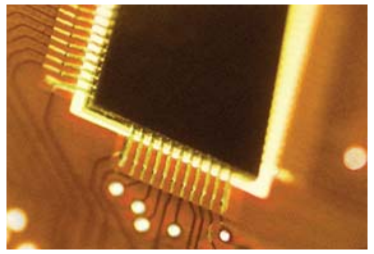
SMEs in Malaysia

Infocredit D&B MALAYSIA

Small Medium Industries (SMIs) and Small Medium Enteprises (SMEs) play a significant role in the country's domestic economy and industrialization program. They help to create job opportunities through the utilization of local land, injection of local investment, and recruitment and development of local human resources. SMEs can be important players in the development of a knowledge-based economy.

In addition, SMEs are an important goods and services channel for large-scale heavy and modern industries. The network of industrial linkages between big and small companies not only drives the growth of these indigenously-owned enterprises but also propels the Malaysian economy towards greater industrialization and globalization.



The Malaysian Economic Report 2004/2005 describes SMEs in Malaysia as an "integral part of the value chain in the overall production network, producing high value-added parts and components and developing themselves as downstream suppliers or service providers of the larger industries (LIs) and multinational corporations (MNCs)." In many cases, larger industries and multinational corporations rely on SMEs (*i.e.* wholesalers and retailers) for the distribution of their products to consumers. SMEs readily provide large enterprises with many services, supplies and raw materials. For example, Malaysian national car-maker PROTON relies on its vendors who are SMEs for services, supplies and raw materials.

SME are also major contributors to the development of a balanced economy and the creation of more equitable income distribution.

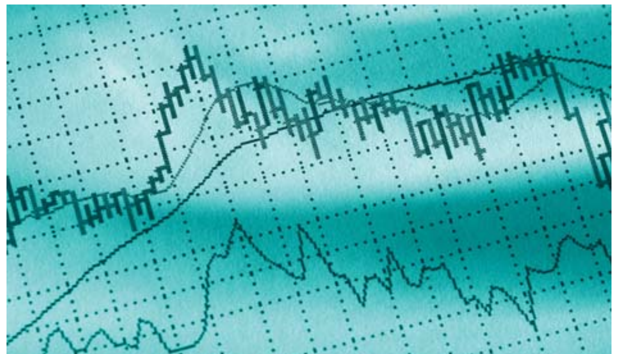
According to the MITI and the Small and Medium Industries Development Corporation (SMIDEC), SMEs provide slightly more than one-third of total employment in Malaysia and make up more than half of the total number of companies registered in the Companies Commission of Malaysia. The Malaysian Economic Report states that SMEs constitute about 92% of the 689,160 companies registered in Malaysia.

In 2002, the output of SMEs to GDP recorded a 2.5% increase while their productivity rose by 2.7% with added-value of RM35,043 per employee. The largest concentration of SMEs is in the trade and retail industries. Although SMEs in the manufacturing sector form only 7% of total SMEs in Malaysia, they constitute more than 90% of the total 51,606 manufacturing entities. Within the manufacturing sector, the SMEs are predominantly involved in resource-based industries, such as food and beverages industry (20%), fabricated metal products (18%), wood-based industries including paper and paper products (17%) and basic metal (4%).

Acknowledging the SMEs as a catalyst of domestic economic growth, the Malaysian Government has introduced and implemented comprehensive development programs and strategies such as Industrial Linkage Program, Global Supplier Program and Infrastructure Program to assist the development of SMEs.

These various linkages programs see SMEs leveraging on the best practices of other SMEs around the region. One other strategic move of the Government was setting up the SME Bank to provide financial and non-financial assistance to SMEs. The bank will also promote the creation of entrepreneurs in the new areas of commercialization and research and development. Furthermore, one of the major highlights of Budget 2006 is the accessibility of two new venture capital funds to boost the country's biotechnology industry and SMEs.

Malaysian Prime Minister, in his address, "Leveraging On Emerging Technologies", on 31st May 2005, said that "a strong competitive SME base is essential for a strong economy, but a competitive SME base can only be built on a strong foundation of innovation". The Prime Minister also highlighted the vulnerability of SMEs in globalization and integration due to a variety of factors, including a lack of investment in R&D and low awareness of technological and business process advancements. A competitive SME base built on a stable foundation of innovation is crucial for a strong economy. Local SMEs have considerable opportunities to develop in product research and development, processes and technology capabilities, not only in the local but global market.



Event Feature: SME Credit Bureau Breakfast Talk

In this issue of Credence, we zoom in on the series of SME Credit Bureau Breakfast Talks organized jointly by Infocredit D&B and Credit Bureau Singapore.

