DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES (SMEs) IN FELDA SCHEME: CHALLENGES AND POLICY PROSPECT

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ABSTRACT

Small and Medium Enterprises (SMEs) are the pillars of the Malaysian economy. They contribute to the economy in many ways such as creating job opportunities, alleviating poverty, providing decent goods and services, serving complimentary inputs to large firms, diversifying products/inputs, training entrepreneurs and workers, and helping a supply chain of business networks. The government of Malaysia has introduced various SMEs policies since independence to ensure SMEs success and able to go through various economic turbulences and be sustainable. However, limited studies have been conducted to examine the impact of those policies on SMEs development in the rural area, particularly the FELDA scheme. The aim of this paper is to examine the SMEs development in the FELDA scheme. Specifically, this study evaluates the SMEs contribution to ASEAN, Malaysia and the FELDA scheme; identifying challenges faced by SMEs in Malaysia and FELDA scheme; and considers proposed policies for SMEs development in the FELDA scheme. This study utilizes past literature from earlier scholars and published reports related to SMEs in ASEAN, Malaysia and the FELDA scheme. The methodology of study largely is descriptive and qualitative in nature. This study also reveals two key findings. First, SMEs in Malaysia accounted for more than one third of Malaysia's GDP. The study discloses SMEs in the FELDA scheme who also play a pivotal role in the rural economic development. FELDA has provided a good entrepreneurial ecosystem for SMEs development in the FELDA scheme. Secondly, SMEs in Malaysia have faced five major challenges, namely, access to finance, human resources, technology adoption, market potential information and global competition. In the case of SMEs in the FELDA scheme, the entrepreneurs have faced two main challenges namely access to finance and market accessibility beyond the FELDA scheme. Finally, this study helps to understand the challenges faced by SMEs in the FELDA scheme. This study further provides several policy recommendations that can be considered to improve the SMEs performance in FELDA scheme

Key words: Small and Medium-Enterprises (SMEs), Malaysia, FELDA and ASEAN.

INTRODUCTION

Past studies have recognized the role of Small and Medium Enterprises (SMEs) in the economic development of a country (Tahir, Razak and Rentah, 2018; Pandya, 2012); alleviating poverty (Fiseha and Oyelana, 2015; Yasa Kerti et al., 2013) and reducing unemployment of a country (Eliman, 2017; Urbano and Aparico, 2016). As presented in Table 1, a study by Vandenberg et al. (2016) in 14 selected Asia countries shows that the SMEs have played a significant role in the economic development of Asian countries in terms of the number of enterprises established, share of exports and output (GDP). Table 1 presents (i) SMEs account of firm establishment between 97 to 99.9 percent and Malaysia contribution of 97.3 percent; (ii) in terms of export contribution, SMEs account between 20 percent (Thailand) and 42.4 percent (India); (iii) in terms of GDP contribution, SMEs account between 25 percent (Bangladesh) and 60 percent (People Republic of China), and Malaysia accounted for 35.9 percent.

Table 1: SME Share of Enterprises, Exports, and Output in Selected Asian Economies

	Share of all Enterprises (%)	**Share of Exports (%)**	**Share of Output (%)**	**Indicators for Outputs**	**Data Year**
High income					
Japan	99.7		43.7	Sales	2012
Rep. of Korea	99.9	18.8	47.6	MVA	2012
Singapore	99.4		45.0	GDP	2012
Upper middle-income					
PR China	97.3	41.5	60.0	GDP	2013, 2011,2013
Kazakhstan	97.5		26.0	GDP	2014. 2013
Malaysia	97.3		35.9	GDP	2014
Philippines	99.6		35.7	GVA	2013, 2006
Thailand	99.7	26.3	39.6	GDP	2014
Lower middle-income					
Bangladesh	99.0		25.0	GDP	2013, 2014
India		42.4	37.5	MVA	2013

Indonesia	99.9	15.7	60.3	GDP	2013
Sri Lanka	99.5	20	30.0	GDP	2013
Vietnam	97.7				2013
Low Income					2012
Cambodia	99.8				2014

Source: Adopted from Vandenberg et al. (2016)

According to Vandenberg et al. (2016), SMEs are the main contributors to total employment, varying from 32 percent to 88 percent as shown in Table 2. While, Republic of Korea employs about 87.7 percent, which is due to high assets and revenue thresholds of the SME sector; Kazakhstan is the lowest at 32 percent with Sri Lanka at 35 percent representing one third of the entire employment.

