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This article provides an overview of initiatives undertaken by Bank Negara Malaysia to build a comprehensive SME Financing Ecosystem, which facilitates adequate access to financing by the SMEs.

Developing the SME Financing Ecosystem

Enhancing Access to Financing for SMEs

“Bank Negara Malaysia's own efforts have been focused on ensuring that SMEs, at different stages of the business life cycle, have adequate access to financing.”

Dr. Zeti Akhtar Aziz

Developing the SME Financing Ecosystem

Enhancing Access to Financing for SMEs

SMEs are critical to Malaysia's economic growth. They represent 97.3% of registered businesses and 65% of total employment. Development of SMEs is spearheaded by the National SME Development Council (NSDC) which was established in 2004. The Council, which is chaired by the Prime Minister and comprised 14 Ministers and Heads of key agencies, serves as the highest level policy making authority on SME development. As the dedicated agency for SME development, the SME Corporation Malaysia, acts as the Secretariat to the NSDC.

FAST FACTS

97.3%	SME share of total formal businesses
35.9%	SME contribution to GDP in 2014
41.0%	Target SME contribution to GDP in 2020 (SME Masterplan)

The performance of SMEs has improved in the last 10 years since the establishment of NSDC. However, the contribution of these enterprises to the national economy

remains relatively small at 35.9% of Gross Domestic Products (GDP). The SME Masterplan 2012-2020 (the Masterplan) aims to take SMEs to the next level of development. Under the Masterplan, the contribution of SMEs to growth is targeted to increase to 41% of the country's total GDP by 2020. To achieve this target, SMEs' GDP growth needs to be sustained at 8% per annum, against the current 'business as usual' average of 6.3% per annum.

The Masterplan highlights four key observations on Malaysian SMEs:

- ❖ The productivity of SMEs in terms of contribution to GDP is low compared with larger firms and SMEs in other countries;
- ❖ A sizeable number of SMEs operate in the informal sectors (31% of gross national income);
- ❖ Compared to high income countries, Malaysia has a lower rate of business formation, with the majority of enterprises registered as sole proprietors or partnerships; and
- ❖ There are only a small number of high growth firms among Malaysian SMEs.

The Masterplan sets out a framework to

align SME development to the national objectives of achieving a high income economy by 2020, focussing on innovation-led and productivity-driven growth. This is supported by five components under the Framework, namely vision, goals, focus areas, action plans and a clear institutional support arrangement.

A very important element in this holistic development framework is access to financing. Towards this end, various financing schemes were made available by the Government, to support the financing needs of SMEs at all stages of the business life-cycle, from the seed/start-up companies to the large corporations.

Building the Foundations of the Ecosystem

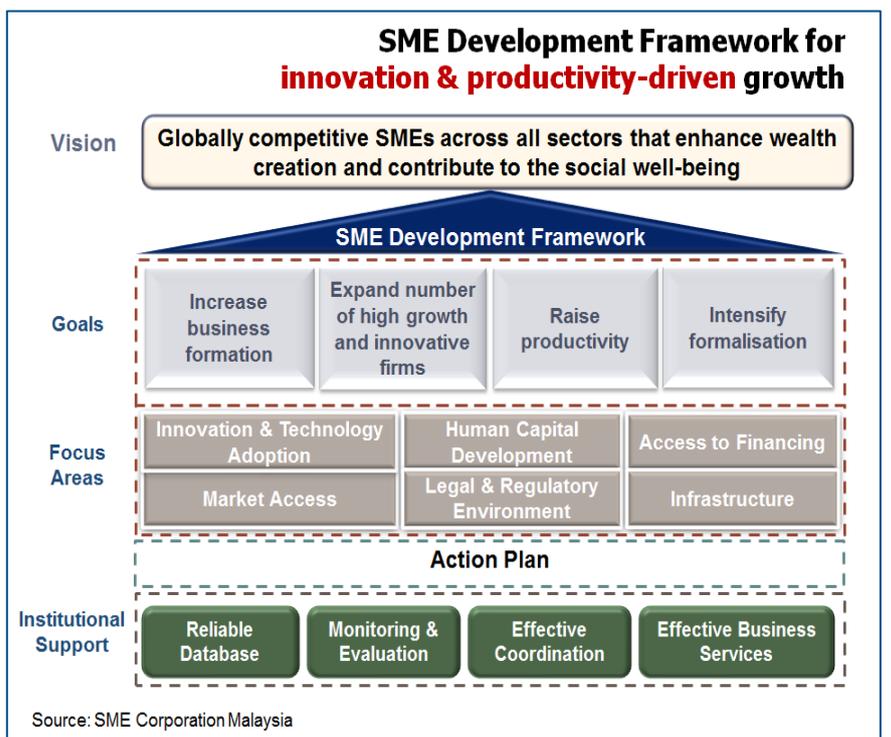
An important part of Bank Negara Malaysia’s mandate to promote an inclusive financial system is the creation of a comprehensive ecosystem for SME financing. This includes establishing effective institutional arrangements, including specific schemes for financing

and development, and providing avenues for SMEs to seek information, advice and redress as well as assistance through debt resolution and management programmes.

Financial institutions, comprising commercial banks and development financial institutions (DFIs) are the largest providers of financing for SMEs, extending RM266 billion or 96% of total outstanding financing in all economic sectors. Bank Negara Malaysia undertakes close surveillance over the performance and financial condition of financial institutions to ensure their financing activities are well supported by adequate financial resources, robust risk management, sound corporate governance and efficient processes.

