

### Development of Small and Medium Enterprises

A dynamic small and medium enterprise (SME) sector will contribute to development objectives, including towards more efficient allocation of resources, employment, the development of indigenous entrepreneurship, equitable growth and poverty eradication. The economic potential of the SME sector thus makes SME development an important Government agenda. During the year, further measures were taken to develop a strong and dynamic SME sector by strengthening the enabling infrastructure for SME development, building capacity and capabilities, and improving access to financing by SMEs.

#### Profile of SMEs

The Baseline Census of Establishments and Enterprises conducted in 2005 (Census 2005) provided important data on the profile and performance of SMEs to facilitate the formulation of effective policies and strategies to support SME development. Based on a large sample response of 552,804 business enterprises, SMEs formed 99.2% or 548,267 of the business establishments in Malaysia, of which almost 80% or about 435,300 were micro enterprises. The findings also revealed that 87% of SMEs were in the services sector, followed by 7.2% in the manufacturing sector and 6.2% in the agriculture sector.

#### Key Initiatives and Achievements for SME Development in 2008

Several key initiatives were implemented in 2008, reflecting the strong commitment towards SME development:

##### (i) **SME Central Coordinating Agency - Assuming the Secretariat Function of National SME Development Council**

In August 2004, the National SME Development Council<sup>1</sup> (Council) was set up as the highest policy-making body for SME development. The Council is chaired by the Prime Minister and BNM was the Secretariat. Its functions included coordinating and formulating SME policies across all sectors, as well as monitoring and evaluating the implementation and effectiveness of SME programmes by the Ministries and Agencies. The Secretariat also acts as a single point of reference for the Government and SMEs on information relating to the development of SMEs.

During its time as Secretariat to the Council, the following initiatives were implemented to support SME development:

##### (a) **Improved policy formulation, monitoring and assessment**

- Preparation of the SME Development Blueprint, an annual action plan and assessment of public sector programmes for the development of SMEs; and
- Establishment of macro targets for SME development 2006 – 2010.

##### (b) **Strengthened capacity and capability building for SMEs**

- Appointment of Pembangunan Sumber Manusia Berhad (PSMB) and establishment of the SME Marketing Committee to coordinate training and marketing efforts for SMEs; and
- Strengthened financial advisory services through the establishment of BNM's Laman Informasi Nasihat Khidmat, SME Bank Advisory Centre and financial advisory services provided by the commercial banks.

##### (c) **Enhanced access to financing for SMEs**

Strengthened financial service providers through:

- Establishment of SME Bank;
- Transformation of Credit Guarantee Corporation to expand credit guarantee facilities to assist SMEs in obtaining financing;

<sup>1</sup> Consists of 15 Ministers, the Chief Secretary to the Government and three Heads of Agencies

- Transformation of Bank Pertanian Malaysia to enhance its capacity to lend to agriculture and agro-based industries;

Developed new financial products for SMEs:

- Rolled out microfinance for micro enterprises;
- Introduced new trade finance products;
- Launched RM300 million venture capital funds for agriculture businesses; and
- Introduced RM1 billion Overseas Project Financing facilities.

**(d) Improved statistical information**

- Developed standard SME definitions;
- Initiated the Census of Establishments and Enterprises 2005; and
- Established the National SME Database.

**(e) Disseminated comprehensive information**

- Published the SME Annual Reports on the status and performance of SMEs as well as key programmes on SME development;
- Establishment of SMEinfo portal to provide a one-stop information centre for SMEs; and
- Establishment of Human Resource Development (HRD) training portal to provide training information for SMEs.

In July 2008, the secretariat function held by Bank Negara Malaysia was successfully transferred to the Small and Medium Industries Development Corporation (SMIDEC), which will be transformed to become the new SME Corporation Malaysia, a dedicated Government agency to spearhead SME development in Malaysia. This dedicated Agency will coordinate SME policy formulation and programme implementation across all sectors and Government Agencies. The Agency will also serve as the central point of information, reference and advisory services for SMEs across all sectors and acts as the Secretariat to the National SME Development Council. SME Corporation Malaysia is targeted to be fully operationalised in 2009. This marks a turning point for the development of a more dynamic, competitive and resilient SME sector.