Table 2: SME Employment Share, Selected Asian Economics

Country	SME Employment as a Share of	SME Share (%)	Year
Rep. of Korea	Enterprise employment	87.7	2012
Thailand	Enterprise employment	80.3	2014
Bangladesh	Non-agricultural employment	75.0	2014
Cambodia	Enterprise employment	71.8	2014
Japan	Enterprise employment	69.7	2012
PR China	Industry employment	64.7	2011
Philippines	Enterprise employment	63.7	2013
Singapore	Total employment	68.0	2012
Malaysia	Total employment	65.0	2014
Vietnam	Total employment	46.8	2012
Sri Lanka	Total employment	35.0	2013
Kazakhstan	Total employment	32.1	2014

Source: Adopted from Vandenberg et al. (2016)

In the context of Malaysia, SMEs contribute significantly toward economic development of the country through job creation, GDP and exports. It is also noted that SMEs in rural areas also play an important role toward the economic development of Malaysia. However, there is a limited study focus on SMEs development in rural areas particularly, in the FELDA scheme in Malaysia (Abdul Jamak et al., 2004). Despite a strong contribution to economic development, SMEs have faced various challenges such as financial access, market accessibility and infrastructure support (Razak, Abdullah & Ersoy, 2018). Moreover, a limited study has examined the challenges faced by the SMEs in the FELDA scheme. Therefore, the main aim of this paper is to examine the SMEs development in the FELDA scheme. Specifically, this paper focuses on (i) review of the SMEs contribution in ASEAN, Malaysia and FELDA scheme; (ii) examine the challenges faced by SMEs in Malaysia and the FELDA scheme; and (iii) propose policy recommendation for SMEs development in the FELDA scheme. This paper seeks to answer questions related to (1) What sort of challenges faced by SMEs in FELDA Scheme; (2) What kind of policies were introduced to develop SMEs in the FELDA scheme; and (3) What could be alternative policies that should be introduced in the FELDA scheme. This study employs the qualitative method in nature that relies on mostly primary and secondary data. Secondary data has been secured from previous research findings at selected literature on the development of SMEs in ASEAN, Malaysia and the FELDA scheme by earlier scholars. Moreover, secondary data also has been secured from published documents and Annual Reports available on SME Corporation and FELDA.

SMEs DEFINITION

The past literature indicates that the SMEs definition varies from county to country (Ardic et al., 2011). For example, several studies have categorized SMEs into three (3) categories, namely small firms that have less than 50 employees, medium sized firms have between 50 – 199 employees and large firms have 200 employees or more (Razak et al., 2018; Moha Asri, 1995, 1997). This definition has been used by many past researchers on SMEs studies. In the context of Malaysia, the SMEs definition is classified into 3 categories as presented in Table 3.

Table 3: SME Definition in Malaysia

Firm	Manufacturing		Service and Other Sectors	
	Employee	Sales Turnover	Employee	Sales Turnover
Medium	75 - 200	RM15 million –RM50 million	30 - 75	RM3 million – RM20 million
Small	5-75	RM300,000 – RM15 million	5-30	RM300,000 – RM3 million
Micro	Less than 5	Less than RM300,000	Less than 5	Less than RM300,000

Source: SME Corp Malaysia Website

Table 3 shows that for the manufacturing sector in the medium sized enterprises the employees range from 75 to 200 employees (RM15 million to RM50 million turnover); in small enterprises the employees range from 5 to 75 employees (RM3 million to

RM20 million turnover); and in micro-enterprises the employee size is less than 5 employees (less than RM300,000 turnover). However, for services and others sectors, employee size ranges from 30 to 75 employees (RM3 million to RM20 million turnover) for medium sized enterprises; small enterprises have range of 5 to 30 employees (RM300,000 to RM3 million turnover); and micro enterprises have an employee size of less than 5 employees (less than RM300,000 turnover).

SMEs CONTRIBUTION IN MALAYSIA AND ASEAN

SMEs are the backbone of the ASEAN economy. SMEs contribute significantly to the economic development in this region. According to Harvie (2015), SMEs constitute about 99 percent of total business establishment in ASEAN member countries and 80 to 90 percent of SMEs in ASEAN countries are microenterprises as shown in Table 4.

