

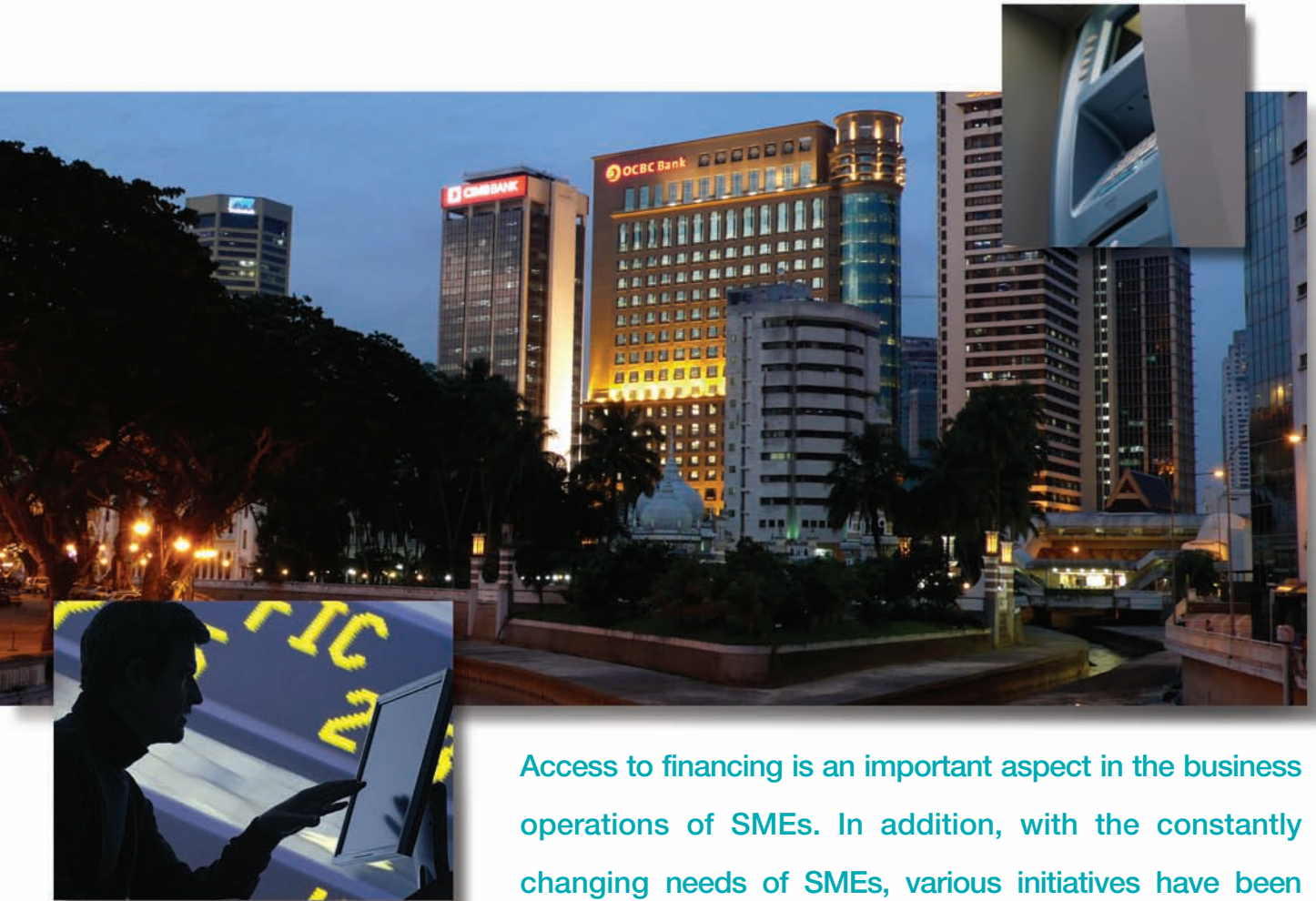
## Chapter 7

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# Enhancing Access to Financing



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|--|-----|
| 1. Start-ups - Early Stage Financing         | 124 |
| 2. Business Expansion - Financing for Growth | 126 |
| 3. Rehabilitation - Lending A Helping Hand   | 134 |



Access to financing is an important aspect in the business operations of SMEs. In addition, with the constantly changing needs of SMEs, various initiatives have been undertaken to strengthen existing providers of financing and widen avenues of financing to SMEs. The year 2007 saw a wide range of financing available for SMEs in the various stages of their life-cycle such as start-ups, business expansion and rehabilitation. Anticipating the demand for increased SME financing, banking institutions and development financial institutions (DFIs) are targeted to approve RM70 billion in loans to 140,000 SME accounts in 2008. This will be further complemented by the various Government funds and schemes undertaken during the year.

