

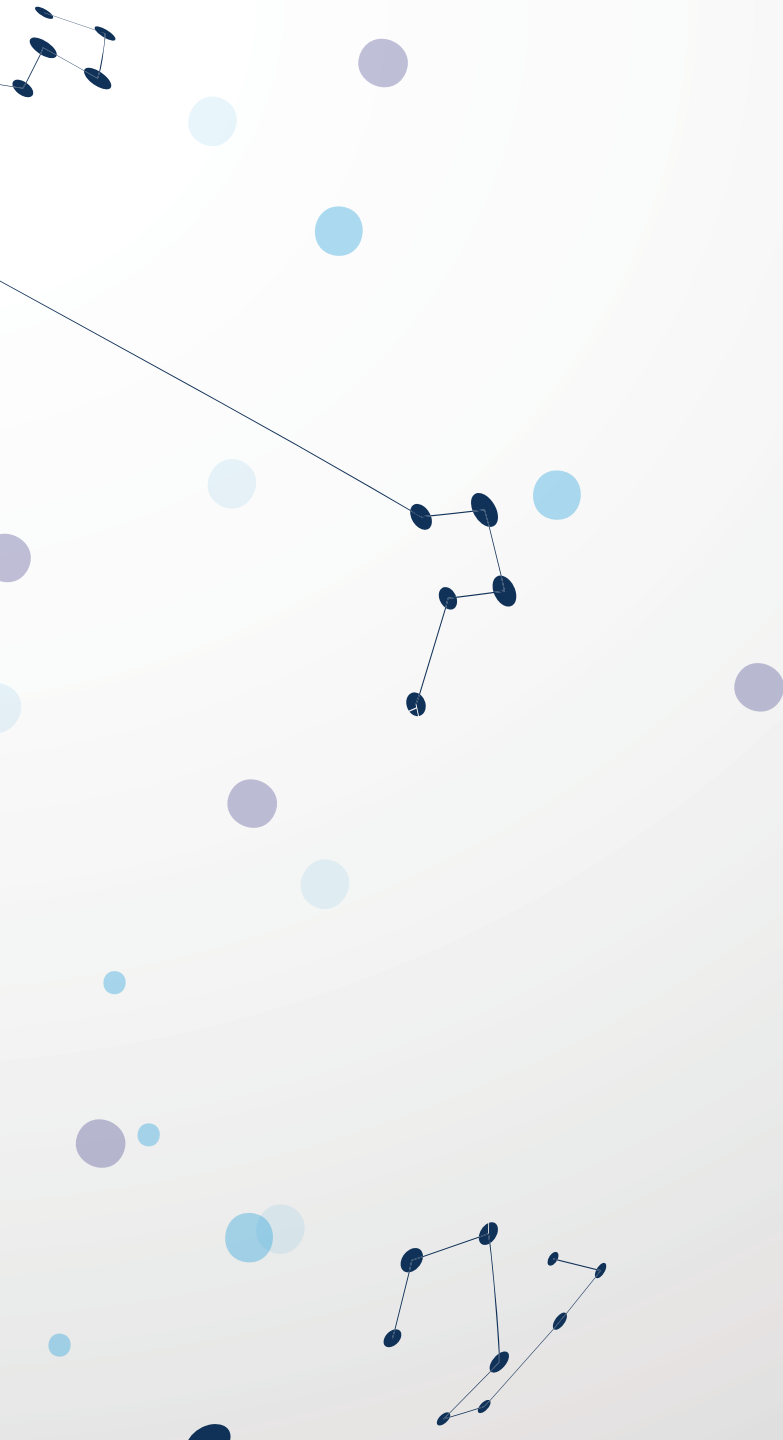
Section II :  
SME Development Policies  
and Programmes

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## Chapter 6

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# Access to Finance



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Access to financing is one of the most important aspects in the development of SMEs. Malaysian SMEs continued to have access to diversified sources of financing to address their needs at various stages of development. In the last few decades, a comprehensive financing ecosystem has been put in place to provide diversified funding options for SMEs from both public and private institutions.

The strong foundation laid over the years has brought about the establishment of key infrastructure and institutions that not only broadened access to financing for SMEs but has also created a more inclusive financial ecosystem as well as the creation of a sound credit culture. Consequently, SME share to total business financing rose steadily over the years from 30.0% in 2002 to slightly more than half (50.6%) by 2017. Based on the Third Quarter 2017 SME Survey undertaken by SME Corp. Malaysia, the approval rate for SME loans by financial institutions remained high at 90.0%. Of those approvals, 21.0% made up of first-time borrowers. Nevertheless, the demand for loans during the quarter has slowed down to 29.2% from 34.1% recorded previously.

