

Reconnaissance Study for
Two-Step Loan for SME Bank, Malaysia

Final Report

February, 2010

Japan International Cooperation Agency (JICA)

Conducted by
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Abbreviations

ASEAN	Association of South - East Asian Nations
BHD	Berhad
BNM	Bank Negara Malaysia
BPIMB	Bank Pembangunan & Infrastruktur Malaysia Berhad
BITMB	Bank Industri & Teknologi Malaysia Berhad
BSN	Bank Simpanan Nasional
CGC	Credit Guarantee Corporation
DFI	Development Financial Institutions
EPF	Employee Provident Fund
GDP	Gross Domestic Product
GLC	Government Linked Company
IFRGS	Industry Restructuring Financing Guarantee
IMF	International Monetary Fund
JB	Johor Baru
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
KL	Kuala Lumpur
MEF	Micro Enterprise Fund
MIDF	Malaysian Industrial Development Financing Berhad
MOF	Ministry of Finance
MOFJ	Ministry of Finance, Japan
NPL	Non Performing Loans
NRI	Nomura Research Institute
OECF	Overseas Economic Cooperation Fund
RAM	Rating Agency of Malaysia
RM	Malaysian Ringgit
SAGS	SME Assistance Guarantee Scheme
SME	Small and Medium Enterprise
TA	Technical Assistance
WCGS	Working Capital Guarantee Scheme

1. Background and Objectives

1.1. Overview

The global financial crisis of 2008 and the economic slump afterwards had a severe impact on the Asian economy, including Malaysia. This study attempts to assess the impact of these events on the Malaysian Small and Medium Enterprises (SMEs). The Government of Malaysia has taken several measures and policies to assist the SMEs, and their effectiveness will also be assessed. The study aims at understanding the demand for funds among Malaysian SMEs, and shall provide the ground work for a policy loan system for SMEs, possibly utilizing Japanese Yen Loan as the source of funds.

1.2. Background of the Study

Malaysia has shown high levels of economic growth during the late 1980s to mid 1990s, with its GDP growing at an average of 8% per annum. It was severely damaged by the 1997 Asian Currency Crisis, but with its unique fiscal stimulus policy, it has demonstrated a quick recovery. After 2000 to 2007, it has consistently shown GDP growth of over 5%.

Due to the financial crisis in 2008, however, its economy has decelerated since the 3rd quarter of 2008. IMF estimates that it will experience negative growth in 2009. Export oriented manufacturing is severely hit, which took private consumption down with it, causing a vicious cycle. Unemployment is expected to increase, with shrinking production leading to firing and layoffs of tens of thousands of workers.

It is expected that these effects will be hard felt by SMEs in Malaysia. In many countries including Japan, larger firms will try to weather economic downturns by squeezing smaller suppliers. Therefore, helping these SMEs will be important for the Malaysian economy. Also, at the SME Bank which handles SME loans, defaults are said to be increasing, which leads the banks to curtail lending to SMEs, which in turn may experience credit crunch. Government of Malaysia has created several emergency vehicles, including a credit guarantee scheme totaling 2

billion RM. This, however, may not be enough to cover the credit demand from SMEs.

Even without the Financial Crisis, the importance of SMEs has been firmly established in the industrial policy of Malaysia for a long time. *The 9th Malaysia Plan* (2006-2010) cites the amelioration of various inequities within society as an important agenda, and SME support is one policy that addresses this issue. Also in *the 3rd Industrial Master Plan*, various SME supporting policies are presented. This shows the importance of SMEs within the policy framework of Malaysia.

With this background, Japanese assistance to Malaysian SMEs would be highly significant. It could assist Malaysian SMEs to get through the effects of the Global Financial Crisis. It could also help Malaysia achieve its policy goals regarding SMEs. However, the actual situation of the SMEs is not clear. While there have been anecdotal clues, the overall situation has not been confirmed. Also, the Malaysian Government itself has already taken strong measures to counter the negative effects of the Financial Crisis. Their effectiveness also needs to be clarified, since it would influence the focus for providing Japanese assistance.

On the other hand, Malaysia is already a middle income country, which limits the extent that Japan can provide Yen loans. Therefore, the rationale for such support also needs to be considered.

1.3. Objective and the Structure of the Study

Based on this background, this study aims to assess whether it is feasible and desirable to assist SMEs in Malaysia through providing a two-step loan to SME Bank. In order to make this assessment, the following topics shall be covered.

A: Malaysian economy and SMEs

- Outlook of the Overall Malaysian Economy
- Significance of SMEs in Malaysia's Industrial Policy
- Condition of actual SMEs in Malaysia, including the impact of the Financial Crisis

B: SME Bank: Its role and conditions

- Overall financial assistance for SMEs
- SME Bank's position within the policy framework for SMEs
- SME Bank's financial condition and operation

C: Significance of providing two-step loans

- Overall significance for SME Bank and Malaysian SMEs
- Rationale for the loan and synergy with other aid

The following report will follow the above structure, addressing each issue in separate chapters.

2. Economic Conditions of Malaysia

2.1. Trend of Malaysian economy

Malaysia has become one of the leading countries within ASEAN. Originally, it used to rely on rubber and tin as its main industries, but thanks to the industrialization in middle 1980s, it achieved 8% annual growth from late 1980s to middle 1990s. Although being heavily damaged by the Asian currency crisis in 1997, the country has rapidly recovered by its unique expansionary fiscal policy, and shown a stable GDP growth above 5% for 6 years since 2001. However, the growth slows down since the third quarter of 2008 by the influence of the global financial crisis, and ends the year with GDP of 738,667 million RM (in current price) as annual growth of 4.6%.

2.2. Impact of the global financial crisis

In 2008, the increase in the default of the so-called sub-prime mortgage loans has led to the across-the-board devaluation of various financial instruments that incorporated those loans through securitization. Through excessive leverage, the sudden fall in many of these instruments quickly led to a global financial crisis.

Asia in general and Malaysia in particular, were not directly affected by the contamination of these financial instruments, since they were not heavily exposed to these assets. However, the crisis caused a serious decline in the demand in US and Europe, which had huge exposure. Consequently, exports from Asia to these regions were severely hit.

This was the route in which global financial crisis affected Malaysia. The export sector, which consists mostly of manufacturing, was severely hit, and pulled down the GDP significantly (figure 1). As a result, according to IMF's forecast, Malaysian economy is expected to have shown negative growth of -3.6% in 2009 (*World Economic Outlook*, 10/2009). It is assumed that falling demand in export oriented manufacturing sector -such as electrics- and weak consumer spending

would be the main causes of this negative growth. Indeed, there has been rise in lay-off and unemployment.

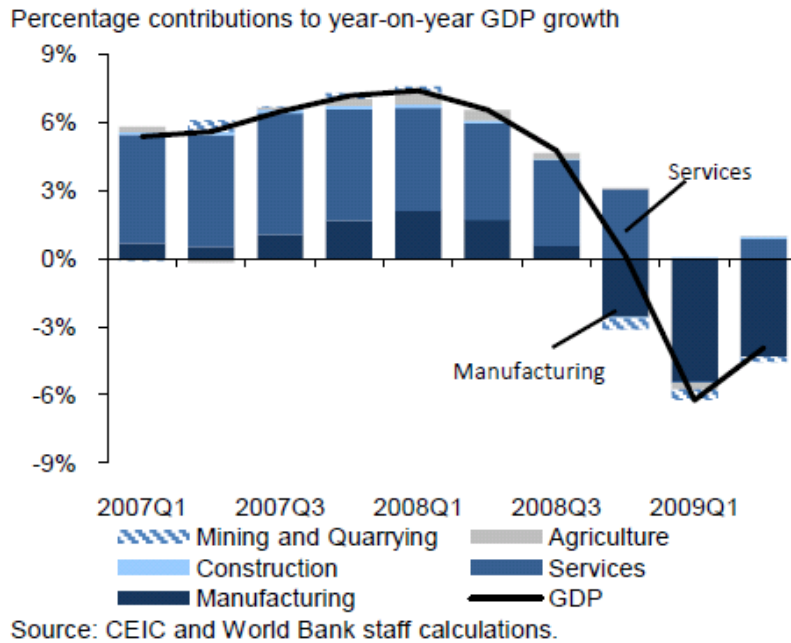


Figure 1: Manufacturing brought down the GDP Growth in Malaysia

However, the setback seems to be temporary. Although damaged by the global economic crisis, Malaysian economy has shown signs of recovery. In the third quarter of 2009, the economy showed smaller contraction of -1.2% (compared to the same quarter of 2008). As contrasted with the former quarter (2nd Q 2008) of -3.9%, it is regarded as “pace of recovery gathering momentum in the third quarter” (Quarterly Bulletin, Third Quarter 2009, Bank Negara Malaysia).

The growth is mainly from domestic demand which showed 0.4% of positive growth, as a result of stronger private consumption and higher public sector spending (table 1)

There already are clear signs of recovery in specific industrial sectors, namely service and construction. All sectors except agriculture showed gradual improvement, compared to 2Q growth (table 2). Mining, which is dominated by the oil production, continues to show negative growth, since the cooling global economy had lower demand, and after the 2nd and 3rd quarter, falling oil prices also added to the situation. Manufacturing also continues to show a decline due to weak exports.

On the other hand, services show clear sign of recovery, since most of it consists of domestic demand. The Construction sector has achieved highest growth, since construction projects were implemented under the stimulus packages.

Table 1: GDP by Expenditure Components (at constant 2000 prices)

	2008		2009		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	6.6	2.8	-2.9	-2.2	0.4
Consumption	7.9	7.1	-2.9	-2.2	0.4
Private Sector	8.2	5.3	-0.2	0.6	3.3
Public Sector	6.4	12.7	-0.7	0.5	1.5
Gross Fixed Capital Formation	3.1	-10.2	2.1	1.0	10.9
Net Exports	-15.9	-39.5	39.1	-0.7	-16.9
Exports of Goods & Services	4.5	-13.3	-15.2	17.3	-13.4
Imports of Goods & Services	7.7	-1.02	-23.5	-19.7	-12.9
GDP	4.8	0.1	-6.2	-3.9	-1.2

Source: Department of statistics, Malaysia

Table 2: Quarterly GDP by Economic Activity (at constant 2000 prices)

	2008		2009		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Agriculture	3.3	0.5	-4.3	0.3	-0.5
Mining	-0.3	-5.7	-5.2	-3.6	-3.5
Manufacturing	1.8	-8.8	-17.9	-14.5	-8.6
Construction	1.2	-1.6	1.1	4.5	7.9
Services	7.1	5.7	0.2	1.6	3.4
Real GDP (annual change)	4.8	0.1	-6.2	-3.9	-1.2

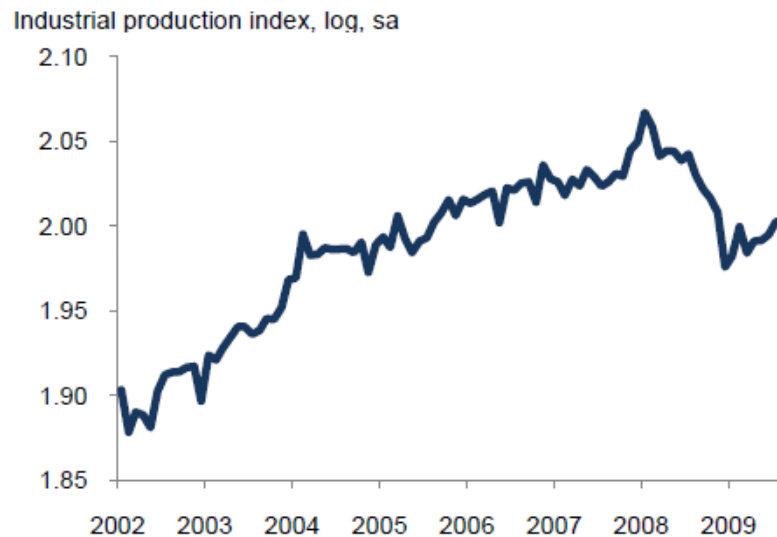
Source: Department of statistics, Malaysia

The various stimulus package and emergency guarantees provided by the Malaysian government seems to have contributed to the general recovery. According to the World Bank, the stimulus spending supported private consumption and fixed investment.

On a seasonally adjusted basis, output rose again after 8-9 percent decline (qoq) in the previous two quarters. The annual contraction in real GDP moderated from -6.2 percent in the first quarter to -3.9 percent in the second.

Private consumption and fixed investment both recovered with the former making a positive contribution to annual growth. The rise in fixed investment included the impact of the stimulus spending. On the supply side, the manufacturing sector, which had suffered deeply, made some recovery in the second quarter. The all-important services sector—accounting more than half of total activity and a third of total jobs—remained resilient and played a major role in the GDP stabilization.

Industrial production has improved too, with capacity utilization in the export-oriented sectors rising again. Components of Malaysia's leading index of economic activity pointed to improvements as early as the first quarter of 2009 (figure2).



Source: CEIC and World Bank staff calculations.
Notes: Seasonal adjustment based on X.12.

Figure 2: Industrial Production Recovery in Malaysia

However, only in recent months have coincident indicators, such as industrial production, reported positive growth. The recovery in industrial production has lagged that in other countries within the region, largely due to the fact that the

Malaysian economy was also affected by the global slowdown one quarter later.¹

According to IMF forecast, however, Malaysia should return to positive growth in 2010. IMF's forecast in October 2009 expects Malaysia to grow 2.5% in 2010, and in 2012, Malaysia is expected to resume its over 5% growth prior to the crisis (Figure 1).

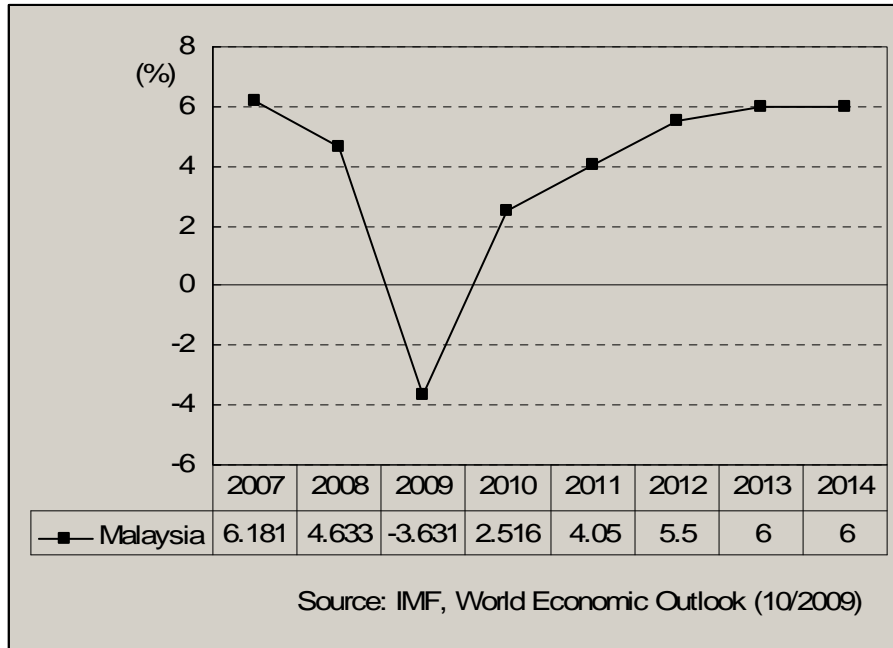


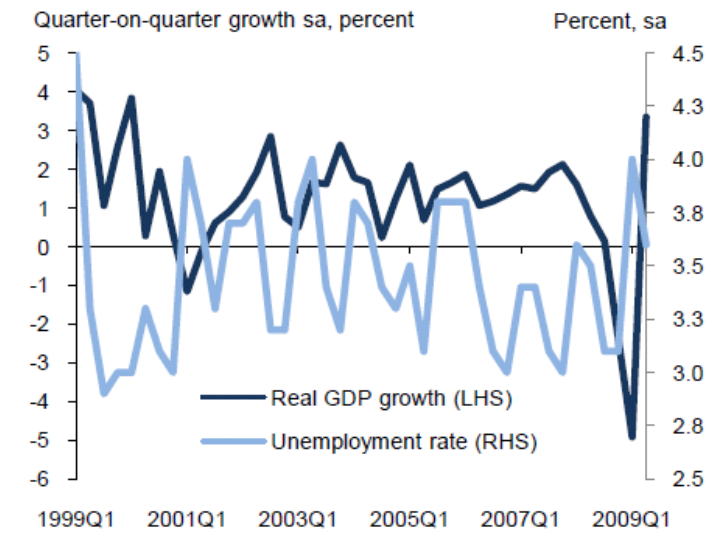
Figure 3: Malaysia's Real GDP Growth Forecast

With the overall recovery of the economy, it is expected that there will be recovery regardless of the sector. The recovery of the global economy should boost exports, which should bring recovery to Malaysian manufacturing sector, including various SMEs.

2.3. Labor conditions

The Global Financial Crisis did have a negative effect on the labor conditions of Malaysia. According to the World Bank, there has been significant increase in unemployment in the manufacturing sector, although there wasn't much impact in terms of wages (figure 4).

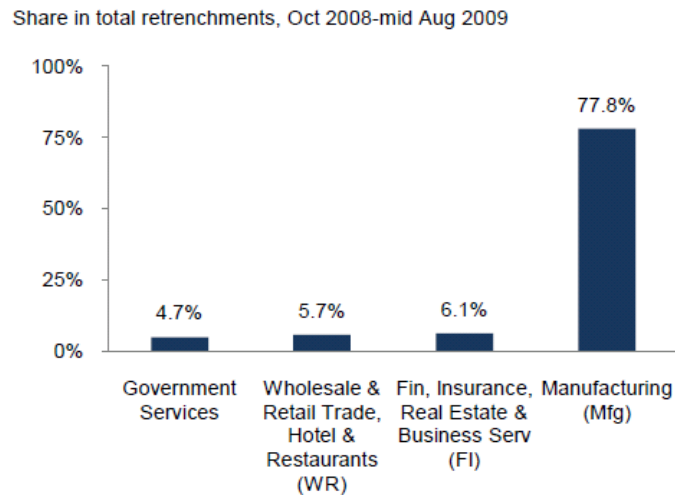
¹ World Bank, *Malaysia economic monitor : repositioning for growth*, 11/2009, 16-18.



Source: Haver, CEIC and World Bank staff calculations.
Note: Seasonal adjustment with TRAMO-SEATS.

Figure 4: Unemployment in Malaysia

The manufacturing sector, which was hit by far the most, shed some 120,000 employees in the first quarter of 2009. Real wages in manufacturing declined late 2008 and early 2009, but have largely recovered since. Disaggregating further within the manufacturing sector, the semi-conductor, rubber and motor vehicle industries seem to have experienced the biggest decline in employment.²

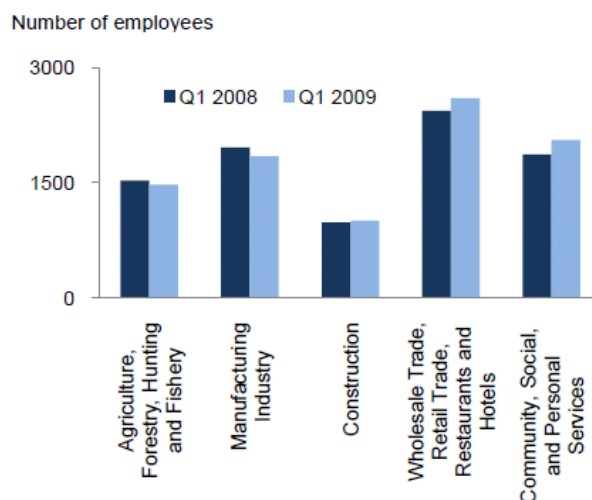


Source: Department of Labor

Figure 5: Labor Retrenchment by sector

² Ibid., 30.

Manufacturing showed largest number of decline in the workforce (figure5). This, however, had more impact on the foreign temp workers, many from Indonesia. Also, many of the decreased workforce in manufacturing seems to be absorbed by other sectors, notably retail and services (figure 6).



Source: Department of Statistics

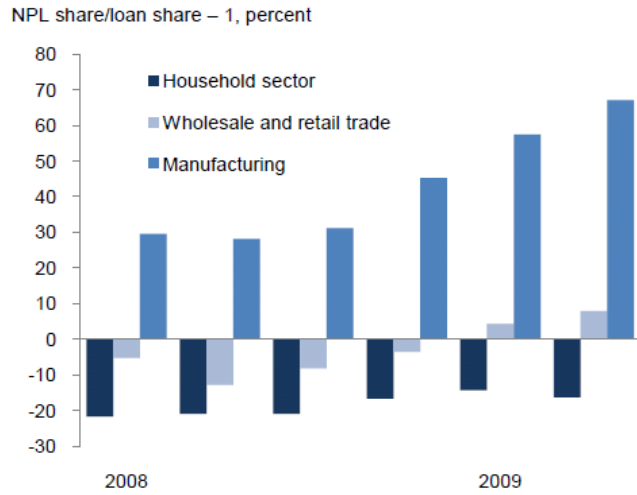
Figure 6: Change in Labor Force by Sector

Therefore, while unemployment seems to have increased in the manufacturing sector, other sectors did serve as an effective buffer, which cushioned the effect from the global financial crisis.

2.4. Effect on Bank Loans and SMEs

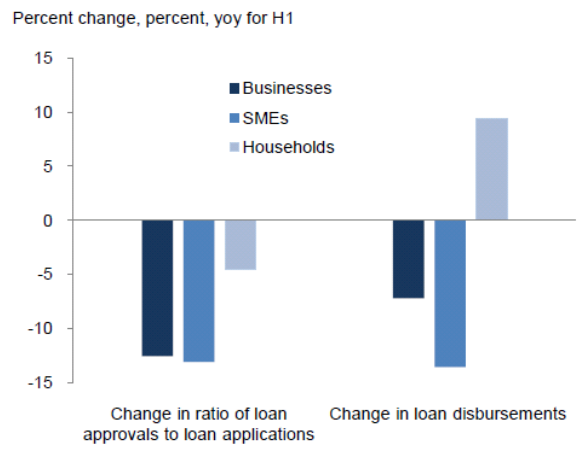
One concern of the effects from the Global financial crisis was the increase in the non-performing loans (NPL) from the manufacturers that were adversely hit by the fall in exports. As a result, there was a concern that the banks will be reluctant to extend loans, which would produce a credit crunch that will further increase bankruptcies that would harm the economy.

It is reported that the overall level of NPLs did not show a huge increase. Within the NPLs, however, the share of manufacturing showed a huge increase (figure 7). Also, there were signs of a credit crunch. Manufacturers and especially SMEs found it harder to get their loan applications approved (figure 8).



Source: CEIC and World Bank staff calculations.

Figure 7: Share of NPLs among sectors



Source: CEIC and World Bank staff calculations.

Figure 8: Signs of credit crunch after the Crisis

With this background, the government has quickly responded with a huge stimulus package and loan guarantee schemes. However, further assistance may be needed to bring back the financial conditions of SMEs to their pre-crisis level.

3. SMEs and Malaysia's Industrial Policy

SMEs are given priority within Malaysia's industrial policy, which affects various financial arrangements by the government of Malaysia toward SMEs. In this chapter, the 9th Malaysia Plan and the 3rd Industrial Plan will be reviewed.

3.1. *The 9th Malaysia Plan 2006-2010*

The master plan that dictates the general course of Malaysian policy is the Five Year Plan. Currently, Malaysia is in the last year of its current five year national plan, the *9th Malaysian Plan 2006-2010* (hereinafter *The 9th Plan*).

Malaysia considers *The 9th Plan* as the beginning of a new phase for Malaysia. In 1991, Malaysian government created a vision up to 2020 in which 1991-2005 lays the ground work for Malaysian development, and 2006-2020 being the new phase for Malaysia that would provide rapid progress based on the ground work. *The 9th Plan* is supposed to open the new phase.

As the national mission for 2006-2020, *the 9th Plan* states that the country aims for further growth with the following five thrusts.

Thrust 1: To move the economy up the value chain

Thrust 2: To raise the capacity for knowledge and innovation and nurture "first class mentality"

Thrust 3: To address persistent socio-economic inequalities constructively and productively

Thrust 4: To improve the standard and sustainability of quality of life

Thrust 5: To strengthen the institutional and implementation capacity

The 9th Plan is based on these thrusts and broken down to detailed measures, in which industrial policy in general and SMEs are mentioned.

3.2. Industrial policy and SME in *The 9th Plan*

SME appears mainly in three sections of *The 9th Plan*. The first part is Macroeconomic Framework for *The 9th Plan* in Chapter 2, “Macroeconomic Stability for Growth.” As sectoral output of the macroeconomic framework, the growth is to be supported by expansion in the manufacturing, services and agriculture sectors. In order to achieve this, it is stated that “Policies and strategies will be directed towards enhancing competitiveness as well as focusing on productivity and transition into higher value added and knowledge-based activities”. SMEs are mentioned here as these policies and strategies “include efforts to strengthen small and medium enterprises (SMEs) and increase its contribution to growth”. The measures to strengthen SMEs are described in latter two parts.

The second part that SMEs are focused is in Chapter 4, “Upscaling Manufacturing and Related Services.” In this section it is stated that the policy thrusts of *The 9th Plan* include the following,

- ◆ strengthening strategic integration with the global economy, particularly through international collaboration in high value added and high-technology industries;
- ◆ promoting new sources of industrial growth and wealth creation;
- ◆ building up an efficient and competitive related services industry to enhance the performance of the manufacturing sector;
- ◆ providing more focused incentives for high value added industries;
- ◆ enhancing Bumiputera participation in manufacturing;
- ◆ **developing innovation-driven SMEs to compete in global markets***;
- ◆ promoting cross border investments to benefit from increasing global deployment of production and marketing activities; and
- ◆ enhancing the supply and quality of skilled human resources required for technology and industrial upgrading.

Note :*highlighted by the author.

In *the 9th Plan*, innovation has been the key word for SME policies in Malaysia. As characteristics of innovation-driven SMEs here, *the 9th Plan* states “high performance and resilient SMEs, equipped with strong technical and

innovation capability as well as managerial and business skills to realize new job opportunities and improved market access.” This is designed to strengthen the capacity of SMEs to “produce innovative as well as quality products and services at competitive costs and integrate into the international supply chain.”

There are several strategies stated as measures for strengthening SMEs, such as:

inter-firm linkages among and between SMEs as well as large domestic companies,
building platform for enterprise start-ups and incubation, and
generating innovation and creating economic value from knowledge applications especially through the Small and Medium Industries Development Corporation (SMIDEC), etc.

Furthermore, the role of SME Bank is specifically mentioned as one of increased funding initiatives undertaken to support the development of SMEs. It is said that “To complement the efforts of commercial banks as well as development financial institutions, the SME Bank will devise new approaches, and the provision of more integrated assistance packages to SMEs involving both financial, including cash-flow based funding, and related business support services”.

The final mention of SME focuses on policy issues to enhance the technical and operational skill enhancement of SMEs. The relevant section is “Strengthening Technological Capability and Capacity of SMEs” in Chapter 12, “Harnessing Science, Technology and Innovation.” Policy assistance that The 9th Plan emphasizes are:

“a number of technology and research-based agencies provided extension services, including business and technical skills training as well as technical consultations to assist new and existing SMEs. Facilities and funding were also made available to strengthen R&D capability, design capacity and prototyping activities for potential commercialization products and processes to produce higher value-added products. These activities contributed towards the enhancement of technological capabilities of participating SMEs, especially in the provision of high quality parts and components to a number of industries.”

3.3. Industrial policy and SME in IMP3

Under the 9th Plan, the Industrial Master Plan focuses specifically on the industrial development. At present, Malaysia is under *the Third Industrial Master Plan* 2006-2020 (hereinafter *IMP3*). The objective of this plan is to achieve long-term global competitiveness through transformation and innovation of the manufacturing and services sectors in order to achieve growth and developed country status by the end of the term (2020). As in *The 9th Plan*, the importance of SME is described in *IMP3*.

SME appears both in strategic thrusts and specific areas of *IMP3*. As strategic thrusts, *IMP3* has 10 thrusts and 2 of 10 mentions SME as following.

