

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**

OCTOBER 2005

UNICO INTERNATIONAL CORPORATION

TOKYO, JAPAN

Preface

In response to the request from the Government of Malaysia, the Government of Japan agreed to conduct “The Study on Formulation of an Action Plan to Develop Advisory Capabilities of Malaysian Development Financial Institutions for SMEs” which was implemented by the Japan International Cooperation Agency (JICA).

JICA sent a study team, headed by Mr. Tetsuo Inooka of UNICO International Corporation to Malaysia five times from September 2004 to September 2005.

The team held discussions with the officials concerned in the Government of Malaysia, conducted field surveys, and implemented seminars and pilot activities. After returning to Japan, the team conducted further studies and compiled the final results in this report.

I hope this report will contribute to strengthening the advisory capabilities of Malaysian Development Financial Institutions for SMEs, and also to enhancing the friendly relationship between Malaysia and Japan.

I wish to express my sincere appreciation to the officials concerned in the Government of Malaysia for their close cooperation throughout the study.

October 2005

Tadashi Izawa
Vice President
Japan International Cooperation Agency

October 2005

Mr. Tadashi Izawa
Vice President
Japan International Cooperation Agency
Tokyo, Japan

Dear Mr. Izawa,

Letter of Transmittal

We are pleased to submit to you the final report on the Study on Formulation of an Action Plan to Develop Advisory Capabilities of Malaysian Development Financial Institutions for SMEs in Malaysia.

The development financial institutions (DFIs) in Malaysia have recognized the importance of non-financial support for SMEs in view of the fact that financial support alone is not sufficient for SME promotion. They are in the process of preparing a plan for enhancement of advisory service for SMEs from this point of view. The current study was conducted with the objective of supporting the Malaysian DFIs in strengthening their capabilities to undertake the services. The study was carried out as a coordinated process of planning among the DFIs with Bank Negara Malaysia playing the central role in the coordination. The current report was prepared to compile the results of the study, which the DFIs have agreed to use as a basis for their own plans and actions, including the concept, direction and scope of advisory service for SMEs, required measures and action plan for implementation for the enhancement.

Following the above-mentioned coordinated efforts, each DFI is currently preparing for implementation of the advisory service which is based on a concept new to Malaysia, by fostering the understanding that the service is to be offered on the basis and behalf of building and maintaining a good relationship between DFIs and customers. We believe that the service will prove to be highly effective for SME promotion, once it is materialized.

Nevertheless, the DFIs could not accomplish their entire final plan for action and the organizational setup for implementation at the time of completion of the study, mainly because of mergers and reorganization of DFIs which were undertaken during the final

stage of the study. We believe, therefore, that further support for the DFIs, if it is provided in their subsequent preparation stage, will definitely prove useful for them, since the recommended service as a result of the study is new for them in concept, and they have limited knowledge and experience on this point.

We wish to take this opportunity to express our sincere gratitude to your Agency, the Ministry of Foreign Affairs, and Ministry of Economy, and Trade and Industry, for valuable advice and support provided during the study. We also wish to express our deep gratitude to Bank Negara Malaysia and other Malaysian authorities concerned for the close cooperation and substantial assistance rendered to us during the performance of this study.

Very truly yours,
UNICO International Corporation

Tetsuo Inooka
Team Leader, the Study on Formulation of an
Action Plan to Develop Advisory Capabilities of
Malaysian Development Financial Institutions for
SMEs in Malaysia

Map of Malaysia



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.

- After the currency crisis that occurred in Southeast Asia in late 1997, Malaysia has been striving to stimulate the domestic economy, solve the problem of non-performing loans, and reorganize the financial industry through vigorous fiscal policy and credit relaxation measures. These government efforts, coupled with strong growth of the export sector including primary products (palm oil, petroleum and natural gas) and electronics equipment and parts (led by foreign manufacturers operating in the country), has successfully brought the economy back to positive growth in the second quarter of 1999.
- The Eighth Malaysia Development Plan (2001-2005) declares the government's efforts to reinforce the country's competitiveness to promote its stable and sustainable growth. To this end, it is believed to be vital to foster the development of SMEs to viable supporting industries, to raise competitiveness of the entire manufacturing sector, to encourage the emergence of SMEs with vitality, and to upgrade the capabilities of SMEs that are left behind the entire economy in terms of growth, so that they can survive in the era of global competition.
- At present, many SMEs face difficulty in raising funds for daily operation and capital investment due to the lack of creditworthiness to obtain loans from commercial banks. At the same time, SMEs have limited resources and capabilities in marketing, product development, and production technology.
- To help 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
 - a) Review and analyze actual conditions of DFIs' advisory services to SMEs in Malaysia
 - b) Review and analyze actual conditions of SME financing in Malaysia
2. Provision of knowledge and experiences valuable for formulation of the Action Plan
 - a) Review Japanese experiences on provision of advisory services for SMEs by financial institutions
 - b) Hold seminars and workshops
 - c) Conduct of pilot activities such as training for DFIs to formulate an Implementation Plan

3. Formulation of the Action Plan

Based on the above surveys, the Action Plan will be formulated which contains the following items:

- a) Areas of DFIs' advisory services to SMEs
- b) Institutional and organizational frameworks of DFIs' advisory services to SMEs
- c) Human resource development plan for DFIs' advisory services to SMEs
- d) Monitoring system to verify performance of DFIs' advisory services to SMEs

4. Making of Recommendations and Drafting of an Implementation Plan for DFIs

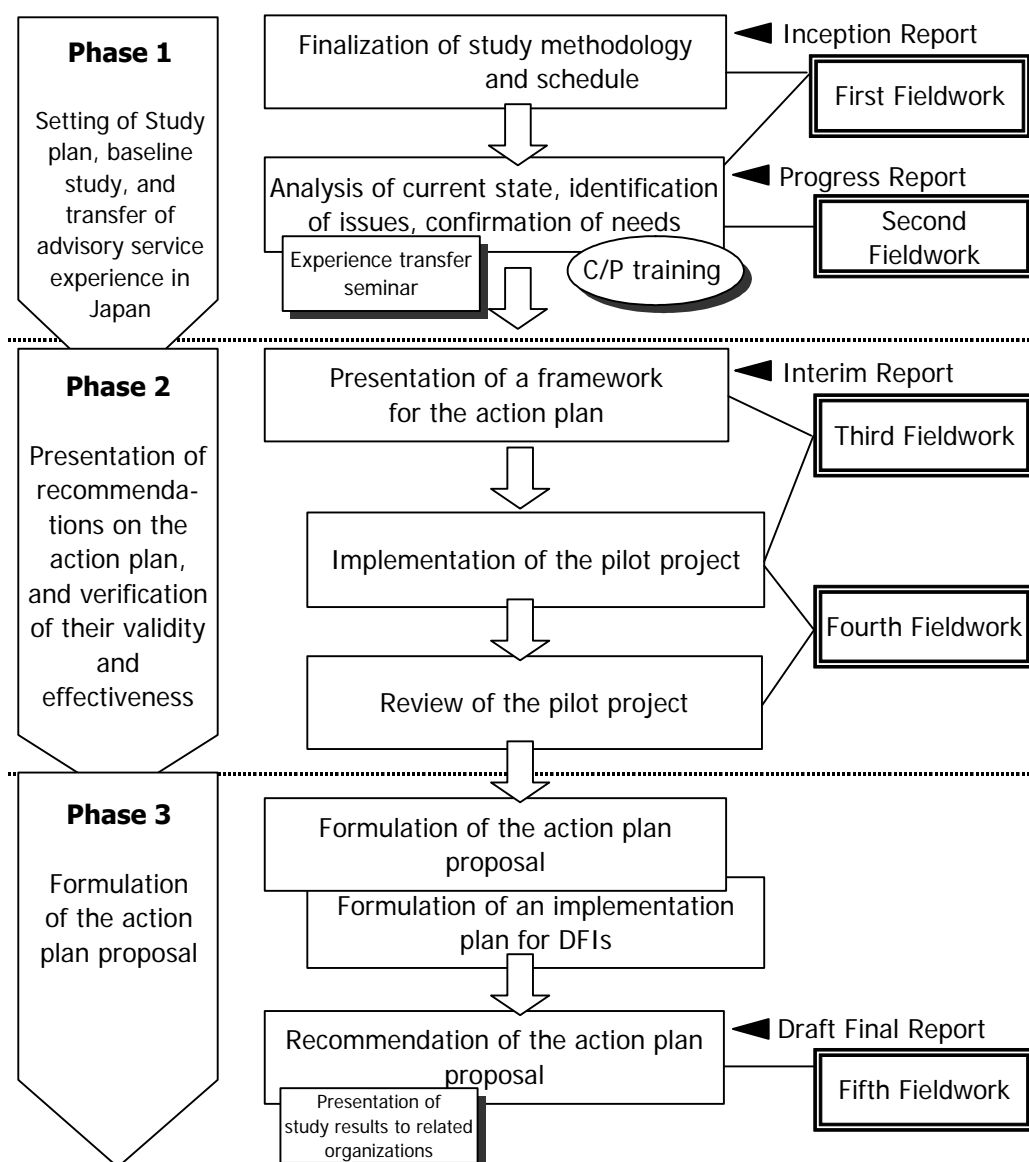
The DFIs surveyed and provided with recommendations and the implementation plan are;

- 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 Study Procedure

Phase 1: Setting of study plan, baseline study, and transfer of advisory service experiences in Japan

2.2.1 Preparatory Work in Japan

- (1) Study on SME advisory service by Japanese financial institutions
- (2) Collection and analysis of related information in Malaysia
- (3) Formulation of a preliminary framework for the Action Plan
- (4) Offsetting of a basic study policy and compilation of Inception Report

2.2.2 First Fieldwork

The first fieldwork was carried out from September 26 and November 13, 2004 (49 days) to cover the following issues.

- (1) Confirmation of the Study plan
- (2) Presentation of the Study plan to the counterpart (WG) and the TC, and coordination on support activities of the counterpart throughout the Study process
- (3) Survey of BNM and target DFIs
- (4) Study on SME promotion policy, the promotion system and the SME support organizations
- (5) Questionnaire survey of SMEs

This survey was conducted with the following methods to understand the actual needs for the advisory service among SMEs.

- 1) SME interview survey of DFI loan customers

The Team interviewed 42 SME loan customers of DFIs. The interview survey was arranged and attended by the officers from DFIs.

- 2) Telephone interview survey of SMEs

The telephone interview survey for SMEs was carried out by a local consulting firm. SMEs were selected randomly by the consulting firm. 350 companies in total replied the survey and the result was submitted on January 14, 2005.

- 3) SME questionnaire survey of DFI loan customers

The questionnaire survey that used the same questions with the other two surveys was conducted targeting for DFI loan customers, and the survey sheets were sent by DFIs. The following shows the number of distributed questionnaire sheets for each

DFI and 121 responses were received.

• BITMB:	80
• BPIMB:	350
• EXIM Bank:	70
• MECIB:	20
• BPM:	180
<hr/>	
• Total:	700

2.2.3 First Home-Office Work in Japan

On the basis of the survey results in the first fieldwork, in the first home-office work in Japan, the Study Team analyzed the advisory service needs, identified the major issues, and established the direction for enhancement of the advisory service capability. The results of the work was compiled into the Draft Progress Report and the Team explained it to the Malaysian counterpart through JICA Net.

2.2.4 Second Fieldwork

The following work was conducted in the second fieldwork starting from January 16 to February 6, 2005 (22 days).

(1) Implementation of a technical transfer seminar

Before the report of the Progress Report, the technical transfer seminar encouraged the seminar participants to understand the current state of the advisory service provided by Japanese financial institutions, the linkage with other SME support organizations and the training system for advisory service staffs and transferred the Japanese experience of advisory services. The seminar was participated by about 80 people from BNM, target DFIs, and other SME support organizations in Malaysia. It was effective for the participants to understand the purposes of advisory services because the seminar covered not only the advisory activities of the financial institutions but also the linkages of the advisory service with other SME support programs in the overall SME promotion system.

(2) Presentation and discussion on the Progress Report

In addition, a plan for pilot activity (1) was proposed by the Team and agreed by the counterpart.

2.2.5 Counterpart Training in Japan

7 officers from BNM and DFIs participated in the counterpart training in Japan from February 5 to 19, 2005. This training program provided an opportunity for participants to understand the SME advisory services offered by Government financial institutions and private financial institutions in Japan that actively provide advisory services to SMEs, and the participants examined the applicability to Malaysia.

The visited organizations for the counterpart training

- Government financial institutions: Japan Finance Corporation for Small and Medium Enterprise (JASME), National Life Finance Corporation (NLFC), Shoko Chukin Bank, Japan Bank for International Cooperation (JBIC),
- SME support organizations: Chambers of Commerce and Industry, JETRO
- Trade insurance: Nippon Export and Import Insurance
- Agricultural organizations: Agriculture, Forestry and Fisheries Finance Corporation, Japan
- Organizations engaged in personnel training for SME management consultation service: Institute for Small Business Management and Technology, Regional Bank Association

2.2.6 Second Home-Office Work in Japan

- (1) Formulation of a preliminary framework for the action plan proposal
- (2) Formulation of the pilot activity (1) plan
- (3) Implementation of counterpart training
- (4) Preparation of the Interim Report

Phase 2: Presentation of the recommendation on the action plan, and verification of its validity and effectiveness

2.2.7 Third Fieldwork

The third fieldwork was carried out from February 21 to March 25, 2005 (33 days) to conduct the following works.

- (1) Presentation and discussion on the Interim Report
- (2) Implementation of pilot activity (1)

The management diagnosis training was conducted targeting for the officers who will be in charge of planning and implementing the advisory service in order to strengthen the

advisory service capability. 15 officers from DFIs participated in the training. The participants were divided into two groups and each group conducted management diagnosis for two selected companies (4 companies in total by two groups).

2.2.8 Third Home-Office Work in Japan

The pilot activity plan was reviewed with assessing the pilot activity (1), and the Team prepared the pilot activity (2) plan.

The Team also formulated the preliminary framework of the action plan and compiled the discussion paper, based on the agreed basic direction of the advisory services for each DFI in the Interim Report.

2.2.9 Fourth Fieldwork

The following works were carried out in the fourth fieldwork starting from May 9 to June 18, 2005 (42 days).

(1) Discussion on the framework of the action plan proposal

The team presented the discussion paper for the framework of the action plan to Malaysian side. The framework of the action plan was discussed and agreed in WG and TC.

(2) Discussion of detailed action plan with each DFI

Based on the proposed action plan, the Team discussed the detailed enhancement plan for each DFI.

(3) Implementation of pilot activity (2)

The following pilot activity was conducted.

1) Workshop to support preparation process of advisory service

The workshop was held to support the preparation process of each DFI for the implementation of the advisory service.

- a) Support to formulate the operation guides of advisory service
- b) Support to establish the customer database
- c) Support the information gathering and research

2) Management diagnosis training (2)

In the pilot activity (1), the team conducted the management diagnosis training, mainly targeting the officers in planning advisory service. The pilot activity (2) focused on training branch officers who communicate with the customers and encouraging them to understand how to evaluate business management. Also, the pilot

activity (2) verified the capability of the branch officers who offer advisory service.

3) Instructor training for management diagnosis

The Team carried out the training to nurture instructors for the above mentioned management diagnosis training.

- a) Before the management diagnosis at the companies, the lecture session was carried out to understand roles of management diagnosis method, how to use the method in providing advisory service, and how to evaluate management.
- b) The practical training for instructors was conducted. The trainees of the instructor training became instructors in the second management diagnosis training.
- c) The participants were the officers who took part in the first management diagnosis training, or the officers who are in charge of in-house training.
- d) The training was conducted in Kuala Lumpur and some trainee instructors also participated in the training in Penang as instructors.

<p><u>Phase 3</u>: Formulation of the Action Plan Proposal and the Implementation Plan</p>
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2.2.10 Fourth Home-Office Work in Japan

(1) Designing of advisory service contents for each DFI

By reflecting the results of the above discussion with DFIs, the contents of the advisory service for each DFI was designed in detail.

(2) Formulation of the action plan proposal for enhancement of advisory service

To improve effectiveness of DFIs' advisory service contents, the action plan proposal was finalized to add detailed contents.

(3) Formulation of the implementation plan for each DFI

The detailed action plan proposal was translated to an implementation plan for each DFI.

(4) Preparation of the Draft Final Report

The Team compiled the results of the Study and formulated the Draft Final Report.

(5) Presentation on the Draft Final Report through JICA Net

The Team explained the major issues of the above Draft Final Report through JICA Net.

2.2.11 Fifth Fieldwork

The fifth fieldwork was conducted from September 4 to 17, 2005 (14 days) with the following tasks.

(1) Presentation and discussion on the Draft Final Report

Based on the Draft Final Report, the results of the work were presented to the WG and TC.

(2) Presentation and discussion on the study results to the related organizations

The Team presented and discussed the results of the Study to the related organizations in order to promote the possible cooperation.

(3) Implementation of the follow-up workshop

The Team carried out the follow-up workshop about the preparation of the implementation process to each DFI to support and facilitated the implementation of advisory service.

2.2.12 Fifth Home-Office Work in Japan

The Final Report, which reflects comments of the Malaysian counterpart on the Draft Final Report, was compiled and submitted to the Malaysian side through JICA.

2.3 Organization of the Final Report

The organization of the Final Report is as follows.

- | |
|--|
| <ul style="list-style-type: none">I Introduction<ul style="list-style-type: none">1. Objective, Background and Scope of the Study2. Outline of Study Implementation and Organization of the ReportII Analysis of the Current Situation<ul style="list-style-type: none">1. The Malaysian Economy and SMEs2. Current State of SMEs and Major Issues3. Current State of SME Promotion and Support Policies, Systems and Institutions, and Major Issues4. Current Advisory Services Provided by DFIs and their Issues5. Advisory Service of Financial Institutions in JapanIII Conclusion and Recommendation<ul style="list-style-type: none">1. Needs of SMEs for Advisory Service2. 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 Service6. 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 Key Social and Economic Index

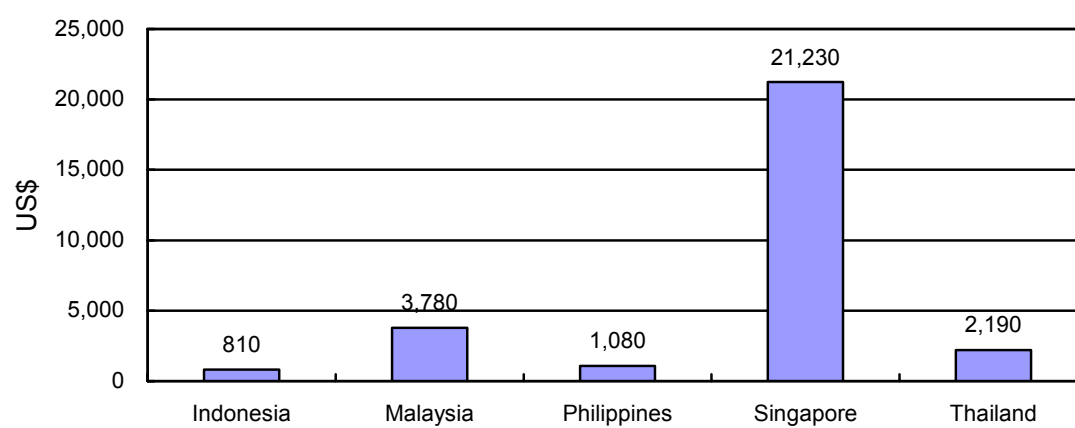
The total land area of Malaysia is 330,000 sq km. The Malaysia peninsula accounts for 40% of total area, while Sabah and Sarawak occupy 22% and 38% respectively. The total population is about 24.5 million in 2002 and, 38% of Malaysia's population, about 18.6 million people, are concentrated in the peninsula. The population in Sabah and Sarawak are only 2.6 million, 11% of the population, and 2.1 million, 9% of the population respectively. Because of this distorted population distribution, the peninsular is densely populated. Population densities in the peninsula, Sabah, and Sarawak are 141 persons per sq, 35 persons per sq, and 17 persons per sq respectively. Meanwhile, Malaysia is a multiracial nation. The majority is Malays who account for 65% of the population in 2004. The second largest is Chinese with 26% and the least is Indian with 7.7%. The official language is Malay, while English is widely used.

Real GDP achieved RM 248 billion in 2004 which was equivalent to US\$103.7 billion. The economy showed a relatively stable growth of 7.1% in 2004, following the growth of 5.3% in 2003. Per capita GNI in 2003 registered about US\$3,780. Malaysia's per capita GNI is 1.7 times higher than that of Thailand and 3.5 times higher than that of Philippine as shown in Figure II-1-1. Inflation remained low, rising 1.8% in 2002, 1.2% in 2003 and 1.4% in 2004. The unemployment rate increased at relatively lower rate of 3.5%.

The Government has achieved an excellent result in poverty rate¹ at 5.1%. The poverty rate is expected to decline by 0.5%, during the Eighth Malaysia Plan period.

¹ Poverty rate is a proportion of household below Poverty Line Income hereafter referred as PLI. PLI is defined as monthly income per household which is necessary to satisfy basic human needs. Then, situation in which monthly income per household is below the PLC, is interpreted as absolute poverty, while one in which monthly income per household is less than half of PLC is extreme poverty.

Figure II-1-1 Per Capita GNI of ASEAN Countries



Source: World Bank (2004)

Table II-1-1 Social and Economic Indicators

	2002	2003	2004 ^(e)
Population (mil. Persons)	24.6	25.1	25.6
Labor force ('000 Persons)	10,199	10,515	10,856
Employment ('000 Persons)	9,840	10,148	10,482
Unemployment (% of labor force)	3.5	3.4	3.4
Notes: ^(e) Estimates			
	2002	2003 ^(p)	2004 ^(f)
Gross Domestic Product (RM million)			
Supply (at constant 1987 prices)			
Agriculture, forestry & fishing	18,438	19,453	19,952
Mining	15,826	16,581	17,494
Manufacturing	65,908	71,311	78,550
Construction	7,275	7,417	7,525
Services	124,939	130,030	136,727
Less: Imputed bank service charges	18,614	19,570	20,851
Plus: Import duties	5,537	5,489	5,158
GDP at purchasers' value	219,309	230,710	244,555
Demand			
Private Consumption	101,946	107,111	115,739
Private Investment	22,702	22,956	25,596
Public Consumption	31,336	33,816	35,229
Public Investment	40,547	42,004	39,606
Exports of goods and non-factor services	237,904	253,006	283,598
Imports of goods and non-factor services	216,802	227,577	257,954
GNP at purchasers' value	202,057	215,408	227,535
Savings and Investment balance			
Savings: RM million (current prices)	115,509	136,394	n.a.
% of GNP	34.4	36.9	n.a.
Investment ^{1/} : RM million (current prices)	85,015	85,633	n.a.
% of GNP	25.3	23.2	n.a.
Balance of Payment			
Goods (net)	72,117	97,701	96,438
Exports	358,504	398,998	443,429
Imports	286,387	301,297	346,991
Services account (net)	-5,996	-15,026	-11,918
Income	-25,061	-22,527	-24,715
Current transfer	-10,566	-9,300	-9,761
Current Account (net)	30,494	50,848	50,045
Capital & financial account (net)			
Capital account	n.a.	n.a.	n.a.
Financial account	-11,941	-12,146	n.a.
BNM international reserves, net	131,394	170,453	n.a.
(Months of retained imports)	5.4	6.8	n.a.

Note: ^(p) Preliminary, ^(f) Freecast, 1/ Including change in stock

Source: EPU(<http://www.epu.jpm.my/New%20Folder/malaysianinfigures.htm>)

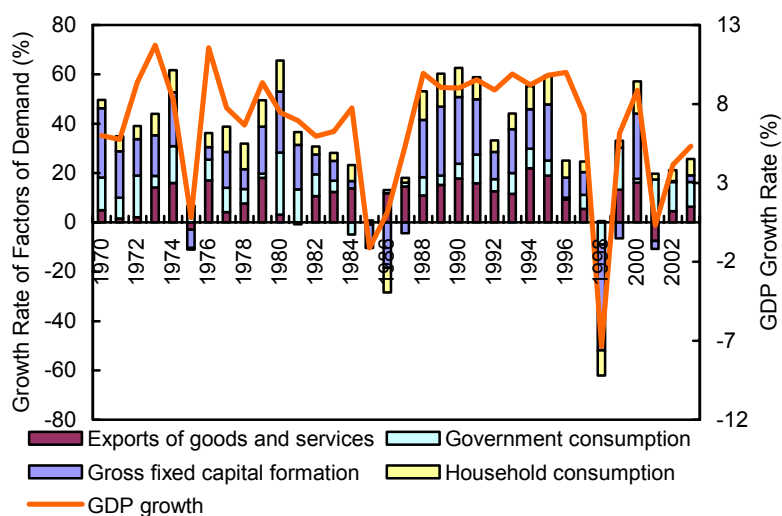
1.2 Economic Structure and Economic Growth

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.

Demand Structure

Figure II-1-2 shows the contribution of components of demand to the GDP growth rate. It reveals that sustainable higher economic growth after 1988 is attributed mainly to an increase in exports and gross fixed capital formation. Meanwhile the contribution of government consumption to GDP growth was low comparing to the performance before 1984. Between 1988 and 1997, gross fixed capital formation expanded by an average of 19% annually. The private investment, however, has stagnated since 1998. Rebounding strongly by 26% in 2000 following a negative growth in the previous year, the pace of the investment activity decelerated to -3% in 2001, to 0.3% in 2002, and to 2.7% in 2003. These trends indicate that the 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.

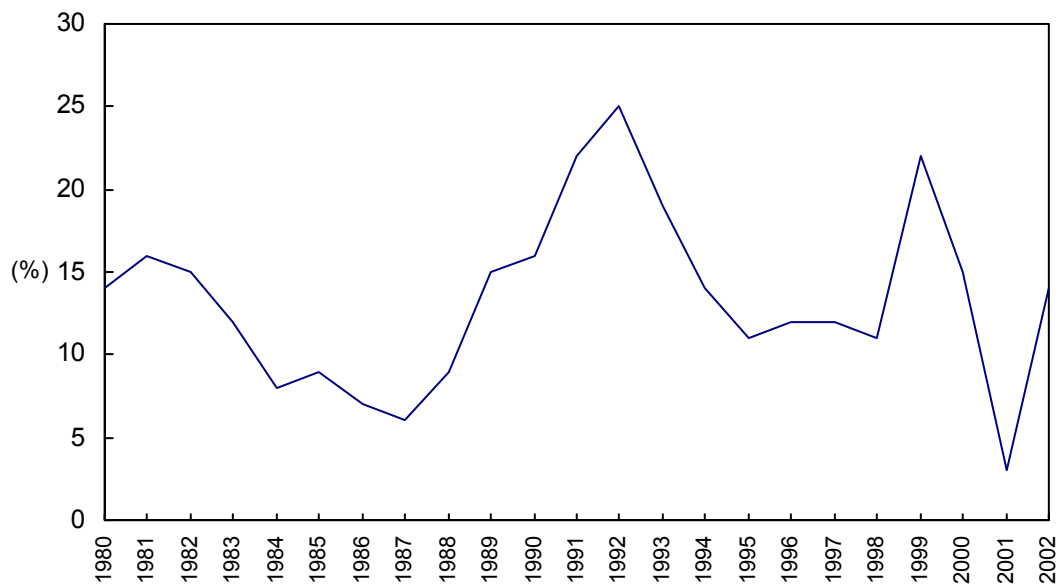
Figure II-1-2 Contribution of Factors of Demands to GDP Growth (1970-2003)



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. Figure II-1-3 provides a trend of the share of FDI to the gross capital formation.

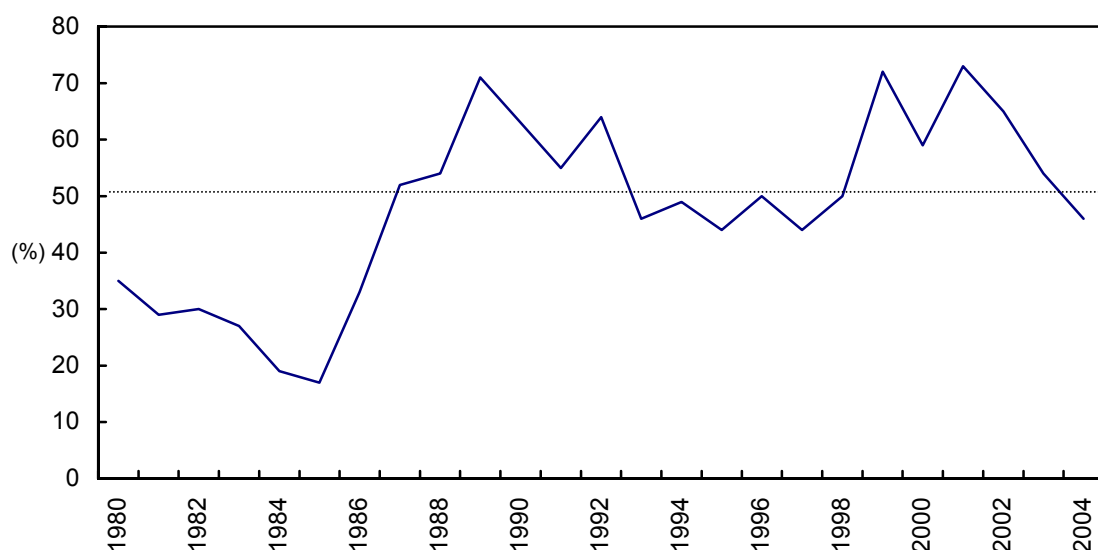
Figure II-1-3 Share of FDI to Gross Capital Formation



Source: World Bank (2004)

The share of FDI started increasing sharply from 1987 and recorded the growth of 25% in 1992. The manufacturing sector is a major recipient of FDI, recording the vast amount of FDI occupying more than 50% of its total investment between 1987 to 1994 and between 1999 to 2003 as shown in Figure II-1-4. 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-1-4 Share of Foreign Capital to Total Capital Investment in the Manufacturing Sector



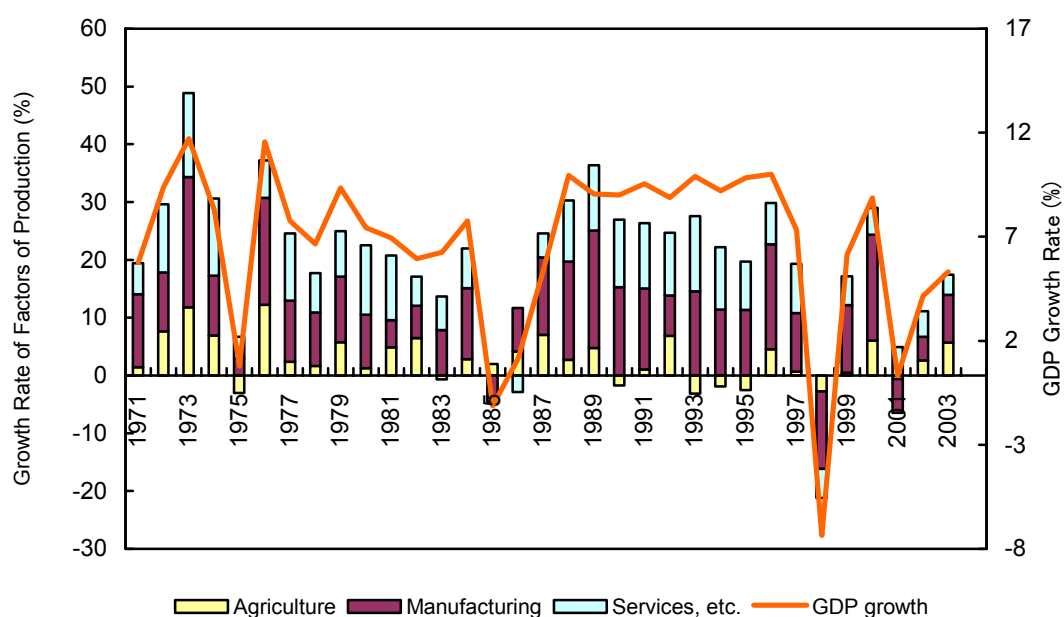
Source: World Bank (2004)

Industrial Structure

The main industry in the 1970s was agriculture. The half of the working population engaged in the sector and the volume of agricultural export accounted for 80% of total export. The share of agriculture to GDP was 30% in 1974, which was much larger than that of manufacturing sector, 17%. During the 1970s, the major contributor to the economic growth was both the manufacturing sector and the agriculture sector, as shown in Figure II-1-5. Real GDP recorded the growth rate of over 11% in 1973 and 1976, while the agriculture sector also expanded at 11% and 12% in the respective year.

The industrial structure, however, experienced a drastic change especially after 1986. The manufacturing sector became the major industry of the economy by the middle of 1980s. Between 1986 and 1997, average annual growth rate of the manufacturing sector was 13%, while that of agriculture sector was only 2%. The latest economic development plan, the OPP3, is expected to expand the manufacturing sector's and service sector's contribution to GDP to 36% and 57% by the final year of the plan, 2010.

Figure II-1-5 Contribution of Factors of Production to GDP Growth (1971-2003)



Source: World Bank (2004)

The biggest contributor to the manufacturing sector value added came consistently from the electrical machinery industry in between 1987 and 2001, as indicated in TableII-1-2. It was also the highest exporter in terms of export value, accounting for 70% of total export. Meanwhile, the share of the processing industry of estate-type agricultural products and the food industry decreased sharply from about 8% respectively in 1987 to 3.4% and 4.7% in 1987. Furthermore, the contributions of the products of petroleum and the machinery except electrical machinery increased to 8.3% and 9.5% respectively in 2001 from 2.2% and 2.5% in 1987.

Table II-1-2 Contribution to the Manufacturing Sector Value Added

(Unit: %)

	1987	1995	2001
Processing of estate-type agricultural products	8.0	4.9	3.4
Food	8.4	4.4	4.7
Beverages	2.3	0.8	0.7
Tobacco products	4.0	1.2	0.4
Textiles	4.1	3.0	2.0
Footwear, other wearing apparel and made-up textile goods	2.8	2.1	1.7
Wood products	6.5	5.7	3.6
Furniture and fixtures	0.7	1.5	2.0
Printing, publishing and allied industries	3.3	2.8	2.1
Paper and paper products	1.3	1.8	2.2
Leather and leather products	0.0	0.1	0.1
Rubber products	3.9	3.7	2.8
Chemicals and chemical products	14.7	8.0	8.2
Products of petroleum and coal	2.2	3.2	8.3
Non-metallic mineral products	4.9	4.3	3.5
Basic metal industries	3.8	2.4	2.0
Metal products	2.8	4.2	3.6
Machinery except electrical machinery	2.5	5.0	9.5
Electrical machinery	16.1	28.9	25.2
Transport equipment	2.9	5.0	6.2
Miscellaneous manufacturing industries	4.9	7.0	7.8
Total	100.0	100.0	100.0

Source: BNM

1.3 Economic Policy and Monetary Policy

Economic Policy

Economic Policies introduced by the Government had a crucial role in expanding FDI flow. As previous chapter showed, the Malaysian economy shifted from agriculture-dependent to manufacturing-dependent, led by a sharp increase in private investment, especially FDI. Three economic policies adopted before the middle in 1980s played crucial roles in the surge in FDI; that is, (1) the New Economic Policy, hereafter referred as NEP, introduced in 1971, (2) the import substitution policy for the heavy and chemical industries adopted in the 1980s, and (3) the FDI promotion policy introduced in

1986.

Economic liberalization policy in Malaysia has started in 1971 when the NEP was introduced. The NEP was the first policy promoting export. Before the NEP, the key strategy of Malaysian economic policies was import substitution, focusing on substitution of imported consumption goods accounting for 65% of total import by similar home-made goods. The NEP was a double track industrial strategy. One strategy was to promote export by companies located in EPZ and Licensed Manufacturing Warehouse, and the other was to promote import substitution of domestic natural resources. Through the NEP the Government emphasized on fostering the processing industries of the electric and electronic parts, raising self-sufficiency ratio for consumption goods. As a result, these processing goods occupied the half of total export in the 1980s.

In the 1980s, the Government introduced the import substitution policy for the heavy and chemical industries, aiming at improving the current account deficit. The double track industrial strategy in the 1970s resulted in an increase in the share of the manufacturing sector to GDP, while boosting import of vehicles, machinery, and raw materials such as steel as the industrial sector developed. This put pressure on the current account deficit. The import substitution policy for the heavy and chemical industries was expected to improve the worsen current account deficit. Because of a huge amount of initial investment, the Government took the initiatives by investing through HICOM and PETRONAS. The second oil shock allowed the Government to take this government led industrial development, raising global prices of primary goods and, as a result, expanding the government's revenue. The policy led a sharply increase in government consumption in 1980 and 1981 as shown in Figure II-1-2.

Facing a worldwide sharp decline in primary goods prices in 1985 and 1986, the Government turned into outward economic policies such as FDI promotion and export expansion. During the period, the government revenue plummeted and the economy stagnated. Amid the advent of economic turmoil, the Government introduced the Promotion of Investment Act in 1986. This act allowed foreign companies to hold 100% share if they exported 80% of their manufactured goods or if they employed more than 350 workers. In addition to this new act, the Government implemented incentive actions such as a tax reduction for export-oriented manufacturing industries. These outward-looking policies led to a surge in FDI inflow and technology transfer involved as well as export of industrial goods to developed countries by using international distribution channels of foreign companies. Moreover, the strong yen triggered by the Plaza Consensus also

contributed to stimulate FDI of Japanese companies to Malaysia.

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 environment². 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 equilibrium³, 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 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.

² UNIDO (1996), "Trade and Development Report 1996"

³ The balance of payment equilibrium is defined as a situation where a current account surplus/deficit is equivalent to a capital account deficit/surplus. Thus, a current account does not necessarily need to be in surplus.

Monetary Policy

In Malaysia, the financial system has a relatively long history. After leasing companies and offshore banking were allowed to operate in the 1980s and in 1990 respectively, domestic financial institutions, mainly commercial banks, and offshore banks worked closely together and contributed to the economic development of Malaysia. The Bank Negara Malaysia published a reorganization plan to integrate domestic financial institutions such as commercial banks, financial companies, and merchant banks, into 10 groups in 1990. Meanwhile, from the viewpoint of international competitiveness, the financial sector was required to further develop its physical strength and improve managerial efficiencies. Corresponding to those requirements, the BNM published Financial Sector Master Plan, hereafter referred as FSMP, in 2001⁴.

FSMP aims at creating a powerful financial system with resilience and competitiveness. In order to achieve the goal, the plan raises four action plans as follows:

- (1) Capacity building of domestic financial institutions
- (2) Stabilization of financial system
- (3) Achievement of socioeconomic objectives
- (4) Development of a market-oriented system of consumer protection

These action plans are supposed to be implemented in three phases for 8 to 10 years; the first phase objective is to strengthen competitiveness of domestic financial institutions; the second phase is to create more competitive domestic environment; and, the final phase target is to promote integration to international market.

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. According to economics theory, it is impossible to achieve three things at the same time; that is, (1) free capital movement, (2) an independent monetary policy, and (3) fixed exchange rate.

Assume that the central bank takes a monetary policy to revitalize the economy; e.g. expansionary monetary policy. This pushes down the domestic interest rate below the world interest rate, creating a difference between the two interest rates. This spurs interest arbitrage transactions and drives people to sell local currency, given that the

⁴ Malaysia Handbook (2001), p284

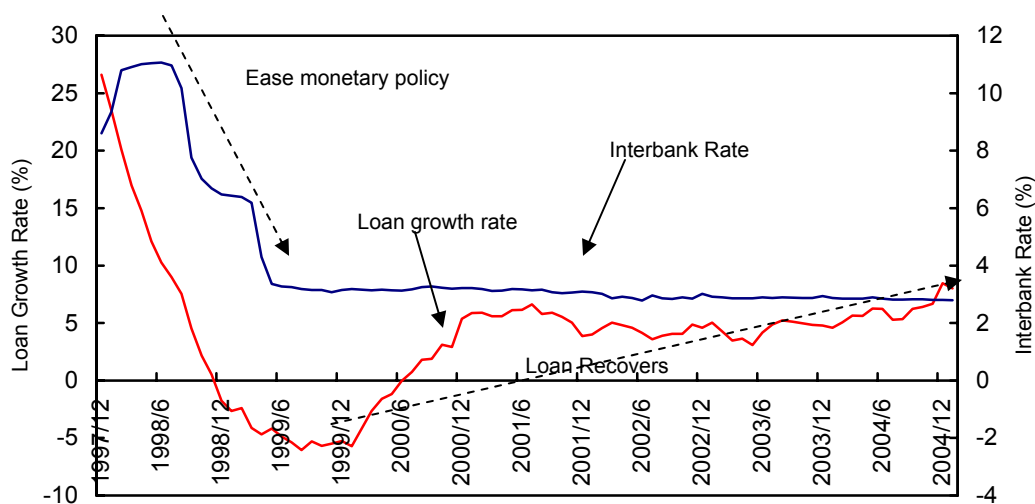
country adopts free capital movement as (1) aforementioned. Moreover, assume a fixed exchange rate regime as (2) aforementioned. Then, in order to maintain the fixed exchange rate, the central bank is obliged to deal with private capital movements by absorbing local currency in the foreign exchange market without limitation. This intervention, however, decreases domestic money supply, shifting money supply back from required level to stimulating the economy. As a result, the bank cannot achieve its expected economic output. This shows that a monetary policy with (1) free capital movement and (2) a fixed exchange rate becomes ineffective. This is called as losing an independence of monetary policy.

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. Indeed, restriction on the short-term capital movement allowed Malaysia to maintain its pegged exchange rate of RM3.8 per dollar and to realize economic stabilization in a short time, although it was to go against the IMF's policy.

The BNM has adopted lower interest rate so as to stimulate the economic activities since 1998. As the advent of the financial crisis, the bank adopted a tight monetary policy by raising its policy rate in order to stabilize the economy. The policy, however, had reverse effects on the economy by accelerating credit crunch. The total loan amount had plummeted and this raised strong concerns that the economy would stagnate further. Because of looming further economic downturn, however, the bank shifted its focus toward a policy to stop the contraction of banking loan and adopted a low interest rate policy since the middle of 1998. Corresponding to this, interbank rate also declined.

As shown in Figure II-1-6, interbank rate declined sharply from 11% in June 1998 to 3.1% in August 1999. The rate in June 2005 was 2.8%. 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.

Figure II-1-6 Month Interbank Rate and Growth Rate of Loan amount by Private Financial Institutions



Source: BNM

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 amount of total loan disbursement showed a year on year increase of 7.3% in 2003 and 11% in 2004, while that toward SMEs sharply increased by 7.6% in 2003 and 15% in 2004. 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.

1.4 National Development Plan

The current economic development plan is based on the OPP3, as shown in Table II-1-3. The OPP3 addresses to realize a sustainable economic growth and establishing a resilient and competitive economy. It is a long-term plan for 10 years, incorporating 8th Malaysia Plan as its first 5 year plan.

Table II-1-3 Economic and Industrial Development Plans in Malaysia

	OPP	MP	IMP	Wawasan 2020	FSMP
1971 : 75	OPP 1 • NEP	2 MP			
76 : 80		3 MP			
81 : 85		4 MP			
86 : 90		5 MP	IMP 1		
91 : 95	OPP 2 • NDP	6 MP		Wawasan 2020	
96 : 2000		7 MP	IMP 2		
01 : 05	OPP 3 • NVP	8 MP			FSMP
06 : 10					
11 : 15					
16 : 2020					

Notes: OPP: Outline Perspective Plan
MP: Malaysia Plan
IMP: Industrial Master Plan
FSMP: Financial Sector Master Plan
NEP: New Economic Policy
NDP: National Development Policy
NVP: National Vision Policy

Development Objective of the OPP3

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. During the OPP3, GDP is expected to grow at 7.4% per annum, while it recorded the growth of 7% per annum during the OPP2. 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. For this sake, the OPP3 emphasizes to continue to pursue the Bumiputra policy, aiming to increase share capital ownership from 19.1% of the OPP2 period to more than 30%. The third strategy is to enhance competitiveness so as to cope with any change in economic environments of the surrounding region. The OPP3 addresses to develop a knowledge based economy so called K-economy, shifting from conventional labor intensive economy. This transition will be pursued by promoting the utilization of ICT, human resource development, as well as further development of ICT infrastructure.

Development Objective of the Eighth Malaysia Plan

The Eighth Malaysia Plan (8MP) provides more detailed polices based on the OPP3. There are three key objectives. The first is to shift the Malaysian economy from an input oriented economy to a knowledge oriented economy. The second is to promote structural adjustments in each industry in order to establish the K-economy. The third is to improve the quality of life by eradicating poverty and providing better social services such as education and medical care, and to pursue impartial distribution of income and wealth by continuing the Bumiputra policy. During the 8MP, economic growth targeted is 7.5% per annum. According to the GDP by demand components shown in Table II-1-4, private consumption and private investment are expected to grow at 7.4% and at 19% which is the largest among all categories. During the Seventh Plan, these items recorded the growth of 2.9% and -11.6% respectively. These indicate that the Government has a great expectation for domestic demand and private investment to work as driving forces of higher economic growth.

Table II-1-4 GDP Growth Target by Factors of Demand (1987 prices)

Category	(%)	
	Achieved 7MP	Target 8MP
Consumption	3.0	7.5
Private	2.9	7.4
Public	3.3	7.7
Investment	-4.7	11.3
Private	-11.6	19.0
Public	7.1	1.1
Change in Stocks	-	-
Exports of Goods & Nonfactor Services	18.8	6.8
Imports of Goods & Nonfactor Services	4.3	7.8
GDP at Purchasers' Value	4.7	7.5

Source: EPU

In terms of growth target by factors of production, the manufacturing sector is expected to grow at 8.9% per annum, and, as a result, the share to GDP is expected to reach to 35.8% by 2005, as shown in Table II-1-5. The major contribution will come from the electronics sub sector. Moreover, the 8MP addresses to strengthen performance of petrochemical industry, the pharmaceutical industry, the furniture industry, as well as the food industry.

Table II-1-5 GDP Growth Target by Factors of Production (1987 prices)

Sector	(%)	
	Achieved 7MP	Target 8MP
Agriculture, Forestry, Livestock & Fishing etc	1.2	3.0
Mining & Quarrying	0.4	3.3
Manufacturing	9.1	8.9
Construction	-1.1	6.5
Electric, Gas & Water	3.8	7.5
Transport, Storage & Communications	6.2	9.1
Wholesale & Retail Trade, Hotels & restaurants	4.2	7.7
Finance, Insurance, Real Estate & Business Services	7.3	8.5
Government Services	4.5	3.0
Other Services	4.1	9.0
(-) Imputed Bank Service Charges	9.9	6.5
(+) Import Duties	-6.5	4.0
GDP at Purchasers' Value	4.7	7.5

Source: EPU

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%⁵.

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

⁵ BNM, "Annual Report (2004)"

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 Current State of SME Development and Major Issues

2.1 Current State of SMEs in Malaysia as Shown by Statistics

2.1.1 Definition of SMEs

In Malaysia, there was no unified definition of SMEs and various SME support organizations established and used their own definitions in implementing their programs. In June, 2005, the following first unified definition was established at the Third National SME Development Council Meeting. At present, government offices and organizations engaged in SME support are moving toward the adoption of the new definition.

	Manufacturing and Manufacturing-related Services	Services Sector (including ICT)	Primary Agriculture
A small and medium enterprise	An enterprise with full-time employees not exceeding 150 or with annual sales turnover not exceeding RM25 million	An enterprise with full-time employees not exceeding 50 or annual sales turnover not exceeding RM5 million	An enterprise with full-time employees not exceeding 50 or annual sales turnover not exceeding RM5 million
A micro enterprise	An enterprise with full-time employees of less than 5 or with annual sales turnover of less than RM250,000	An enterprise with full-time employees of less than 5 or with annual sales turnover of less than RM200,000	An enterprise with full-time employees of less than 5 or with annual sales turnover of less than RM200,000
A small enterprise	An enterprise with full-time employees of between 5 and 50 or with annual sales turnover of between RM250,000 and less than RM10 million	An enterprise with full-time employees of between 5 and 19 or with annual sales turnover of between RM200,000 and less than RM1million	An enterprise with full-time employees of between 5 and 19 or with annual sales turnover of between RM200,000 and less than RM1million
A medium enterprise	An enterprise with full-time employees of between 51 and 150 or with annual sales turnover of between RM10 million and RM25 million	An enterprise with full-time employees of between 20 and 50 or with annual sales turnover of between RM 1 million and RM5 million	An enterprise with full-time employees of between 20 and 50 or with annual sales turnover of between RM 1 million and RM5 million

(Note) The analysis of the relationship between employment, capital, and sales of SMEs based on the SME survey conducted in this Study, FY 2004, is shown in Annex II-2.

As annual sales often fluctuate year after year, they are not a very reliable factor for defining SMEs. Rather it is considered that more reliable criteria can be established on the basis of continuous analysis of relevant data, such as changes in the capital and

employment in comparison to annual sales (As shown in Annex II-2, indicating the analytical results for FY2004 data).

2.1.2 Number of SMEs as manufacturing establishments

At present, the Department of Statistics (DOS) has the most comprehensive data on SMEs. This is the data that was compiled by registered companies in the Companies Commission of Malaysia (CCM). According to Census 2000 implemented by the DOS, there are approximately 40,000 manufacturers. 20,000 companies of them 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. Thus, a percentage of SMEs in the commerce and service sectors is higher than those in the manufacturing sector. In total, around 204,000 companies are classified as SMEs, accounting for 96% of 212,000 companies that are registered with the CCM.

The following table shows the numbers of establishments and SMEs by industry sub-sectors. 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 sub-sector, which is now one of the major industries in the country, represent a mere 4% of those in the entire manufacturing sector, while accounting for 60% of all companies in the 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

The following table shows yearly trends in the number of new startups since 1992. New business establishments peaked at 43,571 in 1994 and remained at 40,000 levels until 1997. Then there was a significant decline in 1998 due to the financial crisis. However, the number of new startups increased in 1999 by reflecting a general recovery of the national economy.

Table II-2-2 Number of New Start-ups

Trend of Business Establishments						(Number)	
1992	1993	1994	1995	1996	1997	1998	1999
23,247	30,988	43,571	43,238	43,143	40,720	18,825	27,756

Source: Ministry of Entrepreneur and Cooperatives Development

2.1.3 Recent trends in output, value added, and employment by SMEs

Changes in output, value added, and employment by SMEs

The following table shows production output, value added, and employment by SMEs in 2002 and 2003 (based on NPC's publication prepared by the DOS's data). In 2003, the total output by SMEs was RM689 trillion, accounting for 29% of the total. Value added by SMEs amounted to RM142 trillion, representing 26% of the total, while SMEs held 32% of employment in the manufacturing sector, totaling 375,840 employees.

In 2003, output, value added and employment by SMEs grew to reflect firm growth of the manufacturing sector, at annual rates of 9.6%, 11.8% and 3.7%, respectively. This suggests the improvement of labor productivity among SMEs.

Table II-2-3 Recent Trends in Output, Value-added and Employment by SMEs

	Value		% Share to the Manufacturing sector		Annual growth (%)
	2002	2003	2002	2003	2003
Total Output (RM billion)	62.8	68.9	29.1%	29.1%	9.6%
Added Value (RM billion)	12.7	14.2	25.8%	26.1%	11.8%
Employment (Number)	362,345	375,840	31.6%	32.5%	3.7%

Source : NPC

Output

Top three sub-sectors, as percentage share of the total manufacturing sector, are electrical and electronics (23.1% of total output in the manufacturing sector), food products (14.7%), and chemicals and chemical products (9.6%), as shown below.

Table II-2-4 Output of Sub-sectors

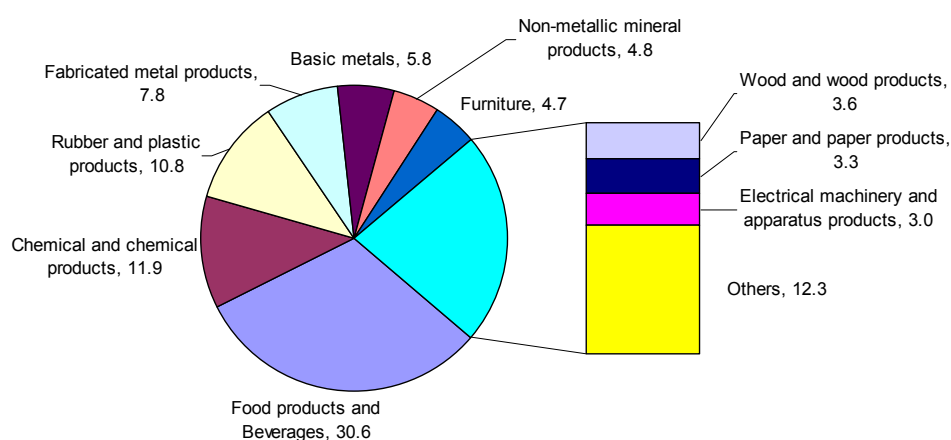
	Output of sub-sectors (Overall, top 3, 2003) (RM million)	% Share to the manufacturing sector
Electrical and electronics	49,819	23.1%
Food products	31,774	14.7%
Chemicals and chemical products	20,629	9.6%

Source : NPC

On the other hand, top three sub-sectors, as percentage share of total output only by the SMEs, are food and beverages, chemicals and chemical products, rubber and plastics, as

shown in Figure II-2-1. In particular, the food and beverages sub-sector holds a substantial share (30.6%) of the total output, and is the important sub-sector for SMEs. The chemicals and chemical products accounts for 11.9% and the rubber and plastics accounts for 10.8%. The electrical and electronics sub-sector – the largest sub-sector in whole output – accounts for meager 3% of output by SMEs. Thus, large enterprises dominate in terms of contribution to output of the electrical and electronics industry, while SMEs make minimal contribution.

