

## **Report on Small and Medium Enterprise Development Framework**

The development of diverse and competitive small and medium enterprises (SMEs) remains central in the national agenda towards creating economic resilience in the face of an increasingly challenging economic and financial landscape. Bank Negara Malaysia has been actively driving inter-Ministry initiatives to strengthen the infrastructure for SME development and promotion through the formation of the SME Steering Committee, which is chaired by the Governor.

Culminating from the recommendations of the SME Steering Committee, the National SME Development Council was established and is chaired by the Prime Minister. The formation of the Council represents the Government's commitment at the highest level to promote the development of SMEs. It is recognised that efforts to promote and strengthen SMEs require a comprehensive approach comprising establishing enabling infrastructure for SME development, strengthening the capacity and capability of SMEs, and enhancing access to financing. A formal structure dedicated to the development of SMEs would allow for greater synergies and the synchronisation of efforts among the various stakeholders involved in SME development. It also ensures that SME development issues across all sectors are adequately addressed.

Bank Negara Malaysia continues its SME developmental role through its SME Unit, which focuses on the promotion of greater access to financing by SMEs. The SME Unit is also the Secretariat to the National SME Development Council.

### **Towards Focused and Coordinated SME Development**

The establishment of the National SME Development Council provides the necessary strategic framework for more focused and coordinated inter-Ministry and Agency efforts on SME development to oversee efficient coordination and ensure effectiveness of policy implementation and outreach. The terms of reference of the Council are as follows:

- Formulate broad policies and strategies to facilitate the overall development of SMEs across all sectors;
- To increase the focus of the roles and responsibilities of Government Ministries and Agencies responsible for SME development;
- Enhance inter-Ministry and Agency cooperation and coordination to ensure effective implementation of SME development policies and action plans;
- Encourage and strengthen the role of the private sector in supporting the overall development of SMEs; and
- To give emphasis to the development of Bumiputera SMEs across all economic sectors

The Ministries and Agencies represented in this Council, based on their role and contribution in SME and entrepreneurial development, are as follows:

1. Y.A.B. Prime Minister (Chairman)
2. Minister of International Trade and Industry
3. Minister of Domestic Trade and Consumer Affairs
4. Minister of Entrepreneurial and Cooperative Development
5. Minister of Agriculture and Agro-Based Industries
6. Minister of Human Resources
7. Minister of Finance II
8. Minister of Energy, Water and Communications
9. Minister of Plantation Industries and Commodities
10. Minister of Science, Technology and Innovations
11. Minister of Tourism

12. Minister of Rural and Regional Development
13. Minister of Education
14. Minister of Higher Education
15. Minister of Housing and Local Government
16. Minister in the Prime Minister's Department, Y.B. Dato' Mustapa Mohamed
17. Governor of Bank Negara Malaysia
18. Director General of the Economic Planning Unit
19. Chief Executive Officer of the Multimedia Development Corporation

The Council convened two meetings in 2004 and have implemented a number of strategic initiatives. The Council approved the following initiatives to strengthen the existing infrastructure for SME development.

### **Strengthening Infrastructure for SME Development**

#### ***Definitions for SMEs in Various Sectors for Targeted Development***

To assist in the identification of SMEs across sectors and for more effective targeting of SMEs with respect to the design of future development policies, support programmes and the provision of technical and financial assistance, the Council had approved the definitions for SMEs according to the manufacturing, manufacturing-related services, primary agriculture and services sectors. The adoption of a common identifier for SMEs in these sectors will facilitate the identification of issues and prospects of the sectors concerned to enable appropriate policy actions to be taken. It will also allow closer monitoring of SME performance and contribution to the economy.

An enterprise is considered an SME in each of the respective sectors based on the Annual Sales Turnover or Number of Full-Time Employees as shown in the tables below.

#### **Approved SME Definitions in terms of Annual Sales Turnover**

Size	Manufacturing (including Agro-Based) & Manufacturing-Related Services	Primary Agriculture	Services Sector (including ICT)
<b>Micro</b>	Less than RM250,000	Less than RM200,000	Less than RM200,000
<b>Small</b>	Between RM250,000 and less than RM10 million	Between RM200,000 and less than RM1 million	Between RM200,000 and less than RM1 million
<b>Medium</b>	Between RM10 million and RM25 million	Between RM1 million and RM5 million	Between RM1 million and RM5 million

#### **Approved SME Definitions in terms of Number of Full-Time Employees**

Size	Manufacturing (including Agro-Based) & Manufacturing-Related Services	Primary Agriculture	Services Sector (including ICT)
<b>Micro</b>	Less than 5 employees	Less than 5 employees	Less than 5 employees
<b>Small</b>	Between 5 and 50 employees	Between 5 and 19 employees	Between 5 and 19 employees
<b>Medium</b>	Between 51 and 150 employees	Between 20 and 50 employees	Between 20 and 50 employees

