Chapter 6

Strengthening the Enabling Infrastructure

In the era of globalisation, the business environment of SMEs has changed. Technological improvements in logistics and distribution enable businesses to operate in the global market place. Creating an enabling environment that is conducive for business activities that is supported by solid infrastructure, is key in creating a resilient and competitive SME sector. Initiatives were thus carried out in three key areas namely, developing and enhancing the physical infrastructure and information management, ensuring the regulations and operating requirements.

In 2007, a total of RM298 million was spent on the implementation of 28 programmes towards strengthening the enabling infrastructure, assisting more than 7,700 SMEs. Of the total programmes, 22 were focused on improving and building new physical infrastructure to support SMEs in their business operations.

Key achievements of programmes in 2007 include the provision of business premises at strategic locations rented out to 4,750 SMEs, whilst 2,950 agripreneurs benefited from 178 collection, packaging, distribution and agriculture marketing centres established by the Federal Agricultural Marketing Authority (FAMA). As part of the Government's push to boost incomes and participation of rural communities further improvements in the Homestay Programme saw SME incomes increase to an average of RM800 per month. 2007 saw another Homestay project implemented in Kampung Stass, Sarawak. The number of rural entrepreneurs was also increased with the creation of 45 mini post-offices in the same year.

A total of 34 programmes are currently being implemented focusing on strengthening enabling infrastructure in 2008, with a total financial expenditure of RM600 million. Building on existing programmes 11 new programmes are slated to be implemented via 10 Ministries with a total financial commitment of RM40.1 million in 2008. Expected outcomes for 2008 include setting up a Resource Centre and developing an online directory for the landscape industry. Further improvements in Information and Communication Technology (ICT) include developing a Vendor E-registration and Assessment to facilitate registration and monitoring the performance of TNB vendors. 2008 will also see the establishment of the SME Central Coordination Agency (SME Corporation Malaysia) to coordinate policy formulation and development programmes for SMEs. The Agency will also act as a one-stop information centre for SMEs to obtain comprehensive information and advisory services.

(Please refer to Chapter 4 for more information on SME Corporation Malaysia)

1. Physical Infrastructure - Strength in Numbers

Individual SMEs would experience difficulties in achieving scale in purchasing and would therefore be unable to take advantage of market opportunities that require large production quantities, high standards and regular supply. Existing in isolation would be a constraint on efforts to carry out staff training, market research, upgrading logistics and even technology innovation. As a result, to preserve already narrow profit margins, small-scale entrepreneurs are often unable to reinvest and innovate products and processes.

Number of industrial and halal parks have been increased to offer SMEs a viable production strategy for sustained competitive growth in a nurturing environment

A possible solution is the creation of clusters that offer SMEs, at the very least, external economic advantages including scale and scope. Cooperation within clusters and network, through the sharing of information, resources, knowledge technical expertise, and other forms of joint actions reduce transaction costs to further enhance competitiveness.

Achieving Economies of Scale

Strategic Hubs

Networking through strategic hubs offers an important route for individual SMEs to address problems and improve their competitive position. Programmes were stepped up to increase and develop physical groupings of SMEs in business parks, processing and distribution centres and factories.

Consequently, the number of strategic hubs in the form of industrial and Halal parks has been increased in an ongoing effort to offer SMEs a viable production strategy to bring about sustained competitive growth in a nurturing environment.

Malaysia aims to become a net exporter of food by 2010 and has identified the agriculture sector as the third engine of growth in the 9th Malaysia Plan (9MP) to achieve this vision. Initiatives outlined in the 9MP include the creation of “Agropolis” and National Food Terminals (TEMAN), an increase in the development of palm oil industrial clusters, livestock valleys, fruit valleys and aquaculture parks. In 2007, Permanent Food Production Parks and Cluster Farming Projects helped participating SMEs achieve 75% of potential yield and increased crop production.