Figure II-2-1 Output of SME Manufacturers



Value added

Top three sub-sectors, as percentage share of total value added by the entire manufacturing sector, are electrical and electronics (19.8% of total), chemicals and chemical products (9.3%), and food products (9.2%).

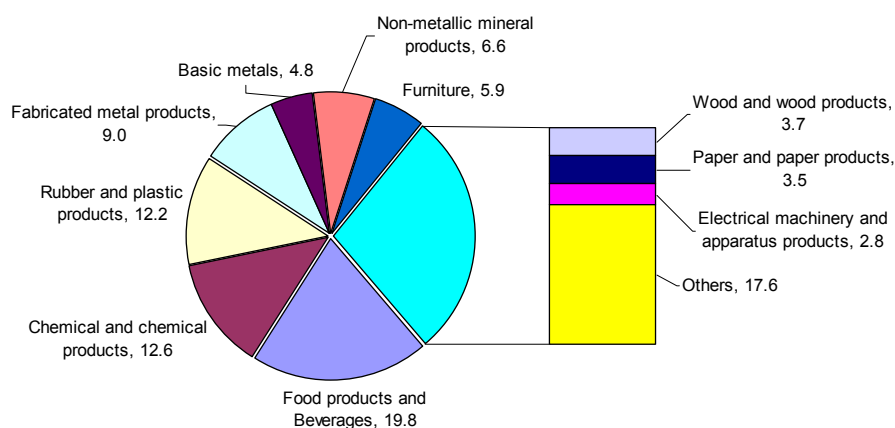
Table II-2-5 Added Value of Sub-sectors

	Added value of sub-sectors (Overall, top 3, 2003) (RM million)	% Share to the Manufacturing sector
Electrical and electronics	10,697	19.8%
Chemicals and chemical products	4,555	9.3%
Food products	4,529	9.2%

Source : NPC

On the other hand, top ranking sub-sectors, as percentage share of total value added by the SMEs, are food and beverages (19.8%), chemicals and chemical products (12.6%), rubber and plastics (12.2%). Again, the SME sector represents only 2.8% of total value added by the electrical and electronics industry.

Figure II-2-2 Added Value of SME Manufacturers



Employment

In terms of employment, the electrical and electronics sub-sector employs approximately 256,000 persons, accounting for 22.4% of total employment by the manufacturing sector as a whole, followed by food products (8.2%) and plastics products (8.1%).

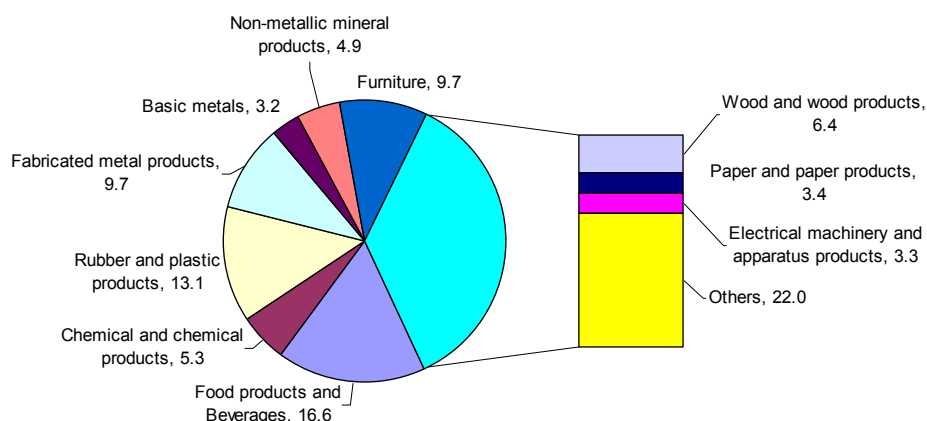
Table II-2-6 Employment of Sub-sectors

	Employment of sub-sectors (Overall, top 3, 2003) (RM million)	% Share to the Manufacturing sector
Electrical and electronics	256,484	22.4%
Food products	94,193	8.2%
Plastic products	92,549	8.1%

Source : NPC

On the other hand, the food and beverages sub-sector accounts for 16.6% of total employment by SME manufacturers, followed by rubber and plastics products (13.1%), fabricated metal products (9.7%), and furniture (9.7%), whereas the electrical and electronics sub-sector holds a merely 3.3% share.

Figure II-2-3 Employment of SME Manufacturers



Main target market

Most SMEs in Malaysia conduct their sales activities mainly within the country. According to SMIDEC-NPC's survey, 26.5% of output made by SMEs were directly exported in 2003 (compared to 25% in 2002). Four sub-sectors show a relatively high ratio of export to output by SMEs, namely electrical and electronics (38.7%), transportation equipment (45.0%), rubber and plastics products (46.0%), and palm oil (43.8%). Notably, it is often the case that SMEs produce and supply parts and components to MNCs, which then assemble them into finished products for export.

2.2 Major Issues Confronting SMEs in Malaysia

While the Malaysian government has been promoting SME through various ministries and related organizations, SMEs are currently facing many problems. Major problems facing SMEs, as identified in related government plans and survey results, are described and analyzed below.

Issues identified in SMIDP

First of all, SMI 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

As most SMEs serve the domestic markets that are small and protected by government for policy consideration, they do not have an opportunity or incentive to upgrade their technological and management capabilities. Limited number of SMEs can make products that meet the specified manufacturing standards set by large manufacturers and MNCs.

2) Limited capacity for technology and knowledge acquisition

Most SMEs do not have resources to acquire technology and knowledge that remain competitive and expand their businesses. In addition, it is difficult for SMEs to bear the costs.

3) Low productivity and quality output

It is necessary for SMEs to obtain technological capability and ability to meet the QCD requirements consistently in order to be suppliers to large firms and MNCs. In particular, they need to make continuous efforts to improve productivity and to increase efficiency improvement and cost reduction.

4) Lack of readiness for business environment of rapid changes

SMEs generally use a number of foreign workers, resulting in delaying the investment in automation, skill upgrading and knowledge acquisition which are crucial to long-term competitiveness.

5) Limited access to finance and capital, and the infancy of venture funds in initial or mezzanine financing

Most SMEs do not have sufficient asset to secure loans from financial institutions and need to borrow funds from families, friends and supplier credits. The venture capital industry is not sufficiently developed to encourage the entry of enterprises generating wealth from knowledge-based activities.

6) High cost of infrastructure

Most SMEs operate in areas other than industrial zones or areas. As they are not located close together, they cannot benefit from synergies produced by industrial

clusters.

7) Lack of information

Most of problems facing SMEs are attributable to the lack of the ability to collect and use information. SMEs generally lack information management capability that is a key factor for surviving through the dynamic environmental changes.

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

A survey conducted by EPU from 2002 to 2003 covering ministries, agencies and other organizations engaged in SME support reveals problems faced by SMEs, as recognized by the support organizations. As shown in the table below, 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%)”.

Table II-2-7 Problems Faced by Responded SMEs

Types of problems	% of total responses
Lack of technological skills and knowledge to improve productivity	69.2
Difficulties in getting loans	67.3
Lack of competitiveness due to low quality of products	61.5
Having to deal with so many parties / agencies	48.1
Strong competition from neighboring countries	44.2
Insufficient channels for loans	34.6
Inadequate advisory and counseling services provided by Government agencies	32.6
No central agency or one-stop center to refer to	28.8
Inadequate assistance from Government	11.5
Very high input cost resulting from Government bureaucracy	11.5

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.”

Table II-2-8 Difficulties Faced by Responded SMEs

Difficulties	No. of companies	%
Lack of knowledge to analyze the cause of poor business performance	75	24%
Lack of financing or face problem to apply financing	172	56%
Losing customers	94	31%
Technical problem or product quality problem	71	23%
Lack of price competitiveness	158	51%
Others	66	21%

Note: % = Responses for the each column / Total number of responses that face difficulties in their businesses.

The following two tables analyze the problems cited by respondents according to the number of employees and annual sales respectively. The difficulty in financing is cited by a relatively high percentage of respondents in all categories in employment sizes and annual sales amounts, and the percentage is higher among smaller enterprises. On the other hand, the larger the company size becomes, the more other problems were indicated, such as price competitiveness and technical skills.

Table II-2-9 Difficulties Faced by SMEs by Employee Size

No. of employees	Less than 10		11~50		51~100		101~150		151~	
Do you face any difficulties in your business?	101	-	115	-	47	-	22	-	16	-
Lack of knowledge to analyze the cause of poor business performance	21	21%	37	32%	8	17%	2	9%	2	13%
Lack of financing or face problem to apply financing	63	62%	62	54%	24	51%	12	55%	6	38%
Losing customers	31	31%	36	31%	18	38%	7	32%	2	13%
Technical problem or product quality problem	15	15%	28	24%	10	21%	9	41%	5	31%
Lack of price competitiveness	51	50%	55	48%	27	57%	15	68%	7	44%
Others	23	23%	24	21%	9	19%	8	36%	1	6%

Table II-2-10 Difficulties Faced by Responded SMEs by Annual Sales

Amount of sales (RM million)	Less than 1		1~2.9		3~4.9		5~9.9		10~25		More than 25	
Do you face any difficulties in your business?	107	-	55	-	35	-	46	-	61	-	2	-
Lack of knowledge to analyze the cause of poor business performance	30	28%	16	29%	6	17%	11	24%	11	18%	0	0%
Lack of financing or face problem to apply financing	65	61%	38	69%	20	57%	20	43%	27	44%	1	50%
Losing customers	29	27%	19	35%	8	23%	13	28%	24	39%	1	50%
Technical problem or product quality problem	17	16%	12	22%	6	17%	15	33%	21	34%	0	0%
Lack of price competitiveness	44	41%	31	56%	21	60%	16	35%	45	74%	1	50%
Others	26	24%	9	16%	8	23%	6	13%	16	26%	0	0%

The table below presents difficulties faced by responded SMEs classified by type of ownership. Among Bumiputra companies, 112 out of 181 companies (61.9%) indicated some difficulties in their businesses. As for non-Bumiputra companies, 193 out of 328 (58.8%) cited presence of problems. The ratios SMEs facing some difficulties between two types of ownership are not so big different. However, in breakdown issues, larger percentage of Bumiputra companies indicated some difficulties in “lack of financing or face problem to apply financing”, “lack of knowledge to analyze the cause of poor business performance”, and “technical problem or product quality problem”.

Table II-2-11 Difficulties Faced by Responded SMEs by Bumi or Non-Bumi

Bumi or Non-Bumi	100% Bumiputra		Non-Bumiputra	
Do you face any difficulties in your business?	112	-	193	-
Lack of knowledge to analyze the cause of poor business performance	39	35%	36	19%
Lack of financing or face problem to apply financing	72	64%	99	51%
Losing customers	34	30%	59	31%
Technical problem or product quality problem	29	26%	41	21%
Lack of price competitiveness	57	51%	101	52%
Others	30	27%	36	19%

Annex II-2 Relationship between employment, capital, and sales of SMEs

As mentioned before (2.1.1), National SME Development Council established the unified definition of SME in June 2005. Although no surveys have been conducted to understand the actual state of SMEs based on the new definition, the relationship in terms of employment, capital, and annual sales among SMEs was analyzed by using the BNM's surveys and the SME needs survey conducted as part of the present study.

The results of BNM's surveys conducted in 2001 and 2002 (responded by 7,705 companies) described that size of SMEs was relatively small in general; 77% had the total asset of less than RM5 million and 74% hired 50 or less employees. In 2001, approximately 70% of respondents reported annual sales of less than RM10 million and 50% less than RM6 million. 29% were in the state of insolvency.

On the other hand, among 513 responded companies to the SME needs survey under the present study, micro enterprises with less than 5 employees accounted for 14% of the total and small enterprises with employees of between 5 and 50 represented 61%.

**Attached Table 1 Number of Responded Companies
by Employee Size**

Full time employees	No. of companies	%
0~5	73	14.3
6~25	229	44.7
26~50	84	16.4
51~75	43	8.4
76~100	27	5.3
101~150	37	7.2
More than 151	19	3.7
Total	512	100.0

As for annual sales, 35% of the respondents reported less than RM1 million and the majority of them was RM3 million or less.

**Attached Table 2 Number of Responded Companies
by Annual Sales**

Annual sales (RM million)	No. of companies	%
Less than 1	177	34.8
1~2.9	102	20.0
3~4.9	49	9.6
5~9.9	75	14.7
10~25	101	19.8
More than 25	5	1.0
Total	509	100.0

The following table classifies the respondents according to the amount of capital (shareholder's fund). 36% of them reported between RM500,000 to RM2.5 million and 80% were categorized in less than RM2.5 million.

**Attached Table 3 Number of Responded Companies
by Shareholder's Fund**

Shareholder's fund (RM)	No. of companies	%
Less than 100,000	88	17.3
100,000~499,999	138	27.2
500,000~2.49mil	182	35.8
2.5mil~4.9mil	42	8.3
5mil~9.9mil	32	6.3
10mil~25mil	23	4.5
More than 25mil	3	0.6
Total	508	100.0

As to the relationship between employment and annual sales, the companies with 6 – 50 employees and annual sales between RM1 million and less than RM10 million amounted to 158 (31% of the total), and 99 companies (19%) had 6 – 50 employees and annual sales of less than RM1 million.

The 100% Bumiputra companies had a higher percentage of smaller enterprises in terms of employment and annual sales than non-Bumiputra companies. Most significantly, companies with 6 – 50 employees and annual sales of less than RM1 million

accounted for 29% of Bumiputra enterprises, totaling 52, whereas only 46 non-Bumiputra companies (14%) were classified into this category. On the other hand, 43 non-Bumiputra companies (13%) had 51 – 150 employees and annual sales of over RM1 million and less than RM25 million, compared to 9 Bumiputra companies (5%).

**Attached Table 4 Number of Responded Companies
by Employee Size and Annual Sales**

Total	No. of Employees	Annual sales (RM million)							
		Less than 1		1 ~ 9.9		10 ~ 25		More than 25	
	~ 5	75	14.7%	13	2.6%	4	0.8%	1	0.2%
	6 ~ 50	99	19.4%	158	31.0%	34	6.7%	1	0.2%
	51 ~ 150	3	0.6%	50	9.8%	52	10.2%	2	0.4%
	151 ~	0	0.0%	5	1.0%	11	2.2%	1	0.2%

100% Bumi	No. of Employees	Annual sales (RM million)							
		Less than 1		1 ~ 9.9		10 ~ 25		More than 25	
	~ 5	26	14.4%	6	3.3%	0	0.0%	0	0.0%
	6 ~ 50	52	28.9%	57	31.7%	7	3.9%	0	0.0%
	51 ~ 150	1	0.6%	17	9.4%	9	5.0%	0	0.0%
	151 ~	0	0.0%	1	0.6%	4	2.2%	0	0.0%

Others	No. of Employees	Annual sales (RM million)							
		Less than 1		1 ~ 9.9		10 ~ 25		More than 25	
	~ 5	49	15.0%	7	2.1%	4	1.2%	0	0.0%
	6 ~ 50	46	14.1%	101	30.9%	27	8.3%	1	0.3%
	51 ~ 150	2	0.6%	33	10.1%	43	13.1%	2	0.6%
	151 ~	0	0.0%	4	1.2%	7	2.1%	1	0.3%

As for the relationship between employment and capital, the companies with 6 – 50 employees and the capital amounting to over RM500,000 and less than RM25 million accounted for 24% of all the respondents, and those with 6 – 50 employees and the capital of over RM100,000 and less than RM500,000 represented 20%. In terms of difference between Bumiputra and non-Bumiputra, the non-Bumiputra showed a higher percentage of larger companies in terms of employment and capital.

**Attached Table 5 Number of Responded Companies
by Employee Size and Capital**

Total	No. of Employees	Capital size (RM '000)							
		Less than 100		100~499		500~2,499		2,500~25,000	
	~5	49	9.7%	28	5.6%	11	2.2%	5	1.0%
	6~50	38	7.5%	101	20.0%	121	24.0%	30	6.0%
	51~150	1	0.2%	6	1.2%	46	9.1%	52	10.3%
	151~	0	0.0%	2	0.4%	4	0.8%	10	2.0%

100% Bumi	No. of Employees	Capital size (RM '000)							
		Less than 100		100~499		500~2,499		2,500~25,000	
	~5	20	11.1%	7	3.9%	3	1.7%	2	1.1%
	6~50	15	8.3%	40	22.2%	48	26.7%	13	7.2%
	51~150	1	0.6%	1	0.6%	12	6.7%	13	7.2%
	151~	0	0.0%	0	0.0%	1	0.6%	4	2.2%

Others	No. of Employees	Capital size (RM '000)							
		Less than 100		100~499		500~2,499		2,500~25,000	
	~5	29	9.0%	21	6.5%	8	2.5%	3	0.9%
	6~50	23	7.1%	61	18.9%	73	22.6%	16	5.0%
	51~150	0	0.0%	5	1.5%	34	10.5%	39	12.1%
	151~	0	0.0%	2	0.6%	3	0.9%	6	1.9%

Finally, in terms of the relationship between the capital and annual sales, the companies with annual sales of RM1 – 10 million and the capital of over RM500,000 and less than RM2.5 million accounted for the highest percentage of 23%, totaling 117 companies. The Bumiputera companies showed a higher percentage of smaller companies than non-Bumiputera ones.

**Attached Table 6 Number of Responded Companies
by Annual Sales and Capital**

Total	Annual sales (RM million)	Capital size (RM '000)							
		Less than 100		100~499		500~2,499		2,500~25,000	
	Less than 1	75	14.9%	65	12.9%	26	5.2%	10	2.0%
	1~9.9	12	2.4%	67	13.3%	117	23.3%	29	5.8%
	10~25	0	0.0%	5	1.0%	38	7.6%	58	11.6%
	More than 25	0	0.0%	0	0.0%	0	0.0%	0	0.0%

100% Bumi	Annual sales (RM million)	Capital size (RM '000)							
		Less than 100		100~499		500~2,499		2,500~25,000	
	Less than 1	32	17.9%	30	16.8%	9	5.0%	7	3.9%
	1~9.9	4	2.2%	18	10.1%	46	25.7%	13	7.3%
	10~25	0	0.0%	0	0.0%	8	4.5%	12	6.7%
	More than 25	0	0.0%	0	0.0%	0	0.0%	0	0.0%

Others	Annual sales (RM million)	Capital size (RM '000)							
		Less than 100		100~499		500~2,499		2,500~25,000	
	Less than 1	43	13.4%	35	10.9%	17	5.3%	2	0.6%
	1~9.9	8	2.5%	49	15.2%	71	22.0%	16	5.0%
	10~25	0	0.0%	5	1.6%	30	9.3%	46	14.3%
	More than 25	0	0.0%	0	0.0%	0	0.0%	0	0.0%

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 sets forth a five-year national development plan for the years 2001 to 2005 and targets the annual average growth rate of real GDP at 7.5% and that of the manufacturing sector at 8.9%. The plan 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.

A general breakdown of the SME-related budget under the Eighth Malaysia Plan is shown below.

Table II-3-1 Allocation for SME Support in Seventh and Eighth Malaysia Plan

(Unit: RM million)

	7MP		8MP	
	Allocation	Expenditure	Allocation	
			Original	Revised
SMEs Development in Industrial Development	458.1	394.6	1,091.8	1,120.1
Technology Development for SMIs	58.0	41.2	30.0	30.0
Venture Capital in Finance	220.0	220.0	768.0	1,663.5
SME Loans in Finance	560.0	527.4	566.0	1,013.0

Source: Eighth Malaysia Plan 2001-2005, Mid - Term Review of the Eighth Malaysia Plan 2001 - 2005

In the area of industrial development, RM1,091 million were allocated for SME development in the original budget for the eighth plan. This item accounted for 42% of the total industrial development budget and represented a 138% increase over that allocated for the seventh plan. In addition, the financial support budget earmarked RM1,334 million for venture capital and SME loans¹. The revision of the eighth plan in 2003 increased the SME development budget to RM1,120 million, the venture capital budget to RM1,663 million, and the SME finance budget to RM1,013 million².

¹ The Eighth Malaysia Plan 2001 – 2005, EPU

² Mid - Term Review of the Eighth Malaysia Plan 2001 – 2005, EPU

Meanwhile, in order to supplement The Second Industrial Master Plan (IMP2) (1996 – 2005), the Small and Medium Industry Development Plan (SMIDP) for 2001 – 2005 was announced in March 2002. The objectives of the plan are to: 1) develop the environment for fostering SMEs with global competitiveness; and 2) develop knowledge-based SMEs.

SMIDP sets forth the following targets, with the annual growth rate of SME output at 10.1%, higher than the annual GDP growth rate of 7.5% and the annual growth rate of the manufacturing sector at 8.9%.

Table II-3-2 Targeted Performance of SMEs in SMIDP

	2005	Compound Annual Growth Rate (%, 2001 ~ 2005)
Gross output (RM million)	152,656	10.1
Value-added (RM million)	35,081	10.4
No. of workers ('000)	518	1.0
Output per worker (RM)	294,703	9.0
Value-added per worker (RM)	67,724	9.3

Source: SMIDP Study Report, 2000

Traditionally, SME support in Malaysia has emphasized on the manufacturing sector. Recently, however, its scope has been expanded to other sectors, as SMIDEC covers SMEs in the service sector.

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.

Table II-3-3 Ministries and Agencies Involved in SME Development

Ministries (12)	Related SME support agencies (40)
Office of Prime Minister of Malaysia	Economic Planning Unit (EPU) Implementation Coordination Unit (UPP)
Ministry of International Trade & Industry (MITI)	Small And Medium Industries Development Corporation (SMIDEC) Malaysia Technology Development Corporation (MTDC) Malaysia External Trade Development Corporation (MATRADE) Malaysian Industrial Development Authority (MIDA) Malaysian Industrial Development Finance (MIDF) National Productivity Corporation (NPC)
Ministry of Domestic Trade and Consumer Affairs (KPDNHEP)	--
Ministry of Finance (MOF)	Bank Negara Malaysia Malaysia Venture Capital Management Berhad (MAVCAP) Bank Industry & Technology Malaysia Berhad (BITMB))
Ministry of Entrepreneur & Co-operative Development (MECD)	Majlis Amanah Rakyat (Council of Trust For the Indigenous People, MARA) Bank Pembangunan & Infrastruktur Malaysia Berhad (BPIMB) Yayasan TEKUN Nasional (TEKUN) Perbadanan Kemajuan Kraftangan Malaysia (Malaysian Handicraftman Development Corporation, PKKM) Perbadanan Nasional Berhad (National corporation berhad, PNS) Perbadanan Usahawan Nasional Berhad (National Entrepreneur Corporation, PUNB) Perbadanan Kemajuan Ekonomi Negeri (State Economy Development Corporation, PKEN) Credit Guarantee Corporation (CGC)
Ministry of Rural and Regional Development (MRD)	FELCRA Berhad (Federal Land Consolidation and Rehabilitation Authority)
Ministry of Science, Technology and Innovation (MOSTI)	Malaysian Institute of Microelectronic Systems (MIMOS) Technology Park Malaysia (TPM) SIRIM Berhad Malaysian Institute Research of Nuclear Technology (MINT)
Ministry of Culture, Art and Tourism	Hotel Seri Malaysia
Ministry of Agriculture (MOA)	Federal Agricultural Marketing Authority (FAMA) Malaysian Agriculture Research and Development Infrastructure (MARDI) Bank Pertanian Malaysia (BPM) Lembaga Pertubuhan Peladang (Farmers' Organization Authority, LPP) Lembaga Kemajuan Ikan Malaysia (Fisheries Development Authority of Malaysia, LKIM) Jemaah Pemasaran Lada Hitam (Pepper Marketing Board, JPLH) Lembaga Kemajuan Perrtanian Muda (MUDA Agricultural Development Authority, MADA) Department of Veterinary Services (DVS) Department of Fishery (DOF) Department of Agriculture (DOA)

Ministry of Plantation Industries and Commodities	Malaysia Timber Industry Board (MTIB) Malaysian Palm Oil Board (MPOB) Malaysian Cocoa Board (MCB) National Tobacco Board (LTN)
Ministry of Youth and Sports	--
Ministry of Human Resources	--
Ministry of Energy, Water and Communications (MEWC)	Multimedia Development Corporation (MDC)
Others	Amanah Ikhtisar Malaysia (AIM) Construction Industry Development Board (CIDB)

Source: Report of the Task Force to Review the Roles and Responsibilities of Ministries and Agencies involved in SME Development (EPU)

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.

3.2.1.1 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. BNM is currently operating the following funds. “Funds for Small and Medium Industries 2” has the largest outstanding loan, totaling RM2.8 billion.

Table II-3-4 Funds for SME Support Administrated / Funded by BNM

(Unit: RM million)

Funds	Established	Fund Allocation	Approved (~2004)	Disbursed (~2004)	Outstanding (End of 2004)	Participating Organizations
New Entrepreneurs Fund 2	2001	2,000	1,886	1,542	1,422	All commercial banks, finance companies and Islamic banks, BPIMB, BITMB, MIDF
Fund for Small and Medium Industries 2	2000	4,500	4,172	3,312	2,860	All commercial banks, finance companies and Islamic banks, BPIMB, BITMB, MIDF, BPM, Sabah Development Bank
Fund for Food	1993	1,300	1,528	1,418	702	BPM
Bumiputra Entrepreneurs Project Fund	2000	300	499	412	68	ERF Sdn. Bhd.
Rehabilitation Fund for Small Businesses	2003	800	11	5	5	All commercial banks, finance companies and Islamic banks, BPIMB, BITMB, MIDF
Terminated Funds						
Enterprise Rehabilitation Fund	1988-91	500	896	850	100	-
Special Fund for Tourism	1990-97	200	203	203	35	-
Bumiputra Industrial Fund	1993-2000	100	95	91	35	-
Funds for SMIs	1998-2000	1,850	3,774	3,726	1,746	-
New Entrepreneurs Fund	1989-2001	1,250	1,420	1,398	350	-
Rehabilitation Fund for Small and Medium Industries	1998-2003	330	344	328	227	-
Enterprise Rehabilitation and Development Fund	2001-2003	10	3	2	1	-

Source: BNM's Annual Report

To ensure further smooth financing by SMEs, a credit guarantee system is provided by Credit Guarantee Corporation (CGC), and an export credit insurance system is operated by MECIB.

The following section describes development financial institutions that provide loan and credit service for SMEs.

(1) Bank Pembangunan & Infrastruktur Malaysia Berhad (BPIMB)

1) Purpose of establishment and major role

Bank Pembangunan & Infrastruktur Malaysia Berhad (BPIMB) was established in 1973 as one of development financial institutions wholly owned by the Malaysian Government to foster Bumiputra enterprises and develop SMEs by lending business funds with low interest rate to SMEs. In 1999, the lending of infrastructure development funds was added to BPIMB's business objective. At present, infrastructure development loans (Infrastructure Banking: IB) account for as much as 80% of the bank's outstanding loans. On the other hand, the Development Banking (DB) sector – serving the manufacturing, commerce and service sectors that are dominated by SMEs – accounts for 99% of the total number of loan customers. In addition to traditional business loans, BPIMB provides packaged loans that include

factory leasing to help business startup and business expansion of SMEs as well as training programs for entrepreneurs and SMEs. BPIMB has approximately 640 employees.

2) SME loan trends

The outstanding loans for SMEs in the IB sector almost doubled in 2002 (up 91.7% from the previous year) and soared by 40.9% in 2003. As a result, the sector's share of SME loans rose from 11% in 2001 to 17.3% in 2003. IB loans initially targeted national development projects and other public works. However, the scope of IB loans has diversified and covers infrastructure projects by the private sector such as tourism, resulting in an increase in loans to SMEs in the construction and tourist industries. On the other hand, in the DB sector, SME loans that accounted for more than 70% of its outstanding loans showed a firm 10.7% growth in 2002, but they remained more or less flat in 2003. BPIMB's total outstanding SME loans increased by RM1 billion from 2001 to 2003, due to a significant increase in IB loans.

Table II-3-5 Outstanding Loans of BPIMB (Amount)

(Unit: RM million)

	2001	2002	2003
Outstanding Loans for SMEs	1,646	2,269	2,672
(% of increase)	n.a.	(37.8%)	(17.8%)
Development Banking	1,094	1,211	1,181
(% of increase)	n.a.	(10.7%)	(-2.5%)
Infrastructure Banking	552	1,058	1,491
(% of increase)	n.a.	(91.7%)	(40.9%)

Source: BPIMB

In terms of the number of loan customers, SMEs account for over 90% of BPIMB's customer base. SME customers increased in both the IB and DB sectors. In particular, the number of SMEs that received the DB loans increased by nearly 10% in 2003, when outstanding loans for SMEs showed negative growth. This indicates that BPIMB has been steadily expanding SME loans while the amount of outstanding loan per company decreased.

Table II-3-6 Outstanding Loans of BPIMB (No. of companies)

(Unit: No. of companies)

	2001		2002		2003	
	Total	SMEs	Total	SMEs	Total	SMEs
Outstanding No. of Companies	3,423	3,151	3,553	3,264	3,859	3,558
(Ratio of SMEs)		92.1%		91.9%		92.2%
Development Banking	3,395	3,144	3,511	3,253	3,810	3,544
(Ratio of SMEs)		92.6%		92.7%		93.0%
Infrastructure Banking	28	7	42	11	49	14
(Ratio of SMEs)		25.0%		26.2%		28.6%

Source: BPIMB

In terms of the amount of outstanding loan per company, the DB sector shows little difference between the overall average and the average for SME loans because majority of customers in DB sector are SMEs. In contrast, the average outstanding IB loan per company among SMEs is around one half of the overall average, though the average outstanding for SMEs increases in recent years.

Table II-3-7 Outstanding Amount per Company (BPIMB)

(Unit: RM '000)

Outstanding loan per a company	2001		2002		2003	
	Total	SMEs	Total	SMEs	Total	SMEs
Development Banking	458	348	434	372	422	333
Infrastructure Banking	177,036	78,857	184,738	96,182	175,755	106,500

Source: BPIMB

(2) Bank Industri & Teknologi Malaysia Berhad (BITMB)

1) Purpose of establishment and major role

Bank Industri & Teknologi Malaysia Berhad (BITMB) was established in 1979 as a development financial institution specialized in promotion of manufacturing and shipping companies (regardless of size) that can contribute to the export expansion. Recently, the bank supplies medium- and long-term funds to supporting industries, such as plastics molding and die making, and technology-oriented manufacturers in the fields of biotechnology, IT, and value added food processing. In fact, the bank added the word “Teknologi” to its name in 1999 to reflect the above business diversification.

Also, it aims to expand SME loans as one of target sectors.

2) SME loan trend

Outstanding loans for SMEs grew by 14.3% in 2002 and accounted for more than 50% of the total outstanding loans. However, they decreased by 17.7% in 2003.

Table II-3-8 Outstanding Loans of BITMB (Amount)

(Unit: RM million)

	2001		2002		2003	
	Total	SMEs	Total	SMEs	Total	SMEs
Outstanding loans	930.8	432.5	970.7	494.6	842.1	407.2
(Ratio of SMEs)		46.5%		51.0%		48.4%
For maritime-related activities	520.8	202.7	551.0	254.8	477.1	215.4
(Ratio of SMEs)		38.9%		46.2%		45.1%
For manufacturing sector	410.0	229.8	419.7	239.8	365.0	191.8
(Ratio of SMEs)		56.0%		57.1%		52.5%

Source: BITMB

By industrial sectors, SME loans hold more than 50% share of the bank's total outstanding loans for the manufacturing sector. Outstanding loans to the manufacturing sector grew at a moderate 4.4% in 2002 and then experienced a 20% decrease in 2003. With regard to loans for maritime-related activities (in particular, coastal shipping, barge and small ship building, ship repair, and water supply to ships are dominated by SMEs), SME loans expanded rapidly in 2002 and decreased by 15% in 2003.

In terms of the number of companies with outstanding loans, SMEs accounted for more than 80% of the total in the manufacturing sector and exceeded 70% of loans for maritime-related activities in 2003. Overall, SMEs held 80.2% share in 2003.

Table II-3-9 Outstanding Loans of BITMB (No. of companies)

(Unit: No. of companies)

	2001		2002		2003	
	Total	SMEs	Total	SMEs	Total	SMEs
Outstanding No. of Companies	504	384	518	411	470	377
(Ratio of SMEs)		76.2%		79.3%		80.2%
Maritime	120	71	134	90	110	78
(Ratio of SMEs)		59.2%		67.2%		70.9%
Manufacturing	384	313	384	321	360	299
(Ratio of SMEs)		81.5%		83.6%		83.1%

Source: BITMB

(3) Export-Import Bank of Malaysia Berhad (EXIM Bank)**1) Purpose of establishment and major role**

Export-Import Bank of Malaysia Berhad (EXIM Bank) was established in 1995 as a wholly owned subsidiary of BITMB to financially promote the export expansion. At present, it provides trade finance and related loan services for export companies of Malaysian products. Loans are limited to companies established in Malaysia and owned by Malaysian, regardless of size. The bank has 73 employees.

EXIM Bank provides three types of loans that are described below. SMEs mainly use the Supplier Credit Facility (as other two facilities, Buyer Credit and Overseas Project Finance, lend a fairly large minimum amount of loan, they are not suitable for SMEs and are usually used by large corporations).

a) Supplier Credit Facility

Eligibility: Companies established in Malaysia and owned by Malaysian, which are engaged in the manufacture or export of Malaysian products (regardless of industry and size)

Purpose of loan: Working capital financing for export products and also to finance credit period extended to foreign buyers and working capital financing for traders to expand their export-based business in international markets to be eligible for this facility, products must have a minimum of 20% value added.

Credit line: 85% or less of the export order before shipment for export. 95% or less of the invoice value after shipment.

Loan period: 120 days or less before shipment for export or 180 days or less after shipment

Collateral/security requirement: Assignment of the title to receive export proceeds, MEICB's export insurance, unconditional personal guarantee of shareholders and directors, bond, as demanded by EXIM Bank on a case-by-case basis.

b) Buyer Credit Facility

Eligibility: Foreign companies importing Malaysian products and foreign financial institutions providing such foreign companies with funds required for import.

Purpose of loan: Fund required for import of Malaysian products. The loan disbursements are directly made to the exporter that must be controlled by Malaysian.

Credit line: 85% or less of the export contract value, with the minimum amount of loan at RM2 million or equivalent in foreign currency

Loan period: 10 years at maximum (including the grace period of 2 years at maximum)

Collateral/security requirement: Bank guarantee, government guarantee or other security approved by EXIM Bank

c) Overseas Project Finance Facility

Eligibility: Companies established in Malaysia and owned by Malaysian, or joint ventures established in a foreign country and controlled by Malaysian, to purchase Malaysian products.

Purpose of loan: Funds to purchase machinery, equipment, other products and services made or provided in Malaysia. The loan disbursements are directly made to the exporter or contractor in Malaysia, who must be controlled by Malaysian.

Credit line: 85% or less of the export contract value, with the minimum amount of loan at RM2 million or equivalent in foreign currency

Loan period: 10 years at maximum (including the grace period of 2 years at maximum)

Collateral/security requirement: Letter of guarantee by a Malaysian parent company and its shareholders, unconditional personal guarantee by shareholders and directors, first mortgage on real estate, fixed or liquid assets in Malaysia, assignment of a title to receive the contract value or insurance, or other collateral demanded on a case by case basis.

2) SME loan trends

The bank's SME outstanding loans decreased or remained flat up to 2003, and account for only 7% of total outstanding loans. However, more than one half of supplier credit loans were extended to SMEs. SME loans declined or remained unchanged in terms of the number of companies.

Table II-3-10 Outstanding Loans of EXIM Bank (Amount and No. of companies)

(Unit: RM million)

	2001		2002		2003		2004/9	
	Total	SMEs	Total	SMEs	Total	SMEs	Total	SMEs
Outstanding loans (a)	805.0		784.1		744.4		844.1	
Outstanding loans for Supplier Credit (b)	76.9	61.4	83.0	47.9	83.4	48.2	157.2	56.0
(Ratio of SMEs in (a))		7.6%		6.1%		6.5%		6.6%
(Ratio of SMEs in (b))		79.8%		57.7%		57.8%		35.6%
Outstanding No. of Companies (c)	107		126		117		117	
Outstanding loans for Supplier Credit (d)	70	44	87	43	80	39	86	39
(Ratio of SMEs in (c))		41.1%		34.1%		33.3%		33.3%
(Ratio of SMEs in (d))		62.9%		49.4%		48.8%		45.3%

Source: EXIM Bank

(4) Bank Pertanian Malaysia (BPM)

1) Purpose of establishment and major role

Bank Pertanian Malaysia (BPM) was established in 1969 as a government financial corporation under the Bank Pertanian Malaysia Law. Since then, it is operated under supervision of the Ministry of Finance and the Ministry of Agriculture and makes a financial report to the national assembly. In June 2004, it became a development financial institution under supervision of the BNM.

BPN has the following objectives³ :

- a) To promote sound agricultural development in Malaysia;
- b) To coordinate and supervise the grant of credit from public funds for agricultural purposes by various persons or bodies of persons whether corporate or incorporated;
- c) To provide loans, advances and other credit facilities for the development of agriculture, including production and marketing; and
- d) To mobilize savings with particular regard to the agricultural sector and in furtherance of this objective, to accept saving and time deposits.

As a development financial institution specialized in agricultural development, BPM has the primary purpose of providing funds for promotion of agricultural production that leads to the improvement of self-sufficiency in basic food and the reduction of food imports, as set forth in the National Agricultural Policy. BPM positions farmers, fishers, and cattle raisers as “special groups” and gives priority to loans for these groups. In 2002, loans for the special groups, on an approval basis, accounted for 49% of the total in terms of value and 70% in the number of loans⁴. Also, it emphasizes on the downstream sector, including food processing, canning, and distribution. BPM has 2,350 employees, of which approximately 400 persons work at the head office.

2) SME loan trends

BPM’s outstanding loans for SMEs recorded double-digit growth in 2003, but far below the overall growth rate fueled by the micro credit sector. In fact, the share of SME loans remains relatively low at around 7%, with a continuous decline year after year.

The number of SME loans (SME customers) has also been declining steadily, excepting a rapid increase in September 2004, and their share on an outstanding basis hovers at 1-2% of the total. It should be noted, however, that BPM’s definition of SME loan is different from that of other DFIs and SMIDEC. The BPM’s definition of SME is “companies (not including individuals) that have the outstanding loan per company of RM2 million or less”.

³ BPM, “Annual Report”

⁴ BPM, “Annual Report”

Table II-3-11 Outstanding Loans of BPM (Amount and No. of companies)

(Unit: RM '000)

	2001	2002		2003		2004/9	
			% of increase		% of increase		% of increase
Outstanding loans	2,119	2,305	8.8%	2,680	16.2%	2,988	11.5%
Outstanding loans for SMRs	166.5	170.4	2.3%	191.2	12.2%	192.8	0.8%
(Ratio of SMEs)	7.9%	7.4%		7.1%		6.5%	
Outstanding No. of Companies	53,549	50,142	-6.4%	68,336	36.3%	90,772	32.8%
Outstanding loans for SMRs	1,215	1,081	-11.0%	1,067	-1.3%	1,300	21.8%
(Ratio of SMEs)	2.3%	2.2%		1.6%		1.4%	

Source: BPM

The following table analyzes BPM's outstanding loans and the number of companies by loan size.

Table II-3-12 Outstanding Loans by Loan Size (Amount and No. of companies)

(Unit: No. of loans, RM)

Loan size	Individuals		Non-individuals		Total of Individuals and Non-individuals	
	No.	Outstanding	No.	Outstanding	No.	Outstanding
50,000 and below	88,097	988,563,157	793	14,512,258		
50,001 - 100,000	2,427	153,708,537	203	16,957,120		
100,001 - 250,000	1,062	164,848,936	134	22,626,023		
250,001 - 500,000	333	109,969,775	81	33,304,543		
500,001 - 1,000,000	137	85,520,347	73	51,152,884		
1,000,001 - 2,000,000	69	79,247,098	71	96,568,333		
(Sub-total)	4,028	593,294,693	1,355	235,121,162	5,383	828,415,855
Above 2,000,000	109	584,681,108	112	641,838,191	(5.8%)	(27.2%)
Total	92,234	2,166,538,958	1,467	876,959,353	93,701	3,043,498,312

Source: BPM

(5) Malaysian Industrial Development Finance Berhad (MIDF)

1) Purpose of establishment and major role

Malaysian Industrial Development Finance Berhad (MIDF) is a government financial institution established in 1960 under the Ministry of International Trade and Industry and provides medium- and long-term funds, especially funds for capital

investment, to a wide range of companies including startups. MIDF is only one DFI listed at the Kuala Lumpur Stock Exchange. It has approximately 220 employees and operates 7 branch offices.

2) SME loan trends

In 2003, MIDF disbursed 185 loans, totaling RM443.1 million, of which 141 loans and RM213.1 million went to small- and medium-sized manufacturers. The total outstanding loan at the end of 2003 amounted to RM738 million, of which SME loans accounted for around 60%. 80% of loan customers are non-Bumiputra Chinese companies and 20% are Bumiputra. MIDF considers collateral as an important factor for loan decision and limit the loan within the value of fixed assets pledged as collateral⁵.

(6) The Council of Trust for the Indigenous People (MARA)

The Council of Trust for the Indigenous People (MARA) provides loans to Bumiputra startups as well as existing Bumiputra companies when they upgrade their operations. It does not charge interest according to the Islamic law. 90% of loan applicants to MARA are from micro and small enterprises. By type of business, 60% of loan customers are in the construction industry, 20-30% are in the commerce, 2-3% are in the manufacturing, and 1% are in the transportation. 45-48% of the applicants are startups.

The credit line, although varying among different loan programs, is set to RM500,000 at maximum, and the average loan amount is fairly small in the range between RM35,000 and RM38,000. Eligibility for MARA's loan includes: (1) an 18-year or older, Malay or Malaysian with Bumiputra origin; (2) having knowledge and skills required for business operation; (3) capable of self-financing 10% of the total business cost; (4) capable of participating and willing to participate actively in the proposed business; (5) offering a sufficient collateral (with an assessed value being equivalent to 20% or more of the loan) and two or more guarantors (their annual income should be 3% or more of the loan); and (6) an applicant who has less six months of experience in the business needs to receive a basic training course held by MARA (51 days, covering entrepreneurship/self-motivation, project selection, development of a business plan, and other subjects).

At present, MARA primarily covers small business operators with little or no experience, so that there is little overlap with present or potential beneficiaries of other

⁵ MIDF, "Annual Report 2003"

DFIs. In fact, MARA sometimes refers applicants requesting the loan exceeding its credit line to other DFIs, mainly BPIMB.

Most of loan applicants to MARA are micro enterprises and do not keep accounts. Although they participate in the basic training course, they do not keep books in most cases. 80-90% of loan applicants do not have marketing know-how or sales channel and use obsolete technology.

(7) Malaysia Credit Guarantee Corporation (CGC)

Malaysia Credit Guarantee Corporation was established in 1972 under the Malaysia Company Act 1965. CGC guarantees loans by commercial banks and financial companies to SMEs that do not offer sufficient collateral. In 2004, CGC provided guarantee to 8,452 loans, totaling RM3 billion. The BNM owns 79% of its share, and commercial banks and financial companies contribute the rest. The CGC increased its branch offices significantly after 2000. As of the end of 2003, it operates 16 branches and has 272 employees.

Customers are mainly SMEs in the manufacturing, commerce and service sectors, depending on the loan scheme. Eligibility includes: (1) a company owned and controlled by Malaysian; and (2) a company registered under Malaysian Companies Act 1965, Cooperative Societies Act 1996, or other applicable laws.

(8) Malaysia Export Credit Insurance Berhad (MECIB)

1) Purpose of establishment and major role

Malaysia Export Credit Insurance Berhad (MECIB) was established in 1977 to support exports of Malaysian products. At present, it is operated as a wholly owned subsidiary of BITMB. MECIB's insurance scheme covers exports of Malaysian products by Malaysian companies, regardless of company size.

MECIB is principally engaged in underwriting export credit insurance as a supplemental tool to expand exports of Malaysian products.

a) Comprehensive Policy

This policy covers comprehensive risks for exporters of Malaysian products and consists of two types, Comprehensive Policy (Shipments) and Comprehensive Policy (Contracts). Coverage starts on the date of shipment or contract. The eligible insured are companies exporting Malaysian products. The insurance period is 180

days at maximum and the coverage rate is 90% of the invoice value for buyer risk (commercial risks) and 95% for country risk (non-commercial = economic & political risks). The insurance premium is set by MECIB.

b) Bank of Letter Credit Policy

This policy covers banks that negotiate Irrevocable Letter of Credits (ILC) issued by foreign issuing banks against their failure to reimburse payment to the beneficiaries (i.e. Malaysian exporters) under the ILC. The coverage rate is 95% of the total value indicated in the LC or the invoice, and the insurance premium is set by MECIB.

c) Overseas Investment Insurance

This policy covers risks relating to investment and loan made by Malaysian companies or individuals in a foreign country (transfer restriction by the host country's government, expropriation, war, and civil disturbance, and breach of contract by the host country's government) by indemnifying loss suffered by the insured. The insurance period is 10 years at maximum. The coverage rate is 90% of the total loss (risks and types of contract subject to coverage can be selected) and the insurance premium is set by MECIB.

d) Buyers Credit Guarantee

This is to provide payment guarantee, upon request of a Malaysian exporter, for a foreign financial institutions that lend funds to foreign companies importing Malaysian products so as to promote collection of export proceeds. Thus, the guarantee covers the loan for imports of Malaysian products, provided that the exporters must be companies controlled by Malaysian and the exported product must satisfy local content of at least 30% in Malaysia. The guarantee period is 10 years at maximum. The coverage rate is 85% of the loan value and the insurance premium is set by MECIB.

2) Insurance underwriting

MECIB's principal business is to underwrite comprehensive policy. In 2003, it issued 220 policies and the annual total value of underwriting (based on the export value declared) reached RM1,077 million, which represents an only 0.27% of the total value of exports (RM398.9 billion) from Malaysia. Approximately 70% of the 220 policies were issued to SMEs.

3.2.1.2 Support by grants

In addition to the various loan and credit schemes, 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.

Grant programs widely used for the purpose include SMIDEC's Grant for Productivity and Quality Improvement and Certification (ITAF3) and MATRADE's Market Development Grants (MDG).

ITAF3 provided by SMIDEC covers 50% (or RM250,000 or less) of costs and expenses relating to quality and product certifications, such as ISO14000, product certification, and HACCP and HALAL certification. SMIDEC also provides a grant for production and process improvement by SMEs under Industrial Technical Assistance Fund (ITAF2). In 2003, subsidies totaling RM3.1 million were granted to 43 projects. 50% of each project cost is subsidized with the maximum amount of RM500,000 per project. The grants allow beneficiary SMEs to improve product design and/or streamline the production process.

On the other hand, Market Development Grants (MDG) provided by MATRADE is a grant scheme to cover 50% of costs for development of export markets (including display costs at overseas trade shows), which are incurred by MATRADE member companies.

Table II-3-13 Major Grants, Provider Institutions and their Performance

Name of institutions / Contents of Financial Assistance	Approvals (2003)	
	No.	Value (RM Million)
Small and Medium Industries Development Corporation (SMIDEC)	-	-
-Grant for Business Planning and Development (ITAF 1)	1	0.02
-Grant for Product and Process Improvement (ITAF 2)	43	3.1
-Grant for Productivity and Quality Improvement and Certification (ITAF 3)	346	0.8
-Grant for Enhancing Product Packaging, Design and Labeling Capabilities of SMEs	79	4.7
-Grant for RossettaNet	11	6.7
-Factory Auditing Scheme	103	9.6
Malaysia Technology Development Corporation (MTDC)	-	-
-The Technology Acquisition Fund (TAF)	47	37.7
-Technology Acquisition Fund For Women (TAF-W)	n.a.	n.a.
-Commercialization of R&D Fund (CRDF)	19	20.8
Malaysia External Trade Development Corporation (MATRADE)	-	-
-Market Development Grant (MDG)	620	3.9
-Subsidy on international trade exhibitions overseas	n.a.	n.a.
-Brand Promotion Grant	n.a.	n.a.

3.2.2 Tax and other incentives

According to an EPU survey, MIDA, MARA and the Ministry of Agriculture (MOA) provide 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, including Pioneer Status and Investment Tax Allowance (ITA) and other tax incentive program to promote the Industrial Linkage Program. Generally, MIDA's incentives are larger in scale than those provided by MARA. 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-3-14 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

As seen from the table, **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 coordinates the different programs to cover the domestic market as a whole. Major support programs in the area of market promotion are described as follows.

The Industrial Linkage Program (ILP) provided by SMIDEC offers SMEs with opportunities to meet large corporations and MNCs to expand the customer base. By the end of 2003, a total of 999 SMEs registered under the ILP and 215 companies entered into business relationships with large corporations and MNCs, with sales reaching RM118.2 million. Most of SMEs participating in the program belong to electrical and electronics, automobile, and machinery sectors. Also, 26 SMEs that used the program started to supply products to hypermarkets, such as TESCO and GIANT, and 6 companies served as PB for hypermarket stores. Their sales amount to RM4 million.

SMIDEC also implements HeadStart 500, under which a package of its SME support programs is provided to support SME manufacturers that can become global suppliers, especially export-oriented manufacturers with high growth potential (targeting 500 companies). The program aims to allow SMEs to attain global competitiveness by identifying their problems and weaknesses and by leveraging SMIDEC's programs. However, only 60 companies were selected up to October 2004 and the program still has to gain wide acceptance.

Furthermore, SMIDEC conducts the Annual Showcase, which is a trade show for SMEs to find new customers and to promote the linkage and networking among SMEs, large corporations and MNCs. 166 companies participated in the 2003 Showcase and displayed a variety of products and services. More than 4,000 visitors visited the Showcase.

On the other hand, MATRADE provides the following trade/export promotion services to help its member companies to expand sales channels.

International Trade Fair	MATRADE encourages the Malaysian companies to participate in international trade fairs overseas. The participation fee is RM 4,000 for MATRADE's member and the company also can receive the grant (50% of the expenditure) from SMIDEC.
Trade Missions	MATRADE together with MITI and MIDA annually organizes a number of trade and investment missions to overseas. The participation fee for the member is RM500 per participant (Airfare and hotel charge are not included). Overseas offices of MATRADE conduct follow-up service for the further negotiation.
Malaysian Products Exhibition (MPE)	MATRADE also organizes Malaysian Products Exhibition (MPE) to showcase made-in-Malaysia products and services. The MPE promotes to sell the products in the new and emerging markets such as India, Lebanon, and Mauritius.
In-Store Promotion	MATRADE, in collaboration with major departmental stores, organizes "Made-in-Malaysia In-Store Promotion" to introduce Malaysian products directly to consumers overseas.
Malaysia Export Exhibition Center Market Information	The MEEC is a permanent display centre where Malaysian companies can showcase their products to foreign buyers and incoming trade delegations.

MATRADE also provides Trade Matching Service, under which business opportunities are created by referring inquiries from potential customers received by MATRADE to its member companies and by introducing member companies to foreign buyers' missions visiting Malaysia.

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. Major databases and information services operated or provided by SME support organizations are described below.

SMIDEC's database is registered by approximately 7,000 companies and can be accessed through SMIDEC's Website. 3,000 companies of the total have received SMIDEC's support including matching grants. Registered companies are eligible to receive the following services.

- Business matching service involving both local and foreign companies
- Event and seminar information via e-mail
- Participation in SMIDEC's seminar and skill upgrading programs

Also, SMIDEC has established the SME Information and Advisory Center to provide timely and relevant information for SMEs. In addition to the information services at its branch offices, SMIDEC provides information service, with free of charge, via the Internet or by telephone. In particular, the Virtual Center at the Website provides comprehensive information on support programs implemented by different ministries and related organizations. The SME Information and Advisory Center received 162 inquiries by e-mail from the start of the service in July 2003 to the end of 2003. The inquiries were mainly related to financial support programs, the SME database, and SMIDEC's services. The Virtual Center was accessed by 71,343 visitors by the end of 2003. The free consultation service by telephone received 168 inquiries between July and December 2003. The inquiries were primarily concerned with financial support programs, market information, productivity and quality improvements, and skill upgrading.

MATRADE provides the following information services relating to the trade.

Malaysian Exporters Database	The database covers the member exporters and can be searched through the Internet (registered companies: about 8,500).
Business Library	Export information and international business information are available. Companies registered with the Malaysia Exporters Database have free access to the Library. Users who are not registered with the Database are charged a fee of RM20.00 per day.
Trade Statistics	MATRADE provides the database of the Malaysian trade statistics through the Internet.
Publication	MATRADE distributes trade directories, guide books, etc with free of charge.
Market Information	MATRADE provides overseas market information to member companies on the request base (free). The overseas offices research the information. Also, the offices introduce local consultants if the companies need further detailed information (the consultant fees are charged to the companies).

NPC provides information on successful cases relating to productivity and quality improvement through its Website, “BOND (Benchmark On-line Network Database)”. The registered companies with the Website can access a number of case studies on the companies that have received various awards, such as Prime Minister’s Quality Award (PMQA) and Quality Management Excellence Award (QMEA). In addition, BOND publishes information on benchmarking methods using successful cases.

Approximately 2,200 companies including non-guarantee user companies registered at CGC’s Website. The registered companies and their data are accessible upon registration. Since its establishment, CGC has been used by approximately 300,000 companies and around 80,000 companies are currently receiving CGC’s guarantee. CGC maintains and accumulates the financial data of these companies in its database and is partially using them for credit scoring.

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. Major SME support organizations that provide advisory and consultancy services for SMEs are described below (see II-4 for the current state of advisory service provided by DFIs under the study).

SMIDEC offers the consultation service called “SME Expert and Advisory Panel (SEAP)” using outside experts. The service primarily focuses on key manufacturing industries such as electrical and electronics, automobile, machinery, wood products, food and rubber. 14 outside experts are currently registered with the service. SMIDEC introduces the experts to SMEs according to their needs, and pays 50% of the consultation fee as grant.

