Chapter 3.0: SMI Financing Programmes

3.1 Introduction

The main objective of the Second Industrial Master Plan (IMP2) is to strengthen industrial linkages and enhance productivity through full integration of R&D and design capabilities, development of supporting industries, packaging, distribution and marketing. In all these, SMEs have been slated to play an important supporting role in industrial development. To support this thrust, the Government has devoted a large amount of resources to ensure adequate funding for SMEs. This has been increased during the late nineties to provide assistance to the large number of SMEs whose viability was threatened by the 1997-98 Asian economic crisis.

In addition, in order to ensure that SMEs have ready access to loans at reasonable costs, several measures were introduced to improve access to financing to a wider group of SMEs. Among the measures taken were improvement to the loan approval process in banking institutions and the promotion of alternative sources of financing like venture capital. BNM also set up a dedicated unit to monitor loan complaints. Furthermore, special funds were introduced in 2001 while the lending rates of the special funds for SMEs and *bumiputera* entrepreneurs were lowered. The scope and eligibility criteria for selected funds were also liberalised.

This Chapter presents the various SMI financing programmes and analyses the impact of the various programmes.

3.2 SMI Financing Programmes

Over the past decade, the Government has allocated more than **RM8 billion**[7] to provide financing for SMEs. Various funds have also been created to promote and assist the development and growth of SMEs, each with different objectives. To ensure that the objectives of each funding programme are achieved, the Government has formulated some guidelines and set the eligibility criteria under the respective funds. Eligible borrowers may apply for the loans from the institutions that have been appointed by the Government to implement the funds.

There are a total of 13 ministries and twenty-nine Government agencies that are responsible for administering and implementing the various funds objectives. At the end of 2001, there are 49 funds and guarantee schemes available for entrepreneurs to finance their various business ventures. The major funds available for SMEs are summarised in **Table 3.1**.

The major agencies and Ministries administering and implementing the SMI Financial Assistance Programmes include *Bank Negara Malaysia*, Ministry of International Trade and Industry (MITI), Ministry of Finance (MoF) and Ministry of Entrepreneur Development (MED). While most of the funds are being implemented by DFIs, others are also made available through commercial banks, finance companies and Islamic banks. **Table 3.2** lists the administering agencies and funds available together with the implementing agencies.

[7] Source: MITI Report 2000.

Table 3.1: Major Funds for SMEs Financing Needs

Fund	Year Launched	RM billion	Interest	Objectives
1. New Entrepreneurs Fund (NEF) *(terminated in July 2001)*	1989	1.25	6.0	Encourage new *Bumiputera* entrepreneurs to venture particularly into the manufacturing, agriculture, tourism and export oriented industries
2. Industrial Technical Assistance Fund	1990			Modernise and enhance development of SMEs
ITAF 1	1990	0.02	-	Consultancy and advisory services in business planning and development
ITAF 2	1990	0.04	-	Develop, improve & upgrade indigenous product, design & technology
ITAF 3	1990	0.04	-	Upgrade productivity and quality to international standards & certification
ITAF 4	1990	0.03	-	Assistance for SMEs to enter export markets & enhance competitiveness
3. SME Tourism Fund (SMET)	1990	0.4[1]		To assist *bumiputera* entrepreneurs in SMIs related to the tourism industry.
4. Fund for Food (3F)	1993	1.30[2]	3.75	Primary food production and new productive capacity
5. Modernisation and Automation Scheme[3]	1993	0.70	4.0	Loans for SMEs who have linkages with MNCs and potential to expand
6. Quality Enhancement Soft Loan Scheme[3]	1993	0.70	4.0	Enable quality enhancement for *Bumiputera* SMEs
7. Joint-Venture Promotion Scheme	1996	0.70	BLR +2.0	Joint-ventures between *bumiputera* and Non-*bumiputera* entrepreneurs
8. Infrastructure Development Program	1996	0.10	-	Cluster based industrial sites development
9. Financial Package for SMEs (PAKSI)[3]	1997	0.50	3.5-5.0	Project and working capital financing for SMEs
10. Fund for Small and Medium Industries (FSMI) *(terminated in April 2001)*	1997	1.85	6.0	To promote SMEs in the manufacturing, agro-based and services sector
11. Rehabilitation Fund for Small and Medium Industries (RFSMI)	1998	0.50	4.5	Assist viable SMEs that have defaulted on loan payments
12.Small Entrepreneurs Fund (SEF)	1998	0.54	6.0	Loans to small entrepreneurs
13. Fund for Small and Medium Industries 2 (FSMI2)	2000	0.4	5.0	To promote SMEs in the manufacturing, and services sectors

Fund	Year Launched	RM billion	Interest	Objectives
14. Bumiputera Entrepreneurs Project Fund	2000	0.3	5.0	Working capital for *bumiputera* entrepreneurs with contracts
15. E-Commerce Grant	2000	0.013	-	To assist SMEs to adopt e-commerce
16. Entrepreneur Rehabilitation and Development Fund	2001	0.5	5.0	To assist distressed but viable *bumiputera* companies through NPL/NPF resolution and additional working capital support
17. New Entrepreneur Fund 2 (NEF2)	2001	0.25	5.0	To encourage growth of new *bumiputera* entrepreneurs
18. Soft Loan Scheme for SMEs	2001		4.0	To assist existing & new start-up SMEs to modernise & automate their operations through project, fixed assets and working capital financing
19. E-Manufacturing Grant	2002	0.005	-	To assist SMEs to adopt ERP
20. RosettaNet Grant	2002	0.005	-	To assist local E&E to adopt and implement global supply chain management system.
21. Engineering Design Grant	2002		-	To assist SMEs to enhance their engineering design capabilities.

[1] *Initial allocationwas RM200 million. Additional allocation of RM200 million was approved in 2002.*
[2] *Initial allocation was RM1 billion. Additional allocation of RM0.3 billion was approved in 2001.*
[3] *These three schemes have been repackaged under the Soft Loan Scheme for SMEs.*

Table 3.2: Administering Institutions and Implementing Agencies of Funds

Administering Institutions	Funds	Implementing Agencies
Bank Negara Malaysia (BNM)	New Entrepreneur Fund 2 (NEF)	All Commercial Banks All Finance Companies All Islamic Banks Bank Industri & Teknologi Bank Pembangunan & Infrastruktur MIDF
	Rehabilitation Fund for Small and Medium Industries (RFSMI)	MIDF Bank Pembangunan & Infrastruktur Bank Industri & Teknologi Bank Pertanian Malaysia Sabah Development Bank All Commercial Banks All Finance Companies All Islamic Banks

Administering Institutions	Funds	Implementing Agencies
	Fund For Food (3F)	Bank Pembangunan & Infrastruktur Bank Pertanian Malaysia All Commercial Banks
	Entrepreneurs Rehabilitation and Development Fund (ERDF)	All Commercial Banks All Finance Companies All Islamic Banks
	Fund for Small and Medium Industries (FSMI)	MIDF Bank Pembangunan & Infrastruktur Bank Industri & Teknologi Bank Pertanian Malaysia Sabah Development Bank All Commercial Banks All Finance Companies All Islamic Banks
	Bumiputera Entrepreneurs Project Fund	ERF Sdn Bhd
Ministry of International Trade and Industry (MITI) – through SMIDEC	Industrial Technical Assistance Fund (ITAF)	SMIDEC/MTDC/NPC/MIDF
	Soft Loan Scheme for SMEs	MIDF
	Skills Development Programme (SDP)	Skill Development Centres
	Infrastructure Development Programme	MIEL
	RosettaNet	SMIDEC
	Special Assistance Scheme for Women Entrepreneurs	SMIDEC
	E-Manufacturing Grant	SMIDEC
Ministry of Finance (MoF)	ASEAN-Japan Development Fund Loan Scheme (AJDF)	MIDF Bank Pembangunan & Infrastruktur Bank Industri & Teknologi Bank Pertanian Malaysia
	Small and Medium Scale Industry Promotion Programme Fund (SMIPP/OECF)	MIDF Bank Pembangunan & Infrastruktur Bank Industri & Teknologi
	OECF-Funded Fund for Small and Medium Scale Industries (OECF/FSMI)	MIDF Bank Pembangunan & Infrastruktur Bank Industri & Teknologi
Ministry of Entrepreneur Development (MED)	Joint-Venture Promotion Scheme (JVPS)	All Commercial Banks
	Franchising Financing Scheme (FFS)	Bank Bumiputera Commerce Bhd Maybank Bhd
	Small Entrepreneurs Fund (SEF)	Bank Rakyat All Commercial Banks All Finance Companies

Source: SMIDP (2001-2005), www.smidec.gov.my, www.bnm.gov.my

3.2.1 SME Funding Under Bank Negara Malaysia

Currently, BNM is administering six SME funding programmes[8]. A summary of the contents of these programmes is given below, while details are compiled in **Annex 4**:

New Entrepreneurs Fund 2 (NEF2)

The NEF2 is a continuation of the New Entrepreneurs Fund. Introduced in July 2001, this RM250 million fund is aimed at stimulating the growth of *bumiputera* SMEs. The purpose of this fund is to enable *bumiputera* entrepreneurs to expand their production capacity and/or working capital but it cannot be utilised for purchase of shares or refinancing of existing credit facilities. The maximum financing rate is 5 per cent per annum with the maximum tenure being 8 years while the maximum funding available is RM5 million. This fund is available for all economic sectors.

Participating financial institutions are all commercial banks, finance companies, Islamic banks and three DFIs, i.e., *Bank Pembangunan dan Infrastruktur* (BPIMB*), Bank Industri dan Teknologi* (BITMB) and Malaysian Industrial Development Finance (MIDF). Applications should be made through any participating financial institutions. Approval will be subject to normal vetting procedures and security requirements of the participating financial institutions.

Rehabilitation Fund for SMIs (RFSMI)

Introduced in November 1998, the main objective of the RM500 million fund is to assist viable SMEs facing temporary cash flow problems to expand production capacity and/or working capital. Although it cannot be used for the purpose of purchase of shares and refinancing of existing credit facilities, the customer may utilise up to 40% of the financing amount approved to refinance and restructure existing NPL/NPF. The maximum financing rate is 4.5 per cent per annum while the maximum tenure is 7 years. The minimum funding limit is set at RM50,000 with RM5 million as the maximum funding. This funding is available for the manufacturing, agro-based and service sectors.

Participating financial institutions are all commercial banks, finance companies, Islamic banks and five DFIs, i.e., *Bank Pertanian Malaysia* (BTM), Sabah Development Bank (SDB), *Bank Pembangunan dan Infrastruktur* (BPIMB), *Bank Industri dan Teknologi* (BITMB) and Malaysian Industrial Development Finance (MIDF). Applications should be made through any participating financial institutions. Approval will be subject to normal vetting procedures and security requirements of the participating financial institutions.

Fund for Food (3F)

The RM1.3 billion Fund for Food was established in January 1993 with the main objective of increasing food production in Malaysia. Applicants can use the fund for either expansion of production capacity and/or working capital but not for the purchase of shares, personal consumption, refinancing of existing credit facilities, purchase of existing factories or labour cost except for wages. The maximum financing rate is 3.75 per cent per annum while the maximum tenure is 8 years. Although the minimum funding available is RM10,000, the maximum is either 90 per cent of the total project cost or RM5 million whichever is lower. Sectors that are eligible for the 3F include the following:

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[8] The other terminated SME Funds still monitored by BNM are: Enterprise Rehabiliation Fund, FSMI, NEF, and Bumiputera Industrial Fund.

- Primary food production i.e., animal husbandry, agriculture cultivation, fishery and biotechnology
- Integrated agriculture
- Processing and/or distribution of food subject to the condition that the raw materials are from the domestic market.

The participating financial institutions for the 3F are *Bank Pertanian Malaysia* and *Bank Pembangunan dan Infrastruktur.*

Fund for SMI 2 (FSMI2)

This RM400 million fund introduced in April 2000 is a continuation of the Fund for SMIs which was terminated. Like the FSMI, the main objective of the fund is to promote SME activities in both the export and domestic oriented sectors. The fund can be used for either expansion of production capacity and/or working capital but not for the purchase of shares, refinancing of existing credit facilities or purchase of land. This funding is available for the manufacturing and service sectors.

Participating financial institutions are all commercial banks, finance companies, Islamic banks and five DFIs, i.e., *Bank Pertanian Malaysia*, Sabah Development Bank (SDB), *Bank Pembangunan dan Infrastruktur* (BPIMB), *Bank Industri dan Teknologi* (BITMB) and Malaysian Industrial Development Finance (MIDF).

Bumiputera Entrepreneurs Project Fund (BEPF)

The main objective of the RM300 million fund which was established in February 2000 is to provide financing to *bumiputera* entrepreneurs who have been awarded contracts/projects by the Government or Government related agencies, statutory bodies and reputable private/public companies. The fund is only for working capital and cannot be used for the purpose of purchase of shares or refinancing of existing credit facilities. Maximum financing rate is 5 per cent per annum and the maximum tenure is 5 years. The maximum funding is 60% of the contract value less any advance given by the Government (if any) or RM3 million whichever is lower. The participating financial institution is ERF Sdn Bhd while all economic sectors are eligible for funding.

Entrepreneur Rehabilitation & Development Fund (ERDF)

This RM500 million fund was established in July 2001 with the main objective to assist distressed but viable *Bumiputera* companies through non-performing loans/non-performing financing resolution and additional working capital support. The fund is only for expansion of production capacity and/or working capital. Financing cannot be used for the purpose of purchase of shares or refinancing of existing credit facilities. Maximum financing rate is 5 per cent per annum and the maximum tenure is 5 years. The maximum funding is the actual working capital required or RM3 million whichever is lower. The participating financial institutions are all commercial banks, all finance companies and all Islamic banks. All economic sectors are eligible for funding.

3.2.2 Other Government-sponsored Financial Assistance for SMEs

In addition to the Funds administered by BNM, the government has also put together other financial assistance packages for SMEs. A summary of the contents of these programmes is given below, while details are compiled in **Annex 4**.

Soft Loans for SMEs

In December 2001, the Government of Malaysia introduced a **Soft Loan Scheme** is to assist existing as well as new start-up SMEs in project, fixed assets and working capital financing. The Scheme is funded via the Small and Medium Industries Development Corporation (SMIDEC) and implemented by Malaysian Industrial Development Finance Berhad (MIDF). This new loan scheme incorporates the features of the old loan schemes that were being administered by SMIDEC including the Financial Package for SMIs (PAKSI)[9], the Modernisation and Automation Soft Loan Scheme (MAS)[10] and the Quality Enhancement Soft Loan Scheme (QES)[11]. The new loan package offers assistance to SMEs in modernising and automating their manufacturing operations.

Special Assistance Schemes for Women Entrepreneurs

Launched in 1999, the aim of the scheme is to provide better access to financing for women entrepreneurs in selected sectors. The sector coverage for this scheme has been expanded to include IT related services, education services, R&D services, marketing services, tourism and other business services.

Small and Medium Scale Industry Promotion Programme/JBIC Fund (SMIPP/JBIC)

This RM280 million (¥13.98 billion) fund was set up in May 1992 under the Ministry of Entrepreneur Development to assist Malaysian-controlled SMEs in the manufacturing, agriculture and tourism sectors to purchase fixed assets as well as for consultancy services for technology transfer or upgrading. The implementing agencies for this fund are BITMB, BPIMB and MIDF.

ASEAN-Japan Development Fund (AJDF)/JBIC

The ASEAN-Japan Development Fund (AJDF)/JBIC loan scheme was launched in December 1988, with an allocation of approximately RM1 billion (¥50 billion) to promote the development of Malaysian-controlled SMEs in the manufacturing sector. The implementing agencies for this fund are MIDF and Exim Bank.

Japan Bank for International Cooperation/Fund for Small- and Medium-Scale Industries

The RM500.0 million (approximately ¥16.296 billion) loan scheme was launched in June 1999. The fund, which comes from the Japan Bank for International Co-operation (JBIC), is aimed at strengthening local small and medium-scale industries.

Industrial Adjustment Fund (IAF)

Launched in 1991, this special loan scheme provides financial assistance to manufacturing industries to undertake structural adjustments in order to enhance their efficiency and competitiveness. The scheme is open to all companies registered in Malaysia with at least

[9] The Financial Package for SMIs (PAKSI) was introduced in 1997 to provide loans to SMIs for project financing and working capital.

[10] The Modernisation and Automation Scheme (MAS) introduced in 1993, provided soft loans to SMIs for the purchase of machinery and equipment in ofer to modernise and automate their operations.

[11] The Quality Enhancement Soft Loan Scheme (QES) provided soft loans to Bumiputera SMIs for the purchase of machinery and equipment to improve their production processes and to enhance productivity.

51% of the equity owned by Malaysians. The target companies however are industries in the sawmilling, veneer and plywood, panel boards and timber moulding sub-sectors.

Interest Free Banking Scheme (IFBS)

IFBS was launched in 1997. The scheme guidelines are similar to that of NPGS but it follows prescribed Islamic lending principles. The loan range is between RM5,000 and RM50,000.

Franchise Financing Scheme (FFS)

Initiated by the Ministry of Entrepreneur Development, the purpose of the scheme is to develop "middle class *Bumiputera* entrepreneurs". The interest rates charged under this scheme are relatively low as compared to other schemes.

Small Entrepreneurs Fund (SEF)

Incepted in November 1998, SEF is fully funded by CGC with the repayment on bi-weekly basis and service charge of 6 per cent. The scheme has incorporated the financing packages and programs as follows:

- Individual financing packages;
- Integrated financing for groups of borrowers identified by organisations accredited by CGC;
- Hawker Centre Financing Scheme managed with the assistance of local authorities;
- Women entrepreneurs; and
- Graduate entrepreneurs

Rural Economy Financing Scheme

Under this scheme, the Ministry of Rural Development provides loans up to a maximum of RM250,000 for rural enterprises operating less than 3 years and a maximum of RM500,000 for rural enterprises that are in operation for more than 3 years. This loan can be used for starting up business, upgrading of business, procurement of machines and equipment and providing working capital for the purchase of raw materials. Applicants for this scheme are not required to provide collateral or guarantee, and except for a few exclusions, the scheme covers all viable economic activities in the rural areas.

SME Tourism Fund (SMET)

SMET is the first tourism fund allocated for *bumiputera* entrepreneurs in the small- and medium-sized industries related to the tourism industry, including those involved in the expansion and renovation of hotels and motels and the purchase of transport vehicles and recreational vehicles and equipment. The 2003 Budget doubled the fund[12] from RM200 million to RM400 million.

[12] The Special Fund for Tourism was set up in March 1990 to finance tourism-related projects. Funds were channelled by BNM to commercial and merchant banks at 4% p.a. while the maximum lending rate charged by the banks was 6% p.a. All small and medium-sized companies, including non-resident controlled companies, are eligible provided the fixed investment is situated in Malaysia and the cost of each project does not exceed RM3 million. Under special circumstances, eligible projects costing up to RM5 million may be considered.

