

Secretariat, announced new initiatives to accelerate SME development. New trade financing products were introduced; SME info portal and online training portal were launched; a comprehensive definition for SMEs in various sectors for targeted development was released; and a framework for SME Development Planning and Evaluation was developed. The Council also endorsed the National SME Development Blueprint 2006, which includes a total of 245 programmes in all sectors to accelerate the development of SMEs. An allocation of RM3.9 billion has been committed by the Government to implement these

programmes. The SME Bank commenced operations on 3 October 2005 to promote and expand SMEs contribution to the economy. The SME Bank specialises in providing both financial and non-financial assistance, including meeting business advisory needs, and providing education and training to SMEs. To further promote Malaysia's export of goods and services, the functions of Malaysia Export Credit Insurance Bhd (MECIB) has been absorbed by the Export Import Bank of Malaysia, in an effort to further improve the facilities for Malaysian exporters to enhance their competitiveness in the global market.

Development of Small and Medium Enterprises

The development of competitive small and medium enterprises (SMEs) is an important focus of Government policy. The efforts are aimed at:

- strengthening enabling infrastructure for SME development;
- building the capacity and capability of SMEs; and
- enhancing access to financing by SMEs.

The National SME Development Council¹ has provided the strategic direction for the Government policies on SME development so as to ensure coordination and effectiveness of Government programmes for SMEs.

(i) Strengthening Enabling Infrastructure for SME Development

(a) Framework for SME Development Planning and Evaluation

In view of the extensive SME programmes undertaken by a large number of Ministries and Agencies, it is important to ensure that the implementation of these programmes are coordinated and effective in developing the SMEs. A Policy Formulation and Evaluation Framework has been introduced to enhance the formulation and coordination of SME policies and programmes, as well as to monitor the implementation and outcomes of the programmes. The Framework involves the identification of broad strategic priorities, programmes and targets for SME development, as well as the establishment of comprehensive key performance indicators to evaluate effectiveness of the programmes on an annual basis.

(b) National SME Development Blueprint 2006

Following the adoption of the Framework for SME Development Planning and Evaluation, the National SME Development Blueprint for 2006 (Blueprint 2006) was endorsed by the Council in December 2005. The Blueprint 2006 is a one-year action plan of the Government to promote the development of SMEs. It outlines the following:

- Objectives and targets for SME development in 2006;
- Key strategies, programmes and financial commitments; and
- Ministries and Agencies involved in implementing these programmes.

