Comprehensive Strategy to Enhance Access to Financing for SMEs

To date, several measures have been undertaken to improve access to credit by the small and medium enterprises (SMEs), in recognition of their emerging role as an important source of dynamism and future driving force for a broad-based and resilient economy.

i. Establishment of SME units at banking institutions

- Apart from normal lending, the roles and functions of these units include providing other ancillary services such as:
  - Identify and structure appropriate financial requirements based on the SMEs' needs;
  - Conduct training courses, workshops and other educational programmes individually or in conjunction with Government agencies or other bodies;
  - Provide cash management services; and
  - Provide other ancillary services such as financial management and insurance protection.

ii. Establishment of SME Special Unit in Bank Negara Malaysia

- The SME Special Unit assists the SMEs in the following areas:
  - Provide information on the various sources of financing available to SMEs;
  - Assists SMEs in their loan applications;
  - Addresses difficulties faced by viable SMEs in securing financing; and
  - Provide advisory services on SMEs' financial requirements.

- As at 18 August 2003, the Unit has received 1,214 enquiries from the public, of which 84% were enquiries on financing, in particular, on available sources of financing.

- SMEs that require assistance can contact the Special Unit during the hours of 0900-1700 at the following numbers:

  Telephone numbers:
  03-2693 2330, 03-2691 4570, 03-2691 6539, 03-2691 3764, 03-2691 6971, 03- 2691 3486, 03-2698 0157

  Fax numbers:
  03-2691 6954, 03-2698 6705, 03-2691 7052

iii. Special funds administered by Bank Negara Malaysia

- Since 1988, Bank Negara Malaysia has provided 12 different funds for SMEs, with a total allocation of RM8.75 billion. These funds are aimed at providing financing at reasonable interest rates for SMEs in various sectors of the economy. Currently, there are six funds that are still open for applications with a combined allocation of RM4.75 billion.

- To further enhance SMEs' access to the funds, the following measures have been undertaken:

- the lending rates on the existing and new borrowers from the special funds were reduced by 0.5 percentage points in 2001; and
- the allocations for Fund for SMIs 2 and New Entrepreneur Fund 2 was increased in October 2002 by RM250 million each. The fund size was expanded again in March 2003 by RM600 million and RM400 million respectively, bringing the total allocation to RM1,250 million and RM900 million respectively.

- As at end-July 2003, RM4.6 billion have been approved from these six funds to more than 13,000 borrowers, with disbursements amounting to RM3.7 billion.

iv. Enhanced the role of Credit Guarantee Corporation (CGC)

- In 2000, BNM injected RM1 billion into CGC to strengthen its capital position, thus enabling CGC to provide more guarantees. In addition, CGC has taken the following measures to enhance its role as a guarantee provider:
  - Introduced Direct Access Guarantee Scheme (DAGS) in 2000 under which all loan applications which need guarantee cover would be processed by CGC and successful applications would be forwarded to the BIs (the usual practice is for banks to process the loans and seek CGC guarantee);
  - Increased its branch network to 12 branches; and
  - Launched 'i-Guarantee' in 2001 to enable SMEs to submit loan applications directly via the website.

- As at end-July 2003, the total outstanding loans guaranteed by CGC under its six schemes amounted to RM8.38 billion.

v. Establishment of Bumiputera Development Unit

- All commercial banks ahave set up a Bumiputera Development Unit to address the financing needs and development of Bumiputera entrepreneurs.

vi. Establishment of Special Loan Rehabilitation Unit

- To address the management of problem loans, all banking institutions have established a Special Loan Rehabilitation Unit to serve the following broad objectives:
  - To segregate the management of problem loans from normal day-to-day credit management and administration; and
  - To commit dedicated resources in terms of personnel and expertise to undertake management of problem loans on a full time basis.

vii. Lending Guidelines

- To ensure continued access to financing to the SMEs, Bank Negara Malaysia will continue to determine lending targets for individual banks based on their individual capacity.

viii. Establishment of the Special Relief Guarantee Facility of RM1 billion to alleviate the cash flow problems faced by businesses affected by the SARS outbreak (tourism-related activities)

- This facility will provide 80% guarantee for new working capital financing raised by these businesses from the commercial banks, Islamic banks, finance companies, Bank Pembangunan dan Infrastruktur Malaysia Berhad and Bank Industri dan Teknologi Malaysia Berhad.
  - The maximum amount of financing is an aggregate of RM2.5 million per group of companies;
  - Financing rate charged is 3.75% p.a. for the first year and not more than the 3-month KLIBOR+1 percentage point for the second year; and
  - The loan tenure is up to two years, with a repayment grace period of six months.

- To date, banking institutions have received 77 applications (RM68.2 million) of which 37 have been approved (RM21.1 million). Eight applications (RM9.8 million) have been rejected because the applicants do not meet the eligibility criteria.

ix. Display of Client Charter

- To enhance the efficiency of the loan approval process, banking institutions are required to display a Client Charter on processing of loans to SMEs disclosing the following:
  - The necessary documents and information which should be submitted to the banking institution to support any loan application;
  - The eligibility criteria for obtaining loans and definition of project viability; and
  - Duration taken by banking institution to process a loan application.

- The banking institutions' compliance with their Client Charters are monitored through on-site inspection of the institutions.

x. Establishment of Complaint Unit

- In order to provide a proper channel for customers to raise complaints, all commercial banks and finance companies have set up a dedicated Complaints Unit.

xi. Enhanced the role of ERF Sdn. Bhd.

- To further strengthen the process of managing issues relating to financing and advisory services for Bumiputera entrepreneurs, the Bumiputera Development Unit in BNM was transferred to the ERF in June 2002. With this expanded role, ERF acts as a one-stop centre by providing financing, training and advisory services to the Bumiputera entrepreneurs.

- Currently, ERF is managing two funds namely Tabung Projek Usahawan Bumiputera and Tabung Pemulihan dan Pembangunan Usahawan with total

allocation of RM800 million. As at end-July 2003, RM418.1 million worth of applications has been approved and RM336.4 million was disbursed under these two funds. In addition, between June 2002 to June 2003, ERF has conducted 8 training courses to more than 200 entrepreneurs.

xii. Efforts to Increase Awareness

- To ensure that SMEs are well informed on the various initiatives in place to support their financing needs, efforts were made to disseminate the information through the publication of brochures and booklets on the special funds, schemes and various products and services available for SMEs.

- In addition, Bank Negara Malaysia also participated in a number of exhibitions and trade fairs organized by the trade associations. Currently, Bank Negara Malaysia is participating in activities organised by the Chambers of Commerce nationwide.

- As part of the consumer education programme, Bank Negara Malaysia is finalising two booklets to assist SMEs on their loan application process and providing information on various products offered by banking institutions.