## Comprehensive SME Financing Landscape

625,167 SME accounts<sup>1</sup> have RM128b worth of financing as at end-2007

### Financing by Banking Institutions and Development Financial Institutions include:

#### Banking Institutions

- 47 banks with 3,359 branches
- RM114.2 financing outstanding to 518,446 SME accounts at end-2007
- 2007: RM55.1b financing approved to 109,497 SME accounts

#### 5 Bank Negara Malaysia Special Funds

- Approved RM16.1b financing to 33,717 SME Accounts
- RM7.6b outstanding at end-2007
- 2007: RM2.7b approved to 4,859 SME accounts

#### Development Financial Institutions (DFIs)

- 6 DFIs with 677 branches
- RM13.8b financing outstanding to 106,721 SME accounts at end-2007
- 2007: RM8.1b financing approved to 23,477 SME accounts

#### 100 Government Funds and Schemes<sup>2</sup>

- Approved RM85.5b to 1.3m SME accounts at end-2007
- RM7.0b financing outstanding at end-2007
- 2007: RM13.7b approved to 243,203 SME accounts

#### Venture Capital (VC)

- 52 VC companies
- Outstanding RM8.1b investment in 433 companies at end-2007
- 2007: RM479m invested

#### Small Debt Resolution Scheme

- Since establishment, restructured NPLs of 565 SMEs amounting to RM324m
- 2007: Restructured NPLs of 141 SMEs amounting to RM56.9m

#### Leasing and Factoring

- RM2.0b loans outstanding at end-2007
- 2007: RM792.3 approved

#### Credit Guarantee Corporation Malaysia Berhad

- Guaranteed RM39.1b financing to 373,665 SME accounts since 1972
- Outstanding guarantee of RM14.68b financing to 90,437 SME accounts at end-2007
- 2007: Guaranteed RM4.0b financing to 13,008 SME accounts

Note 1: Consists of accounts maintained with banking institutions and development financial institutions

Note 2: Only part of Government funds and schemes are disbursed through development financial institutions

Source: Bank Negara Malaysia

With the greater focus accorded to SME development in Malaysia, financing institutions have prioritised provision of financing to SMEs and now offer comprehensive financing solutions. Initiatives are being taken to improve SME access to financing at various stages of their business life-cycle.

The Government has identified 27 programmes, with an allocation of RM2.4 billion and implemented by various Ministries and Agencies including Bank Negara Malaysia, to enhance SMEs' access to financing in 2007. Looking forward to 2008, 23 programmes, with an allocation of RM2.1 billion, will be implemented.

Initiatives taken to strengthen financial service providers for SME development and financing in 2007 include, among others, the restructuring of SME Bank, the corporatisation of Bank Pertanian Malaysia (Agrobank) and the establishment of the Malaysian Cooperative Societies Commission. The promotion of microfinance by Bank Negara Malaysia saw six commercial banks and three Development Financial Institutions (DFIs) offering financing to more than 26,000 micro enterprises. In addition, the Direct Access Guarantee Scheme Start-up (DAGS Start-Up) was introduced by the Credit Guarantee Corporation to help new SMEs which have difficulties in obtaining bank financing. The initiatives above are complemented by financial advisory services to SMEs provided by Bank Negara Malaysia, SME Bank, and commercial banks.



### *Initiatives are taken to improve access to financing by SMEs at various stages of their business life-cycles*

As a result of these initiatives, access to financing by SMEs improved further in 2007. By the end of 2007, financing outstanding to SMEs stood at RM128 billion to over 625,000 SMEs by the banking institutions and DFIs. The share of SME financing against total business financing also remained high and stable with SME financing accounting for 44.3% of total business financing by the end of March 2008.

To further enhance SME access to financing in 2008, banking institutions and DFIs have targeted a total of RM70 billion as financing to 140,000 SME accounts.

## 1. Start-ups - Early Stage Financing

The start-up stage of a business can pose a particular set of challenges for SMEs seeking financing. Inherent in start-ups is the lack of a financial track record and sufficient collateral, two criteria often cited by banks in the financing application process. In light of this, the Government and Bank Negara Malaysia have put in place several initiatives to help SMEs in this key stage of the business life-cycle.

Key providers of funds for SME start-ups are Venture Capital (VC) funds, DFIs and the Government, through grants and soft loans. In 2007, an additional RM479 million was invested by VC companies in SMEs, adding to the RM1.8 billion outstanding amount already invested in 2006.

Two VC funds totalling RM300 million were established in 2006 by Bank Negara Malaysia and two banking groups. The funds are aimed at creating and developing an integrated agriculture business, particularly in farming, fisheries and livestock, and to finance new technology-intensive agriculture projects, including biotechnology. By the end of March 2008, investments totalling RM77.8 million were made in eight companies. The development of technology companies in the non-ICT sector also saw progress last year when five local SME companies received funding for early stage commercialisation through a venture capital fund managed by the Malaysian Technology Development Corporation (MTDC) Life Sciences in 2007 amounting to RM250 million.

Start-up financing help for rural micro enterprises in the manufacturing, services, agriculture and rural tourism sectors is also available through the *Pinjaman Industri Luar Bandar dan Ekonomi Sampingan* programme run by the Ministry of Rural and Regional Development (MRRD), through *Lembaga Kemajuan Kelantan Selatan (KESEDAR)*. In 2007, 15 borrowers were provided with a total amount of RM326,000 under this programme. Additionally, some 288 SMEs in the agriculture sector benefited from over RM36 million in start-up financing from the *Pembiayaan Kredit IKS* programme run by the Ministry of Agriculture and Agro-Based Industry (MOA).

