bank)

3.2 Malaysian SMEs and the recent financial crisis

The global economic and financial crisis, which began with the subprime problems in the United States eventually spread to the global financial markets and other developed economies. The crisis has affected the economic growth in both developed and developing countries, hence affecting SMEs. Surveys undertaken by SMIDEC revealed that Malaysian SMEs have been affected by the economic downturn, although at varying degrees across subsectors as demonstrated in chart 2.

Chart 2: Intensity of the impact of the crisis on SMEs in different sectors:

![Chart](image)

Source: Malaysia SME Annual Report 2009/10, chapter 2, P.32

The impact of the global economic and financial crisis on the Malaysian economy was seen in two-folds. First, rise in inflation rates in the first half of 2008 due to sharp increase in commodity prices. Second, significant deterioration in the health of the global financial systems led to sharp contraction in external demand. Consequently, Malaysian SMEs experienced the effects indirectly via the trade channel; namely reduced demand for exports, as well as slowdown in capital flow affecting investments. The key challenges faced are contraction in demand, delay in payments collection, funding constraints and high raw materials prices that placed immense pressure on continuous growth and survivability of SMEs.

Therefore, in terms of the impact of the crisis on credit demand, SMEs had reduced sharply investment and acquisition projects that were financed through bank credit. Demand for working
capital and short-term loans slowed down significantly, while banks became more cautious in lending SMEs, and some tightened lending requiring additional guarantees and collateral. Despite re-capitalization of banks and extension of funds and guarantees for SMEs, lending to SMEs remained an issue. This has resulted in SMEs exploring alternative sources of finance. The crisis, also, impacted the venture capital and private equity industry by reducing existing opportunities, shrinking fundraising activities and causing invested capital to stagnate. Nevertheless, unlike in the developed countries, there was no disruption in the financial intermediation process in Malaysia and banks continued to lend businesses. (BNM 2009)

4- Key players in supporting the SMEs sector in Malaysia

4.1 The National SME Development Council (NSDC):

The establishment of the National SME Development Council (NSDC) in 2004 as the highest policy-making body presented another chapter in SME development in Malaysia. The council provides the policy direction for a cohesive and comprehensive SME development. It is chaired by the Prime Minister of Malaysia, while Bank Negara Malaysia (BNM) was taking the role of Secretariat to the Council, but now it is the SME Corporation Malaysia. Members of the council include 15 ministries and more than 60 government agencies, which work together towards a common goal of developing resilient and competitive SMEs of global standards. (BNM 2007) Indeed, most of the stakeholders in the sector of SMEs are represented in the council as follows:

- Minister of International Trade and Industry
- Minister of Domestic Trade and Consumer Affairs
- Minister of Entrepreneur and Cooperative Development
- Minister of Agriculture and Agro-Based Industries
- Minister of Human Resource
- Minister of Finance
- Minister of Energy, Water and Communications
- Minister of Plantation Industries and Commodities
- Minister of Science, Technology and Innovations
- Minister of Tourism
- Minister of Rural and Regional Development
- Minister of Education
- Minister of Higher Education
– Minister of Housing and Local Government
– Minister in The Prime Minister’s Department
– Governor of Bank Negara Malaysia
– Director-General of the Economic Planning Unit
– Chief Executive Officer of the Multimedia Development Corporation. (BNM 2005)

Obviously, the NSDC is a national mechanism for policy and coordination. The main function of this council is to act as the highest policy-making body through achieving the following objectives:

a. Design and direct comprehensive development strategies for SMEs across the different economic sectors in Malaysia

b. Supervise and manage every SME development initiative with the aim of ensuring effective implementation of policies and outreach

c. Review the roles and responsibilities of member ministries and agencies

d. Coordinate cooperation and communication, and guide all the stakeholders to ensure the effective implementation of SME development policies and action plans (BNM 2007)

Various initiatives that are beneficial to policymakers and SMEs have been implemented by the Council aiming at making SME an important economic agent, and to increase its contribution to the overall economy. These included the following:

- Strengthening enabling infrastructure
- Building capacity and capability
- Enhancing access to finance

Under which the following outcomes were achieved:

✓ Formulated appropriate policies, monitoring and assessment improvement through the five-year macro targets and the SME Development Blueprint, which has now been renamed as Annual SME Integrated Plan of Action
✓ Adopted a unified MSME definition across the country
✓ Improved the SME statistics and dissemination of information through the establishment of the National SME Database and SME information portal
✓ Published the SME Annual Report
✓ Enhanced coordination of SME training and marketing
Strengthened the financial infrastructure through the introduction of new financing products for SMEs especially during economic downturns (BNM 2007)

4.2 The Small and Medium Industries Development Corporation (SMIDEC)/SME Corporation Malaysia (SME Corp. Malaysia):

The Small and Medium Industries Development Corporation (SMIDEC) was established on May 2, 1996, as a specialized agency to spur the development of SMEs, by providing infrastructure facilities, financial assistance, advisory services, market access and other support programs. The final aim was to develop capable and resilient Malaysian SMEs to be competitive in the global market. While in 2007, the NSDC decided to appoint a single dedicated agency to assume the role of the Central Coordinating Agency through formulating overall policies and strategies for SMEs and coordinating programs across all related ministries and agencies. This role was taken by the SMIDEC and it was, then, officially re-branded or transformed into SME Corporation Malaysia (SME Corp. Malaysia) commenced on October 2, 2009. In the current status, the SME Corp., Malaysia became the central point of reference for information and advisory services for all SMEs in Malaysia and the Secretariat to the Council instead of BNM. (BNM 2007)

SME Corp. Malaysia Roles & Responsibilities:

1. The Secretariat to the National SME Development Council (NSDC): it proposes policies, ensures that the council’s decisions are effectively implemented and provides administrative support for NSDC.

