

Access to Financing

CHAPTER 7

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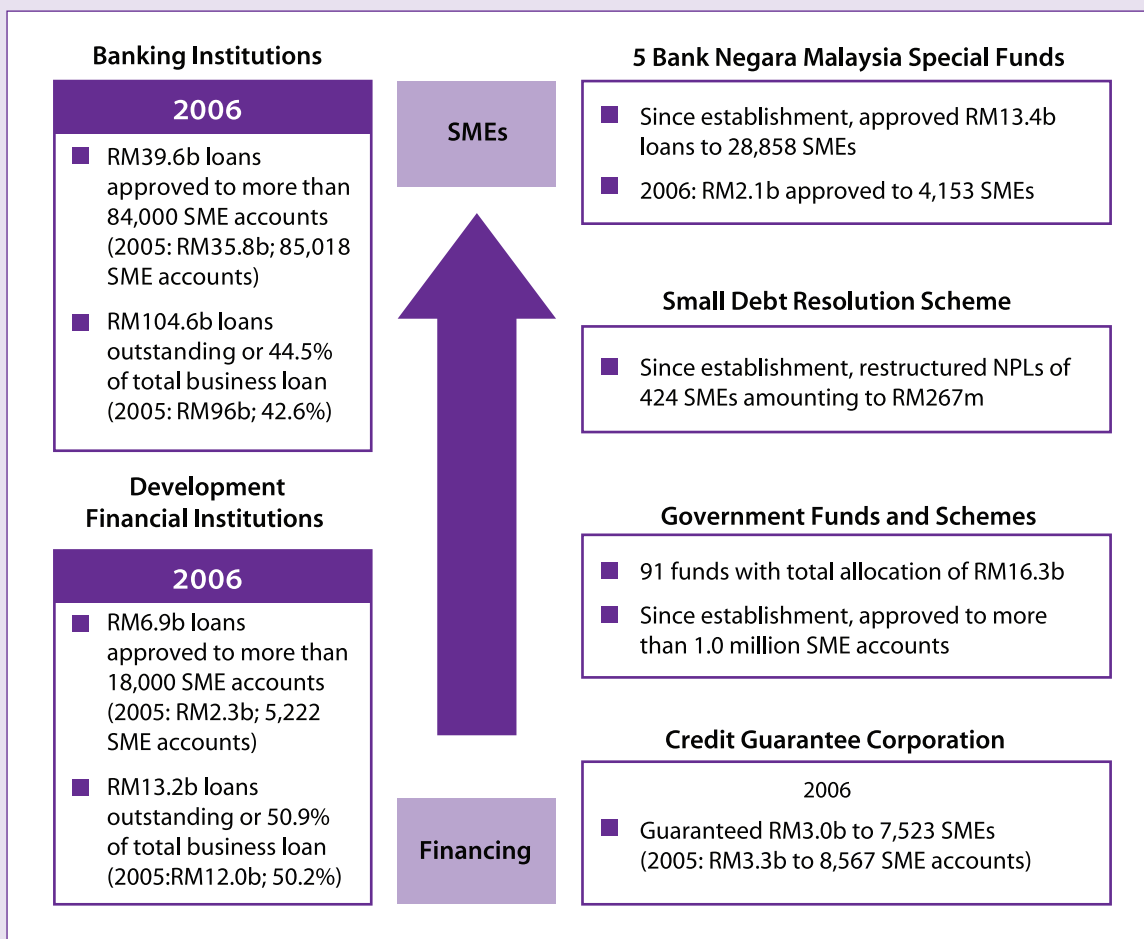


Reflecting the diversified nature of the Malaysian economy, SMEs increasingly require more customised and differentiated financial products and services for their unique requirements. As such, various initiatives have been undertaken to strengthen finance providers and widen avenues of financing to ensure that SMEs have access to financing.

The financing landscape evolved further in 2006 to meet SME financing needs through three key stages of the business life-cycle - namely, start-up, business expansion and rehabilitation. Financial institutions remain the largest source of funding for SMEs, with loans and financing on the increasing trend. In order to meet the needs of micro entrepreneurs who form the bulk of SMEs, more financial institutions are offering microfinance products.

To complement these initiatives, efforts continue to focus on strengthening the provision of financial advisory services to the SMEs, to assist them on the “where and how” to obtain the required financing.

Financing to SMEs in 2006



Source: Bank Negara Malaysia

In 2006, RM48.1 billion of financing was provided by the banking institutions, development financial institutions (DFI) and other agencies, to 240,000 SMEs.

Financial institutions remain the largest source of funding for SMEs, with loans and financing on the increasing trend

In addition, 23 programmes with an allocation of RM5.2 billion were identified and implemented to enhance SME access to financing. In 2007, 27 programmes with an allocation of RM2.4 billion will be implemented.