The objective of this series of talks is to inform and educate the credit risk management community about the relevance and importance of the emerging credit bureaus in Asia Pacific.

General Manager of Credit Bureau Singapore, Mr Mark Rowley, presented an overview of the Credit Bureaus in our region and the benefits to corporate participants and consumers.

Locally, Credit Bureau Singapore has been in operation for three years and is now a key component in the credit risk assessment process for the Singapore banking and finance industry. Every month over 3.4 million accounts are updated on the CBS database enabling the Bureau members to access current payment behaviour and make informed credit assessment decisions.

Data analytics to assess portfolio performance and portfolio risk monitoring services have now been introduced to further assist the industry in the area of credit risk assessment.

Constant enhancements are also being introduced by the Credit Bureau of Singapore to ensure consumer's interests are safeguarded. The bureau has recently introduced "My Credit Monitor", a monitoring service to alert consumers by email or post whenever a missed payment is loaded on their individual credit file or when an application for credit is made in their name. This allows individuals to protect themselves against identity theft and have an updated view of what is on their credit report.

The other main focus of the series of Breakfast Talks is the SME Credit Bureau, launched by Dr Vivan Balakrishnan, Second Minister for Trade and Industry in March 2005. Since its launch, the SME Credit Bureau has experienced a huge leap in its membership base, which now includes some major banks who are actively utilizing the system to access the creditworthiness of local businesses when approving credit facilities.

Ms Kate Loh, Leader of the SME Credit Bureau, provided an interesting insight on the operational aspect of the bureau in her presentation, which touched on the benefits that the bureau can bring to its members.

Participants of the series of Breakfast Talks gave positive feedback on the presence of a local commercial credit bureau, which many feel will increase the security of business transactions and better manage the risk factor.

Among the attendees of the breakfast series was Mr Lawrence Tang, Corporate Credit Accountant of Hi-P International Limited. Almost a year ago, Mr. Tang was actively trying to find an information sharing network of debtor's data within the industry in which he operates.

creditworthiness of local companies based on their payment track records. Having an independent third party operator of such a bureau "The bureau will be a good source to retrieve information on the will further serve its purpose more effectively," Mr Tang commented after the breakfast session.

Local companies can look forward to a higher level of transparency when it comes to credit lending. Mr Dickie Chew, Controller of Adept Technology International Limited: "The bureau will help to bridge the gap for smaller companies to tap into the huge market opportunities. The bureau has a lot of potential in terms of achieving a critical mass of membership base."

The establishment and progressive development of SME Credit Bureau will no doubt be challenging and rewarding at the same time. The merits of a commercially vibrant bureau will be recognized in a matured economy like Singapore.

The series of Breakfast Talks will continue to run till the end of March. We hope to have more updates and developments to share during such exciting times.

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William Speaks

Even for an Election Budget, few can deny that Singapore's Budget 2006 is generous. Reactions are a little mixed, which is probably not uncommon, with most reasonably happy. However, some are guarded, as handouts are not a common feature in Singapore even if there are recent precedents such as the off-Budget measures in 2001.

Of the many different views on the Budget, three areas probably deserve some ventilation. First, opinions are divided on the giving out of cold hard cash to those who qualify, seemingly without any strings attached. But the reality is that for those who really need the cash, it can only be a temporary reprieve. This is one area where the key consideration must be the availability of sustainable programs for those in need, yet not cultivating a dependence mentality.

A second area is the workforce. There is much debate and discussion on training and upgrading of skills for the older workforce. Many socio-economic reasons support this focus given the demographic trend. We would also hope to see as much emphasis on programs to upgrade the younger and mid-career workforce. In short, more should be done earlier. The importance of having a more relevant and productive workforce cannot be over emphasized as it not only keeps the future on track but is also insurance for a brighter future.

The last area is the local businesses or what we generally call the SMEs. Critical to the economy by its value contribution and particularly employment, some degree of handholding and assistance is necessary for the SMEs. This is where a great challenge is thrown. A delicate balance of having the right dosage of governmental assistance and self-reliance must be achieved for a viable and optimum outcome for SMEs. Budget 2006 is surprisingly muted on SME aid. Perhaps it is because a slew of measures has already been put in place and time is required for these measures to show results.

In tandem with the buzz created by the Budget, ICD&B has also had a busy first quarter. Credit Bureau Singapore has a new product called My Credit Monitor, which is a service that alerts consumers whenever the financial institutions notify CBS of missed payments on a credit facility, or when an application for credit is made in their name. Consumers will have a choice of being alerted by e-mail or by post. The 12-month monitoring service costs only $15 a year for e-mail alerts and $20 by post. As part of the service, consumers will receive an initial copy of their credit report during sign-up to give them an idea of their baseline credit history. My Credit Monitor allows consumers to check that delinquency reports are accurate and also affords them protection against fraud.

