


# Chapter 3

## Financing Ecosystem for MSMEs





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Over the years, there have been various initiatives implemented to enhance MSME financing ecosystem in Malaysia. Access to finance is a critical enabler for MSMEs to start operations, invest and grow, withstand shocks, transition to the sustainable and digital economy and participate in the supply chains. Currently, banking institutions are the main source of financing for MSMEs, providing more than 90.0% of total financing. Malaysian MSMEs need to diversify beyond the orthodox banking system and look for financing from the capital market and innovative platforms such as Equity Crowdfunding (ECF), Peer-to-Peer (P2P), Private Equity and Venture Capital should be further explored as funding options for MSMEs and start-ups. The rise of financial technology, financing solutions are becoming more personalised, accessible and attractive through a wide range of products and services offered at competitive rates.

### MSME FINANCING BY FINANCIAL INSTITUTIONS

In 2022, Malaysian banks and Development Financial Institutions (DFIs) continued their support of MSMEs by providing needed financing for cashflow and capital investments for business expansion. As at the end of the year, outstanding financing to MSMEs expanded by 5.0% to RM366 billion (2021: 5.7%), due to a higher rate of approvals and disbursements which exceeded pre-pandemic levels. Financing to MSMEs now represents almost half (49.0%) of the total outstanding loans extended to businesses compared to below 45.0% pre-pandemic.

The year saw a continuing momentum in financing approvals for MSMEs with an increase of 18.7% year-on-year exceeding the 13.2% year-on-year rise of 2021. More than RM154 billion in financing was approved for about 230,000 MSME accounts (2021: RM131 billion for about 196,000 accounts). The high approval rate was driven by investment-related financing in tandem with anticipated demand, an indication of a deeper business recovery amid the resumption of investment plans and improved business sentiments.

Amid a landscape of persistent high-cost pressures, approvals for financing and disbursements for working capital purposes also outpaced pre-pandemic levels, with total disbursements rising by 26.7% in 2022 to RM505 billion compared with RM399 billion in 2021.

DFIs continued to play a catalytic role in providing access to financial products and services to MSMEs who encounter difficulty in obtaining financing from banks. MSME financing by DFIs for the year totalled RM5.6 billion (2021: RM4.4 billion), a robust growth of 27.2%. Of the nearly 31,000 MSMEs that received DFI financing, the majority (67.0%) were microenterprises with financing sizes of less than RM50,000.

DFIs is also the main financier for microenterprises, which accounted for 84.0% of the total accounts approved under *Skim Pembiayaan Mikro* in 2022. DFIs are also implementing several initiatives to further bridge the financing gaps faced by under served MSMEs. These included the use of artificial intelligence or other credit scoring methods such as psychometric analysis for better credit assessments, particularly for thin-file customers (with little or no credit record).



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## ALTERNATIVE FINANCING

The Securities Commission Malaysia (SC) has continued to expand the fundraising avenues for MSMEs in line with efforts to enable an inclusive multi-layered capital market, towards a more diversified fundraising avenues for businesses, including expanding alternative fundraising platforms for MSMEs and mid-tier companies (MTCs) in particular.

ECF and P2P financing have been on a continued rise, with a growing number of MSMEs turning to digital platforms to secure capital. In total, ECF and P2P financing have facilitated 7,218 MSMEs to raise more than RM4.4 billion. Although there was a 36.0% decrease in total fundraising via ECF in 2022 to RM140.4 million (2021: RM220.7 million), campaign sizes were larger, with 21.0% of campaigns raising above RM3 million each (2021: 17.0% of campaigns). P2P financing continued to grow in 2022, with total fundraising amounting to RM1.6 billion, recording a 38.0% increase (2021: RM1.1 billion) which benefited 3,732 companies (2021: 1,986). The ECF and P2P financing offerings has also seen traction in the agriculture sector, a sector of strategic importance to the local economy.

The launch of Malaysia Co-Investment Fund (MyCIF) special co-investment ratio of 1:2 in 2022, has encouraged more private investments into this sector via these alternative financing platforms. Since inception, ECF and P2P financing have fundraised over RM430 million benefitting more than 400 agri-related MSMEs across the entire value, namely upstream, midstream and downstream. To promote the ECF and P2P financing market further, several initiatives had been successfully implemented to serve the needs of a wider range of businesses and spur higher market growth, such as the following efforts:

### **i. Widening access to Shariah-compliant financing in ECF and P2P financing**

ECF and P2P financing have continued to broaden access to financing for MSMEs. Shariah-compliant offerings on these platforms have also gained traction, with a total of RM368.1 million funds raised as of 31 December 2022. To further harness the potential of ECF and P2P financing platforms, the SC opened applications for registration of new ECF and P2P financing operators with Shariah-based solutions and value-propositions in 2022. This measure is expected to catalyse innovation in Shariah-compliant offerings to further facilitate access to funding needs of MSMEs through alternative fundraising digital platforms and promote greater recovery. It also aims to foster the growth of MSMEs in the halal economy while allowing greater access to investments for all capital market participants.