To further support SMEs, Bank Negara Malaysia in 2006 provided an additional allocation of RM2.5 billion to the Fund for Small and Medium Industries 2 and the New Entrepreneurs Fund 2, established a RM1 billion Special Fund for Overseas Project Financing and a RM150 million Venture Capital (VC) fund for the agriculture sector. In addition, two new trade financing products for SMEs were introduced by Export-Import Bank of Malaysia Bhd. (EXIM Bank).

A total of RM46.5 billion of loans were approved to more than 102,000 SME accounts by both the banking institutions and DFIs in 2006. Banking institutions were the main provider of funds to SMEs, with a total approval of RM39.6 billion to more than 84,000 SME accounts.

Reflecting an increasing trend, loans to SMEs from banking institutions have risen from 31.1% of total business loans in 2000 to 44.5% in 2006. Total SME outstanding loans from banking institutions breached the RM100 billion level in 2006. In addition, six DFIs, namely SME Bank, EXIM Bank, Bank Simpanan Nasional, Bank Rakyat, Bank Pembangunan and Bank Pertanian Malaysia, approved a total of RM6.9 billion of financing to more than 18,000 SME accounts in 2006.

For 2007, banking institutions and DFIs are targeted to approve RM51 billion in loans to 110,000 SME accounts. In addition, the Government schemes aim to approve loans and grants to about 37,000 SMEs.



1. Start-Ups - Early Stage Financing

Start-up can be the most challenging phase in the SME business cycle. Given that financial institutions often require a minimum track record, different avenues are being developed to support the financing needs of start-ups.

One of the significant providers of funding for start-ups are VC funds as well as DFIs and the Government, through grants and soft loans.

Newly established businesses, especially in the Information and Communications Technology (ICT) sector, could approach VC companies to obtain equity financing. The total available funds for VC investments increased by 27.8% to RM3.3 billion in 2006, up from RM2.6 billion in 2005. These funds were invested in 460 companies compared with 380 companies in 2005.

Realising the importance of assisting start-ups, Bank Negara Malaysia together with two banking groups established two VC funds of RM150 million each for the technology sector in 2000. The purpose was to provide equity financing to support the development of the technology sector, with a focus on the ICT, advanced manufacturing and life sciences sub-sectors. By the end of 2006 a total of RM244.3 million had been invested in 83 companies.

VC Funds for Agriculture

To support the objective of developing the agriculture sector, three VC funds totalling RM500 million were jointly established by Bank Negara Malaysia, Khazanah Nasional and two banking groups in 2006 and 2007. The aim of the funds is to create and develop an integrated agriculture business, particularly in farming, fisheries and livestock as well as to finance new technology-intensive agriculture projects, including biotechnology.

There are seven other key government VC funds which include:

- Malaysian Venture Capital Management Bhd's (MAVCAP) VC funds for SMEs involved in high-growth sectors including communication and network, medical and health services, bio-technology and life sciences, internet and electronics and semi-conductors. Fund size allocation is RM450 million and in 2006, RM277.7 million was disbursed to 104 companies.
- The Malaysian Life Sciences Capital Fund, a biotechnology VC fund co-managed by the Malaysian Technology Development Corporation (MTDC) and Burill & Co, was launched in 2006. The USD150 million fund, will provide investors with an opportunity to diversify and gain knowledge in the biotechnology business. Along with the Bionexus initiative, the fund will provide the building blocks for the development of Malaysia's biotechnology industry.
- The VC fund for early stage commercialisation managed by the MTDC has an allocation of RM250 million. The fund was established to develop technology companies in the non-ICT sector and disbursed RM69 million to four companies in 2006.
- MSC Venture One's (MV1) VC fund with an allocation of RM120 million, was established in 2001 to develop the ICT and multimedia industries. By the end of 2006, MV1 disbursed RM148 million to 23 companies.

In 2006, 15 SMEs and entrepreneurs were given start-up financing assistance by the Ministry of Science, Technology and Innovation (MOSTI) and the Ministry of Rural and Regional Development (MRRD), while the Ministry of Entrepreneur and Co-operative Development (MECD) provided soft loans through its Agencies, for start-up businesses and new entrepreneurs. The Multimedia Development Corporation's (MDeC) Technopreneur Pre-Seed Fund Programme launched in 2006, is another initiative to support early stage funding to encourage the growth of technopreneurs and K-SMEs in developing commercially viable ICT projects.

In addition, start-ups with market-viable products or services that are ready for commercialisation, can apply for the SME Start-up product from the SME Bank.

(Please refer to the Box Article "SME Bank - Nurturing SMEs" in this chapter for details.)

Bionexus Status Programme



BioNexus Status is a designation awarded to biotechnology companies which qualifies them for the privileges contained in the BioNexus Bill of Guarantees. These include:

- Freedom of ownership and freedom to source funds globally;
- Unrestricted employment of knowledge or competent workers;
- Eligibility for various incentives and development;
- Provision to enable accreditation of international standards, intellectual property protection and enforcement comparable to global standards;
- Access to support information network with research centres of excellence;
- Access to shared laboratories, facilities and services; and
- Biotech Corporation as the one stop agency which provides fast-track options for Government approvals and licenses.