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## COMPREHENSIVE SME FINANCING ECOSYSTEM

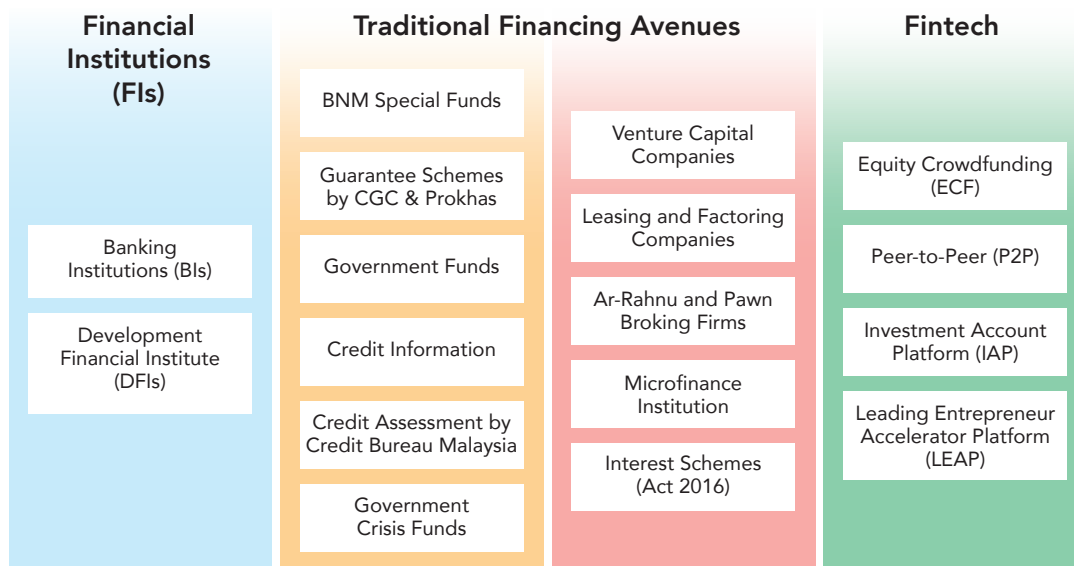
Financial institutions provide the bulk of funding to SMEs, accounting for about 97.0% of total SME lending. Bank lending to SMEs is complemented by Bank Negara Malaysia, other government funding agencies and development financial institutions in the form of schemes and programmes.

Current financial and non-financial options cover a wide array of options for every stage of SME business cycle, including for startups and grants for export from public and private institutions such as:

- Banking and development financial institutions;
- Other government institutions and agencies specially established to support SMEs at all stages of their business life-cycle ranging from startup and early stage to large corporations and even distressed firms in tandem with BNM which provides ample allocations to support SME financing;
- Alternative financing in the form of venture capital, private equity, crowdfunding, peer-to-peer financing, Investment Account Platform (IAP), factoring, leasing and non-financial microfinancing institutions;
- Capital market options, such as the Access, Certainty and Efficiency (ACE) market and the recently established third private board, Leading Entrepreneur Accelerator Platform (LEAP) for SMEs; and
- Financial and non-financial support programmes, such as financial management, training, debt management, resolution for distressed businesses and guarantee schemes to assist marginal borrowers.

