

## **COUNTRY PRESENTATION PAPER**

### **SME DEVELOPMENT IN MALAYSIA: ROLE AND FUNCTIONS OF SME CORPORATION MALAYSIA**

---

#### **1. INTRODUCTION**

A productive and dynamic SME sector has long been recognized by the Government of Malaysia as an integral component towards achieving sustainable economic development. In this regard, SMEs contribute towards economic development through job creation and income generation. Thus, the importance of SME is consistently outlined in successive Malaysian Plans and Industrial Master Plans. In addition, the National SME Development Council (NSDC) has also developed a framework for the coordinated and comprehensive development of SMEs by the Government.

Specific policies and strategies to promote the development of the SME sector have been translated into initiatives aimed at building capacity and capability, putting in place enabling infrastructure and providing the all important access to financing for SMEs, to ensure integrated development across all sectors.

This paper will discuss briefly on the integrated approach undertaken by the Malaysian Government through NSDC which led to the establishment of SME Corporation Malaysia (SME Corp.). It will also highlight the role and functions of SME Corp. as the central coordinating agency, including its implementation role.

#### **2. MALAYSIAN ECONOMY AT A GLANCE**

##### **2.1 Background**

- Malaysia covers an area of about 330,252 square kilometers, consisting of states in Peninsular Malaysia; Sabah and Sarawak in the island of Borneo. Malaysia lies entirely in the equatorial zone and the average daily temperature throughout Malaysia varies from 21°C to 32°C.
- Malaysia is multi-ethnic country. The principal ethnic groups are Malay, Chinese and Indian. Other significant groups are the indigenous people of Sabah and Sarawak.
- Malaysia practices a system of Parliamentary democracy with constitutional monarchy. It has three branches of government, namely the Executive, the Legislature and the Judiciary.
- Malaysia is a country on the move, from a country dependent on agriculture and primary commodities, Malaysia has today become an export-driven economy spurred on by high technology, knowledge-based and capital-intensive industries.
- Supported by a market-oriented economy and pro-business Government policies, Malaysia offers investors a dynamic and vibrant business environment with the ideal

prerequisites for growth and profits. Malaysia's key strengths include well-developed infrastructure and productive workforce. A politically stable country with a well-developed legal system, Malaysia also provides attractive incentives for investors.

## 2.2 Key Statistics

|                                    |              |
|------------------------------------|--------------|
| • Area (square km)                 | 330,252      |
| • Capital City                     | Kuala Lumpur |
| • Population (million)             | 28.31        |
| • Labour Force (million)           | 11.45        |
| • Employment (million)             | 11.03        |
| • Unemployment Rate (%)            | 4.5          |
| • Inflation (%)                    | 1.6 - 2.0    |
| • Merchandise Exports (RM billion) | 48.9         |
| • Merchandise Imports (RM billion) | 41.1         |
| • Exchange rate (RM/US\$)          | 3.47         |

## 3. OVERVIEW OF SMEs IN MALAYSIA

### 3.1 Definition of SMEs

- Malaysia adopted a common definition of SMEs to facilitate identification of SMEs in the various sectors and subsectors. This has facilitated the Government to formulate effective development policies, support programmes as well as provision of technical and financial assistance.
- An enterprise is considered an SME in each of the respective sectors based on the Annual Sales Turnover or Number of Full-Time Employees as shown in the table below:

|  | <b>Micro-enterprise</b>  | <b>Small enterprise</b>  | <b>Medium enterprise</b>  |
|--|--|--|---|
| <b>Manufacturing, Manufacturing-Related Services and Agro-based industries</b> | Sales turnover of less than RM250,000 OR full time employess less than 5 | Sales turnover between RM250,000 and less than RM10 million OR full time employees | Sales turnover between RM10 million and RM25 million OR full time employees |

|   |  |  |   |
|---|--|--|---|
|   |  | between 5 and 50   | between 51 and 150  |
| <b>Services, Primary Agriculture and Information &amp; Communication Technology (ICT)</b> | Sales turnover of less than RM200,000 OR full time employees less than 5 | Sales turnover between RM200,000 and less than RM1 million OR full time employees between 5 and 19 | Sales turnover between RM1 million and RM5 million OR full time employees between 20 and 50 |

