

Development of Small and Medium Enterprises

The development of a strong and dynamic SME sector is an important national agenda towards creating sustainable and balanced economic growth. During the year, the National SME Development Council¹ (Council) had taken further steps to spur the development of SMEs to the next level by strengthening the enabling infrastructure for SME development, building SMEs' capacity and capabilities, and improving access to financing by SMEs.

Profile and Contribution of SMEs to the Economy

The Baseline Census of Establishments and Enterprises was conducted in 2005 (Census 2005) and 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 the responses 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 are micro enterprises. The findings revealed that 87% of SMEs are in the services sector, followed by 7.2% of SMEs in the manufacturing sector and 6.2% in the agriculture sector.

Achievements of SME Development Initiatives

Since the establishment of the Council in 2004, the foundations for SME development have been strengthened considerably. Various initiatives have been implemented by the Council and have benefited policymakers by improving policy formulation, monitoring and assessment of SME development programmes. This in turn has strengthened the capacity and capability, enhanced access to financing and provided comprehensive dissemination of relevant and important information to SMEs.

Key Initiatives and Achievements in 2007

The Council has implemented several key initiatives towards SME development in 2007:

(i) Establishment of SME Central Coordinating Agency

During the 7th Council meeting held in September, it was agreed that an SME Central Coordinating Agency (SME CCA), a dedicated Government agency would be established to spearhead SME development in Malaysia. A key role of the SME CCA is to coordinate the policy formulation and SME development programmes to ensure that comprehensive and effective programmes are implemented across all sectors. The SME CCA will also act as a one-stop information centre for SMEs to obtain comprehensive information and advisory services in the areas of development of business plans, marketing, technology adoption, information services, and financial advisory. In addition, the SME CCA will disseminate information on SME performance and statistics, and conduct research on SME-related issues and development. With the establishment of the SME CCA, Bank Negara Malaysia will hand over the role of the Secretariat of the Council to the Agency.

(ii) SME Annual Report 2006

On 13 September 2007, the Council released the SME Annual Report 2006. The Report is an important initiative to disseminate information on the strategies and programmes that have been implemented by the Government to support the development and growth of the SME sector. The report also showcased success stories of the SMEs.

(iii) SME Business Adviser Network

The establishment of the SME Business Adviser Network, a one-stop web-based directory in the SMEinfo Portal (www.smeinfo.com.my) provides a platform for SME business advisers in the various Government agencies and financial institutions to connect and leverage on

¹ The National SME Development Council is chaired by the Prime Minister and comprised Ministers and Heads of 15 key Ministries and Agencies involved in SME development. Bank Negara Malaysia is the Secretariat to the Council.

each other in their respective areas of expertise. The network enables SMEs to put forward enquiries and issues online, directed to the SME business advisers. This enables a timely and comprehensive range of high-quality advisory services in the areas of marketing, technology and operations management, human resource, financing, and business and product development to be made available to SMEs. Currently, there are more than 200 business advisers from financial institutions and SME-related Government agencies connected through the network to provide comprehensive, online advisory services to SMEs.

(iv) Brand-SME Development Programme

The Brand-SME Development Programme, spearheaded by the Ministry of International Trade and Industry, aims to promote, reinforce and sustain the value of individual SME brands through a National Mark. The acceptability of SMEs' products and services in the domestic and foreign markets will be enhanced through this programme which targets to promote the recognition of the National Mark. The aim of the programme is to establish 100 SME brands overseas within four years. Under the programme, selected SMEs from targeted sectors will be assisted in developing the branding of their products. SMEs will be certified and granted the use of the National Mark upon successfully undergoing the auditing process to ascertain the adequacy, readiness and commitment in the branding.

