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This report provides an overview and summary of the key issues discussed during the Workshop on SME Financing, from the perspectives of policy makers and regulators, lenders and chambers of commerce/ associations representing the small and medium enterprises.

Bridging the Gaps in Access to Financing for SMEs

Workshop on SME Financing, 27 April 2015

INTRODUCTION

Continued efforts in addressing issues and challenges inhibiting access to financing for SMEs

The Workshop on Small and Medium Enterprise Financing held on 27 April 2015 at Sasana Kijang, Bank Negara Malaysia, provided an opportunity for various stakeholders to contribute to the policy dialogue on access to financing for enterprises. Specifically, the Workshop aimed to obtain views from the small and medium enterprises (SMEs) and lenders on financing issues and challenges inhibiting access to financing as well as policy proposals to enhance the existing financing ecosystem established by Bank Negara Malaysia.

The Workshop gathered 130 participants from regulatory authorities, the Ministry of Finance, the Ministry of International Trade and Industry, relevant Government agencies, financial institutions, SME associations and chambers of commerce.

Assistant Governor Encik Bakarudin Ishak in his opening remarks, highlighted the following objectives of the Workshop:

- (i) to develop a common understanding of the key challenges from different perspectives in enhancing access to financing for entrepreneurs as a basis for collective cooperation; and
- (ii) to provide practical input to the effort of participants in developing the required actions to support the SME development agenda, with better coordination between stakeholders.

16 speakers, representing policymakers and regulators, the SME community, financial institutions and non-financial institution lenders shared key insights and discussed various issues on financing for enterprises. These included issues surrounding the role of Government in policy formulation, the evolution of the financing ecosystem to meet future demands, practical and strategic challenges faced by enterprises and financial institutions as well as the role of non-financial institution lenders in meeting the financing gaps.



PRESENTATION BY SME CORPORATION MALAYSIA

Importance of SMEs in the Economic Growth Process

This session provides an overview on the Government’s strategic direction for SME development, as well as the policies and strategies required to develop the sector under the SME Development Framework

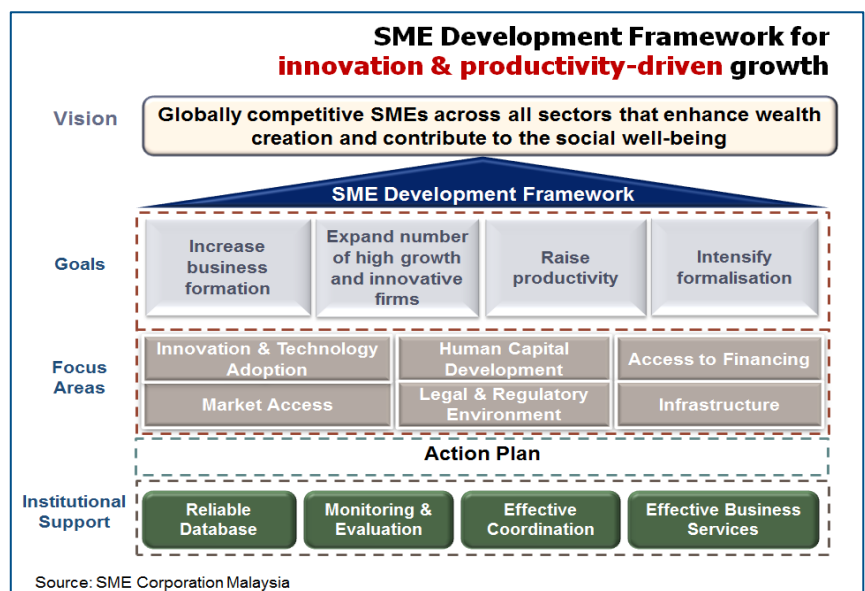
SMEs are critical to Malaysia’s economic growth. They represent 97.3% of registered businesses and 57.5% of total employment. Development of SMEs is spearheaded by the National SME Development Council (NSDC) which was established in 2004. The Council, which is chaired by the Prime Minister and comprised 14 Ministers and Heads of key agencies, serves as the highest level policy making authority on SME development. As the dedicated agency for SME development, the SME Corporation Malaysia, acts as the Secretariat to the NSDC.

FAST FACTS	
97.3%	SME share of total formal businesses
33.1%	SME contribution to GDP in 2014
41.0%	Target SME contribution to GDP in 2020 (SME Masterplan)

The performance of SMEs has improved in the last 10 years since the establishment of NSDC. However, the contribution of these enterprises to the national economy remains relatively small at 33.2% of Gross Domestic Products (GDP). The SME Masterplan 2012-2020 (the Masterplan) aims to take SMEs to the next level of development. Under the Masterplan, the contribution of SMEs to growth is targeted to increase to 41% of the country’s total GDP by 2020. To achieve this target, SMEs’ GDP growth needs to be sustained at 9.3% per annum, against the current ‘business as usual’ average of 6.3% per annum.

The Masterplan highlights four key observations on Malaysian SMEs:

- ❖ The productivity of SMEs in terms of contribution to GDP is low compared with larger firms and SMEs in other countries;
- ❖ A sizeable number of SMEs operate in the informal sectors (31% of gross national income);
- ❖ Compared to high income countries, Malaysia has a lower rate of business formation, with the majority of enterprises registered as sole proprietors or partnerships; and
- ❖ There are only a small number of high growth firms among Malaysian SMEs.



The Masterplan sets out a framework to align SME development to the national objectives of achieving a high income economy by 2020, focussing on innovation-led and productivity-driven growth. This is supported by five components under the Framework, namely vision, goals, focus areas, action plans and a clear institutional support arrangement. Access to financing is one of the six focus areas defined under the Framework to enhance the performance of SMEs.

There are 32 initiatives proposed under the Masterplan, which include six High Impact Programmes (HIPs) and four thematic measures. Recognising the unique business environment in East Malaysia, the Masterplan has also proposed specific measures to harness the potential of SMEs in East Malaysia.

The HIPs are key drivers to lift the growth recorded by SMEs from present level to 9.3% as envisaged under the Masterplan. The six HIPs are:

- ❖ **HIP 1:** Integration of Business Registration and Licensing to enhance ease of doing business;
- ❖ **HIP 2:** Technology Commercialisation Platform to encourage innovation;
- ❖ **HIP 3:** SME Investment Programme to provide early stage financing;
- ❖ **HIP 4:** Going Export Programme to expedite internationalisation of SMEs;
- ❖ **HIP 5:** Catalyst Programme to promote homegrown champions; and
- ❖ **HIP 6:** Inclusive Innovation to empower the bottom 40% of the population.

SME development will continue to be an important agenda of the Government. The 11th Malaysia Plan (RMK11) further reinforces the targets and objectives of the Masterplan through reforms in the labour market sector, Government, and SME sector which cut across all six strategic thrusts of RMK11.