To further aid SMEs in Malaysia facing the tough start-up stage, a total of 27,000 loans are expected to be approved in 2008 worth an estimated RM65 million under the Ministry of Entrepreneur and Cooperative Development's (MECD) *Yayasan TEKUN Nasional (TEKUN)* programme, which provides microcredit financing for entrepreneurs. Additionally, Agrobank in conjunction with MOA has also set-up the SME Credit Financing Programme aimed at helping new SMEs in the agriculture, livestock and aquaculture industries.

New SME start-ups can also receive financing guarantees under Credit Guarantee Corporation Malaysia Berhad (CGC) namely, the Direct Access Guarantee Scheme Start-up (DAGS Start-Up). DAGS Start-up was designed to help new SMEs facing difficulties in obtaining bank financing, due to insufficient collateral and financial track record. Under the scheme, eligible SMEs in operation for less than one year may obtain 100% guarantee for financing of up to RM2 million.

## SME Success Story

### Planting the Seed for Growth

OpenSys (M) Berhad is an MSC-Status company providing innovative solutions to the financial services industry. Starting operations in 1996 the company saw a gap in the market and aggressively pursued it leading to a listing on Bursa Malaysia Berhad less than 10 years after inception.

The company began by developing software applications to help expedite the processing of insurance policies and claims, cheque and credit card bill payments that enable financial institutions to offer a wider range of products and services for their customers' maximum convenience.

The company then ventured into machines dispensing cash. To entice customers away from counters and raise banks' productivity, OpenSys designed a machine which could also accept cash. The company's most successful product to date has been the Efficient Service Machines (ESM) a self service kiosk that accepts deposits and payments by cash, cheques, credit and debit cards. ESM's intelligent image based cheque-deposit pioneered by OpenSys, now collects one-fifth of cheques nationwide.



Funding was a major obstacle in the early years as banks were reluctant to provide loans for what were considered risky IT ventures. Instead the company turned to Commerce Venture Capital for funding. OpenSys was given a much needed RM5 million boost through the VC fund, to develop the software and procure the hardware for the ESM. OpenSys also received financial assistance from Malaysian Debt Ventures who enabled the company to put more resources on software development. As a result, the ESM machines have now been exported regionally to five countries, namely Brunei Darussalam, PR China, Indonesia, United Arab Emirates and Singapore.

Focusing on core strengths, ability to identify and adapt to changes in the market has helped OpenSys. A passion for the business and determination to create a truly Malaysian brand has propelled the company to venture beyond Malaysia. Going forward, OpenSys is teaming up with one of the largest international IT companies to market the company's products and services to ASEAN and other regions.

## 2. Business Expansion - Financing for Growth

Business expansion financing is critical for SMEs to run and expand their businesses. MRRD, in collaboration with SME Bank and Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat) has put in place the Financing Scheme for Rural Economy (SPED) programme, that does not require SMEs to have collateral or guarantors. This programme provides much needed financial assistance for rural entrepreneurs involved in manufacturing services, agriculture and rural tourism. In 2007, 405 entrepreneurs were assisted with financing worth RM36 million. Looking ahead to 2008, SPED aims to provide 215 borrowers with up to RM5 million in loans. Furthermore, to support the Government's efforts to develop the tourism industry, a total of RM3 billion is expected to be approved for SMEs in 2008 under the Special Fund for Tourism (SFT) programme implemented by the Ministry of Tourism (MOTOUR).

*Jabatan Kemajuan Masyarakat* (KEMAS), an agency under MRRD also implements the *Bantuan Ekonomi Kampung* (Rural Economic Assistance) programme, which assists rural SMEs by providing financing for the necessary production of machinery and equipment. In 2007, a total of 201 entrepreneurs were assisted under this scheme and in 2008, a total of 120 participants are expected to benefit, from a total financial commitment of RM2.48 million.

Two applications worth RM60,000 were also approved in 2007 under the Biotechnology Commercialisation Grant which provides funding for biotechnology areas and bridges the gaps between existing and private sector funding. Malaysia Debt Ventures Berhad (MDV) is also expected to disburse some RM1.6 billion in 2008 for SME financing in the ICT and high growth sectors, under the soft loan from the Government of Japan via the Japan Bank for International Cooperation (JBIC).

In 2008, two new programmes will be put in place by the Small and Medium Industries Development Corporation (SMIDEC) in conjunction with Malaysian Industrial Development Finance Bhd (MIDF) to help enhance future SME access to financing. The Soft Loan for Small and Medium Industries Programme, which helps existing as well as start-up companies in financing projects, fixed assets and working capital, is expected to assist 74 SMEs in 2008 with a total loan amount of RM42 million. In addition, the *Dana Khas Kerajaan Persekutuan* for Terengganu-based SMEs, which provides assistance in the purchase of machinery and equipment and working capital, aims to help three SMEs with a RM150,000 approved fund.

MECD's PNS Franchise Financing Scheme, which provides loans for entrepreneurs in the franchise business, is expected to approve a total of 200 loans worth RM56 million in 2008. 2008 will also see the operationalisation of the Tenaga Nasional Berhad vendor financing programme by MEWC. In addition, the Business Franchise Scheme via the SME Bank, which provides loans for SMEs, is expected to approve a total of 4,000 loans worth RM120 million in 2008. Lastly, under the Cooperatives Financing Fund, which provides loans for entrepreneurs, the Ministry of Entrepreneur and Cooperative Development (MECD) in conjunction with *Jabatan Pembangunan Kemahiran* expects to approve a total of 160 loans worth RM13.2 million in 2008.