**Chart 6.1:** SME Financial Landscape

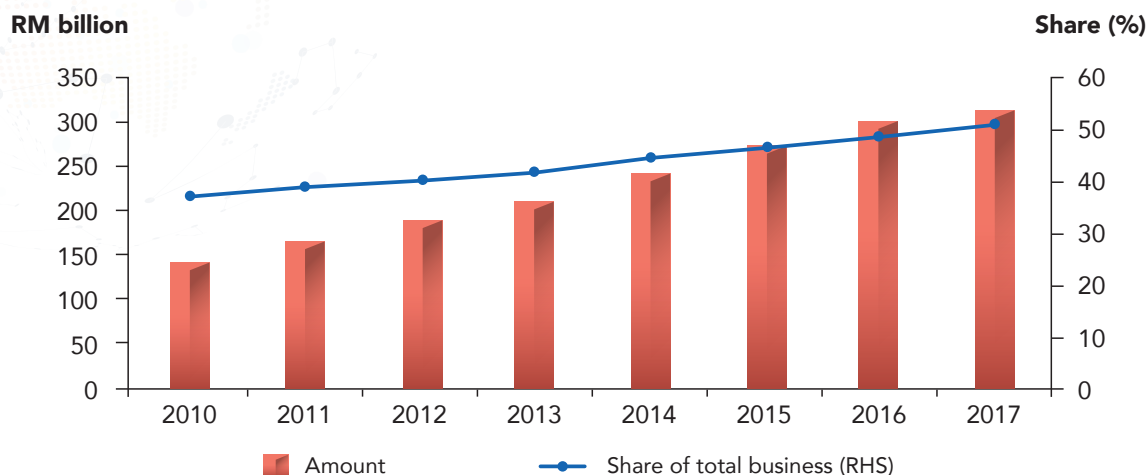
## Financial Landscape for SMEs



SME financing outstanding continued to expand at a faster pace of 5.3% than to large corporations (-2.6%) and households (4.9%) to RM315.7 billion, with total outstanding SME accounts reaching 800,808 as at end-2017 (end-2016: RM299.8 billion; 770,903 accounts). Share of SMEs rose to account for 50.6% of the total business financing portfolio as at end-2017 compared to 48.7% registered in 2016.

Services sector remained the main beneficiary, taking up 62.7% of the total SME financing portfolio, followed by manufacturing (15.0%) and construction (12.3%). In 2017, about RM70.7 billion new financing was approved to more than 123,000 SMEs. Total financing outstanding increased further to RM319.4 billion as at end-June 2018, an indication of the continuing demand for financing from SMEs.

**Chart 6.2:** SME Financing Outstanding



## CREDIT GUARANTEE SCHEME

Guarantee schemes perform a pivotal role in helping viable SMEs that lack collateral and track record to obtain financing. The Credit Guarantee Corporation Malaysia Berhad (CGC) was established in 1972 to pioneer the provision of guarantee schemes and has to date guaranteed a total of RM67.1 billion benefiting more than 453,800 SMEs. Over the years, CGC has evolved from a traditional guarantee provider into a financial institution which now offers a wide range of financing products and services. Following its transformation, CGC's financing facilities have been expanded to cover a wide spectrum of economic activities including:

- **Green Technology Financing Scheme** to improve the supply and utilisation of green technology;
- **Flexi Guarantee Scheme** to assist entrepreneurs with viable projects but lacking collateral to obtain credit facilities from financial institutions;
- **BizJamin Scheme** to provide credit facilities for working capital, asset acquisition and business expansion;
- **Franchise Financing Scheme** to assist entrepreneurs who have a viable franchise business but lacking collateral to obtain credit facilities for working capital and/or asset acquisition; and
- Direct financing products such as **Bumiputera Entrepreneur Project Fund-i (TPUB-i)**, **BizMula-i**, **BizWanita-i** and **BizBina-i**.

In 2017, CGC recorded a lower approval value of RM3.4 billion as compared to RM4.2 billion in 2016, mainly due to the increased penetration to microenterprise market segment with lower average financing size. This is evident by the double-digit growth of 14.0% in the number of SME accounts approved from 7,568 in 2016 to 8,637 in 2017. During the year, a total of 19 new Portfolio Guarantee and Wholesale Guarantee Schemes were rolled out (2016: 14). A new Portfolio Guarantee (PG) concept was also developed and introduced namely the Shared Security PG with AmBank (M) Berhad and a new PG Collaboration with Malayan Banking Berhad targeting startups was launched.

Over the years, CGC's support services have also been extended to include provision of credit information and credit rating through its subsidiary, Credit Bureau Malaysia Sdn. Bhd. which assists SMEs in building their credit history and track record to enhance their credibility and bankability for financing purposes. More recently, the adoption of risk-based pricing model and the offering of portfolio guarantees have enabled CGC to further expand its reach to a larger number of SMEs. CGC is also collaborating with peer-to-peer financing platforms such as Fundaztic, Funding Societies Malaysia and QuickKash to support their capacity building programmes.