**(ii) National SME Development Blueprint 2008**

The National SME Development Blueprint 2008 which was endorsed by the Council on 2 June 2008, provided an assessment of the SME programmes implemented in 2007 and identified programmes that will be implemented in 2008.

In 2007, more than 286,000 SMEs were assisted through the implementation of 189 key programmes, involving a total expenditure of RM4.9 billion. SMEs assisted in 2007 include a total of 135,000 women entrepreneurs and students who benefited from entrepreneurship and technical training programmes, while more than 4,750 SMEs were provided with business premises and factories.

In 2008, 198 key programmes were targeted to be implemented with a financial commitment of RM3.2 billion to assist SMEs across all sectors, in the areas of infrastructure support, capacity building and in improving access to financing. The main focus of programmes in 2008 was towards promoting SMEs in the services and agriculture and agro-based sectors, in line with the strategies formulated in the Ninth Malaysia Plan (9MP) and Industrial Master Plan 3 (IMP3).

As part of the initiatives to address gaps in SME development programmes, focus group discussions were conducted with the trade associations and business chambers representing SMEs. Arising from the sessions conducted, feedback from SMEs were evaluated and SMEs' views and suggestions were highlighted to the relevant Ministries/Agencies to facilitate future planning and implementation.

The adoption of the SME Blueprint Management Framework by the Council in 2005 has shown benefits after only three years of implementation. The structured approach of the Blueprint has resulted in the strong commitment of Ministries and Agencies to implement focused SME development programmes as well as in meeting the targets set. Inter-Ministry/Agency collaboration and coordination remain the priority of the Blueprint to ensure effectiveness of programmes and greater outreach to SMEs.

### (iii) SME Annual Report 2007

On 24 July 2008, the Council released the SME Annual Report 2007. The Report is an important initiative to disseminate information on the strategies and programmes that have been implemented by the Government to support the growth of the SME sector. The report also showcased success stories of several SMEs who have benefited from Government programmes.

## Enhancing Access to Financing for SMEs

### Comprehensive and Diversified Financing Landscape for SMEs

**SMEs have 651,563 accounts<sup>1</sup> with financing value of RM138.9b as at end-2008**

#### Banking Institutions

- 54 banks with 4,149 branches
- **RM124.8 billion** financing outstanding to 550,716 SME accounts at end-2008
- 2008: **RM54.4 billion** financing approved to 117,524 SME accounts

#### Development Financial Institutions (DFIs)

- 6 DFIs with 682 branches
- **RM14.1 billion** financing outstanding to 100,847 SME accounts at end-2008
- 2008: **RM4.8 billion** financing approved to 31,220 SME accounts

#### Venture Capital (VC)<sup>3</sup>

- 56 VC companies
- Outstanding **RM1.9 billion** investment in 450 companies at end-2008
- 2008: **RM477 million** invested

#### Leasing and Factoring

- **RM1.8 billion** financing outstanding at end-2008
- 2008: **RM556 million** approved

#### Financing by Banking Institutions and Development Financial Institutions include:

##### 5 Bank Negara Malaysia Special Funds

- Approved **RM18.1 billion** financing to 37,438 SME accounts
- **RM7.6 billion** outstanding at end-2008
- 2008: **RM2.1 billion** approved to 3,758 SME accounts

##### 2 Financing Schemes with Guarantee Facilities

- August-December 2008: **RM1.1 billion** approved to 4,923 SME accounts

##### 114 Government Funds and Schemes<sup>2</sup>

- Approved **RM100.3 billion** to 1.5 million SME accounts at end-2008
- **RM9.7 billion** financing outstanding at end-2008
- 2008: **RM14.7 billion** approved to 267,929 SME accounts

##### Small Debt Resolution Scheme

- Since establishment, restructured NPLs of 627 SMEs amounting to **RM373 million**
- 2008: Restructured NPLs of 62 SMEs amounting to **RM49 million**