1. Enhancing Malaysia 's position as a major trading nation:
 - _ intensifying exports of targeted growth areas;
 - _ developing and promoting Malaysian brands;
 - _ enhancing exports through compliance with international standards; and
 - _ **nurturing domestic companies, including GLCs and SMEs, to become globally competitive.** *

2. Generating investments in the targeted growth areas:
 - _ promoting investments and exports of products and services with growth potential;
 - _ facilitating capable domestic companies, including GLCs, to expand into potential growth areas;
 - _ establishing fully equipped specialised high technology parks;
 - _ encouraging multinational corporations (MNCs) to establish and expand operations in Malaysia ; and
 - _ providing a more conducive investment environment.

3. Integrating Malaysian companies into regional and global networks
 - _ encouraging industries to focus on core competencies and strengths within regional and global networks;
 - _ undertaking outsourcing, off-shoring and other forms of business practices; and
 - _ developing Malaysia as a regional hub for selected products and services –

halal, biotechnology and automotive.

4. Ensuring industrial growth contributes towards equitable distribution and more balanced regional development

a. Equitable Distribution

_ promoting Bumiputera Commercial and Industrial Community (BCIC) through new sources of growth in manufacturing and services sectors and outward investments;

_ enhancing the development of Bumiputera human capital; and

_ **enhancing the growth and increasing ownership of BCIC through the development of SMEs.** *

b. Balanced Regional Development

_ promoting more balanced industrial development in lesser developed states; and

_ encouraging integrated logistics industry.

5. Sustaining the contribution of the manufacturing sector to growth:

_ accelerating the shift towards higher value-added products and activities and high technology and capital-intensive activities;

_ encouraging the development and promotion of 12 targeted industries;

and

_ facilitating the development of domestic and regional clusters.

6. Positioning the services sector as a major source of growth:

_ strengthening the efficiency and competitiveness of the sector;

_ enhancing the development and promotion of 8 targeted services

sub-sectors;

_ developing regional centres for education, distribution, health and tourism services;

_ creating greater links with manufacturing; and

_ undertaking progressive liberalisation.

7. Facilitating the development and application of knowledge-intensive technologies

_ fostering collaborations among Government research institutes,

institutions of higher learning, science and technology parks and industries;

- _ promoting research-based industrial cluster development; and
- _ promoting the greater utilisation of ICT and other technologies along the value chain.

8. Developing innovative and creative human capital:

- _ matching the supply of talents and expertise with market requirements;
- _ increasing the supply of technically skilled, knowledgeable and ICT-trained workforce;
- _ encouraging collaboration between training institutes and industry to optimise the utilisation of resources and facilities; and
- _ creating a critical mass of local experts in scientific and engineering fields to meet R&D requirements.

9. Strengthening the role of private sector institutions:

- _ encouraging companies to become members of trade and industry associations;
- _ encouraging the establishment of Malaysian trade and industry associations overseas; and
- _ facilitating private sector institutions to undertake capacity building and trade and investment promotion, and providing common-user facilities for members.

10. Creating a more competitive business operating environment:

- _ ensuring the efficiency and effectiveness of the delivery system;
- _ reviewing rules and regulations to facilitate the growth and expansion of existing and potential industries and services;
- _ ensuring greater transparency of policies, rules and regulations; and
- _ implementing a efficient paperless trade facilitation system.

Note :*highlighted by the author.

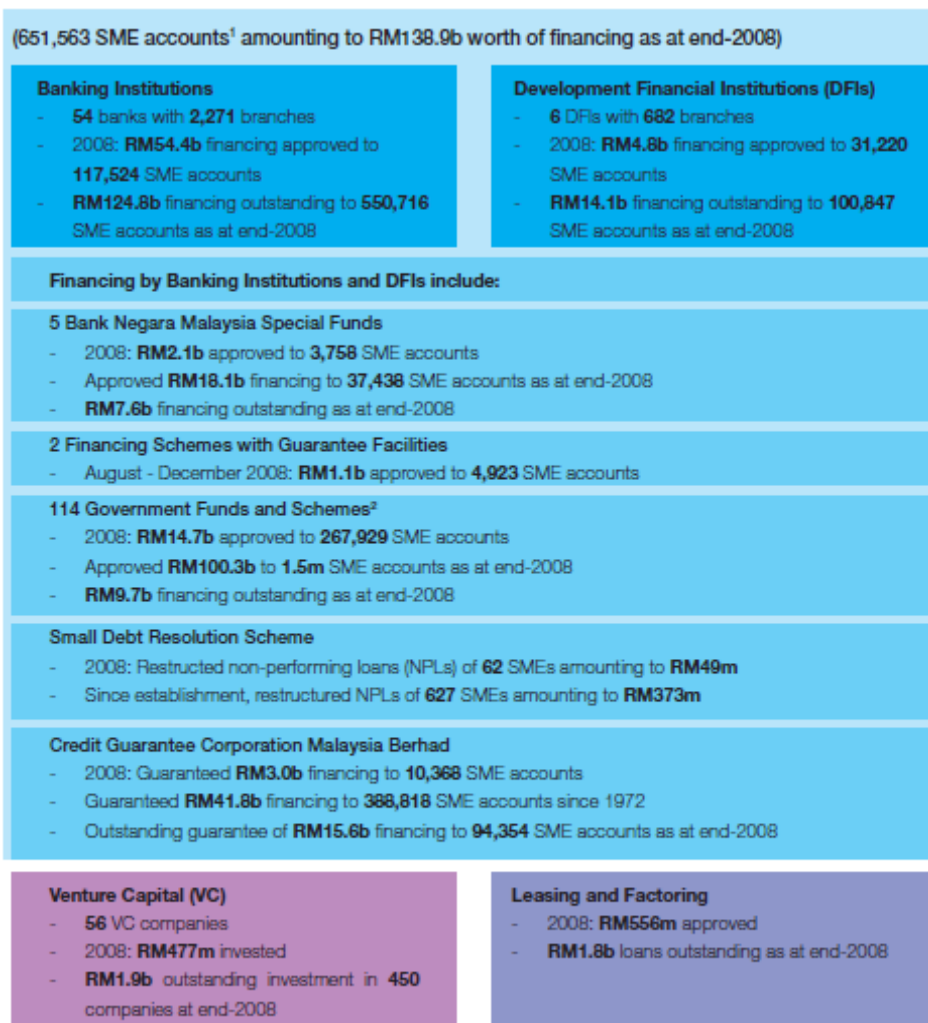
As seen in thrust 4 above, development of SME is regarded as the way to enhance the implementation of Bumitutera policy so that the industrial growth

contributes to address socio-economic inequalities in Malaysia.

Moreover, “development of SME” is stated as one of the specific areas in *IMP* and in chapter 5 of *IMP3* (entitled Development of Small and Medium Enterprises), it is formulated that “the development of competitive and resilient small and medium enterprises forms an integral component of the initiatives for Malaysia to achieve sustainable economic growth and developed country status by 2020.” In this section of *IMP3*, various programs implemented to nurture the development of SME are cited. As institutional support, SME Bank is named as a financial institution that focuses on the specialized financial needs of SMEs. Also, the responsibility of the bank is described as it is “to nurture and further develop SMEs by providing non-financial services in areas such as business advisory services, technical management, marketing and information technology (IT).”

3.4. Financing schemes targeting SMEs, and Response to the Global Financial Crisis

As mentioned in the previous sections, SMEs are given priority within Malaysia’s industrial plan. As a result, Malaysia has numerous financing schemes targeting SMEs, including development financial institutions (DFIs), commercial banks, venture capital companies, etc. (figure 9).



Note 1: Consist of accounts maintained with banking institutions and DFIs

Note 2: Only part of the Government's funds and schemes are disbursed through DFIs

Source: Bank Negara Malaysia, SMIDEC and Securities Commission of Malaysia

Source: National SME Development Council, *SME Annual Report 2008*

Figure 9: SME Financing Schemes

In addition to the usual financing schemes provided to SMEs, Malaysian Government prepared additional financing schemes in response to the global financial and economic crisis since late 2008 (table 3).

Table 3: Special Financing Schemes to Mitigate Impact of Global Economic and Financial Crisis

Scheme	Implementing Institution	Budget	Approved Amount
Micro Enterprise Fund (MEF)	9 financial institutions	200 million RM	35.2 million RM (end of May 2009)
SME Assistance Facility and SME Modernisation Facility	BNM (moved to SME Assistance Guarantee Scheme in Feb. 2009)	1.2 billion RM	Full budget
SME Assistance Guarantee Scheme (SAGS)	Each financial institution and CGC	2 billion RM	573 million RM (end of May 2009)
Working Capital Guarantee Scheme (WCGS) and Industry Restructuring Financing Guarantee Scheme (IFRGS)	Participating financial institutions and Prokhas Sdn Bhd	5 billion RM each	1.2 billion RM (end of May 2009)

Source: NRI utilizing information from "SME Annual Report 2008" National SME Development Council

Therefore, it seems SMEs in Malaysia would be able to utilize at least one, if not more, of such schemes even under the current economic conditions, although actual recognitions from SMEs' viewpoints shall be provided throughout the survey conducted by the consultant separately.

According to *SME Annual Report 2008*, 132.6 billion RM were provided as SME financing outstanding as of end of March 2009 by banking institutions (117.5 billion RM) and DFIs (15.1 billion RM).³ There is no financial data as of end of March 2009 for SME Bank particularly, but the outstanding credits (loans, advances and financing) provided by SME Bank as of end of 2008 was merely 3.1 billion RM, which is about one fifth (or about 20%) of credits provided by DFIs, if the total volume did not change significantly within 3 months.

³ "SME Annual Report 2008" p.133

3.5. SME's significance in the Malaysian Industrial Policy

As the description in the 9th Plan clearly shows, SME support is a vital component of the Malaysian industrial policy. Even in the highest master plan, the focus on SMEs is something much significant than a passing mention. Encouraging start-ups, assistance for skill development and technical consultation, and financial assistance are well laid out. Moreover, *IMP3* also clearly states the importance of SME development for growth of Malaysia. Judging from this focus, it seems that providing assistance to SMEs through technical assistance and Yen Loans would produce significant benefits to the development of Malaysia, through the achievement of its goals stipulated in *the 9th Plan* and *IMP3*.

The importance of SMEs are also clear from the various financial assistance that Malaysia provides. Also, the extensive emergency assistance in response to the Global Financial Crisis clearly attests to the priority that SME has within the overall Malaysian industrial policy.

4. Current Situation of SMEs in Malaysia

In order to understand the actual situation of the SMEs in Malaysia, the team looked at the existing surveys on SMEs and the impact of the Global Financial Crisis on their performance. We have also conducted our own phone survey, along with field visits and interviews with actual SMEs in Malaysia.

4.1. Existing Surveys

There have been several surveys concerning the situation of SMEs in Malaysia. In the *SME Annual Report 2008* released by SME Corporation, two of such surveys are shown. One was conducted in Nov/Dec 2008 in collaboration with Federation of Malaysian Manufacturers involving 1,143 companies, while the second survey was conducted in Apr/May 2009 with 1,248 respondents. Both surveys covered SMEs in the manufacturing, services and agricultural sector. The results are reported as follows;

In terms of sales revenue, 41 per cent of the SMEs surveyed said they were “moderately impacted”, while another 29 per cent were “slightly affected.” Only 22 per cent of the respondents said they were “severely affected” by the crisis and they originated from the retail, food and beverage, construction as well as the electronics and electrical subsectors...

The survey also indicated that weakening demand, delays in payment collection, funding issues and rising costs of raw materials as the key factors affecting SMEs. Overall, 29 per cent of the respondents foresee a bleak economy, while another 28 per cent believes the economy will remain stagnant in the next six months. Only 24 per cent of the respondents surveyed maintained an optimistic outlook of the industry.⁴ Obviously, the impact was quite widely felt, although severe damage was not prolific. Future outlook in the short run didn't seem too bright. It should be noted, however, that these surveys were conducted during the worst period of the crisis and its aftermath.

⁴ Chang, Karin, “Wounded But SME Manufacturers Looking to Bounce Back,” *Malaysia SME*, December 2009, 1.

4.2. Sub-loan client survey

The existing surveys were already old when this study began (November 2009). The economic situation has significantly improved since then, as well as many supporting schemes being introduced. In order to investigate the actual latest situation of SMEs in Malaysia, the study team conducted a telephone survey.

4.2.1 Methodology

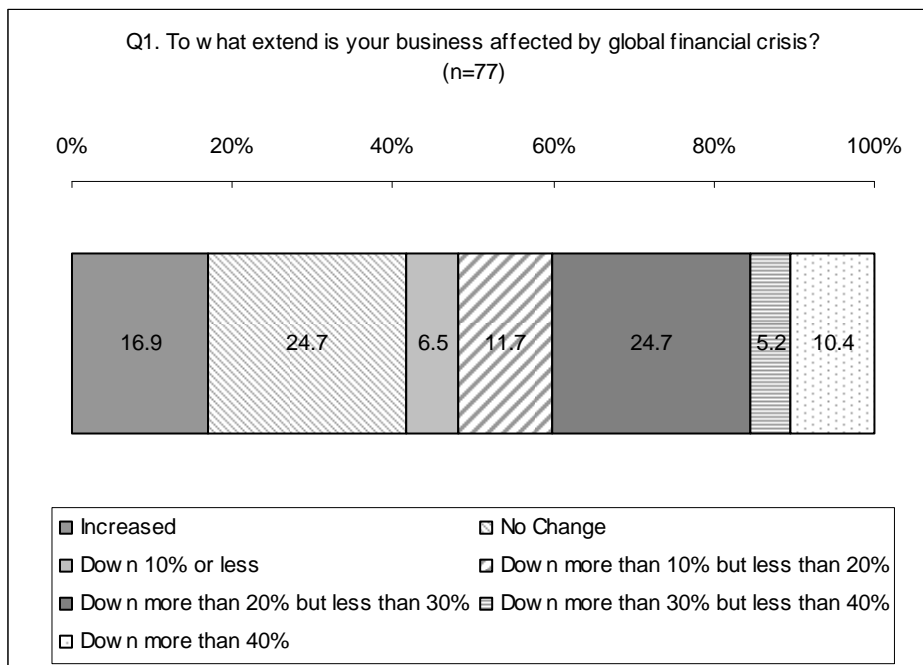
The subjects of the survey were sub-loan clients of JBIC fund. SME Bank provided the list of SMEs to the study team including the contact information. There were 129 SMEs on the list and 77 of them responded (59.7 per cent). This survey was conducted from late November 2009 to early January 2010 by local consultancy. Main research items are shown in Table 4:

Table 4: Research items of sub-loan client survey

Items	Details / Choices
Impact of the global financial crisis	Impact to business Impact to cash flow
Action/steps done for decreased chase flow	
Loan procurement	How much From whom
Kind of funding/ new funding in necessity	What reason How much
Easiness or difficultness in getting a loan	Commercial banks SME Bank Other DFI MIDF
Helpfulness of a financial institution based on experience	Commercial banks SME Bank Other DFI MIDF
offered loan interest rates compared to SME Bank	Commercial banks Other DFI MIDF
Business prospect in 2010 Expand or new investment in 2010	
Profile of the Company	business sector turnover size number of employees location

4.2.2. Impact of the Global Financial Crisis to SME in Malaysia

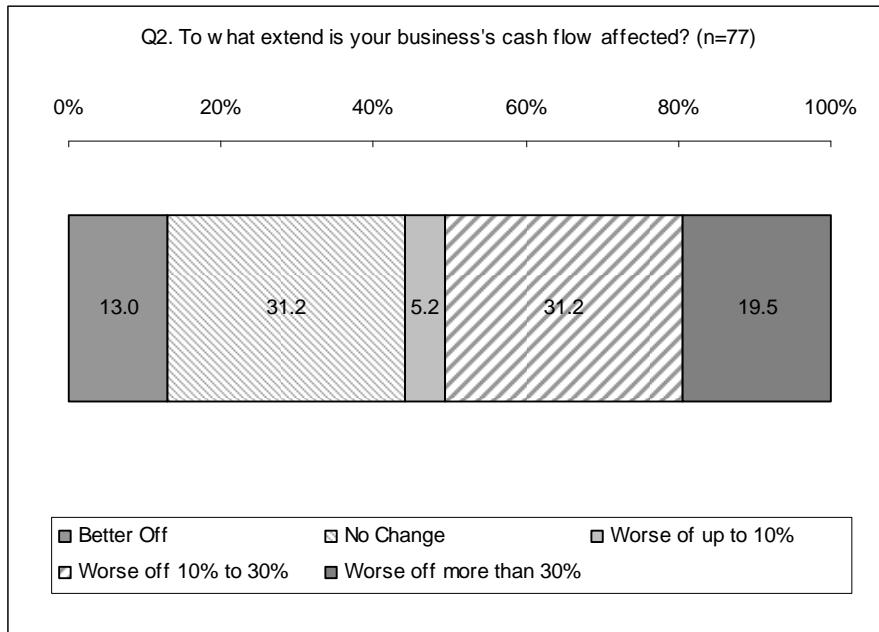
The impact of the Global Financial Crisis was widely felt, although not totally crippling. In response to the question “To what extent is your business affected by global financial crisis?”, 40.3 per cent of the respondent said that their business was “Down more than 40%”, “Down more than 30% but less than 40%” or “Down more than 20% but less than 30%” (Figure 10). Sales drop of more than 30% was felt by over 15 per cent of the respondents. The result more or less corresponds with the SME Corp survey mentioned in the previous section.



Source: Sub-loan client telephone survey

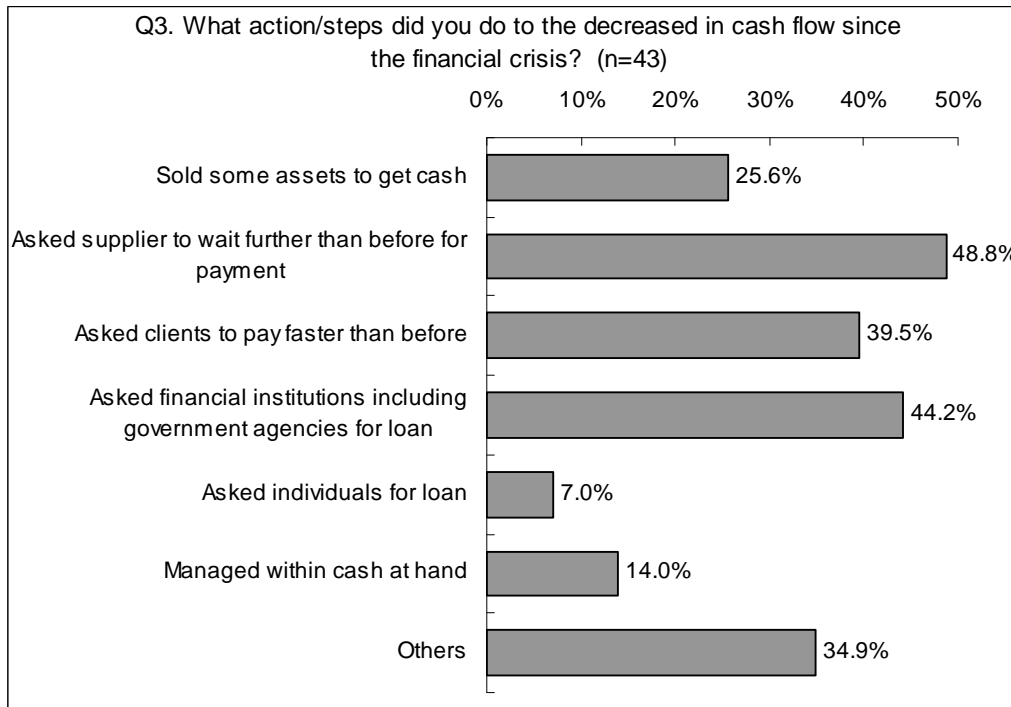
Figure 10: Impact of financial crisis to business

Moreover, the impact to business cash flow seemed to be quite significant. In response to the question “To what extent is your business's cash flow affected?”, half (50.6 per cent) of the respondent answered that they were affected “worse off more than 30%” or “worse off 10% to 30%” (Figure 11). In order to cope with this situation 46.8 per cent of the respondents obtained loan or credit facilities since November 2008. Other than relying on loan or credit facilities, 55.8 per cent of the respondents have done something as action or steps for the decreased cash flow because of financial crisis (Figure 12)



Source: Sub-loan client telephone survey

Figure 11: Impact of financial crisis to business cash flow



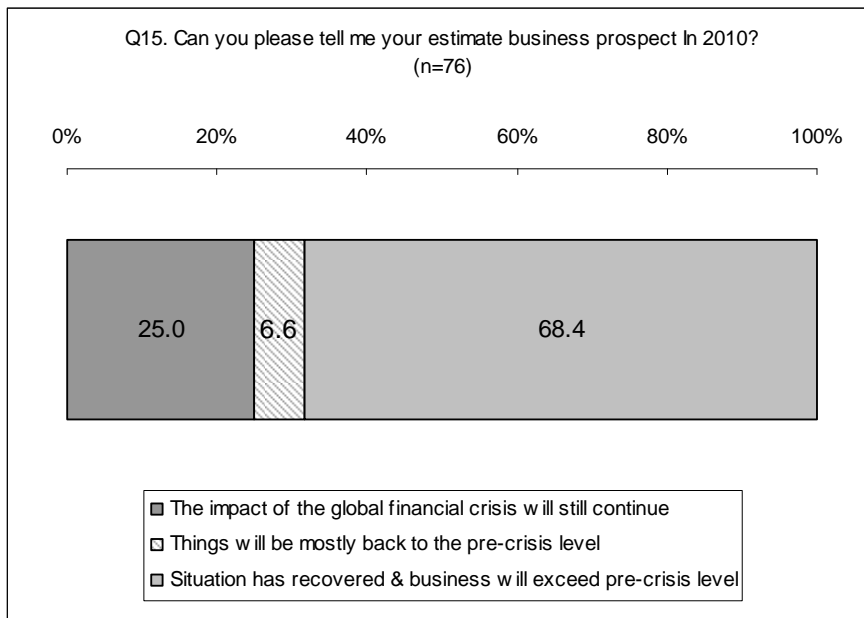
Source: Sub-loan client telephone survey

Figure 12: Actions/Steps done for decreased cash flow

The firms faced shortage of operational cash, which was worsened by a credit crunch. The fund that was in most demand was incremental working capital. 58.4 per cent of the respondents named it as most urgent. Obtaining loans took longer than before regardless of type of financial institution, indicating a certain level of credit crunch.

Commercial banks became more cautious, although Public Institutions functioned properly to ease the situation for SMEs. For collateral and guarantees, commercial banks tend to ask more than before the crisis, whereas Development Financial Institutions (DFIs) including SME Bank and MIDF did not. This indicates that the policy tools for SME financing worked properly. It also indicates various emergency policy schemes for supporting SMEs have been working..

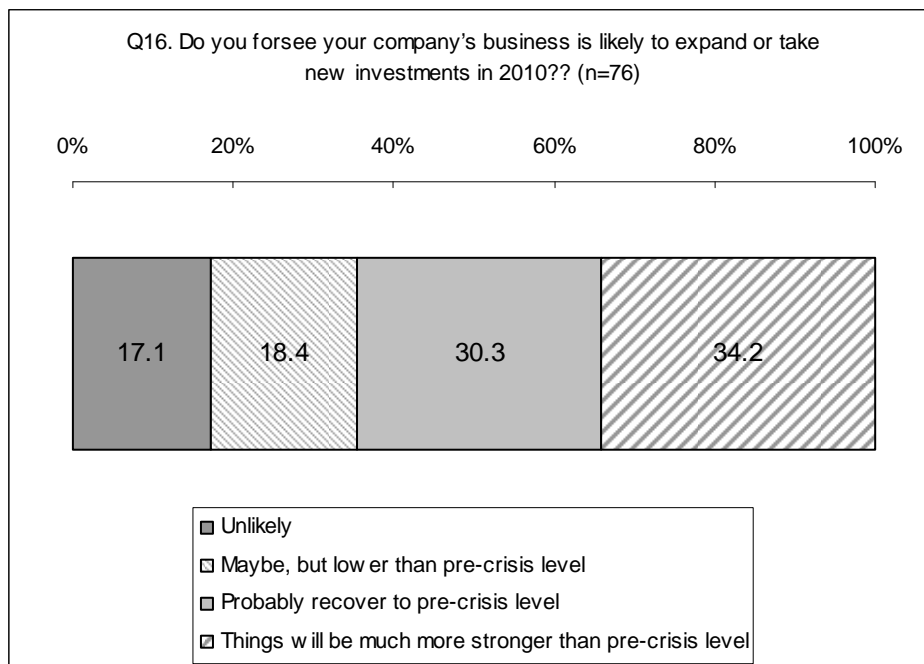
The sentiment of many firms has already improved significantly. As discussed in Chapter 2, the macro-economy already shows recovery. SMEs in Malaysia also share this sentiment. Asked about the business prospect in 2010, nearly 70 per cent of the respondents think that the situation has recovered & business will exceed pre-crisis level. (Figure 13) This result shows significant change from the existing surveys, in which only 24 per cent showed optimism.



Source: Sub-loan client telephone survey

Figure 13: Business prospect in 2010

Most firms see brighter future for their company. 34.2 per cent of the respondents are very optimistic that they see in 2010 things will be much more stronger than pre-crisis level and 30.3 per cent thinks their business probably recover to pre-crisis level. However, it is worth noticing that the rest 35.5 per cent stay pessimistic at the same time. (Figure 14)



Source: Sub-loan client telephone survey

Figure 14: Business prospect in 2010

4.3. Field Visit and Interview

In order to have a first-hand look at the condition of SMEs the team conducted field visits to ten SMEs that received sub-loans from SME Bank using the JBIC funds (table 5). The firms were chosen by SME Bank based on the request from the team. The selection was made to sample all sectors including services, although manufacturing received more emphasis than others. Also, the team made some effort not to focus only on firms in Kuala Lumpur (KL) and Selangor area, since it may not represent the overall situation of the country. To prevent this, the team also looked at firms in Johor Baru (JB).

Table 5: Field visit Schedule

		Visits	Business
12/15	Tue	Zasoleis SDN BHD (KL)	Middle class hotel
		Ramly Food Processing (KL)	Frozen hamburger patty
		Mascellent Resources (KL)	Instant coffee
		Jant Marketing (KL)	Mineral water
12/16	Wed	Musa & Rahman Plastic Ind. (Selangor)	Plastic pipe extraction molding
		Innovasi Anggerik (Selangor)	Metal tooling
12/17	Thu	D-Multiserve (JB)	Fresh food transportation
		Citra Line (JB)	International ferry
		DragonPac (JB)	Plastic bags
		SuperPac (JB)	Cardboard box
12/21	Mon	Bank Simpanan Nasional	(DFI, saving bank, micro finance)

The firms selected are shown in Table 5. While the sample is small, and there is an obvious issue of sampling bias (SME Bank would naturally want to show the better firms within their loan portfolio), it does provide a good idea of the variety of SMEs in Malaysia.

The interviewees are significantly varied in terms of their field of business. They include one hotel, two transportation services, and seven manufacturers. Within manufacturers, three were in the food & beverage business, two in plastic industry, one paper industry. The paper industry firm is a supplier for electric/electronics firm. The size of the firms also varies significantly, from firms with 10 employees to several hundred employees.

The detail of the interview is provided in the appendix of this report. The salient findings are as follows:

- ◆ **The impact of the Global Financial Crisis varies significantly among industries and sectors.** Firms that are focused on domestic demand and lower-end markets did not feel any significant impact. Some even experienced positive growth in sales, since consumers shifted their purchases to cheaper goods and services (mid-class hotel, frozen foods).
- ◆ According to discussions with BSN who provides micro credit to small-micro firms, there hasn't been much impact on those smaller firms, since they also target the domestic market.

- ◆ **Industries that rely on foreign demand was hard hit.** The only firms that experienced significant negative impact were the international ferry company, and the cardboard package company. The ferry company was hard hit by three factors, namely the decrease of tourist due to the stagnant economy, decrease in the Indonesian temp workers who come to Malaysia for work, and the hike in the oil price. The cardboard company faced significant decrease in sales since their clients were electric and electronics firms, whose demand were hard hit by the crisis.

- ◆ **Some hardships were faced by fluctuating oil prices, rather than the financial crisis itself.** The metal tooling firm also faced some difficulty due to decreased order from Petronus (oil company). This, however, was not directly related to the financial crisis. This was due to the decrease in global oil price.

