

## Rural Small-Scale Industries: Profile, Constraints and Policy Issues\*

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### ABSTRAK

*Perindustrian desa telah dikenal pasti sebagai satu strategi untuk meningkatkan guna tenaga dan pendapatan di kawasan desa. Bagaimanapun, kekurangan insentif lokasi telah membataskan perindustrian desa kepada industri skil kecil desa. Kertas ini membentangkan hasil kajian industri skil kecil desa, menekankan ciri-ciri dan sifat industri, profil pengusaha-pengusaha dan masalah yang dihadapi, termasuk kewangan, bekalan input, kos dan pemasaran. Kertas ini juga menilai strategi untuk membantu industri skil kecil desa dan membincangkan beberapa isu dan implikasi dasar, terutamanya berkaitan dengan rangkaian, pemasaran dan pembiayaan.*

### ABSTRACT

*Rural industrialization has been identified as one of the strategies for the promotion of employment and income in the rural areas. However, lack of locational incentives has made rural industrialization to be mainly centered around rural small-scale industries (SSIs). This paper presents empirical evidences from a survey on rural SSIs, highlighting the characteristics and nature of industries, profile of operators and the problems faced by them, including finance, inputs, cost and marketing. The paper also reviews strategies to assist the rural SSIs and discusses some policy issues and implication, especially regarding linkages, marketing and finance.*

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## INTRODUCTION

In consonance with the decline in the role of agriculture, industrialization will in future be the main strategy for development in most developing countries. Resources, like capital and labour are believed to be more productive in industry and have major economies of scale than in agriculture. Policies and strategies give more protection and incentives to industry as a means of encouraging industrial investment (Mellor 1986). Industrial development is facilitated and served by sound infrastructures and support services.

However, as returns to capital are higher in industry, resources are directed towards the production of capital goods which has a tendency to be capital intensive in nature. As a result, employment absorption into the industrial sector may not be large enough to significantly absorb the unemployed or underemployed rural labour force (Maisom 1989).

Attempts to generate more employment in the rural sector have been affected, among others through the rural industrialization strategy. The strategy is aimed at increasing employment and supplementing income to rural households through rural industries. On a wider scale, the strategy involves the dispersion of small and medium scale industries (SMIs) to the rural areas to generate greater intersectoral and interindustry linkages between the agricultural and industrial sectors and also between the urban and rural sectors. This strategy which may be termed as rural growth linkages (Hazell and Roell 1983) is aimed at bringing about a greater integration between the agricultural rural sector with the rest of the economy through production, consumption, processing, marketing and locational linkages.

## THE PLACE OF RURAL INDUSTRIES

Of late, much attention has been given to the role and contribution of SMIs (Ismail 1988). However, the focus of SMIs more often pertains to urban or semi-urban SMIs. Relatively, little attention is given to the position of rural SMIs. In the words of Zainal Aznam (1989) "Rural industries and rural industrialization tend to excite little attention".

The definition and scope of rural industries fall under the terminologies of village industries and small scale enterprise. Village industries are small scale industries located in villages, owned and operated by one person, a group, a cooperative or a company, producing simple traditional products (Malaysia 1988). A small-scale enterprise is defined as an enterprise with a shareholders' fund of RM500,000 or less.

TABLE 1. Age Structure of Entrepreneurs

Age (years)	Number	%
Below 21	4	0.85
21 – 30	104	22.03
31 – 40	144	30.51
41 – 50	110	23.31
51 – 55	27	5.72
55 and above	83	17.58
Total	472	100.00

The determining factor for rural industries is location that is in the rural areas. Other determining factors are the utilization of local raw materials, local skills, simple tools or technology and low investment but with a faster return. Rural industries are normally associated with traditional and part-time enterprises. But recent emphasis on the development of rural industries seems to indicate their potential in terms of value added and income and employment generation capabilities.

Originally, the aim of the rural industries programmes was to increase the income of the villagers by occupying their spare time with productive work. Presently, the emphasis is to implement projects that can be the main source of income on a sustainable basis and has the potential for further expansion and diversification. Along with this, the scope of assistance under the rural industries programmes was extended from just handicraft to include food processing and other manufacturing activities (Malaysia 1988).