### 3.2 Profile of SMEs

- Establishments in the services, manufacturing and agriculture sectors (overall and SMEs):

|   |                              |   |         |         |
|---|------------------------------|---|---------|---------|
| - | TOTAL establishments         | - | 552,804 |         |
| - | TOTAL SMEs (including Micro) | - | 548,267 | (99.2%) |
| - | TOTAL Micro-enterprises      | - | 435,324 | (78.7%) |

- Distribution of SMEs by sector:

|       |               |         |                 |
|-------|---------------|---------|-----------------|
| TOTAL | -             | 548,267 |                 |
| -     | Services      | -       | 474,706 (86.6%) |
| -     | Manufacturing | -       | 39,373 (7.2%)   |
| -     | Agriculture   | -       | 34,188 (6.2%)   |

- Distribution of SMEs in services by sub-sector (major sub-sectors):

|   |                                |   |                 |
|---|--------------------------------|---|-----------------|
| - | Wholesale/retail & restaurants | - | 330,717 (69.7%) |
| - | Transport & communication      | - | 30,766 (6.5%)   |
| - | Financial intermediaries       | - | 19,590 (4.1%)   |

- Distribution of SMEs in manufacturing by sub-sector (major sub-sectors):

|   |                                       |   |               |
|---|---------------------------------------|---|---------------|
| - | Textiles & apparel                    | - | 9,212 (23.4%) |
| - | Metal & non-metallic mineral products | - | 6,898 (17.5%) |
| - | Food & beverages                      | - | 5,945 (15.1%) |

*(Source: Census of Establishments and Enterprises, 2005, Department of Statistics)*

### 3.3 Contribution of SMEs

|   |                              |             |             |
|---|------------------------------|-------------|-------------|
|   |                              | <u>2005</u> | <u>2010</u> |
| • | Gross Domestic Product (GDP) | -           | 32% 37%     |
| • | Employment                   | -           | 56% 57%     |
| • | Total export                 | -           | 19% 21%     |

*(Source: National SME Development Blueprint 2007, Secretariat, National SME Development Council)*

#### **4. NATIONAL SME DEVELOPMENT COUNCIL (NSDC)**

##### **4.1 Background of NSDC**

- The establishment of the NSDC is a clear indication of the government's systematic approach in building up a strong SME sector.
- The NSDC was established in June 2004, with Bank Negara Malaysia appointed as its Secretariat. Chaired by the Prime Minister, with representation from Ministers and Heads of 19 key Ministries and Agencies involved in SME development, the NSDC serves as the highest policy-making body to set the strategic direction for the Government policies on SME development so as to ensure coordination and effectiveness of Government programmes.
- The NSDC convenes bi-annually to deliberate on strategies and new policies to support SME development across all sectors, as well as to monitor and evaluate the progress and effectiveness of SME policies and programmes in promoting the growth and development of SMEs.
- Specifically, the scope of work of the NSDC include:
  - The formulation of broad policies and strategies to facilitate the overall development of SMEs across all sectors;
  - Review of the roles and responsibilities of Government Ministries and Agencies responsible for SME Development;
  - Enhancing collaboration, coordination to ensure effective implementation of SME development policies and action plans; and
  - Encouraging and strengthening the role of the private sector in supporting the overall development of SMEs.

##### **4.2 Strategies for SME Development**

- In order to increase SMEs' contributions to the economy, the main thrust of SME development efforts are aimed at:
  - Strengthening the infrastructure for SME development;
  - Building the capacity of domestic SMEs; and
  - Enhancing access to financing by SMEs.