Three types of commercialisation grants are available for businesses, namely, Seed Funds, R&D Matching Funds and International Business Development Matching Funds.

(For more details, please log onto www.biotechcorp.com.my)

2. Business Expansion - Financing for Growth

Banking institutions are the primary source of financing for working capital and asset acquisition which allows SMEs to run and expand their businesses. The range of products on offer covers a spectrum of needs from overdraft facilities, to fixed asset purchases like factory acquisition and trade financing. To complement financing provided by financial institutions, there are also several Government schemes established to help SMEs expand their business. In 2006, two key schemes were introduced, namely the Overseas Project Financing and SME Growth Acceleration Fund.

Overseas Project Financing

Bank Negara Malaysia established a RM1 billion Overseas Project Fund at EXIM Bank in December 2006. The fund aims to facilitate Malaysian companies with projects overseas to obtain financing from domestic banking institutions, through the guarantee and co-financing facilities.

Under this facility, EXIM Bank will provide guarantees to loans obtained by eligible companies to finance overseas projects from the domestic banking institutions. With this facility, Malaysian companies, contractors and professional service providers will have easier access to financing to support their business ventures abroad. Currently, four domestic banking groups are participating in the guarantee scheme.

(For more information, please log onto www.eximbank.com.my).

SME Growth Acceleration Fund

In August 2006, SME Bank launched a RM1 billion SME Growth Acceleration Fund to assist SMEs expand their businesses. The fund will take up to 26% of equity in SMEs with good operating track records, particularly in the manufacturing and assembly components, oil and gas, food processing and ICT sectors.

Targeting investments of RM160 million in 2007, ten SMEs have already had equity financing approved totalling RM31.2 million through the fund, with amounts ranging from RM2 million to RM5 million.

Microfinancing – Bridging the Gap

The findings of the Census of Establishment and Enterprise 2005 indicates that 80% of the SMEs in Malaysia are micro enterprises (defined as business concerns with less than five full-time employees, and an annual sales turnover of less than RM250,000 in the manufacturing sector and RM200,000 in the agricultural and services sectors). Furthermore, the census revealed that these micro enterprises, mainly sole proprietors in the services sector, relied for the most part on their own sources of funding and borrowings from family and friends. Only 13% indicated that they relied on financial institutions for funding.

To address this, the National SME Development Council (NSDC) approved a comprehensive microfinance institutional framework to promote the development of a sustainable microfinance industry in Malaysia, providing micro enterprises an important avenue to obtain financing from the formal financial system. Within this framework, banking institutions, DFIs and credit cooperatives have been identified to provide microfinance products to complement existing Government-sponsored microfinance programmes such as Amanah Ikhtiar Malaysia (AIM) and Yayasan TEKUN Nasional (TEKUN).

To enhance the role of DFIs as microfinance providers, Bank Simpanan Nasional has been mandated to provide microfinance. Bank Rakyat will provide microfinance to members of co-operatives while Bank Pertanian will continue to provide microfinance to micro enterprises in the agriculture and agro-based sector.

In addition, efforts are being undertaken to encourage banking institutions to provide microfinancing. Participation of the banks is key in view of their large funding and network of branches, which are critical to ensure wide outreach of microfinance.

With the introduction of the microfinance framework, a growing number of banks and DFIs have already launched microfinance products to provide fast, flexible and convenient access to financing to individuals and micro enterprises for their business activities.

Participation of the banks to provide microfinancing is key in view of their large funding and network of branches, which are critical to ensure wide outreach of microfinance

Microfinance products offered by the financial institutions typically have the following key features:

- Small loans ranging from RM500 to RM50,000;
- Flexible collateral requirements;
- Flexible loan tenure ranging from one month to five years;
- Simple loan procedures allowing for fast disbursement; and
- Incentives to encourage good repayment practices.

Noticeable differences in the microfinance services offered by financial institutions include, a personal approach to build the trust of and ultimately good working relations with customers, and loan selection will often be determined by character and references from neighbours, friends and family members. Ultimately, by having financial institutions provide continuous access to financing, micro enterprises will enjoy an increased expansion of potential which if realised, will have a positive spill-over effect on the economy.

A common microfinance logo is also being developed as an avenue to provide a prominent identity, and to create awareness and understanding of microfinance. Financial institutions that offer microfinance facilities as well as their recipients will be encouraged to display this logo at their business premises.

In addition to microfinance offered by financial institutions, several Ministries and Agencies also provide microcredit schemes. The Ministry of Agriculture and Agro-Based Industry (MOA) has an allocation of RM30 million for its Food Production Credit Scheme which aims to increase the source of income for small and micro entrepreneurs involved in food production.