Overall, the programmes for the development of rural industries fall under the Village Industries Programmes which are designed to tackle problems related to finance, marketing, management, technical, technology and preparation of factory sites on an integrated manner.

According to the Ministry of National and Rural Development, the village industries programmes provide machines and workshops for “serious” entrepreneurs of a viable manufacturing industry, capable of making the project a success. A serious entrepreneur is one “that has capital, runs his enterprise outside his own residence and is involved full time with a proper work schedule” (Malaysia 1988).

Assistance under this programme is in a form of a grant,

1. A grant of not more than RM10,000 the value of machines for individual entrepreneurs.

2. A grant of not more than RM50,000 the value of machines for group projects run by between 3-14 people, plus RM20,000 the value of workshop.
3. A grant of not more than RM100,000 the value of machine and RM20,000 the value of workshop for cooperatives of 15 or more entrepreneurs.

For categories (2) and (3) depending on the viability of project, the limit of assistance could be relaxed.

The activities of rural industries fall under rural handicraft, consisting of weaving, woodcraft, batik, metalcraft, mudcraft, songket and rural food processing, aimed principally at increasing rural incomes and to create new employment opportunities in the rural areas.

Within a larger context, the strategy for rural industrialization includes rural urbanization, villagization and the development of village or rural industries. In this larger context, the objectives of rural industrialization include employment and income generation, higher productivity and wages, skill formation, agricultural development and positive spin-offs for the agricultural population not directly engaged in rural industry.

To provide better assistance for the development of rural industries, the village Industries Division of the Ministry of National and Rural Development was established in 1982. Other agencies responsible for the development, financing and marketing of rural industries are the Malaysian Handicraft Development Corporation (MHDC), Batik Malaysia, Village Industry Development and Marketing Company, Karyaneka and Community Development Division (KEMAS). In 1984, there were

TABLE 2. Educational Level of Entrepreneurs

	Number	%
Without basic education	56	11.86
Primary school	200	42.37
Religious school	14	2.97
Lower secondary	66	13.98
Secondary school	115	24.36
College	1	0.21
University	5	1.06
Others	15	3.18
<b>Total</b>	<b>472</b>	<b>100.00</b>

about 4300 entrepreneurs registered with the MHDC in various handicraft activities.

## METHODOLOGY

Initially, the selection of respondents were based from the register of entrepreneurs listed with the Division of Rural Industries, Ministry of National and Rural Development. However, as many entrepreneurs were not registered, their actual number could not be determined with accuracy. Based on the initial registry of entrepreneurs and the dispersed nature of rural industries, a purposive sampling technique was employed based on concentration of entrepreneurs in a particular location. Once the location was determined, a census of all entrepreneurs of rural industries was carried out.

Based on known locational concentration of rural industries, a census of rural industry entrepreneurs was conducted in the following states, districts and areas:

1. Kelantan – in the districts of Kota Bahru, Pasir Mas, Tumpat, Bachok and Pasir Putih.
2. Terengganu – in the districts of Jerteh, Kuala Besut and Kuala Terengganu.
3. Perlis – in the areas of Kaki Bukit and Jalan Sultan.
4. Kedah – in the areas of Langkawi Island, Sanglang, Anak Bukit and Alor Star.
5. Perak – in the districts of Kuala Kangsar, Lenggong and Sayong.
6. Penang – in the areas of Kampong Pertama, Kebun Sireh and Kepala Batas.
7. Selangor – in the districts of Hulu Langat, Kuala Langat and Kelang.
8. Negeri Sembilan – in the districts of Jelebu and Kuala Pilah.
9. Malacca – in the areas of Malacca Town, Batu Berendam, Jasin and Alor Gajah.
10. Johor – in the districts of Muar and Batu Pahat.
11. Pahang – in the district of Kuantan.

A survey was conducted using a structured questionnaire. The questionnaire was designed to elicit information on the following issues:

1. The background of rural industry entrepreneurs, highlighting their profile, nature of industries, problems faced by them, including finance, inputs, and marketing.