- ◆ **Many firms, however, consider that the worst is over.** Also, many opted for diversification of their business and client base in order to increase their resilience, in order to cope with such crisis.

- ◆ **Therefore, most firms are seeking for funds to expand their business,** rather than to secure working capital to get by.

- ◆ **SME Bank seemed to be properly assisting SMEs.** Many of these firms have long standing relationship with SME Bank, who have provided them with the initial start-up capital and continued to provide funding and assistance during their growth phase. Many are already about to graduate from SME Bank financing. While the sample size is too small, it seems that SME Bank is fulfilling its role as a government funding institution to nurture SMEs in Malaysia.

The result of the field visit and the interviews generally confirm the results of the existing surveys and our phone surveys. The financial crisis had an impact, especially for export oriented industries and their supporting firms. However, their impacts are not homogenous across the board. Also, most firms feel that the worst is

over, and see a brighter future for their business. SME Bank have played important roles in their growth, through the provision of crucial funds.

5. SME Financing Scheme in Malaysia and the Position of SME Bank

5.1. Policy lenders toward SME in Malaysia

SME Bank is not the only lender providing policy related financing tools toward SMEs operating in Malaysia. There are commercial banks, other DFIs than SME Bank, Malaysian Industrial Development Financing Berhad (MIDF), and Credit Guarantee Corporation (CGC).

MIDF was established in 1960 and provides financing, leasing, and equity investment in industries. MIDF doesn't provide micro financing, as its practical minimum size of loan is 100,000 RM. CGC was established in 1972 to provide guarantees for loans provided to SMEs who do not have any assets which can be collateralized. Among other DFIs, Bank Rakyat and Bank Simpanan Nasional (BSN) also provide loans to some of SMEs. Bank Rakyat is a cooperative financial institution, and core target customer is the consumers, but provides some financing to small business as well. BSN started as a savings bank, and is currently operating as a micro credit institution.

Among the DFIs providing loans toward SMEs, there seem to be some level of demarcations between them. The table provided by BNM in December 2009 (table3) shows the demarcation of the mandated roles and principal activities of major DFIs. According to this, SME Bank has been clearly mandated by the Government to provide financing to SMEs. On the other hand, compared with commercial banks, SME Bank complements them in providing financing to SMEs. According to some of other DFIs, however, the table itself is outdated. Nowadays, other DFIs are also mandated to provide financial tools for SMEs, according to some of other DFIs.

Figure 15 shows the overall demarcation among DFIs. Among the DFIs, SME Bank clearly occupies the majority of what is generally implied by the term "SME".

Table 3: Mandated Roles / Principal Activities of Major DFIs

Name	Mandated Roles / Principal Activities
SME Bank	To provide financing and advisory services to SMEs involve in manufacturing, services, and construction sectors, particularly Bumiputera entrepreneurs.
Bank Simpanan Nasional (BSN)	To focus on retail banking and personal finance specially for small savers.
Bank Rakyat	Mobilises savings and provides services to its members as well as non-members.
Agrobank	To promote sound agricultural development in the country, through the provision of loans and advances. The main function of the bank is to co-ordinate and supervise the granting of credit facilities for agricultural purposes and mobilize savings, particularly from the agriculture sector and community.
Bank Pembangunan	To provide medium and long-term financing for infrastructure projects, maritime, capital intensive and high technology industries in manufacturing sector and other selected sectors in line with the national development policy.
EXIM Bank	To provide credit facilities to finance and support the exports and imports of goods, services and overseas project financing with concentration to the non-traditional markets, as well as to provide export credit insurance services, export financing insurance, overseas investment insurance and guarantee facilities, as well as other services which are normally offered by the export-import financial institutions and credit insurance financial institutions.
Malaysian Industrial Development Finance (MIDF)	Financing activities aimed at promoting the development of the manufacturing sector.
Credit Guarantee Corporation	Facilitates SMEs to gain better access to financing through provision of guarantees and advisory support services.

Source: BNM

		Manufacturing	Service	Construction	Retailer	Others
Size of debtors	Micro	BSN			Bank Rakyat	
	Small	SME Bank			Bank Rakyat	
	Medium	MIDF				
	Non-SME					

Source: NRI utilizing discussions with relevant institutions

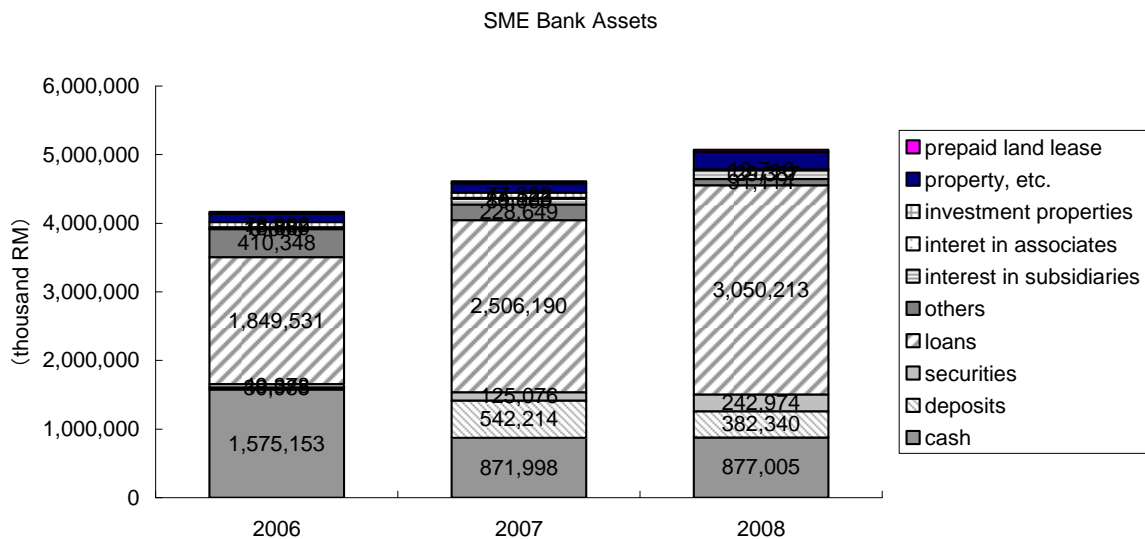
Figure 15: Image of Demarcation of Focuses among DFIs on SME Financing

Various lending schemes from these DFIs are summarized in section 3.4.

5.2. Financial Analysis of SME Bank

5.2.1. Growth of loans to customers

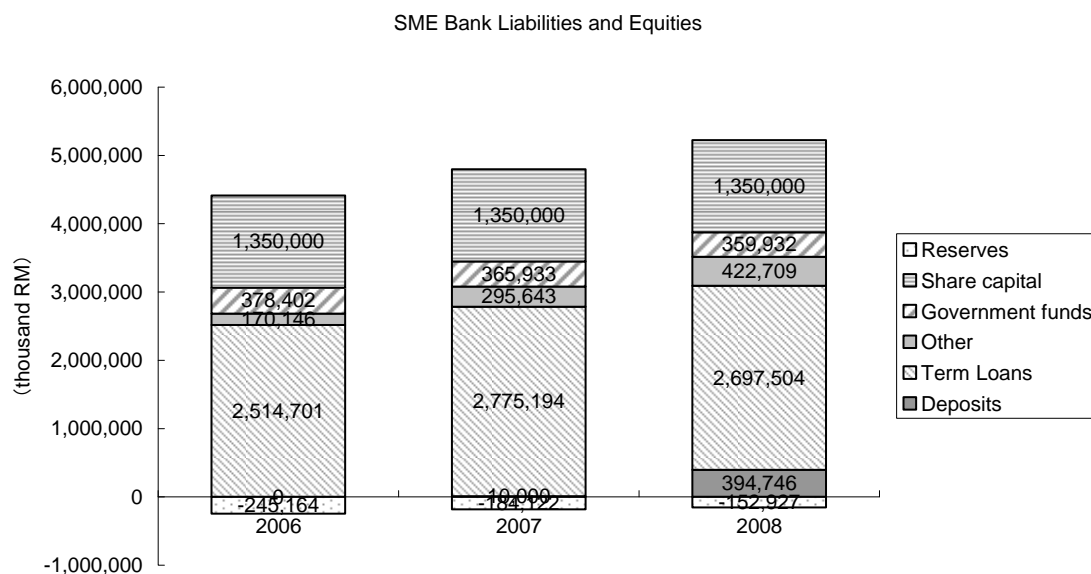
Loans provided by the SME Bank have grown remarkably from 2006 to 2008, from 1.8 billion RM to 3.1 billion RM, showing 31% growth per annum. In order to fund the loans, SME Bank reduced the securities throughout the two years (Figure 16).



Source: NRI utilizing data from SME Bank's annual reports

Figure 16: Trend of SME Bank Assets

Such remarkable growth may be caused by the relatively large volume of "commitment and contingencies" which is as large as 46% of the total assets (as end of 2008) (Figure 17). This issue will be addressed later.



Source: NRI utilizing data from SME Bank's annual reports

Figure 17: Trend of SME Bank Liabilities and Equities

5.2.2. Financial ratio comparison with other development financial institutions

Comparison of financial ratios shows SME Bank has excess capital, and lower return ratio than those of other development financial institutions (DFI) which provide SME loans (table 7).

Table 4: Financial Ratios

	SME Bank	BSN	Bank Rakyat
Risk-weighted capital ratio	34.73%	10.40%	14.96%
ROE	3.15%	26.80%	15.75%
ROA	0.77%	1.05%	1.75%

Source: NRI utilizing annual reports of each DFI

From a shareholder's view point, it is more efficient to invest in stocks of BSN or Bank Rakyat than SME Bank. From a creditor's view point, SME Bank is safer than BSN and Bank Rakyat.

5.2.3. Commitments

SME Bank has a rather surprisingly high level of “commitments” for its customers compared with its colleagues in Malaysia, namely BSN and Bank Rakyat. The significance of the “commitments” for SME Bank is as large as 45% against its total assets, and 76% compared with its “loans, advances and financing” according to its 2008 financial statement. These ratios are far bigger than those for BSN and Bank Rakyat (table 5). Even BPMB whose major business is to provide financing toward large infrastructure projects has smaller ratio for the commitments than SME Bank does. Therefore, it is a puzzle why SME Bank accumulated such large size of “commitment”. Shoko Chukin Bank (Japan) which is a Japanese SME financing financial institution is shown as just a reference here.

Table 5: Comparison of “Commitments”

	SME Bank	BSN	Bank Rakyat	BPMB	Shoko Chukin Bank
currency	thousand RM	thousand RM	thousand RM	thousand RM	million JPY
Total assets	5,071,964	16,714,299	41,728,350	24,311,279	10,881,977
Loans, advances and financing	3,050,213	7,804,191	30,135,929	17,285,986	9,161,235
Commitments	2,320,771	405,413	202,086	5,583,225	753,102
Commitments compared with Total Assets	45.8%	2.4%	0.5%	23.0%	6.9%
Commitments compared with Loans, etc.	76.1%	5.2%	0.7%	32.3%	8.2%

Source: NRI’s analysis using the annual reports of the banks

According to SME Bank, main reason for the high level of commitments is that SME Bank needs to take time to disburse loans after it approves applications of loans. In general, 80% of commitments are disbursed next year, less than 10% would be canceled from the clients, and about 20% of the total commitments would be newly approved ones. In addition, SME Bank is improving its operations to reduce the necessary time to disburse loans to its clients. Therefore the level of the commitments is decreasing continuously.

As of October 2009, the total volume of the commitments is reduced to 1.8

billion RM or minus 0.5 billion RM compared with that as of end of 2008, while the total volume of “loans, advances and financing” reaches 3.7 billion (+0.7 billion RM since end of 2008).

5.2.4. Loan portfolio of SME Bank

Entire SME Bank

According to data provided by SME Bank, SME Bank has 7,781 accounts for 3,747,296 million RM financing portfolio.

Size of Clients

Among the 7,781 clients, number of “small” clients is the largest as 3,362, followed by “micro” clients as 2,529. There are 358 “non-SME” clients, because the clients grew larger than SME, or these are long time clients with whom SME Bank started business before it became SME Bank.

Table 6: SME Bank’s Clients by Classification of SMEs

SME Bank’s Clients (as of October 2009)		
business classification	no.	RM million
Micro	2,529	382.7
Small	3,362	1,282.2
Medium	1,532	1,748.5
Non-SME	358	333.9
Total	7,781	3,747.3

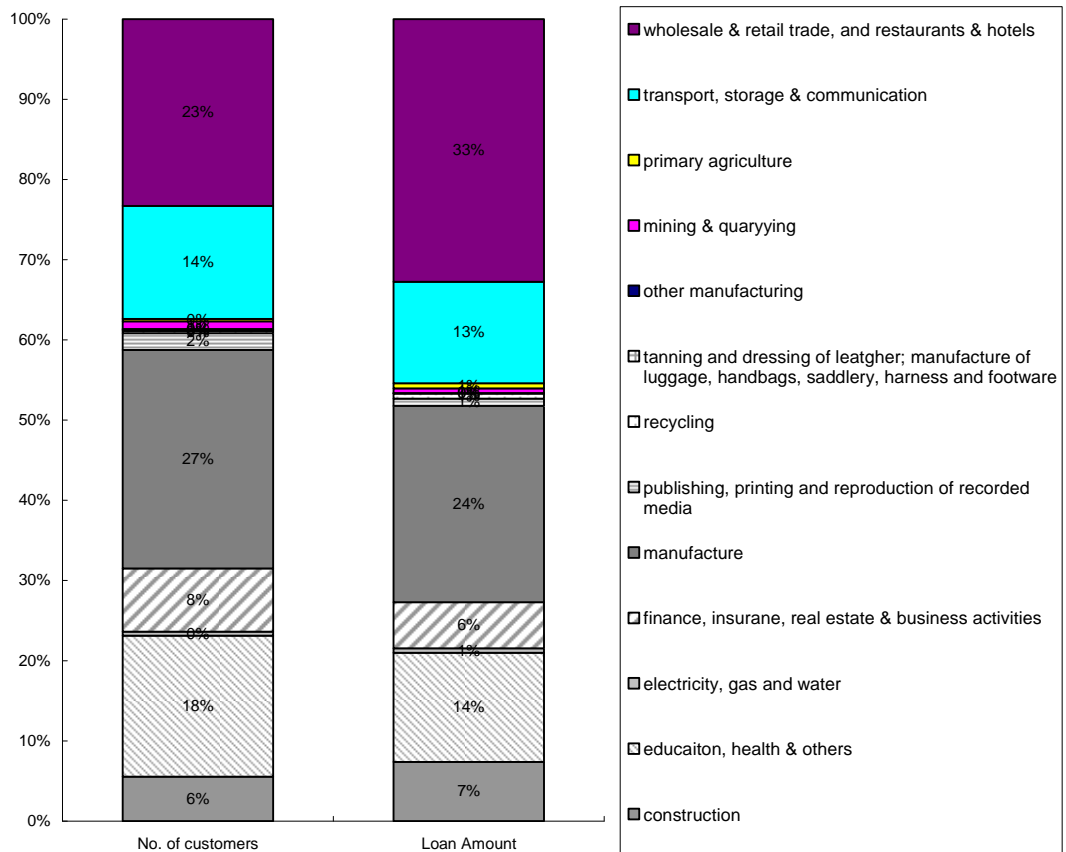
Source: SME Bank

Sector of Clients

According to the discussion with SME, within the portfolio, about 25% is allocated toward tourism sector including hotel and resort development, due to the Government’s policy to promote the tourism sector. In fact, the Government tried to provide more funding to SME Bank, but SME Bank set its policy to restrict the exposure of tourism sector up to 25% in order to diversify its loan portfolio.

SME Bank’s loan portfolio data by sector shows 23% of the number of

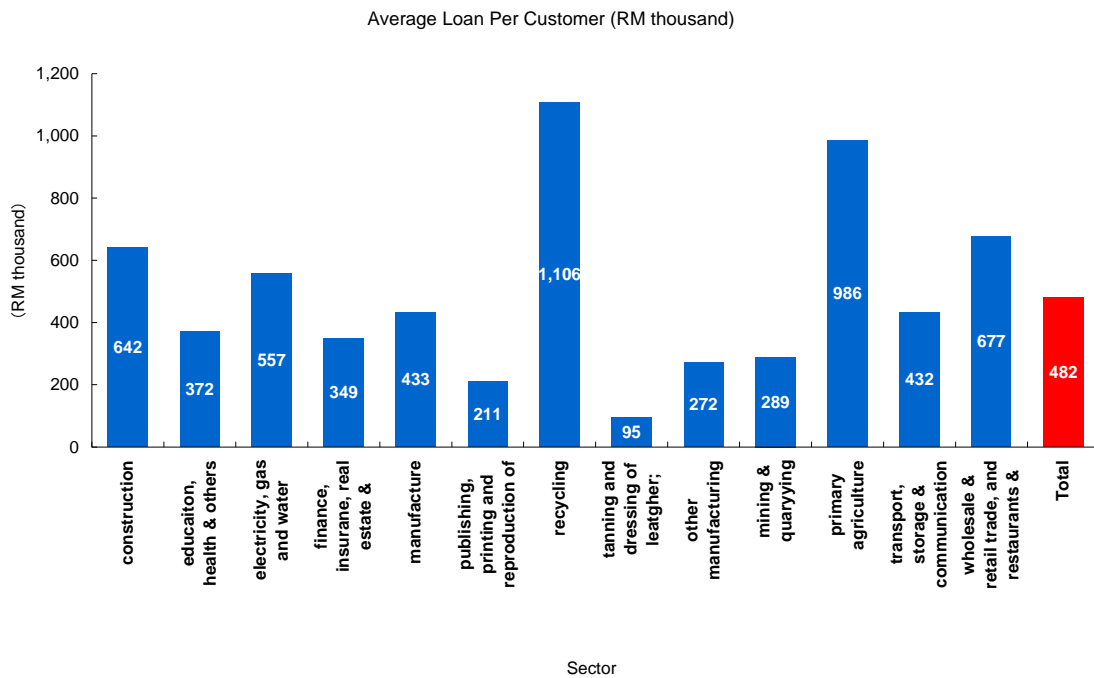
customers and 33% of the provided loan amount are allocated to the “wholesale & retail trade, and restaurants & hotels”, which includes the “tourism sector” (figure 18).



Source: NRI utilizing data provided by SME Bank

Figure 18: SME Bank’s Loan Portfolio

Average loan amounts per customer (calculated by the above data) by sector lie between 95 and 1,106 thousand RM, and most sectors average amounts lie around 200 to 700 thousand RM (figure 19). This shows that the loan amount provided by SME Bank seem relevant to its target business as a bank for SMEs, and that the SME Bank’s lending behavior to a client would not vary by sector so much.

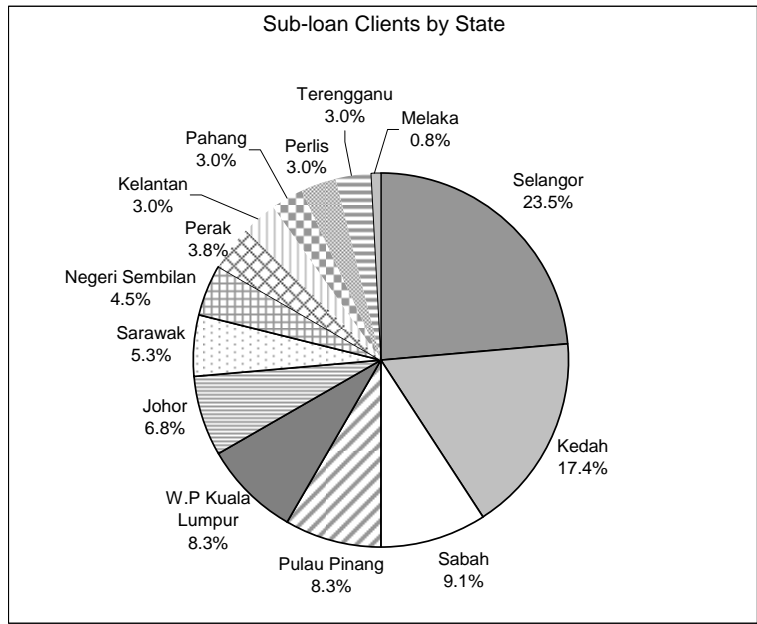


Source: NRI utilizing data provided by SME Bank

Figure 19: Average Loan per Customer

5.2.5. Sub-loans

According to preliminary data provided by SME Bank, the sub-loans funded by JBIC/JICA are provided to 132 clients. The types of clients seem diversified well in terms of the industry sector and the area. About 47.7% of client profiles do not show description about the sector (figure 20). SME Bank has not yet provided the complete data.



Source: NRI utilizing data provided by SME Bank
 Figure 20: Sub-loan Clients by State

5.3. Analysis of Organizational and Human Resources of SME Bank

5.3.1. History of SME Bank

SME Bank was established in October 2005, as a result of rationalisation of Bank Industri & Teknologi Malaysia Berhad (BTMB) and Bank Pembangunan & Infrastruktur Malaysia Berhad (BPIMB).

SME Bank is 100% owned by the Government of Malaysia through the Minister of Finance Incorporated, and reports to the SME Corporation Malaysia, which is the secretary of SME Development Council.

5.3.2. Managerial Functions

SME Bank has one headquarters office and 19 branches according to the Annual Report 2008. In order to analyze the functions of SME Bank, the responsibilities of the Senior Management provide information, although SME Bank does not disclose its organizational structure. According to the described responsibilities of the Senior Management members⁵ the responsibilities are divided as (1) Services, (2) Supervision, (3) Credit, (4) Business Development, (5) SME Development and Advisory, (6) Corporate Management, and (7) Corporate Services. Corporate Management would include “Corporate Planning” and “Treasury & Investment”, who were met with the consultant during this study.

According to the discussion with SME Bank, there was not independent division or department for Asset Liability Management (ALM) of the bank, which is required for banks in order to control ALM risks properly. According to discussion with SME Bank, such concern was already pointed out by another consultant hired by SME Bank, and SME Bank shall establish independent ALM team within 2010.

5.3.3 Human Resource

According to the website of SME Bank, it seeks (additional) human resources for sixteen functions (table 7). This shows rapid growth of SME Bank’s operations, and necessity of capacity building of potential new recruits.

⁵ P. 15, Annual Report 2008, SME Bank

Table 7: Sought Human Resources

No	Functions
1	Business Development & Advisory (HQ & Branches)
2	Product Development & Customer Management
3	Credit Evaluation (HQ & Branches)
4	Credit Administration (HQ & Branches)
5	Recovery
6	Trade Financing & Credit Guarantee
7	Credit Control
4	Entrepreneur Development (HQ & Branches)
5	Islamic Banking
6	Compliance
7	Technical
8	Risk Management
9	Finance
10	Legal
11	Property & Administration
12	System & Method
13	Human Resource Development
14	Corporate Communications
15	Audit & Examination
16	Corporate Planning

Source: SME Bank website (checked on 4th February 2010)

5.3.4. Branch Network

SME Bank says it has 19 branches, but in fact its 3 branches in Kuala Lumpur are located in the same building as the headquarters. Even including the 3 branches in KL, it has only 19 branches. 19 branches are distributed within the country, at least 1 branch per state except for W.P. Labuan where the off-shore financial centre is located (thus not suitable for a branch of SME Bank) (figure 20).

Comparison of population per branch and area per branch show that Perak and Johor would need additional branch, for example, as both population and area per branch are much higher than the country wide average for those states.

Table 8: Regional Distribution of Branch Network

State	Number of Branches	Population (2009)('000)	Population per Branch	Area (sq. km.)	Area per Branch
Kuala Lumpur	3	1,655.10	551.70	243	81.00
Selangor	1	5,179.60	5,179.60	8,154	8,154.00
Perlis	1	240.7	240.70	821	821.00
Kedah	1	2,000.00	2,000.00	9,500	9,500.00
Perak	1	2,393.30	2,393.30	21,035	21,035.00
Pulau Pinang	2	1,577.30	788.65	1,048	524.00
Negeri Sembilan	1	1,013.90	1,013.90	6,686	6,686.00
Melaka	1	769.3	769.30	1,664	1,664.00
Johor	1	3,385.20	3,385.20	19,210	19,210.00
Kelantan	1	1,634.20	1,634.20	15,099	15,099.00
Terengganu	1	1,121.10	1,121.10	13,035	13,035.00
Pahang	1	1,543.30	1,543.30	36,137	36,137.00
Sarawak	2	2,503.60	1,251.80	124,450	62,225.00
Sabah	2	3,201.00	1,600.50	73,631	36,815.50
W.P. Labuan	0	89	n.a.	91	n.a.
Total	19	28,306.70	1,489.83	330,803	17,410.68

Data Source: SME Bank Annual Report 2008 and Department of Statistics, Malaysia



Figure 21: SME Bank's Branch Network

As shown below, SME Bank has smaller size of human resources and branch network compared with other DFIs and Shoko Chukin Bank (Japan). Especially the number of branches seems too small to deal with SMEs (table 12). As an example, BSN and Bank Rakyat which provide products and services to individuals and micro enterprises have more than 100 branches in Malaysia, and Japan's Shoko Chukin Bank has 99 branches in Japan. Considering the wide areas of the country, some number of smaller branches can be added in order to allow easier access to SMEs.

Table 9: Comparison of Resources

	SME Bank	BSN	Bank Rakyat	Shoko Chukin Bank (Japan)
Number of Branches	19	374	117	99 (in Japan)
Number of Employees	984	5,278	3,618	4,247
Average # of employees per branch	51.8	14.1	30.9	42.9

Source: BNM and Shoko Chukin Bank (Japan)

The loan officer at Johor Baru branch has commented that each of the staff is in charge of 30-40 firms. While this is possible, it is rather high, and may be over-burdening for the staff.

5.3.5 IT System

According to discussion with SME Bank, the IT systems are yet to be integrated into one after its merger. The IT systems should be integrated in order to consolidate the data of its clients and loans provided, and the loan portfolio can be managed properly.

5.3.6. Overall Capacity

As the assets of SME Bank grow, it may need to increase its capacity to disburse loans to SMEs quicker after the decision making, to manage outstanding loans, and to control the associated risks properly. The branch network needs to be extended; the number of employees would be increased especially in order to handle the disbursement of loans; and independent ALM division would be established.

5.4. Lending products of SME Bank

SME Bank provides products and services to all categories of SMEs in Malaysia (i.e. micro, small, and medium sized businesses.) In addition, SME Bank provides specially designed products to SMEs categorized into 5 types as:

- ◆ SME Startup
- ◆ SME Professional
- ◆ SME Franchise
- ◆ SME Procurement
- ◆ SME Global

Some companies interviewed by NRI mentioned that they were provided financing upon the establishment by SME Bank, while commercial banks usually require a few years' operation before providing any financing. Therefore, financing products targeting "Startup" SMEs must be considered as good example of "complement" to the commercial banks.

Most of the loans provided by the SME Bank have more than 5 years' duration. SME Bank may be able to provide loans up to 30 years' duration if the objective is to fund long-term development project such as hotel or resort construction. In fact, such characteristics explain commonly heard comments from the clients such as "SME Bank tends to take longer time than its competitors to provide loans", "I hope SME Bank reduces the interest rate." As the market interest rate dropped significantly in 2009, some clients who borrowed loans before the global financial crisis (and the interest rate drop) demand replacement of former loan with higher interest rate with a new loan with lower interest rate. Furthermore, taking collateral takes additional time for lenders than the loans without collateral in general, because additional documentations and registration of the collateral, etc. are necessary.

Currently, SME Bank's prime rate is 5.95 per cent, effective from February 3rd, 2010. Formerly, this was 6.5 per cent, but in response to BNM's lowering of its overnight rate, SME Bank also reduced its rates. The actual lending rate to the SMEs vary from 3.5 to 7.5 per cent, depending on the funds that are used.

5.5. Necessity of funds and funding sources of SME Bank

5.5.1. Necessity of funds

Excess capital doesn't mean that SME Bank has excess funds. In fact, SME Bank needs more funds to finance loans provided to the customers. In 2008, the amount of loans to customers increased 22% compared with the former year and reached 3 billion RM. Further more SME Bank had 2.3 million RM commitments which is equivalent of 45.7% of its total assets. Up to October 2009, SME Bank already increased 0.7 billion RM financing to the clients from end of 2008. For the added financing, SME Bank increased loans provided by EPF, and MOF. BNM also provides specific funds targeting SMEs through financial institutions.