In enhancing its role, CGC launched the imSME platform in February 2018. The Platform, with 14 participating financial institutions and development financial institutions, is the first of its kind in Malaysia. It serves as an online one-stop-center for SME loan or financing by providing an array of financing products offered by the participating banks and agencies. The Platform is set to benefit 2,000 SMEs by the end of the year. CGC has also set up an imSME Financial Advisory Team to assist SMEs who are unable to find their financing product match in imSME or whose applications through imSME were not approved by the FIs. The imSME Financial Advisory Team will diagnose the cases and make recommendations for capacity building programmes or alternative financing accordingly.

## MICROFINANCING

In line with the financial inclusion agenda and the increased policy attention to microenterprises given that it accounts for 76.5% of total SMEs, financing to this segment of businesses has risen over the years to account for about 34.0% of total SME financing outstanding (end-2010: 22.0%). In 2006, *Skim Pembiayaan Mikro* was introduced under the National Sustainable Microfinance framework to provide microenterprises with financing of up to RM50,000 without collateral. The scheme enables fast, easy and convenient access to business financing without collateral from participating financial institutions, to overcome problems arising from the lack of credit history and collateral which had often been stumbling blocks to lending to microenterprises.

Since 2006 until the end of 2017, a total of RM3.8 billion financing was approved via the 10 participating banks to more than 216,900 accounts. Total financing outstanding by the Scheme stood at RM931.9 million as at end-2017 with an additional RM389.7 million approved to nearly 16,000 accounts during the year. The Scheme is complemented by other government-sponsored microfinancing programmes such as the National Sustainable Microenterprise Fund under Bank Negara Malaysia, Amanah Ikhtiar Malaysia and Yayasan Tabung Ekonomi Kumpulan Usaha Niaga Nasional (TEKUN).



## VENTURE CAPITAL AND PRIVATE EQUITY

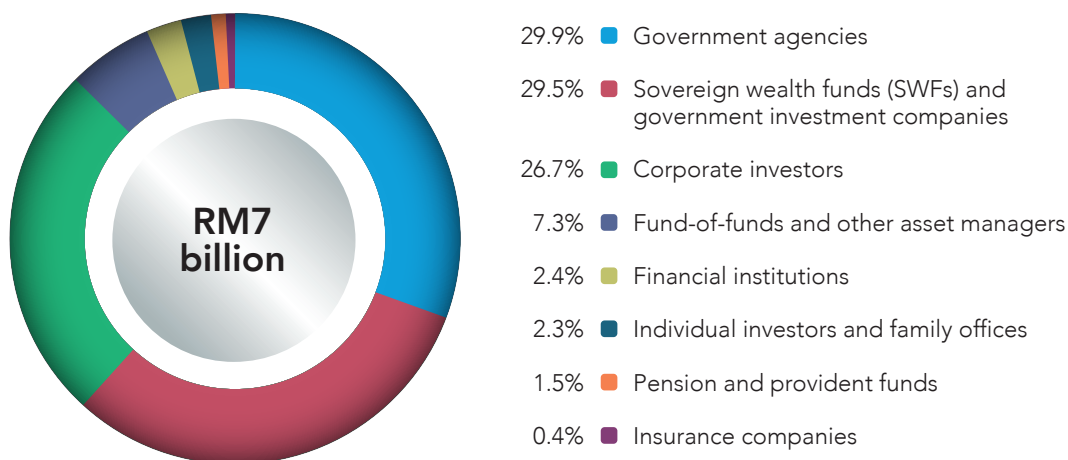
As at 31 December 2017, the venture capital (VC) segment accounted for 110 registered corporations (venture capital management corporations and venture capital corporations), while the private equity (PE) segment consisted of nine registered corporations (private equity management corporations and private equity corporations). There were 182 VCs and PEs professionals, with at least four years of experience, employed in the industry. The year also witnessed growth in the number of investee companies, from 376 in 2016 to 381 in 2017.