### **ii. Catalysing growth in the underserved segments: SCxSC GROW**

In October 2022, the SCxSC GROW, a new collaborative programme, was launched under the SC's fintech flagship initiative Synergistic Collaboration by the SC (SCxSC). The SCxSC GROW embodies a collaborative effort with partners in the fintech ecosystem to harness the potential of alternative fundraising digital platforms to meet the needs of underserved players in strategic sectors. The first edition of the SCxSC GROW initiative focused on agriculture, a sector which remains at the forefront of Malaysia's growth priorities and is one of the backbone sectors in Malaysia's economic development. The inaugural launch of SCxSC GROW was supported by relevant ministries, agencies and key players in the agriculture ecosystem during a one-day workshop with the theme 'Unlocking Alternative Financing Potential for Agriculture'. The workshop explored the potential roles of alternative financing avenues that may contribute towards addressing some of the financial gaps that exist in the agriculture sector. It also garnered greater awareness on ECF and P2P financing and encouraged better co-ordination to move the agriculture sector forward and strengthen the country's food security. Some 40 representatives, including senior officials from relevant ministries, agencies and key players attended the workshop. They include the Ministry of Agriculture and Food Security (KPKM), Federal Agricultural Marketing Authority (FAMA) and Agrobank.

### **iii. Helping MSMEs to regain footing in the economic recovery via MyCIF**

MyCIF is an initiative set up by the Malaysian Government to co-invest in MSMEs and social enterprises alongside private investors via ECF and P2P financing platforms. Since 2019, a total of RM230 million has been channelled to the MyCIF which was set up as part of Budget 2019. As at 31 December 2022, MyCIF has successfully co-invested over RM638 million in approximately 35,000 ECF and P2P financing campaigns, benefitting 3,635 MSMEs. The fund had co-invested alongside more than RM2.6 billion from private investors. In 2022, MyCIF focused on the agriculture sector, an industry identified to be of strategic importance to the local economic recovery.

## VENTURE CAPITAL (VC) AND PRIVATE EQUITY (PE)

The total number of registered corporations stood at 129 as at 31 December 2022 (refer to Table 3.1). The VC segment accounted for 109 registered corporations (venture capital management corporation, VCMC and venture capital corporation, VCC), while the PE segment consisted of 20 registered corporations (private equity management corporation, PEMC and private equity corporation, PEC). As at end 2022, the number of professionals employed by the industry with at least four years' experience stood at 229.

Table 3.1: Statistics of Industry Participants

Source of Funds	2021	2022
Number of Registered Corporations	124	129
Number of Registered VCMCs and VCCs	105	109
Number of Registered PEMCs and PECs	19	20
Number of VC and PE Professionals <sup>1</sup>	344	229

<sup>1</sup> Professionals with more than four years of experience.

Source: Annual Report 2022, Securities Commission Malaysia

Table 3.2: Industry Key Statistics (RM million)

	2021		2022	
	Private equity	Venture capital	Private equity	Venture capital
Total committed funds under management [1]	9,648.42	5,183.50	10,711.59	5,372.93
Total drawn capital [2]	6,884.29	3,870.73	7,644.83	3,868.54
Estimated capital available for investment [3]=[1]-[2]	3,495.88	1,312.77	3,066.75	1,504.39
Total no. of investee companies	41	211	68	186

Note: The statistics are based on self-reported figures by registered VC/PE firms. Y-o-y movements may vary.

Source: Annual Report 2022, Securities Commission Malaysia

Total committed funds in the industry as at the end of 2022 stood at RM10.7 billion and RM5.4 billion for PE and VC respectively (refer to Table 3.2), with a combined total of RM16.1 billion. For PE, commitments are sourced largely from corporate investors (33.4%), individuals and family offices (17.0%) and financial institutions (12.8%) (refer to Chart 3.1). For VC, Government agencies and investment companies (36.0%), sovereign wealth funds (27.3%) and corporate investors (22.7%) make up the top three sources of funding (refer to Chart 3.2). The top three registered corporations by the amount of investor commitments as at end 2022 were Creador, Xeraya Capital and MAVCAP.

Table 3.3: Investment during 2022

Business Stage	New Investments (RM '000)	% of Segment	No. of Companies
<b>Venture Capital</b>			
Seed	14,637.49	10.5	10
Start-up	6,592.35	4.8	3
Early stage	50,705.45	36.5	8
Growth	66,885.45	48.2	13
<b>Private Equity</b>			
Early stage	320,479.10	28.2	7
Growth	737,112.57	64.9	27
Bridge / Mezzanine / Pre-IPO	77,857.08	6.9	3
Turnaround / Restructuring	890.00	0.1	1
<b>Total</b>	<b>1,275,159.49</b>	<b>100.0</b>	<b>72</b>
<b>Venture Capital</b>	<b>138,820.73</b>	<b>10.9</b>	<b>34</b>
<b>Private Equity</b>	<b>1,136,338.76</b>	<b>89.1</b>	<b>38</b>

Chart 3.1: Source of Funds and Private Equity

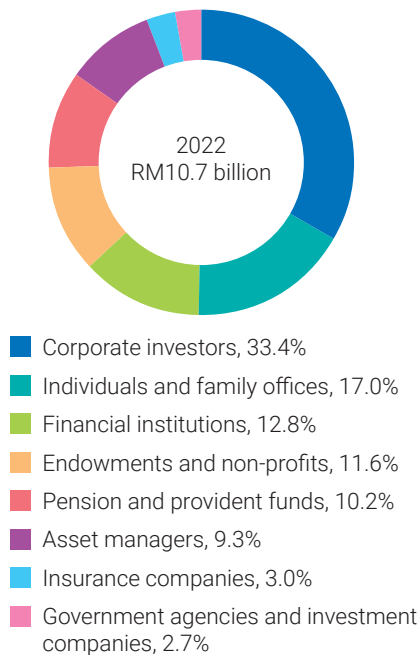
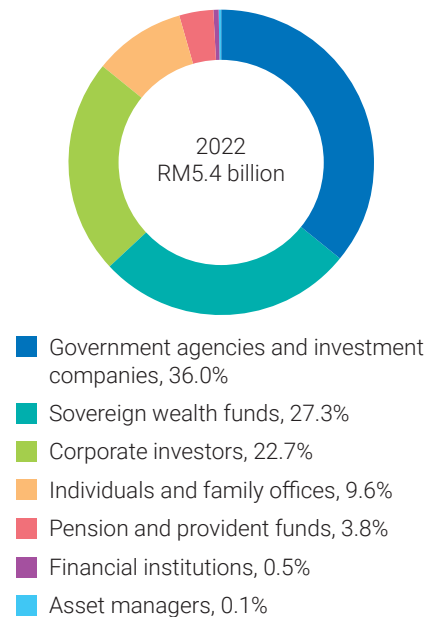