The SMIDEC's consultation service is provided in the following three stages.

Stage 1	Preliminary Consultancy Services: Experts conduct free preliminary consultancy services at SMIDEC's business clinic sessions.
Stage 2	Consultancy Services at Factory Sites of SMEs: Experts visit factory sites of SMEs and undertake diagnostic audit SMEs, mainly technical issues. The experts submit technology evaluation report to SMIDEC. SMIDEC bears costs of consultation on the maximum of three (3) man days and expenses on accommodation and traveling for experts.
Stage 3	Consultancy Services under SMIDEC's Grant Schemes (if necessary): Experts prepare project proposal to SMIDEC. SMEs can apply for the grant such as ITAF2 and 3, and receive 50% of the costs if it is approved.

SMIDEC requires each advisory expert to be 45 years old and above and have hands-on experience for at least 20 years with specializations in technology improvement, engineering, automation, machinery equipment, process improvement, design, ISO and other international standards, productivity improvement, maintenance, and quality assurance. Furthermore, the outside expert must not have another job (presumably retired) and only technical experts (not management and financial experts) are recruited. All these requirements appear to result in registration of only 14 outside experts.

NPC provides systems and management consultation programs to promote productivity improvement and market development. The consultation service focuses on quality control, especially total quality management (TQM), productivity management, HR management, environment management, and business management. In particular, NPC provides six-month training and consultation program to learn the fundamentals of quality control (10 companies for each term). Under the program, NPC holds four workshops under participation of 10 companies and NPC's consultants and experts conduct five company visits for the consultation. The six-month program costs RM4,000. The participating companies are often introduced by the Ministry of Entrepreneur Development. NPC's system development procedures are generally described as follows.

Phase 1	Request by customer (1 week) → Pre-visit (1 week) → Proposal (1 week) → Accepted (2 weeks)
Phase 2: Training	Setting-up committee on project (1 week) → Training (2 months): 1) Top Management, 2) Management, 3) Employees for subject matter/area, 4) Setting-up pilot study/project/etc
Phase 3: Consultation	Consultancy stages (2 months): 1) Data collection, 2) Monitoring visit, 3) Status report, 4) Corrective action, 5) Monitoring result → Assessment/ audit (2 months)

CGC provides the following free advisory services:

- 1) Support for preparation of working papers (documents required for loan application including company profiles);
- 2) Support for preparation of financial statements; and
- 3) Provision of industry information and basic market analysis (CGC does not have its own research organization and uses external information such as BNM's monthly report).

In an attempt to minimize the delay in the examination procedures due to deficiency in application documents, CGC conducted a pilot project in 2003 to provide fee-based support for SMEs by hiring two financial consultants, called "Business Advisory Service Entity (BASE)". In the first four months, CGC offered guidance for the consultants as preparation period and approximately 300 companies received the consultation service during the remaining eight months in 2003. About 150 companies were able to receive loan guarantee with using this service. The BASE program has been officially operated since October 2004 and CGC designates six consulting firms for this program. The services of BASE includes: (1) support for preparation of a loan application; (2) support for preparation of necessary application documents such as financial projection and cash flow statement; (3) market and industry analyses; and (4) quarterly monitoring and reporting. The service fee is set relatively low, RM3,000 at maximum (e.g., preparation of a business plan/financial plan for loan application: RM900; collateral survey: RM250; and market study: RM200).

MARA provides consulting service for Bumiputra companies by its staff or outside experts. MARA staff takes care of basic advice such as application procedures for a support programs while MARA introduces outside experts who are registered with MARA if the companies require professional advice. There are currently around 300 registered experts and the company is required to bear 10 - 40% of the total fee for the advice. MARA's consulting service covers a wide range of areas, including finance, law, machine upgrading, and technology. In 2002, approximately 1,300 persons used the service.

SIRIM provides corporate diagnosis and consultation service for SME manufacturers, which are generally introduced by SMIDEC, MARA or BPIMB. The service is provided in the following two steps.

- 1) Diagnosis service, "factory auditing"
- 2) Based on the results of the diagnosis:

- Product development
- Introduction of ISO-related service
- Introduction of available grant programs
- Introduction of available financial programs

In addition, several SME support organizations issue **awards and certifications** to encourage SMEs to improve their management quality and technology.

SMIDEC annually awards, jointly with Deloitte KassimChan, 50 Malaysian companies with high growth potential, entitled “Enterprise 50”. The award winners are selected on the basis of management and financial performance. In 2003, 114 companies applied for the award (14% increase over the previous year), of which 44% were SMEs, compared to 33% in 2002.

NPC issues productivity and quality certifications to upgrade production management capabilities of SMEs. Its SME Development Division has a unit in charge of auditing and certification relating to productivity and quality. The audit covers documentation, office, factory, warehouse (raw materials and final products), cafeteria, meeting room, the pray area, and the surrounding environment, for each of which an audit standard is established.

NPC serves as the secretariat for official award programs, namely Prime Minister’s Quality Award (PMQA), Quality Management Excellence Award (QMEA), and Productivity Award (PA), to promote the improvement of productivity and management quality.

3.2.4 Support for training

37 ministries and SME support organizations offer training programs for SMEs. Major programs are described below.

SMIDEC implements the Global Suppliers Program (GSP) to strengthen the industrial linkage. GSP essentially provides the training of the skills required for business relationships with MNCs and large corporations. The training program is divided into three stages (CoreCom 1, Intermediate System 2, and Advance System 3), which are offered at SMIDEC’s regional training centers.

SMIDEC also implements the Skills Upgrading Program to develop and upgrade management and technical skills of SMEs. The program is currently conducted at 19

training centers designated by SMIDEC. SMEs can receive grant from SMIDEC for 50% of the training fee when they send their employees to the program. Furthermore, SMEs are entitled to receive grant for the remaining fee if they are registered with the Human Resource Development Board.

MATRADE holds seminars and workshops for trading firms and exporters in various locations to promote export opportunities for Malaysian companies, to introduce overseas market and other conditions, and to provide guidance for export procedures. The seminars and workshops are conducted three or four times per month with varying topics. The participation fee is generally RM100 per person per day.

NPC provides training programs in the areas of quality control, productivity management, production management, and management. In 2002, 281 programs were conducted and more than 7,300 persons participated (including in-house training upon companies' request). A wide range of fields are covered, including ISO9000, quality control circle (QCC), total quality management (TQM), statistical process control (SPC), quality environment, benchmarking, productivity measurement, and HRD. Most of the courses are instructed by NPC's consultants, but outside experts are hired as required. The average number of participants per course is 25. In 2002, 40% of participants represented the management, 37% general employees, and 23% middle managers. SMEs accounted for 22% of the total. By industry type, 59% of participants were sent by manufacturers. The participation fee is set relatively low, e.g., RM500 for a two-day course.

MARA offers the following training programs for Bumiputra companies that intend to start new businesses.

- 1) Entrepreneurial training: The training provides Bumiputra entrepreneurs with knowledge and guidance required to improve entrepreneurial capability and skills in business management. The program was participated by more than 13,000 persons in 2002.
- 2) Apprenticeship training scheme: Basic technical training is provided at an actual production facility and is used by around 230 persons.
- 3) Market promotions training (used by around 650 persons)
- 4) Technopreneurs: A training program for trainees from IKM, GIATMARA and other training institutions to learn actual commerce and manufacturing operations (used by around 2,300 persons)

- 5) Furniture industry technology center: The center supports skill upgrading of the Bumiputra furniture industry. The center provides state-of-the art facilities. (used by around 380 persons)

3.2.5 Provision of infrastructure and production facilities

Nine SME support organizations provide business premises for SMEs.

MARA rents commercial and production facilities to Bumiputra enterprises. It owns nearly 5,000 facilities, of which 85% is rented out to the Bumiputra enterprises. The Bumiputra enterprises can use the MARA facilities at a low user fee for 3 – 7 years.

SIRIM operates the Incubator Scheme to provide offices and factories, secretary facilities (office machines and secretary service), and production facilities and equipments. The occupancy rate remains at 40 - 60%. Companies using the incubator facilities are expected to leave in two to three years, but only 40% leave and others remain at the facility or close their business. Major assistance services for tenant companies include: 1) support for business planning; 2) support for financing; and 3) technical support or provision of facility.

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.

A JICA study conducted in 2000 on technology transfer plan in supporting industries in Malaysia, has reported the issues on SME promotion based on a survey on government agencies relating to SME promotion, as follows:

- 1) Lack of coordination among SME related government agencies: 62%
- 2) Lack of capable staff to understand the needs of SMEs and take appropriate action for it: 54%
- 3) Insufficient monitoring and feedback from projects relating to SME support, after the completion of the project

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 (Table II-3-15; further detail see III-1-15).

Table II-3-15 Satisfactory Level of SMEs for the Outside Support Received

(Unit: % of total SMEs which received the outside support in the past)

	Total	Bumiputra SMEs	Non-Bumiputra SMEs
Satisfactory	35	30	39
Almost satisfactory	15	13	17
Unsatisfactory	15	23	11
Declined the comments	32	34	31

Source: SME Questionnaire Survey (Table III-1-15)

As observed in the above table, there is a significant difference in the level of satisfaction. The satisfaction level of non-Bumiputra SMEs seems to be higher than that of Bumiputra SMEs.

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 513 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

The next table shows that the recent trend of loan applications, disbursement and outstanding amount for SME loans by private banks in Malaysia. 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.

In 2004, the loan applications by SMEs increased with 21.6% from previous year and reached RM54.1 billion, and the commercial banks disbursed RM10.04 billion of SME loans (increased with 15.3%). The outstanding loans for SMEs at the end of 2004 increased by 7.7% from previous year and reached RM88.3 billion that is 40.3% of total outstanding amount of business loans.

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 2000¹.

1) Fund-raising

The survey suggested that SMEs needed funds but had difficulty in finding a source of funding. Major findings are as follows. (Responded companies :221)

- 131 enterprises (or 59% of all respondents) responded the need for additional loan, while 79 enterprises (or 36%) responded no need; and 49 (22%) indicated that they needed it urgently.
- A high level of need for funds was found particularly from relatively small enterprises having the combined working capital and fixed asset 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 to reflect the characteristic of fund requirements, 56 of these enterprises that expressed the needs, or 43% of the total, indicated RM1 million or less, and 22 enterprises (17%) RM1-2 million.

2) Funding sources of SMEs

- Recent trends in funding sources cited by the responding enterprises are shown

¹ 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.

below (Unit: % of 221 respondents).

Table II-4-3 Recent Trends in Funding Sources

	Working Capital				Investment			
	1996	1997	1998	1999	1996	1997	1998	1999
DFIs	3.2	2.7	3.2	4.1	6.8	5.9	4.1	3.6
Commercial banks	59.3	62.4	63.3	62.4	20.4	21.3	20.8	20.8
Finance companies	6.8	6.8	5.9	6.8	17.2	17.6	16.7	15.8
Government concessional loan & grant	0.9	1.8	1.8	4.5	0.9	0.5	2.3	3.6
Informal financing	10.4	11.3	11.3	13.6	4.1	3.6	4.1	6.3
Overseas/offshore financing	2.3	3.2	3.6	3.2	0.9	1.4	0.5	0.9
Other lending institutions for factoring, leasing	2.3	2.3	2.3	1.4	3.2	2.7	2.7	2.7
Sales proceeds	31.7	32.6	33.5	33.5	11.3	11.8	13.1	13.1
Company's internal reserves	17.6	17.2	22.2	22.6	11.3	10.9	17.2	15.4

- In summary, the formal funding sources – commercial banks, finance companies, and DFIs – remained relatively unchanged during the period after the Asian economic crisis, whereas 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 (those satisfied accounted for 9.5% of the total and those dissatisfied 13%).
- On the other hand, enterprises that have applied for credit guarantee service (CGC) account for 17% (those that have not applied – 37%), and those that were satisfied represent 5.4% and those dissatisfied 12%.
- Finally, as for areas of government support desired by the responding enterprises,

115 out of 221 respondents cited SME finance, following tax incentive and export support.

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 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 target financial institutions of the FSMP are commercial banks, insurance companies, Islamic banks, development financial institutions, venture capitals, etc and the FSMP proposed more than one hundred recommended issues for each type of financial institutions. According to BNM’s Annual Report (March 2004), 45 recommendations were implemented and fully

completed and other 28 recommendations are being implemented.

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

To achieve the policy goals of DFIs set in the FSMP, the DFIs are continuously strengthened. In 2003, it was emphasized to strengthen the foundation on which DFIs could operate efficiently and effectively. In 2004, the policy efforts took a wider perspective geared towards realigning the activities and institutional structure of the DFIs².

² "Annual Report 2004 Page176," BNM

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.

The actual level of contribution by each of the target DFIs to the development of its respective strategic priority sector is summarized as follows.

- 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, excepting those using the ECR, while the number of MATRADE's members is approximately 8,500. As for major exporters in Malaysia, most of them have relationships with commercial banks and few hold the business connection with EXIM Bank.
- MECIB is primarily engaged in underwriting of comprehensive export credit insurance. In 2003, it underwrote only 220 insurances, with the total coverage of RM 1,077 million (in terms of export value declared) that accounts only for 0.27% of the total value of exports (RM 398,900 million). Although MECIB makes promotional efforts to expand export credit insurance in collaboration with MATRADE, it has still to produce significant results.
- As for BPM, its position in the agricultural sector is difficult to define, since the current total loans to the agricultural sector is not available. However, BPM appears to remain in a minor position in the food processing and distribution sectors - its strategic targets.
- BPIMB is the only DFI that maintains the customer base that has reached critical mass to be effective in achieving a policy effect in terms 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 SMEs in the manufacturing sector.

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

4.2.1 Major features of current advisory service by DFIs

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
 - BITMB, which started its advisory services in June 2004, currently focuses on providing advisory & consultancy services to existing borrowers who may be facing teething problems or business difficulty. The ultimate aim is to identify problems, monitor the performance, and provide recommendations for improvement in order to prevent these companies from turning into NPLs. In 2004, Advisory and Consultancy Service Division provides advisory services to 6 companies. Presently, 16 companies have been referred for the advisory services and close monitoring. Within the group, Officers from the representative offices do make regular visits to borrowers to discuss on problems faced by these customers and advice on financial aspects, in particular. The Business Development Division through nationwide monthly seminars/ campaigns disseminates information on financial packages/ funds available.
 - BPIMB renders the following services to upgrade operational capabilities of Bumiputra SMEs.
 1. Project-specific consulting service (including technical consultation, such as advice on equipment procurement)

2. Groom Big Program to promote the further development of selected SMEs by providing support that combines loan, advice and training services. The advice emphasizes financial and marketing areas. At present, the program is implemented for eight companies.
3. Training program for potential entrepreneurs and loan customers, offering a variety of courses from basic to intensive (eight weekend courses). In 2004, 22 courses were held up to July and were participated by 450 persons.
4. Nursery Factory Scheme (factory and equipment rental service)

Branch offices are responsible for monitoring loan customers and provide advice from time to time in the course of day-to-day customer relation management, which, however, is not in an organized manner and depends largely on capacity of each staff.

- BPM does not have its own advisory service. For the agricultural sector, the Ministry of Agriculture and related organizations maintain an integrated extension service system that covers farming techniques, farm management and marketing channels. In particular, new farm operators can participate in a one-week course at a training center (partially funded by the Ministry of Agriculture), ranging from bookkeeping to basic cash flow management and business administration, and marketing (60 participants annually). Thus, BPM does not have the system to provide advisory service. They rely evaluation of technical viability of loan application on the recommendation by the Ministry of Agriculture. BPM serves a variety of customers, including individual operators (farms, fishermen and stock raisers), agricultural firms, and food processing companies, as well as micro-credit service receivers. As far as the advisory service for SMEs are concerned, however, there is no advisory service available by BPM.
 - EXIM Bank is capable of providing advice on export business, but service content and quality vary greatly among staffs. Also, major portions of advisory service are assigned to or conducted jointly with MATRADE.
 - MECIB does not offer advisory service, although it provides information service upon demand, such as export market information and importer's credit survey for insured Malaysian exporters.
- (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.

For BITMB, the tasks for maintaining the relationship with the clients lie with the Representative Office staff under the Business Development Division (BDD). These officers will be reporting the progress of their visits and the performance in terms of marketing activities on monthly/quarterly basis.

The monitoring of repayments on loans are being maintained by appointed officer from Loan Administration Department. Credit Officers and Officers from Technical Department do make regular visits during and after evaluation of projects for monitoring and review process.

BPIMB and BPM have divisions responsible for monitoring loan customers and their repayment status, but they do not conduct organized activity to maintain continuous relationships with customers. Although some banks have appointed relationship managers, their activity is still close to the monitoring service and has not reached a level where the close relationship is established.

At EXIM Bank and MECIB, customer service divisions provide advice, but it is not established as an organized advisory service and rather relies on staff's ability and willingness.

Some DFIs have marketing divisions, but their service is limited to promotion of financial programs, falling short of consultation for existing and potential customers.

The divisions which provide advisory service, and those responsible for customer relations in the respective DFIs are as follows:

- BITMB has Advisory and Consultancy Service Division, which was established in June 2004 and has currently three full-time staffs including a general manager as a Head. On the other hand, loan-related services are currently being undertaken by other units of the bank, such as Business Development Division which markets the bank's facilities and receives the request for financing, the Credit Division that evaluates the feasibility of the application and makes recommendations to the authority, and the Technical, legal and Risks departments that provide their opinion on the project being assessed.
- BPIMB maintains a well-designed SME support system. It has a department responsible for providing consulting service relating to loan applications and a department specialized in the development of entrepreneurs and SMEs. In particular, Entrepreneur Development Department, which supports the development banking sector, has the following sections that provide SME support service.
 - 1) **Special Program Section:** Responsible for planning and monitoring SME-specific programs.

- 2) **Entrepreneurial Training Section:** Responsible for implementation of training programs for customer SMEs.
- 3) **Technical Section:** Responsible for providing technical advice on machinery and equipment relating to loan projects; consisting of nine staffs; and collaboration with SIRIM and NPC as required.
- 4) **Corporate Advisory Section:** Responsible for implementation of the Groom Big Program that combines advice and loan services; consisting of two professional staffs and one administrative staff.

Meanwhile, day-to-day customer relations are handled by each branch's Supervision Unit, which monitors the status of executed loans. Although it provides advisory service as required, it is not an organized activity and the scope of service depends on the staff.

- EXIM Bank does not have a department responsible for advisory service and no full-time staff or responsible staff has been appointed. Credit officers of the Export Finance Department act as a part of duty of relationship manager and provide consulting service for customers. They do not have specific knowledge or experience relating to advisory service and respond to the customer's request under the assistance of other departments and staffs.
- Similarly, MECIB does not have an organization specialized in advisory service. 13 staffs in Business Development Insurance Section (responsible for marketing of export credit insurance) responds to the customer's request for information, including export market information and importer's credit research. Export market information is compiled periodically and supplied to customers, and credit research is entrusted to a foreign research organization.

(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.

- EXIM Bank has a unit specialized in research and investigation within Corporate Services Department consisting of 2 staffs, which is primarily responsible for preparation of documents for internal use and, which is not capable of conducting research and investigation required for customer advice or supplying necessary documents.
- The Bank Industri Group has a research division at Bank Industri, which has carried out various researches including those on trend of some specific target sectors. These research works may be utilized for advisory service, if researches are organized to include more specific conditions of the industries.

- BPM has a very diverse customer base and primarily supports agricultural projects through the integrated extension service system provided by the Ministry of Agriculture and related organizations. However, its own service is limited to a certain set of advice made at branch level, and there is no organized support system with planning and information service functions.

(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. As a result, the DFIs are not capable of providing appropriate advice for the customer who has a problem, including precautionary advice to avoid risks.

4.2.2 Current state of advisory service of each DFI

At present, advisory service is not provided by all the DFIs. Also, when it is provided by some DFIs, it is not delivered as organizational undertaking or it has started only recently so that a standard method for service delivery has still to be established. The following sections describe the current state of non-financial support for SMEs by the subject DFIs.

4.2.2.1 BITMB

(1) Concept and scope of the current advisory service

BITMB's advisory service is currently provided only for borrowers with low credit rating and is primarily designed to prevent loans to such borrowers from becoming non-performing by monitoring the status of their business operation and providing adequate advice when required. Borrowers with low credit rating mean those who are rated with a credit score of 6 or more, as each borrower is rated at the time of loan decision on a scale of 1 to 8 (1 – least risk; and 8 – highest risk). In practice, Group Managing Director (GMD) selects some of these borrowers for the advisory service.

(2) Organizational setup for the current advisory service

Under the above criteria, advisory service is provided by Advisory and Consultancy Service Division. In fact, the division is solely responsible for provision of advisory service, including planning and coordinating functions, without any support from no other divisions. Within Advisory and Consultancy Service Division, General Manager and two staff members are engaged in advisory service.

(3) Current performance of advisory service

BITMB's advisory service only began in June 2004 when the bank made organizational reforms. At present, the service is given to six companies (for two companies, loan has been approved but not executed yet). The bank expects that, in the future, advisory service will cover approximately 10% of all borrowers (around 40 companies in the present customer base in terms of outstanding loans).

In fact, the bank still has to establish a methodology for its advisory service. It is still in the process of developing a standard service delivery method and content through trial and error. At present, service is limited to monitoring the operating status of borrowers and the advisory service team is developing a service manual.

Day-to-day advisory service is not logged and only monthly reports are submitted to GMD.

4.2.2.2 BPIMB

(1) Concept and scope of the current advisory service

BPIMB carries out a relatively wide range of SME support programs, which are described as follows.

- 1) The Technical Advisory Section provides consulting service relating to projects for which the bank extends loans. The consulting service focuses on technical aspects of projects, including advice relating to the purchase of machinery and equipment, and facility and equipment layout. The section has five engineers. At present, this service accounts for around 10% of the section's operation, which primarily consists of technical examination of loan applications. Also, BPIMB cooperates with other organizations, such as SIRIM and NPC, for the current advisory service that the bank cannot provide alone.
- 2) Nursery Factory Scheme (Kompleks Kilang BPIMB: KKB): This program supports Bumiputra SMEs for business startup and expansion by leasing production facilities, which are developed by BPIMB for SMEs, at a fee below the market rate (e.g., 50%

less for the first year and 40% off for the second year) for five years, accompanied by loan, training and advisory services. It began in 1985 and its outline and track record are as follows.

Production facilities for the scheme	392 lots in 24 factory complexes throughout the country (excepting Sarawak)
Operating status	175 enterprises are operating 232 factories.
Occupancy rate	Factory complexes in and near Kuala Lumpur, including Shah Alam, are fully occupied, while the occupancy rate of six complexes in other regions (such as Kotabaru) remains low at 50% or less.
Track record	<ol style="list-style-type: none"> 1. Six enterprises have expanded their business in factory complexes and have moved to their own factories. On the other hand, approximately 20% of enterprises that participated in the scheme have closed down their operation for various reasons. 2. Technical consultancy service: 25 cases (FY2003) 3. Matching grant: 8 cases, totaling RM202,000 (FY2003) 4. Technical seminar: 10 times throughout the country (FY2003)

The scheme consists of credit and loan service to supply funds for capital investment and working capital, training for employees, Technical Consultancy Service to help SMEs to overcome technical problems, and matching grant to support productivity improvement and ISO certification (maximum RM50,000 per enterprise). To be qualified, enterprises must be 100% Bumiputra and are engaged in manufacturing business.

3) Groom Big Program

This program is implemented by the Corporate Advisory Section to develop small enterprises to medium-sized ones or medium-sized enterprises to large ones. Eight enterprises have been selected from candidate enterprises recommended by branches as top ten or top five borrowers of each branch. They will receive advisory service in the following areas: (1) formulation of business strategy and medium- and long-term business plans; (2) guidance for reinforcement of the financial base such as rearrangement of loans and debts³; and (3) consultation relating to marketing.

³ Financial diagnosis service is not provided partly because BPIMB does not have an effective method (model) for financial evaluation and partly because it is difficult to expect that the borrower submits financial statements smoothly, i.e., even the eight enterprises selected for the scheme are often delayed in submitting them. Under the company law in Malaysia, every incorporated legal entity (Sdn. Bhd.) is required to prepare an audited financial report, but as an audit fee is very high, most enterprises are reluctant to disclose financial statements, except for limited cases, e.g., when an enterprise applies for loans, it is required by the bank to prepare and submit an audited financial report.

The program was launched in 2003 with one officer and one clerk. Its operation is expanded as an additional officer was assigned in August 2004. The program is currently positioned as a pilot project and service is provided with free of charge. BPIMB intends to promote it to fee-based service.

- 4) Management training and seminars: The Entrepreneurial Training Section offers the following training programs for development of SMEs: (1) basic training; (2) intensive training; and (3) SMI enhancement training. The training programs are conducted in the form of lecture by instructors, who are the BPIMB staff, consultants or managers of successful enterprises. Note that basic training and SME enhancement training are provided throughout the country, while intensive training is offered at BPIMB's head office. The training programs conducted in FY2003 are summarized as follows.

Basic Training	10 times, 226 participants The program is designed to teach basic business knowledge, including the manager's philosophy and the method for formulating a business plan.
Intensive Training	Eight-week, weekend course, 45 participants 2 series held, focusing on management methods and techniques
SMI Enhancement Training	14 series held, 260 participants 5 courses, including computer accounting/bookkeeping, industrial safety, and cash flow management

Each training program is designed for 25 – 30 participants, but actual number of participation is around 10 – 20 persons for each program.

In addition, the Entrepreneurial Training Section holds seminars to provide latest business information. In 2003, two seminars were held at the head office, "Export Market Opportunities and Export Procedures" and "Taxation System," under participation of 70 persons.

Also, BPIMB extends cooperation to training programs held or sponsored by the Ministry of Entrepreneur Development, Malaysian Entrepreneurship Development Center (MEDEC), and universities by sending its staff as instructors.

(2) Organizational setup for the current advisory service

At present, the Entrepreneur Development Division of the Development Banking Sector is responsible for BPIMB's advisory service, except for service provided by the Technical Advisory Section. The division consists of two departments and two sections.

Note that the Technical Advisory Section belongs to the Service Sector and its principal function is to perform technical review on loan applications, rather than advisory service for customers.

Department/ Section	Manager & Staff	Activities
Advisory Department	1	
1) Entrepreneur Training Section	4	Training programs and seminars for enterprises
2) Special Program Section	4	Programs in collaboration with other government organizations
3) Corporate Advisory Section	3	Groom Big Program
KKB Operation Department	18	Operation and management of Nursery Factory Scheme
Project Initiation Section	3	Creating and operating new loan schemes independently or in collaboration with other organizations, such as Research/New Technology Loans
Entrepreneur Financing Section	7	Small loans valued at RM 1 million per case

4.2.2.3 EXIM Bank

(1) Concept and scope of the current advisory service

EXIM bank does not have a section that is responsible for the current advisory service and no full-time staff is appointed. It provides advice as part of its customer service.

The bank primarily receives the customer's request for advice in the area of international trade. Seven credit officers of the Export Finance Department provide advice as part of their daily activities. In particular, advisory service has been provided in the following areas.

- Check on a letter of credit received by the customer and advice on acceptable credit terms
- Methods for collection of export proceeds, and advantages and disadvantages of each method
- Incoterms (standard trade definitions published by the International Chamber of Commerce, they are at the heart of world trade)
- Loan and subsidy programs for exporters
- Trade missions and tax incentives
- Fundraising methods suitable for business requirements
- Definition of UCP500 (Uniform Customs and Practice for Documentary Credits)
- Export credit insurance

- Assistance in preparation of project finance proposals

(2) Organizational setup for the current advisory service

Although the bank does not have an organization responsible for the current advisory service, seven credit officers of the Export Finance Department serve as Relationship Manager.

There is no organization that performs the planning and coordinating functions nor that collects or supplies data and information required for provision of advisory service. As a result, each credit officer collects data or asks assistance from other staff as required. The request for advice on non-financial matters is referred to MATRADE.

While EXIM Bank has full-time staff in charge of research and investigation (two in the Corporate Services Department), they are primarily responsible for preparation of reports and other documents for internal use and are not capable of conducting research or providing documents relating to customer advice service.

Notably, EXIM Bank is in close cooperation with MATRADE in the area of customer advice service. They jointly hold many seminars and workshops to provide information for exporters. The bank can obtain information on foreign markets directly from MATRADE's foreign offices, called the Trade Commission.

Recently, the bank hires retirees from commercial banks as special consultants, who will provide guidance and advice on the improvement of staff skills.

(3) Current performance of advisory service

As discussed earlier, the bank relies on MATRADE for provision of general information on exports and foreign markets, while the credit officers of the Export Finance Department provide advice on export business for individual customers. However, as the bank does not have an organization that is specialized in advisory service, there is no support function to provide know-how or collect information. Consequently, quality of advisory service varies among credit officers and their skills and experience, suggesting the need for improvement.

4.2.2.4 MECIB

(1) Concept and scope of the current advisory service

MECIB does not have a section specialized in advisory service nor appoints full-time staff. Thus, advisory service is provided as part of its export-related service and upon the customer's request.

The customer's request for advice is mostly related to country/market information and credit research on trade partners.

(2) Organizational setup for the current advisory service

Advisory service is provided by 13 officers in charge of insurance at the Business Development Insurance Section, which is responsible for export insurance.

There is no section specialized in collection of foreign market information. MECIB's parent company, BITMB, has the Research Department, but it does not conduct research or information gathering activities that are related to MECIB's business activities.

(3) Current performance of advisory service

The customer's request for the current advisory service is mostly related to country/market information and credit research on trade partners.

As for country/market information, reports and source materials prepared periodically for internal use are provided with free of charge. As for credit research on importers and other trade partners, MECIB hires a foreign research firm and charges RM 250 per case to insured customers (RM400 to the non-insured).

There is no formal record or report on advisory service.

Thus, advisory service at MECIB is provided as part of its customer service but it is not systematic efforts. Also, it is passive by nature and does not intend to enhance its benefits by expanding the scope of service, such as reduction of export risks facing SMEs.

At the same time, however, MECIB is active in providing business information for its customers by closely cooperating with MATRADE to offer joint seminars/workshops and consultation meetings and to obtain foreign market information from MATRADE's Trade Commission.

4.2.2.5 BPM

(1) Concept and scope of the current advisory service

BPM's customers are fairly diverse, including: (1) users of micro credit service; (2) farmers, fishermen, cattle breeders, and similar individual operators; (3) small- and medium-sized enterprises operating commercial farms; (4) large plantations; and (5) food processing and packing companies and distributors of farm products and processed food.

Support for farm organizations including enterprises and farmers is led by extension service of MOA Inc. (Ministry of Agriculture Incorporation), which was established by several departments of the Ministry of Agriculture. BPM is not participated in such support.

The extension service includes technical assistance relating to farm operation, the provision of technical information, the holding of auctions for farm products, and marketing guidance such as development of sales channels. In addition to MOA Inc., MARA provides guidance for farms of bookkeeping and basic management techniques.

In fact, BPM previously conducted a training program for entrepreneurs to teach bookkeeping, cash flow management, basic business administration, and marketing skills and techniques at the Training Center in Bangi (suburb of Kuala Lumpur), which is suspended at present. The program was participated by around 60 persons per year.

Some of BPM's branch offices provide various types of customer service, including⁴ : (1) guidance for financial management at the time of the customer's request for operating funds, such as the method to minimize the amount of loan by improving cash flow through adequate inventory control and accelerated collection of accounts receivables; (2) introduction of potential customers for market development; and (3) provision of information on seminars held by the MOA or related associations (by telephone or when the customer visits the branch office).

Nevertheless, these services are provided under initiatives of individual branches or officers and BPM does not provide systematic support for its customers in terms of advisory service.

(2) Organizational setup for the current advisory service

BPM does not have any organization that is primarily responsible for provision of advisory service for customers.

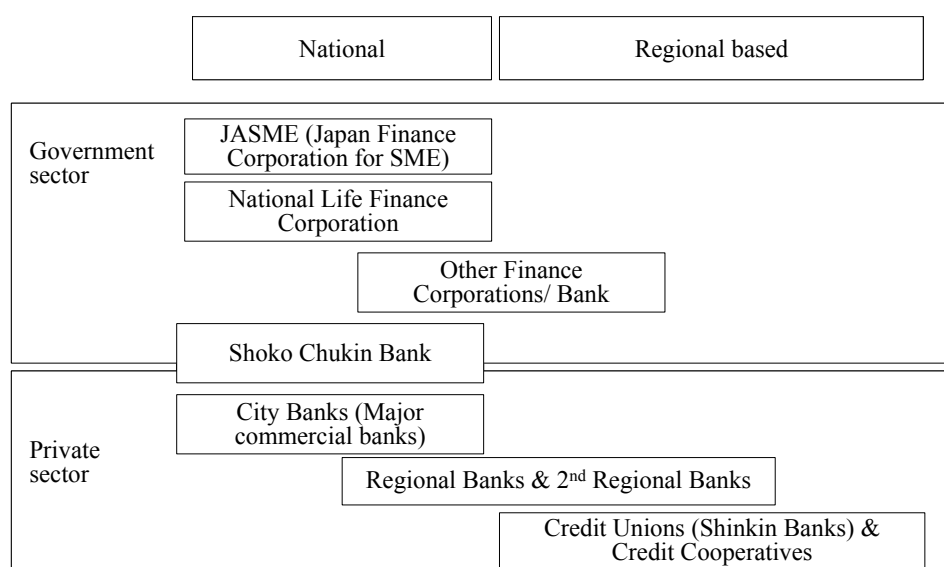
⁴ Conducted by the Kuantan branch.

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



Outstanding loans for SMEs

The next table below shows the yearly changes in outstanding loans to SMEs in recent five years. As of the end of FY2004, outstanding loans to SMEs amounted to 260 trillion yen, of which approximately 90% were lent by private financial institutions and the remaining 10% by government financial institutions. In the recent five years, outstanding loans to SMEs have been declining steadily, but the rate of the decline has been decreasing.

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 Table below shows relative declines in outstanding loans to SMEs by type of financial institution (outstanding loans as of December 2000 = 100). Outstanding loans by government financial institutions have been declining relatively moderately at less than 10% annually, in contrast to 25% for commercial banks and 18% for Shinkin banks and credit cooperatives.

Table II-5-2 Decline in Outstanding SME Loans by Type of Financial Institutions

(2000 Dec. = 100)

	Commercial Banks	Shinkin Banks & Credit Cooperatives	Governmental Financial Institutions
2000. 12	100.0	100.0	100.0
2001. 12	92.5	93.8	98.2
2002. 12	84.9	85.2	95.6
2003. 12	77.6	83.2	93.9
2004. 12	75.5	82.0	91.4

Source: BOJ, "Monthly Financial and Economic Statistics"

SMEs' fund-raising

Generally, SMEs are more dependent upon loans from financial institutions than large enterprises, and SMEs' own capital ratio is lower. The fund-raising structure of companies by employment size in FY2003, indicates that companies with 20 or less employees report a high borrowing ratio of 56%, compared to the own capital ratio of 22% (for those with 301 or more employees, the own capital ratio of 36% and the borrowing

ratio of 22%)¹. SMEs still feel difficulty in raising funds through direct finance (such as the issuance of bonds), compared to large corporations, and have to rely on commercial loans and other types of loans as a major source of financing.

Furthermore, SMEs are still in tight cash positions as smaller companies are less accessible to commercial loans. As shown in the results of the BOJ's surveys below, while cash positions among larger companies have been improving, those among SMEs are still in a relatively tight state². Also, a percentage of companies that cannot receive loans from their principal banks (against their expectations), which is generally in the declining trend, is higher for smaller companies³.

Table II-5-3 Financial Position by Size of Enterprises

Financial Position (Diffusion index of "Easy" minus "Tight", % points)			
	Large Enterprises	Medium Enterprises	SMEs
2001. 3	11	-5	-13
2002. 3	6	-10	-19
2003. 3	7	-8	-15
2004. 3	15	1	-11
2005. 3	20	6	-5

Source: BOJ, "Tankan"

Financial institutions that provide loans for SMEs

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.

As the Japanese financial industry undergoes the consolidation process, the number of financial institutions decreased by around 30% in comparison to 1999, particularly among smaller regional financial institutions including credit cooperatives.

¹ "Financial Statements Statistics of Corporations by Industry", Ministry of Finance, 2003

² "TANKAN", Bank of Japan

³ "Survey of Business Financing Environment", SME Agency

Table II-5-4 Number of Financial Institutions

	Mar. 1999	May. 2005
City Banks	9	7
Regional Banks	64	64
Regional Banks II	61	48
Shinkin Banks	396	298
Credit Cooperatives	322	175
Other Banks	10	13
Total	862	605

There are major three government financial institutions specialized in SME loans that are funded by the Government, namely National Life Finance Corporation, Japan Finance Corporation for Small and Medium Enterprise, and the Central Cooperative Bank for Commerce and Industry (Shoko Chukin Bank). General profiles of the three financial institutions are shown below.

Table II-5-5 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

5.2.1 Overview

JASME was established in August 1953 under the Law for Japan Finance Corporation for Small and Medium Enterprise. JASME's capital is wholly subscribed by the

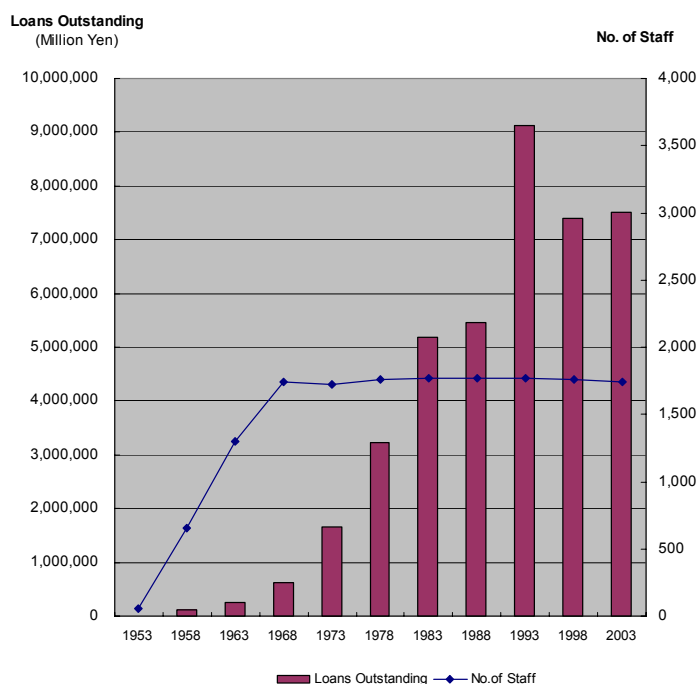
Government. JASME has been serving as a government financial institution for SMEs and supplementing the functions of private financial institutions by providing long-term loans to reinforce the management foundation of SMEs.

As shown in the mission shown below, JASME is expected to reinforce its consulting function, while serving as a stable supplier of business funds.

- The mission of JASME is to promote, in accordance with national policy, the growth and development of small and medium sized enterprises – the driving force behind Japan’s economy at both the national and regional levels.
- To this end, JASME works together with private financial institutions and regional public agencies to ensure a stable supply of business funds through a variety of schemes and instruments, and provides a wide range of advisory services.

The following figure shows its outstanding loans and the number of employees from its establishment (Figure II-5-2). Its outstanding loans exceeded 100 billion yen at the end of 1958, five years after the foundation (approximately ten times the balance at the end of the first year).

Figure II-5-2 Trend of Staff and Outstanding Loans of JASME



Source: Table II-5-6

At present, SMEs continue to play a major role in supporting the Japanese economy and leading local economies by accounting for 99% in the number of companies in Japan and 70% of total employment. The development of SMEs, together with the growth of Japanese economy as a whole have reflected the rapid increased outstanding loans of JASME. (Tables II-5-6 and II-5-7).

Table II-5-6 Trend of Staff and Outstanding Loans of JASME

Year	1953 (start)	1958	1963	1973	1983	1993	2003
No. of staff	57	653	1,297	1,723	1,773	1,768	1,744
Loans (Mil. Yen)	10,439	108,554	248,254	1,663,999	5,182,506	9,133,854	7,512,558

As the Japanese economy matures and enters a stable growth period, the pace of economic growth has decelerated and business funds have moved from a short supply to a surplus side, especially among larger corporations.

Table II-5-7 Average Growth Ratio of GDP by Development Stages of Japanese Economy

Period (Year to year)	Rapid growth (1953 to 1972)	Stable growth (1973 to 1990)	Sluggish growth (1991 to 2003)
Average growth ratio of GDP (%)	9.3	3.7	0.5

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. The outstanding loans have continuously increased while JASME keeps the same level of workforce.

Upon the amendment of the JASME law in April 2004, JASME added securitization

support and credit insurance services in July.

5.2.2 Advisory service

JASME considers that its advisory/consulting function is highly important, in addition to smooth supply of business funds. Before and after execution of loans, it provides effective information service and management advice to support loan customers by identifying their management problems through effective communication with SME owners and managers.

JASME makes its best efforts to provide “customized” information that meets the needs of diverse companies, to ensure that funds supplied to SMEs are effectively utilized with continuous management advice as well as effective information service (see the Figure below).

Figure II-5-3 Outline of Advisory Services Provided by JASME

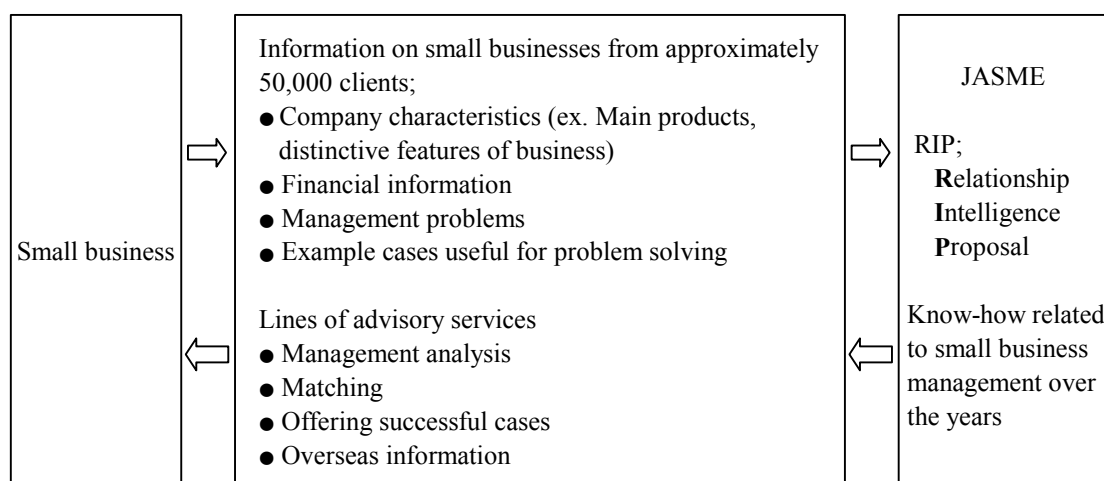
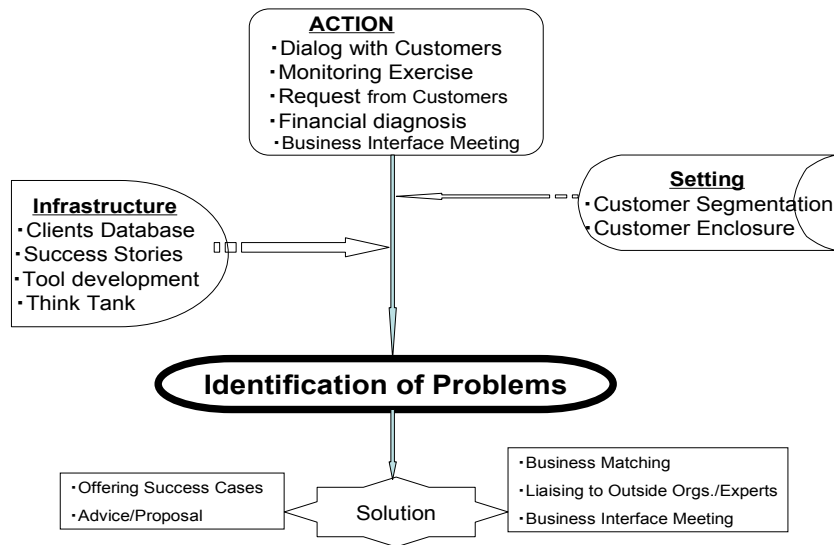


Figure II-5-4 Mechanism of Advisory Service



JASME 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). In FY2003, JASME rendered 67,000 cases of advisory service, including the provision of information.

**Table II-5-8 Number of Cases Advisory Services Provided in FY 2003
(Breakdown by type of advisory services)**

Management analysis	23,579
Offering successful cases	1,241
Matching	2,060
(of which business interface meetings)	(742)
Proposal for management improvement	533

Source: JASME

(1) Contents of JASME's advisory/consulting service

JASME provides advisory/consulting service through face-to-face conversation on a continuous basis to help SMEs to solve a wide range of issues relating to their operation and management by utilizing know-how and successful accumulated business cases. In particular, it provides the following services to meet the needs of each customer.

JASME also keeps confidentiality of information on individual companies, which is

needed for consulting service.

1) Management diagnosis

Utilizing the financial analysis know-how developed over many years, 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. Making effective use of a nationwide network of client companies and JASME branch offices, JASME helps clients find business opportunities.

3) Business interface meeting

JASME holds “business interface meetings” throughout the country by inviting customers in diverse industries and businesses for business matching between its customers who need customers, suppliers and other business partners. By creating synergetic effects with the traditional 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) Survey and research activities and the Research Institute

1) Activities of the Research Institute

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.

The research institute's activities are characterized as follows.

1. The institute conducts research and study for SME management and government policymaking relating to SMEs in collaboration with universities and other research institutes.
 2. The outcome of its research and study is used as the basis of economic analysis including medium- and long-term economic and industry trends.
 3. JASME conducts research and study on the industrial and financial systems in various countries (including the U.S., Europe and China) as well as research and study relating to revitalize regional economy in Japan.
 4. JASME publishes its research and study results, together with policy recommendations, to SMEs and the general public through the general media and its own Web site.
- 2) Major surveys
- a) Economic survey
 1. Quarterly Survey on Small Business Trends
Survey Target: JASME's loan customers
Quarterly survey
It is one of the most important business surveys covering SMEs and its data are used to calculate a business cycle indicator published by the Japan's Cabinet Office (leading indicator).
 2. Monthly Survey on Trends of Small Businesses
Survey Target: JASME's loan customers
This is conducted monthly for JASME's loan customers in the three major metropolitan areas (Tokyo, Osaka, and Nagoya) in order to understand the business environment for SMEs in a timely manner.
 3. Survey on Plant and Equipment Investment by Small Businesses in Manufacturing
This survey is conducted nationwide twice a year on plant and equipment investment by small businesses in manufacturing. It covers the largest number of companies among this type of survey and is considered as the survey that is indispensable for understanding the capital investment trends.

b) Industrial and regional surveys

JASME conducts research and study that helps SMEs to tackle various problems and research and study for revitalization of local economy. The results of these researches and studies are made available to the general public through various media.

c) Financial survey

JASME conducts research and study on the financial trends and systems in Japan and overseas. The results are used as the basis of policy recommendation for streamlining of SME finance and are widely published through various media. In particular, domestic surveys cover the SME loan and credit guarantee trends as viewed from financial institutions, while foreign surveys cover specific topics such as result on financial market in the U.S.A. and the research on the credit guarantee systems in selected countries.

d) Publications by the Research Institute

1. JASME Reports (non-regular publication)

Research reports featuring specific topics relating to key problems facing SMEs and their solutions. The recent titles include “Trends and Direction in Japan’s Molding Industry Focusing on Relationship with China”.

2. SME Trend Topics (non-regular publication)

This summarizes various research and study projects conducted by the Research Institute.

3. Reports on the outlines of credit insurance and guarantee schemes (non-regular publication)

This is designed to keep track of various credit insurance and guarantee schemes and promote their wide use, published in cooperation of related organizations.

4. Country reports on the credit guarantee schemes (non-regular publication)

The publication reports the current state of the credit insurance and guarantee schemes in various countries. The most recent report covers the credit guarantee schemes in Germany, Italy, France, and the U.K.

e) Publications by JASME

1. JASME Monthly

The monthly publication contains a variety of news and reports relating to SMEs

and their management, including economy and industry trends, a feature article on a specific company, results of JASME's surveys, information on publications and loan schemes.

2. Credit Insurance Monthly

A monthly publication specialized in the credit supplementation system, including the current state of the credit supplementation system, its program amendments, financing trend of SMEs receiving guaranteed loans, and overseas information.

3. JASME Newsletter (quarterly)

This serves as JASME's contact with its SMEs customers, by publishing notices from JASME, case studies on loan customers with distinctive management styles, and the government's SME policy etc.

4. Management Consultation (non-regular publication)

This is a booklet for SME managers, explaining major management problems and their solutions.

5. Management Information Reference

These publications contain specialized information and other reference resources, including case studies, to assist SMEs in resolving management problems. Examples include "Successful Examples of Management Innovation", "Successful Examples of Management Improvement", and "Methods to Reduce Risks Related to Investing in China".

6. Management information (non-regular publication)

Occasional publications presenting SME management topics and reference materials

5.3 National Life Finance Corporation

5.3.1 Overview

National Life Finance Corporation (NLFC) was established in February 1949 under the National Life Finance Corporation Law as a financial institution wholly owned by the Government.

NLFC's mission is defined as follows.

The mission of National Life Finance Corporation is to supply funds required to ensure sound management of businesses that are viable on an independent basis, funds that improve the hygienic levels of operation relating to daily sanitation, and other funds that are difficult to obtain from commercial financial institutions. NFLC contributes to the sound development of national economy and the improvement of standards of living by providing these funds. (Article 1 of the National Life Finance Corporation Law)

As of the end of March 2004, NLFC operated 152 branch offices and had 4,773 officers and employees, with outstanding loans of 10 trillion yen (3 million loans), of which SME loans amounted to about 9 trillion yen (1.7 million loans). At present, approximately 1.4 million businesses borrow business funds from NLFC.

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. 58% of NLFC's loans are valued at 5 million yen or less and the average amount of loans is 7 million yen. The average outstanding loan per company is valued at 6 million yen. 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.

NLFC provides loans for startups (before and within one year after startup). In FY2003, the number of startup loans reached the highest level of 31,541 loan cases (or 27,218 businesses that were also recorded the highest level) and the total amount of loans was 191.5 billion yen.

NLFC's loans are dominated by non-collateral loans, which account for approximately 90% of the total (case basis). Also, non-collateral loans without a guarantor represent around 20% of the total. The following table shows yearly changes in outstanding loans in terms of case and amount in recent five years.

Table II-5-9 Outstanding Loans by NLFC

(Unit: 1,000 cases, 100 million Yen)

	1999	2000	2001	2002	2003
Outstanding No. of loans	3,142	3,190	3,201	3,173	3,141
Outstanding loans	109,568	108,617	107,053	103,396	100,694

Note: NLFC's loans include loans secured by pensions and education loans, in addition to business loans to SMEs.

5.3.2 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. NLFC also provides a special loan scheme that is linked to management guidance service by local Chambers of Commerce and Industry (CCI) and Societies of Commerce and Industry (SCI), called the Management Improvement Loans.

Advisory services provided by NLFC are as follows.

1) Consultation and information service for startups

NLFC provides consulting service for startups, concerning business and financial planning, and holds seminars on the available loan schemes. The Business Startups Supporting Section has been established to develop new loan programs for startups and provide information to start-ups. In FY2003, the section dispatched speakers to 32 seminars on entrepreneur supports (one held by a NLFC branch office and 31 held by outside organizations).

Furthermore, NLFC actively cooperates with regional financial institutions to promote the “strengthening of entrepreneur and business startup support” under the “Action Program enhancing Relationship Banking Function of Regional Financial Institutions” implemented by the Financial Services Agency. NLFC signs agreements on service alliance and cooperation with regional financial institutions, under which it has appointed a contact division /unit to share local business information, including startups, and reinforce the support system, while sending instructors to the “screening skill training” program.

2) Establishment of Special Consultation Desks for restructuring support and emergency cases

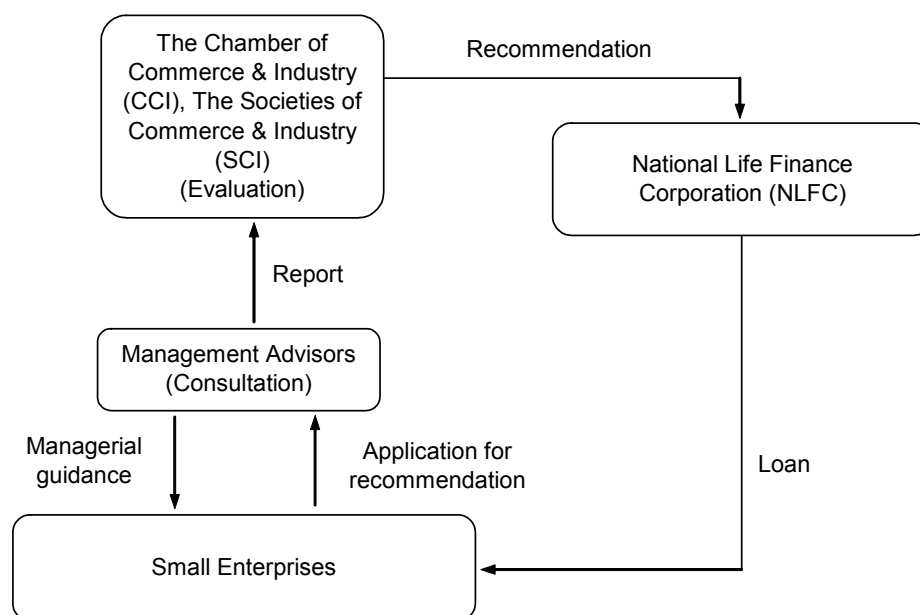
NLFC provides consulting service for loan customers who are in default for repayment to help their restructuring including the easing of repayment conditions, e.g., extension of the monthly repayment period or reduction of the amount of repayment. In FY2003, the easing of repayment conditions was granted to approximately 65,000 loans.