More than 700 SMEs involved in the agriculture sector benefited from MOA's Food Production Credit Scheme (*Skim Kredit Pengeluaran Makanan*) in 2007 with a total programme expenditure of RM27.1 million. Looking ahead to 2008, 30 additional borrowers are expected to benefit from this scheme with a financial commitment of RM20 million. To generate agriculture entrepreneurs among graduates, MOA's *Skim Usahawan Tani Komersil* programme benefited some 66 SMEs in 2007, costing RM2.7 million. A further RM3 million has been set aside for 60 borrowers in 2008.

### Venturing Abroad

SMEs venturing abroad for business can obtain financing from the New Trade Financing Arrangements and Overseas Project Financing from Export-Import Bank of Malaysia Berhad (EXIM Bank). EXIM Bank's Multi Currency Trade Finance (MCTF) and Indirect Exporter Financing Scheme (IEFS) was established in January 2006, aimed at encouraging SMEs to export goods and services, particularly to the non-traditional markets such as members of the Organisation of Islamic Conference (OIC). By the end of March 2008, RM117.2 million was approved under MCTF and RM1.8 million was approved under IEFS.

To facilitate funding for Malaysian companies with overseas projects, a RM1 billion Overseas Project Fund was established by Bank Negara Malaysia at EXIM Bank in December 2006. A total of RM217.9 million in financing was approved with guarantee coverage of RM175.5 million as at end March 2008.

**Development of a Sustainable Microfinance Industry**

The Census of Establishments and Enterprises 2005 (Census) showed that micro enterprises formed about 80% of the small and medium enterprises in Malaysia. The largest constituents of micro entrepreneurs were represented by low income individuals and given this significance, the development of micro enterprises has been a key strategy of the Government's to help ensure an equitable and balanced economic growth.

The Census also revealed that only 13% of micro enterprises received financing from financial institutions. This suggests enormous potential for the banking system to contribute to the development of micro enterprises and increasing access to microfinance will provide more micro enterprises the opportunity to start and expand their businesses.

**Rolling Out Microfinance**

The development of a vibrant and sustainable microfinance industry is part of Bank Negara Malaysia's strategic objective of achieving greater financial inclusion, ensuring that all economic sectors, regions and communities have access to a full range of financial products and services. To promote sustainable access of financing by micro enterprises, a strategy was adopted to develop a pool of microfinance providers amongst existing financial service providers.

In August 2006, the National SME Development Council (NSDC) approved a comprehensive microfinance institutional framework proposed by Bank Negara Malaysia, comprising banking institutions, DFIs and credit cooperatives to develop a sustainable microfinance industry. Bank Simpanan Nasional was mandated to provide microfinance, while Bank Kerjasama Rakyat Malaysia Berhad would provide microfinance to members of cooperatives and Agrobank would continue to provide microfinance to micro enterprises in the agriculture and agro-based sector. Banking institutions with their extensive nationwide network of branches would ensure wider outreach of microfinance.

In addition, Bank Negara Malaysia proposed the establishment of the Malaysia Cooperative Societies Commission to strengthen the role of credit cooperatives in providing credit to micro enterprises. The Commission will provide supervisory oversight of the cooperatives to ensure prudential standards and best practices. The commission commenced operations on 1 January 2008.



Research has suggested that micro enterprises value simple, easily accessible and timely provision of financing to cater to the needs of small businesses. In this regard, microfinance products offered by the financial institutions have been designed to adhere to three rules - simple, fast and convenient. Microfinance requires no collateral, documentation is minimal with the financing procedure being simple. The time taken by the financial institutions to approve and disburse microfinance is also kept short. Microfinance can be obtained at branches and various distribution channels of financial institutions and their strategic partners to ensure extensive outreach and to provide convenience to the customers.

There has been considerable progress in the participation of financial institutions in providing microfinance. Currently, six commercial banks (Alliance Bank, CIMB Bank, Public Bank, AmBank, EONCAP Islamic Bank, United Overseas Bank) and three DFIs (Agrobank, Bank Simpanan Nasional and Bank Rakyat) have launched both conventional and Islamic microfinance products. These financial institutions have adopted various business models to meet the diverse financial needs of the micro enterprises involved in various economic activities and sectors.

As at end-March 2008, total financing outstanding of RM271 million was provided to 26,936 microfinance customer accounts, with an average financing size of RM10,000. For 2008, micro enterprises will benefit from the expected growth in microfinance, in which financing outstanding is expected to grow by 62% year on year, to reach RM363 million at end-2008.



### Promoting Awareness

A national microfinance logo was launched by YAB Prime Minister at the 7th NSDC meeting held on 13 September 2007. Financial institutions which offer microfinance display the logo and a microfinance client charter to signify the commitment of providing easy, fast and convenient microfinance services. Microfinance customers who have successfully obtained microfinance are also encouraged to display the microfinance logo at their business premises.

To create more public awareness on the availability of microfinance, Bank Negara Malaysia has also embarked on various promotion and awareness programmes such as the distribution of microfinance flyers at strategic locations and through various chambers of commerce, trade associations and local councils. The media has also been an important channel in the process of public education to inform and educate the public on the availability and benefits of microfinance.