3.2.3 *Private Sector Financial Assistance to SMEs*

In addition to the government-sponsored funds for SMEs, several commercial banks also offer financial assistance to SMEs. For purposes of comparison, this section of the report presents some of these packages.

The **Alliance Bank** has long been associated with SMEs and in addition to implementing the 3F, NEF, FSMI2 and RFSMI, the bank has put together its **SME A-Flex Loan** package (see **Box 3.1**) to assist SMEs in financing of commercial/industrial properties, industrial machinery financing as well as trade financing.

Box 3.1: SME A-Flex Loan (Alliance Bank)

Commercial/Industrial Properties Financing (for owner occupation)		
	Term Loan	**Overdraft**
Interest Rate*	1^{st} Year: 5.55% p.a. 2^{nd} Year: BLR + 0% p.a. 3^{rd} Year: BLR + 1.50% p.a.	BLR + 1.50% p.a.
Margin of Advance*	Up to 90% Term Loan & Overdraft (based on Sales and Purchase Agreement or Fair Market Value not exceeding RM2.0 million)	
Repayment Period*	Maximum 20 years including grace period up to 6 months	
AND		
Industrial Machinery Financing (for own use)		
Interest Rate*	BLR + 2.0% p.a.	
Margin of Advance*	Up to 70% Term Loan (based on purchase cost not exceeding RM0.5 million)	
Repayment Period*	Maximum 5 years including grace period up to 6 months	
PLUS		
Trade Financing		
Up to 50% of Sales and Purchase Agreement or Fair Market Value of the properties for Trade Financing		

** Terms and conditions apply. Applicable to manufacturing and trading sectors only.*

Source: Compiled from Alliance Bank brochure.

Public Bank Berhad has a loan package specially designed for Small Medium Enterprises and Small Medium Industries in the commercial & manufacturing sector. The **Small Medium Industries Loan Assistance for Expansion Plan (SMILAX)** can be used:

- for purchase of factories/shophouses for own use;
- for purchase of industrial land and construction of factories for own occupation;
- for refinancing of existing facilities;
- for purchase of plant and machinery;

- for working capital financing including trade bills; and
- as a standby line to meet temporary and seasonal needs.

Hong Leong Bank Berhad is aggressively targeting Malaysian manufacturing-based small and medium sized industries. The Bank offers fixed loans, overdraft and revolving credit facilities as well as investment banking services:

- Fixed Loan: This is a medium to long term facility (up to 15 years) with fixed monthly repayment schedule over the tenure of the loan. Interest rate is pegged to the bank's BLR.
- Overdraft: This is a short-term facility with no fixed repayment schedule. It offers the borrower flexibility to draw on funds as and when required. Interest rate is pegged to the bank's BLR.
- Revolving Credit: This offers borrowers short term working capital with the flexibility of drawing funds in multiples of RM100,000. Interest is pegged to the bank's cost of funds, with rollover for periods of 1, 3 and 6 months.

3.2.4 Credit Guarantee Schemes

The Credit Guarantee Corporation Malaysia Berhad (CGC) was established in 1972 with the principal objective of providing greater access to institutional credit for small-scale enterprises (SSEs) through the provision of guarantee cover to commercial banks on loans extended to SSEs. Since then, CGCs role has been expanded to meet the financing needs of small- and medium-sized enterprises (SMEs). Since September 1994, the CGC guarantee cover has also been extended to finance companies. The guarantee schemes under the CGC are listed in **Table 3.3**.

Table 3.3: The Credit Guarantee Corporation Schemes

Guarantee Schemes	Type
New Principal Guarantee Scheme (NPGS)	Conventional & Islamic
Flexi Guarantee Scheme (FGS)	Conventional & Islamic
Small Entrepreneur Guarantee Scheme (SEGS)	Conventional & Islamic
Direct Access Guarantee Scheme (DAGS)	Conventional only
Franchise Financing Scheme (FFS)	Conventional only
I-Guarantee	Application via the internet, i.e., www.iGuarantee.com.my

Source: Credit Guarantee Corporation

New Principal Guarantee Scheme (NPGS)

Introduced in 1994 to replace the Principal Guarantee Scheme (PGS), this is CGC's main guarantee scheme. The PGS was incepted in 1989 to replace the General Guarantee Scheme (GGS) and Special Loan Schemes (SLS), created in 1973 and 1981 respectively.

The GGS originally extended credit to small loans while the SLS extended the eligibility limit as well as broadened the conditions. The PGS, however, gave greater emphasis on larger loans up to RM500,000 with inadequate or without collateral. The PGS also increased the effective guarantee cover for "clean facilities" up to a maximum of RM50,000. Maximum guarantee cover was raised to 70 per cent and maximum interest rate that can be charged by the banks was raised to 1.5 per cent above BLR.

In the case of NPGS, it provides the guarantee cover on credit facilities obtained from commercial banks and finance companies, in spite of whether entrepreneurs have insufficient or no collateral at all. NPGS covers all types of businesses including sole-proprietorship, partnership or limited companies involved in any business. NPGS with CGC enables entrepreneurs to maximise collateral value and obtain more loan that what the financier normally offer. If entrepreneurs require a loan more than the value of their collateral, NPGS will provide full guarantee. There is no capping for secured portion of the loan. However for the unsecured portion, maximum guarantee provided varies by type of industry. Details of the NPGS are shown in **Table 3.4**. With the introduction of NPGS, the value of loans has increased more than ten-fold within the five-year period of implementation (1994-1999). This reflects the demand for larger loans by SMEs, more relaxed conditions and the willingness to process larger loans by the banks.

Table 3.4: Details of NPGS

Eligibility & Terms	Manufacturing Sector	Priority Sector*	Non-Priority Sectors (Others)
Maximum Borrowings	RM10.0 million	RM7.5 million	RM5.0 million
Maximum Shareholders Funds or Net Assets not exceeding:	RM10 million	RM5.0 million	RM2.5 million
Guarantee Cover			
Unsecured Portion	80 per cent	70 per cent	50 per cent
Secured Portion	90 per cent	80 per cent	60 per cent
Guarantee Fee : Up to RM1 million			
Unsecured Portion	1.0 per cent	1.25 per cent	1.5 per cent
Secured Portion	0.75 per cent	0.75 per cent	1.0 per cent
Guarantee Fee : Above RM1 million			
Unsecured Portion	1.0 per cent	1.5 per cent	1.0 per cent
Secured Portion	0.75 per cent	0.75 per cent	1.0 per cent
Maximum interest rate	1. Companies with aggregate borrowings of RM1.0 million and below: 2 per cent + BLR 2. Companies with aggregate borrowings of more than RM1.0 million: Lenders to determine margins		

Source: Credit Guarantee Corporation

* *Priority sector means those activities promoted by the Government especially those listed by the Ministry of International Trade and Industry*

<u>Flexi Guarantee Scheme (FGS)</u>

Introduced in March 1999 in response to the Government's call for greater utilisation of the special loan funds, FGS covers 3 types of Loan Funds viz., FSMI2, RSFMI, and NEF2. **Table 3.5** summarises the FGS parameters. FGS provides between 30 per cent and 80 per cent guarantee coverage for SMEs. Under this scheme CGC covers credit facility ranging from RM0.5 million up to RM2.5 million for unsecured portion with no capping for secured portion of the loan.

Table 3.5: Details of FGS

	FSMI2	RFSMI	NEF2
Maximum Loan	RM3.0 million	RM5.0 million	RM5.0 million
Maximum Lending Rate (per annum)	5.0 per cent	4.5 per cent	5.0 per cent
Loan Tenure	3 years	7 years	8 years
Guarantee Fee	Unsecured Portion : 0.75 per cent – 1.5 per cent per annum Secured Portion : 0.5 per cent – 1.25 per cent per annum		

Source: Credit Guarantee Corporation

Small Entrepreneur Guarantee Scheme (SEGS)

This scheme aims at assisting potential small-scale entrepreneurs to secure credit facilities from commercial banks and finance companies. SEGS guarantees viable small entrepreneurs to gain credit facility between RM10,000 to RM50,000 for their working capital and asset acquisition. Under SEGS, CGC provides a guarantee of up to 80 per cent of the facility. **Table 3.6** summarises the details of SEGS.

Table 3.6: Details of SEGS

Description	Criteria
Loan Amount	Minimum Amount is RM10,000 Maximum Amount is RM50,000
Type of Facilities Covered	Term Loan and Overdraft
Lending Rates	BLR + 1.5 per cent
Guarantee Fee	1.25 per cent per annum based on guarantee cover
Maximum Tenure	5 years

Source: Credit Guarantee Corporation

Direct Access Guarantee Scheme (DAGS)

The DAGS was set up to allow SMEs to approach CGC directly to obtain its guarantee and secure the required financing. This is to reduce the processing time for loan approval and disbursement as well as to develop good rapport and understanding to suit the needs and requirements of SMEs besides providing better financial and other services. DAGS also provide up to 100% guarantee coverage. All applications under DAGS are directly evaluated and processed by CGC.

Table 3.7 shows the details of this scheme which is open to all registered companies in manufacturing, processing and assembly related activities, activities supporting export-oriented industries, retailing and wholesaling activities, repair services, and franchising.

Table 3.7: Details of DAGS

Description	Criteria
Loan Amount	Between RM50,000 and RM1 million Up to RM500,000 – working capital Up to RM500,000 – asset acquisition
Type of Facilities	Term/Fixed Loan, Overdraft and Tradelines
Maximum Tenure	5 years
Lending Rate	BLR + 1.0 per cent per annum
Guarantee Fee	1.5 per cent per annum based on guarantee coverage
Processing Fee	RM200 for each successful application

Source: Credit Guarantee Corporation

Franchise Financing Scheme (FFS)

This scheme was introduced by the Ministry of Entrepreneur Development together with CGC. Under this scheme, entrepreneurs interested in undertaking the franchise business can obtain assistance through two financial institutions, viz., Maybank Berhad and Bumiputera-Commerce Bank Berhad. The applications will have to be submitted to the Ministry of Entrepreneur Development for processing before forwarding to the respective financial institutions and CGC for approval and guarantee cover. Details of the scheme are shown in **Table 3.8.**

Table 3.8: Details of FFS

Description	Criteria
Loan Amount	Maximum loan amount is RM7.5 million. Approval of loan amount depends of the business needs
Type of Facilities	Term Loan and Overdraft
Maximum Tenure	5 years
Lending Rate	1.5 per cent per annum + BLR of participating Financial Institutions. The actual funding cost borne by the borrower will be reduced between 2 per cent and 6 per cent, and the MED through CGC will pay the difference of the interest rate.
Guarantee Fee	Between 0.5 per cent and 1.0 per cent per annum
Guarantee Cover	80 per cent for Unsecured and 90 per cent for Secured

Source: Credit Guarantee Corporation

iGuarantee

In line with the effort to encourage greater use of information technology and enhance service delivery and easy access for SMEs, in July 2001 CGC launched a web service portal iGuarantee. iGuarantee is a virtual One-Stop-Loan-Centre for all SMEs in Malaysia to facilitate their business loan applications via the internet. iGuarantee provides a conducive 'market place' between potential borrowers (SMEs) and financiers (FIs) with CGC as a guarantee service provider. iGuarantee also provides easy comparison for the various loan schemes to a potential borrower while SMEs would be able to promote their products and services in the SMEs Directory at no cost.

3.3 Impact of SMI Financing Programmes

The measures that were introduced to improve access to credit have resulted in higher loans to SMEs. According to BNM, loans extended to SMEs rose by RM2.2 billion (3.1 per cent) in 2001. These loans were broad-based and the beneficiaries were the property sector, wholesale and retail, as well as the utilities and transport sectors.

3.3.1 SME Funds Monitored by Bank Negara Malaysia (BNM)

As at September 2002, a total of 19,207 cases were approved for the 12 main SME funds monitored by *Bank Negara Malaysia.* These 12 funds had an allocation of RM7.55 billion out of which the amount of loans approved amounted to RM9.0 billion. The amount drawn-down was RM8.0 billion out of which RM2.87 billion has been repaid as at September 2002. **Table 3.9** shows the status of the main SME funds that are monitored by BNM.

Table 3.9: Status of the SME Funds Monitored by BNM as at September 2002

Fund (Year launched)	Amount Allocated (RM mil)	As at September 2002				
		Number of Cases Approved	Amount Approved (RM mil)	Amount Drawn-down (RM mil)	Amount Repaid (RM mil)	Amount Outstanding (RM mil)
Enterprise Rehabilitation Fund (1988) *	800	-	289.0	289.0	167.9	121.1
New Entrepreneurs Fund (1989) *	1,250	3,141	1,432.6	1,393.5	769.5	624.0
Special Fund for Tourism (1990) *	200	194	203.5	203.4	147.4	56.0
Industrial Adjustment Fund (1991) *	100	25	95.0	95.0	76.2	18.8
Fund For Food (1993)	1,300	6,730	1,234.9	1,070.0	424.0	646.0
Bumiputera Industrial Fund (1993)	100	99	94.7	90.8	31.1	59.7
Fund for Small and Medium Industries (1998)	1,850	5,426	3,827.6	3,708.8	1,063.0	2,645.8
Rehabilitation Fund for Small and Medium Industries (1998)*	500	290	312.6	281.2	35.8	245.4
FSMI 2 (2000)	400	1,644	856.0	436.0	38.9	399.4
Bumiputera Entrepreneurs Project Fund (2000)	300	534	293.6	221.8	112.2	109.6
NEF2 (2001)	250	1,111	530.3	257.5	6.7	250.8
Entrepreneur Rehabilitation and Development Fund (2001)	500	13	1.1	0	0	0
Total	**7,550**	**19,207**	**9,170.9**	**8,047.0**	**2,872.7**	**5,176.6**

Source: Bank Negara Malaysia, Monthly Statistical Bulletin, September 2002

* *Revolving credit*

3.3.2 *Loans Guaranteed by Credit Guarantee Corporation (CGC)*

Since its inception, CGC has guaranteed 320,748 loans valued at RM21.1 billion. As shown in **Table 3.10**, in year 2001, CGC provided guarantees for 6,837 loans valued at RM1.6 billion under all schemes. In addition to that, a total of 369 and 280 loans valued at RM198 million and RM155 million were approved under FSMI2 and NEF2 respectively (without guarantee), bringing the total approved loans in year 2001 to 7,486 loans amounting to RM1.9 billion. Comparatively, in year 2000 the total approved loans were 16,791 valued at RM2.5 billion. **Table 3.11** shows in detail the loans approved under the various schemes. In 2001, three broad sectors benefited from the loans guarantee scheme, namely general business, manufacturing and agriculture (see **Table 3.12**). Loans guaranteed for general business accounts for 84 per cent of approvals and 77 per cent in terms of value for 2001.

Table 3.10: CGC, Loans Guaranteed by Number and Value, 1972-2001

Year	Number	Cumulative	Value (RM billion)	Cumulative (RM billion)
1972 – 1996	-	236,039	10.1	10.1
1997	20,655	256,694	3.9	14.0
1998	7,960	264,654	0.6	14.6
1999	32,586	297,240	2.5	17.1
2000	16,671	313,911	2.5	19.5
2001	6,837	320,748	1.6	21.1

Source: Credit Guarantee Corporation, 2001 Annual Report

Table 3.11: CGC, Loans Approved in 2000 and 2001

Schemes	2000		2001	
	No.	Value (RM million)	No.	Value (RM million)
Main Schemes	**8,595**	**2,054.1**	**6,329**	**1,451.9**
New Principal Guarantee Scheme	7,165	1,988.9	3,533	1,175.6
Small Entrepreneurs Guarantee Scheme	1,385	50.8	2,292	77.7
Islamic Banking Guarantee Scheme	23	5.8	68	38.2
Direct Access Guarantee Scheme	22	8.6	436	160.4
Programmed Lending Schemes	**8,076**	**409.1**	**508**	**135.6**
Small Entrepreneurs Fund	7,123	87.6	-	-
Flexi Guarantee Scheme	863	310.4	490	131.9
Franchise Financing Scheme	20	9.1	17	3.6
Youth Economic Development Programme	66	0.6	-	-
Enterprise Programme Guarantee Scheme	4	1.4	1	0.1
Total	**16,671**	**2,463.2**	**6,837**	**1,587.5**

Source: Credit Guarantee Corporation, 2001 Annual Report

Table 3.12: CGC, Loans Guaranteed by Sectors in 2000 and 2001

Sectors	2000		2001	
	No.	Value (RM million)	No.	Value (RM million)
General Business	92.0	80.4	84.4	76.6
Manufacturing	6.9	17.8	14.2	22.0
Agriculture	1.1	1.8	1.4	1.4
Total	**16,671**	**2,463.2**	**6,837**	**1,587.5**

Source: Credit Guarantee Corporation, 2001 Annual Report

In terms of geographical spread, the CGC guarantee schemes, one-fifth of all loans guaranteed in the main schemes are taken up by SMEs located in Kuala Lumpur (one-quarter in terms of loan value). In the case of the Programmed Lending Schemes, Kuala Lumpur accounted for 46 per cent in terms of numbers and 40 per cent in terms of value.

Most of the guarantee approvals, (34 per cent) are for loans below RM50,000. One-fifth of the number of approvals (21 per cent) is for loans between RM100,001 and RM250,000. **Table 3.13** shows in detail the number of approvals and value of loans by the different loan ranges.

Table 3.13: CGC, Loan Size Composition Under All Schemes

Loan Range	Number of Approvals		Value of Loans	
	Number	%	RM million	%
Below RM50,000	2,348	34.3	80.1	5.0
RM50,000 – RM100,000	1,193	17.5	102.7	6.5
RM100,001 – RM250,000	1,456	21.3	259.7	16.4
RM250,001 – RM500,000	1,165	17.0	448.2	28.2
RM500,001 – RM1,000,000	474	6.9	355.7	22.4
RM1,000,000 – RM10,000,000	201	2.9	341.0	21.5
Total	**6,837**	**100.0**	**1,587.5**	**100.0**

Source: Credit Guarantee Corporation, 2001 Annual Report

3.3.3 Bank Pembangunan dan Infrastruktur Malaysia (BPIMB)

During the year 2000, BPIMB approved 357 loans valued at RM663.2 million to entrepreneurs in the small, medium and large industries. In terms of value, this amount has not only surpassed its yearly target of RM529.9 million, but had also increased by 53 per cent from the previous year's performance of RM434.5 million. Loan approvals have been registering an upward trend of performance since 1998.

The highest number of approvals was made to the metal, electrical and engineering industry, amounting to RM156.7 million or 24 per cent of the total value approved. The wood and wood products industry (10 per cent) and the chemical, plastic and rubber products industry (8 per cent) were the second and third main industry sectors. These are inclusive of approvals made to large industries. **Table 3.14** indicates the development banking loan approvals made by BPIMB in 2000 by the various industry sectors.