Table 4: Significance of SMEs in ASEAN Economies, Various Years

Country	**Share of total establishment**		**Share of total employment**		**Share of GDP**		**Share of total exports**	
	Share (%)	Year	Share (%)	Year	Share (%)	Year	Share (%)	Year
Brunei	98.2	2010	58.0	2008	23.0	2008	-	
Cambodia	99.8	2011	72.9	2011	-	-	-	
Indonesia	99.9	2011	97.2	2011	58.0	2011	16.4	2011
Laos	99.9	2006	81.4	2006	-	-	-	
Malaysia	97.3	2011	57.4	2012	32.7	2012	19.0	2010
Philippines	99.6	2011	61.0	2011	36.0	2006	10.0	2010
Singapore	99.4	2012	68.0	2012	45.0	2012	-	
Thailand	99.8	2012	76.7	2011	37.0	2011	29.9	2011
Vietnam	97.5	2011	51.7	2011	-	-	-	

Source: Various country reports, ERIA (2013); Harvie (2015)

Most of the businesses in ASEAN are operated by the entrepreneurs and extended families. The study also notes that many developing countries have a large number of micro and SMEs firms compared to developed countries where medium size companies are large and contribute significantly to the overall employment. SMEs also create employment in the economy. Table 4 shows SMEs contribute between 50 to 97 percent of total employment in ASEAN member countries and contribute to GDP between 23 to 58 percent. In term of exports, SMEs contribute between 16 to 30 percent of the total export. However, despite high contribution in terms of total firm establishment and total employment, the contribution of ASEAN SMEs on export figures is still low, between 10 to 29.9 percent. According to Sato (2015), the average SMEs exports of five ASEAN countries (Malaysia, Indonesia, The Philippines, Thailand and Vietnam) is relatively low, below 30 percent compared to East Asian countries. For example, Korea has export shares of about 43 percent, China between 40 to 60 percent and Taiwan about 56 percent.

In the context of Malaysia, SMEs have contributed RM435.1 billion to the Malaysian economy, about 37.1 percent of gross domestic product, 66 percent of the overall employment, and 17.7 percent (RM167.4 billion) of the total exports (SME Annual Report, 2017/2018). The Malaysian government aimed to increase gross domestic product (GDP) contribution through the SMEs sector from 32 percent in 2010 to 41 percent in 2020; to increase total employment from 59 percent in 2010 to 62 percent in 2020; and to increase export contribution from 19 percent in 2010 to 25 percent in 2020 under SME 2020 Masterplan (Bank Negara Malaysia, 2015).

On the other hand, ASEAN has a big plan to turn SMEs in ASEAN countries from domestic players to become globally competitive and innovative Micro, Small and Medium Enterprises (MSMEs) by 2025 (www. asean.org). Under the ASEAN Strategic Action Plan for SME Development 2016 – 2025, ASEAN will focus on improving 5 key areas which include the improvement of productivity and technology in order to integrate with the production networks of multinational corporations (MNCs); accessing credit information of finance from traditional financial institutions; the effective involvement in the institutional framework of the decision-making process; but with less focus on human capital development especially in the business skills and entrepreneurship education. To achieve 2025 Vision, ASEAN has outlined five key plans: to promote productivity, technology and innovation; to increase access to finance; to enhance market access and internationalization; to enhance policy and regulatory environment; and to develop entrepreneurship and human capital development. ASEAN has assigned country champions to be responsible for each goal in order to realize the ASEAN SMEs strategic goals presented in Table 5.

Table 5: List of Country Champions

Strategic Goal	Country Champion
Promote productivity, technology and innovation;	Thailand and Vietnam
Increase access to finance;	Malaysia and Laos
Enhance market access and internationalization;	Singapore and Thailand
Enhance policy and regulatory environment	Cambodia and Indonesia
Develop entrepreneurship and human capital development	Brunei Darul Salam, The Philippines and Myanmar

Source: ASEAN Strategic Action Plan for SME Development 2016 -2025

In sum, SMEs are pillar to the ASEAN economic and various policies are introduced to develop SMEs in this region.

SMEs Development and Policies in Malaysia

SMEs in Malaysia have undergone a profound transformation from an agricultural based economy to an industrial based economy. This is due to various policies implemented by the Malaysian government. Evidence from SMEs studies acknowledges the contribution of SMEs to the economic development of Malaysia. In 2017, the SMEs sector contributed 37.1 percent of the Malaysia Gross Domestic Product (GDP), which is about RM35.1 billion (SME Annual Report, 2017/2018). The services sector still remains the biggest contributor to SMEs GDP by the economic sector contributing 22.1 percent, followed by manufacturing 8 percent, agriculture 4.1 percent, construction 2.2 percent, and mining and quarrying 0.2 percent. (SME Annual Report, 2017/18).

Moha Asri and Hamid (2008) have examined the SMEs development in Malaysia from 1957 to 2007. The study reveals that in the early years of independence, most SMEs business activities circled within the rubber and tin industry such as workshops and foundries. According to this study, in the late 1960, the business activities shifted to machine fabrication and repairs to capitalize the emergence of the palm oil industry. In the 1960s, most SMEs were dominated by the Chinese community and most were family businesses, registered under sole-proprietorship with a small capital base and being labour intensive, operating with less specialization and limited access to marketing information and modern technology.