Across the causeway, Infocredit D&B (Malaysia) Sdn Bhd recently launched the SME Credit Bureau in Malaysia. It was witnessed and officiated by Yang Berhormat Dato' Mah Siew Keong, the Deputy Minister of International Trade and Industry. The SME Credit Bureau will be Malaysia's first privately owned credit bureau and be a catalyst to grow Malaysia's SMEs beyond Malaysia's SMEs beyond the border and be export-oriented. The presence of an independent credit bureau will provide a neutral assessment for loans and improve credit discipline to reduce defaults in the commercial sector. The credit bureau will complement our existing suite of products.

Higher Level of Data Sharing Needed with Relaxation of Consumer Credit Rules

CBS Credit Bureau (Singapore) Pte Ltd

There has been a lot of debate recently in regards to the rumoured potential relaxation of the $30k salary requirement imposed for unsecured lending. The current rule relates to organisations operating under the banking act so those that operate outside of this act do not have the same restrictions.

There have been a number of articles and letters published highlighting the fact that a reduction in the current restrictions will lead to higher bad debt. No doubt the risk of default is increased when the debt gearing is higher (as is generally the case for those on a lower income).

Its important to balance the argument that relaxing the restriction will lead to higher bad debt, with an understanding that a vast majority of Consumers would manage their credit facilities without incident.

The question therefore becomes, should we protect the minority that will get into financial difficulty by restricting everyone who earns below $30k or should we provide credit facilities to service this segment and find other ways to protect those that may have difficulty managing.

For a little over three years the Banks have been sharing payment behaviour data on Consumers. This has proven beneficial in enabling more accurate credit decisions, as assessment of risk is now an easier process. With this process now entrenched, lenders that wish to move into a higher risk segment have a framework to assess risk and apply appropriate lending decisions based on the credit risk of the applicant.

Internationally, there may been a number of calls to increase the level of data sharing amongst lenders to ensure greater transparency of the applicants credit risk. Indeed we would expect the level and depth of data sharing to increase over time in Singapore. It is also worthy to note that lenders loan more when access to full credit data is available rather than less. This is because they can more accurately assess risk and therefore apply appropriate products and/or pricing to new loans.

We see an environment where unsecured credit facilities can be provided to the under $30k salary segment. Ideally this should be in conjunction with moves to increase the level of data sharing amongst lenders, and an onus of responsibility on the lender to ensure adequate credit assessment prior to loan approval. These initiatives have been implemented in many international economies.

Whilst other forms of controls are possible, an emphasis on personal responsibility and credit education need to be set as priorities.

Given these initiatives we believe the current salary requirements can be reviewed. This would benefit a number of Consumers that currently have difficulty obtaining credit facilities. Careful management of the process, increased levels of data sharing, and an onus of responsibility on both lender and borrower are the key components to successful implementation

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Editorial team: Audrey Chia, Mark Rowley, Jessica Fang, Jasmine Law-Spain, May Tan

The 2nd SME Credit Bureau Conference: Survival Business Tools for Your SME

Date : **Friday, 19 May 2006**
Time : **8.15am to 5pm**
Location : **Suntec Singapore International Convention and Exhibition Centre Ballroom 1, Level 2**
1 Raffles Boulevard, Suntec City, Singapore 039593

Objective

- Find out how the SME Toolkit, developed by the World Bank, can help you develop and advance your business
- Learn about the latest credit advisory and credit score and rating services available on the SME Credit Bureau's Web-based platform
- Understand what funding programmes are available at SPRING Singapore

The SME Toolkit

The SME Toolkit, developed by the International Finance Corporation (IFC), the World Bank's Small and Medium Enterprise (SME) department, is now available - for free - for the first time in Singapore at the SME Credit Bureau's second conference, themed "Survival Business Tools for Your SME".

The SME Toolkit is a Web-based content management system-cum-portal that offers business management information and training for SMEs on accounting and finance, business planning, human resources, marketing and sales, operations and information technology. The SME Toolkit offers a wide range of how-to articles, business forms, free business software, online training, self-assessment exercises, quizzes and resources to help entrepreneurs, business owners and managers start, finance, formalise and grow their businesses.

The Toolkit leverages the latest information and communication technologies to help small and medium enterprises learn and implement sustainable business management practices and increase their productivity, efficiency and capacity, as well as improve their access to capital and new markets.