Helping to promote Bumiputera micro entrepreneurs, MECD has made a RM50 million financial commitment to provide microcredit financing for start-ups under TEKUN and has also set aside RM70 million as working capital for Majlis Amanah Rakyat (MARA) business loans and RM150 million for SME Bank business loans.

MRRD, through Lembaga Kemajuan Kelantan Selatan (KESEDAR), with RM220,000 to help rural micro enterprises in manufacturing, services, agriculture and tourism, is running its ongoing *Pinjaman Industri Luar Bandar dan Bantuan Ekonomi Sampingan*. In collaboration with SME Bank and Bank Rakyat, the Financing Scheme for Rural Economy (SPED) does not require SMEs to have a guarantor or collateral. Looking ahead to 2007, SPED aims to provide 300 borrowers with up to RM37 million in loans.

Reaching Out to Micro Entrepreneurs

Modal Usahawan Tani (MUST) is a sustainable microfinance programme offered by Bank Pertanian Malaysia. Launched in September 2005, MUST has the following key features:

- No collateral is required; would-be borrowers are tracked for a minimum of six months and qualify for a loan if in that period they have saved enough to service the loan;
- The borrower is eligible for the first loan of RM5,000 - RM10,000;
- Prompt paymasters will be eligible for repayment incentives;
- A flexible repayment schedule on a daily, weekly or monthly basis; and
- A “know your customer” policy or close relationship is established between Bank Pertanian’s credit officers and their borrowers to facilitate collection and monitoring of the borrower’s business performance.

In the two years since its launch, MUST has shown strong performance, with RM112.9 million loans approved to 10,685 micro entrepreneurs. The micro loans outstanding amounted to RM87.5 million as at end-March 2007. The non-performing loans stood at just 0.9% of total loans.

The provision of MUST has shown the difference that small loans can make to the lives of micro entrepreneurs. Through MUST, they are able to see their businesses flourish, and with the increased income improve their standards of living.



Providing a Lifeline to the Poor

Amanah Ikhtiar Malaysia (AIM) was established in 1987 as a Non Governmental Organisation (NGO), mandated to eradicate poverty in Malaysia. AIM assists micro entrepreneurs, whom are called “sahabat” through the provision of microfinance. The group-based lending approach undertaken by AIM emulates the renowned model of Grameen Bank, established by Professor Muhammad Yunus, the 2006 Nobel Peace Prize winner.

In order to be eligible for AIM's loans, household income of each “sahabat” is required to be less than the poverty line income set by the Government. The eligible “sahabat” then needs to form a group of five “sahabat”. Responsibility towards other members of the group acts as a form of peer pressure to inculcate a good repayment culture. Group members are also required to attend weekly “sahabat” meetings to help instill continuous financial discipline and commitment to develop thrift.

The key features of AIM's microfinance products are as follows:

- The “sahabat” is eligible to borrow up to RM2,000 for the first loan and for repeated loans, the amount can reach RM20,000;
- The tenure of the loan ranges from six months to three years; and
- Neither collateral nor guarantor is required.



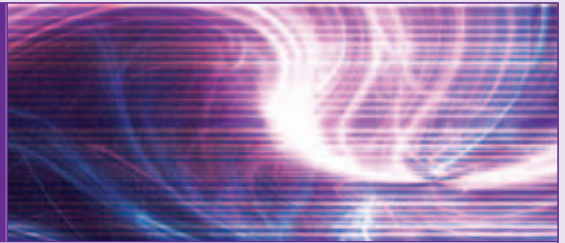
After nearly 20 years in operation, AIM has demonstrated strong performance. As at end-March 2007, the total number of “sahabat” stands at 162,756 with RM330.3 million loans outstanding. The repayment rate is a remarkable 97%.

AIM's achievements have shown that microcredit can indeed be a strong catalyst for growth. In an impact study conducted in 2005 by AIM to assess the effectiveness of its micro-credit schemes, the results have been quite positive. Out of 1,497 “sahabat” who were beneficiaries of AIM's schemes for an average of six years, 90% had succeeded in raising themselves out of the poverty level* and 27% are now earning a stable income of more than RM2,000 a month.

**Poverty Line is less than RM529 a month (Eight Malaysia Plan)*

SME Success Story

A Little Money Goes a Long Way



Mustika Hati Enterprise is a good example of how a little money can go a long way. Based out of a *kampung* house, founder Musringah Binti Ismon, started selling *pau* (steamed buns) on a very small-scale in 1988. The *pau* were sold via the neighbourhood shop and in time, as demand for the products picked up, additional working capital was required.

Mustika Hati Enterprise sought financing from Amanah Ikhtiar Malaysia (AIM) and succeeded in obtaining a RM500 loan that was repayable over one year. During the course of that year, the business grew to the next level, and a larger loan of RM1,000 was secured to finance the business' working capital.