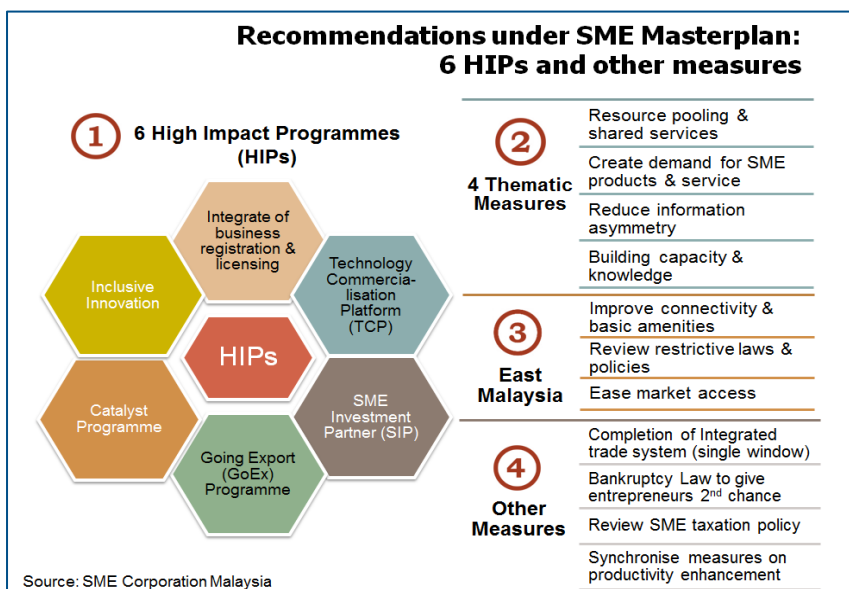
The focus of the Government moving forward is to position the SMEs on a higher growth trajectory, driven by the services sectors. Opportunities also abound for SMEs under the New Key Economic Areas (NKEA) to move into higher value-added activities in line with aspirations for greater innovation and productivity-led growth.

SME MASTERPLAN RECOMMENDATIONS ON ACCESS TO FINANCING

Five key recommendations made in the Masterplan to further enhance access to financing are as follows:

- ❖ Rejuvenate the non-bank funding ecosystem through the SME Investment Programme;
- ❖ Expedite the growth of venture capital and angel investors to create a more vibrant funding environment through tax incentives and capacity building;
- ❖ Enhance the current credit information system to reduce information asymmetry especially for Government-funded schemes;
- ❖ Provide effective outreach to enhance financial inclusion through awareness campaigns, publications and advisory services; and
- ❖ Establish a pool of independent panels of experts (IPE) comprising industry specialists to assist financial institutions to evaluate businesses in new growth areas.

These recommendations aim to further enhance the financing support arrangements that already exist in Malaysia.



PRESENTATION BY BANK NEGARA MALAYSIA

Access to Financing for SMEs: Issues, Challenges and Way Forward

This session provides a holistic overview of the SME financing landscape in Malaysia, highlighting the various financing sources and the availability of a comprehensive ecosystem to assist SMEs

Malaysia has a comprehensive ecosystem to support the financing needs of SMEs at all stages of the business life-cycle, from the seed/start-up companies to the large corporations. The funds are made available by the Government agencies, venture capital companies, financial institutions and non-financial institution lenders.

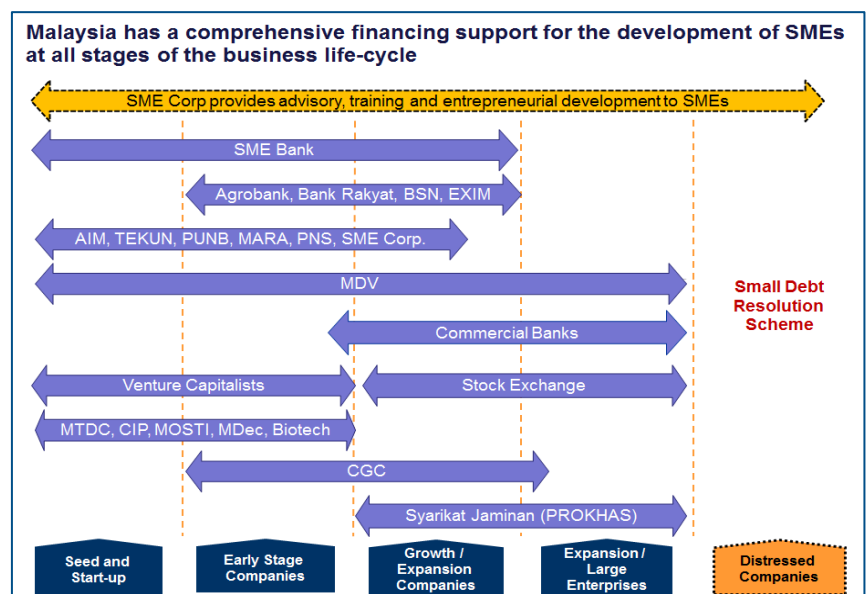
An important part of Bank Negara Malaysia’s mandate to promote an inclusive financial system is the creation of a comprehensive ecosystem for SME financing. This includes establishing effective institutional arrangements, including specific schemes for financing and development, and providing avenues for SMEs to seek information, advice and redress as well as assistance through debt resolution and management programmes.

Financial institutions, comprising commercial banks and development financial institutions (DFIs) are the largest providers of financing for SMEs, extending RM254.7 billion or 96% of total outstanding financing in all economic sectors. Bank Negara Malaysia undertakes close surveillance over the performance and financial condition of financial institutions to ensure their financing activities are well supported by adequate financial resources, robust risk management, sound corporate governance and efficient processes.

The initial stage of building a financing ecosystem involved developing key infrastructure and institutional arrangements

that expanded access to financing while promoting a sound credit culture. Over the years, as the needs and requirements of SMEs have evolved and become more sophisticated, the focus has now expanded to facilitating financing for new growth areas and enhancing the capacity and growth potential of SMEs through advisory services and financial education. These developments have culminated in five key pillars supporting the financing ecosystem in Malaysia:

- ❖ Financial infrastructure comprising the processes, systems and institutional arrangements that support financing applications by SMEs and credit assessments by lenders;
- ❖ Financing and guarantee schemes, including emergency funds to provide lending at competitive costs to targeted enterprises;



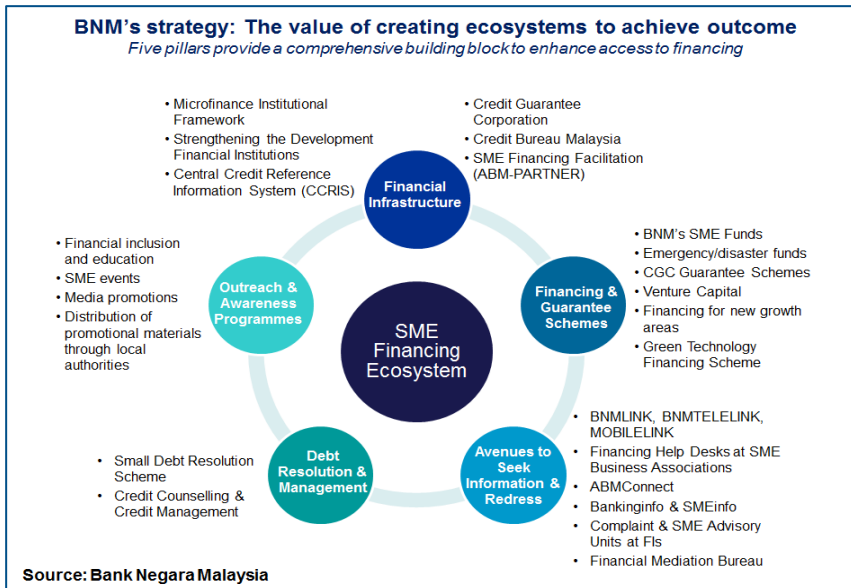
- ❖ Avenues for SMEs to obtain information and seek assistance or redress on financing issues;
- ❖ Arrangements for debt resolution and management to provide assistance to financially distressed companies; and
- ❖ Outreach and awareness programmes extended nationwide.

Notwithstanding the various initiatives undertaken to support SMEs, there are still challenges faced by enterprises, both from the financing and business perspectives. These challenges, which include the high cost of doing business, low productivity and profits, difficulty in obtaining funding and limited opportunities to expand, may potentially act as barriers to SME growth.

Financial institutions and non-financial institution lenders have a role in addressing some of the financing issues, while the Government continues to assist the SMEs to build capacity and capability in other areas in line with the SME Masterplan. At the same time, SMEs need to have a proper business model and clear strategies on how they can expand sustainably and profitably.