2. Coordination of policies and programs: formulates broad SME policies across all sectors besides coordinating, monitoring and evaluating effective implementation of policies and programs across relevant ministries and agencies.

3. Centre on advisory and information: provides business advisory through the “SME Business Centre”, disseminates information on government funds and incentives on SMEs, channels feedback on SME issues, and links domestic and international communities on SME matters.

4. Management of Data, dissemination of information and research on SMEs: manages National SME database, undertakes research on SMEs, publishes SME-related reports and statistics and undertakes outreach programs.

5. Business support: nurtures and develops competitive SMEs through specific capacity-building programs and financial assistance, enhances competitiveness of SMEs using the SME Competitiveness Rating for Enhancement (SCORE) diagnostic tool; formulating and implementing specific developmental programs to enhance the competitiveness and capabilities of SMEs in providing world-class services and products to large companies or MNCs and their operations world-wide, such as the “Skills Upgrading Program,” the Annual Showcase and the “Enterprise 50 Award Program.” It also provides infrastructure support for SMEs and facilitates linkages with large companies and MNCs.

6. The SME CORP Business Advisory Service Session (BAS): is a personalized advisory service for SMEs on financial assistance schemes and SME development programs. The SMIDEC Business Advisory Services (BAS) walk-in counters available at its state offices nationwide provide advisory services and information on available sources of financing, assistance in grant and loan application process as well as SME development programs. (BNM 2007)
4.3 Bank Negara Malaysia (BNM)

Bank Negara Malaysia is the Central Bank of Malaysia that was established on January 26, 1959 under the Central Bank of Malaysia Act 1958 (Revised -1994). The Bank is a statutory body wholly owned by the Government of Malaysia. It reports to the Minister of Finance.

BNM Main Roles and Responsibilities:

- Prudential conduct of monetary policy
- Issuing currency as well as managing the country's international reserves
- Maintaining sound, stable and progressive financial system
- Developing financial system infrastructure with major emphasis on building efficient and secured payment systems as well as the necessary institutions for building a comprehensive, robust and resilient financial system (such as the Credit Guarantee Corporation)
- Promoting financial inclusion, leading to improved access to financial services for all economic sectors and segments of society, to create balanced economic growth
- Acting as the government’s banker and advisor on macroeconomic policies and public debt

BNM and SMEs:

Bank Negara Malaysia has set-up the "Development Finance and Enterprise Department," to assist viable SMEs in obtaining financing. While, the banking system is the main provider of funds to the SMEs, other alternative sources of financing for SMEs include the development of financial institutions and the various special funds established by the Government.

The BNM offers financial advisory services to SMEs through the following:

- Information on various sources of financing available to SMEs
- Assistance in facilitation of the financing application process
- BNMLINK or walk-in counter services is a centralized financial advisory service for the walk-in visitors including the Small and Medium Enterprises (SMEs) in the following areas:
  - Provide information on available sources of financing, assistance in the loan application process
  - Advise on SME financial requirements and problems
  - Debt restructuring and rescheduling of SMEs' non-performing business loans amounting to RM3 million and less through the "Small Debt Resolution Scheme"
  - BNMTELELINK is a centralized point of contact to facilitate the general public including SMEs to make enquiries via telephone, fax, e-mail or post (BNM 2008)
4.4 Banking Institutions, DFI (The SME Bank) and Other Avenues of Financing SMEs:

In Malaysia, there is a comprehensive financial landscape for SMEs with diversified sources of financing providers comprising banking institutions, Development Financial Institutions (DFIs), Venture Capital companies (VCs), leasing and factoring companies.

**Banking institutions** are the main source for SME banking, as they contributed 89% of total SME financing outstanding of financial institutions by the end of May 2009. This has been on a rising trend for the past 10 years. The total SME financing outstanding of the banking system increased to account for 40% of total business financing by the end of May 2009, which is significantly high; compared to 27% of total business financing by the end of 1998. Though on a sectorial basis, financing SMEs remained diversified where financing the services and manufacturing sectors are concerned. Being the major contributors of economic growth, they continued to account for the larger share. Over the years, the gross non-performing loans (NPL) of SMEs continued to improve from 9.1% in 2007 to 7% by the end of May 2009. (BNM 2007)

DFIs are specialized financial institutions established and funded by the government that aim at accelerating the growth of strategic sectors identified by the government. In 2008, the six DFIs under the purview of BNM had approved RM4.8 billion financing to 31,220 SME accounts through its 682 branch network. The total outstanding financing of these institutions expanded by 1.9% on year-to-year basis, by the end of 2008; and reached 100,847 SME accounts. (BNM 2007)

One of these DFIs is the SME Bank (known as Bank Perusahaan Kecil & Sederhana Malaysia Berhad), which was established on October 3, 2005. It was meant to function as a one-stop financing and business development center for Malaysian SMEs. (CGC 2009) It was, also, designed to function as a business development center and its main role is to ensure the continuous development and growth of the entrepreneurial community by offering comprehensive products and services as well as close networking relationship with its strategic partners. In its quest to support the financial and business development needs of Malaysian SMEs, the SME Bank has entered into strategic partnerships with selected governmental and non-governmental agencies and private institutions to ensure that end-to-end support is available to all customers. (BNM 2008)

