

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

BANK NEGARA MALAYSIA (BNM), MALAYSIA

**STUDY
ON
FORMULATION OF AN ACTION PLAN
TO DEVELOP ADVISORY CAPABILITIES OF MALAYSIAN
DEVELOPMENT FINANCIAL INSTITUTIONS FOR SMEs
IN
MALAYSIA
(SUMMARY)**

OCTOBER 2005

UNICO INTERNATIONAL CORPORATION

TOKYO, JAPAN

Abbreviations

8MP	8th Malaysia Plan
BASE	Business Advisory Service Entity
BITMB	Bank Industry & Technology Malaysia Bank Industri & Teknologi Malaysia Berhad
BNM	Bank Negara Malaysia
BOND	Benchmark On-line Network Database
BPIMB	Development and Infrastructure Bank of Malaysia Bank Pembangunan & Infrastruktur Malaysia Berhad
BPM	Agricultural Bank of Malaysia Bank Pertanian Malaysia
CCM	Companies Commission of Malaysia
CGC	Credit Guarantee Corporation
DB	Development Banking
DFI	Development Financial Institution
DOS	Department of Statistics
ECR	Export Credit Refinancing
EDPU	Enterprise Development Program Unit
EDS	Enterprise Development Sector
EPU	Economic Planning Unit
EXIM Bank	Export-Import Bank of Malaysia Berhad
FMM	Federation of Malaysian Manufacturers
FSMP	Financial Sector Master Plan
FTZ	Free Trade Zone
GFI	Government Financial Institution
GSP	Global Suppliers Program
HACCP	Hazard Analysis and Critical Control Point of Evaluation
HICOM	Heavy Industries Corporation of Malaysia
HRD	Human Resource Development
IB	Infrastructure Banking
ICT	Information and Communication Technology
IKM	MARA Vocational Institutes
ILP	Industrial Linkage Program
IMF	International Monetary Fund
IPO	Initial Public Offerings
ISO	International Organization for Standardization
IT	Information Technology
ITAF	Industrial Technical Assistance Fund
JASME	Japan Finance Corporation for Small and Medium Enterprises
JBIC	Japan Bank for International Cooperation

JCC	Joint Coordination Committee
JICA	Japan International Cooperation Agency
K-economy	Knowledge-based Economy
KPI	Key Performance Indicator
LMW	Licensed Manufacturing Warehouse
M&A	Mergers and Acquisitions
M/M	Minutes of Meetings
MARA	Council of Trust For the Indigenous People Majlis Amanah Rakyat
MATRADE	Malaysia External Trade Development Corporation
MDG	Market Development Grants
MECD	Ministry of Entrepreneur & Co-operative Development
MECIB	Malaysia Export Credit Insurance Berhad
MEDEC	Malaysian Entrepreneurship Development Center
MIDA	Malaysian Industrial Development Authority
MIDF	Malaysian Industrial Development Finance
MITI	Ministry of International Trade & Industry
MNC	Multinational Corporation
MOA	Ministry of Agriculture
MTDC	Malaysia Technology Development Corporation
NEP	New Economic Policy
NLFC	National Life Finance Corporation
NPC	National Productivity Corporation
NPL	Non-performing Loan
OJT	On-the-job Training
OPP3	Outline Perspective Plan 3
PA	Productivity Award
PB	Private Brand
PETRONAS	Petroleum Nasional Bhd.
PIA	Promotion of Investment Act
PMQA	Prime Minister's Quality Award
QCC	Quality Control Circle
QCD	Quality, Cost, Delivery
QMEA	Quality Management Excellence Award
RIP	Relationship Intelligence Proposal
RM	Malaysia Ringgit
S/W	Scope of Work
SEAP	SME Expert and Advisory Panel
SEAS	SME Expert and Advisory Services
SIRIM	Standards and Industrial Research Institute of Malaysia
SME	Small and Medium Enterprise

SMI	Small and Medium Industry
SMIDEC	Small And Medium Industries Development Corporation
SMIDP	SMI Development Plan
SPC	Statistical Process Control
SWOT	Strength, Weakness, Opportunity, Threat
TC	Technical Committee
TQM	Total Quality Management
WG	Working Group

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Part I: Introduction

1 Outline of the Study and Organization of the Report

1.1 Background of the Study

The Study was conducted against the following background.

- To help small and medium enterprises (SMEs) to overcome their financial problems, the Malaysia Government has made much effort to promote the supply of SME loans through development finance institutions (DFIs). However, the result of those efforts obtained to date has not necessarily been satisfactory in specific regard to promotion of SME loans. This is because of the facts that due to limited management capability of SMEs the number of those SMEs who are eligible for loans from the DFIs is still small, and those who have actually received loans have often faced difficulty in repaying on schedule. This situation also has become a serious problem influencing DFIs' operations.
- The Government has recognized that for DFIs to extend SME loans in an effective and efficient manner there is need to strengthen DFIs' advisory service, that is intended to provide the assistance necessary for SMEs to enhancing their management, and to improve the effectiveness of SME loans. The Government therefore has identified the improvement of DFIs' advisory service capability as one of its major policy objectives and Bank Negara Malaysia (BNM) was assigned responsibility for developing an action plan to strengthen the advisory service.
- The Malaysian Government has requested the Japanese Government, against the above background, to assist in the development of an effective and viable action plan. The Japanese Government has agreed to provide technical cooperation for this in consideration of the promise of the plan for the promotion of more effective implementation of DFIs' advisory service. The improvement of DFIs' advisory service will contribute to enhance the management of SMEs, streamline fund supply to SMEs through the increased effectiveness of SME loans, and eventually improve competitiveness of the Malaysian economy.

1.2 Objective and Expected Outcomes of the Study

The primary objective of the Study is to assist the Malaysia Government in formulating an Action Plan to enhance the advisory service capability of DFIs for SMEs, under the leadership of BNM, and to improve the financial environment so that it better facilitates efficient and effective SME loans.

1.3 Scope of the Study

The Study covered the following activities pursuant to the Scope of Work and the Minutes of Meetings agreed between JICA and BNM on May 14, 2004.

1. Collection and analysis of baseline information
2. Provision of knowledge and experiences valuable for formulation of the Action Plan
3. Formulation of the Action Plan
4. Making of Recommendations and Drafting of an Implementation Plan for DFIs

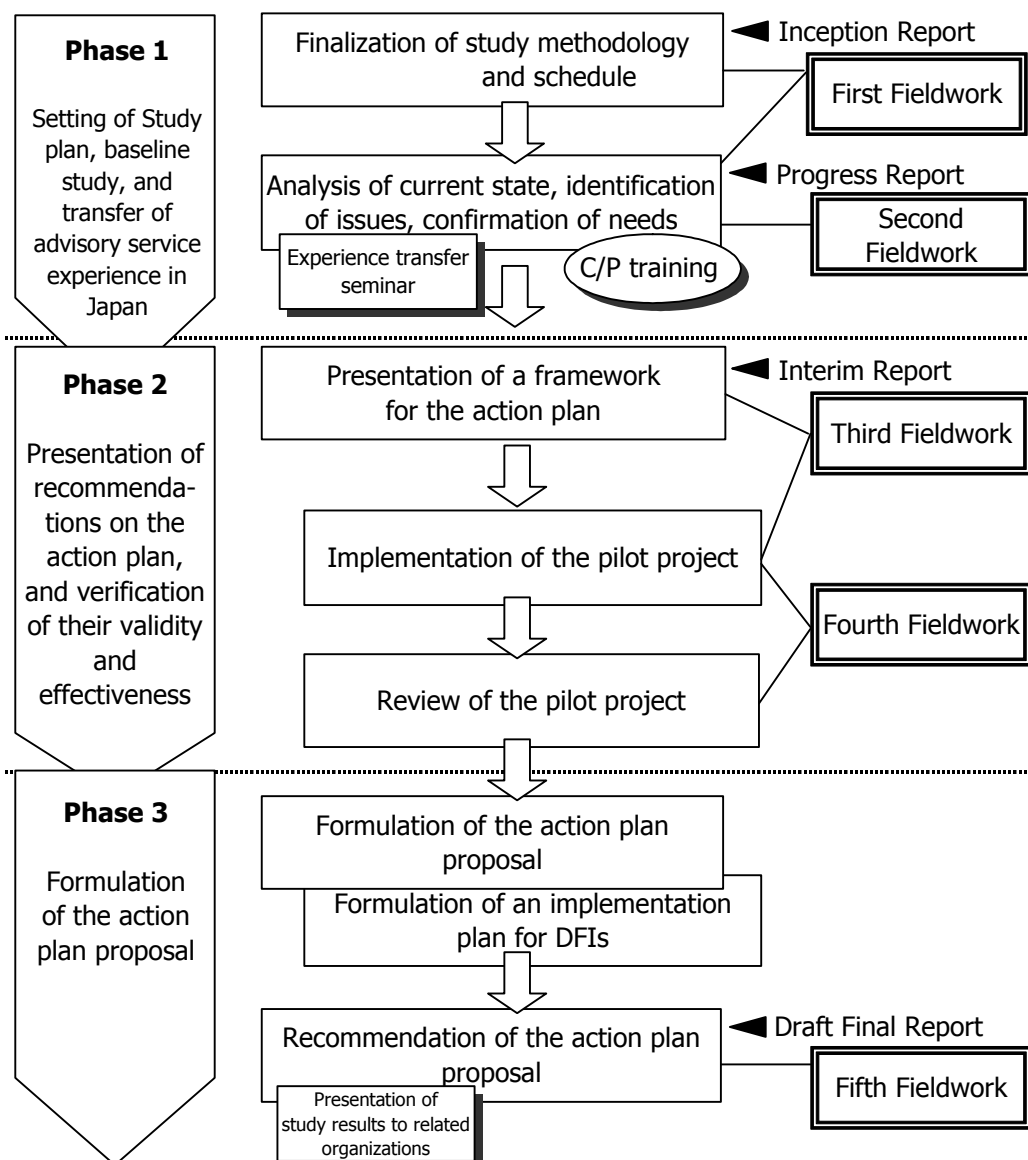
The DFIs surveyed and provided with recommendations and the implementation plan are;

- a) Bank Pembangunan dan Infrastruktur Malaysia Berhad (BPIMB)
- b) Bank Industri dan Teknologi Malaysia Berhad (BITMB)
- c) Export-Import Bank of Malaysia Berhad (EXIM Bank)
- d) Malaysia Export Credit Insurance Berhad (MECIB)
- e) Bank Pertanian Malaysia (BPM)

2 Outline of the Study Performed and Organization of the Final Report

2.1 Outline of the Study Performed

The Study consisted of the following three phases, including five fieldworks.



2.2 Organization of the Final Report

The organization of the Final Report is as follows.

- I Introduction
 - 1. Objective, Background and Scope of the Study
 - 2. Outline of Study Implementation and Organization of the Report
- II Analysis of the Current Situation
 - 1. The Malaysian Economy and SMEs
 - 2. Current State of SMEs and Major Issues
 - 3. Current State of SME Promotion and Support Policies, Systems and Institutions, and Major Issues
 - 4. Current Advisory Services Provided by DFIs and their Issues
 - 5. Advisory Service of Financial Institutions in Japan
- III Conclusion and Recommendation
 - 1. Needs of SMEs for Advisory Service
 - 2. Recommended Direction of Advisory Service of DFIs (Direction, Strength and Limitation, Service Areas to Be Covered)
 - 3. Recommended Scope of Advisory Service of DFIs (Basic Recommendation, Scopes for Individual DFIs)
 - 4. Action Plan for Enhancement of Advisory Service of DFIs for SMEs (Issues for Enhancement, Framework and Details of Recommended Action Plan)
 - 5. Implementation Plan of Action by Each DFI for Enhancement of Advisory Service
 - 6. Monitoring

“II Analysis of the Current Situation” analyzed SME development in Malaysia, the current status of SME promotion and support systems, and the current advisory service of DFIs, all as a basis of “III Conclusion and Recommendation”. In addition, it includes a study on current advisory service provided by government financial institutions in Japan, as a good example of how the advisory service in Malaysia can be strengthened.

In "III Conclusion and Recommendation", the direction and the scope of advisory service and the action plan for enhancement of the service are proposed, on the basis of the above-mentioned baseline-assessment result, and the questionnaire survey of SMEs on their advisory service needs.

Part II: Analysis of Current State

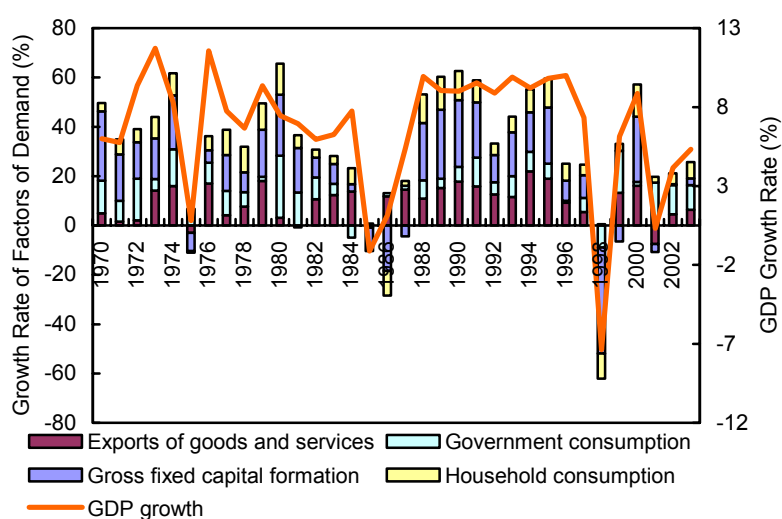
1 Malaysian Economy and the Economic Development

1.1 Economic Structure and Economic Growth

Malaysia recorded high economic growth from 1986 to 1997, when the Asian currency crisis severely affected the country's economy. Real GDP grew by an average of 9% annually during the 1986-1996 period. This average rate exceeds average growth rate of 7% recorded during the 1976-1984 period. Due to the financial crisis in 1997, the economy experienced a sharp decline of -7% in 1998. The growth rate, however, has recovered to more than 5% per annum in recent years.

The contribution of components of demand to the GDP growth rate reveals that sustainable higher economic growth after 1988 is attributed mainly to an increase in exports and gross fixed capital formation. However, recent economic growth has been characterized by the recovery of demand for exports as well as by household consumption, unlike the early 1990s when economic growth was mainly explained by private investment.