Table 10: Balance Sheet of SME Bank

RM thousand	SME Bank				
	2008	change	2007	change	2006
cash	877,005	1%	871,998	-45%	1,575,153
deposits	382,340	-29%	542,214	1650%	30,988
securities	242,974	94%	125,076	153%	49,378
loans	3,050,213	22%	2,506,190	36%	1,849,531
others	91,114	-60%	228,649	-44%	410,348
interest in subsidiaries	129,387	62%	80,000	1233%	6,000
interest in associates	13,716	-3%	14,123	-24%	18,669
investment properties property, etc.	251,459	85%	135,644	14%	119,407
prepaid land lease	33,756	7%	31,432	6%	29,709
deferred tax		-		-	
total assets	5,071,964		4,612,648		4,168,085
Deposits	394,746	3847%	10,000	-	
Term Loans	2,697,504	-3%	2,775,194	10%	2,514,701
Other	422,709	43%	295,643	74%	170,146
Government funds	359,932	-2%	365,933	-3%	378,402
Total liabilities	3,874,891	12%	3,446,770	13%	3,063,249
Share capital	1,350,000	0%	1,350,000	0%	1,350,000
Reserves	-152,927	-17%	-184,122	-25%	-245,164
	1,197,073		1,165,878		1,104,836
total equity and liabilities	5,071,964		4,612,648		4,168,085
Commitment and contingencies	2,320,771		2,590,915	n.a.	

Source: SME Bank annual report with emphasis put by NRI

5.5.2. JICA loans

From SME Bank's view point, it is desirable to acquire funding through Japanese yen loan scheme in terms of the diversification of the funding sources. Outstanding loans provided by JICA (formerly JBIC) reach 494,342,165 RM as of end of 2008 which is equivalent to 14% of the total asset of SME Bank. Thus, loan provided from the Japanese government is one of the significant funding sources for SME Bank.

5.5.3. Other funding sources

Other than JBIC loans, SME Bank can accept deposits from Government Linked Companies (GLCs) only⁶; and can borrow from the Employee Provident Fund (EPF), and the Government of Malaysia (i.e. MOF). EPF requires the Government guarantee although other conditions such as tenures and interest rates are negotiable. Direct loan provided by the MOF depends on the Government's budget plan which is described in the next item.

5.5.4. 10th Malaysian Plan and SME Bank's budget plan

Malaysian Government is currently preparing the 10th Malaysian Plan which determines 5 year strategy and budget plan for 2011 to 2015. For this, SME Bank submitted its plan to increase SME financing volume by 2 to 3 billion RM from 2011 to 2015. However, SME Bank is not sure yet if the Government approves the plan or not. SME Bank is also working on its own "two year budget plan" which would be approved by the board in February 2010. According to this "two year budget plan", SME Bank would need additional funding source from 2011 besides the domestic sources as the Government, and EPF.

5.5.5. Corporate bond issuance

SME Bank also plans to issue corporate bonds ("private debt securities" under the Malaysian legal and regulatory framework). SME Bank hopes to obtain

⁶ SME Bank can accept corporate deposits other than GLCs, once the bank is able to comply with the New Liquidity Framework guidelines.

guarantee by the Government so that its credit rating becomes the highest within the country. On the other hand, it worries that the portfolio may not be good enough to achieve such a high rating, especially since its lending rate is capped. With low rating, it would increase the cost of funds, which may make it difficult to provide loans at a favorable rate.

Two other DFIs (EXIM Bank and Bank Pembangunan) already have experience of issuing bonds. As an example, Bank Pembangunan obtained approval for 200 million RM medium term notes in 2006 with 5 year maturity and 5% coupon. Minimum requirements for DFIs to issue private debt securities is to acquire credit rating at least from one of two acknowledged credit rating agencies, and to obtain approval from the Malaysian Government. Credit rating provided by Rating Agency of Malaysia (RAM) is AAA as of July 2009 as it could obtain guarantee from the Government, while the former rating without guarantee was AA1 before then.

5.6. Future Plans of SME Bank

5.6.1. Overview

SME Bank has submitted the Annual Funding Requirement (AFR) plan for 2010 and 2011. The AFR was based on the proposed Budget for 2010 and 2011 with the targeted gross loan portfolio of RM4.03 Billion and RM4.43 Billion respectively. Gross loan portfolio in 2007 was 2.6 billion RM, where as gross loan portfolio was 1.88 billion RM

The Bank to achieve 5% and 10% of loan assets growth for year 2010 and 2011 with emphasis on lending to small and medium size entrepreneurs. The annual growth of the loan assets was about 16%, so the bank intends to grow its loan portfolio slightly slower. While this may be natural since the portfolio is growing, there are demand for funds from SMEs, which may not be adequately addressed with this amount of growth, especially in the economy's recovery period.

5.6.2. Funding Plan

In order to achieve an increase in the gross loan assets, SME Bank is trying

hard to find source of funds. According to Executive Summary of Bank Perusahaan Kecil & Sederhana Malaysia Berhad Budget 2010/2011 (“SME Bank Budget 2010/2011” herein after), SME Bank plans to finance 1.1 billion RM and 0.9 billion RM in 2010 and in 2011 respectively, while 0.86 billion RM and 0.78 billion RM are allocated to particular usage in 2010 and in 2011 respectively (table 11).

Table 11: Revised Annual Funding for year 2010 and 2011 (RM '000)

	Revised	Projected
	2010	2011
Source of Funds		
Shareholders' Funds	63,493	69,002
of which : Paid-up Capital	-	-
Retained Earnings	-23,515	63,493
Profit for the year	87,008	5,509
Government Sources		
Annual Budget Allocation	83,371	-
Direct Allocation	83,371	-
Indirect Allocation	-	-
Deposits		
Borrowing	300,000	350,000
Other Sources	662,650	500,000
Subordinated Debts from Holding Co.		
Deposits	662,650	500,000
Borrowing	-	-
Total	1,109,514	919,002
Uses of Funds		
Net Loans Disbursement	27,300	199,800
Of which:-		
Disbursement	1,483,600	1,883,400
Less Collection (principal)	-1,456,300	-1,683,600
Loan Repayment to Fund Providers	55,601	49,751
Of which:-		
Foreign Funds	29,536	29,544
Net Investments	732,650	520,000
Of which:-		
Government Securities & PDS	105,000	100,000
Money market	662,650	500,000
Capital Expenditure	42,190	13,197
Total	857,741	782,748
Surplus/(deficit)	251,773	136,254

Source: SME Bank Budget 2010/2011

Up until 2010, SME Bank will rely heavily on government financial sources, including various grants and funds set up by the government and BNM. However, these funds will not be available from 2011 onwards. Therefore, SME Bank will finance its loans through increased deposits and retained earnings.

5.6.3. Loan Disbursement

The budget plan for 2010 seems very conservative in terms of loan disbursement which shows only 27 million RM net disbursements. According to the SME Bank Budget 2010/2011, SME Bank plans to disburse 1,483.6 million RM loans in 2010, compared with 1,819.9 million RM actually disbursed in 2009.

Not only the actual amount seems small compared with that in the former year, but also the ratio against un-disbursed commitment (UDC) is far smaller as 82% of UDC in 2009, than former actual numbers (104% of UDC in 2008)(table 12). In addition, “financing approval” for 2010 will be 1,370 million RM or minus 32.7% compared with the former year. Such conservative budget would be necessary because of the significant ratio of “impaired loans” as 22% in 2009. On the other hand, if SME Bank tries to restructure its loan portfolio, SME Bank needs to disburse new loans in addition to the efforts to writing-off impaired loans.

Table 12: Lending Indicator (excerpt from SME Bank Budget 2010/2011)

Lending Indicator	Actual 2006	Actual 2007	Actual 2008	Budget 2009 (Revised)	Actual 2009	Budget 2010	Budget 2011
Financing Approval	2,135.60	3,051.90	2,200.90	2,400.00	2,036.90	1,370.00	3,460.00
Difference from former year (%)	n.a.	42.91%	-27.88%	9.05%	-7.45%	-32.74%	152.55%
Disbursement	1,225.10	1,864.80	1,984.30	1,855.20	1,819.90	1,483.60	1,883.40
Difference from former year (%)	n.a.	52.22%	6.41%	-6.51%	-8.29%	-18.48%	26.95%
% of Disbursement / UDC		127%	98%	106%	104%	82%	137%
Collection	915.3	1,278.60	1,562.70	1,630.50	1,491.40	1,456.30	1,683.60
Difference from former year (%)	n.a.	39.69%	22.22%	4.34%	-4.56%	-2.35%	15.61%
Portfolio Growth	n.a.	735.40	592.20	429.60	635.40	188.10	402.60
Portfolio Growth (%)	n.a.	39.13%	22.65%	13.40%	19.81%	4.90%	9.99%
Impaired Loans (%) **	0.20%	6.40%	7.80%	8.50%	22.00%	18.00%	16.00%
Un-disbursed Commitment (UDC)	1,466.70	2,017.50	1,752.80	2,017.50	1,818.80	1,376.50	1,862.50

**Impaired loans for year 2006, 2007, 2008 and Budget 2009 were based on BNM GP3 (MIA 6 and above).

Note: yellow colored numbers were calculated by the consultant.

Source: SME Bank Budget 2010/2011

If SME Bank would try to maintain the same level of disbursement as before compared with UDC (such as 100% of UDC remained former year), loan disbursement for 2010 would become 1,818.8 million RM instead of 1,483.6 million RM as is budgeted now, or needs to increase 335.2 million RM financing if maintaining the same level of cash-flow position.

5.6.4. Improvement of capacity

SME Bank has plans to improve its capacity in terms of the human resource, as well as the IT system. For the human resource, SME Bank plans to hire 12 staffs in 2010, and 13 staffs in 2011, mainly focusing on the support of IT system.

On IT system, SME Bank will invest 18.9 million RM in 2010 in computer equipments and software mainly to separate the IT system from BPMB.

5.6.5. Other considerations

According to the SME Bank Budget 2010/2011, SME Bank wrote-off significant amount (provision of 61.2 million RM) of its venture capital fund (SME Growth Acceleration Fund Sdn. Bhd.), making the income statement red for 2009 (loss of 28.3 million RM). However, such write-offs, along with the write-offs of former loans, should not affect future lending/investment behavior of SME Bank. In fact, again, in order to regain earning power of its assets, SME Bank may need to seek further investment opportunities, although not necessarily through venture capital funds.

There has been no specific mention of specific domains or sector that SME Bank is planning to expand their business. While it was claimed that tourism would receive emphasis based on the 9th Malaysia plan, it was also mentioned that its share should not exceed 25% of the loans. SME Bank's intention is to achieve a balance among sectors, as is clearly shown in the current portfolio.

Also, it seems that at the moment, SME Bank is more concerned about losing government funding, rather than which sector to stress. Their future plan seems to concentrate in achieving slower growth under limited funds.

6. Significance of providing two-step loans to SME Bank

Based on the surveys and analysis in the preceding chapters, this chapter will analyze the feasibility for providing two step loans to SME Bank.

6.1. Significance of SME within Malaysian Policy

Observation:

SME is given a prominent position in the overall policy of Malaysia. It is featured in the planning document as one of the priority areas, and the government of Malaysia has clearly laid out various schemes to assist SMEs in technical, operational, financial and institutional ways.

Recommendation

A good case can be made for providing assistance to Malaysian SMEs in general. It is in line with the government of Malaysia's overall goal. It already has shown effort in promoting SMEs. The past assistance through JBIC also seems to have been used well for the progress of SMEs in Malaysia, and JICA has already promoted SMEs in Malaysia through technical assistance. Provided that Yen Loans to Malaysia itself can be justified, SME assistance is a good area to provide assistance to Malaysia.

6.2. The Situation of SMEs in Malaysia

Observation

The financial crisis did have negative impacts on SMEs in Malaysia. The phone survey shows that 60 per cent of the respondents had experienced some hardship during the crisis. The hardship included sudden drop in demand, and there were some difficulties in acquiring funding. This situation is also confirmed by surveys undertaken by SME Corporation Malaysia earlier, in Nov/Dec 2008 and Apr/May 2009.

The impact, however, is mostly limited to export oriented manufacturing

and their support industries. During the interview, oil-related industries, box makers for electronic equipments, and a ferry company that rely on tourism and foreign workers expressed heavy impact from the crisis. SMEs in the domestic market and lower end markets, however, were not affected, or even showed positive impact. Since consumer switched from high end goods to low end goods, some of the SMEs focusing on the lower end goods have experienced a boost. Even with export oriented products, innovative SMEs focusing on low cost solutions were able to increase their business. This is also confirmed by SME Corp's survey, in which only 22% of the respondents claimed that they were "severely affected."

As of November 2009, most firms are clearly headed for recovery. The survey indicates that many firms already feel that the worst is over. While the overall economy may not be running at full capacity at the moment, most firms do not feel that there would be any further downturn of the economy in 2010, and expects the situation to improve. IMF forecast suggests that the Malaysia economy as a whole would show a strong recovery in 2010.

SMEs' demand for funds are moving toward business expansion. During the interview with SMEs that were adversely affected by the financial crisis, most of them were trying to weather its effect by expanding or diversifying their business. SMEs that were not affected, also expressed desire to expand their existing facility. At the time of the survey, there were virtually no respondents or interviewees that required financial assistance to get through the effects of the Financial Crisis.

Recommendation

At this point, additional response to the financial crisis seems irrelevant. While many firms have experienced hardship, it has not endured in most firms. The emergency package that the Malaysian government provided in the forms of additional funds and loan guarantees have had effect, and with the general recover of the economy, further help does not seem warranted. Therefore, the rationale to provide Yen loan as the response to the Financial Crisis is almost non-existent at this point.

SME assistance needs to focus on future business expansion for SMEs. Most firms are seeking expansion of their business. Firms that are hit by the crisis are also seeking to diversify their business to increase resilience. Any assistance for

SMEs at this point needs to address this demand. Assistance aimed at improving the skills and human capital of SMEs, as well as providing funding for their operation and investment.

6.3. Providing Assistance for SME Bank

Observation

SME Bank is the main vehicle for SME financing in Malaysia. While there has been numerous vehicles for providing assistance to SMEs in Malaysia, the government is trying to consolidate various schemes and DFIs to make it clearer. Within that demarcation, SME Bank covers the largest area, and has a focus on SMEs.

		Manufacturing	Service	Construction	Retailer	Others
Size of debtors	Micro	MIDF		BSN	Bank Rakyat	
	Small			SME Bank		
	Medium					
	Non-SME					

Source: NRI utilizing discussions with relevant institutions

Figure 15 (repeat): Rough Demarcation of SME Financing among DFIs

SME Bank is financially sound and has strong track record. As shown in the balance sheet analysis, it has extremely high risk-weighted capital ratio, and is financially sound. The number of clients and outstanding loans are largest among DFIs that target SMEs. It has expanded its loan portfolio consistently, and interview suggests that it has played a good role in nurturing many excellent SMEs in Malaysia.

SME Bank needs additional funds. Malaysia Government is encouraging SME Bank to become more independent, and will stop providing additional funding for SME Bank in the near future. While SME Bank has other funding options, such as issuing bonds, their preparation will take some more time. With increasing demand for its loans, the availability of funds may seriously hamper the Bank's ability to assist SMEs in the future.

SME Bank is planning for a very conservative loan portfolio growth for 2010 and onward. The future plan mentions that very little amount of net disbursement will be made in 2010. After that, the growth of the gross loan assets will remain at 5-10%, compared to 15-20% in the previous years.

Slow Disbursement is an issue for SME Bank. This is one of the largest issues that SME Bank currently has. It may be due to the lack of personnel, and technical skills. While there has already been assistance to improve the situation, Further help may be warranted.

Government will guarantee the loan, but not the forex risk. MOF has stated that while it could guarantee the loan, it will not cover the foreign exchange risk. SME Bank says that they will either find other ways to hedge the risk, or even take on the risk themselves if Yen Loan would be provided.

Recommendation

SME Bank assistance is a valid way to assist SMEs in Malaysia. It is in line with the policy initiative, and the government considers it as the focal point for SME assistance. It has a good track record for assisting SMEs. Providing financial assistance to SME Bank would improve the assistance to SMEs.

Two-Step Loan to SME Bank will greatly enhance SME support in Malaysia. SME Bank will face issues in securing funds, due to the government's policy to make them independent as possible. It is already planning to provide very little net disbursement in 2010, and future growth of the loan portfolio is planned to decelerate. Other ways to raise funds, such as bond issues, would take time, and may pose an obstacle for the demand for funds among Malaysian SMEs. Providing a two-step loan would enable SME Bank to make further loans, which should be a boost for the SMEs.

The Two-step loan should seek synergy with other TAs. SME Bank has issues in loan execution. This may warrant technical assistance. While it has already received some help, further training and technical assistance would prove useful. Also, Bank Simpanan Nasional (BSN) wants technical assistance on microfinance. With the expanding emphasis on SMEs, other DFIs may also have

needs for assistance. Also, operational and technical training to SMEs themselves may be successfully combined with the financial assistance. This point is elaborated in section 6.6.

6.4. Review of Japanese Assistance to Malaysian SMEs

Historically, Japan has provided numerous aid toward Malaysia, such as loans for gas pipeline projects (1988) and transmission lines (1986). It has also been active in assistance toward SME development. Most of these assistance were provided through JICA (including former OECF/JBIC), although there are others. They are as follows:

- ◆ JICA (including former OECF/JBIC) Yen Loans:
 - 1988 AJDF Category B Yen Loan
 - 1992-1995/1997 Project on SME Development
 - 1999-2004 Fund for Small and Medium Scale Industries

- ◆ JICA Technical Assistance:
 - 2006-2008 Project on Development of Human Resource for SME Corp. (Phase 1)
 - 2009-2012 Project on Development of Human Resource for SME Corp. (Phase 2)

- ◆ Other:
 - 2008- Policy Research Institute (MOFJ), Technical Assistance to SME Bank

6.4.1. JICA Yen Loan: Project on SME Development (1992-1995/1997)

Overview:

Project on SME Development (1992-1995/1997) consists of three yen loans for Bank Pembangunan & Infrastruktur Malaysia Berhad (BPIMB), Bank Industri & Teknologi Malaysia Berhad (BITMB), and Malaysia Industrial Development Bank (MIDF). BPIMB and BITME will later merge into the present SME Bank.

In the project, each of the banks received 4,660 million JPY, with 3.0% interest rate with 25 year repayment period, 7 years grace period.

According to the Follow up report, the loans were originally intended as funds

for providing sub-loans to the SMEs, and consulting services to assist the banks in loan evaluation. However, it was determined that the banks had sufficient skills to carry out their own evaluation. Consequently, the full amount was utilized for sub loans. The sub-loans had a maximum amount of 5 million RM, less than 7% interest rate, and maximum period of 15 years.

Results:

Originally, the funds were supposed to be lent out through the sub loans by 1995. However, in two of the banks, BPIMB and BITME, there were delays in the contracting and disbursement of the sub loans. This caused delay in the execution of the Yen Loan.

As of December, 1997, the default rate was 1.94 per cent, which is quite low. The low default rate attests to the operational skills of these banks.

The significance of the loan is difficult to assess in itself. Although the post-evaluation report cites the improvement in SME productivity in Malaysia as an effect of this loan, this cannot be wholly attributed to the Yen Loan itself. The Yen Loan, however, did provide vital capital for SMEs, which was in serious need. Also, it served as a basis for revolving fund for SMEs. Therefore, it created a stable foundation for increased SME funding in Malaysia at that time.

Issues:

The issue for this loan pointed out in the post-project study was the overall inflexibility of the sub-loan conditions. JBIC imposed same sub-loan conditions for all three banks. It is pointed out that different conditions may have been possible for various banks, to accommodate differences in their client SMEs.

It is interesting, however, to note that the banks that experienced delays in disbursement was BPIMB and BITME, which would merge into SME Bank in the future. Even at this early stage, delays in disbursement were an issue.

6.4.2. JICA Yen Loan: Fund for Small and Medium Scale Industries (1999-2004)

Overview:

The loan was provided in part as a response to the Asian currency crisis in

1997-98. The loan amount was 16.3 billion JPY, 0.75 per cent interest rate, 40 years repayment with 10 years grace period.

Results:

Sub-loans were 50,000 – 5 million RM, with an interest rate of 7.25-6.25 per cent, depending on the period. The term was 5-15 years, with up to 3 years grace period for capital investments. There has been 483 sub-loans, totaling 547.8 million RM. About 70% was for manufacturing, with most of the funds used for new capital investment.

Disbursement of the sub-loans were slow, and while the planned amount was about 16.3 billion JPY, the executed amount was 15.6 billion JPY, about 0.7 billion JPY shorter than planned. Non performing loans amounted to about 20 per cent as of 2006, which is high, although not excessive.

The loan itself was in line with the overall industrial policy of Malaysia. While it is difficult to assess the actual effect of the loan, it did provide vital capital for the SMEs in Malaysia after the Asian Currency crisis. Many of the recipients of sub-loans reported improvement in sales, and 44% of the respondents commented that the increase in sales were attributable to the existence of the Yen Loan-assisted sub-loans.

It is pointed out, however, that the actual closing of the Yen Loan was rather late in relation with the Asian Currency crisis. This led to very few takers of sub-loans in the first year of disbursement. There have been other low interest funds from other DFIs, which made it difficult for the banks to find clients.

Issues:

The difficulty of finding sub-loan clients, and the slow disbursement of the loans were major issues. In the evaluation report, the reason for this is pointed out as follows;

- ◆ Changes in the business plans
- ◆ Lack of counterpart funds
- ◆ Bad preparation for the necessary paper works
- ◆ Delays in complying with the loan conditions precedents
- ◆ Slow progress of the intended project

These seem to suggest some issues on the stringent requirement of the Yen Loan, but most seems to be avoidable with better preparation on the bank's side. While SME Bank provides an important hub for SME financing in Malaysia, there are issues in their capacity. The third party assessment of the project generally confirms these views;

Future assistance would be better placed at the new SME bank. Its holistic approach should make it more efficient in lending although it does need help to build capacity and capability. Future focus...require flexibility given rapidly changing circumstances, and evaluation based on commercial viability. While the listed reasons for delays are real, many borrowers find the lengthy loan process too bureaucratic, too time consuming and too demanding & inflexible for their needs.

Disbursement conditions do not lend themselves to early compliance: e.g. many on the long list of conditions precedent cannot be readily met in practice; complex legalities often reflect lawyers' rather than bankers' concerns; and lack of sensitivity to real market conditions adversely affect efficient implementation.

6.4.3. Project on Development of Human Resource for SME Corp (phase 1, 2006-2008)

The project provided training for staff at SME Corp, to enable them to analyze the issues and problems of SMEs to provide basic advice. 53 staff were trained as SME counselors.

The post evaluation for the this project has not been completed yet. However, the government and the receiving counterpart (SME Corp) were clearly pleased with the result, which resulted in a second phase. SME Corp commented that they consider such training as vital to providing service to SMEs in Malaysia.

6.4.4. 2008- Policy Research Institute (MOFJ), Technical Assistance to SME Bank

Policy Research Institute, under Ministry of Finance, Japan (MOFJ) is providing technical assistance to SME Bank. Details of the assistance are not clear, but there has been a seminar in the summer of 2009. According to SME Bank, the assistance is directed toward capacity building of SME Bank, and the improvement of the lengthy disbursement process is a major issue to be addressed in this TA.

Since the TA is still continuing, its specific results are not yet clear. However, SME Bank strongly appreciated this TA, although they indicated that they need more training in this regard.

6.5. Overall Assessment of the Japanese aid and Suggestions for the Two Step Loan

Generally, the past Japanese Yen Loan to Malaysian SMEs seem to have worked well. The loans provided to the banks have been utilized as sub-loans, and the sub-loans did not suffer any excessive delinquencies. They have contributed to the advancement of Malaysia's policy agenda.

Provision of human resource training also seems to have worked well. While there are no specific data, the training was well received enough to warrant a second phase. With the expanding role of SMEs in Malaysia, however, these institutions require more training.

For Yen Loans, the past experience suggests that the cumbersome loan procedures and paper works for the sub-loans have always been a source of criticism. It has contributed to the slow deployment of the sub-loans in both of the past Yen Loans, although this was by no means the only reason. Also, while the last Yen Loan was intended as an emergency response to the Asian Currency Crisis, the actual provision of the loan came in rather late, 2 years after the crisis. This obviously was not timely enough, which is shown in the low number of takers in the initial year. These procedural issue needs to be addressed. How to simplify the conditions and paper works, while maintaining the standard for various compliance requirements would be a challenge.

The high level of undisbursed loan commitments, however, still persists, as shown in the previous chapter. This suggests that the source of the slow deployment is not necessarily the procedures and conditions imposed by the Yen Loan. Rather, the issue seems to be in the low operational skills of SME Bank. Even in the last Yen Loan, SME Bank was able to find and commit enough sub-loans. The reason that they failed to utilize all the loanable funds was their slow execution. Therefore, capacity building for the SME Bank seems to be an important issue.

Another reason that was pointed out was the fact that there were other DFIs competing for the same potential clients. The argument is that, because of the increased competition, SME Bank could not find sub-loans soon enough to use up the loanable funds from the Yen Loans.

While this does not explain the slow execution, it may have been an issue for the DFIs and Malaysia's SME assistance policy in general. While the existence of competing schemes per se may not be a bad thing, the overlap among the schemes was confusing, and lacked overall focus. Malaysia Government undertook the streamlining of various SME assistance schemes, mainly under SME Corp. This was obviously designed to address this issue. Under this focus, SME Bank is the hub for SME financing. Although there are still some overlaps, the whole scheme became easier to comprehend, and make it easier both for the seeker and provider of SME Loans.

In providing further aid through SME Bank, it is crucial to address their loan execution skills. In this sense, assistance provided by the Policy Research Institute (MOFJ) was an important effort. According to the SME Bank, the assistance addressed the issue of slow execution, which is highly appreciated. While this is expected to improve the situation to an extent, further assistance may be needed to alleviate the shortcomings completely.

7. Conclusion: Possible Two Step Loan

7.1. Future Plan of SME Bank

Providing a two step loan to SME Bank will be beneficial to SMEs in Malaysia, and would provide essential assistance to the realization of Malaysia's long term policy. The loan should be well appreciated. SME Bank has a solid track record that would ensure the proper use of funds. Since it is facing uncertainty about the source of funds, the two step loan should be very much appreciated.

The assistance, however, cannot be justified as a response to the financial crisis, since most firms feel it is already over. While there had been negative impacts, most seem to have weathered it in one way or another, and currently, they are looking at future growth. The emphasis for SME support should return to its original direction stipulated in the Malaysia Plan.

The budget plan provided by the SME Bank shows that they are not expecting any new funds from Japan in 2010 and 2011. As a result, their plan shows a very limited growth of the loan portfolio in 2010, in a time when more SMEs would require funding under the economic recovery (figure 21).

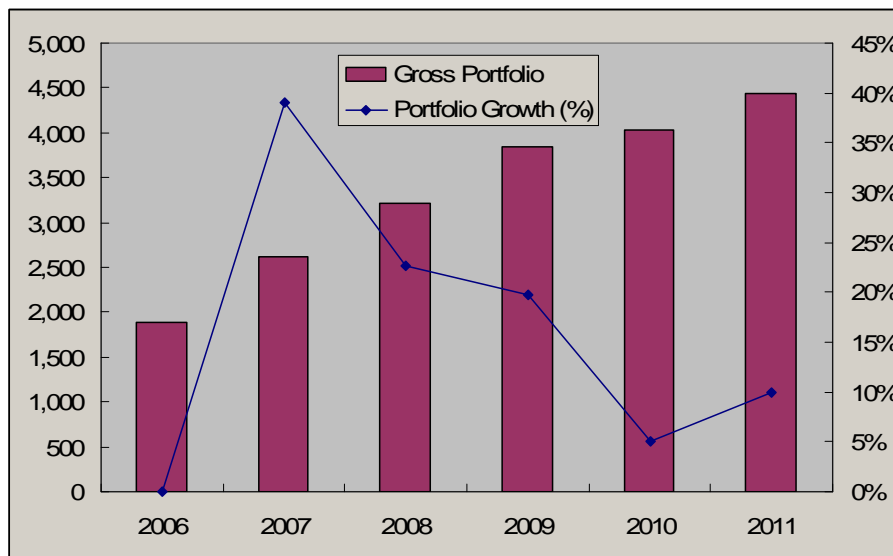


Figure 21: SME Bank Loan Portfolio

The sudden decline in the loan portfolio is a response by SME Bank to the termination of government funds. However, demand from SMEs for funds will likely accelerate, rather than slow down, in the coming years. A two step loan would be able to cover this gap, to provide Malaysian SMEs a steady source of necessary funds.