Chart 3.2: Source of Funds and Venture Capital



Note: Government agencies and investment companies: Includes ministerial investment companies (e.g. Minister of Finance (Incorporated), Government agencies, statutory bodies and GLCs established for the purpose of managing investments of public funds (e.g. PNB, Ekuinas).

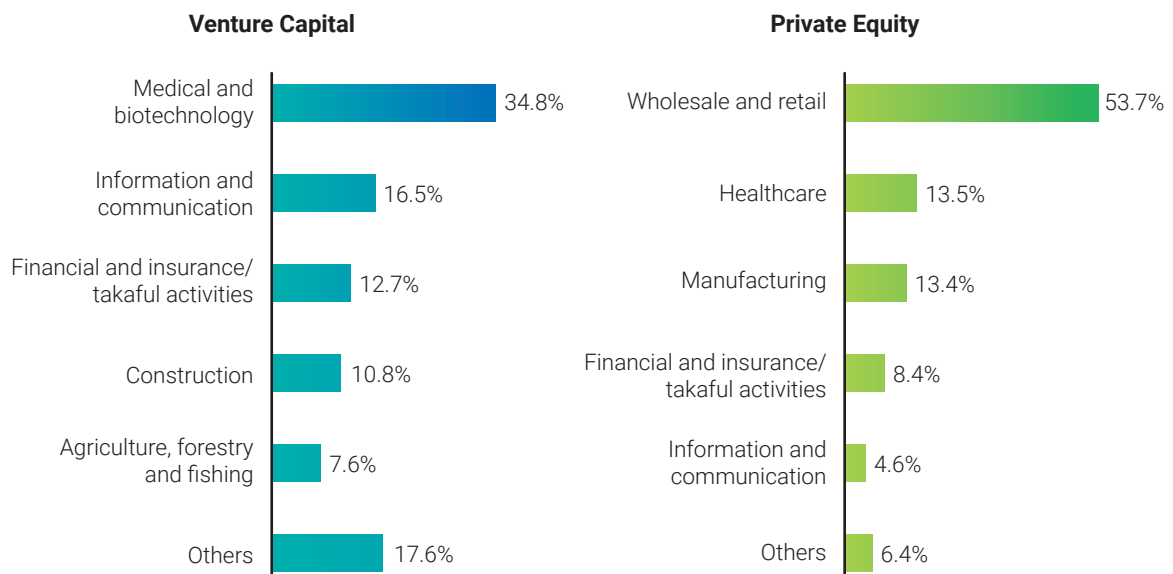


VC investments in 2022 concentrated on growth (48.2%), followed by early stage (36.5%) and seed (10.5%) opportunities. PE investments were primarily channelled into growth plays (64.9%), with some investments made to early stage opportunities (28.2%), followed by bridge, mezzanine and pre-IPO investments (6.8%). In total, 34 VC and 38 PE deals were recorded in 2022 (refer to Table 3.3).

In terms of target industries, medical and biotechnology (34.8%) saw the highest share of VC investment in 2022, followed by information and communication (16.5%), and financial and insurance / takaful activities (12.7%).

As for PE, investments were largely channelled to wholesale and retail trade (53.6%) in 2022, followed by healthcare (13.5%) and manufacturing (13.4%) (refer to Chart 3.3).

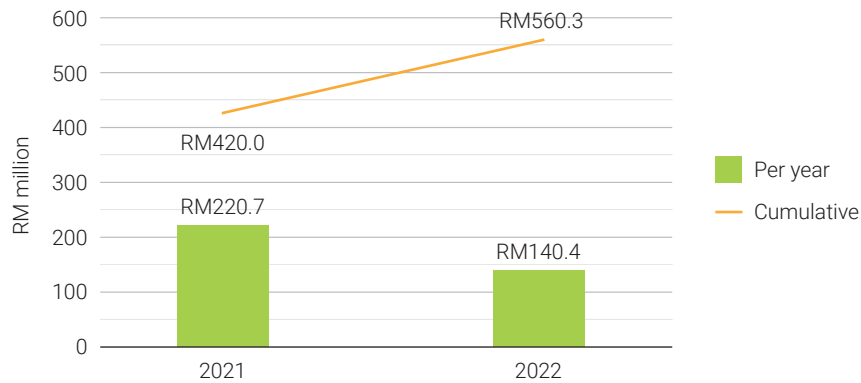
Chart 3.3: Investment in 2022, Top 5 Target Industries



## EQUITY CROWDFUNDING (ECF)

Since inception of equity crowdfunding (ECF), total funds raised stood at RM560.3 million via 330 campaigns. Shariah-compliant campaigns contributed to 3.0% of the total funds raised. Total funds raised in 2022 decreased to RM140.4 million from RM220.7 million in 2021 (refer to Chart 3.4). Similarly, total successful campaigns decreased from 104 in 2021 to 67 in 2022. The highest amount of funds raised in 2022 by a single fundraising campaign stood at RM17.0 million. In terms of the sectors served, professional, scientific and technical activities continued to receive the most funds in 2022, with total funds raised amounting to RM41.4 million in 2022 (refer to Chart 3.5). In particular, the agriculture, forestry and fishing sector grew exponentially, from RM753,750 in 2021 to RM19.3 million in 2022. In Chart 3.6, the number of campaigns for Series A grew from 54.0% in 2021 to 72.0% in 2022. In 2022, majority of the campaigns were fundraising for purposes of business expansion.