Over the years, the development of SMEs in Malaysia has evolved due to the structural economic reform and policies crafted by the Malaysian government. After 13 May 1969, New Economic Policy (NEP) was introduced in 1970 under the Second Malaysia Plan and the new policy led to the emergence of the Malays involvement in business. During this period, the SMEs business focus was on the domestic market (Mahmood, 2000) and business activities concentrated on handicrafts, batik, furniture and foods (Moha Asri and Hamid, 2008). According to Moha Asri and Hamid (2008), before 1970s the SMEs concentrated their business on the domestic market and were involved in agriculture and mining businesses but the size of businesses was small. In the 1970s, SMEs focused on non-resource industries such as electronics and textile and started to export their products; and the Bumiputra started to get involved in the business sector through the New Economic Policy (NEP) policy. According to Meera (2013), the Bumiputra, particularly Malays, were marginalized during the early stages of economic development in Malaysia due to financial exclusion as the Malays disassociated themselves from the banking system and during that period the banking system was also unfair to the Malays. When the Hong Kong Bank (Now HSBC) started their bank in 1860 and Chartered Bank (now Standard Chartered) started their operation in 1875, the Chinese had access to finance through banking facilities (Meera, 2013).

The Third Malaysia Plan (1976-1980) became focus of the Malaysian government to provide training in SMEs particularly to the Bumiputra with an aim to increase Bumiputra participation in business. After 1970s, the landscape of SMEs business evolved and Bumiputra entrepreneurs started to participate in the economy system. In the 1980s, economic concentration shifted to heavy and technology-intensive industries. Under the Fourth Malaysia Plan (1981-1985), the concentration of SMEs development was on training, entrepreneur development and inter-industry linkages. Hicom (Heavy Industries of Malaysia Berhad) was established in 1980. The government of Malaysia set-up the Small Enterprise Division (SED) under the Ministry of Trade and Industry and established a Division of Small-scale Industry under the Ministry of National and Rural Development. In sum, SMEs started to transform when the Malaysian government focused on industrialization (1958-1968) followed by the export orientated industry (1968-1980) and the heavy industry (1980-1985).

Under the Fifth Malaysia Plan (1986-1990), the focus area of the government of Malaysia shifted to the Industrial Master Plan (IMP). Under The IMP plan, the government of Malaysia encouraged SMEs to move from domestic market to export market. In the 1990s, the economic activities focused on manufacturing and construction sectors, and in the Sixth Malaysia Plan (1991 -1995), the Malaysian government strengthened the development of the manufacturing industry. According to Saleh and Ndubusi (2006), under the Seventh Malaysia Plan (1996 to 2000) the focus area of the government policy supported industrialization through foreign linkages across the manufacturing value chain, focusing on export-orientation (Moha Asri and Hamid, 2008). In 1996, The Small and Medium Industries Development Corporation (SMIDEC) was established to replace the Small Enterprise Division (SED). The role of SMIDEC was to promote SMEs participation with large firms and also to develop R&D capabilities and produce skilled and qualified employees towards enhancing SMEs capacity and to become export-oriented companies. To support the SMEs development, the government of Malaysia introduced various programs and business support such as the Industrial Technical Assistance Fund (ITAF Fund), the Soft Loan Scheme for Modernization and Automation and the Soft Loan Scheme for Quality Enhancement with a budget of RM 1.5 billion fund through local banks and RM1.0 billion through Credit Guarantee Corporation (CGC).

In the 2000s, the development of SMEs was further accelerated towards export oriented. Starting from the Seventh and Eighth Malaysia Plan, SMEs development changed its radar by focusing on developing SMEs capacity towards enhancing export marketing. In June 2002, National SME Development Council (NSDC) was established to promote SMEs development. The Council was chaired by the Prime Minister and Central Bank of Malaysia (Bank Negara) which acted as NSDC's secretariat. As a result of various policies and support from the government, many SMEs became large companies and managed to list their companies such as Thong Guan Industries Berhad and Pensonic Berhad on the Kuala Lumpur Stock Exchange (KLSE). During this period, the government introduced various measures to assist SMEs to overcome the 1997/1998 Asian Financial crisis and globalization impact (Moha Asri and Hamid, 2008). In line with the Malaysian government plan to develop local SMEs to be part of the value chain and become high performance firm. The Ninth Malaysia Plan (2006 - 2010) concentrated on the cluster approach and human capital development to support the Malaysian industrialization policy (Moha Asri and Hamid, 2008). The Second Industrial Master Plan 2 (IMP 2: 2000 to 2005) was followed by the Third Industrial Master Plan (IMP 3: 2006 to 2020) which was introduced to support the SMEs development and various programs which had been introduced to support the SMEs.

