

Access to Finance

Malaysian SMEs continued to have access to an extensive and varied range of financing sources to address their needs at various stages of their development. Financial institutions such as development financial institutions and banks are in the forefront to support the growth of SMEs and together they provide up to 96% of the financing facilities available for this sector. The share of SME financing to total business financing by these institutions rose from 46.6% in 2015 to 48.5% in 2016.

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

Meanwhile, the advent of financial technology (fintech) is accelerating the transformation of the financial landscape. These developments are expected to reduce the cost and the time taken to access funds as well as in enabling SME access to formal funding at start-up and early stage of growth.



COMPREHENSIVE FINANCING LANDSCAPE FOR SMEs

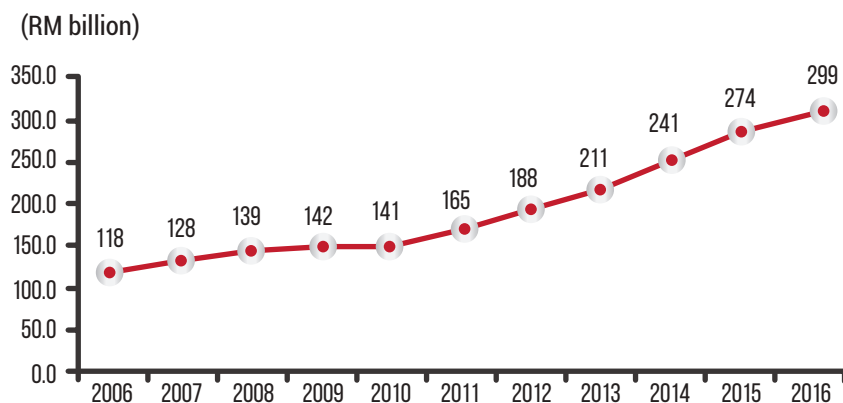
The Malaysian financing landscape for SMEs is wide and varied. Financial institutions (FIs) which comprise banking institutions (BIs) and development financial institutions (DFIs) are the main source of financing for SMEs in the country. This is complemented by the Government who has made available a wide range of special funds and schemes for SMEs through various Ministries and agencies, including Bank Negara Malaysia (BNM).

Aside from these sources of financing, there are also options from non-banking sectors such as venture capital companies, factoring and leasing companies and microfinance institutions. Financing options for SMEs are further widened with the emergence of new products which includes equity crowdfunding (ECF), Investment Account Platform (IAP), peer-to-peer (P2P) financing and the LEAP Market. More information on the LEAP Market is detailed in the Box Article.

FINANCIAL INSTITUTIONS

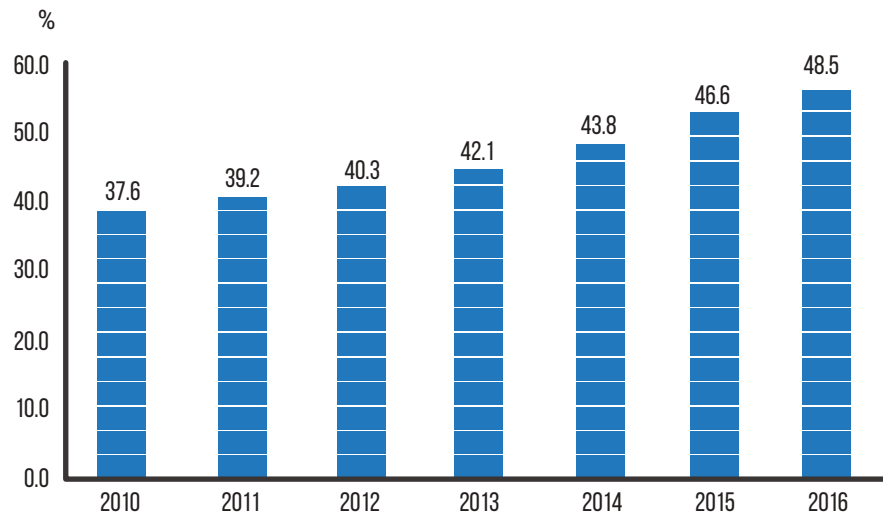
FIs continued to serve as the primary source of financing for SMEs. At the end of 2016, financing to SMEs by FIs recorded a 9% growth with RM274.5 billion financing outstanding extended to 770,467 SME accounts (2015: 14.6%). The share of SME financing against total business financing increased to 48.5% in 2016 from 46.6% in 2015. During the year, a total of RM75.2 billion financing was approved for 119,486 SMEs. Financing was mainly channeled to the services sector (62.6% or RM187.1 billion), followed by manufacturing (14.8% or RM44.4 billion) and construction (12.7% or RM38.0 billion). Total financing outstanding increased to RM302.9 billion at the end-March 2017.