The development of a sustainable and commercially driven microfinance industry will complement existing Government-sponsored microfinance programmes undertaken by Government agencies such as *Amanah Ikhtiar Malaysia* (AIM) and *Yayasan Tabung Ekonomi Kumpulan Usaha Niaga Nasional* (TEKUN).

- AIM was established with the objective of assisting the poor to bring them out of poverty through the Ikhtiar financing scheme to finance various economic activities. As at end-2007, through its 69 branches nationwide, AIM has channeled its financing to more than 178,000 borrowers with loans outstanding of RM373 million. (end-2006: RM319 million to more than 144,000 borrowers)
- Besides AIM, TEKUN as an agency under the Ministry of Entrepreneur and Cooperative Development also provides small scale financing for Bumiputera entrepreneurs to start or expand their businesses. As at end-2007, TEKUN through its 192 branches nationwide channeled funds to more than 77,000 borrowers with loan outstanding of RM323 million (end-2006: RM273 million to more than 39,000 borrowers)

MECD has put in place a range of programmes to help existing micro entrepreneurs, such as the MARA Business Financing Scheme programme, which provides microcredit financing for entrepreneurs. A total of 8,000 loans are expected to be approved in 2008 under this scheme, worth an estimated RM103.5 million. Under the Bank Rakyat Business Financing Scheme programme, which provides loans for entrepreneurs and cooperatives, a total of 6,400 loans are expected to be approved in 2008.

MOA, through the Bumiputera Commercial and Industrial Community Scheme (*Skim Masyarakat Perdagangan dan Perindustrian Bumiputera*) provides capital financing for Bumiputera entrepreneurs and is expected to spend RM25 million in 2008 to promote Bumiputera participation in the SME sector. In addition, the further RM 35 million has been allocated to assist the hardcore poor in agriculture sector, under the *Program Meningkatkan dan Mempelbagai Pendapatan Petani, Penternak dan Nelayan*.

#### **Providing a Firm Footing**

Agrobank, in conjunction with Federal Land Development Authority (FELDA), launched the MUST-FELDA scheme, a sustainable microfinance programme in April 2007. The scheme aims to provide easy financing and advisory services to FELDA entrepreneurs and settlers and to encourage FELDA settlers to engage in economic activities which can help improve standards of living. In line with the simple, fast and convenient approach for microfinance, the MUST-FELDA scheme has the following key features:

- No collateral is required, however the project being financed needs to have been operational for at least a year and have adequate cashflow;
- Maximum loan amount of RM20,000;
- Loan duration of 48 months for loans less than RM15,000 and up to 60 months for loans between RM15,000 to RM20,000; and
- No processing fees

## SME Success Story



### Agrobank's MUST-FELDA Scheme Beneficiaries

#### Fishing for Success

Encik Ghazali bin Hassan started his catfish (*ikan keli*) breeding business three years ago with RM25,000 seed money. Business was good until disaster struck a year later, when otters attacked most of the fish stock, destroying over RM60,000 in goods including some 300,000 fish and several canvas pools.

With almost all lost, Ghazali needed help to rebuild his business, and here a lifeline came in the form of the MUST-FELDA scheme. With a loan of RM15,000, Ghazali built five new canvas pools and re-started the fish breeding business. Business has since grown and over 50,000 fish fry (baby fish) are sold a month to other fish breeders, with monthly sales averaging between RM4,000 to RM5,000. The Fisheries Department provided marketing help by putting Ghazali in touch with potential buyers.

In an attempt to increase his product range further, Ghazali has also now started supplying the canvas pools to other breeders. Plans down the line include supplying the fish to contract farmers. According to Ghazali, being strong willed and tenacious has helped him developed his business this far. Putting in place suitable business processes and not giving up easily were also seen as key factors. Ghazali, himself being a young successful agripreneur at 23, strongly encourages Malaysian youths to tap into the many existing opportunities available in the agriculture sector.





### Rearing to Go

Another successful MUST-FELDA applicant is Encik Sabaran bin Razali, who began his goat rearing business in June 2006 with seven goats. As business expanded, Sabaran self financed the building of additional goat pens worth RM10,000. However, demand kept growing and Sabaran soon needed more goats to keep up with the growing demand. Sabaran then applied for a loan under the MUST-FELDA scheme.

Sabaran received a RM20,000 loan in June 2007 which he used to buy an additional 25 goats which include Boer and Jamnapuri breeds, new machinery to cut the *nipah* leaves, which are used as feedstock for the goats, as well as build new goat pens. Business has since expanded rapidly and Sabaran is now rearing over 170 goats. Monthly sales average around six goats, which are priced around RM1,300 each.

Going forward, Sabaran intends to rear free-range goats and also to diversify into breeding goat bucks. Sabaran cites the rising cost of feedstock such as soy grain and medicine for the goats, as some of his challenges in the business.



### Transformation of Bank Pertanian Malaysia

The restructuring and strengthening of Bank Pertanian Malaysia (Agrobank) saw significant progress once the Bill to corporatise Bank Pertanian was approved by Parliament in December 2007. Bank Pertanian has also been rebranded and renamed Agrobank, to widen its appeal to its core customer base. The now newly corporatised Agrobank, with a paid-up capital of RM1 billion, has been operational since April 2008.