TABLE 3. Distribution of Educational Level by Age Class Interval

Age	A		B		C		D		E		F		G		H		Total
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	
Below 21	0	0.00	0	0.00	0	0.00	0	0.00	4	100.00	0	0.00	0	0.00	0	0.00	4
21 – 30	1	0.96	12	11.54	1	0.96	17	16.35	65	62.5	1	0.96	7	6.73	0	0.00	104
31 – 40	6	4.71	56	38.89	6	4.17	32	22.22	36	25.00	0	0.00	3	2.08	5	3.47	144
41 – 50	12	10.91	75	68.18	1	0.91	15	13.64	5	4.55	0	0.00	0	0.00	2	1.82	110
51 – 55	7	25.93	18	66.67	1	3.70	0	0.00	0	0.00	1	3.70	0	0.00	0	0.00	27
55 and above	31	37.35	38	45.78	6	7.23	2	2.41	3	6.02	0	0.00	0	0.00	1	1.20	83
Total	57		199		15		66		115		2		10		8		472

Note: A – Without basic education  
 B – Primary school  
 C – Religions school  
 D – Lower secondary school

E – Secondary school  
 F – College  
 G – University  
 H – Others

2. Profile of rural industries, including costs, output, employment and income.
3. Inter-industry linkages.

As depicted in Table 3 column B, there were greater percentage of respondents with at least primary education in the 41 to 50 years age group than those in the older groups. Similarly, there were greater percentage of respondents with primary education in the 51 to 55 age group than those in the 55 and above group. For those aged between 21 to 40 years old, more than half of them have at least completed either lower secondary or secondary education; with greater percentage of respondents in the 21 to 30 age group having received at least secondary education as opposed to those in the 31 to 40 age group. For entrepreneurs that were less than 21 years, all observations showed that they have at least secondary education.

The distribution in Table 3 implies a healthy prospect for rural SSIs. It is expected that future young entrepreneurs (those aged between 21 to 40 years old) participating in rural SSIs will have greater education than those of the present. As such, with greater education and knowledge, entrepreneurs will be more sensitive toward market needs and changing technology. This in turn will enable the sector to make the necessary adjustments toward the changing economic and business environments.

With respect to previous employments (Table 4), 52.8 percent of the respondents had worked in some other activities, with mean income of \$338.66 per month, before engaging in rural SSIs. Of this number, 26.7 percent did not give-up their former activities in order to supplement their income from rural SSIs. The factor most frequently cited as the main reason for participating in rural SSIs was the availability of skill or know-

TABLE 4. Entrepreneur's Previous Employment and Average Level of Income Before Involving in Small-Scale Rural Industries

Types of Employment	Number	%	Mean Income (\$)
Government employee	50	20.08	526
Private sector employee	54	21.69	448
Fishermen	9	3.61	129
Farmer	50	20.08	209
Businessmen	25	10.04	274
Others	61	24.50	252
Total	249	100.00	338.66

how in production, i.e., 91.3 percent. This is followed by the recognition of market potential for their products (69.1 %) and encouragements from family and friends (55.3 %). Only 34.1 percent of the total respondents cited encouragements from the government as one of the reason for being involved in rural SSIs (Table 5).

TABLE 5. Reasons for Participating in Small-scale Rural Industries

Reasons	Number	%
Inherited business	104	22.0
Incentive from government programme	161	34.1
Higher profit	135	28.6
Possessing know-how	431	91.3
Need less/small capital	217	46.0
Market potential	326	69.1
Encouragement from family/friends	261	55.3
Others	107	22.7

As a continuation from the above observation, further study should be made to determine whether there is some form of relationship between factors that contribute towards their participation in rural SSIs and the success of their enterprises. If such relationships exist, the provisions of incentives and support (either in the form of market access or financial and capital support) by government agencies can be made more selective to avoid unnecessary waste.

In view that experience plays an important role in the success of enterprises, figures from Table 6 indicate that more than half of the respondents have established their enterprises for a period of not more than 6 years; while 19.5 percent between 6 to 10 years. The least

TABLE 6. Period of Establishment of Enterprises

Period Class Intervals (year)	Number	%
Below 6	263	55.7
6 – 10	92	19.5
11 – 15	43	9.1
15 and above	74	15.7
Total	472	100.0



percentage was found in the number of enterprises having been established between 11 to 15 years ago.