**SME Bank Products are classified into 5 main categories:**

1. SME Start-up: To support greater entrepreneurship in Malaysia, the SME Start-up has been designed for all new businesses. It is unique because it offers financing and/or business development support when the entrepreneur is ready to commercialize her/his product or service even if she/he doesn’t have sufficient collateral or the mandatory track record.
2. SME Professional: To help Malaysia in building an impressive pool of world-class professionals, the SME Bank is committed to support the entrepreneur in her/his financing and business development needs if she/he is interested in pursuing their business or growing it.
3. SME Franchise: It grants the growing company the opportunity to expand rapidly; where business growth is supported by other stakeholders through the franchise system.
4. SME Procurement: To fast-track access to financing and business development support for the Malaysian vendor in order to help businesses move up the value chain and evolve from downstream to more sophisticated capabilities along domestic and global procurement chains to continue operating and growth.
5. SME Global: It is designed for export-oriented activities to increase national productivity and competitiveness, through the generation of knowledge-intensive and skills-based capabilities. (BNM 2008)

In addition to banking institutions and DFIs, there are other avenues of financing SMEs including venture capital, leasing and factoring companies, all of which undertook a diverse range of financial initiatives. Start-ups and young businesses, particularly in the ICT sector may obtain financing from the 56 venture capital companies, which normally take stake in investee companies in exchange of provision of capital. Leasing and factoring companies assist SMEs in managing their cash flow through renting of equipment and machinery or pledging of future income in exchange of funding for working capital. (BNM 2007)

4.5 Credit Guarantee Corporation (CGC):
To assist small and medium-scale enterprises, particularly, those without collateral or track record with inadequate collateral to obtain credit facilities from financial institutions by providing guarantee cover on such facilities; the Credit Guarantee Corporation (CGC) was established on July 5, 1972 as a subsidiary of Bank Negara Malaysia, which formulates and manages viable credit guarantee schemes with the participation of its partners; lending institutions. It works closely with both Bank Negara Malaysia (BNM) and the Ministry of Entrepreneur and Cooperative Development (MECD) in terms of its operations and progress and it has over 2,600 branches throughout Malaysia. Its shareholders are Bank Negara Malaysia with 76.4%, Commercial Banks with 23.5% and Financial Development Institutions with 0.1%. (CGC 2009)

CGC Operation Mechanism:
Chart 3 represents the networking mechanism between CGC and other partners. CGC is a leading credit enhancer in Malaysia. It does not receive direct financial assistance from the government. However, Bank Negara Malaysia supervises its operations. The CGC activities are commercially-driven to achieve financial sustainability. Its social developmental role persists when funds are provided by the government.

Chart 3: CGC Operation Mechanism:
Currently there are 11 active guarantee schemes, categorized as main Schemes and programmed lending schemes (backed-up by loan able/guarantee fund). The interest rate depends on the scheme; it may be fixed or determined by the financial institutions. The guarantee cover is between 30% and may reach 100% and will be valid up to the maturity date of the loan with a maximum tenure of 5 years. SMEs, with higher risk profiles, will be charged higher guarantee fees, whereas, SMEs with lower risk profiles will be charged lower guarantee fees. The guarantee fee risk adjusted for unsecured loans is 0.75% to 3.50% per annum, while for the secured, it amounts 0.50% to 3.00% per annum. The range observed is to match borrower’s credibility in terms of risk rating with the pricing of the guarantee. The annual lending rate is up to the Base Lending Rate (BLR) of the lending institutions.

Channels for getting a guarantee application are financial institutions, the 16 branches of the CGC nationwide or the Online I-Guarantee portal. The CG offers what is called the I-Guarantee; which is an innovative tool that provides SMEs wishing to apply for a loan, the ability to reach every Financial Institutions (FIs) in Malaysia by completing only one application form and making one phone call via the internet. Therefore it reduces the hassle of the conventional way of applying for loans. Once the application is submitted, a CGC credit officer will assess the information and then invite the FIs in Malaysia to bid on the application, in an auction. The FIs will contact the applicant for any additional information or verification before submitting their bids to CGC. Once the bids are assessed, the FI whose bid is the best match for the applicant will be awarded the auction.

In addition to facilitating the loan application process, CGC is also offering all SMEs who apply online; the privilege of being listed in the SMI Directory. Some of the eligibility criteria include the company’s obligation to fall within the definition of SMEs and that it has no adverse record with CGC or other financial institutions and for a start-up company may apply provided a satisfactory and reasonable cash flow indicating repayment capacity of about 1.5 times; while for franchise businesses can apply under this scheme. (CGC 2009)

4.6 SME Credit Bureau:

The SME Credit Rating Bureau was established on June 3, 2008 by the Credit Guarantee Corporation to be the leading provider of credit reports on SMEs in Malaysia that helps in quickly assessing any SME’s credit creditworthiness; by collecting available key information of a company’s performance and payment history. As part of increasing value to its valued members, the SME Credit Bureau continue to enhance and develop more proprietary sets of key scores that use more information gathered from additional data sources to present a broader and further unbiased view in aid of predicting creditworthiness. Financial Institutions, SMEs and other enterprises are members in the bureau with annual subscription fee.