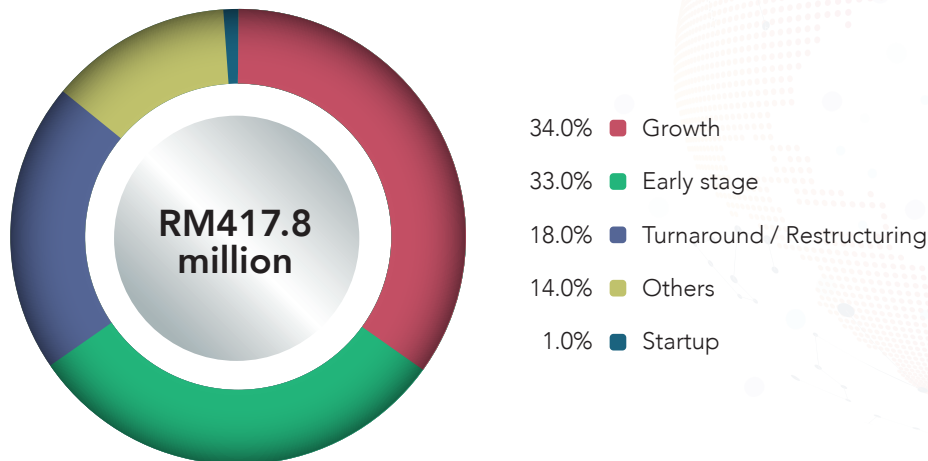
The total amount of committed funds in the industry as at end of 2017 stood at RM7 billion, with a total cumulative investments of RM2.5 billion. Investments made during the year amounted to RM417.8 million compared with RM569.5 million in 2016. Public funds remain the largest source of capital for the industry with sovereign wealth funds and government investment companies making up 29.5% and government agencies 29.9%. Private sector contribution to PE and VC funds was led by corporate investors (26.7%), followed by fund-of-funds and asset managers (7.3%) as well as financial institutions (2.4%).

Investee companies at the early and growth stages received the bulk of the funding in 2017, with 62 companies receiving funding amounting to RM280.6 million or 67.2% of total investments made in the year. Eight investee companies at the startup stage received funding that accounted for 0.9% of total investments. Investments in the life sciences sector made up approximately 52.7% of the total, followed by manufacturing (24.6%) and ICT (14.0%). A total 8.7% of total investments were made in other sectors, namely wholesale and retail trading, electricity and power generation, education and media production.

There is ample growth potential for PE and VC in Malaysia. The Securities Commission Malaysia reported that as at the end of 2015, the total amount of committed funds in Malaysia's VC and PE sector grew 15.2% year-over-year to RM7.2 billion, more than twice the size a decade ago. Investments by PE and VC firms have been steadily rising, with a 59.0% growth to RM365 million between 2012 and 2015.

**Chart 6.3:** Source of Venture Capital Funds (%)



**Chart 6.4:** Investment by Stage of Business Cycle (%)

## SME FINANCING IN 2017

Funding for seed, startup or growth firms continues to be a critical issue for SMEs. In order to address these challenges, and in line with the agenda to create a more inclusive financial landscape, the bulk of government funding for SME development each year goes towards facilitating access to financing. In 2017, a total of RM9.8 billion or 93.5% of the overall financial commitment was allocated for 41 programmes to further enhance access to financing for SMEs which had benefited more than 406,600 SME entrepreneurs. These among others include:

- **Ikhtiar Financing Scheme** by Amanah Ikhtiar Malaysia (AIM) which targets to reduce the poverty rate in Malaysia through funding support to empower poor households to undertake viable economic activities in order to raise the level of their income. In 2017, an allocation of RM2.3 billion was spent to assist 354,525 beneficiaries under the Scheme;
- **Penyaluran Pembiayaan Perniagaan** implemented by Majlis Amanah Rakyat (MARA) with the aim to provide funding for 17,500 enterprises between 2016 and 2020. In 2017, RM396.7 million was spent to assist more than 3,900 enterprises;
- **TEKUN Financing** under TEKUN Nasional that provides funds to SMEs for expansion as well as disseminating information on entrepreneurship and business opportunities. The facilities provided under the Scheme include advisory and support services to TEKUN participants; the development of a TEKUN entrepreneurship community who are competent, innovative and progressive; acculturation of entrepreneurship culture; and provision of microfinancing facilities to small Bumiputera entrepreneurs in support of existing businesses and startups as well as project implementation. A total of RM290 million was utilised under the Scheme to provide assistance to 23,548 entrepreneurs in 2017;
- **Mobilepreneur Programme** which is another initiative by TEKUN Nasional to encourage youths to embark on entrepreneurship through participation in new business concepts such as mobile business. In 2017, a total of RM20 million was spent to fund activities under the Programme which drew participation from 3,000 participants; and

- **Tunas Usahawan Belia Bumiputera (TUBE)** Programme is implemented by SME Corp. Malaysia with the objective to acculturate entrepreneurship among youths; to shift the paradigm of youth from job seekers to employment providers as well as to create resilience and sustainability of entrepreneurs. In 2017, RM14.9 million was spent to assist 994 beneficiaries.