#### ***Establishment of a Comprehensive National SME Database***

The availability of relevant and timely information on SMEs, including their operational conditions, financial status and development requirements, is important to facilitate better policy formulation in promoting SME development. Towards this end, the Department of Statistics has been appointed

to establish and maintain a comprehensive National SME Database. To facilitate the collection of relevant and comparable SME data across the various sectors, the Department of Statistics has launched a nationwide 2005 Baseline Census of all enterprises and businesses, with a focus on establishments in the manufacturing, agriculture and services sectors. This would assist the Council in assessing the current status of SMEs and their requirements, as well as identifying important issues relating to SMEs' performance and development. Information compiled from the census would facilitate the formulation of policies to promote SMEs as an important driver of growth and in the formulation of strategies for the forthcoming 9<sup>th</sup> Malaysia Plan.

#### ***Enhanced Management and Publication of SME Statistics***

The role of the Secretariat under Bank Negara Malaysia has been enhanced to include the function of overseeing and coordinating the monitoring, evaluation and publication of SME statistics and reports. Apart from meeting the information requirements of SME policymakers, the Secretariat will also be responsible for developing key performance indicators to monitor and evaluate the progress of SME development, and will oversee the management of the National SME Database. The Secretariat will also publish annual reports on SME development for the benefit of policymakers and the SMEs, thereby improving the availability of SME information in the market.

#### ***Building Capacity through Coordinated Training and Human Resource Development for SMEs***

Pembangunan Sumber Manusia Berhad (PSMB), an agency under the Ministry of Human Resources, has been appointed as the coordinating authority to oversee and coordinate overall training and human resource development for SMEs. The role of PSMB will therefore be expanded to include: identification of training needs of SMEs across all sectors of the economy, coordination, monitoring and evaluation of SME training and development programmes conducted by Ministries and Agencies, and development of a formal training accreditation system for SMEs.

#### ***Enhancing Access to Financing by SMEs***

In 2004, the banking system approved RM31.6 billion of new loans to more than 92,000 SME accounts, a significant increase of 21.9% from 2003. Loan disbursements grew strongly by 15.3% to RM100.4 billion, while outstanding loans to SMEs expanded by 7.7% to RM88.3 billion. Loans to SMEs accounted for 40.3% of outstanding business loans as at end-2004, compared with 38% as at end-2003. On a sectoral basis, lending to SMEs was diversified, with almost two-thirds being channelled to distributive trade, manufacturing and construction sectors, reflective of the business focus of majority of the SMEs. Gross non-performing loans of SMEs contracted by 11.4% to RM10.6 billion (NPL rate of 12.0%), reflective of the improving financial position of the SMEs.

Policy initiatives by BNM on enhancing access to financing by SMEs during the year focused on:

- The provision of advisory support and awareness programmes;
- Strengthening the existing infrastructure to ensure a more effective intermediation of funds to SMEs; and
- Assisting in debt restructuring of financially distressed SMEs with viable businesses.

#### ***New Initiatives to Improve Access to Financing by SMEs***

To further improve access to financing by the SMEs, the National SME Development Council approved the following initiatives in 2004:

- *Establishment of an SME Bank*  
The Council approved the concept of establishing a specialised financial institution to nurture and meet the unique needs of SMEs. The banking system, with large financial

resources and extensive outreach, will continue to be the main provider of funds to SMEs. The set-up of a dedicated SME Bank will complement the banking institutions through provision of financial and non-financial services to SMEs, including ancillary services and credit information. Besides financing, the SME Bank will focus on nurturing the SMEs and creating an entrepreneurial society.

Direct lending activities include start-up and working capital financing, while the SME Bank may also guarantee loans granted by banking institutions to SMEs and facilitate securitisation of SME loans. The SME Bank will also provide ancillary services aimed at nurturing SMEs through the provision of advisory services on financial and business management, marketing and other business aspects. In addition, similar to countries like Japan and Korea, the SME Bank will provide credit information on SMEs to facilitate credit rating and business report on individual SMEs.