Chart 6.1: Financing Outstanding



Source: Bank Negara Malaysia



Chart 6.2: Share of SME Financing to Total Business Financing (%)

Source: Bank Negara Malaysia

CREDIT GUARANTEE SCHEMES

Credit Guarantee Corporation Malaysia Berhad (CGC) has evolved with the times to stay relevant and has transformed itself from a traditional guarantee provider into a financially sustainable institution that provides a wide range of products and services for greater SME outreach. It has forged strategic alliances with leading financial institutions to offer financing on a Portfolio Guarantee (PG) basis to enable SMEs to have relatively quicker access to the funds needed for their business. CGC has also ventured into Wholesale Guarantee to offer financing for unsecured businesses, the first in the country. It has also launched the BizMula-i and BizWanita-i direct financing facilities to support start-ups and businesses owned by women entrepreneurs.

However, CGC's support for SMEs is not confined only to the provision of loan guarantees and financing facilities as it also provides credit information and credit rating services through its subsidiary, Credit Bureau Malaysia Sdn Bhd. Through the Bureau, CGC assists SMEs to build a credit history and track record to enhance their credibility and bankability to secure financing on their own merit and at reasonable cost. GCC has been bridging the gap between financial institutions and SMEs by providing guarantee on financing facilities applied for by SMEs and direct financing for certain segments. Since its establishment, it has provided more than 444,700 financing packages valued at over RM63.6 billion to SMEs.

To further enhance its services and add value for SMEs, CGC has also gone beyond providing guarantees and financing by providing advisory service and guidance to clients through its developmental programme. Since the launch of the programme in September 2016, CGC has introduced several initiatives such as workshops and mentoring programmes in collaboration with strategic partners who possess expertise in relevant fields to prepare and guide SMEs to link up with major local distribution channels and international markets.



MICROFINANCE

In the last decade, FIs have been supporting microenterprises through *Skim Pembiayaan Mikro* which enables such businesses to receive financing of up to RM50,000 without collateral in an easier, faster and more convenient process.

Over the last 10 years, a total of 200,970 microenterprises have benefited from RM3.5 billion in financing provided by ten participating FIs. Total financing outstanding from the scheme stood at RM921.8 million at end-2016 and has further grown to RM940.7 million at the end of March 2017.

The microfinancing initiatives were complemented by schemes offered by microfinancing institutions like Amanah Ikhtiar Malaysia (AIM) and TEKUN Nasional. AIM provides microfinancing primarily to women for income-generating activities and by June 2016, it had made a total of 3.7 million disbursements amounting to RM15.7 billion.

TEKUN Nasional provides financing facilities for entrepreneurs to kick-start and expand their businesses. Currently, the financing schemes offered by TEKUN Nasional are *Skim Pembiayaan TEKUN Niaga*, *Skim Pembiayaan TEMAN TEKUN*, *Skim Pembiayaan KONTRAK-i* and *Skim Pembiayaan Program TemanNita*.