In summary, overcoming the challenges faced by the SMEs is a collective responsibility of all stakeholders:

- ❖ the SMEs must be self-driven, and continuously seek out opportunities available;
- ❖ associations and business chambers need to actively inform and educate members on the availability of various financing sources, assistance and qualifying requirements for financing;
- ❖ policymakers and regulators need to continue enhancing the ecosystem with appropriate policies to support SME development; and
- ❖ financial institutions need to expand their financial services and advisory support to further increase the growth potential of SMEs.



FAST FACTS

RM252 billion	Outstanding financing to SMEs, including non-financial institutions
96.0%	Financial institutions' share of total financing extended to SMEs
85.9%	High financing approval rate by financial institutions

KEY MESSAGES

1. SMEs can avail themselves to various financing sources catering for all stages of business.
2. A holistic financing ecosystem provides a comprehensive range of financing solutions and services to support SME development.
3. The drive for change must come from within entrepreneurs themselves, to seek out the various opportunities available.
4. Financial institutions should expand the provision of advisory services to SMEs to include business management and referral services.

PANEL DISCUSSION 1

Financing Issues Affecting SMEs

Despite improvements in access to financing for enterprises in the last decade, pockets of SMEs face constraints in obtaining financing. The panel discussion which comprised representatives from the SME community discussed the challenges faced by enterprises and the inadequacy of financing products and services to cater to business needs

The use of formal financing channels by entrepreneurs in the early stage of the business cycle tends to be low in view of difficulties faced in meeting lenders' expectations and limited financial knowledge. Entrepreneurs in the early stage of the business life cycle are therefore more likely to finance their businesses from savings or funds borrowed from family members and friends.

Persatuan Pedagang dan Pengusaha Melayu Malaysia (PERDASAMA), The Associated Chinese Chambers of Commerce and Industry Malaysia (ACCIM), Kuala Lumpur & Selangor Indian Chamber of Commerce and Industry (KLSICCI), Federation of Malaysia Manufacturers (FMM) and Dewan Usahawan Industry Desa (DUID) shared some of the key challenges faced by SMEs in obtaining financing as follows:

- ❖ Poor creditworthiness due to the absence of track records or collateral;
- ❖ Lack of information available on financing options or sources of funds to meet the needs of enterprises;
- ❖ Poor understanding among lenders of the financing requirements of SMEs;
- ❖ Rigid, onerous and long financing applications processes without any guidance provided by the lenders;
- ❖ Lack of understanding among lenders of the growth potential and opportunities in enterprises' businesses; and
- ❖ Inadequate advisory services provided by financial institutions to assist SMEs in obtaining financing.

The discussants urged that refinements be made to the current financing ecosystem, particularly in terms of product offerings and credit assessments.

The entrepreneurs highlighted the need for tailor-made financing packages to meet the needs of enterprises that are at different stages of the business life cycle. Likewise, the credit assessments undertaken by the financial institutions should reflect the nature and life cycle of the SMEs. While the entrepreneurs recognised the importance for lenders to observe sound risk management practices, there is a need for such practices to better address the practical constraints faced by entrepreneurs. Entrepreneurs generally experienced a reluctance by lenders to take measured risks supported by a review of current pricing considerations and other financing terms and conditions.

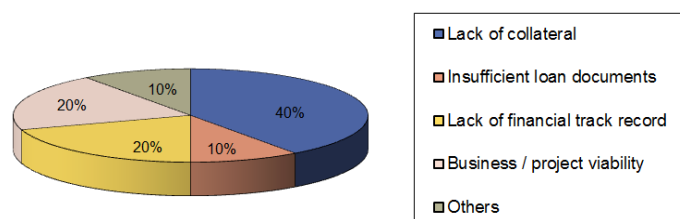
Lenders were encouraged to play a more effective advisory role to support the financing needs of the SMEs. Assistance by lenders is most critical in the following areas:

- ❖ Advice in the financing application process covering required documentation and the preparation of sound business plans;

Survey Results by ACCIM

- 77% of respondents lacked financial track record and collaterals with uncertain of business viability.
- For businesses operating below 3 years, the main reason for loan rejection was attributed to inadequate finance and track records (36%). Businesses operating 4 years and above (about 44%) on the contrary faced constraints in providing collaterals for financing.

Main obstacles of Rejection for Loans



Source: Association of Chinese Chambers of Commerce and Industry of Malaysia

- ❖ Clear reasons for rejections of financing applications to enable entrepreneurs to address the gaps and shortcomings to qualify for financing;
- ❖ Advice on the availability of appropriate funds and financial services that cater to the specific needs of businesses; and
- ❖ Maintain close relationship with the customers (Know Your Customer), to gain understanding of the customers' business and identify any signs of vulnerability at the early stage. This would better support efforts by lenders to provide advice and assistance at the right time.

In addition, SMEs also urged Government agencies to play a bigger role to further enhance access to financing, particularly in innovative or new growth areas as well as for start-up businesses. Recognising the various programs and assistance available to the SMEs, a one-stop point of reference on these programmes should be aggressively promoted.

In addressing information gaps, the outreach and awareness initiatives driven by the Government agencies should leverage more effectively on contributions from all stakeholders. Thus, business chambers and SME associations will continue to collaborate closely with both the Government agencies and lenders in outreach initiatives.

PROPOSALS

1. Business chambers and SME associations called for more collaboration to bridge the gap between lenders, SMEs and Government agencies with a focus on:
 - ❖ Developing a better understanding among lenders of the business of SMEs;
 - ❖ Encouraging more flexible and attractive financing solutions;
 - ❖ Expediting and easing the credit assessment and approval process;
 - ❖ Reducing reliance on collateral and past track records, including CCRIS; and
 - ❖ Helping enterprises identify and address gaps to qualify for financing.
2. Business chambers and SME associations to conduct an updated and detailed survey of members to identify specific segments and areas that face financing challenges and require specific assistance. This would enable more targeted measures to be undertaken.
3. Financial institutions to leverage on the annual tax submission form which is submitted periodically by enterprises to Lembaga Hasil Dalam Negeri (LHDN) in assessing the bankability of SMEs.
4. A guide book for SMEs be published for enterprises to obtain quick information on the various Government funds and financial assistances provided for SMEs.

Financing issues highlighted by associations at the Workshop on SME Financing

- 1 Bankers lacked the knowledge and understanding of SME businesses and industries
- 2 Long processing time taken to process and approve financing
- 3 Onerous process involved in applying for financing
- 4 Inadequate products to meet SME's financing needs
- 5 No reasons provided for rejection of applications
- 6 Unavailability of collateral to pledge for financing
- 7 SMEs lacked proper skills in managing finance and controlling costs, resulting in banks rejecting financing applications
- 8 The varied criteria and objectives of various funds causes confusion to SMEs
- 9 Grants approved by Government for enterprises were rejected by banks

PANEL DISCUSSION 2

Expectations of Lenders in Financing the SMEs

This session discussed the challenges faced by financial institutions in providing financing to SMEs and proposals to enhance the assessment criteria and other ancillary services provided by financial institutions to assist SMEs

Financial institutions facilitate business growth through the provision of various financing and ancillary services. Many financing programmes are established for different needs of the SMEs in various stages of the business cycle, segments or sectors. Financial institutions recognised the importance of collaboration with Government agencies to provide comprehensive financing packages to SMEs and advisory services to ensure the effectiveness of the programmes. In increasing the awareness on availability of funds, financial institutions also participate in outreach programmes to disseminate important information on the financing funds and ancillary services.

Assistance during financial distress for example, during natural disasters, is also provided by financial institutions in the form of moratoriums and other forms of financial relief to the borrowers. This aims to enable borrowers to rebuild their businesses that were affected by exigent events that were not within their control.