##### Credit Guarantee Corporation Malaysia Berhad

- Guaranteed **RM42.1 billion** financing to 384,033 SME accounts since 1972
- Outstanding guaranteed financing of **RM15.6 billion** to 94,354 SME accounts at end-2008
- 2008: Guaranteed **RM3.0 billion** financing to 10,368 SME accounts

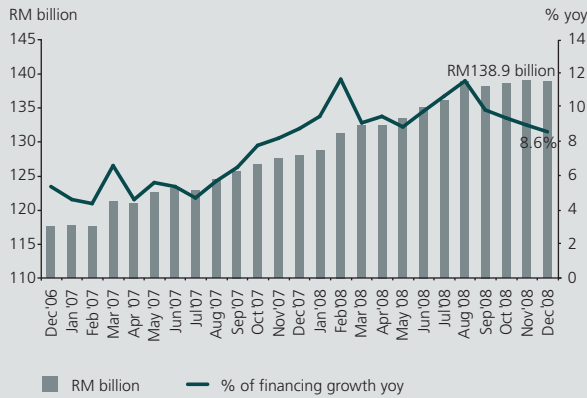
Note 1: Consist of accounts maintained with banking institutions and development financial institutions

Note 2: Only part of the Government's funds and schemes are disbursed through development financial institutions. Source from SMIDEC

Note 3: Source from Securities Commission

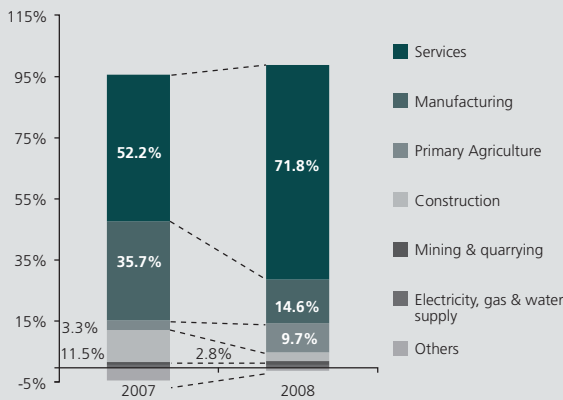
There are various sources of financing available for SMEs. These include financing from banking institutions, development financial institutions, leasing and factoring companies, as well as venture capital companies. In addition, many SME financing schemes have been set up by the Government. Banking institutions remain the largest source of financing for SMEs, accounting for 90% of the SME financing outstanding of the financial institutions<sup>2</sup> at end-2008.

**SME Financing Outstanding of Financial Institutions**

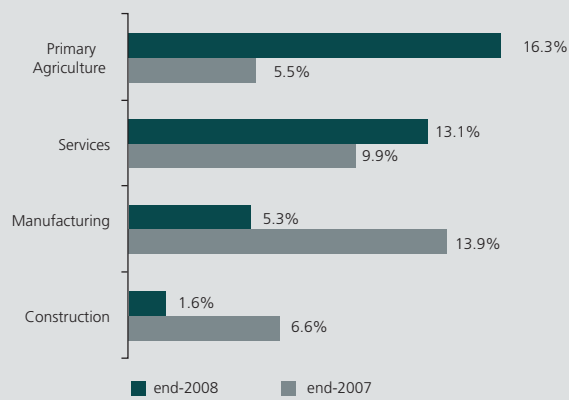


Financial institutions continued to support the financing needs of SMEs in 2008. Despite the challenging economic environment, SME financing outstanding of the financial institutions expanded by 8.6% to RM138.9 billion at end-2008 (end-2007: 8.8%; RM128 billion). Financing to SMEs accounted for 42.3% of total business financing of the financial institutions at end-2008 (end-2007: 44%).