(v) Establishment of the National SME Innovation Focal Point

The National SME Innovation Focal Point was established in March 2007. This focal point is a collaboration between industry associations, entrepreneurs, research institutions, financiers (including venture capitalists) and relevant Government agencies to formulate initiatives and programmes for the development of innovation-driven SMEs. Since inception, the focal point has established a database which stores technology related research findings and through the Technology Foresight Programme, SMEs are kept abreast with the latest information on best practice technologies. A Technology and Innovation Showcase was organised in June 2007 whereby a total of 53 ready-to-commercialise research projects were showcased and 22 of these projects were adopted by SMEs. Under the Global Supplier Programme, SMEs are encouraged to develop and commercialise new and innovative products and services for international markets.

Enhancing Access to Financing by SMEs

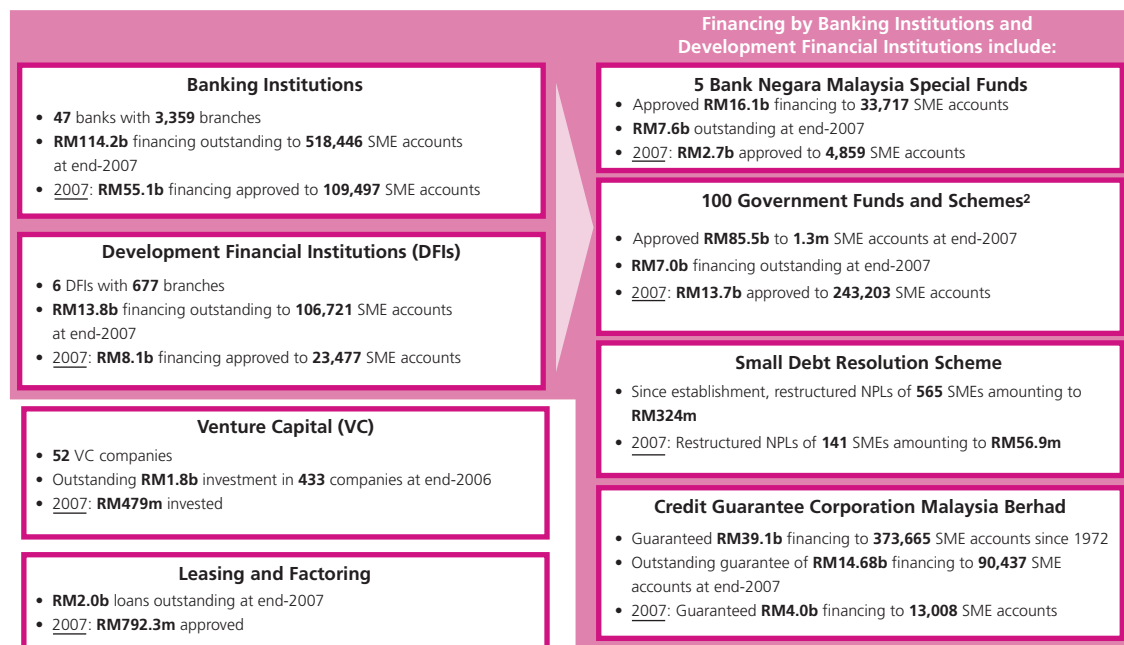
Comprehensive SME Financing Landscape

The financing landscape has been continuously evolving to meet the needs of SMEs for the three key stages of a business life-cycle, namely start-up, business expansion and rehabilitation. There are various sources of financing for SMEs from the financial institutions which includes the banking institutions, development financial institutions, leasing and factoring companies, as well as venture capital companies which provide equity financing. In addition, various special funds and schemes for the SMEs have been set up by the Government.

Financial institutions remain as the largest source of funding for SMEs. As at end-2007, total financing outstanding from banking institutions and development financial institutions amounted to RM128 billion and was provided to 625,167 SME accounts. Banking institutions are the main providers of financing to SMEs, accounting for over 89% or RM114.2 billion of total financing outstanding provided by banking institutions and development financial institutions.

A Comprehensive SME Financing Landscape

625,167 SME accounts¹ have RM128b worth of financing as at end 2007



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

Note 2: Only part of the Government funds and schemes are disbursed through development financial institutions.