Figure II-1-1 Contribution of Factors of Demands to GDP Growth (1970-2003)



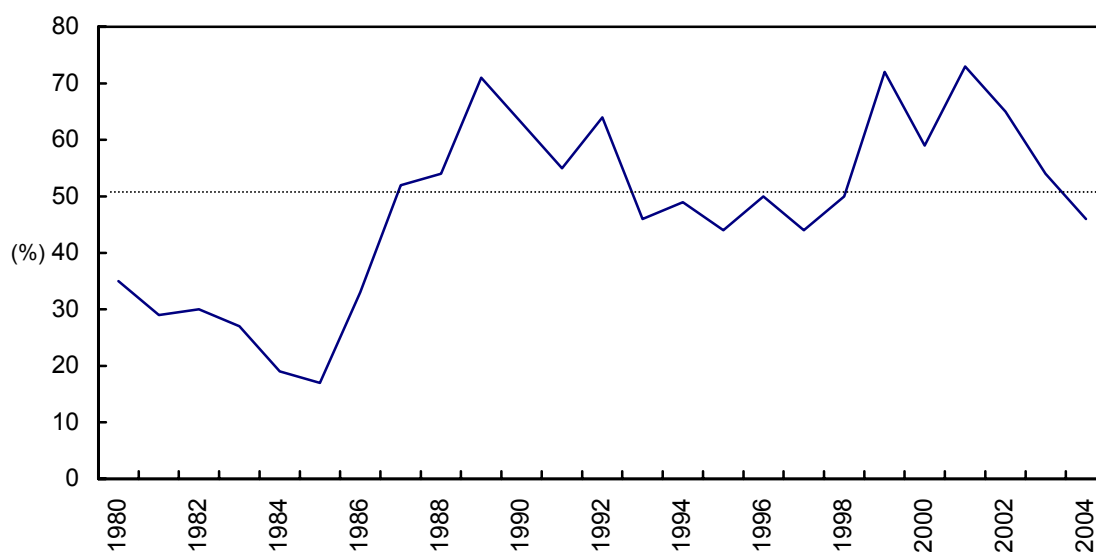
Source: World Bank (2004)

One of the key factors behind expansion of private investment after 1988 is an increase in foreign direct investment (FDI) inflow.

During the 2003-2004 period, however, the share of FDI became smaller than that of domestic investment. This is mainly explained by stiff competition with China. Like other ASEAN countries, Malaysia faces harsh competition with China both in attracting

FDI and in prices of electronic parts produced. The Government of Malaysia emphasizes in the Outline Perspective Plan 3 (OPP3), that it is necessary to improve efficiency and strengthen international competitiveness of the domestic industries amid intensifying international competition. From this perspective, the Government has steadily promoted FDI and has placed more weight on economic growth led by the private sector.

Figure II-1-2 Share of Foreign Capital to Total Capital Investment in the Manufacturing Sector



Source: World Bank (2004)

1.2 Economic Policy and Monetary Policy

The major factor enabling Malaysia to attract so much FDI is the securing of investors' confidence first by realizing political stability and second by creating a pro-investment economic environment¹. Pro-investment economic environment implies not just a macroeconomic stability, but a macroeconomic environment conducive to both foreign and domestic investment. In the case of Malaysia, it implies keeping inflation low, and maintaining balance of payments equilibrium, in addition to having a consistent pro-foreign investor policy. Indeed, the Government could maintain low inflation, between 2% and 4%, despite the high GDP growth rate. In addition, it could maintain a stable exchange rate, by exerting efforts to keep the balance of payments in equilibrium, although the current account deficit expanded in keeping with the economic growth. Such a

¹ UNIDO (1996), "Trade and Development Report 1996"

macroeconomic environment enabled Malaysia to obtain credibility among both domestic and foreign investors.

After the easing of FDI regulations, the Malaysian economic structure can be described as having a high proportion of foreign capital. The FDI deregulation policy and the export promotion policy led high economic growth driven mainly by manufacturing product exports by foreign companies. Those policies raised the ratio of foreign capital to total value of asset, and also raised the volume of production, number of employees, and amount of trade. This high share of foreign capital, however, created underdevelopment in the supporting industries made up of local companies. The enormous inflow of FDI did not necessarily contribute to develop supporting industries, foster Bumiputra companies, or strengthen their competitiveness. There are many factors behind of this, but the following three are the most crucial; first, foreign companies exported almost all products manufactured in free trade zones; second, companies in these zones procured input goods as well as capital goods from other countries because of favorable treatments such as tariff exemption on imported capital goods; and, third, Malay companies did not make enough efforts to improve their management and productivity under the pro-Bumiputra policies.

After the financial crisis, the monetary policy of Malaysia has focused on establishing an independent monetary policy and stabilizing the exchange rate. For the sake of this, the central bank placed restrictions on short-term capital flows.

Malaysia was obliged to restrict free capital movement in order to improve the economic situation through its economic stabilization policy, and to restore confidence of both domestic and foreign investors by stabilizing the exchange rate. As a result of the low interest rate policy and lower inflation supported by the stable exchange rate, the balance of outstanding loans has risen, since the middle of 1999. The BNM monetary policy is to expand the supply of liquidity for lending to private companies, in keeping with the emphasis on economic growth driven by the private sector.

The Outline Perspective Plan 3 stresses the importance of SME development from the viewpoint of enhancing the international competitiveness of the Malaysian economy. One of the crucial elements of this development process is the financial sector. According to the BNM, SMEs procure finance mainly from the banking sector. 47% of SMEs depend on loans from banks to their business operation. Despite this fact, the share of loan disbursements from the banking sector to SMEs in their total lending is not large. The share reached 21% in 2004. Considering that the shares for large companies and for

households are 48% and 27% respectively, loan disbursements toward SMEs are still relatively small.

1.3 National Development Plan

Development Objective

In order to acquire both ability to revitalize and ability to compete, the OPP3 has the following three key objectives. The first is to maintain higher economic growth by improving productivity, realizing domestic demand-led economic growth, and strengthening private sector initiatives. The second is to promote an equitable society by reducing imbalances among and within ethnic groups as well as regions so as to establish a stable society, as a continuation of the Bumiputra development policy. The third strategy is to enhance competitiveness so as to cope with any change in economic environments of the surrounding region.

The Eighth Malaysia Plan (8MP) provides more detailed polices based on the OPP3. During the 8MP, economic growth targeted is 7.5% per annum. According to the GDP by demand components, private consumption and private investment are expected to grow at 7.4% and at 19%, indicating that the Government has a great expectation for domestic demand and private investment to work as driving forces of higher economic growth.

SMEs development plan in the national development plan

The Government has acknowledged the importance of SMEs for realizing domestic demand-led economic growth and enhancing national productivity. According to the BNM, SMEs account for 92% of all entities, while their share of the labor force is only 33.3% and the contribution to the GDP is only 6%².

The labor absorption rate and the share to GDP of SMEs are incredibly small compared to the number of companies. Fostering SMEs development is necessary in order to revitalize the domestic economy. In order to achieve the high growth target for the manufacturing sector set by the OPP3 and 8MP, the Government emphasizes the necessities of: first, having resilient and competitive SMEs; second, having strong linkages between SMEs and large enterprises through facilitating technology transfer and R&D; third, revitalization of domestic investment by SMEs.

² BNM, "Annual Report (2004)"

2 Current State of SME Development and Major Issues

2.1 Current State of SMEs in Malaysia as Shown by Statistics

According to Census 2000 implemented by the Department of Statistics approximately 20,000 manufacturers actually conduct business activities. Of the active manufacturers, around 18,000 companies (89%) are classified as SMEs. On the other hand, there are approximately 192,000 companies in the commerce and service sectors, of which 186,000 (97%) are SMEs. In total, around 204,000 companies are classified as SMEs, accounting for 96% of 212,000 companies.

In the manufacturing sector, the four largest sub-sectors are textiles and apparel, food and beverages, metal and metal products, and wood products. The commerce and service sector is dominated by wholesale and retail establishments, which account for around 90% of the total. SMEs in the electrical and electronics (E & E) sub-sector, which is now one of the major industries in the country, represent a mere 4% of SMEs in the entire manufacturing sector, while accounting for 60% of all companies in the E & E sub sector.

Table II-2-1 Number of Establishments and SME Share

	Number of establishments	SMEs	%
Manufacturing	20,455	18,271	89%
Textiles and Apparel	3,419	3,319	97%
Food and Beverages	2,949	2,749	93%
Metal and Metal Products	2,918	2,709	93%
Wood Products	2,776	2,582	93%
Paper, Printing, Publishing	1,288	1,195	93%
Machinery and Engineering	1,249	1,135	91%
Plastics Products	1,121	988	88%
Electrical and Electronics	907	543	60%
Non Metallic Mineral Products	893	803	90%
Petro-chemical and Chemical	712	526	74%
Transport Equipment	507	433	85%
Rubber Products	482	366	76%
Palm oil Products	434	155	36%
Others	800	768	96%
Services	192,527	186,428	97%
Wholesale and Retail	170,046	165,640	97%
Education and Health	8,558	8,438	99%
Professional Services	5,548	4,840	87%
Transportation and Communication	3,908	3,473	89%
Computer Industry Services	283	186	66%
Travel agencies, tour operators	4,146	3,844	93%
Others	38	7	18%
Total	212,982	204,699	96%

Source: Department of Statistics, Census 2000

2.2 Major Issues Confronting SMEs in Malaysia

Issues identified in SMIDP

SME Development Plan 2001-2005 (SMIDP) – the foundation of SME promotion policy – points out that SMEs in Malaysia have the following problems.

- 1) Limited capability to meet the challenges of market liberalization and globalization
- 2) Limited capacity for technology and knowledge acquisition
- 3) Low productivity and quality output
- 4) Lack of readiness for business environment of rapid changes
- 5) Limited access to finance and capital, and the infancy of venture funds in initial or mezzanine financing
- 6) High cost of infrastructure
- 7) Lack of information

Issues identified by ministries, agencies and organizations engaged in SME support

A survey conducted by BNM in 2001 covering ministries, agencies and other organizations engaged in SME support reveals problems faced by SMEs, as recognized by the support organizations. Problems identified by the survey include “the lack of technological skills and knowledge to improve productivity (69.2%)”, “difficulties in getting loans (67%)”, and “the lack of competitiveness due to low quality of products (61%)”.

The result of SME needs survey

The survey of SME advisory service needs conducted in November and December 2004, as part of the present study, reveals the following problems faced by SMEs.

The survey questions were answered by a total of 513 companies. 307 companies (60%) of the respondents answered that they face “difficulties” in managing their companies. The most frequently cited problem is “fund-raising” accounting for 56% of responses (172 companies) that admitted the existence of this as a problem. “Lack of price competitiveness” came second, 51% (158 companies). Other problems cited by many respondents are the “shrinkage of the customer base”, the “lack of knowledge for analyzing the cause of poor business performance”, and “technical and quality problems”.

3 Current State of SME Promotion and Support Programs, Systems and Institutions, and Major Issues

3.1 Target of SME Promotion

The Eighth Malaysia Plan, which is the five-year national development plan for the years 2001 to 2005, envisages revitalizing investment by the SME sector in order to allow it to attain global competitiveness. In particular, the plan aims to review ongoing SME support programs and implement and reinforce a variety of programs continuously, including financial support, the development of industrial estates for SMEs, Bumiputra promotion policy, and implementation of training programs.

3.2 Current SME Support Programs

According to Economic Planning Unit (EPU) surveys conducted in 2002 and 2003, 12 ministries and 40 SME support organizations are currently engaged in SME development, and implement support programs, including loan and credit service, grants, incentives, advisory service and information service.

3.2.1 Support by grants and loans

According to the EPU surveys, 19 organizations provide grants for SMEs while 32 provide loan and credit service.

Support by loans and credit service

The Malaysian Government supplies funds through development financial institutions to SMEs for working capital and capital investment. Also, BNM provides SME loans through government and private financial institutions by using various funds established for SME support.

Support by grants

The Malaysian Government provides a wide range of grant schemes through SME supporting organizations. These grants can cover part of costs and expenses incurred by SMEs when they improve production, processes, or quality, develop a new market, upgrade skills, conduct a factory audit, or acquire technology licenses.

According to an EPU survey, 19 ministries and government organizations provide grants for implementation of SME-related projects in respective fields.

3.2.2 Tax and other incentives

According to an EPU survey, MIDA, MARA and the Ministry of Agriculture (MOA) provide tax and other incentives to SMEs. In particular, MIDA provides a large number of incentive programs for the manufacturing sector, high-tech industries, small enterprises, and large corporations. MARA focuses on Bumiputra micro enterprises such as family-operated trading firms and small retailers. MOA provides tax incentives for food production, import duty or sales tax exemption on machinery, equipment, spare parts and inputs or components.

3.2.3 Business expansion, consultation, and information service

In Malaysia, there are a number of organizations that provide business supports (expansion of business opportunity), advisory and consultation, and database /information service, as summarized below.

Table II-3-1 Number of SME Supporting Institutions Engaging in Market Promotion, Database and Information Activities, and Consultancy and Advisory Services

	No. of institutions
Market promotion	25
Database and Information	11
Consultancy and Advisory services	38

Source: EPU

Market promotion support is provided by 25 ministries and agencies. Although each organization provides support for each respective industry or field, there is no organization that covers the domestic market as a whole.

Database and information services are provided by 11 ministries and SME support organizations. However, there is no database that covers nation-wide SMEs, or integrates and links SME data and information stored by different organizations and industries. Rather, various organizations build and operate own databases to meet their own needs.

Advisory and consultancy services for SMEs are available from 38 organizations. The types of the services are roughly divided into five areas, business administration and management; marketing; accounting and finance; information technology, and auditing.

3.2.4 Support for training

37 ministries and SME support organizations offer training programs for SMEs.

3.2.5 Provision of infrastructure and production facilities

Nine SME support organizations provide business premises for SMEs.

3.3 Current Issues in SME Development

As discussed above, the Malaysian Government has provided various support measures for SMEs through relevant government agencies and SME support organizations.

According to an SME questionnaire survey conducted as a part of the current study, 45% of total responding SMEs have received some kind of outside support, showing how widely the supports are available. Further, 35% of SMEs which received the support, found the support satisfactory, while 15% judged it almost satisfactory, 15% unsatisfactory, and 32% declined to comment.

The findings may be a little bit different from the above, if one analyzes the details in the interview survey of SMEs which was conducted in parallel with the above questionnaire survey (42 SMEs were interviewed of the 510 SMEs which responded to the above questionnaire survey). Namely,

- Expectation government support was found among most Non-Bumiputra SMEs, and is not explicit except in regard to financial support. They have obtained most of the information they need on the market trends of their products, and technical support from professional community and customers. However, when it comes to information on new or advanced technology and trends in target export markets, their expectation regarding Government support is very high, since such information is hard to obtain from their current information sources.
- Contrary to the above, Bumiputra SMEs have had poor sources of information and have depended heavily on government offices. In fact, many Bumiputra SMEs rely on the Government and public entities as their major customers. They are expecting advices which are to the point based on market and technology trend

analysis.

- Further, although there are many training programs offered by a large number of government offices, few SMEs are found to have used these programs. Major users of these training programs are large enterprises, state enterprises, or banks. One reason that SMEs cannot afford to use these opportunities is an operational problem, in that they cannot justify releasing employees from work to permit them to attend training programs. Another factor may be the fact that SMEs have employed many foreign workers.

Considering the above findings, government agencies and organizations must be made fully aware of the fact that Bumiputra SMEs have high expectations for support by the Government and SME support organizations, and need to upgrade their support so as to meet those expectations. Particularly, insufficient support, in terms of data and information, for the staff whose work is related to SME promotion may be one aspect requiring attention. In order for the advice to meet the expectation of SMEs, the persons assisting the SMEs must have adequate data and information to support their advice, and must be equipped, also, with expertise as advisors on management of SMEs. Expertise on SME management, however, will be difficult to acquire in a short period of time since most of these advisors have no experience in business. Therefore, it is recommended to mobilize persons who do have business experience, or who are currently engaged in business, to serve as trainers through such means as giving lecturers at seminars and offering advice. Further, data and information that are needed in order to be able to offer adequate advice, should be gathered and accumulated jointly by the relevant government agencies and organizations. The staffs of government agencies and organizations related to SME support, should be regarded as “counselors”, who are sympathetic listeners when SMEs relate their problems or have requests, and who, in response, introduce advisors or appropriate organizations having professional expertise. The training of the staff, therefore, should be carried out to enable this.