BPIMB's responsibility towards SMI development was not neglected as 294 of the loans approved (73 per cent) were made to SMIs. The majority of the approvals for SMIs were made through the New Entrepreneur Fund (109 approvals valued at RM64.1 million) and Japan Bank for International Co-operation Fund for Small and Medium Industry (52 approvals valued at RM87.4 million).

Table 3.14: BPIMB, Development Banking Loan Approvals by Industry, 2000

Industry	Loans Approved (RM million)	Loans Approved (per cent)
Mining & Quarrying	9.5	1.4
Food Manufacturing	38.3	5.8
Wood and Wood Products	62.8	9.5
Textile and Leather Products	33.6	5.1
Paper, Printing and Publishing	6.8	1.0
Chemical, Plastic and Rubber Products	52.8	8.0
Non-Metallic Mineral Products	35.8	5.4
Metal, Electrical and Engineering	156.7	23.6
Hotels and Restaurants	3.6	0.6
Transportation	59.8	9.0
Professional Services	22.6	3.4
General Services	128.2	19.3
Financial Institutions	30.0	4.5
Recreation and Motion Picture	20.6	3.1
Others	2.0	0.3
Total	**663.2**	**100.0**

Source: Bank Pembangunan & Infrastruktur Malaysia, 2000 Annual Report

In addition to this, BPIMB has also approved 4.6 billion in infrastructure loans in 2000. These loans are given to infrastructure projects identified by the Government. The bulk of the financing was for the rail sub-sector, accounting for RM1.9 billion (42 per cent) of the total infrastructure financing. Infrastructure financing in ICT sub-sector accounted for 0.9 billion (20 per cent). The focus of BPIMB on infrastructure projects is reflected in the performance trend of loans made by the Bank. Although the loans made by BPIMB to SMEs has been rising as shown in **Table 3.15,** however, in value terms, the proportion of loans to SMEs has been declining from 56% in 1998 to only 18% in 2001.

The comparative profile of BPIMB customers in 1998 and 2002 is indicated in **Table 3.16**.

Table 3.15: BPIMB, Performance Trend, 1997 - 2001

Year	Number of loans made		Amount RM (mil)		NPL (% on # of loans)	
	Overall	SMEs	Overall	SMEs	Overall	SMEs
1997	2978	2418	1,412.98	751.76	23%	17%
1998	2389	2370	1,436.62	800.54	37%	27%
1999	2538	2494	3,295.88	813.69	21%	24%
2000	2787	2592	5,012.15	900.16	17%	18%
2001	3423	2897	6,512.23	1,202.48	15%	14%

Source: Bank Pembangunan & Infrastruktur Malaysia

Table 3.16: BPIMB, Profile of Customers (1998 and June 2002)

	Loans Approved		Loans Outstanding		NPLs	
	No	RM million	No.	RM million	No.	RM million
By industry (1998)						
Agriculture	1	0.33	6	3.06	0	0
Manufacturing	327	187.58	1,614	693.70	521	273.68
Construction	21	23.45	116	121.14	31	23.86
Utilities	0	0	11	14.56	1	1.04
Services	228	118.26	1,075	600.31	331	257.44
By Business Type (1998)						
Sole prop / Partnership	569	138.09	221	112.20	88	7.55
Private Limited	2714	11,427.55	1203	7,091.78	303	373.57
Public Limited	80	944.02	57	831.62	3	19.63
Others	81	353.02	59	329.39	14	9.76
By industry (June 2002)						
Agriculture	29	10.57	22	8.17	17	7.43
Manufacturing	2012	1,445.39	822	543.97	307	135.29
Construction	147	4,284.90	78	2,389.59	4	1.08
Utilities	11	708.85	3	201.86	2	182.57
Services	1,247	6,390.01	615	4,453.13	80	84.11
By Business Type (June 2002):						
Sole prop / Partnership	569	138.09	221	112.20	88	7.55
Private Limited	2714	11,427.55	1203	7,091.78	303	373.57
Public Limited	80	944.02	57	831.62	3	19.63
Others	81	353.02	59	329.39	14	9.76

Source: Bank Pembangunan & Infrastruktur Malaysia
Others = Corporations, Individuals, BPIMB cooperatives.

3.3.4 Bank Industri & Teknologi Malaysia (BITMB)

BITMB provides funding for 5 core industries, i.e., shipping, shipyard, marine related industries, manufacturing industries and export industries. An impact assessment was carried out in 1999 by BITMB for the period 1978 until 1998 and the overall impact as summarised in the study is presented in **Table 3.17** below.

Table 3.17: BITMB, Overall Impact Created, 1978-1998

Industry	Support Amount* (RM)	Capital Formation (RM)	Total Companies (Number)	*Bumiputera* Companies (Number)	Technical Manpower (Number)
Shipping	1.6 billion	4 billion	101	34	1,616
Shipyard	600.8 million	750 million	20	11	1,300
Marine-related	133.5 million	167 million	4	2	n.a.
Manufacturing	1.1 billion	1.3 billion	574	52	5,138
Export	40.7 billion	1.3 billion	1,176	76	n.a.
Total	44.1 billion	7.5 billion	1,875	175	8,054

Source: Assessment of Developmental Impact 1978-1998, Bank Industri & Teknologi Malaysia Bhd, 1999

* *Approval of loans, export credit insurance, guarantee and investment by Bank Industri and its subsidiaries*

The annual gross loans approved by sectors are shown in **Table 3.18**. The impact of the 1997-98 financial crisis has affected all sectors and this is reflected in the decline in the gross loans approved since 1997. The relaxation of the eligibility guidelines has facilitated the borrowers as loans approved have started to pick up again.

Table 3.18: BITMB, Annual Gross Loans Approved and Disbursed, 1997-2001

Year	Marine Sector		Manufacturing Sector		All Sectors	
	Approved (RM mil)	Disbursed (RM mil)	Approved (RM mil)	Disbursed (RM mil)	Approved (RM mil)	Disbursed (RM mil)
1997	267.2	176.7	188.6	96.6	455.8	273.3
1998	220.6	124.6	205.4	175.4	426.0	300.0
1999	117.1	89.4	115.6	77.5	232.7	166.9
2000	132.2	86.9	175.6	81.1	307.8	168.0
2001	143.7	160.4	113.0	110.0	256.7	270.5

Source: Bank Industri & Teknologi Malaysia, 2001 Annual Report.

In terms of sector spread, in 2001, most of the marine sector financing was for international shipping (37 per cent) followed by domestic shipping (35 per cent), shipyard and offshore activities (22 per cent) and maritime related industries (7 per cent). Meanwhile the manufacturing sector financing in 2001 was concentrated in production and engineering industries (29 per cent) followed by electrical and electronics (20 per cent), applications and instruments (20 per cent) and material technology (19 per cent).

Loans outstanding as at end of 2001 totalled RM930.9 million (principal and interest). Of these 58 per cent are loans to the maritime sector with the remainder 42 per cent being manufacturing sector. Large companies account for 35 per cent of the outstanding loans while the balance are SMEs (medium companies 34 per cent and small companies 31 per cent). Companies with paid-up capital less than RM3 million are defined as small companies whereas those with paid-up capital between RM3 million and RM10 million are defined as medium companies. Based on gross loans approved, for the year 2001, *Bumiputera* companies account for 13 per cent of the loans approved (16 per cent in the maritime sector and 8 per cent in the manufacturing sector).

3.3.5 Malaysian Industrial Development Finance (MIDF)

MIDF approved a total of 177 loans and leases valued at RM374.3 million for the financial year ended 31 March 2002. This is a significant increase from 139 loans and leases valued at RM284.3 million in the preceding year. The manufacturing industry remains the focus of MIDF's lending activities. Of the total approvals, 92 per cent or 162 loans and leases valued at RM306.8 million were approved to manufacturing establishments. SMEs were the main beneficiaries accounting for 132 (82 per cent) out of the 162 approvals amounting to RM174.7 million (57 per cent). **Table 3.19** shows the breakdown of lending by the different sectors.

Table 3.19: MIDF, Lending to the Manufacturing Sector (as at 31 March 2002)

Sector	Number of Approvals	Amount (RM million)
Basic Iron & Steel and Fabricated Metal Products	48	74.7
Wood & Wood Products	19	42.4
Food, Beverages and Tobacco	18	26.1
Electrical & Electronics	7	33.4
Non-Metallic Mineral Products	7	30.1
Other Manufacturing	63	100.1
Total	**162**	**306.8**

Source: Malaysian Industrial Development Finance Berhad, 2002 Annual Report

Of the total 177 loans and leases approved, 148 were for one or more of the special schemes administered by MIDF (See **Table 3.20**). Some of the loans involved funds sourced from more than one scheme. Out of the 27 loans valued at RM52.8 million approved for *Bumiputera* sponsored projects, 26 (RM47.8 million) went to *Bumiputera* SMIs.

Since its introduction in December 2001, the **Soft Loan Scheme for SMEs** administered by MIDF has been well received. To-date, 107 applications have been received, out of which 53 have been approved amounting to RM 56.8 million. The majority of the applications approved are in the basic metal, chemical and petrochemical as well as the plastics industries[13].

[13] According to SMIDEC, the allocation for this year (2002) has been exhausted. (Source: communication with SMIDEC).

Table 3.20: MIDF, Lending Under Special Schemes (as at 31 March 2002)

Schemes	Number of Approvals	Amount (RM million)
Japan Bank for International Co-operation Fund for SMI	78	90.5
Fund for Small & Medium Industries 2 (FSMI2)	24	13.0
Modernisation & Automation Scheme (MAS)	16	9.5
New Entrepreneurs Fund (NEF) and NEF2	11	18.8
Soft Loan for Small & Medium Enterprises (SLSME)	8	4.7
ASEAN-Japan Development Fund	7	13.2
Small & Medium Scale Industry Promotion Program/JBIC	4	3.2
Total	**148**	**152.9**

Source: Malaysian Industrial Development Finance Berhad, 2002 Annual Report

3.3.6 Performance of Other SME Financial Assistance Schemes

Since its inception in 1990, as at end of December 2001, a total of 5,062 applications have been received cumulatively for the four **Industrial Technical Assistance Funds (ITAF)**. Approvals were given to 3,429 applications valued at RM70.1 million. The highest number of approvals was for ITAF 4 (for market development), although ITAF 3 (for productivity and quality improvement and certification scheme) accounted for the highest value (RM34.3 million) as shown in **Table 3.21** below.

In terms of geographical spread, Selangor and KL accounted for the largest share (38 per cent) followed by Penang (7 per cent) and Johor (6 per cent). It appears that proximity to the federal capital (and to SMIDEC) does have an advantage.

Table 3.21: Status of ITAF Schemes as at end of 2001

	No. of Applications	No. of Approvals	Value (RM mil)
ITAF 1	851	629	9.6
ITAF 2	609	300	15.1
ITAF 3	1,389	929	34.3
ITAF 4	2,213	1,571	11.1
Total	**5,062**	**3,429**	**70.1**

Source: MITI 2001 Report

In 2001, 92 grants and soft loans totalling RM3.7 million were approved under the **Special Assistance for Women Entrepreneurs Scheme**. This was an increase of 121 per cent over the approvals for the previous year.

The breakdown of the approvals is shown in **Table 3.22**.

Table 3.22: Approvals under the Special Assistance for Women Entrepreneurs Scheme

Schemes	Number of Approvals	Amount (RM '000)
E-Commerce Grant	50	453
ITAF	34	433
Soft Loans (PAKSI)	8	2,800
Total	**92**	**3,686**

Source: MITI 2001 Report

SMIDEC's **E-Commerce Grant**, which was launched in July 2000, has been well received. In 2001, a total of 1,749 applications were received of which 958 were approved, involving grants totalling RM8.7 million (see **Table 3.23**). As at the end of March 2002, a total of 1,716 applications have been approved valued at RM15.77 million. With effect from 27 June 2002, the programme was discontinued as it has used up the allocated budget.

Table 3.23: Approvals of E-Commerce Grants by Sector for 2001

Sector	Number of Approvals	Share (%)	Value (RM mil)
E&E	104	10.9	1.0
Machinery & Engineering	165	17.2	1.5
Transportation	30	3.1	0.4
Resource-based	635	66.3	5.6
Others	24	2.5	0.2
Total	**958**	**100.0**	**8.7**

Source: www.miti.gov.my/quarter5f.html downloaded on September 4, 2002.

Response for SMIDEC's **E-Manufacturing Grant** has also been encouraging. For the first half of 2002, 42 applications have been received while 7 have been approved, valued at RM0.51 million.

The **Modernisation and Automation Scheme (MAS)** and the **Quality Enhancement Scheme (QES)** which were implemented by MIDF and *Bank Pembangunan & Infrastruktur* respectively have received good response from SMEs. As at the end of March 2002, 195 applications totalling RM 92.4 million have been approved for the MAS. The majority of the loan approvals were for the metal products and the machinery and engineering sectors. Meanwhile, as at the end of 2001, 186 loan approvals totalling RM78.2 million were approved for the QES, the bulk going to SMEs in the furniture, food and beverages and plastic product sectors. However, the **Financial Package for SMEs (PAKSI)** which was managed by Bank Industri & Teknologi Malaysia Berhad recorded a moderate performance. According to the MITI Report, out of the total allocation of RM56 million, while only 69.3 per cent have been approved but disbursement of the loans was only RM23.4 million as at the end of 2001. Reason cited was the lack of viable projects. Since December 2001, these three schemes have been repackaged under the Financial Package for SMEs Scheme managed by MIDF.

Chapter 4.0: Evaluation of DFIs

4.1 Introduction

The study focus on DFIs that are involved in SME financing entails evaluating whether DFIs are sufficiently equipped to meet the financing needs of SMEs. As a result, the study focuses on main aspects of DFIs operations and activities; namely:

(a) strategic planning and policy formulation in relation to the organisation's mission, goals and objectives;

(b) loans origination and accounts acquisition;

(c) credit assessment and evaluation;

(d) accounts administration and maintenance; and

(e) training needs.

In addition, the study aims to find out whether intervention, especially through JICA assistance, could help to overcome some of the developmental issues faced by DFIs. JICA assistance could also be sought to help MIDF, which is one of the leading DFIs for SME financing. As such, issues were also raised in terms of operational areas within the DFI that could do with external assistance.

4.2 Summary of Interviews with DFIs

Before the start of interviewing the representatives from the selected Development Financial Institutions (DFIs) – namely, Malaysian Industrial Development Finance Bhd (MIDF), *Bank Industri & Teknologi Malaysia Bhd* (BITMB), *Bank Pembangunan & Infrastruktur Malaysia Berhad* (BPIMB) and Credit Guarantee Corporation (CGC) – efforts were made to communicate through the appropriate channels to secure an appointment for interview. The DFIs were informed of the JICA's initiatives on a project formulation study on strengthening management and appraising capacity of DFIs in Malaysia. In seeking interview appointments, letters introducing the project proper were sent out to the CEOs and the relevant departmental heads. As the potential interview duration was potentially a lengthy one, the questionnaire (see **Annex 5** for sample questionnaire used for DFI interviews) was faxed and mailed to the appropriate officers concerned so that they could be well-prepared with relevant answers and information needed. This has effectively saved time as well and made the interviews more efficient and effective.

For MIDF, the respondents included the General Manager (Services), General Manager (Operations), Assistant General Manager (Loan Supervision), Assistant General Manager (Projects) and Manager of Research Business Development Division. The executives for BITMB who consented to the interview were the Head of Group Corporate Planning and Assistant Manager of Group Strategy and Performance. As for BPIMB, the officers present were the Manager of Corporate Planning Department, Head of Project Supervision (KL Branch), Head of Marketing and Credit Unit (KL Branch) and HR Officer. In the case of CGC, the Assistant General Manager, who has compiled the necessary information from the various departments of the corporation, represented the organisation. The full list of persons interviewed is included **in Annex 7A** while the Interview Notes are presented in **Annex 8**.

Two to four officers represented the study team. All the interview meetings were held at the premises of the DFI. Each meeting would start with a briefing on the purpose of the visit and the nature of the project formulation study. The interviews then followed the structure as set out in the questionnaire.

4.3 General Issues

The definition of SME employed by DFIs varies considerably depending on the individual DFIs and funding schemes

While the DFIs as a whole do focus on the SME market, the interviews with the DFIs suggest that they vary in their definition of SMEs. *Bank Industri* and CGC, for example, define SMEs as those companies with shareholders fund not exceeding RM10 million whereas *Bank Pembangunan* defines SMEs those with a paid-up of RM20 million or less. Given the nature of the funding sources, MIDF is presently employing two sets of definition for SMEs in its loan assessment. It covers both the *Bank Negara Malaysia*'s definition of paid-up less than RM10 million and the SMIDEC's definition of turnover below RM25 million and employees of less than 150 staff.

The DFIs have their own specific target market segments within the SME market

Bank Pembangunan has an extensive loan portfolio spread. Its loans coverage is generally broad-based though special mention is given to segments like manufacturing, agro-based industry, services, rural industrial programme, infrastructure project, tourism, filming/drama/broadcasting industry, publication, graduates and *Bumiputera* business projects. As at the end of 2001, SME loans made up 85% of total number of loans and 19% of loans in ringgit terms.

Meanwhile, ***Bank Industri*** targets four core segments – viz., the manufacturing, capital intensive, high-tech and environmental–related industries. As at the end of 2001, loans to SME accounted for 59% of the total number of loans made and 42% of the total loans in ringgit value.

MIDF has a very diversified portfolio that included rubber products, textile and clothing miscellaneous manufacturing, paper and printing, miscellaneous non-manufacturing, food, beverage, tobacco, plastic products, wood and wood products, non-metal mineral products mining and quarrying, chemical products, metal and engineering, and leather products. As at March 2002, loans to SME accounted for 60% of the total number of loans made and 26% of the total loans in ringgit value.

CGC, on the other hand, sets out to assist SMEs gain credit with financial institutions, especially those without or inadequate collateral. Unlike the other DFIs, CGC is basically a credit supplementation institution established to assist entrepreneurs and businessman to have ready access to financial credit through various guarantee schemes at reasonable costs. Its priority sectors include food production and processing, and tourism industries.

4.4 Assessment of Publicity Work of DFIs

The management has indicated that there have been greater efforts on the part of DFIs to market their loan schemes

There is generally a divergence in the perception of the effectiveness of DFIs' publicity and marketing efforts between that of the DFIs and that of the SMEs. While most DFIs have expressed greater efforts put into reaching out to the SMEs, the SMEs themselves remained unaware of financial schemes available to them. By and large the publicity and marketing efforts of the DFIs have still quite a way to go to be effective in promoting their services.