Significant Expansion of Financing to SMEs

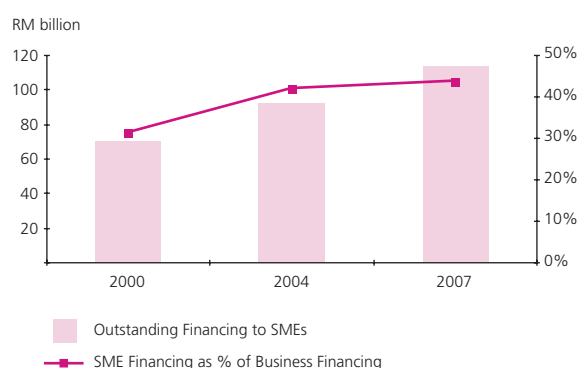
Financing to SMEs continued to expand significantly in 2007. The banking institutions and development financial institutions had approved RM63.2 billion to more than 132,000 SME accounts in 2007. This significant achievement had exceeded the 2007 projected financing approval target of RM51 billion to 110,000 SME accounts.

Banking Institutions: Main SME Financing Indicators

	During		
	2007	2006	2007 (% annual growth)
Applications (RM billion)	99.1	71.4	38.8
Number of Accounts ('000)	158.2	106.0	49.2
Approvals (RM billion)	55.1	40.2	37.1
Number of Accounts ('000)	109.5	83.7	30.8
Disbursements (RM billion)	141.5	134.1	5.5
Repayments (RM billion)	126.6	122.5	3.4
	As at end		
	2007	2007	2006
		(% annual growth)	
Financing Outstanding (RM billion)	114.2	9.1	5.1

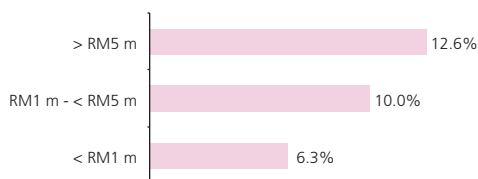
Banking institutions continued to expand financing to the SME sector. Financing applications from SMEs and approvals by banking institutions grew strongly in 2007. Applications and approvals increased by 38.8% year-on-year (yoy) to RM99.1 billion and 37.1% yoy to RM55.1 billion respectively. Disbursements grew by 5.5% yoy to RM141.5 billion, primarily reflecting disbursements to the construction and manufacturing sectors. The moderate disbursements as compared to strong approvals could be due to lower take-up of financing approved to SMEs. SMEs could have submitted multiple financing applications to a number of banks while only accepting financing offers from the bank that offers the most competitive financing rate, despite obtaining multiple approvals from banks on their applications. Alternatively, another possible reason could be the lower utilisation of approved financing lines by SMEs.

Increase in Financing to SMEs

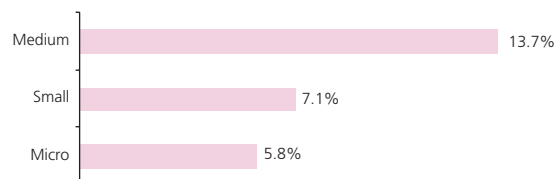


The total SME financing outstanding of RM114.2 billion accounted for 17.7% of the total banking institutions financing and 43.6% of the total business financing as at end-2007. Meanwhile, the number of outstanding SME accounts increased by 10,805 accounts to 518,446 accounts at end-2007. In 2007, larger sized financing were granted to larger sized SMEs. The growth of financing sizes larger than RM5 million (+12.6% yoy), was higher than that of those smaller than RM1 million (+6.3% yoy). Similarly, the growth of financing to medium-sized SMEs (+13.7% yoy) was higher than that of financing to small-sized SMEs (+7.1% yoy) and microenterprises (+5.8% yoy).