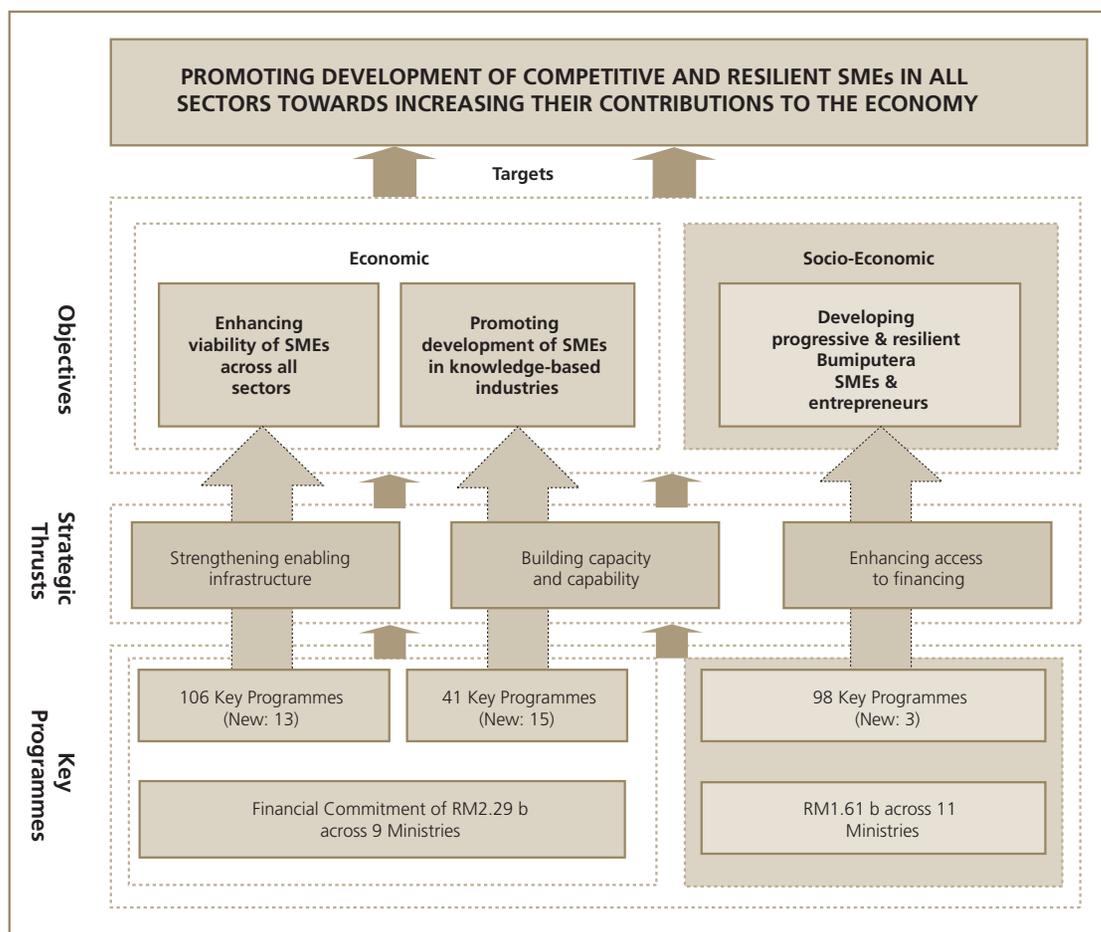
For 2006, a total of 245 programmes involving financial commitment of RM3.9 billion have been identified for implementation to accelerate the development of SMEs. These are aimed at strengthening the enabling infrastructure to support SME development; building the capacity and capability of SMEs; and enhancing SMEs' access to financing. The programmes will cover all sectors, including SMEs in agriculture and agro-based industries, and those involved in knowledge-based industries. Efforts will also be directed to developing progressive and resilient Bumiputera entrepreneurs and SMEs.

¹ The National SME Development Council is chaired by the Prime Minister and comprises of Ministers and Heads of 18 key Ministries and Agencies involved in SME development.

A total of 170 key programmes will be implemented to build capacity and capability of SMEs, mainly in the areas of entrepreneurial and human resource development, as well as marketing and promotion. These include programmes to inculcate entrepreneurship at schools and institutes of higher learning, as well as initiatives to assist SMEs in expanding their market network, through market expansion programmes and developing linkages with large corporations, government-linked companies and hypermarkets.

Forty-two key programmes will be implemented to strengthen the infrastructure to support SME development, which include incentives to encourage SMEs to upgrade their business premises as well as establishment of incubation centres. For greater access to financing, 33 key programmes will be

Overview of SME Development: Objectives, Strategies, Key Programmes and Financial Commitment in 2006



implemented in 2006. These include the establishment of a RM300 million venture capital fund for agriculture, an additional RM300 million allocation for the Fund for Food, pre-seed funding for the ICT sector and the transformation of the Credit Guarantee Corporation Berhad to further strengthen the infrastructure for SME financing.

(c) Adoption of Definitions for SMEs in Malaysia

All Ministries, Agencies and financial institutions involved in the development of SMEs have adopted the new definitions of SMEs in the primary agriculture, manufacturing, manufacturing-related services and

services sectors. The definitions are based on the criteria of annual sales turnover or number of full-time employees. The adoption of a common identifier for SMEs in these sectors will facilitate the identification of issues and prospects of the sectors concerned to enable appropriate policy actions to be taken. It will also allow for closer monitoring of SME performance and contribution to the economy.

(d) Profile and Contribution of SMEs to the Economy

The availability of relevant data on the development and performance of SMEs is critical to facilitate the formulation of effective policies to support the creation and growth of SMEs. As a result, the Census of Establishment and Enterprise for the agriculture, manufacturing and services sectors was launched in March 2005, covering about 1.7 million companies and businesses. At end-December 2005, 492,806 completed responses were received. A preliminary assessment of responses from 349,617 companies and businesses (including large enterprises) highlighted the following:

- Of the 349,617 establishments, 99% or 346,211 respondents are SMEs (including microenterprises). Of this, 81% are microenterprises operating with less than 5 full-time employees, while 17% and 2% are small and medium enterprises respectively; and
- The SMEs contributed to 38% of total output and accounted for 55% of total workforce of these 349,617 business establishments.