Chart 3.4: Total Funds Raised



Source: Annual Report 2022, Securities Commission Malaysia

Chart 3.5: Top Five Sectors by Total Funds Raised

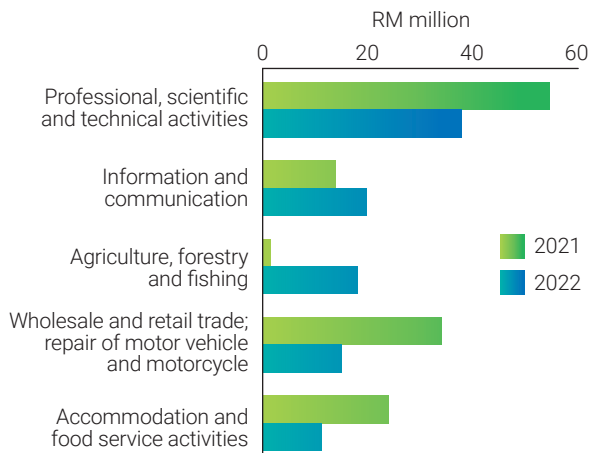
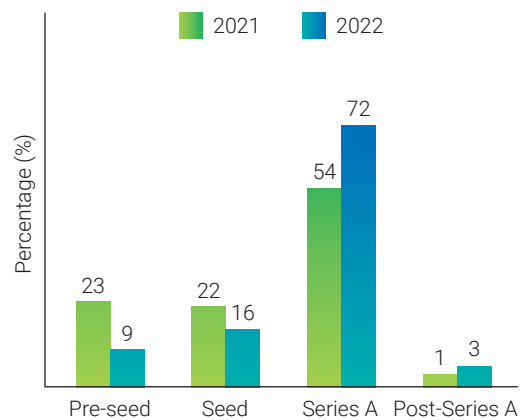


Chart 3.6: Fundraising Stages



Source: Annual Report 2022, Securities Commission Malaysia



## PEER-TO-PEER FINANCING (P2P)

Since its inception, the total funds raised via P2P financing stood at RM3.9 billion via 54,791 campaigns. 9.0% of the total funds raised were via Shariah-compliant campaigns. Chart 3.7, shows the total funds raised in 2022 increased to RM1.6 billion from RM1.1 billion in 2021. In terms of the sectors served, wholesale and retail trade; repair of motor vehicles and motorcycles continued to receive the most funds in 2022, with total funds raised amounting to RM927.7 million (refer to Chart 3.8). In Chart 3.9, 54.0% of investment notes issued in 2022 are categorised as other financing types. The purpose of fundraising in 2022 continued to be predominantly for working capital (refer to Chart 3.10).

Chart 3.7: Total Funds Raised

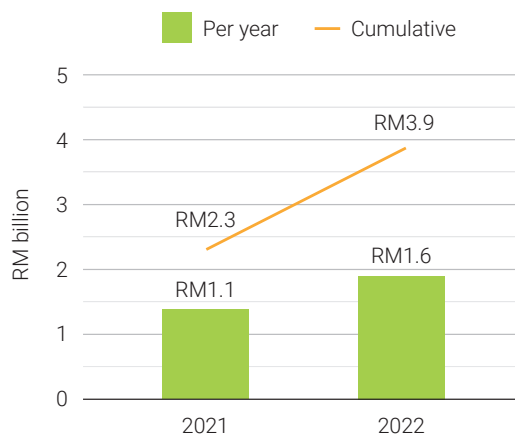


Chart 3.8: Top 5 Sectors by Total Funds Raised

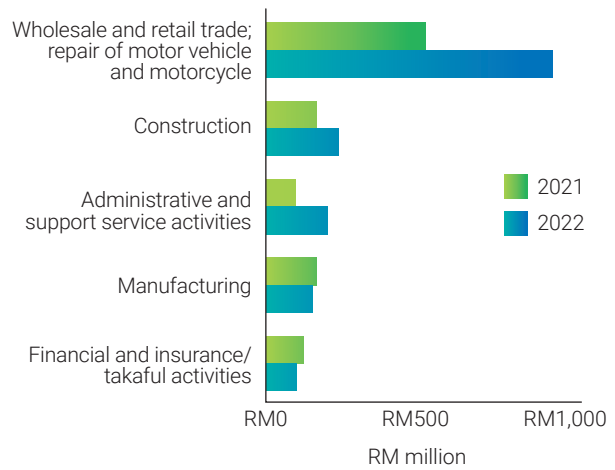


Chart 3.9: Fundraising Type

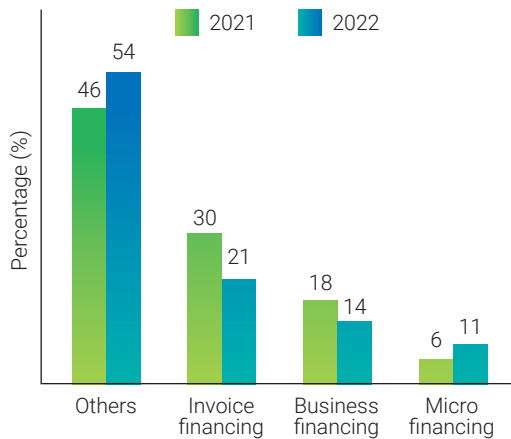
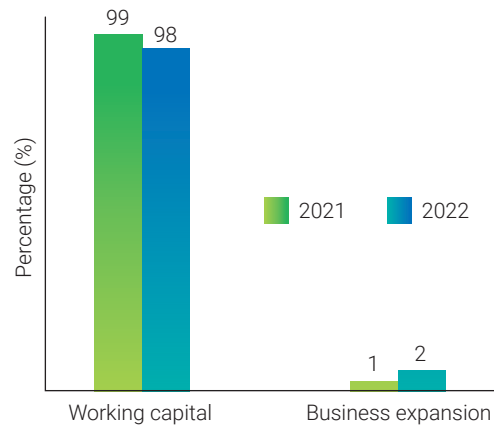