4.7 Agro-bank:

Agro-bank was formed under the Bank Pertanian Malaysia Berhad on April 1, 2008; while Bank Pertanian was originally established in 1969. It is not a commercial bank but only a DFI. In other words, it is a Government Linked Company (GLC) that functions under the supervision of the Ministry of Finance, Ministry of agriculture and Agro-based Industry and the Central Bank of Malaysia. It functions like any other bank, except that it focuses on financing and banking in agriculture and agro-related sectors within Selangor with 12 state regional offices, 121 branches and 34 mini-branches (kiosks) all over the country. It provides financing through “syariah” (Islamic principles) and conventional ones. The source of financing comes either from commercial funds (mobilization of saving schemes) or governmental funds. Agro-bank is currently encouraging and financing endeavors especially for micro businesses, SMEs and individual or private business. One of the schemes designed for SMEs is the Small and Medium
Enterprises/Industry Credit scheme that targets stimulating more investment in agro-base industry in manufacturing, operational and services sector. This scheme funding limits is up to 90% of the total cost for new projects and 100% of the project cost in case of expansion. Moreover, the bank offers three micro credit schemes. The aim of the first scheme launched in 2003 was to give loans to individuals and small enterprises who do not qualify for traditional loan products due to the lack of collateral or guarantors. This financing scheme was based on the progress of the project; in another words, cash flow requirements as well as character and borrower commitment. Then, the second and the third schemes were offered in 2005 and 2009 respectively after taking the experience of the first scheme into consideration. (BNM Agro-bank 2009).

4.8 Financial Mediation Bureau:

The Financial Mediation Bureau (FMB) is an independent body set up to help settle disputes among SMEs and their financial-service providers who are members in the FMB; in other words its target is providing objective and timely mediation to the consumers of services in the financial-service industry (FMB website); that was incorporated on August 31, 2004 after the amalgamation of both the Insurance Mediation Bureau (IMB), (established in 1991), and the Banking Mediation Bureau (BMB), (established in June 1996) in 2004. It is also a non-profit organization set-up by its members to provide their customers with an alternative channel to the traditional litigation process; to resolve any dispute, complaint or claim they may have with the members. In this process the FMB facilitates both the complainant and the Financial Service Provider institution concerned to resolve the complaint by first investigating the complaint including all the issues involved. The Mediation process includes investigation of the complaint through various sources based on the facts presented, having face to face discussion, having meetings with all the parties concerned or conducting an enquiry, taking into account the industry practices, consulting legal sources before a decision is made.

The FMB is supported by its members by an annual levy, as determined by the board, to meet all the expenses of the bureau. It is a company limited by guarantee, while its services are provided freely to the complainants. FMB members are, currently, 106 members including 22 commercial banks, 11 investment banks, 5 development financial institutions, 17 Islamic banks, 39 insurance companies and 8 Takaful operators and 4 payment system operators and payment instrument issuers. (FMB 2009)

The FMB provides SMEs with free, fast, convenient and efficient way to refer their disputes for resolution; as an alternative to the courts. These disputes may be banking/financial related as well as insurance and Takaful related. All complaints, disputes and claims other than those, are in the exclusion list. The FMB attempt to arrange all disputes, claims and complaints within 3 calendar-months, from the date they receive the required complete documentation for each of the disputes, claims and complaints referred to them by the consumers. (FMB website)

4.9 Business Chambers and Associations

Since financing will continue to play an important role in driving the development and performance of SMEs, not only in efforts to recover from the effects of the global economic slowdown in the immediate term, but also to strengthen the viability and capacity of SMEs to increase their contribution to the economy over the long-term. In line with this agenda, the government will continue to ensure that financing avenues for SMEs are adequate, diverse and accessible, and will meet the financing needs of SMEs at every stage of the business life-cycle. Therefore, the business chambers and associations in Malaysia have been urged to actively disseminate information to their members on the availability of the various financing schemes
offered by the government and financial institutions, in order to complement the existing promotional and advisory efforts by the authorities and financial institutions mentioned above. (Yunos 2008)

5- Role of the Government (Key Strategies & Policy Measures for Promoting SMEs Growth and Access to Finance in Malaysia).

The Malaysian government commitment to the process of developing SMEs have started since the early 70s when the "NEW Economic Policy" was introduced in 1971, the main target of which was to improve the welfare of citizens and restructure all the ethnic economic imbalances that existed. Moreover, such commitment can also be clear within the "second Industrial Master Plan (IMP2), which ended in 2005 and was followed by the Third Industrial Master Plan (IMP3), during the period of 2006-2020, matching the 2020 country’s vision. This plan presents an "Integrated Approach" for developing the industrial areas and growth opportunities for SMEs through a number of policies and strategies that were designed and implemented to enforce the entire value-chain and foster a cluster-based industrial development and growth in the manufacturing sector. (Ndubisi and Saleh 2006)

Real efforts towards encouraging and recognizing the importance of SMEs in the country’s economy were exerted during the 1980s, when the government initiated greater efforts toward encouraging closer linkages between SMEs and larger enterprises. The government, therefore, put greater effort into strengthening the performance of SMEs by initiating many programs and incentives during the seventh and eighth Malaysian Plans. Under the IMP2, the seventh and eighth Malaysian Plans, the government has implemented various policies and programs that aimed at enhancing SMEs development through addressing several issues such as: access to markets; increasing technology capabilities; enhancing the adoption of ICT; and increasing access to finance among others programs. (Ndubisi and Saleh 2006)

5.1 The Annual SME Integrated Plan of Action / National SME Development Blueprint: The Three Main Strategic Thrusts by the NDSC:

In addition to the government’s policy aspirations on SME development are embodied in the Third Industrial Master Plan (IMP3) and the Ninth Malaysia Plan (9MP) mentioned above, the National SME Development Council as an important platform established to chart the overall policy direction and strategy for SME development has developed the Annual SME Integrated Plan of Action; formerly known as the National SME Development Blueprint, to enhance tracking and alignment of implementation of programs; undertaken by the various ministries and agencies involved in SME development. The council as the highest policymaking body responsible for discussing the future direction and strategies for SME development has recorded the performance of SMEs and has approved three main initiatives to be taken at a national level to enable the Malaysian SMEs face the previously mentioned challenges (discussed in section no. 4) and to progress up the value chain.