Further examination of the data indicates that for period up to 15 years, there is a positive relationship between mean profit and the number of years the enterprise have been established. Figures in Table 7

TABLE 7. Relationship Between Mean Profit and Duration of Business Operation

Period Class Intervals (years)	Average Profit (\$ monthly)
6 and below	722.70
6 – 10	790.50
11 – 15	1041.40
15 and above	779.70

indicate that the highest mean profit was attained by firms having been established between 11 to 15 years ago and this is followed by enterprises or firms that were established between 6 to 10 years ago. The least amount of mean profit was attained by firms established not more than 6 years ago. It is highly probable that the long period of time (11 to 15 years) needed to reach the maturity stage (period of time when average profit is maximum) in rural SSIs constitute a form of disincentive for entrepreneurs to continue with their activities in this field. As such, it is proposed that appropriate policy and support programme be introduced to speed up the attainment of maturity stage and henceforth maintain the firms at this level. With the faster attainment of maturity stage, it is hoped that this sector will be able to attract more entrepreneurs with higher education to tap its potentials.

In terms of training and skill development, a total of 190 respondents have received some form of formal training either in the technical aspect of production, managerial or both. Table 8 depicts a more detailed picture of the types of training received and their contribution towards mean profit. Column 4 of the same table shows that the mean profit for those who have received formal training were in general higher than those that do not receive any training. However, the difference in mean profit is only \$100.00 per month. Table 9 shows a general picture of the source of skill for those who have not undergone formal training.

TABLE 8. Formal Training Received by Entrepreneurs

Types of Training	Number	%	Average Profit (\$ monthly)
Technical	117	24.8	835.30
Commercial	14	3.0	
Both the above	57	12.1	
Others	2	0.4	
Without training	282	59.7	
<b>Total</b>		<b>472</b>	<b>100.0</b>

TABLE 9. Entrepreneur's Skills

Sources of Skill Obtained	Number	%
Parents	80	28.4
Friends	30	10.6
Own experience	170	60.3
Others	2	0.7
<b>Total</b>	<b>282</b>	<b>100.0</b>

The followings are some conclusions that can be inferred from the above discussions:

1. The relatively high percentage of entrepreneurs in the 41 years and older category indicates that rural SSIs are not a preferred activity by the rural youth. This phenomenon may be attributable to the current education system that emphasises academic training relative to vocational training and the long period of time to reach maturity stage.
2. The high percentage of entrepreneurs with minimal education will result in greater difficulty to develop this sector due to their higher

resistance to change. However, with greater number of young entrepreneurs (i.e., those aged between 21 and 40 years old) entering this sector, it is expected that the adoption of new technology will be much easier than at present.

3. The most important factor that induce participation in rural SSIs is the availability of skill and know-how. The provision of formal trainings to increase these skill can result in greater profits for entrepreneurs. However, further study should be carried out to empirically determine whether these increase in mean profit are actually the result of the formal training provided or as a result of "contacts" established by trainees with various agencies during and after such training.
4. The low percentage of respondents having received management training indicates, to some extent, that entrepreneurs in rural SSIs still lack knowledge in financial planning and marketing. As such, it is proposed that this type of training should be made more available to a greater number of entrepreneurs.
5. Due to the large number of entrepreneurs having less than 6 years of experience in small-scale rural industries, it is therefore difficult to develop this sector without support from government agencies. Furthermore, appropriate programmes and strategies should be introduced to minimize the length of time to achieve maturity stage and at the same time reduce the number of entrepreneurs abandoning their enterprises before reaching this stage.
6. It is recommended that a different set of policies and strategies be adopted for entrepreneurs that treat rural SSIs as a full time activity vis-a-vis those entrepreneurs that treat small-scale rural industries as a supplementary activity.

## PROBLEMS AND CONSTRAINTS

In general, the problems and constraints faced by rural SSIs are similar to those faced by small and large-scale industries. These include (1) credits and capital, (2) input supply, (3) cost of production and (4) marketing. However, due to their scattered and unorganized nature, these problems are therefore relatively more difficult to overcome. The following discussions will focus the problems mentioned above.