## BNM FUND FOR SMEs

Bank Negara Malaysia has consolidated its four special funds and renamed it as the BNM Fund for SMEs. The funds are channelled through participating financial institutions comprising all licensed banks, prescribed development financial institutions and the Credit Guarantee Corporation Malaysia Berhad (CGC).

The Fund was set up to facilitate access to financing for SMEs in all economic sectors, with the aim of growing the capacities and capabilities of SMEs through affordable borrowings. The financing rates are much lower than those available in the industry so as to enable under-served segments to leverage on the fund. SMEs can obtain up to RM5 million in financing with a repayment period of five years.

As at the end of 2017, the Fund had an allocation of RM10.4 billion. The financing outstanding stood at RM6.4 billion, with a 68.2% fund utilisation rate, primarily for working capital or business expansion. Since its inception, the Fund has benefited 77,000 SMEs and the total of RM7.4 billion utilised for lending have revolved three times to the equivalent of RM30 billion.

In response to the severe flooding experienced in the northern states of peninsular Malaysia in late 2017, BNM introduced a RM500 million Disaster Relief Facility to alleviate the financial distress of affected SMEs and to help expedite the resumption of their business activities. The Facility was available for affected SMEs in areas identified by the National Disaster Management Agency as flood disaster areas.

Financing for the purpose of working capital and repairs or purchase of assets to replace those damaged by the flood, was capped at RM500,000 per SME with a tenure of five years and at a concessionary rate of 2.25%. Applications for the Facility was opened on 8 November 2017 and closed on 31 May 2018. In tandem with the Facility, financial institutions also assisted affected SMEs by allowing moratoriums on repayment as well as restructuring and rescheduling of their credit facilities.

## SMALL DEBT RESOLUTION SCHEME

Financial institutions have been active in assisting distressed SME borrowers through restructuring and rescheduling of existing financing. In 2017, about 95.0% of distressed firms received assistance in debt resolution. SMEs with impaired financing involving multiple lenders that could not find resolution with the latter can seek assistance from the Small Debt Resolution Scheme (SDRS).

BNM established the SDRS in 2003 to serve as a platform to assist affected SMEs by facilitating the restructuring or rescheduling of their borrowings. An independent committee, namely the Small Debt Resolution Committee (SDRC) will assess an applicant and its business viability and, if deemed eligible for assistance, will propose to the private financial institutions concerned to restructure or reschedule its debts.



In 2017, 89.0% of the applications with borrowings amounting to RM146 million were approved by SDRS for debt restructuring or rescheduling. As at end-2017, about 56.0% of SMEs assisted thus far were able to improve their cash flow and turn around their businesses to remain viable. Since the establishment of SDRS, 70.0% of the SMEs who had received its assistance have fully settled their debt.



## FINANCIAL INCLUSION

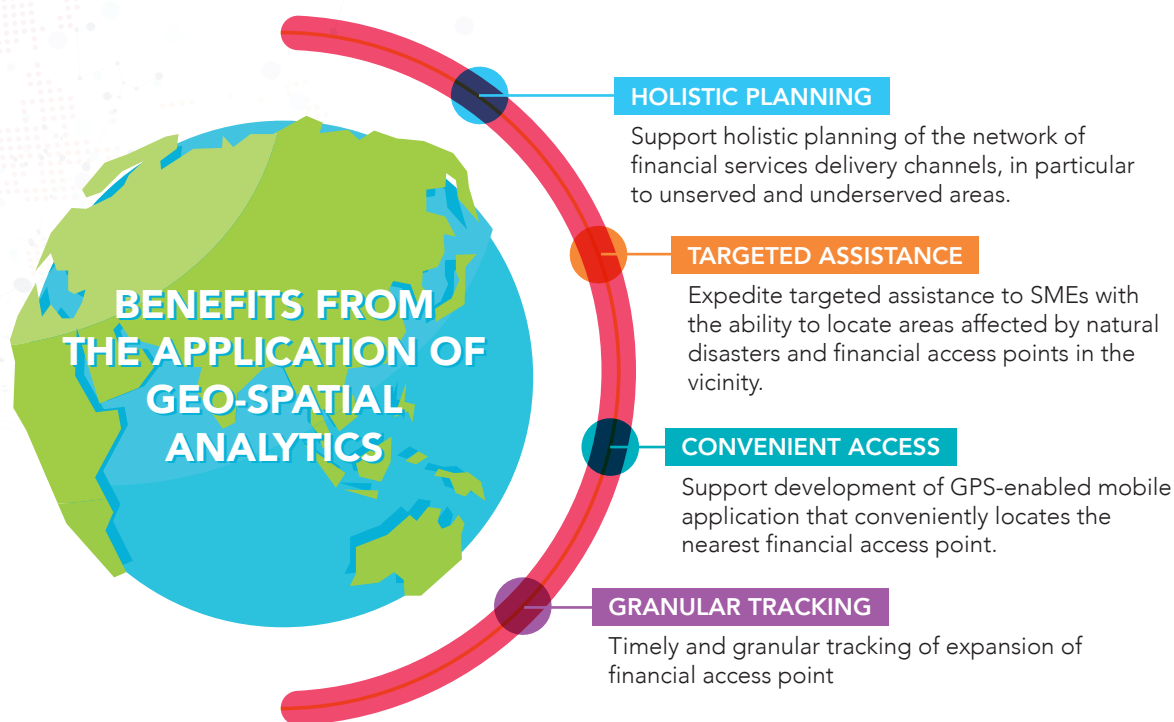
The bigger mandate other than facilitating funding access for SMEs is Malaysia's commitment towards greater financial inclusion. This is to ensure that all segments of society, including microenterprises in rural communities, have access to financial services as the country transitions into a high-income nation.