7.2. Discussion between SME Bank and MOF

According to interviews with SME Bank, there has not been any serious discussion between the Bank and MOF concerning the possibility of Yen Loans. MOF claims that they have not received anything formal, and SME Bank claims that they have made a suggestion about the possible amount of the Yen Loan.

The suggested amount from SME Bank was about 2 billion RM. This is a very rough figure, which at this point serves mostly to gain a feel for what MOF has in mind. So far, there has been no clear response from MOF. Consequently, the budget plan for 2010 and 2011 does not take into account any Yen Loan.

This figure is based on the necessary funds to cover SME Bank's 5 year growth plan, in which the loan portfolio is planned to grow at 5-10% annually. A rough calculation reveals that a loan portfolio growth of 8% would bring the necessary funds to 2 billion RM over 2011-2015 (table 13). Obviously, this is not be considered as anything precise. It does, however, confirm the overall expectation toward the possible Yen Loan.

Table 13: SME Bank Loan Portfolio Growth Simulation

	(million RM)									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Gross Portfolio	1,879.5	2,614.9	3,207.1	3,842.5	4,030.6	4,433.2	4,787.9	5,170.9	5,584.6	6,031.3
Portfolio Growth (%)	n.a	39.1%	22.6%	19.8%	5.0%	10.0%	8.0%	8.0%	8.0%	8.0%
Necessary Additional Funds		735.4	592.2	635.4	188.1	402.6	354.7	383.0	413.7	446.8
						2011-15 total				2,000.7

Source: NRI based on SME Bank data

The actual disbursement will be more than the additional funds, since much of the collection can be utilized for providing new loans. While

During the interviews, the specific usage of the Yen Loan was not discussed, since the availability of the Yen Loan itself was not confirmed. However, in discussing the general business development, SME Bank did not reveal specific preference for any particular industrial sector. Their argument was that, while they are currently putting a little emphasis on tourism related lending due to its emphasis in the 9th Malaysia Plan, they would like to achieve balanced lending among sectors. They do not intend to increase lending to the tourism sector to more than about 25 per cent of the loan portfolio.

7.3. Possible Justification for Yen Loan

Providing Yen Loan to SME Bank would allow SME Bank to increase their loan, which should be beneficial for Malaysian SMEs. However, the justification for such loans may be an issue.

At this point, it is difficult to argue for an emergency loan to cope with the effects of the Global Financial Crisis. The economy has already shown a rebound, and SMEs themselves are more interested in future expansion rather than getting through the current hardship.

Also, Malaysia has become a middle-income country. While it still has its share of issues as a developing economy, it has become possible for them to finance much more of their activities on their own. Under the current JICA condition, Yen Loans to middle income countries are limited to the following 4 areas;

- ◆ Environmental improvement
- ◆ Human resource
- ◆ Disaster prevention
- ◆ Promotion of social equity

This means that there needs to be more justification for Yen Loans than simply assisting SMEs. Such justifications may come in several flavors.

7.3.1. Environmental improvement

During the field study, it has come to our attention that many SMEs were already actively pursuing R&D activities for environmental improvement of their products and services. Dragonpac, for example, was conducting research to develop

biodegradable plastic bags, while the Ferry Company was conducting a joint research project with a technical university to develop a ferry engine that uses bio-fuels. It is likely that other SMEs would be interested in developing products and services that would be more environmentally friendly. By making funds available to such effort, Yen Loan to SME Bank may be able to help Malaysia in its environmental efforts.

Environmental issue has become quite a large agenda for Malaysia. In December 2009, the government announced its ambitious plan to cut carbon emissions 40 per cent by 2020. Much earlier than that, already in the 9th Plan, environmental concerns take up significant portions. In the Industrial Master Plan, “environment-friendly products” come up as keyword in focused sectors such as petrochemicals industry, wood-based industry, rubber products industry, and oil palm industry. The development of “environment-friendly products” is emphasized repeatedly, as a measure of increasing the global presence of Malaysian products. Assisting such efforts through Yen Loan would be in line with such efforts, while helping the SMEs’ innovation.

Environmental improvement through Yen Loan need not be limited to Environmental R&D. Replacement and renewal of existing facilities would often result in reducing environmental impact, since newer equipments are likely to be more fuel-efficient and produce lower emissions. These would warrant assistance by Yen Loans.

7.3.2. Promotion of social equity

Several of the interviewees considered SME Bank primarily as a Bumiputera institution, designed to promote Malay companies. There is in part true. Some of the funds from the government was specifically aimed to promote the Bumi policy, strictly limiting the recipients of the sub-loans, and providing them with favorable loan conditions.

Bumi policy began with the basic recognition that the Malay people were less wealthy than other ethnic groups within the country. It is a policy that intended to promote social equity by giving Malays better chance. Therefore, in theory, assisting SME Bank would promote the Bumi policy, which could be argued as an act of promoting social equity.

The strength of such an argument, however, is rather debatable. While the Bumi policy still exists, it seems to be played down in recent years, with the government's focus on "One Malaysia" slogan. Also, it would be strange from the Japanese view point to actively promote a specific ethnic group within another country. It should also be noted that past Japanese Yen loan has mostly gone to non-Malay firms, since several government funds limit its use to Malay firms.

Another area for promoting social equity may be the regional imbalance. Most of the economic activity in Malaysia is concentrated in the Western side of the Malay Peninsula, and government is trying hard to promote industry and economic development in other areas of the country. Currently, the Western side gets 75 per cent of the total amount of SME Bank loans.

Therefore, it may be possible to promote industry in the Eastern side and other areas by allowing SME to providing favorable rate. Balanced regional development is heavily mentioned in the 9th Malaysia Plan and IMP3. Also, SME Bank's regional branch network is relatively weak, with only 19 branches throughout the country. There may be an opportunity to combine the expansion of SME Bank's operation with some financing scheme that targets the less developed states.

However, this may not work well. SME Bank, in conjunction with the Ministry of Rural Development, already has a special loan facility that favors entrepreneurs in less developed states. However, this scheme is only provided for micro-enterprises. This indicates that the economic activity itself, and consequently the demand for funds in these area is very low to begin with. Additional funding schemes may not help improve the situation.

7.4. Possible Two Step Loan Scheme

Based on these observations, an outline of a possible Two-step Yen Loan can be devised. The overall thrust of the loan would be to improve the environmental aspects of SMEs through the assistance for upgrading their facility and operation.

The overall Yen loan amount would be around 20 billion JPY. SME Bank has

proposed a 2 billion RM Yen Loan to MOF, about 50 billion JPY. However, Since SME Bank had difficulties in executing the last Yen Loan of 16 billion JPY. While SME Bank's capacity may have improved since then, it is doubtful whether it can absorb more than double the amount.

Also, the Malaysian government intends the DFIs to find its own source of funds. Therefore, SME Bank shouldn't rely solely on Yen Loans for the growth of its loan portfolio. SME Bank is already considering a bond issue, which should gradually cover the additional funds for its expansion. This should take another 2-3 years, and after that, the role of the Yen Loan should decline. Therefore, about 20 billion JPY seems adequate (table 14).

Other sub-loan conditions are similar to the former Yen Loan, except that the eligible sub-loans would try to focus on reducing environmental impacts. Considering the role of the SME Bank, and the size of the Yen Loan, it would be difficult to limit the sub-loans only to those with a specific environmental focus. It should be possible, however, to include environmental consideration as a part of the loan approval process.

The sub-loan interest rate would change along with the overall availability of funds. As of February 3, 2010, SME Bank has lowered its prime rate to 5.95 per cent from the former 6.5 per cent. Considering that SME Bank as a DFI should provide a favorable rate, 6 per cent interest rate seems feasible.

The provision of the loan will need to be combined with the improvement of the operating capacity of SME Bank. The two step loan may be provided along with technical assistance to the banking sector on SME financing, or it could be combined with other SME assistance, such as training and human capital improvement.

Table 14: Possible Two-Step Yen Loan Scheme

Loan amount	20 billion JPY
Terms	1.40% 25 yrs (7 yrs grace period) General, untied
Loan execution	2011-2015
Sub-loan Qualification	Manufacturing, agri-processing Local equity > 51%, Paid-in capital < 3 million RM Less than 150 workers or annual turnover < 25 million RM Service sector Local equity > 51%, Paid-in capital < 3 million RM Less than 50 workers or annual turnover < 5 million RM
Projects	Investment for Asset acquisition, improvement, expansion with an emphasis on increased efficiency and lower environmental impact Environment related R&D Investment for common service facilities Related technical assistance
Type and Max. amount	85% of the fixed asset value Working capital; 500,000 RM
Interest rate	floating (max 7%)
Sub-loan amount	50,000-5,000,000 RM
Terms	Fixed investment: 5-15 yrs (up to 3 yrs grace period) Working capital; 1 yr

7.5. Synergy with the SME Corp Human Resource Project (Phase2, 2009-2012)

Currently, JICA is conducting a project for SMEs, namely Project on Development of Human Resource for SME Corp. (Phase 2). The project aims at training SME Counselors. In order to do this, the project will train the trainers that will train the actual counselors. Based on the TOR, it will cover the following agenda in 2009-2012;

- ◆ Create study materials and curriculum, including Management, Financial management, tax management, production control, marketing, business diagnosis.
- ◆ Select the trainer candidates (10 x 3 groups)
- ◆ Invite people from nearby countries that deal with SME training, and hold a seminar
- ◆ Provide training in Japan

The counterpart for this project will be the SME Corp.

Since this program aims straight at SME assistance, there are obvious synergies that can be achieved with the possible Yen Loan to SME Bank. The curriculum would include trainings in the financial analysis of SMEs and providing advice on how to improve the financial situation. The proper understanding of various financial assistance provided by DFIs would be a significant boost in the effectiveness of the advice that the future counselors can provide.

Based on the demarcation of the SME funding roles, SME Corp staff trained through this program needs to understand the role of SME Bank. While SME Corp is more strongly related to MIDF, it is clear that MIDF alone cannot address all the financial needs of SMEs in Malaysia. Within the curriculum, the overall SME assistance scheme in Malaysia needs to be touched upon. The characteristics and the best use of various assistance, including those by SME Banks, should be presented within the curriculum. SME Bank should be able to comment on the curriculum, so that the benefits of SME Bank assistance are fully appreciated.

Also, SME Bank itself currently provides assistance and consultation to SMEs, as an effort to improve their financial standings. The SME Bank staff in charge of this consultation service would benefit greatly by attending the capacity building classes provided by the TA. This will also have the effect of aligning the SME assistance effort within Malaysia.

7.6. Other Possible Assistance

As mentioned, SME Bank's operational skills have been an issue since the earlier Yen Loans. This has caused a large amount of undisbursed commitments, and is causing some complaints from the sub-loan clients. This issue needs to be addressed when providing additional two-step Yen Loans.

Policy Research Institute (MOFJ) is currently providing a Technical Assistance package that addresses this issue, which is providing seminars and training for the staff of SME Bank. While SME Bank is happy with the assistance, the result of this TA needs

to be assessed before the provision of the Yen Loan, If further assistance seems necessary, JICA may be able to offer a TA. Depending on the requirements, this may simply be another training session similar to the one provided by the Policy Research Institute, or it may go further into the operational improvements within SME Bank. SME Bank is currently upgrading its IT facilities, which may be a good opportunity to re-evaluate the operations within SME Bank.

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Appendix

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Appendix 1: Summary of meetings

1. DFIs and Government Institutions

1.1. SME Bank

Date & Time: Nov 16, 2009. 15:05~16:10

Place: Head office of SME Bank, KL, Malaysia

Participants:

SME Bank

Mr. Hamdam Mohd Habibollah (Assistant Vice President / Head, Corporate Planning)

Mr. Badrul Syahfendy Bin Mohamad (Assistant Vice President / Head, Treasury & Investment)

Mr. Abdul Halim Bin Abdullah (Manager / Head, Operations III Business Development)

Mr. X

Ms. Nur Shakirin Abdullah (Manager I / Head, Treasury, Treasury & Investment)

Ms. Aziah bi Hassan (Assistant Manager I, Fund Management, Treasury, Treasury & Investment)

JICA Malaysia Office: Ms. Katayanagi

NRI: Yamagata, Ogimoto, Kawano

1. SME Bank's views on the impact of financial crisis

- Although it has damaged the Malaysian economy, there are signs of recovery. In other words, it is still negative but improving. Actually, not all sector / industry was affected. Construction was badly affected, whereas health, education, food, oil & gas were affected to some extent.
- Tourism is main focus of SME Bank, which experienced decline but gradually the number of visitors is increasing.
- Automobile sector seems strongly affected but since it is not the target of SME Bank, there is no detailed information on how much they were affected.
- The government has set funds of MR 67billion (1st for 7B and 2nd for 60B) and all

the projects under this program are financed.

- Also, there are 2 guarantee systems (the amount is MR 10billion and 7 B of them have been done). One of them is for working capital, and the other is for green industry. Both of them are aimed to provide access to finance for companies. SME Bank participates the system as one of the financial institutions.
- As impact to SME Bank, there are some cases of delay in payment, and those cases are slightly increasing.

2. Profile of SME Bank

- The number of clients (SME) is about 3,000. SME Bank composes only 3% of the share for the total lending to SME.
- SME Bank has 19 branches now, hoping to extend its branch network in the next 2~3 years.
- SME Bank is strong in Tourism and tourism related industry. It composes 27%⁷ or 1.2B. The target sector is stated in the 5 year direction plan with is under the supervision of the government. Public transportation is target since 2000 and tourism is since 2002 or 2003.
- SME Bank has more than 25 funds, each specified to certain sector. SME will know what fund they will get upon loan agreement.
- There are mainly 2 sources of funds for SME Bank. One is deposits from government agencies (regarded as funds for short term). The other is loan (funds for long term). There are loans from JICA (the former JBIC), Ministry of Finance, Bank Negara and EPF⁸.
- For legislative matter, it is possible for SME Bank to issue bonds. However, it has not obtained credit rating and permission from MOF.
- SME Bank is expected to be self funding organization in the future, but since it is young as institution it has no capacity⁹ at present.
- SME Bank is not restricted strictly. They may decide their business plan by themselves including which sector to finance and how much. By 2015, the bank is aiming to be a full-service development bank. In order to fulfill the plan, it must obtain approval from Bank Negara.

⁷ Of what wasn't clear in the discussion.

⁸ Employee Provident Fund which is a compulsory pension scheme for all employees in Malaysia.

⁹ What kind of capacity was not clear in the discussion, but later the discussions with BNM revealed the human resource is under developed in SME Bank.

- Although SME Bank differentiated itself from other development financial institutions by sector to finance, the lines between those institutions become vague now. Many institutions have expanded their targets.
- Other banks are Agro Bank (used to be a bank financing agriculture sector but now it extends to retail clients), Bank Rakyat (kind of cooperative institution, now strong in consumer loans), Bank Simpanan Nasional(savings bank offers micro credit. It has very big network of branches, around 300) and Bank Pembangunan (high invest in infrastructure, high-tech).
- For JICA's loan, Ministry of Finance (MOF) provides the government guarantee and for principles and the exchange rate.
- The interest rate of EPF is similar to that of the government bond.
- There are criteria related to Bumiputra policy for the JICA's loan. SME Bank reports all sub-loan projects to JICA Malaysia office. (*When it was under former JBIC, they examine each loan application with the form of task force.)

3. Procedure for The Study

- The SME list sent to NRI is composed of outstanding companies of JICA (former JBIC) loan.
- As requested by NRI, the SME Bank will add the following data to the list (company size, sector/ industry, location by state, telephone number and the name of the person in charge) and send to NRI by the end of this week.
- SME Bank will issue a letter to inform the clients on telephone survey by NRI.
- SME Bank will arrange the interview that will be conducted during the 2nd mission.
- Other agencies that should be contacted are Bank Negara, SME Corp and Ministry of Finance. SME Bank will arrange the appointment with MOF.
- The contact person regarding this study is Mr. Abdul Halim Bin Abdullah and Ms. Aziah bi Hassan.

1.2. Bank Negara Malaysia

Date & Time: Nov 17, 2009. 14:30~16:00

Place: Head office of Bank Negara Malaysia, KL, Malaysia

Participants:

Bank Negara

Mr. Kamari Zaman Juhari (Director, Development Finance and Enterprise Department)

Mr. Thomas Koon Peng, TAN (Deputy Director, Development Finance and Enterprise Department)

Ms. Liza Mohamed Noor (Manager, Development Finance and Enterprise Department)

NRI: Yamagata, Ogimoto, Kawano

1. Profile of Bank Negara Malaysia

- Bank Negara Malaysia is young organization as the central bank compared to other countries. It was established in 1959, 2 years after the independence.
- BNM is to supervise development financial institutions (DFIs). The role (regulate and monitor DFIs) is defined by the law. BNM monitors loan operations and corporate governance of financial institutions. Also it drafts guidelines considering the needs of banks.
- There is a team of examiners especially looking DFIs. There are some differences in regulation of DFIs and commercial banks, such as DFIs should fulfill Basel I whereas commercial banks is to Basel II (*DFIs are required to comply by the end of 2010). However, the credit framework is the same with commercial banks and DFIs. The team uses risk based framework that looks at risk as based on business activity of the company.

2. Role and Characteristics of SME Bank and other DFIs

- The role of SME Bank is to provide finance to all SMEs in various sectors whereas other development banks has specific sector to support (such as agriculture sector for Agro Bank).
- There is quite wide range of financial support provided by SME Bank. It has products for franchise business, start-ups (definition varies from banks but

- usually means 6 months to 1 year after the establishment), or guarantee.
- SMEs in Malaysia are supported by many banks, including SME Bank. SME Bank is development a financial bank and has deferent class of customer. It is assumed that SMEs have difficulties in getting loans from commercial bank go to SME Bank (*difficulties are related to lack of collateral, available type of products does not match the needs of SME). Although it is up to SMEs to choose which bank to go for getting loans, usually SME Bank is where SMEs go after commercial banks.
 - As a total SME accounts in development financial institution, there are 620,000 accounts. As number of SME Bank's clients, BNM has a document showing that it has 8,887 loan accounts in September 2009 (*some SMEs may have more than 1 accoutns).
 - SME Bank is to report Ministry of International Trade (It used to be under Ministry of Entrepreneur and Co-operative Development, which does not exist at present).
 - Even though it is a development financial institution, SME Bank has to conduct credit scoring and try to observe the minimum standard upon lending.
 - It is possible for DFIs to issue bonds. Actually, EXIM and Bank of Penganan have issued bonds.
 - SME Bank will welcome JICA's loan since they are not allowed to collect deposit from retail (*among DFIs Savings Bank, Corporative Bank and Agricultural Bank may collect deposit).
 - Corporative bank is more specialized in smaller loan (personal loan 90%, commercial loan 10%. Commercial loan may reach to 20% in the future), so SME Bank should focus on small to medium enterprises and not going into micro finance.
 - BNM is to draw the roadmap for the development of DFIs, including the wider ways of finance such as bonds. For obstacles of the development, 1) hire good talents, 2) improve process or productivity, and 3) decrease non-performing loan. In order to solve these problems, credit management should be solved and good IT system should be introduced.

3. Financial Schemes for SMEs

- There are two types of funds, social lending and loan. Social lending is to take out from the book of the bank. The government provides grant for banks so that banks can provide social lending to borrowers (*banks may negotiate with the government to provide loan to them when they want to offer more finance).
- For loans that the government wants to provide, there would be government guarantee (80% of the loan is to be guaranteed by the government). In this case, there is no fee charged to the borrower.
- Soft loan is similar to social lending. Funds for SMEs are provided in 4~6% interest rate, not at market rate. Interest rate is lower for social lending because MOF decides each fund specified to certain sector.
- Usually most schemes are available at commercial banks and only some of them are limited to SME Bank.
- In order to use the government guarantee system, bank makes assessment and follows application to CDC.
- Average loan size of SME Bank under CDC scheme is RM 20,000 (*micro finance is something of 10,000~12,000).
- There is fund of RM 7B for working capital (set in Feb 09) and 1.2B has been utilized. 80% of the fund was provided through another vehicle, PROKHAS.

4. Views on the impact of financial crisis

- For the economic condition, 1997 was worse than the current economic crisis. In 1997, even the banks were to be rescued but for now banks are more prepared.
- Export driven SMEs are affected whereas domestic SMEs are OK.
- For the schemes made to address the economic crisis, BNM is now reviewing the schemes in order to decide whether they should continue or not.
- It is true that SMEs need help since they are just recovering from the economic crisis. GDP is -6% because of the slow down in export but expected to turn positive at the end of this year.
- SMEs would say they are in difficult situation because demand for services and products is slowing down.
- For the financial support addressed to financial crisis, chapter 7 of the SME Annual Report would be helpful.

- SME Corp has conducted 3 studies on impact of the economic crisis and 2 of them has been made public.

1.3. SME Corporation

Date & Time: Nov 18, 2009. 11:00~12:00

Place: Head office of SME Corporation, KL, Malaysia

Participants:

SME Corporation

Mr. Razali Bin Hashim (Deputy Director, Financing and Monitoring Division)

Ms. Kamsuzilawati Binty Kamin (Senior Manager, Corporate Management Division)

NRI: Yamagata, Ogimoto, Kawano

1. Profile of SME Corp

- SME Corp is to assist SMEs in reducing the cost or developing new products. It has financial assistance as grant of RM 335M, and RM 270M for soft loan which can be provided for 2% interest rate.
- Financing and Monitoring Division is for financial assistance for SMEs (assistance is provided by grant, which allocation is given by the government). Finance Management and Account Division acts as financial controller and decides the allocation of funds in SME Corp.
- Corporate Management Division is for management of SME Corp such as human resource. Ms. Kamsuzilawati is in charge of JICA's TA project.
- As the whole budget, more than 2 billion is provided from the government. SME Corp composes about 10% of it (325M for grant and 270M for soft loan).
- SME Corp acts as secretariat of National SME Development Council which is chaired by Prime Minister. The council is the top decision maker of SMEs and SME Corp is the implementer of any single policy.
- Since micro entrepreneurs were ignored, special section was set up (under Program Coordination Division, there is Micro Enterprise and Women section).

2. Financial Assistance to SMEs

- Financial support for SMEs is to ensure cash flow moves smoothly. SMEs would say they don't need but want money.
- SMEs try to expand their business in moderate way, not rapidly.
- For automotive sector, there is soft loan for automotive modernization. The maximum size of the loan is 10M but SMEs may apply for several project. There are criteria that SMEs need to show reduction in foreign labor (factory workers) through modernization. In automotive sector, there are workers from Bangladesh, Myanmar and Nepal (cf: for construction sector, Indonesian compose the majority). The government wants to reduce the number of foreign workers. MITI aggressively pushes this soft loan because they try to develop the economy by boost of automotive sector.
- SMEs are main driver of economy. In the 10th Malaysia plan that would be open to the public at the end of this year, raising the capability of SME would be important topic. Malaysia wants to become a producer of niche products, and for this purpose investment is to undertaken. If JICA supports these activities, it would be helpful.
- There is a fund named MIDF (Malaysian Industrial Development Finance). Mr. Razali is one of the committee members. For year 2009, RM 270M was given to MIDF. MIDF provides the lowest interest rate of 2% (cf: SME Bank is 4%). The average size of loan is RM 20,000~30,000.
- MIDF is worth Studying to understand the situation of Malaysian SME finance. SME Corp is close to MIDF which was established in 1970s and used to be a government agency (It turned to be corporation in 1990s).
- Allocation of fund comes from the government. It is based on the 5 year Malaysia Plan that states which sector to focus. Money goes from METI to SME Corp and SME Corp to MIDF.
- MIDF operates as private sector as well. It has own investing arm.
- SME Corp would be happy to introduce NRI to MIDF.
- For survey reviewing the impact of financial crisis are 1)survey done by Federation of Malaysian Manufacturers, 2)SME Annual Report 2008.
- One of the SME Corp's missions is to rationalize all the available funds by

targeting. Also it is expected that they should evaluate the impact and what should be the next focus. By the process of rationalization, the handbook of the program would be thinner than now. Since the 10th Malaysian Plan will start from January 2011, SME Corp hopes to finish the rationalization process by the middle of 2010.

1.4. Ministry of Finance

Date & Time: Nov 17, 2009. 14:30~16:00

Place: MOF HQ, Putrajaya., Malaysia

Participants:

MOF: Mr. Maliami Hamad, Loans Management

NRI: Yamagata

1. On the 2 step loan

- We have not heard anything about this plan for a 2 step loan. Therefore, we cannot say anything official about it
- Malaysia is not overly indebted. MOF does have a ceiling for foreign borrowing, but at present, Malaysia is way below that level. There would be no problem in receiving Yen loans.
- Currently, the only remaining foreign aids are from Japan and Australia (?)

2. SME Assistance

- Having said that, there's nothing inherently wrong about assistance to SMEs. SME is an important sector for Malaysia.

1.5. Bank Negara Malaysia

Date & Time: Dec 15, 2009. 15:00~15:30

Place: Head office of Bank Negara Malaysia, KL, Malaysia

Participants:

Bank Negara

Mr. Thomas Koon Peng, TAN (Deputy Director, Development Finance and Enterprise Department)

Ms. Liza Mohamed Noor (Manager, Development Finance and Enterprise Department)

NRI: Ogimoto

1. On SME Bank

- SME Bank has clear “Mandated Roles” to “provide financing and advisory services to SMEs”. (A sheet of copy of BNM internal material was passed, which shows a table of the DFIs’ Mandated Roles.)
- Especially SME Bank is encouraged to provide loans to start ups which do not have business records, credit history nor collaterals. Also women enterprises and franchises are encouraged among others.
- Bank Simpanan focuses on micro-business while Bank Rakyat mainly provide services to its members.
- BNM wishes SME Bank to explore and diversify its funding sources. As of now, SME Bank can gather deposits only from GLC, for example. JICA loan would be one of alternative funding sources.

(ア) Malaysian Industrial Development Finance (MIDF)

Date & Time: Dec 16, 2009. 15:00~16:30

Place: Head office of MIDF, KL, Malaysia

Participants:

MIDF

Mr. Johnson Rudd (Assistant Vice President & Head, Sales, Development Finance Division)

Ms. Faizah Hanim Mustafa Albakri (Assistant Vice President & Head, Group Risk Management Division)

JICA: Mr. Nagamine

NRI: Yamagata, Ogimoto, Kawano

1. Profile of MIDF

- MIDF is composed of several divisions such as investment banking, development finance and asset management.
- Among DFIs, Agro Bank is specialized in agriculture sector, and SME is for bumiputra policy. MIDF was established in 1960s. As economy grows and tries to shift from plantation to manufacturing and related services, MIDF provided finance. Since the focus of the government has moved to service sector, MIDF has special fund for the sector while continuing finance to manufacturer.
- Although MIDF was once listed in 1992, it was delisted in 2005 (because of the crisis in 1997, there was merger among banks. MIDF was merged to AMANA group in 2003. Since the market price was too low, the company decided to become private again.)
- There is about 800 staff in MIDF group, 110 in development finance and 25 in asset management.
- Development finance division has 4 sales team in the head office and 5 regional teams in Penang, Johor Bharu, Kota Bharu, Sabah and Sarawak.
- Total amount of loan is RM 600Billion. 95% of the client account is SMEs.
 - The fund from MITI (Ministry of International Trade and Industry) is for SMEs. Business sector of client SMEs differs and there is no special sector.
- The business is fine as a whole, and the only problem is repayment of scheme funds.

- MIDF has raised the penalty rate so that the repayment will not relay because of relatively low interest rate. Staff in charge is told to contact their clients at least once a month.

- MIDF cannot take deposits (except for “security deposit” that MIDF takes term deposit when they finance working capital). MIDF get funding from the government and does not borrow from other banks.
- Although MIDF is not under Bank Negara Malaysia, it is necessary to report monthly and annually.

