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CENTRAL BANK OF MALAYSIA

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*The purpose of this paper is to examine common perceptions of financing difficulties faced by SMEs, based on evidence from industry and independent sources. The findings offer useful insights to support the Bank's ongoing public information and engagement programmes to address the perceptions.*

# Access to Financing for SMEs: Perception vs. Reality

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# Access to Financing for SMEs: Perception vs. Reality

Recent findings of OECD<sup>1</sup> and domestic surveys conducted have shown increased access to financing by Malaysian SMEs. Nevertheless, common perceptions of financing difficulties faced by SMEs still persist. This article examines the perceptions based on available demand and supply side data, along with feedback from financial institutions (FIs) and SME chambers and associations:

## **Perception 1: Financing is a key constraint for Malaysian SMEs**

According to the latest bi-annual survey by SME Corporation Malaysia (SME Corp), 97% of SMEs which applied for financing from FIs affirmed that they were able to obtain financing. Of this, 27% were first time borrowers and 23% were without collateral and credit guarantee.

The key challenges cited by SMEs were non financing-related<sup>2</sup> and primarily focused on cyclical business challenges and the higher cost of doing business.

Supply side data from FIs further support the findings of the SME Corp survey:

1. Financing to SMEs by FIs continues to grow above 7%, outpacing households (5.1%) and large corporations (6.3%);
2. The approval rate for financing applications by SMEs, at 76.4%, is consistently higher than that for all consumer segments (62.3%); and
3. FIs' share of SME financing over total business financing has continued to trend upwards, accounting for 50% of total business financing by FIs as at September 2017 (2010: 38%).

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<sup>1</sup> Malaysia is cited as having sustainable SME financing growth among 39 countries, based on the report Financing SMEs and Entrepreneurs 2017: An OECD Scoreboard (April 2017).

<sup>2</sup> Only 10% of SMEs reported difficulties with current financing facilities mainly linked to delays in loan approvals/disbursement, requests for additional guarantors or collateral and higher interest charged.

FIs remain the primary source of financing for SMEs, with financing outstanding amounting to RM310.6 billion as at end-September 2017, or 97% of total financing outstanding to SMEs. This is complemented by various Government funds and schemes for SMEs. An allocation of RM10.4 billion is further provided under BNM’s special funds for financing to SMEs.

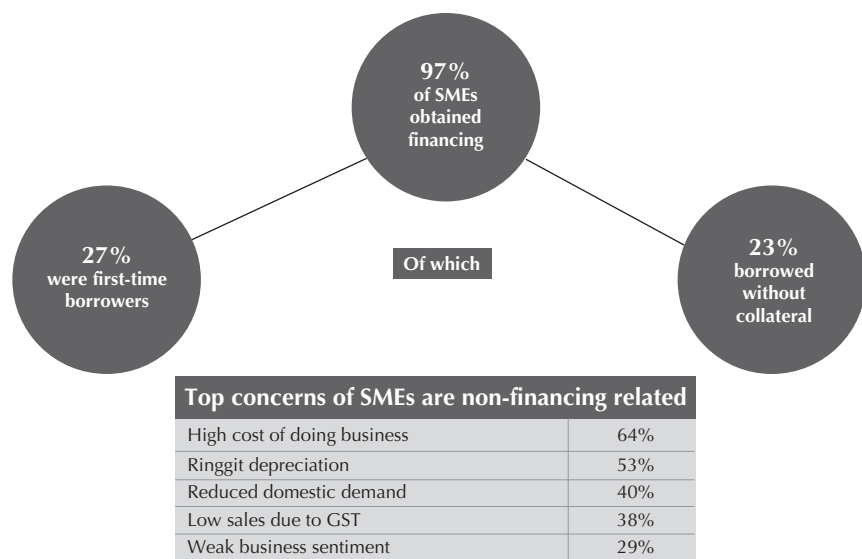
### Perception 2: Applying for financing is an opaque and complicated process

In practice, banks have streamlined and simplified the application process for SME financing. The processing time for unsecured financing applications has improved significantly, from 70 days previously to 7-16 days<sup>3</sup> on average. The improvement has been driven largely by:

1. the PARTNER programme, under which banks adopt standardised loan application forms and provide a checklist of required documents to applicants;
2. dedicated SME desks at FIs to assist and advise applicants on the preparation of financing documents and measures that they can take to improve their eligibility for financing; and
3. the mobilisation of 20,363 bank officers nationwide to increase the capabilities, awareness and knowledge of SMEs on financing matters. Areas covered include credit application requirements and processes, financial management and business planning.