At present, the DFIs said that their **publicity and marketing efforts** are targeted at their defined market segments. Although the breakdown of their publicity expenditure is not available, the DFIs indicated that they utilise various approaches to market their loan schemes. All of them had participated in expositions, exhibitions and briefing sessions among others. The other promotional channels included publicity pamphlets or brochures. In addition, all the four DFIs have their own websites with varying degree of information and service availability. Currently, the products that these institutions offer can be viewed through their respective websites. CGC even allows its customers to submit loan applications online. *Bank Pembangunan, Bank Industri* and MIDF, however, have yet to provide such online application service.

CGC has a network of 12 branches throughout Malaysia to enhance their market position and promote their schemes. *Bank Industri* has six representative branches nationwide while *Bank Pembangunan* has 13 branches. MIDF has eight regional centres to market its schemes.

Table 4.1 summarises the publicity approaches of the 4 DFIs.

Table 4.1: Type of Publicity Approach by DFIs

Publicity Approach	BPIMB	BITMB	MIDF	CGC
Pamphlets & Brochures	Yes	Yes	Yes	Yes
Roadshows, Seminars & Exhibitions	Yes	Yes	Yes	Yes
Newspapers/TV Advertisements	Yes	Yes	Yes	Yes
Websites	Yes	Yes	Yes	Yes (with online application service)
Branches & Representative Offices	Yes (13 branches)	Yes (6 branches)	Yes (8 regional centres)	Yes (12 branches)

DFI staff have adequate working product knowledge to market the SME loan schemes

The marketing staff have been provided with well-defined loan schemes – that is, loan eligibility criteria, targeted market or sector, interest rate costs, purpose of financing, tenure of loan, maximum loan limits[14]) they can package and those that they cannot. In the case of *Bank Pembangunan*, the institution has just implemented proper guidelines for purpose of marketing. Previously, the public relations department undertook the product marketing. It was only in 1998/99 that the marketing department was established to provide more cohesive marketing efforts. According to the management, their marketing staff members are now better trained with the product knowledge before they go into the market. The management however intimated that the staff could still have some discretion to package the products according to certain customer needs but they cannot compromise the underlying structure of the schemes.

Some DFIs do endeavour to informally and formally enter on cross-selling with other financial institutions

Some DFIs undertake product cross-selling in their efforts to package a comprehensive funding facility to their prospective customers. *Bank Pembangunan* and *Bank Industri* do occasionally enter into some informal collaboration with other financial institutions. MIDF, on the other hand, do attempt at formal cross-selling with other financial institutions in an endeavour to provide a comprehensive financial services to prospective customers in view of its limited product line for the SMEs. Recently, it has proposed to collaborate with Alliance Bank Malaysia Berhad (ABMB) on product spread; the institution signed a Memorandum of Understanding (MOU) with Alliance Bank in May 2002 to establish a formal working relationship for the mutual benefit of both parties. The primary purpose of the MOU is to promote the respective businesses of the two parties and enhance the quality and range of services to the respective customers of MIDF and ABMB. However the extensiveness of cross-selling prevailing among the DFIs is still unclear.

4.5 Assessment of Appraising Procedures of DFIs

Most DFIs are looking at ways to migrate their current credit processing work flow to a more paper less environment

Most of the work in the DFIs are still very much manual-based, involving much documentations, though there have been some expressed goals to explore ways of cutting back on paper work and capitalising on the intranet and web-based environment with the idea of enhancing efficiency.

In *Bank Pembangunan,* the credit processing flow of the bank is still done manually. They, however, said that their financial projection is now programmed, with input of financial assumptions entered into their spreadsheets to generate financial forecasts. Besides that, the bank is currently looking at how they could best reduce paper work in their workflow. The major areas of focus are on web-based information and documents transfer for input, comment, review and approval by various responsible officers and signers. Currently, their credit process flow comprises two main segments: preliminary evaluation and final evaluation.

Meanwhile *Bank Industri* indicated that their risk scoring at the preliminary evaluation stage is now undertaken via their rating model – a risk rating black box developed by the Rating Agency Malaysia – which generates out risk scores based on certain financial inputs. Previously, the staff had to manually calculate the scores. Save for that, the rest of the credit

[14] See **Annex** 4 for summary of loan guidelines for the various SME Financing Programmes.

evaluation process are all manual. There is much filing, duplication and passing around of standard documents such as M&A, Form 24, Form 49, Financial Statements, which are required for application.

As for MIDF, their processing operates predominantly on manual basis. The credit processing flow of MIDF is not automated. There is no web-based or intranet-based workflow. Overall, paper work is still pretty heavy in MIDF; this is particularly true of documentation and viability review of a business plan.

CGC has perhaps the greatest degree of automation. The management claimed that as much as 80% of processes are automated in the sense that their various sub-processes are linked to their computer network via intranet; this included query reporting, credit analysis, etc. Under their corporate objective of radically reducing the amount of paper work in their credit processing workflow, the organization has been steadily migrating towards a web-based and intranet operating environment. Loan applications have already gone on-line. Their credit scoring has also been programmed. Each officer also has a PC to retrieve documents or extract information for their work. By far, CGC is ahead of many DFIs in the employment of the net environment to expedite their processing work.

There is a fair bit of standardisation in documentation for loans applications among the DFIs though this could be rather extensive

Standard documents such as M&A, Form 24, Form 49 and Financial Statements are required for application. For most banks, the list of documentation is rather extensive. In the case of *Bank Industri's* loans to buy machineries, greater emphasis is placed on machinery particulars and personal interviews with customers.

While the DFIs assume more risks in their lending portfolios given their role as development agents for SMEs, efforts are made to construct a risk rating model to take cognition of specific project lending risk

On average, the evaluation process takes one to three months to be completed. The actual duration depends on loan amount required, complexity of loans (e.g. collateral such as machineries need a longer time to be assessed) and documentation submitted.

All the DFIs would over time like to develop a risk-rating instrument or model that could rate risk in a more tangible and quantifiable form to help them in their risk management. Among the four respondent DFIs, *Bank Industri* has engaged an external consultant – that is, Rating Agency of Malaysia – to help them map out the rating model. The others undertook the development mainly in-house.

Broadly, applications are assessed based on credit eligibility and viability of the applicant's business. The common tenets that run through the issue of viability are market viability, financial viability and technical viability.

In the case of CGC, credit assessment is done using a normative framework based on the four C's of lending; that is, Capital, Capacity, Character and Conditions. In line with the spirit of CGC's mission, collateral is normally not requested. However, it may be imposed for purposes of "testing" the commitment of the Borrower or ensuring better control over the SME's borrowings. Collateral such as guarantee, fixed deposit and even debenture has been requested from the applicants.

The current emphasis in credit evaluation among the DFIs is placed on qualitative factors rather than quantitative factors

For qualitative factors, the overall industry and business environment that the applicants are operating in is taken into account. Information such as growth prospects, cyclicality, price volatility, entry and exit barriers, threat of substitution effect and level of competition in the industry are being taken into consideration when studying the industry. Other parameters like operational efficiency, market diversification, market share, revenue stability, customer risk, forex risk and counter party risk are looked into when evaluating the business environment.

Bank Pembangunan, *Bank Industri* and MIDF place higher weightage on qualitative factors compared to quantitative factors. On the other hand, CGC places equal emphasis on both qualitative and quantitative factors.

In the case of *Bank Pembangunan*, the bank utilises four aspects of evaluation to determine credit eligibility: market condition, financial records, technical evaluation (technical aspect of the project), and management capability. The marketing staff would normally evaluate the qualitative factors of the credit application while the credit analyst does the quantitative analysis.

In its credit evaluation, for loans above RM3.0 million, the Bank assigns 40% on quantitative factors and 60% on qualitative factors. However, when it comes to SMEs without track record, the evaluation process is quite rigid as they automatically lose the 40% quantitative points. For loans between RM1.0 million and RM3.0 million, the Bank also said that it would place more emphasis on qualitative factors as well. For loans below RM1.0 million, the evaluation on both quantitative and qualitative factors is quite relaxed.

In the credit evaluation process, the bank would utilise the borrower's historical financial accounts. For loans above RM200,000, projected financial accounts would be needed. If the SMEs do not have one or its accounts are ambiguous, the bank would formulate its own projection. The bank would also require the borrower's cash flow analysis. It is highly vital to have this when it is doing credit financing.

As for *Bank Industri*, the creditworthiness of the applicants is assessed based on both qualitative and quantitative factors, with higher weight of 65% allocated to qualitative factors. For the qualitative factors, the overall industry and business environment that the applicants are operating in is taken into account. Information such as growth prospects, cyclicality, price volatility, entry and exit barriers, threat of substitution effect and level of competition in the industry are being taken into consideration when studying the industry. Other parameters like operational efficiency, market diversification, market share, revenue stability, customer risk, forex risk and counter party risk are looked into when evaluating the business environment and are being emphasised twofold more than study of the industry.

Meanwhile, financial information such as the company's profitability record, operating efficiency, liquidity, coverage, level of capitalisation and projected gearing level are needed to determine the quantitative viability of the business. These overall quantitative parameters collectively account for a 10% weightage. Of greater importance is the cashflow adequacy issue, which is assigned a weight of 25%.

As far as MIDF is concerned, qualitative assessment plays a more important role in the evaluation. The management committee views the viability of the business as a very vital element in lending. The present assessment is on the viability of projections based on market, financial and technical aspects. When certain proposals are risky, they would ask for more collateral. Sometimes their decisions are also influenced by bureaucratic factors; for example, if certain projects are government-related and are important for the development of the country, then they have to assume higher risk, though not necessarily higher return, and lend to the borrowers. Sometimes they measure returns not only quantitatively but it can be in the form of its benefits to the socio-economic environment. However the management committee is trying to include more quantitative factors in their future credit evaluation.

CGC places equal emphasis on the qualitative and quantitative aspect of credit evaluation. Credit scoring is used in the evaluation of borrowers. Financial statements are used to analyse the past performance of the business while financial projection is used to determine the serviceability of the loan. Cash flow submitted is sensitised. It is used to determine the repayment capacity of the business based on several sets of assumptions.

Overall, if the application carries abnormally high risks, the DFIs would request for additional collateral to mitigate the risks, such as debentures, land and fixed deposits, or reduce the loan amount.

It is not uncommon with the DFIs to have the marketing staff performing credit evaluation as well

It is common for the credit officers and marketing staffs of bank staff conduct the evaluation and analysis process. However, CGC processes and evaluates the documents in collaboration with participating financial institutions, given that it is providing guarantees and is not extending loans.

4.6 Assessment of Training Systems of DFIs

On average, most DFIs have fairly high allocations for staff training with in-house training being the norm

Most of the DFIs' training needs are met in-house. Furthermore, they also have very decent budget allocations for training. The DFIs, on average, allocate about five to six per cent of total staff costs to training in comparison to the BNM's requirement that financial institutions like commercial banks need to allocate about 2% of personnel cost for training. The exception being CGC, whose management intimated that their training budget is very low. MIDF training allocation is also comparatively low; its training budget of RM250,000 for FYE 2002 was very pale in comparison with the RM1.23 million allocation of Bank Industry for FYE 2002.

Table 4.2: Training Budget of DFIs

DFIs	Training Budget
Bank Pembangunan	RM1.8 million for FYE 2002
Bank Industry	RM1.2 million for FYE 2002
MIDF	RM250,000 for FYE 2002
CGC	No figures were given by the management, who said that their training budget is very low

Generally, most of the general banking courses are available locally – be it from their own staff, external consultants or *Institut Bank-Bank Malaysia* (IBBM). In determining their training needs, the training departments would usually asks department heads to furnish them with the training requirements of their officers and organisational units. The listing of training requirements is then compiled and the needs identified and prioritised. Then the training department will ascertain if they have the relevant officers with the necessary experience to conduct an in-house course; if not, training would be outsourced to an external consultant or the trainees be sent to an appropriate course conducted by IBBM. For external training, the DFIs seldom engage foreign trainers, unless necessary, in view of the relevance of the content to local environment and issue of cost.

Table 4.3: Training Sources of DFIs

DFIs	Training Sources (% Of Total Training Budget)	
	In-House Training	Out-Sourced Training
Bank Pembangunan	83%	17%
Bank Industry	69%	31%
MIDF	60%	40%
CGC	10%	90%

However, a major weakness or problem area seems to reside in specialised technical fields. It is in this area that out-sourced training from specialists or engagement of outside specialists for specific projects would be extremely useful.

Many DFIs are fairly unsure if they have approached a technical evaluation for a project financing properly or objectively. The management are also not sure if their technical staff have done an adequate job in expediting their technical evaluation. This is particularly true of *Bank Industri dan Teknologi Malaysia* and *Bank Pembangunan dan Infrastruktur Malaysia*, given their expanded coverage into technology-based, shipping and infrastructural projects. Along this vein, there is a lack of specialised knowledge in DFIs with respect to project financing, contract financing and even end financing pertaining to their respective specialized area of focus. Likewise, they are particularly weak when it comes to providing technical advice. This is an area that needs addressing if the DFIs intend to augment their existing services by embarking on providing technical and consultancy services to their clients.

In the case of CGC, given their focus on guarantee provisions, their major issue is really one of looking at how to increase exposure for more of their staff in the area of guarantee.

However, some of the more generic training – like marketing and selling, debt collection, handling problem loans, etc. – requested by the DFIs in this survey interview may and can actually be met local consultants.

Most of DFI training are focused on technical skills training

Much of DFIs' training is skewed towards hard skills training rather than soft skills training. Where soft skills are concerned, they are related to general management, managing people, leadership, team building, motivations, etc. while hard skills encompassed specific technical skills like credit evaluation, financial analysis, project finance, risk management, corporate finance, debt collection, marketing, etc.

Table 4.4: Training Type by DFIs

DFIs	Type Of Training	
	Soft Skill	Hard Skill
Bank Pembangunan	40%	60%
Bank Industri	51%	49%
MIDF	30%	70%
CGC	40%	60%

Seniority seems to be the determining factor in training allocation in *Bank Pembangunan*, as compared to the other DFIs. In the case of *Bank Industri*, the officers and executives comprised the largest group of trainees. MIDF training allocation, meanwhile, favoured officers and executive. Training in CGC is concentrated at the executive level.

Table 4.5: Training Budget by DFIs

DFIs	Training Budget By Staff		
	Clerical Staff	Officers & Executives	Managers
Bank Pembangunan	20%	32%	48%
Bank Industri	18%	46%	36%
MIDF	10%	55%	35%
CGC	10%	70%	20%

Practicing professionals from the banking and business sectors provide the bulk of training for the DFIs. CGC did not engage foreign consultants as they tend to be expensive and may not have the required local knowledge.

Table 4.6: Trainers Used by DFIs

<table>
<tr><th rowspan="2">DFIs</th><th colspan="4">Trainers By Profession</th></tr>
<tr><th>Practising Bankers</th><th>Professionals In Business</th><th>Academics</th><th>Other Professionals</th></tr>
<tr><td>Bank Pembangunan</td><td>30%</td><td>50%</td><td>10%</td><td>10%</td></tr>
<tr><td>Bank Industri</td><td>50%</td><td>30%</td><td colspan="2">20%</td></tr>
<tr><td>MIDF</td><td>15%</td><td>75%</td><td>0%</td><td>10%</td></tr>
<tr><td>CGC</td><td colspan="2">90%</td><td colspan="2">10%</td></tr>
</table>

4.7 Lessons Learned

4.7.1 Outreach and Effectiveness

Varying definitions of SMEs or SMIs, in contrast to a uniform definition, can potentially diffuse the effectiveness of funding SME growth

At the commercial bank level, different institutions have their own perception. The different definitions employed by the various DFIs and on various schemes would by and large dilute the segment focus on the targeted beneficiaries. The current definitions cover both the BNM's definition of paid-up capital of less than RM10 million and the SMIDEC's definition of turnover below RM25 million and employees of less than 150 staff. *Bank Pembangunan* went ahead further to include definition of SMEs as those with a paid-up of RM20 million or less. While there is no right or wrong about the individual definitions, employing a common base or definition for SMEs for loans disbursement by DFIs would inadvertently lead to more effective development efforts to help the small corporations.

Impact of DFIs loans to SMEs is still limited

Notwithstanding the emphasis supposedly placed on SME lending by DFIs, the current loans portfolio of these DFIs has still a relatively weak allocation to SME funding. *Bank Pembangunan's* SME loans made up 85% of total number of loans but only 19% of loans in ringgit terms as at end-2001, while MIDF loans to SME accounted for 60% of the total number of loans made but 26% of the total loans in ringgit value as at March 2002. Meanwhile, *Bank Industri's* loans to SME accounted for 59% of the total number of loans made and 42% of the total loans ringgit value as at end-2001.

4.7.2 Challenges

Prioritising the priority sectors would be needed in situation where funds are limited and not sufficient for all potential beneficiaries

Given the generally broad coverage of industries with respect to the SME funding, issue like tackling so many priority sectors could result in a state of uncertainty as to which priority sector would have priority over another priority sector when it comes down to limited or inadequate funds to lend. This is not an issue where funds are in abundance, but this would not be the case when the kitty is getting dry. In addition, it is also unclear where the sole proprietorship and partnership fit into the development of SMEs. In the case of MIDF, the chief beneficiary of its lending has been the private limited company, which accounted for 85% of the loan value. This was followed by sole-proprietors and partnerships (10%) and public limited corporations (5%). As for *Bank Pembangunan*, 89% of the loans approved went to private limited companies while 10% were for public limited companies and others. Sole proprietors and partnerships only accounted for 1% of loans approved. In the case of Bank Industri, private limited companies took up 97% of loans approved while the balance went to public companies. There was no allocation for sole proprietors and partnerships.

DFIs do face the delicate task of reconciling their developmental welfare driven objectives with the need to be self-sustaining in the long run

While the developmental objectives of DFIs' activities are pertinent to help with SME growth, there should also be an understanding on the extent of the price to pay should risk management be not up to the mark. The consequence of persistent NPLs would be the erosion of the DFI's capital base. Irrespective of whether funding lines from the Government or foreign assistance is readily available or not, effective risk management and surplus generation can still be compatible with developmental driven objectives. Admittedly, that balancing act is a delicate task.

Bias towards SME accounts

Much of the reasons why there is a bias towards qualitative assessment for SMEs is deemed justifiable, owe to the fact that SMEs do conceal their accounts. Yet, it can also be difficult to track the accounts of big corporation with a myriad of subsidiaries and associates than those of the standalone SMEs. Better bankers could generally see through the SME "hidden" accounts but when it comes to big corporations with complex corporate structure and myriad of related companies, it can be quite complicated. The recent non-performing loans debacle that shook the financial sector has mainly come on the back of several gargantuan problem loans. It seemed to be a much lesser issue with smaller loans.