2. SME Interview

2.1. Zasoleis SDN BHD

Date & Time: Dec 15, 2009. 10:00~10:50

Place: KL, Malaysia

Participants:

Adamson Hotel KL: Mr.Ariffin Bin Abdul Aziz (General Manager)

SME Bank

Mr. Mohd Azizan Roslam (Assistant Manager, Unit II)

Mr. Lokman bin Ahmad (Assistant Manager, Head, Unit I)

NRI: Yamagata, Ogimoto, Kawano

4. Profile of the company

- The company runs a budget hotel which has 13F (B1F~12F) with 110 rooms.
 - The hotel was used to own and run by police corporative. The new owner got the building and conducted innovation (redesign health center to a ball room for 200 person and 3 small meeting rooms).
 - There are 6types of room varies from economy to Family (Economy, Standard@ RM108, Standard Triple@ RM138, Superior@ RM138, Deluxe@ RM178, Family@ RM228)
- The hotel is composed of various departments such as Human Resource, Accounting, House Keeping, Food & Beverage etc.
- On average, the ratio of staff to room is 1.5staff/room, but this office is 0.4~0.5staff/room.
 - In addition to regular staff, the hotel has particular training staff from Indonesia (trainee changes every 6monthes).
- Since the hotel offers government packages of room & meals, 60~65% of the customers come from the government related background.
- There are many Three-Star hotels and they are mainly for the local company.
 - High season is from March to October.

- The owner of this hotel was used to be an engineer who found potential in running budget hotel. He plans to have 2 more budget hotels within the next 2 years.
- The average working rate of he budget hotels in KL is 70~80%.
 - Since there is no monsoon or natural disaster in KL, hotels are constantly operating (cf. hotels in resort operate for 9monthes because of monsoon)..

5. Business condition and loan from SME Bank

- Budget hotels are not affected by the economic crisis. Compared to Four-Star of Five-Star hotels, budget hotels are competitive enough because of they are cost-effective.
 - If Five-star hotels try to reduce their room rates at the budget level, it would be tough situation. But, since the operation cost of Five-star hotel is high, it would be very difficult for them to have dramatic rate discount. In addition, the international group standard may not allow independent promotion.
- The hotel uses the loan from SME Bank for replacement of furniture and renovation.
 - Since the former owner moved with all the furniture, the hotel was totally empty.
- The loan was RM16M (RM 5M from JBIC fund). The Bank mixed the fund in order to provide competitive rate. The interest rate was 5~6% and the tenure is 12years. The building is set as collateral.
- 3budget hotels under the owner are making C/F, so there is no need for additional borrowing.
 - It seems that budget hotels in general are in good situation.

2.2. Ramly Food Processing SDN BHD

Date & Time: Dec 15, 2009. 11:30~12:20

Place: KL, Malaysia

Participants:

Ramly Food

Mr. Mohamad Fuad Bin Abd Rashid (Plant Manager)

Ms. Norhayati Binty Mahyuddin (Account Manager)

Mr. Ibrahim Bin Hajisin (Mechanical & Electrical Engineer)

SME Bank

Mr. Mohd Azizan Roslam (Assistant Manager, Unit II)

NRI: Yamagata, Ogimoto, Kawano

1. Profile of the company

- The company started operation in Malaysia more than 25 years ago. It mainly produces pate for burgers as frozen products.
 - The company moved to the current plant in 2000. The factory can produce 1M pieces/day (production hour is from 10am to 8pm and sanitation hour is from 7am to 10 am).
 - The factory produces pate made from chicken, beef and seafood (prawn and fish). Beside pate, it produces add products such as chicken nugget.
- The annual turnover is RM130M. There are 250 employees (of which 150~170 works in production).
 - They are trying to minimize labor and using machine made in Japan. If possible, they want to learn superior technique from Japan.
 - For food safety, it is better to have less human touch for the products.
- More than 50% of raw materials are imported (since meat has to be HARAL, they need to stabilize the supply by diversification of production area. The payment is case based.
- There are 70agents to whom the products are sent. Most products go to local supermarkets or burger stands. Only 1% of the total production goes to Singapore (seafood products).
 - For agents, it is 7-day cash payment.

2. Business condition and loan from SME Bank

- The company is not affected by the economic crisis since the food business maintains demand (people need to eat regardless of economic crisis). Moreover, the company experiences increase in sales when recession. People may switch from more expensive food to Ramly's food.
 - Therefore, the company has been struggling with the demand (with the expansion and opening of new factory in July 2009, they thought it would be fine for 2~ 3 years, but the capacity is already not enough because of rising demand).
- The company was planning to start export, but they cannot meet local demand yet.
- The company has RM50 M loan from SME Bank (of 25M is not disbursed yet). They use cash in hand and loan in 50:50.

The latest loan from SME Bank would be RM25M (not disbursed yet. The company submitted application in Oct and the bank accepted in early Dec). This loan is for general working capital. The interest rate would be 3.5~5.5% and the building would be collateral.
- The company used loan for machinery. There is no problem with bank including commercial banks (only has credit lines).
- The company will focus on burgers, what they do well at present.
- 2years ago they bought land near port. They plan to have a project site there which produces sauce and bread for burgers.

2.3. Mascellent Resources SDN BHD

Date & Time: Dec 15, 2009. 14:00~15:00

Place: KL, Malaysia

Participants:

Mascellent Resources

Mr. Suhaidin Bin Sulaiman (Chief Executive Officer)

Mr. Victor Leong (Marketing Director)

SME Bank

Mr. Mohd Azizan Roslam (Assistant Manager, Unit II)

NRI: Yamagata, Kawano

1. Profile of the company

- The company produces various kinds of instant coffee.
 - Originally, it was more in trading but transferred to manufacturing because there was problem in quality control of packing.
 - The company was established in 2005.
- There are 5 employee and 10 contract workers.
 - The demand for coffee is stable in general except for the holiday season.
- Annual turnover is RM1.4M as of 2008. For 2009, there was decrease in the first 6months but in the second 6months there is increase in sales.
- The company buys instant coffee (50:50 for imported and exported), sugar and creamer (both from local) and mixed them based on the original recipe.
- There are both original brand “Mascafe (mas means gold in Malay) and OEM products.
 - For original brand, they have functioning coffee such as premixed (3-in-1) and health products (coffee with Ginseng etc).
 - The company has OEM brand for hyper brands such as TESCO and Carrefour. In case of TESCO, they were providing the original brand at first. TESCO talked to Mascellent Resources by admitting the sales of the original brand. By emphasizing the quality of products, the company succeeded in the OEM. TESCO OEM products are distributed not only in Malaysia but also in UK and EU.
- For marketing, the company put importance on e-marketing since it wants to go

global (on Google, the company will appear first when searched as “Coffee, Manufacturer”).

2. Business condition and loan from SME Bank

- Since it is a small company, there is no effect of economic crisis.
- In order to cost reduction and space utilization, they will use multiline machine.
- Although the company has an opportunity to have business with new client in Trinidad Tobago, they cannot start to export because of short of fund.
- As a result of direct marketing, the company got orders from Spain and Holland. However, they cannot start providing because of low capacity (lack of fund to add production capacity).
- The company plans to have RTD (Ready To Drink) products. By using the existing client network, they intend to develop more products (canned juice and coffee). For this plan, the company needs fund for new machine and inventory.
- The company got RM750, 000 from SME Bank (of 450,000 is for working capital) it uses the loan for machinery, raw material and working capital. At present, they need additional facility and fund to expand their business.

2.4. Jant Marketing SDN BHD

Date & Time: Dec 15, 2009. 16:10~17:30

Place: KL, Malaysia

Participants:

Jant Marketing

Mr. Vincent Yee (Business Advisor)

Mr. Yee (*son of Mr. V. Yee)

SME Bank

Mr. Mohd Azizan Roslam (Assistant Manager, Unit II)

NRI: Yamagata, Kawano

1. Profile of the company

- The company was established in 1999 and produces big bottled (contains 5 gallons) and cup drinking water.
 - The company is the market leader for the big bottled water.
- There are 150 employees (15 for telephone sales of big bottle, 6 for sales of cup) and annual turnover is RM 20M.
- There are 3,000 clients for the big bottled water, mainly in neighbor states (will extend to other states when they start providing pet bottled water).
- Cups are not sold directly to wholesale. It is designed for services to customers in shops such as eyeglass shops, mobile phone shops, and banks. The attached straw is something different from competitors products (for this uniqueness, they can charge 20% plus compared to competitors).
 - They have just started export to Singapore.
- By having requests from clients, the company is now developing light pet bottled water.
 - The bottle would be lighter than ordinary.
 -
- Since water production is simple business, service is considered important. This was the reason why the company developed its own CRM system.
- With the CRM system, telephone operators can record and manage their contacts with clients (they can work at home since they can log-in to the system via the Internet). Moreover, the management also review the status so that they can know what is going on in detail. The system contains information of 10,000

clients.

- The system is in-house, have been renovated repeatedly for 7 years. With this system telephone sales person can send SMS or FAX from computers.

2. Business condition and loan from SME Bank

- The company was not affected by the financial crisis since food and beverage industry is ok.
 - A few client companies were shut down, but their sales did not decrease because they could get new clients.
- The company got loan from SME Bank for machinery. Now they have factory of 14,000m² and will have new factory of 40,000m² (starting production from March 2010).

2.5. Musa & Rahman Plastic Industries SDN BHD

Date & Time: Dec 16, 2009. 10:20~11:30

Place: KL, Malaysia

Participants:

Musa & Rahman

Mr. Haji Ruzlan B. Haji Rahmat (Managing Director)

Mr. Cheng Peck Chin (General Manager Sales & Marketing)

Ms. Tan Suan Gim (Finance & Administration Manager)

SME Bank

Mr. Mat Nawi Mat Ghani (Assistant Manager, Unit I)

NRI: Yamagata, Ogimoto, Kawano

1. Profile of the company

- The company was established in 1995 and mainly produces polyethylene pipes for manufacturing plant.
- There are 40 employees and the annual turnover is RM3 M.
- It produces 6,000metric ton per year (the maximum capacity is 7,200metric ton).
- Many of the projects are related to the government.
- The company was under different owner by 2008 and had been refinanced.

2. Business condition and loan from SME Bank

- The company is surviving from the economic crisis with the help of SME Bank.
- There is contract financing such as financing for GLC (Government Leading Company) related projects. In this case, the interest rate is preferable since the payment is secure. Also there is working capital financing.
- For government related project (contract financing) they utilize facility by fund of SME Bank.
- Now they get raw material only from local market (PETRONAS), but they will have access to Thailand and Korea markets from January 2010 since the duty will be changed.
 - 80% of the operating cost is raw material that should be paid by cash

within 60days (payment from clients takes 90days).

- The company would be able to export pipes if they have enough funds.
 - Currently they are working on MOU with a company in northern Sumatra (it would be RM20 M contract).

- Under the former owner the company was not growth oriented and did not need finance. But since the change of management, it put priority on SME Bank.

- The company has RM5.5 M loan from SME Bank (originally it was RM11 M) as the sum of several loans.
 - SME Bank initiates the growth at the first stage. They provide loan for facility at first, then working capital.
 - Whenever the company has new loan, it has to register the collateral. Therefore, if it wants to refinance it would need a lot of documentation.

- To move forward the company needs working capital. It is easier to work with assisting bank (SME Bank) than other commercial banks.
 - Now it is working under 60% of its capacity.

2.6. Innovasi Anggerik SDN BHD

Date & Time: Dec 16, 2009. 12:40~13:10

Place: KL, Malaysia

Participants:

Innovasi

Mr. Salimee Bin Mat (Technical Director)

SME Bank

Mr. Mat Nawi Mat Ghani (Assistant Manager, Unit I)

NRI: Yamagata, Ogimoto, Kawano

1. Profile of the company

- The company was established in 1996. It produces parts for oil & gas industry and doing fabrication for food processing business.
 - It also produces parts for automobile repair.
- It has 14 employees and 6 trainees, moved to new factory in 2008.
- Annual sales are RM1 M in 2008. For 2009, it will go down.

- For oil & gas industry, the final user is PETRONAS even though they do not supply directly.
- Clients are in KL, Penang and Johor Bahru.
 - The company is negotiating with foreign costumers.
- Raw materials are from local suppliers.
 - Some clients provide raw materials in order to standardize the quality.

- There strength is in the flexibility of making various types of parts with big and advanced machines. As a Malay company, it is the best among the neighbor companies.
 - The products are usually arranged by request of the client.

2. Business condition and loan from SME Bank

- The company is operating under full capacity and now they do not intend to get additional funds in the near future.
 - But in the future, they want to have a big factory by combining the old and

new ones.

- The company got RM1.4 M loan from SME Bank and bought second-handed machine.
 - Aside from the loan, they got machines in valued price from collapsed company.
 - It was their first time to have finance from Bank (they contacted other banks but in order to get bigger loan for growth, SME Bank was the best). They come to know about SME Bank though advertisement and talk with friends.

2.7. D-Multiserve SDN BHD

Date & Time: Dec 17, 2009. 10:10~11:00

Place: JB, Malaysia

Participants:

D-Multiserve

Mr. Mohamad Sallehuddin Bin Jaffar (Managing Director)

SME Bank

Mr. Mohd Helmi Bin Mukhtar (Assistant Manager, Credit Administration)

NRI: Yamagata, Ogimoto, Kawano

1. Profile of the company

- The company operates land tracking service from Thailand to Singapore via Malaysia.
 - 5 (2 Thai, 3 Malay) out of 8 companies are active in this industry.
 - One of the Thai companies is under Ministry of Agriculture in Thailand.
- The company operates its business since 2003. There are 50 staffs including drivers and 22 trucks.
 - The manager was in logistic company for 15 years and became independent. Multiserve means that the company can provide not only land transportation but also air or sea transportation through partners.
 - It needs to keep the number of drivers since 2 drivers work together for the same assignment (it takes 3days to make a round trip).
- The annual turnover is RM1 M and to be RM1.5 M in the near future.
- Ministry of Agriculture in Thailand is eager to activate the transportation of vegetable, fruits and seafood.
 - A partner company has contract with the ministry and established a warehouse in Thailand.
- From Feb 2010, the company will start transportation from Kunming China. It will take 5 days to Singapore via Lao (cf. 14days by sea)
 - In order to secure competitiveness in vegetable price and quality, it is necessary to have wide access to production area (there was price war caused by Kunming product, so the company got new partner who has access to Kunming market).
 - Now they are under documentation for related parties in Lao and China.

Also, there are works to be done for insurance.

2. Business condition and loan from SME Bank

- Operation cost is high since it needs to pay for fuel, maintenance fee and human resources.
- Although the company experienced slow down in 2008, it was not affected seriously by the economic crisis since it is a consumer product.
- By five-year loan from SME Bank, the company got 4 new trucks. The loan was disbursed in 2006.
 - The first facility was got by RM1 M lease from Orix in 2003. In 2006, the company got RM1.5 M loan from SME Bank, and some from Maybank in the same year.
 - It is usual to show at least 3 years of business result in order to get facility loan in Malaysia.

2.8. Citra Line SDN BHD

Date & Time: Dec 17, 2009. 11:30~12:10

Place: JB, Malaysia

Participants:

Citra Line

Mr. Mohd Kamal Mohd Yunus (*President*)

Mr. Mohd Farid Mohd Yunus

Mr. Azhari Mohod Amin

Mr. Mohod Faiez Mohd Yunus

SME Bank

Mr. Mohd Helmi Bin Mukhtar (Assistant Manager, Credit Administration)

NRI: Yamagata, Ogimoto, Kawano

1. Profile of the company

- The company is a ferry operator that has 4 ferries operating 7 days a week.
 - The destination is Batam and Pinang in Indonesia.
 - They carry Indonesian workers and Malaysian / foreign tourists.
- It was established 12 years ago, started from zero and developed step by step.
- The company is a family business having 10 staffs in JB, 20 in Batam and 50 crews.
- Because of stability and comfort of ferry, the company has competitiveness over 3 other competitors.

2. Business condition and loan from SME Bank

- There are certain damages from the economic crisis. The company faces decrease in number of passenger, especially Indonesian workers who have to pay certain fee to the government when working abroad.
 - In 2007, the total number of passenger was 180,000 but it became 140,000 in 2008. In 2009, it is expected to be 130,000~140,000.
 - Before the economic crisis there was 25~30% increase of passengers.
- The cost of fuel is another problem. It corresponds to 50% of the income.
 - PETRONAS provides twice as the market price. The price is based on

international rate since the business is considered as “international”. However, products from Indonesia has problem in quality so that cannot be a choice.

- In order to reduce the cost, the company has research project with KL University focusing on development of CNG. The government gave grant of RM3 M for this research.
- The last loan from SME Bank was in 2008. the company used it to buy new engine and do some renovation. Vessels are set as collateral.
 - The company got 2 new vessels in 2006 & 2007 by using cash in hand.
- SME Bank advised how to manage the C/F and procurement.

2.9. Dragon Pak SDN BHD

Date & Time: Dec 17, 2009. 14:30~16:00

Place: JB, Malaysia

Participants:

Dragon Pak

Mr. Jim Ong (Managing Director)

SME Bank

Mr. Mohd Helmi Bin Mukhtar (Assistant Manager, Credit Administration)

NRI: Yamagata, Ogimoto, Kawano

1. Profile of the company

- The company was established in 1991. It manufactures carbon bags, garbage bags, and plastic microwave containers.
- 90% of the products is exported to Europe, Australia and Middle East.
- There are 70 workers and the annual turnover is RM30 M.

2. Business condition and loan from SME Bank

- The company was not affected by financial crisis because grocery cannot stop.
- They have competitiveness for the following reasons.
 - Cheaper cost to produce (cheaper electricity)
 - Direct purchase of raw material from PETRONUS not via agent
 - Efficiency of transportation
- With the decrease in bag usage of ordinary plastic bag, the company sought new business such as disposal plastic solution (a special bag that will disappear by heat and O₂) since 2003. In 2005, they succeeded in production.
- The company got 2 loans from SME Bank. The first was RM5 M and the second was RM2.5 M.
 - The bank often visits them and tries to understand what the problem is.
- The company has business with Standard Chartered Bank, RCBC, and CIMB.
 - When they need LC, they have to talk to SME Bank and ask other commercial bank to work for it.

- Interest rate of SME Bank is lower than that of commercial bank.

2.10. Superpak Manufacturing SDN BHD

Date & Time: Dec 17, 2009. 16:30~17:00

Place: JB, Malaysia

Participants:

Superpak

Mr. Michael Yap K. M (General Manager)

Ms. Tay Siok Guek (SR. Accounts Executive)

SME Bank

Mr. Mohd Helmi Bin Mukhtar (Assistant Manager, Credit Administration)

NRI: Yamagata, Ogimoto, Kawano

1. Profile of the company

- The company was established in 1989. It is a carton box manufacturer.
 - Clients are E&D (including Japanese companies) and food & beverage sector companies.
 - Big boxes for E&D compose 70% and smaller boxes for F&B composes 30%.
- There are 90 workers and the annual turnover is RM12 M (about the half of before the crisis).
- For raw materials, it is paid by cash (payment is done through bank 60~90days later). Collection from clients is 60days later.
- In JB, there are 12 competitors (used to be 14 but 2 were sold).
 - The competitiveness depends on the relationship with customers.

2. Business condition and loan from SME Bank

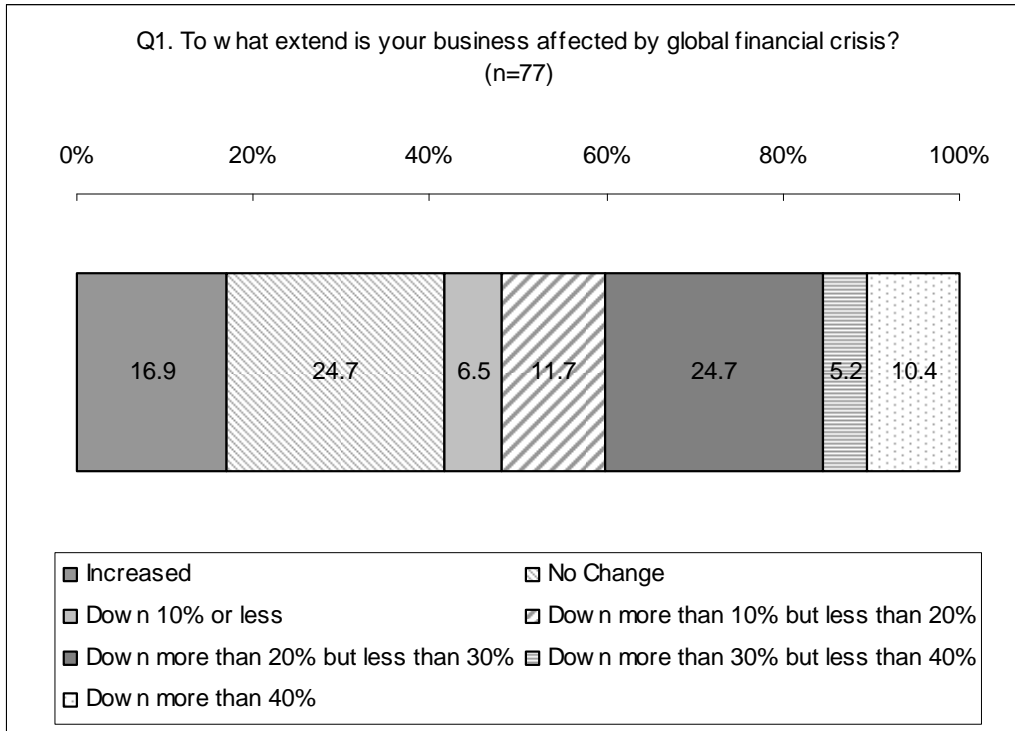
- Because of the economic crisis, raw material price went up. They down sized the company. Since a few months ago, there is a sign of recovery.
- If there are more raw materials, the company would be able to use the full capacity.
 - In order to import cheap raw material, the company needs capital. They are applying for loan now.
- It is expected that it would be a better situation for the next year according to the forecast given by customers.

- The company got RM2.7 M from SME Bank (1.2 for asset and 1.5 for raw material) in 2008. Since the company has started the operation in the new factor, the bank supported them to start-up.
 - Machinery is set for collateral even for loans for raw material.

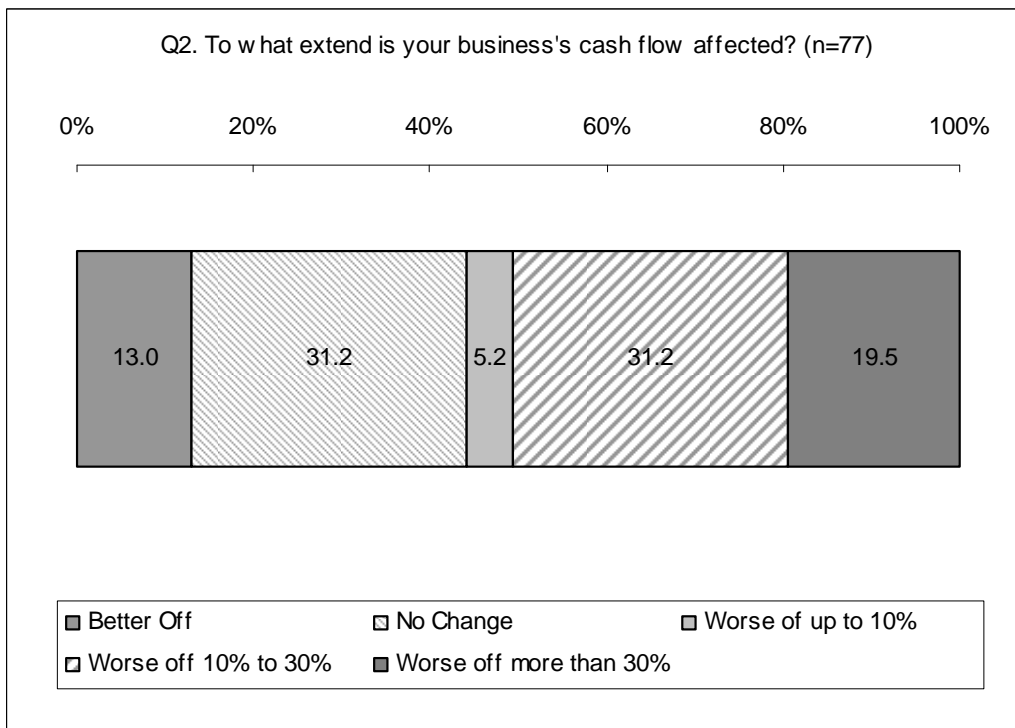
Appendix2: Telephone Survey results

Result Summary

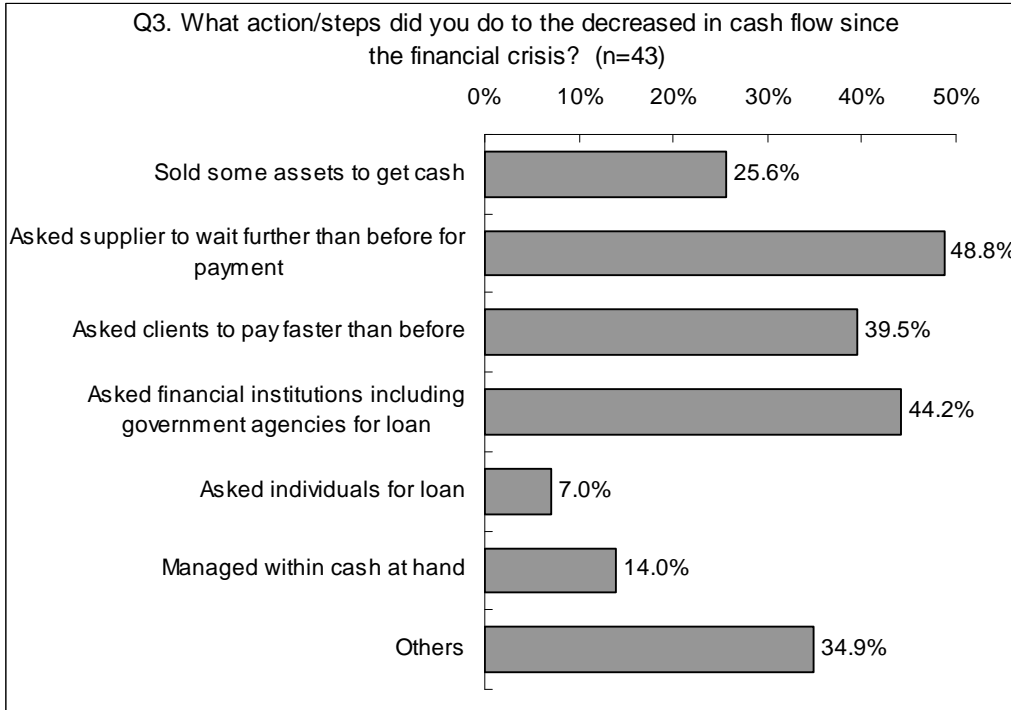
Question 1: Impact of financial crisis to business



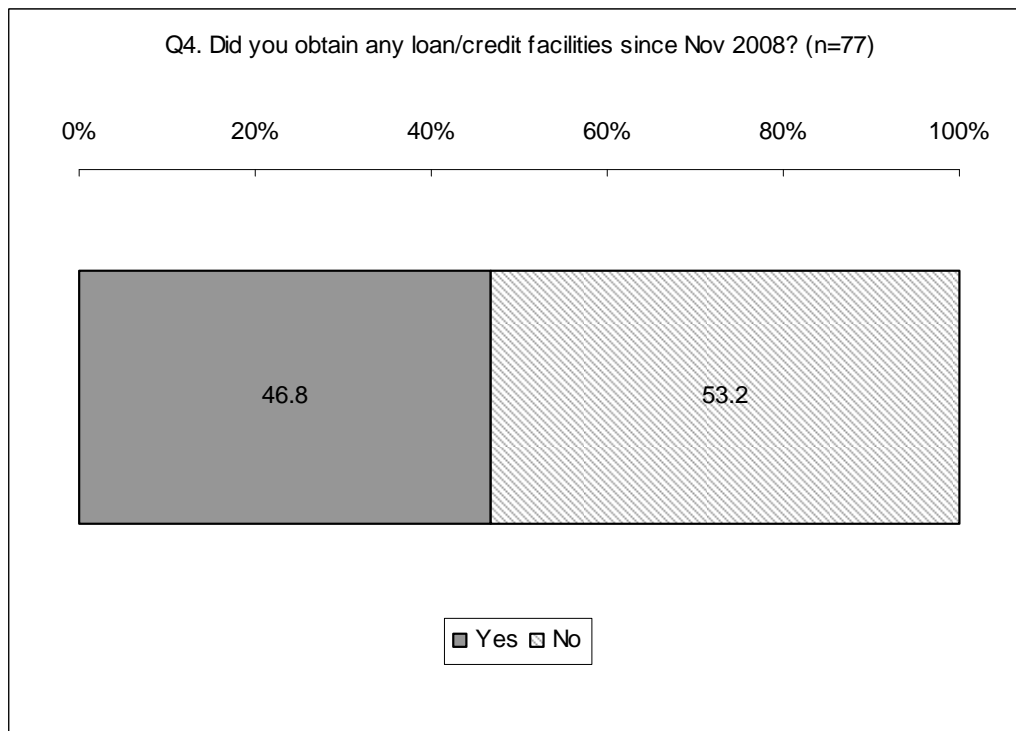
Question 2: Impact of financial crisis to business cash flow