Financial institutions also play a role in helping SMEs to manage developments that may affect their business. Among others, the financial institutions have conducted nationwide seminars on the implementation of GST and organised various capacity building programmes for enterprises.

In ensuring accessibility to micro financing, financial institutions leverage on their extensive branch network or provide agent banking services. Agent banking is an additional delivery channel that can enhance the convenience and outreach of financial services particularly to the underserved in a more cost-efficient manner. It provides a cheaper alternative for financial institutions to reach the unserved populations.

Financial institutions are positioned to provide a broad range of products and services. However, they face some common challenges:

- ❖ Enterprises with ambitions to expand into areas in which they have no expertise or experience, and without clear and actionable plans to address the gaps;
- ❖ Funding utilised by enterprises for other than its intended purpose;
- ❖ SMEs unable to improve performance and adapt to changing business and operating conditions;
- ❖ Financial records are not properly maintained by SMEs which makes it difficult to assess the true condition and prospects of businesses;
- ❖ Lack of robust business plans to ensure sustainability of the business;
- ❖ Lack of succession planning to provide continuous leadership;



- ❖ Limited prospects of companies to invest and grow the business, including inadequate financial, managerial and operational resources; and
- ❖ Inadequate marketing or pricing strategies to successfully commercialise the business.

In assessing SME financing applications, financial institutions take into account various factors other than the availability of collateral and borrowers' credit history in CCRIS/CTOS reports. The key criteria assessed for SME financing applications include the following:

- ❖ Purpose and source of financing repayment;
- ❖ Character assessment of the willingness of borrowers to repay the financing, previous track records and conduct of loan accounts;
- ❖ Assessment on the potential of the proposed business, taking into consideration among other things, market demand and infrastructure capacity to support business growth; and
- ❖ The viability and cash flow of the business.

Financial institutions also collaborate with relevant Government agencies in specialised areas such as green technology and agriculture financing to support more informed credit assessments.





For start-ups, financial institutions place greater emphasis on the assessment of applicant's character, the potential of the business and the commitment of the applicant to the business as evidenced by the applicant's capital contribution. Regular engagements with borrowers are also maintained to provide assistance in the early stages of the business.

For micro entrepreneurs, easy access and an efficient application process are crucial. Advisory services provided by financial institutions such as capacity building programmes, counselling and credit clinics aim to support this outcome by further strengthening the micro entrepreneurs' business acumen.

PROPOSALS

1. Financial institutions to develop simple and facilitate fast approval of financing products;
2. Financial institutions to extend beyond the provision of credit to advisory services;
3. Financial institutions to offer innovative solutions e.g. online cash management facilities and flexible microfinancing;
4. Nurture young entrepreneurs through education and mentoring initiatives;
5. Financial institutions to continue to collaborate with Government agencies, business chambers and SME associations;
6. Financial institutions to increase awareness of financing for innovation and new growth areas (INGA), export industries and women entrepreneurs; and
7. Financial institutions to provide holistic banking services, focusing on business banking as well as personal banking to build stronger customer relationships.

Understanding that SMEs in different business phases have different needs

Start-Up	Sole Prop /Partnership	Small SMEs Sdn. Bhd.	Bigger SMEs
 <p>General description: New companies usually face the challenge of creating the awareness and building customer base. This is in addition to ensuring that they have the infrastructure & human capacity to create a positive experience for its customers.</p> <p>Requires : Financial products to facilitate their business's daily operation needs.</p>	 <p>General description: The business owners are very hands-on with the day- to-day business operation. Minimal investment in branding & staff training. There is less segregation between their own personal finances and company finances.</p> <p>Requires : Financial products that allows them to do more without compromising the business owner's control.</p>	 <p>General description: Have a staff size of less than 20 with an annual sales turnover of RM3 mil to RM5mil. Dedicated executive staff to manage the company's respective function such as finance, operation and sales with the business owner/ director as the final decision maker.</p> <p>Requires : Financial products that allows company's to define respective role & empowerment to allow the company to operate efficiently.</p>	 <p>General description: Have a strong staff size of more than 20 with an annual sales turnover of RM5 mil to RM30mil. Majority would have dealings with other countries. Dedicated departments to manage the company's respective function such as finance, operation and sales.</p> <p>Requires : Financial products to assist in oversea trade and staff payroll. Capital requirement for large projects or seasonal peaks.</p>

Source: Alliance Bank Malaysia Berhad

PANEL DISCUSSION 3

Financing by the Non-Financial Institution Lenders

Non-financial institution lenders play a complementary role in the financing ecosystem. This session discussed the role of non-financial institutions in providing financing and ancillary services, and key priorities to further develop the financing ecosystem for SMEs

Whilst Credit Guarantee Corporation Berhad (CGC) is well recognised for its important role in assisting SMEs with insufficient or no collateral and track records, many SMEs in the new growth areas are not aware of funds and services provided by other non-financial institution lenders such as Cradle Fund Sdn. Bhd. (Cradle), Malaysia Debt Ventures Berhad (MDV) and Agensi Inovasi Malaysia.

Cradle manages the Cradle Investment Programme for technology start-ups. The programme also provides an opportunity and avenue for angel investors to invest in technology start-ups in Malaysia.

Agensi Inovasi Malaysia facilitates IP commercialisation through the provision of advisory services, technical expertise and financing support.

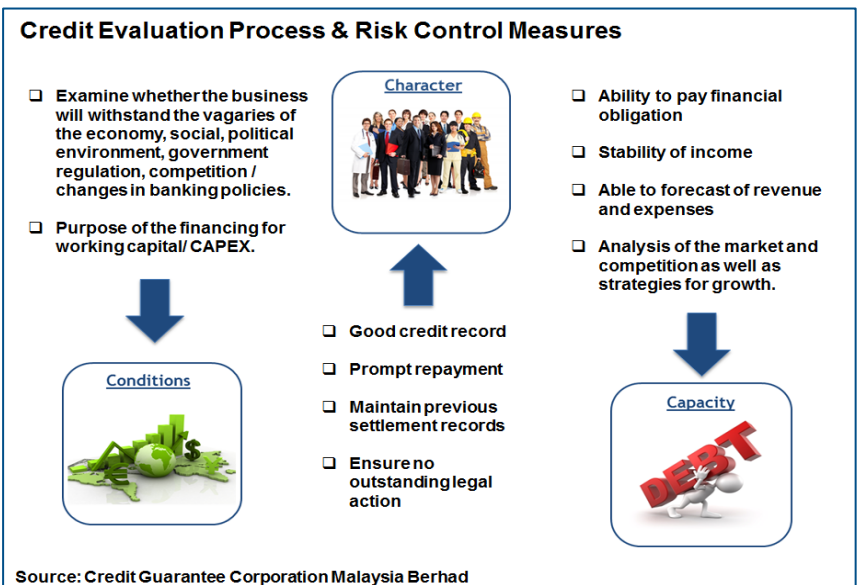
Non-financial institution lenders facilitate business growth by providing financing and ancillary services, including:

- ❖ Specialised funds which include equity financing to support businesses at different stages of the business life cycle, thus helping to address funding gaps unmet by financial institutions;
- ❖ Advisory services including facilitation from the conceptualisation of a business to its commercialisation, legal and marketing advice;
- ❖ Promoting strategic partnerships by linking businesses to public and private partners;
- ❖ Capacity building programmes including training and coaching;
- ❖ Promoting angel investments and creating awareness of investment opportunities;
- ❖ Assistance in securing the protection of intellectual property (IP) e.g. registration of patents, trademarks and copyright, industrial design; and
- ❖ Technology scouting programmes to connect entrepreneurs with the desired technology to improve their productivity.