### CAPITAL AND CREDITS

As indicated in Table 10, 60.3 percent of the respondents obtain their initial starting capital either from personal savings or other sources such

TABLE 10. Sources of Initial Capital

Sources	Average (\$)	%
A	2221.14	39.3
B	581.73	9.2
C	365.89	6.5
D	1013.58	18.0
E	1528.86	27.0
Total	5648.20	100.0

- A – Personal savings  
 B – Loans from family/friends  
 C – Loans from private agencies  
 D – Loans from government agencies  
 E – Others sources

as joint-capital contribution with friends and/or family members or selling personal property. Only 24.5 percent of the respondents cited loans from government and private institutions as the source of their initial capital. In terms of the size of initial capital, Table 11 indicates that almost 51 percent of the respondents started their enterprises with less than RM600.00.

TABLE 11. Initial Capital

Class Interval (\$)	Number	%
0 – 200	168	35.59
201 – 400	38	8.06
401 – 600	33	6.99
601 – 800	8	1.69
801 – 1000	20	4.24
1001 – 2000	34	7.20
2001 and above	171	36.23
Total	472	100.0

In view of the above, it can be concluded that the limited initial capital and unavailability of funds had in fact constrained entrepreneurs to the usage of traditional method of production instead of opting for a more advanced technology at the initial stage of the enterprise. As a result, it is

difficult to instill changes at the later stage of production and to some extent, this problem had also resulted in the inflexibility of producers to meet any increase in demand. It is strongly suspected that this factor had also contributed to the long period of time for a rural SSIs to reach its maturity stage.

To infuse the usage of modern technology, related government agencies had embark on a program that lends modern machinery to entrepreneurs. However, observations indicate that these machinery were often left idle as they were unsuitable to the needs of the industry. In many instances, modification of these machines were needed to render them usable.

As a final note on capital and credit, it was found that almost 30 percent of total respondents had attempted to obtain credit from either public or private institutions. From this figure, 68.6 percent of the applicants were successful. However, it was also found that 60 percent of these successful applicants had problems in repaying their loans. The most frequently cited reasons for the repayment problems were high monthly instalment and inability to collect payments or had debts from customers (Table 12).

TABLE 12. Reasons for Debt Repayment Problems

Reasons	Number	%
Unsold stock/goods	22	35.48
Customers refuse to pay debts	41	66.13
High monthly repayment	60	96.77
Others	17	27.42

TABLE 13. Problems Concerning Input Supplies

Types of Problem	Number	%
Supplies arriving late	68	36.76
Infrequent supplies	105	56.76
Lacking in credit facilities	49	26.49
Price too high/expensive	79	42.70
No discount given	52	28.11
Others	12	6.49

## INPUT SUPPLY

The timeliness in supply and consistency in quality of input will inadvertently affect the quantity and quality of output produced by rural SSIs. Observations showed that 56.8 percent of the total respondents faced problems of one form or another with regard to input. Table 13 shows a detail picture of these problems.

Apart from the above, entrepreneurs in rural SSIs were also constrained by cash flow problems. Tables 14 and 15 indicate that the

TABLE 14. Methods of Payment for Inputs

Methods of Payment	Number	%
Cash on delivery	354	75.00
Credit from suppliers	25	5.30
Cash and credit from suppliers	80	16.95
Payment in kind/goods	1	0.21
Others	12	2.54

majority of entrepreneurs were unable to obtain inputs on credit from their suppliers. On the other hand, these same entrepreneurs were unable to avoid selling their output for credits. Mismatch of this kind, compounded by lack of funds for the industry as a whole, had indirectly exerted a tight squeeze on entrepreneurs' operating capital. Problems of this kind will eventually result in the enterprise being less competitive. On a slightly different note, examination of figures in Table 15 lead to the conclusion that the existence of rural SSIs in Peninsular Malaysia has not been successful in promoting the creation of wider linkages in the supply and distribution of raw materials. Figures in the table indicate that 72.8 percent of inputs were obtained locally, while 18.27 percent were

TABLE 15. Sources of Inputs

Sources	%
Within the locality	72.84
Within the state	18.27
Others state	7.32
Overseas	1.57
Total	100.00

purchased from areas within the same state. This implies that although the existence of rural SSIs had induced activities such as supplying, storage and distribution of raw materials, a considerably large portion of these network are concentrated locally.