The initial stage of building a financing ecosystem involved developing key infrastructure and institutional arrangements that expanded access to financing while promoting a sound credit culture. Over the years, as the needs and requirements of SMEs have evolved and become more sophisticated, the focus has now expanded to facilitating financing for new growth areas and enhancing the capacity and growth potential of SMEs through advisory services and financial education. These developments have culminated in five key pillars supporting the financing ecosystem in Malaysia:

- ❖ Financial infrastructure comprising the processes, systems and institutional arrangements that support financing applications by SMEs and credit assessments by lenders;
- ❖ Financing and guarantee schemes, including emergency funds to provide lending at competitive costs to targeted enterprises;
- ❖ Avenues for SMEs to obtain information and seek assistance or redress on financing issues;
- ❖ Arrangements for debt resolution and management to provide assistance to financially distressed companies; and
- ❖ Outreach and awareness programmes extended nationwide.



Financial institutions and non-financial institution lenders have a role in addressing some of the financing issues, while the Government continues to assist the SMEs to build capacity and capability in other areas in line with the SME Masterplan. At the same time, SMEs need to have a proper business model and clear strategies on how they can expand sustainably and profitably.

FAST FACTS	
RM266 billion	Outstanding financing to SMEs, including non-financial institutions
96.0%	Financial institutions' share of total financing extended to SMEs
82.0%	High financing approval rate by financial institutions

With the ecosystem in place, SMEs continue to have access to financing which are provided by various lenders:

- ❖ Financing outstanding from the financial system amounted to RM265.5 bil billion, involving more than 735,400 SME accounts
- ❖ Approval rate remained high at 82%, indicating strong support for SMEs by financial institutions.
- ❖ Quality of financing has improved markedly from an impaired loans ratio of 14.5% in 2003 to 3.4% as at August 2015.

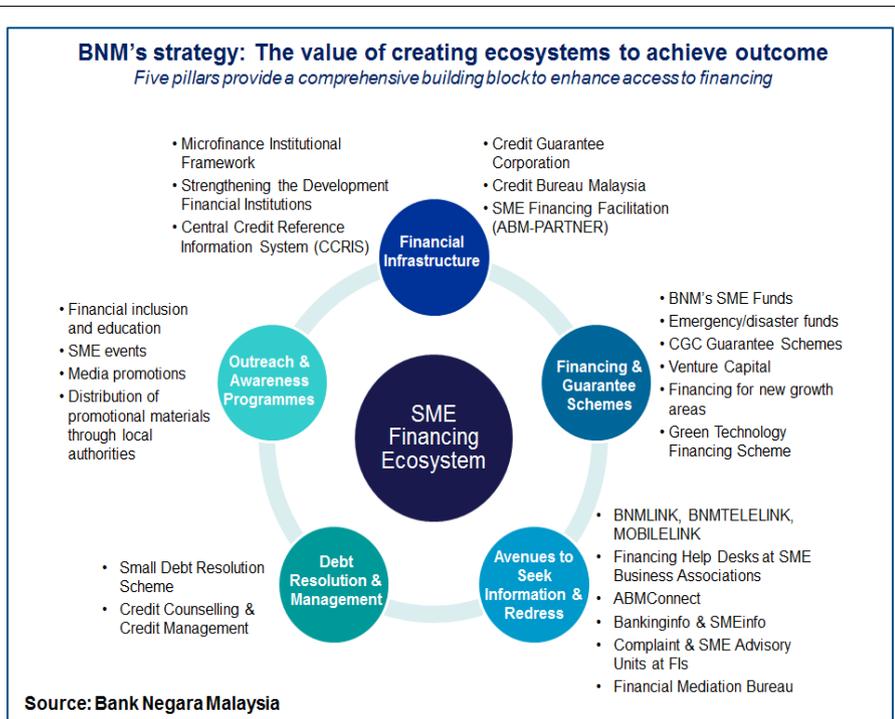
Responsible financing practices by financial institutions, and clients that are more informed and responsible in obtaining and utilising financing facilities, have also contributed to improved risk profiles of SME borrowers.

Notwithstanding the various initiatives undertaken to support SMEs, there are still challenges faced by enterprises. Information gaps remain a key constraint in the financing ecosystem, which resulted in poor understanding of lenders' expectations to qualify for financing and the fear among SMEs that once an application is rejected by a lender, it will also be rejected by other lenders.

In view of this, comprehensive communication plans and strategies to address the information gaps are critical to further enhance access to SME financing.

Moving forward, continuous support for the development of the sector remains imperative for Malaysia's economic transformation. The SME Masterplan) emphasises its importance as a strategic sector for achieving a high income and high value-added economy while maintaining balanced and inclusive growth.

With action plans directed at the focus areas of technology and innovation, marketing, human capital and entrepreneurship, infrastructure, the legal and regulatory environment, and access to financing, the sector's contribution to GDP is projected to increase to 41% in 2020. This is complemented by recommendations under the Financial Sector Blueprint 2011-2020 (FSBP) which aims to further develop and expand the financing ecosystem.



Bank Negara Malaysia

Development Finance and Enterprise Department
Bank Negara Malaysia
Jalan Dato' Onn
50480 Kuala Lumpur
Malaysia

Tel: +(603) 2698 8044
Fax: +(603) 2698 7542

<http://www.bnm.gov.my>