Key challenges faced by the non-financial institution lenders include:

- ❖ Lack of funding by the private sector which limits the ability to realise innovative ideas;
- ❖ Lack of understanding of the projects, which constrains lenders from assessing the competitive potential and value proposition of a project, determining the appropriate financing structure and effectively monitoring credit performance on an ongoing basis;
- ❖ Businesses' adverse credit record and unreliable financial record keeping;

MDV complements the financial institutions in providing financing to technology-based SMEs, coupled with focused programmes for the start-ups and SMEs in new growth areas. Meanwhile



- ❖ Businesses' limited capacity from both a management and operational perspective; and
- ❖ Lack of expertise in valuing IP as collateral, compounded by low demand for IP in the secondary market.

Criteria used by non-financial institution lenders in assessing applications will largely depend on the nature of projects or ventures by the SMEs. For example, high technology projects require a thorough assessment of the prevailing risks, i.e. business risk, financial risk, technical and performance risk.

Participants of the Workshop urged the Government to further strengthen the IP infrastructure, particularly the IP Marketplace. The objective of the marketplace is to create a portal that allows IP owners to put up their IP rights for sale or licensing.

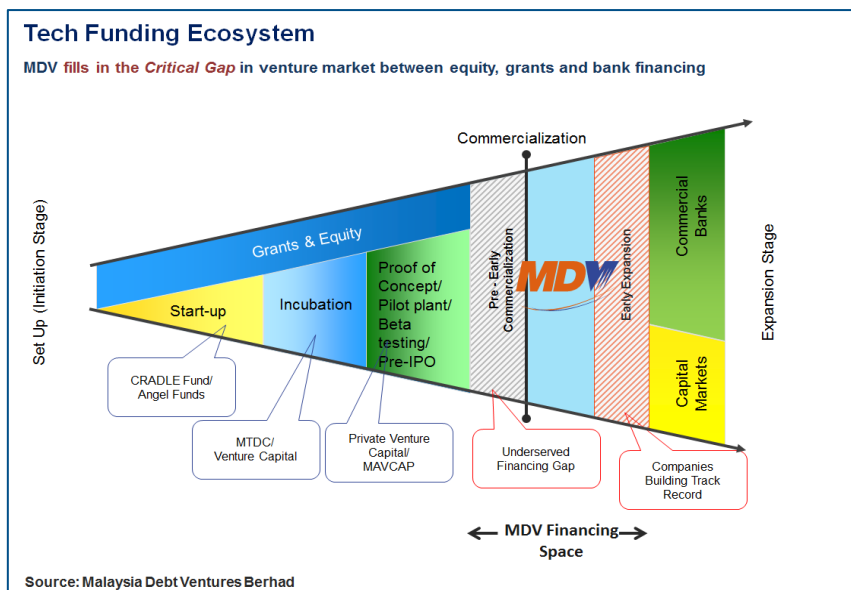
The role and opportunity to leverage on venture capitalists (VCs) could be further enhanced. Local VCs are more inclined to invest in more 'matured' industries, which limits Malaysia's ability to fully realise the value of high growth innovative companies.

While Cradle provides equity financing to early stage technology start-ups, other agencies should also play a role to further develop VCs to the next level.

Non-financial institution lenders provide key complementary role in providing advisory services. However, this would be more effective by creating linkages with other players in the ecosystem, such as financial institutions and other Government agencies.

PROPOSALS

1. Further develop local venture capital funds to support early stage investments through equity financing structures.
2. Non-financial institution lenders should expand the scope of qualifying collateral to include soft collateral such as intellectual property and contract agreements to further enhance access to financing.
3. Promote more effective collaboration between industry and academia to create an environment that encourages innovative and critical thinking.



Reflections and the Way Forward

The Workshop reinforces the contributions of SMEs to the Malaysian economy. The development of the SME sector is crucial to fully realise its potential as the driver of economic growth. In achieving this, cohesive and continuous efforts need to be undertaken to develop and further enhance the financing ecosystem.

The Workshop on SME Financing centred on the discussion of measures to bridge the gaps in financing and optimise synergies between the lenders, Government agencies, associations and chambers of commerce. In doing so, it also contributed towards an increased awareness among the enterprises on the availability and sources of funds, strengthened the network between the SMEs and lenders and provided clarity on the roles of the various stakeholders in enhancing access to financing by enterprises.

While the participants acknowledged that Malaysia has a comprehensive financing ecosystem with ample funds available to cater for the needs of enterprises, information gaps remain a key constraint in the financing ecosystem and has resulted in the following:

- ❖ Fear by among SMEs of rejection by lenders of financing applications;
- ❖ Poor understanding of lenders' expectations to qualify for financing; and
- ❖ Fear that once an application is rejected by a lender, it will also be rejected by other lenders.

In view of this, comprehensive communication plans and strategies to address the information gaps are critical to further enhance access to SME financing.

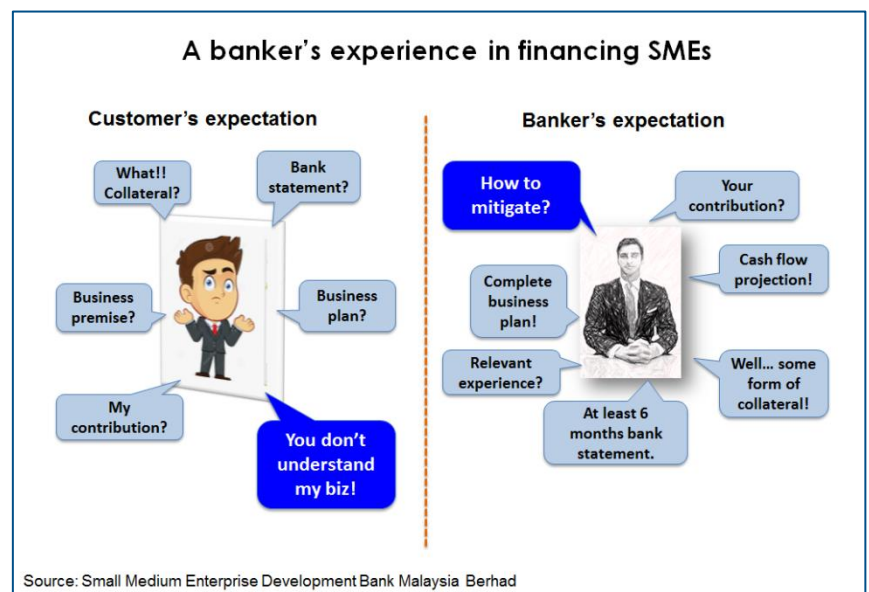
Various initiatives have been taken to expand access to financing while promoting a sound credit culture underpinned by five key pillars:

- ❖ Financial infrastructure;
- ❖ Financing & Guarantee Schemes;
- ❖ Outreach & Awareness Programmes;
- ❖ Debt Resolution & Management; and
- ❖ Avenues to Seek Information & Redress

Within the financing ecosystem, non-financial institution lenders have an important role in providing complementary financial services such as credit guarantees or direct financing targeted at specific borrower segments, industries, or stages of the business life-cycle. These lenders both enhance access to, and provide an alternative source of, financing which can suit the specific needs of individual SMEs.

A sustainable solution calls for a more holistic assessment of SME financing issues. Stronger coordination and collaboration among the stakeholders would benefit the SMEs in the long run.

SMEs also perceived that the inability of lenders to understand their businesses has led to financing applications being rejected "prematurely".