#### **5. FORMATION OF SME CENTRAL COORDINATING AGENCY**

- The NSDC agreed to establish the SME Central Coordinating Agency, a single dedicated Government agency to spearhead the development of SME across all sectors of the

economy. The Small Medium Industry Development Corporation (SMIDEC) will be transformed to become the SME Central Coordinating Agency.

- The establishment of the Agency reflects the Government's strong commitment in promoting the development of entrepreneurship and SMEs in Malaysia. This is a key initiative aimed at accelerating the development of the SME sector by providing greater focus in formulating strategies and implementation of programmes for SMEs.
- The Agency will collaborate with the relevant Ministries and Agencies to ensure that comprehensive policies are in place, as well as coordinate and synchronise implementation of SME programmes across all sectors and Agencies.
- The Agency will provide a one-stop information and advisory services to SMEs. This single point of contact and reference will make it much easier for SMEs to obtain comprehensive and up-to-date information on all programmes and provided by the Government assistance, as well as advisory services. This will significantly enhance the delivery of Government programmes and advisory services to SMEs. In addition, the Agency will monitor the performance of SMEs, towards developing appropriate policy response.
- The SME Central Coordinating Agency will be placed with the Ministry of International Trade and Industry, but will report to the National SME Development Council. Necessary financial and non-financial resources will be provided by the Government to ensure that the Agency can perform its roles effectively.
- The NSDC believes that the establishment of the Agency will accelerate the development of the SME sector through better coordination and effective implementation of SME programmes. The Agency will have a key role in achieving the target set by the NSDC to increase SME contribution to the economy from 32% in 2005 to 37% of gross domestic product by 2010.

## **6. HANDING OVER OF NSDC'S SECRETARIAT FUNCTION TO SMIDEC**

- On 24 July 2008, Bank Negara Malaysia announced the official handover of the NSDC's Secretariat function to SMIDEC. With expanded functions, SMIDEC will be transformed into the SME Central Coordinating Agency and will be known as SME Corporation Malaysia (SME Corp).
- SME Corp will continue the role of the Secretariat in undertaking the overall coordination of SME policy formulation and assessment of the performance of SME development programmes across all sectors. SME Corp will also serve as the central point of information, reference and advisory services for SMEs.
- The establishment of a dedicated SME Agency represents a major structural enhancement to the SME development agenda towards the development of competitive and resilient SMEs.

## **7. SME CORPORATION MALAYSIA**

### **7.1 Organisation background**

- On 2 May 1996, a specialised agency was established to spur the development of small and medium enterprises (SMEs) by providing infrastructure facilities, financial assistance, advisory services, market access and other support programmes. Known as the Small and Medium Industries Development Corporation (SMIDEC), its aim was to develop capable and resilient Malaysian SMEs to be competitive in the global market.
- The establishment of the National SME Development Council (NSDC) in 2004 presented yet another chapter in SME development in Malaysia. As the highest policy-making body, its role was to formulate strategies for SME development across all economic sectors, coordinate the tasks of related Ministries and Agencies, encourage partnership with the private sector, as well as ensure effective implementation of the overall SME development programmes in this country. Initiatives under NSDC included enhanced access to financing, financial restructuring and advisory services, information, training and marketing coordination, and a comprehensive SME database to monitor the progress of SMEs across all economic sectors.
- In 2007, the NSDC decided to appoint a single dedicated agency to formulate overall policies and strategies for SMEs and to coordinate programmes across all related Ministries and Agencies. SMIDEC was tasked to assume the role and the official transformation into SME Corporation Malaysia (SME Corp. Malaysia) commenced on 2 October 2009. SME Corp. Malaysia is now the central point of reference for information and advisory services for all SMEs in Malaysia.

### **7.2 Vision and Mission of SME Corp.**

- Vision
  - The focal point for the development of progressive SMEs to enhance wealth creation and social well-being of the nation
- Mission
  - To coordinate and facilitate the growth and development of dynamic, innovative and resilient SMEs through the provision of effective business services.