**Sector Contribution to the Increase in SME Financing Outstanding**



**Financing Outstanding by Major Sectors (%yoy change)**



On a sectoral basis, the services sector continues to drive financing growth in 2008, contributing 72% to the total increase in the SME financing outstanding in 2008. The strength in the services and agriculture sectors offset the lower contribution from the manufacturing and construction sectors. Financing to the primary agriculture sector grew strongly in 2008, expanding by 16.3% (2007: 5.5%). Financing to the

<sup>2</sup> Refers to banking institutions and development financial institutions (DFIs).

manufacturing and construction sectors moderated, reflecting the reduced demand for financing from these sectors.

### **Progress of Major Initiatives to Improve Access to Financing for SMEs**

Efforts to enhance access to financing for SMEs continued to focus on four broad areas: (i) strengthening the financial infrastructure for SMEs; (ii) enhancing and developing financing incentives and schemes for SMEs; (iii) strengthening financial service providers; and (iv) strengthening the provision of advisory services for SMEs. The objective is to ensure that SMEs at various stages of growth are able to have adequate access to financing.

#### **(i) Strengthening the Financial Infrastructure**

##### **(a) Development of a Vibrant and Sustainable Microfinance Industry**

The findings of the Census 2005 indicated that about 80% of SMEs in Malaysia are micro enterprises, and that most relied on internal sources for financing. Recognising this, the Council in 2006 approved a comprehensive microfinance institutional framework, comprising banking institutions, development financial institutions and credit cooperatives, to develop a sustainable microfinance industry.

To create greater public awareness on the availability and benefits of microfinance, the national Pembiayaan Mikro (microfinance) logo was launched in September 2007. Participating financial institutions have displayed the logo and a microfinance client charter to signify commitment in providing easy, fast and convenient microfinance services. At end-2008, more than 1,500 microfinance access points are displaying the logo. Microfinance clients who obtained microfinance were also encouraged to display the logo at their business premises. Bank Negara Malaysia had also embarked on a microfinance television commercial initiative in November 2008. In addition, microfinance information flyers were distributed at various strategic locations.

As a result of the efforts to promote the growth of the microfinance industry, nine financial institutions are now offering microfinance products under the Pembiayaan Mikro (microfinance) scheme. These provide micro enterprises with access to micro financing for business activities. At end-2008, the amount of outstanding micro financing by the nine Pembiayaan Mikro financial institutions amounted to RM478 million (annual growth rate of 113%), benefiting 45,179 microfinance customers (annual growth rate of 98%).

##### **(b) The SME Credit Bureau**

The Census 2005 highlighted that among the main problems faced by SMEs to obtain financing was the lack of financial track records. To address these issues, an SME Credit Bureau was established through a strategic partnership between CGC and Dun and Bradstreet, a premier global provider of credit information on SMEs.

The Bureau, which commenced operations in July 2008, serves as a credit databank by providing financial institutions and trade creditors data on SMEs. This comprise data acquired from Suruhanjaya Syarikat Malaysia (SSM), the Central Credit Reference Information System (CCRIS), Dishonoured Cheque Information System (DCHEQS) and SME trade data. Through its operations, the Bureau will assist SMEs to build good credit track records and hence, credibility. This increases SMEs' prospects of obtaining financing from financial institutions. The Bureau also provides credit ratings for SMEs which will inculcate prudent and sound financial management practices amongst SMEs. The ratings will identify and highlight areas of weaknesses for SMEs to improve

their operations. Financial institutions will also be able to have timely and efficient access to credit information on SMEs, leading to faster and accurate decisions on loan applications.

Within five months of operations, the Bureau has managed to secure membership from 37 financial institutions and nearly 18,000 SMEs with more than 3,400 reports generated during the period. The Bureau is currently operated by SME Credit Bureau (M) Sdn. Bhd and SMEs can register as members of the Bureau at [www.smecreditbureau.com.my](http://www.smecreditbureau.com.my).