Regarding non-Bumiputra SMEs, most of them have obtained information required for their business activities through their respective professional communities. Foreign enterprises in Malaysia and customers in the export markets seem to be their major sources of essential information. Regarding non-Bumiputra SMEs’ desires related to government agencies and organizations, they expect relaxation of restrictions on business activities, and greater supply of over-the-horizon information than that obtainable from their existing sources, for finding good opportunities to improve and expand their businesses.

4 Current Advisory Services Provided by DFIs, and Related Issues

4.1 DFIs in SME Finance, and the Financial Sector Master Plan

4.1.1 Current features of DFIs in SME finance

(1) Overview

Some commercial banks have established new departments or units specializing in promotion of SME finance, and their loan amount for SMEs has been on the rise in recent years.

Table II-4-1 Recent Business Loans by Private Banks

(Unit: RM 100 million)

	Loans for SMEs (A)		Total business loans (B)		(A)/(B)	
	2003	2004	2003	2004	2003	2004
Loan application	445	541	1,249	1,499	35.6%	36.1%
Disbursement	871	1,004	3,934	3,353	22.1%	29.9%
Outstanding amount	820	883	2,158	2,191	38.0%	40.3%

Source: BNM, Annual Report 2004

By way of comparison, the amount of outstanding loans by the four DFIs to SMEs, at the DFIs covered by the current study, was RM3.3 billion (2003), accounting for approximately 4% of the total business loans.

Table II-4-2 Outstanding Amount of SME Loans by the Four Major DFIs

(Unit: RM million)

	BPIMB		BITMB		EXIM Bank		BPM		Total
	2002	2003	2002	2003	2003	2004	2003	2004	2003
Outstanding amount	2,269.0	2,672.0	494.6	407.2	48.2	56.0	191.2	192.8	3,318.6

Source: Interviews to each DFI

(2) DFIs in the SME Finance

The present study did not include comprehensive surveys of SMEs regarding their finance needs or what they expect of the SME finance system. The following shows a finding on SMEs' finance needs, from a survey conducted by the Japan Bank for International Cooperation (JBIC) during the period of December 1999 through March

2000³.

1) Fund-raising

The survey suggested that SMEs needed funds but had difficulty in finding a source of funding. A high level of need for funds was found particularly from relatively small enterprises having the combined working capital and fixed assets of RM5 million or less. Generally, enterprises that primarily sell to the domestic market showed higher fund requirements than export-oriented enterprises, suggesting that, while export finance is being supplied relatively smoothly, enterprises serving the domestic market have difficulty in obtaining bridge financing for the operating funds. The above financial needs are generally small in amount, RM1 million or less.

2) Funding sources of SMEs

Use of formal funding sources – commercial banks, finance companies, and DFIs – remained relatively unchanged during the period after the Asian economic crisis, whereas use of informal financing as well as sales proceeds and internal reserves have increased as funding sources. In particular, the share of funding from DFIs shows only a small change (specifically, it decreased in the fixed investment category) and remains very low. Enterprises that have applied for DFI loans represent only 22% of the total (while those with no experience 33%), and the level of satisfaction for DFI's service is very low.

3) Government Funds

The JBIC survey asked for evaluation of government financial institutions and their services, and the results were as follows.

- For DFIs, the most frequently cited criticism was “taking too much time,” accounting for 31% of the total, followed by “requiring many documents” and “rejecting the application,” 18% each.
- As for complaints to the CGC, “taking too much time” showed the highest percentage of 29%, followed by “requiring a high guarantee fee” (18%), “a small amount of guarantee” (16%), and “requiring many documents” (16%).

In the interview survey of DFI's loan customers, as conducted under the present study, similar problems were cited. In particular, they pointed out that they were not able to

³ The survey was conducted in collaboration with FMM. The collected responses include 240 FMM members and 60 non-FMM members, while questionnaire was distributed to 1,576 FMM members and 3,745 non-FMM members. This report is the analysis of 221 responses, which are categorized as SMEs under the SMIDEC's definition.

obtain loans in a timely manner due to the considerable time required for loan application procedures or many documents required to be submitted. (In fact, it is often the case that SMEs do not make loans even after giving approval.) Also, many pointed out that DFI's finance scheme (or finance schemes of government financial institutions) was not widely known.

As a result, many SMEs do not consider DFIs as a long-term business partner and thus are reluctant to disclose their company information to them.

4.1.2 Financial Sector Master Plan and DFIs

BNM launched the Financial Sector Master Plan (FSMP) in March 2001. This is a 10-year blueprint to develop the Malaysian financial sector. The purpose of the FSMP is to lay out a plan to chart the future direction of the financial system over the next 10 years – a plan that will ensure the system's continued effectiveness, competitiveness and resilience. It is vital for the financial system, particularly the domestic financial institutions, to be competitive and responsive in their environment where the trend is for more globalization and liberalization, as a means to facilitate economic development.

The DFIs are expected to play an important role in future national development strategy by supplementing private commercial financial institutions. The DFIs are expected to be consultants or management service providers for targeted strategic economic sectors. The FSMP recommends the following issues to promote effective operations of the DFIs.

- 1) Define clearly the strategic focus and role of the DFIs so as to avoid competition with private commercial banks
- 2) Enhance institutional capacities and operational structure
- 3) Enhance performance measurement
- 4) Introduce a systematic framework for sourcing funds
- 5) Continue the Government's support to the DFIs
- 6) Strengthen corporate governance
- 7) Establish a legislative framework to provide for regulation and supervision of DFIs
- 8) Establish a single Regulatory and Supervisory Authority (RSA) to strengthen the supervision of DFIs

Particularly regarding the role of the DFIs, the FSMP emphasizes that the DFIs are to function as (1) Development Institutions contributing to achieving the socioeconomic and

developmental goals of the Government, (2) Financial Intermediaries to complement the banking sector through extension of credit in the areas that the private banks cannot adequately cover, and (3) Specialized Institutions that develop and facilitate products and services for sustainable growth. The FSMP emphasizes, among others, that the DFIs should provide value-added advisory, consultancy and technical assistance supported by strong research capability, as specialized institutions, and it recommends that they set up research and development divisions as parts of their institutional and operational structure, to provide advisory services for the target groups of DFIs.

4.1.3 Need for advisory services by DFIs

DFI's supply of advisory service would consist of providing to SMEs, which are an important strategic target sector for DFIs to support, with professional services, as emphasized in the FSMP. In addition to this, the advisory service is expected to be effective means to overcome the problems that the DFIs now face. Namely, the DFI's advisory service is expected to be helpful in the following ways:

- 1) Strengthening the financial base of DFIs by significantly reducing the NPL rate and finding new potential borrowers that have healthy financial bases, thereby allowing DFIs to fulfill their financial function.
- 2) Development of the customer base of DFIs so as to increase influence of DFIs over the strategic priority sectors.

More precisely, the advisory service will be effective in supporting those SMEs which are aggressive in their efforts at improving and expanding their businesses, and will also contribute to satisfying the following requirements indirectly:

- (1) Requirements for strengthening of the financial base and establishing a sustainable finance scheme

The primary purpose of DFIs is, generally, to promote the achievement of a strategic goal relating to national development by means of their financial functions. Because of this, it is inevitable that the collection rate of DFI loans is lower than that of commercial loans. Nevertheless, the ratio of NPLs in Malaysia appears to be excessively high.

The main reasons for the high ratio of NPLs include: (1) the data submitted by loan applicants are not necessarily precise enough to make an adequate appraisal decision; and (2) communication with borrowers is insufficient for high-frequency prevention of the lender from taking appropriate action before a loan becomes non-performing. To

improve the situation, it is important to establish and maintain a closer relationship with customers so as have the ability to collect accurate and supportive information on the borrower and its business and to identify, at an early stage, any major change related to management of the company that might lead to a loan's becoming non-performing. At the same time, the DFIs can provide their loan customers with useful feedback by analyzing the companies, basing their inquiry on accurate financial information obtained from the customers. This also will be effective for encouraging the loan customers to maintain proper management.

(2) Requirements for expansion of the customer base

Although each DFI has as its mission to financially support the development of a specific strategic sector, their actual contribution to progress toward the development goal remains very small.

For DFIs to exert a significant influence in favor of achieving their policy objectives, it is imperative that they expand their customer bases by a substantial margin. Advisory service is expected to contribute greatly to this.

(3) Requirements to enable complementing the financial function by non-financial functions

It is often the case that financial support alone is not sufficient, in one aspect or another, to strengthen SMEs and their management bases. First of all, SMEs generally lack the ability to collect information on technology and the market, and as expressed in their responses to the various surveys, they expect the public sector to play a certain role in providing relevant information. Advisory service is essential in meeting the needs of SMEs, which cannot be satisfied by the financial function alone, e.g., when a company falls into difficulty, when a company intends to start up a new business or introduce a new product, or when a company introduces a new management technique or expands business. The service is also useful in promoting development of SMEs in a global scene.

Although non-financial SME support is not the main function expected from DFIs, it is in the best interest of DFIs to accomplish their policy objectives by augmenting their financial support by providing non-financial supports, directly or, when necessary, in cooperation with other organizations.

4.2 Current Advisory Services and Issues

The major features of the current advisory service provided by the five DFIs are summarized as follows.

(1) The concept of advisory services is not the same among the DFIs

(2) The DFI's division charged with implementation of the service is not defined clearly

None of the DFIs designates one specific division which, as the division specialized in advisory service is charged with maintaining relationships with the loan customers. In most cases, content and quality of the advisory service are determined by each staff member and his/her ability.

(3) Lack of a support system for advisory service

None of the DFIs has an internal support system to provide information and tools for divisions that provide advisory service.

(4) Customer information is difficult to obtain on a continuous basis

Very little financial information, which forms the basis of advisory service, can be collected from customers. The information that is acquired is obtained at the time of loan application but is not updated on a continuous basis. The customer supplies information under a sense of obligation and does not realize that continuous disclosure serves his own interests.

DFI staff members do not contact the customers frequently and thus cannot stay informed of changes in the customer's status.

5 Advisory Service Provided by Financial Institutions in Japan

5.1 Overview

In Japan, SMEs raise funds largely through indirect financing, from commercial banks or government financial institutions, and the direct financing is not well-developed for SMEs. Financial institutions in Japan are categorized into various types according to their geographical coverage (national or regional). Government financial institutions provide supplemental functions to private commercial banks (Figure II-5-1). Various financial institutions are providing advisory service for SMEs as part of their key services in the non-financial areas.

Figure II-5-1 Business Areas of Financial institutions

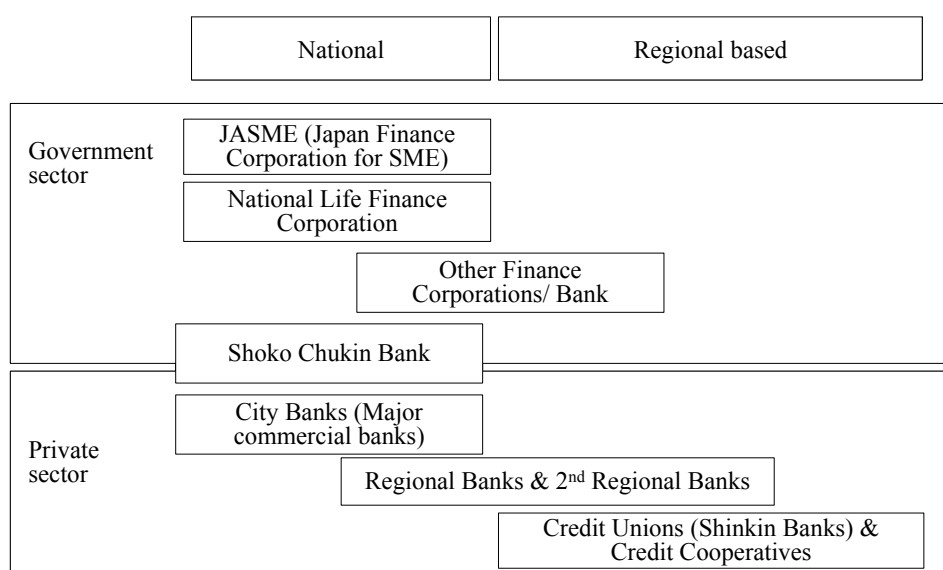


Table II-5-1 Outstanding Business Loans

(Unit: Trillion Yen)

		Outstanding loans for SMEs						Outstanding loans for large companies	
		Private financial institutions		Governmental financial institutions			%		
			%		%				
2000	3	316.8	96%	288.2	96%	29	100%	149.4	106%
2001	3	320.9	101%	292.7	102%	28	99%	125.1	84%
2002	3	298.1	93%	270.6	92%	28	98%	117.5	94%
2003	3	274.1	92%	247.4	91%	27	97%	110.5	94%
2004	3	260.8	95%	234.5	95%	26	98%	101.6	92%

Note: Percentage change from previous year

Source: BOJ, "Monthly Financial and Economic Statistics"

The major source of funds for SMEs is financial institutions in the private sector. As of the end of May 2005, 605 private financial institutions were providing SME loans.

There are major three government financial institutions specialized in SME loans as shown below.

Table II-5-2 Government Financial Institutions for SMEs in Japan

	National Life Finance Corporation	Japan Finance Corporation for SME (JASME)	Shoko-Chukin Bank
Established year	1949	1953	1936
No. of staff	4,820	1,750	4,571
No. of branch offices	152	61	103
Loans outstanding (Mil. Yen) (Mil. US\$)	10,339,600 (94,000)	7,568,800 (69,000)	9,824,400 (89,000)
Characteristics	<ul style="list-style-type: none"> ● For smaller businesses with less than 20 employees ● Consumer loans are available 	<ul style="list-style-type: none"> ● For small & medium businesses with more than 20 employees ● Long-term business loans, securitization and credit insurance 	<ul style="list-style-type: none"> ● For every size of small & medium businesses ● Short-term business loans are available

5.2 Japan Finance Corporation for Small and Medium Enterprise

JASME has been serving as a government financial institution for SMEs and supplementing the functions of private financial institutions by providing long-term loans to reinforce the management foundation of SMEs.

While private financial institutions have started to focus on business expansion into the SME loans, JASME has shifted its strategic focus from providing a quantitative supplement of private financial institutions to providing a qualitative supplement. In particular, it has expanded a special loan program with a preferential terms and interest rates to assist SMEs in improving their management base, while emphasizing its advisory service function to help SMEs to solve management problems.

Advisory service

Before and after execution of loans, JASME provides effective information service and management advice to support loan customers by identifying their management problems through effective communication with SME owners and managers.

It provides consulting service using the RIP (Relation-Intelligence-Proposal) system that is its own business support system, and a database on its customers (approximately 50,000 companies throughout the country).