Chart 3.10: Fundraising Purpose



# Box Article

## BNM's Fund Boosts Financing for MSME Growth

Amid the economic recovery in 2022, policy priorities, including those under Bank Negara Malaysia (BNM) such as the BNM Fund for MSMEs (BNM's Fund), were realigned to strengthen the economic foundation and potential in a post-pandemic world.

The BNM's Fund shifted its focus towards incentivising and crowding-in private financing for MSMEs to enter identified new growth areas as well as to transition to a greener and low-carbon future. The shift is a step towards creating a more diversified funding ecosystem which can offer more sustainable financing options.

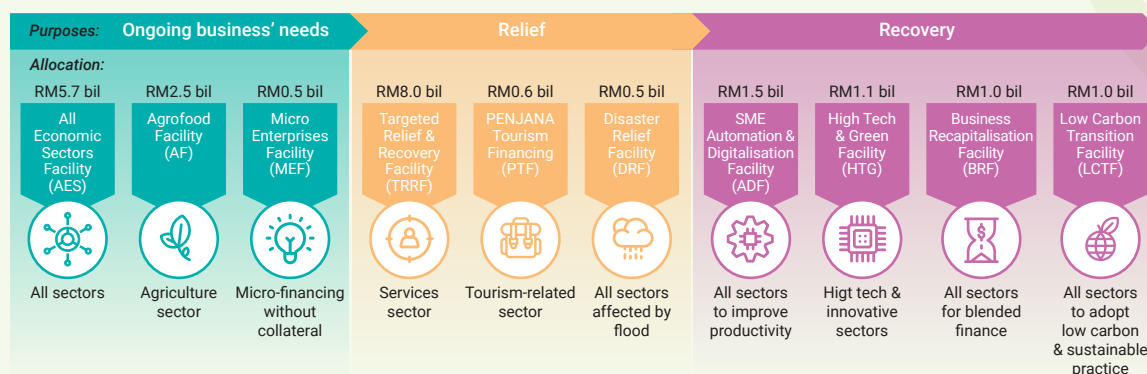
Two new facilities, the Low Carbon Transition Facility (LCTF) and the Business Recapitalisation Facility (BRF) were introduced in February 2022. The LCTF supports MSMEs in transitioning to low-carbon and sustainable operations while the BRF is for restructuring or increasing MSME capital funding. The High Tech Facility - National Investment Aspirations (HTF-NIA) was also enhanced and rebranded as the High Tech and Green Facility (HTG). These facilities are designed to support eligible MSMEs in making investments to spur economic growth, particularly in areas such as digital technology, green technology and biotechnology.

An additional allocation of RM1.3 billion was provided, with RM300 million to HTG; RM500 million to the Agrofood Facility (AF); as well as RM500 million to the SME Automation and Digitalisation Facility (ADF). BNM activated the Disaster Relief Facility 2022 (DRF 2022) to provide urgent financing to MSMEs affected by the nationwide floods. The financing was for repairs and replacement of damaged assets, including plants and machinery, as well as for additional working capital.

As at the end of December 2022, participating financing institutions had approved over RM200 million in financing under DRF 2022 to assist more than 500 MSMEs. The additional allocations coupled with the enhanced facilities brought the total amount of financing available through BNM's Fund from RM9.1 billion in 2019 to RM31.1 billion in 2022.

From the onset of the pandemic to the end of 2022, RM22.6 billion in financing (2021: RM19.4 billion) was approved for more than 65,000 MSME accounts (2021: 53,000). The total amount of disbursements was RM20.1 billion (2021: RM16.4 billion). As at March 2023, RM9.7 billion remained available for MSMEs from all sectors.

An additional allocation of RM1.3 billion was provided, with RM300 million to HTG; RM500 million to the Agrofood Facility; and RM500 million to the SME Automation and Digitalisation Facility.

Facilities under BNM's Fund for MSMEs: Total Allocation of RM31.1 billion<sup>1</sup>

<sup>1</sup> As at 31 Dec 2022, RM10 billion allocated for the Special Relief Facility has been fully utilised and closed for application

## Targeted Schemes Widen Access to Financing for Microenterprises

Access to financing for microenterprises, which make up about 80.0% of total MSME establishments, has steadily improved, with its share of financing accounts increasing from 35.0% at the end of 2021 to almost 37.0% at the end of 2022.

Skim Pembiayaan Mikro is one of the schemes that enable microenterprises to access collateral-free business financing quickly, easily and conveniently. Microenterprises that lack collateral or credit history can obtain up to RM50,000 in financing from the scheme.

From the scheme's establishment in 2005 until the end of 2022, 11 participating banks had approved financing totalling RM13.7 billion to more than 5.6 million accounts. The total as at the end of 2022 was RM1.3 billion while an additional RM702.7 million was approved for 23,000 accounts during the year.