Valuable assistance and advice on how to grow the business also came from the Selangor Department of Agriculture. In 1994, Mustika Hati Enterprise received its first machine - a mixer used to mix the stuffing for the *pau*, which had previously been done by hand. This machine, worth RM2,600, was loaned under *Dana Industri Kampung* and was instrumental in helping improve production efficiency. In 2001, operations moved out of the founder's kitchen and into a production workshop next door, half the cost of which was financed by a loan from AIM.



The founder also underwent training courses organised by the Department of Agriculture, including courses on marketing and accounting. Mustika Hati Enterprise participated in many expositions and trade shows which helped showcase the company's products to a much larger market. The company also participated in a trade show in Dubai in 2007 - a significant achievement from the early days when its products were only sold in the neighbourhood shop. Looking back, the founder reminisces that patience and belief in oneself were the two key attributes which helped her steer the course of her business successfully.

Mustika Hati Enterprise now employs six workers, producing over 3,000 *pau* a day. Product mix has expanded to include *pau* with eight different fillings such as coconut, sardine and chicken curry. A RM20,000 loan was secured to finance additional machinery such as steamers, required for the expansion. The founder of Mustika Hati Enterprise has been recognised for her achievements in successfully growing a home-based enterprise. She is the recipient of several awards including *Anugerah Usahawan Wanita Berpotensi* (2001), *Tokoh Usahawan Wanita Bumiputera Negeri Selangor* (2002 - 2004) and *Anugerah Tokoh Wanita Cemerlang Negeri Selangor* (2004).

3. Rehabilitation - Lending a Helping Hand

Further along the SME business cycle, debt management is a common problem faced by SMEs. Examples are often given of SMEs who do not differentiate between the company's money and their own money. While efforts have been intensified to assist SMEs to properly manage their finances, it is recognised that there are SMEs which due to various factors face financial difficulties leading to the non-repayment of their loans.

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

As at end - April 2007, SDRS had received 582 applications with NPLs of RM423 million. Of these, 450 applications have been approved for restructuring, involving NPLs of RM278 million. A total of RM20 million in new financing was approved to 39 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 selectively provided mainly to SMEs with new projects in hand.

To obtain assistance under SDRS, applicants need to fill in an 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.

In addition, the Bank Negara Malaysia *Laman Informasi Nasihat dan Khidmat* (BNM LINK) provides the following financial advisory services to the SMEs:

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

In 2006, the number of enquiries and assistance sought by SMEs totalled 4,186 (2005: 4,037) reflecting continued awareness among SMEs of the availability of such services in Bank Negara Malaysia. Of these, 77% were enquiries on special funds provided by the Government and advice on loan matters, while 23% were requests for assistance, mainly for loan restructuring and rejections.

SME Success Story

Restructuring for Success

Extra-Built Sdn. Bhd. through its partnership with Philips, has seen its business grow from strength to strength, and is today, Malaysia's sole Bumiputera manufacturer and project dealer for Philips lighting products. From humble beginnings in trading lighting products, a key change in the direction of the business came once the company successfully secured a significant manufacturing contract from Phillips. Things progressed well until business took a downturn in 1998. With volumes declining sharply, Extra-Built Sdn. Bhd. found it difficult to meet its loan repayments as well as maintain its work-force of over 50 people.



Extra-Built Sdn Bhd then sought assistance provided by Bank Negara Malaysia under the Small Debt Restructuring Scheme. After assessing the viability of the business, the Small Debt Resolution Committee (SDRC) recommended that the company's existing NPLs be restructured. This included lengthening the tenure of the loan to provide a breathing space for the company to meet its financial obligations. In addition, as the business was deemed to have positive prospects, the SDRC also recommended that ERF Sdn Bhd extended new loans to the company to allow for business expansion.



This proved to be the much needed shot in the arm for Extra-Built Sdn Bhd. With its loans now restructured and additional financing put in place, the company was able to take advantage of the upswing in the market. The company has since grown from strength to strength - revenue has grown from RM300,000 in 1996 to over RM4 million in 2006. Products are now also being exported to Vietnam, Thailand and Indonesia, and the company is expanding into a new range of street lights.