(1) Advisory/consulting service

1) Management diagnosis

JASME offers a financial analysis service using a self-developed tool, titled "Easy to Understand Business Analysis", which consists of analysis of financial statements of the client from various aspects, and a "Management Simulation" service to assist the process of business planning. Much use is made of charts and tables so that the result is easy to understand, and comprehensive enough on the essential points. Also, the SWOT analysis method is used to give a wider perspective and shed a light on key issues that are identified by analysis of the financial data.

2) Business matching

JASME can introduce loan customers to buyers, subcontractors, suppliers, and other potential partners. JASME's loan officers find and recommend potential partners from its database of over 50,000 companies.

3) Business interface meeting

By creating synergetic effects with the individual business matching service, the business interface meeting serves as a forum for more efficient matchmaking.

4) Case information service and advice

JASME advises customers on management problems and provides them with useful examples and the information on small business management JASME has accumulated.

In response to a customer's request, JASME can also arrange a meeting with companies which have been successful in solving their management problems.

(2) Research activities

JASME established the Research Institute in 2004 by reorganizing the former research department. The Research Institute is engaged in survey and research activities as follows, in order to serve as a think tank for SMEs.

- a) Economic survey
 - 1. Survey on Small Business Trends
 - 2. Survey on Business Confidence of SMEs
 - 3. Survey on Plant and Equipment Investment by Small Businesses in Manufacturing
- b) Industrial and regional surveys
- c) Financial survey
- d) Publications

5.3 National Life Finance Corporation

NLFC's loans are largely made to supply business funds (working capital and investment capital) to SMEs. NLFC, especially, promotes small business loans for smaller enterprises. As for company size, smaller companies with 9 employees or less account for approximately 90% of its business loan customers, while individuals account for around 50% of the customer base.

Advisory service

(1) Advisory service

As NLFC mainly provides loans to smaller enterprises, its advisory service mainly covers consultation relating to loans and repayment and the information service for startups and SMEs.

Advisory services provided by NLFC are as follows.

- 1) Consultation and information service for startups
- 2) Establishment of Special Consultation Desks for restructuring support and emergency cases
- 3) Collaboration with CCIs and SCIs in the effective use of the special "Marukei" loan (Management Improvement Loans) scheme

NLFC works together with local Chambers of Commerce and Industry (CCIs) and Societies of Commerce and Industry (SCIs) to provide the Management Improvement

Loans (the “Marukei” loan scheme). Under the scheme, SMEs are required to receive management guidance service from management consultants of the local CCI or SCI for at least six months and to obtain an official recommendation for loan application. NLFC reviews and approves each loan application on the basis of the recommendation by the local CCI or SCI.

(2) Research and information service

1) Major research activities

- a) Business confidence surveys
- b) Business startup surveys
- c) Surveys of SME management and managers

2) Information service

NLFC, led by the Research Institute, conducts a wide range of surveys to collect and analyze information on the economy, finance, and SME management, and publishes the results.

5.4 Agriculture, Forestry and Fisheries Finance Corporation

AFC extends financing to individuals and enterprises engaged in agriculture, forestry, fisheries, and the food industry, supplementing finance by the private financing institutions.

The loans from AFC are made solely for maintaining and increasing production capacity of agriculture, forestry and fisheries, and for ensuring stable food supply by those who are engaged in manufacturing, processing and distribution of food. The outstanding loans by AFC account for 42% of total finance to the sector (or 2,470 billion Yen), considering loans for agricultural management purpose only.

The loans from AFC is mostly used for funds for acquisition of equipment. AFC extends long-term loans at fixed concessionary interest rates.

The number of borrowers is 104,000; individuals account for 89%.

The loans by AFC are extended mainly through agent financial institutions, rather than directly from AFC’s 22 branch offices.

Advisory service

AFC has built up their own support system on the basis of the fact that both the agricultural cooperative sector and the government sector provide every aspects of support and guidance for agricultural production and management, including technology, management, material procurement and financing.

- (1) Advisory services
 - 1) Advices provided through branch offices
 - a) Business plan consultation
 - b) Advice for improvement of business management
 - 2) Assistance for expansion and reforms of the business
 - a) Business matching
 - b) Interface meeting among the customers in different businesses
 - 3) Provision of assistance to loan customers in collaboration with agent financial institutions
 - 4) Advisor system for agricultural management
- (2) Information service
 - 1) Information on agricultural business management and agricultural technology
 - 2) Regional information
- (3) Research
 - 1) Periodical Researches
 - 2) Non-periodical Researches

5.5 Central Cooperative Bank for Commerce and Industry (Shoko Chukin Bank)

The Central Cooperative Bank for Commerce and Industry (Shoko Chukin Bank) is a government financial institution founded jointly by the Government and SME cooperatives. The bank lends business funds to SME cooperatives and associations, which contribute capital to the bank, and their member SMEs. By industry type, the top two sectors account for more than 60% of the total, namely manufacturers (33%) and wholesalers/retailers (31%), followed by service industry (12%) and transportation and communication (11%).

Advisory service

- (1) Consultation service
 - 1) Service provided by the bank's head office and branches
 1. Provision of a wide range of consultation services including assistance related to securing a successor to run a business, IPO support, M&A and alliance arrangements, business partnerships, effective use of real estate, and management

information on direct foreign investment.

2. Support for sustainable growth of SMEs and provision of information service, together with supply of funds, to meet the needs of every business growth stage (i.e., startup, stable growth, innovation, revitalization).
 3. Establishment of special consultation desks to support SMEs that are affected by the collapse or reorganization of financial institutions, corporate bankruptcy, natural disasters or large accidents, and provision of emergency loans with quick processing of loan applications and flexible loan terms.
- 2) Specialized service by Japan Institute of Commerce, Industry and Economics, Ltd.

Japan Institute of Commerce, Industry and Economics, Limited, a member company of the Shoko Chukin Bank group, provides highly specialized consultation service in the field of business management on a for-members basis. It provides free services to its members such as distributing newsletters, holding seminars, providing consultation services, and lending of training videos. It also sells publications and provides fee-based service including seminars, consultation, and the dispatches of speakers and instructors.

(2) Information service

The Shoko Chukin Bank provides free information service for SMEs and cooperatives via the Internet.

(3) Economic research activities

- 1) Monthly survey of SME business confidence
- 2) SME capital investment trend survey
- 3) Regional analysis of SME business confidence

(4) Networking of SMEs

The bank is actively engaged in promotion of “linkage between individual companies”. The bank has created two organizations for SME managers, “Youth Association” and “Chukin Association”, to promote mutual learning, business exchange and know-how among companies in diverse industries.

5.6 SME Advisory Service by Private Financial Institutions

In Japan, private financial institutions (city banks and regional financial institutions [regional banks, second regional banks, Shinkin banks, and credit cooperatives]) play a leading role in providing SME loans.

In connection with this, a significant recent move was when the Financial Services Agency, in March 2003, announced its “Action Program Concerning Enhancement of Relationship Banking Function” for regional financial institutions by designating years 2003 and 2004, to improve management efficiency of regional financial institutions by “encouraging the financial institution to store customer information through close and long-term relationships with the customers and to provide lending and other financial services on the basis of such information”. Under the program, regional financial institutions were urged to strengthen their SME support system in relation to advisory service according to the stage of growth, including: 1) the strengthening of entrepreneurship and business startup support functions; 2) the strengthening of customer consultation and support functions; and 3) support for prompt business revitalization.

In promoting close relationships with SMEs, regional financial institutions have changed their attitude toward SME loans. Priority loan evaluation items of SME loan applications cited by financial institutions shifted from “availability of collateral” and “guarantee by the owner/principal” to “credibility of financial statements”, “technological capability” and “ability of the owner/principal”.

Advisory service by private financial institutions

(1) Overview

Traditionally, private financial institutions have been providing consultation services for SMEs as part of their marketing and customer service activities. Advice on finance and accounting forms a core element of the advisory service.

They also provide a wide range of advisory and support services, including business matching among customers, information service (regional information, real estate, M&A, and business alliance support), business succession, IPO, ISO certification, and international business. In FY2003 and early 2004, approximately 20% of problem loans to SMEs that received the management improvement support service under the relationship banking program were reclassified according to improvement of credit ratings.

In addition to day-to-day consultation service provided by branch offices, city banks and large regional banks provide highly specialized management consultation service and legal and tax advice through their research institutes or subsidiary consulting firms. These services are provided on a membership basis and are generally provided by experienced banking staff and outside experts such as lawyers and tax accountants.

(2) SMEs desiderata in advisory service

A special survey of SMEs conducted by the Shinkin Central Bank reveals that “SMEs feel that smaller, regional financial institutions that have established a long-term (more than 10 years) relationship and understand their management and business very well” and “regular visits by branch staff” were cited as effective means to build a good customer relationships. Also, as for non-financial services expected from regional financial institutions, there is strong need for “support for management and business planning”, “business revitalization, management advice and consultation”, “introduction of business opportunities and potential trade partners”, and “financial analysis and accounting advice”.

(3) Advisory service delivery support system

Many financial institutions have a department in charge of management consultation for SMEs, to provide specialized service in addition to day-to-day advisory service provided at the branch office. Also, they accumulate management information and know-how at their research department or think tank, in order to provide adequate information service for customers. Customer information is stored in a database and used for advisory service. The database covers a wide range of information, including records on communication with customers, business matching information, and financial data, thereby allowing various departments within the bank to share customer information.

Part III: Conclusion and Recommendation

1 SME Development and Advisory Service

1.1 SME Development and Advisory Service in Malaysia

1.1.1 Target of SME support in Malaysia, and major issues

A core element of the growth of the Malaysian economy is export-oriented industries that have achieved explosive growth fueled by increases in direct foreign investment reflecting the government's extensive efforts to attract capital. However, the linkage between the leading manufacturers in the export sector and local SMEs has progressed only to a limited extent. Further, the linkage is seen mostly among non-Bumiputra SMEs. Many Bumiputra SMEs, including those that are classified as leading Bumiputra enterprises, still depend upon doing business with government offices, state enterprises, and public organizations. Given the irreversible globalization of the Malaysian economy, it is important to achieve a situation wherein every local SME can establish a solid management base in a competitive environment where they cannot expect preferential treatment.

Thus, clearly, the two types of local SMEs need different types of support. Those that are in the process of forming linkages with export-oriented manufacturers need public support that focuses on the strengthening of management to be sustainable at the level of the global market. At the same time, effective support should be provided for SMEs that operate in the protective environment to allow them to expand their business outside their current environment, to competitive markets, without protection.

1.1.2 Advisory Service in Development of SMEs in Malaysia

The idea of upgrading or strengthening of advisory service is based on a general notion that it is conducive to development and promotion of SMEs.

SME development and promotion in Malaysia is usually discussed from two different viewpoints. On one hand, SME development and promotion generally refers to activities to promote Bumiputra enterprises with a view to encouraging participation of Bumiputra in industrial and economic activities. On the other hand, SME development and promotion is considered to continue as a component of the efforts to make the Malaysian economy internationally competitive amidst the trend of globalization by leveraging the potential vitality of SMEs.

Effective support requires clear definition of the support target and promotion objective in view of the above.

1.2 The Advisory Service Needs Related to SME Development

As part of the present study, questionnaire surveys were conducted to obtain an understanding of what SMEs need from advisory service. Also, management diagnosis was conducted for a limited number of enterprises for the purpose of training of DFI's to-be advisory service staffs.

The results of these surveys clearly indicate that many SMEs expect DFI to play a more active role in SME support, a role which goes beyond the present financial support program. More precisely, support is expected to assist SMEs in aggressive business expansion, particularly in the following areas.

1. Provision of information on market and technology trends, which are useful for business development
2. Guidance for business expansion and management upgrading

The next table shows the expectation of SMEs for outside advisory service and DFI's supports. The provision of "**Information**" for both outside support and DFI's support, is the advisory-service area in highest demand. The second most demanded advisory area is "**Business upgrading**".

Table III-1-1 Result Summary (Total)

Total						
Issue category	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)	Expecting DFI's support (d)	(d) / (c)
Difficulty	510	307	183	36%	170	93%
Start-up	508	308	220	43%	189	86%
Basics	508	208	174	34%	159	91%
Business upgrading	508	379	276	54%	242	88%
Information	508	n.a.	380	75%	345	91%
HRD	510	n.a.	246	48%	216	88%
Export	509	231	158	31%	137	87%

According to the survey, the ratio [(c)/(a)] among 100% Bumiputra in the all-issue categories is higher than that among others. Bumiputra companies show the strong demands for outside support.

Tables III-1-2 & 3 Result Summary (100% Bumi and others)

100% Bumiputra

Issue category	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)	Expecting DFI's support (d)	(d) / (c)
Difficulty	181	122	79	44%	71	90%
Start-up	181	128	102	56%	81	79%
Basics	181	88	71	39%	62	87%
Business upgrading	181	157	128	71%	108	84%
Information	181	n.a.	145	80%	127	88%
HRD	181	n.a.	107	59%	90	84%
Export	181	69	55	30%	44	80%

Others

Issue category	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)	Expecting DFI's support (d)	(d) / (c)
Difficulty	328	184	103	31%	98	95%
Start-up	326	179	117	36%	108	92%
Basics	326	119	102	31%	96	94%
Business upgrading	326	221	147	45%	133	90%
Information	326	n.a.	234	72%	217	93%
HRD	328	n.a.	138	42%	125	91%
Export	327	162	103	31%	93	90%

Satisfaction of SMEs with the outside support received

Two hundred thirty-four (234) companies (about 45% of the total responding companies) have received some outside assistance or advice before. One hundred fourteen (114) companies (30% of the companies that currently expect to obtain business information) have received some kind of **business information service** from outside sources.

As for the level of perceived satisfaction with advisory service in the past, 35% of the companies that have received any kind of advisory service in the past answered that they

are satisfied with those services and 15% of the companies said that they were almost satisfactory. This means that half of the companies that have received some kind of advisory services rate their past outside support experiences positively. On the other hand, 15% companies answered that they are not satisfied with their past advisory services. Moreover, 32% of the companies that have received outside advice did not comment on their level of satisfaction. In addition, fewer 100% Bumiputra companies are satisfied with past experiences than other companies are. The ratio of the 100% Bumiputra companies that are not satisfied with the experienced advisory services is higher than that of other companies.

(Please also see findings from the SME interview survey, shown in II-3.3.)

2 Recommended Direction of Advisory Service of DFIs

2.1 Advisory Service Provided by Government Financial Institutions in Japan

Major characteristics of advisory services provided by government financial institutions in Japan are summarized as follows.

(1) Service recipients

In Japan, advisory service provided by government financial institutions (generally referred to as “managerial improvement consultation service”) is intended for their customers, including past borrowers and other companies that have had contact with them (potential customers). This differs from action that is provided in the form of guidance for customers with NPLs. In practice, the service can be used by any company regardless of the present status as a borrower.

While the advisory service is carried out as a mandate of government financial institutions to support SMEs, it has indirect objectives of finding new customers and helping to maintain their customers’ sound management, two objectives which are considered to be equally important. This reflects policy priorities of government financial institutions, namely that they are to provide their service broadly for companies that meet their lending requirements and to ensure smooth lending and repayment. In fact, the advisory service is often provided systematically for groups of specific customers who meet the above conditions to encourage them to be more aggressive in their business operations.