Why you should attend

- You will receive a copy of the SME Toolkit, and glean strategies and tips on improving and growing your business using the SME Toolkit
- You will learn about credit advisory services from financial, risk and strategic management consultancy Evolve Maximus Pte Ltd that allow you to enhance your competitiveness locally and globally
- You will be updated on the latest funding programmes available in Singapore to better match your needs to available assistance schemes
- You will gather insights on better and more effective management of your finances and increase business efficiency.

Jointly organized by:

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Research & Operations - Economic Outlook in Norway

Lying on the northern peripheral flank of Europe with a population of 4.6 million, it is ironic that Norway is one of the wealthiest nations in the world both in terms of GDP per capita and in capital stock. The GDP per capita derived from purchasing power parity of Norway was a staggering US$39843.23 in 2004, third highest in the world. In the United Nation's Human Development Index (HDI), Norway has been among the top three countries for many years. More astonishing is that Norway has maintained the number one position in HDI for 4 consecutive years (2001-2004). In addition, the Norwegian economy is a prosperous bastion of welfare capitalism, featuring a combination of free market activity and government intervention. During the post war period, the main reasons for Norway's economic prosperity had been their petroleum industries and large export surplus due to rapid industrialization. Today, the government still controls key areas, such as the vital petroleum sector (through large-scale state enterprises). In addition to petroleum, the country is luxuriously endowed with natural resources such as hydropower, fish, forests, and minerals . However, Norway is highly dependent on its oil production and international oil prices, with oil and gas accounting for half of its exports. (Figure 1)

Important factors for Norway's ability to turn resource abundance into economic prosperity consist of: an educated work force; the adoption of advanced technology used in other leading countries; stable and reliable institutions; and democratic rule.

Natural Resources

Norway today has a 4.5 million population and has a huge land area of 307,860 sq km. Norway has excesses of natural resource envied by many countries in the world. Although lying on the peripheral of Europe, Norway enjoys an abundance of fishing, agriculture, forestry and mineral industries. It is one of the world's leading oil and natural gas producers. Since the day the first oil field was discovered in Ekofisk, 429,442 barrels of crude oil has been produced up till 1980. Till today, large natural gas reserves have also been discovered. However it could afford to export almost all of its crude oil and natural gas with a wealth of hydroelectric power from its fast flowing rivers. It is currently the world's third largest oil exporter after Saudi Arabia and Russia. 99.3% of the energy consumption in Norway is through hydroelectric power as compared to 0.4% by fossil fuels. The abundance empowered Norwegians to be energy independent with cheap electricity.

Domestic Markets

With their relatively small population, Norway has small domestic markets. It is a price-taker in the International Economic Order, being unable to influence world commodity prices. For example, Norway only represents 0.52% of world GDP at market exchange rates. This illustrates why Norway has relatively limited market opportunities as compared to other OECD countries. Norway produces and exports are derived from its resources, exporting petroleum and petroleum products, machinery and equipment, metals, chemicals, ships and fish. Norway's trading partners are mainly based in Europe. (Figure 2) Its most important trading partners are United Kingdom, Germany, France, Netherlands, United States, Sweden and Denmark. It is also an integral member of the European Free Trade Agreement (EFTA) with Iceland, Liechtenstein, and Switzerland.

Industrialization in Norway

The country adopted a new industrial strategy in 1973 with an emphasis on increased government control over investments. This was noted when the government required foreign companies to engage in joint projects involving industrial research and development so as to help raise Norway's competency in the new oil industry. Meanwhile, a licensing policy was implemented to secure more long-term control over resources. The government had also effectively extracted tax revenue from the oil industry in addition to possessing a loyalty, a share of oil from all companies.

In 2005, Norway's industry accounted for 30% of the GDP, and agriculture, forestry and fishing-taken together, accounted for 2% of its 2005's GDP. The service sector alone contributed 68% to the GDP. Areas of industrial involvement include petroleum and gas, food processing, shipbuilding, pulp and paper products, metals, chemicals, timber, mining, textiles and fishing, with the latest industrial production growth rate estimated at 2.7%.