Also, NLFC has been setting up Special Consultation Desks at its branch offices when emergency cases affecting SMEs arose, such as the collapse of private financial institutions and large corporations, and the outbreak of the bird flu, and has provided emergency loans or the easing of repayment conditions.

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 as shown in the figure below). 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. The loan scheme is mainly intended for smaller enterprises and the maximum amount of loan extended under the scheme is 5.5 million yen. It is conducted for SMEs to improve their management by integrating management guidance and loan services.

Figure II-5-5 Mechanism of Management Improvement Loan



(2) Research and information service

NLFC backs up its advisory service by providing useful information for SMEs through the publication of researches and studies by the Research Institute and the seminars.

1) Major research activities

a) Business trend surveys

Various surveys are conducted to understand the business environment facing SMEs, including “nationwide small business survey” (quarterly and monthly) and “special nationwide small business survey” covering specific topics, such as capital investment and employment trends (non-regular basis).

b) Business startup surveys

Since FY1991, annual startup surveys are conducted and the results are published as the “White Paper on Business Startups”. Also, questionnaire surveys of startup preparation activities are conducted to monitor the current state of startups and their activities.

c) Surveys of SME management and managers

“Current state of SME management” surveys are conducted annually, and various surveys are conducted to study SME management and managers, including “the

survey of management activities of small and medium machinery industries” and “the survey of independent contractors and business operators”.

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 following publications.

a) Monthly Report

A monthly report covering SME management, industry trends, and results of surveys conducted by NLFC and other organizations.

b) Magazine for businesses related to public hygiene (quarterly)

A survey report on the results of surveys relating to sanitation projects and case studies on companies with distinguished management styles

c) White Paper on Business Startup (annually)

An annual report to present the results of an annual startup survey.

d) Case Study: SME Management (annually)

A report on the cases describing management innovations made by SMEs.

e) Seminars and sending of instructors

NLFC dispatches its employees to a wide variety of seminars and symposiums on the economic and financial trends or SME management problems sponsored or held by NLFC and other organizations. (In FY2003, speeches and presentations by managers of 152 branch offices (2,004 times), and speeches made by researchers of the Research Institute (92 times).

5.4 Agriculture, Forestry and Fisheries Finance Corporation

5.4.1 Overview of the operation

AFC was established in 1953 under the Agriculture, Forestry and Fisheries Finance Corporation Law and capitalized exclusively by the Government, as a financial institution operated in line with the government policies related to agriculture, forestry, fisheries, and the food supply. It extends financing to individuals and enterprises engaged in agriculture,

forestry, fisheries, and the food industry, supplementing finance by the private financing institutions.

The outline of AFC is as follows:

Year of establishment	1953	
Basic law	Agriculture, Forestry and Fisheries Finance Corporation Law	
Capital	311.6 billion Japanese Yen	
Executives and employees	924	
Branch offices	22 (With 730 employees)	
Loan commitments	327.1 billion Japanese Yen (in 2004)	
Outstanding loans (by sector)	3,269.9 billion Japanese Yen (at the end of March 2005)	
	Agriculture	1,689.8 billion Yen (52%)
	Food industry	580.0 billion Yen (18%)
	Forestry	925.0 billion Yen (28%)
	Fisheries	77.8 billion Yen (2%)

Of the total outstanding loans to agriculture, forestry and fisheries sector extended by all the financial institutions, AFC accounts for 12%.

Financing institutions % of total outstanding loans.

Financing institutions	% of total outstanding loans
AFC	12
Agricultural Cooperatives	76
Banks and Credit Associations (Shinkin Banks)	6
The Norinchukin Bank (Agricultural and Forestry Central Bank)	6
Others	0.1

Note: Total outstanding loan amount is 24,400 billion Yen. As of end of March 2003.

Source: Norinchukin Bank, "Financial Statistics on Agriculture, Forestry and Fisheries Sector"

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. Since 92% of loans extended by financing institutions of agricultural cooperative sector (namely, agricultural cooperatives, and Norinchukin Bank) is for fund for living and fund for housing, the outstanding loans by AFC account for 42% of total finance (or 2,470 billion Yen) for agricultural management purpose.

The loans from AFC is mostly used for funds for acquisition of equipment. AFC extends long-term loans at fixed concessionary interest rates, in view of the fact that profitability is generally low and the average gestation period of investments is long, in the case of agriculture, forestry and fisheries. The loans with more than 10 years repayment period accounted for 79% of total loans in 2003, while the average repayment period was 18 years.

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. AFC is extending loans through 280 agent financial institutions including financial institutions in agricultural cooperative sector. The agency loans are mostly for long-term loans, supplementing and collaborating operational funds of the agent institutions. AFC is also collaborating with the agent institutions in supporting revitalization of the problem customers. Actually, the collaboration is to improve environment for private financial institutions to increase their loans to agriculture, forestry and fisheries sector, and encourage the shift of funds of the sector from that of AFC to private financial institutions.

The direct loans by AFC account 19% of total amount of loans in terms of outstanding loan amount. The outstanding loans of AFC by loan channel is shown in the following table:

(Unit: Billion Japanese Yen)

Loan channel		Amount of outstanding loans	% of total
Direct loans		200	19
Agent loans	Through agricultural cooperative sector	790	76
	Through other banks	50	5
Total		1,040	100

5.4.2 Advisory service

5.4.2.1 Support System for Agricultural Sector in Japan

The technical and managerial support and guidance for agricultural sector has been provided through two systems: namely, an agricultural cooperative system based on national system of agricultural cooperative sector, and the government system consisting of central government (Ministry of Agriculture, Forestry and Fisheries) and local governments (prefecture and city/town/village level governments). These systems have extended support and guidance efficiently to farmers with collaborating each other.

The organization rate of farmers to the agricultural cooperative sector is high. It organizes 8 million members compared to 3.2 million farmer households (the member includes non-farmers who join the cooperative for services other than that related to agricultural production and management). The agricultural cooperative system has prefecture associations and national organizations on the basic units of agricultural cooperative, each in four functional areas, namely, business, finance, insurance, and technical and managerial guidance. The basic unit of cooperative has also these four functional divisions as the internal organization respectively, supporting and guiding farmers in the field of agricultural technology, agricultural management, marketing and sales of agricultural produce, procurement of materials for agricultural production. They also have a function of saving, collecting surplus funds from farmers for financial operation. Total amount of loans by the agricultural cooperative sector, including loans through unit cooperatives, prefecture associations, and agricultural and forestry central bank (Norinchukin Bank), accounts for 77.3% of total outstanding loans for agriculture,

forestry, and fisheries sector.

The government sector system has a department in charge of support and guidance for agricultural sector and agricultural experimental stations (now called agricultural technology center) at the prefecture level local governments. The local governments at city/town/village level also have a division in charge. The prefecture level local governments assign agricultural extension officers for support and guidance of farmers in the field of agricultural production and rural life.

Both system has worked in collaboration with each other. They have offered comprehensive support and guidance not only for the areas as a whole but also for individual farmers.

5.4.2.2 Non-financial support of AFC for SMEs

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, as described in the above.

At the same time, AFC has a policy to develop a service system in collaboration with 280 financial institutions, which deal AFC's agent loans, in addition to their own service provided through 22 branch offices of AFC.

(1) Advisory services

Advisory service of AFC has placed its emphasis on support of management of leading farmers (and forestry and fishery operators), focusing on support of those who are active for aggressive management. The framework of services provided is as follows:

1) Advices provided through branch offices

a) Business plan consultation

Prior to loan application, AFC staff contacts the applicant customer to identify whether the application is bankable or not.

b) Advice for improvement of business management

The customers can request the consultation through the Home Page of AFC. The response from AFC is given to the customer through a branch office. The response is provided in a diagnosis report sheet, which contains the diagnosis results of management, financial conditions, and benchmarking compared with average

managerial index of the same business sector in question.

2) Assistance for expansion and reforms of the business

a) Business matching

AFC provides the customers with information of other customers on their products to be sold, and materials to be procured. The loan customers include those in agriculture, forestry, and fisheries, and those in food industries, etc., and they can utilize these information for development of new business and transactions.

b) Interface meeting among the customers in different businesses

AFC have meetings to provide customers with opportunities for them to meet other customers in different businesses. They exchange their business experiences and needs among the participants. The programs are held either as seminars, workshops, or visits to customer's workplace, etc. This is to promote opportunity of new business and transactions among the participants, with inviting customers of farmers, food industries, etc.

3) Provision of assistance to loan customers in collaboration with agent financial institutions

4) Advisor system for agricultural management

AFC is promoting a system to nurture advisors for agricultural management to enhance non-financial support of AFC for agriculture, forestry and fisheries sector. The advisors are nurtured among the senior staffs of AFC.

(2) Information service

AFC is providing information useful for their customers in the following manner:

1) Information on agricultural business management and agricultural technology

AFC is providing information useful for the customers in a regular publication, focusing on the latest research results of agricultural technologies, new technologies, and advanced business models, etc., which are obtained from outside research institutes.

2) Regional information

AFC is providing business climate and trend information of the region on agriculture, forestry, and fisheries, in a regular publication issued by the branch office located in the region. Also included in the regional publication is the information/introduction of

customers in the region, which is useful for formulation of regional networks among the customers.

(3) Research

AFC has conducted own researches and reported the results to the public on the trend of strategic important sector (agriculture and related industries, food industries, wood and forestry products industries, etc.). The detail is as follows:

1) Periodical Researches

- Industrial climate and trend
(On the basis of sample survey of loan customers of AFC.)
 - Farmers and agricultural enterprises: sample size 1,800
 - Food industries: sample size 7,200
 - Wood and forest product processing industries: sample size 1,500
- Consumer trend
(Questionnaire survey for consumers on food consumption and purchase trend: sample size 2,300 households)
 - Eating habit
 - Eating-out trend
 - Rice consumption trend
 - Indication of origin for fresh foods, etc.
- Agriculture sector business climate and trend
(Analysis of agriculture sector on the basis of a periodical questionnaire survey for loan customers of “Fund for enhancement of managerial foundation of agriculture”.)
- Management trend analysis of customers in fishery sector, who have fishing boats

2) Non-periodical Researches

Surveys and analyses, which are contracted out to outside research institutes, on topics important at the time, related to agriculture, forestry, fishery and food industries.

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

5.5.1 Overview

The Central Cooperative Bank for Commerce and Industry (Shoko Chukin Bank) is a government financial institution founded jointly by the Government and SME cooperatives in November 1936 under the Shoko Chukin Bank Law. As of the end of March 2004, the Government holds 78.8% of the bank's total capital of 514.2 billion yen. The bank has 102 branch offices and 4,571 employees.

The mission of Shoko Chukin Bank is to support SMEs by providing a full range of financial services from long-term perspectives to overcome their problems.

The bank lends business funds to SME cooperatives and associations, which contribute capital to the bank, and their member SMEs. As of the end of March 2004, about 27,000 cooperatives contribute to the bank (the bank does not reveal the number of its loan customers).

The bank's outstanding loans amount to 9.8 trillion yen, as of the end of March 2004. 77% of total outstanding loans are used as working capital (short- and long-term) and 23% for capital investment. Approximately 50% are short-term loans of one year or less. 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%). The credit line is set at 20 billion yen for each cooperative (association) and 2 billion yen per member company.

In addition to the lending service, the bank provides a full range of banking services, including deposit, debentures, securities, domestic exchange and foreign exchange, and management consultation, not seen in other government financial institutions. As a result, it plays a critical role of "one-stop platform" to support sound growth of SMEs.

Table II-5-10 Outstanding Loans by Shoko Chukin Bank

(Unit: 100 million Yen)

End of Fiscal year	1999	2000	2001	2002	2003
Outstanding loans	111,693	108,865	105,392	100,903	98,244

5.5.2 Advisory service

(1) Consultation service

1) Service provided by the bank's head office and branches

The bank maintains close relationships with its SME customers, and provides a wide range of services by understanding the operational status of individual companies and their needs.

1. The bank's head office and branches provide 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. In particular, it emphasizes intermediary service for introducing business partners, and loan staff at each branch office provides matchmaking service for its customers. Also, more specialized services, including succession of business and IPO support, are provided by specialists at the head office (such as business promotion and international business departments), who provide the services with branch staff.
2. Also, the bank supports sustainable growth of SMEs and provides information service, together with supply of funds, to meet the needs of every business growth stage (i.e., startup, stable growth, innovation, revitalization). In particular, in the revitalization stage, the bank assists the customer in management improvement planning and implementation, in addition to the supply of necessary funds. Furthermore, the bank selects customers who would require priority support for management improvement by evaluating their current operation, future outlook, and possible effectiveness of the bank's support, and provides integrated support by the head office's specialist (SME Revitalization Support Office) and branch staff. By the end of March 2004, about 700 companies (outstanding loans amounting to 562.6 billion yen) have been selected as "customers requiring management improvement support" and have received the above services.

3. In addition, the bank establishes 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 provide emergency loans with quick processing of loan applications and flexible loan terms. As of March 2004, the bank maintained 34 special consultation desks. In FY2003, 680 special consultations were provided.
- 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 has approximately 21,000 member companies. 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, which are charged around one half the market prices. Human Resource management and production management account for 20% each of total requests, while ISO certification supports are increasing recently.
1. In the area of information service and publication, the institute provides management information for SMEs by magazines and reports, including a management monthly “Commerce and Industry Journal” and a booklet titled “Commerce and Industry Business Data” that explains business know-how for SMEs.
 2. The institute annually holds around 40 seminars for SMEs in major cities. They deal with diverse subjects including management, sales and production, and provide practical knowledge and information for SMEs. Also, the institute holds, jointly with the bank’s head office and branches, lecture meetings that cover diverse topics, ranging from politics, economy, international issues, to management, culture, and sports. Also, the institute sends speakers and instructors to seminars held by member companies and provides support service for in-house education and training.
 3. As for consulting service, the institute provides management diagnosis, identifies major problems, and makes recommendations and proposals, while providing HR

consulting service and ISO certification supports.

(2) Information service

The Shoko Chukin Bank provides free information service for SMEs and cooperatives via the Internet, entitled “The Site, Shoko Chukin Information Toolbox for Executives”. The Site publishes useful information including management information, government’s SME support policies and programs, financing, international trends, and related information on SME cooperatives.

(3) Economic research activities

The Shoko Chukin Bank conducts questionnaire and other surveys about the current state of SMEs and the business environment, and provides the survey analysis and results for SMEs in a timely manner.

1) Monthly survey of SME business sentiment

The business outlook survey is conducted monthly for the bank’s 800 customers. It is only one comprehensive business survey that focuses on the economic trends among SMEs. Since June 2000, the survey has been expanded to cover 1,000 companies including those in emerging sectors.

2) SME capital investment trend survey

Together with the business outlook survey, the capital investment trend survey covering SMEs is conducted twice per year.

3) Regional analysis of SME business sentiment

Twice each year, the bank classifies its branches into nine regional blocks and conducts comprehensive studies and analyses of regional business sentiment.

4) Other information services

In addition to the above periodical surveys, the bank conducts and publishes timely research and study including “Survey of IT Use by SMEs”.

(4) Networking of SMEs

The bank is actively engaged in promotion of “linkage between individual companies”. The bank especially supports the organization of SMEs in the form of cooperative or association. It is based on the notion that collaboration among SMEs, which often lack management resources, is effective in initiating a new business or technology

development project or in meeting a major challenge by supplementing resources each other.

In particular, the bank supplies funds required for the organizations or networking of SMEs.

Also, it 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.

The Chukin Association has over 17,000 members, consisting of 107 local chapters and 3 overseas chapters (Thailand, Malaysia and Hong Kong). It provides a wide variety of services that benefit management of member companies, including the planning and support for lectures, workshops and parties, the dispatches of instructors, information service of industry trends, products and technology.

On the other hand, the Youth Association is an organization to promote interaction among SMEs in diverse industries, largely young current and future owners of SMEs. It has 88 chapters throughout the country and approximately 5,300 members. Like the Chukin Association, it provides a wide range of services that promote the exchange and interaction among member companies, including the planning and support for lectures, workshops and parties, the dispatches of instructors, expansion of sales channels, and joint technical development and assistance through the information exchanges.

5.6 SME Advisory Service by Private Financial Institutions

5.6.1 SME loans by private financial institutions

(1) Current state of SME loans 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.

City banks hold a significant share of SME loans in urban areas, whereas regional financial institutions serve as principal banks for SMEs in rural regions and contribute to the nurturing of local industries. Generally, the larger the company size, the higher the percentage borrowing funds from city banks, while smaller companies opt to use regional financial institutions.

To ensure smooth financing of SMEs from private financial institutions, credit guarantee is offered by the Credit Guarantee Corporations (CGCs). The CGCs are public corporations established to promote SME finance and there are currently 52 CGCs in prefectures and major cities. The CGCs provide credit guarantee service in line with national SME policy. At present, the outstanding guaranteed loans by CGCs reaches around 29 trillion yen, which account for 11% of total outstanding SME loans.

(2) Enhancing relationship banking and advisory service

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 information⁴”. 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. According to a survey conducted in January 2005 by the SME Research Institute of the current state of 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” (three years ago) to “credibility of financial statements”, “technological capability” and “ability of the owner/principal⁵”. This appears to reflect the fact that financial institutions are increasingly emphasizing on management quality as well as traditional creditworthiness and try to strengthen the relationship banking function to obtain management information of SMEs.

⁴ “Reinforcement of Relationship Banking”, Financial Services Agency, March 2003

⁵ “Survey of Current State of SME Loans”, SME Research Institute

5.6.2 Advisory service by private financial institutions

(1) Implementation of advisory service

Traditionally, private financial institutions have been providing the following consultation services for SMEs as part of their marketing and customer service activities.

First of all, advice on finance and accounting forms a core element of advisory service provided by private financial institutions. By using expertise and experience in SME finance, the financial institutions analyze financial statements provided by the customers and feed results back to the customers. In providing financial advice, the financial institutions try to establish a good, long-term relationship with the customers and accumulate the customer data for analysis.

The private financial institutions 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. Furthermore, some of smaller or regional financial institutions have been training their staff to be authorized SME consultants to support revitalization of poorly performing SMEs. Some of the banks have successfully reduced problem loans⁶. 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 ratings⁷.

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

SMEs expect to receive high value added service such as consultation and information service from private financial institutions, particularly regional financial institutions.

⁶ “Reinforcement of Relationship Banking”, Financial Services Agency, March 2003

⁷ “Progress of the Action Program on Reinforcement of Relationship Banking”, Financial Services Agency, December 2004

A special survey of SMEs conducted by the Shinkin Central Bank (entitled “Relationship with Regional Financial Institutions”⁸) 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”. Also, at the “Survey on financial administration monitoring” conducted by the Financial Review Council of the Financial Services Agency, desirable roles and functions of smaller regional financial institutions were cited, including “management consultation and guidance (including increasing SME management consultants)” and “an information service function (introduction of potential partners)”⁹.

(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.

At present, the following measures are taken to establish a support system for effective delivery of advisory service¹⁰.

1) Establishment of a mechanism to provide management and business matching information

In the first half of FY2004, regional financial institutions, mainly Shinkin banks, introduced or reinforced a mechanism to provide business matching information. As a result, the consulting and information service functions were strengthened and successful business matching cases increased significantly (totaling about 12,000 cases).

⁸ “Relationship with Regional Financial Institutions”, Shinkin Central Bank, September 2003

⁹ “Hearing on Financial Administration Monitoring” (Financial Services Agency)

¹⁰ “Progress of the Action Program on Reinforcement of Relationship Banking”, Financial Services Agency, December 2004

Furthermore, they are building collaborative systems among several financial institutions and providing management information and matching service to extended areas.

2) Reduction of problem loans

To reinforce the ability to normalize problem loans, many financial institutions (most of commercial banks and 80% of Shinkin banks) have established or reinforced a department to deal with problem loans. In addition, they are reinforcing collaboration with consulting firms and other outside organizations and developing a management improvement manual.

5.6.3 Training of advisory service personnel at private financial institutions

Private financial institutions in Japan conduct a variety of training programs for their employees to meet the diverse needs of customers. The training programs are designed for different classes of employees (e.g., new employees, experienced staff, and branch managers) and types of tasks (corporate or individual) and are offered in a variety of forms, including in-house training, outside training at educational institutions (including a training program offered by a banking industry association), and correspondence courses.

For instance, ongoing training programs for employees in charge of SME finance (conducted by an individual bank or a banking industry association) include: “training for basic knowledge on loan and credit service” and “training for fundamentals of banking service and sales activity” (designed for new employees); “training for expansion of corporate banking service business” and “training for credit evaluation skills” (for experienced staff); and “training for solution-oriented sales promotion to upgrade skills that help to identify the management problems faced by SMEs”. It is emphasized to provide practical training, including case study using actual financial statements and a role-playing where an instructor acts as a SME manager.

Various outside training programs are offered by banking industry associations, such as the Regional Banks Association of Japan (RBAJ), the Second Association of Regional Banks, and the National Associations of Shinkin Banks. RBAJ conducted 44 courses in FY2004 (121 times in total), which were attended by a total of 4,000 persons from the member banks. Several courses related to SME supports including “SME management support”, “sales representative in charge of corporate banking service”, “consulting skills”,

“industry-specific corporate management training”, and other courses to meet the requirements under the Action Plan on Reinforcement of Relationship Banking¹¹. Typically, a financial institution sends a few employees to a training program offered by the above associations, and participants hold workshops for other employees within the bank¹².

Furthermore, some financial institutions send their employees, who have passed an internal screening process, to a SME consultant training course (one year) offered by SME University to develop the ability to provide advanced consultation service. By obtaining knowledge and techniques on evaluation of SMEs and their management, they intend to propose a workable improvement plan for SMEs according to the customer’s status.

Correspondence courses are also offered by various banking industry associations and training institutions and are taken by many bank employees. For instance, RBAJ conducted 24 courses in FY2004, which were taken by a total of 44,000 persons from 64 regional financial institutions. Courses closely relating to consultation service for SME management include “practical training for accurate assessment, effective support and revitalization”, “course for upgrading of management support skills” and “course for revitalization of SMEs”.

Similar HR development plans are proposed in the “Action Plan enhancing Relationship Banking Function of Regional Financial Institutions” that were submitted by each regional financial institution under the guidance of the Financial Services Agency. Each financial institution conducts the training for the skills to access future potential and technological capability of SMEs and reinforce supports for entrepreneurs and new business startups, the training for the skills to strengthen management consultation and support capabilities for customers, and the training for HR development relating to support for business revitalization. Each financial institution conducts these trainings by means of outside or in-house training, or correspondence education.

5.6.4 Problems relating to reinforcement of advisory service

In March 2005, the Financial Services Agency announced a new “Action Program on Ensuring further Promotion of region-based Relationship Banking” after accessing the “Action Program enhancing Relationship Banking Functions” that was implemented in the

¹¹ “Business Report 2004”, Regional Banks Association of Japan

¹² Examples of various regional banks

previous two years.

The good points to implement the relationship program of the financial institutions are as follows: 1) the financial institutions have re-recognized their roles in the community; 2) they improved lending attitude and borrower assistance system by understanding the current state of their customers; and 3) the development of basic infrastructure for promotion of community-oriented finance was progressed. On the other hand, the following drawbacks were pointed out: 1) some financial institutions fail to understand the true concept of relationship banking finance; 2) the relationship program of many institutions lacks strategic focus and tries to address all issues; and 3) many institutions are not sufficient in terms of commitment to the support for business revitalization and the ability to make accurate assessment.

The new “Action Program on Ensuring further Promotion of region-based Relationship Banking (2005 and 2006)”, contains requests for improvement by financial institutions in the following areas; 1) smoothing of business revitalization and SME finance; 2) the strengthening of the management base; and 3) the improvement of local customers’ access to the service. It requires each financial institution to submit its own promotion plan for community-oriented finance by the end of August 2005¹³.

The shortage of expertise, experience and human resources is a major issue of financial institutions to provide management improvement supports. While more and more financial institutions use outside resources such as the Corporate Revitalization Fund, most staffs do not have sufficient knowledge and skills relating to corporate revitalization, and taxation and legal systems. Also, they do not have sufficient know-how on management advice, such as business strategy and the sales enhancement activity.

¹³ “Action Program on Ensuring further Promotion of region-based Relationship Banking”, Financial Services Agency, March 2005

Part III: Conclusion and Recommendation

1 SME Development and Advisory Service

1.1 SME Development and Advisory Service

1.1.1 Target of SME support in Malaysia, and major issues

In many countries, SMEs have made significant social and economic contributions in the following respects, which are the reasons of high expectation for SME promotion.

- 1) SMEs are generally labor intensive and thus contribute to improvement of unemployment problem.
- 2) They can be established throughout the country and contribute significantly to the improvement of regional disparity and income difference.
- 3) As opposed to large enterprises that employ leading edge technology, SMEs largely use, well-established, field-proven technologies which can easily be transferred and dissipated, allowing start-up of new businesses in the similar industries, and thus contributing to industrial diversification.
- 4) They have excellent creativity to develop products and services, and can cover the industrial areas that cannot be supplied by large enterprises, thus invigorating industrial development.
- 5) They are highly flexible and adjustable in day-to-day operation and management to move to the areas where large enterprises cannot operate, thereby constituting to economic development of the nation as a whole, through the development of large enterprises which are operated on them.

On the other hand, SMEs often lack the functions that are possessed by large corporations, such as information gathering, marketing, HR development, and R&D. Also, they are less accessible to financial service because of their weak financial base, and high costs required for loan processing compared to large enterprises.

Generally, public support for SMEs and their development is discussed from two different standpoints by focusing on their advantages described above: (1) to promote startups of small enterprises, help existing SMEs to overcome their weaknesses, and maintain a stable SME base to ensure their viable operation, focusing on advantages of SMEs as stated in 1) through 3) above; and (2) to support vitalization of SMEs as an integral part of economic development in the country as a whole, focusing particularly on advantages of SMEs as stated in 4) and 5) above.

SME promotion policies and programs in Malaysia seemingly try to address the two standpoints at the same time. This is because of the fact that there are distinctly two types of SMEs in Malaysia. In particular, even among Bumiputra enterprises, some are aggressive to expand their business and require support for future business development, while others lack even basic knowledge and skills relating to business operation. It is therefore imperative to provide SME support according to the needs of the SMEs in question.

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 need for enhancing advisory service of DFIs is based on recognition that:

1. role to be played by SMEs in the Malaysian economy is important,
2. development and promotion of SMEs has not achieved to sufficient levels despite much efforts in the past,
3. DFIs cannot accomplish their mandated policy objective of promoting SMEs by means of financial support alone, and development and enhancement of non-financial support should be accompanied with the financial support.

The idea of upgrading or strengthening of advisory service, therefore, 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.

The following table shows the strategic sub-sector or basic policy direction of promotion activities of each DFI. All the DFIs direct their targets for both types of SME promotion stated in the above, in their missions.

DFIs	Strategic economic sector/ policy objective
BPIMB	<ul style="list-style-type: none"> - Promotion of the participation of the Bumiputra community in business and industry - Provision of financing for infrastructure projects, in particular Government-identified projects
BITMB	<p>To spearhead the industrialization process by:</p> <ul style="list-style-type: none"> • encouraging the growth of capital intensive and high technology industries • developing the supportive industries which provide the linkages to major industries • promoting the creation of new entrepreneurs and upgrading existing entrepreneurs • encouraging Bumiputra entrepreneurship in SMIs • promoting pioneer industries
BPM	To promote sound agricultural development in Malaysia or any part thereof
EXIM Bank	<ul style="list-style-type: none"> - To facilitate the export of goods and services from Malaysia by means of export credit, finance for capital investment and business information and advisory services - To enable Malaysian exporters to compete in overseas markets on an equal footing with their competitors from other countries - To facilitate the diversification and augmentation of the export basket of Malaysia with emphasis on the export of capital goods - To promote Malaysia's international trade, particularly trade with the emerging market - To provide a vehicle for the implementation of the national policy of enhancement of international trade - To support Malaysian companies to participate in reverse investment projects particularly in non-traditional markets

MECIB	<ul style="list-style-type: none"> - To enhance the competitiveness of Malaysian exports in the global market - Stimulate investments overseas - Help Malaysian exporters to penetrate into non-traditional markets - Facilitate Malaysian exporters to trade on credit terms - Improve access to commercial banks for export and project financing
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The advisory service of DFIs should be designed to cover both types of promotion areas as their target. However, regarding which areas the emphasis of SME support should be placed, it will depend on extent and contents of expectation of SMEs in the target sector for the public support.

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 survey results are summarized under the following two headings, "advisory service needs expected by SMEs" and "advisory service experience of SMEs".

1.2.1 Outline of the SME survey

(1) Method of the survey

In order to analyze the needs of SMEs for advisory service of DFIs, the Study Team conducted the demand surveys of the advisory services for SMEs from November to December 2004. The surveys consist of 1) telephone interview survey, 2) face-to-face interview survey for DFI clients, and 3) mailing questionnaire survey for DFI clients. In total, the Study Team received five hundred thirteen (513) responses.

The detail of the survey method, and profile of the respondents are compiled in Annex 2.

(2) Statistical profiles of SMEs surveyed under the present study

The data provided by the Department of Statistics, which is based on the census surveys of SMEs, are considered as ones most representing the aspects of SMEs in Malaysia.

Statistical profiles of SMEs that responded to the surveys under the present study were compared with those of SMEs provided by the Department of Statistics. The result indicates that size distribution of the respondents receiving DFI loans is larger than the standard size distribution based on the department's data. On the other hand, size distribution of the respondents to the telephone surveys was more or less the same as the standard distribution.

In terms of distribution by industry type, a higher percentage of the respondents to the surveys belongs to the manufacturing sector, as compared to the department's data distribution, while the commerce and service sector showed a much lower percentage. Thus, the results of tabulation and analysis of the survey results on the two sectors should likely exaggerate the state of manufacturing establishments over the real condition.

1.2.2 Needs of SMEs for advisory service

(1) Overview

The survey asked the needs of SMEs for advisory service, according to the following category of supposed difficulty for SMEs to have faced:

Category of difficulty of SMEs supposed to face, used in the questionnaire	Supposed cases under the category indicated in the immediate left column
Difficulty	When a company faces financial or operational difficulty and needs external support to overcome it
Start-up	When an individual starts up his or her own business or diversifies into a new business or product and wants consultation and advice
Basics	When a company lacks knowledge and experience on business management, such as bookkeeping, and needs appropriate support
Business Upgrading	When a company wishes to upgrade, stabilize or expand its own business and seeks advice
Information	When a company wishes to obtain information on its business domain such as market and technology
HRD	When a company needs support for human resource development
Export	When a company needs support for export operation

The next table shows the expectation of SMEs for outside advisory service and DFI's supports categorized in the areas mentioned above. The provision of "**Information**" for both outside support and DFI's support, is the advisory-service area in highest demand. Three hundred eighty (380) companies expect to obtain information on their business domains and also three hundred forty-five companies (345) expect DFIs to provide the information related to their businesses. The second most demanded advisory area is "**Business upgrading**" and two hundred seventy-six (276) companies need outside assistance for improving the business management method or business expansion.

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%

(2) Difference in finding between 100% Bumiputra and Others

The following two tables describe the expectation for both outside support and DFI's support categorized in 100% Bumiputra companies and others ("100% non-Bumiputra", "Bumiputra and non-Bumiputra", "100% foreign owned" and "joint venture with foreign investors"). 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%

(3) Difference in finding among different survey method

The next three tables show the result summaries of each survey method. The ratio of the companies expecting outside support by the interview survey and the questionnaire survey is higher than that of the telephone interview. It means that DFI clients are much more eager to receive outside support or advice related to their businesses.

Table III-1-4 Result Summary by Survey Method

Total (Phone interview)

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	350	198	104	30%	104	100%
Start-up	348	187	112	32%	112	100%
Basics	348	132	104	30%	104	100%
Business upgrading	348	247	161	46%	161	100%
Information	348	n.a.	250	72%	250	100%
HRD	350	n.a.	153	44%	153	100%
Export	350	146	84	24%	84	100%

Total (Visit interview)

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	42	22	19	45%	8	42%
Start-up	42	29	29	69%	8	28%
Basics	42	7	7	17%	2	29%
Business upgrading	42	37	37	88%	16	43%
Information	42	n.a.	36	86%	18	50%
HRD	42	n.a.	23	55%	4	17%
Export	42	25	25	60%	10	40%

Total (Questionnaire survey)

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	118	87	60	51%	58	97%
Start-up	118	92	79	67%	69	87%
Basics	118	69	63	53%	53	84%
Business upgrading	118	95	78	66%	65	83%
Information	118	n.a.	94	80%	77	82%
HRD	118	n.a.	70	59%	59	84%
Export	117	60	49	42%	43	88%

(4) Companies engaged in export business

The next table shows the result summary of the companies that engage in export business. “Information”, “Export”, and “Business upgrading” are the top three advisory areas for outside support.

Table III-1-5 Result Summary (Companies in export business)

Total (Companies in export business)						
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	231	141	95	41%	87	92%
Start-up	231	160	119	52%	103	87%
Basics	231	104	95	41%	87	92%
Business upgrading	231	185	140	61%	121	86%
Information	231	n.a.	189	82%	170	90%
HRD	231	n.a.	133	58%	114	86%
Export	231	-	158	68%	137	87%

(5) Companies in agriculture and related sectors

First and second demanded outside support areas (“Information” and “Business upgrading”) are same as other sector. The third area is “Start-up” in the sectors.

Table III-1-6 Result Summary (Companies in agriculture related sectors)

Total (Agriculture and agricultural related sector)						
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	70	42	29	41%	25	86%
Start-up	70	51	42	60%	34	81%
Basics	70	37	30	43%	27	90%
Business upgrading	70	56	44	63%	37	84%
Information	70	n.a.	53	76%	43	81%
HRD	70	n.a.	40	57%	33	83%
Export	69	39	33	48%	27	82%

* Agricultural related sectors include agriculture, food & beverages and palm oil production.

(6) Details of the demands by detailed issue category

1) Advice on improving the current business difficulty

In total, three hundred seven companies (307) answered that they face financial or operational difficulty in their businesses, as shown in Table III-1-1. The most stated issue of their difficulty was “lack of financing or facing problem to apply financing”, and “lack of price competitiveness” follows.

To solve their difficulties, one hundred twenty-six (126) companies (25% of the total responding companies) wish to receive “guidance on financial related matters”, and one hundred two companies (102) expect outside support of “how to maintain or increase customers”.

Table III-1-7 Advice on Improving Current Business Difficulty (Total)

Total				
Issue detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Analysis of the cause of current poor business performance	510	75	77	15%
Guidance on financial-related matters	510	172	126	25%
How to maintain or increase customers	510	94	102	20%
Technical improvement or product quality improvement	510	71	89	17%
How to improve price competitiveness	510	158	96	19%
Others	510	66	13	3%

2) Advice on how to develop a new business

As stated in Table III-1-1, three hundred eight (308) companies have some plan to launch a new business or new products. More than 40% of the companies need outside assistance or advice in materializing the new business or new products.

The following table shows the detailed areas of needed advisory services in materializing a new business or new product. “Information on source of financing” and “Marketing information” are the most highest demanded areas in this category and “technical consultation or technology development” follows. The larger portion of 100% Bumiputra companies shows stronger expectation to receive some supports in

this category. In addition, the companies, especially Bumiputra companies, which engage in exports show the higher expectation to receive some assistance in this category. 48% of the Bumiputra companies that engage in export business answered that they need “marketing information” and “technical consultation or technology development”. On the other hand, 49% of the companies in the agricultural related business pointed out that “information on source of financing” is the most needed support area in this category.

Table III-1-8 Advice on How to Develop New Business (Total)

Total				
Issue detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Information on source of financing	508	308	152	30%
Market information	508	308	150	30%
Technical consultation or technology development	508	308	133	26%
Feasibility study	508	308	93	18%
Others	508	308	7	1%

3) Assistance for business management

One hundred seventy-four (174) companies (34% of the total responding companies) answered that they need advice on business operation or management as shown in the Table III-1-1.

In this category, “fund raising / application for loan” and “guidance on how to make business plan” are the most needed advisory service areas. 25% of the responding companies replied that they need “fund raising / application for loan” and “guidance on how to make business plan”, while 24% of them answered that they expect “guidance on how to make business plan”.

Table III-1-9 Assistance for Business Management (Total)

Total

Issue detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Guidance on basics of business (how to keep accounts, etc.)	508	208	59	12%
Guidance on how to make business plan	508	208	122	24%
Fund raising/application for loan	508	208	128	25%
Guidance on tax affairs	508	208	89	18%
Others	508	208	4	1%

4) Assistance for improved business management and/ or business expansion

As shown in the Table III-1-1, three hundred seventy-nine (379) companies answered that they want to improve their business management methods and expand their businesses. Out of the 379 companies, two hundred seventy-six (276) companies answered that they need outside assistance or advice in improving their business management methods or business expansion. As stated in the Table III-1-2 & 3, 71% of the 100% Bumiputra companies expect outside support for the business upgrading, while 45% of the responding companies in the other ownership wish outside assistance. More 100% Bumiputra companies wish to receive some outside assistance for their business upgrading.

The following table describes the necessary detailed advisory issues in this category. The higher demanded outside support issues were a) improvement in marketing strategy, b) strategic planning in business management, c) customer development and business matching, d) technical and product quality improvement, etc.

**Table III-1-10 Assistance for Improved Business Management
and / or Business Expansion (Total)**

Total

Issue detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Diagnosis of the current business management	508	379	156	31%
Strategic planning in business management	508	379	192	38%
Business management innovation/ introduction of new management method	508	379	162	32%
Improvement in marketing strategy	508	379	202	40%
Customer development/ business matching	508	379	178	35%
Technical and product quality improvement	508	379	175	34%
Productivity improvement or increasing price competitiveness	508	379	179	35%
Guidance for production management (e.g. product quality management, 5S)	508	379	127	25%
Improvement of shop management (e.g. display, layout etc) and customer service	508	379	111	22%
Product development	508	379	104	20%
Others	508	379	4	1%

The highest portion of the companies in agricultural related sectors shows the need of “technical and product quality improvement”.

5) Provision of business information

Two hundred thirty-four (234) companies answered that they need the information related to their business. As shown in the following table, “information on possible business opportunity” and “market trends of the products of the same industry or trade” are the most popular issues as the expected information and around 60% of the total responding companies need the information related to the issues.

Table III-1-11 Provision of Business Information

Total				
Issue detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Business index of the same industry/trade for benchmarking	508	n.a.	245	48%
Market trends of the products of the same industry/trade	508	n.a.	306	60%
Information on available public support technical programs	508	n.a.	210	41%
Information on available financial programs	508	n.a.	265	52%
Information on possible business opportunity	508	n.a.	311	61%
Information on new/advanced technology	508	n.a.	255	50%
Others	508	n.a.	5	1%

The companies that engage in export business show the higher demands for the information related in their businesses. Almost 70% of these companies answered that they need some information for “possible business opportunity” and “market trends of the products of the same industry or trade”.

6) Support for human resource development

As shown in the Table III-1-1, two hundred forty-six (246) companies (48% of the total responding companies) answered that they need some support for human resource development (HRD).

37% of the companies answered that they need some outside assistance for “training of newly recruited technical staff” and “nurturing of successor of the owner”.

Table III-1-12 Support for Human Resource Development

Total

Issue detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Support for nurturing of senior management personnel	510	n.a.	145	28%
Support for nurturing of middle management / supervisors	510	n.a.	110	22%
Support for training of newly recruited technical staff	510	n.a.	187	37%
Support for nurturing of successor of the owner	510	n.a.	189	37%

7) Advice on starting / increasing export business

As shown in the Table III-1-1, two hundred thirty-one (231) companies engage in export business in the surveys. 45% of all respondents are currently engaged in export businesses. Out of them, one hundred fifty-eight (158) companies (31%) answered that they need outside assistance related to export businesses. One hundred thirty-seven (137) companies need “overseas market development support” and one hundred twenty-one (121) companies demand “market intelligence support”.

Table III-1-13 Advice on Starting / Increasing Export Business

Total

Issue detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Market intelligence support	509	231	121	24%
Export procedure/ export finance procedure support	509	231	100	20%
Overseas market development support	509	231	137	27%
Others	509	231	9	2%

1.2.3 Experience of the advisory services

(1) Overview

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. Around 20% of the companies that agree with the following issue categories except for provision of business information have received some relevant outside support before.

Table III-1-14 Past Experience of the Advisory Services (Total)

Issue category	Total			100% Bumiputra			Others		
	No. of responding enterprises (a)	No. of enterprises that agree with the issue category (b)	(b) / (a)	No. of responding enterprises (a)	No. of enterprises that agree with the issue category (b)	(b) / (a)	No. of responding enterprises (a)	No. of enterprises that agree with the issue category (b)	(b) / (a)
Difficulty	307	56	18%	122	27	22%	184	29	16%
Start-up	308	61	20%	128	24	19%	179	37	21%
Basics	208	46	22%	88	20	23%	119	26	22%
Business upgrading	379	66	17%	157	27	17%	221	39	18%
Information (*)	380	114	30%	145	40	28%	234	74	32%
HRD (*)	246	47	19%	107	17	16%	138	30	22%
Export	231	48	21%	69	12	17%	162	36	22%

Note: (a) column of the issue category with (*) shows the number of the companies expecting outside support.

The next table shows the level of perceived satisfaction with advisory services in the past, 35% of the companies (83 companies) that have received any kind of advisory services 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, thirty-six (36) companies (15%) answered that they are not satisfied with their past advisory services. Moreover, seventy-six (76) companies (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.

Table III-1-15 Satisfactory Level for the Past Experience of Advisory Services

	Total			100% Bumiputra			Others		
	No. of responding enterprises (a)	No. of enterprises that agree with the issue category (b)	(b) / (a)	No. of responding enterprises (a)	No. of enterprises that agree with the issue category (b)	(b) / (a)	No. of responding enterprises (a)	No. of enterprises that agree with the issue category (b)	(b) / (a)
Satisfactory	234	83	35%	87	26	30%	147	57	39%
Almost satisfactory		36	15%		11	13%		25	17%
Not satisfactory		36	15%		20	23%		16	11%
No comments		76	32%		30	34%		46	31%

(2) Advice on improving the current business difficulty

Out of fifty-six (56) companies that have received outside assistance to solve the difficulties before, thirty-nine (39) companies answered that they have received “guidance on financial related matters”.

(3) Advice on how to develop a new business

Obtaining “market information” is the most popular assistance in materializing the new business or new products. Twenty-eight (28) companies have received the assistance of “market information” to develop their new businesses, and the support for “technical consultation or technology development” follows in this issue category.

(4) Assistance for business operation or management

“Fund-raising/application for loan” is the most popular outside assistance for business operation or management. Twenty-four (24) companies have received some kinds of outside assistance for the fund-raising/application for loan. “The guidance on basics of business” such as how to keep accounts is the next popular area in this category.

(5) Assistance for improved business management and/ or business expansion

Sixty-six (66) companies answered that they have received outside assistance to improve business management and/or business expansion. Twenty-six (26) companies, 39% of the 66 companies, have received “technical and product quality improvement”, that is the most popular advisory service in this category. “Strategic planning in business management” and “diagnosis of the current business management” are the second tier popular outside assistance in improving management or business expansion (36% and 33% respectively).

(6) Provision of business information

One hundred fourteen (114) companies have received business information from outside sources before. More than 50% of the companies have received business information for “market trends of the products in the same industry” (64 companies), and “information on possible business opportunity” (57 companies). The “information on available financial programs” is the third popular item and fifty-three (53) companies (46%) have received the information before.

(7) Support for human resource development

Out of forty-seven (47) companies that have received outside support for HRD, thirty-four (34) companies have received “support for nurturing of successor of the owner” and “support for training of newly recruited technical staff”.

(8) Advice on starting / increasing export business

Out of forty-eight (48) companies that have received outside assistance on export business, twenty-six (26) companies have received “overseas market development support” and twenty (20) companies have obtained “export procedure or export finance procedure support”.

2 Recommended Direction of Advisory Service of DFIs

2.1 Advisory Service Provided by Government Financial Institutions in Japan

Advisory services provided by government financial institutions in Japan are described in II-5. Major characteristics of the advisory services 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 non-performing loans. 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 non-performing loans.

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). Although MECIB makes promotional efforts

in collaboration with MATRADE, it has still to produce significant results.

- As for BPM, its position in the agricultural sector is difficult to define, since the current state of total of loans to the agricultural sector is not available. Inasmuch as the food processing and distribution sectors - its strategic targets – is concerned, BPM appears to remain in a minor position.
- 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

As already stated, currently some DFIs are offering advisory and consultancy services to assist loan customers of managerial difficulty. Other DFIs have provided assistance programs for SMEs to start businesses, or improve their management. These services and programs may also be useful for assisting development of SMEs. However, these services are not sufficient to nurture the wide base of competitive and sustainable SMEs. These advices have been provided mainly to those SMEs who asked for the assistance.

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 (for further detail, see III-1):

- 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.

The key requirements for such proactive service are:

1. to understand the conditions and development needs of SMEs
2. to accumulate data and information, and develop tools for effective advice
3. to develop human resources for the services

In line with the above direction of the advisory service, the advisory service of the following concepts is recommended:

1. The advisory service is the proactive service to nurture the competitive and sustainable SMEs.
2. The service will be basically offered as a part of, or a related service to the proper service of financial institutions.
3. The service will help DFIs to maintain good relationship with customers, while the customers will be benefited from the services for their improvement of management.
4. The activity for advisory service is composed of three component activities. One is the activity to enable DFIs understand the conditions of customers. Second is the activity to prepare for providing effective services to the customers. Third is the activity to extend the service to customers to meet the request of the customers, on the basis of the precise understanding of the customers. Through the services, therefore, DFIs can obtain reliable management information of customers, and the customers will be benefited from the service not only by obtaining useful information, but also by easing the loan appraisal process with supplying their management information to DFIs.
5. Key advisory service will be provided by division/unit(s), which is in a position to maintain constant communication with customers, instead of a special unit exclusively in charge of the advisory service.
6. The content of advisory service is not necessarily highly professional particularly at the initial stage of the service. Rather, the service can be provided by ordinary staffs of DFIs after receiving appropriate trainings for the advisory service.
7. The target of advisory service is customers and to-be customers, who have potential to improve their management if the advisory service is provided, and not limited to customers of NPL or fear of repayment problem.

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. DFIs and customers are related each other at least until the loan is completely repaid. Further, their relationship is individual basis on their loan contract, whereas the relationship

between other government agencies and institutions and SMEs is in general since the relationship is that of an assistance provider and beneficiaries as a whole. In addition, DFIs have capability to understand customers' condition at professional level as a financing institution. Therefore:

- 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; the service which can be provided by the individual DFIs, will be limited. Joint activities among DFIs, and collaboration or networking with other agencies and institutions related to SME/I development should be considered according to the necessity.
- 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. The services should be provided more in a coordinated manner. Planning and coordination function is a must in this connection.
- 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. Thus, the advisory service proposed here is necessary to be planned to be workable, even without accurate financial data from the customers. Provision of information to customers will be one of useful way of advisory service in this context, and the research and information support function will be essential to make the service effective particularly in the future.

- 4) With some exceptions for Bumiputra SMEs and SMEs located outside major city areas, the SMEs have not relied much on the government institutions. Instead, they have a tendency to expect the information and support from their friends or persons in the same business. This is partly because of the fact that the assistance of the Government agencies and institutions have not been available adequately to SMEs. The confidence building with customers will be the first step of advisory service.
- (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

As discussed in II-2, 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. Some information, such as latest technology and domestic R&D trends, can be provided in collaboration with technical support organizations such as SIRIM and universities. R&D support and technical guidance will be useful if the service is provided in the context of actual business relationship with potential customers. Other cases of R&D support and technical guidance service may be obtained from competent government offices (such as the Ministry of Agriculture) and public technical support institutes such as SIRIM.

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.

Compared to these category of services, management support service is the most suitable for DFIs in consideration of their capacity and characteristics as financial

institutions.

On the basis of the above considerations and service areas that should be left to other organizations, as discussed in III-2, 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

This constitutes a basic element of advisory service that can be optimally provided by DFIs. The building of the customer consultation/relationship will allow DFIs to understand the issues facing SMEs and their expectations for support relating to business development. It will also create an opportunity to maintain expectation of the DFI's customers for advisory service outside loan service and general customer consultation, thus forming the foundation to provide continuous customer support. Thus, the building of the customer consultation/relationship is considered to be the most important activity in the DFI's advisory service.

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. In particular, DFIs and their customers share a common goal to maintain the customer's sound operation and management. 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.

These advices will be provided individually to customers. The management diagnosis may be further categorized into several steps of diagnosis and advice according to the level of advice to be provided, namely;

1. Basic problem identification and advice for solution
2. Management analysis or benchmarking
3. SWOT analysis
4. Advanced advice for improvement on the basis of customer's consultation request
5. Referral service to specialized consultants/professionals

Basically, these advice will be given to the customers through advisory staff, although analysis and preparation of advice might be prepared by other staffs of more expertise.

3) Workshops

Advice may be provided on a group basis when the need for specific advice is found to exist among many customers. It includes workshops on basics of management.

(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. It will contribute to promotion of strategic sector development. The definition or setting of strategic sector may vary depending on the target development strategy set for specific SME groups, which may be either industrial sub-sectors like IT strategy, and biotechnology, etc., or strategic local sector, such as tourism development, regional industry development, and shopping center development, etc.

The advice specific to strategic sector may be outsourced or organized with networking, not only to mobilize the useful resources, but also to avoid inefficient staffing. In any cases, DFI should take the responsibility in planning and coordinating the activity.

(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.

Business matching is also available from other agencies and institutions. They have their own customer databases. The business matching by DFIs can be characterized by

their databases, which are kept up to date. Most of databases are updated only when it is intended to be updated, but mostly the updating is not carried out so often. On the other hand, the database of DFIs can be updated time to time since the advisory staffs update the data whenever they contact the customer.

The business matching service may include the activities to provide customers information in DFI's publication to find out the appropriate partners. Provision of opportunity for the customers to exchange business information among the customers, is also a useful tool to promote business matching.

(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.

The information on market and industry trend, and new technology may be available from other agencies and institutions. These category of information is useful for SMEs, but it can be collected and provided in collaboration with other agencies and institutions, such as SMIDEC, MIDA, and others. The information service peculiar to DFIs is that generated through periodical survey by building survey panel (or customer database) for use in periodical surveys.

The customer database of DFIs, once it is developed, may be a good tool to gather "Good Practice", which will provided useful example of success stories.

(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, so that these customers are encouraged to grow in a strategic direction. There could be various types of activities under this category, such as :

- Seminars inviting the target customers
- Business exchange program
- Target customer mailing list service
- Provision of loan schemes for those who received in-advance management guidance by DFIs, etc.

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) Concept and basic direction of the proposed advisory service

BPIMB is mandated to accomplish two policy objectives, namely the promotion of participation of Bumiputra community in business and industry, and the provision of financing for infrastructure projects, in particular government-identified projects. For the purpose of the present study, the concept and the basic direction of its advisory service are established to accomplish the former.

As revealed in the SME survey, Bumiputra enterprises generally have high levels expectation for public support than non-Bumiputra ones. Specific areas of interest, although varying among individual enterprises and their positioning, can be summarized as follows.

- 1) Generally, they show the highest expectation for the provision of latest market and technology information as well as advice on the improvement of management, which is conducive to the further development of their business.
- 2) Secondly, information service for entrepreneurs and enterprises that want to start business or launch a new product or service is strongly expected, including market trend information, technical support, and information on loan programs. Thus, their expectation is really high on public support focusing on business promotion and development.
- 3) On the other hand, a relatively small number of enterprises want support for solving a problem they are facing¹.

From the survey results, it is obvious that SMEs strongly demand the provision of information and the advice on the improvement of management. BPIMB's advisory service should aim to provide support that can guide customers towards business improvement and expansion.

¹ The results of the interview survey suggest that many enterprises that face a problem are not fully aware of its presence.

Agencies and institutions other than DFIs also provide services intending the above. DFIs, however, can provide the support based on the individual needs of their customers. This distinguishes their advisory service from that provided by other SME promotion organizations, and the DFIs must know their customers well to provide useful and timely advice for their customers.

(2) Scope and target

Compared to other DFIs, BPIMB has a healthier financial base than others, while the percentage of NPL is similarly high. It has over 3,800 customers in terms of outstanding loans and boasts a relatively high percentages of SME loans. Thus it is in a position to enhance non-financial support for SMEs.

Furthermore, BPIMB makes efforts to keep close customer relations and is capable of monitoring and evaluating the current status of customers systematically, using its branches as the core element. At the same time, BPIMB plans and implements programs for targeted customer promotion, such as entrepreneur support through business incubators and initiatives to develop medium-sized enterprises, such as Groom Big Program.

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. If the relationship with customers is strengthened through advisory service and in turn improves quality of advisory service, the following benefits can be realized: (1) As BPIMB understands the operating conditions of customers, it can identify their financial needs quickly and timely to expand loan customers; (2) it will be able to collect detailed management information that allows it to conduct adequate examination; and then (3) it will be able to identify a sign of the customer's management problem and thereby to prevent non-performing loans effectively.

Based on the above understanding, 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.

(3) 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. Meanwhile, loan service is currently handled by the Development Banking Sector and the Supervision Sector. The former is responsible for promotion, acceptance and examination of new loans and applications, whereas the latter is in charge of monitoring performance of loans executed.

Under the direction of the two sectors, fourteen branch offices throughout the country (including the Kuala Lumpur branch office within the head office) handle loan cases and deal with customers. Branch office managers and marketing staffs are responsible for promotion of loans and acceptance of applications under supervision of the Operating Department (two departments established for two service areas), the Development Banking Sector. On the other hand, post-loan monitoring is carried out by credit supervision staffs under the Supervision Sector.