(2) Service content and delivery

The advisory service by government financial institutions is provided in the form of information service, consultation, and through special events. Personnel in charge of advisory service are assigned to each branch office and each person takes care of 100 – 110 customers. The advisory services are provided directly by these persons, or other resource persons/divisions introduced by them. These services help to establish and maintain close relationships between financial institutions and customers by allowing them to exchange information on the status of the customer’s operations as well as financial service-related information. Borrowers are required to report their financial condition on a periodical basis, and in return, the financial institution conducts corporate diagnosis of borrower firms, when the customer request it.

(3) Service delivery system and tool

As mentioned earlier, the advisory service of government financial institutions is provided largely by their branch offices. However, each institution has an internal organization which takes the initiative in offering advisory services, separately from the branch offices. They are generally responsible for provision of relevant information, financial evaluation, and event planning, and conduct training for advisory staff.

(4) Monitoring and performance indicators

Government financial institutions in Japan are mandated to operate under supervision of competent ministries (e.g., the Ministry of Economy, Trade and Industry, and the Ministry of Agriculture, Forestry, and Fishery, etc.). However, regarding the financial aspects of their operation, all of them are subject to supervision by the Financial Services Agency. No periodical monitoring is conducted by the supervisory agencies for advisory service.

Effectiveness of advisory service by government financial institutions has been surveyed and evaluated from time to time by their supervisory ministries, although not on a periodical basis. One important indicator used for evaluation was the decline in the percentage of NPLs.

2.2 Extent of Current Contribution of DFIs to SME Support

DFIs' actual contribution to the progress toward their development goals remains very small, as summarized below.

- As of the end of 2003, BITMB's loan customers amounted to 470 enterprises (360 in the manufacturing sector), of which 377 were SMEs (299 in the manufacturing sector). As there are approximately 20,000 manufacturing enterprises in Malaysia, BITMB serves less than 2% of the manufacturing sector.
- EXIM Bank's customer base consists of 161 enterprises, excluding those using the ECR, while MATRADE's membership amounts to approximately 8,500 enterprises. Most major exporters in Malaysia have relationships with commercial banks and few maintain a business connection with EXIM Bank.
- MECIB is primarily engaged in underwriting of comprehensive export credit insurance. In 2003, it underwrote only 220 policies, with total coverage of RM1,077 million (in terms of export value declared) that accounts only for 0.27% of the total value of exports (RM398,900 million).

- BPIMB is the only DFI that maintains a customer base that has reached critical mass in terms of being effective in achieving a policy effect from the viewpoint of SME promotion. BPIMB's loan customers consist of SMEs and enterprises in the infrastructure sector. For the former, there are 3,544 enterprises as of the end of 2003, which account for approximately 18% of 20,000 SMEs in the manufacturing sector.

2.3 Recommended Direction of Advisory Service of DFIs

2.3.1 Proposed concept of advisory service

The advisory service proposed here is a more proactive service to nurture the competitive and sustainable SMEs. According to the results of the SME survey, SMEs expect that outside support should be focused particularly on the following areas:

- Active support to encourage business development by means of information on market and technology trends; and
- Guidance for business expansion and improvement of management techniques.

2.3.2 Strength and limitation of DFIs in offering support for SMEs

- (1) Strength of DFIs compared with other agencies and institutions in terms of offering advisory service

Public assistance to SMEs for their promotion is provided also by government agencies and institutions other than DFIs. The assistance the DFIs should provide must be defined by taking into account the strength of DFIs in comparison with that of other agencies and institutions.

The strength of DFIs comes from its relationship with their customers. Namely,

- 1) DFIs can keep close contact with their customers individually in the course of work proper to the DFIs, if DFIs intend to do so.
- 2) DFIs have capability to assess the managerial conditions of the customers.
- 3) DFIs may offer the service in combination with financial services.
- 4) DFIs accumulate data and information as a base data for appraisal of loan applications, and these data and information can be utilized on behalf of their customers.

These strengths of DFIs should be mobilized in providing advisory service to their customers.

(2) Limited factors for DFIs in offering advisory services

The following are the points which are judged to be limitations of DFIs in Malaysia, in offering advisory service for SMEs.

- 1) The DFIs in Malaysia are small in terms of the scale of their operations.
- 2) The current advisory services provided by most of the DFIs have been undertaken without coordinated plans, and by heavily relying on the capability and quality of individual staff members.
- 3) The advisory service of financial institutions is generally carried out based on financial data provided by the customer SMEs. The accurate financial data from the customers, however, seems to be difficult to assume as the advisory service basis for the time being, in Malaysia, since most of the SMEs are reluctant to provide their financial data to DFIs except at the time of loan application.
- 4) With some exceptions for Bumiputra SMEs and SMEs located outside major city areas, the SMEs have not relied much on the government institutions.

(3) Recommended positioning of DFIs' advisory service in the SME support in Malaysia in the future

To allow the DFIs to make most use of its advantages and overcome the limitations, various approaches should be taken in terms of program planning and implementation - in addition to the DFI's isolated planning of advisory service – by including the delegation of some functions or tasks, by coordinating implementation with other organizations, by joint implementation involving more than one DFI or between the DFI and other organizations, and by outsourcing to other organizations or the private sector.

2.3.3 Service areas to be covered by DFIs in SME support

There are a number of organizations engaged in the development of SMEs in Malaysia that provide diverse support. It is therefore important to deliver support service in an efficient and effective manner by ensuring optimal combination of resources and efforts of various organizations concerned in due consideration of their characteristics and restraints in terms of execution capability. More precisely, the role of the DFIs should be redefined according to the following principles.

- (1) Where there are support services and functions for which other public organizations or the private sector has established its own delivery system or which are currently provided for a large number of SMEs, there is no need for the DFIs to plan to provide

services. Rather, the DFI should confine itself to the function of providing SMEs with information on such services.

- (2) The support services that do not match the DFI's objectives or are otherwise unsuitable for the DFI's mission or function, such as the following, should be excluded from the list of DFI's services.
 - 1) Any support service that forms a major domain of SME support service, which can be efficiently and effectively provided by a specialized organization (such as technical support and provision of general marketing information).
 - 2) Any support service that requires high levels of expertise and experience in a certain field, which cannot be acquired by the DFI in consideration of its function or responsibility.

3 Recommended Scope of Advisory Service of DFIs

3.1 Outline of Recommended Scope of Advisory Service to be Provided by DFIs

The scope of advisory service for SMEs can roughly be divided into the following categories: (1) managerial support; (2) technical support (including product development support); and (3) marketing support.

Technical support requires experts who have sufficient expertise and experience in the specific fields in question. In practice, effective technical support for SMEs is provided by customers in the process of order fulfillment, or other SMEs through exchange of information among them. DFIs have few resources and weak basis for provision of technical support on their own. If the DFIs are to provide technical support, the possible instances where they can actually do this are fairly limited, including the cases when the DFIs offer to use technical information from related industries and companies for SMEs through seminars/workshops or through publications so as to meet their procurement needs.

Marketing support is very important for SMEs as SMEs generally lack a competent marketing arm. Nevertheless, it is very difficult for DFIs to provide effective marketing support all by themselves. The marketing support services which can be provided by DFIs are mostly limited to various aspects of business matching service (search for potential customers, business partners, technology sources, and material sources, etc.). In the export business field, support service covering a wide range of target SMEs, such as provision of export market information, promotion of trade shows, and support for export procedures, is currently provided by MATRADE. In the case of EXIM Bank and MECIB, they can provide services more specific to individual SMEs.

On the basis of the above considerations and service areas that should be left to other organizations, the following areas are considered as the areas where DFIs are expected to exercise their advantages and strengths.

(1) Support for general business administration and management

1) Consultancy service and customer relationship building

The main topics expected to provide a link DFIs and their customers, in the area of consultation and relationship building, will be collection of information on the status of

business operations, marketing of financial schemes, and consultation and advice relating to loan applications.

This type of customer consultation service is and can be provided by other organizations. However, the DFIs can establish and maintain a close relationship with their customers in connection with their financial services, at least during the loan period. Thus, customer consultation service that can be provided by DFIs will be more customized and effective than that provided by other organizations.

2) Management diagnosis service

At present, the level of expectation among SMEs for support from the DFIs is not very high, according to the SME surveys conducted for the present study. Also, many SMEs do not understand the specific issues relating to their operation and management. If the DFI's advisory staff can provide effective advice for SMEs after identifying a management problem in the course of their ongoing consultation service, SMEs will be more desirous of using the DFI's advisory service, especially for management diagnosis.

3) Workshops

Advice may be provided on a group basis when the need for specific advice is found to exist among many customers.

(2) Advice specific to strategic sectors

In addition to the general managerial advice, more advanced professional advice, in specific strategic sectors which are mandated to DFIs, should be offered.

(3) Business matching

Business matching is an activity useful for SMEs both for marketing and finding technology sources. Business matching is basically best made on the basis of customer databases built by DFIs, provided that the databases are kept up to date.

(4) Information and research

The most demanded advisory service for SMEs, according to the SME survey, was provision of information related to business development, such as information on markets, information on new technology, and information on financial programs. The information service provided by DFIs should make use of information generated through periodical survey using survey panels and/or the customer database.

(5) Target customer promotion

This is one of the most proactive advisory service to the customers. DFIs can concentrate various support offerings for their target customers, by forming target customer groups.

These advisory services, particularly the Target Customer Promotion, will contribute to establish a customer base for DFIs and that database will enable them to influence the strategic sector identified for each DFI, and promote new good loans and prevent existing loans from becoming NPLs .

3.2 Proposed Advisory Service for Each DFI

3.2.1 BPIMB

(1) Scope and target

As the bank already takes a proactive approach to customer service by fostering their growth, it should promote it further and work to know its customers better.

Namely, the future non-financial support should have the following objectives:

- 1) To gain a better understanding of the status of customers' operations and support requirements through the marketing and monitoring process currently implemented by branch staff;
- 2) To set a clear policy objective of providing advisory service that meets the identified requirements for support and build up the planning and coordinating function to allow the effective use of support resources in that direction;
- 3) To provide selective and differentiated advisory service for customers who are enthusiastic about business improvement and expansion by positioning them as the core customer base; providing information by means of newsletters and other special media; creating a place for interaction among customers; organizing other activities that foster a stable customer base consisting of farsighted SMEs; and
- 4) To create an information service and support function to collect, store and analyze information required for the advanced levels of advisory support.

(2) Organizational setup and requirements for the enhanced advisory service

As BPIMB already has a certain type of advisory service in place, an emphasis should be placed on how to enhance it in a way to meet its policy objective. In fact, it established the Advisory Department in August 2004 and announced its intention to make

it the core agent of the future advisory service.

Service delivery

- 1) It should be clearly defined and declared that managers, marketing staffs, and credit supervision staffs of the 14 branch offices will be in charge of effective customer relations in addition to loan administration.
- 2) In addition, a list of customers who actively seek to improve their businesses and expand their opportunities should be prepared with attention given to the Groom Big Program of the Corporate Advisory Section and be provided to the advisory service staff.

Planning, coordination, and administration

The planning, coordinating and administrative function should be assigned to the Advisory Department. A new section performing the planning and coordinating function is required. The new section will determine the direction of advisory service (strategic focus from time to time) and develop programs to guide actual service in that direction.

Research and information support

A Planning and Coordination Section should be newly established within the Advisory Department for this purpose. In the initial stage, the section will obtain information from outside organizations and provide it for customers. However, it is important to enable the section, as early as possible, to independently collect and provide information that meets the customers' needs.

3.2.2 BITMB

(1) Scope and target

BITMB provides guidance for borrowers that have low credit ratings. It may be effective in preventing risky loans from turning into non-performing ones, but it does not serve the purpose of promoting SMEs because this guidance can cover only a limited number of enterprises.

Many enterprises are strongly interested in the latest technology and market trends and expect the DFIs to provide useful information and effective support that can lead to the improvement of their operations and management as well as to future expansion. On the other hand, DFIs are expected to take a proactive approach to helping their customers to

make improvements if they are to expand loans and minimize the occurrence of NPLs. And it is the proactive approach that can serve as an effective vehicle for SME promotion, and its success hinges on a “good understanding on customers”.

In this context, what is important is:

- 1) To reinforce the customer relationship and accurately grasp the customer requirements for DFI support.
- 2) To provide support service that satisfies the identified needs effectively.
- 3) To provide more effective information service for customers who are willing to improve and expand their business and deliver systematic activities required for achieving the policy objective of BITMB.

An immediate goal should be the formation of good customer relationships. While for the time being the scope of advisory service will extend to general management aspects, BITMB should be able to provide sector-specific support in order to fulfill the policy objective of promoting SMEs in the priority sectors by training professional advisors or by establishing alliances with other organizations.

(2) Organizational setup

Service delivery

14 Relationship Managers, four of them who are assigned to the Customer Services Section within the head office, and two each assigned to the six Representative Offices under supervision of the Customer Services Section, should be charged with responsibility for day-to-day delivery of advisory service.

Planning, coordination and administration

The Advisory and Consultancy Service Division (3 members including GM) may assume the planning and coordinating functions as it is currently in charge of advisory service. However, the number of staff is not enough to undertake the assigned function and must be increased.

Research and information support

The Advisory and Consultancy Service Division is to be assigned the work of information gathering for the time being, and should do this by obtaining support from the Group Economic and Research Section. Once the information gathering and support system is established, the Group Economic and Research Section may take over the

function by adding to its workforce, or an research organization (think tank) can be established jointly by the DFIs.

3.2.3 EXIM Bank and MECIB

(1) Scope and target

SMEs engaged in export business hold higher expectations for public support in all aspects relative to those not related to export business. In particular, over 80% of Bumiputra SMEs engaged in export express expectation for information service, support for improvement of management, and export support. This means that they want public support not only in the area of export procedures but the improvement of competitiveness in export markets.

On the other hand, expectations among non-Bumiputra SMEs engaged in export vary greatly from the above items; 81% expressed strong interest in information service, whereas 64% in support for export procedures and only 52% in support for improvement of management.

Despite the strong expectation for public support, EXIM Bank/MECIB still play a very small role in the Malaysian export sector and their customer base is very small. For this reason, priority should be first given to the development of the ability to provide useful advice on export business. Meanwhile, support for the improvement of export competitiveness will be provided with the cooperation of other organizations, since the increased competitiveness in the export market will be a critical factor for their customers to be successful exporters.

The core elements of advisory service of EXIM Bank and MECIB will consist of the information service (on export markets and trade partners) and the guidance for export business. As foreign market information demanded by exporters is already supplied by MATRADE, that has a strong network, EXIM Bank/MECIB should focus on the provision of information pertinent to actual export transaction, such as the assessment of country risk, credit rating of potential partners, and export finance and credit.

(2) Organizational setup

Actual advisory service should be provided by the organization that has direct, daily contact with customers. Relationship Managers are to assume the function at EXIM Bank, and Business Development Officers at MECIB.

As for the information to support advisory staff, it is very difficult for EXIM Bank/MECIB to collect and store necessary information by themselves and should rely on overseas organizations and MATRADE. It is therefore recommended to establish an organization that performs both information gathering and planning/ coordinating functions.