The Tenth Malaysia Plan (2011 – 2015) focused on transforming Malaysia to become a high income nation by 2020. Under the Economic Transformation Programme, 12 national key economic areas (NKEAs) were identified to realize the SMEs growth potential in Malaysia and 131 entry point projects were chosen to foster the growth of SMEs in Malaysia. The SME Masterplan (2012-2020) was introduced during the 13th National SME Development Council Meeting (NSDC) on July 2012 with the aim to become a high income nation by the year 2020 and to raise the SMEs contribution to GDP to 41% by 2020. Thirty-two initiatives were introduced with 6 high impact projects implemented to promote SMEs growth in Malaysia. Six major challenges were identified to support the SMEs growth in Malaysia which included innovation and technology adoption, human capital development, access to financing, market access, legal and regulatory environment, and infrastructure.

To withstand the fourth industrial revolution and trade liberalization through the ASEAN Economic Community (AEC), the Eleventh Malaysia Plan (2016 to 2020) focused on four areas namely productivity, innovation, entrepreneurship and inclusiveness with an aim to promote business growth, resilience, inclusiveness and sustainability among SMEs (SME Annual Report, 2015/16). As a result of various policy measures on SMEs development in Malaysia, the contribution of SMEs GDP by economic sectors has improved. For example, in the services sector GDP increased from 19.6 percent in 2010 to 22.1 percent in 2017; the manufacturing sector in GDP increased from 7.2 percent in 2010 to 8.0 percent in 2017, but the shares of the agricultural sector decreased from 4.1 percent in 2010 to 4.1 percent in 2017 (SME Annual Report, 2017/2018). In sum, over the past six decades, SMEs have become one of the growth engines to Malaysia's economy. This success is due to the implementation of various policies, plans and programs by the Malaysian government in order to increase the competitiveness of SMEs in Malaysia and thus withstand globalization and digital economy challenges.

SMEs Development in THE FELDA Scheme

Studies on SMEs in the FELDA scheme has not been extensively explored (Abdul Jamak et al., 2004). However, the interest to study SMEs in the FELDA scheme has increased by virtue of their contribution to the economic development, particularly in the rural areas where SMEs in FELDA scheme have generated RM 1.792 billion in sales (FELDA Annual Report, 2016). The Federal Land Development Authority (FELDA) was established on July 1, 1956 under the Land Development Ordinance of 1956 with three objectives: to provide land for the landless; to eradicate poverty, and to encourage progressive development. According to the FELDA Annual Report (2016), there are 112,636 settlers in 314 FELDA schemes. The size of the FELDA scheme estates cover 309,889.79 hectares with the focus on oil palm and rubber plantations. Each FELDA settler was given 10 acres of land to cultivate either rubber or oil palm and 0.25 acres of housing lot. In the 1970s, the FELDA scheme was located far from major towns. Hence, FELDA settlers were encouraged to venture into business selling products that catered to the daily needs of the families of FELDA settlers. Moreover, the oil palm and rubber plantation industry in the FELDA scheme had a group of SMEs to support their agricultural activities right from managing the estates to deliver FFB or latex to the mills. As a result of that, many FELDA settlers took the opportunity to venture into various businesses in the FELDA scheme.

As the land development scheme progressed, FELDA felt there was a need to look at the new approaches to increase the income of the settlers in the FELDA scheme, particularly, during the replanting period, and also to look into the wellbeing of the FELDA second generation group living on the FELDA scheme. As a result, FELDA outlined several key thrusts in the FELDA Vision 2020. One of the thrust was to produce settlers into high earners by 2020 through participating in business activities or non-farming activities. To support the Felda Vision 2020, FELDA established the Entrepreneur Development Department *(Jabatan Pembangunan Usahawan)* to assist SMEs entrepreneurs in the FELDA scheme in 2005. The aim of the Entrepreneur Development Department was to produce successful entrepreneurs from the FELDA settlers and the second FELDA generation who were operating their businesses in the FELDA scheme. As of today, there are two main business groups who operate their business activities in the FELDA scheme namely 23,036 SMEs and 297 cooperatives who capitalized on the business opportunity in the FELDA scheme as shown in Table 6. Pahang is the largest state with 115 FELDA schemes and has 8,742 SMEs entrepreneurs involved in various business activities in three regions of FELDA scheme in Pahang. In terms of percentage, Pahang constitutes 38 percent of total SMEs entrepreneurs in the FELDA scheme; followed by Johor at 27 percent, Negeri Sembilan at 13 percent, Terengganu and Perak at 7 percent, Kedah and Kelantan at 3 percent and Sabah 2 at percent.