For loan application, the following documents are required: (1) a completed application form; (2) financial statements in the past three years; (3) bank transaction records in the past six months; (4) a business plan; and (5) a supplier's quotation on machinery or equipment to be purchased. The appraisal process reviews and evaluates capabilities of executive officers, technical capabilities, sales force, financial base, SWOT (strength, weakness, opportunity and threat) analysis, revenue/expenditure outlooks in the next three years. Loan applications valued at RM3 million or over each are evaluated on the basis of grades consisting of 40% quantitative elements and 60% qualitative elements. However, most SMEs are given of zero point for the former because they cannot produce financial data. The qualitative elements weigh heavier for smaller loans.

As for loan administration, each branch office conducts monitoring on healthy loans at least twice per year by means of field investigation to identify the current state of each customer, including problems, and compile a report. The monitoring is considered as an opportunity to identify new financial needs. For overdue loans, the monitoring is conducted four times per year, followed by a report.

By taking into account the present work process, as described above, the following actions are recommended.

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. To maximize effectiveness, a more systematic approach to customer contact will be taken by establishing a uniform method for customer communication, instead of reliance on individual efforts.
- 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. The department consists of three sections, each of which is in charge of different types of support and a new section performing the planning and coordinating function is required in addition. 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.

In particular, the new section will analyze the results of customer contact reported by branch offices and prepare action plans as required, including the provision of information for the customer list compiled by the Corporate Advisory Section, and selection of topics for training courses conducted by the Training Section, and their implementation schedule.

Also, the new section will be responsible for formulation of training plans for advisory staff and organization of an outside consultant panel. It will instruct the information service and support organization on type of information to be stored and the method for

dissemination. Finally, it will conduct periodical surveys to measure effectiveness of advisory service activities.

Research and information support

At present, there is no organization to collect and provide information required for advisory service. 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

(4) Proposed scope of services, and definition of responsibility of related divisions/units

1) Proposed scope of advisory service

(1) General managerial support	
1) Customer counseling/ relationship building	
2) Management diagnosis service	<i>In the 2nd stage of service;</i> 1. Basic problem identification and advice for solution 2. Management analysis or benchmarking
3) Workshops	- Workshops on basics of management
(2) Advice specific to strategic sectors	
(3) Business matching	
(4) Information and research	- Regular publication <i>In the 2nd stage of service;</i> - Periodical survey using a customer panel
(5) Target customer promotion	- Seminars inviting the target customers - Business exchange program - Target customer mailing list service

2) Definition of responsibility of related divisions/units

(1) Advisory Department	<p><u>Planning and monitoring of advisory service</u></p> <ol style="list-style-type: none"> 1. Prepare an overall plan to undertake advisory service and supporting activities, including annual schedule for implementation 2. Define particular emphasis of advisory service in the year 3. Prepare HRD plan 4. Receive all the reports of advisory services from Supervision Units of 14 Branch Offices, including contact records with customers, and make analysis of the conditions and assistance needs of the customers 5. Administration of customer database <p><u>Preparation for required resources, tools and materials</u></p> <ol style="list-style-type: none"> 1. Allocation of budgets for each activity 2. Prepare key curriculum for resource training 3. Develop guidelines for each service, and tool for managerial analysis 4. Administration of list of target customers <p><u>Implementation of the following services</u></p> <ol style="list-style-type: none"> 1. Plan and implementation of basic management workshops in cooperation with branch offices 2. Plan and prepare regular and non-regular publications in cooperation with the new section in charge of research and information support. 3. Assist Branch Offices to prepare and implement business exchange programs and the Target Customer Promotion programs
(2) New section under Advisory Department in charge of research and information support	<p>In the second stage of advisory service:</p> <p><u>Periodical survey using a customer panel</u></p> <ol style="list-style-type: none"> 1. Plan and implement periodical survey in line with the basic policy of Advisory Department 2. Building up of customer panel for periodical survey 3. Summarize the survey results into a report for distribution by Branch Offices <p><u>Information gathering</u></p> <ol style="list-style-type: none"> 1. Plan information gathering in line with the basic policy of Advisory Department 2. Implementation of gathering data and information, and compile them into a database for use by the relevant units <p><u>Regular publications</u></p> <ul style="list-style-type: none"> - Preparation of regular publication for distribution by Branch Offices
(3) Branch Offices	<p><u>Implementation of the following advisory service</u></p> <ol style="list-style-type: none"> 1. Customer Counseling/ Relationship Building with activity reports to Advisory Department, and managerial advice using “Management Diagnosis Reports” (<i>in the 2nd stage of service</i>) 2. Update customer database and mailing lists of target customers 3. Preparation of “Management Diagnosis Report” using analysis tools which are developed by Advisory Department (<i>In the 2nd stage of service</i>) 4. Workshops on basic management with assistance of credit officers of the Branch Office 5. Business matching with support from Advisory Department 6. Distribution of regular publication to customers as a part of Customer Counseling/ Relationship Building 7. Other target customer promotion programs with support from Advisory Department

3.2.2 BITMB

(1) Concept and basic direction of the proposed advisory service

As discussed earlier, 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.

Also, this type of support has its own limitation, as non-financial support alone cannot accomplish the goal. Rather, financial support such as the adjustment of loan terms and conditions, as well as the extension of the repayment period, is called for in many cases. Furthermore, advisory service cannot meet the need for risk management relating to borrowers with non performing loans, who have to be dealt with in the context of loan recovery, which is purely a financial matter.

BITMB is currently riddled with a number of non-performing loans, while it faces difficulty in finding borrowers. Thus, advisory service targeting non-performing loans, both actual and potential, is, to some degree, effective in serving its immediate objective. However, the scope of service is too small to justify its continuation in the present form; based on the present number of borrowers (approx. 400 enterprises) and the percentage share of borrowers with low credit rating (10%)², the current advisory service can only cover as much as 40 enterprises.

As seen in the results of the SME survey, 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 non-performing loans. 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, it is proposed to create advisory service under the following concepts.

² Based on an estimate by BITMB.

- 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.

As advisory service improve the customer relationship, which in turn helps enhance advisory service, a favorable cycle leads to the improvement and expansion of the customer's business, while bringing the following benefits to BITMB.

- 1) As BITMB understands the operating conditions of customers, it can identify their financial needs quickly and timely to expand loan customers.
- 2) BITMB will be able to collect detailed management information that allows it to conduct adequate examination.
- 3) BITMB will be able to identify a sign of the customer's management problem and thereby to prevent non-performing loans effectively.

(2) Scope and target

Advisory service provided by the DFIs needs to address more specific needs than that by other SME/I support organizations.

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.

It should be noted that BITMB established a subsidiary specialized in technical consulting service six years ago, which was then dissolved two years later due to an unsatisfactory performance. The company provided fee-based consulting service for manufacturing enterprises in supporting industries, such as plastics molding, casting, and metalworking. A specific reason for the unsuccessful operation is not known, but in anyway, technical support service is very difficult area of advisory service, without having consultants who had sufficient professional (technical) skills and experience to in the specific fields.

(3) Organizational setup

Service delivery

The core force of advisory service should be established within units that maintain relationship with customers. The existing units should assume the advisory role as its principal function, rather than the establishment of a new organization that is responsible for advisory service.

At BITMB, the following organizations are engaged in maintenance of customer relationships in the loan application and collection process.

- (1) Loan applications are accepted by the Customer Services Section of the Business Development Division or one of six Representative Offices that are located throughout the country.
- (2) The application is reviewed by the Credit Division.
- (3) Based on the examination report, the Group Risk Management Division determines credit rating on the applicant by classifying him to a specific rank.
- (4) The application is reviewed and approved or rejected by the Group Managing Director (GMD) or the BI Credit Committee (BICC).

Examination on loan applications by SMEs is conducted by the Credit II Department within the Credit Division.

The Loan Administration Department is responsible for executing loans and managing collection. On the other hand, the Customer Services Section and the Representative Offices are responsible for monitoring loans and their status.

Under the current organizational arrangement, which is described in the above, Relationship Managers are appointed to accept loan applications, transfer them to the Credit Division, and perform monitoring on executed loans. At present, 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, are appointed with responsibility for day-to-day delivery of advisory service. Their job tables vary from Deputy Manager to Executive Officer. Each Relationship Manager monitors borrowers according to their loan status by visiting those with good credit standing once or twice per year, those with low credit standing four times per year, and NPL borrowers more frequently. As BITMB plans to open

representative offices in Kota Kinabalu and Kuantan in the near future, a total of 18 Relationship Managers will be appointed to ensure closer customer relationships.

Technical problems relating to loan examination are handled by the Technical Service Department under the Group Support Service Division, which has 10 engineers.

Judging from the present organization, 14 Relationship Managers (to become 18 in the future) should be responsible for day-to-day delivery of advisory service. As BITMB serves approximately 400 customers, each Relationship Manager will take care of slightly below 30 enterprises at present, indicating that the proposed organization will be able to provide sufficient service.

Planning, coordination and administration

While advisory service will be provided by the existing organization, BITMB needs to establish an internal organization responsible for planning advisory service, support preparation and implementation of the service to achieve the desired goal of SME promotion.

Alternatively, 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 provided by BITMB. However, as discussed later, the number of staff is not enough to undertake the assigned function and must be increased.

Research and information support

To ensure smooth implementation of advisory service, BITMB needs an organization to collect, store and provide service-related information for the organization that actually delivers the service. At present, the Group Economic Research Section (11 staff members) collects, analyzes and supplies economic data and business information to the BITMB Group, especially the management. As the section has provided information in view of bank management, it is important to review the activities in view of providing information useful for management of SMEs if the section is to assume such role.

As the Advisory and Consultancy Service Division is in a position to collect and provide information that serves the interest of SMEs, it is recommended to assign the work of information gathering to the division for the time being, by obtaining support from the Group Economic Research Section. Once the information gathering and support system is established, the Group Economic Research Section may take over the function by adding to its workforce, or a research organization (think tank) can be established jointly by the DFIs.

(4) Requirements for the development of the service delivery system

To enable advisory service as outlined above, BITMB needs to develop an effective service delivery system by taking the following measures.

- 1) Training of advisory staff who has the ability to evaluate the management status of customers through daily contact and communication; and training of leaders who can develop training plans and conduct actual training. Training may be entrusted to outside organizations.
- 2) Establishment of a formal system to document and store records on communication with customers

(5) Proposed scope of services, and definition of responsibility of related divisions/units

1) Proposed scope of advisory service

(1) General managerial support	
1) Customer counseling/ relationship building	
2) Management diagnosis service	<i>In the 2nd stage of service;</i> 1. Basic problem identification and advice for solution 2. Referral service to specialized consultants/ professionals
3) Workshops	- Workshops on basics of management
(2) Advice specific to strategic sectors	- Referral service to specialized consultants/ professionals <i>In the 2nd stage of service;</i> - Advisory service program targeting strategic sectors mandated to BITMB
(3) Business matching	
(4) Information and research	
(5) Target customer promotion	- Seminars inviting the target customers - Business exchange program - Target customer mailing list service

2) Definition of responsibility of related divisions/units

(1) Advisory and Consultancy Service Division	<p><u>Planning and monitoring of advisory service</u></p> <ol style="list-style-type: none"> 1. Prepare an overall plan to undertake advisory service and supporting activities, including annual schedule for implementation 2. Define particular emphasis of advisory service in the year 3. Prepare HRD plan 4. Receive all the reports of advisory services from Relationship Managers, including contact records with customers, and make analysis of the conditions and assistance needs of the customers 5. Administration of customer database <p><u>Preparation for required resources, tools and materials</u></p> <ol style="list-style-type: none"> 1. Allocation of budgets for each activity 2. Prepare key curriculum for resource training 3. Develop guidelines for each service, and tool for managerial analysis 4. Administration of list of target customers 5. Prepare a panel of consultants/professionals/advisors for referral service <p><u>Implementation of the following services</u></p> <ol style="list-style-type: none"> 1. Plan regular publications in cooperation with Group Economic Research 2. Assist Relationship Managers to prepare and implement business exchange programs and the Target Customer Promotion programs 3. Plan, prepare and implement “Advisory service specific to strategic sectors” in cooperation with Relationship Managers
(2) Advisory and Consultancy Service Division with assistance from Group Economic Research	<p><i>In the 2nd stage of service:</i></p> <p><u>Periodical survey on strategic sector</u></p> <ol style="list-style-type: none"> 1. Plan and implement periodical survey on the strategic sector 2. Summarize the survey results into a report for distribution by “Relationship Managers” <p><u>Information gathering</u></p> <ul style="list-style-type: none"> - Implementation of gathering data and information, and compile them into a database for use by the relevant units <p><u>Regular publications</u></p> <ul style="list-style-type: none"> - Preparation of regular publications for distribution by “Relationship Managers”
(3) Relationship Managers	<p><u>Implementation of the following advisory service</u></p> <ol style="list-style-type: none"> 1. Customer Counseling/ Relationship Building with activity reports to “Advisory and Consultancy Service Division”, and managerial advice using “Management Diagnosis Reports” 2. Update customer database and mailing lists of target customers 3. Preparation of “Management Diagnosis Report” using analysis tools which are developed by “Advisory and Consultancy Service Division” 4. “Advisory service specific to strategic sectors” with support from “Advisory and Consultancy Service Division” 5. Business matching with support from “Advisory and Consultancy Service Division” 6. Distribution of regular publication to customers as a part of Customer Counseling/ Relationship Building 7. Other target customer promotion programs with support from “Advisory and Consultancy Service Division”

3.2.3 EXIM Bank and MECIB

EXIM Bank and MECIB are consolidated their operations or merge in October 2005. A future form and scope of advisory service are recommended on the basis of service requirements that are expected after consolidation or merger.

(1) Concept and basic direction of the proposed advisory service

As clearly seen from the results of the SME survey, 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. As a result, they do not have resources or capabilities to extend advisory service to the improvement of competitiveness of export industries. 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.

(2) Scope and target

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. For the latter, both DFIs have staff who is capable of providing technical advice. However, in light of the fact that Bumiputra SMEs will likely be their major customers, EXIM Bank/MECIB should provide advisory service that goes beyond mere technical assistance, e.g., export procedures and trade practice, to management skills that contribute to export competitiveness. To ensure the ability to provide higher levels of

advisory service, advisory staff should have knowledge on management knowledge and techniques relating to export business, while cooperation of outside organizations including other DFIs, which have expertise in such area should be secured.

There are strong demand for information service from both Bumiputra and other SMEs. As foreign market information demanded by exporters is already supplied by MATRADE that has a strong network, however, 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.

(3) Organizational setup

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

To provide advisory service that meets the needs effectively, however, EXIM Bank/MECIB do not have a planning and coordinating function to determine actual service content and set the strategic direction of service over time, and a information gathering function to support advisory staff. For the latter, 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 in order to create and maintain an efficient and effective service delivery system.

(4) Requirements for the development of the service delivery system

Within the institutional framework proposed above, it is imperative to construct a database to record past consultation services, including questions and answers, and to store FAQs and build a knowledge base that allows advisory staff to update information and share experience with others. The database can be used for training of advisory staff in the future.

(5) Proposed scope of services, and definition of responsibility of related divisions/units

1) Proposed scope of advisory service

(1) General managerial support	
1) Customer counseling/ relationship building	Mainly on information service on export markets and trade partners, and advisory service on export procedures.
2) Management diagnosis service	<u>In the 2nd stage service:</u> 1. Basic problem identification and advice for solution 2. Management analysis or benchmarking 3. SWOT analysis 4. Advanced advice for improvement on the basis of customer's consultation request 5. Referral service to specialized consultants/ professionals
3) Workshops	
(2) Advice specific to strategic sectors	
(3) Business matching	
(4) Information and research	
(5) Target customer promotion	- Seminars inviting the target customers - Business exchange program - Target customer mailing list service

2) Definition of responsibility of related divisions/units

Relationship Managers of EXIM Bank, and Business Development Officers of MECIB	<u>Planning and monitoring of advisory service</u> <ol style="list-style-type: none"> 1. Prepare an overall plan to undertake advisory service and supporting activities, including annual schedule for implementation 2. Define particular emphasis of advisory service in the year 3. Prepare HRD plan 4. Prepare the reports of advisory services, and make analysis of the conditions and assistance needs of the customers 5. Administration of customer database
	<u>Preparation for required resources, tools and materials</u> <ol style="list-style-type: none"> 1. Allocation of budgets for each activity 2. Prepare key curriculum for resource training 3. Develop guidelines for each service 4. Administration of customer database and list of target customers 5. Prepare a panel of consultants/professionals/advisors for referral service
	<u>Implementation of the following advisory service</u> <ol style="list-style-type: none"> 1. Customer Counseling/ Relationship building 2. Update customer database and mailing lists of target customers 3. Business matching 4. Preparation and distribution of regular and non-regular publication to customers as a part of Customer Counseling/ Relationship Building 5. Other target customer promotion programs

3.2.4 BPM

(1) Concept and basic direction of the proposed advisory service

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 enterprises³ 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.

BPM has not provided customer support to address these needs. As seen in BITMB and BPIMB, BPM should provide forward-looking support focusing on advanced information service and improvement and expansion of management with a view to nurturing SMEs in the agriculture and related fields. As BPM experiences a very high rate of NPL in the past, the fostering of financially healthy SMEs is crucial not only from the viewpoint of SME promotion, but for the interest of BPM's operation, i.e., to prevent the occurrence of NPLs. This should lead to the notion of "fostering customers by

³ 100% Bumiputra enterprises and other enterprises including enterprises with Bumiputra ownership of less than 100%.

understanding customers well”. As in the case of BITMB and BPIMB, it is proposed to create advisory service under the following concepts.

- 1) To reinforce the customer relationship and grasp the customer needs for DFI support accurately.
- 2) To provide support service that meets 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 BPM.

(2) Scope and target

1) Target area of service

To foster financially healthy SMEs in the agriculture and related sectors is a formidable challenge that requires a comprehensive, multi-faceted approach ranging from management, finance, to technology and market development.

As this challenge is already taken up by the Ministry of Agriculture and other organizations, BPM can and should play a critical role in the process by leveraging its advantages and resources as a key financial institution.

BPM’s advisory service should focus on the areas that cannot be fully taken care of by the MOA’s extension service and where BPM can show its strength and take advantage of its capabilities. In particular, BPM can contribute greatly to the MOA’s extension service in the following areas⁴.

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

⁴ It does not necessarily mean that BPM is ready to serve these areas. Rather they are highly potential areas for BPM’s future service if it has an adequate service delivery system and resources.

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.

On the other hand, BPM is not capable of providing highly technical service. Also, the following areas are not suitable for BPM's service coverage, at least for the time being, as they can be served more effectively by the MOA.

1. Elements of farm operation, which are subject to soil, weather and other environmental conditions. Yet, BPM can provide advisory service for farm management when stable production or consumption in the marketplace is expected.
2. Family farms or self-employed fishermen, characterized by small operation and/or the mix-up of household and business accounts. If their operation is large enough and management is modernized, however, BPM's advisory service may be useful.

The following section presents the list of fields where the DFIs can provide advisory service and the areas where BPM should be able to show its strength.

2) Target customers

Advisory service, by definition, is divided into two types according to the level of service: (1) general advice for solving a problem facing an entrepreneur or an enterprise and improving its management; and (2) advanced advice for individuals or enterprises having high growth potential by providing useful information or creating an opportunity to participate in a trade show or other event.

In either case, 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.), although there are some cases where modern management and marketing techniques can be useful.

Effectiveness of BPM's advisory service in the agriculture and related fields by area of advice and type of business is rated as follows.

	Agriculture/fisheries		Fish/chicken farm		Food processing
	Individual	Enterprise	Individual	Enterprise	Enterprise
Management support	X	XX	XX	XX	XXX
Advice specific to strategic sectors	X	XX	X	XX	XXX
Business matching	X	XXX	XX	XXX	XXX
Information and research	X	XX	XX	XXX	XXX
Target customer promotion	X	X	X	XX	XXX

XXX: Applicable, XX: Applicable, but difficult to be effective, X: Difficult to be effective.

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.

Note that this conclusion has been drawn from the viewpoint of how BPM (or DFIs as a whole) can improve its ability to provide effective support, rather than how a specific need for public support can be satisfied by the DFIs.

(3) 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.

At present, BPM's customer relations, namely acceptance of loan applications, examination, and monitoring after loan execution, are handled by the following

organization.

Loan applications are accepted at each branch office, while the subsequent procedures vary according to the loan value (above or below RM100,000).

BPM has 12 state offices, 119 branches, 22 sub-branches, and 51 service counters (agents) throughout the country. The state office is located in each state and supervises branches and other offices within the state.

A loan application valued at RM100,000 or below is examined at each branch and is approved or rejected by the branch manager. It should be noted that 55 out of 119 branches are authorized to execute loans, called the loan branch. The loan branch has at least two credit officers. One officer is responsible for appraisal (examination) and the other is in charge of supervision (customers administration including monitoring). The loan branch has also an officer in charge of collection and an officer in charge of micro credit. The officer in charge of appraisal handles around 200 loan applications per year (not including micro credit applications).

For loan applications valued at over RM100,000 and less than RM1 million, appraisal and approval are given at the state office. The state office is also responsible for collection of non-performing loans since 2002 when BPM made organizational reforms.

Finally, loan applications valued at RM1 million or more are appraised at the head office's Credit Department (Loan Appraisal Division). The department has four appraisal officers and four supervision officers, handling a total of around 500 applications per year and monitoring the collection status of executed loans.

Thus, 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) Requirements for the development of the service delivery system

To provide advisory service as outlined above, BPM needs to develop an effective service delivery system by taking the following measures.

- 1) Training of advisory staff who has the ability to evaluate the management status of customers through daily contact and communication; and training of leaders who can develop training plans and conduct actual training. Training may be entrusted to outside organizations, such as other DFIs.
- 2) Establishment of a formal system to document and store records on communication with customers

(5) Proposed scope of services, and definition of responsibility of related divisions/units

1) Proposed scope of advisory service

(1) General managerial support	
1) Customer counseling/ relationship building	
2) Management diagnosis service	<p><u><i>In the 2nd stage of services</i></u></p> <ol style="list-style-type: none"> 1. Basic problem identification and advice for solution 2. Management analysis or benchmarking 3. SWOT analysis 4. Referral service to specialized consultants/ professionals
3) Workshops	- Workshops on basics of management
(2) Advice specific to strategic sectors	
(3) Business matching	
(4) Information and research	
(5) Target customer promotion	<ul style="list-style-type: none"> - Seminars inviting the target customers - Business exchange program - Target customer mailing list service

2) Definition of responsibility of related divisions/units

(1) “Loan Supervision Division” with assignment of staffs specialized for advisory service planning, coordination and administration	<u>Planning and monitoring of advisory service</u> <ol style="list-style-type: none"> 1. Prepare an overall plan to undertake advisory service and supporting activities, including annual schedule for implementation 2. Define particular emphasis of advisory service in the year 3. Prepare HRD plan 4. Receive all the reports of advisory services from Loan Branch Offices, including contact records with customers, and make analysis of the conditions and assistance needs of the customers 5. Administration of customer database
	<u>Preparation for required resources, tools and materials</u> <ol style="list-style-type: none"> 1. Allocation of budgets for each activity 2. Prepare key curriculum for resource training 3. Develop guidelines for each service, and tool for managerial analysis 4. Administration of list of target customers 5. Prepare a panel of consultants/professionals/advisors for referral service
	<u>Implementation of the following services</u> <ol style="list-style-type: none"> 1. Plan and implementation of workshops/seminars/training courses in cooperation with Loan Branch Offices 2. Plan regular and non-regular publications in cooperation with “Planning and Development Division of BPM”, and various departments of MOA 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” in cooperation with Loan Branch Offices
(2) Loan Supervision Division with assistance from Planning and Development Division and in cooperation with various departments and institutes of MOA	<u>Periodical survey using a customer panel</u> <ol style="list-style-type: none"> 1. Plan and implement periodical survey in line with the basic policy of “Loan Supervision Division” 2. Building up of customer panel for periodical survey 3. Summarize the survey results into a report for distribution by “Loan Branch Offices”
	<u>Information gathering</u> <ol style="list-style-type: none"> 1. Plan information gathering in line with the basic policy of “Loan Supervision Division” 2. Implementation of gathering data and information, and compile them into a database for use by the relevant units
	<u>Regular and non-regular publications</u> <ul style="list-style-type: none"> - Preparation of regular and non-regular publications for distribution by “Loan Branch Offices”

(3) Loan Branch Offices	<p><i>Implementation of the following advisory service</i></p> <ol style="list-style-type: none"> 1. Customer Counseling/ Relationship Building with activity reports to “Loan Supervision Division”, and managerial advice using “Management Diagnosis Reports” 2. Update customer database and mailing lists of target customers 3. Preparation of “Management Diagnosis Report” using analysis tools which are developed by “Loan Supervision Division” 4. Workshops/seminars/training courses with assistance of “Loan Supervision Division” 5. “Advisory service specific to strategic sectors” with support from “Loan Supervision Division”, and various departments and institutes of MOA 6. Business matching with support from “Loan Supervision Division” 7. Distribution of regular and non-regular publication to customers as a part of Customer Counseling/ Relationship Building 8. Other target customer promotion programs with support from “Loan Supervision Division”
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4 Action Plan for Enhancement of Advisory Service of DFIs for SMEs

4.1 Issues for Enhancement of the Advisory Service

4.1.1 Current conditions

The major features of the current advisory service provided by the five DFIs may be summarized as follows (for detail see II-4.2).

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

- BITMB, which started its advisory services in June 2004, currently focuses on providing advisory and consultancy services to existing borrowers who may be facing teething problems or business difficulty. The ultimate aim is to identify problems, monitor the performance, and provide recommendations for improvement in order to prevent these companies from turning into NPLs. In 2004, Advisory and Consultancy Service Division provides advisory services to 6 companies. Presently, 16 companies have been referred for the advisory services and close monitoring. Within the group, Officers from the representative offices do make regular visits to borrowers to discuss on problems faced by these customers and advice on financial aspects, in particular. The Business Development Division through nationwide monthly seminars/ campaigns disseminates information on financial packages/ funds available.
- BPIMB renders the following services to upgrade operational capabilities of Bumiputra SMEs.
 1. Project-specific consulting service (including technical consultation, such as advice on equipment procurement)
 2. Groom Big Program to promote the further development of selected SMEs by providing support that combines loan, advice and training services. The advice emphasizes financial and marketing areas. At present, the program is implemented for eight companies.
 3. Training program for potential entrepreneurs and loan customers, offering a variety of courses from basic to intensive (eight weekend courses). In 2004, 22 courses were held up to July and were participated by 450 persons.
 4. Nursery Factory Scheme (factory and equipment rental service)

Branch offices are responsible for monitoring loan customers and provide advice from

time to time in the course of day-to-day customer relation management, which, however, is not in an organized manner and depends largely on capacity of each staff.

- BPM does not have its own advisory service. For the agricultural sector, the Ministry of Agriculture and related organizations maintain an integrated extension service system that covers farming techniques, farm management and marketing channels. In particular, new farm operators can participate in a one-week course at a training center (partially funded by the Ministry of Agriculture), ranging from bookkeeping to basic cash flow management and business administration, and marketing (60 participants annually). Thus, BPM does not have the system to provide advisory service. They rely evaluation of technical viability of loan application on the recommendation by the Ministry of Agriculture. BPM serves a variety of customers, including individual operators (farms, fishermen and stock raisers), agricultural firms, and food processing companies, as well as micro-credit service receivers. As far as the advisory service for SMEs are concerned, however, there is no advisory service available by BPM.
- EXIM Bank is capable of providing advice on export business, but service content and quality vary greatly among staffs. Also, major portions of advisory service are assigned to or conducted jointly with MATRADE.
- MECIB does not offer advisory service, although it provides information service upon demand, such as export market information and credit investigation on importers for insured Malaysian exporters.

(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.

For BITMB, the tasks for maintaining the relationship with the clients lie with the Representative Office staff under the Business Development Division (BDD). These officers will be reporting the progress of their visits and the performance in terms of marketing activities on monthly/quarterly basis.

The monitoring of repayments on loans are being maintained by appointed officer from Loan Administration Department. Credit Officers and Officers from Technical Department do make regular visits during and after evaluation of projects for monitoring

and review process.

BPIMB and BPM have divisions responsible for monitoring loan customers and their repayment status, but they do not conduct organized activity to maintain continuous relationships with customers. Although some banks have appointed relationship managers, their activity is still close to the monitoring service and has not reached a level where the close relationship is established.

At EXIM Bank and MECIB, customer service divisions provide advice, but it is not established as an organized advisory service and rather relies on staff's ability and willingness.

Some banks have marketing divisions, but their service is limited to promotion of financial programs, falling short of consultation for existing and potential customers.

The divisions which provide advisory service, and those responsible for customer relations in the respective DFIs are as follows:

- BITMB has Advisory and Consultancy Service Division, which was established in June 2004 and has currently three full-time staffs including a general manager as a Head. On the other hand, loan-related services are currently being undertaken by other units of the bank, such as Business Development Division which markets the bank's facilities and receives the request for financing, the Credit Division that evaluates the feasibility of the application and makes recommendations to the authority, and the Technical, legal and Risks departments that provide their opinion on the project being assessed.
- BPIMB maintains a well-designed SME support system. It has a department responsible for providing consulting service relating to loan applications and a department specialized in business relating to the development of entrepreneurs and SMEs. In particular, Entrepreneur Development Department, which supports the development banking sector, has the following sectors that provide SME support service.
 - 1) Special Program Section: Responsible for planning and monitoring SME-specific programs.
 - 2) Entrepreneurial Training Section: Responsible for implementation of training programs for customer SMEs.
 - 3) Technical Section: Responsible for providing technical advice on machinery and equipment relating to loan projects; consisting of nine staffs; and collaboration with SIRIM and NPC as required.
 - 4) Corporate Advisory Section: Responsible for implementation of the Groom Big

Program that combines advice and loan services; consisting of two professional staffs and one administrative staff.

Meanwhile, day-to-day customer relations are handled by each branch's Supervision Unit, which monitors the status of executed loans. Although it provides advisory service as required, it is not an organized activity and the scope of service depends on the staff.

- EXIM Bank does not have a department responsible for advisory service and no full-time staff or responsible staff has been appointed. Credit officers of the Export Finance Department acts as a part of duty of relationship manager and provides consulting service for customers. They do not have specific knowledge or experience relating to advisory service and respond to the customer's request under the assistance of other departments and staffs.
- Similarly, MECIB does not have an organization specialized in advisory service. 13 staffs in Business Development Insurance Section (responsible for marketing of export credit insurance) responds to the customer's request for information, including export market information and credit investigation on importers. Export market information is compiled periodically and supplied to customers, and credit investigation is entrusted to a foreign research organization.

(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.

- EXIM Bank has a unit specialized in research and investigation within Corporate Services Department consisting of 2 staffs, which is primarily responsible for preparation of documents for internal use and, which is not capable of conducting research and investigation required for customer advice or supplying necessary documents.
- The Bank Industri Group has a research division at Bank Industri, which has carried out various researches including those on trend of some specific target sectors. These research work may be utilized for advisory service, if researches are organized to include more specific conditions of the industries.

- BPM has a very diverse customer base and primarily supports agricultural projects through the integrated extension service system provided by the Ministry of Agriculture and related organizations. However, its own service is limited to a certain set of advice made at branch level, and there is no organized support system with planning and information service functions.

(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. The customer supplies information under a sense of obligation and does not realize that continuous disclosure serves his interest.

DFI staff does not contact his customers frequently and thus cannot follow any change in the customer's status. As a result, the DFIs are not capable of providing appropriate advice for a customer who has a problem, including precautionary advice to avoid risks.

4.1.2 Assumed advisory services

The Action Plan for Enhancement of Advisory Service assumes the following advisory services as discussed in III-2 and III-3.

Item	Contents
The Concept of the Adv/S	<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 adv/s will be provided by a division/unit(s), which is in a position to maintain constant communication with customers, instead of a special unit exclusively in charge of the adv/s. 3. The adv/s is not necessarily highly professional. The first-step of the service will be provided by ordinary staffs of DFIs after receiving appropriate training for the adv/s. 4. The target of adv/s 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.
Strength of DFIs in SME support	<p>Compared to other agencies and institutions in offering adv/s:</p> <ol style="list-style-type: none"> 1. Individual relationship with individual customers through loan contracts 2. Capability to understand customers' financial conditions at professional level 3. Possibility to enhance the support with financial programs
Limiting factors for DFIs in Malaysia in offering Adv/S	<ol style="list-style-type: none"> 1. Small in size of operation 2. No experience of adv/s in an organized manner 3. Difficulty in obtaining reliable financial data, which are the basis of offering proper services 4. Insignificant expectation of most of SMEs for assistance from DFIs, at present
Scope of Adv/S	<ol style="list-style-type: none"> 1. Management support service: Starting and core areas of adv/s of DFIs 2. Technical support service: DFIs' have no basis of offering the service, except for information service 3. Marketing support service: Difficult area for DFIs to provide service, except for limited business matching service based on their customer database
	<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 for undertaking the Adv/S	<ol style="list-style-type: none"> 1. Planning, coordination and administration 2. Research and information support 3. Implementation (service delivery)

Note: Adv/S: Advisory Service.

4.1.3 Required functions to undertake the advisory services

Assuming the above advisory service for SMEs, what will be the required functions to the current DFIs?

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.

“Planning and coordination” is the core function to undertake the advisory service in a coordinated manner. This function is essential in preparing and implementing the advisory services.

“Implementation” is the function to build relationship with customers, while providing basic advisory services to the customers.

“Research and information support” is the function to gather and process the information useful for advisory service.

Following is the generic definition of the advisory services classified according to these three levels of functions:

(1) Planning, coordination and administration	<u><i>Planning and monitoring of advisory service</i></u> <ol style="list-style-type: none"> 1. Prepare an overall plan to undertake advisory service and supporting activities, including annual schedule for implementation 2. Define particular emphasis of advisory service in the year 3. Prepare HRD plan 4. Receive all the reports of advisory services from implementation units, including contact records with customers, and make analysis of the conditions and assistance needs of the customers 5. Administration of customer database
	<u><i>Preparation for required resources, tools and materials</i></u> <ol style="list-style-type: none"> 1. Allocation of budgets for each activity 2. Prepare key curriculum for resource training 3. Develop guidelines for each service, and tool for managerial analysis 4. Administration of list of target customers 5. Prepare a panel of consultants/professionals/advisors for referral service
	<u><i>Implementation of the following services</i></u> <ol style="list-style-type: none"> 1. Plan and implementation of workshops/seminars/training courses in cooperation with branch offices 2. Plan regular and non-regular publications in cooperation with “Research and information support” 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” in cooperation with branch offices

(2) Research and information support	<u>Periodical survey using a customer panel</u> 1. Plan and implement periodical survey in line with the basic policy of “Planning and Coordination” 2. Building up of customer panel for periodical survey 3. Summarize the survey results into a report for distribution by “Implementation”
	<u>Information gathering</u> 1. Plan information gathering in line with the basic policy of “Planning and Coordination” 2. Implementation of gathering data and information, and compile them into a database for use by the relevant units
	<u>Regular and non-regular publications</u> 1. Preparation of regular and non-regular publications for distribution by “Implementation Units”
(3) Implementation	<u>Implementation of the following advisory service</u> 1. Customer Counseling/ Relationship Building with activity reports to “Planning and Coordination”, and managerial advice using “Management Diagnosis Reports” 2. Update customer database and mailing lists of target customers 3. Preparation of “Management Diagnosis Report” using analysis tools which are developed by “Planning and Coordination” 4. Workshops/seminars/training courses with assistance of “Planning and Coordination” 5. “Advisory service specific to strategic sectors” with support from “Planning and Coordination” 6. Business matching with support from “Planning and Coordination” 7. Distribution of regular and non-regular publication to customers as a part of Customer Counseling/ Relationship Building 8. Other target customer promotion programs with support from “Planning and Coordination”

4.1.4 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.

- 1) A unit responsible for planning and coordinating the services, and providing support for implementation of the services. A part of the support functions may be entrusted to the unit described in 3) below. However, in implementing some services other than general managerial support, this unit should take an initiative for the implementation.
- 2) Implementation body, which are the units directly contacting existing and potential customers. The current Marketing Unit and Monitoring Unit (or those who are

appointed as Relationship Managers) in branch offices will be the most appropriate units in this context.

- 3) Supporting units, which gather and provide data and information useful for undertaking the advisory services, for the above unit 1) and 2). Most of the DFIs have Research Division. In order to mobilize their capacity, however, the Planning and Coordination Unit is necessary to take initiatives at the initial stage of operation.

4.1.5 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, defining what constitutes effective assistance for them, and offering the assistance effectively.

Most of the advisory service provided by DFIs so far are not necessarily in line with the proposed concept of the advisory service, though the stages and types of advisory services available vary depending on the DFIs.

- 1) Therefore, 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.

4.1.6 Current capacity of DFIs to extend the proposed advisory service

Following table studies the current capacity of DFIs to offer the advisory service, which was proposed in III-3.2, and requirements for implementation of such advisory services.

Proposed Advisory Service	Current capacity of DFIs and requirements
<p>1. General managerial support</p> <p>1) Customer counseling/ relationship building</p>	<p>1. <u>Current capacity</u> The current staff in charge of marketing, monitoring, or relationship managers can perform the service with strengthen the relationship with the customers</p> <p>2. <u>Requirements for capacity enhancement</u> Following functions are necessary to be newly developed or strengthened:</p> <ul style="list-style-type: none"> • Function to provide information which is required by the advisory staff in offering the service, such as knowledge of markets and managerial index, case studies which can be used as hints for improvement of managerial method, information on available programs for SMEs, etc. • Function to make advisory services effective, planning advisory services based on analysis of the services conducted • Function to provide advanced advisory services to SMEs to meet the SME's demand which cannot be fulfilled by advisory service offered by the advisory staff
<p>2) Management diagnosis service</p> <ul style="list-style-type: none"> - Basic problem identification - Management analysis - SWOT analysis 	<p>1. <u>Current capacity</u> Through training, the advisory staffs will be able to understand the methods to provide these services to a certain extent. The service of providing Basic Problem Identification, particularly, may be offered by the advisory staffs by themselves.</p> <p>2. <u>Requirements for capacity enhancement</u> The capacity of the advisory staffs will be limited to the initial stage of advisory service. Further advice, defining the problems and providing solutions of it, require business experiences. Nurturing of professional SME advisors are necessary.</p>
<p>3) Workshops/ training on basics of management</p>	<p>1. <u>Current capacity</u> Staffs of DFIs who have experiences of Credit Officer can provide the service.</p> <p>2. <u>Requirements for capacity enhancement</u> Advisors are required to complete training on SME management in addition to the capacity to make financial analysis. The advice on business management may be possible on the basis of educational background of MBA, or similar courses. However, the more practical advice requires well understanding of features (weakness and strength, etc.) of SME management, in addition.</p>

2. Advice specific to strategic sector	<ol style="list-style-type: none"> 1. <u>Current capacity/ Requirements for capacity enhancement</u> Advisory system different from that of general managerial support is required, including building up of advisors panel, since the qualified advisors require business experiences in the strategic sector. Development of function of information and research support is also essential, which focuses on the sector.
3. Business matching	<ol style="list-style-type: none"> 1. <u>Current capacity</u> This service can be operated by the staffs of DFIs if the customer information database is completed. 2. <u>Requirements for capacity enhancement</u> A staff(s) specialized for coordination of business matching should be assigned in the Planning and Coordination Division.
4. Information and research	<ol style="list-style-type: none"> 1. <u>Current capacity</u> The information and research support can be provided by the current Research Division with coordination of Planning and Coordination Division. 2. <u>Requirements for capacity enhancement</u> With outsourcing the research and information gathering to those who have experiences in the relevant industry/business, highly useful information should be collected for use in advisory service. Cooperation with expertise who are in a foreign company in Malaysia and/or abroad will be also useful in this connection.
5. Target customer promotion	<ol style="list-style-type: none"> 1. <u>Current capacity</u> The service can be provided by the advisory staff. 2. <u>Requirements for capacity enhancement</u> Planning and Coordination Division should take responsibility for planning and support for preparation of the activity.

4.2 Requirements for Enhancement of Capacity, and Action Plan Framework

4.2.1 Requirements for enhancement of the capacity to offer the proposed advisory service

The advisory services proposed here, assume establishment of close relationship with the customers at branch offices. This concept of service is significantly different from that of advisory service which have been provided by the DFIs, assuming that advisory staffs of branch offices provide the service to the customers. At the same time, development of new function of supporting the advisory service staff at branch offices, is assumed to make the services effective and efficient.

As discussed in III-3, all the DFIs except for BPM have internal organizations (divisions or units, etc.) which have performed a part of functions assumed in the above. However, 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 of planning, coordinating and supporting 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

4.2.2 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	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	1) Establishment of customer information databases for advisory services 2) Development of business information databases

4.2.3 Proposed time schedule for the action plan

Following is the proposed time schedule of Action Plan in view of immediate action and mid-term action for preparation, development and enhancement of the system for advisory services:

		Immediate Action (for the 1st and 2nd years)	Mid-term Action (for the 3rd to 5th years)
Outline of the activities in the plan period		<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 	<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
Organizational/ institutional development	DFIs	<ol style="list-style-type: none"> 1) Appoint division(s)/ unit(s) in charge of the advisory services and the support functions 2) Establish a preparatory office of the Joint Think Tank (SME Research Institute) 	Establish and start operation of the Joint Think Tank
	BNM	<ol style="list-style-type: none"> 1) Coordinate establishment of the Joint Think Tank 2) Promote collaboration with SME support agencies and institutions 	
Preparation/ development of operation guides	DFIs	<ol style="list-style-type: none"> 1) Define the coverage of advisory service and responsibility of each division(s)/ unit(s) 2) Finalize an implementation plan for the first 2 years 3) Prepare and update operation guides 4) Develop tools for management diagnosis service 	Review the performance in the first 2 years and finalize the Mid-term implementation plan
Staffing and training	DFIs	<ol style="list-style-type: none"> 1) Assign staffs for the advisory services and support functions 2) Develop training courses for the staffs engaged in the service, and SME Counselors 3) Implement training for the staffs for the advisory service and support functions 4) Recruit SME advisors, who have expertise in business management 	Build the panel of SME advisors

	BNM	1) Coordinate defining the standard qualification requirements of advisory staff of DFIs, and SME Counselors among DFIs 2) Coordinate establishment of training courses for advisory staff of DFIs, and SME Counselors 3) Coordinate building the panel of SME advisors among DFIs and SME promotion agencies/ institutions	
Information building	DFIs	1) Develop database systems and guides for information gathering 2) Establish periodical research plans	
	BNM	Coordinate joint research plans among DFIs and 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.

There are three functions required in providing the assumed advisory services, namely:

- 1) Planning, coordination and administration
- 2) Research and information support
- 3) Service delivery (implementation)

This Action is to ensure 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.

As stated in II-4.2, there is no internal organization at present in the DFIs, which is undertaking the advisory services, or which is providing support for undertaking the advisory services, *if the advisory service is defined with the concept as proposed in III-4.1.2.*

There are divisions/units, however, in DFIs, which are assigned to undertake the “Advisory Service” under different definitions. Also there are divisions/units which are in charge of maintaining contacts with their loan customers and potential customers, and divisions/units which are undertaking economic research and information gathering/analysis.

Since the functions assigned to the current divisions/units do not assume the Advisory Service proposed, the staffs in the divisions/units are not familiar with the new concept of Advisory Service. Further, despite the fact that the coordination among the relevant divisions/units is quite essential not only in offering the Service, but also in accumulating the data, information and experiences of the Services, there is no such coordination among divisions/units currently relevant to the “Advisory Service”. Preparation of operation guides, particularly of those activities which need to be offered with a coordinated manner, is useful for effective operation, together with assignment of divisions/units by the management for the Service.

2 Outline of the Action

The Action consists of two key components:

(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. The divisions/units to be assigned with their basic functions are as follows:

(1) Planning, coordination and administration	<u><i>Planning and monitoring of advisory service</i></u> <ol style="list-style-type: none"> 1. Prepare an overall plan to undertake advisory service and supporting activities, including annual schedule for implementation 2. Define particular emphasis of advisory service in the year 3. Prepare HRD plan 4. Receive all the reports of advisory services from implementation units, including contact records with customers, and make analysis of the conditions and assistance needs of the customers 5. Administration of customer database
	<u><i>Preparation for required resources, tools and materials</i></u> <ol style="list-style-type: none"> 1. Allocation of budgets for each activity 2. Prepare key curriculum for resource training 3. Develop guidelines for each service, and tool for managerial analysis 4. Administration of list of target customers 5. Prepare a panel of consultants/professionals/advisors for referral service
	<u><i>Implementation of the following services</i></u> <ol style="list-style-type: none"> 1. Plan and implementation of workshops/seminars/training courses in cooperation with branch offices 2. Plan regular and non-regular publications in cooperation with "Research and information support" 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" in cooperation with branch offices
(2) Research and information support	<u><i>Periodical survey using a customer panel</i></u> <ol style="list-style-type: none"> 1. Plan and implement periodical survey in line with the basic policy of "Planning and Coordination" 2. Building up of customer panel for periodical survey 3. Summarize the survey results into a report for distribution by "Implementation"

	<u>Information gathering</u> <ol style="list-style-type: none"> 1. Plan information gathering in line with the basic policy of “Planning and Coordination” 2. Implementation of gathering data and information, and compile them into a database for use by the relevant units
	<u>Regular and non-regular publications</u> <ol style="list-style-type: none"> 1. Preparation of regular and non-regular publications for distribution by “Implementation Units”
(3) Implementation (Service Delivery)	<u>Implementation of the following advisory service</u> <ol style="list-style-type: none"> 1. Customer Counseling/ Relationship Building with activity reports to “Planning and Coordination”, and managerial advice using “Management Diagnosis Reports” 2. Update customer database and mailing lists of target customers 3. Preparation of “Management Diagnosis Report” using analysis tools which are developed by “Planning and Coordination” 4. Workshops/seminars/training courses with assistance of “Planning and Coordination” 5. “Advisory service specific to strategic sectors” with support from “Planning and Coordination” 6. Business matching with support from “Planning and Coordination” 7. Distribution of regular and non-regular publication to customers as a part of Customer Counseling/ Relationship Building 8. Other target customer promotion programs with support from “Planning and Coordination”

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 performed by independent units respectively. Rather, existing unit(s) should be assigned, as much as possible, to undertake the advisory services in tandem with the present function.

- 1) A unit responsible for planning and coordinating the services, and providing support for implementation of the services. A part of the support functions may be entrusted to the unit described in 3) below. However, the implementation of some services other than general managerial support is better to be undertaken by this unit.
- 2) Implementation body, which are the units directly contacting existing and potential customers. The current Marketing Unit and Monitoring Unit (or those who are appointed as Relationship Managers) in branch offices will be the most appropriate units in this context.
- 3) Supporting units, which gather and provide data and information useful for undertaking the advisory services, for the above unit 1) and 2). Most of the DFIs

have Research Division. In order to mobilize their capacity, however, the Planning and Coordination Unit is necessary to take initiatives at the initial stage of operation.

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

The Action includes:

1. Preparation for assignment of internal organization (divisions/units) for Advisory Service
 - Finalization of responsibility of each internal organization
 - Decision as to which existing organization (division/unit) will play core role required for Advisory Service
 - Decision on staffing, considering also the function of the organization (division/unit) other than the currently assigned functions
2. Assignment of internal organization (divisions/units) for the Advisory Service together with staffing.

(2) Preparation of operation guides

The responsibility of the divisions/units, which are assigned in the above as those undertaking the advisory services or their support services, should be defined clearly, in

organization operation guides. The operation guides should define flows to perform the assigned responsibility, collaboration procedure of the divisions/units with other divisions/units related to the services. The guides are especially important for the activities new to the divisions/units, and the activities to be performed with the collaboration among the relevant divisions/units.

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. Particularly, since all the DFIs lack experience in conducting advisory service, which bases on relationship between customers and DFIs at branch offices, the operation guide prepared in advance, and improved based on the actual performance, will contribute to buildup know-how for 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 prototypes of the operation guides on the above are shown in Annex 3.

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. Each DFI has a documentation division/unit which assists preparation of operation guides.

3 Relevant discussions on the Action

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

1) Service Delivery Divisions and Units

The current number of staff at the assigned service delivery division and unit is recommended as the starting staff of implementation, except for BPM. The number of

service delivery staff required for the mid-term and full-scale operation should be decided based on the results of the immediate actions in the first 1 to 2 years.

The current number of staff in the divisions/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 number of staffs required are estimated with assumption that an advisory service staff can be responsible for 70 SME customers, and that managers are only responsible for supervision. As a result, it is concluded that 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 assign “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. Assuming that the SME Relationship Manager can cover 70 SMEs, and the estimated number of SME customers of BPM is 1,300, 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) Planning, coordination and administration division/unit

The current number of staff in the division/unit to undertake advisory service planning, coordination, and administration in each DFI are as follows:

		Number of staff	Remarks
BPIMB	Advisory Department	4	- Including 2 in Corporate Advisory Section
BITMB	Advisory and Consultancy Service Division	3	- In addition, 5 engineers in Technical Service
BPM	Loan Supervision Div.	4	
EXIM-B/MECIB	None	0	

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.

The above staffing assumes that a part of job for the division/unit will be contracted out to local or foreign consulting firms.

3) Information and research support

The current number of staff in the division/unit to undertake information and research support are as follows:

Current division/unit		Number of staff ^(*1)	Remarks
BPIMB	None	0	
BITMB	Group Economic Research Section	11	Current task is the economic research in view of business operation of FI.
BPM	Planning & Development Division	n.a.	Current task is the economic research in view of business operation of FI.
EXIM-B/MECIB	Research & Planning Section	3	Current task is general research and business operation of other Asian EXIM Banks.

The information and research function is available currently only in BITMB. In the case of BITMB, most of research and information activities of the Group Economic Research Section may be used for the Advisory Service support, though there will be a need for enhancement of their research work to be more specific to the target SMEs.

In order to gather and compile information useful for SME customers, the information should be specific and focused. Such information is available only from key players in the industry in question. Most of research work and information gathering are, therefore, recommended to be outsourced to local or foreign consultants/research companies, which have professional capability. Assuming that the information and research support is carried out leveraging outsourced professionals, the following staff assignment is recommended:

- 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).

(2) Provision of incentives for the staff who engage in the advisory services

For the staffs who engage in the planning, coordination and administration, and information and research support, no additional incentive will be necessary, since these services are nothing but extension of their current duties.

For the staffs at branch offices, who will be responsible to undertake the advisory services, some additional incentives (allowance) may be necessary if one takes into account the following additional duties compared to the current responsibility:

- 1) Increase in frequency of contact with their customers
- 2) Record and reporting of the contact results
- 3) Participation to training courses, and involved in an events such as business matching and interface meeting, etc.

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 work and advisory staff training)

1 Objective and Background

In order to carry out the advisory service, DFIs are required to add new functions. Some of the functions, however, are not viable for each DFI when considering the scale of their operation. 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, as shown in the following:

As for the training function, BPIMB can have this function with establishing an internal organization, since its operation is comparatively big. However, in the case of BITMB and EXIM Bank, development of their own training system seem to be inefficient due to small number of their advisory staffs. BPM has a training center, but its own training system will be inefficient due to limited experiences in advice to SMEs. Since most of the training functions can be outsourced, the remaining part of functions which cannot be outsourced should be developed jointly.

In the case of research and information support function, each DFI has their own division in charge of research, conducting information collection and analysis. The operation size of these research divisions are not large and their research function is limited. This Action proposes to setup a research division, concentrating all the research functions for the advisory service of DFIs, so that they can gather, analyze, and provide sufficient information for advisory service.

If there are functions other than those discussed in the above, which are found appropriate for joint undertaking, collaboration among DFIs for joint work is recommended. If Actions 1-3, which are proposed to undertake by forming network among DFIs and the relevant government agencies and institutes, is found difficult to form the network in a short-term, joint undertaking among DFIs should be tried first, while the networking should be further pursued in the later stage.

Alternative for the joint undertaking is development of the function by a DFI with agreement among DFIs, while other DFIs rely on the function.

2 Outline of the Action

This Action is for 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	<ol style="list-style-type: none"> 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	<p><u>Research and provision of information for DFIs to use:</u></p> <ol style="list-style-type: none"> 1. Business Trend Survey/ Business Confidence Survey 2. Research to discover a clues to the issues which SMEs are facing 3. “Best practice” case studies of business development of SMEs <p><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.</p> <p><u>Seminars/workshops:</u> Plan and prepare modules of seminars, workshops and training, which are useful for SME development, and contract implementation with the DFIs as DFI’s service.</p> <p><u>Publication:</u> Periodical/non-periodical publication of data and information.</p>

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
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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.

The Actions involved are:

1. Forming a coordination committee and a Working Group among the DFIs for preparation
2. Preparatory work by the Working Group includes:
 - Define functions of the proposed joint think tank
 - Define jobs
 - Design an organizational setup
 - Prepare contract conditions between the joint think tank and DFIs, study the financial viability
3. Tentative research work and training by the existing divisions/units, according to the job description prepared by the Working Group, distributing the jobs among the participating DFIs.
4. Decision by the DFIs' management for establishment of the joint think tank, based on evaluation of the tentative operation by the existing division/unit
5. Start operation

3 Relevant detailed discussions

(1) Outsourcing

In examining the joint undertaking among DFIs, outsourcing should be considered seriously. With outsourcing, DFIs cannot only reduce the burden to have all the necessary functions within them, but also utilize the expertise available outside.

The major recommended areas of outsourcing are (1) research, (2) seminar and

workshops on business management, and (3) advisory staff (including SME Counselors) training. 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. These relevant organizations have their own features (strength and weakness) in supporting SMEs, as discussed on that of DFIs.

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.