In addition, product packaging, distribution and marketing centres will be increased to ensure efficient and effective distribution of SME agriculture and agro-based products. In 2007, a total of 178 packaging, distribution and agriculture marketing centres were established by FAMA, benefiting 2,950 agripreneurs. Besides offering micro entrepreneurs the opportunity to add value to systems and processes, these centres will also serve to help develop new linkages so they can market their products directly.

PUSPRO - Marketing Excellence

The Centre for Marketing of Agro-food Products (*Pusat Persediaan Produk*, PUSPRO) is instrumental in providing marketing assistance to SMEs and linking producers into the supply chain of agricultural products. Aimed at helping agripreneurs move up the value chain these centres not only buy selected local inputs for processing but also offer other marketing advisory and services namely:

- **Consultancy on Quality and Standards**

  SMEs need to conform to international hygiene, safety standards and regulations to penetrate the export market which for most SMEs is beyond their financial reach. PUSPRO assists SMEs to obtain international certification systems which include Hazard Analysis and Critical Control Points (HACCP), Halal JAKIM, ISO standards, Good Manufacturing Practice (GMP) and 5S (*Sisih, Susun, Sapu, Seragam, Sentiasa Amal*). These systems are audited by SIRIM annually to ensure standards are maintained. Halal Certification obtained through either JAKIM or JAIN is a requirement for products to be branded with AgroMas or Olemas.

  PUSPRO Rengit obtained ISO 9001:200 and Halal certifications for its premises. These systems are audited by SIRIM annually to ensure standards are maintained. PUSPRO assists SMEs in upgrading the quality of their products or alternatively using the PUSPRO premises to produce certified products through contract manufacturing offered by FAMA. In 2007, a total of 41 SMEs obtained Halal certifications through collaboration with PUSPRO's various centres.

- **Training Attachments**

  Courses and advice pertaining to marketing requirements of agricultural and food products are available on site at various PUSPRO centres covering the various stages of the supply chain - from seed to shelf. Courses can also be conducted on site at SME premises. These programmes have proven to be successful with 360 SMEs benefiting from the programmes. In 2008, there are plans to provide more courses due to increased demand.

- **Contract Manufacturing**
  PUSPRO aids agripreneurs that do not have processing facilities in getting products to market with PUSPRO doing the production under the SMEs' brand name.

- **Export Promotion**
  SMEs are assisted in getting export ready with help in packaging and labeling, compliance with international standards, storage facilities, including cold storage, transportation and accreditation in quality standards. PUSPRO also assists in marketing of SME products under FAMA's brand names such as AgroMas and OleMas. Success stories have included MHP Enterprise, producing groundnut paste under the AgroMas brand with annual sales increasing by 20% to RM1.2 million in 2007. Similarly Muslim Best Food Industries, offering sauces and ketchups have since seen an increase in product varieties with sales reaching RM10 million.

- **Vendor/Original Equipment Manufacturer (OEM)**
  The programme assists SMEs in getting products to market shelves either through branding or electing vendors for AgroMas and Olemas brands. AgroMas and Olemas are brands for processed products and Malaysia's Best, is an endorsement brand for quality and safety, managed by FAMA. To qualify for this scheme SMEs will have to offer a unique marketable product. An example of a successful collaboration with FAMA is the Halazat brand which produces a unique spicy soy sauce product. The brand, owned by a Malaysian company, started as a cottage industry in Brunei Darussalam where it now distributes two types of soy sauce varieties. PUSPRO has been instrumental in getting the brand out to Malaysian consumers. Help is also being obtained in Research and Development (R&D) through MARDI to eliminate the costly use of fresh pepper from Thailand.

  To ensure quality assurance for all products produced under PUSPRO, FAMA plans to expand PUSPRO's services by building laboratories to improve R&D on food technology as well as upgrade product testing machines to ensure efficient and accurate test results.