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Table 6: Number of SMEs in The FELDA Scheme

No.	State	Region	No of FELDA Scheme in the Region	No of FELDA Settlers	No of SMEs as at 31st. December 2016	Percentage of SMEs per region (%)
1.	Pahang	Mempaga	37	13,117	3,895	17
2.	Pahang	Kuantan	41	15,050	2,206	10
3.	Pahang	Jengka	37	14,957	2,601	11
4.	Kelantan	Gua Musang	12	3,114	778	3
5.	Trengganu	Terengganu	20	7,459	1,656	7
6.	Negeri Sembilan	Raja Alias	46	16,433	2,899	13
7.	Perak	Trolak	21	7,847	1,680	7
8.	Kedah	Alor Setar	15	4,042	578	3
9.	Johor	Johor Bahru	41	17,552	4,459	19
10.	Johor	Segamat	35	11,418	1,774	8
11.	Sabah	Sahabat	9	1,647	510	2
	Total		**314**	**112,636**	**23,036**	**100**

Source: FELDA Annual Report (2016)

According to FELDA Annual Report (2016), the SMEs entrepreneurs in the FELDA scheme were involved in seven (7) types of business activities which included agriculture, aquaculture, livestock, services, business, manufacturing and craft works, as presented in Table 7.

Table 7: Type of Business and Revenue Contribution

Type of Business	2015 (RM)	2016 (RM)	2016 (%)
Services	RM 749, 653,067	RM 768,032,117	42.9%
Business	624,877,880	655,142,691	36.6%
Livestock	162,521,647	181,743,372	10.1%
Manufacturing	81,151,929	87,892,037	4.9%
Craft Works	42,785,333	45,461,425	2.5%
Agriculture	32,059,067	37,193,499	2.1%
Aquaculture	16,696,344	16,540,396	0.9%
Total	**RM 960,092,200**	**RM1,792,005,537**	**100%**

Source: FELDA Annual Report (2016)

The services sector constitutes 43 percent which makes up the highest revenue contribution, followed by business at 37 percent, livestock at 10 percent, manufacturing at 5 percent and others at 5 percent. In summary, SMEs in FELDA scheme involved either plantation related businesses or unrelated plantation businesses. Plantation related business activities are related to supporting business activities for the rubber and oil palm businesses. Unrelated plantation business refers to other business activities such as retail shops and restaurants.

There are various support programmes that have been introduced by FELDA through the Entrepreneur Development Department to develop SMEs in the FELDA scheme, such as:

(i) Tabung SIUF *(Pinjaman Skim Insentif Usahawan FELDA)* or FELDA Entrepreneur Incentive Scheme
Tabung SIUF or FELDA Entrepreneur Incentive Scheme was introduced on 20 March 2002. The objective of this scheme was to encourage FELDA settlers to venture into business. There are 2 categories of the loan scheme. The first loan category of loan scheme caters for RM10,000 and below, while the second category of loan scheme was between RM10,000 to RM150,000. According to FELDA Annual Report 2016, from 2002 to 2015, FELDA disbursed RM 69.7 million loan to 4,875 SMEs entrepreneurs in the FELDA scheme. However, on 15 May, 2014 FELDA shelved the SIUF Fund scheme to focus on collecting outstanding default loans from borrowers (FELDA Annual Report, 2016).

(ii) Entrepreneurship Training and Technical Programs
FELDA Entrepreneur Department (*Jabatan Pembangunan FELDA*) has collaborated with leading universities in Malaysia such as Universiti Teknologi MARA (UiTM) and Universiti Putra Malaysia (UPM) to train SMEs entrepreneurs in the FELDA scheme with programs such as TUNAS Mekar of Universiti Teknologi MARA (UiTM).

(iii) SAWARI Program (Satu Wilayah Satu Industri /One Region One Industry)
FELDA introduced the SAWARI program which is similar to One Village One Product (OVOP) or One District One Industry Programme (ODOI) in each FELDA scheme region. Under the SAWARI programme, each FELDA region concentrated on specific industries as shown in Table 8.