With strengthened institutional and financial capacities, Agrobank is positioned to be effective and instrumental in supporting and promoting the development of the agriculture and agro-based sector, by providing a broader range and more innovative financial and non-financial products and services to meet the financing and developmental needs of the sector. In addition, Agrobank is currently embarking on a series of enhancement measures to strengthen its capacity and capability, particularly in the areas of product development, risk management and information technology systems enhancement.

### 3. Rehabilitation - Lending A Helping Hand

While many SMEs had benefited from various loans, some SMEs face difficulties in managing their debt. Examples are often given of SMEs who fail to differentiate between the company's and owners' money. While efforts have been intensified to assist SMEs to appropriately manage their finances, it is recognised that there are some who face financial difficulties arising from various factors.

To assist these SMEs, Bank Negara Malaysia established a Small Debt Resolution Scheme (SDRS) in November 2003. The purpose is to facilitate the restructuring of non-performing loans (NPLs) of SMEs. Under SDRS, a Small Debt Resolution Committee performs an independent assessment on the viability of the SME businesses, and undertakes a loan restructuring with new financing if required.

As at end-April 2008, 763 applications with total NPLs of RM527 million have been received. Of these, 592 applications involving NPLs of RM350 million were approved for restructuring, while RM19 million new financing was approved for 38 applications.

The performance of the scheme indicates that the restructuring of NPLs continues to be the mainstay in supporting the viability and sustainability of financially distressed SMEs, with new financing being provided on a case by case basis mainly to SMEs with new projects in hand.

To further enhance the outreach of the Scheme, Bank Negara Malaysia has included Agrobank and Export-Import Bank of Malaysia (EXIM Bank) as participating financial institutions in the Scheme in January 2008 whereby their customers with NPLs of less than RM3 million will also be eligible to be considered under this Scheme.

To obtain assistance under SDRS, applicants need to fill in a SDRS application form available from banking institutions, ERF Sdn. Bhd. and Bank Negara Malaysia. The form can also be downloaded from [www.smeinfo.com.my](http://www.smeinfo.com.my).

### Financial Advisory Services

Initiatives have also been taken to ensure that a comprehensive financial advisory services infrastructure is in place to help SMEs. SMEs have utilised the various avenues made available to channel queries, complaints and had taken the opportunity to improve understanding of financial issues and seek assistance to rehabilitate problematic businesses. Bank Negara Malaysia provides these services through the following:

#### BNMLINK

Bank Negara Malaysia's *Laman Informasi Nasihat dan Khidmat* (BNMLINK) continues to provide financial advisory services to SMEs in the following areas:

- Information on various sources of financing available to SMEs;
- Assistance in facilitation of the financing application process; and
- Advice on SME financial requirements and problems.

As at end March 2008, more than 10,800 enquiries and requests for assistance from the SME sector were processed, reflecting continued awareness among SMEs of the availability of such services at Bank Negara Malaysia. Of these, 83% were enquiries on special funds provided by the Government and advice on financing matters, while the remaining were for assistance, mainly in the areas of loan restructuring and loan rejections.

#### BNMTELELINK

To complement the walk-in counter services offered by BNMLINK, a dedicated Contact Centre BNMTELELINK, was launched in June 2007 by Bank Negara Malaysia. BNMTELELINK facilitates members of the public including SMEs with their queries and complaints to contact the Bank via telephone, fax, email or post. As at end March 2008 (within nine months of operation), BNMTELELINK has attended to 1,253 enquiries by SMEs. BNMTELELINK can be contacted at:

Tel.: 1300 88 5465 (Toll-Free Line)

Fax: 03-2174 1515/03-2174 1616

Email: [bnmtelelink@bnm.gov.my](mailto:bnmtelelink@bnm.gov.my)

In addition, financial advisory services are also being provided to SMEs by all commercial banks through the SME Units at the respective financial institutions; the SME Bank through its Advisory Centre (SAC); and the Credit Guarantee Corporation Malaysia Berhad (CGC) through its Business Advisory Services Entity (BASE) panel consultants.

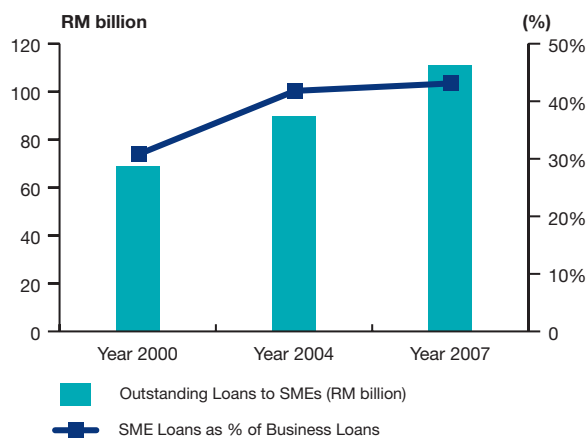
#### 4. Enhancing Access to Financing

Given the emphasis on SME development in the country, the various initiatives that have been put in place to strengthen finance providers and to widen the avenues of financing, have shown encouraging results. Today, SMEs at various stages of their business life-cycles are able to have access to the necessary amount and types of financing. As a result of the initiatives, financing to SMEs continued to expand significantly in 2007, with financial institutions remaining the largest source of funding for SMEs.