Currently there are nine PUSPRO centres around the country located in Johor, Selangor, Kelantan, Perlis, Kedah, Perak, Melaka and Sabah. By the end of the 9MP, FAMA expects to have at least one PUSPRO centre in every state and that existing centres will expand their services to facilitate marketing of SME products both locally and globally.
For more information please log onto http://www.famaxchange.org

PUSPRO Rengit, Johor

PUSPRO Rengit offers various services which cover the entire production chain, from sourcing and acquiring the raw materials to marketing of finished products. The Johor centre with a staff count of 21 is committed to provide assistance to struggling SMEs particularly in the areas of packaging, marketing and obtaining ISO and Halal certifications. The centre is also a hub for roselle based products processing. To date 22 SMEs have successfully produced and marketed their products by leveraging on the fully certified manufacturing facilities in PUSPRO.

PUSPRO Rengit Beneficiaries

Aslah Sdn Bhd - Frozen Roselle

Success stories to date have included Aslah Sdn Bhd, an exporter of frozen fresh roselle. Owned by Encik Rizuan Nizar, Aslah started operations in 2006 with a paid up capital of just RM20,000. A year later turnover exceeded RM500,000. With his background in food marketing Rizuan saw the potential of frozen roselle. After spotting a gap in the market he conducted further research and managed to secure a contact abroad for the product. He approached FAMA with his proposal. PUSPRO has helped in securing the raw material from local farmers, preparing the product for freezing, packaging and providing cold room facilities. The frozen roselle is exported out to Australia where it is processed into food products and exported further to 16 other countries. Future plans for Aslah include increasing supplies to other countries as well as venturing into other roselle based products.

Green Mix Resources (GMR) - D&O Roselle Cordial

Packed with nutrients, research and studies have shown that roselle contains nine times more Vitamin C than blackcurrant and three times more than citrus fruits. The plant has the added benefit of being easily cultivated with a fast harvest yield of just three months. Grown in abundance in the eastern state of Kelantan, its potential was quickly recognised by GMR, a company producing the concentrated roselle cordial under the brand name, D&O. Incorporated in November 2006 the company is now supplying nearly 60,000 bottles a year to various Government Agencies and further afield to Brunei Darussalam and Singapore. The company has received help from PUSPRO with labeling, packaging, processing and quality and safety certification to comply with international standards. GMR have also participated in various government trade fairs which has enabled the company to successfully penetrate the overseas market. The company is currently in negotiations with Saudi Arabia and Indonesia to start supplying there. Spotting the potential, the company has plans to further increase sales to the export market.

Industrial Estates

In 2007, the buzzword in industrial estates was Halal Park. This is part of a Government-led initiative to promote industrial development and strengthen the country's position as an international Halal Hub by 2010.

To ensure that Halal industry players are able to produce a comprehensive range of products and services at competitive prices, purpose built factory complexes are being built. The Halal Parks will house an anchor tenant and supporting vendors to strengthen the supply chain of Halal products for the export market.

In 2007, Halal Parks in Negeri Sembilan, Melaka and Selangor began operations. Looking ahead, Halal Parks in several states, namely Kedah, Perlis, Kelantan and Terengganu are in various stages of construction, adding to the growing list of 13 Halal Parks nationwide. Under the Halal Development Corporation (HDC) plans have already begun to operationalise Prima Halal Food Park in Gambang by 2009.

Taman Pengeluaran Produk Usahawan (TPPU) in Rembau and Serkam are in the process of being set up as collaborative ventures between Ministry of Entrepreneur and Coorporative Development (MECD), SIRIM, SMIDEC and the land owners Malaysian Industrial Estates Bhd (MIEL) and the Melaka State Government.

To increase participation from SMEs in the rural areas the Government increased infrastructure by providing business premises, factories and workshops. In 2007, the Ministry of Rural and Regional Development (MRRD) and MECD provided 4,750 business premises, factories and workshops. MECD also disbursed RM5 million in 2007 to provide 307 factories with basic facilities for rent to Bumiputera entrepreneurs.