#### COST OF PRODUCTION

Table 16 depicts the various components of variable cost in rural SSIs. The figures indicate that more than 90 percent of the cost comprised of expenditures on raw materials and wages, i.e., 60.9 percent and 29.9 percent respectively. With this in mind, an examination of Table 15 (which indicates that the major sources of input supply are basically concentrated locally) will lead to the conclusion that high local concentration of this kind may, at times, indirectly lead to the disadvantage of the entrepreneurs. In periods of high demand, competition for raw materials will unavoidably result in higher input prices. Since a major portion of variable cost consists of raw materials, the situation can cause these enterprises to be less competitive. This problem will be compounded if the input markets have the elements of imperfect competition.

#### MARKETING

In general, there are four methods through which enterprises in rural SSIs market their products. They include: (1) through government contracts, (2) through their own retail establishments, (3) through wholesalers and (4) through middlemen. Almost all enterprises in this sector use some combination of the above to market their product. Table 17 shows that slightly more than 42 percent of the respondents market their products through their own retail establishments; while about 31 percent market through middlemen. A further breakdown of the figures indicates that almost 70 percent of the entrepreneurs in food processing market their products through their own retail establishments. On the other hand, in the leather, handicraft, textiles and weaving sectors, marketing are mostly carried out through middlemen. From these data, it is quite impossible to arrive at any kind of determination as to the most efficient or effective method of marketing that should be utilised by rural SSIs since the most efficient and effective method of marketing will depend, in part, on the type of rural SSIs, the speed of information transfer from consumers to producers and the degree of exploitation by each intermediaries.

Tables 18 and 19 give a general picture on the problems faced by entrepreneurs in marketing their products. Figures in Table 18 indicate

TABLE 16. Average Variable Cost of Production

T Y P E S	Leather		Metal		Brick work		Weaving		Handi- craft		Textiles		Furniture and wood works		Food		Total	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
A	16.67	3.45	1183.23	56.23	166.00	27.38	235.74	54.32	332.09	35.47	955.12	26.47	879.17	32.17	404.84	23.64	537.94	29.92
B	2.50	0.52	8.00	0.38	0.0	0.0	2.38	0.55	15.21	1.62	35.23	0.94	16.72	0.62	7.84	0.46	12.69	0.71
C	440.42	91.17	830.67	39.47	218.07	35.97	162.69	37.49	512.58	54.74	2643.05	70.31	1518.56	56.49	1123.96	65.63	1095.04	60.90
D	11.25	2.33	31.00	1.47	74.07	12.22	11.29	2.60	25.85	2.76	40.33	1.07	55.59	2.07	97.41	5.69	57.90	3.22
E	0.0	0.0	36.67	1.74	74.07	12.22	5.95	1.37	18.43	1.97	30.12	0.80	156.62	5.83	9.70	0.57	46.31	2.58
F	12.25	2.54	14.67	0.70	74.07	12.22	15.95	3.68	32.15	3.43	15.29	0.40	61.54	2.29	68.76	4.02	48.15	2.68
J	438.08	100	2104.23	100	606.27	100	434.00	100	936.31	100	3759.02	100	2688.18	100	1712.52	100	1798.03	100

Note: A - Wages and salary  
 B - Telephone/correspondence  
 C - Inputs  
 D - Energy  
 E - Rental of Premises  
 F - Others  
 J - Total