Diagram 1

Reality: Majority of SMEs which require financing were able to obtain financing

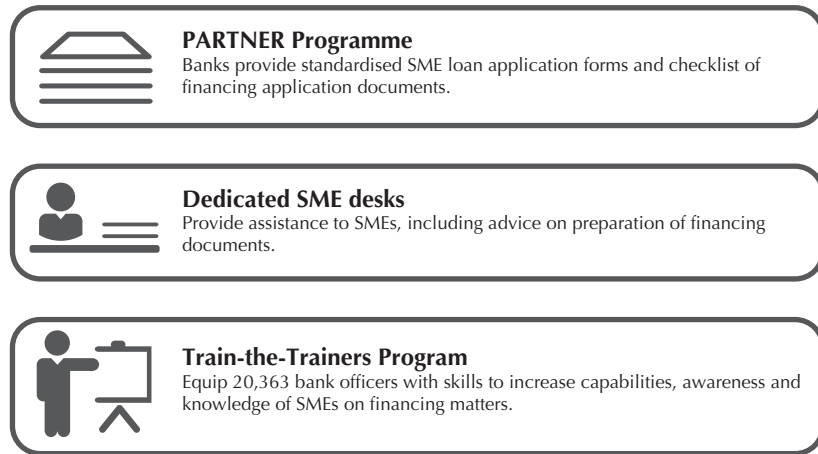


Source: 1Q 2017 SME Corp Survey

<sup>3</sup> Processing time is seven days for financing up to RM500,000 and 16 days for financing above RM500,000 on average.

Diagram 2

Reality: Simplified application process has improved processing time significantly



**Perception 3: Banks do not extend financing to start-ups**

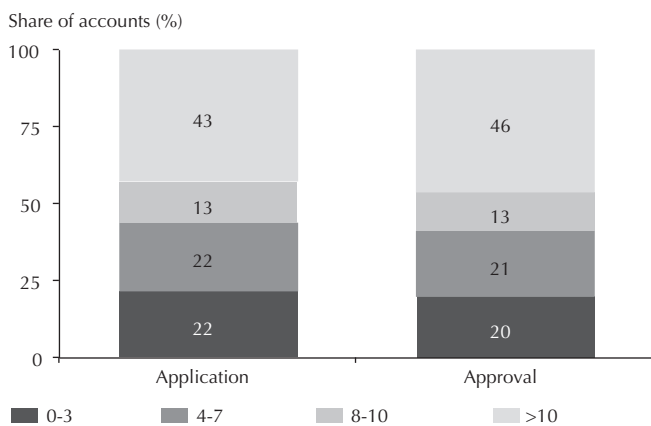
Data on bank financing to SMEs show that 20% of SME financing approvals are for newly established SMEs (three years or younger), broadly in line with the share of applications received<sup>4</sup>. The rejection rate for new SMEs is also observed to be only marginally higher than the average rejection rate for all SMEs. Liaison with FIs indicates an increased appetite for financing younger SMEs, in line with ongoing improvements in approaches to assess risk and viability. These developments are consistent with the increasing focus by FIs on SMEs as a strategic growth segment.

Diagram 3

Reality: Start-ups receive financing from FIs with similar approval rate

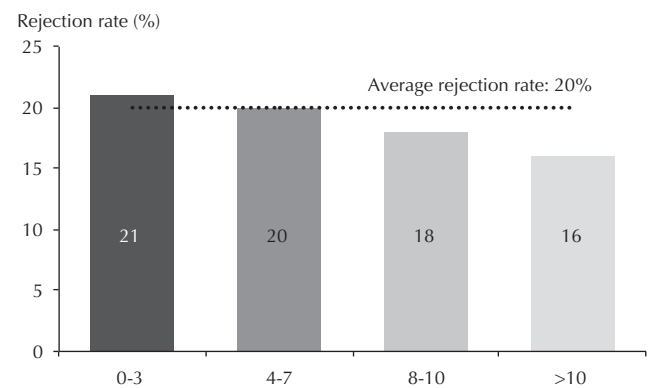
Banks lend across a broad spectrum of companies, including newly established SMEs (20% of total approvals)