4. Enhancing Access to Financing

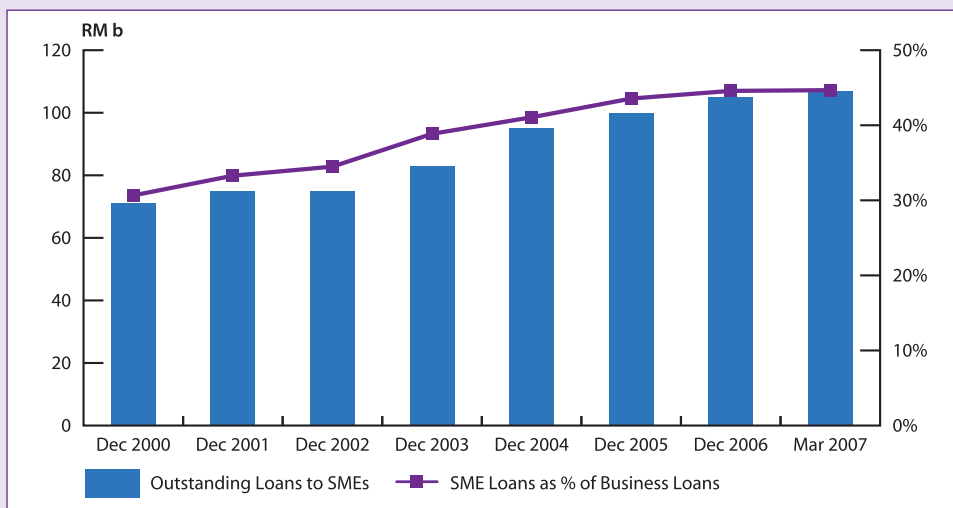
Expanded Loans from the Banking System

As the banking system provides the most significant source of financing for the economy as a whole, an important strategy is to ensure sufficient SME access to financing from the banking institutions. Initiatives were put in place so banking institutions would focus attention and effort on providing financial services to SMEs; strengthening their facilities, outreach and services in particular.

Today, all commercial banks have dedicated SME Units, responsible for providing lending as well as ancillary support and advisory services to the SMEs. The commercial banks also have a specific client charter for SMEs, providing the necessary information to facilitate SMEs in applying for financing.

Lending to SMEs by banking institutions has been on the rise. As at end-March 2007, total SME loans outstanding amounted to RM107.3 billion and accounted for 44.9% of total business loans, which is significantly higher compared to RM70.5 billion or 31.1% in 2000. In the first three months of 2007, banking institutions approved RM10.7 billion to about 24,000 SME accounts.

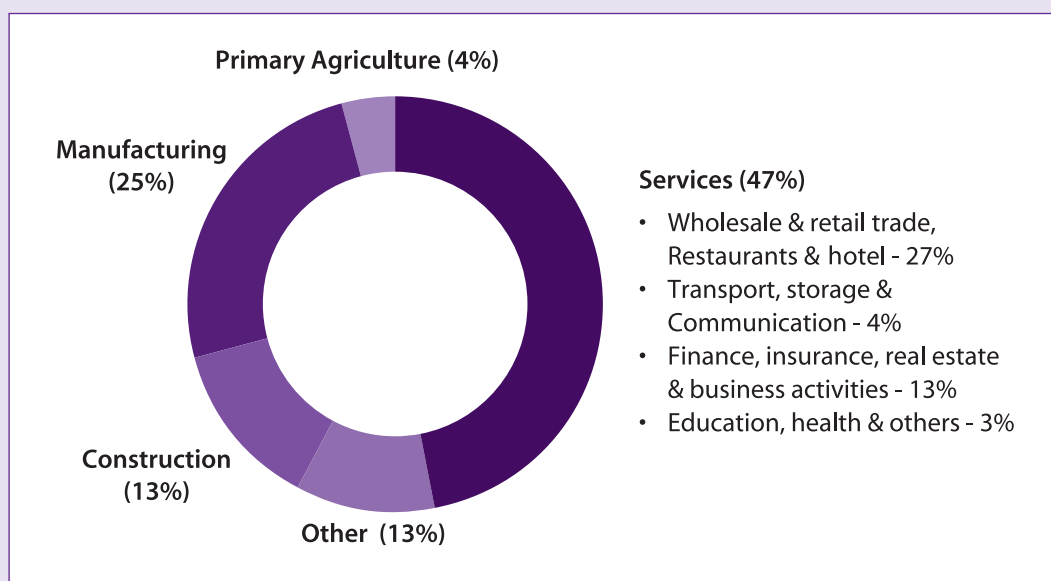
Increase In Lending to SMEs



Source: Bank Negara Malaysia

Sectorally, lending to SMEs was diversified, with almost two-thirds being channelled to the wholesale and retail trade, hotels and restaurants, manufacturing and construction sectors.

Loans to SMEs by Sector (as at end-March 2007)



Source: Bank Negara Malaysia

Development Financial Institutions

DFIs are specialised financial institutions set up to accelerate the growth of strategic sectors identified by the Government. A key function of DFIs is to provide financial services to complement those provided by the banking institutions.

In the first three months of 2007, the six DFIs under the purview of Bank Negara Malaysia, approved RM2.1 billion of financing to more than 4,100 SME accounts. (2006: RM6.9 billion to 18,000 SME accounts). Outstanding loans to SMEs stood at RM13.3 billion as at end-March 2007.

SME Bank - Nurturing SMEs

The SME Bank was established as a DFI to nurture and meet the unique needs of SMEs. The bank complements existing products and services offered by commercial banks through a comprehensive and integrated range of financial and business advisory services. Its primary role is to contribute towards the growth of a more robust entrepreneurial community in Malaysia.