The financial inclusion agenda focuses on extending the outreach of financial services in order to enable a wider segment of the population to gain access to them; developing innovative financing solutions for SMEs; and leveraging on technology to drive innovation and improve efficiency.

At the end of 2017, significant improvement was noted in the provision of convenient accessibility to financial services. Improvement is measured by the availability of financial access points at the district and sub-district levels. With the support of the agent bank initiative, all 144 districts and 96.0% (2011: 46.0%) of the 866 sub-districts with a population of above 2,000, had gained access to essential financial services. As a result, 99.0% of Malaysians (2011: 82.0%), including SMEs, have obtained access to financial services that are reliable, affordable and safe.

To further improve accessibility to financial services throughout the country, plans are being considered to use remote sensing and geographical information system technology. A centralised database and an online portal will be developed to enable the automated mapping of and access to information on all financial access points in the country via satellite imaging while a GPS-enabled mobile application will allow the public to locate the nearest financial access points conveniently. The capability of geo-spatial analytics to overlay information such as administrative boundaries, demographics, infrastructure and topography will raise the capability of financial institutions in delivering financial services.

Chart 6.5: Benefits of Geo-spatial Analytics Application



## FINANCIAL AWARENESS AND OUTREACH

BNM conducts regular nationwide outreach programmes to educate SMEs on financial management and to create awareness of the various financing schemes and programmes available as well as the rights of consumers.

In 2017, BNM organised a series of nationwide publicity events on a regional basis under the Karnival Kewangan theme in collaboration with financial institutions and various Federal and State Ministries and agencies including their affiliates. Three mini-carnivals were also held in Sabah, Sarawak and Kedah from November 2017 to January 2018.

Participating institutions offered advisory and consultation services, including a series of pocket talks covering topics such as SME financing, financial education, debt restructuring, financial

scams, Fintech, e-payment, Islamic finance and insurance to more than 80,000 people from all walks of life, including SMEs, who attended these events.

SMEs can access multiple channels to obtain financial advice and information on programmes and schemes offered by both the government and private sector, including BNM Laman Informasi Nasihat dan Khidmat (BNMLINK), SME Hub at SME Corp. Malaysia, Association of Banks Malaysia, Ministries and agencies as well as DFIs and commercial banks.

Borrowers can now also access their Central Credit Reference Information System (CCRIS) report via the eCCRIS online platform for free, beginning January 2018. The nationwide service acts as a convenient online tool for users to monitor and verify their personal credit standing as well as correct any inaccuracies appearing in their CCRIS report.