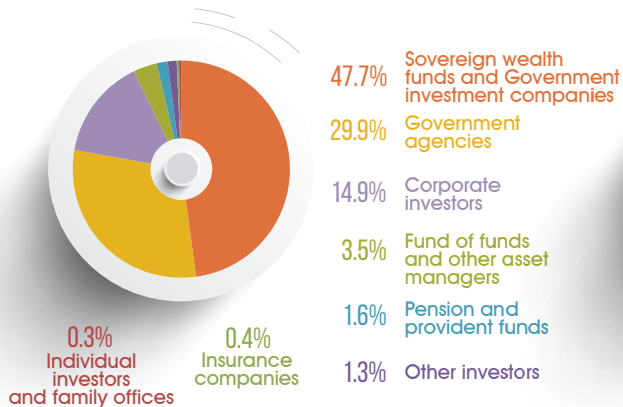
VENTURE CAPITAL AND PRIVATE EQUITY

As at 31 December 2016, there were 109 registered corporations. The venture capital segment accounted for 103 registered corporations (VCMC and VCC) while private equity has six (PEMC and PEC). Meanwhile, there was a surge in the number of investee companies, from 220 in 2015 to 376 in 2016, an increase of 71%. At the end of 2016, there were 198 VC and PE professionals with a minimum of four years' experience employed in the industry.

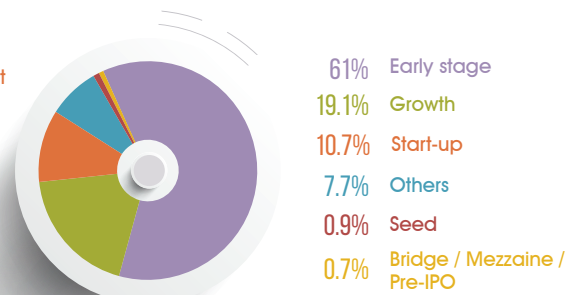
The total committed funds in the industry for the year stood at RM6.5 billion. Within this total, the registered private equity corporations recorded a 261% increase in committed funds, from RM205 million in 2015 to RM714 million in 2016. By end-2016, total cumulative investments had increased by 31.6% to RM2.9 billion from RM2.2 billion in 2015. Investments made during 2016 stood at RM570 million, compared with RM365 million in 2015, an increase of 56.2% year-on-year.

“ Over the last 10 years, a total of 200,970 microenterprises have benefited from RM3.5 billion in financing provided by ten participating FIs ”



Chart 6.3: Source of Venture Capital Funds (%)

Source: Securities Commission (SC)

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

Source: Securities Commission (SC)

Public funds remain the largest source of capital for the industry with sovereign wealth funds and Government investment companies making up 47.7% while Government agencies contributed 29.9%. Private sector contribution to the industry were led by corporate investors (14.9%) followed by asset managers (3.5%) as well as pension and provident funds (1.6%).

Investee companies at the early-stage and growth stages received the bulk of the funding in 2016. A total of 163 investee companies received funding amounting to RM456 million, representing 80% of total investments made during the year. Investments in seed and start-up stages collectively stood at 11.6% of total investments, with the funding channeled into 44 investee companies.

The investments in 2016 showed a concentration towards the life sciences sector into which 72.8% of the total was made. This is an increase of 24.3% against 2015. Manufacturing and IT and communications registered a decrease in share of investments by 5.3% and 11.8% respectively. Other sectors, which included wholesale and retail trade, electricity and power generation, education and media production, collectively had a 16.2% share of total investments in 2016, a drop of 7.2% compared with 2015.

SME FINANCING IN 2016

In 2016, the Government allocated RM4.9 billion (85% of total funding for SME development programmes for the year) to undertake 30 Access to Financing programmes to assist 410,511 SME beneficiaries. Some of the programmes implemented were:

- **Green Technology Financing Scheme (GTFS)** is a credit guarantee scheme to essentially facilitate the growth of the green technology industry in order to enhance its contribution to the national economy. GTFS was undertaken by the Malaysian Green Technology Corporation (GreenTech Malaysia) and utilised RM400 million to assist 50 SMEs.