Norway had no indigenous oil industry in the past. Its emergence as a major oil and gas producer in the mid-1970s marked a turning point in its economy. Large increases in Norwegian production costs and wages were experienced as compared to the rest of Western Europe until the global recovery of the mid-1980s following the huge sums of investment capital which poured into the offshore oil sector. The revenues from petroleum activities have provided Norway with an economic starting point that many other countries do not have. This has amounted to 25-30% of the government income recently. High oil prices together with a sound economic policy have also contributed to the highest budget surpluses recorded in any OECD country. The country maintained a surplus of 4% of GDP measured by government net lending despite the decrease in oil price to US$ 10 per barrel in 1998

Problems

It is important for Norway to acknowledge that its petroleum resources not only belong to the current generation but also future generations, thus there is a need to ensure that the petroleum wealth is fairly shared among generations. Moreover the flow of revenue from petroleum activities varies significantly and if they were to be used as being accrue, it may in turn leads to substantial fluctuations in demand in the Norwegian economy and eventually amplifies cyclical fluctuations. The use of the revenues will also influence the competitiveness in Norwegian business and industry. In addition, a wide fluctuation in the use of revenues is believed to have major consequences for the operating environment of internationally exposed industries. Henceforth, the authorities ought to exercise fiscal discipline by managing its varying inflows of petroleum revenues in view of long-term considerations.

The competitiveness of the mainland economy gives rise to some concern as its growth has faltered since 1998. For the past few years, the competitiveness of the non-oil export sector has weakened considerably due to higher wage growth than its trading partners and also a pronounced strengthening of the Norwegian Krone. Moreover, many of its products markets are still over-regulated and subjected to inadequate competition. Stated-owned companies stay pervasive and give rise to anxiety about competitive neutrality relative to private sector competitors. Innovation is also weak by OECD standards. Despite its strong productivity performance, OECD indicators has suggested that Norway still possesses significant scope for further gains from pro-competitive reforms, which will be important for it to move towards a post-oil economy. Thus, in order to maintain vitality in the non-oil economy, Norway should seek to increase its competitiveness.

Challenges

The need to manage its petroleum wealth and ensure equity among generations

In 1990, the Government Petroleum Fund has been established as a shrewd decision to safeguard Norway's long-term considerations in the use of petroleum revenues; it also invested in foreign financial assets. A huge portion of the income from oil exports is saved into the Petroleum Fund which could also be used to stimulate the economy following the depletion of oil reserves. It is valued at more than $150 billion now. New guidelines for monetary policy and the fiscal rule were both being initiated in March 2001. According to the fiscal rule, the central government budget deficit shall be equivalent over time to the expected real return on the Government Petroleum Fund. Since only the real return on the Fund will be spent, it also implies that the capital in the Fund shall not be exhausted which thus provides a significant cushion for meeting future need. At the same time, the Fund also contributes to curbing any fluctuations in the Norwegian economy. Concurrently, it is also being acknowledged that monetary policy is a necessary complement to the fiscal rule for ensuring reasonable macroeconomic stability. The operational target of monetary policy as defined by the Government is inflation of close to 2½ per cent over time, which provides an anchor for economic agents' choices concerning saving, investment, budgets and wages.

The need to increase competitiveness

Norway has proved to be successful in translating its natural resource abundance (oil and natural gas) into economic prosperity which allows it to be placed among the wealthiest nations in the world. Concurrently, it is one of the world's leading oil and natural gas producers. Norway's GDP per capita and HDI has also achieved admiring standards, in particular the latter which has been topping the chart for the past 4 years. Such economic triumphs are also attributed to the individual flourishing developments in the different components of its GDP, which consists of the industry sector (accounted for 30% of the GDP, 2005); agriculture, forestry and fishing (2% of GDP, 2005); and the service sector (68% of GDP, 2005, whereby the principle service industry was telecommunications).

For the Norwegian economy, having depended largely on its substantial petroleum revenues, the need to better and effectively manage its petroleum wealth arises. Long term considerations should also be taken into account, such as ensuring petroleum wealth equity among future generations. Coupled with the problem of rapidly ageing population, Norway also needs to consider and take actions in the reform proposal to the old-age pension system in order to strengthen its long term fiscal sustainability. There is also a need to remove existing constraints on the supply of labor, caused by rising rate of work.

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Graphs:

Main Export Goods

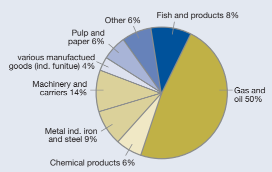

Figure 1 Source: Statistics Norway, Ministry of Finance

Norwegian exports/imports to/from selected regions and countries, 1999

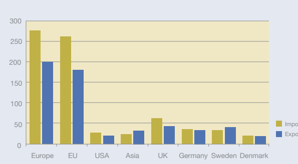

Figure 2 Source: Statistics Norway, Ministry of Finance

Macro economic indicators for the petroleum sector

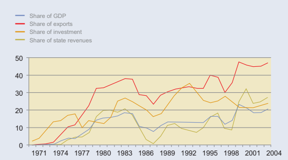

Figure 3 Source: Statistics Norway, Ministry of Finance