SME borrowers need close monitoring

Under the present circumstances, to encourage more lending, there is a need to induce greater discipline in the SMEs operators as well as the lenders. The operators need to be monitored to ensure that the approved financing really goes into where it should go. The indiscipline of the SMEs lies with their inclination of shifting money around, irrespective of whether the funds end up in business or non-business related activities. The operating framework with SMEs would be to maintain closer relationship with the operators and monitor the funds flow. A system may be developed to stay close to them and also be ready at hand to assist them. Ancillary support and consultancy services would come in handy to ensure higher success with DFIs funding activities.

4.7.3 Funding

Funding for some DFIs is becoming an issue as their funds have dwindled and are insufficient to meet loan requirements

In the case of *Bank Pembangunan*, the funds allocated for SMEs have been used up and the bank hopes for replenishment from Bank Negara. This problem arose due to either ineffective planning or unforeseen demand for the SMEs funds or a combination of both. The management of MIDF indicated that they are also facing potential shortage of funds.

4.7.4 Fulfilling Needs of DFIs

Most of the DFIs are articulating a risk management system that would enable them to manage risk more effectively and external assistance can certainly help to facilitate that development

Comprehensive and integrated risk management system is still a fairly new subject matter to the DFIs. As such, the competency level in-house can do with further boost. CGC, for example, requested if technical advice in setting up and implementing their risk management system could be extended to the organisation.

Bank Pembangunan is currently endeavouring to overcome its weakness in the risk management area. It wants to strengthen and improve its risk management. The risk management programme is still very new for the organisation. Hence, it is hard to gauge whether the risk-return portfolio that it undertakes is secured or appropriate. In this sense, the bank would need external assistance in the formulation and implementation of the risk management programme. The staff responsible in this area could do with exposure to the process and procedures of other institutions with a more developed risk management system. The bank would also like to benefit from studying how other regional DFIs function and the roles their governments play. It would serve as a useful reference point as well as a form of benchmarking.

As for *Bank Industri*, the management views areas that need assistance to include:

- Risk Management – a framework to rate country risk is needed, especially for MECIB where there is a lot of country risks involved. Currently, they have engaged a consultant, Rating Agency of Malaysia (RAM) to help with internal credit rating. However, the management feels that it would be of great help to them if some assistance can be rendered to articulate country risk assessment in relation to project funding of local companies having business activities in other countries.
- Maritime technical assessment – training is needed to upgrade skills in assessment of maritime and shipping technical aspects. Currently the institution has eight engineers and all of them are mechanical engineers. In addition, assistance is required to help assess these technical engineers, as there is no benchmark or basis for comparison to judge the capabilities of these engineers, as Bank Industri is reputedly the only financier for shipping industry.

The need for DFIs to cross-sell to enhance its marketability is essential given their limited product range and restriction

Sometimes certain policies or guidelines limit the scope of loans. For example, some business would come to *Bank Pembangunan* for funds and they are qualified based on their track record and qualitative factors. However the bank had to turn them away as some of these loans do not fit into its portfolio. Furthermore, the DFIs' limited product line does reduce its appeal to prospective customers. As such, the DFIs may need to work much closer with the commercial banks in repackaging more comprehensive facilities so as to provide convenience to its customers. DFIs, for example, do not provide overdraft facility.

The lack of comprehensive database and information system has meant that loan accounts monitoring and maintenance is not as effective as the management would like it to be

Generally, the DFIs still lack comprehensive research and database to evaluate industrial project effectively. As such, setting up an info-structure should be part and parcel of the integrated risk management system. An adequate pool of researchers or a comprehensive database would help the DFIs keep track of the industries under coverage and in doing so, beef up their risk management process.

Reviewing of corporate direction, upgrading of skills within DFIs and transferring technical know-how are indispensable for future growth of DFIs

Some forms of assistance are needed for all DFIs, but they do differ somewhat from one another:

(a) *Bank Industri* is exploring the development of a succession planning methodology. Some form of technical assistance is needed. In addition, the bank had also expressed the need for assistance in improving the marketing and selling skills of the officers in the form of training.

(b) CGC would like to its staff to have "hands on" exposure to the area of guarantee. The organisation is currently a member of the Asian Credit Supplementation Institution Confederation (ACSIC) whose member comprised of 9 member countries – including Malaysia, Japan, Korea, Taiwan, Thailand, Philippines, Indonesia, Nepal and Sri Lanka. The members meet annually. The management feels that the opportunity for the exchange of ideas in this platform brings with it invaluable information and CGC had benefited much from it. Unfortunately, only one member from each member country can attend. He proposed that the collectors within the region meet frequently to exchange collection ideas to explore the possibilities of discovering better and innovative ways in resolving problem loans. Alternatively, platforms where more staff can get participate in such exposure and exchange is wanting.

(c) *Bank Pembangunan* requires technical assistance in its new division, Infrastructure Banking. The external help for training across the whole spectrum of its infra banking process, which consists: Project Financing (PF), Special Contract Financing (SCF), Corporate Finance (CF) and Planning and Consultancy. In the area of PF, the bank would need training skills on the area of credit skills. In the area of SCF, the bank would need trainer to help improve on its advisory skills. As for the whole structure of infrastructure funding, the bank would need to brush up on its risk management skills as well. There are also some areas in the development banking division needing assistance with improvement; the bank has encountered its fair bit of complications in the area of entrepreneur development programme as this is an area where there is a fairly high degree of risk.

The Bank admitted that it could be slightly inexperienced in this area as the expertise involved includes gauging the right and appropriate amount of loans to give out to clients who most of them have no history of cash flow from its business. They also need more specialised officers to be responsible for technical evaluation and implement automated processing. Given their diverse industries coverage, specialist officer is needed to cover the technical evaluation. This is basically an issue that requires assistance. It also needs to strengthen its risk management. Participation in exchanging ideas in the subject of "Handling Problem Loans" with other ASEAN countries is regarded beneficial to the Bank. This would enhance its exposure in problem solving as well as helping the SMEs resolve their problems.

(d) MIDF faces a succession problem. As most of the senior management staff will be retiring by financial year 2004/2005, the two areas of human resource development that would prove useful are to develop a management succession plan and to design individual career path and mobility (for staff retention). In addition, MIDF would also be interested to seek further assistance in conducting more in-house programme so that the training will not only be cost effective but will also enable more staff to participate. MIDF would like to seek some external assistance in the following areas:

- to review the mission and vision statement and to study the overall organisational structure to help contribute to the company's objectives and goals
- to provide transfer of appropriate technical know-how to ensure that the staff have the appropriate skills, expertise, proficiency, knowledge and desire to do the

job; at present, there is a lack of internal resource person on specialised area such as finance, leasing, risk management, Islamic financing, etc.

(e) The management also felt that experiences like those in India, Bangladesh, Philippines and South Korea – where the agencies have been particularly strong and active in SMI development – could serve as useful referencing points. They believe that it would be ideal if MIDF staff could be sent to these places to gain experience.

(f) Last but not least, the DFIs believe that some form of training to be provided to SMEs would be extremely useful. This may be related to the understanding of the needs of DFIs or FIs in loan applications, documentation, etc. One DFI suggested that a professional centre or chartered body for the SMEs might serve that purpose and facilitate better professionalism among the SMEs.

Chapter 5.0: SME Survey Findings

5.1 Introduction

It has been acknowledged that one of the issues that SMEs face is limited access to finance. This has hindered SMEs capabilities to expand and to realise their full potential. Traditionally, SMEs finance their operations through their own savings, loans from family members and friends, as well as supplier credits. However, a recent SMIDEC Survey[15] reported that contrary to the perception that SMEs find difficulties in accessing loans from Banks, 50.7 per cent of SMEs indicated that they borrow from Banks, while 49.3 per cent still resort to non-official financing options such as:

Sources of Fund	Per cent
Own savings	27.3
Family	9.8
Informal borrowings	5.9
Friends	3.4
Others	2.9

Source: SMIDEC Survey, 2002

Despite, the various programmes and initiatives of the government to assist SMEs to access financing as discussed in previous chapters, many of the SMEs still face problems especially in their dealings with DFIs. To provide evidences of the views and experiences of SMEs with respect to the existing financing programmes for SMEs as well as their own dealings with DFIs a structured questionnaire survey (**Annex 6**) on a sample of firms was conducted. The questionnaire included questions on their financial borrowing experiences via DFIs/ Commercial Banks/Leasing companies/other financial intermediaries with special focus on their experience with respect to SME loan programs applied/approved.

The plan was to interview a cross-section of 50 SMEs from both the manufacturing and services sectors as well as from various financial programmes. Although the findings from the interviews are not statistically representative, the anecdotal experiences have enabled the study to obtain their views and experiences with respect to the existing financing programmes for SMEs. Furthermore, the survey findings provide useful insights with respect to their own dealings with DFIs (and other financial institutions) including issues and factors that are inhibiting SMEs securing financial assistance.

The list of firms that responded is shown in **Annex 7B**.

15 SMIDEC Survey 2002.

5.2 Survey Coverage

The study team sought the assistance from the four DFIs to obtain the contacts of SMEs from their respective client list. From the four DFIs, the study managed to get the contacts for 53 firms. Out of the 53 firms contacted, 27 refused to participate in the survey. To augment the numbers as well as to obtain the comparative experience of other SMEs, especially those who had sought financing from commercial banks and other financial institutions, the study team made 47 cold calls to SMEs in the Klang Valley (15) and in the Penang region (32). The response from the survey is shown in **Table 5.1**.

Manufacturing industries made up 27 (75 per cent) of the 35 responses with the remainder being service industries. The profile of the firms that responded to the survey is shown in **Table 5.2**.

Table 5.1: Response to SME Survey

	Source	Sample	Response
1	Bank Industri & Teknologi Malaysia Berhad	28	11
2	Bank Pembangunan & Infrastruktur Berhad	5	3
3	Credit Guarantee Corporation	10	5
4	Malaysian Industrial Development Finance Berhad	10	7
5	Others (Klang Valley)	15	4
6	Others (Penang region)	32	5
	Total	100	35

Source: SME Survey, PE Research, 2002

Table 5.2: Profile of SME Respondents

Manufacturing	#	Services	#
Food	1	Engineering Firms	2
Textiles	2	Electrical & Wiring	1
Furniture	3	Trading	2
Plastics & Rubber	8	Professional Services	2
Metal Industries	8	Transportation	1
Electrical & Electronics	3		
Chemicals	1		
Others	1		
Manufacturing Sub-Total	**27**	**Services Sub-Total**	**8**
		Total Number of Respondents	**35**

Source: SME Survey, PE Research, 2002

Out of the 35 respondent firms 30 were 100 per cent locally owned with another 4 firms being majority Malaysian-owned. 1 firm was a 50:50 local-foreign joint venture.

Paid-up capital of the firms ranged from RM100,000 to RM6.2 million for the manufacturing firms and RM2 to RM5 million for the services firms. Like wise, current employment size of workers ranged from between 6 and 200 for the manufacturing firms and between 4 and 200 for the services firms.

5.3 Financing Experiences

Most of the SMEs surveyed (24 firms) indicated that they have applied loans through DFIs compared to 11 firms who have gone to commercial banks and 4 who have approached leasing companies. It has to be noted that this is a multiple answer response and therefore firms could have applied to both DFIs and commercial banks. Since most of the responses are from the list that was supplied by the DFIs, it is possible that the answer is biased towards DFIs. In the case of firms that have applied loans from commercial banks, most of them are not fully aware under which scheme the loans fall under. SMEs for the most part also indicate that they are unaware of most of the schemes made available by the Government. .

Most of the SMEs indicated that the purpose of loan applications was for **the purchase of new machinery and equipment**. Other main reasons for applying loans amongst SMEs are **upgrading current business** as well as **stock/raw material purchase.** Manufacturing firms indicated that purchase of new machinery and equipment as well as upgrading of current business as the main purpose of loan applications. Comparatively, service firms indicated that cashflow, stock/raw material purchase and machinery/equipment purchase to be the main purpose of loan applications.

For those SMEs that have applied loans from DFIs as well as commercial banks and leasing companies, most of them indicated that the **interest rates offered by the DFIs to be fair** compared to commercial banks and leasing companies. However in terms of loan conditions, **DFIs are perceived as more rigid** compared to the latter two institutions.

In the case of **approval process and procedures,** the documentation process in the **DFIs is deemed slow** compared to commercial banks and leasing companies. The survey indicated that in the case of loan application to DFIs, it would take about 3-4 months for the loan to be approved and another 1-2 months for drawdown. This is in contrast to commercial banks which take about 2-3 months for the whole process. In application conditions, DFIs are perceived rigid compared to commercial banks and leasing companies.

It has to be noted that commercial banks can package a wide variety of financing models to SMEs compared to DFIs which is restricted to the type of financing that can be packaged because of the requirements and objectives of individual schemes as well as their own guidelines. Thus, the survey indicates that to a certain extent **even though the commercial banks and leasing companies have higher interest rates than the DFIs, these are most often off-set by their flexible loan conditions, fast processing time and myriad financial services offered.**

5.4 Observations and Lessons Learned

Appraisal by the surveyed SMEs shows that in terms of loan conditions and approval processes, DFIs still need further improvements. SMEs felt that DFIs are more rigid and that there is no flexibility in the loan terms and conditions.

SMEs felt that DFIs should be more flexible in their loan terms and conditions taking into account their development objective. According to the SMEs the extensive amount of documentation required by DFIs compounded with the inflexible terms and conditions were the main reasons for the delay in processing the application. The documentation as required by the DFIs such as cashflow statements as well as management accounts might not be easily prepared by certain number of SMEs. Thus it is imperative that DFIs simplify not only the application process and procedures but also the loan terms and conditions. Furthermore, SMEs also indicated that the disbursement of the loan after approval by the DFIs was slow.

Table 5.3 compares the response of the customers from the four DFIs, in terms of what they would like to see.

Table 5.3: Perception of DFIs by their SME Customers

Would like to see:	BITMB	BPIMB	CGC	MIDF
More flexible terms	✓	✓	✓	✓
Less/Simplified Documentation	✓	✓		
Shorter processing time (application & disbursement)	✓		✓	✓
Longer repayment period	✓		✓	✓
Increase finance margin				✓
More experienced/efficient workforce	✓		✓	
Total Respondents	11	3	5	7

Source: SME Survey, PE Research, 2002

Chapter 6.0: Recommendations

6.1 Concept of Technical Assistance

This final chapter of the Project Formulation Study summarises the assessment of the current situation with respect to the challenges facing the DFIs and presents the recommendations for JICA's technical assistance. The technical assistance will be in line with the JICA's new Country Program for Malaysia. The concept of technical assistance for DFIs in Malaysia is to enable them to strengthen their economic competitiveness in order to face the challenges posed by globalisation. As such the focus of the technical assistance will be on institutional capacity building through dispatch of experts to the development financial institutions as well as to dispatch staff to Japan for training and attachment.

The technical assistance could also be through development study to focus on evaluating whether DFIs are sufficiently equipped to meet the financing needs of SMEs, and to find out whether intervention, especially through JICA assistance, could help to overcome the developmental issues.

In addition, JICA's technical assistance can also be channelled to strengthen the capacity of DFI supervising agency as well as to conduct training workshops.

6.2 Assessment of Current Situation

Although Malaysia has made significant progress to strengthen the financial system, there are still challenges that need to be addressed. One area where attention is required is to address the issue of access to financing by SMEs. To address this, the government has set up various financing facilities (e.g. the Fund for SMIs (and the Fund for SMI2) and the Rehabilitation Fund for SMIs), credit guarantee facilities (e.g. the New Principal Guarantee Scheme managed by CGC) and equity financing/venture capital schemes. While there is no shortage of funds for domestic SMEs, the barrier to accessibility to funds by SMEs seems to be related to their inability to comply with the complicated and procedural documentation that is required by the lending institutions.

Findings from earlier studies have shown that SMEs still rely on internal and informal sources of financing as they face problems in securing financing from DFIs and commercial banks. This situation is corroborated by a recent SMI survey carried out by SMIDEC, which indicated that 49.3 per cent of SMEs resort to non-official financing options. In addition, despite the publicity that has been carried out, there are still many SMEs that are not aware of these programmes and facilities. The SMEs are also not sufficiently aware of the expectations of the providers of these funding, and thus have not been successful in acquiring the funding.

Despite all these difficulties, the list of financial assistance programmes and soft loans provided by the government and the analysis in Chapter 3.0 show that there is no shortage of funds for local SMEs in Malaysia. However, two of the respondent DFIs in this study indicated that their funds have dwindled significantly and would need replenishment.

This matrix and the following sections of the report summarises the assessment of the current situation according to four areas.

Area	Current Situation	Need
Financial legal framework	Existing comprehensive system of legislations	For formulation of legislations: None
		For effective implementation: possibility to conduct technical assistance projects
Institutional Capacity Building	Implementation of DFIA Implementation of FSMP	Enhancement of supervisory capacity Enhancement of capacity of DFIs
Funding System	Institutional arrangements for Venture Capital already established as private corporation*	None
	Too many financing programmes for SMEs	To be streamlined to reduce confusion
Credit Guarantee System	CGC and various government guarantee schemes	None

* *JBIC funding in Malaysia Debt Ventures in ICT.*

6.2.1 Financial Legal Framework

The Government of Malaysia has put in place a comprehensive system of legislations to regulate and supervise the financial system of the country. The relevant financial legislations are summarised in Chapter 2.0 (subsection 2.5). To further enhance the regulatory framework and to ensure safe and sound financial management of the DFIs, the Government also recently passed the **DFI Act, 2002** which empowers *Bank Negara Malaysia* (BNM) as the centralised supervisory body. Although it is still premature to assess the impact of the DFIA on the activities of the DFIs, indications are that guidelines will eventually be issued to strengthen the Act.

Although the strength of the Malaysian financial legislations was put to the test, Malaysia's banking system was able to withstand the 1997 Asian crisis better than others in the region. Nonetheless, the Government continued to introduce various measures to reform the financial sector. These included strengthening finance companies through mergers, pre-emptive capitalisation of the core banking system, greater disclosure of information and strengthening of prudential regulation and supervision to strengthen banking practices and to enforce discipline on individual institutions. The focus on preserving the integrity of the banking system during the recent crisis years demonstrated the ability of the Government to respond to challenges of the day as well as to face the challenges of globalisation. Although there is little need for technical assistance in the area of formulating legislations, from the perspective of enhancing the implementation of the legislations, e.g. the DFIA, there appears to be a need for technical assistance.

6.2.2 Institutional Capacity Building

With most of the financing programmes and facilities for SMEs channelled through DFIs, the importance of DFIs in addressing the development strategies of the Malaysian economy has been recognised and acknowledged in the FSMP. DFIs have been established and funded by the Government to develop and promote certain strategic sectors of the economy whilst achieving the country's social goals. The sectors currently supported by the DFIs are high-technology industries, export oriented industries, infrastructure development, and highly capital-intensive investments. In addition, their involvement in these sectors, DFIs also **play**

a key role in the development of SMIs. Thus there is an urgent need to ensure that the DFIs progress and are sufficiently equipped to play their roles. The weaknesses and needs of the DFIs have been presented in Chapter 4.0.