Table 8: SAWARI Production Centre

Centre	Production
Alor Setar	Embroidery Products
Gua Musang	Wood Carving Products; Traditional Food Product
Terengganu	Mengkuang Craft Products; Traditional Food Products and Frozen Food Product
Trolak	Songket and Batek Base Product; Traditional Biscuit and Snacks Products
Jengka	Traditional Food, Bakery, Frozen Food, Sauces and Soft Drink Products
Mempaga	Snack Products
Kuantan	Mengkuang, Rattan, Tenun Chini Apparels, Tenun and Songket Base Products; Traditional Herbal Tea and Snack Products
Raja Alias	Biscuits, Bakery and Snack Products; Sewing and Embroidery Home Decoration Products
Segamat	Carbonated Cordial Drinks and Sauces Products
Johor Bahru	Metal Base Accessories, Glass Base Crafts and Cosmetic Products; Traditional Cordial Drinks and Sauces Products
Sahabat	Lygodium (ribu-ribu) Craft Products

Source: FELDA Entrepreneur Department (2016)

Under this program, FELDA acts as the distribution agent to assist the SMEs business entrepreneurs to penetrate the market. FELDA Entrepreneur Department will source the food products from SMEs entrepreneurs and pack the products under the *FELDA Best* brand and sell the products in major hypermarkets in Malaysia such as AEON Big, SAWARI Outlets and Mydin, and also export to Singapore through FAMA. Meanwhile, handcraft and textiles are marketed under F Best Craft. To support the growth and success of the SAWARI programme, FELDA built the Kompleks Industri Makanan FELDA (KIMF) at FELDA Pasak, Kota Tinggi, Johor; and in FELDA Chini 3 and FELDA Tersang 3, Pahang.

(iv) Development of Business Centre at Strategic Location in FELDA

To support the business activities of the FELDA scheme, FELDA gazetted a specific business area in each FELDA scheme for FELDA SMEs to conduct their business activities. Apart from that, FELDA also collaborated with several government agencies to build modern business centres at strategic locations in the FELDA scheme. For instance, in FELDA Sg. Koyan 1, FELDA collaborated with MARA to build Bazzar MARA; and also created similar facilities in FELDA Jaya Timur in Mempaga and FELDA Jengka Pusat. In FELDA Jengka Pusat, FELDA built various facilities such as shop lots, banks, and SMEs Industrial Centre for SMEs. In FELDA Sungai Koyan 1, TEKUN set up its branch to provide financial support services to SMEs in Sungai Koyan and Tersang area, and East Coast Economic Region (ECER) also built a business training centre in its area.

(v) Support from Other Government Agencies

Apart from FELDA Entrepreneur Development Department *(Jabatan Pembangunan Usahawan FELDA)*, other government agencies such as MARA (Majlis Amanah Rakyat), Jabatan Perikanan Malaysia, Jabatan Pertanian Malaysia, JAKIM, SME Corp, TEKUN and commercial banks were involved to develop SMEs entrepreneurs in the FELDA scheme through various programs and schemes such as training, financial and technical assistance.

In summary, FELDA had a good entrepreneurial ecosystem for SMEs development and provided various business support to SMEs in FELDA scheme. With sizeable land and business facilities, FELDA offered huge business opportunities for SMEs entrepreneurs through agricultural related activities and non-agricultural related business activities.

Challenges Faced by SMEs in Malaysia and the FELDA Scheme

This section discusses the challenges faced by SMEs in Malaysia and the FELDA scheme. Past studies have revealed various challenges faced by SMEs in Malaysia such as SME survival rate, inefficiency, access to credit, and restricted banking service (Abdul Rahman, 2016). In terms of the survival rate, past studies found that the failure rate of SMEs was very high in the first five years of their business operation (Rahman, Yaacob and Radzi, 2016; Ahmad and Seet, 2009). Past studies also noted that the failure rate was about 60 percent and required the immediate attentions of the authorities (Nordin, Hamid and Woon, 2011; Chong, 2012; Husin & Ibrahim, 2013). The previous studies found that the causes of business failure were due to lack of experience, insufficient fund, weak inventory management, weak credit management, usage of business money for personal use and attitude (Fatoki, 2014; Moha Asri, Juhari and Fadziah, 2002).

Five main challenges faced by Malaysian SMEs (Rahman et al., 2016; Ting, 2004) were identified. The first challenge was related to lack of access to finance. A review by Abdul Razak and Moha Asri (2018) on financial challenges faced by SMEs in Malaysia found that SMEs especially micro enterprises had difficulties to obtain loans from financial institutions. The study found the main reasons were due to poor credit worthiness followed by weak financial documentation and weak business viability. Similar findings by Census of Establishment and Enterprise (Census) conducted in 2005 found the reasons that SMEs could not obtain financing were due to lack of collateral, followed by a weak financial track record, a lack of business viability, and a loan processing time. The study also highlighted that most of the SMEs relied on internal funding which was borrowing from friends and family members.

The second challenge was the human resource constraints. Previous studies found that the SMEs entrepreneurs did not have sufficient knowledge on management competencies as such skills as writing a business plan, inability to provide information required by credit companies and general communication issues that led to the inability of SMEs to access to finance (Rahman et al., 2016; Berry, Sweeting, Goto & Taylor, 2002).