##### Significant Expansion of Financing to SMEs

Banking institutions and DFIs had approved RM63.2 billion to over 132,000 SME accounts in 2007, exceeding the projected target of RM51 billion to 110,000 SME accounts. In the first three months of 2008, the banking and development financial institutions have approved RM13.3 billion to more than 38,000 SME accounts.

##### Increase in Financing to SMEs

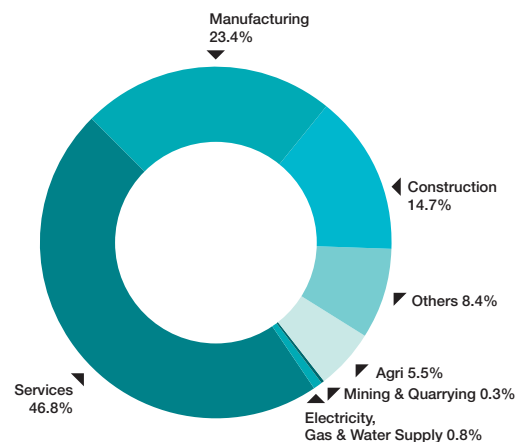


Source: Bank Negara Malaysia

*Banking institutions and DFIs had approved RM63.2 billion to over 132,000 SME accounts in 2007, exceeding the projected target of RM51 billion to 110,000 SME accounts*

On a sectoral basis, financing to SMEs in all sectors increased and remained diversified. SMEs involved in the services sector continued to be the main recipients of financing, with over 46% of the total financing outstanding at end-March 2008 extended to this sector, while the balance was extended to the manufacturing (23.4%), construction (14.7%) and primary agriculture (5.5%) sectors.

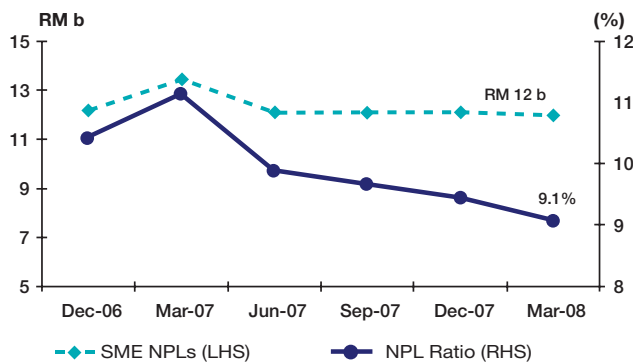
##### Financing to SMEs by Sector (% as at end-March 2008)



Source: Bank Negara Malaysia

Not only has SMEs' access to financing increased, the quality of SME financing has also improved, with SME gross non-performing loan ratio declining to 9.1% from 11.1% in the previous year. SME NPLs declined by 10.6% to RM12.0 billion as at end-March 2008 (end-March 2007: RM13.4 billion) resulting from stronger risk management by the financial institutions and supported further by the sustained debt servicing capacity of SMEs.

#### SME NPLs as at end-March 2008



Source: Bank Negara Malaysia

*Banking institutions are the main providers of financing to SMEs, with financing outstanding as at end-March 2008 amounting to RM118.8 billion*

#### Expanded Loans from the Banking System

Banking institutions are the main providers of financing to SMEs, with financing outstanding as at end-March 2008 amounting to RM118.8 billion, accounting for 17.9% of the entire banking institutions financing and 44.2% of the overall business financing. The growth for financing to SMEs remained buoyant in 2007 with approvals for SME financing by banking institutions increasing by 37.1% from RM40.2 billion to RM55.1 billion from a year ago. Concurrently, the number of outstanding SME accounts increased by 10,805 accounts to 518,446 accounts at end-2007.

**Banking Institutions: Main SME Financing Indicators**

	During		
	2007	2006	2007
			(% annual growth)
Applications (RM billion)	99.1	71.4	38.8
Number of Accounts ('000)	158.2	106.0	49.2
Approvals (RM billion)	55.1	40.2	37.1
Number of Accounts ('000)	109.5	83.7	30.8
Disbursements (RM billion)	141.5	134.1	5.5
Repayments (RM billion)	126.6	122.5	3.4
	As at end		
	2007	2007	2006
		(% annual growth)	
Financing Outstanding (RM billion)	114.2	9.1	5.1

Source: Bank Negara Malaysia

In the first three months of 2008, the banking institutions approved RM12.4 billion to 34,403 SME accounts, an encouraging trend given the more challenging economic environment.

**Sourcing Financing Beyond the Banking Institutions**

The DFIs continue to play a key role in providing SME financing along-side banking institutions. In 2007, financing approvals and disbursement of the six development financial institutions under the purview of Bank Negara Malaysia increased to RM8.1 billion and RM4.3 billion respectively, indicating consistent take-up and utilisation of the approved financing lines by SMEs.

As at end-December 2007, financing outstanding of DFIs grew by almost 7% from a year ago to RM13.8 billion, accounting for about 11% of total financing outstanding of the banking institutions and DFIs. The construction (29.3%), transport, storage and communication (22.8%) and agriculture (11.7%) sectors were the main contributors to the financing growth in DFIs.

In the first three months of 2008, the six DFIs approved RM0.9 billion of financing to 4,805 SME accounts.