**(c) The Small Debt Resolution Scheme (SDRS)**

Bank Negara Malaysia had established the Small Debt Resolution Scheme in 2003 to facilitate the restructuring and rescheduling of non-performing loans (NPLs) and non-performing financing (NPFs) of SMEs with on-going businesses. As at end 2008, 808 applications with total NPLs/NPFs of RM563 million had been facilitated. Of these, 627 applications involving NPLs/NPFs of RM373 million were approved for either restructuring or rescheduling, while RM18 million in new financing were approved to 37 SMEs. Restructuring and rescheduling of NPLs/NPFs will continue to be an important aspect in supporting the viability and sustainability of financially distressed SMEs. To provide a wider coverage for debt resolution, Bank Negara Malaysia in January 2008 had expanded the range of participating financial institutions to include Bank Kerjasama Rakyat Malaysia Berhad, Bank Pertanian Malaysia Berhad and Export-Import Bank of Malaysia Berhad.

**(ii) Enhancing and developing financing incentives and schemes for SMEs**

Given that 99.2% of business establishments in Malaysia are SMEs, adequate access to financing is critical to enable SMEs to contribute to the economic development of the nation. Bank Negara Malaysia has developed several initiatives in the past year to address financing gaps and ensure that viable SMEs continue to have adequate access to financing. Among the initiatives taken are:

**(a) The SME Assistance Facility and the SME Modernisation Facility**

In August 2008, Bank Negara Malaysia introduced two financing facilities amounting to RM1.2 billion: the SME Assistance Facility and the SME Modernisation Facility. The SME Assistance Facility was established to assist viable SMEs that were facing temporary cashflow problems due to rising costs in the third quarter of 2008. Eligible SMEs would be able to enjoy interest rates as low as 4% per annum, thus providing SMEs with more flexibility in managing their finances during the challenging period. Likewise, the SME Modernisation Facility was established to incentivise SMEs to modernise their operations, in particular to purchase or upgrade machinery and equipment, including energy saving equipment, which would reduce operational costs in the long run. The performance and demand for the facilities have been encouraging. As at end 2008, 4,923 applications amounting to RM1.1 billion have been approved by the participating financial institutions.

**(b) Micro Enterprise Fund (MEF)**

In November 2008, Bank Negara Malaysia established a RM200 million Micro Enterprise Fund (MEF) to ensure viable micro enterprises have continuous access to financing during the current challenging business environment. The fund is accessible through the nine financial institutions participating in the Pembiayaan Mikro scheme. Participating financial institutions will determine the lending or financing rate to be charged and applications are subject to the normal credit approval process of the participating financial institutions. This fund is available for micro enterprises with viable businesses from 5 November 2008 to 31 December 2009. At end-2008, RM4.2 million were approved to 241 micro enterprises under the MEF. It is expected that many more micro enterprises will benefit from creation of this fund.

**(c) SME Assistance Guarantee Scheme (SME AGS)**

Bank Negara Malaysia established a RM2 billion SME Assistance Guarantee Scheme in January 2009, to ensure that viable SMEs adversely impacted by the current economic slowdown, continue to have adequate access to financing. With the guarantee cover, access to financing can be given at a lower cost to viable SMEs.

Eligible SMEs can obtain financing of up to RM500,000, and with tenures of up to five years. CGC will provide an 80% guarantee cover for financing approved under this Scheme. The guarantee cover will be provided free of charge and the cost of the guarantee will be fully borne by Bank Negara Malaysia. This Scheme is accessible at all commercial and Islamic banks, SME Bank, Agrobank, Bank Rakyat, EXIM Bank and Bank Simpanan Nasional. Participating financial institutions will determine the lending or financing rates and applications are subject to the normal credit approval process of the participating financial institutions. This Scheme is available from 3rd February 2009 till 31st December 2009, or when the financing limit of RM2 billion has been fully utilised.

**(d) Rationalisation of Government SME Funds**

To enhance the effectiveness of the 111 Government funds for SME, the National SME Development Council has agreed that the Economic Planning Unit (EPU) to conduct a study to analyse the effectiveness of the funds. Among the specific objectives of the study are to provide recommendations to rationalise the funds where appropriate; and to propose a new methodology and mechanism to channel Government funds for SMEs. The guiding principles of this process is to enhance the efficiency of the mechanism to channel financing to SMEs, while ensuring that SMEs eligible to obtain funding under the current mechanisms are not worse-off. In addition, lending to the SMEs by the Government should not be at the expense of good credit practice.