BNM introduced the iTEKAD programme during the pandemic in 2020 to drive greater social resilience. The scheme is intended to make social finance an important component of Malaysia's financial ecosystem and, specifically, to support the growth of microentrepreneurs beyond funding needs. A total of 10 financial institutions are participating in iTEKAD whereby as at the end of 2022, iTEKAD has benefitted over 1,500 microentrepreneurs.

iTEKAD is a blend of philanthropic and commercial funds which offers seed capital (funded by social finance funds such as zakat, cash waqf, donation and social impact investment); microfinancing; and structured training and mentorship to help microentrepreneurs generate sustainable income. Since its introductions, iTEKAD has delivered tangible benefits to its participants in the form of business growth, sustained employment, financial resilience and digital adoption.

## Enhancing MSME Financial Awareness, Literacy and Capability Post-Pandemic

Financial awareness, literacy and capabilities, especially in digital financial services, are pivotal in helping MSMEs to face post-pandemic challenges. Amid the continued recovery momentum since the reopening of the economy in 2021, BNM has been supporting several outreach initiatives to create greater awareness as well as to educate MSMEs on the facilities available under BNM's Fund.

In 2022, BNM participated in the Jelajah Aspirasi Keluarga Malaysia Negeri Selangor and Program Akses Kepada Peluang Pembiayaan Usahawan (Biaya) Zon Tengah in Kuala Lumpur organised by the Ministry of Entrepreneur and Cooperatives Development (MECD). The events attracted more than 33,000 individuals and MSME owners. BNM also organised dialogues with the business community in collaboration with the Association of Banks in Malaysia, Association of Islamic Banking and Financial Institutions Malaysia and Association of Development Finance Institutions of Malaysia to better understand the challenges faced by businesses, especially during and after the pandemic.

BNM also collaborated with Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat) on the Cashless Desa and *Bank Bergerak* programmes in the rural areas of Sabah as part of a broader initiative to promote a cashless society and facilitate convenient financial access. The two programmes, though primarily focused on consumer or individual outreach, also engaged with MSMEs, particularly microentrepreneurs in Lahad Datu and Telupid, to raise their awareness on BNM's Fund, availability of digital financial services as well as fraud protection.

### Redress Mechanisms – Important Components of Holistic MSME Financing

With improving business conditions since the reopening of the economy in 2021, the repayment capability of MSMEs has remained largely intact, as reflected in the strong 26.8% growth in financing repayments. Since rising after the expiry of the targeted repayment assistance programme, the ratio of impaired MSME financing from the banking system has remained at near 3.0% at the end of 2022 (2021: 2.5%).

The share of MSME loans under repayment assistance also continued to decline, to 5.6% of total MSME loans or 1.0% of total loans from the banking system. Most MSMEs that had exited the repayment assistance programmes were able to service their loans though there were a small number that continued to face repayment difficulties due to higher input costs exacerbated by their lower financial buffers and limited pricing power. For borrowers who are facing difficulties, help is available through:

- **Bespoke repayment assistance from banks**  
Borrowers can approach their respective banks to request for restructuring or rescheduling of their repayment, including the option for lower monthly instalments.
- **Credit Management and Counselling Agency**  
Borrowers who are unable to reach an amicable solution with their banks can seek assistance from the Credit Management and Counselling Agency (AKPK) via its Small Debt Resolution Scheme (SDRS). The SDRS, since its establishment, has achieved a near 100.0% approval rate for more than 1,500 MSMEs who sought assistance. The SME Helpdesk@AKPK was set up in November 2020 as an alternative advisory and submission channel for repayment assistance requests.
- **Financing Advisory Service**  
MSMEs who have been unsuccessful in obtaining loans from financial institutions are encouraged to contact the Financing Advisory Service (Khidmat Nasihat Pembiayaan) at myKNP@CGC for advice. MyKNP, operated by Credit Guarantee Corporation (CGC), is designed to boost the ability of MSMEs in obtaining financing as well as to inform on the availability of financing across other funding sources. MyKNP also helps MSMEs understand the reasons for the rejection of their loan applications and may also recommend alternative solutions such as Peer-to-Peer financing or financing available at Government agencies.

# Box Article

## Micro Financing for MSMEs

Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN) Nasional is an entrepreneur development institute with the role to provide small capital financing facilities for businesses (micro credit) in an easy and quick way and they have disbursed RM8.3 billion in micro-financing since its establishment in 1998 up to March 2023. The funding was channelled through 170 of its branches nationwide, had benefited 752,177 entrepreneurs. TEKUN Nasional provides financing from RM1,000 to RM200,000 for entrepreneurs developing their businesses. Apart from this they also provide not only financing facilities, but also advisory services and business networks.

Among the financial assistance provided by TEKUN Nasional are as follows:

### TEKUN Niaga Financing Scheme

TEKUN Niaga is a financing facility based on tawarruq which involves two separate sales contracts. The first contract is when TEKUN sells commodities to the entrepreneur at pre agreed price which comprised of the financing amount plus profit to be paid on differed payment basis. The second contract is when entrepreneur sells purchased commodities (conducted by TEKUN as sales agent) to a third party at the price equivalent to the financing amount on cash basis.

### Teman TEKUN Financing Scheme

Teman TEKUN is based on the group concept in providing financing facilities that are easier, faster and more efficient to business needs.

### Ar Rahnu TEKUN

Ar Rahnu TEKUN is a short-term Sharia compliant mortgage financing product (Qardh) where the client/ entrepreneur will pledge gold products or jewellery based on the types of gold accepted (refer to list of gold) as collateral for the financing granted. This facility is based on the Sharia contract, namely Qardh, Rahn and Wadiah Yad Dhamanah under the management of the Product Department of AR RAHNU TEKUN and monitored by the Sharia Department of TEKUN Nasional.