The preliminary findings reinforced the need for aggressive efforts to be undertaken in a strategic and coordinated manner to support the expansion of SMEs and strengthen their capacity and competitiveness, given the potential for them to contribute more effectively to the nation's economy. A detailed analysis of the profile and performance of SMEs will be provided in the first Annual Report on SME Development 2005, scheduled to be released in June 2006.

(ii) Building Capacity and Capability of SMEs

(a) SMEinfo Portal: A One-Stop Online Information Gateway for SMEs

The SMEinfo Portal (www.smeinfo.com.my), launched in January 2006, is a one-stop online information gateway to provide comprehensive information on all aspects of SME development. The SMEinfo Portal provides SMEs with convenient access to information on Government support and development programmes, financing, advisory services and training programmes. In addition, the Portal also provides links to relevant websites that contain useful information for SMEs, including websites of financial institutions. An important feature of the Portal is the free SME Directory, which offers an opportunity for SMEs to advertise their companies and products to large potential customers.

(b) Online Training Portal for SMEs

To facilitate SMEs to obtain information and register for training, the Human Resource Development Portal (HRD Portal), a web-based training portal developed by Pembangunan Sumber Manusia Berhad, was launched in March 2005. The HRD Portal, www.hrdportal.com.my, will assist employers to search, identify and register for training programmes online, and at the same time, allow training providers to offer their training programmes and activities online. By providing access to a central pool of training information, the HRD Portal will facilitate and encourage employers, particularly SMEs, to retrain and upgrade the skills of their employees in order to enhance productivity and competitiveness.

(c) Publication of Annual Report on SME Development

A report on SME development, that will provide a comprehensive assessment on the status and performance of SMEs in all sectors, as well as details and achievements of the Government's programmes for SMEs, will be published every year. The publication is part of the initiatives to enhance the dissemination of information on SMEs, and therefore, increase the awareness among SMEs and others on the status of SME development and programmes to support SMEs. The Annual Report on SME Development 2005 is scheduled for release in June 2006.

(iii) Enhancing Access to Financing by SMEs

Banking institutions are the largest provider of financing to SMEs. In 2005, the banking system approved RM35.8 billion of new loans to more than 85,000 SME accounts, representing an increase of 13.1% from 2004 (2004: RM31.6 billion; 92,000 SME accounts). Loan disbursements grew by 10.2% to RM110.7 billion (2004: RM100.4 billion), while loans outstanding to SMEs expanded by 8.7% to RM96 billion as at end-2005 (end-2004: RM88.3 billion). Loans to SMEs accounted for 42.6% of business loans outstanding as at end-2005, compared with 40.3% as at end 2004. On a sectoral basis, lending to SMEs was diversified, with almost two-thirds being channelled to distributive trade, manufacturing and construction sectors. Gross non-performing loans (NPLs) of SMEs declined marginally to RM10.2 billion and the gross NPL ratio declined to 10.6% (end-2004: RM10.6 billion; 12%).

A number of development financial institutions (DFIs) also provide financing to SMEs. In 2005, the DFIs approved RM2.3 billion of loans to 5,223 SME accounts (2004: RM2.4 billion to 5,397 SME accounts), and disbursed RM1.5 billion (2004: RM1.2 billion). The loans outstanding of DFIs to SMEs increased by 3.3% to RM3.1 billion as at end-2005 (end-2004: RM3 billion). Another source of financing for SMEs is the leasing and factoring companies, which provide an alternative mode of financing to finance equipment and working capital requirements. In 2005, RM819 million of financing was extended by leasing and factoring companies to businesses in services, manufacturing and general commerce sectors (2004: RM996 million). For newly established businesses, especially in the ICT sector, financing could also be obtained from venture capital companies. The total available funds for venture capital investments increased by 14.3% to RM2.6 billion as at end-2005 (end-2004: RM2.3 billion). The funds were invested in 380 companies as compared with 332 companies as at end-2004.