**Offering a Credit Lifeline, the Credit Guarantee Corporation Malaysia Berhad (CGC)**

To better serve the growth and development of competitive SMEs, CGC embarked on a transformation exercise in 2005. A three year plan was put in place to transform CGC from a traditional credit guarantee provider into a more effective and financially sustainable institution that can better serve the current and evolving needs of SMEs through the provision of a wider range of products and services.

In 2006, initiatives launched include the Credit Enhancer Scheme which features a risk-adjusted pricing structure to enable more SMEs to benefit from CGC's guarantee services. In 2007, CGC broadened the scope of guarantee beneficiaries to include selected Islamic banks and DFIs to allow wider outreach to SMEs. CGC also established an equity financing arm, Aureos-CGC Advisers Sdn. Bhd. to provide equity financing for SMEs. In addition, CGC also introduced new products and services for SMEs such the guarantee scheme for start-ups (DAGS Start-up) to assist new SMEs with difficulties obtaining bank financing due to insufficient collateral and no financial track record, Direct Bank Guarantee Scheme targeted at SMEs involved in Government contracts and a Shariah-based guarantee scheme, the Credit Enhancer Islamic (Enhancer-*i*) which was launched in January 2008.

In 2008, CGC is focusing on putting in place the necessary infrastructure to help it achieve financial sustainability, to reduce its dependency on financial assistance from the Government. In order to achieve these aims, CGC will look to the capital market to raise funds, develop new products to increase its income base, introduce more dynamic investment strategies and enhance loan quality management.

On 1 July 2008, CGC introduced the SME Credit Bureau, an initiative which will have a positive impact on the SME financing landscape and SME development as a whole in the country. The SME Credit Bureau will essentially act as a credit databank to facilitate financing to SMEs by providing financial institutions and trade creditors with convenient, timely and efficient access to credit information on SMEs. Through its operations, the Bureau will assist SMEs build a track record, which financing institutions can use in evaluating financing applications. The Bureau will also have a significant role in inculcating prudent and sound financial management practices among SMEs, as ratings will flag weak areas so SMEs can then initiate adequate remedial action. The Bureau is operated by SME Credit Bureau (M) Sdn Bhd. Currently 12 financial institutions and more than 1,200 companies and businesses are subscribed to the SME Credit Bureau.

### Bank Negara Malaysia SME Special Funds

Bank Negara Malaysia provides five special funds for SMEs with a total allocation of RM11.4 billion aimed at enhancing access to finance at reasonable costs for SMEs with lending rates ranging from 3.75% to 6%. The funds are channelled through participating financial institutions comprising banking institutions, DFIs, and ERF Sdn. Bhd. They are:

- Fund for Small and Medium Industries 2 (fund size: RM6.75 billion);
- New Entrepreneurs Fund 2 (fund size: RM2.85 billion);
- Fund for Food (fund size: RM1.3 billion);
- Rehabilitation Fund for Small Businesses (fund size: RM200 million); and
- Bumiputera Entrepreneurs Project Fund (fund size: RM300 million).

### Government Funding for SMEs

There are 100 Special Government Funds for SMEs with a total allocation of RM20.4 billion as at end-2007. The funds, mainly for nurturing and developmental purposes, are channelled to SMEs through the appointed financial institutions and various Ministries and Government Agencies.

#### Performance of Government Funds and Schemes as at December 2007

Type of Assistance	No. of Schemes	Allocations	Applications	Disbursed	Outstanding	
		(RM b)	No.	(RM b)		
Soft Loans	64	13.25	1,254,317	81.22	77.29	5.79
Grants	22	4.52	15,674	1.92	1.23	not applicable
Venture Capital	9	1.63	155	0.93	0.50	0.37
Equity	2	0.39	138	0.69	0.56	0.36
Soft Loans & Equity	3	0.66	1,906	0.84	0.61	0.46
<b>Total</b>	<b>100*</b>	<b>20.44</b>	<b>1,272,190</b>	<b>85.60</b>	<b>80.19</b>	<b>6.98</b>

\* Including TEKUN, AIM, PNS, PUNB and MECD

Source: Bank Negara Malaysia

The funds and schemes have various objectives that could be summarised as follows:

- Encourage SMEs to be more innovative in using and adapting to the existing and new technologies and processes;
- Improve product quality;
- Assist SMEs to conduct market and technology feasibility studies, prepare business planning and formulate domestic and export market strategies;
- Stimulate the development of Bumiputera SMEs; and
- Assist youth including graduates venturing into business.

For more details on Government funding, log onto [www.smeinfo.com.my](http://www.smeinfo.com.my) or refer to the “Policies, Incentives, Programmes and Financial Assistance for SMEs” Handbook from SMIDEC.

The Government is currently conducting a study to enhance the effectiveness of existing Government funds. This will include, where appropriate, the streamlining of the number of funds to better meet the financing needs of SMEs.

*Given the high priority accorded to SME development in Malaysia, the Government will continue to put in place various initiatives to strengthen finance providers, widen the avenues of financing and address specific issues faced by SMEs in accessing adequate financing. The ultimate goal is to ensure that SMEs at various stages of their business life-cycle, namely, start-up, business expansion and rehabilitation, have access to the necessary types of financing.*