### Kontrak-i Financing Scheme

Kontrak-i Financing scheme is a process to finance contracts and direct supplies obtained from the Federal Government, State Government, Government Agencies and Statutory Bodies.

### TEKUN Mobilepreneur

TEKUN Mobilepreneur provides financing facilities to delivery service entrepreneurs using motorcycles. Funding is provided to applicants for the following purposes:

- Purchase of Motorcycles
- Motorcycle Repair
- Revolving Capital

### Community Entrepreneur Development Scheme of India (SPUMI)

This scheme is to encourage the participation of the Indian community to venture into business innovatively as well as stimulate the field of entrepreneurship in Malaysia.

In 2023, TEKUN Nasional has introduced a special financing programme without collateral for entrepreneurs who do business online through the Skim Pembiayaan Online TEKUN (SPOT). This special financing is open to all ages and genders including women and young entrepreneurs and as of 10 February 2023, a total of 118 women and youth entrepreneurs have received SPOT financing involving an allocation of RM884,000.



# Box Article

## MIDF Financing Schemes for Green Biz, Digitalisation and Revitalisation

The Malaysian Industrial Development Finance Berhad (MIDF) has made available financing schemes to encourage greater usage of green technology and efficient energy by industry as well as a scheme to help revitalise MSME business that had been affected by the pandemic.

### Sustainable and Green Biz Financing

The Sustainable and Green Biz Financing (SGBF) is to help local industry players make greater use of green technology and efficient energy. The focus of the financing scheme is on energy conservation, power generation and distribution, renewable energy technologies and reduction of carbon emission.

The scheme, which is open only to eligible companies from the manufacturing and the services sector, offers a minimum of RM100,000 and up to a maximum of RM10,000,000 in financing. The fixed financing rate is as low as 2.0% per annum on monthly rest for MSMEs and 5.0% per annum on monthly rest for non-MSMEs.

As at 31 December 2022, MIDF had approved financing totalling RM30.8 million under SGBF for 24 companies.

### Soft Financing Scheme for Digital and Technology

The Soft Financing Scheme for Digital and Technology (SFDT) was launched in 2020 and has been crucial in promoting technology adoption among MSMEs across all sectors as well as encouraging digital entrepreneurship. The SFDT has helped to ease cashflow blockages, enhance competitiveness and enable business expansion.

MSMEs can also apply for financing to purchase motor vehicles, machinery and equipment, ICT hardware and software, working capital as well as contract financing for financing purchase or receivables related to the digital economy platform from Ministries, Government agencies or GLC.

As at 31 December 2022, MIDF had approved financing facilities totalling RM8.8 million under SFDT to 15 companies.

### SME Revitalisation Financing

The SME Revitalisation Financing (SMERF) is to facilitate the starting, re-starting or continuation of the businesses of MSMEs that had been adversely affected by the pandemic. SMERF provides financing to MSMEs for working capital as well as purchase of assets needed to operate their business, such as commercial motor vehicles, machinery and equipment, and ICT hardware and software. Eligible companies from all economic sectors can obtain financing of a minimum amount of RM50,000 and up to RM250,000 based on a fixed financing rate of as low as 3.0% per annum on monthly rest.

As of 31 December 2022, MIDF had approved financing facilities of RM32.1 million under SMERF to 175 companies. SMERF is part of the Government's Strategic Programme to Empower the People and Economy (PEMERKASA), the funding for which is channelled through SME Corp. Malaysia and with MIDF as the programme implementer.





# Box Article

## Sustainability Sukuk Framework

SME Bank established the Sustainability Sukuk Framework in 2021 to drive sustainability and serve as a guideline for all our Sustainability Sukuk issuances. The framework is aligned with the following guideline and standards:

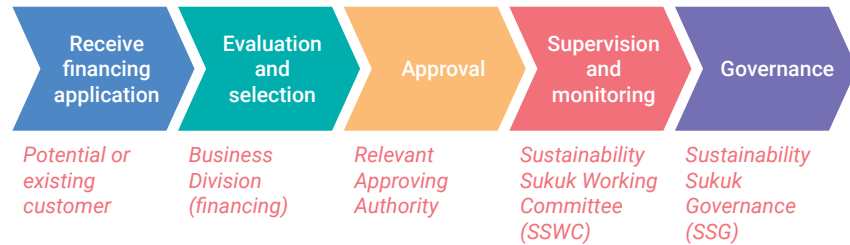
- Sustainable and Responsible Investment (SRI) Sukuk Framework, issued by the Securities Commission (SC) Malaysia;
- ASEAN Sustainability Bond Standards, ASEAN Green Bond Standards and ASEAN Social Bond Standards, issued by the ASEAN Capital Markets Forum (ACMF); and
- Sustainability Bond Guidelines, Green Bond Principles (GBP), Social Bond Principles (SBP), issued by the International Capital Market Association (ICMA).