3.2.4 BPM

(1) Scope and target

The results of the SME advisory service needs survey were analyzed to measure the levels of expectation among enterprises in the agriculture and food processing sectors, indicating that both Bumiputra and non-Bumiputra enterprises in both sectors show the highest expectation for information service, followed by support for improvement and expansion of management in the case of non-Bumiputra enterprises and support for business startup in the case of Bumiputra enterprises.

Target area of service

To foster financially healthy SMEs in the agriculture and related sectors is a challenge already taken up by the Ministry of Agriculture and other organizations, and BPM can and should play a critical role in the process by leveraging its advantages and resources as a key financial institution.

In particular, BPM can contribute greatly in the following areas.

1. As it has branch offices throughout the country, staffed by professionals having knowledge of management and finance, BPM is capable of providing systematic support in these fields.
2. While extension service of the MOA covers a fairly wide range of knowledge in the agricultural and related fields, it is not backed up by knowledge and experience in the fields of manufacturing, distribution and exports, and fails to provide advisory service from the viewpoints of information management, business administration, and production technology. Furthermore, the extension service does not teach knowledge and experience relating to new farming technologies and markets. In particular, guidance for operation and management of the farm organization is limited to basic levels. This is an area that BPM can focus on.

3. BPM can operate the advisory service system in a more business-oriented way than the MOA as the former can deliver paid service for selected customers whereas the latter is mandated to serve a large number of farms.

Target customers

Advisory service is expected to serve the interest of individuals or enterprises who intend to operate their business according to modern management principles. Individuals who are intending to establish a business enterprise in the future, may be regarded as target customers of advisory service.

However, farms and fisheries are not suitable for BPM's service because they are often dependent upon technical aspects (farming or fishing techniques) and natural conditions (soil, weather, etc.).

In conclusion, BPM's advisory service should focus mainly on SMEs in the manufacturing and distribution industries, together with non-farm enterprises in the agriculture sector. It is not suitable for family farms and independent fishermen, who can be best served by the MOA's existing extension service, rather than BPM's business-oriented service that is contemplated under the present study.

(2) Organizational setup

Service delivery

The core force of advisory service should be established within an organization that maintains a close relationship with customers. This means that an existing organization should assume the advisory role as its principal function, rather than establish a new organization that is responsible for advisory service.

Managers and loan officers (appraisal and supervision) of the 55 loan branches have served as contact persons for loan customers. However, since they are handling very many loans, they will not be able to take on the added responsibility of building close relationships with SME customers. Further, the customers who they have been in contact with were mostly individuals, and the staffs are not familiar with the issues of concern to enterprises. Therefore, in the case of BPM, the responsible staffs for advisory service for SMEs are recommended to be assigned separately from the current loan officers at the branches.

Planning, coordination and administration

BPM does not have an organizational unit in charge of advisory service. As managers and loan officers of the loan branches are expected to provide actual advice, they should be supervised by an organization that performs a planning and coordinating function including proposing a strategic focal point of advisory service from time to time. For BPM, it is recommended that the Loan Supervision Division of the head office assume this role. However, the required number of persons to be in charge of planning and coordination should be assigned additionally as the staff specialized for this specific duty.

Research and information support

At BPM, the Planning and Development Division collects and analyzes economic information, which is useful from the standpoint of bank management. On the other hand, advisory service requires information useful for management of SMEs. For this reason, the Loan Supervision Division that can select and compile information from SME management perspectives should assume the role by obtaining support from the Planning and Development Division.

In addition, as BPM provides support in collaboration with the MOA and related organizations, it should work together with them to collect and provide information in the agricultural and related fields.

4 Action Plan for Enhancement of Advisory Service of DFIs for SMEs

4.1 Issues for Enhancement of the Advisory Service

Current conditions

The major features of the current advisory service provided by the five DFIs may be summarized as follows.

(1) The concept of “advisory service” is not the same among the DFIs.

(2) Implementation division is not defined clearly.

None of the DFIs has a specific division specialized in advisory service responsible for maintaining relationships with the loan customers. In most cases, the content and quality of the advisory service is determined entirely by each staff and his/her ability.

(3) Lack of a support system for advisory service

None of the DFIs has an internal support system to provide information and tools for organizations that provide advisory service.

(4) Customer information is difficult to obtain on a continuous basis

Only the minimum financial information, which forms the basis of advisory service, is collected from customers. The information that is obtained is limited to that supplied at the time of a loan application but is not updated on a continuous basis.

Assumed advisory services

The Action Plan for Enhancement of Advisory Service assumes the following advisory services.

Item	Contents
The Concept of Advisory Service	<p>More-proactive service to nurture a wide base of competitive and sustainable SMEs</p> <ol style="list-style-type: none"> 1. Service as a part of, or a related service to, the services proper to DFIs 2. Key Advisory Services will be provided by a division or unit which is in a position to maintain constant communication with customers, instead of a special unit exclusively in charge of the Advisory Service. 3. The Advisory Service is not necessarily highly professional. The first-step of the service will be provided by ordinary staffs of DFIs after receiving appropriate trainings for the adv/s. 4. The target of Advisory Service is customers and to-be customers, who have potential to improve their management through use of the services, and is not limited to customers of NPL or fear of repayment problem. 5. Through the services, DFIs can obtain reliable management information from customers, while the customers will benefit from the service for improvement of their business.
Scope of Advisory Service	<p>Proposed scope of advisory service:</p> <ol style="list-style-type: none"> 1. General managerial support <ol style="list-style-type: none"> 1) Customer counseling/ relationship building 2) Management diagnosis service <ul style="list-style-type: none"> - Basic problem identification - Management analysis - SWOT analysis 3) Workshops / training on basics of management 2. Advice specific to strategic sectors 3. Business matching 4. Information and research 5. Target customer promotion

Required functions to undertake the advisory services

There are three levels of functions, which will be necessary to provide the effective and efficient advisory service. These are (1) Planning and Coordination, (2) Implementation, and (3) Research and Information Support.

Organizational/Institutional setup for advisory service

The organizational/institutional setup is necessary to be designed according to the functions described in the above. These three levels of functions, however, are not necessarily to be performed by independent units respectively. Rather, existing unit(s) should be assigned, as much as possible, to undertake the advisory services in tandem with their present functions.

Consideration on requirement for immediate actions

The key for enhancement of advisory service, proposed here, is to understand the conditions of customers through building-up of close and good relationships with them,

define what constitutes effective assistance for them, and offer the assistance effectively.

- 1) First of all, the enhancement of advisory service should start with the improvement of the method for communication and approach by DFI staff (customer relationship managers, etc.) to customers by understanding the current status of customers and their need for support. The results should be recorded and analyzed by the head office to enable formulation of a plan to provide truly effective support. In particular, standard questions to ask customers are to be prepared so as to enable the contact person to obtain necessary information efficiently.
- 2) Also important is the transfer to the advisory staff of knowledge regarding how to analyze the managerial conditions of customers. Most of the to-be advisory staff are lacking the experience of analyzing the management conditions.
- 3) The current capability of DFIs to provide advisory service is still limited, since their service has covered limited aspects of services only. They have to develop the human resources needed to extend and support the services. They have to build up the basis of the data, information and know-how, which are required in extending the services.

The DFIs need to start with the service, which can be offered by DFIs with minimum preparation and within a short period. By doing so, DFIs will continue their efforts to develop capabilities for the service and prepare for the full scale service in the next phase.

4.2 Requirements for Enhancement of Capacity, and Action Plan Framework

Since the proposed concept of the advisory service is new for DFIs, the functions of these internal organizations must be reviewed and updated from the following standpoint:

- 1) Upgrading of capability of advisory staffs at branch offices to provide advisory service
- 2) Development of the following functions, which are required to supplement and provide support for the services of advisory staff at branch offices:
 - Function to plan, coordinate and support for implementation
 - Functions of research, and of accumulation and provision of information

- 3) Establishment of a system to provide advanced advisory services, which responds to the demand for advisory services, and which the advisory staffs at branch offices cannot meet

Framework of the action plan

On the basis of the issues to be addressed, framework of the Action Plan is proposed as follows:

Requirement for enhancement	Proposed actions
(1) Organizational/ Institutional Development	<ol style="list-style-type: none"> 1) Assignment and development of internal organizations responsible for advisory services, and preparation of operation guides 2) Development of joint undertakings among DFIs for enhancement of functions required for advisory services 3) Development of networking among SME-support government agencies, institutes and DFIs 4) Development of advisory service for SMEs in strategic economic sectors
(2) Establishment of a system for development of advisory-service staff and SME Counselors	- Development of standard training courses for the advisory staff of DFIs, and SME Counselors
(3) Information building	<ol style="list-style-type: none"> 1) Establishment of customer information databases for advisory services 2) Development of business information databases

Proposed time schedule for the action plan

Immediate Action (for the 1st and 2nd years)	<ol style="list-style-type: none"> 1) Start services to establish good relationships with the existing loan customers and potential customers, through intensive contacts and communications. 2) Prepare the basis of operations in all the necessary areas of enhancement 3) Review the needs of SMEs for the advisory services through implementation and monitoring of the advisory service, and strengthen the Mid-term Implementation Plan and Action Plan on the basis of the review
Mid-term Action (for the 3rd to 5th years)	<ol style="list-style-type: none"> 1) Full-scale implementation of the advisory services 2) Further development of collaboration with SME support agencies and institutions

4.3 Detail of Actions for Enhancement of Advisory Service

4.3.1 Organizational/institutional development

Action 1-1: Assignment and development of internal organizations for Advisory Services, and preparation of operational guides

1 Objective

This Action is to establish basic functions required to provide effective advisory services within the respective DFIs, ensuring these functions through establishment and assignment of responsible organizations (divisions/units) within each DFI, and preparation of operation guides particularly of those activities which need to be offered in a coordinated manner among the relevant divisions/units.

2 Outline of the Action

- (1) Assignment of divisions/units by the management of the DFI for the Advisory Service
Divisions/units are specifically assigned by the management of the DFI to be responsible for advisory services or their support, including their staffing.

(1) Planning, coordination and administration	1) Planning and monitoring of advisory service 2) Preparation for required resources, tools and materials 3) Implementation of the following services 1. Plan and implementation of workshops/seminars/training courses 2. Plan regular and non-regular publications 3. Assist branch offices to prepare and implement business exchange programs and the Target Customer Promotion programs 4. Plan, prepare and assist implementation of “Advisory service specific to strategic sectors”
(2) Research and information support	1) Periodical survey using a customer panel 2) Information gathering 3) Regular and non-regular publications
(3) Implementation (Service Delivery)	1) Customer Counseling/ Relationship Building 2) Provision of various services to customers 3) Record and report of services performed, and entry of data and information obtained through the service into database

The proposed divisions/units to be assigned as those responsible for the above functions in each DFI are as follows:

	Planning, coordination and administration	Research and information support	Service delivery (Implementation)
BPIMB	Advisory Department	New section under Advisory Department in charge of research and information support	Branch Offices
BITMB	Advisory and Consultancy Service Division	Advisory and Consultancy Service Division with assistance from Group Economic Research	Relationship Managers in branch offices and the headquarters
EXIM Bank and MECIB	Relationship Managers of EXIM Bank, and Business Development Officers of MECIB		
BPM	“Loan Supervision Division” with assignment of staffs specialized for advisory service planning, coordination and administration	Loan Supervision Division with assistance from Planning and Development Division and in cooperation with various departments and institutes of MOA	State Branch Offices with newly assigned staffs specialized for SMEs and large farmers

(2) Preparation of operation guides

The following are the major activities for which DFIs are recommended to prepare the operation guides:

- 1) Relationship building and advice on business management
- 2) Provision of information by the advisory staffs at the request of a customer
- 3) Advice for managerial improvement based on financial diagnosis
- 4) Business interface meeting
- 5) Business matching using a customer database

Preparation of operation guides will be useful for stable and efficient operation of the advisory service. The operation guides will also be useful as they will define the rule among the relevant internal organizations (divisions/units) for cooperating in offering the service, in view of the reasonable expectation that the advisory service will be more effective if the relevant divisions and units work together.

The operation guides must be prepared by each DFI to ensure that they match the operational conditions of each DFI. Further, it is essential to assign a division or unit which is responsible for improving and updating the operation guides from time –to time based on the actual operation, for the sake of improved usability.

(3) Number of staff in the assigned divisions and units

1) Service Delivery Divisions and Units

The current number of staff in the divisions and units to undertake service delivery in each DFI are as follows:

Positions of the current staff in respective DFIs		Number of staff ^(*1)	Remarks
BPIMB	Branch Offices		
	1. Managers	14	- at 14 Branch Offices
	2. Marketing	14	- SME customers: approx. 3,600
	3. Credit Supervision	42	
BITMB	Relationship Managers	14	- 2 each at 6 Representative Offices - 4 at Customer Service Section (Business Dev. Div.) - SME customers: approx. 400
BPM	State Branch Offices - SME Relationship Managers (new assignment) responsible for SMEs and large-scale farms	19	- Total at 15 State Branch Offices - Estimated SME customers: approx. 1,300
EXIM-B/ MECIB	1. EXIM-B: Export Finance Dept.	7	- Estimated SME customers: EXIM-B: approx. 110 MECIB: N.A.
	2. MECIB: Business Development-Insurance	11	

Note: (*1) Clerical staffs are not included.

The current number of staff is sufficient to offer the Advisory Service to the SME customers at present and in the near future. However, in the case of BPM, since the current loan appraisal officers and supervision officers currently handle more than 400 loans per officer, it is recommended to separate “SME Relationship Managers” separately from the current appraisal officers and supervision officers, to handle exclusively SMEs and large scale farmers, who are operating their farms as agricultural businesses.

The required number of SME Relationship Manager is 19 at present. They should be assigned to State Branch offices according to the number of SMEs loan customers and large-scale farmers under the State Branch in question.

2) Information and research support

- 1) First 1-2 years: research and information gathering by the service implementation staff(s) in the Planning, Coordination and Administration division or unit with cooperation from the existing research division or unit.
- 2) After 1-2 years' operation: to be undertaken by a think tank, which is recommended to be established jointly by the relevant DFIs (see Action 1-2).

3) Planning, coordination and administration division or unit

The following number of staff will be required in the division or unit:

	BPIMB	BITMB	BPM	EXIM-B/ MECIB
Manager/ Head	1	1	1	1
Planning & monitoring of advisory service	3	2	3	2
Preparation for required resources, tools and materials	2	1	2	1
Implementation of the services	2	1	2	1

Notes:

- 1) BPIMB: the number of staff in charge of Groom Big Program is included in the number for "Implementation of the services".
- 2) BPM: These staffs, except for the Manager, are necessary to be assigned as staffs exclusively for the above responsibility.
- 3) EXIM-B/MECIB: The Export Finance Dept. and Cross Border Credit Dept. of EXIM, and Business Development-Insurance, MECIB are responsible for Planning, Coordination and Administration, and the current manager of the department will supervise this function concurrently.