A special committee headed by the Director General of EPU and comprising representatives from the relevant Ministries and Agencies was established to oversee the study and present the recommendations to the Government.

**(iii) Strengthening Financial Service Providers****(a) Transformation of Credit Guarantee Corporation (CGC)**

To better serve the growth and development of competitive SMEs, CGC embarked on a transformation exercise in 2005. A three year plan was put in place to transform CGC from a traditional credit guarantee provider into a more effective and financially sustainable institution that can better serve the current and evolving needs of SMEs through the provision of a wider range of products and services.

In 2008, CGC focused on putting in place the necessary infrastructure to reduce its dependency on financial assistance from the Government and thus achieve financial sustainability. CGC has turned to the capital market to raise funds, introduced more dynamic investment strategies and enhanced loan quality management. CGC has also established a new business model that would be implemented in the second half of 2009.

Since its establishment in 1972, CGC has guaranteed more than RM40 billion worth of financing to more than 385,000 SMEs with insufficient collateral.

**(b) Transformation of Bank Pertanian Malaysia**

In 2008, Bank Pertanian Malaysia has been re-branded and renamed as Agrobank to widen its appeal to its core customer base. The corporatised Agrobank, now with a strengthened



capital position, has been operational since April 2008. With strengthened institutional and financial capabilities, Agrobank is positioned to be effective and instrumental in supporting and promoting the development of the agriculture and agro-based sector, by providing a broader range and more innovative financial and non-financial products and services to meet the financing and developmental needs of the sector. Agrobank is currently embarking on a series of enhancement measures to strengthen its capacity and capability, particularly in the areas of product development, risk management and information technology systems enhancement.

#### **(iv) Strengthening the Provision of Financial Advisory Services**

Initiatives have also been taken to ensure that a comprehensive financial advisory services infrastructure is in place to help SMEs. SMEs can utilise the various avenues made available to channel queries, complaints and seek assistance to rehabilitate problematic businesses. Bank Negara Malaysia provides these services through the following:

##### **(a) BNMLINK**

Bank Negara Malaysia's Laman Informasi Nasihat dan Khidmat (BNMLINK) continues to provide financial advisory services to the SMEs in the following areas:

- Information on various sources of financing available to SMEs;
- Assistance in facilitation of the loan application process; and
- Advice on SME financial requirements and problems.

As at end-2008, the number of enquiries and assistance sought by SMEs totaled 12,880 reflecting continued awareness among SMEs of the availability of such services in Bank Negara Malaysia. Of these, 83% were mainly enquiries on special funds provided by the Government and advice on loan matters, while the remaining were requests for assistance, mainly on loan restructuring and loan rejections.

##### **(b) BNMTELELINK**

To complement the walk-in counter services offered by BNMLINK, the BNMTELELINK, Bank Negara Malaysia's dedicated Contact Centre was launched in 2007. BNMTELELINK facilitates members of public including SMEs, to bring their queries and complaints to the Bank via telephone, or in writing via the fax, email or post. BNMTELELINK can be contacted at:

Tel.: 1300 88 5465

Fax: 03 – 2174 1515 / 03 – 2174 1616

Email: [bnmtelelink@bnm.gov.my](mailto:bnmtelelink@bnm.gov.my)

In addition to the above services by Bank Negara Malaysia, financial advisory services are also being provided to SMEs by all commercial banks through the respective SME Units; the SME Bank through its Advisory Centre (SAC); and the Credit Guarantee Corporation Malaysia Berhad (CGC) through its Business Advisory Services Entity (BASE) panel consultants. The Association of Banks Malaysia (ABM) has also taken steps to enhance communications with business associations, chambers of commerce and members of the public to increase awareness on access to and management of financial products and services. ABM launched a toll-free service at 1300-88-9980 to receive queries and complaints on issues relating to the banking industry and general concerns about credit.