Since its establishment in October 2005, the SME Bank has approved and disbursed RM3.2 billion to more than 1,900 SME accounts and its loans outstanding to SMEs stood at RM2 billion as at end-March 2007.



SME products on offer include:

- SME Start-up - designed for all new businesses, including ICT and agro-based activities. The product is specially targeted towards businesses with market-viable products or services ready for domestic and/or international commercialisation;
- SME Professional - designed to grow existing professional services such as legal, architectural, auditing and consultancy firms. The product assists SMEs offering professional services expand and accelerate their business growth;
- SME Franchise - a joint effort with Perbadanan Nasional Bhd. (PNS), the product focuses on the evaluation, growth and sustenance of future franchisors and franchisees;
- SME Procurement - a comprehensive financial product which aims to fast track access to financing and provide business development support for SME vendors, contractors or service providers to Government linked corporations (GLC), multinational corporations (MNC) and other large corporations; and
- SME Global - the product aims to accelerate the active participation of SMEs in the global market.

The SME Bank established the SME Bank Advisory Centre (SAC) to help SMEs grow, innovate and achieve excellence in their business activities as well as to overcome financial problems. Expert advice is also available on marketing, business development, operations and customer service.

(For more information please log onto www.smebank.com.my)

Islamic Financing

Financing extended by the Islamic financial institutions to SMEs has shown an encouraging upward trend, growing at an average annual rate of 34.2% for the period 2001-2006. Islamic financing to SMEs reached RM10 billion in 2006, accounting for 9.6% of total SME loans outstanding of the banking system. This is a significant increase compared with the amount of Islamic financing extended to SMEs in 2000, which was only RM1.7 billion or 2.4% of total SME loans outstanding of the banking system.

There is great potential for Islamic financial institutions to play a more significant role in providing greater choice to SMEs to meet their financing needs. Islamic financial institutions therefore, need to understand these requirements and be able to provide not only new innovative products but also attractive financing packages. In addition, Islamic financial institutions need to intensify efforts to create greater awareness amongst SMEs on the unique features associated with Islamic products and services.

Bank Negara Malaysia also plans to introduce additional Shariah-based initiatives for the existing SME special funds in a move to diversify the financial products available for SMEs. Enhanced financial literacy on Islamic financial products will facilitate the process for SMEs to make informed and effective decisions on their financial transactions.

In 2006, a strategic partnership between Credit Guarantee Corporation Malaysia (CGC) and Islamic financial institutions brought together two important objectives of the Government, namely enhancing SMEs' access to financing and promoting the growth of Islamic finance. Through the tie-up, CGC has now expanded the scope of its guarantee beneficiaries to include Islamic banking institutions, whereby the SME customers of Islamic banks can obtain guarantees from CGC.

Securitisation of SME Loans

In May 2007 Cagamas Bhd., the national mortgage corporation, introduced Malaysia's first securitisation of SME loans amounting to RM600 million through its wholly-owned subsidiary, Cagamas SME Bhd. The loans were originated by Malayan Banking Bhd. The programme is the first synthetic securitisation transaction in the country which uses credit derivatives to transfer credit risk for potential capital relief while retaining the SME loans in the originator's books. A total of RM150 million credit linked notes were issued to the capital market investors.

Through such securitisation, banking institutions will have greater flexibility in managing their SME loans portfolio and further enhance their capacity to provide lending to SMEs. In addition, securitisation enabled the SMEs to indirectly tap the capital market for financing, thus broadening their source of funding.

Credit Guarantee Corporation

CGC embarked on a transformation exercise in 2005, to further enhance its role in supporting the growth and development of competitive SMEs. CGC is the main provider of guarantee services to assist SMEs with insufficient or no collateral to obtain loans from financial institutions. The transformation aims to position CGC from a traditional guarantee provider into an effective and financially sustainable institution that can better serve the current and evolving needs of SMEs through the provision of wider credit enhancement products, advisory services on financial and business development, and credit information services.



CGC has shown commendable progress in this transformation process. In 2006, CGC introduced the Credit Enhancer Scheme, which features risk-adjusted pricing structure to enable more SMEs to benefit from CGC's guarantee. To enable more SMEs to access its guarantee services, CGC also broadened the scope of its guarantee beneficiaries to include Islamic banks and DFIs. In an effort to bridge the equity financing gap of early stage SMEs, CGC established an equity financing arm through a joint venture with a reputable foreign fund management company.

CGC assists SMEs to obtain access to financing through the provision of guarantee for loans obtained from financial institutions. The guarantee is channeled through various schemes tailored towards SME requirements. Since its establishment in 1972, CGC has approved more than 385,000 applications amounting to RM34.5 billion under its various schemes. In 2006, CGC approved 7,500 loan applications amounting to more than RM3 billion.

SME Success Story

A Guaranteed Solution



Rodney Boudville saw a niche in the market. Armed with his wife's savings and operating from home, he transformed his idea into a plastic packaging supply company called Grace Interlink (M) Sdn Bhd which was incorporated in January 2003.