### **7.3 Roles and functions of SME Corp.**

- Coordination of policies and programmes
  - Formulate broad SME policies across all sectors
  - Coordinate, monitor and evaluate effective implementation of policies and programmes across relevant Ministries and Agencies
- Centre on advisory and information
  - Provide business advisory through the “SME Business Centre”

- Disseminate information on Government funds and incentives on SMEs
- Channel for feedback on SME issues
- Liaison for domestic and international communities on SME matters
- Management of Data, dissemination of information AND Research on SMEs
  - Manage National SME Database
  - Undertake research on SMEs
  - Publish SME-related reports and statistics
  - Undertake outreach programmes
- Business support
  - Nurture and develop competitive SMEs through specific capacity building programmes and financial assistance
  - Enhance competitiveness of SMEs using the SME Competitiveness Rating for Enhancement (SCORE) diagnostic tool
  - Provide infrastructure support for SMEs
  - Facilitate linkages with large companies and MNCs
- Secretariat to the National SME Development Council(NSDC)
  - Propose policies and ensure decisions of NSDC are effectively implemented
  - Provide administrative support for NSDC

#### 7.4 Development Programmes

- In addition to the Secretariat role, SME Corp. Malaysia will continue to provide assistance to SMEs. Programmes made available by SME Corp. to SMEs are:
  - Financial assistance programme;
  - Capacity building programmes; and
  - Advisory service.
- It is important to build capacity and capabilities during this challenging time. This will give an edge to SMEs when the economic climate improves.
- SME Corp. Malaysia's capacity development programmes are focusing on providing linkages with large and MNC, skill enhancement, entrepreneurship, technology innovation and advisory services.

#### 7.5 SME Competitive Rating for Enhancement (SCORE)

- One tool that SME Corp. Malaysia uses is the SCORE programme, developed in-house.
- A methodology to measure, rate and track the performance and capabilities of SMEs, based on through on-site visits and interviews.

- SCORE benefits SMEs as it is diagnostic tool in providing an integrated, hand-holding assistance to them.
- Benefits include :
  - able to facilitate linkages of potential suppliers (SMEs) with the multinational corporations (MNCs) Large Companies.
  - List of companies which have achieved 4 and 5-Star are sent to MATRADE to be groomed for the export market, and later for participation in international trade missions and exhibitions.
  - Those in the 3-Stars category and below will be given integrated, hand-holding assistance to facilitate their growth in business.
- Performance of these companies will be tracked for three years to ensure that business improvement processes are undertaken in accordance to respective company action plan.

## **8. WAY FORWARD**

### **8.1 Moving Malaysian SMEs towards Higher Value-Added Economic Activities**

- In order to spur development of knowledge-based SMEs (K-SMEs) and to accelerate SMEs towards higher value-added industries, the National SME Development Council (NSDC) has agreed that K-SMEs are defined as:
  - SMEs with more than 20% of its staff being knowledge workers (where they possess at least tertiary / professional education). This includes consultancy firms.
  - SMEs that directly use ICT and technology in business processes or for product improvements.
  - SMEs that adopt innovation and R&D in business processes or for product improvements.
  - SMEs that provide systematic training and learning of technical skills to their employees.
- K-Sectors will include Biotechnology, Nanotechnology, Photonics, ICT, Renewable Energy, Aerospace and Advanced Materials. The Multimedia Development Corporation and Biotech Corporation under the Ministry of Science, Technology and Innovation will be responsible for nurturing and monitoring the performance of K-SMEs.
- It was decided that comprehensive policies and incentives, that include fiscal incentives, access to capital and financing, facilitating quicker intellectual property and patent registration, as well as priority access to government procurement for innovative Malaysian SMEs would be implemented to further this agenda. Technology funds are also made available to enable K-SMEs to improve their research capabilities.