TABLE 19. Problems of Marketing

Problems	Leather		Metal		Brick works		Weaving		Handicraft		Textiles		Furniture and wood works		Food Processing		Combination	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Transportation	0	0.0	4	26.67	0	0.0	7	16.67	22	25.58	3	6.98	26	26.26	38	23.75	100	21.19
Design	0	0.0	0	0.0	0	0.0	6	14.28	10	11.63	2	4.65	11	11.11	0	0.0	29	6.14
Price	0	0.0	2	13.33	1	6.67	1	2.38	8	9.30	1	2.32	9	9.09	5	3.12	27	5.72
Quality	0	0.0	1	6.67	0	0.0	2	4.76	5	5.81	3	6.98	7	7.07	4	2.50	22	4.66
Competition	2	16.67	10	66.67	4	26.67	10	23.81	34	39.53	19	44.19	62	62.63	112	70.00	253	53.60
Others	7	58.33	1	6.67	2	13.33	1	2.38	9	10.46	2	4.65	7	7.07	11	6.87	40	8.47

TABLE 18. Methods of Payment

Class Interval	Leather		Metal		Brick works		Weaving		Handicraft		Textiles		Furniture and wood works		Food Processing		ALL	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Cash on delivery	9	75.00	9	60.00	12	80.00	31	73.81	43	50.00	18	41.86	55	55.56	112	70.00	289	61.23
1 month credit	1	8.33	4	26.67	0	0.0	6	14.29	22	25.58	16	37.21	18	18.18	34	21.25	101	21.40
1-3 months credit	0	0.00	2	13.33	2	13.33	4	9.52	16	18.60	8	18.60	21	21.21	8	5.00	61	12.92
3 or more months credit	2	16.67	0	0.0	1	6.67	1	2.38	5	5.81	1	2.33	5	5.05	6	3.75	21	4.45
Total	12	100	15	100	15	100	42	100	86	100	43	100	99	100	160	100	472	100

that about 40 percent of the entrepreneurs sold their products at least with one month credit; while Table 19 shows that more than half of the entrepreneurs cited price competition with their peers as the most pressing marketing problem. The second most frequently cited marketing problem was found to be the lack of transportation. This is especially so in industries such as metal, furniture and woodwork, handicraft and food processing. It is suspected that the problem of transportation had induced entrepreneurs to market their products through middlemen.

Although the existence of marketing agencies such as Batik Malaysia Bhd., Karyaneka, Syarikat Pembangunan dan Pemasaran Industri Kampong, Perbadanan Kemajuan Kraftangan Malaysia and KEMAS have, to some extent, provide greater bargaining power and market access for some rural SSIs, the problems of marketing still remain a challenging aspect in the development of rural SSIs.

## CONCLUSION AND POLICY ISSUES

From the foregoing discussion it may be concluded that rural industries are 'tiny scale' in nature with many entrepreneurs possessing low or no formal education. Many are in the business on a part-time basis to supplement income from mainly agricultural sources. Many had no formal training and had acquired skills through their own experience. Rural SSIs are started with low initial capital, mainly from personal savings or loans from families and friends. This factor constrained production to traditional technology and contributed to inability to meet any increase in demand. For those who had obtained credit, many had problems repaying their loan. Besides credit, rural entrepreneurs are faced with problems of input supplies, ranging from infrequent supplies, expensively priced, supplies arriving late and lack of credit facilities. Most rural entrepreneurs also have to pay cash on delivery for their inputs. The supply of inputs are mostly from within the locality, reflecting the lack of wider linkages in their supply. The cost of inputs forms the major components of variable costs. If inputs could be competitively priced, it could contribute to significant reduction in variable costs.

Marketing is another problem faced by the rural entrepreneurs especially among those who have to market their product through their own retail establishments or middlemen. Those who could secure contracts with government agencies have assured markets, but they form a smaller portion of the rural entrepreneurs. The most frequently cited marketing problem is price competition along with transportation. The fact that about 40 percent of the rural entrepreneurs receive their

payments at least on a one month credit term posed additional credit problems to the rural entrepreneurs.

In the context of promoting rural SSIs, the problems of credit and marketing merit a closer examination. Regarding credit, the issue is not lack of credit to finance SSIs. There exist sufficient funds channelled through commercial banks, finance companies and specialised financial institutions such as MIDF, MARA and Bank Pembangunan Malaysia to finance SMIs. The issue is how much of it was channelled to rural SSIs. One could only guess that the amount that goes into rural SSIs is small. The World Bank estimated in 1980 about RM4674 million or 16.7 percent of financial intermediaries total lending to the non-financial sector was lent to SSIs (Zainal 1989). As a comparison between 1983-1989 only about RM36 million was disbursed under various assistance programme under the Rural Industries Division of the Ministry of National and Rural Development. Clearly there is a need to channel more funds to rural SSIs to alleviate the problem of lack of credit among rural entrepreneurs.