Chart: Share of financing approvals and application by years in operation



Rejection rate for young SMEs is only slightly higher than overall average

Chart: Financing rejection rate by years in operation

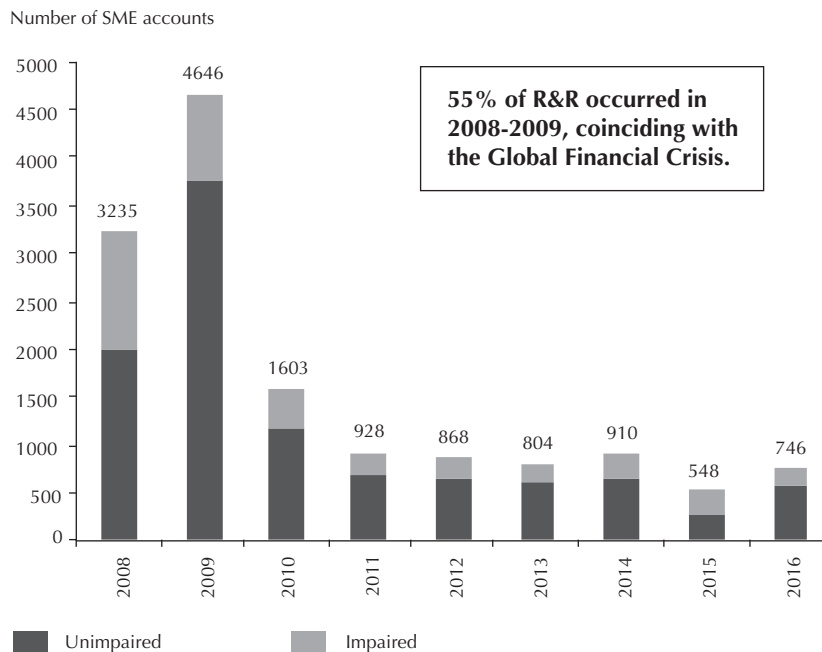


<sup>4</sup>Based on CCRIS data (2016).

**Diagram 4**

**Reality: Pre-emptive assistance is actively provided to financially distressed SMEs**

**Chart: R&R carried out from year 2008-2016**



**Perception 4: Banks are quick to withdraw financing lines and/or reduce credit limits of SMEs during economic downturns**

Less than 2% of SMEs surveyed by SME Corp with existing financing from FIs reported difficulties due to reduced credit limits or a withdrawal of credit facilities. On the contrary, debt restructuring and rescheduling (R&R) assistance provided to viable but financially distressed SMEs generally increased during economic down-cycle, helping SMEs maintain their credit facilities. More than 14,000 SME accounts were restructured or rescheduled between 2008 and 2016, of which 73% were initiated on performing accounts, underscoring pre-emptive actions taken by FIs to assist SMEs.

## Conclusion

The evident differences between perception and reality underscore the need for continuing education and engagement programmes to reach more SMEs with information on financing sources available and avenues that they can approach to obtain assistance. The Bank continues to work with its partners to achieve this. The Bank is also pursuing additional initiatives to enhance financing to SMEs, including:

1. the development of an online SME Financing Platform by Credit Guarantee Corporation (CGC) to enable SMEs to source suitable financial solutions from multiple FIs and SME funds more efficiently and seamlessly; and
2. the implementation of a Financial Accelerator Lab that will work with key collaborators to deliver an end-to-end solution for SMEs that face higher hurdles to obtain financing.

Moving forward, the development of alternative financing avenues (e.g. equity crowdfunding, P2P, private equity and venture capital) to complement the banking system remains key to support SMEs, particularly in new growth areas. Bank financing will remain ill-suited to some businesses in such areas, given the fiduciary responsibility of banks to ensure the safety of the public's deposits and avoid excessive risk-taking.



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