In terms of physical infrastructure, MECD through its Agencies, Majlis Amanah Rakyat (MARA), property development arm UDA Holdings Berhad and state economic agencies Perbadanan Kemajuan Ekonomi Negeri (PKEN) will purchase and construct new buildings including factories, business complexes, shop lots and stalls to rent out below market rate. Allocations were given to local authorities to develop, upgrade and improve the physical infrastructures of public markets, stalls, hawker's centre, food courts and shop houses. As of November 2007, 70% from the approved RM47 million has been utilised.

To assist SMEs relocate to designated industrial sites and enabling them to acquire assets that will enhance capabilities and obtain other financial assistance, the Soft Loan Scheme for Factory Relocation was made available by MITI. In 2007 a total of RM3.75 million was disbursed to SMEs. In 2008, a further RM4 million has been allocated to assist SMEs.

Technology Clusters

The creation of clusters or networks can often be encouraged and strengthened through strategic partnerships. As such the fostering of public-private partnerships will be stepped up as a key driver in terms of delivering dynamic growth in the SME ICT sector. Grouped in local systems of production, technopreneurs, universities and research institutions can pool resources and share the costs of training, research and marketing. The Government is looking to these incubation centres to help SMEs meet the challenges of globalisation.

The general goals of most technology incubators are to develop firms and to stimulate entrepreneurship. Other goals include job creation, technology development, product development, research commercialisation, venture capital development, and business investment opportunities. Apart from providing common services, such as work space, shared office facilities and basic amenities, business assistance and advisory services to their tenant companies, each incubator specialises in and provides differing technology focus and technical support services or financial packages.

In 2007, the Technology Development Cluster Programme was enhanced through greater emphasis on nurturing services such as financial and risk management, Intellectual Property (IP) management, the promotion of best practices and mentoring services for all SMEs. Spearheaded by the Malaysia Technology Development Corporation (MTDC) the programme was introduced to group high-technology companies operating with universities and research institutes in an environment that would enable interaction and enhance collaboration whilst helping SMEs bridge the gap between R&D and commercialisation-to-market.

To grant technopreneurs access to these services, the MDec Technopreneur Pre-Seed Funding Programme will offer start-up technopreneurs in particular an opportunity to tap into commercialisation activities on offer from universities and research institutes. The Ministry of Science Technology and Innovation (MOSTI) and MARA have made allocations for up to 50 technopreneurs to access the Incubation Centre Programme in 2007.

The Technology Development Clusters will also provide additional shared facilities to cater to the specific needs of technopreneurs for the development of the biotech and agro-bio industry, utilising the RM1 billion funds allocated under the programme.

2. Regulatory Infrastructure - Standards for Excellence

Globalisation provides not only inherent threats but also new opportunities for expansion and growth for SMEs. In order to compete effectively, SMEs must strive to meet global market requirements, such as compliance with international standards in health, safety, the environment, labour and quality.

SMEs must strive to meet global market requirements, such as compliance with international standards

In 2008, MOSTI will be developing 388 Malaysian standards that are relevant and meet the needs of SMEs. The objective is to promote SME competitiveness through the adoption of Malaysian standards. Similarly, an accreditation programme for nursery and garden centres will be put in place by the Ministry of Housing and Local Government (MHLG) to promote good management practices for landscape nurseries throughout the country. MHLG will also be developing standards on specifications and pricing for planting materials as a guide for all parties, particularly small scale nurserymen and landscape contractors.

The streamlining of registration and licensing for the homestay industry will also be implemented in 2008 by the Ministry of Tourism (MOTOUR) to encourage qualified homestay operators to participate in the programme. The registration requirements would require the participants to attend and successfully complete the Basic Homestay Course by MRRD's Institute of Rural Advancement (INFRA) and undergo a house inspection carried out by the Panel of Inspection consisting of MOTOUR/State Tourism Action Council, Tourism Malaysia, Ministry of Health, the local authorities and *Jawatankuasa Kemajuan dan Keselamatan Kampung* (JKKK).

3. Information Infrastructure - Knowledge is Key

Market intelligence is essential to facilitate entry into new markets and to keep ahead of industry trends to remain competitive. Access to secondary sources is key which led to increased efforts in 2007 to coordinate and centralise information as well as expand databases.