The implementation of the Annual SME Integrated Plan of Action (Annual Plan) achieved significant progress in the planning, coordination and delivery of SME development programs. This plan was first released in 2005 to ensure the inter/intra-ministerial collaboration to reduce the duplication of programs and to promote more efficient allocation of resources, while feedback from SMEs on areas which could be executed more effectively. Subsequently, Key Performance Indicators (KPIs) have been introduced for ministries and agencies as well as a framework to monitor and measure the effectiveness and impact of initiatives undertaken. This
reaffirmed commitment and accountability in the implementation of SME development programs. Moreover, an annual review of the plan since 2005 has enabled SME development programs to be streamlined, prioritized and fine-tuned in accordance to the current needs and requirements of the rapidly evolving business climate. (BNM 2007)

The Annual SME Integrated Plan of Action is therefore a structured framework for cohesive and efficient implementation of programs. Each year, key programs for SME development are formulated and designed under three main strategic thrusts. Chart 4 explores the major initiatives in terms of strengthening the infrastructure, building capacity of domestic SMEs and enhancing access to finance by NSDC. However chart 5 reflects the linkages between thrusts and the SMEs development objectives.

Chart 4: The Three Main Initiatives approved by the NSDC:

![Chart 4](source: CGC 2009)

Chart 5: The NDSC thrusts and the SMEs Development Objectives:

![Chart 5](source: Yunos 2008)
The Annual Plan Underlines These Three Main Strategic Thrusts as Follows:

1. **Strengthening the enabling infrastructure**: This involves developing and strengthening the physical infrastructure and information management and creating conducive regulations and operating requirements for SMEs; specifically in the areas of entrepreneur development, human capital development, advisory services, awareness and outreach, technology enhancement and product development. In 2008, the government implemented 34 programs for a total of RM496.1 million in further strengthening the enabling infrastructure for SMEs, benefiting a total of 60,264 SMEs. The major outcomes of these programs were the transformation of SMIDEC into SME Corp. Malaysia, beginning August 2008; the transformation of Bank Pertanian Malaysia into Agro-bank and also the transformation of the Credit Guarantee Corporation Malaysia Berhad (CGC) and the establishment of the SME Credit Bureau to operate as a comprehensive SME Information Centre and acts as a credit information databank, which provides credit reports and ratings on SMEs. The CGC transformation process depended mainly on the integration efforts among strategic directions, new products and services and commercially-driven and financial sustainability to enhance access to SME financing as it is shown in chart 6. (BNM 2007)

![Chart 6: The CGC Transformation Process](source: CGC 2009)

2. **Building the capacity and capability of domestic SMEs**: It focuses on areas related to entrepreneurship development, human capital development, advisory services, awareness and outreach, marketing and promotion, technology enhancement and product development. A total of 145 programs benefiting 466,609 SMEs were implemented in 2008 continued to focus on building capacity and capabilities of SMEs, in line with the Government’s aspiration to move SMEs higher up along the value chain. The major outcomes from these programs were: First the government, via the various ministries and agencies, has introduced a series of measures to enhance its current information infrastructure. In 2008, SMIDEC, in collaboration with the Ministry of Higher Education (MOHE) introduced the “SME – University Internship Program,” to train and develop budding entrepreneurs among graduates. The program links SMEs to universities, thus enhancing the synergy between industry and academia to upgrade the capacity and capability of SMEs. Second, among the many initiatives taken in 2008 was the Soft Loan Scheme for factory relocation by the Ministry of International Trade and Industry (MITI). This Scheme was carried out through its agency, SMIDEC, assisted SMEs to relocate to designated industrial sites and enabled them to acquire assets designed to enhance their capabilities and have access to other forms of financial assistance. (BNM 2007)
3. Enhancing access to financing by SMEs: This initiative involves developing and strengthening institutional arrangements to support SME financing requirements. Therefore, the council has established the SME Bank (explained in section 3.4) and introduced an interest subsidy and securitization of SME loans to encourage further lending to them by financial institutions. Other initiatives by this council include: coordinated training and human resource development for SMEs; enhanced management and publication of SME information; strengthening the marketing and promotion of SME products and services; and a small debt resolution scheme for SMEs. (Ndubisi and Saleh 2006)

Moreover, the year 2008 witnessed further measures taken by the government to broaden the available avenues of financing and enhance the existing financing schemes to meet the needs of small businesses. This became even more urgent during the course of the year as the global economic and financial crisis began to show its effects on the Malaysian economy. SMEs in particular faces a more challenging and difficult environment (discussed in section 4.2); resulting in increased demand for financing. In a survey conducted by the SMIDEC in April/May 2009, SMEs indicated that drawing down on internal funds; using overdraft facilities as well as looking into alternative options such as microfinance and leasing were among the responses taken to address the crisis. Therefore, the government has undertaken early measures to supplement existing financing schemes for SMEs, including assistance of micro enterprises and specific vulnerable groups against the current crisis. This was represented in the stimulus packages and measures taken to strengthen the institutional framework to support SME financing outreach, including enhancement to the Small Debt Resolution Scheme (SDRS) and establishment of the SME Credit Bureau as well as setting up of special vehicles to manage the new guarantee schemes. These efforts have been reinforced by strengthening financial advisory services. (BNM 2007)

In enhancing access to finance for SMEs, a total of 23 programs involving a financial commitment were made available to 70,607 SMEs in 2008. Among the major outcomes in 2008 were:

- Introduction of new financing facilities namely the SME Assistance Facility and the SME Modernization Facility in August 2008 and the Micro Enterprise Fund (MEF) in November 2008 by BNM