## 8.2 Potential Growth Areas for Development of SMEs

- Several knowledge-intensive industries and selected services have been identified as having potential for the development of SMEs. These areas have the competitive advantage for future growth.
- In the manufacturing sector, potential areas for the participation and growth of SMEs are:

| <u>Industry</u> |                                | <u>Potential Areas</u>   |
|-----------------|--------------------------------|--|
| (i)             | Resource-based                 | <ul style="list-style-type: none"> <li>– herbal and traditional medicines</li> <li>– cosmetics</li> <li>– palm-oil based products</li> <li>– wood based products</li> <li>– food and beverages, including convenient food for the halal market</li> </ul>  |
| (ii)            | Machinery and engineering      | <ul style="list-style-type: none"> <li>– precision machining and tooling</li> <li>– process and product engineering</li> <li>– automation and system automation</li> </ul>   |
| (iii)           | Electrical and electronics     | <ul style="list-style-type: none"> <li>– components for semi-conductors and radio frequency identification devices (RFID)</li> <li>– precision stamping</li> <li>– D&amp;D of integrated circuits (ICs)</li> <li>– high end printed circuit board assemblies</li> <li>– substrates of printed circuit boards</li> </ul>  |
| (iv)            | Medical Devices                | <ul style="list-style-type: none"> <li>– medical diagnostic devices and kits</li> <li>– medical and surgical disposable devices and equipment</li> </ul>   |
| (v)             | Manufacturing-related services | <ul style="list-style-type: none"> <li>– software development and software systems integration</li> <li>– mould design and texturing</li> <li>– prototyping services</li> <li>– burn-in or testing of integrated circuits</li> <li>– failure analysis or repair centres for integrated circuits, printed circuit boards and printed circuit board assemblies</li> <li>– calibration and maintenance services</li> <li>– surface mounting, using advance and composite materials</li> </ul> |
| (vi)            | Metal products                 | <ul style="list-style-type: none"> <li>– galvanised iron</li> </ul>  |

|  |  |  |
|--|--|--|
|  |  | – special steel, including alloy and stainless steel |
|--|--|--|

- In the services sector, potential areas for the participation and growth of SMEs are:

| <u>Industry</u> |                                  | <u>Potential Areas</u>  |
|-----------------|----------------------------------|---|
| (i)             | Distributive trade               | <ul style="list-style-type: none"> <li>– retail</li> <li>– wholesale</li> <li>– restaurants</li> <li>– motor vehicle distribution</li> <li>– motor vehicle trade and repair service</li> <li>– franchising</li> </ul>   |
| (ii)            | Transport services and logistics | <ul style="list-style-type: none"> <li>– forwarding</li> <li>– packaging</li> <li>– haulage</li> <li>– warehousing</li> <li>– storing</li> <li>– bulk breaking</li> <li>– integrated logistics supply chain</li> </ul>  |
| (iii)           | Tourism services                 | <ul style="list-style-type: none"> <li>– hotels</li> <li>– transportation</li> <li>– eco-tourism</li> <li>– agro-tourism</li> <li>– health-tourism</li> <li>– edu-tourism</li> </ul>  |
| (iv)            | Professional management services | <ul style="list-style-type: none"> <li>– human resource management</li> <li>– market research</li> <li>– management consultancy</li> <li>– advertising</li> <li>– legal</li> <li>– accounting, book-keeping, auditing and tax consultancy</li> <li>– architectural</li> <li>– engineering</li> <li>– R&amp;D</li> <li>– environmental and energy</li> </ul> |
| (v)             | Education and training           | <ul style="list-style-type: none"> <li>– courses on new technologies / methods / processes / technical standards</li> <li>– entrepreneurship</li> <li>– professional accredited courses</li> </ul>  |

|       |                                   |   |
|-------|-----------------------------------|---|
| (vi)  | Construction and related services | <ul style="list-style-type: none"> <li>– Adoption of clustering approach to bid for overseas projects by combining complementary skills and expertise, especially in civil engineering</li> <li>– Residential and non-residential construction</li> <li>– Infrastructure</li> </ul> |
| (vii) | ICT                               | <ul style="list-style-type: none"> <li>– Customised software development</li> <li>– Consultancy in e-commerce</li> <li>– Consultancy in security</li> </ul>   |