Turnover in the first month of operations was RM11,000, and grew steadily after that. He was disciplined in his payments, so suppliers were supportive and gave him a 120-day credit line. By the end of 2003, turnover stood at RM960,000. Customers were placing larger orders but despite solid relationships built over the years, suppliers were not able to extend the growing sum of credit needed.

To take the business to the next level, a working loan was needed but with a short track record, he faced difficulties in getting loans from banks.

In 2004, he turned a corner. This determined Malaysian player won a multi million packaging export contract. A friend suggested that Rodney approach the Credit Guarantee Corporation. With the CGC guarantee, Grace Interlink was granted a loan of RM400,000. The established disciplined approach of paying suppliers has stood him in good stead with bank repayments.

Since then, turnover has almost doubled every year with RM4.6 million recorded in 2006. Rodney cites CGC as instrumental in growing his business, allowing him to increase the amounts borrowed to help the fledgling business grow into the success it is today. In addition to a good idea, Rodney believes it is his willingness to spend time building good relationships with clients and suppliers alike as well as a never-say-die attitude to getting the job done that has contributed to his success.





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)

Due to overwhelming demand, allocations for the Fund for Small and Medium Industries 2 (FSMI2) were increased by RM2 billion to RM6.75 billion while the New Entrepreneurs Fund 2 (NEF2) grew by RM500 million to RM2.85 billion in 2006. To ensure these funds have a wider outreach, Bank Negara Malaysia revised the eligibility criteria in April 2006. Since the establishment of FSMI2 in 2000, RM7.8 billion of loans have been approved to more than 12,200 SMEs, while for NEF2, RM3.2 billion of loans have been approved to more than 4,900 SMEs since its establishment in 2001.

Government Funding for SMEs

In addition to financing from the private sector, the Government via its Ministries and Agencies also provides financing for SMEs. Government funds for SMEs are mainly for nurturing and developmental purposes.

Performance of Government Funds/Schemes (as at December 2006)

No.	Type of Assistance	No. of Schemes	Allocation (RM billion)	Applications Approved	Disbursed	Outstanding
				No.	(RM billion)	
1	Loans*	59	11.83	1,003,548	65.52	5.09
2	Grants	20	2.27	26,050	0.60	N/A
3	Equity	2	0.08	130	0.53	0.53
4	Venture Capital	7	1.57	142	0.42	0.31
5	Loans and Equity	3	0.56	1,512	0.49	0.37
Total		91	16.31	1,031,382	67.56	6.30

Source: Bank Negara Malaysia

* Including schemes for micro enterprises - micro credit schemes (by Bank Simpanan and Bank Pertanian), Yayasan Tekun Nasional and Amanah Ikhtiar Malaysia.

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

- To encourage SMEs to be more innovative in using and adapting to the existing and new technologies and processes;
- To improve product quality;
- To assist SMEs to conduct market and technology feasibility studies, prepare business planning and formulate domestic and export market strategies;
- To stimulate the development of Bumiputera SMEs; and
- To assist youth including graduates to venture into business.

For more details on Government Funding, log onto www.smeinfo.com.my or refer to the "Policies, Incentives, Programmes and Financial Assistance for SMEs" Handbook from SMIDEC.

Fund For Flood Affected Businesses

Bank Negara Malaysia established a Special Relief Guarantee Facility of RM500 million to alleviate the problems faced by businesses affected by the floods which hit the country in December 2006 and January 2007.

Under the facility, flood-affected businesses were able to obtain financing from all commercial banks, Islamic banks, SME Bank, Bank Rakyat and Bank Pertanian. The Credit Guarantee Corporation provided 80% guarantee to the financing obtained.

Made available from January 2007 to April 2007, salient features of the facility included:

- Availability for flood-affected businesses;
- Maximum amount of financing - RM500,000 per group of companies;
- Financing rate chargeable at 2.5% per annum; and
- The tenure of the financing is up to five years.

The response to the Facility was encouraging, with over 5,000 applications received, of which 3,250 were approved and RM244.1 million disbursed as of end-April 2007.

In addition to the Facility, banking institutions and insurers were also encouraged to implement assistance programmes to relieve the financial burden of their affected customers. Measures taken included the temporary deferment of loan repayments, restructuring or rescheduling of loans, waivers of transaction fees and/or finance programmes, faster insurance claims payment, and the extension of business hours in affected areas.

The challenge in enhancing access to financing for SMEs is to ensure that the financial products and services being offered meet the very diverse and dynamic needs of SMEs. The range and amount of available financing to SMEs has been increasing, as SMEs' access to financing has improved. Measures have been enhanced to provide more assistance to SME start-ups, which support greater entrepreneurship in Malaysia as well as more comprehensive debt restructuring assistance under Bank Negara Malaysia's SDRS. Microfinancing is also gathering momentum with various financing schemes now available for micro enterprises from financial institutions as well as Government agencies.