- Extension of financing for start-up companies benefiting 42,050 SMEs through TEKUN and micro financing schemes

- Provision of RM1.8 billion financing; mainly through MARA, SME Bank, Bank Rakyat, Malaysian Industrial Development Finance Berhad (MIDF) and BNM special funds benefiting 28,553 SMEs. (BNM 2007)

5.2 SMIDEC Incentives for SMEs:

According to the SMIDEC incentives for SMEs provided by the public sector compromise four instruments that can be summarized as it is shown in table 3 as follows:

- a. Tax incentives to stimulate investment
- b. Grant assistance
- c. Loans, credit and equity participation
- d. Infrastructure and supporting services
These incentives have been structured into broad-based programs designed to strengthen SMEs in the areas of finance, technology acquisition, skills upgrading, market and infrastructure development. (Ndubisi and Saleh 2006)

**Table 3: Summary of Existing Public Sector Incentives for SMEs:**

<table>
<thead>
<tr>
<th>Tax Incentives</th>
<th>Grant Assistance</th>
<th>Loans, Credit &amp; Equity Participation</th>
<th>Infrastructure &amp; Supporting Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pioneer Status</td>
<td>Industrial Technical Assistance Fund (ITAF)</td>
<td>Minimum Lending Guidelines for SMEs</td>
<td>Infrastructure Development Grant</td>
</tr>
<tr>
<td>Investment Tax Allowance (ITA)</td>
<td>Skill Upgrading Program</td>
<td>Government-Funded Financing Facilities</td>
<td>Supporting Services:</td>
</tr>
<tr>
<td>Reinvestment Allowance (RA)</td>
<td>Technology Acquisition Fund (TAF)</td>
<td>Credit Guarantees for SME Borrowers</td>
<td>- Technical and business advisory clinics and briefings</td>
</tr>
<tr>
<td>Double deduction of expenses incurred on brand advertising, export promotion, export credit insurance premiums and research &amp; development.</td>
<td>Commercialization of Research &amp; Development Fund (CRDF)</td>
<td>Equity Financing and Venture Capital</td>
<td>- Information dissemination and promoting awareness</td>
</tr>
<tr>
<td></td>
<td>E-Commerce Grant</td>
<td></td>
<td>- Product displays and business matching</td>
</tr>
<tr>
<td></td>
<td>Factory Auditing Scheme</td>
<td></td>
<td>- Promotion of exports by SMEs</td>
</tr>
</tbody>
</table>

Source: Ndubisi and Saleh 2006

Furthermore, the government, through the SMIDEC, current SME Corp., continues to promote SME development through the provision of advisory services, infrastructure facilities, market access, and many other supporting programs. Hence, many programs have been developed with the vision of improving the competitiveness and development of SMEs, and are coordinated and administered by SMIDEC.

The objectives of these programs are to assist SMEs through:

1. **Access to Finance:** The government has allocated a total fund of RM556,6 million (U$182,252 million) for borrowing by SMEs out of which RM100million (U$32,743,942) was channeled through SMIDEC. An additional fund of RM2.2billion (U$ 0,655 billion) was injected according to the stimulus package announced in May 2003, of which RM1 billion (U$0,327 billion) was allocated to micro enterprises via the Micro Credit Program Scheme. The banking system also recorded RM82billion (U$26,85 billion) in loans outstanding to SMEs.

However, SMEs tend to have difficulties in accessing these funds because of a lack of transparency in their business disclosure. This could be solved, if SMEs were willing to disclose their financial status, repayment records and managerial capabilities to allow financial institutions to formulate objective financial assessments. In this regard, SMIDEC has taken some initiatives in coordination with the Association of Chartered and Certified Accountants (ACCA) and financial institutions to educate SMEs about the importance of prudent financial management.

Moreover, the government through the Credit Guarantee Corporation (CGC) is providing guarantees for loan applications by SMEs, as they are perceived by financial institutions to be
high-risk borrowers. Bank Negara Malaysia (BNM) recorded a growth of 18.3% in total guarantees outstanding at 2003.

Additionally, the government has taken measures to reduce the financing cost and increase accessibility by relaxing loan conditions; for example interest rates and substituting collateral requirements with securitization of cash flow. Financial assistance totaling RM51.4 million is given to SMEs operating in non-designated areas to acquire their own premises through the SME Relocation Loan Scheme; loans with low interest rates. Such assets can be converted into collaterals for further financing in the future.

2. Supply of Skilled Labor: Widespread labor shortages, coupled with the desire to create knowledge-based economy have increased the need for technical skills and semiprofessionals. In addressing such problem, the government has played an important role by promoting the development of skills throughout the educational system, by increasing the number of higher learning institutions addressing the longer-term requirements of various industries. While short-term programs are being developed to resolve immediate shortages. In regard to SMEs, SMIDEC collaborates with around 20 skill centers to provide training for local SMEs in technical and managerial skills.

3. Developing Access to Markets: The government is committed to facilitating the entry of enterprises into export markets. In this regard, the Malaysian External Trade Development Corporation (MATRADE) facilitates the participation of SMEs at trade fairs and trade missions by financing their participation costs. To ensure fair competition and opportunities the government has actively participated in trade negotiations, regional and bilateral trade agreements to reduce barriers. Another avenue available for SMEs to explore new market opportunities is through the SMIDEC annual showcase (SMINDEX). This event gives SMEs an opportunity to exhibit their goods and demonstrate their service capabilities to potential customers, and assists them to explore possible linkages and networks with MNCs and larger enterprises.