- **Soft Loan Scheme for Automation and Modernisation (SLSAM)** is intended to encourage and assist manufacturing companies to modernise and automate their manufacturing processes, upgrade production capability and capacity, minimise dependence on labour-intensive activities and foreign labour, diversify into higher value-added activities, rationalise their operations through mergers and acquisitions, improve productivity, and ultimately to enhance export performance. Malaysian Industrial Development Finance Berhad (MIDF), the programmer implementer spent RM266 million for the programme to assist 177 SMEs.
- **Tabung Projek Usahawan Bumiputera-i (TPUB-i)** is a microfinancing programme with the objective of providing working capital to Bumiputera entrepreneurs who had been awarded projects and contracts but had not been able to obtain financing from financial institutions. The programme was undertaken by Credit Guarantee Corporation Malaysia Berhad (CGC) with an expenditure of RM220 million to assist 200 SMEs.
- **TEKUN Financing** is a soft loan scheme to finance expansion of SMEs; provide entrepreneurship information, business opportunities, advisory services and support as well as microfinancing facilities for working capital to assist small Bumiputera entrepreneurs in their new start-up business and project implementation. TEKUN Nasional, the programme implementer spent RM200 million on the programme to assist 34,000 SMEs.
- **Dana Pembangunan Usahawan Sabah** is a microfinancing scheme to train entrepreneurs to be competitive in order to take their business to a higher level and to provide assistance in the form of facilities and funding (programme incubator / accelerator and business premises). The programme implementer Unit Peneraju Agenda Bumiputera (TERAJU) spent RM15 million on the programme to assist 5,080 SMEs.
- **Bumiputera Youth Entrepreneurship (TUBE) Programme** is implemented by SME Corp. Malaysia which utilised RM9 million to assist 500 start-ups among Bumiputera youths. TUBE was implemented with the objective to acculturate entrepreneurship among youths and to change their mindset from being job seekers to become employment providers by creating resilient entrepreneurs. The programme has an impact on the increase of formation and formalisation of businesses in Malaysia.

BNM SPECIAL FUNDS

BNM has five special funds which provide concessionary lending rates to finance the working capital requirements of SMEs, expansion of production capacity and performance of projects / contracts awarded by the Government.

The funds are:

- Bumiputera Entrepreneurs Project Fund (Islamic)
- Fund for Food
- New Entrepreneurs Fund 2
- Fund for Small and Medium Industries 2
- Micro Enterprise Fund



Four of the funds are channelled through participating financial institutions (FIs) comprising banking institutions (BIs) and development financial institutions (DFIs) while the Bumiputera Entrepreneurs Project Fund (Islamic) is channelled through CGC. At end-2016, more than 72,000 SMEs had received financing totalling RM29.4 billion, inclusive of the RM2 billion financing for 5,954 new businesses. In the first three months of 2017, a total of RM300 million in financing was approved for another 1,539 applicants.

Table 6.1: Status of BNM Special Funds as at End-2016

Type of Fund / Scheme	Allocations	Approvals	Disbursements	Repayments	Loans Outstanding	Utilisation Rate *
	RM million					(%)
Fund For Food	300.0	2,039.1	2,020.4	1,790.8	229.6	73.3
New Entrepreneurs Fund 2	2,550.0	4,674.4	4,501.3	3,965.6	535.7	32.5
Fund for Small and Medium Industries 2	6,300.0	21,307.9	20,470.1	14,987.6	5,482.5	99.9
Micro Enterprise Fund	200.0	431.8	427.6	284.0	143.6	73.9
Bumiputera Entrepreneurs Project Fund – Islamic	300.0	921.6	537.8	464.4	73.4	100.0
Total	9,650.0	29,374.8	27,957.2	21,492.4	6,464.8	80.7

* $Utilisation\ Rate = (Allocation - Fund\ Available) \times 100$; $Fund\ Available = Allocation - Approval + Repayment\ Allocation$

Source: Bank Negara Malaysia



SMALL DEBT RESOLUTION SCHEME (SDRS)

To provide a holistic and conducive financing ecosystem for SMEs, BNM had, in 2002, established the Small Debt Resolution Scheme (SDRS) to assist viable SMEs that were affected by impaired financing involving multiple banks. SDRS acts as a platform to work out possible debt rehabilitation solutions amicably between participating financial institutions (PFIs) and SMEs without resorting to legal proceedings.