Special Funds for SMEs

Bank Negara Malaysia has five special funds to assist SMEs to have access to financing at reasonable costs (lending rates ranging from 3.75% to 5.00%). The funds are channeled through participating institutions comprising banking institutions, DFIs and ERF Sdn. Bhd.:

- Fund for Small and Medium Industries 2 (fund size: RM4.75 billion);
- New Entrepreneurs Fund 2 (fund size: RM2.35 billion);
- Fund for Food (fund size: RM1.3 billion);
- Rehabilitation Fund for Small Businesses (fund size: RM200 million); and
- Bumiputera Entrepreneurs Project Fund (fund size: RM300 million).

Due to strong demand, allocations for the Fund for Small and Medium Industries 2 and New Entrepreneurs Fund 2 had been increased in 2005 by RM250 million and RM350 million to RM4.75 billion and RM2.35 billion respectively.

Initiatives to Improve Access to Financing by SMEs

The policy on enhancing access to financing by SMEs during the year continued to focus on:

- Strengthening the existing infrastructure to ensure a more effective intermediation of funds to SMEs;
- The provision of advisory support and awareness programmes; and
- Assisting in debt restructuring of financially distressed SMEs with viable business.

Among the new initiatives introduced in 2005 are:

(a) Transformation of Credit Guarantee Corporation Malaysia Berhad

One of the initiatives to strengthen the infrastructure of SME financing is the transformation of Credit Guarantee Corporation Malaysia Berhad (CGC) involving the enhancement of its role and expansion in the range of products and services offered by CGC. In enhancing SMEs' access to financing, CGC will take a holistic approach by providing wider range of credit enhancement products, advisory services on financial and business development, and credit information services. These services are aimed at facilitating greater

lending to SMEs while promoting sound financial management practices by SMEs. To meet its new expanded role, the composition of the Board of CGC has been broadened to include members with experience in business and finance, while efforts are being taken to strengthen the resources of CGC.

(b) Venture Capital for Agriculture Sector

To support the Government's objective of realising the potential of the agriculture sector as the third engine of growth, Bank Negara Malaysia is establishing two venture capital funds of RM150 million each for the agriculture sector in 2006. The objective of the funds is to create and develop an integrated agricultural business through the provision of venture capital financing, as well as technical and business support, with its spill over effects that will benefit and enhance the whole value chain of the agriculture sector. The targeted areas for investments are integrated farming and fisheries, as well as biotechnology-related ventures.

(c) Establishment of the SME Bank

The SME Bank commenced operations on 3 October 2005 as a result of integration and rationalisation exercise between Bank Pembangunan dan Infrastruktur Malaysia Berhad and Bank Industri & Teknologi Malaysia Berhad, to support the development of the SME sector. The SME Bank will complement the banking institutions through the provision of financial and business support services to the SMEs. These include equity financing, working capital, term loans, industrial hire purchase, leasing, factoring, contract financing as well as bank guarantees. In addition, the SME Bank will also provide business and consultancy support services, such as advisory services and preparation of business plans.

(d) New Trade Finance Products for SMEs

Two new trade finance products for SMEs were introduced in January 2006, namely the Multi Currency Trade Finance (MCTF) and Indirect Exporter Financing Scheme (IEFS), under both conventional and Islamic financing. These products are aimed at encouraging SMEs to export their goods and services, particularly to the non-traditional markets such as members of the Organisation of Islamic Countries. The MCTF provides financing to Malaysian direct exporters in Ringgit and major foreign currencies in the form of pre and post shipment financing. The IEFS provides Ringgit financing to indirect exporters without recourse, whereby the participating banks will discount their trade invoices arising from the supply of goods and services to direct exporters. These products benefit the SMEs by lowering financing costs, without collateral requirements. Under the arrangements, the SMEs can obtain financing from the participating banks, with the credit risks being shared between the bank and Export-Import Bank of Malaysia Berhad.

Financial Advisory Service

Bank Negara Malaysia provides financial advisory services to SMEs in the following areas:

- information on various sources of financing;
- assistance in facilitation of loan application process; and
- advice on financial requirements and problems of SMEs.

In 2005, the number of enquiries and assistance sought by SMEs increased to 4,019 cases (2004: 1,399 cases) reflecting heightened awareness among SMEs as well as a result of the establishment of Laman Informasi, Nasihat dan Khidmat (LINK), in Bank Negara Malaysia, Kuala Lumpur. Of these, 81% were enquiries on special funds provided by the Government and advice on loan matters, and 19% were complaints against financial institutions, mainly for cases of loan rejection and poor response on SMEs' loan applications.