Market Intelligence is essential to keep ahead of industry trends

A major initiative in 2007 was the establishment of National SME Innovation Focal Point. Established in March 2007, the National SME Innovation Focal Point is a collaboration between industry associations, entrepreneurs, research institutions, financiers (including venture capitalists) and relevant Government Agencies to formulate initiatives and programmes for the development of innovation-driven SMEs. Since its inception, the focal point has established several initiatives including:

- Technology Database
  Established in collaboration with the Malaysian Science and Technology Information Centre (MASTIC), a total of 276 research findings that are ready for commercialisation are currently available in the database. These research findings are pre-matched with suitable financial assistance to facilitate commercialisation by SMEs.

  The Technology Database can be accessed through SMIDEC's portal at www.smidec.gov.my under "TECHMART". For 2008, SMIDEC in collaboration with MASTIC, is in the midst of making available MASTIC's database of expert profiles through SMIDEC's website to encourage more SMEs to undertake commercialisation activities.

- Technology Foresight Database.
  The database stores technology related research findings allowing SMEs to keep abreast with the latest information on best practice technologies including Technology Mapping in the various industry sub-sectors. Currently, three Technology Roadmaps with the action plans and programmes have been identified for the electrical and electronics sector in Penang, ICT and biotechnology.

- Technology and Innovation Showcase
  Organised in conjunction with SMIDEX 2007, a total of 53 ready-to-commercialise research projects were promoted. The Showcase saw a total of 22 research projects adopted by SMEs.

- Global Supplier Programme (GSP)
  This programme encourages SMEs to commercialise and develop new products and services. SMIDEC collaborates with the Global Innovation Research Centre (GIRC) of British Telecom (BT) to develop SMEs as potential suppliers to BT, as well as other Multinational Corporations (MNC) and and Government Link Corporation (GLCs). To date five SMEs have been linked to BT, United Kingdom to commercialise their research with an expected revenue of RM110 million.

The National SME Innovation Focal Point will conduct a report on activities implemented, whilst proposed activity on the action plans has been compiled to facilitate monitoring and implementation.

Another key initiative was the establishment of the National SME Database in 2007 to provide stakeholders with timely information on SMEs to evaluate performance, monitor contribution to the economy and facilitate informed decisions on their development and training requirements. The first phase of the project has been completed and policy makers and analysts are now able to gain access to the database to extract relevant statistics pertaining to the economic activities of SMEs. The Department of Statistics Malaysia (DOS) has been mandated to maintain the database and currently the second phase of the database is being implemented with the objective of integrating the systems of the Ministries and Agencies to the database. The integration will ensure that important information on SME development programmes and initiatives will be collected from the relevant ministries and agencies, ensuring that the database will provide relevant, stable and up to-date information on SMEs.

Centralisation of information has many benefits as not only does it help SMEs make informed decisions, it also allows for increased benchmarking activity. Databases can become effective tools for the exchange and sharing of knowledge. Being able to monitor and evaluate ongoing efforts will aid Ministries and Agencies in formulating effective policies.

Another important initiative that has been put in place by the National SME Development Council to improve delivery and effectiveness of programmes for SMEs, is the SME Blueprint Management Framework. Since its implementation in 2005 the Blueprint has brought several key benefits:

- SME-centric performance-driven programmes were developed and implemented to achieve targeted and measurable outcomes;
- Inter and intra Ministry collaboration and coordination are improved in implementing SME development programmes; and
- Commitment of Ministries and Agencies are enhanced through structured monitoring and continuous tracking of SME programmes to ensure SME development objectives are met.

Current trends in trade liberalisation and increased globalisation of production would mean that only businesses able to adapt to this new environment can survive and prosper. Given these business conditions achieving sustained growth for SMEs is not only a function of production efficiency but also of their ability to continuously innovate and improve on technical expertise. It is with this in mind that requisite physical, regulatory and information infrastructure has been established to enable SMEs to compete effectively.