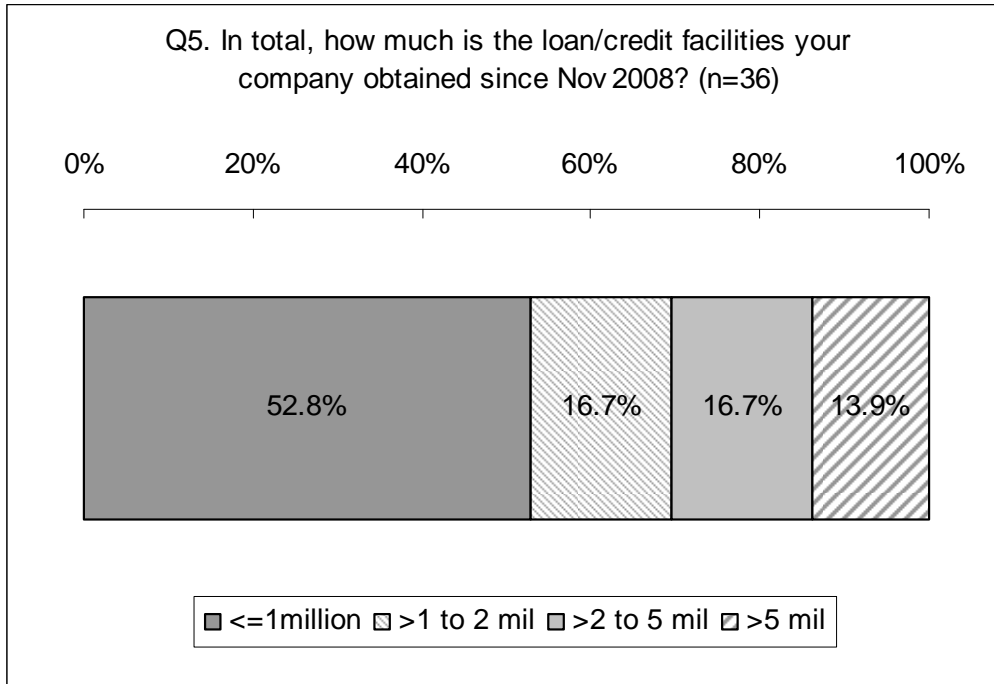
Question 3: Actions/Steps done for decreased cash flow



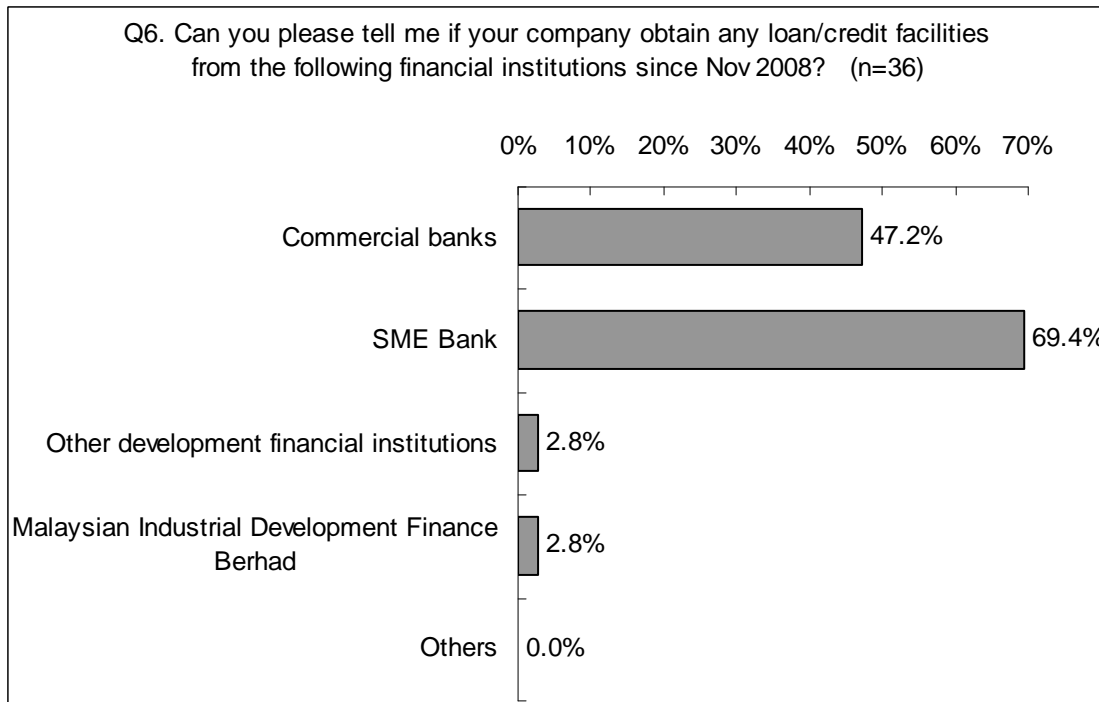
Question 4: Fundraising since November 2008



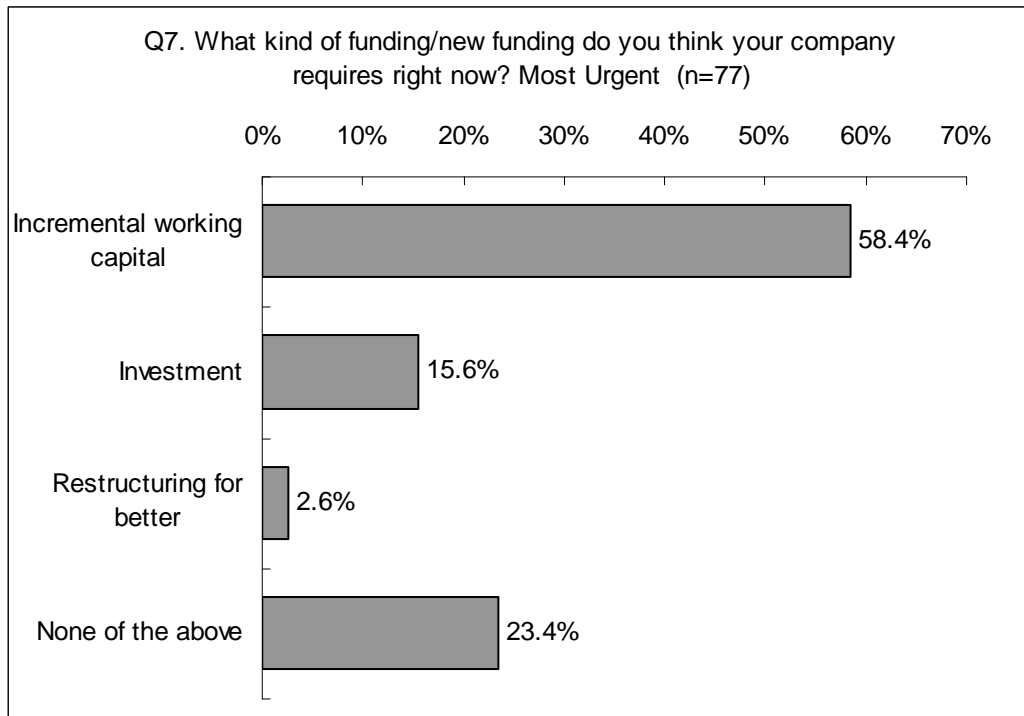
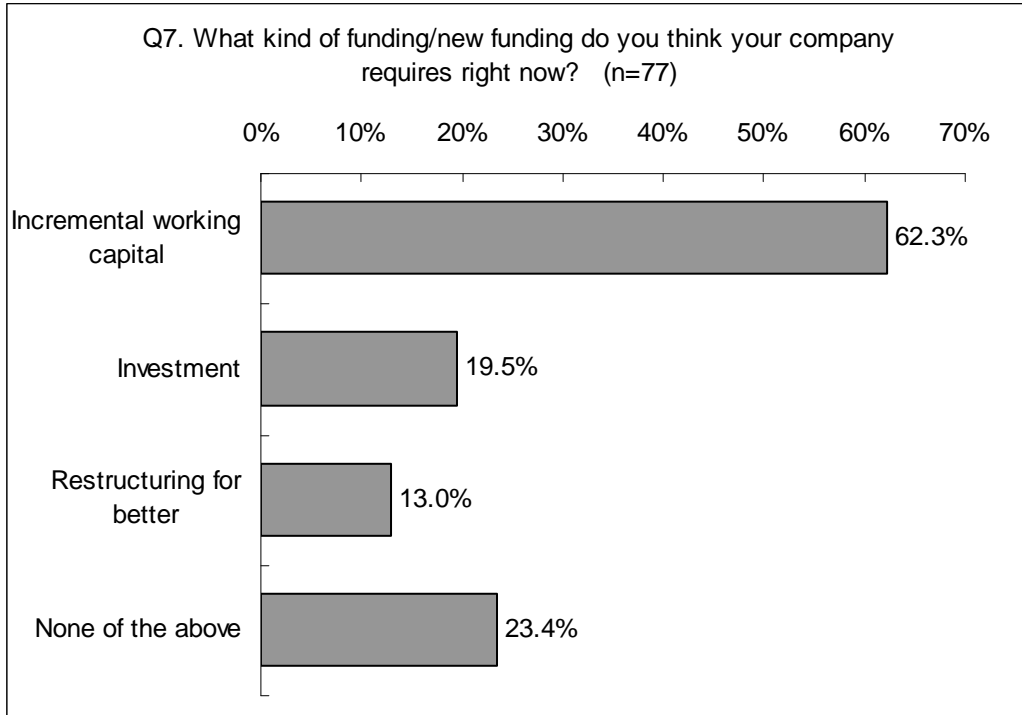
Question 5: Amount of fundraising since November 2008



Question 6: Financial Institutions obtained loan/credit since November 2008



Question 7: Type of necessary funding/new funding

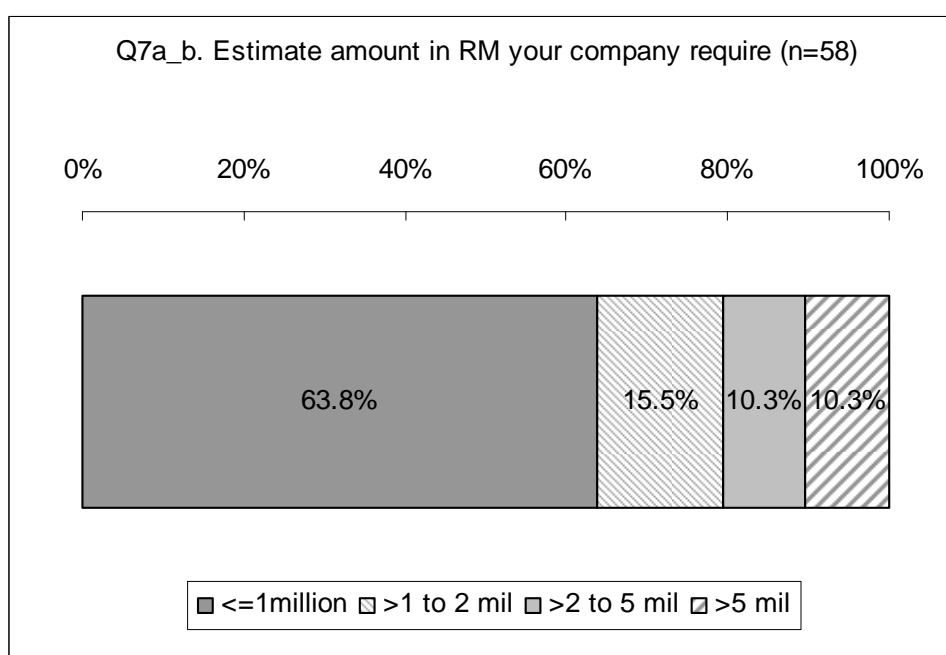


Q7 Reason why your company require the type of funding	N
Add more capital to buy ice making machine.	1
Because we ran out of cash flow to the run the business	1
Currently the business start increasing and I am getting new projects but the cash flow is quite tight therefore I need this fund to support the operation cost such as manpower and materials because we are in coating services and we need to buy those paints materials in cash terms.	1
Develop again the whole operation cost/business to increase the revenue. We are in Perak so we need to study the whole distribution business that we can do in Perak, so we need capital cost to invest back again in the operation cost on how much to be needed to search for new business.	1
To invest in buying raw materials (metal) to build the structure for the advertisement billboard	1
Don't need any new funding because our company CEO had other business and we used the money to operate the business.	1
Don't need any funding now because we just wanted to maintain and stable the business.	1
Don't need any new fund right now because we can use the money from the loan that we have.	1
Don't need any new funding because we want to settle our existing loan with SME bank first.	1
For operation cost & add more manpower, to buy materials like timber & rubber wood because now supplier only give 3 weeks credit terms instead of 2 months compare with last time. Moreover, I just upgrade my machine in order to be more competitive in the market	1
I do not need any fund because our sales are quite good recently. Therefore, we can just use that money to role business.	1
I need fund to buy petroleum because the petroleum price is increasing recently. (cash flow)	1
I need fund to buy raw materials because during the year end, we got many order from the Government sector and we do not have enough fund to buy raw materials. (cash flow)	1
I need new fund to repair and maintain the wardrobe and bed that were damage because I am doing renting house/room services.	1
I need new funding to cover the Personal loan that I borrowed previously for the company to cover the cash flow crisis.	1

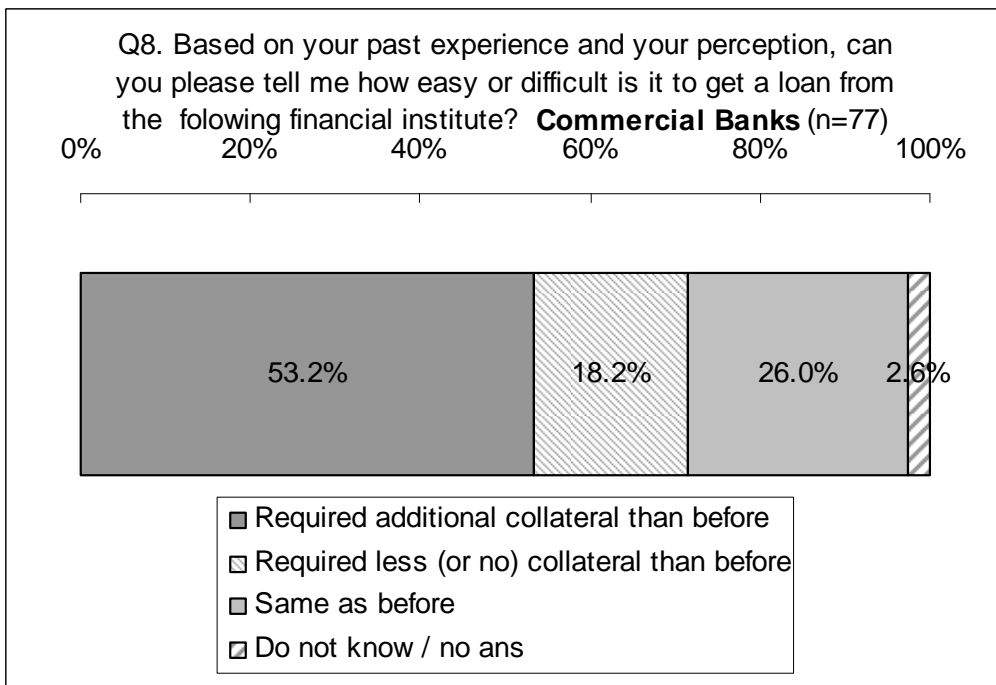
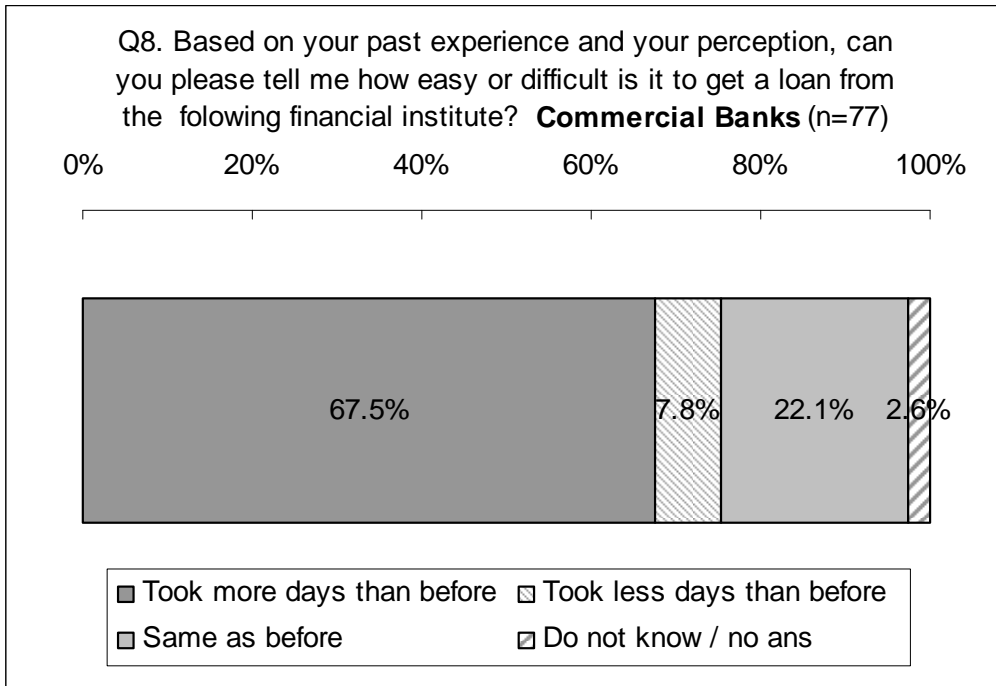
I need the fund because I wanted to add more machine for the farm to increase the production.	1
I need the fund for operation cost because we just secure a project worth RM13,000,000 and I need it for the project operation cost. I also need the fund to expand the business.	1
I need the fund for the company operation cost because most of suppliers wanted to deal in cash terms instead of credit terms.	1
I need the fund for the operation cost such as diesel, spare parts for the lorry and manpower.	1
I need the fund to add more equipment like printing machine & manpower.	1
I need the fund to buy more raw materials for production, moreover supplier doesn't give credit terms now but we still need to give credit terms to our customers. (cash flow)	1
I need the fund to buy new busses because the expenses to buy service and maintain the old busses are too expensive.	1
I need the fund to buy new printing machine for garments.	1
I need the fund to buy raw materials and operate the business. (cash flow)	1
I need the fund to buy some materials and for the company operation cost. (cash flow)	1
I need the fund to establish the company and diversify the business too. Moreover, I also need the fund for the overdue and operation cost (cash flow)	1
I need the fund to expand my business by opening new branch in Indonesia. On top of that, I need it to add manpower & operation cost too. (cash flow)	1
I need the fund to increase our capacity and adding more machine .	1
I need the fund to invest in buying new and bigger machine for the company.	1
I need the fund to maintain the ship and operate the business because our clients prolong the payment. (cash flow)	1
I need the fund to pay the bank loans and overhead cost. (cash flow)	1
I need the fund to service & maintain the machine. On top of that, I also need it to buy raw materials. (cash flow)	1
I need the fund to smoothen the cash flow of the company.	1
I need the loan so I can expand my business .	1
Investment of cash flow to cover the payment to suppliers and others due to the delay payment by the customer.	1
Investment to expand the business & buy new machines .	1
It is for the hire purchase loan from the Japanese Industrial Fund. We need more factory to produce our product. e.g. We want to be a one stop centre for the cleaning	1

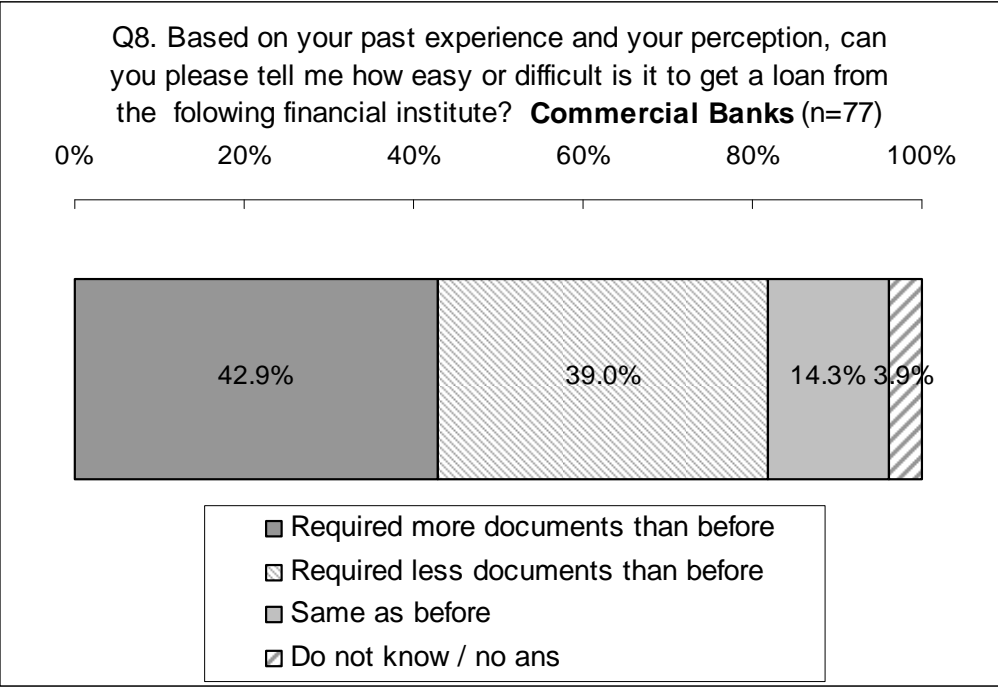
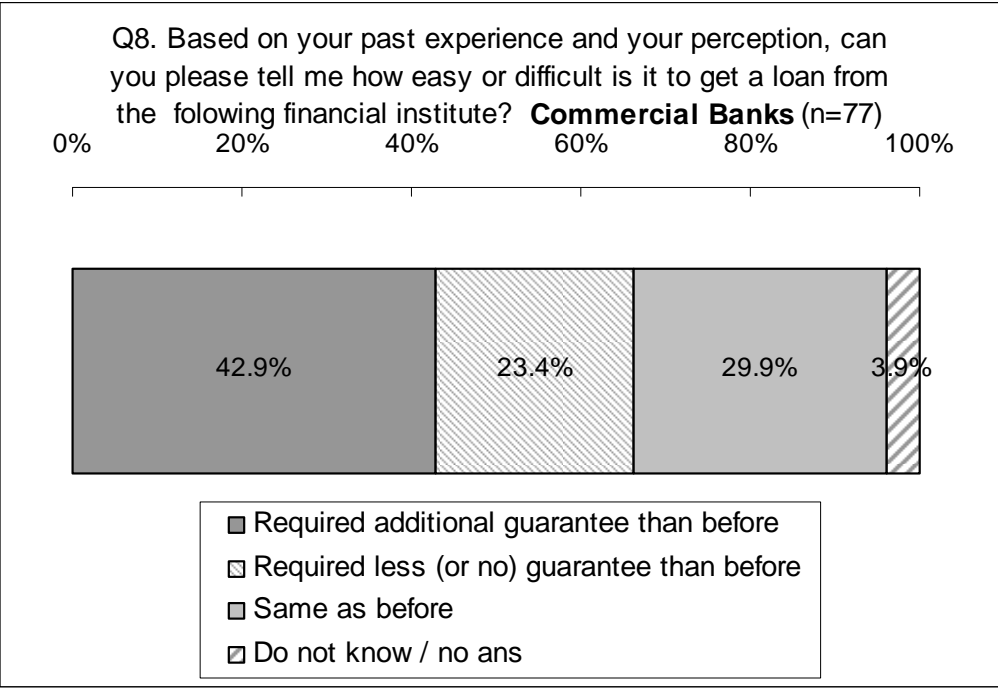
service. We want to recycle the garbage, renovate the garbage lorry, large dustbin & we need new technology for recycling process.	
Need more fund for company turnover (e.g.. Manpower cost and operation cost)	1
Need to buy goods and equipment for company and cover the cash flow of the company because our clients prolong their payment.	1
Need to expand the company and add manpower (operation cost) cash flow	1
To invest in buying high tech machinery so that we can reduce our cost by reducing the staff in the production site while increase the productivity.	1
Our sales and collection were slow, therefore I need the fund to operate he company. (cash flow)	1
Set up new factory & add more manpower. Increase more sales product (more variety products) to increase the revenue. Cash flow	1
The diesel price has increase because the demand is more, so we need more funding for the operation cost .	1
The prices of raw materials increased by 30%-40%, therefore we need money to buy raw materials for production. Cash flow	1
To buy more raw materials for productions and to get new products (building material). Cash flow	1
To buy new machinery & equipment to replace old machine to increase the production because the new machine can had better production compare to old machine. (For example, old machine need 3-4 hours to produce 25 kg flour, new machine can produce 250kg of flour in 1 hour)	1
To cover the losses and to smoothen the cash flow of the company	1
To expand the business and add more manpower.	1
To expand the current workshop , e.g. from 1 shop lot to 2 shop lot.	1
To had a better cash flow so that we are able to be more competitive in the market.	1
To pay the debt of the agent that bring foreign customer to our resort. Cash flow	1
To subsidize the company operation cost. Cash flow	1
To widen the variety of stock and add more equipment for my business.	1
We are developer so we need investment to purchase land for construction	1
We don't need any new fund because we can use the loan that we have from previously.	1
We don't need any new funding and we just wanted to maintain our current business as it may be good enough already	1
We don't need any new funding because we just set up new branch and it is expected	1

to start operate by next year. Therefore, we expect more profit from the branch because of the high demand and we can use the profit to cover our expenses and cost to operate the business here.	
We just get a new business in Kerteh, Terengganu. Therefore we need the fund to buy the bus to operate the business.	1
We need excess fund to buy property and assets like van and plantation farm to diversify the business	1
We need some cash flow to operate the business (for operation cost like buying tyre and petrol for bus) because the clients only pay us after 2 months.	1
We need some spare funds to keep stocks if the price is increase. For example, last time cocoa were RM4000 per tonne but now RM12000 per tonne. Cash flow	1
We need the fund because we wanted to widen the variety of product, therefore we need it for operating cost such as manpower and raw materials	1
We need this fund to extend our market, therefore we need to add manpower and machines to increase productivity.	1
We need this fund to smoothen the company cash flow or just for standby purpose as we still can operate with our current company cash flow.	1
We need to buy raw materials and supplier wanted to deal in cash terms instead of credit terms. Cash flow	1
We need working capital to operate the business because client prolong our payment up to 2 months and this affect our company cash flow	1
Do not need any fund because we use our existing loan to run the business	2
Do not need any new funding.	8