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**SME HUB**

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 Tel: 1300 30 6000  
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**CGC: Client Service Centre**

Tel: 03-7880 0088  
 Fax: 03-7803 0077  
 Email: csc@cgc.com.my  
 www.iguarantee.com.my



## SME FINANCING IN 2018

In 2018, a total of RM13.5 billion has been allocated to further enhance SME access to financing. This is based on a total of 48 programmes planned as at April 2018 which are expected to benefit some 413,200 SMEs. Among the key programmes for 2018 include:

- **Ikhtiar Financing Scheme** by Amanah Ikhtiar Malaysia (AIM) with the aim to reduce poverty rate in Malaysia by providing financing to poor households to enable them to undertake viable economic activity to upgrade their household income includes i-Mesra, i-Srikandi and i-Wibawa. A total of RM2.7 billion has been allocated for the programme in 2018 which is expected to benefit more than 350,000 households, including SME entrepreneurs;
- Majlis Amanah Rakyat (MARA) will continue to implement the **Penyaluran Pembiayaan Perniagaan** programme with an allocation of RM300 million to benefit 3,085 SMEs. The Programme targets to fund 17,500 recipients during the period of 2016 to 2020;
- **Syariah-Compliant SME Financing Scheme (SSFS)** under SME Corp. Malaysia is being implemented with a total allocation of RM54 million which is expected to benefit 300 SMEs. The Scheme provides financing to eligible Malaysian SMEs whereby the Government has agreed to pay 2.0% (percentage point) of the profit rate charged on the financing provided by 13 participating Islamic Financial Institutions;
- Perbadanan Usahawan Nasional Berhad (PUNB) will continue to undertake the **PROSPER TERAS Scheme** with the aim to upgrade the retail business of Bumiputera entrepreneurs through brand standardisation, product selection & layout and integrated system as well as to provide exposure to Bumiputera entrepreneurs on the business know how, application of well organised and systematic management and operation methods. A total of RM30 million has been allocated for this purpose which is expected to benefit some 128 SMEs; and

- *Syarikat Jaminan Pembiayaan Perniagaan Berhad* (SJPP) under the Minister of Finance Incorporated will continue to assist SMEs in all sectors to gain access to financing from participating financial institutions. As at April 2018, a total of RM16.7 billion had been allocated under various SJPP schemes until 2030 with the following breakdown:
  - i. RM7 billion has been allocated for **Working Capital Guarantee Scheme – Extension**;
  - ii. RM7 billion has been allocated for **Services Sector Guarantee Scheme** to assist services sector SMEs;
  - iii. RM200 million has been allocated for **Working Capital Guarantee Scheme – Start Up** to assist start up SMEs companies in all sectors;
  - iv. RM1 billion has been allocated for **Automation Process Guarantee Scheme** with the purpose to automate production processes and reduce employment of foreign workers; and
  - v. RM1.5 billion has been allocated for **Intellectual Property Guarantee Scheme** with the purpose to further inculcate innovation and increase productivity.

## ALTERNATIVE FINANCING AVENUES

As SME activities intensify, particularly with the emergence of new types of business that are innovative, in new growth areas or high-growth SMEs, the traditional forms of financing may no longer suffice. Consequently, access to financing for SMEs is being re-shaped, with the focus shifting to the development of more non-traditional financing avenues and platforms such as equity crowdfunding (ECF), peer-to-peer financing (P2P), Leading Entrepreneur Accelerator Programme (LEAP) market, Investment Account Platform (IAP), venture capital and angel investors.

Securities Commission has embarked on efforts to enable businesses to benefit from wider accessibility to market-based financing avenues to meet their financing needs, as well as utilising technology to enable greater investor participation. Six ECF operators have been registered and six P2P financing operators are now fully operational.

Since the launch of ECF and P2P financing frameworks in February 2015 and April 2016 respectively, both avenues have shown good progress in meeting the financing needs of SMEs. A total of 37 campaigns have been successfully funded on ECF platforms, with RM32.7 million raised. On the investor side, the six platforms have also recorded more than 800 investors, with 40.0% of those being under the age of 35.

In relation to P2P financing, despite its relatively short history in the market, 628 campaigns have been successfully completed across 120 issuers, with a total of RM37.2 million raised. Some campaigns have even been funded within an hour of being launched, reflecting the positive response.

LEAP market which is the third board on Bursa Malaysia, is positioned to provide SMEs with greater access to the capital market as well as a platform for them to showcase their companies. As at July 2018, eight companies have been listed on the LEAP market. The principal activity of the listed companies varies, ranging from IT, education, healthcare, biotechnology and manufacturing. As at July 2018, RM35.3 million have been raised through the LEAP market with an average of RM4.4 million raised per company.

Meanwhile, the advent of Fintech is accelerating the transformation of the financial landscape as these developments are seen to be able to reduce the cost and the time taken to access funds as well as in expediting SME access to formal funding at startup and early stage of growth.