Another related issue is the price of capital or interest rate charged for loans to rural SSIs. One is inclined to favour subsidised or even zero interest rate for rural SSIs. While this may create distortions in the capital market, this preferential treatment may be necessary for the growth of rural SSIs.

Regarding marketing, it is important that the rural SSIs produce products that are marketable. For this, it is appropriate that market studies be conducted to gauge the marketability of various products and to understand factors affecting market potential. Although various marketing assistance through various agencies have been provided, only a small fraction of rural entrepreneurs have gained from this institutional marketing network. The majority still have to find their own marketing outlets through retailing or middlemen. There is a need to establish a more meaningful sub contracting linkages with agencies or larger firms.

Government procurement schemes of contracting out the supply of items that are needed by the various government ministries, departments and agencies to rural SSIs may be extended to capture more rural SSIs into the marketing network. At the same time, there is a need to develop adequate marketing facilities and channels for various types of products.

There is also need for more comprehensive policies and greater incentives for the growth of rural SSIs in particular and rural industrialization in general. The Industrial Master Plan (IMP) lacks concrete policies for rural industrialization. The policies that may have indirect bearing to rural growth and development are related to resource-based industrialization (UNIDO 1985; Fadilah 1988; Fong 1988). Rural industrialization only forms part of rural urbanization strategy under the

new approach to rural development implemented in 1984 (Malaysia 1984). Although the rural areas of Malaysia are mostly equipped with sufficient infrastructure like roads, water supply, electricity and telecommunication (Shamsuddin 1989), the IMP seems not to subscribe to the idea of dispersing industries to the rural areas.

By emphasizing the location of industries in the "Western Corridor" (Malaysia 1986), the IMP is actually de-emphasizing the locational incentives for industries to be located in the rural areas. Recent data showed that less developed states with a higher rural component like Perlis, Kedah, Kelantan and Trengganu respectively received only 0.04%, 2.2%, 0.3% and 1.2% of total industrial investment for the period 1986-1988. The share of employment generated in these states were equally low, i.e. at 0.03%, 3.2%, 0.8% and 1.8% respectively (Malaysia 1989).

If this trend persists, the less developed states which have a larger rural sector will continue to be less industrialized. Under the situation, the vision for a more industrialised rural areas will not materialise. Rural industries will be largely limited to traditional handicrafts, cottage industries and small-scale food processing.

The more rapid development of rural SSIs will require that the entire regime of policies and incentives be in favour of rural SSIs. The infant industry argument could be extended to the rural sector as a basis for more intervention and government assistance to the rural SSIs. However, commercial viability and competitiveness should be the basis for continued intervention, so as not to involve excessive subsidization. To be more effective, the policies and incentives could be biased towards selected rural SSIs that has potential for growth (Zainal 1989; Anuwari and Hassan 1986).

The vision for rural industrialization need to be extended beyond traditional rural industries. It requires that the industries be located not only in the rural areas but also the need for significant and effective linkages with the rural economy (UNDP 1985) via the locational and linkage approach. The locational approach emphasizes the physical aspect, that is the location of industries in the rural areas. This requires a more attractive sets of incentives that could induce more industries to be located in the rural areas. The linkage approach emphasises how far industries, wherever their location in the rural areas. The linkage approach emphasises how far industries, wherever their location, could create significant and effective production, consumption, marketing, processing and locational linkages with the rural economy.

Finally, rural industries have the potential not only to supplement income, but also as a major source of employment, income and as a strategy for poverty alleviation (Chamhuri 1989). The increasing share of

non-farm income to total household income in most rural areas suggests the importance of non-farm income, including rural SSIs in the alleviation of poverty and also as an alternative employment.

Rural growth linkages which emphasises the location and effective linkages of industries with the rural economy could form an important strategy for rural development for the future.

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