The third challenge was related to a lack of information on market potential and customers. The SMEs lacked of marketing skills, knowledge regarding marketing techniques, branding, customer loyalty (Hashim and Wafa, 2002) and had a weak contact with local and international firms (Khaliques et al., 2011). In another study conducted by Jasra et al. (2011) it was found that SMEs did not have sufficient funds to develop and market their products.

The forth challenge was inability to adopt new technology. According to Ting (2004), SMEs could not survive in their businesses if they did not increase their competitiveness and adopt new information and communication technology. The final challenge was related to global competition. SMEs needed to scale up their capabilities in order to compete in terms of technology, sourcing and meeting the regulatory standards of SMEs and be able to face globalization challenges.

In the case of SMEs in the FELDA scheme, there are still limited studies conducted to examine the challenges faced by SMEs in the FELDA scheme. However, a study conducted by Khalid et al. (2005) on 278 SMEs entrepreneurs in the FELDA scheme in the Jengka region found three challenges faced by the SMEs. They were insufficient capital, focusing on low income customer base with low purchasing power and produced low quality products. In terms of capital, the study revealed that most SMEs in the FELDA scheme relied on internal funding to start their businesses and 29 percent entrepreneurs used external funding as a source for additional working capital. In another study conducted by Mohd Shaari (2014), it was highlighted that SMEs entrepreneurs in the FELDA scheme face problems to serve their business loan. In general, SMEs in the FELDA scheme have faced problems namely, financial access and marketing of products and services.

DISCUSSION

Based on the analysis of SMEs in Malaysia and the FELDA scheme, this study reveals three key findings. First, in terms of economic contribution, SMEs in Malaysia accounted for more than one third of the country's gross domestic product (GDP). The success is due to the implementation of various policies, plans and programs by the Malaysian government since independence. In the case of the FELDA scheme, SMEs in FELDA scheme contribution has increased from RM960 million in 2015 to RM 1.792 billion in 2017 in the rural economic development. Hence, the emergence of SMEs entrepreneurs in FELDA help to support the plantation industry in the FELDA scheme by providing various agricultural support services. Moreover, SMEs offer new employment opportunities to FELDA settlers and to the second generation of FELDA, and to alleviate poverty in the rural area.

Secondly, in the case of SMEs in the FELDA scheme, we observe SMEs in FELDA scheme have faced two main problems namely, access to finance and market accessibility. Literature has revealed that SMEs in FELDA scheme are weak in financial and marketing knowledge and do not have sufficient funds to develop their businesses, products and markets. According to a study by Razak, Abdullah & Ersoy (2018), the difficulties to obtain financing were due to poor creditworthiness, inability to raise collateral, lack of documentation support, lack of financial track record and business viability.

Thirdly, FELDA has introduced various policies in developing SMEs in the FELDA scheme. This study observed that FELDA has created a good entrepreneurial ecosystem for SME development in the FELDA scheme by providing various business support such as infrastructure, training, soft loan, marketing access and one region one product programme. In terms of issue related to marketing, apart from FELDA, various government agencies under Ministry of Agriculture (MoA) such as MARDI, Veterinary and Agriculture Department have introduced various marketing support programs to assist SMEs in FELDA.

CONCLUSION AND RECOMMENDATIONS

In conclusion, this study has revealed that SMEs in Malaysia and FELDA scheme contributed significantly to economic development. SMEs in Malaysia contributed more than one third of the country's gross domestic product (GDP). Moreover, the study revealed that SMEs in FELDA scheme have contributed significantly to rural economic development. In addition, this study has found that FELDA built up a good entrepreneurial eco-system for SMEs development in the FELDA scheme. Furthermore, this study has identified two main challenges faced by SMEs in the FELDA scheme, namely, access to finance and market accessibility.

With regard to policy recommendation related to access to finance and market accessibility, this study suggests FELDA and other government agencies should focus on efforts to scale-up SMEs competencies and capabilities by setting-up a one stop financing and business development center to assist SMEs in the FELDA scheme; introduce vendor development programs for SMEs who are doing their businesses with FELDA; and form a business association for SMEs in the FELDA scheme in order to enable entrepreneurs to improve their businesses networking, and work closely with government agencies for SMEs development programs. In addition, this paper also suggests that FELDA and other government agencies should provide more business support programs in the areas of financial access, product development and market accessibility. In sum, by addressing the issues faced by SMEs in the FELDA scheme, FELDA and other government agencies can improve the performance of SMEs in the FELDA scheme that contribute to the country's economic growth.

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