Performance of Small Debt Resolution Scheme

The Small Debt Resolution Scheme was established on 1 November 2003 to facilitate the restructuring of non-performing loans (NPLs) of SMEs with on-going business. Under the mechanism, a Small Debt Resolution Committee undertakes independent assessments on the viability of the businesses, loan restructuring and financing requirements of the SMEs.

As at end-2005, 394 applications with NPLs of RM278 million were received under the scheme (end-2004: 228 applications with NPLs of RM180.2 million). Of these, 286 applications, involving NPLs of RM183 million, have been approved for restructuring and RM16 million new financing was approved under the Rehabilitation Fund for Small Businesses. A total of 83 cases, with total NPLs of RM83 million, were rejected due to non-viability. Another 25 cases involving NPLs of RM12 million are being evaluated as some of the cases could not be processed due to the inability of applicants to provide the necessary information required to facilitate evaluation. The performance of the scheme has shown that the restructuring of NPLs is more important than the provision of new financing in ensuring the viability and sustainability of financially distressed SMEs.

In addition to new initiatives, the Government implemented further new measure to improve delivery system and quality of services. A number of customer service offices and one-stop centres were established, leveraging on ICT to expand public sector's reach and response time to investors, businesses and consumers.

Moving forward, the 2006 Budget put forth various proactive measures to enhance national resilience and the ability to face external challenges, arising from higher oil prices, higher global interest rates and increasing global competition. Incentives have been given to develop new growth areas such as biotechnology, high technology manufacturing and ICT industries. The National Biofuel Policy was launched at the end of 2005 to encourage private sector involvement in the production of biodiesel. In terms of special development funds, the Government has announced an increase of RM300 million for the Fund for Food; the creation of Malaysian Life Sciences Capital Fund for investment in biotechnology with RM100 million contribution from the Government; and an RM1 billion fund to assist and encourage local entrepreneurs, especially *bumiputeras*, to venture abroad via facilities such as trade financing, overseas projects financing and credit insurance guarantee. In addition, selected companies undertaking ICT and multimedia services will be given Pioneer Status, which allows for tax exemption or tax allowances of up to 50% for five years. The Government increased the pace of developing the Multimedia Super Corridor (MSC) by awarding the status to cybercities of Bayan Lepas, Pulau Pinang and the Kulim High Technology Park in Kedah. The Government also continues to support the development of soft infrastructure by providing a large allocation to the education and training sector, focusing on developing skills in order to increase productivity and value-add from the workforce.

The overall motivation of macroeconomic management of Malaysia is the policy of pursuing balanced growth in an environment of social and political stability. At end-March 2006, the Government will launch the Ninth Malaysia Plan

(9MP), 2006-2010, which provides the foundation for further development and strengthening the prospects for the Malaysian economy. The Plan will also focus on the importance of making progress in the new growth areas in order to achieve the successful transformation of Malaysia into a more resilient knowledge-based economy, while re-emphasising the Government's commitment to maintaining macroeconomic stability.

The monetary policy stance in 2005 aimed to promote sustainable growth in an environment of price stability. In formulating the stance of monetary policy, Bank Negara Malaysia undertakes a careful assessment of the risks to inflation and economic growth. In 2005, a particular challenge was to respond appropriately to the higher oil prices, recognising that price increases arose due to a multitude of factors with cost-push factors being dominant. Following the increases in transportation charges and retail prices of petrol and diesel in May, the inflation rate breached the 3% level. Demand-driven inflation, as measured by core inflation, was however well contained and registered a more gradual increase in the first half of the year. Real and monetary indicators did not suggest that demand pressures were a source of inflationary concern. Growth, which had been high at 6.2% in the first quarter, had also slowed to 4.4% in the second quarter.

Consumption and investment activity appeared to hold steady while financing activities and money supply continued to increase at relatively stable rates. In the second half of the year, the growth momentum picked up, with private sector demand growth becoming more entrenched. In the third quarter, real GDP growth accelerated to 5.3%, with the outlook for external demand becoming more optimistic. Growth in the global economy had remained relatively resilient to the higher oil prices while the semiconductor down-cycle had reached its trough by mid-year, with global sales and shipments picking up thereafter. Consequently, the Overnight Policy Rate (OPR) was raised by 30 basis points to 3% on 30 November 2005 to align the rates