### SME Bank Sustainability Sukuk Framework Summary

<b>Issuer</b>	<b>SME Bank</b>
<b>Issuer ratings</b>	AAA (Malaysian Rating Corporation Berhad)
<b>Offering</b>	Sustainability Islamic Medium-Term Notes (IMTNs)
<b>Size</b>	Up to RM3.0 billion
<b>Use of proceeds</b>	<p>New or existing assets, businesses and/or projects (collectively, Eligible Assets) that promote the categories outlined below (Eligible Categories):</p> <ol style="list-style-type: none"> <li>1. Renewable energy</li> <li>2. Clean transportation</li> <li>3. Green building</li> <li>4. Energy efficiency</li> <li>5. Sustainable water and wastewater management</li> <li>6. Waste and pollution control</li> <li>7. Affordable basic infrastructure</li> <li>8. Access to essential services: Healthcare</li> <li>9. Access to essential services: Education and vocational training</li> <li>10. Socioeconomic advancement and empowerment</li> <li>11. Pandemic outbreak socioeconomic impact mitigation</li> </ol> <p>SME Bank has developed a list of exclusionary criteria on the use of the Sustainability Sukuk proceeds. SME Bank will not knowingly finance any of the projects included in the exclusionary criteria:</p> <ol style="list-style-type: none"> <li>i. Criteria for non-Shariah compliant business activities / products / goods</li> <li>ii. Criteria for aesthetic business</li> <li>iii. Criteria for mixed activities business</li> </ol>

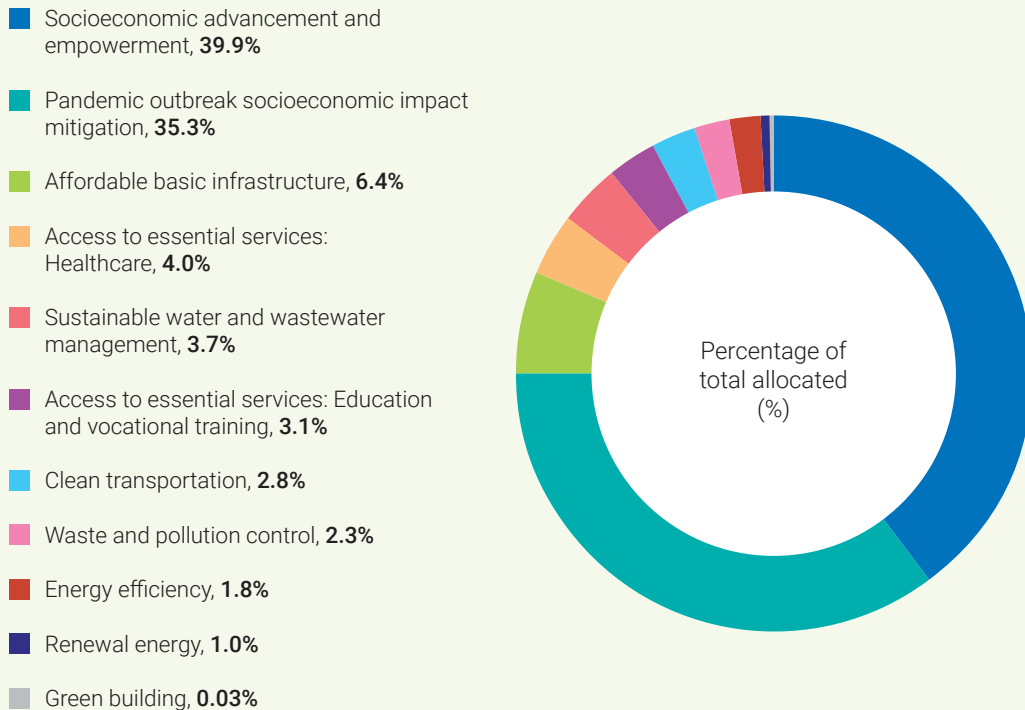
**Process for project evaluation and selection**

SME Bank’s Business Division will perform an initial selection and evaluation according to the Eligible Categories and eligibility criteria. They will then propose recommendations on the Eligible Assets to the respective Approving Authority for review and approval based on the relevant Authority Limit (AL). The Sustainability Sukuk Working Committee (SSWC) will review the Eligible Assets periodically to ensure they meet the eligibility criteria and report to the Compliance and Risk Management Committee (CRMC).



As of 30 June 2023, the net proceeds of SME Bank’s Sustainability Sukuk of RM2 billion (1<sup>st</sup> tranche RM500 million, issued in August 2021, 2<sup>nd</sup> tranche RM500 million, issued in August 2022 and 3<sup>rd</sup> tranche, RM1 billion issued in May 2023) have been allocated to finance or refinance in part or in whole, new or existing assets, businesses and / or projects (collectively, “Eligible Assets”). General financing will qualify as the Eligible Assets if at least 80.0% of the financing recipient’s revenue is derived from sources that meet the relevant eligibility criteria.

Chart 1: Eligible Assets which those Proceeds were Allocated



Source: Sustainability Sukuk Progress Report 2023, SME Bank

# Box Article

## MSME Digital Financing Initiative

The MSME Digital Financing Initiative by SME Corp. Malaysia is intended to provide a more flexible access to financing for MSMEs via a digital platform which is open 24/7 for online applications. The programme, conducted in collaboration with microLEAP, offers an innovative and fast short-term financing solution for MSMEs through a digital platform with a simplified application process and a Shariah-compliant product.

Short-term financing from a minimum of RM50,000 and up to a maximum of RM500,000 at a low profit rate of 2.0% per annum are available for working capital, operating expenditure (purchase of inventory, raw materials, etc.) and financing for business improvement, including purchase of machinery & equipment, systems; ecommerce; e-payment & ICT applications; packaging & product packaging; advertising & promotion; and certification & quality management system.

The programme is open to companies with certified MSME status; are registered with the Companies Commission Malaysia (SSM); with 60.0% Malaysian ownership; have been in operations for at least six months; and committed to undergo the SCORE or M-CORE assessment.

In 2022, 36 MSMEs received financial assistance totalling RM12.1 million. The low-profit rates make the programmes more attractive to MSMEs as the burden of repayment is reduced while the likelihood of success is greater for recipients of the funding.