Financing Outstanding (By Financing Size, 2007, % yoy)

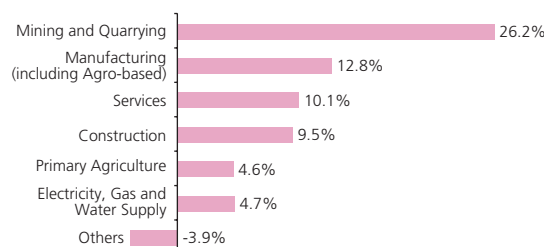


Financing Outstanding (By SME Size, 2007, % yoy)

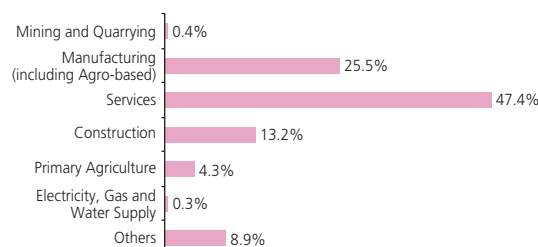


Financing outstanding grew by 9.1% yoy at end-2007, as compared to end-2006 of 5.1% yoy growth. This was mainly driven by higher growth in the construction (9.5%), primary agriculture (4.6%) and mining sectors (26.2%) and continued high growth in the services (10.1%) and manufacturing sectors (12.8%). Of the total financing outstanding at end-2007, almost 73% was

Financing Outstanding (By Sector, 2007, % yoy)



Financing Outstanding (By Sector, 2007, % Share)



extended to the services (47.4%) and manufacturing (25.5%) sectors, while the balance was extended to other sectors including construction (13.2%) and primary agriculture (4.3%).

Non-performing loans (NPLs) by SMEs continued to improve due to full or partial settlements and higher reclassification of NPLs to performing status, as well as efforts by banking institutions to achieve healthier balance sheets through loan write-offs and sale of NPLs. This has resulted in the decline of NPLs by 3.1% to RM10.4 billion as at end-2007 from RM10.7 billion as at end-2006. Similarly, gross SME NPL ratio has improved to 9.1% from 10.2% as at end-2006. On a sectoral basis, the decline in SME NPLs was mainly recorded in agriculture (-30% yoy), construction (-15% yoy) and services (-7.1% yoy) sectors.

The development financial institutions continued to complement the banking institutions in expanding the provision of financing to SMEs. In 2007, financing approvals and disbursement of the six development financial institutions² under the purview of Bank Negara Malaysia increased by 17.9% yoy to RM8.1 billion and 15.5% yoy to RM4.3 billion respectively, indicating consistent take-up and utilisation of the approved financing lines by SMEs. As at end-December 2007, development financial institution's financing outstanding grew by 6.8% yoy to RM13.8 billion, accounting for about 11% of total financing outstanding of the banking institutions and development financial institutions. 72% of the development financial institution's financing outstanding as at end-December 2007 were extended to the services (42.7%) and construction (29.3%) sectors. The balance was extended to other sectors including agriculture (11.7%) and manufacturing (8.3%).

Special Government Funds for SMEs

There are 105 Special Government Funds for SMEs with a total allocation of RM31.8 billion as at end-2007. The funds, mainly for nurturing and developmental purposes, are channelled to SMEs through the appointed financial institutions as well as various ministries and government agencies. Five of the Special Government Funds with a total allocation of RM11.4 billion, are administered by Bank Negara Malaysia. These are:

- Fund for Small and Medium Industries 2 (fund size: RM6.75 billion);
- New Entrepreneurs Fund 2 (fund size: RM2.85 billion);
- Fund for Food (fund size: RM1.3 billion);
- Rehabilitation Fund for Small Businesses (fund size: RM200 million); and
- Bumiputera Entrepreneurs Project Fund (fund size: RM300 million).

Following a recommendation by Bank Negara Malaysia, a comprehensive study is currently being conducted by the Government to enhance the effectiveness of the Government funds, including where appropriate, to rationalise the number of existing funds to be more focused in meeting the financing needs of the SMEs.

² Comprise of Bank Pembangunan Malaysia Berhad, Bank Perusahaan Kecil & Sederhana Malaysia Berhad (SME Bank), Export-Import Bank of Malaysia Berhad, Bank Pertanian Malaysia, Bank Kerjasama Rakyat Malaysia Berhad and Bank Simpanan Nasional.