As at end-December 2017, 83% of total cases (992 applications) with a total of RM1.2 billion in financing were approved for restructuring or rescheduling. About 56% of SMEs assisted under the scheme were able to improve their cash flow, turn around their business and continued to operate. The positive results obtained through SDRS have proven that amicable rehabilitation arrangement is an effective mechanism to support viable and sustainable SMEs that are financially distressed. As at March 2017, 1,015 applications were approved for rehabilitation, of which 73% fully settled their debt ultimately.

SDRS continues to complement the restructuring and rescheduling of SME financing by the PFIs which undertake about 94% of the total rehabilitation applications. Given the current challenges in the business environment, SMEs are advised to act early and be proactive in seeking an early solution to their financial problems to avoid having their business wound up or the entrepreneur declared a bankrupt. It is imperative that SMEs not only settle their debt obligations and maintain financial discipline but also maintain proper records of their business, including audited accounts, as these are evidence of their history, achievements and potential.

FINANCIAL INCLUSION

In recent years, a key focus of BNM has been the promotion of inclusive financing that facilitates access to appropriate and affordable financial services for all segments of the society. In 2015, the Financial Inclusion Index score increased significantly to 0.90 from 0.77 in 2011 (1.00 indicates full inclusion). The index measures the level of financial inclusion and effectiveness in achieving the four desired outcomes of financial inclusion; namely, convenient accessibility, high take-up, responsible usage and high satisfaction. The across-the-board improvements were attributable to several factors such as greater accessibility to financial access points throughout the country, increasing responsibility in the usage of products and greater levels of satisfaction among financial consumers.

There was significant improvement in convenient accessibility which measures the availability of financial access points at district and sub-district levels. All 144 districts and 97% (2011: 46%) of the 866 sub-districts with a population of above 2,000 now have access to essential financial services. As a result, 99% of Malaysians (2011: 82%) have convenient access to financial services that are reliable, affordable and safe. The expansion of these access points, particularly in the rural areas, is largely attributed to agent banks. The volume of financial transactions, valued at RM8.5 billion, conducted through agent banks increased exponentially from three million in 2012 to 100 million by the end of 2016.



The growing popularity of Internet and mobile banking has also contributed to convenient accessibility. The number of Internet banking subscribers rose to 22.8 million (2011: 11.9 million) or 71.9% of the total population while the number of mobile banking subscribers increased to 8.9 million (2011: 1.6 million) comprising 28.3% of the total population in 2016.

Similarly, there has been a noticeable improvement in the overall level of satisfaction with financial services in the country. The percentage of FI customers who are satisfied with overall financial services increased to 73% (2011: 61%) with higher satisfaction levels recorded across every segment of the population, including low-income households which recorded a rise in satisfaction to 67% (2011: 60%). This is attributed to the upgrading of services and performance of FIs to enhance customer experience. The reduction of red tape, notably in key private sector initiatives, such as the PARTNER programme by the banking industry to simplify documentation and improve the turnaround time for processing SME financing and housing loans, has also contributed to the higher satisfaction level.

Be that as it may, gaps still remain, predominantly among low-income households when it comes to usage of financial products and services. To address the gaps, BNM has introduced various measures which include encouraging FIs to provide microsaving products with low committed periodical savings, affordable microinsurance and microtakaful products by insurance companies and takaful operators as well as the provision of customised microfinancing solutions for SMEs.

FINANCIAL ADVISORY SERVICES

SMEs can avail themselves to a wide range of channels to obtain advisory services and information on Government and private sector financing schemes and programmes. These channels include ***BNM Laman Informasi Nasihat dan Khidmat*** (BNMLINK), One Referral Centre (ORC) at SME Corp. Malaysia, Association of Banks Malaysia (ABM), Ministries and agencies as well as DFIs and commercial banks.