The following table summarizes the resources and activities, which the relevant organizations have or undertake, potentials for possible networking:

Table III-4-1 Resources and Activities Available of Possible Networking

	Experts ^(*1)	Information originated/ compiled by the agencies/ institutions ^(*2)
SMIDEC	Registered experts for SEAS program: 17 (Mostly production and technology)	Industrial trends analysis reports
MATRADE		1) Trade information and reference materials 2) Export market information (survey by the overseas offices)
SIRIM	1) Incubator staff: 22 (Mostly with background of businessmen, bank staffs, etc.) 2) Technical staffs	
NPC	Internal consultants: 185	1) Annual productivity survey based on 300 SMEs 2) Productivity report compiled from statistics of Dept. of Statistics 3) One-shot SME surveys
MARA	Registered experts: 300 (Finance, law, engineering, etc.)	
MIDF		
CGC	Designated business advisory service consultants: 6 companies (Finance and business planning)	

Notes: For further detail, see II-3.

(*1) Internal and external, but excluding ordinary staff who are engaged in the advisory services as a part of their duty.

(*2) Excluding the information of own support programs.

Table III-4-2 SME Assistance Activities and Programs^(*) of Relevant Organizations

	Advice for SMEs	Business matching	Other SME support programs
SMIDEC	SME Expert and Advisory Services (SEAS) (Dispatch of experts to factories)	1) “Industrial Linkage Program” and “Global Supplier Program” 2) Annual Showcase	1) Financial support (Soft loans and grants for technical/ management upgrading) 2) Skill upgrading programs at 19 designated training centers
MATRADE	Advices through e-mail & contacts at the window	1) Based on trade enquiry from abroad 2) Arrangement for inward trade missions and trade delegations	1) Trade promotions 2) Training seminars and workshops on export business
SIRIM	Diagnosis & consultancy services (introduced by SMIDEC, MARA, BPIMB)		1) Technical service (Testing, calibration, technical information, intellectual property, quality management system certificate, etc.) 2) Technical & management training 3) Incubator program
NPC	Consultation for management system development (Quality management, environmental management, productivity management, etc.)		1) Training related to quality management and productivity improvement 2) System audit and certification 3) Quality Award
MARA	Consultancy service for Bumiputra enterprises		1) Entrepreneurial training on start up of businesses 2) Market development support 3) Financing program 4) Rental facilities for factory & commercial operation
MIDF	Advice for loan application		Finance programs (Mainly soft term loans for capital investments)
CGC	1) Advice for application of credit guarantee (Client Service Center) 2) Business Advisory Service Entity (BASE) (Support for application of credit guarantee by the designated consultants)		

Notes: For further detail, see II-3.

(*) Excluding activities to disseminate own support programs.

2 Outline of the Action

(1) Consensus for networking and preparatory work

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.

As the possible areas of collaboration and networking with SME promotion agencies and institutions, following areas are recommend:

- 1) Building up of an advisors panel
- 2) Joint survey planning and implementation
- 3) Networking or joint undertaking of business matching service
- 4) Operation of one-stop cyber information center for SME support
- 5) Enhancement of advisory service system for exporters

Preparatory work required for developing the networking varies by the subject networking, and includes the following in general:

- 1) Exchange information on the available resources relating to the networking to promote understanding among the DFIs, the participating government agencies, organizations, and institutes.
- 2) Work out the operation procedure for each activity for agreement
- 3) Prepare MOU on the following, but not limited to:
 - How to share the costs and expenses
 - Protection of information particularly on privacy
 - Protection of copyrights, and agreement on use of the information without in-advance approval

(2) Building up of a counselors and advisors panel

1) Objective

For the successful implementation of effective advisory services (or non-financial support), one of the key elements is resources for advisory services. 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, either as a full-time staff or a part-time staff.

2) Description of the Action

1. The DFIs, relevant government agencies and institutions form a registration office for the SME Counselor and Advisor panel jointly. Those who are eligible and want to register the panel will register to the office. The registration is updated annually by the applicants themselves to avoid registration of those who are not available for this service.
2. DFIs as well as other organizations and institutes can recruit the counselors from the panel, when needed, either as a full-time staff or a part-time staff. Fee is paid to the individuals directly by the DFIs or other organizations and institutes, according to the contract to be agreed between the DFIs or other organizations and the counselor.
3. No registration fee will be collected by the registration office (the operation of the registration office will be entrusted to one of the DFIs or government agencies).
4. No fee is paid to the counselors from the registration office for the registration. However, there is a need to device some measures for the registered counselors and advisors to be able to ensure their jobs, to encourage the potential resources to apply for the registration. Currently SMIDEC are applying the incentives with SEAS and ITAFs 2 and 3. Other possible measures include:
 - Employ the Counselors and Advisors as part-time advisors at DFIs and other SME promotion agencies and institutions
 - Define use of advice of the registered Counselors or Advisors as mandatory in applying for SME support programs
5. The Counselors are required to complete a training course, which will be organized to give basic knowledge required in serving as a counselor.

3) Government agencies and institutions to be involved

Those which are leveraging the outside (registered) experts, and those which are providing advisory services: SMIDEC, MATRADE, SIRIM, NPC, MARA, and DFIs.

4) Additional information

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

Currently, potential sources for the panel are the registered experts for SEAS Program of SMIDEC, registered experts of MARA, and designated business advisory service consultants of CGC. In addition, senior staffs of NPC, SIRIM, and DFIs can be regarded as the likely sources of potential counselors and advisors. They are required to complete a training course, which is proposed as Action 2.

“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 their hands-on business experiences. 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. In other words, the capability of Advisors will be evaluated according to the recruitment needs of each DFI, agency, or institute. The registration itself will not certify their capability.

Demand for outside counselors and advisors may be seen in the following:

1. As advanced level of advisor compared to internal advisory staff
2. As advisors who have expertise in a specific advisory field
3. As supplementary advisors to internal advisory staff, when the number of internal staff is not enough to meet the advisory needs

The Counselors may be the advisors described in 1 and 3 above, while the Advisors are expected to function as advisors in 2 above. In the case of 3 above, however, there will be two levels of service; basic business management and competitive management. The target SMEs in the case of MARA are mostly categorized as “basic” for example. In other words, all the advisory services do not need the same level of advisors, and the “Advisors” may also work as advisors in the case of 3 above, according to the service level requested.

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 Advisors¹.

Required process for developing the panel

Several steps will be needed to nurture and develop the resource panel. The required steps will be:

1. Exchange of information among DFIs, SME agencies and institutions on the available resources to leverage in providing advisory services, and possible demand for the SME Counselors and Advisors
2. Development of a unified nurturing system particularly of the SME Counselors with a standardized criteria for the staff of DFIs and SME promotion agencies and institutions (See Action 2).
3. Device incentives for the Counselors/Advisors who are not the staff of DFIs, SME agencies and institutions, but registered to the panel.

(3) Joint planning and implementation of surveys

1) Objective

As shown before in Table III-4-1, SME support agencies and institutes have conducted surveys to collect data and information in various aspects. Some SME surveys and business trend surveys have been conducted by more than one organization. These surveys are also indispensable for DFIs, providing the basic information required in offering the advisory service.

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

¹ 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.

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

2) Description of the Action

1. In the Working Group established for this Action, DFIs, SME agencies and institutions will exchange information on the surveys they have done and are planning, including intended data and information to be obtained, survey samples, frequency of surveys, etc. The Working Group will work up the list of surveys which will be more effective to undertake jointly than by a single organization.
2. The government agencies, institutes, and DFIs, which are interested in a survey will appoint an organization among them, and the appointed organization will work as a secretariat for the specific survey. The government agencies, institutes, and DFIs interested in the specific survey will prepare the TOR jointly for the survey, and the appointed secretariat organization will ask qualified consultants and research companies for survey to submit survey proposal based on the TOR.
3. Once the consultants or research company is selected through the bid, the secretariat will order the survey, and control the progress. The inspection of output will be carried out jointly by the government agencies, institutes and DFIs.
4. The costs and expenses will be burden by the joined government agencies, institutes and DFIs according as agreed in advance.
5. Basically, the joined government agencies, institutes, and DFIs can use the survey output without restriction except for the case of permit for use by the third party, which requires prior approval by the joined parties. Some survey items may be used exclusively by one of the members if it is agreed in advance.

3) Government agencies and institutions to be involved

SMIDEC, MIDA, MIDF, MATRADE and DFIs (or their joint Think Tank).

(4) Networking for business matching service

1) Objective

SMEs are especially weak in obtaining useful information relating to potential customers, sources of materials and technology, and qualified subcontractors, since they have only limited internal organization in charge of such activities if they have. Business matching is a useful service to overcome the weakness of SMEs, and many SME support organizations have intended to facilitate the service. The business

matching activities include exchange of information on potential suppliers and buyers, and provision of opportunities for networking by businesspersons. However, the starting activity of business matching is to find out appropriate partner to meet the needs of the customer.

One of the key factors for the successful business matching operation is availability of databases and information sources which cover wide range of business areas. However, in most cases of business matching, the available database covers only limited resources, or often not updated.

This Action is to enable the SME support organizations and DFIs to utilize the information contained in databases of these organizations through the network. It is expected to increase opportunity for SMEs to find out useful partners.

2) Description of the Action

1. A coordination committee will be formulated to establish a rule/operation flow for exchange of information on potential partners, among the SME support government agencies, institutes, and DFIs.
2. Each organization, which is offering business matching service, assigns a contact person for the networking
3. If an organization receives a request for business matching from a SME, it will send the request to the contact person of all the participating organizations through e-mail.
4. The contact person in each organization will make search of potential partners who are expected to fulfill the request using their database. The result will be sent back to the original organization for further action by them.
5. If the result is found potential, the original organization will take action to introduce both parties for further exchange of their information.

Organization of interface meetings jointly among the relevant SME support organizations and DFIs will be useful in promoting business matching, as a next step of making use of the network.

3) Government agencies and institutions to be involved SMIDEC, MATRADE and DFIs

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

1) Objective

Many government agencies and institutions have provided their customers with

information on government support programs on finance, management, technology, etc. The information, however, was sometimes incomplete, lacking the information on other organizations. On the other hand, 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.

2) Description of the Action

Currently, SMIDEC operates a virtual center at its SME Information and Advisory Service 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.

1. The SME support organizations, DFIs and SMIDEC will agree on the rules and flows of using the Center as the core center of providing comprehensive information on the SME support available from the government agencies/institutions and DFIs.
2. The SME support organizations and DFIs will send all the necessary information to SMIDEC relating to SME support programs available from them, and take responsibility of updating the information.
3. SMIDEC will incorporate the information thus obtained from SME support organizations and DFIs into its virtual center.
4. The home page or other information tool of all the SME support organizations and DFIs will link to the virtual center.

3) Government agencies and institutions to be involved

All the relevant government agencies, institutions, 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

1) Objective

MATRADE is in the major position in offering advisory service for exporters in Malaysia. It has developed overseas network of its Trade Commissions, and is able to gather the information of export markets. Their major services for exporters are (1) trade information service, (2) trade promotion service, and (3) trade matching service.

Most of the exporters in Malaysia have registered to MATRADE as its member.

On the other hand, 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. EXIM Bank and MECIB have supported the seminars, workshops and consultation meetings of MATRADE in the fields of export finance and export insurance. They have collected information on export markets contacting directly to overseas Trade Commissions of MATRADE.

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.

2) Description of the Action

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.

Action includes:

1. EXIM Bank and MECIB define the fields of advisory service which are considered the fields of specialization to these DFIs.
2. EXIM Bank and MECIB enhance the system to provide advisory service particularly in these selected fields. Namely, EXIM Bank and MECIB develop or enhance the functions of “Plan and Coordination”, “Information and Research Support”, and “Service Delivery”, as recommended in III-3, particularly focused on these selected fields.
3. EXIM Bank/MECIB come to agree with MATRADE that EXIM Bank/MECIB will extend their advisory service for exporters in these selected fields, while they direct the request from exporters in other fields to MATRADE. MATRADE will do the same with EXIM Bank and MECIB. Thus, each organization can concentrate its activities in the fields in which they have specialties.

Recommended fields of advisory service to EXIM Bank and MECIB compared to that of MATRADE are shown in Table III-4-3.

**Table III-4-3 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	×	○
Supports 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.

3) Government agencies and institutions to be involved
EXIM Bank, MECIB and MATRADE

(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

In the future, to meet the needs of SMEs, particularly those SMEs which are aggressive to improve and expand their businesses, there will be necessity to develop a certification system for professional advisors who have not only experience but also knowledge of advanced business management, together with development of a system to nurture such consultants. However, since only a limited panel of advisors is available currently in Malaysia, such panel should be developed first to meet the immediate needs of various organizations offering advisory services to SMEs. After a certain number of advisors are nurtured and have experiences on the advisory service, then certification system for the more professional consultants should be considered as the next step.

2) Joint undertaking of business interface meeting

Business interface meeting will be more effective if it covers the participants from more wide range of business backgrounds. However, since the know-how for operating the meeting is not established in Malaysia yet, for both coordinators and participants, it is recommended to expand the participants to those of other organizations with undertaking jointly with other organizations, after a couple of years of experience by DFIs.

3 Time Schedule for Implementation

	First 1-2 years	3-5 years	6 year and after
Collaboration/ Joint Work	<ul style="list-style-type: none">- Building-up of a panel of business experts for use for referral services.- Joint research work	Joint establishment of a nurturing system of qualified SME Consultants	Development of a certification system of SME Consultants
Networking	<ul style="list-style-type: none">- Operation of networking for business matching- Operation of networking for referral service- Improvement of one-stop cyber center for information of SME support programs	Joint undertaking of Business Interface Meetings	

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

1 Objectives

Advisory service will be the service to support SMEs proactively in improving and expanding their business. The service will be provided individually through the relationship established between the SME and the advisory staff of DFI.

Advisory services for SMEs, however, should not be limited to those to be provided individually. For the development of SMEs, DFIs have to play more positive role in view of their mission for contribution to SME development. 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.

The definition of “Strategic Economic Sector” varies among DFIs with different target sectors as their mission, as summarized in the following:

DFIs	Strategic economic sector	Possible examples of strategic sector development
BPIMB	<ul style="list-style-type: none"> Bumiputra community in business and industry Infrastructure projects, in particular government-identified projects 	<ul style="list-style-type: none"> Upgrading of a shopping area in a specific local town Upgrading of a local industry, targeting supply to a supermarket franchise
BITMB	<ul style="list-style-type: none"> Capital intensive and high technology industries Supportive industries which provide the linkages to major industries Bumiputra entrepreneurship in SMIs Pioneer industries 	<ul style="list-style-type: none"> Automotive parts production sector development
BPM	Agricultural sector	<ul style="list-style-type: none"> Export oriented aqua farming development in a specific region (including distribution and marketing support) High-land flower growing development targeting markets in big cities (including distribution and marketing)
EXIM Bank and MECIB	Export sector	<ul style="list-style-type: none"> Interfacing support of a specific local industry for market in a specific country

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. The advisor may be recruited from the advisor panel if the panel is well established. In addition to assignment of an advisor, various measures to develop the sector should be included as a 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 Action consists of the following components:

1. Formulate a task-force team within a DFI to plan, prepare, implement and monitor the support measures to the specific strategic sector.
2. Recruit an advisor(s) who has sufficient expertise in development of the target strategic sector, and finalize the program for the strategic sector development taking into account the advice of the advisor(s).
3. Promote the strategic sector development program, starting with an introduction seminar, which disseminates the strategic development plan among the potential SMEs to be involved.

3 Other information related to the Action

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>
(2) Business matching	- In view of strategic sector development
(3) Information and research	<ul style="list-style-type: none"> - Provision of information on the market and industry trends in the specific strategic sector - Introduction of “best practices” examples from similar sector
(4) Target customer promotion	<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 includes establishment of standard training course for advisory service staff and SME Counselors, defining the minimum requirement for the trainees and standardized contents of training. Also included is accreditation of organizations (including internal organizations) for the standard training. If some courses are outsourced, such organization should be accredited in advance to make the course standardized.

The target of this Action is the advisory service staff of DFIs and SME Counselors who work with DFIs, either part-time staff or full-time staff, providing advanced services.

In this advisory service proposal, following level of advisors are assumed:

- 1) Advisory staff of DFIs mainly at branch offices, offering advisory service through their ordinary contact with the customers. They are basically staffs of DFIs at Marketing Unit and Monitoring Unit at branch offices, who have received training required for providing the services.
- 2) Advisory staff at Planning and Coordination Division of DFIs (SME Counselors). They will offer advanced advisory service to SMEs who are not fulfilled with the service provided by the Advisory staff at branch office. Major sources of the SME Counselors are outside experts who have some years of business experiences, or DFI's staff who have some years of experiences as senior staff. They have to complete training courses for SME Counselors.

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 training 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.

In this proposal on advisory service, “Advisor specialized for development of a strategic economic sector” is assumed in addition to advisory staff at DFI’s branch offices.

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.

The main actions included here are:

1) Work on the standard training course curriculum

This Action includes the definition of the contents of training course for finalization (prototype is shown in the following section). Most of courses may be available from existing training courses, either internally or outside, which are prepared for the staff of DFIs. Some courses have to be developed exclusively for this training course. For example, training to understand the management of SMEs compared to big businesses, and training on counseling method are not available in DFIs internally. Further, training based on operational guides for the advisory service has to be developed by DFIs based on the operation guides prepared by DFIs. In other words, the whole curriculum of training course are not necessarily developed from the start. The course should be established selecting applicable courses from the existing training courses, and develop some course which are not available.

2) Training for the first batch of trainers

As a first step of training, select some potential trainers, who are expected to work as trainers for the course in the implementation stage. The training for these trainers may also be regarded as a verification process of the effectiveness of the course to finalize the contents and method of training.

3) Implementation of training

Following the above, using the trainers thus trained, the training for advisory staff of DFIs should be started. The training should be repeated intensively to secure the number of required staff to offer the advisory service at DFIs.

3 Detailed information related to the Action

(1) Off-JT training course for SME Counselor²

One month x three courses (I, II and III), eight hours per day

Total of 160 hours per course (120 hours for lecture and 40 hours for field/practical

² “Course 1” is the same as the “Basic Training Course” for advisory service staff of DFIs. This training course is recommended following the current training course prepared for Business Management Advisor of Chamber of Commerce and Industry in Japan.

training, although varying with courses)

Courses I and II will cover basic training and Course III special training. All the three courses must be completed to obtain certification as the SME Counselor. Each course will be held three to four times per year.

Curriculum

Course I:

1. SME policies and programs, including support measures for small enterprises
2. Business environment and management basics
3. Accounting
4. Financial analysis (including exercises)
5. Taxes relevant to business operation
6. Understanding management of small enterprises
7. Basics of counseling

Course II:

1. Sales analysis and planning
2. Financial analysis (including exercises)
3. Key points in use of IT
4. Marketing
5. Key points in preparation of a business plan
6. Practical training of business plan preparation and counseling

Course III:

1. Understanding and preparation of a tax application form
2. Key points in collecting management information
3. Case study
4. Field work

(2) Required Qualification for SME Counselor

The SME Counselors are those who have completed the SME Counselor training course, described in the above.

Eligibility of the trainee is as follows:

1. College (university) graduates who have more than 3-years experience in the recent 5 years, in one of the following;
 - a. Officers in a department of government offices and agencies in charge of industry/commerce promotion, labor affairs, or tax affairs
 - b. Permanent staffs in charge of SME support in associations or organizations which are engaged in SME promotion
 - c. Senior staffs of enterprises who have engaged in subcontracting to SMEs
 - d. Teachers of high school or higher, teaching business management or accounting

2. College (university) graduates who have more than 3-years experience in the recent 5 years, in one of the following;
 - a. Management including full-time directors of enterprises
 - b. Senior staffs of enterprises who are in a responsible position in management of administration, corporate planning, accounting, or marketing/sales
3. Those who are qualified as CPA, or other similar qualification

(3) Implementation

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. They should participate in Courses II and III again after 2 months of service. Again, in-between Course II and III, they may be assigned into the service according to the total assignment plan of SME Counselors.

4.3.3 Information building

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

1 Objective and Current Conditions

For the effective advisory service, in-advance understanding of the customers (SMEs) is advised. The key of the proposed advisory service is construction of good relationship of advisory staff with customers (SMEs) through ordinary contact of the staff with the customer. It means that effective advisory service can only be provided on the basis of relationship of mutual trust, and the service can be effective with accumulation of data and information of the customer which can be obtained with such good relationship.

These data and information can be best utilized for offering business matching service.

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 are 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, since the proposed customer information databases include information of individual customers, tight security and strict control measures of access by the staff is indispensable.

2 Outline of the Action

The Action consists of the following components:

1. Design and development of the database system, including preparation of data entry

and use form

2. Establishment of process for ensuring periodical customer data entry and update

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 <ul style="list-style-type: none"> - 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.

3 Additional information related to the Action

(1) Database available at relevant SME support organizations

Some of the relevant organizations engaged in SME support have established their own SME databases. These databases can be utilized particularly for business matching service through networking:

	SME Database (Number of enterprises registered)
SMIDEC	SMI Database: 7,000
MATRADE	Exporters Database: 8,500
NPC	Benchmark On-line Network Database (BOND)
CGC	1) Membership registration: 2,300 2) Financial data database (under construction)

(2) Database of DFIs

BITMB has a customer database as a part of their management information system, while BPIMB and BPM are in the process of developing a customer database also as a part of their management information system. These databases include information of customers for use mainly for loan appraisal. Most of the data items (fields) are same as that of the proposed customer base, but information included seems different from the proposed one, because of the difference in objective of the database. The following table compares the difference in the data and information between the two systems.

Data to be accumulated in the proposed database	The database existing/under development has the same data field?
Profile	Yes, but need more information
Sales message	No.
Products/services, which the customer wants to sell	Yes, but need more information.
Products/services, which the customer wants to procure	No.
Record of contacts with the customer by the advisory service staffs of DFIs	Yes, but contents and form are different. Need more information.
Record of the customer's loan application and repayment performance	Yes.
Financial data of the customer	Yes.

Further, the proposed system needs to have search system different from that of the existing/under development system. At the same time, the proposed system is necessary to be accessed by the advisory staff in the branch offices for additional data entry and for referring the data contained. Therefore, the proposed database is recommended to be developed as a separate database system, to prevent the existing/under development system from being damaged by the operation of the proposed system. However, there is a need of transfer/mirror of the data/information contained in the existing/under development system when it is updated.

(3) Required specifications of the proposed database

- 1) To be able to input, update and/or delete the data and information at the head office, and branch offices through the Internet line connection.
- 2) To be able to store the data in a Database, and secure protection of the stored data.
- 3) To be able to search the data by key words and/or pre-defined list boxes at the head

office and branch offices through the Internet line connection.

- 4) To be able to interface to the Web, with assurance of the security.
- 5) To be able to control membership registration/rejection using User-ID and password.
- 6) In order for the database to be enhanced and expanded in the future without restriction from the logic of the application, the database should be independent from the application.

(4) Detailed database items proposed

See Table III-4-4.

(5) Investment required

Typical configuration of the hardware is shown as follows:

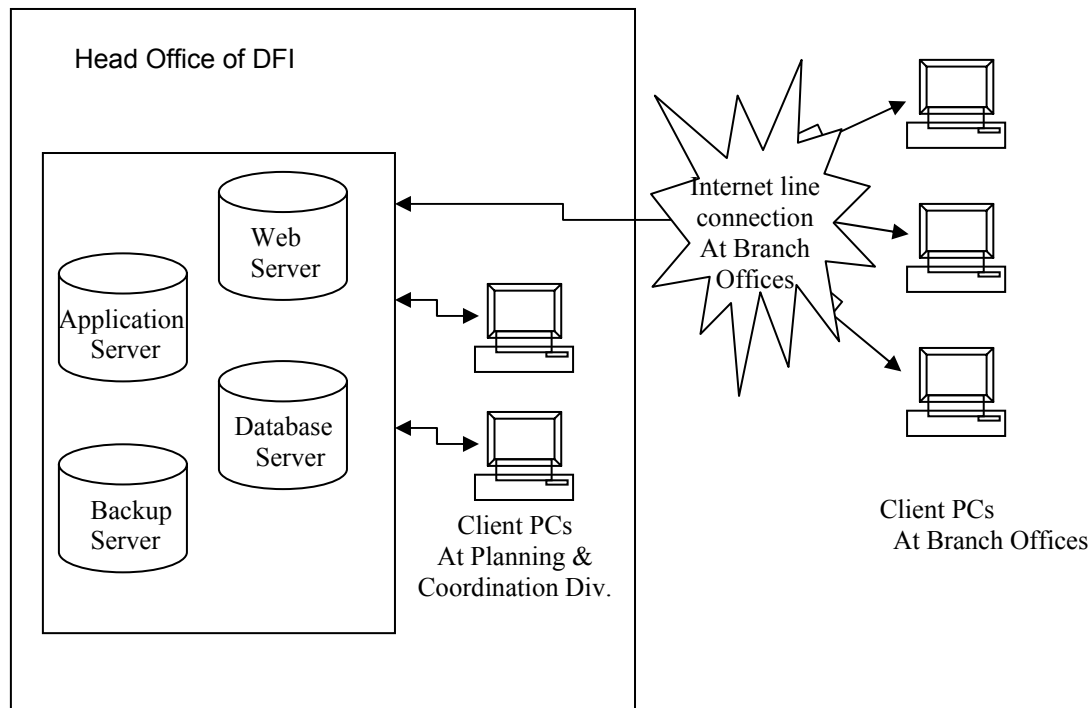


Table III-4-4 Contents of Proposed Database (1/2)
(Customer Database)

Category	Field	Is the field included in the DB currently available/ under development
Dates	Date registered	Yes
	Date updated most recently	Yes
Prepared by (or updated by)	Name of the staff prepared/ updated	Yes
	Branch office	Yes
Identification	Customer ID Number	Yes
Profile	Name of Company	Yes
	Address	Yes
	Telephone No.	Yes
	Fax No.	Yes
	E-mail address	Yes
	Established in	Yes
	Number of employees	Yes
	Paid-up capital	Yes
	Affiliated/ group companies	No
	Name and brief background of the management executives	No
	Major shareholders	No
Sales message	Message for customers (features of the products/ services, advantage, challenge and/or specialty)	No
Products/services, which the customer wants to sell	Industry classification	Yes
	Name and features of the products/ services	No
Products/services, which the customer wants to procure	Industry classification	No
	Name and specifications of the products/ services	No
Record of contacts with the customer by the advisory staffs of the DFI	Date contacted	No
	Name of person contacted	No
	Purpose of contact	No
	Record of contact	No
	Action needed	No
	Action taken	No
	Remaining problem	No
	Suggestion from the manager	No

Table III-4-4 Contents of Proposed Database (2/2)
(Customer Database)

Category	Field	Is the field included in the DB currently available/ under development
Record of the customer's loan application and repayment performance	Record of loan application	Yes
	Record of approved loans	Yes
	Record of loans disbursed	Yes
	Loans outstanding	Yes
	Repayment arrears	Yes
Financial data of the customer	Assets	Yes
	Liabilities	Yes
	Total capital	Yes
	Gross sales	Yes
	Net sales	Yes
	Costs of goods sold	Yes
	Gross profit	Yes
	Administration and sales expenses	Yes
	Net operating income	Yes
	Other income & expenses	Yes
	Net profit	Yes
	Cash flow statement	Yes
	Cash & equivalents, beginning of the year	Yes
	End of the year	Yes
Financial indicators of the customer	Financial ratios	No
Business performance	Market share and competitions	No

The current IT environment related to the proposed system is as follows:

- All the DFIs have equipped all the staffs with PCs.
- Internet access from the branch offices are available for all the DFIs.
- BPM and BPIMB have Web server, but BITMB's system is a closed system within the head office without Web server.
- The application servers of the existing/under development system have surplus capacity to install the new system if it is necessary.
- Existing backup servers/systems of BITMB, BPIMB and BPM can be used for the backup of the proposed system. However, the BPM uses tape back-up system, and need to be upgraded to use a back-up server.

- Database server is necessary to be independent from the existing/under development system for all the DFIs.

On the basis of the above, the additional requirements of the hardware in each DFI are estimated as follows:

		BPIMB	BITMB	BPM	EXIM-B/ MECIB
Servers	Web server	0	1	0	0
	Application server	0	0	0	0
	Database server	1	1	1	1
	Back-up server	0	0	1	0
Client PCs		No additional installation needed.			
Estimated data volume (GB) (*)		8	1	3	16
Software development cost		12 M/M (3persons x 4months)			

Note: (*) Assuming that the maximum volume of data for one customer is 1.0 MB, and the estimated data volume is calculated with twice of the number of customers compared with the current number. Namely,

	BPIMB	BITMB	BPM	EXIM-B/ MECIB
Current number of customers (a)	4,000	400	1,500	8,000 (*)
(a) x 1.0MB: (b) (GB)	4.0	0.4	1.5	8.0
(b) x 2	8.0	0.8	3.0	16.0

(*): Total number of exporters, which is included in MATRADE's database.

The estimated investment requirement on the basis of the assumptions shown in the above is as follows:

	Estimated investment required (RM/each DFI)
Software development	240,000
Hardware	300,000
Total	540,000

Note: With assumption that;

- Software development costs RM20,000/MM
- Server RM150,000/server

Action 3-2: Development of a business information database

1 Objective and Current Condition

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.

The 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

The Business Information Database System will be established at a joint think tank, if the think tank is established jointly among DFIs,

The key components of the Action are:

1. Plan and implement the data gathering process
2. Design and development of the database system
3. Prepare various types of user-interface for search by users

The steps to establish, operate and update the database are as follows:

1. Formulate a plan for establishing the database system, including definition of data and information to be accumulated, and estimated pattern of use of the data, based on discussions with the users (DFIs).
2. Design and develop database system, including search tool and reporting forms

3. Prepare TOR for contract with consultants or research firms for gathering data and information
4. Contract the data gathering with consultants or research firms, and implement the contract. Some data gathering are necessary to be contracted out repeatedly periodically. The output of the contract (data and information) should be submitted in digital form to make the data entry to database easy.
5. Enter the gathered data to the database for use by DFIs.

3 Additional information related to the Action

(1) Required specifications of the system

- 1) To be able to input, update and/or delete the data and information only at the joint think tank
- 2) To be able to store the data in a Database, and secure protection of the stored data.
- 3) To be able to search the data by key words and/or pre-defined list boxes at the head office and branch offices of user DFIs through the Internet line connection.
- 4) To be able to interface to the Web, with assurance of the security.
- 5) To be able to control membership registration/rejection using User-ID and password.
- 6) In order for the database to be enhanced and expanded in the future without restriction from the logic of the application, the database should be independent from the application.

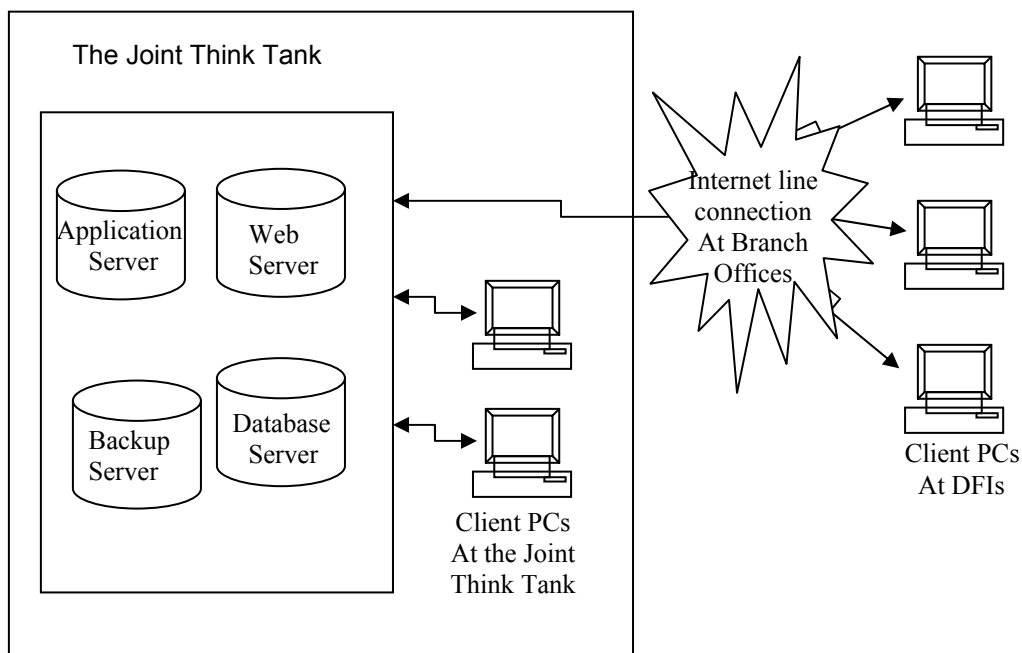
(2) Data and information to be stored

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 are 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

(3) Investment required

Typical configuration of the hardware is shown in the following:



		The Joint Think Tank
Servers	Web server	1
	Application server	1
	Database server	1
	Back-up server	1
Client PCs		One each for all the staffs at the Think Tank
Estimated data volume (GB)		15

Estimated investment required is as follows:

	Estimated cost requirement (RM)	Remarks
Hardware	660,000	Including 4 servers, 8 PCs, OS, and software for system development
Software development	240,000	
Total	900,000	

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 Bank¹ 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 MECIB², 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.

As discussed in the foregoing Chapters, establishment of adequate mechanisms to undertake the advisory services is essential. These include:

- 1) Preparation of operation guides based on the organizational setup recently decided
- 2) Information building including establishment of a joint think-tank
- 3) Formulation of standardized training curriculum for advisory staff and SME Counselors
- 4) Networking/joint undertaking with SME support organizations

Following describes the current progress of preparation at each DFI, and problems identified to require attention in the process of preparation.

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

² EXIM Bank and MECIB is scheduled to be merged to new EXIM Bank on 1 October 2005.

**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) 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:	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															
Work on the standard training course curriculum, and identify training courses available locally and abroad to apply them to this standard course															
1) courses available locally and abroad to apply them to this standard course															
2) Select first batch of trainees who will work also for establishment of the course and as trainers															
3) Send the first batch of trainees to the courses selected															
4) Finalize the standard courses including definition of eligibility															
5) Full-scale operation of the training 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 prepare 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 (2) Implementation Plan of Action for Enhancement of Advisory Service for SMEs (BPM)

Year: Quarter:		2005	2006				2007				2008		2009
		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:		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													

**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:			4	1	2	3	4	1	2	3	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) 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:				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															

5.2 SME Bank

Enterprise Development Sector was assigned as the internal organization responsible for undertaking the Advisory Service. The EDS includes three Advisory Departments (1, 2 and 3). The responsibility, or job assignment among the three “Advisory Departments” is not defined yet. They could take responsibility by region, by sector, or by size of SME customers.

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 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.

In view of the proposed concept of advisory service which assume the service by the staff of branch offices with establishing good relationship with their customers, it is recommended for SME Bank to take into consideration of the following points in preparing the advisory service:

- 1) In identifying 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.

5.3 BPM

There was a significant progress in BPM for preparing advisory service, based on the decision by the management.

They have 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.

BPM is in the process of survey on SMEs among their loan customers to define the target customers.

Further, BPM asked each branch office manager to be a specialist of a specific commodity, including marketing, product, distribution, etc. of the commodity. They may function as advisors for strategic sectors, in the future, together with outside resources of those such as MARDI and Ministry of Agriculture.

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 ultimate objective of the advisory service is to enhance the non-financial function of DFIs in supporting SMEs, which will strengthen the financial support for SMEs, the important element of DFIs' function. The objective of monitoring of the Action Plan implementation, therefore, should be set in this direction, namely, that the monitoring 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 Discussion on Monitoring

(1) Quantitative monitoring

If the monitoring is performed only with the objective of evaluating the performance of DFIs, and if it is assessed by quantitative indicators alone, there will be a fear of DFIs to undertake the advisory service with too much emphasis on the quantitative performance. In such case, the report from DFIs will not produce positive effects, since DFIs will tend to report the successful cases. The internal report of DFIs from the advisory staff to the Planning and Coordination Division, which is the basis of the DFI's report to BNM, will also put its emphasis on how many customers they have contacted, etc. It will not be productive in view of the objective of monitoring set in 6.1. The monitoring report is recommended to be designed to reflect the performance report from advisory staff with summary by DFIs, and survey on change in conditions of SMEs to enable DFIs and BNM to take necessary actions for further enhancement.

(2) Possible KPIs

Monitoring of advisory service with KPIs alone is not recommended as discussed in the above. Nevertheless, the following are the possible KPIs, which have pros and cons as stated in the following.

- 1) Data representing the activities performed, such as;
 - Number of contacts made to SMEs by the advisory staff at branch offices for building good relationship with customers
 - Number of advices made at branch offices and head quarters by category of advice, and by category of SMEs
 - Number of business matching requested and completed
 - Number of interface meetings held, and number of participants by category of SMEs

These data will be easy to collect, but will not necessarily represent the effectiveness of the advisory services performed. Nevertheless, these data are recommended to be gathered as statistics to evaluate the demand for the advisory services.

- 2) Data representing the direct effect of advisory services, such as:
 - Number of cases of businesses management method of the customers improved through the advisory service
 - Number of problems of SMEs, which was solved by the advisory services
 - Number of successful business matching with assistance of the advisory service
 - Number of new business development through the interface meeting

These data will be useful particularly in evaluating the effectiveness of advisory services, if the data can represent the “solved” or “successful” objectively. These data may be obtained from completion/follow-up reports prepared by the customers.

- 3) Data representing the expected impacts on improvement of SME management and DFIs operation, such as;
 - New loan development
 - Improvement of repayment by loan customers of warning sign
 - Reduction in NPL rate

These data represent the ultimate goal of DFIs in providing advisory service. However, it should be noted that these data are the results of many factors, and that the advisory service is nothing but one of the factors.

As already discussed, these data alone will not represent the performance of advisory services. However, it should be noted that data on advisory service activities (the first and second type of data in the above) is strongly recommended to be recorded, for

analysis of the effectiveness of the services.

6.3 Recommended Monitoring System

Monitoring system should be an evaluation of advisory-service performance in view of the target set at the beginning of the period, and the data and information for monitoring should be collected from more than one sources.

In view of the objective of monitoring, the monitoring should be used for:

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

With the above objectives, 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

Table III-6-1 shows an example of reporting format from the DFIs to BNM on their performance in the advisory service.

**Table III-6-1 Sample Reporting Format of DFIs of their
Advisory Service Performance**

	Performance target at the beginning of the year	Result of performance by contrast with the performance target	Findings on difficulty in undertaking the target, and those of good practice	Proposal on the target in the next year
Contents of service				
Organizational setup and enhancement, including staffing				
Staff training				
Development of advisor/consultants panel				
Research work conducted, with brief summary of the research result				
Findings on the effects of advisory services in view of: 1) New loan development 2) Effective support for the loan customers of warning sign 3) Reduction of NPL				

Annexes

Annex 1: SME Questionnaire Survey

Questionnaire for DFI clients

Name of Person Contacted		Position	
Name of Company		Commence operation year	
Address			
Tel No		Fax No	
E-mail			

Part 1: Screening

- S1. What is the number of full-time employees in your company?
 请问您公司有多少个员工?
Berapakah bilangan pekerja sepenuh masa di syarikat anda?

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NOTE: if more than 250 employees need not fill in questionnaire

- S2. Please indicate your company's approximate annual sales turnover in 2003? (Please circle the appropriate answer)
 请问您公司在2003年度的营业额大概有多少 (请圈上适合的答案)
Berapakah anggaran jualan tahunan anda bagi 2003? (Sila bulatkan jawapan yang sesuai)

	ANSWER / 答案 / jawapan	Please go to Question...
Less than RM1M 少过 RM1 百万 <i>Kurang dari RM 1 juta</i>	1	A1
RM1M – RM2.9M RM1 百万 – RM2.9 百万 <i>RM1 juta – RM2.9 juta</i>	2	
RM3M – RM4.9M RM3 百万 – RM4.9 百万 <i>RM3 juta – RM4.9 juta</i>	3	
RM5M – RM9.9M RM5 百万 – RM9.9 百万 <i>RM5 juta – RM9.9 juta</i>	4	
RM10M – RM25M RM10 百万 – RM25 百万 <i>RM10 juta – RM25 juta</i>	5	
More than RM25M 超过 RM25 百万 <i>Lebih dari RM25 juta</i>	6	Interview Not Required

Part 2: Main Questionnaire

- A1. What industry category is your company involve/ classified in? (Please circle the appropriate answer)
请问您公司从事哪一种行业？(请圈上适合的答案)
Syarikat anda tergolong di dalam kategori industri yang mana? (Sila bulatkan jawapan yang sesuai)

ANSWER / 答案 / jawapan		GOTO
a) Manufacturing / 制造业 / Pembuatan		A2
1. Textiles and Apparel/ 纺纱品和服装 / Tekstil dan Pakaian	1	
2. Food and Beverages/ 食物和饮料 / Minuman dan makanan	2	
3. Metal and Metal Products/ 金属和金属产品 / Logam dan produk-produk logam	3	
4. Wood Products/ 木质产品 / Produk-produk kayu	4	
5. Paper, Printing, Publishing/ 纸张，印刷，出版 / Kertas, Pencetakan, Penerbitan	5	
6. Machinery and Engineering/ 机械和工程 / Mesin dan Kejuruteraan	6	
7. Plastics Products/ 塑胶产品 / Produk-produk plastic	7	
8. Electrical and Electronics/ 电和电子产品 / Elektrikal dan elektronik	8	
9. Non Metallic Mineral Products/ 非金属矿物的产品 / Produk galian bukan metalik	9	
10. Petro-Chemical and Chemical/ 石化和化学制品 / Peto-kimia dan kimia	10	
11. Transport Equipment/ 运输设备 / Perperalatan pengangkutan	11	
12. Rubber Products/ 橡胶产品 / Produk-produk getah	12	
13. Palm Oil Products / 棕油产品 / Produk-produk kelapa sawit	13	
14. Others / 其它 / Lain-lain (Please specify / 请说明 / Sila nyatakan _____)	100	
b) Wholesale & Retail/ 批发及零售 / Jualan Borong & Runcit	15	A2
c) Other Services / 其它服务 / Perkhidmatan Lain-lain		
1. Education and Health/ 教育及健康 / Pendidikan dan kesihatan	16	
2. Professional Services/ 专业服务 / Perkhidmatan kepakaran	17	
3. Transportation & Communication/ 运输及通讯 / Pengangkutan dan komunikasi	18	
4. Computer Industry Services/ 电脑工业服务 / Perkhidmatan Industri Komputer	19	
5. Travel agencies, tour operators / 旅行社，旅游公司 Agensi pelancongan, pengusaha lawatan	20	
6. Others / 其它 / Lain-lain (Please specify / 请说明 / Sila nyatakan _____)	200	
d) Mining / 采矿 / Perlombongan	22	
e) Agriculture / 农业 / Pertanian	23	
f) Construction / 建筑业 / Pembinaan	24	
g) Others / 其它 / Lain-lain (Please specify / 请说明 / Sila nyatakan _____)	300	

- A2. What is the type of your business? (Please circle the appropriate answer)
请告诉我您公司的种类。(请圈上适合的答案)
Apakah jenis syarikat anda? (Sila bulatkan jawapan yang sesuai)

ANSWER / 答案 / jawapan		GO TO
Sole proprietorship / 独资 / Pemilik Tunggal	1	A3
Partnership / 合伙 / Perkongsian	2	
Private Limited Company / 私人有限公司 / Syarikat Sendirian Berhad	3	
Others / 其它 / Lain-lain (Please specify / 请说明 / Sila nyatakan _____)		

- A3. Please indicate the ownerships structure of your company ? (Please circle the appropriate answer)
请问您的公司属于哪一种拥有权？(请圈上适合的答案)
Apakah jenis pemilikan syarikat anda? (Sila bulatkan jawapan yang sesuai)

	ANSWER / 答案 / jawapan	GO TO
a) Local / 本地 / Tempatan 100% Bumiputra/ 100% 土著 / 100% Bumiputera 100% Non-Bumiputra/ 100% 非土著 / 100% Bukan Bumiputera Bumiputra and Non-Bumiputra/ 土著和非土著 / Bumiputera dan Bukan-Bumiputera	1 2 3	A4
b) 100% Foreign owned / 100% 外资拥有 / 100% Milik Luar Negara	4	
c) Joint Venture With Foreign Investors/ 和外资合资企业 / Usahasama bersama Pelabur Luar Negara	5	

- A4. What is your company's shareholders' fund? (or total of 'paid-up capital' and 'reserves') ? (Please circle the appropriate answer)
请问您公司的股东基金为何？(或“已缴款的资金”及“储备金”的总数)(请圈上适合的答案)
Berapakah jumlah dana pemegang saham bagi syarikat anda? (atau jumlah bagi 'modal berbayar' dan 'rizab')(Sila bulatkan jawapan yang sesuai)

	ANSWER / 答案 / jawapan	GO TO
Less than RM100,000/ 少过 RM100,000 / Kurang dari RM 100,000	1	A5
RM100,000 – RM499,999	2	
RM500,000 – RM2.49M	3	
RM2.5M – RM4.9M RM2.5 百万 - RM4.9 百万 RM2.5 juta – RM4.9 juta	4	
RM5M – RM9.9M RM5 百万 - RM9.9 百万 RM5 juta – RM9.9 juta	5	
RM10M – RM25M RM10 百万 - RM25 百万 RM10 juta – RM25 juta	6	
More than RM25M / 超过 RM25 百万 / Lebih dari RM25 juta	7	

- A5 Please indicate the approximate percentage of your sales in 2003, by the following category of markets?
请指出您公司在 2003 年，在下列的市场组别里的营业额百分比大概是多少？
Berapakah anggaran peratusan bagi jualan anda dalam 2003, bagi kategori pasaran berikut?

	Percentage %	Go To
a) Export sales/ 外销 / Jualan Eksport	_____ %	Next Section
b) Domestic Sales/ 内销 / Jualan Domestik	_____ %	
1. As final products/ 作为最后的产品 / <i>Sebagai produk-produk akhir</i>	_____ %	
2. As intermediates of domestic products/ 作为国内产品的互相调停/ <i>Sebagai perantaraan produk-produk domestic</i>	_____ %	
3. As intermediates of export products/ 作为出口产品的互相调停 / <i>Sebagai perantaraan produk-produk eksport</i>	_____ %	
Total	100%	

Note: a + b = 100% (Total must be 100 %),
1 + 2 + 3 must add up to b

Part 3: Main Questionnaire – Company's Current Financial Source

B1. What are your company's sources of fund for your business? (Multiple Answers allowed) (Please circle the appropriate answers)

您公司的商业基金来源来自哪里？(可以选多个答案)(请圈上适合的答案)

Apakah sumber dana perniagaan syarikat anda? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	ANSWER / 答案 / jawapan	GO TO
Financing from commercial banks and finance companies 从商业银行和财政公司筹措资金 <i>Pinjaman dari bank komersial dan syarikat-syarikat kewangan</i>	1	B2
Own contribution 自掏腰包 <i>Sumbangan sendiri</i>	2	B3
Borrowing from friends and/ or family 向朋友和/或家人借钱 <i>Pinjaman dari rakan dan/atau keluarga</i>	3	B2
Loan from Development Financial Institutions (DFIs) eg: Bank Industri, Bank Pembangunan, Bank Pertanian, EXIM Bank, MECIB, Bank Rakyat, Bank Simpanan. 向发展财务机构 (DFI) 贷款，例如：Bank Industri, Bank Pembangunan, Bank Pertanian, EXIM Bank, MECIB, Bank Rakyat, Bank Simpanan. <i>Pinjaman dari Institusi Kewangan Pembangunan (IKP) cth: Bank Industri, Bank Pembangunan, Bank Pertanian, EXIM Bank, MECIB, Bank Rakyat, Bank Simpanan.</i>	4	
Others, including concessionary loans and grants from Government agencies e.g. MARA, SMIDEC etc. 其它，包括政府机构的特许贷款及认可的贷款，例如：MARA, SMIDEC 等等 <i>Lain-lain, termasuk Dana Khas dan pinjaman atau geran agensi-agensi kerajaan seperti MARA, SMIDEC dan lain-lain. (Please specify / 请说明 / Sila nyatakan _____)</i>	5	

B2. What were the main objectives of the loan? (Multiple Answers allowed) (Please circle the appropriate answers)

贷款的主要目的是什么？(可以选多个答案)(请圈上适合的答案)

Apakah objektif utama bagi pinjaman tersebut? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	ANSWER / 答案 / jawapan	GO TO
Working capital (for payment of wage and salaries, procurement of materials etc) 运行资本(用来做工资和薪水，买原料等等) <i>Modal kerja (bagi bayaran upah dan gaji, membeli bahan-bahan dan sebagainya)</i>	1	B3
Procurement of fixed assets (machine, equipment, land, buildings etc) 买固定资产(机器，设备，土地，建筑物等等) <i>Pembelian aset tetap (mesin, peralatan, tanah, bangunan dan sebagainya)</i>	2	
Others / 其它 / Lain-lain (Please specify / 请说明 / Sila nyatakan _____)		

- B3. Do you need more funds for your business operation? (Please circle the appropriate answer)
您是否需要更多的基金来供您的生意运作? (请圈上适合的答案)
Adakah anda memerlukan lebih dana bagi operasi perniagaan anda? (Sila bulatkan jawapan yang sesuai)

	ANSWER / 答案 / jawapan	GO TO
Yes. We need more funds. 是的, 我们需要更多的基金 <i>Ya, kami perlu lebih banyak dana</i>	1	B4
No. We don't need the additional funds. 不是的, 我们不需要额外的基金 <i>Tidak, kami tidak memerlukan dana tambahan</i>	2	B5

- B4. What will be the objective to use the additional funds, if available? (Multiple Answers allowed) (Please circle the appropriate answer)
如果有的话, 请问应用额外基金的目的为何? (可以选多个答案) (请圈上适合的答案)
Apakah obektif utama bagi penggunaan dana tambahan, jika ia tersedia? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	ANSWER / 答案 / jawapan	GO TO
Working capital (for payment of wage and salaries, procurement of materials etc) 运行资本 (用来做工资和薪水, 买原料等等) <i>Modal kerja (bagi bayaran upah dan gaji, pembelian bahan-bahan dan sebagainya)</i>	1	B5
Procurement of fixed assets (machine, equipment, land, buildings etc) 买固定资产 (机器, 设备, 土地, 建筑物等等) <i>Pembelian aset tetap (mesin, peralatan, tanah, bangunan dan sebagainya)</i>	2	
Others / 其它 / <i>Lain-lain</i> (Please specify / 请说明 / <i>Sila nyatakan</i> _____)		

- B5. Is it easy for your company to obtain financing? (Please circle the appropriate answer)
您公司是否容易获得筹措财务? (请圈上适合的答案)
Adakah mudah bagi syarikat anda untuk mendapatkan pembiayaan? (Sila bulatkan jawapan yang sesuai)

	ANSWER / 答案 / jawapan	GO TO
"Yes, easy", or "Not so Difficult" "是的, 容易", 或 "不会太难" <i>"Ya, mudah atau "Agak tidak susah"</i>	1	Next Section
No. Access to financing is difficult 不是的, 很难筹措资金 <i>Tidak, saluran kepada pinjaman sangat susah</i>	2	

Part 4: Main Questionnaire – Advisory Service Needs

ADVICE ON IMPROVING THE CURRENT BUSINESS DIFFICULTLY

C1. Do you face any difficulties in your business? (Please circle the appropriate answer)

您在生意上有没有碰到困难？(请圈上适合的答案)

Adakah anda mengalami masalah dalam perniagaan anda? (Sila bulatkan jawapan yang sesuai)

	ANSWER / 答案 / jawapan	GO TO
Yes / 有 / Ya	1	C1a
No / 没有 / Tidak	2	C2

C1a. What kinds of difficulties do you face in your business? (Multiple Answers allowed) (Please circle the appropriate answer)

您在生意上碰到哪种困难？(可以选多个答案)(请圈上适合的答案)

Apakah masalah yang anda mengalami dalam perniagaan anda? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	ANSWER / 答案 / jawapan	GO TO
Lack of knowledge to analyse the cause of poor business performance 缺乏知识来分析造成生意表现差的原因 <i>Kekurangan pengetahuan untuk menganalisis punca kelemahan prestasi perniagaan</i>	1	C1b
Lack of financing or face problem to apply for financing 缺乏财务或面对应用在财务上的问题 <i>Kekurangan pembiayaan atau mengalami masalah untuk memperolehi pembiayaan</i>	2	
Losing customers 顾客的流失 <i>Kehilangan Pelanggan</i>	3	
Technical problem or product quality problem 技术问题或产品品质问题 <i>Masalah teknikal atau masalah kualiti produk</i>	4	
Lack of price competitiveness 缺乏价钱的竞争力 <i>Kekurangan daya saing harga</i>	5	
Others / 其它 / Lain-lain (Please specify / 请说明 / Sila nyatakan _____)		

C1b. Do/ did you need outside assistance or advice for improvement of the business difficulties? (Please circle the appropriate answer)

您是否需要外界的协助或忠告来改善您生意上的困难？(请圈上适合的答案)

Adakah/ pernahkah anda memerlukan bantuan/nasihat luar bagi memperbaiki masalah yang dialami dalam perniagaan anda? (Sila bulatkan jawapan yang sesuai)

	ANSWER / 答案 / jawapan	GO TO
Yes / 有 / Ya	1	C1c
No / 没有 / Tidak	2	C2

- C1c. What area of assistance do you need in your business? (Multiple Answers allowed) (Please circle the appropriate answers)
在您的生意里，您需要哪方面的协助？(可以选多个答案)(请圈上适合的答案)
Dalam bidang manakah anda memerlukan bantuan dalam perniagaan anda? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

C1c ANSWER / 答案 / jawapan	
Analysis of the cause of current poor business performance 分析造成目前生意表现差的原因 <i>Analisa punca kelemahan prestasi perniagaan sedia ada</i>	1
Guidance on financial-related matters 对与财务相关事务的指引 <i>Panduan berkaitan dengan urusan kewangan</i>	2
How to maintain or increase customers 如何维持或增加顾客 <i>Bagaimana untuk mengekalkan dan meningkatkan jumlah pelanggan</i>	3
Technical improvement or product quality improvement 技术改进或产品品质的改进 <i>Peningkatan teknikal atau peningkatan kualiti produk</i>	4
How to improve price competitiveness 如何改进价钱的竞争力 <i>Bagaimana untuk meningkatkan daya saing harga</i>	5
Others / 其它 / Lain-lain (Please specify / 请说明 / Sila nyatakan _____)	