Progress of Major Initiatives to Improve Access to Financing by SMEs in 2007

Although the SME financing trend has continued to grow, initiatives continued to be taken to strengthen finance providers, widen the avenues of financing and address specific issues faced by SMEs in accessing adequate financing, to ensure that SMEs at various stages of their business life-cycle are able to have access to the necessary amount and type of financing. The specific issues that are being addressed currently include insufficient collateral, insufficient financial track record, and insufficient financing sizes. The focus of the initiatives continues to be in four broad areas, that is, (i) strengthening financial service providers, (ii) strengthening the financial infrastructure, (iii) developing new financial products for SMEs, and (iv) strengthening the provision of advisory services:

(i) Strengthening Financial Service Providers

(a) Development of a Vibrant and Sustainable Microfinance Industry

Please refer to the box article on 'Development of a Vibrant and Sustainable Microfinance Industry'.

(b) Transformation of Credit Guarantee Corporation Malaysia Berhad (CGC)

CGC has embarked on a transformation exercise in 2005 to enhance its role in supporting the growth and development of competitive SMEs. The following are some key initiatives undertaken by CGC in 2007:

- Broadened the scope of guarantee beneficiaries to include selected Islamic banks and development financial institutions to allow wider outreach to SMEs;
- Established an equity financing arm, Aureos-CGC Advisers Sdn. Bhd. to provide equity financing for SMEs;
- Introduced new products and services for SMEs (see section on 'Developing new financial products for SMEs' below); and
- Embarked on an initiative to establish a SME Credit Bureau (see section on 'Strengthening the financial infrastructure' below).

(c) Transformation of Bank Pertanian Malaysia

The initiative to restructure and strengthen Bank Pertanian Malaysia (Bank Pertanian) in a comprehensive manner has achieved significant progress, with the approval of the Bill to corporatise Bank Pertanian in Parliament in December 2007. Following this, the corporatised Bank Pertanian, with a paid-up capital of RM1 billion, is expected to be operationalised in the first half of 2008.

With strengthened institutional and financial capacities, Bank Pertanian is envisaged to be more 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. In addition, Bank Pertanian 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.

(ii) Strengthening the Financial Infrastructure

(a) CGC's SME Credit Bureau

To enhance access to financing by SMEs, CGC has embarked on an initiative in 2007 to establish the SME Credit Bureau, through a strategic partnership with a premier global provider of credit information on SMEs. The Bureau is a credit databank that would facilitate financing to SMEs by providing financial institutions and trade creditors with convenient, timely and efficient access to credit information on SMEs. Through its operations, the Bureau will assist SMEs build a track record, which financing institutions can use in evaluating financing applications. In addition, SMEs could also enjoy more

favourable terms from trade creditors and suppliers, with the access to third party information on the SMEs' businesses. The Bureau is also expected to play a significant role in inculcating prudent and sound financial management practices among the SMEs, whereby SMEs could initiate adequate remedial actions to address weaknesses highlighted through the rating provided. The Bureau is expected to be in operation in the second half of 2008. SMEs can register as members of the Bureau at www.smecreditbureau.com.my.

(b) The Small Debt Resolution Scheme

The Small Debt Resolution Scheme, established in 2003, continued to facilitate the restructuring of NPLs of SMEs with on-going businesses. As at end-2007, 726 applications with total NPLs of RM486 million have been received. Of these, 565 applications involving NPLs of RM324 million were approved for restructuring, while RM18 million new financing was approved for 38 applications. To enhance the outreach of the Scheme, Bank Negara Malaysia included Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat), Bank Pertanian and Export-Import Bank of Malaysia Berhad (EXIM Bank) as participating financial institutions in the Scheme in January 2008, whereby their customers with NPLs of less than RM3 million will also be eligible to be considered under this Scheme.