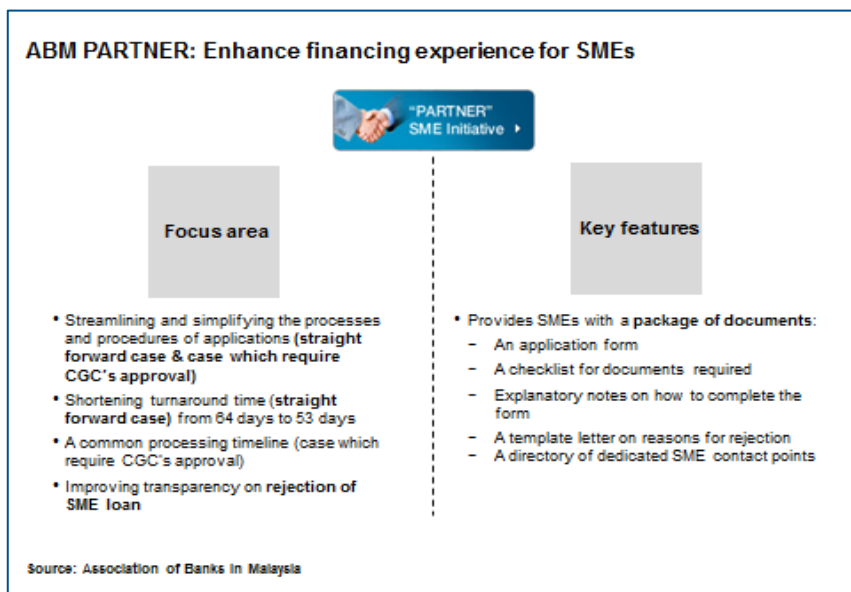
The Workshop provided an avenue for enterprises to understand the assessment process undertaken by the lenders and the purpose of such assessments. For example, CCRIS/CTOS is only one of the criteria evaluated to determine the credit worthiness of the SMEs. Final credit decisions made by lenders would be based on a broader range of information including character, capacity to repay, capital, collateral and external factors condition (Five Cs). Decisions also take into account the nature and stages of the businesses. Collateral is therefore not a key consideration in approving applications where businesses can demonstrate the viability and cash flow of the business. CGC plays a complementary role to assist SMEs with insufficient or without collateral. Information gaps have also contributed to financing application and approval processes that are rigid and slow.

NEXT STEPS

The Workshop identified specific actions that can be undertaken to reduce impediments to SME financing. This in turn will contribute towards sustainable solutions in the longer term to ensure continuous access to financing for SMEs:

LENDERS

- ❖ Financial institutions to continue to develop innovative products suitable for the different needs of SMEs;
- ❖ Lenders should enhance and develop its advisory capabilities and collaborate with the chambers and associations to enhance the awareness among the enterprises on access to financing and application processes. This should be supported by the development of appropriate infrastructure, intellectual capability, policies and procedures, and governance arrangements;
- ❖ Lenders to improve the experience of SMEs in obtaining financing by streamlining and simplifying application processes and procedures. Non-financial institution lenders can draw lessons from the ABMPARTNER which effectively simplified the process of applying for financing; and
- ❖ Non-financial institution lenders also play an important catalytic role in promoting access to financing for SMEs in new growth areas and which are in the start-up stage by harnessing expertise in specialised areas to provide advisory services to other entities. More effective collaboration between such institutions and financial institutions would have an important impact on the growth of innovative and higher value-add businesses.
- ❖ Develop a comprehensive plan for non-financial institution lenders development.



FAST FACTS

ABMPARTNER was launched in 2010 with the objective of streamlining and simplifying the processes and procedures for SME financing applications

GOVERNMENT AGENCIES

- ❖ Bank Negara Malaysia to continue to enhance the microfinancing framework, improve the infrastructure and further develop the risk management practices of microfinance providers through proportionate regulatory approaches;
- ❖ Bank Negara Malaysia in collaboration with the Association of Banks in Malaysia (ABM) will continue to expand the conduct of the ‘Train the Trainers’ programme to enhance the financial institutions’ capability and effectiveness in providing advisory services to the SMEs;
- ❖ Bank Negara Malaysia in collaboration with SME Corporation Malaysia, will publish guidebook describing the financing ecosystem, which include available financing resources, other form of assistance offered by various parties and general assessment criteria as a reference for SMEs;
- ❖ SME Corporation Malaysia to continue to review the effectiveness of the SME Info Portal as a one-stop centre of information for the SMEs to address their information needs and reduce information gaps;

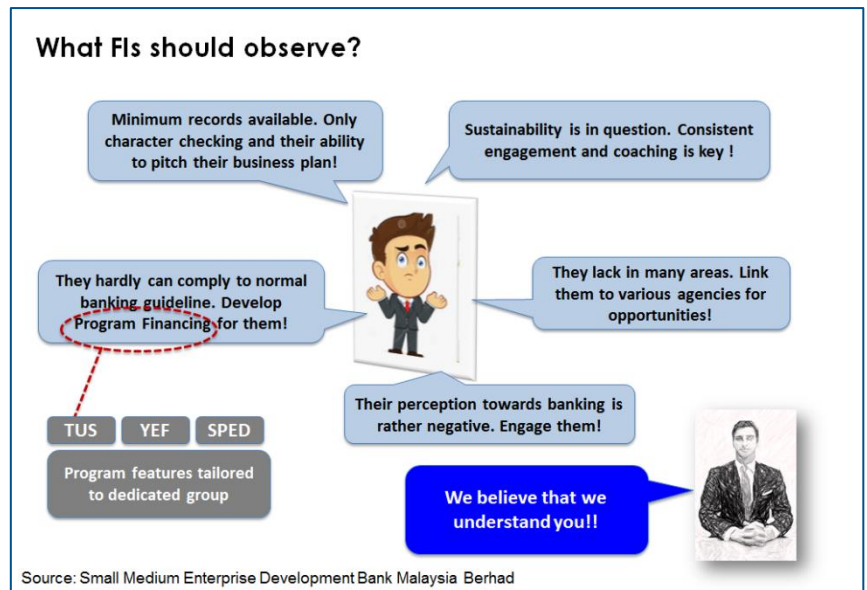
CHAMBERS & ASSOCIATIONS

- ❖ Chambers and associations need to play a stronger role in helping to bridge the gap between lenders, SMEs and Government agencies. This includes conducting and updating detailed surveys to identify specific segments and areas that face financing challenges and to inform the design of targeted measures to address these challenges; and
- ❖ Chambers and associations to participate in and conduct ‘Awareness Series’ programmes for its members in collaboration with ABM, the Association of Islamic Banks in Malaysia and DFIs.

Some of these measures will require further discussion and engagements to develop more specific recommendations supported by concrete action plans. This will lay the groundwork and further strengthen the foundation for stronger growth of SMEs in Malaysia going forward.