4. Upgrading Technology and Promoting the Application of ICT: As SMEs in Malaysia face increasing challenges and competition resulting from globalization, it is apparent that they need to upgrade their technological capabilities since technology provides SMEs with the opportunity to increase their efficiency and productivity with tools to better manage their business. The government, therefore, provides assistance to upgrade SMEs’ technological capabilities by issuing matching grants and providing financial-aid assistance for eligible enterprises to adopt the latest ICT solutions to improve the efficiency of business operations.

5. Research and Development (R&D) and Innovation: Rising factor-costs and competition from lower labor cost economies have eroded the competitive advantage of Malaysian labor intensive manufacturers. In order to sustain market presence, companies need to move to the higher-end of the value chain. The government, therefore, encourages innovation through R&D via many channels: Ministry of Science, Technology and Innovation (MOSTI) – Industry Research and Development Grant Scheme (IGS) and MTDC – Commercialization of Research and Development Findings (CRDF). SMIDEC also gives assistance to SMEs involved in product development under the Industrial Technical Assistance program.

6. Productivity and Quality Financial Support: Assistance programs are aimed at encouraging SMEs to acquire quality standards, like health, safety, environment and labor, which will assist them to leverage their strengths. For example, matching grants are given to SMEs to attain certifications that verify international standards such as the ISO series, and HALAL.
Furthermore, technical assistance is given by the Standards and Industrial Research Institute of Malaysia (SIRIN) to enhance the product quality of SMEs and has been assisted by SMIDEC.

7. Awards and Recognition: The Malaysian government, in accordance with the importance of productivity and quality (P&Q), has introduced award programs to recognize companies that have achieved excellence through P&Q initiatives. The most prominent example is the “Prime Minister’s Industry Excellence Award,” in recognition of prestigious quality in management practices and it is the most honorable award in the country. In 2003, 17% or 57% of the total winners were SMEs. (Ndubisi and Saleh 2006)

5.3 Government Funds and Schemes for SMEs:

The Government has setup a comprehensive financing scheme consisting of a total of 114 funds and schemes which include grants, equity, soft loans, venture capital and loans and equity initiatives as financing avenues for SMES and administered by ministries, agencies, banking and development financial institutions and VC companies as well as CGC and provided to SMEs at lower rates than the market (except grants). SMEs can avail themselves to these various sources of financing and choose the most appropriate to suit their business needs. (CGC 2009)

The government funds have been generally targeted at new areas such as agro-based industry, tourism, ICT and biotechnology, automotive and franchising. These funds and schemes are aimed at achieving the following objectives:

- Encourage SMEs to take a more innovative approach to business and to adapt to new technologies and processes
- Improve the quality of SME products and services
- Assist SMEs to carry out market and technology feasibility studies, assist in business plans and formulate effective strategies to penetrate the domestic and overseas markets
- Encourage the development and participation of Bumiputera SMEs
- Encourage the participation of the youth, including graduates, in business (BNM 2007)

5.3.1 The SME Assistance Fund and the SME Modernization Fund:

BNM has established special funds for specific purposes. A good example of these funds is the two guarantee funds introduced by the BNM in 2008 to mitigate the impact of escalating costs, faced by SMEs, which are the SME Assistance Fund; designed to help SMEs overcome cash flow problems and the SME Modernization Fund; intended to help SMEs enhance productivity and energy efficiency. Both funds are to assist viable SMEs facing financial difficulties to manage temporary cash flow problems due to the rising costs; and to provide financing to SMEs to modernize operations, in particular to purchase or upgrade machinery and equipment including energy-saving equipment.

5.3.2 The SME Assistance Guarantee Scheme (SAGS)

In 2009, the BNM introduced the SME Assistance Guarantee Scheme (SAGS) to assist SMEs adversely impacted by the economic slowdown to have continued access to adequate financing. This new scheme replaced the SME Assistance Facility and the SME Modernization Facility in February 2009. Under this Scheme, CGC provides 80% guarantee cover free of charge, as the cost is fully borne by BNM. More than 37,000 SME accounts were approved and financed under the special funds by the end of December 2008. (BNM 2009)
5.3.3 The Direct Access Guarantee Scheme Start-Up (DAGS Start-up)

In the business life cycle, the startup phase can be especially challenging for a SME because of its relative lack of resources and financial track record. To address this problem, several initiatives have been put in place to assist the early stage SMEs. These include venture capital funds, funding for early-stage commercialization for technology-based SMEs and funding under the Direct Access Guarantee Scheme Start-Up (DAGS Start-up) from the CGC for SMEs with insufficient collateral or financial track records. SMEs seeking early-stage financing can also turn to the CGC for DAGS Start-up. This Scheme assists SMEs with viable businesses but face difficulties in applying for bank loans due to the lack of sufficient collateral or financial track records. DAGS Start-up provides 100% guarantee for financing up to RM2 million to eligible SMEs that have been in business for less than one year. The government has long recognized the important role of venture capital; as an especially appropriate option for SMEs involved in high-risk but high-growth industries. Besides, the establishment of the Malaysia Venture Capital Management Berhad (MAVCAP), the government has also allocated RM1.6 billion under the Ninth Malaysia Plan (9MP) to develop the venture capital industry.