(iii) Developing New Financial Products for SMEs

(a) New Products and Services by CGC

To enhance access to financing by SMEs, the following new products and services were introduced by CGC in 2007:

- A guarantee scheme for start-ups (DAGS Start-up) to assist new SMEs which have difficulties in obtaining bank financing, due to insufficient collateral and insufficient financial track record. Under the Scheme, eligible SMEs which have been in operation for less than one year may obtain 100% guarantee for financing of up to RM2 million.
- A Syariah-based guarantee scheme, the Credit Enhancer Islamic (Enhancer-*i*) was launched in January 2008.

(b) Synthetic Securitisation of SME Loans

In May 2007, Cagamas Bhd. introduced Malaysia's first securitisation of SME loans amounting to RM600 million through its wholly-owned subsidiary, Cagamas SME Bhd, with loans originating from a Malaysian banking institution. The transaction is the first synthetic securitisation transaction in the country. Through such securitisation, banking institutions will have greater flexibility in managing their SME loans portfolio and will have enhanced capacity to provide financing to SMEs.

(c) The Special Relief Guarantee Facility for Flood Affected Businesses

In 2007, Bank Negara Malaysia established a Special Relief Guarantee Facility of RM500 million to alleviate the problems faced by businesses affected by the floods which hit the country in December 2006 and January 2007. Under the facility, flood-affected businesses were able to obtain financing at subsidised rates from all commercial banks, Islamic banks, Bank Perusahaan Kecil & Sederhana Malaysia Berhad (SME Bank), Bank Rakyat and Bank Pertanian. CGC provided 80% guarantee for the financing obtained. As at end-2007, 4,640 applications were approved with total financing amounting to RM471.9 million.

(d) Venture Capital Funds for the Agriculture Sector

Two venture capital funds totalling RM300 million were established in 2006 by Bank Negara Malaysia and two banking groups. The funds are aimed at creating and developing an integrated agriculture business, particularly in farming, fisheries and livestock, as well as to finance new technology-intensive agriculture projects, including

biotechnology. As at end-2007, investments totalling RM72.9 million were made in seven companies.

(e) New Trade Financing Arrangements and Overseas Project Financing by EXIM Bank

The Multi Currency Trade Finance (MCTF) and Indirect Exporter Financing Scheme (IEFS) were established in January 2006, aimed at encouraging SMEs to export their goods and services, particularly to the non-traditional markets such as members of the Organisation of Islamic Conference. As at end-2007, RM106.9 million was approved under MCTF and RM1.8 million was approved under IEFS.

To facilitate funding for Malaysian companies with overseas projects, a RM1 billion Overseas Project Fund was established by Bank Negara Malaysia at EXIM Bank in December 2006. A total of RM190.9 million financing were approved with guarantee coverage of RM143 million as at end-2007.

(iv) Strengthening the Provision of Financial Advisory Services

To complement the financial infrastructure, initiatives have also been taken to ensure that a comprehensive financial advisory services infrastructure is in place. SMEs have utilised the various avenues made available to channel queries and complaints and take the opportunity to improve understanding of financial issues and seek assistance to rehabilitate problematic businesses. On this front, Bank Negara Malaysia has continued to provide relevant 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 financing application process; and
- Advice on SME financial requirements and problems.

At end-2007, more than 16,600 enquiries and assistance were sought by the SME sector, reflecting continued awareness among SMEs of the availability of such services at Bank Negara Malaysia. Of these, 79% were enquiries on special funds provided by the Government and advice on financing matters, while the remaining were 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 the public including SMEs, to bring their queries and complaints to the Bank via telephone, or in writing via fax, email or post. As at end-2007 (within seven months of operation), BNMTELELINK has attended to 677 enquiries by SMEs.

BNMTELELINK can be contacted at:

Tel. : 1300 88 5465 (Toll-Free Line)
 Fax : 03 – 2174 1515 / 03 – 2174 1616
 Email : bnmtelelink@bnm.gov.my

In addition to the above services, financial advisory services are also being provided to SMEs by all commercial banks through the SME Units at the respective financial institutions; the SME Bank through its Advisory Centre (SAC); and the CGC through its Business Advisory Services Entity (BASE) panel consultants.