TIPS

SMEs are encouraged to ‘shop around’ for financing, as different lenders would have different risk appetite



Appendix 1: List of SME Development Programmes

Name of Agency	Key Programmes	Programme Objective	Implementing Agency
1. Ministry of Agriculture and Agro-based Industry	TEKUN Financing	Provide financing and non-financial advisory to eligible entrepreneurs	TEKUN Nasional
	Tabung Pembangunan Usahaniaga Peladang	Promote the creation of agro-preneurs to undertake agriculture production, processing of large-scale services and quality products	Lembaga Pertubuhan Peladang
	Agrobank Financing Scheme	Provide financial assistance to Malaysian agriculture-based entrepreneurs	Agrobank
2. Ministry of Domestic Trade, Co-operative and Consumerism	PNS Franchise Financing Scheme and PNS Pre-Franchise / Franchisor Financing Scheme	Develop middle-level Bumiputera entrepreneurs in franchise businesses as well as provide financial assistance for the purposes of business expansion and new start-up franchise companies	PNS
3. Ministry of Energy, Green Technology and Water	Green Technology Financing Scheme	<ul style="list-style-type: none"> Facilitate the growth of the green technology industry and enhance its contribution to the national economy Increase national capability and capacity for innovation in green technology development and enhance Malaysia's competitiveness in green technology globally 	MGTC
4. Ministry of Finance	Special Tourism Fund	Provide financing to SMEs in tourism sector	SME Bank
	Malaysian Kitchen Financing Facility	Provide financial assistance for Malaysian entrepreneurs to set up or expand restaurant business overseas	EXIM Bank
	Dana Modal Teroka untuk Elektrikal dan Elektronik	Provide venture capital financing to companies in the electrical and electronics sub-sector	Kumpulan Modal Perdana Sdn. Bhd.
	Professional Services Fund	Provide financing for professionals to establish practices in rural areas	BSN
	Business Start-up Fund	Encourage and facilitate the growth of technopreneurs and new start-up companies	MTDC
	Venture Capital Fund for ICT	Provide venture capital financing for technology-based and ICT companies	MAVCAP
	Angel Tax Incentive	Ensure that start-up companies in the technology space seeking investments from accredited angel investors are eligible and that investments made into these companies are genuine	Cradle Fund Sdn. Bhd.
5. Ministry of International Trade and Industry	Dana Pinjaman Industri Kecil dan Sederhana	Provide working capital for SMEs	SME Bank
	Public Transport Development Fund	Improve bus transportation (school buses, mini buses & stage buses) at rural areas	SME Bank
	Dana Ekuiti Bumiputera	Support Bumiputera equity ownership in identified non-core activities of Government Linked Companies that to be divested as well as acquisition of majority interest in Public Listed Companies and potential companies to be listed	SME Bank
	Special Financing Programme for Redevelopment of Malay Reserve Land (MRL) in Kuala Lumpur	Ensure systematic development of MRL in strategic locations within Kuala Lumpur	SME Bank

Name of Agency	Key Programmes	Programme Objective	Implementing Agency
	Young Entrepreneur Fund	Assist young entrepreneurs involved in business activities that have been of interest to the young generation	SME Bank
	Soft Loan Scheme for Automation and Modernisation	Encourage industries to modernise and automate their manufacturing processes and upgrade production capacity and capability	MIDF
	Halal Development Fund	Assist established SME entrepreneurs in the Halal based industry by expanding their business overseas, jointly with HDC and TERAJU	SME Bank
	Soft Loan Scheme for SMEs	Provide assistance to existing as well as new start-up companies in project, fixed assets and working capital financing	SME Corporation Malaysia through MIDF
	SME Emergency Fund	Assist SMEs whose business are adversely affected by natural disasters to obtain soft loan for purchases of machinery and equipment, refurbishment of premises and working capital	SME Corporation Malaysia
	Soft Loan Scheme for Service Sector	Assist companies and enterprises in the services sectors to increase their capacities and capabilities	MIDF
	Shariah-compliant SME Financing Scheme	Provide financial assistance to eligible Malaysian SMEs whereby the Government will cover 2% of the profit rate charged on the financing provided by participating Islamic banks	SME Corporation Malaysia in collaboration with the Association of Islamic Banking Institutions Malaysia
	Bumiputera Enterprise Enhancement Programme	Develop potential Bumiputera SMEs in all states through provision of comprehensive assistance package, via financial assistance and advisory services	SME Corporation Malaysia
6. Ministry of Plantation Industries and Commodities	Raw Material Procurement Programme for Bumiputera SMEs	Provide financing for Bumiputera SMEs to procure continuous supply of quality raw materials	MTIB
7. Ministry of Rural and Regional Development	Skim Pembiayaan Ekonomi Desa	Provide financial assistance to rural entrepreneurs in manufacturing services, agriculture and rural tourism sectors	Bank Rakyat
8. Ministry of Science, Technology and Innovation	Bumiputera Business Expansion Fund	Assists technology-based Bumiputera companies to expand their business to international level	TPM
9. Amanah Ikhtiar Malaysia	Ikhtiar Financing Scheme	Reduce poverty rate in Malaysia by providing financing to poor households to enable them to undertake viable economic activity to upgrade their household income	Amanah Ikhtiar Malaysia
10. Bank Negara Malaysia	Fund for Small and Medium Industries 2	Ensure eligible SMEs have access to financing at a reasonable cost	Bank Negara Malaysia
	New Entrepreneurs Fund 2	Promote the growth of Bumiputera SMEs through access to financing at a reasonable cost	Bank Negara Malaysia
	Micro Enterprise Fund	Provide micro enterprises continuous access to financing	Bank Negara Malaysia
11. Credit Guarantee Corporation Malaysia Berhad (CGC)	Guarantee Schemes - Enhancer / Enhancer-1 / Enhancer Express	Provide guarantee scheme to help SMEs secure credit facilities from financial institutions via CGC	CGC
	Green Technology Financing Scheme	Assist companies (including SMEs) to obtain financing to support the Government's initiative to promote investments in green technology	CGC

Name of Agency	Key Programmes	Programme Objective	Implementing Agency
	Tabung Projek Usahawan Bumiputera – Islamic	Provide financing to Bumiputera entrepreneurs who had been allotted projects / contracts but was unsuccessful to obtain financing from FIs	CGC
12. Perbadanan Usahawan Nasional Berhad (PUNB)	SME Scheme	Increase the number and quality of Bumiputera entrepreneurs in manufacturing and services sectors	PUNB
	PROSPER Pemborong	Develop Bumiputera entrepreneurs in the wholesale / big scale retailing	PUNB
	PROSPER Runcit	Increase the number of Bumiputera entrepreneurs in the distributive and retail sub-sectors	PUNB
	PROSPER Teras	<ul style="list-style-type: none"> • Lift the standards of Bumiputera retail entrepreneurs through standardising brands, product arrangements, selections and integrated system • Provide exposure to Bumiputera entrepreneurs on business tactics, application on administration methods and well organised, systematic operations 	PUNB
	PROSPER Usahawan Muda	Assist young Bumiputera to embark on retail and distribution business through structured and systematic development mechanism	PUNB
13. Ministry of Industrial Development Sarawak	Small and Medium Industry Financing Scheme	Provide financing for working capital, renovation of existing business premise and purchase of machinery / business equipment for SMEs in manufacturing, services and ICT sector	SDEC

Source: SME Annual Report 2013/14

Appendix 2: List of Panellists at the Workshop on SME Financing 2015

Panellist	Designation
Session 2: Overview and Context Setting from the Oversight Bodies	
Marina Kahar	Director, Development Finance and Enterprise Department Bank Negara Malaysia
Karunajothi Kandasamy	Senior Director SME Corporation Malaysia
Session 3: Panel Discussion on Financing Issues Affecting SMEs Moderator: Marina Kahar	
Faradiva Zainal	Deputy Treasurer General Persatuan Pedagang dan Pengusaha Melayu Malaysia
Koong Lin Loong	Chairman of the SMEs & HRD Committee Associated Chinese Chambers of Commerce and Industry of Malaysia
Rajasekaran Teagarajan	Vice President Kuala Lumpur and Selangor Indian Chambers of Commerce and Industry
Dato' Dr. Ir. Andy Seo Kian Haw	Vice President Federation of Malaysian Manufacturers
Shafiqurrahman Shamsuddin	Treasurer General Dewan Usahawan Industri Desa Malaysia
Session 4: Panel Discussion on Expectations of Lenders in Financing the SMEs Moderator: Marina Kahar	
Mohd Zaimi Bin Aris	Executive Vice President Malayan Banking Berhad
Christopher Yap Huey Wen	Head, SME Banking Alliance Bank Berhad
Nilammasri Ja'afar	Senior Vice President Bank Simpanan Nasional
Hamdan Mohd Habibollah	Head, Entrepreneur Banking Small Medium Enterprise Development Bank Malaysia Berhad
Session 5: Panel Discussion on Financing by Non-financial Institutions Moderator: Marina Kahar	
Naser Jaafar	Chief Operation Officer Agensi Inovasi Malaysia
Perbagan A/L K. Kuppusamy	Chief Risk Officer Credit Guarantee Corporation Malaysia Berhad
Azman Hood	Senior Investment Manager Cradle Fund Sdn. Bhd.
Aimi Aizreen Nasharuddin	Senior Vice President Malaysia Debt Ventures Berhad
Session 6: Wrap-up and Possible Next Steps	
Chuah Mei Lin	Executive Director The Association of Banks in Malaysia
Closing Session	
Marina Kahar	Director, Development Finance and Enterprise Department Bank Negara Malaysia