BNMLINK

Tel: 1300 88 5465

Fax: 03-2147 1515

Email: bnmtelelink@bnm.gov.my

bankinginfo.portal

www.bankinginfo.my

One Referral Centre (ORC)

SME Corp. Malaysia

Tel: 1300 30 6000 Fax: 03-2775 6000

Email: info@smecorp.gov.my

www.smecorp.gov.my

CGC's Client Service Centre

Tel: 03-7880 0088

Fax: 03-7803 0077

Email: csc@cgc.com.my

www.iguarantee.com.my



FINANCIAL AWARENESS AND OUTREACH

BNM continuously conducts various outreach initiatives to enhance awareness and educate SMEs, particularly microenterprises and new businesses, on the various financial schemes available. Towards this end, BNM had, in 2016, participated in 414 events and distributed about 1.8 million flyers, brochures and booklets to more than 270,000 SMEs nationwide. Since its launch in 2011, BNM's MobileLINK services has been used to reach out to nearly 70,000 individuals in rural communities in 44 *mukims* nationwide. Among the services provided by MobileLINK are advisory services on banking, insurance and takaful and matters related to SME financing.

BNM also made site visits and provided briefings to FIs and SMEs on the Special Relief Facility in the States that were affected by floods last year. It also conducted industry dialogues in collaboration with the Association of Banks Malaysia (ABM) and the Association of Islamic Banking Institutions Malaysia (AIBIM) with the objective of creating better understanding of the challenges faced by the business community.

National e-Payment Roadshow

BNM continues to work closely with the banking industry to increase awareness and enhance confidence among consumers and businesses in the use of cost-effective e-payment services. During the year, the National e-Payment Roadshow events were held in 20 towns across nine States in collaboration with banking associations and the National Cards Group.

The roadshow, which was attended mainly by SMEs and microenterprises, served as a platform to promote the use of payment cards, electronic funds transfers and online banking services as well as to educate participants on safe practices in performing e-payment transactions. Selected bank branches also offered various incentives under township campaigns held in conjunction with the roadshow, such as lower Merchant Discount Rates and free rental for POS terminals to businesses that signed up for acceptance of payment cards.

Awareness on Remittance

Extensive consumer awareness and education programmes were mounted by BNM in collaboration with the Money Service Business (MSB) industry. BNM and industry collaborated with foreign embassies, relevant authorities and organisations in the private sector to raise awareness on access to authorised providers of MSB services, the advantages of dealing with authorised providers and the risks from using informal channels.

As part of the efforts to increase the transparency and effectiveness of outreach activities, BNM collaborated with the World Bank in November 2015 to establish Johor Bahru as the first Greenback champion city in Asia. The Project Greenback 2.0 aims to increase efficiency in the market for remittances through an innovative approach. Given the growing share of cross-border remittances by SMEs, BNM also extended the project to the former, the first time SMEs have been included in Project Greenback.



Karnival Kewangan 2017

In early 2017, BNM in collaboration with various Ministries, agencies and FIs, held the inaugural *Karnival Kewangan* in Kuala Lumpur from 13 - 15 January with the aim of increasing financial literacy across all segments of the society.

The three-day event attracted about 25,000 people who visited about 100 exhibitor booths for information on financial services, financial management and consumer protection. Advisory and consultation services were extended to SMEs during the event as well as pocket talks covering topics such as SME financing, financial education, debt restructuring, financial scams, fintech, e-payment, Islamic finance and insurance.



ALTERNATIVE FINANCE AVENUES

Business financing in Malaysia has evolved over the past decade and one of the more significant developments is the growth of capital market financing of business activity which has subsequently diluted the concentration of bank financing. More recently, financing demand has also reflected the broader shifts in economic activities which are moving towards knowledge-based business in tandem with higher deployment of technology. Such a development has created new sources of financing and spurred traditional lenders to adopt novel lending approaches and programmes and at the same time helped to bridge the gap by opening up new financing opportunities for innovative and early-stage businesses. Notable examples include:

- Crowdfunding and peer-to-peer (P2P) lending, which lowers search costs for both lenders and borrowers;
- Private equity and venture capital, which allows for more aligned risk and return expectations of fund providers;



- Asset-based lending structures, which takes into account the value-generation capacity of reference assets;
- Factoring, which enables less credit-worthy borrowers to improve cash flows by substituting their credit risk with that of more established customers; and
- LEAP Market that provide light-touch form of regulation to attract SMEs to be listed in the platform, regulated by Bursa Malaysia.

Alternative finance models are also increasingly leveraging on digital platforms, further increasing their efficiency and potential to address financing gaps in the economy. Public awareness on alternative finance avenues has also trended upwards and businesses have been reporting their increasing use of alternative financing methods, supported by the growth in non-bank financial intermediation.