Action 1-2: Development of joint undertaking among DFIs for enhancement of required functions of Advisory Service (Establishment of a joint think tank for joint operation of research works and advisory staff training)

1 Objective and Background

In order to carry out the advisory service, DFIs are required to add new functions. If there are organizations which can provide the needed function, DFIs may make use of those available functions, instead of establishing them within individual DFIs. If use of functions of other organizations results in difficulty of accumulating operational know-how within DFIs, DFIs may establish an organization jointly among them. The major areas of joint undertakings will be (1) research work, and (2) training of advisory staff.

2 Outline of the Action

This Action is for the DFIs to jointly establish and operate a think tank (or SME Research Institute), to be in charge of the following functions which are required for implementation of advisory services.

Joint operation of training programs for personnel engaged in advisory services	<ol style="list-style-type: none"> 1. Training of staff at service delivery division or unit (of branch offices) 2. Training of SME Counselors of planning, coordination and administration division or unit (training of senior staffs and outside experts)
Joint undertaking of research work	<ol style="list-style-type: none"> 1. Joint planning and contracting for research and surveys 2. Establishment and development of business information databases

Assumed activities and the size of operation is as follows.

Stakeholders		DFIs (including DFIs not involved in the current study)
Research and Information Support	Objectives	1) Information and research support for DFIs in providing advisory service to SMEs 2) Development and offering of tools for advisory service for SMEs
	Contents	<u>Research and provision of information for DFIs to use:</u> 1. Business Trend Survey/ Business Confidence Survey 2. Research to discover clues to the issues which SMEs are facing 3. “Best practice” case studies of business development of SMEs <u>Business information database</u> Establishment and development of a database which contains information useful for providing advice for SMEs to improve/ strengthen their business management. <u>Seminars/workshops:</u> Plan and prepare modules of seminars, workshops and trainings, which are useful for SME development, and contract implementation with the DFIs as DFI’s service. <u>Publication:</u> Periodical/non-periodical publication of data and information.
Number of staffs (excluding administration staff and clerical staff)		Head of the Institute: 1 Economic/business research: 4 Seminars/workshops/SME training: 4 Publication: 2 Training of advisory resources: 3

The contents of advisory resource training is discussed as Action 2. The above number of staff includes those for training.

The above number of staffs assumes outsourcing of research work and implementation of training to qualified consultants. The above staffs will undertake a part of periodical surveys by themselves, but their major function is planning of research, seminars and workshops, publications and training programs, including preparation of the terms of reference for contracts, contracting, and acceptance inspection of the contracted survey results.

Outsourcing

Outsourcing to businesspersons or those who have business background in the industry in question, is decisively important in view of providing practical and useful information to SMEs. These include, but not limited to:

- 1) Business reports on specific industry/product trends
- 2) Lecturers at seminars for SMEs on business trends, production technology, product quality, and marketing, etc.

Action 1-3: Development of networking among DFIs, relevant government agencies, organizations and institutes for SME support

1 Objective and Background

There are many government agencies, organizations and institutes other than DFIs that are engaged in SME support activities. This Action intends to make SME support activities more effective and efficient as a whole, by coordination among the relevant organizations including DFIs to make most of the activities by others.

Following are the aspects considered to be effective and efficient through coordination and networking by these relevant organizations:

- 1) By means of joint efforts, maximum use will be made of the human resources for SME support available in DFIs and other relevant organizations, this being valuable considering that those resources now available in Malaysia are still limited.
- 2) Jointly undertaking research, for obtaining useful data and information for SMEs. The research may be designed so as to be in greater depth or conducted more frequently if efforts are made jointly or by means of networking.
- 3) Business matching service, one of the major support tools for SMEs, can be more effective under the wider coverage of SMEs and business areas. Networking will widen the coverage.
- 4) Each relevant government agency, organization, institute or DFI has its own support program for SMEs. If all the relevant organizations can share information at an appropriate level for use in their advisory service, SMEs can be benefited from the wider base of support that has been made possible.

In addition to the above, further enhancement of current collaboration among EXIM Bank, MECIB and MATRADE with regard to advisory service relating to export business is another item to be given attention as part of this Action.

2 Outline of the Action

(1) Consensus for networking and preparatory works

The first step for networking is preparation among the relevant organizations. A consensus should be built among the organizations through the SME Council for development of networking in general.

Based on the consensus thus obtained, a coordinating committee should be formulated by organizing representatives from the relevant organizations. The coordination committee is to be responsible for coordination and decisions on the framework of

networking including all the items. Working groups are to be organized for materializing the networking, subject by subject.

(2) Building up of a counselors and advisors panel

The current Action is to develop an SME counselor and advisor panel in collaboration with the competent government agencies and institutions.

When needed, DFIs as well as other organizations and institutes can recruit the counselors, who would have capability to provide the advisory service to SMEs, from the panel.

Counselors

“Counselors” are assumed to be those who are attached to a government agency, an institute or other organization, either full-time or part-time, to extend advisory services to SMEs. They are assumed to be capable of offering professional advice in the field of business management in general. They have basic knowledge and expertise in the following:

- Business management in general
- Weakness and strength of SMEs compared to big business
- SME support policies and measures
- Method of counseling

Advisors

“Advisors”, here means those who have the capability of offering professional advice to SMEs, in a specific area of expertise (finance, business management, technical, marketing, etc.). They are assumed to have gained of their expertise through hands-on business experience. At the present stage, no certified qualification is assumed for the “Advisor”. The DFIs and SME support government agencies and institutes will evaluate their capability through recruitment interviews and/or exams.

At present, no certified qualification is assumed for the “Advisors”, the registration system is intended to encourage potential resources to notify the SME support agencies and institutes of their existence and availability. It is recommended that in the future, however, for the government agencies, institutes and DFIs may wish to consider establishing a system to provide qualification certification to potential Advisors⁴.

⁴ SME Consultant System (or SME Shindan-shi System) in Japan is an example of such system. The system is useful for the relevant government agencies, regional governments and organizations to recruit advisors for their SME support services. The System, however, does not ensure jobs to all the certified consultants. Therefore, there is a need, before developing such system, to device measures to ensure jobs to the certified consultants to encourage the potential people apply for the qualification.

(3) Joint planning and implementation of surveys

Some SME surveys and business trend surveys have been conducted by more than one organization.

The objective of the current Action is to avoid duplicating similar surveys, and undertake the necessary surveys more intensively, through joint planning and implementation by those with strong interest in the surveys.

Possible effects of joint undertakings compared to conducting surveys by a single organization will be, but not limited to, the following:

1. Increase in frequency of surveys
2. Diversification of the kind of surveys
3. Increase in number of samples used
4. Decrease in total survey cost by avoiding duplication

(4) Networking for business matching service

SMEs are especially weak in obtaining useful information relating to potential customers, sources of materials and technology, and qualified subcontractors. Business matching is a useful service to overcome the weakness of SMEs, and includes exchange of information on potential suppliers and buyers, and provision of opportunities for networking by businesspersons.

The current Action is to enable the SME support organizations and DFIs to utilize the information contained in databases of these organizations through the network.

(5) Operation of a one-stop cyber information center for SME support

Many government agencies and institutions have provided their customers with information on government support programs on finance, management, technology, etc. SMEs have difficulty in finding out the most suitable supporting organization to approach. The proposed Action is to establish a system to provide comprehensive information on SME support programs uniformly from all the SME support organizations through a network.

Currently SMIDEC operates a virtual center at its SME Information and Advisory Center, and provides information on financial and non-financial SME support programs. The information available at the virtual center is quite comprehensive, but the contents have room for improvement from the point of view of user convenience. This Action assumes that the Center will be utilized by the SME support organizations and DFIs.

- (6) Enhancement of the advisory service system for exporters with specialization on the advisory service of EXIM Bank and MECIB, while strengthening the current networking among EXIM Bank, MECIB and MATRADE

EXIM Bank and MECIB have also provided advice to exporters, although the extent of influence of these DFIs on exporters is still very small compared to the case of MATRADE. They have collaborated with each other in assisting exporters.

The objective of the current Action is to specify the field of advisory service of EXIM Bank and MECIB based on their field of specialization, and enhance their advisory service combined with maintaining and developing the existing networking arrangements with MATRADE.

This Action assumes EXIM Bank and MECIB will enhance their system for advisory service accordingly with the recommendation made in III-2 and III-3, while strengthening the current collaboration with MATRADE further.

Thus, each organization can concentrate its activities in the fields in which they have specialties.

Table III-4-1 Recommended Fields of Specialized Advisory Service to be by EXIM / MECIB

Advisory Service	Service mandated to EXIM/MECIB	Service conducted by MATRADE
Consultation Service: Condition of Export Transaction, Contents of the Contracts, etc.	◎◎	△
Information Service: Country Risk of Exports	◎◎	○
Credit Information of Export Buyers	◎◎	△
Export Finance	◎◎	△
Export Insurance	◎◎	△
Statistical Data of Exports	×	○
Export Market and New Products	×	○
Collection of Export Proceeds	◎	×
Service for Risk Hedging: Future Exchange Contracts, Option etc.	◎	×
Business Matching: Provision of Reference Information	×	○
Support for Participation of Trade Fair and Exhibition	×	○

- Notes: ◎◎: Service field that is most suitable to EXIM/MECIB
 ◎: Service field that is suitable to EXIM/MECIB
 ○: Service field that is available to MATRADE
 △: Service field that is available at MATRADE, but not necessarily suitable.
 ×: Service that is not suitable.

(7) Other areas for future networking

Other potential areas for the future networking include the following:

- 1) Joint establishment of a system for preparing qualified SME Consultants
- 2) Joint undertaking of business interface meeting

Action 1-4: Development of advisory service for SMEs in strategic economic sector

1 Objectives

For the development of SMEs, it is particularly important to support development of certain strategic economic sectors, which involve many SMEs, or have the potential to involve many SMEs.

This Action is to develop a comprehensive system of advisory service in DFIs so as to play a positive role in promotion of the strategic economic sectors.

2 Outline of the Action

The core of this Action is assignment of an advisor(s) who has expertise specifically in the strategic economic sector, and who is assumed to be the core person to design and manage the plan for development. In addition to assignment of an advisor, various measures to develop the sector should be included as part of the development plan. They include, in particular, mobilizing all the potential resources available in the private sector, inviting potential buyers and business persons from leading sectors as lecturers at a seminar, etc.

The strategic sector development is a combination of programs similar to those proposed for the ordinary advisory service, but has as its target a specific sector for development.

<p>(1) General managerial support</p> <p>1) Customer counseling/ relationship building</p> <p>2) Management diagnosis service</p> <p>3) Workshops</p>	<ul style="list-style-type: none"> - Basic problem identification and advice for solution <i>by the advisor for the specific sector</i> - Management diagnosis or benchmarking <i>by the advisor for the specific sector</i> - Workshops on marketing, technology, quality improvement, cost management, and shop/production management, etc. <i>based on the specific needs of the strategic sector.</i>
<p>(2) Business matching</p>	<ul style="list-style-type: none"> - In view of strategic sector development
<p>(3) Information and research</p>	<ul style="list-style-type: none"> - Provision of information on the market and industry trends in the specific strategic sector - Introduction of “best practice” examples from similar sector
<p>(4) Target customer promotion</p>	<ul style="list-style-type: none"> - Seminars for SMEs in the target sector - Business exchange program - Target customer mailing list service

4.3.2 Establishment of a system for Development of Advisory-Service Staff and SME Counselors

Action 2: Development of standard training courses for the advisory staff of DFIs, and SME Counselors

1 Objectives

This Action is to standardize the level of advisory services among DFIs with developing training courses for nurturing the staffs who deliver the advisory service directly to the customers (SMEs). The lessons learned from performing advisory service will be fed back to the course so that the advisory service will be improved reflecting the service experience.

2 Outline of the Action

This Action defines the minimum requirement for the trainees and standardized content of training. Also included is accreditation of organizations (including internal organizations) for the standard training.

The target of this Action is the advisory service staff of DFIs and SME Counselors who work with DFIs.

Two training courses are assumed to be implemented for this Action.

Target trainee	Advisory staffs in service delivery division / unit	SME Counselors at coordination and administration division/ unit
Type of training	Off-JT	Off-JT
Contents	<ol style="list-style-type: none"> 1. Training to understand the business management 2. Training to understand the management of SMEs compared to big businesses 3. Training on counseling method 4. Training based on operational guides for the advisory service <p>The staff training should be provided in combination with the existing trainings for FI's staff.</p>	<p><u>Course 1</u>: Basic training 1 <u>Course 2</u>: Basic training 2 <u>Course 3</u>: Special training</p> <p>All the three courses must be completed to obtain certification as the SME Counselor.</p>
Frequency, timing and duration	<p><u>Basic training</u>: 4 weeks for the newly assigned staff (Same as Course 1 for the SME Counselors)</p> <p><u>Annual follow-up</u>: less than 1 week for the staff engaged in the advisory service (including exchange of advisory service experience among the staff, and giving instruction on the advisory service policy in the year)</p>	<p>160 hours/course (120 hours for lecture and 40 hours for field/practical training) (8 hours/day)</p>

The target for developing SME Counselors is to secure the number of them required immediately by all the DFIs. In other words, they will be hired under contract as SME Counselors with the condition that they will complete the training course as planned. However, in the future, successful completion of the training course should be required as a prequalification, regardless of the number of SME Counselors to be recruited, with consideration given to the future needs of the advisory staff including filling possible vacancies. They will be registered at the Advisor Panel after completion of the training course for future recruitment not only by DFIs but also by other relevant organizations.

Further, in the future, development of a system for certification of SME advisors, who have the capability of delivering more professional advice to SMEs, is recommended from

the standpoint of SME promotion in Malaysia as a whole. Such a system is necessary particularly for establishment of the SME Advisor (Registration) Panel.

Individual courses include similar courses which are available at DFIs as their internal training course, or those which are easily available at outside training organizations. Formulation of curricula or sets of courses using them is advisable for the sake of efficiency.

On the other hand, developing a training course individually by each DFI, including all the contents needed, will be inefficient. Further, BPM will have difficulty to formulate the course by itself since it has limited experience in SME management.

Considering the above, the following is recommended:

1. Organization of a training course by a DFI, and utilization of it by other DFIs.
2. If a DFI already has an internal course of similar content, it can be used as an accredited course, replacing the above, while the remaining courses will be as stated above.
3. Since the training course for SME Counselor is assumed to require 3 months in total, Course I should be implemented first immediately after the candidate Counselors are appointed (on a provisional basis), in order to assign them to the service as soon as possible.

4.3.3 Information building

Action 3-1: Establishment of customer information database for advisory service

1 Objective

This Action is to establish a database of customers, which is designed to accumulate the data and information and enable the relevant staff to utilize them efficiently for the purpose of offering advisory services.

The data entry and use of data and information is assumed to be conducted by the advisory staff at branch offices.

Most of the DFIs have, or plan to have, a database in which to accumulate information on customers. These databases are used for managerial purpose or loan appraisal purpose. Therefore, these databases are not appropriate for the advisory staff of branch offices to access and use. A database is necessary to be developed for the purpose of advisory service alone.

Most of the data and information that are necessary for provision of advisory service can be shared with the existing database, although there are many items of data and information that are required solely for advisory service. Therefore, the database is necessary to be designed taking into account the current status of the existing and planned databases.

Further, the proposed customer information database include information of individual customers, so tight security and strict control of access by the staff is indispensable.

2 Outline of the Action

The objective of the database and database items are outlined in the following.