Under the FSMP, the three major objectives are (1) to develop DFIs as specialised institutions; (2) to meet the social objectives of government; and (3) to complement the banking sector. The plan is also to build up the capacity of DFIs with respect to non-financial assistance like advisory services to SMEs. BNM has set up an SME Taskforce to look into the issues concerning SMEs and a survey has been carried out. The aim is to enact an SME law as current efforts to deal with SMEs are fragmented and are being carried by various agencies.

Recognising the significant roles played by the DFIs in the socio-economic development of the country, the strategic focus for these institutions is to continue meeting the financial requirements of the economy, complementing the banking sector to ensure that the financing needs of all economic sectors are well served. This entails enhancing the efficiency and robustness of the DFIs so that the objectives are achieved with minimum cost.

From the assessment and the interview surveys that were carried out as part of this formulation study, it is recommended that notwithstanding the progress that has been achieved in strengthening DFIs, there is still a role for JICA to be involved in institutional capacity building of the DFIs as well as to assist BNM and other focal institutions to enhance their supervisory role too.

6.2.3 Funding System

Although the venture capital industry in Malaysia is relatively young, there is no shortage of funds for domestic SMEs as there are several equity financing/venture capital schemes existing in Malaysia. As at the end of 2001, the number of VCCs monitored by Bank Negara Malaysia stood at 36 while investee companies with venture capital investments was 180[16].

Recognising the importance of venture capital in financing innovation and high technology, the Government of Malaysia has been supportive of venture capital initiatives. In addition to creating an enabling environment for the venture capital industry, in October 1999, the Government of Malaysia established of a RM500 million fund for venture capital, and placed RM200 million with *Bank Industri dan Teknologi Malaysia Bhd* and RM100 million each to Mayban Venture Capital Company Sdn Bhd and Commerce Technology Ventures Sdn Bhd for management purposes. Earlier in 1999, the Multimedia Development Corporation (MDC) had launched the RM120 million MSC Venture One to provide venture capital financing to IT and multimedia companies. Tax incentives for venture capital companies (VCCs) were also introduced in the form of full tax exemption on all sources of income received during their life span or 10 years, whichever is the earlier.

To ensure adequate liquidity to meet the needs of industry, the Budget 2001 had allocated another RM500 million specifically for providing an alternative source of risk capital to ICT and high growth sectors for seed/start-up and first stage companies. For this purpose the Malaysian Venture Capital Management Berhad (MAVCAP) was set up under the Ministry of Finance in April 2001 to manage this venture capital fund. In addition, the Government also established *Kumpulan Modal Perdana Sdn Bhd* to manage the RM190 million Venture Capital Fund for Technical Acquisition to assist entrepreneurs in technology acquisition.

[16] Source: Economic Report 2002/2003.

More recently in August 2002, the Government launched the RM1,600 million ICT Fund. This fund which specially targets the ICT sector is sponsored by the Government of Japan through the Japan Bank for International Cooperation (JBIC) and is managed by the newly established Malaysia Debt Ventures Bhd (see **Box 6.1**). All start-up companies, small and medium-sized entrepreneurs and large local firms are eligible for the fund. The fund, which requires no collateral, is open to both local as well as foreign companies incorporated in Malaysia, whether or not they hold Multimedia Super Corridor status. However the loan size ranges from RM1 million to RM120million and the maximum payback period is three years[17].

Box 6.1: Malaysia Debt Ventures Bhd

Established in August 2002, Malaysia Debt Ventures (MDV) provides loans to multimedia developers, services providers, traders and those who use ICT in education, health and entertainment. MDV offer project-based loans, guarantee to bank schemes and export finance schemes whiles its other support services cover business building and R&D, corporate advisory services and business and project monitoring. The ICT Fund which it manages covers the entire spectrum of industry that uses ICT to improve productivity and promote innovation.

Eligible applicants must comply with the following pre-requisites:

- Public and private limited company incorporated in Malaysia.
- Minimum paid-up capital of RM100,000.
- Minimum 5 employees.
- With or without MSC status and no restriction on shareholder's nationalities.
- No specific requirement on history; however management track record is important.
- Companies which provide or procure high value-added ICT solutions and other high value-added ICT products and services and companies that provide goods to ICT companies for use in the production of hight value-added ICT products and services.

In addition, applicants must take into consideration the following:

- Appropriate environmental considerations on pollution control, ecological impact and social impact of the project.
- To furnish all information concerning the impact of each project on the environment.

Applicants involved in textile manufacturing, metal moulding, and agriculture/food production and/ or processing are subject to approval by JBIC and, may require a longer period of assessment.

Source: Extracted and summarised from Economic Report 2002/2003

6.2.4 Credit Guarantee System

To address one of the issues related to access to financing by SMEs, the Government has set up various credit guarantee facilities like the New Principal Guarantee Scheme and the Flexi Guarantee Scheme which are being managed by Credit Guarantee Corporation (CGC). Details of the various guarantee schemes have been presented in Chapter 3.0 with details in Annex 4. From the interview findings with CGC, it is clear that Malaysia is already moving in the right direction towards assisting SMEs to access financing facilities. As such there is no need for JICA to provide technical assistance in this area.

[17] Source: The Star, August 22, 2002.

6.3 Areas for Technical Co-operation

Based on the assessment of the current situation in Malaysia and matching Malaysia's needs for strengthening economic competitiveness of the DFIs with JICA's aid objectives it is recommended that out of the four areas assessed JICA should concentrate the technical assistance on **Institutional Capacity Building** and on the **Funding System**.

The goal of the technical assistance is as follows:

- **Goal: Improvement of Efficiency and Effectiveness of Financing Programmes**

The development objective is to assist in the **reconstruction of existing financing programmes**. The Government has started to take steps to rationalise some of the financing programmes for SMEs e.g. the Soft Loans for SMEs which incorporates PAKSI, MAS and QES. In addition the enactment that governs the establishment of SMIDEC identifies it as the focal institution for SMEs. Yet there are still various agencies that are providing financial assistance to SMEs. There is therefore a need to rationalise the situation to reduce duplication.

In order to achieve improvement of efficiency and effectiveness of financing programmes, **supervisory capacity on DFIs** will need to be enhanced. Furthermore there is a need to enhance the **institutional capacity of DFIs** in three key areas – appraisal, publicity and advisory, largely through human resource development.

6.4 Recommendations for Technical Co-operation

The recommendations for JICA's technical co-operation/assistance are all related to **institutional capacity building** and are presented in the **Development Objective Matrix** in **Table 6.1**. The following section outlines the recommendations of ideas for Technical Co-operation[18] for discussion with the relevant government agencies.

6.4.1 Recommendation 1: Technical Cooperation Project through Dispatch of Expert to SMIDEC

It is recommended that JICA dispatch an Expert to SMIDEC to advice and assist SMIDEC to **review and reconstruct the existing financing programmes for SMEs**.

Although SMIDEC is a likely focal point to coordinate this Technical Cooperation Project, other likely focal points could be Bank Negara Malaysia or even the Ministry of Finance. Further discussions with the institutions are required to sort this issue.

6.4.2 Recommendation 2: Technical Cooperation Project with Bank Negara Malaysia

It is recommended that JICA formulate a Technical Cooperation Project with *Bank Negara Malaysia* to advice and assist the DFI Regulation Department to **review the roles and functions of the DFIs** that are involved in SME financing as well as to **design systems to monitor the performance** of the DFIs. In addition, the project will provide assistance to develop DFIs capabilities as reference points for SMEs to seek advisory and consultation services, i.e., a framework for the establishment of an information and advisory centre

18 Some of the Technical Co-operation projects noted in the recommendations have common "Development Objectives". As such, there is a possibility to integrate them into one Technical Co-operation project.

6.4.3 *Recommendation 3: Technical Cooperation Project with DFIs*

It is recommended that JICA formulate a Technical Cooperation Project with DFIs (e.g. MIDF, *Bank Industri & Teknologi*, or *Bank Pembangunan & Infrastruktur*) to advice and assist them to **review their funding procedures and requirements** and to put in place a **performance evaluation system** to monitor the performance of their SME customers. This will enable the financial institutions to keep track of how the SMEs are doing so that they can step in to assist as and when necessary. The Technical Cooperation Project will also entail providing **on-the-job training** to DFI staff.

6.4.4 *Recommendation 4: Technical Cooperation Project with DFIs*

It is recommended that JICA formulate a Technical Cooperation Project with DFIs to **evaluate the effectiveness of information dissemination channels** of the DFIs as well as to assess the adequacy of the dissemination mode. The Technical Cooperation will help in the formulation of an effective publicity and marketing strategy to enhance DFIs presence amongst SMEs and also assist with the planning of an information and advisory centre within the DFIs to bridge the gap between DFIs and SMEs.

6.4.5 *Recommendation 5: Technical Cooperation Project to enhance advisory and consulting services to SMEs*

It is recommended that JICA formulate a Technical Cooperation Project to provide assistance in facilitating the enhancement of the DFIs supporting activities in project and management advisory and consultancy services to SMEs. The Project will entail working jointly with counterparts in the DFIs in expediting such services to SMEs as well as provide an avenue for technical transfer of knowledge. Training is also required for the staff that will be providing the management advisory and consultancy services to SMEs.

Table 6.1: Development Objective Matrix for Institutional Capacity Building

Goal	Development Objectives	Progress Already Achieved by Malaysia	Contents of Technical Co-operation	Reasons/Need
Improvement of efficiency and effectiveness of financing programmes	Reconstruction of existing financing programmes	Steps have been taken to rationalise some of the financing programmes e.g. the Soft Loans for SMEs incorporates PAKSI, MAS and QES (see Section 3.2.2 for details).	**Recommendation 1**: Dispatch of Expert to SMIDEC* - to advice and assist SMIDEC to review and reconstruct the existing financing programmes for SMEs	Although the enactment that governs the establishment of SMIDEC identifies it as the institution to be the focal point for SMEs, there are still various other agencies that provide financial assistance to SMEs. There is a need to rationalise this situation to reduce duplication.
	Capacity Building of DFIs through enhancement of supervisory capacity of BNM on DFIs	Financial Sector Master Plan; Development Financial Institutions Act 2002 Establishment of SME Taskforce within BNM	**Recommendation 2**: Technical Cooperation Project with Bank Negara Malaysia - to advice and assist the DFI Regulation Department to review the roles & functions of the DFIs; - to design systems to monitor the performance of the DFIs; - to study the approach and methodology with respect to the establishment of an information & advisory centre within the DFIs	The FSMP envisages Malaysia's economy to be increasingly integrated internationally in the next decade. In light of this, the Malaysian financial system will face mounting pressure to become more efficient, competitive, innovative, technology-driven and strategically focused. The plan recognises the need for a regulatory framework based on a supervised market approach. With the enactment of the DFIA in February 2002, BNM is entrusted to administer the Act and aims to put in place a comprehensive regulatory framework to ensure safe and sound financial management of the DFIs.

* Note: Although SMIDEC is a likely focal point, other institutions including Bank Negara Malaysia or the Ministry of Finance itself should be considered as the focal point for this Technical Cooperation Project. As such further discussions with the institutions are required.

Goal	Development Objectives	Progress Already Achieved by Malaysia	Contents of Technical Co-operation	Reasons/Need
Improvement of efficiency and effectiveness of financing programmes (cont'd)	Enhance appraisal capacity of DFIs	Financial Sector Master Plan; Development Financial Institutions Act 2002 Establishment of SME Taskforce within BNM Establishment of guidelines for appraising procedures in some DFIs	**Recommendation 3**: <u>Technical Cooperation Project with DFIs</u> - to advice and assist DFIs to review their funding procedures and systems - to help put in place a performance evaluation system to monitor the performance of their SMI customers - to conduct on-the-job training to staff of DFIs - to help identify appropriate training method or modality	A major barrier to accessibility to funds by SMEs seems to be related to their inability to comply with the documentation that is required by the lending institutions. To some extent, SMEs are also not sufficiently aware of the expectations of the providers of these funding. Where loan applications have been successful, there is a growing awareness by the DFIs on the needs to have an effective and comprehensive risk management system. Some form of assistance is needed to help with the implementation of this system which would enable DFIs to keep track of SMIs progress so that they can step in to assist as and when necessary.
	Enhance publicity capacity of DFIs Improve accessibility to the financial programmes of DFIs	DFIs have set up websites to augment the other standard forms of publicity (leaflets/advertisements)	**Recommendation 4**: <u>Technical Cooperation Project with DFIs</u> - to evaluate the effectiveness of information dissemination channels - to assess the adequacy of the mode of information to be disseminated - to help formulate an effective publicity & marketing strategy to enhance the presence of DFIs among the SMEs - to assist with the establishment of an information & advisory centre to bridge the gap between DFIs & SMEs - to conduct on-the-job training to staff of DFIs	By and large, the DFIs have boosted their presence in the industry through various channels of publicity. However, many SMEs are still unaware of such SME loan schemes available through the DFIs.

Goal	Development Objectives	Progress Already Achieved by Malaysia	Contents of Technical Co-operation	Reasons/Need
Improvement of efficiency and effectiveness of financing programmes (cont'd)	Enhance advisory capacity of DFIs	Financial Sector Master Plan; Development Financial Institutions Act 2002; Establishment of SME Experts Advisory Panel (SEAP) by SMIDEC under the SMIDP	**Recommendation 5**: <u>Technical Cooperation Project with DFIs**</u> - to facilitate the enhancement of the DFIs' supporting activities in project and management advisory and consultancy services to SMEs - to work jointly with the officers in DFIs in expediting to the advisory and consultancy services to SMEs and to provide an avenue for technical know-how transfer - to train DFI staff to provide management and advisory services to SMEs - to help identify appropriate training method or modality	By and large, professionalism in accounting documentation is wanting in the SMEs. Under the present circumstances, there is a need to induce greater discipline among the SME operators. The operating framework with SMEs would be to maintain closer relationship with the operators and monitor the funds flow. A system is needed to be ready at hand to assist SMEs. Ancillary support and consultancy services could ensure higher success with DFIs' funding activities as well as to assist with their business growth. As some ventures require special technical knowledge, which may not be available within the DFI concerned, some technical skills would come in handy to advise on these projects, funding evaluation and technical aspects.

** Note: There are various approaches to conduct this Technical C-ooperation Project to enable the provision of advisory and consulting services to SMEs. Although SMIDEC is a likely focal point, other institutions including Bank Negara Malaysia or the Ministry of Finance itself should be considered as the focal point for this Technical Cooperation Project. As such further discussions with the institutions are required.

Annex 1: Scope of Work

The **Scope of Work** is divided into seven components.

Component 1 deals with understanding the Function and Future Plan of Development Finance Institutions and entails the following:

- To conduct interview surveys of Development Financial Institutions and related organisations such as *Bank Negara Malaysia* and Ministry of Finance.
- To review the Financial Sector Master Plan and Development Financial Institution Act and other reports to summarise the following matters:
  - Functions of DFI and CGC;
  - Future Plans of DFIs;
  - Relationship among DFIs, relationship between DFIs and private banks, and situation of DFIs in the Financial Sector;
  - Contents of existing financial programs to SMIs
  - Issues to be improved (general issues, issues related to financing to SMIs and existing financing program)
- To summarise the contents of the Financial Sector Master Plan (matters related to DFIs, financing SMIs, building capacity) and Development Finance Institution Act (February 2002).

Component 2 deals with **Collection of data on Financing to SMIs** including the following:

- To collect data on financing to SMIs based on category of business, region and scale;
- To collect data of performance of existing financing program including:
  - Soft Loans for SMEs;
  - Fund for Small and Medium Industries 2 (FSMI2);
  - Rehabilitation Fund for SMIs (RFSMI);
  - New Entrepreneurs Fund 2;
  - Japan Bank for International Cooperation Fund for SMIs (JBIC/FSMI);
  - ASEAN-Japan Development Fund (AJDF/JBIC);
  - Small and Medium Scale Industry Promotion Program Fund (SMIPP/JBIC);
  - Islam Credit Facilities;
  - Fund for Food (3F);
  - Industrial Adjustment Fund (IAF);
  - Bumiputera Entrepreneurs Project Fund (BEPF); and
  - Entrepreneurs Rehabilitation Fund (ERDF).

Component 3 deals with **Appraising Procedures** and entails the following:

To grasp present appraising procedures of each DFI and CGC (general procedures and specific procedures to the financing program in case there is a difference).

To grasp issues to be improved concerning the appraising procedures.

For **Component 4** on the **Training System** will entail understanding the existing training system for staff of DFIs and CGC.

Component 5 deals with **Publicity Work** and entails understanding DFIs publicity work to SMIs on their financial program and procedures.

For **Component 6** on **Evaluation of present appraising procedure by the private sector** entails understanding how private sector recognises and feels regarding the existing financing programs and appraising procedures through interview survey to commercial chambers and questionnaire survey to SMIs.

Component 7 on **Formulation of Technical Cooperation** entails designing recommended or expected technical cooperations of JICA to Malaysia in accordance with the results of the study and series of discussions with JICA Malaysia officials.