- C1d. Have you ever received any kind of outside assistance to solve the difficulties? (Please circle the appropriate answer)
您有没有接受过任何外界的协助来解决该困难？(请圈上适合的答案)
Pernahkah anda menerima apa-apa bantuan dari luaran bagi membantu perniagaan anda dalam menyelesaikan masalah tersebut? (Sila bulatkan jawapan yang sesuai)

ANSWER / 答案 / jawapan		GO TO
Yes / 有 / Ya	1	C1e
No / 没有 / Tidak	2	C1g

- C1e. What area of assistance have you received for improvement of the present/ past difficulties of your business? (Multiple Answers allowed) (Please circle the appropriate answers)
您曾经接受过哪方面的协助以改善目前/过去在您生意上的困难？(可以选多个答案)(请圈上适合的答案)
Dalam bidang manakah anda menerima bantuan bagi memperbaiki masalah yang dialami pada masa sekarang/ lampau untuk perniagaan anda? (Pelbagai jawapan dibenarkan)(Sila bulatkan jawapan yang sesuai)

C1e ANSWER / 答案 / jawapan	
Analysis of the cause of current poor business performance 分析造成目前生意表现差的原因 <i>Analisa punca kelemahan prestasi perniagaan sedia ada</i>	1
Guidance on financial-related matters 对与财务相关事务的指引 <i>Panduan berkaitan dengan urusan kewangan</i>	2
How to maintain or increase customers 如何维持或增加顾客 <i>Bagaimana mengekalkan dan meningkatkan jumlah pelanggan</i>	3
Technical improvement or product quality improvement 技术改进或产品品质的改进 <i>Peningkatan teknikal atau peningkatan kualiti produk</i>	4
How to improve price competitiveness 如何改进价钱的竞争力 <i>Bagaimana meningkatkan daya saing harga</i>	5
Others / 其它 / Lain-lain (Please specify / 请说明 / Sila nyatakan _____)	

- C1f. What institute/ organization have you received the assistance from **based on your answer in C1e?**
(Please write the name of institute/ organization in the provided answer grid below)
您接受过哪个机构/公司的协助?(请把机构/公司的名字填写在下列所提供的答案格子里头)
Dari institusi/organisasi manakah anda pernah menerima bantuan? (Sila tulis nama institusi/organisasi di dalam grid jawapan yang disediakan)

	C1f Name of institute/ organization 机构/公司的名字 <i>Nama institusi/organisasi</i>
Analysis of the cause of current poor business performance 分析造成目前生意表现差的原因 <i>Analisa punca kelemahan prestasi perniagaan sedia ada</i>	
Guidance on financial-related matters 对与财务相关事务的指引 <i>Panduan berkaitan dengan urusan kewangan</i>	
How to maintain or increase customers 如何维持或增加顾客 <i>Bagaimana untuk mengekalkan dan meningkatkan jumlah pelanggan</i>	
Technical improvement or product quality improvement 技术改进或产品品质的改进 <i>Peningkatan teknikal atau peningkatan kualiti produk</i>	
How to improve price competitiveness 如何改进价钱的竞争力 <i>Bagaimana untuk meningkatkan daya saing harga</i>	
Others / 其它 / <i>Lain-lain</i> (Please specify / 请说明 / <i>Sila nyatakan</i> _____)	

- C1g. What area of assistance do you expect from DFIs to solve your business difficulty? (Multiple Answers allowed)
(Please circle the appropriate answers)
您希望DFI可以提供您哪方面的协助以解决您生意上的困难?(可以选多个答案)(请圈上适合的答案)
Bantuan dalam bidang manakah anda jangkakan dari IKP bagi membantu dalam menyelesaikan masalah yang syarikat anda alami? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	C1g ANSWER / 答案 / jawapan
Analysis of the cause of current poor business performance 分析造成目前生意表现差的原因 <i>Analisa punca kelemahan prestasi perniagaan sedia ada</i>	1
Guidance on financial-related matters 对与财务相关事务的指引 <i>Panduan berkaitan dengan urusan kewangan</i>	2
How to maintain or increase customers 如何维持或增加顾客 <i>Bagaimana untuk mengekalkan dan meningkatkan jumlah pelanggan</i>	3
Technical improvement or product quality improvement 技术改进或产品品质的改进 <i>Peningkatan teknikal atau peningkatan kualiti produk</i>	4
How to improve price competitiveness 如何改进价钱的竞争力 <i>Bagaimana meningkatkan daya saing harga</i>	5
Others / 其它 / <i>Lain-lain</i> (Please specify / 请说明 / <i>Sila nyatakan</i> _____)	

ADVICE ON HOW TO DEVELOP A NEW BUSINESS

- C2. Do you have any plan to launch a new business or a new product? (or do you have any business ideas which you want to materialize?) (Please circle the appropriate answer)

您有没有计划推出一个全新的生意或一个全新的产品？(或您有没有一些您想要实现的生意构思？)(请圈上适合的答案)

Adakah anda mempunyai rancangan untuk membuka perniagaan baru atau mengeluarkan produk baru?(ataukah anda mempunyai idea perniagaan baru yang anda ingin realisasikan?) (Sila bulatkan jawapan yang sesuai)

ANSWER / 答案 / jawapan	
Yes / 有 / Ya	1
No / 没有 / Tidak	2

GO TO
C2a
C3

- C2a. Do you need outside assistance or advice in materializing the new business or new product? (Please circle the appropriate answer)

您是否需要外界的协助或忠告来实现全新的生意或产品？(请圈上适合的答案)

Adakah anda memerlukan bantuan dari luar atau nasihat dalam merealisasikan perniagaan baru atau produk baru tersebut? (Sila bulatkan jawapan yang sesuai)

ANSWER / 答案 / jawapan	
Yes / 有 / Ya	1
No / 没有 / Tidak	2

GO TO
C2b
C2c

- C2b. In which areas do you require assistance? (Multiple Answers allowed) (Please circle the appropriate answers)

您需要哪方面的协助？(可以选多个答案)(请圈上适合的答案)

Dalam bidang manakah anda memerlukan bantuan? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	C2b ANSWER / 答案 / jawapan
Information on source of financing 财务来源的资讯 <i>Maklumat mengenai sumber pembiayaan</i>	1
Market information 市场资讯 <i>Maklumat pasaran</i>	2
Technical consultation or technology development 技术咨询或技术发展 <i>Pemintaan nasihat teknikal atau perkembangan teknologi</i>	3
Feasibility study 可行性研究 <i>Penyelidikan Kebolehlaksanaan</i>	4
Others / 其它 / Lain-lain (Please specify / 请说明 / Sila nyatakan _____)	

- C2c. Have you ever received any kind of outside assistance in materializing the new business or new product? (Please circle the appropriate answer)

您有没有接受过任何外界的协助来实现全新的生意或产品？(请圈上适合的答案)

Pernahkah anda menerima apa-apa bantuan dari luar dalam merealisasikan perniagaan baru atau produk baru tersebut? (Sila bulatkan jawapan yang sesuai)

ANSWER / 答案 / jawapan	
Yes / 有 / Ya	1
No / 没有 / Tidak	2

GO TO
C2d
C2f

- C2d.** What area of assistance have you received in materializing the new business or new product? (Multiple Answers allowed) (Please circle the appropriate answers)
 您曾经接受过哪方面的协助以实现全新的生意或产品？(可以选多个答案)(请圈上适合的答案)
Dalam bidang manakah anda menerima bantuan bagi merealisasikan perniagaan atau produk baru tersebut?
(Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	C2d ANSWER / 答案 / jawapan
Information on source of financing 财务来源的资讯 <i>Maklumat mengenai sumber pembiayaan</i>	1
Market information 市场资讯 <i>Maklumat pasaran</i>	2
Technical consultation or technology development 技术咨询或技术发展 <i>Pemintaan nasihat teknikal atau perkembangan teknologi</i>	3
Feasibility study 可行性研究 <i>Penyelidikan kebolehlaksanaan</i>	4
Others / 其它 / Lain-lain (Please specify / 请说明 / <i>Sila nyatakan</i> _____)	

- C2e.** What institute/ organization have you received the assistance from? (Please write the name of institute/ organization in the provided answer grid below)
 您接受过哪个机构/公司的协助？(请把机构/公司的名字填写在下列所提供的答案格子里头)
Dari institusi/organisasi manakah anda pernah menerima bantuan? (Sila tulis nama bagi institusi/organisasi di dalam grid jawapan yang disediakan di bawah)

	C2e (Name of institute/ organization 机构/公司的名字 <i>Nama institusi/organisasi</i>
Information on source of financing 财务来源的资讯 <i>Maklumat mengenai sumber pembiayaan</i>	
Market information 市场资讯 <i>Maklumat pasaran</i>	
Technical consultation or technology development 技术咨询或技术发展 <i>Pemintaan nasihat teknikal atau perkembangan teknologi</i>	
Feasibility study 可行性研究 <i>Penyelidikan kebolehlaksanaan</i>	
Others / 其它 / Lain-lain (Please specify / 请说明 / <i>Sila nyatakan</i> _____)	

- C2f. What area of assistance do you expect from DFIs in materializing the new business or new product? (Multiple Answers allowed) (Please circle the appropriate answers)
您希望 DFI 可以提供您哪方面的协助以实现全新的生意或产品？(可以选多个答案)(请圈上适合的答案)
Dalam bidang manakah anda mengharap dari IKP dalam merealisasikan perniagaan baru atau produk baru anda? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	C2f ANSWER / 答案 / jawapan)
Information on source of financing 财务来源的资讯 <i>Maklumat dalam sumber pembiayaan</i>	1
Market information 市场资讯 <i>Maklumat pasaran</i>	2
Technical consultation or technology development 技术咨询或技术发展 <i>Pemintaan nasihat teknikal atau perkembangan teknologi</i>	3
Feasibility study 可行性研究 <i>Penyelidikan kebolehlaksanaan</i>	4
Others / 其它 / <i>Lain-lain</i> (Please specify / 请说明 / <i>Sila nyatakan _____</i>)	

ASSISTANCE FOR BUSINESS MANAGEMENT

- C3. Do you need advice on business operation or management? (Please circle the appropriate answer)
您是否需要生意经营或管理上的忠告？(请圈上适合的答案)
Adakah anda memerlukan nasihat dalam operasi atau pengurusan perniagaan? (Sila bulatkan jawapan yang sesuai)

	ANSWER / 答案 / jawapan	GO TO
Yes / 是 / <i>Ya</i>	1	C3a
No / 不是 / <i>Tidak</i>	2	C4

- C3a. Do you need outside assistance or advice in business operation or management? (Please circle the appropriate answer)
您是否需要外界提供给您在生意经营或管理上的协助或忠告？(请圈上适合的答案)
Adakah anda memerlukan bantuan luaran atau nasihat bagi operasi atau pengurusan perniagaan anda? (Sila bulatkan jawapan yang sesuai)

	ANSWER / 答案 / jawapan	GO TO
Yes / 有 / <i>Ya</i>	1	C3b
No / 没有 / <i>Tidak</i>	2	C3c

- C3b. What areas of assistance do you need? (Multiple Answers allowed) (Please circle the appropriate answers)
您需要哪方面的协助? (可以选多个答案) (请圈上适合的答案)
Dalam bidang manakah anda memerlukan bantuan? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	C3b ANSWER / 答案 / jawapan
Guidance on basics of business (how to keep accounts, etc) 商务的基本原则的指导 (如何保有客户等等) <i>Panduan mengenai asas perniagaan (bagaimana untuk menyimpan akaun, dll)</i>	1
Guidance on how to make business plan 指导如何做出商业计划 <i>Panduan bagaimana untuk membuat pelan perniagaan</i>	2
Fund raising / application for loan 筹资/ 贷款的申请 <i>Pengumpulan dana/ permohonan pinjaman</i>	3
Guidance on tax affairs 在课税事务上的指导 <i>Panduan mengenai hal-hal cukai</i>	4
Others / 其它 / <i>Lain-lain</i> (Please specify / 请说明 / <i>Sila nyatakan</i> _____)	

- C3c Have you ever received any kind of outside assistance in business operation or management? (Please circle the appropriate answer)
您在生意经营或管理上有没有接受过任何的外界协助? (请圈上适合的答案)
Pernakah anda menerima apa-apa bantuan luaran dalam operasi atau pengurusan perniagaan? (Sila bulatkan jawapan yang sesuai)

ANSWER / 答案 / jawapan		GO TO
Yes / 有 / <i>Ya</i>	1	C3d
No / 没有 / <i>Tidak</i>	2	C3f

- C3d What area of assistance have you received in business operation or management? (Multiple Answers allowed)
(Please circle the appropriate answers)
您在生意经营或管理上接受过哪方面的协助? (可以选多个答案) (请圈上适合的答案)
Dalam bidang manakah anda pernah menerima bantuan bagi operasi atau pengurusan perniagaan anda? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	C3d ANSWER / 答案 / jawapan
Guidance on basics of business (how to keep accounts, etc) 商务的基本原则的指导 (如何保有客户等等) <i>Panduan mengenai asas perniagaan (bagaimana untuk menyimpan akaun, dll)</i>	1
Guidance on how to make business plan 指导如何做出商业计划 <i>Panduan bagaimana untuk membuat pelan perniagaan</i>	2
Fund raising / application for loan 筹资/ 贷款的申请 <i>Pengumpulan dana/ permohonan pinjaman</i>	3
Guidance on tax affairs 在课税事务上的指导 <i>Panduan mengenai hal-hal cukai</i>	4
Others / 其它 / <i>Lain-lain</i> (Please specify / 请说明 / <i>Sila nyatakan</i> _____)	

C3e What institute/ organization have you received the assistance from? (Please write the name of institute/ organization in the provided answer grid below)
您接受过哪个机构/公司的协助?(请把机构/公司的名字填写在下列所提供的答案格子里头)

Dari institusi/organisasi manakah anda pernah menerima bantuan? (Sila tulis nama bagi institusi/organisasi di dalam grid jawapan yang disediakan di bawah)

	C3e (Name of institute/ organization) 机构/公司的名字 <i>Nama institusi/organisasi</i>
Guidance on basics of business (how to keep accounts, etc) 商务的基本原则的指导(如何保有客户等等) <i>Panduan mengenai asas perniagaan (bagaimana untuk menyimpan akaun, dll)</i>	
Guidance on how to make business plan 指导如何做出商业计划 <i>Panduan bagaimana untuk membuat pelan perniagaan</i>	
Fund raising / application for loan 筹资/贷款的申请 <i>Pengumpulan dana/ permohonan pinjaman</i>	
Guidance on tax affairs 在课税事务上的指导 <i>Panduan mengenai hal-hal cukai</i>	
Others / 其它 / <i>Lain-lain</i> (Please specify / 请说明 / <i>Sila nyatakan</i> _____)	

C3f What area of assistance do you expect from DFIs in business operation or management? (Multiple Answers allowed) (Please circle the appropriate answers)
在生意经营或管理上, 您希望DFI可以提供您哪方面的协助?(可以选多个答案)(请圈上适合的答案)

Dalam bidang manakah anda inginkan dari IKP dalam operasi atau pengurusan perniagaan anda? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	C3f ANSWER / 答案 / jawapan
Guidance on basics of business (how to keep accounts, etc) 商务的基本原则的指导(如何保有客户等等) <i>Panduan mengenai asas perniagaan (bagaimana untuk menyimpan akaun, dll)</i>	1
Guidance on how to make business plan 指导如何做出商业计划 <i>Panduan bagaimana untuk membuat pelan perniagaan</i>	2
Fund raising / application for loan 筹资/贷款的申请 <i>Pengumpulan dana/ permohonan pinjaman</i>	3
Guidance on tax affairs 在课税事务上的指导 <i>Panduan mengenai hal-hal cukai</i>	4
Others / 其它 / <i>Lain-lain</i> (Please specify / 请说明 / <i>Sila nyatakan</i> _____)	

ASSISTANCE FOR IMPROVED BUSINESS MANAGEMENT AND/ OR BUSINESS EXPANSION

- C4. Do you want to improve your business management method? (or do you want to expand your current business?) (Please circle the appropriate answer)
您是否想要改进您生意上的管理方法? (或者您是否想要扩充您目前的生意?) (请圈上适合的答案)

Adakah anda ingin memperbaiki kaedah pengurusan perniagaan anda? (atau adakah anda ingin memperkembangkan perniagaan anda sekarang) (Sila bulatkan jawapan yang sesuai)

ANSWER / 答案 / jawapan	
Yes / 是 / Ya	1
No / 否 / Tidak	2

GO TO
C4a
C5

- C4a. Do you need outside assistance or advice in improving your business management method or business expansion? (Please circle the appropriate answer)
您是否需要外界的协助或忠告以改进您生意的管理方法或生意扩充? (请圈上适合的答案)

Adakah anda memerlukan bantuan luar atau nasihat dalam mempertingkatkan kaedah pengurusan perniagaan atau perkembangan perniagaan anda? (Sila bulatkan jawapan yang sesuai)

ANSWER / 答案 / jawapan	
Yes / 是 / Ya	1
No / 否 / Tidak	2

GO TO
C4b
C4c

- C4b. What areas of assistance do you need? (Multiple Answers allowed) (Please circle the appropriate answers)

您需要哪方面的协助? (可以选多个答案) (请圈上适合的答案)

Dalam bidang manakah anda memerlukan bantuan? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

C4b ANSWER / 答案 / jawapan	
Diagnosis of the current business management 目前商业管理的诊断 <i>Diagnosis pengurusan perniagaan sedia ada</i>	1
Strategic planning in business management 生意管理的策略计划 <i>Perancangan strategik dalam pengurusan perniagaan</i>	2
Business management innovation/ introduction of new management method 生意管理的创新/ 引进全新的管理方法 <i>Inovasi pengurusan perniagaan/ Memperkenalkan cara-cara pengurusan baru</i>	3
Improvement in marketing strategy 行销策略的改进 <i>Peningkatan dalam strategi pemasaran</i>	4
Customer development/ business matching 顾客发展/ 商业匹配 <i>Pembangunan pelanggan/ padanan perniagaan</i>	5
Technical and product quality improvement 技术和产品品质的改进 <i>Penambahbaikan teknikal dan kualiti produk</i>	6
Productivity improvement or increasing price competitiveness 生产力的改进或提升价钱的竞争力 <i>Peningkatan produktiviti atau daya saing harga</i>	7
Guidance for production management (e.g. product quality management, 5S-Sort, Straighten, Shine, Standardize, Sustain etc) 生产管理的指导 (例如: 产品品质的管理, 5S-Sort, Straighten, Shine, Standardize, Sustain 等等) <i>Panduan untuk pengurusan pengeluaran (seperti pengurusan kualiti produk, 5S-Sort, Straighten, Shine, Standardize, Sustain dan lain-lain)</i>	8
Product development 产品发展 / <i>Pembangunan produk</i>	9
Improvement of shop management (e.g. display, layout etc) and customer service 商店管理 (例如: 陈列, 规划等等) 和 顾客服务的改进 <i>Peningkatan dalam pengurusan kedai (seperti pameran, aturan mengikut perancangan dan lain-lain) dan perkhidmatan pelanggan</i>	10
Others / 其它 / <i>Lain-lain</i> (Please specify / 请说明 / <i>Sila nyatakan</i> _____)	

- C4c Have you ever received any kind of outside assistance in improving your business operation or management?
在经营或管理上，您有没有接受过任何外界的协助以改进您生意的管理方法或生意扩充？

Pernahkah anda menerima apa-apa bantuan luar dalam mempertingkatkan kaedah pengurusan perniagaan atau perkembangan perniagaan anda?

	ANSWER / 答案 / jawapan
Yes / 有 / Ya	1
No / 没有 / Tidak	2

GO TO
C4d
C4f

- C4d What area of assistance have you received in improving your business management or business expansion? (Multiple Answers allowed) (Please circle the appropriate answer)
您接受过哪方面的协助以改进您生意的管理或生意的扩充？(可以选多个答案)(请圈上适合的答案)

Dalam bidang manakah anda pernah menerima bantuan dalam mempertingkatkan pengurusan perniagaan atau perkembangan perniagaan anda? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	C4d ANSWER / 答案 / jawapan
Diagnosis of the current business management 目前商业管理的诊断 <i>Diagnosis pengurusan perniagaan sedia ada</i>	1
Strategic planning in business management 生意管理的策略计划 <i>Perancangan strategik dalam pengurusan perniagaan</i>	2
Business management innovation/ introduction of new management method 生意管理的创新/引进全新的管理方法 <i>Inovasi pengurusan perniagaan/ Memperkenalkan cara-cara pengurusan baru</i>	3
Improvement in marketing strategy 行销策略的改进 <i>Peningkatan dalam strategi pemasaran</i>	4
Customer development/ business matching 顾客发展/商业匹配 <i>Pembangunan pelanggan/ padanan perniagaan</i>	5
Technical and product quality improvement 技术和产品品质的改进 <i>Penambahbaikan teknikal dan kualiti produk</i>	6
Productivity improvement or increasing price competitiveness 生产力的改进或提升价钱的竞争力 <i>Peningkatan produktiviti atau daya saing harga</i>	7
Guidance for production management (e.g. product quality management, 5S-Sort, Straighten, Shine, Standardize, Sustain etc) 生产管理的指导(例如：产品品质的管理，5S-Sort, Straighten, Shine, Standardize, Sustain 等等) <i>Panduan untuk pengurusan pengeluaran (seperti pengurusan kualiti produk, 5S-Sort, Straighten, Shine, Standardize, Sustain dan lain-lain)</i>	8
Product development 产品发展 / <i>Pembangunan produk</i>	9
Improvement of shop management (e.g. display, layout etc) and customer service 商店管理(例如：陈列，规划等等)和顾客服务的改进 <i>Peningkatan dalam pengurusan kedai (seperti pameran, aturan mengikut perancangan dan lain-lain) dan perkhidmatan pelanggan</i>	10
Others / 其它 / <i>Lain-lain</i> (Please specify / 请说明 / <i>Sila nyatakan</i> _____)	

- C4e** What institute/ organization have you received the assistance from? (Please write the name of institute/ organization in the provided answer grid below)
 您接受过哪个机构/公司的协助? (请把机构/公司的名字填写在下列所提供的答案格子里头)
Dari institusi / organisasi manakah anda pernah menerima bantuan? (Sila tulis nama institusi / organisasi di dalam grid jawapan yang disediakan di bawah)

	C4e (Name of institute/ organization) 机构/公司的名字 <i>Nama institusi/organisasi</i>
Diagnosis of the current business management 目前商业管理的诊断 <i>Diagnosis pengurusan perniagaan sedia ada</i>	
Strategic planning in business management 生意管理的策略计划 <i>Perancangan strategik dalam pengurusan perniagaan</i>	
Business management innovation/ introduction of new management method 生意管理的创新/引进全新的管理方法 <i>Inovasi pengurusan perniagaan/ Memperkenalkan cara-cara pengurusan baru</i>	
Improvement in marketing strategy 行销策略的改进 <i>Peningkatan dalam strategi pemasaran</i>	
Customer development/ business matching 顾客发展/商业匹配 <i>Pembangunan pelanggan/ padanan perniagaan</i>	
Technical and product quality improvement 技术和产品品质的改进 <i>Penambahbaikan teknikal dan kualiti produk</i>	
Productivity improvement or increasing price competitiveness 生产力的改进或提升价钱的竞争力 <i>Peningkatan produktiviti atau daya saing harga</i>	
Guidance for production management (e.g. product quality management, 5S-Sort, Straighten, Shine, Standardize, Sustain etc) 生产管理的指导(例如: 产品品质的管理, 5S-Sort, Straighten, Shine, Standardize, Sustain 等等) <i>Panduan untuk pengurusan pengeluaran (seperti pengurusan kualiti produk, 5S-Sort, Straighten, Shine, Standardize, Sustain dan lain-lain)</i>	
Product development 产品发展 / <i>Pembangunan produk</i>	
Improvement of shop management (e.g. display, layout etc) and customer service 商店管理(例如: 陈列, 规划等等)和顾客服务的改进 <i>Peningkatan dalam pengurusan kedai (seperti pameran, aturan mengikut perancangan dan lain-lain) dan perkhidmatan pelanggan</i>	
Others / 其它 / <i>Lain-lain</i> (Please specify / 请说明 / <i>Sila nyatakan</i> _____)	

- C4f What area of assistance do you expect from DFIs in improving your business management or business expansion? (Multiple Answers allowed) (Please circle the appropriate answers)
您希望 DFI 可以提供您哪方面的协助以改进您生意的管理或生意的扩充? (可以选多个答案) (请圈上适合的答案)
Bantuan dalam bidang manakah anda jangkakan dari IKP dalam memperbaiki pengurusan atau perkembangan perniagaan syarikat anda? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	C4f ANSWER / 答案 / jawapan
Diagnosis of the current business management 目前商业管理的诊断 <i>Diagnosis pengurusan perniagaan sedia ada</i>	1
Strategic planning in business management 生意管理的策略计划 <i>Perancangan strategik dalam pengurusan perniagaan</i>	2
Business management innovation/ introduction of new management method 生意管理的创新 / 引进全新的管理方法 <i>Inovasi pengurusan perniagaan/ Memperkenalkan cara-cara pengurusan baru</i>	3
Improvement in marketing strategy 行销策略的改进 <i>Peningkatan dalam strategi pemasaran</i>	4
Customer development/ business matching 顾客发展 / 商业匹配 <i>Pembangunan pelanggan/ padanan perniagaan</i>	5
Technical and product quality improvement 技术和产品品质的改进 <i>Penambahbaikan teknikal dan kualiti produk</i>	6
Productivity improvement or increasing price competitiveness 生产力的改进或提升价钱的竞争力 <i>Peningkatan produktiviti atau daya saing harga</i>	7
Guidance for production management (e.g. product quality management, 5S-Sort, Straighten, Shine, Standardize, Sustain etc) 生产管理的指导 (例如: 产品品质的管理, 5S-Sort, Straighten, Shine, Standardize, Sustain 等等) <i>Panduan untuk pengurusan pengeluaran (seperti pengurusan kualiti produk, 5S-Sort, Straighten, Shine, Standardize, Sustain dan lain-lain)</i>	8
Product development 产品发展 / <i>Pembangunan produk</i>	9
Improvement of shop management (e.g. display, layout etc) and customer service 商店管理 (例如: 陈列, 规划等等) 和顾客服务的改进 <i>Peningkatan dalam pengurusan kedai (seperti pameran, aturan mengikut perancangan dan lain-lain) dan perkhidmatan pelanggan</i>	10
Others / 其它 / <i>Lain-lain</i> (Please specify / 请说明 / <i>Sila nyatakan _____</i>)	

PROVISION OF BUSINESS SUPPORT INFORMATION

- C5. Do you need any information related to your business? (Please circle the appropriate answer)
您是否需要一些与您生意有关的资讯? (请圈上适合的答案)
Adakah anda memerlukan apa-apa maklumat yang berkaitan dengan perniagaan anda? (Sila bulatkan jawapan yang sesuai)

	ANSWER / 答案 / jawapan	GO TO
Yes / 是 / Ya	1	C5a
No / 否 / Tidak	2	C6

- C5a. What kind of information do you need? (Multiple Answers allowed) (Please circle the appropriate answers)
您需要哪方面的资讯? (可以选多个答案) (请圈上适合的答案)
Apakah jenis maklumat yang anda perlukan? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	C5a ANSWER / 答案 / jawapan
Business index of the same industry/ trade for benchmarking 用在相同工业/贸易的商业索引的基本问题测试 <i>Indeks perniagaan industri/dagangan sama untuk penanda tahap</i>	1
Market trends of the products of the same industry/ trade 相同工业/贸易的产品市场趋势 <i>Trend pasaran bagi prduk industri/dagangan sama</i>	2
Information on available public support technical programs 关于可用公共科技支援计划的资讯 <i>Maklumat mengenai program teknikal sokongan awam yang ada</i>	3
Information on available financial programs 关于可用财务计划的资讯 <i>Maklumat mengenai program kewangan yang ada</i>	4
Information on possible business opportunity 关于可能商业机会的资讯 <i>Maklumat mengenai peluang perniagaan yang ada</i>	5
Information on new/ advanced technology 关于全新/先进的科技资讯 <i>Maklumat mengenai teknologi baru/ terkini</i>	6
Others / 其它 / Lain-lain (Please specify / 请说明 / Sila nyatakan _____)	

- C5b. Have you ever received any kind of business information from outside sources? (Please circle the appropriate answer)
您有没有收过外界任何种类的生意资讯? (请圈上适合的答案)
Pernahkah anda meneripa apa-apa maklumat perniagaan dari sumber luar? (Sila bulatkan jawapan yang sesuai)

	ANSWER / 答案 / jawapan	GO TO
Yes / 有 / Ya	1	C5c
No / 没有 / Tidak	2	C5e

C5c. What kind of information have you received? (Multiple Answers allowed) (Please circle the appropriate answers)

您收过哪些资讯? (可以选多个答案) (请圈上适合的答案)

Apakah jenis maklumat yang pernah anda terima? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	C5c ANSWER / 答案 / jawapan
Business index of the same industry/ trade for benchmarking 用在相同工业/贸易的商业索引的基本问题测试 <i>Indeks perniagaan industri/dagangan sama untuk penanda tahap</i>	1
Market trends of the products of the same industry/ trade 相同工业/贸易的产品市场趋势 <i>Trend pasaran bagi prduk industri/dagangan sama</i>	2
Information on available public support technical programs 关于可用公共科技支援计划的资讯 <i>Maklumat mengenai program teknikal sokongan awam yang ada</i>	3
Information on available financial programs 关于可用财务计划的资讯 <i>Maklumat mengenai program kewangan yang ada</i>	4
Information on possible business opportunity 关于可能商业机会的资讯 <i>Maklumat mengenai peluang perniagaan yang ada</i>	5
Information on new/ advanced technology 关于全新/先进的科技资讯 <i>Maklumat mengenai teknologi baru/ terkini</i>	6
Others / 其它 / <i>Lain-lain</i> (Please specify / 请说明 / <i>Sila nyatakan</i>)	

C5d. What institute/ organization have you received the information from? (Please write the name of institute/ organization in the provided answer grid below)

您接受过哪个机构/公司的资讯? (请把机构/公司的名字填写在下列所提供的答案格子里头)

Dari institusi/organisasi manakah anda pernah menerima maklumat? (Sila tulis nama institusi / organisasi di dalam grid jawapan di bawah)

	C5d (Name of institue/ organization 机构/公司的名字 <i>Nama institusi/organisasi</i>
Business index of the same industry/ trade for benchmarking 用在相同工业/贸易的商业索引的基本问题测试 <i>Indeks perniagaan industri/dagangan sama untuk penanda tahap</i>	
Market trends of the products of the same industry/ trade 相同工业/贸易的产品市场趋势 <i>Trend pasaran bagi prduk industri/dagangan sama</i>	
Information on available public support technical programs 关于可用公共科技支援计划的资讯 <i>Maklumat mengenai program teknikal sokongan awam yang ada</i>	
Information on available financial programs 关于可用财务计划的资讯 <i>Maklumat mengenai program kewangan yang ada</i>	
Information on possible business opportunity 关于可能商业机会的资讯 <i>Maklumat mengenai peluang perniagaan yang ada</i>	
Information on new/ advanced technology 关于全新/先进的科技资讯 <i>Maklumat mengenai teknologi baru/ terkini</i>	
Others / 其它 / <i>Lain-lain</i> (Please specify / 请说明 / <i>Sila nyatakan</i>)	

- C5e. What kind of information do you expect from DFIs? (Multiple Answers allowed) (Please circle the appropriate answers)
 您希望 DFI 可以提供您哪方面的资讯? (可以选多个答案) (请圈上适合的答案)
Apakah jenis maklumat yang anda inginkan dari IKP? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	C5e ANSWER / 答案 / jawapan
Business index of the same industry/ trade for benchmarking 用在相同工业 / 贸易的商业索引的基本问题测试 <i>Indeks perniagaan industri/dagangan sama untuk penanda tahap</i>	1
Market trends of the products of the same industry/ trade 相同工业 / 贸易的产品市场趋势 <i>Trend pasaran bagi prduk industri/dagangan sama</i>	2
Information on available public support technical programs 关于可用公共科技支援计划的资讯 <i>Maklumat mengenai program teknikal sokongan awam yang ada</i>	3
Information on available financial programs 关于可用财务计划的资讯 <i>Maklumat mengenai program kewangan yang ada</i>	4
Information on possible business opportunity 关于可能商业机会的资讯 <i>Maklumat mengenai peluang perniagaan yang ada</i>	5
Information on new/ advanced technology 关于全新 / 先进的科技资讯 <i>Maklumat mengenai teknologi baru/ terkini</i>	6
Others / 其它 / <i>Lain-lain</i> (Please specify / 请说明 / <i>Sila nyatakan</i> _____)	

SUPPORT FOR HUMAN RESOURCE DEVELOPMENT

- C6. Do you need any support for human resource development related to your business? (Please circle the appropriate answer)

在人力资源发展上，您是否需要一些与您生意有关的支援？(请圈上适合的答案)

Adakah anda memerlukan apa-apa sokongan bagi pembangunan sumber manusia yang berkaitan dengan perniagaan anda? (Sila bulatkan jawapan yang sesuai)

ANSWER / 答案 / jawapan	
Yes / 是 / Ya	1
No / 否 / Tidak	2

GO TO
C6a
C7

- C6a. What area of support do you need? (Multiple Answers allowed) (Please circle the appropriate answers)

您需要哪方面的支援？(可以选多个答案)(请圈上适合的答案)

Sokongan dalam bidang manakah yang anda perlukan? (Pelbagai jawapan dibenarkan) (Sila isi di dalam grid jawapan yang disediakan di bawah)

	C6a ANSWER / 答案 / jawapan
Support for nurturing of senior management personnel 用于资深管理人员培育的支援 Sokongan untuk penjagaan senior staf pengurusan	1
Support for nurturing of successor of the owners 用于业主继承者培育的支援 Sokongan untuk penjagaan pewaris pemilik	2
Support for nurturing of supervisor/ middle management 用于督工/中级管理阶级培育的支援 Sokongan untuk penjagaan penyelia/ pengurusan pertengahan	3
Support for nurturing of newly recruited technical staff 用于新进技术员工培育的支援 Sokongan untuk penjagaan staf teknikal yang baru dilantik	4

- C6b. Have you ever received any support for human resource development in your business from outside sources? (Please circle the appropriate answer)

在人力资源发展上，您有没有接受过外界提供给您的协助？(请圈上适合的答案)

Pernahkah anda menerima apa-apa sokongan dari sumber luar bagi pembangunan sumber manusia dalam perniagaan anda? (Sila bulatkan jawapan yang sesuai)

ANSWER / 答案 / jawapan	
Yes / 有 / Ya	1
No / 没有 / Tidak	2

GO TO
C6c
C6e

- C6c. What kind of support for human resource development have you received? (Multiple Answers allowed) (Please circle the appropriate answers)

在人力资源发展上，您曾经接受过哪方面的协助？(可以选多个答案)(请圈上适合的答案)

Apakah jenis sokongan yang anda terima bagi pembangunan sumber manusia tersebut? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

C6c ANSWER / 答案 / jawapan	
Support for nurturing of senior management personnel 用于资深管理人员培育的支援 Sokongan untuk penjagaan senior staf pengurusan	1
Support for nurturing of successor of the owners 用于业主继承者培育的支援 Sokongan untuk penjagaan pewaris pemilik	2
Support for nurturing of supervisor/ middle management 用于督工/中级管理阶级培育的支援 Sokongan untuk penjagaan penyelia/ pengurusan pertengahan	3
Support for nurturing of newly recruited technical staff 用于新进技术员工培育的支援 Sokongan untuk penjagaan staf teknikal yang baru dilantik	4

- C6d. What institute/ organization have you received the support from? (Please write the name of institute/ organization in the provided answer grid below)
您接受过哪个机构/公司的协助?(请把机构/公司的名字填写在下列所提供的答案格子里头)

Dari institusi / organisasi manakah anda pernah terima sokongan? (Sila tulis nama institusi / organisasi di dalam grid jawapan yang disediakan di bawah)

	C6d (Name of institute/ organization 机构/公司的名字 <i>Nama institusi/organisasi</i>
Support for nurturing of senior management personnel 用于资深管理人员培育的支援 <i>Sokongan untuk penjagaan senior staf pengurusan</i>	
Support for nurturing of successor of the owners 用于业主继承者培育的支援 <i>Sokongan untuk penjagaan pewaris pemilik</i>	
Support for nurturing of supervisor/ middle management 用于督工/中级管理阶级培育的支援 <i>Sokongan untuk penjagaan penyelia/ pengurusan pertengahan</i>	
Support for nurturing of newly recruited technical staff 用于新进技术员工培育的支援 <i>Sokongan untuk penjagaan staf teknikal yang baru dilantik</i>	

- C6e. What kind of support do you expect from DFIs for human resource development? (Multiple Answers allowed) (Please circle the appropriate answers)
在人力资源发展上, 您希望 DFI 可以提供您哪方面的协助?(可以选多个答案)(请圈上适合的答案)

Apakah jenis bantuan yang anda inginkan dari IKP bagi membantu dalam pembangunan sumber manusia perniagaan anda? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	C6e ANSWER / 答案 / jawapan
Support for nurturing of senior management personnel 用于资深管理人员培育的支援 <i>Sokongan untuk penjagaan senior staf pengurusan</i>	1
Support for nurturing of successor of the owners 用于业主继承者培育的支援 <i>Sokongan untuk penjagaan pewaris pemilik</i>	2
Support for nurturing of supervisor/ middle management 用于督工/中级管理阶级培育的支援 <i>Sokongan untuk penjagaan penyelia/ pengurusan pertengahan</i>	3
Support for nurturing of newly recruited technical staff 用于新进技术员工培育的支援 <i>Sokongan untuk penjagaan staf teknikal yang baru dilantik</i>	4

ADVISE ON STARTING/ INCREASING EXPORT BUSINESS

- C7. Is your company engaged in export? (or Do you have plans to export your products?) (Please circle the appropriate answer)

您的公司是否从事出口生意？(或者您是否计划出口您的产品)(请圈上适合的答案)

Adakah syarikat anda terlibat dalam eksport? (atau anda mempunyai rancangan untuk mengeksportkan produk-produk anda?) (Sila bulatkan jawapan yang sesuai)

ANSWER / 答案 / jawapan	
Yes / 是 / Ya	1
No / 否 / Tidak	2

GO TO
C7a
C8

- C7a. Do you need any outside assistance related to export business? (Please circle the appropriate answer)

您是否需要一些与出口生意有关的外界协助？(请圈上适合的答案)

Adakah anda memerlukan bantuan luar yang berkaitan dengan perniagaan eksport? (Sila bulatkan jawapan yang sesuai)

ANSWER / 答案 / jawapan	
Yes / 是 / Ya	1
No / 否 / Tidak	2

GO TO
C7b
C7c

- C7b. What areas of assistance do you need ?(Multiple Answers allowed) (Please circle the appropriate answers)

您需要哪方面的协助？(可以选多个答案)(请圈上适合的答案)

Dalam bidang manakah anda memerlukan bantuan? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	C7b ANSWER / 答案 / jawapan
Market intelligence support 市场智力的支持 <i>Sokongan pasaran pintar</i>	1
Export procedure/ export finance procedure support 出口手续 / 出口财政手续的支持 <i>Prosedur eksport/ Sokongan prosedur kewangan eksport</i>	2
Overseas market development support 国外市场发展的支持 <i>Sokongan pembangunan pasaran luar negara</i>	3
Others / 其它 / Lain-lain (Please specify / 请说明 / Sila nyatakan _____)	

- C7c. Have you ever received assistance on export business from outside sources? (Please circle the appropriate answer)

在出口生意上，您有没有接受过外界的帮助？(请圈上适合的答案)

Pernahkah anda menerima apa-apa bantuan bagi perniagaan eksport dari sumber-sumber luar? (Sila bulatkan jawapan yang sesuai)

	ANSWER / 答案 / jawapan
Yes / 有 / Ya	1
No / 没有 / Tidak	2

GO TO
C7d
C7f

C7d What kind of assistance have you received? (Multiple Answers allowed) (Please circle the appropriate answers)

您接受过哪方面的协助? (可以选多个答案) (请圈上适合的答案)

Apakah jenis bantuan yang anda pernah terima? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	C7d ANSWER / 答案 / jawapan
Market intelligence support 市场智力的支持 <i>Sokongan pasaran pintar</i>	1
Export procedure/ export finance procedure support 出口手续/ 出口财政手续的支持 <i>Prosedur eksport/ Sokongan prosedur kewangan eksport</i>	2
Overseas market development support 国外市场发展的支持 <i>Sokongan pembangunan pasaran luar negara</i>	3
Others / 其它 / <i>Lain-lain</i> (Please specify / 请说明 / <i>Sila nyatakan</i> _____)	

C7e What institute/ organization have you received the assistance from? (Please write the name of institute/

organization in the provided answer grid below)

您接受过哪个机构/公司的协助? (请把机构/公司的名字填写在下列所提供的答案格子里头)

Dari institusi / organisasi manakah anda pernah menerima bantuan? (Sila tulis nama institusi / organisasi di dalam grid jawapan yang disediakan di bawah)

	C7e (Name of institute/ organization 机构/公司的名字 <i>Nama institusi/organisasi</i>)
Market intelligence support 市场智力的支持 <i>Sokongan pasaran pintar</i>	
Export procedure/ export finance procedure support 出口手续/ 出口财政手续的支持 <i>Prosedur eksport/ Sokongan prosedur kewangan eksport</i>	
Overseas market development support 国外市场发展的支持 <i>Sokongan pembangunan pasaran luar negara</i>	
Others / 其它 / <i>Lain-lain</i> (Please specify / 请说明 / <i>Sila nyatakan</i> _____)	

C7f What kind of assistance do you expect from DFIs? (Multiple Answers allowed) (Please circle the appropriate answers)

您希望 DFI 可以提供您哪方面的协助? (可以选多个答案) (请圈上适合的答案)

Apakah jenis bantuan yang anda inginkan dari IKP? (Pelbagai jawapan dibenarkan) (Sila bulatkan jawapan yang sesuai)

	C7f ANSWER / 答案 / jawapan
Market intelligence support 市场智力的支持 <i>Sokongan pasaran pintar</i>	1
Export procedure/ export finance procedure support 出口手续/ 出口财政手续的支持 <i>Prosedur eksport/ Sokongan prosedur kewangan eksport</i>	2
Overseas market development support 国外市场发展的支持 <i>Sokongan pembangunan pasaran luar negara</i>	3
Others / 其它 / <i>Lain-lain</i> (Please specify / 请说明 / <i>Sila nyatakan</i> _____)	

- C8. Was the advice, which you have received from the various organizations, satisfactory? (Please circle the appropriate answer)
对于您收过各家机构的忠告方面，请问它令人感到有多满意？(请圈上适合的答案)
Adakah nasihat yang anda pernah terima daripada pelbagai organisasi memuaskan? (Sila bulatkan jawapan yang sesuai)

	ANSWER / 答案 / jawapan	GO TO
Satisfactory 令人满意 / <i>Puas hati</i>	1	C9
Almost satisfactory 相当令人满意 / <i>Hampir puas hati</i>	2	C8a
Not satisfactory 令人不满意 / <i>Tidak puas hati</i>	3	
No comments 没有意见 / <i>Tiada komen</i>	4	C9

- C8a. Why do you say so?
为什么您这么说？
Kenapakah anda berkata sedemikian?

- C9. Does your company utilize the Internet for business purpose? (Please circle the appropriate answer)
您的公司是否使用互联网来做生意？(请圈上适合的答案)
Adakah syarikat anda menggunakan internet dalam perniagaan? (Sila bulatkan jawapan yang sesuai)

	ANSWER / 答案 / jawapan
Yes, the Internet is currently available 是的，目前有提供互联网 <i>/ Ya, internet boleh didapati</i>	1
No, the Internet is not available yet, but we are planning to introduce it. 不是的，还没有提供互联网，但我们正计划把它引进来 <i>Tidak, internet belum disediakan, tetapi kami merancang untuk menyediakannya</i>	2
No, the Internet is not available and we have no plan to introduce it. 不是的，没有提供互联网，而我们也没有打算把它引进来 <i>Tidak, internet tidak disediakan dan kami tiada perancangan untuk menyediakannya</i>	3

-- Thank you / 谢谢 / *Terima Kasih* --

**Annex 2: Methods of Demand Surveys of Advisory
Services and Profile of Responded
Companies**

Annex 2 Methods of Demand Surveys of Advisory Services and Profile of Responded Companies

(1) Outline of the Survey

The Study Team conducted the demand surveys of the advisory services for SMEs from November to December 2004. The surveys consist of 1) telephone interview survey, 2) face-to-face interview survey for DFI clients, and 3) mailing questionnaire survey for DFI clients. In total, the Study Team received 513 responses.

1) Telephone interview survey

The telephone interview survey was carried out by a local consulting firm to understand the demand of the advisory services among SMEs. This survey covered the 350 companies in manufacturing, wholesales and retailing, agriculture and services industries located in Penang, Perak, Ipoh, KL, Selangor, Johor Baharu, and Kuantan. Minimum number of Bumiputra companies is designed to be included in each category such as industry and regions.

2) Face-to-face interview survey for DFI clients

To understand the demand of advisory services among DFI loan client customers, the Study Team conducted interview survey of 42 DFI clients in Penang, Perak, Ipoh, KL, Selangor, Johor Baharu, and Kuantan. These 42 companies were selected randomly by each DFI and the interviews were attended by DFI officers.

**Table 1: No. of Responded Companies
(Face-to-face interview survey for DFI clients)**

	DFI Customer Interview Survey
BPIMB	13
BITMB	12
EXIM Bank	2
MECIB	3
BPM	12
Total	42

3) Mailing questionnaire survey for DFI clients

DFIs sent the same questionnaire sheets as other two surveys to 700 DFI loan clients and received 121 responses (response rate: 17%).

The next table shows the number of responded companies for this questionnaire survey of each DFI.

**Table 2: No. of Responded Companies
(Mailing questionnaire survey for DFI clients)**

	DFI Customer Mail Survey	
	Distributed questionnaire sheets	Responded questionnaire sheets
BPIMB	350	35
BITMB	80	46
EXIM Bank	70	11
MECIB	20	12
BPM	180	17
Total	700	121

(2) Questions of the Surveys

The following questions were asked in the interview and questionnaire surveys (refer to Annex 1).

- 1) Outline of the companies (No. of full-time employees, annual sales, industry, type of business, shareholders' fund, target market)
- 2) Company's current financial source (Source of fund, main objective of the loan, need of more funds)
- 3) Demands of Advisory services
(Advice on improving the current business difficulty, advice on how to develop a new business, assistance for business management, assistance for improved business management and/ or business expansion, provision of business information, support for human resource development, advice on starting / increasing export business)
- 4) Past experiences of outside assistance
- 5) Expectation for DFIs' advisory service

(3) Profile of the Responded Companies

Number of responses collected:

No. of DFI clients visited by the Study Team: 42 companies

No. of DFI clients that replied the questionnaire survey: 121 companies

No. of SMEs interviewed through the telephone by the local consultant: 350 companies

Total No. of surveyed companies: 513 companies

1) Industry

Two hundred sixty-three (263) companies (51%) were categorized in “manufacturing” industry, ninety-three (93) companies (18%) were in “wholesales and retail” industry and eighty-seven (87) companies were in “other service” industry.

Table 3: Result Summary in each Industrial Sector

Industries	DFI Customer Interview Survey		DFI Customer Mail Survey		Telephone Interview Survey		Total	
		%		%		%		%
a) Manufacturing	31	74%	75	63%	158	45%	263	51%
1) Textiles and Apparel	2	5%	3	3%	9	3%	14	3%
2) Food and Beverages	6	14%	7	6%	24	7%	37	7%
3) Metal and Metal Products	7	17%	5	4%	19	5%	31	6%
4) Wood and Wood Products	2	5%	14	12%	6	2%	22	4%
5) Paper, Printing, Publishing	2	5%	0	0%	20	6%	22	4%
6) Machinery and Engineering	0	0%	3	3%	11	3%	14	3%
7) Plastics Products	5	12%	15	13%	11	3%	31	6%
8) Electrical and Electronics	2	5%	4	3%	21	6%	27	5%
9) Non Metallic Mineral Products	0	0%	3	3%	3	1%	6	1%
10) Petro-chemical and chemical	1	2%	3	3%	9	3%	13	3%
11) Transport Equipment	0	0%	1	1%	2	1%	3	1%
12) Rubber and Rubber Products	2	5%	4	3%	5	1%	11	2%
13) Palm oil & Palm oil Products	1	2%	4	3%	3	1%	8	2%
14) Others	0	0%	9	8%	15	4%	10	2%
b) Wholesale and retail	2	5%	1	1%	90	26%	93	18%
c) Other services	1	2%	23	19%	65	19%	89	17%
1) Education and Health	1	2%	4	3%	8	2%	13	3%
2) Professional Services	0	0%	0	0%	16	5%	16	3%
3) Transportation & Communication	0	0%	9	8%	11	3%	20	4%
4) Computer Industry Services	0	0%	1	1%	11	3%	12	2%
5) Travel agencies, tour operator	0	0%	1	1%	3	1%	4	1%
6) Others	0	0%	8	7%	16	5%	24	5%
d) Mining	0	0%	0	0%	1	0%	1	0%
e) Agriculture	8	19%	13	11%	4	1%	25	5%
f) Construction	0	0%	8	7%	22	6%	30	6%
g) Others	0	0%	0	0%	10	3%	11	2%
Total	42	100%	120	100%	350	100%	512	100%

*Although the total number of responded companies was 513, the total in some tables are less than 513 responses because some companies did not answer some questions.

2) Number of the employees

One eighty-six (186) companies (36%) hire fewer than 10 full-time employees. One hundred sixteen (116) companies (23%) have eleven to twenty-five employees. As shown in the following table, the companies that responded by the telephone interview survey tend to be smaller than those by other surveys. Also, the responded companies in commerce and service industries tend to have smaller number of full-time employees.

Table 4: Result Summary in Number of Employees

Full time employees	DFI Customer Interview Survey		DFI Customer Mail Survey		Telephone Interview Survey		Total	
		%		%		%		%
1. 0-10	11	26%	30	25%	145	41%	186	36%
2. 11-25	11	26%	30	25%	75	21%	116	23%
3. 26-50	8	19%	21	18%	55	16%	84	16%
4. 51-75	4	10%	13	11%	26	7%	43	8%
5. 76-100	3	7%	10	8%	14	4%	27	5%
6. 101-150	2	5%	12	10%	23	7%	37	7%
7. 151-	3	7%	4	3%	12	3%	19	4%
Total	42	100%	120	100%	350	100%	512	100%

3) Annual sales

As shown in the next table, one hundred seventy-seven (177) companies (35%) answered that their annual sales were less than RM1 million. One hundred two (102) companies (20%) annually earned RM1 million to RM2.9 million and one hundred one (101) companies (20%) earned between RM10 million to RM25 million. The responded companies in commerce and service industries tend to earn smaller number of annual sales in the phone interview survey. Also, the Bumiputra companies' annual sales tend to be smaller than those of other companies.

Table 5: Result Summary in Annual Sales

Annual Sales	DFI Customer Interview Survey		DFI Customer Mail Survey		Telephone Interview Survey		Total	
		%		%		%		%
1 Less than RM 1M	10	24%	33	28%	134	38%	177	35%
2 RM 1M - RM 2.9M	9	21%	21	18%	72	21%	102	20%
3 RM 3M - RM 4.9M	6	14%	12	10%	31	9%	49	10%
4 RM 5M - RM 9.9M	8	19%	23	20%	44	13%	75	15%
5 RM 10M - RM 25M	5	12%	27	23%	69	20%	101	20%
6 More than RM 25M	4	10%	1	1%	0	0%	5	1%
Total	42	100%	117	100%	350	100%	509	100%

4) Shareholders' fund

One hundred eighty-two (182) companies (36%) answered that their shareholder's fund is between RM500,000 and RM2.49 million and one hundred thirty-eight (138) companies (27%) responded their shareholder's fund is between RM100,000 and RM499,999.

Table 6: Result Summary in Shareholders' Fund

Shareholders' fund	DFI Customer Interview Survey		DFI Customer Mail Survey		Telephone Interview Survey		Total	
		%		%		%		%
1 Less than RM 100,000	0	0%	10	9%	78	22%	88	17%
2 RM 100,000 - RM 499,999	15	36%	24	21%	99	28%	138	27%
3 RM 500,000 - RM 2.49M	17	40%	50	43%	115	33%	182	36%
4 RM2.5M - RM4.9M	6	14%	13	11%	23	7%	42	8%
5 RM 5M - RM 9.9M	2	5%	9	8%	21	6%	32	6%
6 RM 10M - RM 25M	2	5%	8	7%	13	4%	23	5%
7 More than RM 25M	0	0%	2	2%	1	0%	3	1%
Total	42	100%	116	100%	350	100%	508	100%

5) Ownership

Two hundred thirty-two (232) companies (46%) are categorized in 100% non Bumiputra, while one hundred eighty-one (181) companies (36%) are 100% Bumiputra companies. The interview and mailing surveys for DFI clients covered much larger portion of the 100% Bumiputra companies than that of the telephone interview survey.