Appendix 3: List of Organisations Attended the Workshop on SME Financing 2015

i) Ministries and Government Agencies

- 1) Kementerian Kewangan (Bahagian Pelaburan Strategik)
- 2) Kementerian Kewangan (Pejabat Belanjawan Negara)
- 3) Kementerian Perdagangan Antarabangsa dan Industri (Bahagian Pembangunan Keusahawanan)
- 4) Unit Perancang Ekonomi (Seksyen Pengagihan)
- 5) Unit Pengurusan Prestasi dan Pelaksanaan (PEMANDU)
- 6) SME Corporation Malaysia
- 7) Suruhanjaya Sekuriti
- 8) Agensi Inovasi Malaysia
- 9) Malaysia Debt Ventures Berhad
- 10) Perbadanan Harta Intelek Malaysia (MyIPO)
- 11) Malaysian Venture Capital Management Berhad
- 12) Perbadanan Usahawan Nasional Berhad
- 13) Credit Guarantee Corporation Berhad
- 14) Cradle Fund Sdn. Bhd.
- 15) Credit Bureau Malaysia Sdn. Bhd.
- 16) Amanah Ikhtiar Malaysia

ii) Financial Institutions

- 1) Affin Bank Berhad
- 2) Affin Islamic Bank Berhad
- 3) Al Rajhi Banking & Investment Corporation (Malaysia) Bhd.
- 4) Alliance Bank Berhad
- 5) Alliance Islamic Bank Berhad
- 6) AmBank (M) Berhad
- 7) AmIslamic Bank Berhad
- 8) Bangkok Bank Berhad
- 9) Bank Of China (Malaysia) Berhad
- 10) Bank Islam Malaysia Berhad
- 11) Bank Kerjasama Rakyat Malaysia Berhad
- 12) Bank Muamalat Malaysia Berhad
- 13) Bank Pembangunan Malaysia Berhad
- 14) Bank Pertanian Malaysia Berhad (Agrobank)
- 15) Bank Simpanan Nasional
- 16) Bank of Tokyo Mitsubishi UFJ (Malaysia) Berhad
- 17) CIMB Bank Berhad
- 18) CIMB Islamic Bank Berhad
- 19) Export-Import Bank of Malaysia Berhad
- 20) Hong Leong Bank Berhad
- 21) Hong Leong Islamic Bank Berhad
- 22) HSBC Bank Malaysia Berhad
- 23) HSBC Amanah Malaysia Berhad
- 24) India International Bank (Malaysia) Berhad
- 25) Industrial and Commercial Bank of China (Malaysia) Berhad
- 26) Kuwait Finance House (Malaysia) Berhad
- 27) Malayan Banking Berhad
- 28) Maybank Islamic Berhad
- 29) OCBC Bank (Malaysia) Berhad
- 30) OCBC Al-Amin Bank Berhad
- 31) Public Bank Berhad
- 32) Public Islamic Bank Berhad

- 33) RHB Bank Berhad
- 34) RHB Islamic Bank
- 35) Small Medium Enterprise Development Bank Malaysia Berhad
- 36) Standard Chartered Bank Malaysia Berhad
- 37) Standard Chartered Saadiq Berhad
- 38) United Overseas Bank (Malaysia) Bhd.
- 39) The Bank of Nova Scotia Berhad

iii) Associations

- 1) Association of Banks in Malaysia
- 2) Association of Islamic Banking Institutions Malaysia
- 3) Associated Chinese Chambers of Commerce and Industry of Malaysia
- 4) Creative Content Industry Guild Malaysia
- 5) Dewan Perniagaan Melayu Malaysia
- 6) Dewan Usahawan Industri Desa Malaysia
- 7) e-Entrepreneurs Women Association Malaysia
- 8) Federation of Malaysian Manufacturers
- 9) Gabungan Persatuan Penjaja-Penjaja dan Peniaga-Peniaga Kecil Melayu Malaysia
- 10) Kuala Lumpur and Selangor Indian Chamber of Commerce and Industry
- 11) Majlis Perundingan Ekonomi Melayu Malaysia
- 12) Malaysian Association of Creativity and Innovation
- 13) National Association of Women Entrepreneurs of Malaysia
- 14) Persatuan Pedagang dan Pengusaha Melayu Malaysia
- 15) Persatuan Penerbit Filem Malaysia (PFM)
- 16) Persatuan Pengilang Solar Malaysia
- 17) Persatuan Wanita Bumiputera Dalam Perniagaan & Profesyen Malaysia
- 18) SME Association of Malaysia

Appendix 4: Contact List for Enquiries on SME-related Matters and Complaints

i) Bank Negara Malaysia

BNMLINK and TELELINK represent Bank Negara Malaysia's contact point to facilitate prompt and efficient response to members of the public on matters related to the financial sector. Whilst BNMLINK provides walk-in customer services during office hours at the Bank's premises, BNMTELELINK can be contacted directly either by telephone, fax, letter or email as follows:

BNMTELELINK
Laman Informasi Nasihat dan Khidmat (LINK)
Bank Negara Malaysia
P.O.Box 10922
50929 Kuala Lumpur
Tel: 1-300-88-5465
Fax: 03-2174 1515
E-mail: bnmtelelink@bnm.gov.my

ii) SME Corporation Malaysia

One Referral Centre (ORC) is the focal meeting point for SMEs to get business advisory and information. Advisory services cover advice on business matters as well as programmes available in SME Corp and other relevant Ministries, agencies, banks, DFIs and associations. ORC can be contacted via:

One Referral Centre
Level 4, SME 1, Block B, Platinum Sentral
Jalan Stesen Sentral 2,
Kuala Lumpur Sentral
50470 Kuala Lumpur
Toll-free Infoline: 1-300-30-6000
Fax: 03-2775 6001
E-mail: info@smecorp.gov.my
Virtual ORC is accessible at <http://www.smeinfo.com.my>

iii) Association of Banks in Malaysia (ABM)

ABMConnect provides an avenue for customers of any commercial banks to clarify any doubts and verify information on conventional banking issues and general concerns about credit. ABMConnect can be contacted via:

Toll-free number at 1-300-88-9980; or
Submit comments/queries/complaints online at <http://www.abm.org.my/index.cfm?sc=eabmconnect>

iv) Association of Islamic Banking Institutions Malaysia (AIBIM)

Customers of any Islamic Banks may contact AIBIM via letter, telephone, fax or e-mail as follows:

Association of Islamic Banking Institutions Malaysia
4th Floor, Menara Bumiputra
21 Jalan Melaka
50100 Kuala Lumpur
Tel: 03-2026 8002, 03-2026 8003
Fax: 03-20268012
E-mail: admin@aibim.com

Bank Negara Malaysia

Development Finance and Enterprise Department
Bank Negara Malaysia
Jalan Dato' Onn
50480 Kuala Lumpur
Malaysia

Tel: +(603) 2698 8044
Fax: +(603) 2698 7542

<http://www.bnm.gov.my>