### 8.3 Outlook for 2010

- The Budget announced by the Prime Minister Malaysia recently comprised various measures for SMEs to encourage private investment. The measures included financing schemes, tax incentives, skill enhancement programmes and infrastructure development which will be implemented by the various Ministries and agencies. The measures are also aimed towards developing new areas of growth particularly in the agriculture and services sectors. In addition, SME Corporation Malaysia has been allocated a total of RM350 million for financing and capacity building programmes.
- The key measures for SME development are as follow:

#### **Agriculture Sector**

- Modernise the aquaculture industry and implement entrepreneurship training scheme for aquaculture breeders which is expected to benefit 1,150 participants.
- Develop food farming industry such as fruits, vegetables, organic farming.
- Develop basic infrastructure for livestock farms and establish supply chains for production of beef and mutton.
- Implement incubation programmes for agro entrepreneurs under the MOA, Ministry of Youth and Sports, UPM, Agrobank and Regional Economic Corridors.
- Establish a consortium between FELCRA, FELDA and RISDA with a paid-up capital of RM300 million to implement various high impact projects in downstream and upstream industries.
- Provide RM2 billion subsidies, incentives and assistance to safeguard farmers and fishermen
- Provide RM1.09 billion incentives and subsidies for paddy farmers including price subsidies (RM400 million) and fertilizer subsidy (RM300 million) and other incentives (RM390 million)

## **Services sector**

- Establish RM200 million Creative Industry Fund to finance films, animation and local content development under Bank Simpanan Nasional.
- Upgrade infrastructure in tourism centres nationwide to encourage eco-tourism and homestay facilities.

## **All sectors**

### **i. Financing**

- Provide soft loans amounting to RM1.5 billion for companies that supply and utilise green technology under the National Green Technology Centre with effect from 1 Jan 2010 that would benefit 140 companies.
- Provide additional allocation of RM200 million under the TEKUN Scheme (including RM20 million for Indian SMEs).
- Establish a micro insurance and takaful coverage for small businesses with a minimum premium of RM20 per month for coverage ranging from RM10,000 to RM20,000.
- Approval for micro financing schemes by financial institutions will be improved to an average of 6 days and disbursement of funds to an average of 4 days.
- Expand Ar-Rahnu Scheme currently offered by Bank Rakyat to Bank Muamalat and Bank Islam.
- Provide RM200 million of soft loans under SME Corporation Malaysia.

### **ii. Infrastructure**

- Provide RM57 million to SME Bank among others to establish business premises for SMEs.
- Provide RM30 million fund to establish 300 units of Kedai Desa nationwide under UDA.
- Provide SMEs with tax deduction on expenses incurred in the registration of patents and trademarks in the country.
- Corporatise Halal Industry Development Corporation (HDC) as an Agency under MITI to implement an action plan for development of Halal Industry
- Upgrade air cargo facilities for export of perishable agriculture products by MASKargo.
- Extend implementation of MyCoID, which is a single reference number of a company, to more Government Agencies with effect from early 2010.

### **iii. Capacity Building**

- Allocate RM548 million for skills upgrading under MARA and state skills development centres for industrial training programmes (technical, hospitality, culinary & furniture)

- Provide skills training (including entrepreneurship programme for more than 3,000 women) and micro credit facilities (Skim Pembangunan Kesejahteraan Rakyat).
- Allocate RM100 million for capacity enhancement and RM50 million for branding and promotion under SME Corporation Malaysia.