Objectives of use	1) To provide DFIs with customer information in a systematic order 2) To provide data for business matching
Data and information to be accumulated	Customer data and information - Profile and sales message - Products/services, which the customer wants to sell - Products/services, which the customer wants to procure - Record of contacts with the customer by the advisory service staffs of DFIs - Record of the customer's loan application and repayment performance - Financial data of the customer
Establishment	Each DFI, individually

A Customer Database System is necessary to be established at each DFI independently, since it must contain data and information of individual customers served only by the DFI in question.

Action 3-2: Development of a business information database

1 Objective

This Action is to construct a database which can provide business information useful for advisory services.

There is no database of this kind in the DFIs at present.

Design and development of a database system will not take time, but entry of data and information in the system is necessary to be continued.

The database is assumed to be established at the joint think tank (or SME Research Institute) for use commonly by the DFIs. The gathering of data and information is contracted out to consultants and research firms.

2 Outline of the Action

The following shows an outline of the proposed database.

Objectives of use	To provide hints and case studies for the advisory staff of DFIs for use in offering their services
Data and information to be accumulated	1) Business management hints and case studies to be used for advisory service 2) Data and information related to market and technology trends
Establishment	Joint Think Tank of DFIs

Data and information to be stored

Data and information to be stored should be decided according to the needs of customers, and direction of SME development. Examples of data and information to be stored is shown in the following.

Information by Category	Responding questions/requirements from customers
Management Strategy Shift of Business Line/Business Diversification Customer Satisfaction (CS) Supply Chain Management (SCM) Outsourcing	What are the essentials of feasibility study on business diversification? Measures to adopt CS management Basics of building up SCM Procedures for implementing outsourcing smoothly
Management Control Management Analysis (Balanced Scorecard) Results Management Response to Customer Complaints	Utilization of Balanced Scorecard for working out strategy How to calculate sectoral profit targeted Practical steps to respond to complaints
Human Resource/Labor Management Merit Rating System Human Resource Development Foreign Workers	Simple and rational merit rating system How to build a long term OJT program Lawful process of employing foreign workers
Production 5-S Quality Control Safety Control	Meanings and advantages of 5S Effective ways to wipe out rejections Legislation of occupational safety and health
Sales Promotion Market Research/Market Segmentation Recovery of Account Receivable Multiunit Operation	Concrete process of market segmentation Means to facilitate the recovery of accounts receivable Operational standardization for multiunit deployment
Finance and Accounting Cash Flow Control Divisional Break-even Analysis	Elements to increase cash flow Account form for divisional break-even analysis

5 Implementation Plan of Action by Each DFI for Enhancement of Advisory Service

5.1 General

The proposed implementation plans of action for enhancement of advisory service are shown in Tables III-5-1 (1) through (3), by DFI.

At the time of reporting, SME Bank⁵ and BPM are in the process of defining and preparing the system for offering advisory services. They have assigned departments/units for undertaking the advisory service or preparation of the services. EXIM Bank and MECIB⁶, however, have not assigned the responsible division or units for the advisory service yet. Thus, the extent of progress in terms of organizational setup and preparation for implementation varies significantly among different DFIs.

Their plan for enhancing the advisory service is not established yet, since a unit assigned for the service is new in the case of BPM, whereas they are still in the process of organizational setup in the case of SME Bank and EXIM Bank/MECIB. Therefore, none of them has definite implementation plan target so far.

The implementation plan shown in the above tables is prepared for each DFI, to help making their own plans according to their conditions, taking into account the current progress of preparation.

Following describes problems identified to require attention in the process of preparation.

5.2 SME Bank

According to the plan of SME Bank for advisory services, the direct contact with customers will be under responsibility of Loan Supervision Officers at branch offices, who will report directly to Supervision Sector, instead of Enterprise Development Sector. The advisory service will be provided by the three Advisory Departments (Business Advisors), only if the advisory service is found necessary, based on monitoring reports prepared by

⁵ To be established on 1 October 2005 with merger and reorganization of BPIMB and BITMB.

⁶ EXIM Bank and MECIB is scheduled to be merged to new EXIM Bank on 1 October 2005.

supervision officers at branch offices. Other types of advisory services assumed are assistance for loan application including business planning, application preparation, and advice for other loan facilities if the applicant is not eligible for SME Bank's loan.

It is recommended for SME Bank to take into consideration of the following points in preparing the advisory service:

- 1) In identify the needs of advisory service based on the monitoring report prepared by the loan supervision officer, the need of advice should not be confined to the difficulty of business, but it should include the advice for positive business management. Otherwise, *there is a fear that the advisory service will be provided only for those who have problems, excluding those who want to improve, or expand their businesses.*
- 2) There is a need for devising a mechanism in the operational procedure to keep all the records of visit to customers, regardless of the person visited, in the customer database for sharing the information on the customers among the staffs involved. Since the relationship building with customers is the basis of advisory service, there is a need to establish and utilize a customer database (for advisory service) as a tool to share the customer information among those involved in customer relationship, considering that three officers will be involved for relationship building, namely, marketing officer, loan supervision officer at branch offices, and Business Advisor of the HQ.
- 3) *There is a need for training for the loan supervision officers at branch offices* on advisory service, since he/she is the key person to give first-hand advice, or identify the difficulty/potentiality of the customers through his/her visits to the customer.
- 4) In this connection, business matching and business interface meeting will be the effective measures to assist SMEs aggressive for business improvement, since the programs are effective for them in finding out new business opportunities. It should be noted, however, that both business matching and business interface meeting will not be effective if it does not involve those business resources other than the loan customers of the Bank, who may provide more business opportunities to the bank's customers.
- 5) For providing effective advisory services, one of the essential factors is information support. There is a need for SME Bank to establish a mechanism for information building and information support delivery.

**Table III-5-1 (1) Implementation Plan of Action for Enhancement of Advisory Service for SMEs
(SME Bank (former BPIMB and BITMB))**

	Year:	2005				2006				2007				2008				2009				
		Quarter:																				
			4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3
(1) Organizational institutional development																						
Action 1-1: Assignment and development of internal organizations responsible for Advisory Services, and preparation of operational guides																						
1) Assignment of internal organization responsible for Advisory Services ▲																						
2) Preparation of operational guides																						
3) Provisional operation																						
4) Full-scale operation																						
Action 1-2: Development of joint undertaking among DFIs for enhancement of research and information support function																						
1) Forming Coordination Committee and Working Group ▲																						
2) Preparatory work (define the functions, jobs and organizational set-up for agreement)																						
3) Start of research works tentatively at the current division																						
4) Establishment of the joint think tank, and start operation																						
Action 1-3: Development of networking among SME support government agencies, institutes and DFIs																						
1) Endorsement by the SME Council for the networking ▲																						
2) Forming Coordination Committee and Working Group ▲																						
3) Preparatory work (exchange information on the available resources, and work out the networking procedures)																						
4) Joint survey planning and implementation																						
5) Networking for business matching service																						
6) Operation of one-stop cyber information center for SME support																						
Action 1-4: Development of advisory service for SMEs in strategic economic sector																						
1) Forming a Taskforce Team for the strategic economic sector assistance for planning and preparation ▲																						
2) Recruit advisors and finalize the development program																						
3) Promotion of strategic sector development																						

	Year:	2005				2006				2007				2008	2009
		Quarter:				1	2	3	4	1	2	3	4		
(2) Establishment of a system for development of advisory-service staff and SME Counselors															
Action 2: Development of standard training courses for the advisory staff of DFIs, and SME Counselors															
Work on the standard training course curriculum, and identify training courses available locally and abroad to apply them to this standard course															
1)															
2)															
3)															
4)															
5)															
(3) Information building															
Action 3-1: Establishment of customer information database for advisory services															
1)															
2)															
3)															
4)															
5)															
Action 3-2: Development of business information database															
1)															
2)															
3)															
4)															

Table III-5-1 (2) Implementation Plan of Action for Enhancement of Advisory Service for SMEs (BPM)

	Year:	2005				2006				2007				2008	2009
		Quarter:	4	1	2	3	4	1	2	3	4				
(1) Organizational institutional development															
Action 1-1: Assignment and development of internal organizations responsible for Advisory Services, and preparation of operational guides															
1) Preparation for assignment of internal organization for Advisory Service															
2) Assignment of internal organization responsible for Advisory Services	▲														
3) Preparation of operational guides															
4) Provisional operation															
5) Full-scale operation															
Action 1-2: Development of joint undertaking among DFIs for enhancement of research and information support function															
1) Forming Coordination Committee and Working Group	▲														
2) Preparatory work (define the functions, jobs and organizational set-up for agreement)															
3) Start of research works tentatively at the current division															
4) Establishment of the joint think tank, and start operation															
Action 1-3: Development of networking among SME support government agencies, institutes and DFIs															
1) Endorsement by the SME Council for the networking	▲														
2) Forming Coordination Committee and Working Group															
3) Preparatory work (exchange information on the available resources, and work out the networking procedures)															
4) Joint survey planning and implementation															
5) Networking for business matching service															
6) Operation of one-stop cyber information center for SME support															
Action 1-4: Development of advisory service for SMEs in strategic economic sector															
1) Forming a Taskforce Team for the strategic economic sector assistance for planning and preparation															
2) Recruit advisors and finalize the development program															
3) Promotion of strategic sector development															

	Year:	2005				2006				2007				2008	2009
		Quarter:				1	2	3	4	1	2	3	4		
(2) Establishment of a system for development of advisory-service staff and SME Counselors															
Action 2: Development of standard training courses for the advisory staff of DFIs, and SME Counselors															
1) Define the required contents of trainings for advisory staff and SME Counselors															
2) Contract with courses available locally															
3) Sending advisory staff and SME Counselors for the contracted course															
(3) Information building															
Action 3-1: Establishment of customer information database for advisory services															
1) Design of database including form for data entry															
2) Prepare guides for operation of entry to and use of information from the database															
3) Development of the database and application to use the data															
4) Installation of servers and PCs as needed															
5) Operation of the database															
Action 3-2: Development of business information database															
1) Design of database and information gathering, and preparation of TOR for contract for outsourcing database contents															
2) Development of the database and application to use the data, and installation of servers and PCs as needed															
3) Start information gathering including outsourcing															
4) Operation of the database															

**Table III-5-1 (3) Implementation Plan of Action for Enhancement of Advisory Service for SMEs
(EXIM Bank/MECIB)**

	Year:	2005				2006				2007				2008	2009	
		Quarter:	1	2	3	4	1	2	3	4	1	2	3			4
			4													
(1) Organizational institutional development																
Action 1-1: Assignment and development of internal organizations responsible for Advisory Services, and preparation of operational guides																
1) Preparation for assignment of internal organization for Advisory Service																
2) Assignment of internal organization responsible for Advisory Services	▲															
3) Preparation of operational guides																
4) Provisional operation																
5) Full-scale operation																
Action 1-2: Development of joint undertaking among DFIs for enhancement of research and information support function																
1) Forming Coordination Committee and Working Group	▲															
2) Preparatory work (define the functions, jobs and organizational set-up for agreement)																
3) Establishment of the joint think tank, and start operation																
Action 1-3: Development of networking with MATRADE																
1) Forming Coordination Committee and Working Group	▲															
2) Preparatory work (exchange information on the available resources, and work out the networking procedures)																
3) Full-scale operation of export business advisory service network with MATRADE																

	Year:	2005				2006				2007				2008				2009				
		Quarter:				4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
(2) Establishment of a system for development of advisory-service staff and SME Counselors																						
Action 2: Development of standard training courses for the advisory staff of DFIs, and SME Counselors																						
1)	Define the required contents of trainings for advisory staff and SME Counselors																					
2)	Contract with courses available locally																					
3)	Sending advisory staff and SME Counselors for the contracted course																					
(3) Information building																						
Action 3-1: Establishment of customer information database for advisory services																						
1)	Design of database including form for data entry																					
2)	Prepare guides for operation of entry to and use of information from the database																					
3)	Development of the database and application to use the data																					
4)	Installation of servers and PCs as needed																					
5)	Operation of the database																					
Action 3-2: Development of business information database																						
1)	Design of database and information gathering, and preparation of TOR for contract for outsourcing database contents																					
2)	Development of the database and application to use the data, and installation of servers and PCs as needed																					
3)	Start information gathering including outsourcing																					
4)	Operation of the database																					

5.3 BPM

BPM has established a unit for Enterprise Development Program under the Loan Supervision Department to undertake planning and coordination of the advisory service for SMEs exclusively. Further, in addition to the unit manager, BPM decided to assign 19 staffs, who will be assigned to each of 12 State Branch Offices, while remaining 7 work at HQ.

Currently the EDPU is preparing job descriptions for the relevant staffs and operation procedure of advisory services.

The following are recommended for BPM in preparing their operation procedures that:

- 1) It is the key for establishing good relationship with customers, to keep records of every activities (visits and/or services) with customers in the customer database. Therefore, the operation procedure should be prepared such that the advisory staff reviews the database before he/she visits the customer, and records the findings or communications with the customer after he/she came back from the visits.
- 2) For the successful business matching, particularly in the case of businesses in agriculture and food processing, involvement of other business people such as food industry, supermarkets, franchises, and industries which use agricultural produce/products, etc., will be essential.

5.4 EXIM Bank / MECIB

Their organizations are still provisional until end of September, and therefore, they have difficulty to proceed for preparation in detail.

Nevertheless, in the case of EXIM Bank and MECIB, implementation plan for enhancement of advisory capability should be prepared particularly focusing on close collaboration with MATRADE. The collaboration, however, will not be successful unless EXIM Bank and MECIB enhance their capability in the field where they are strong compared to MATRADE in offering the advisory service to SME exporters.

Further, EXIM Bank and MECIB should prepare their implementation plan so that they can offer the services in an organized manner, instead of leaving it to the personal ability or interests.

6 Monitoring

6.1 Objective of Monitoring

The objective of monitoring of the Action Plan implementation should be “to make SME support effective through promoting the Advisory Service”.

Monitoring of the Advisory Services will be effective also with respect for SME support if preparations are made for:

1. Encouraging proactive efforts in providing services
2. Reviewing the issues which SMEs are facing
3. Devising measures for enhancing SME support

6.2 Recommended Monitoring System

The monitoring system of BNM is recommended to be composed of:

1. Periodic reports from the DFIs on their advisory services and support functions
2. Periodic monitoring survey to be conducted by BNM for identifying the problems of SMEs, and evaluation of the DFIs' performance by SMEs
 - For DFIs' loan customers, through the DFIs (with random sampling)
 - For SMEs extracted by random sampling from SME databases
3. Periodic sample opinion-survey among the advisory service staff of the DFIs

The periodic reports from the DFIs should cover the following:

1. Contents of services
2. Organizational setup and enhancement, including staffing
3. Staff training
4. Development of advisor/consultants panel
5. Research work conducted, with brief summary of the research result
6. Findings on the effects of advisory services in view of the following:
 - New loan development
 - Effective support for the “warning sign” loan customers
 - Reduction of NPL

The report should be prepared according to the following:

1. Performance Target, set at the beginning of a year
2. Result of performance by comparison to the above Performance Target
3. Findings on difficulty in undertaking the target, and those of good practice
4. Proposals for the Target in the next year