Annex 2: Summary of Recommendations of Financial Sector Master Plan (FSMP)

Banking Sector	
1	Develop industry-wide benchmarks to drive performance improvement in domestic banking institutions
2	Improve awareness of best practices and conduct focused training
3	Enhance credit skills and monitor the requirement for accreditation of credit officers and managers
4	Remove restrictions on salaries and staff mobility in banking industry
5	Uplift restriction on employment of expatriates
6	Set up board committees to further improve corporate governance
7	Allow group rationalisation and facilitate the operation of one-stop financial centre
8	Encourage strategic alliances
9	Streamline the regulation of discount houses and merchant banks to level the playing field
10	Encourage mergers between merchant banks and stockbroking companies or discount houses of the same group to create full-fledged investment banks
11	Encourage ownership of banking institutions by institutional investors
12	Encourage outsourcing of non-core functions
13	Require management of banking institutions to give greater attention to the development of ICT
14	Encourage the development of new delivery channels
15	Adopt 'what is not prohibited is allowed' regulatory philosophy and phase out product pre-approval requirement: - Replace product pre-approval requirements with a simple new product notification process - Outline guidelines for all applications for regulatory exemptions
16	Deregulate pricing and rules of association on rates, fees and charges gradually
17	Mandate all banking institutions to be rated
18	Encourage competition and participation of banking institutions in areas currently served by fringe institutions
19	Facilitate the development of a conducive tax regime
20	Merge the associations of banks, merchant banks and finance companies into a single association
21	Continue implementing risk-based supervision with more focused supervisory attention for weak institutions
22	Refine calculation of risk weightings for the purpose of capital adequacy calculations
23	Implement a system of incremental enforcement action

24	Implement a transparent and clearly structured early warning system and set of prompt corrective measures for weak banking institutions
25	Enhance surveillance of the financial sector through the use of modern technology
26	Develop comprehensive framework for consolidated supervision of financial conglomerates
27	Increase efficiency and competition in the payments system
28	Allow market forces to shape developments in the payments system while BNM assumes the role of regulator
29	Allow incumbent foreign banks to set up shared ATM network
30	Allow use of electronic communication networks and electronic trading platform
31	Introduce an expanded credit guarantee scheme
32	Require provision of advisory services on financial planning and management to SMIs and small borrowers
33	Allow banking institutions to rationalise their branch network and relocate branches, subject to certain conditions
34	Initiate an active and structured consumer education programme
35	Increase product-specific and institutional transparency and move towards full disclosure
36	Encourage consumers to pursue formal administrative and legal redress
37	Expand the operations of Banking Mediation Bureau to cover full range of retail banking-related consumer complaints
38	Implement anti-trust regulation
39	Establish a deposit insurance fund
	Insurance Sector
1	Remove restrictions on outsourcing
2	Allow all players in the market to operate via the internet
3	Promote incentives for the growth of bancassurance
4	Remove the 'file-and-use' system for life insurance products in the long term
5	Open up the pension industry to insurers
6	Uplift restrictions on employment of expatriates
7	Remove restrictions on opening branches
8	Allow insurers to distribute other personal financial service products
9	Introduce independent financial advisers
10	Introduce reinsurance quota regulations
11	Remove voluntary cessions to Malaysian National Reinsurance Berhad
12	Allow qualified players to sell *takaful* products
13	Remove caps on operating expenses
14	Encourage commission disclosure
15	Deregulate pricing of general insurance products
16	Increase the statutory minimum paid-up capital of insurers

17	Strengthen 'fit and proper' regulations for board members and senior management
18	Encourage the introduction of performance incentives and evaluation processes
19	Raise the entry requirements for the agency force
20	Introduce additional compulsory exams as part of continuing education programmes for agents
21	Further strengthen performance-based supervision
22	Ensure effective enforcement of regulations
23	Establish prudential risk management standards
24	Remove investment restrictions
25	Expand the role of the existing ombudsman
26	Introduce 'best-advice' regulations
27	Strengthen regulations on unfair trade practices
28	Allow new insurance licenses for innovative players
29	Allow financial and non-financial institutions to buy direct insurers
30	Open up the reinsurance industry fully to foreign competition
31	Increase caps on foreign equity
Islamic Banking and *Takaful*	
1	Introduce a benchmarking programme
2	Enhance knowledge and expertise
3	Build strong management teams
4	Grant incentives to structure Islamic private debt securities
5	Increase the number of Islamic banks to stimulate competition
6	Increase the number of *takaful* operators
7	Deepen the Islamic financial market
8	Strengthen the regulatory framework for Islamic banking
9	Improve the regulatory framework for *takaful*
10	Establish an effective legal structure
11	Create a favourable tax regime
Development Financial Institutions	
1	Define clearly the strategic focus and role of the DFIs
2	Enhance institutional capacities and operational structure
3	Enhance performance measurement
4	Introduce a systematic framework for sourcing funds
5	Continue Government's support to the DFIs
6	Strengthen corporate governance
7	Establish a legislative framework to provide for regulation and supervision of DFIs
8	Establish a single Regulatory and Supervisory Authority to strengthen the supervision of DFIs

Alternative Modes of Financing	
1	Establish a 'one-stop' centre for VC
2	Establish a RM500 million VC Fund
3	Introduce further tax incentives for the VC industry
4	Liberalise the MESDAQ listing requirements
5	Establish Islamic VC funds
6	Increase the sources of financing to the VC industry
7	Enhance the promotion of VC investment opportunities in Malaysia
8	Provide training to VC professionals
9	Increase the awareness of Malaysians regarding the roles and significance of business angels
10	Establish more business angel clubs and networks
11	Establish more matching services
12	Establish technology appraisal centres in promoted high technology sectors
13	Establish a one-stop agriculture research and development centre as well as a comprehensive and integrated information database
14	Develop structured and systematic training programme for borrowers
15	Establish a risk-distribution mechanism that will reduce the risks to the financial institutions and at the same time, reduce borrowing costs through a guarantee and insurance protection scheme - Establish an agency to provide guarantees - Diversify insurance protection schemes
16	Provide subsidies to the agriculture industry
17	Grant tax exemptions
Labuan International Offshore Financial Centre	
1	Develop an active International Offshore Financial Centre for Malaysia
2	Review existing rules and regulations to facilitate expansion in the scope of core businesses
3	Adopt a consultative and market driven approach to create a conducive tax and business environment
4	Benchmark against the best to maintain the low-cost operating environment
5	Establish a well-balanced regulatory policy and supervisory framework
6	Strengthen Islamic banking and finance as well as Islamic insurance (takaful)
7	Enhance the Labuan International Financial Exchange (LFX)
8	Enhance the e-commerce gateway (ECG)
9	Maximise potentials of Labuan IOFC by developing other complementing economic measures

Annex 3: Summary of Background Information of Other DFIs

1. Export-Import Bank Malaysia Berhad

The **Export-Import Bank of Malaysia Berhad (EXIM Bank)** was incorporated on in August 1995 as a wholly-owned subsidiary of Bank Industri & Teknologi Malaysia Berhad with an authorised and paid-up capital of RM500 million and RM300 million respectively. Bank Industri Malaysia Berhad holds 300 million shares while the Ministry of Finance (Inc) holds one special share. The Exim Bank provides medium to long term credit to promote the export of Malaysian goods and services with emphasis on exports to the non-traditional markets.

The financing facilities of Exim Bank can be categorised as follows:

- **Buyer Credit Facility:** This facility is extended to foreign entities primarily for the procurement of Malaysian manufactures and to raise financing for various construction, infrastructure and engineering projects undertaken or supplied by Malaysian companies.
- **Overseas Investment Credit Facility:** This facility is extended to Malaysian companies or their joint venture companies overseas investing in foreign countries in sectors such as manufacturing, construction, infrastructure or other developmental projects.

  The projects to be financed under the above facilities should result in significant contribution to the Malaysian economy in terms of the utilisation of raw materials, expertise, machinery, etc. from Malaysia. The loan tenor in respect of the said facilities may extend up to 10 years inclusive of two years grace period. Financing may be extended in Malaysian Ringgit or other major currencies.

- **Guarantee Facility:** This facility seeks to assist Malaysian exporters raise the required financing from financial institutions to undertake export and overseas investment projects. Guarantees are usually provided for financing of infrastructure and capital intensive projects where the demand for funding is large, political and sovereign risks are significant and long term maturity financing is critical to the project's viability. Under this facility, loans extended by financial institutions directly to an overseas buyer or a Malaysian exporter are guaranteed by Exim Bank which undertakes to pay to the lending bank the full amount of any defaulted payments of principal and interest due under the loan.
- **Supplier Credit Facility:** This facility is divided into two types, namely

  i) Pre-shipment Supplier Credit

  This facility is made available to Malaysian manufacturers/exporters for the production of goods meant for export. The purpose is to assist the manufacturers by financing part of their working capital during the production stage. It is provided for the processing, manufacturing and packing of goods meant for exports. To an exporter, the availability of finance at a preferential rate of interest helps to reduce the cost of financing exports thereby making goods more competitive. The credit is given for the period between the time the export order is finalised and the date of shipment of goods from Malaysia.

ii) Post-shipment Supplier Credit

This facility is provided to Malaysian exporters to enable them to provide attractive credit terms to foreign buyers for the export of Malaysian goods. It would be particularly useful in helping exporters who venture into non-traditional markets as buyers in these countries usually require financing for a longer duration compared to buyers in the traditional markets. Credit period is given corresponding with the number of days for which the Malaysian exporter has extended credit to the foreign buyer.

- **Export Of Services:** The purpose of this facility is to assist Malaysians to export their professional services overseas which may be in the form of consultancy, technical skills and other expertise. Financing can be provided for a period of up to 5 years.

2. Malaysia Export Credit Insurance Berhad

Malaysia Export Credit Insurance Berhad (MECIB) was incorporated on 28th April 1977 as a wholly owned subsidiary of Bank Industri & Teknologi Malaysia Berhad. Its objectives is to support and strengthen the export promotion drive in Malaysia by providing a full range of export credit insurance, guarantee facilities, overseas investment insurance and other trade related services.

The Mecib's facilities can be categorised as follows:

- **Comprehensive Policy** (Shipments/Contracts): The Comprehensive Policy provides an "umbrella" cover for exporters who make regular exports on credit to overseas importers who make regular exports on credit to overseas importers up to 180 days. There are two types of policies: the **Comprehensive Policy (Shipments)** providing cover to exporter from the date of shipment and the **Comprehensive Policy (Contracts)** providing cover from date of contract. The latter is suitable where there is possibility of losses stemming from frustration of contracts in the pre-shipment period

  The Comprehensive Policy covers export of goods wholly or partly manufactured in Malaysia. All shipments made under contracts concluded on payment terms of Irrevocable Letter of Credit (ILC), Documents against Payment (DP), Documents Against Acceptance (DA) and Open Account (OA) are insurable.

- **Bank letter of credit policy (BLCP):** This policy covers banks that negotiate Irrevocable Letter of Credits (ILC) issued by foreign issuing banks against their failure to reimburse payment to the beneficiaries (i.e. Malaysian exporters) under the ILC. BLCP helps the banks / exporters by:
  - Providing relief against the country risks
  - Providing relief against the issuing bank's risks
  - Encouraging exporters to sell in non-traditional and emerging markets
  - Promoting increased participation of banks in trade finance

- **Guarantee and Bond Indemnity Support Facility:** The aim of the MECIB's Guarantee and Bond Indemnity Support Facility is not only to supplement, but also to supplant the commercial bonding market. In short, MECIB can either issue bonds itself or provide guarantees to banks to encourage the issue of bonds that might not otherwise be made available. For support provided to banks, MECIB shall indemnify up to 100% of bank's loss in the event the bonds being "called" against the risk.

- **Buyer Credit Guarantee:** MECIB's guarantee is unconditional and irrevocable in which the lending bank is guaranteed repayment of the principal and any interest due to it under loan. If the borrower/buyer fails to pay any instalment in full or any interest due, MECIB pays the bank between 3 and 6 months after the date on which the borrower was due to pay. MECIB will also pay interest on the defaulted amount for the period the bank has to wait for its payment.
- **Specific Policy (Contracts / Constructional Works / Services):** The Specific Policy applies to individual contracts and provides coverage from either date of contract (Specific Contracts Policy) or from date of shipment (Specific Shipments Policy). Whether an exporter prefers a Specific Contracts Policy or a Specific Shipments Policy will depend largely on the nature of the goods exported.
- **Overseas Investment Insurance:** MECIB's OII covers up to 90% of losses due to 4 types of political risks (Transfer Restriction, Expropriation, War and Civil Disturbance, Breach of Contract)

3. Sabah Development Bank Berhad

Sabah Development Bank Berhad (SDB) was incorporated on 9 August 1977 as a public company limited by shares under the Companies Act, 1965 of Malaysia. It commenced operations as a development finance institution in June 1978. Today, the primary objectives of the SDB are to undertake any and every aspect of development banking and to act as the State Government's Financial Intermediary. SDB is committed to assist the State and Federal Governments in realising their economic objective to industrialise Sabah and the country as a whole. Towards this end, SDB endeavours at all times to adhere to the State and National Economic Policies. In its capacity as the State Government's Financial Intermediary, SDB is responsible to advise the State Government and its agencies on various financial and investment matters referred to it and to raise funds for designated development projects. The State Government of Sabah wholly owns SDB. It has an authorised share capital of RM350 million divided into 350,000 ordinary shares of RM1.00 each and is fully paid-up. The services offered by SDB include the following:

- Lending for Project Finance, Bridging Finance, Fixed Assets Finance, Working Capital Finance, Small and Medium Industries Finance
- Islamic Banking
- Loan Syndication
- Corporate Advisory Services
- Venture Capital / Equity Participation
- Financial Intermediary
- Project Rehabilitation

4. Sabah Credit Corporation

Incorporated June 15, 1955, under the Credit Corporation Ordinance No. 1 of 1955, it was then known as the North Borneo Credit Corporation and commenced operation with a launching grant of RM 1 million from part of the Japanese Compensation Fund. In 1972, it was renamed as Sabah Credit Corporation and in 1981, the Ordinance was replaced by the Enactment No. 22 of 1981. The Corporation is a financial institution fully owned by the Sabah State Government under the portfolio of the State Ministry of Finance. The State Government in the forms of loans injects its capital requirements. Services offered by the Sabah Credit Corporation include Housing Loans, Project Loans, Special Loan Scheme catering specially for small-scale ongoing *bumiputera* business ventures, Hire Purchase Loan, Executive Loan, Refinancing and Al-Bai Bithaman Ajil.

5. Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat)

The origin of Bank Rakyat began when 11 Union Co-operative Banks amalgamated into an Apex Bank (Bank Agong) in September 1954. Subsequent changes in the by-laws of the resulted in the expansion of its role, reorganisation of its membership structures and it was renamed Bank Kerjasama Malaysia Berhad (Bank Kerjasama) in 1967 with membership opened to both co-operative societies and individuals. Further changes in the by-laws of the bank enabled it to establish subsidiaries and participate in any activities that will be profitable to the Bank. With the expansion of its role, in January 1973, its name was changed to Bank Kerjasama Rakyat Malaysia Berhad or as it is more commonly called, Bank Rakyat.

In May 1993, Bank Rakyat launched its Islamic (Syariah) Banking facilities at four of its branches. The Bank also announced its intention of converting all its banking facilities from the conventional system to those that are based on Syariah principles, making Bank Rakyat the second bank in the country which offers fully Islamic products. Since 1 January 1997, all their branches operate as Syariah branches.

6. Bank Simpanan Nasional (BSN)

Bank Simpanan Nasional Malaysia was established in December 1974 under an Act of Parliament. With its launching, all duties and responsibilities under the Post Office Savings Bank Act were taken over by BSN. The Bank is a statutory body under the Ministry of Finance. The services offered by BSN include savings, loans, GIRO account services, credit and Islamic banking.

7. Bank Pertanian Malaysia (BPM)

Bank Pertanian Malaysia was established in September 1969 under an Act of Parliament. It commenced operations in 1970 as a statutory body, and is responsible to arrange, provide, oversee and organise the credit assistance for the agriculture activities in Malaysia. BPM is committed to assist the Government for the paddy field irrigation project in Kedah. The main project is in Muda irrigation area, which is managed by the Muda Agriculture Development Authority (MADA).

The Muda Irrigation project funding was from World Bank. From the credit assessment report, the World Bank realised that credit facilities to farmers were insufficient thus introduced a special credit scheme to solve the agriculture credit problem. As a result, Bank Pertanian Malaysia commenced operations as a development financial institution, specialising in credit loans for the agricultural sector.

Annex 4: Details of SME Financing and Guarantee Programmes

4.1 Entrepreneur Rehabilitation and Development Fund (Conventional and Islamic)	
Amount	RM500 million
Date established	3 July 2001
Main objective	To assist distressed but viable Bumiputera companies through non-performing loans/financing (NPL/NPF) resolution and additional working capital support.
Eligibility	▪ Has NPL/NPF not exceeding RM1 million. However, customer with NPL/NPF exceeding RM1 million is also eligible subject to the total NPL/NPF is reduced to RM1 million within two months after the facility has been approved by ERF Sdn. Bhd. ▪ Entity must be at least 60% owned by *Bumiputera* ▪ NPL/NPF must be only for business related financing ▪ Financial distress is due to economic crisis and not due to mismanagement or fraud ▪ Financing turned NPL/NPF between 01/01/1998 and 31/12/2001 ▪ Has ongoing business or potential viable business venture

NPL/NPF Resolution	**Unsecured customer**
	▪ Financial institutions (FIs) to waive all outstanding interest/income-in-suspense (IIS), including penalty charge
	▪ Unsecured principal amount to be settled by the following:
	  ▪ FIs : 40%
	  ▪ Government : 30%
	  ▪ Borrower: 30% (maximum 18 monthly instalment)
	Partially secured customer
	▪ FIs to waive 50% of outstanding IIS including penalty charge
	▪ Unsecured principal amount to be settled by the following:
	  ▪ FIs : 40%
	  ▪ Government : 30%
	  ▪ Borrower : 30% (maximum 18 months instalment)
	▪ FIs to provide 2 years moratorium on the remaining outstanding balance
	Fully secured customer
	▪ FIs to waive 100% of outstanding IIS including penalty charge
	▪ FIs to provide 2 years moratorium on the remaining balance

Maximum financing rate	5.0% p.a. (new financing)
Maximum tenure	5 years (new financing)
Minimum funding per customer	None
Maximum funding per customer	Actual working capital required or RM3 million whichever is lower.
Participating Financial Institutions	All commercial banks All finance companies All Islamic banks

4.1 Entrepreneur Rehabilitation and Development Fund (Conventional and Islamic)	
Purpose of financing	▪ Expansion in productive capacity ▪ Working capital; or ▪ Both of the above Financing should not be used for purchase of shares or refinancing of existing credit facilities.
Eligible sectors	All economic sectors
Application procedure	Applications should be made through the financial institutions where the NPL/NPF accounts are maintained.