- *Interest Subsidy*  
Viable SMEs are currently being assisted through special funds established by the Government to obtain financing at relatively lower costs. As a strategic initiative to further extend accessibility to financing at reasonable costs to more SMEs, while reducing the Government's financial outlay, the Council has approved the introduction of a mechanism to provide interest subsidy on SME loans to selected priority sectors extended by the banking institutions.
- *Securitisation of SME Loans*  
To provide greater flexibility to banking institutions in managing their SME loan portfolio and further enhance their financial capacity to provide lending to SMEs, the Council approved a framework to facilitate the banking institutions to securitise their SME loans. The securitisation framework would also enable SMEs to indirectly tap the capital market for financing, thus broadening the sources of funding for them.
- *New Trade Financing Arrangement for SMEs*  
In an effort to encourage SMEs to participate in the export markets, especially in the non-traditional markets and with members of the Organisation of Islamic Countries, new trade-financing arrangements for SMEs that are more accessible and with lower financing costs will be introduced. Under the arrangements, the SMEs would be able to obtain financing for pre- and post-shipment from banking institutions, with credit risks to be shared between banking institutions and the Malaysian Export Credit Insurance Berhad.

***Expanded Role of SME Unit in Bank Negara Malaysia***

Bank Negara Malaysia established a dedicated SME Unit in May 2003 to provide information on various sources of financing, facilitate loan application process, assist viable SMEs in accessing financing, and to provide advisory services on financial requirements. For greater effectiveness in planning, implementation and outreach of SME programmes and institutional arrangements for access to financing, the Council approved the enhancement of the SME Unit's role to include:

- i Coordination, monitoring and evaluation of overall SME financing across all economic sectors;
- ii Coordination of the implementation of all SME financing policies and strategies for greater effectiveness;
- iii Review of policies and strategies to enhance SMEs access to financing; and
- iv Formulate alternative modes of financing for SMEs.

With this enhancement, the Unit is now responsible for interfacing with the banking institutions, relevant Ministries and Agencies to ensure that a comprehensive financial infrastructure is in place to continuously support the growth and development of SMEs across all sectors.

During the year, the Unit undertook various initiatives to increase awareness among SMEs on financial requirements and procedures, as well as financing sources. These were done through road shows, exhibitions and briefings to SMEs, as well as publication of brochures on special funds. In addition, the Unit also conducted quarterly dialogues with SME-related trade organisations and banking institutions. Also, in 2004, the Unit received 1,401 enquiries, requests for assistance and complaints from the SMEs, of which 90% were enquiries on information and sources of financing and details relating to the special funds. Complaints relating to access to financing constituted only 10% of the enquiries received.

#### ***Higher Allocations for Special Funds***

To ensure continued access to financing at reasonable costs, Bank Negara Malaysia has established several special funds for SMEs. The funds are channelled through participating institutions comprising banking institutions, development financial institutions and ERF Sdn Bhd with lending rates ranging from 3.75% to 5.00%. Five special funds are currently available to the SMEs, namely:

- Fund for Small and Medium Industries 2 (fund size: RM4.5 billion);
- New Entrepreneurs Fund 2 (fund size: RM2 billion);
- Fund for Food (fund size: RM1.3 billion);
- Rehabilitation Fund for Small Businesses (fund size: RM800 million); and
- Bumiputera Entrepreneurs Project Fund (fund size: RM 300 million);

Due to strong demand, allocations for the Fund for Small and Medium Industries 2 and the New Entrepreneurs Fund 2 had been increased in 2004, by RM2.5 billion and RM850 million respectively. As a result, the total allocation of the five special funds amounted to RM8.9 billion at the end of 2004. Of this amount, RM8.1 billion or 91% has been approved to more than 19,000 borrowers. In 2004, RM2.9 billion in financing was approved to 4,570 new borrowers, compared with RM1.9 billion to 3,741 borrowers in 2003.

#### ***Performance of Small Debt Resolution Scheme***

The Small Debt Resolution Scheme was established on 1 November 2003 to facilitate the restructuring of non-performing loans (NPLs) of SMEs with on-going businesses. Under this mechanism, a Small Debt Resolution Committee was established to undertake independent assessments on the viability of the businesses, and loan restructuring and financing requirements of the SMEs, with the SME Unit serving as its Secretariat.

As at end-December 2004, 228 applications with NPLs of RM180.2 million were received under the scheme. Of these, 116 applications (51%) involving NPLs amounting to RM81.8 million have been approved for restructuring, whilst RM10.5 million in new financing was approved to eligible borrowers under the Rehabilitation Fund for Small Businesses. A total of 25 cases, with total NPLs of RM26.5 million, were rejected due to non-viability, while 87 cases involving NPLs of RM72 million were being evaluated. For most of the cases under evaluation, the evaluation by the implementing institutions and the Secretariat have been delayed due to the inability of applicants to provide the necessary information that form an important part of the evaluation process. The performance of the scheme has demonstrated that the restructuring of NPLs is more important than the provision of new financing to ensure the viability and sustainability of financially distressed SMEs.