Table 7: Result Summary in Ownership

Ownership	DFI Customer Interview Survey		DFI Customer Mail Survey		Telephone Interview Survey		Total	
		%		%		%		%
1 100% Bumiputra	22	52%	47	40%	112	32%	181	36%
2 100% Non Bumiputra	15	36%	40	34%	177	51%	232	46%
3 Bumiputra and Non Bumiputra	5	12%	29	25%	46	13%	80	16%
4 100% Foreign owned	0	0%	1	1%	9	3%	10	2%
5 Joint Venture with Foreign Investors	0	0%	0	0%	6	2%	6	1%
Total	42	100%	117	100%	350	100%	509	100%

6) Types of business

The following table shows the types of surveyed companies. In total, four hundred thirteen (413) companies (81%) are private limited companies, while fifty-four (54)

companies are sole proprietorship and forty-three (43) companies are run in partnership.

Table 8: Result Summary in Types of Business

Type of business	No. of companies	%
1 Sole Proprietorship	54	10.6
2 Partnership	43	8.4
3 Private Limited Company	413	81.0
Total	510	100.0

(4) Fund-raising of the Responded Companies

1) Financial source of the responded companies

The next table shows the sources of funds for the companies' business operation. Three hundred forty-one (341) companies (67%) rely on their own contribution and three hundred fourteen (314) companies (62%) raised funds from commercial banks. Among 100% Bumiputra companies, the ratio of the companies that borrow loans from DFIs is higher than that among others including non Bumiputra companies, Bumiputra and Non-Bumiputra companies, 100% foreign owned companies and joint ventures with foreign investors, while the ratio of the 100% Bumiputra companies that could obtain loans from commercial banks is lower than that of others. It means that DFIs are playing important roles for 100% Bumiputra companies to raise funds.

Table 9: Sources of Funds

	No. of the companies	Sources of Fund									
		Commercial Bank		Own contribution		Borrowing from friends		Loan from DFIs		Others	
100% Bumiputra companies	181	105	58%	123	68%	25	14%	84	46%	14	8%
Others	328	209	64%	218	66%	29	9%	81	25%	14	4%
Total	509	314	62%	341	67%	54	11%	165	32%	28	6%

2) Main objectives of loan

Around 60% of the companies answered that their major objective of loans is “working capital” while about 50% of the companies replied that their main loan objective is the procurement of fixed assets.

Table 10: Major objectives of loan

	No. of the companies	Main objectives of loan					
		Working capital		Procurement of fixed assets		Others	
100% Bumiputra companies	181	119	66%	109	60%	2	1%
Others	328	196	60%	158	48%	3	1%
Total	509	315	62%	267	52%	5	1%

3) Needs of additional funds

The next table shows the need of additional funds for the business operation. Three hundred fifty-three (353) companies (69%) answered that they need more funds for their business operation. The higher portion of the 100% Bumiputra companies (77%) shows the strong demands for the additional funds.

Table 11: Needs of Additional Funds

	Need more funds?	
	Yes	%
100% Bumiputra companies	139	77%
Others	214	65%
Total	353	69%

4) Objectives of additional funds

About half of the responded companies answered that they need additional working capital while about 42% companies need additional funds for the procurement of fixed assets.

Table 12: Objectives of Additional Funds

	No. of the companies	Objectives of the additional funds					
		Working capital		Procurement of fixed assets		Others	
100% Bumiputra companies	181	93	51%	88	49%	6	3%
Others	328	165	50%	125	38%	12	4%
Total	509	258	51%	213	42%	18	4%

5) “Easy” or “Difficult” to obtain funds

As shown in the next table, 58% (296) of the responded companies answered that it is “easy” or “not difficult “ to obtain financing and 39% (196) of the companies replied that the access to financing is “difficult”. The higher portion of the 100% Bumiputra companies answered that it is “difficult” to obtain financing than others did.

Table 13: “Easy” or “Difficult” to Obtain Funds

	No. of the companies	Easy to obtain financing?			
		Yes		No	
100% Bumiputra companies	181	95	52%	78	43%
Others	328	201	61%	118	36%
Total	509	296	58%	196	39%

(5) Needs of Advisory Services by Company Size and Survey Method

1) By employee size

Table 14: Needs of Advisory Services by No. of Employees (Total)

No. of employees												
Total	Total		Less than 5		5~50		51~100		101~150		151~	
Difficulty	183	36%	25	35%	105	34%	29	41%	18	49%	5	28%
Start-up	220	43%	25	35%	139	45%	35	50%	15	41%	6	33%
Basics	174	34%	22	31%	107	34%	27	39%	16	43%	2	11%
Business upgrading	276	54%	36	50%	166	53%	43	61%	22	59%	9	50%
Information	380	75%	45	63%	234	75%	57	81%	31	84%	12	67%
HRD	246	48%	22	31%	152	49%	41	59%	26	70%	5	28%
Export	158	31%	8	11%	85	27%	40	57%	16	43%	9	50%

(Note) % represents the ratio with the total number of responses for each category of advisory service.

**Table 15: Needs of Advisory Services by No. of Employees
(Telephone interview)**

No. of employees												
Phone interview	Total		Less than 5		5~50		51~100		101~150		151~	
Difficulty	104	30%	15	27%	63	29%	14	35%	9	39%	3	25%
Start-up	112	32%	18	32%	71	33%	16	40%	5	22%	2	17%
Basics	104	30%	15	27%	66	30%	14	35%	8	35%	1	8%
Business upgrading	161	46%	25	45%	98	45%	20	50%	12	52%	6	50%
Information	250	72%	31	55%	161	74%	33	83%	17	74%	8	67%
HRD	153	44%	19	34%	95	43%	22	55%	14	61%	3	25%
Export	84	24%	4	7%	45	21%	22	55%	8	35%	5	42%

**Table 16: Needs of Advisory Services by No. of Employees
(Face-to-face interview survey for DFI clients)**

No. of employees												
Interview of DFI clients	Total		Less than 5		5~50		51~100		101~150		151~	
Difficulty	19	45%	1	25%	10	38%	4	57%	2	100%	2	67%
Start-up	29	69%	1	25%	21	81%	3	43%	2	100%	2	67%
Basics	7	17%	1	25%	5	19%	0	0%	1	50%	0	0%
Business upgrading	37	88%	3	75%	22	85%	7	100%	2	100%	3	100%
Information	36	86%	4	100%	21	81%	7	100%	2	100%	2	67%
HRD	23	55%	1	25%	14	54%	5	71%	2	100%	1	33%
Export	25	60%	2	50%	12	46%	6	86%	2	100%	3	100%

Table 17: Needs of Advisory Services by No. of Employees
(Mailing questionnaire survey for DFI clients)

No. of employees												
Q/S of DFI clients	Total		Less than 5		5~50		51~100		101~150		151~	
Difficulty	60	51%	9	75%	32	47%	11	48%	7	58%	0	0%
Start-up	79	67%	6	50%	47	69%	16	70%	8	67%	2	67%
Basics	63	53%	6	50%	36	53%	13	57%	7	58%	1	33%
Business upgrading	78	66%	8	67%	46	68%	16	70%	8	67%	0	0%
Information	94	80%	10	83%	52	76%	17	74%	12	100%	2	67%
HRD	70	59%	2	17%	43	63%	14	61%	10	83%	1	33%
Export	49	42%	2	17%	28	41%	12	52%	6	50%	1	33%

2) By size of annual sales

Table 18: Needs of Advisory Services by Size of Annual Sales (Total)

Amount of sales													
Total	Total		Less than RM 1M		RM 1M~2.9M		RM 3M~4.9M		RM 5M~9.9M		RM 10M~25M		More than RM 25M
Difficulty	183	36%	57	32%	36	35%	21	43%	27	36%	39	39%	2 50%
Start-up	220	43%	76	43%	48	47%	21	43%	36	48%	37	37%	1 25%
Basics	174	34%	62	35%	36	35%	18	37%	28	37%	29	29%	0 0%
Business upgrading	276	54%	93	53%	57	54%	30	61%	43	57%	48	48%	4 100%
Information	380	75%	120	68%	74	70%	40	82%	58	77%	82	81%	4 100%
HRD	246	48%	76	43%	47	44%	24	49%	38	51%	58	57%	1 25%
Export	158	31%	28	16%	26	24%	17	35%	32	43%	51	50%	4 100%

Table 19: Needs of Advisory Services by Size of Annual Sales
(Telephone interview)

Amount of sales													
Phone interview	Total		Less than RM 1M		RM 1M~2.9M		RM 3M~4.9M		RM 5M~9.9M		RM 10M~25M		More than RM 25M
Difficulty	104	30%	37	28%	21	29%	12	39%	12	27%	22	32%	0 -
Start-up	112	32%	48	36%	25	34%	7	23%	16	36%	16	23%	0 -
Basics	104	30%	41	31%	20	27%	10	32%	14	32%	19	28%	0 -
Business upgrading	161	46%	62	46%	32	43%	15	48%	21	48%	31	45%	0 -
Information	250	72%	85	63%	51	67%	24	77%	35	80%	55	80%	0 -
HRD	153	44%	53	40%	29	38%	12	39%	18	41%	41	59%	0 -
Export	84	24%	15	11%	16	21%	8	26%	13	30%	32	46%	0 -

**Table 20: Needs of Advisory Services by Size of Annual Sales
(Face-to-face interview survey for DFI clients)**

Amount of sales														
Interview of DFI clients	Total		Less than RM 1M		RM 1M~2.9M		RM 3M~4.9M		RM 5M~9.9M		RM 10M~25M		More than RM 25M	
Difficulty	19	45%	4	40%	3	33%	4	67%	4	50%	2	40%	2	50%
Start-up	29	69%	7	70%	7	78%	4	67%	6	75%	4	80%	1	25%
Basics	7	17%	3	30%	2	22%	1	17%	1	13%	0	0%	0	0%
Business upgrading	37	88%	7	70%	9	100%	6	100%	7	88%	4	100%	4	100%
Information	36	86%	9	90%	7	78%	6	100%	7	88%	3	60%	4	100%
HRD	23	55%	4	40%	5	56%	5	83%	5	63%	3	60%	1	25%
Export	25	60%	4	40%	3	33%	3	50%	7	88%	4	80%	4	100%

**Table 21: Needs of Advisory Services by Size of Annual Sales
(Mailing questionnaire survey for DFI clients)**

Amount of sales													
Q/S of DFI clients	Total		Less than RM 1M		RM 1M~2.9M		RM 3M~4.9M		RM 5M~9.9M		RM 10M~25M		More than RM 25M
Difficulty	60	51%	16	48%	12	57%	5	42%	11	48%	15	56%	0
Start-up	79	67%	21	64%	16	76%	10	83%	14	61%	17	63%	0
Basics	63	53%	18	55%	14	67%	7	58%	13	57%	10	37%	0
Business upgrading	78	66%	24	73%	16	76%	9	75%	15	65%	13	48%	0
Information	94	80%	26	79%	16	76%	10	83%	16	70%	24	89%	0
HRD	70	59%	19	58%	13	62%	7	58%	15	65%	14	52%	0
Export	49	42%	9	27%	7	33%	6	50%	12	52%	15	56%	0

3) By shareholders' funds

Table 22: Needs of Advisory Services by Shareholders' Funds (Total)

Shareholders' fund																
Total	Total		Less than RM 100,000		RM 100,000~499,999		RM 500,000~2.49M		RM 2.5M~4.9M		RM 5M~9.9M		RM 10M~25M		More than RM 25M	
Difficulty	183	36%	25	28%	50	36%	63	35%	19	45%	14	44%	10	43%	1	33%
Start-up	220	43%	32	36%	62	45%	82	45%	23	55%	12	38%	8	35%	1	33%
Basics	174	34%	30	34%	49	36%	65	36%	13	31%	11	34%	6	26%	0	0%
Business upgrading	276	54%	39	44%	76	55%	102	56%	25	60%	18	56%	14	61%	1	33%
Information	380	75%	53	60%	103	75%	144	79%	32	76%	25	78%	21	91%	1	33%
HRD	246	48%	28	32%	65	47%	103	57%	19	45%	21	66%	9	39%	1	33%
Export	158	31%	8	9%	33	24%	68	37%	19	45%	17	53%	12	52%	1	33%

**Table 23: Needs of Advisory Services by Shareholders' Funds
(Telephone interview)**

Shareholders' fund																
Phone interview	Total		Less than RM 100,000		RM 100,000~499,999		RM 500,000~2.49M		RM 2.5M~4.9M		RM 5M~9.9M		RM 10M~25M		More than RM 25M	
Difficulty	104	30%	19	24%	30	30%	34	30%	9	39%	7	33%	4	31%	1	100%
Start-up	112	32%	26	33%	33	33%	36	31%	8	35%	6	29%	3	23%	0	0%
Basics	104	30%	22	28%	31	31%	35	30%	7	30%	7	33%	2	15%	0	0%
Business upgrading	161	46%	31	40%	48	48%	50	43%	13	57%	12	57%	6	46%	1	100%
Information	250	72%	45	58%	72	73%	89	77%	17	74%	15	71%	12	92%	0	0%
HRD	153	44%	22	28%	42	42%	62	54%	7	30%	13	62%	6	46%	1	100%
Export	84	24%	6	8%	19	19%	34	30%	8	35%	11	52%	6	46%	0	0%

**Table 24: Needs of Advisory Services by Shareholders' Funds
(Face-to-face interview survey for DFI clients)**

Shareholders' fund																
Interview of DFI clients	Total		Less than RM 100,000		RM 100,000~499,999		RM 500,000~2.49M		RM 2.5M~4.9M		RM 5M~9.9M		RM 10M~25M		More than RM 25M	
Difficulty	19	45%	0	-	7	47%	5	29%	5	83%	2	100%	0	0%	0	-
Start-up	29	69%	0	-	11	73%	11	65%	6	100%	1	50%	0	0%	0	-
Basics	7	17%	0	-	4	27%	2	12%	1	17%	0	0%	0	0%	0	-
Business upgrading	37	88%	0	-	12	80%	15	88%	6	100%	2	100%	2	100%	0	-
Information	36	86%	0	-	13	87%	14	82%	5	83%	2	100%	2	100%	0	-
HRD	23	55%	0	-	6	40%	10	59%	5	83%	2	100%	0	0%	0	-
Export	25	60%	0	-	5	33%	12	71%	5	83%	1	50%	2	100%	0	-

**Table 25: Needs of advisory services by shareholders' funds
(Mailing questionnaire survey for DFI clients)**

Shareholders' fund																
Q/S of DFI clients	Total		Less than RM 100,000		RM 100,000~499,999		RM 500,000~2.49M		RM 2.5M~4.9M		RM 5M~9.9M		RM 10M~25M		More than RM 25M	
Difficulty	60	51%	6	60%	13	54%	24	48%	5	38%	5	56%	6	75%	0	0%
Start-up	79	67%	6	60%	18	75%	35	70%	9	69%	5	56%	5	63%	1	50%
Basics	63	53%	8	80%	14	58%	28	56%	5	38%	4	44%	4	50%	0	0%
Business upgrading	78	66%	8	80%	16	67%	37	74%	6	46%	4	44%	6	75%	0	0%
Information	94	80%	8	80%	18	75%	41	82%	10	77%	8	89%	7	88%	1	50%
HRD	70	59%	6	60%	17	71%	31	62%	7	54%	6	67%	3	38%	0	0%
Export	49	42%	2	20%	9	38%	22	44%	6	46%	5	56%	4	50%	1	50%

4) By industry

Table 26: Needs of Advisory Services by Industry (Total)

Industry												
Total	Total		Manufacturing		Wholesale and retailing		Other services		Agriculture		Others	
Difficulty	183	36%	106	40%	20	22%	29	33%	12	48%	16	39%
Start-up	220	43%	127	48%	26	28%	38	43%	13	52%	16	39%
Basics	174	34%	101	38%	20	22%	32	36%	12	48%	9	22%
Business upgrading	276	54%	155	59%	33	35%	54	61%	17	68%	17	41%
Information	380	75%	209	79%	56	60%	72	81%	19	76%	24	59%
HRD	246	48%	139	53%	31	33%	46	52%	13	52%	17	41%
Export	158	31%	119	45%	12	13%	10	11%	10	40%	7	17%

**Table 27: Needs of Advisory Services by Industry
(Telephone interview)**

Industry												
Phone interview	Total		Manufacturing		Wholesale and retailing		Other services		Agriculture		Others	
Difficulty	104	30%	56	35%	18	20%	20	31%	1	25%	9	27%
Start-up	112	32%	56	35%	23	26%	20	31%	2	50%	11	33%
Basics	104	30%	60	38%	19	21%	19	29%	2	50%	4	12%
Business upgrading	161	46%	82	52%	31	34%	36	55%	3	75%	9	27%
Information	250	72%	125	79%	54	60%	52	80%	3	75%	16	48%
HRD	153	44%	72	46%	30	33%	33	51%	4	100%	14	42%
Export	84	24%	59	37%	11	12%	6	9%	2	50%	6	18%

**Table 28: Needs of Advisory Services by Industry
(Face-to-face interview survey for DFI clients)**

Industry												
Interview of DFI clients	Total		Manufacturing		Wholesale and retailing		Other services		Agriculture		Others	
Difficulty	19	45%	15	48%	1	50%	0	0%	3	38%	0	-
Start-up	29	69%	23	74%	2	100%	1	100%	3	38%	0	-
Basics	7	17%	5	16%	0	0%	1	100%	1	13%	0	-
Business upgrading	37	88%	30	97%	1	50%	1	100%	5	63%	0	-
Information	36	86%	28	90%	1	50%	1	100%	6	75%	0	-
HRD	23	55%	21	68%	0	0%	0	0%	2	25%	0	-
Export	25	60%	22	71%	1	50%	0	0%	2	25%	0	-

Table 29: Needs of Advisory Services by Industry
(Mailing questionnaire survey for DFI clients)

Industry												
Q/S of DFI clients	Total		Manufacturing		Wholesale and retailing		Other services		Agriculture		Others	
Difficulty	60	51%	35	47%	1	100%	9	39%	8	62%	7	88%
Start-up	79	67%	48	64%	1	100%	17	74%	8	62%	5	63%
Basics	63	53%	36	48%	1	100%	12	52%	9	69%	5	63%
Business upgrading	78	66%	43	57%	1	100%	17	74%	9	69%	8	100%
Information	94	80%	56	75%	1	100%	19	83%	10	77%	8	100%
HRD	70	59%	46	61%	1	100%	13	57%	7	54%	3	38%
Export	49	42%	38	51%	0	0%	4	17%	6	46%	1	13%

(6) Details of Demands Under Each Issue Category (Bumiputra / others)

1) Advice on improving the current business difficulty (Bumiputra / others)

Table 30: Needs of Advice on Improving the Current Business Difficulty
(100% Bumiputra companies)

100% Bumiputra				
Issue Detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Analysis of the cause of current poor business performance	181	39	35	19%
Guidance on financial-related matters	181	72	55	30%
How to maintain or increase customers	181	34	45	25%
Technical improvement or product quality improvement	181	29	40	22%
How to improve price competitiveness	181	57	36	20%
Others	181	30	5	3%

**Table 31: Needs of Advice on Improving the Current Business Difficulty
(Others)**

Others

Issue Detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Analysis of the cause of current poor business performance	328	36	41	13%
Guidance on financial-related matters	328	99	70	21%
How to maintain or increase customers	328	59	56	17%
Technical improvement or product quality improvement	328	41	48	15%
How to improve price competitiveness	328	101	59	18%
Others	328	36	8	2%

(Note) Others include “100% non-Bumiputra”, “Bumiputra and non-Bumiputra”, “100% foreign owned” and “joint venture with foreign investors”.

2) Advice on how to develop a new business (Bumiputra / others)

**Table 32: Needs of Advice on How to Develop a New Business
(100% Bumiputra companies)**

100% Bumiputra

Issue Detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Information on source of financing	181	128	68	38%
Market information	181	128	65	36%
Technical consultation or technology development	181	128	67	37%
Feasibility study	181	128	49	27%
Others	181	128	2	1%

**Table 33: Needs of Advice on How to Develop a New Business
(Others)**

Others

Issue Detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Information on source of financing	326	179	83	25%
Market information	326	179	84	26%
Technical consultation or technology development	326	179	65	20%
Feasibility study	326	179	43	13%
Others	326	179	5	2%

3) Assistance for business management (Bumiputra / others)

**Table 34: Needs of Assistance for Business Management
(100% Bumiputra companies)**

100% Bumiputra

Issue Detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Guidance on basics of business (how to keep accounts, etc.)	181	88	26	14%
Guidance on how to make business plan	181	88	49	27%
Fund raising/application for loan	181	88	53	29%
Guidance on tax affairs	181	88	32	18%
Others	181	88	1	1%

**Table 35: Needs of Assistance for Business Management
(Others)**

Others

Issue Detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Guidance on basics of business (how to keep accounts, etc.)	326	119	32	10%
Guidance on how to make business plan	326	119	72	22%
Fund raising/application for loan	326	119	74	23%
Guidance on tax affairs	326	119	56	17%
Others	326	119	3	1%

4) Assistance for improved business management and/ or business expansion (Bumiputra / others)

Table 36: Needs of Assistance for Improved Business Management and/ or Business Expansion (100% Bumiputra companies)

100% Bumiputra

Issue Detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Diagnosis of the current business management	181	157	75	41%
Strategic planning in business management	181	157	92	51%
Business management innovation/ introduction of new management method	181	157	70	39%
Improvement in marketing strategy	181	157	91	50%
Customer development/ business matching	181	157	74	41%
Technical and product quality improvement	181	157	77	43%
Productivity improvement or increasing price competitiveness	181	157	74	41%
Guidance for production management (e.g. product quality management, 5S)	181	157	54	30%
Improvement of shop management (e.g. display, layout etc) and customer service	181	157	49	27%
Product development	181	157	46	25%
Others	181	157	1	1%

Table 37: Needs of Assistance for Improved Business Management and/ or Business Expansion (Others)

Others

Issue Detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Diagnosis of the current business management	326	221	80	25%
Strategic planning in business management	326	221	99	30%
Business management innovation/ introduction of new management method	326	221	91	28%
Improvement in marketing strategy	326	221	110	34%
Customer development/ business matching	326	221	103	32%
Technical and product quality improvement	326	221	97	30%
Productivity improvement or increasing price competitiveness	326	221	104	32%
Guidance for production management (e.g. product quality management, 5S)	326	221	72	22%
Improvement of shop management (e.g. display, layout etc) and customer service	326	221	61	19%
Product development	326	221	57	17%
Others	326	221	3	1%

5) Provision of business information (Bumiputra / others)

Table 38: Needs of Business Information (100% Bumiputra companies)

100% Bumiputra

Issue Detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Business index of the same industry/trade for benchmarking	181	n.a.	81	45%
Market trends of the products of the same industry/trade	181	n.a.	110	61%
Information on available public support technical programs	181	n.a.	77	43%
Information on available financial programs	181	n.a.	101	56%
Information on possible business opportunity	181	n.a.	119	66%
Information on new/advanced technology	181	n.a.	99	55%
Others	181	n.a.	2	1%

Table 39: Needs of Business Information (Others)

Others

Issue Detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Business index of the same industry/trade for benchmarking	326	n.a.	163	50%
Market trends of the products of the same industry/trade	326	n.a.	195	60%
Information on available public support technical programs	326	n.a.	132	40%
Information on available financial programs	326	n.a.	163	50%
Information on possible business opportunity	326	n.a.	191	59%
Information on new/advanced technology	326	n.a.	155	48%
Others	326	n.a.	3	1%

6) Support for human resource development (Bumiputra / others)**Table 40: Needs of Support for Human Resource Development (100% Bumiputra companies)**

100% Bumiputra

Issue Detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Support for nurturing of senior management personnel	181	n.a.	60	33%
Support for nurturing of middle management / supervisors	181	n.a.	46	25%
Support for training of newly recruited technical staff	181	n.a.	88	49%
Support for nurturing of successor of the owner	181	n.a.	75	41%

Table 41: Needs of Support for Human Resource Development (Others)

Others

Issue Detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Support for nurturing of senior management personnel	328	n.a.	84	26%
Support for nurturing of middle management / supervisors	328	n.a.	63	19%
Support for training of newly recruited technical staff	328	n.a.	98	30%
Support for nurturing of successor of the owner	328	n.a.	113	34%

7) Advice on starting / increasing export business (Bumiputra / others)**Table 42: Needs of Advice on Starting / Increasing Export Business (100% Bumiputra companies)**

100% Bumiputra

Issue Detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Market intelligence support	181	69	40	22%
Export procedure/ export finance procedure support	181	69	41	23%
Overseas market development support	181	69	48	27%
Others	181	69	4	2%

Table 43 Needs of Advice on Starting / Increasing Export Business (Others)

Others

Issue Detail	No. of responding enterprises (a)	No. of enterprises that agree with the issue category	Expecting outside support (c)	(c) / (a)
Market intelligence support	327	162	81	25%
Export procedure/ export finance procedure support	327	162	59	18%
Overseas market development support	327	162	89	27%
Others	327	162	5	2%

Annex 3: Operation Guide for Advisory Service of DFIs for SMEs

1 Relationship Building and Advice on Business Management

1.1 Operation process

1.1.1 Objectives

The followings are the objectives of the Relationship building and advice on business management.

- To provide the more proactive service to nurture the wide base of competitive and sustainable SMEs
- To share particular managerial problems with the customers and support them to solve the problems
- To strengthen the relationship between DFIs and the customers
- To boost the customers' loyalty to the DFIs
- To assist SMEs that have insufficient capacity to solve managerial problems

The target of advisory service is current loan customers and to-be customers that have potential to improve their management through the services, and not limited to customers of NPL or fear of repayment problem.

1.1.2 Divisions involved

- 1) Planning, coordination and administration accumulates the necessary information at the customer database and monitors the database
- 2) Branch and representative offices provide advice on business management to the customers

1.1.3 Operation process

Flowchart 1- (1) and 1- (2) show the operation process of the relationship building and advice on business management. Supporting processes divide into two phases; 1) identification of managerial problems through constant communication and dialogue with customers and 2) counseling requested from customers on particular managerial problems.

The daily operational flow is as follows:

(Identification of managerial problems)

- 1) SME customer submits financial report to the branch or representative office.

- 2) The branch officer inputs the financial report at the customer database
- 3) The branch officer analyzes the financial data, conducts financial diagnosis and store the all information at the customer database.
- 4) The branch officer visits the customer and holds dialogue on a) the business performance, b) feedback of financial analysis, c) business difficulties and loan requests etc. in order to identify the problems that the customers should solve and improve.
- 5) The branch officer fills in the log-book about the company visit and registers the problems to be solved /improved at the customer database.

(Counseling requested from customers on particular managerial problems)

- 1) SME customer requests counseling on particular problems
- 2) The branch officer provides supportive measures to the customer
Supportive measures include a) provision of successful cases to solve the similar problems, b) proposal of solution that is deliberately discussed in a DFI, c) dispatch of external experts/specialists in the relevant field for the solution, and /or d) the assortment of a) b) c).
- 3) The branch officer monitors the improvement process.
- 4) The branch officer records all of the supportive process at the customer database.

1.2 Contents

The services of the relationship building and advice on business management include;

- 1) Customer counseling/ relationship building
- 2) Management diagnosis service
 - Basic problem identification
 - Management analysis
 - SWOT analysis

The advisory service is not necessarily highly professional.

The service will be provided by ordinary staffs of DFIs after receiving appropriate trainings for the advisory service.

Through the services, DFIs can obtain reliable management information of customers, while the customers will be benefited form the service for improvement of their business

2 Provision of Information by Advisory Staffs at the Request of Customers

2.1 Operation process

2.1.1 Objectives / Definition

- To build closer relationship with the customers
- To provide useful business information for both loan customers and to-be customers on the request basis

2.1.2 Division involved

- 1) Planning, coordination and administration Division;
 - exchanges related information with other DFIs
 - collaborates with external related organizations such as SMIDEC, SIRIM and MATRADE.
- 2) Research and information support Division;
 - collects and accumulates the related information
 - prepares periodical or occasional publications, monthly report on information provision and list of stored and requested information
- 3) Branch and representative offices;
 - provide information requested by the customers
 - fill in the log-book of advisory service and store it at the customer database
 - distribute the list of information needs and publications to the customers

2.1.3 Operation process

Flowchart 2 shows the operation process of information provision.

The daily operational flow is as follows.

- 1) SME customer requests business information to a branch officer.
- 2) The officer searches and retrieves the information by using customer database and business information database managed by information and research division.
- 3) The officer provides the requested information to the customer.
- 4) The officer fills in the log-book for record of the information provision and shows the log-book for the managers' check.

2.2 Contents of information service

The providing information includes;

- 1) Trend and challenges/problems of a particular industry/business line,
- 2) Management technique/practice,
- 3) Business climate of SMEs,
- 4) Government financial policy etc.

3 Business Matching Service

3.1 Business interface meeting

3.1.1 Objectives/ Definition

- To provide the opportunities to exchange business experiences and information to the customers at the business interface meeting
- To promote the participants (business owners/executive managers) to be inspired and enlightened new knowledge/information/hints for business improvement
- To provide chances of business matching and business linkage/collaboration to the participants

3.1.2 Division involved

- 1) Planning, coordination and administration Division;
 - supports the “Business interface meeting” by providing meeting models and dispatching facilitators and lecturers.
 - exchanges information with other DFIs and collaborates with external related organizations such as SMIDEC, SIRIM and MATRADE.
- 2) Branch and representative offices;
 - formulate “Target customer group”
 - implement and follow up the business interface meeting

3.1.3 Module examples

The business interface meetings are held with lecture sessions on timely subjects, workshops on management skills/techniques, factory tours and other informative/beneficial events. It is recommended to hold the meetings 3 to 4 times a year.

3.1.4 Operation process

Flowchart 3 shows the operation process of holding business interface meeting.

The operational flow is as follows.

- 1) The branch or representative office selects “Target Customer group.” The Group should be formulated through customer segmentation process i.e. membership is on selective basis. Elements of segmentation are deliberately adopted in terms of;
 - a) Business forecast of a customer,

- b) Degree of loyalty to a DFI,
 - c) Sector/regional priority,
 - d) Outstanding loans and demand for funds etc.
- 2) SME customers formulate the “Target Customer group.”
 - 3) The branch or representative office registers the “Target Customer group” at the customer database.
 - 4) The branch or representative office plans and prepares the “Business interface meeting.”

3.1.5 Expenses distribution

- 1) Expenses consist of 1) remuneration for lecturers /facilitators (of workshops), and 2) cost of venues/food/drinks that are advisable to be modest and plain in order to minimize the cost.
- 2) Expenses are supposed to be shared by a DFI and participants. Proportion of cost sharing is determined by a DFI.
- 3) Charging monthly subscription fee is one of alternatives.

3.1.6 Points to be considered

- 1) Joint events with nearby branch (representative) offices are recommendable, if the meetings are conducted occasionally.
- 2) Organizing events jointly with external related institutions (SMIDEC, SIRIM, MATRADE, etc.) is also pursued for further extensive impact of the meeting.

3.2 Business matching using customer database

3.2.1 Objectives

- To provide business matching opportunities to the customers
- To expand the customer base of DFIs

3.2.2 Division involved

- 1) Planning, coordination and administration Division;
 - manages the customer database.
 - prepares “sell and buy bulletin (lists of business matching needs)”
 - exchanges information with other DFIs and collaborates with external related

organizations such as SMIDEC, SIRIM and MATRADE.

- 2) Branch and representative offices;
 - provide business matching information to the customers
 - distribute “sell and buy bulletin” to the customers

3.2.3 Module examples

- 1) The customer data and information includes;
 - 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
- 2) Needs of business matching include;
 - “acquiring a sole agent to expand sales channel in remote areas”
 - “farming out a certain production process”
 - “looking for a small carrier handling small lot delivery”
 - “a vendor of a certain raw material with better delivery time”

3.2.4 Operation process

Flowchart 4 shows the operation process of the business matching.

The daily operational flow is as follows.

- 1) SME customer requests business matching information such as sales, procurement, outsourcing etc.
- 2) The branch officer searches and retrieves the information with the customer database.
- 3) The officer introduces candidates for the customer.
- 4) The officer fills in the log-book for record of the business matching and shows the log-book for the managers’ check.

The followings are conducted periodically.

- 1) The planning, coordination and administration division prepare lists of business matching need (“sell and buy bulletin”).
- 2) The branch officers distribute and explain the lists to the SME customers.

4 Information and Research Support

4.1 Operation process

4.1.1 Objectives

- To provide useful managerial and business information to customers
- To support advisory service staffs by collecting and providing useful information for the service

4.1.2 Division involved

- 1) Research and information support Division conducts researches and prepare publications.
- 2) Branch and representative offices distribute information to the customers

4.2 Researches and publications

The followings are examples of research and publication activities.

(1) Periodical Business Survey on SMEs

- 1) Setup of research panel; selecting from borrowing customers through basically adopting random sampling method based on the distributional fairness in industry types, region/location and employment/capital size of sample enterprises (and excluding NPL).
- 2) Samples of questionnaire entries including
 - a) Sales (increase / no change / decrease)
 - b) Profit (--ditto --)
 - c) Business sentiment on overall performance (improve / no change / worsen)
 - d) Employment size (increase / no change / decrease)
 - e) Cash position (favorable turn / no change / ill turn)
 - f) Sales outlook (improve / no change / worsen)
- 3) Diffusion Index (DI) method is recommended to be adopted for effective analysis of trend.

(2) Survey on Industry Segments (survey by industry categories)

- 1) Setting target industry segments annually by prioritizing the segments in accordance with density of customers and currently problematic level.

- 2) Samples of the survey
 - a) Overview of business environment surrounding the particular industry including;
 - i) Market trend of the industry,
 - ii) Competitiveness of the industry,
 - iii) Outlook of the industry.
 - b) Measures/steps for management improvement including;
 - i) Reports of financial features of the industry,
 - ii) SWOT analysis,
 - iii) Clarification of specific problems through logic tree,
 - iv) Revision of process control,
 - v) Deepening market segmentation,
 - vi) Drawing up strategic map through balanced scorecard,
 - vii) Building up business plan and action plan with HRD strategy.
- (3) Case study introducing successful/failure factors and desirable conditions for business growth.

5 Customer Database

5.1 Objectives/ definition

- To provide DFIs with customer information in a systematic order
- To provide data for business matching

5.2 Division involved

- 1) Planning, coordination and administration Division designs and monitors the customer database.
- 2) Branch and representative offices input all of the customer data and records of contacts with the customers.

5.3 Contents of the customer database

“Customer information file” and “Log-book” are prepared by branch officers in charge and stored at the customer database. Advisory services by DFIs are the long succession/accumulation of trivial activities and recording the services is important to conduct smooth service operation. Keeping records of advisory services also works out effectively when officers in charge are transferred or quit. The successor can smoothly work with the customers with the records.

The customer information file is prepared for each customer, and stored at the customer database. The customer information file includes customer profile, financial data, business performance and loan records. The data must be updated periodically.

The “log-book” is also stored at the customer database and updated when the officer provides advisory services. Even telephone communications have to be recorded in the log-book. The log-book should be commented by superiors.

In addition, the records of advisory services can be also used to monitor the working behaviors of officers in charge. Branch managers can correct or adjust inappropriate/wrong actions of officers in charge before worsening. The monitoring function can be applicable to the interactions between branch offices and the planning coordination and administration Division.

(Refer the samples of “Customer information file” and “Log-book” in the attachment.)

6 Business Information Database

6.1 Objectives

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

6.2 Division involved

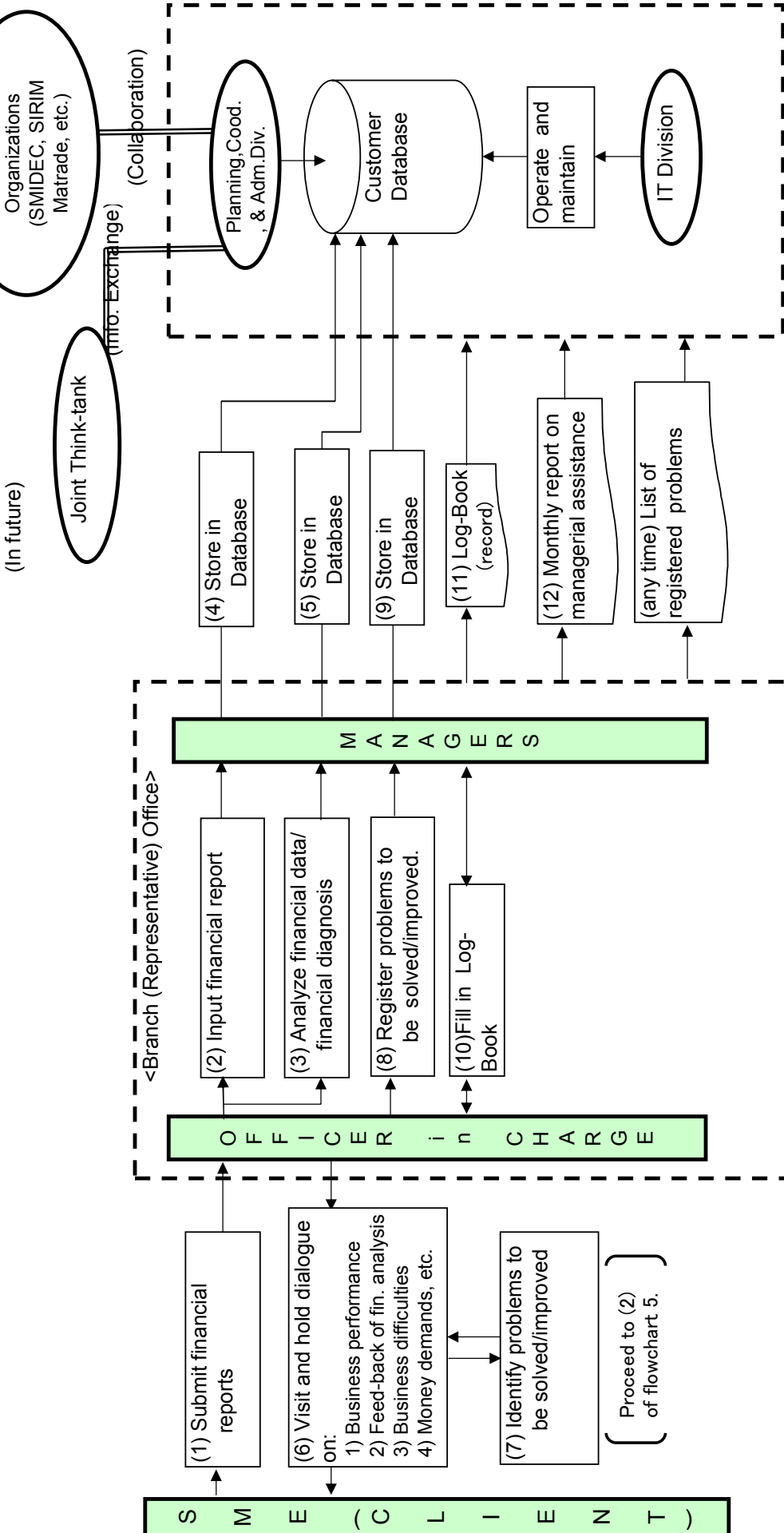
- 1) Information and research support Division collects and accumulates information at the business information database.
- 2) Branch and representative offices provide the information to the customers.

6.3 Contents of the business information database

The providing information includes;

- 1) surveys and researches conducted by the information and research support Division,
- 2) other supportive information for advisory service

(Identification of managerial problems)



```

graph TD
    subgraph Client
        SMCLENT[SMEL (CLIENT)]
        SMCLENT --> S1[1 Request counseling on particular problems]
        S1 --> S3[3 Present success cases or solutions]
        S3 --> S5[5 Propose solution recipe]
        S5 --> S7[7 Deploy advisers/specialists]
        S7 --> S10[10 Monitor improvement process]
    end

    subgraph Officer_in_Charge [OFFICER in CHARGE]
        OIC[OFFICER in CHARGE]
        OIC <--> S2[2 Search/retrieve solutions or success cases of similar problems]
        OIC <--> S4[4 Deliberate solutions]
        OIC <--> S6[6 Request and assign internal/external advisers or specialists]
        OIC <--> S8[8 Draw up success cases or solutions]
        OIC <--> S11[11 Fill in Log-Book]
    end

    subgraph Managers [MANAGERS]
        M[MANAGERS]
        M <--> S9[9 Register success cases/solution]
        M <--> S12[12 Log-Book (record)]
        M <--> S13[13 Monthly report on Managerial Assistance]
        M <--> S14[14 List of success cases/solutions]
    end

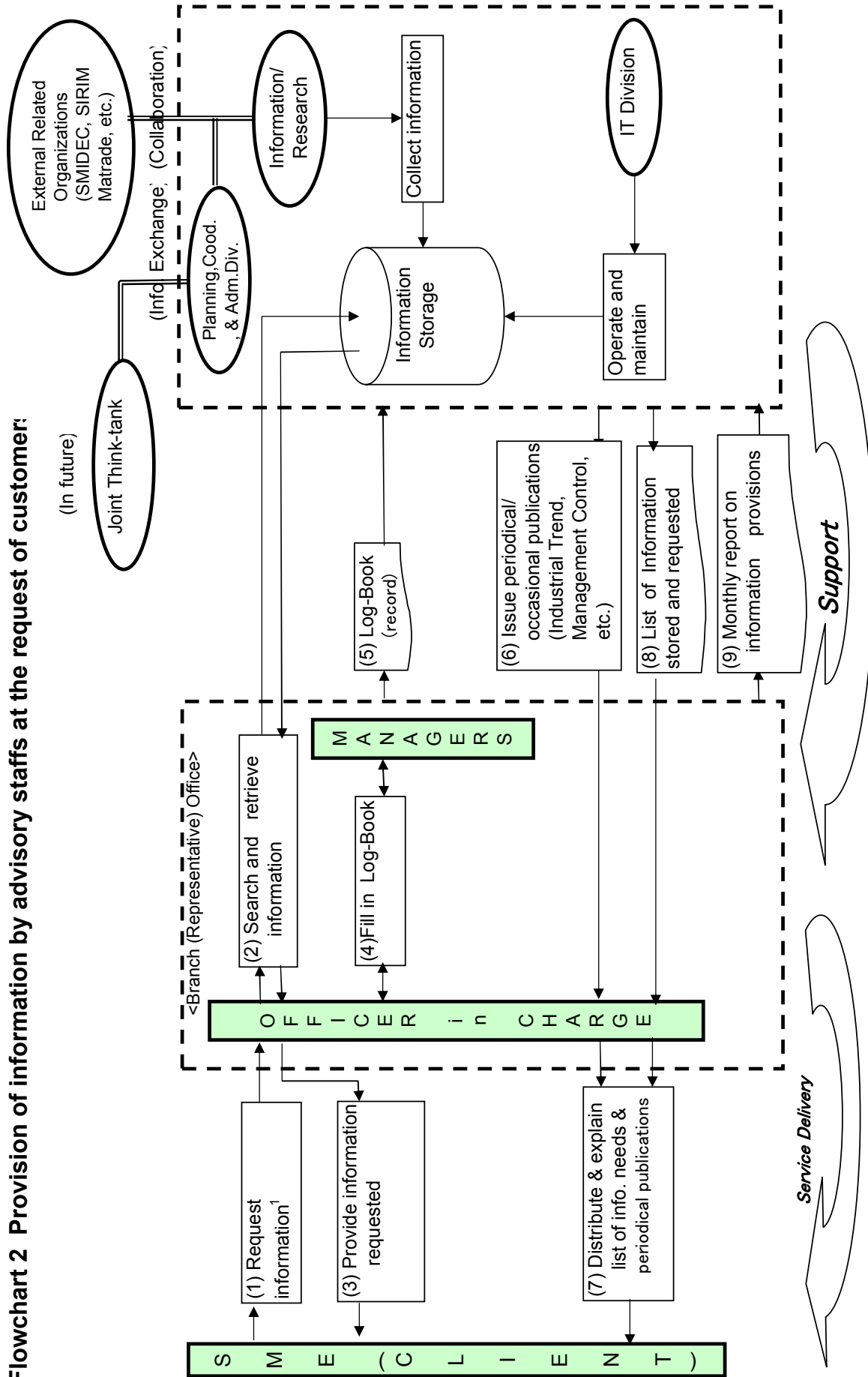
    S1 --> S2
    S3 --> S4
    S5 --> S6
    S7 --> S8
    S10 --> S11

    S2 --> S4
    S4 --> S6
    S6 --> S8
    S8 --> S11
    S11 --> S13
    S13 --> S14

    S2 --> CD[(Customer Database)]
    S4 --> CD
    S6 --> CD
    S8 --> CD
    S11 --> CD

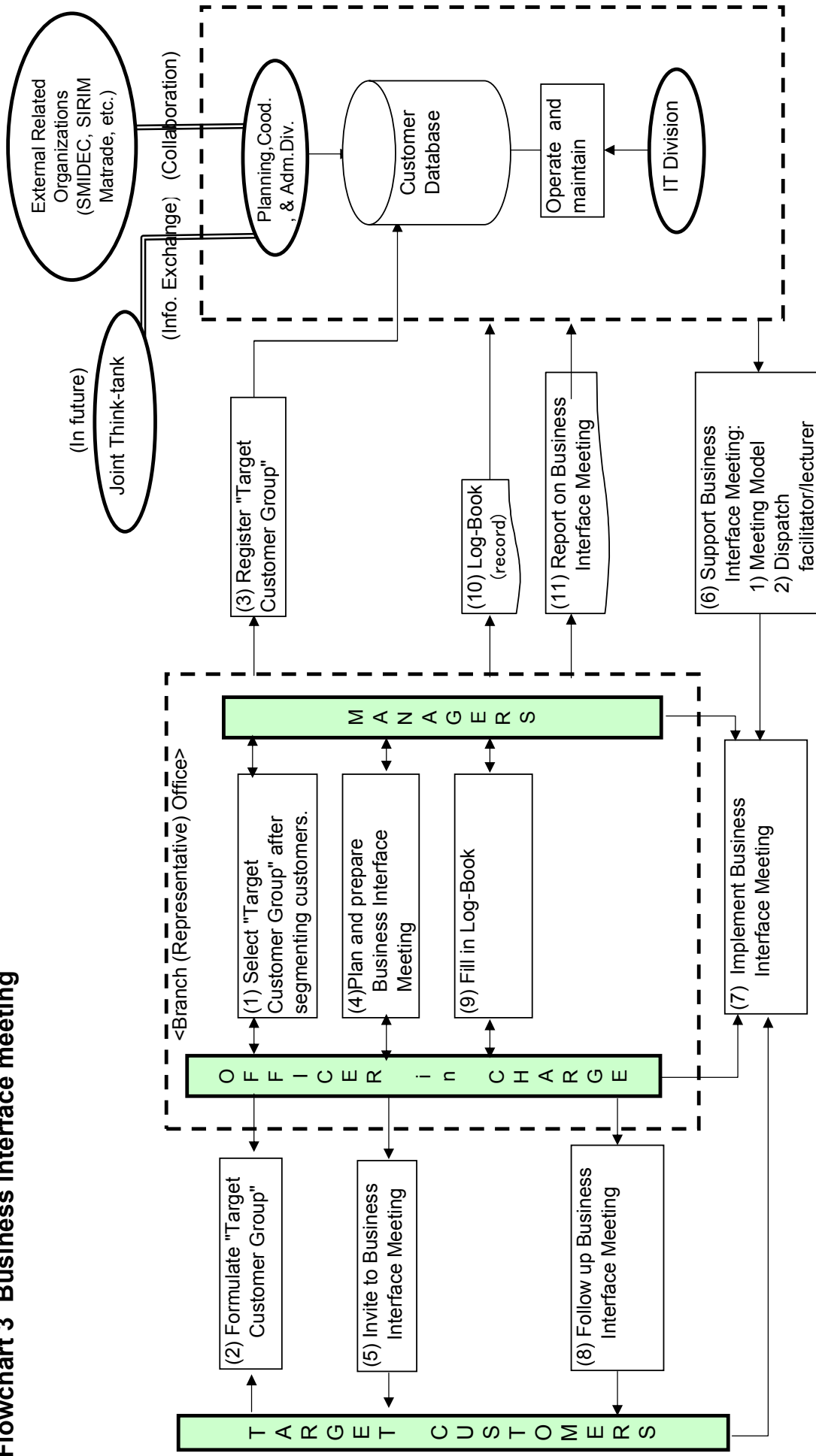
    CD --> P[Planning, Coord., & Adm. Div.]
    P --> OM[Operate and maintain]
    OM --> ITD([IT Division])
    ITD --> OM
  
```


Flowchart 2 Provision of information by advisory staffs at the request of customer:



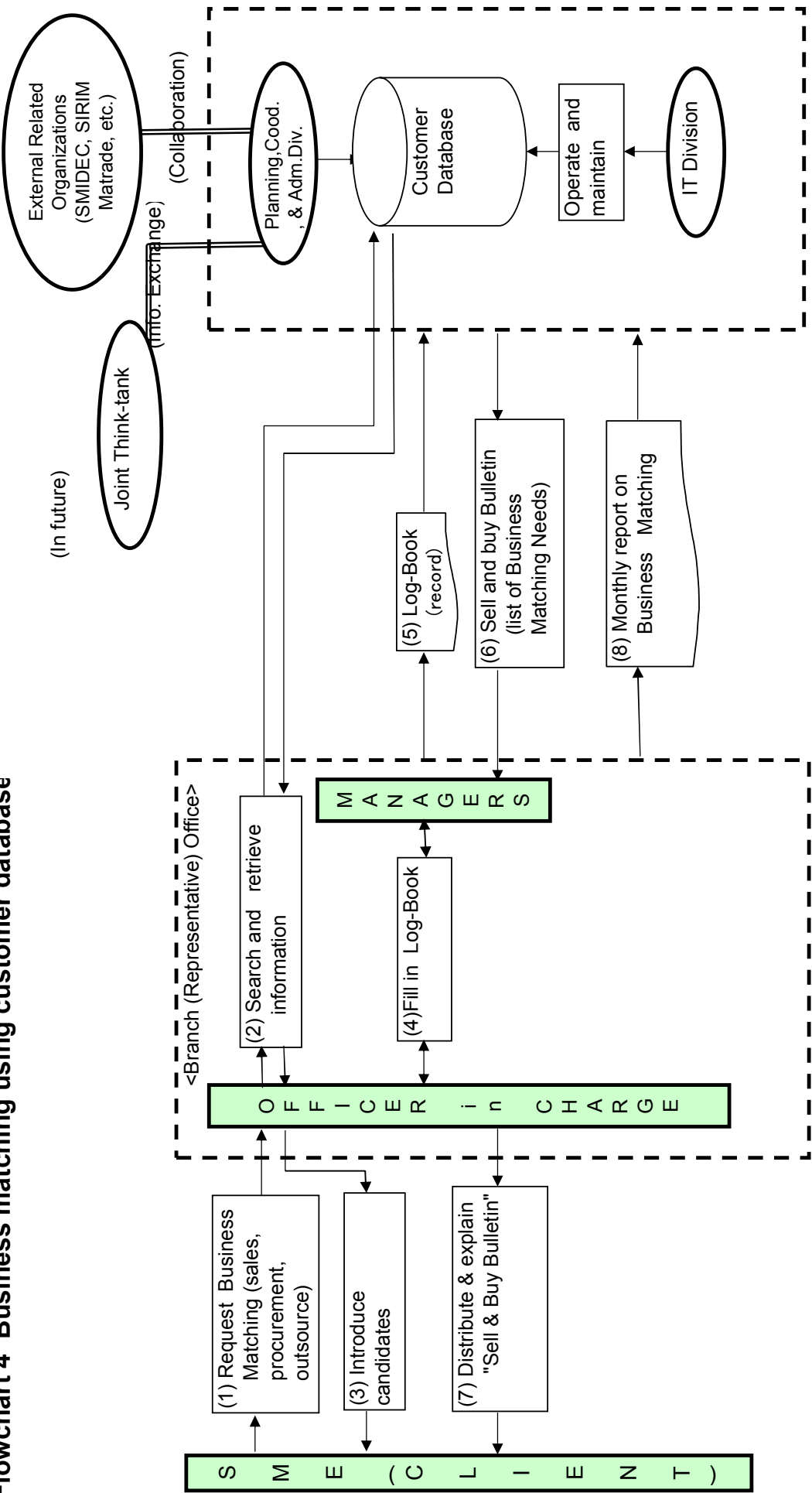
Note: 1. See the next examples of information needs

Flowchart 3 Business interface meeting



Note: A contentious issue; What are purposes and impacts of Business Interface Meeting?

Flowchart 4 Business matching using customer database



CIF(Customer Information File---Prototype)

(as of , revised by)

1.Customer ID Number		2.Name: (Trade name)		3. Rating	
4.Address:					
5.Telephone No.		Fax. No.		E-mail:	
6.Business Type (Main Products)					
7.Commence operation		From		(month) (year)	
Founded				(month) (year)	
8.Equity (Net Worth):				9.Total No. of staff (incl.management);	
10.Management Executives (# = key person, * = contact person)					
# *	Name	Title	Brief Career(age)		
11.Major Shareholders(name) (Share %) Special Note					
12 Financial Ratios 2001 2002 2003 Special Note					
Liquidity Ratio					
Gearing Ratio					
Equity Ratio					
Ratio of Gross Profit on sales					
Current Profit on Total Asset					
Interest Coverage Ratio					
Free Cash Flow					
13.Business Performance 2001 2002 2003 Special Note					
Total Annual Sales					
(from main business)					
Total Expenses					
(Purchases)					
(Labor cost)					
Profit(or Loss)					
Total Asset					
(Fixed asset)					
Total Borrowing					
(Main source)					
14.Loan Record 1st loan 2nd loan 3rd loan					
Date of loan contract					
Loans amount					
(disbursed amount)					
Loans Outstanding					
Repayment arrears					
15.Special Note(Features. Strengths/Weaknesses, major problems/challenges, etc.)					

LOG-BOOK(Prototype)

Customer ID No.	Name of customer		
Date of contact	Name of person you contacted		
Place contacted			
Action/Deed	1.Request for funds	2.Managearial problems	3.Succesfull case
	4.Request for reschedule	5.Macting needs	6.Greetings
	7.Others(specify)		
Prepared by (description)			
Section Chief (description/comments)			
Deputy Manager (description/comments)			
Manager/Boss (description/comments)			
(Remarks)			