4.2 Bumiputera Entrepreneurs Project Fund (Conventional only)	
Amount	RM300 million
Date established	10 February 2000
Main objective	To provide financing to Bumiputera entrepreneurs who have been awarded contracts/projects by the Government, Government-related agencies, statutory bodies and reputable private/public companies.
Maximum financing rate	5.0% p.a.
Maximum tenure	5 years
Minimum funding per customer	None
Maximum funding per customer	60% of the contract value less advance given by the government (if any) or RM3 million whichever is lower.
Participating Institutions	ERF Sdn Bhd

Eligibility	▪ Bumiputera entrepreneurs or enterprises which are wholly-owned by Bumiputera with viable contracts in hand
	▪ Members of one of the following bodies:-
	  ▪ Malay Chambers of Commerce Malaysia
	  ▪ Sabah Malay Chambers of Commerce Malaysia / Bumiputera Chambers of Commerce Sabah / Kadazan Dusun Chambers of Commerce and Industry Sabah
	  ▪ Bumiputera Chambers of Commerce Sarawak
	  ▪ Malay Chambers of Commerce Malaysia FT Labuan
	  ▪ USAHANITA
	  ▪ PERDASAMA
	  ▪ Any other bodies approved by *Panel Khas TPU* (ERF Special Panel)
	  ▪ For contractors, they must be registered with *Pusat Khidmat Kontraktor* (Contractor Service Centre)
	  ▪ Credit facilities have not been obtained from financial institutions to finance the project

Purpose of financing	▪ Working capital only Financing should not be used for purchase of shares or refinancing of existing credit facilities.
Eligible sectors	All economic sectors

4.3 Rehabilitation Fund for Small and Medium Industries (Conventional & Islamic)	
Amount	RM500 million
Date established	23 November 1998
Main objective	To assist viable small- and medium-sized enterprises (SMEs) facing temporary cash flow problems.
Maximum financing rate	4.5% p.a.
Maximum tenure	7 years
Minimum funding per customer	RM50,000
Maximum funding per customer	RM5 million
Participating Financial Institutions	All commercial banks All finance companies All Islamic banks Bank Pertanian Malaysia Bank Industri dan Teknologi Malaysia Berhad Bank Pembangunan dan Infrastruktur Malaysia Berhad Malaysian Industrial Development Finance Berhad Sabah Development Bank Berhad
Eligibility	▪ Shareholders' funds not exceeding RM10 million ▪ Malaysian-owned institutions (at least 51% ownership) incorporated under the Companies Act 1965, the Co-operative Societies Act 1993, the Societies Act 1966, citizens residing in Malaysia and entrepreneurs registered under the Registrar of Business or any other authoritative bodies.
Purpose of financing	▪ Expansion in productive capacity; Working capital; or Both ▪ Financing should not be used for purchase of shares, or refinancing of existing credit facilities. However, customer may utilise up to 40% of the financing amount approved to refinance and restructure existing non-performing loans/financing (NPL/NPF)
Eligible sectors	Manufacturing, Agro-based, Services
Application procedure	Applications should be made through any participating financial institutions. Approvals will be subject to the normal vetting procedures and security requirements of the participating financial institutions.

4.4 Fund for Food (Conventional and Islamic)	
Amount	RM1,300 million
Date established	4 January 1993
Main objective	To increase food production in Malaysia.
Maximum financing rate	3.75% p.a.
Maximum tenure	8 years

4.4 Fund for Food (Conventional and Islamic)	
Minimum funding per customer	RM10,000
Maximum funding per customer	90% of total project cost or RM5 million whichever is lower.
Participating Financial Institutions	*Bank Pertanian Malaysia* (Agriculture Bank of Malaysia) Commercial Banks
Eligibility	▪ Malaysian-owned institutions (at least 51% ownership) incorporated under the Companies Act 1965, Co-operative Societies Act 1993, Societies Act 1966, citizens residing in Malaysia and entrepreneurs registered under the Registrar of Business or any other authoritative bodies. ▪ The investment must be in Malaysia. ▪ Domestic-oriented projects, where at least one-half of the total production is sold in the domestic market. ▪ Viable projects involving the following: ▪ Primary food production i.e. animal husbandry, agriculture cultivation, fishery and biotechnology ▪ Integrated agriculture ▪ Processing and/or distribution of food, subject to the raw materials coming from domestic sources
Purpose of financing	Expansion in productive capacity; Working capital; or Both. Financing should not be used for: ▪ Purchase of shares ▪ Personal consumption ▪ Refinancing of existing credit facilities. ▪ Purchase of existing factories ▪ Labour cost except wages
Eligible sectors	Primary food production Animal husbandry Agriculture cultivation Fishery Biotechnology Integrated agriculture Processing and/or distribution of food.
Application procedure	Applications should be made to *Bank Pertanian Malaysia*. Approvals will be subject to the normal vetting procedures and security requirements of *Bank Pertanian Malaysia*.

4.5 Fund for Small and Medium Industries 2[19] (Conventional and Islamic)	
Amount	RM400 million
Date established	15 April 2000
Main objective	To promote SME activities in both the export and domestic-oriented sectors.
Maximum financing rate	5.00% p.a.
Maximum tenure	3 years
Minimum funding per customer	RM50,000
Maximum funding per customer	RM3 million.
Participating Financial Institutions	All commercial banks All finance companies All Islamic banks Bank Pertanian Malaysia Bank Industri & Teknologi Malaysia Berhad Bank Pembangunan & Infrastruktur Malaysia Berhad Malaysian Industrial Development Finance Berhad Sabah Development Bank Berhad
Eligibility	▪ Shareholders' funds not exceeding RM10 million; ▪ Malaysian-owned institutions (at least 51% ownership) incorporated under the Companies Act 1965, Co-operative Societies Act 1993, Societies Act 1966, citizens residing in Malaysia and entrepreneurs registered under the Registrar of Business or any other authoritative bodies.
Purpose of financing	▪ Expansion of productive capacity; ▪ Working capital; or ▪ Both of the above Financing should not be used for purchase of shares, refinancing of existing credit facilities, or purchase of land.
Eligible sectors	Manufacturing Service
Application procedure	Applications should be made through any participating financial institutions. Approvals will be subject to the normal vetting procedures and security requirements of the participating financial institutions.

[19] The fund is a continuation of the Fund for Small and Medium Industries which was terminated on 3 April 2000.

4.6 New Entrepreneurs Fund 2[20] (Conventional and Islamic)	
Amount	RM250 million
Date established	15 July 2001
Main objective	To help stimulate the growth of small and medium-sized *Bumiputera* enterprises.
Maximum financing rate	5.0% p.a.
Maximum tenure	8 years
Minimum funding per customer	None
Maximum funding per customer	RM5 million.
Participating Financial Institutions	All commercial banks All finance companies All Islamic banks Bank Industri & Teknologi Malaysia Berhad Bank Pembangunan & Infrastruktur Malaysia Berhad Malaysian Industrial Development Finance Berhad
Eligibility	▪ Shareholders' funds not exceeding RM10 million; ▪ Wholly-owned Bumiputera institutions incorporated under the Companies Act 1965, the Co-operative Societies Act 1993, the Societies Act 1966, Bumiputera residing in Malaysia and Bumiputera entrepreneurs registered under the Registrar of Business or any other authoritative bodies. **OR** ▪ The small and medium-sized *Bumiputera* enterprises participating under the vendor development programmes of the Ministry of Entrepreneur Development, or Ministry of Finance, with at least 70% Bumiputera equity and management control.
Purpose of financing	▪ Expansion in productive capacity; ▪ Working capital; or ▪ Both of the above Financing should not be used for purchase of shares or refinancing of existing credit facilities.
Eligible sectors	All economic sectors
Application procedure	Applications should be made through any participating financial institutions. Approvals will be subject to the normal vetting procedures and security requirements of the participating financial institutions.

[20] The fund is a continuation of the New Entrepreneurs Fund which was terminated on 15 July 2001.

4.7 Small Entrepreneur Guarantee Scheme	
Eligibility Criteria	▪ All Malaysian owned and controlled companies registered under the Companies Act 1965, the Co-operative Societies Act 1993 and entrepreneurs registered with the Registrar of Business or any other authoritative body ▪ Borrower can only have one loan under the CGC guarantee at any one time ▪ No adverse record in respect of borrowing from any other financial institution or any government agencies
Type of Loan	Term Loan; Overdraft
Maximum loan amount per customer	RM50,000
Maximum lending rate	BLR + 1.5% p.a.
Maximum tenure	5 years
Guarantee Coverage	80% of the facility.
Guarantee Fee	1.25% per annum based on the guarantee cover is payable annually in advance.
Participating Financial Institutions	All commercial banks All finance companies
Application procedure	All applications can be made from any participating financial institutions involved.

4.8 Flexi Guarantee Scheme	
Eligibility criteria	▪ All Malaysian owned and controlled companies (majority of shareholding/interest is Malaysian) with net assets or shareholders' funds not exceeding RM10 million. ▪ No adverse record in respect of borrowing from any other financial institution or any government agencies (except for RFSMI).
Type of loan	All types of facilities
Maximum loan amount (per customer)	FSMI 2 : RM3 million RFSMI : RM5 million NEF : RM5 million
Maximum lending rate	FSMI 2 : 5.0% p.a. RFSMI : 4.5% p.a. NEF : 5.0% p.a.
Maximum tenure	FSMI 2 : 3 years RFSMI : 7 years NEF : 8 years
Guarantee coverage	Ranging from 30% to 80%. Maximum guarantee cover: ▪ unsecured portion : Ranging from RM1.0 to RM2.5 million

4.8 Flexi Guarantee Scheme	
	▪ secured portion : No capping
Guarantee fee	▪ Calculated based on the guarantee cover issued and payable in advance. It will be borne by the participating institutions. ▪ Ranging from 0.75% to 1.5% per annum for unsecured portion and 0.5% to 1.25% per annum for secured portion.
Participating Financial Institutions	All financial institutions participating in FSMI 2, RFSMI and NEF2 respectively.
Application procedure	All applications can be made from any participating financial institutions involved.

4.9 New Principal Guarantee Scheme		
Eligibility criteria	▪ Borrower must be a small and medium enterprise, defined as registered business with net assets or shareholders' funds up to: ▪ RM10 million for manufacturing ▪ RM5 million for priority sector ▪ RM2.5 million for other sectors ▪ Must be Malaysian owned or Malaysian controlled (majority of shareholding/interest is Malaysian) ▪ No adverse record with CGC or other financial institutions or listed under the *Biro Maklumat Cek* (Cheque Information Bureau)	
Type of loan	Term loan Overdraft Letters of credit Trust receipt Export credit refinancing	Bills purchased Bankers acceptances Shipping/performance/bank guarantees Hire purchase Leasing
Maximum loan amount (per customer)	Manufacturing sector : RM10 million Priority sector : RM7.5 million Other sectors : RM5 million	
Maximum lending rate	Loans RM1 million or less : BLR + 2.0% p.a. More than RM1 million : Lenders are free to determine the margin	
Maximum tenure	Without fixed tenure : 3 years With fixed term : as per tenure of the loan	
Guarantee coverage	Ranging from 50% to 90%. Maximum guarantee cover: ▪ unsecured portion : Ranging from RM1.0 to RM2.5 million ▪ secured portion : No capping	
Guarantee fee	▪ Calculated based on the guarantee cover issued and payable in advance ▪ Ranging from 0.75% to 1.5% per annum for loans up to RM1 million and 0.75% to 2.0% per annum for loans above RM1 million	
Participating Institutions	All commercial banks and finance companies.	
Application procedure	All applications can be made from any participating financial institutions involved.	

4.10 Direct Access Guarantee Scheme	

Eligibility criteria	▪ Borrower's paid-up capital/ shareholders' funds should be between RM50,000 and RM2.5 million
	▪ The company should be Malaysian owned and controlled private limited companies registered under the Companies Act 1965
	▪ No adverse record with CGC or other financial institutions or listed under the *Biro Maklumat Cek* (Cheque Information Bureau)
	▪ All legal business activities in the following sectors:
	  ▪ Manufacturing
	  ▪ Processing and assembly related activities
	  ▪ Activities supporting export-oriented industries
	  ▪ Retailing and wholesaling activities
	  ▪ Repair services
	  ▪ Franchise
	▪ A start-up company may apply provided a satisfactory and reasonable cash flow indicating repayment capacity of about 1.5 times

Type of loan	▪ Term/ fixed loan ▪ Overdraft (the guarantee cover for overdraft facilities shall be reviewed yearly)
Maximum loan amount (per customer)	Ranging from RM50,000 to RM1 million: Up to RM500,000 - for working capital Up to RM500,000 - for asset acquisition
Maximum lending rate	BLR + 1.0% p.a.
Maximum tenure	5 years
Guarantee coverage	100%
Guarantee fee	1.5% per annum based on the guarantee cover to be charged to the borrower.
Participating Financial Institutions	Panel of financial institutions assigned by CGC.
Application procedure	Applications can be made directly from CGC using a standard application form accompanied by the necessary documents as per normal loan processing.

4.11 Franchise Financing Guarantee Scheme	
Eligibility criteria	▪ All Malaysian owned and controlled companies with net assets or shareholders' funds not exceeding RM1.5 million ▪ The existing total credit facilities of the borrower should not exceed RM7.5 million. Borrower should not have any adverse record in respect of borrowing from any other financial institution or other agencies
Type of loan	Term loan; Overdraft; Trade financing Any other credit facilities determined from time to time by CGC
Maximum loan amount (per customer)	RM7.5 million
Maximum lending rate	The prescribed rate charged by the Financial Institutions will not exceed BLR + 1.5%, while the actual cost to the borrower will be reduced through payment of subsidised interest whereby MED via CGC will pay the

4.11 Franchise Financing Guarantee Scheme	
	difference for the loan interest
Maximum tenure	5 years
Guarantee coverage	Up to 80% for unsecured portion and 90% for secured portion
Guarantee fee	Ranging from 0.5% to 1.0% per annum
Participating Financial Institutions	Maybank Berhad Bumiputera-Commerce Bank Berhad
Application procedure	▪ The franchiser must be registered with MED before the franchisee can apply through this scheme ▪ MED will ensure the validity of the franchiser and legal relationship between franchiser and franchisee ▪ MED will compile the complete loan application together with working paper and forward it to financial institution to process ▪ Upon receipt of the guarantee application from financial institution, CGC will process and issue the guarantee letter accordingly

4.12 Engineering Design Grant	
Eligibility criteria	▪ Manufacturing companies or companies providing manufacturing related services* with an annual sales turnover of not exceeding RM 25 million and with fulltime employees of not exceeding 150. ▪ At least 60% equity held by Malaysians. ▪ Companies must be operating in an approved premise.
Funding	▪ 50% matching grant with the remainder of the costs to be borne by the applicant ▪ Maximum grant per company is RM300,000.00

4.13 AJDF/JBIC Scheme	
Eligibility criteria	Malaysian-owned companies with: ▪ at least 51% Malaysian shareholding. ▪ paid-up capital not exceeding RM5 million..
Funding	Up to RM5 million
Eligibility items	Plant and equipment, including factory buildings
Percentage financing	Up to 75% of the cost of eligible items
Loan period	Up to 15 years, including grace period of 3 years
Interest rate	6.5% p.a.
Commitment fee	Nil

4.14 JBIC/Fund for Small- and Medium-Scale Industries	
Eligibility criteria	New and existing ventures undertaking expansion, modernisation, diversification and/or relocation programmes in the manufacturing, agro-based and services sectors. Malaysian-owned companies with: ▪ at least 51% Malaysian shareholding ▪ full-time employees not exceeding 150 or annual turnover not exceeding RM25.0 million ▪ paid-up capital not exceeding RM3.0 million
Loan amount per project	Minimum RM50,000 Maximum RM5.0 million
Eligibility items	Fixed assets, working capital requirements and technical assistance services
Percentage financing	▪ For fixed assets financing, up to 85% of the cost. ▪ For the combination of working capital requirement and fixed assets expenditure, the working capital financing shall not exceed 20% of the total loan. ▪ For working capital purpose only, the financing shall not exceed RM500,000.
Loan period	▪ For fixed assets or the combination of fixed assets and working capital financing, the repayment period is up to 15 years, including a grace period of up to 3 years. ▪ For working capital financing only, the repayment period shall not exceed 1 year.
Interest rate	6.25% p.a.
Commitment fee	Nil

4.15 Small- and Medium-Scale Industry Promotion Program/JBIC Fund (SMIPP/JBIC)	
Eligibility criteria	Malaysian-owned companies with: ▪ at least 51% Malaysian shareholding ▪ paid-up capital not exceeding RM5.0 million For enterprises purchasing environmental control equipment, there is no limitation on the size of paid-up capital
Loan amount per project	Up to RM 5 million
Eligibility items	Plant and equipment, including factory buildings and environmental control equipment
Percentage financing	Up to 75% of the cost of eligible items
Loan period	Up to 8 years, including grace period
Interest rate	7.0% p.a.
Commitment fee	Nil

4.16 Soft Loan for SMEs	
Eligibility criteria	Malaysian incorporated companies with: ▪ at least 60% Malaysian equity ownership; ▪ annual sales turnover not exceeding RM25 million; and ▪ full-time employees not exceeding 150.

Eligible sectors	▪ Manufacturing
	▪ Manufacturing-related Services
	  ▪ Engineering support services such as calibration, electroplating, machining, heat treatment, metal casting and forging
	  ▪ Specialised service centres such as sterilisation and waste treatment
	  ▪ Logistic services such as warehousing, bulk breaking, international procurement centre and haulage.
	  ▪ Maintenance and repair of factory machinery and equipment
	  ▪ Software development
	  ▪ Automation of production line
	  ▪ Design and packaging services

Special window for women entrepreneurs	For women entrepreneurs, besides the above sectors, the Scheme will also cover other business services such as:
	▪ IT related Services
	▪ Education Services
	▪ Research and Development Services
	▪ Marketing Services
	▪ Tourism
	▪ Other Business Services:
	  ▪ Professional Services (legal, accounting, auditing and book-keeping services, taxation, architectural, engineering, urban planning and landscape services, medical and dental services, secretarial)
	  ▪ Management Consultancy Services
	  ▪ Building Cleaning Services
	  ▪ Printing and Publishing
	Additional Eligibility Criteria:
	▪ The company is run by a woman and the largest single shareholder is a woman; or
	▪ MD/CEO is a woman and she holds a minimum of 10% equity in the company

Loan amount per project	Minimum: RM50,000 Maximum: ▪ Project Financing - RM5 million (pre-operational expenses of up to RM250,000) ▪ Fixed Assets Financing - RM2.5 million ▪ Working Capital Financing - RM1 million
Eligible items	▪ Project Financing covers the entire project cost items, including pre-operational expenses such as market survey and feasibility study, professional fees for technical expertise, office set-up prior to production, staff salary, advertisement and promotion cost, production labour cost, factory overhead and raw material costs for trial production. ▪ Fixed Assets Financing for the purchase of land and building, plant and machinery and office equipment for new, expansion, diversification, modernisation and/or relocation projects. ▪ Working Capital Financing for the purchase of raw materials, components, inventory and labour costs.

<table>
<tr><th colspan="3">4.16 Soft Loan for SMEs</th></tr>
<tr><td>Percentage financing</td><td colspan="2">▪ Fixed Assets:
▪ Up to 85% of the cost for new assets (90% for bumiputera companies).
▪ Up to 60% for used equipment.
▪ Working Capital:
▪ Up to 75% of the working capital requirements (80% for bumiputera companies).</td></tr>
<tr><td rowspan="5">Loan period</td><td>Land and Building</td><td>Up to 15 years including grace period of up to 2 years.</td></tr>
<tr><td>Machinery and Equipment</td><td>5-10 years including grace period of up to 2 years.</td></tr>
<tr><td>IT Equipment</td><td>Up to 3 years including grace period of up to 1 year.</td></tr>
<tr><td>Term Working Capital</td><td>Up to 3 years including grace period of up to 6 months.</td></tr>
<tr><td>Revolving Working Capital</td><td>Up to 3 years but subject to annual review.</td></tr>
<tr><td>Interest rate</td><td colspan="2">4.0% p.a.</td></tr>
<tr><td>Commitment fee</td><td colspan="2">Nil</td></tr>
</table>