There remains significant room to support the development of alternative finance in Malaysia. In 2015, key outstanding alternative finance, which includes venture capital, leasing and factoring, and crowd funding, totalled RM3.3 billion compared to RM25.1 billion in total SME financing applications rejected by banks. This suggests an estimated financing gap of RM21.8 billion that could potentially be met by alternative finance.

Banking institutions have a role in encouraging the development of alternative finance in Malaysia, with the application of investment intermediation and value-based banking practices underpinned by Shariah contracts. The use of equity- and exchange-based financial instruments such as musharakah and ijarah offer differentiated value propositions, which allow risks to be shared between investors and business owners. Waqf and other donation-based arrangements to deliver more direct benefits to society are also gaining traction within the Islamic banking sector.

The introduction of invoice trading platforms has enabled SMEs to convert their receivables into cash in a quick and efficient manner and at more competitive rates. Invoice trading is expected to grow, with electronic-based platforms playing a more important role in attracting sophisticated investors as well as institutional funders. The potential to tap into a wider, new consumer base has also seen the increasing participation of banks as institutional funders in bank-intermediated invoice trading platforms.



SME FINANCING IN 2017

The Government has made a financial commitment of RM2.5 billion to implement 148 SME development programmes to assist 66,410 SME beneficiaries in 2017. Of the total allocation, RM1.9 billion (77.1%) will be to fund 34 programmes for Access to Financing to assist 22,524 SME beneficiaries. These include:

- **Green Technology Financing Scheme (GTFS)** which is a credit guarantee programme with an allocation of RM538 million to enhance the development of green technology by facilitating the growth of the industry. Malaysian Green Technology Corporation (GreenTech Malaysia) is the programme implementer.

The objective is to reduce energy consumption by facilitating the growth of the green technology industry to enhance its contribution to the national economy, increase national capability and capacity for innovation in development of the technology, and enhance Malaysia's competitiveness in this sector in the global arena as well as enhance public education and awareness of green technology.

- **Soft Loan Scheme for Automation and Modernisation (SLSAM)** is implemented by the Malaysian Industrial Development Finance Berhad (MIDF) with an allocation of RM266 million to assist 177 SMEs. The programme is to assist manufacturing companies to modernise and automate their manufacturing processes, upgrade production capability and capacity, minimise dependence on labour-intensive operations and foreign labour, diversify into higher value-added activities; rationalise operations through mergers and acquisitions, improve productivity, and ultimately enhance export performance.
- **Soft Loan for SMEs (SLSME)** has a financial commitment of RM105 million to assist 77 SMEs, implemented by MIDF. The scheme is to provide assistance for project, fixed assets and working capital financing to existing and new start-up companies; assist SMEs which are operating in unlicensed premises to relocate to legal industrial sites or premises; and to improve their competitiveness, efficiency and productivity through the adoption of ICT in business management and operations.
- **TEKUN Financing** is a soft loan scheme implemented by TEKUN Nasional with a financial commitment of RM130 million. The programme provides funds to SMEs for expansion and entrepreneurship information and business opportunities as well as advisory services and support in order to develop a TEKUN entrepreneurial community that is competent, innovative and progressive. The programme also aims to inculcate an entrepreneurial culture among participants and provide microfinancing facilities to meet the working capital needs of small Bumiputera entrepreneurs in their start-up business and project implementation.
- **High Impact Programme (HIP) 3: SME Investment Programme (SIP)** is a co-funding initiative between the Government and private investors to enhance access to financing for SMEs, especially at the early stage. It will be undertaken in collaboration with the appointed SME Partners under the programme. In 2017, a total of RM20 million has been allocated under the programme.



- **PROSPER Runcit** is a soft loan scheme implemented by Perbadanan Usahawan Nasional Berhad (PUNB) with a financial commitment of RM50 million to assist 500 SMEs. The objective is to increase the number of Bumiputera entrepreneurs in the retail and distributive trade sector as well as to inculcate a culture of entrepreneurship among Bumiputeras by providing specific skills knowledge and experience.