5.3.4 Soft Loans:

Beyond the startup stage, SMEs may continue to require financing to fund business operations before being able to build financial reserves or begin the necessary steps for expansion. Recognizing this, the government has put in place a number of funding avenues accessible to SMEs across all sectors. Financial initiatives for this purpose include, among others, soft loans from the Ministry of International Trade and Industry (MITI) and financial facilitation by the Halal Industry Development Corporation (HDC) to promote Malaysia as the global Halal hub. In line with this objective of providing working capital for SMEs, SMIDEC in 2008, expanded the eligibility criteria for the Matching Grant for Product and Process Improvement and doubled the financing quantum to purchase machinery and equipment. SMIDEC also halved the interest rate for soft loans for SMEs from 4% to 2% per annum, and increased the margin of financing from 85% to 90%. (BNM 2007)

5.3.5 The Small Debt Resolution Scheme (SDRS):

Assisting SMEs in need: Although a range of facilities are available to help SMEs in every stage of a business life-cycle, circumstances can still lead some SMEs into financial difficulties. To help distressed but viable SMEs manage their debts, the Small Debt Resolution Scheme (SDRS) was established in 2003 to facilitate the restructuring and rescheduling of NPLs and non-performing financing (NPFs) of SMEs with ongoing business and arranging for new financing if necessary. The Scheme ensures that the financial institutions continue to play an effective role in facilitating the financial rehabilitation of viable SMEs. SMEs may request for assistance under SDRS by applying through the financial institutions or through the SDRS Secretariat at BNM. Since establishment, a total of 840 SMEs had applied to the Scheme to restructure or reschedule NPLs and NPFs by the end of May 2009. Among these, 645 applications involving NPLs/NPFs were approved for either restructuring or rescheduling of financing. (BNM 2007)

5.3.6 The Working Capital Guarantee Scheme and the Industry Restructuring Financing Guarantee Scheme

The Working Capital Guarantee Scheme (WCGS) is aimed to assist viable companies with shareholders’ equity of less than RM20 million to access financing from financial institutions to sustain operations. Meanwhile, the Industry Restructuring Financing Guarantee Scheme (IRFGS)
is aimed towards promoting investments that increase productivity, and high value-added activities such as research and development, downstream agriculture activities, and using application of green technology.

5.3.7 Promoting Greater Efficiency through E-payments

Electronic payment provides the speed and convenience of making payments from any place at any time. Adopting e-payment solutions will enable SMEs to transact in the domestic and global markets more efficiently. The lower cost of doing business will contribute towards enhancing the overall competitiveness of SMEs and increase opportunities for greater business growth. The government has allocated RM400 million for the provision of broadband, covering both wired and wireless modes in the economic stimulus package. In particular, the High Speed Broadband Project (HSBP), with a planned capacity of 10Mbps, is being targeted at areas experiencing high economic and population growth. (BNM 2007)

6- Lessons and Policy Implications to the Egyptian SMEs Sector:

The attempt to replicate the Malaysian model or other country successful model in every other developing country may not produce the same results. Nevertheless, there are generic or broad lessons that can possibly be adopted or adapted from these experiences. Therefore, this review has examined and analyzed the extensive literature regarding the development of SMEs in Malaysia; the challenges they were facing; and the initiatives and incentives offered by the government and its agencies in supporting this sector to conclude the following key lessons that may benefit the Egyptian experience in the development of SMEs growth and access to finance as well as that were addressed in this review. These lessons can be summarized in the following points:

- Effective top management commitment and establishing an effective steering committee engaged in policy and planning management and coordination, real employee involvement, employee rewards and skills development are the number one factor towards successful public and private efforts done to support SMEs.

- SMEs database with supportive information including up-to-date data and reliable dynamic economic indicators will support bankers toward better planning to boost SMEs access to finance.

- Given the Government’s adoption of a more comprehensive approach towards SMEs development such as increasing access to financing, strengthening enabling business infrastructure, and enhancing the capacity and capability of SMEs, the way forward for SMEs is to move up the value chain to remain competitive.

- Government efforts aggregating in the introduction of new programs, the monitoring and assessment of existing programs being implemented in the areas of enhancing access to financing, strengthening the enabling infrastructure, and in building the capacity and capability of SMEs produces favorable results in terms of productivity and performance across all sectors.

- Adoption of technology and modernization of processes and equipment are necessary ingredients to enhance SME productivity and to accelerate the movement up the value chain. These measures help in raising productivity levels across the three main sectors of the economy.
The government should play a leading role in learning SME practitioners on the incentives available to them and how to access them easily. These incentives should be delivered through an establishment that really cares for the success and sustainability of SMEs in the country. Moreover, delivering government incentives through many channels, including profit making businesses such as commercial banks, creates confusion among SMEs and opens up the opportunity for a third party (for example a consultant or agent) to gain undue advantage by acting as a mediator between SMEs and the government. This makes access to such incentives awkward and expensive for small businesses.

The government should avoid delivering incentives through too many agencies (especially for-profit making ones), and also dismantle the bureaucratic procedures that cause inefficiency in government initiatives and projects. However, the government should increase the number of centers that offer consultancy and expert services to SMEs, and engage more experts in different areas. Additionally, it should ensure that SMEs get these incentives at a lower cost and in a more effective way.

SMEs should not totally rely on government agencies; they should attempt to find their own path of progress by relying on strategies which allow them to access new markets, increase their revenue and expand their customer base by enhancing the role of civil society and non-governmental associations.

The government bodies have to invest more in marketing researches, R&D, and innovation in order to support the entrepreneurship philosophy and its competitiveness.

Additional attractive credit guarantee schemes have to be established to support banks in increasing lending process and mitigate risks.

SME consulting services are quite important for entrepreneurs to strengthen the suitability of their cases to banks.

Developing various new, not traditional, financing products to fulfill the requirements of SME different characteristics activities.

To conclude Malaysia’s success in achieving high sustained growth and rapid development can be summed up as “getting the basics right,” through long-term planning and visionary leaders, instituting sound development policies, good economic management, promoting private investment, developing human resource as well as providing good physical and institutional infrastructure.


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