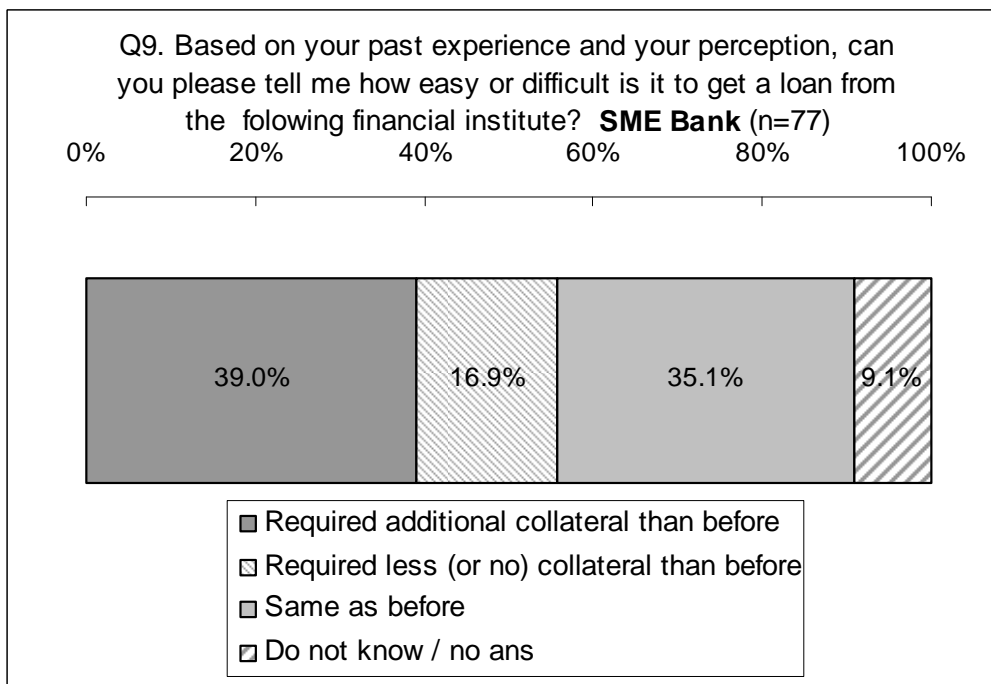
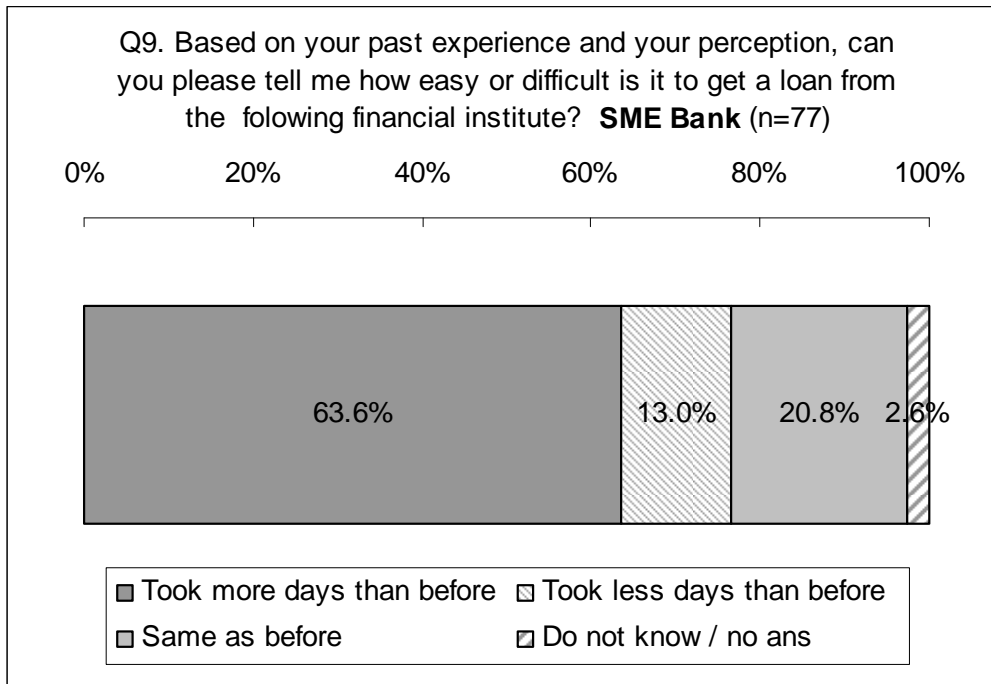


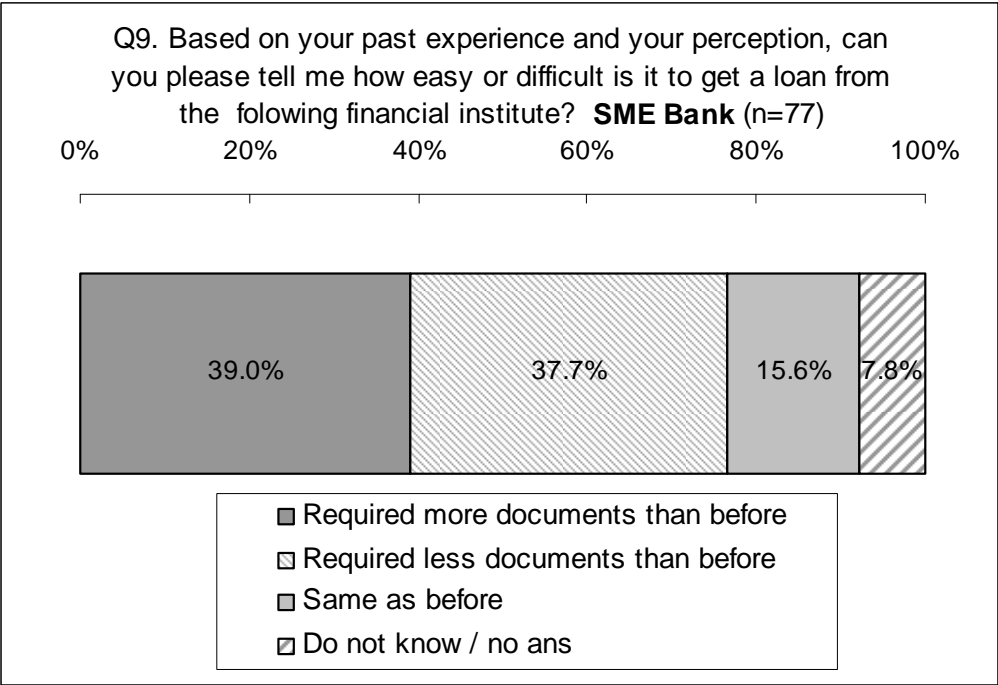
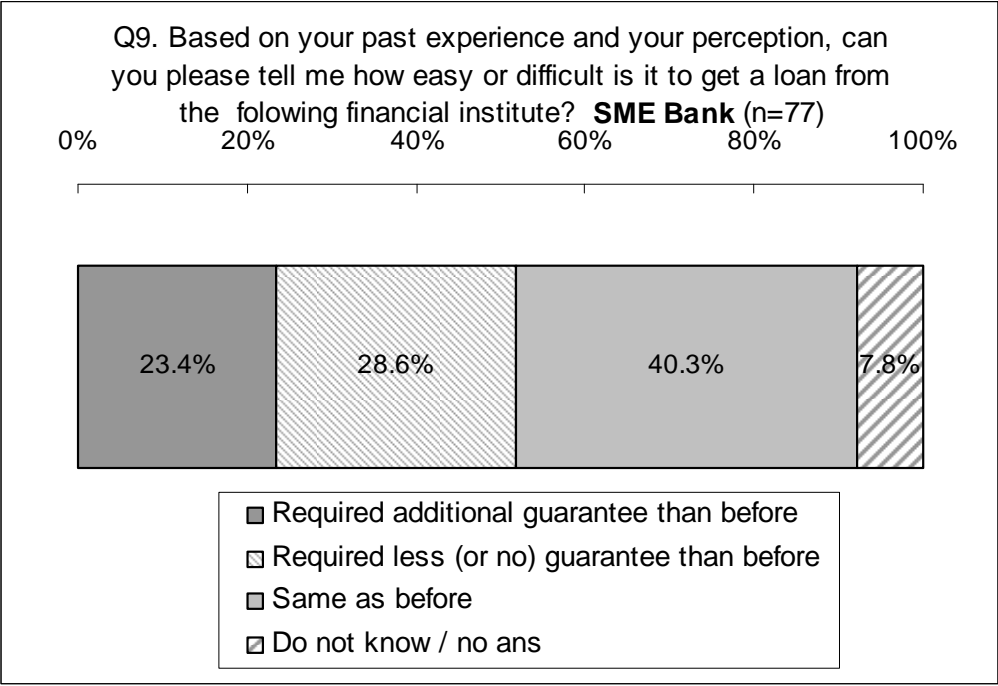
Question 8: Easiness/difficulty of getting loan (Commercial Banks)





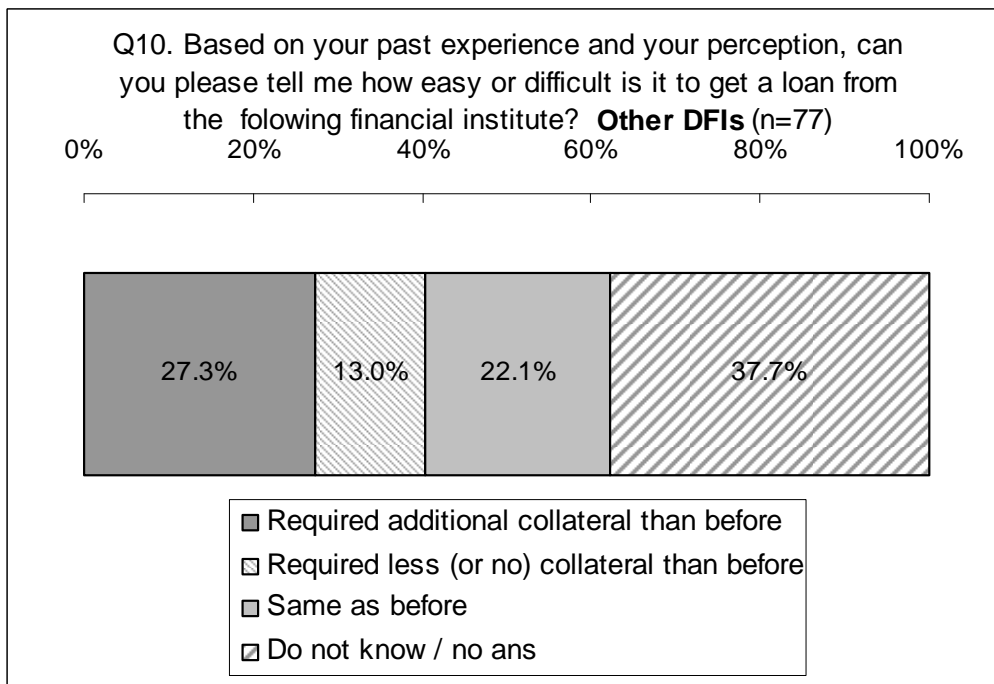
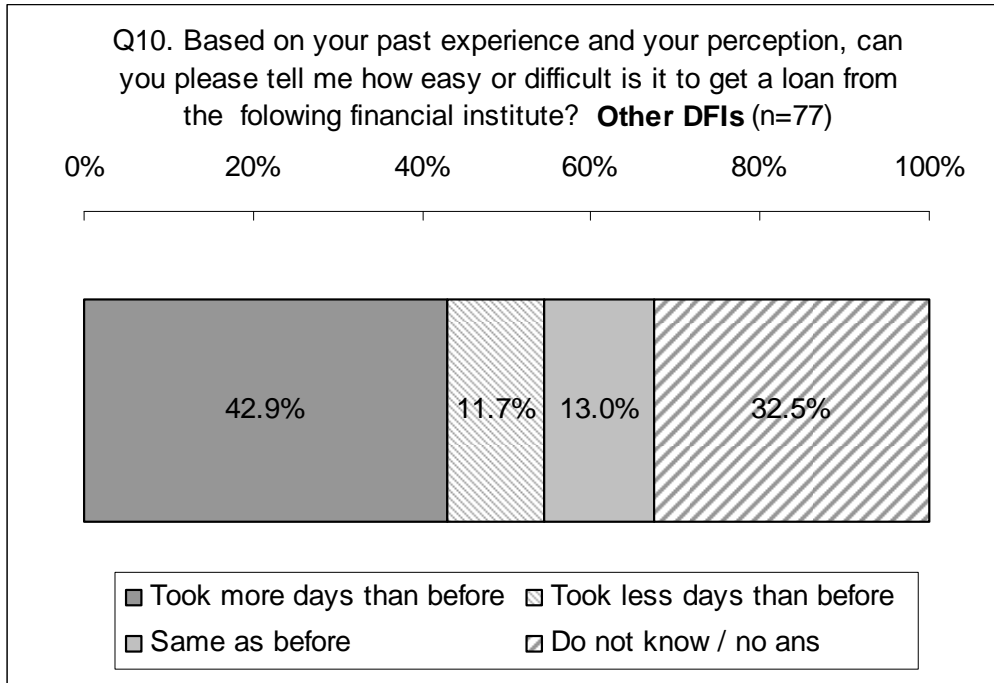
Question 9: Easiness/difficulty of getting loan (SME Bank)

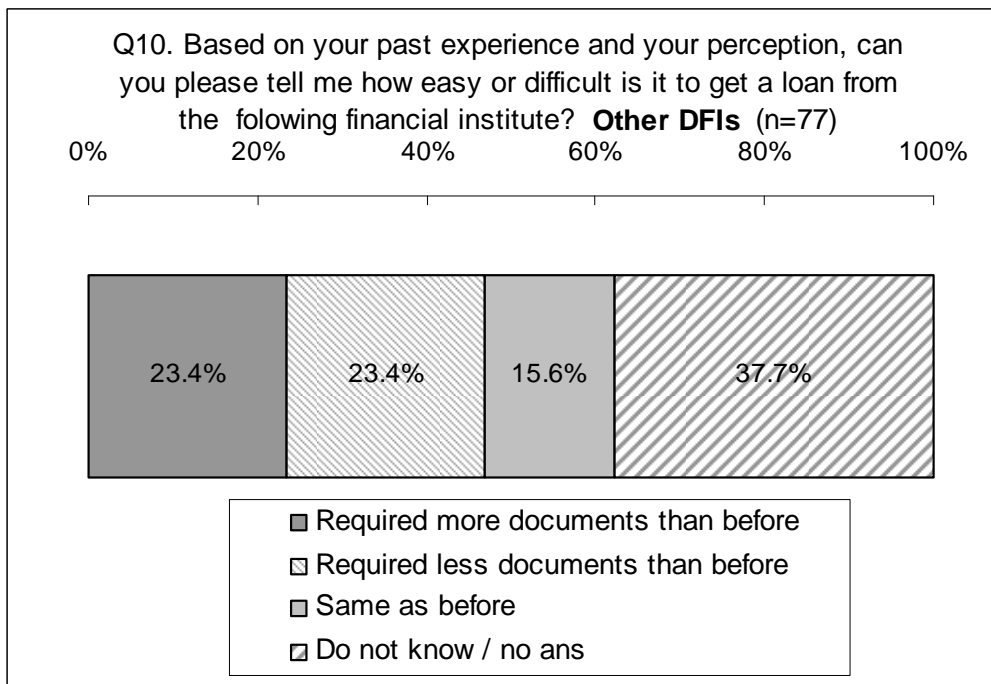
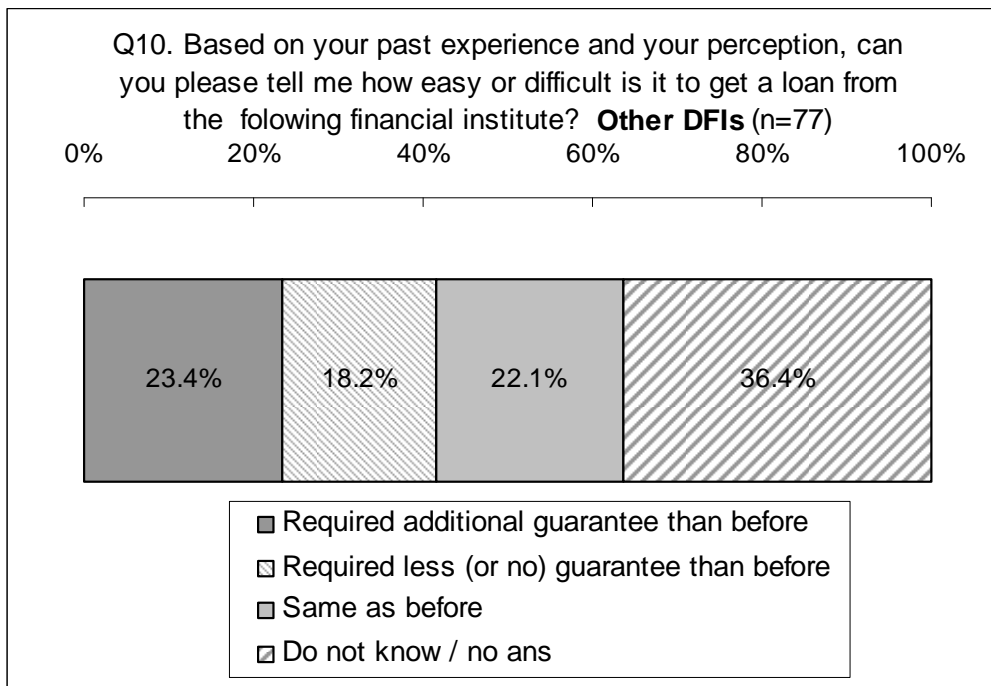




Question 10: Easiness/difficulty of getting loan

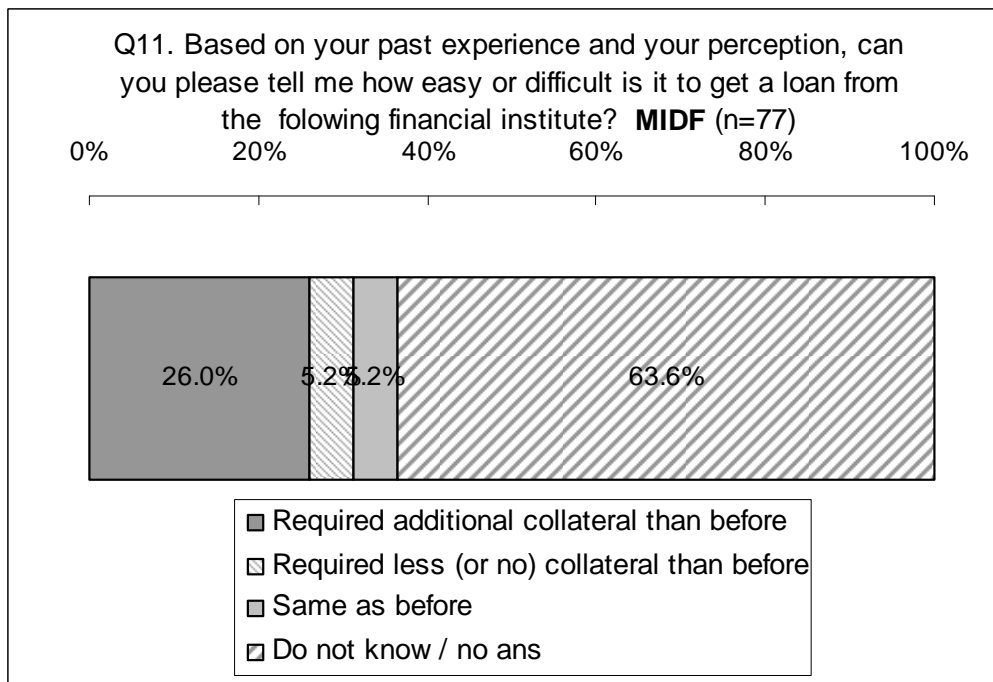
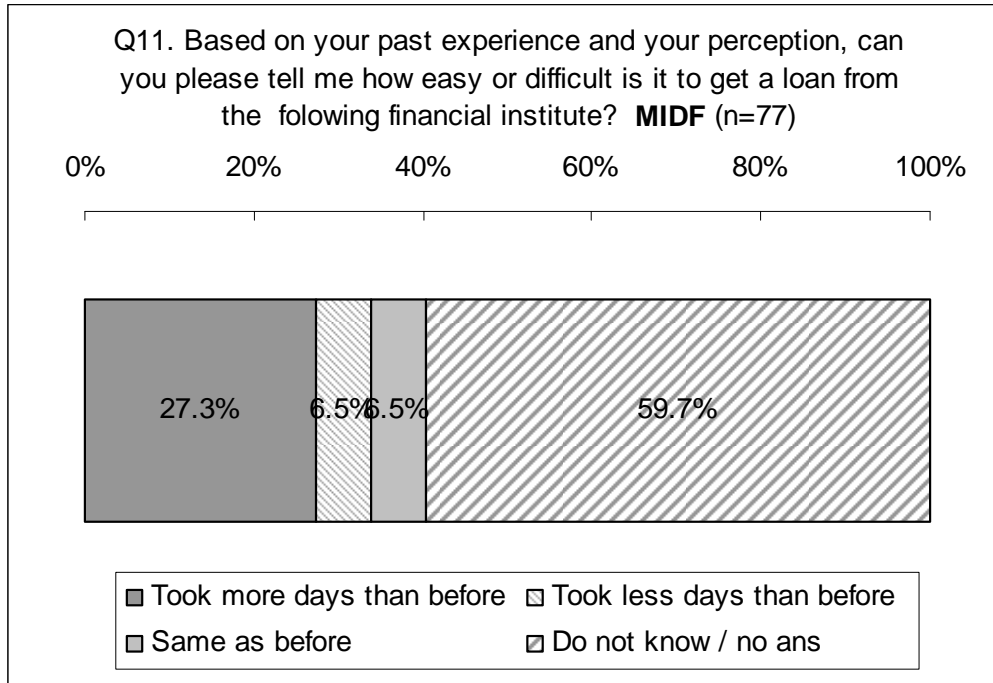
(Other Development Financial Institutions)

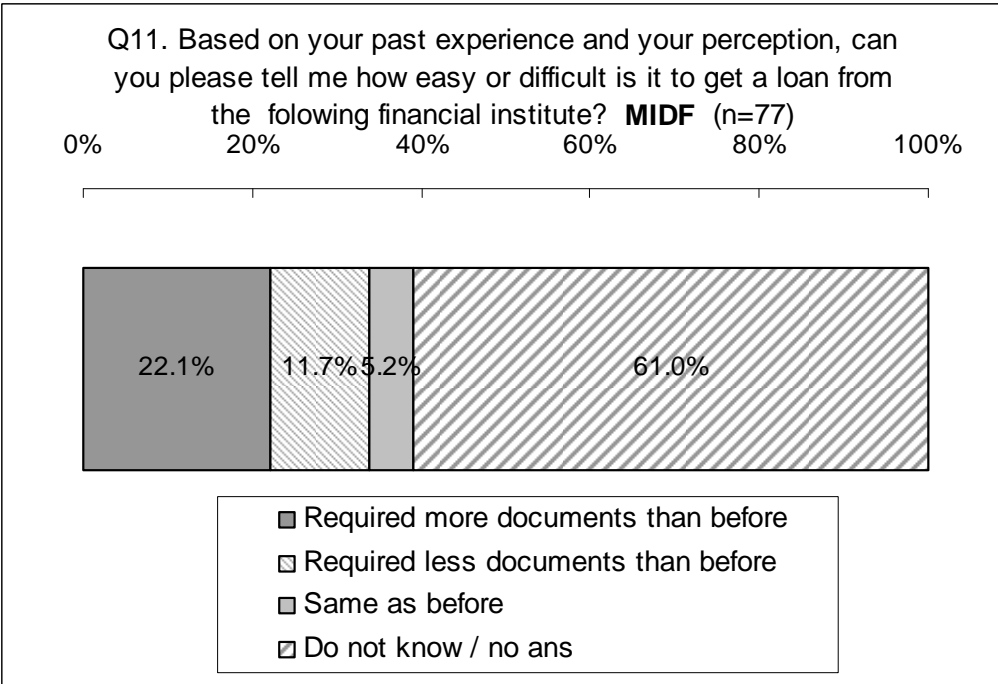
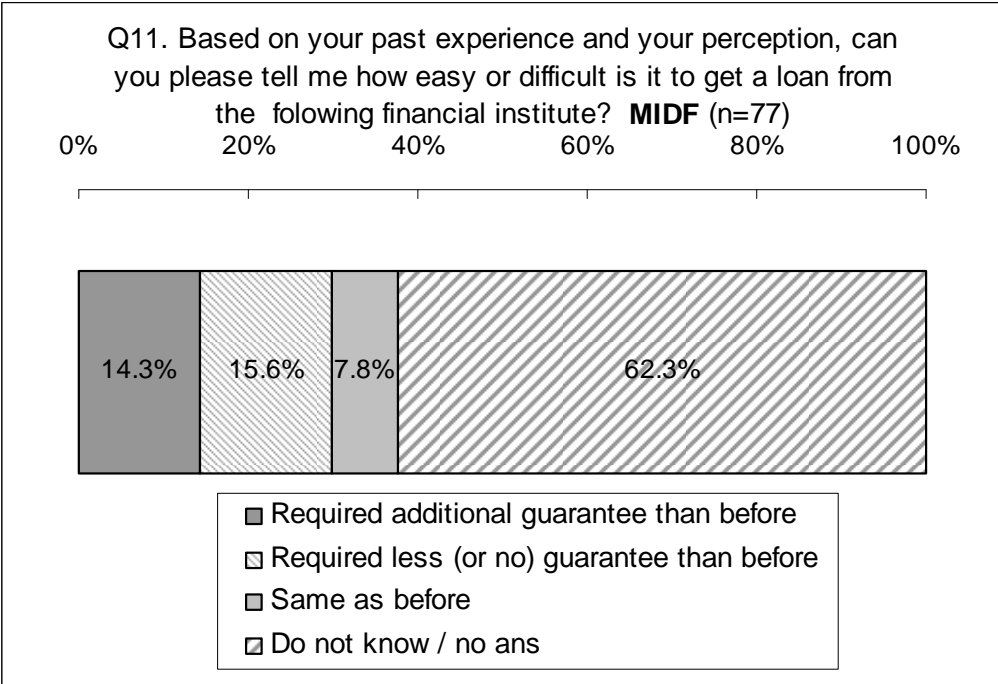




Question 11: Easiness/difficulty of getting loan

(Malaysian Industrial Development Finance)

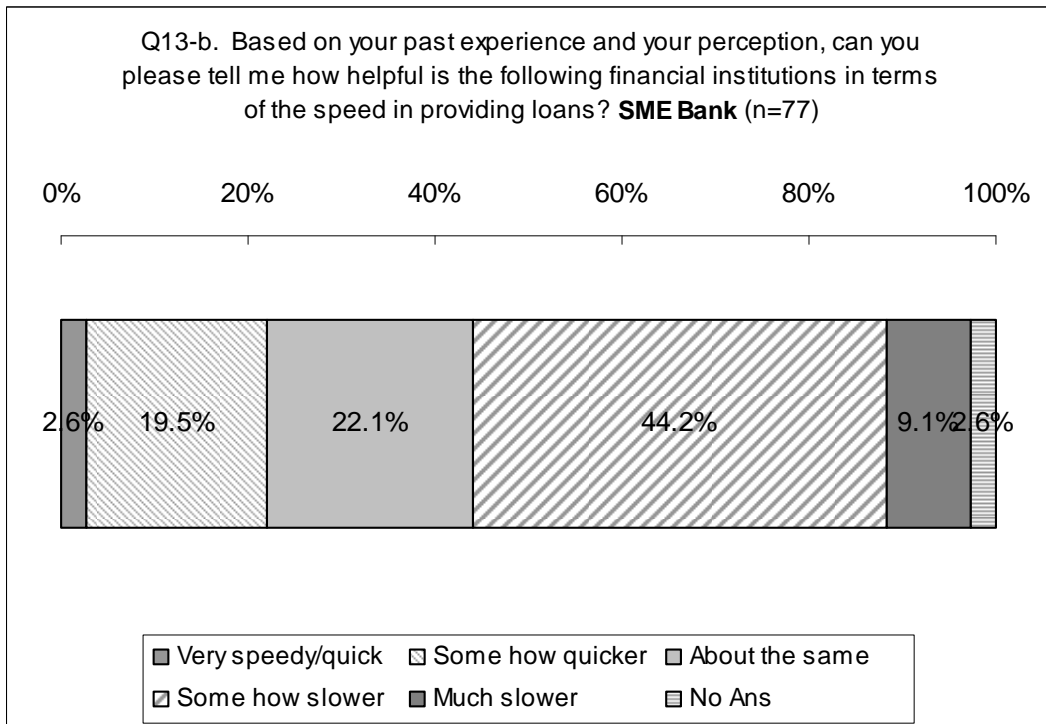
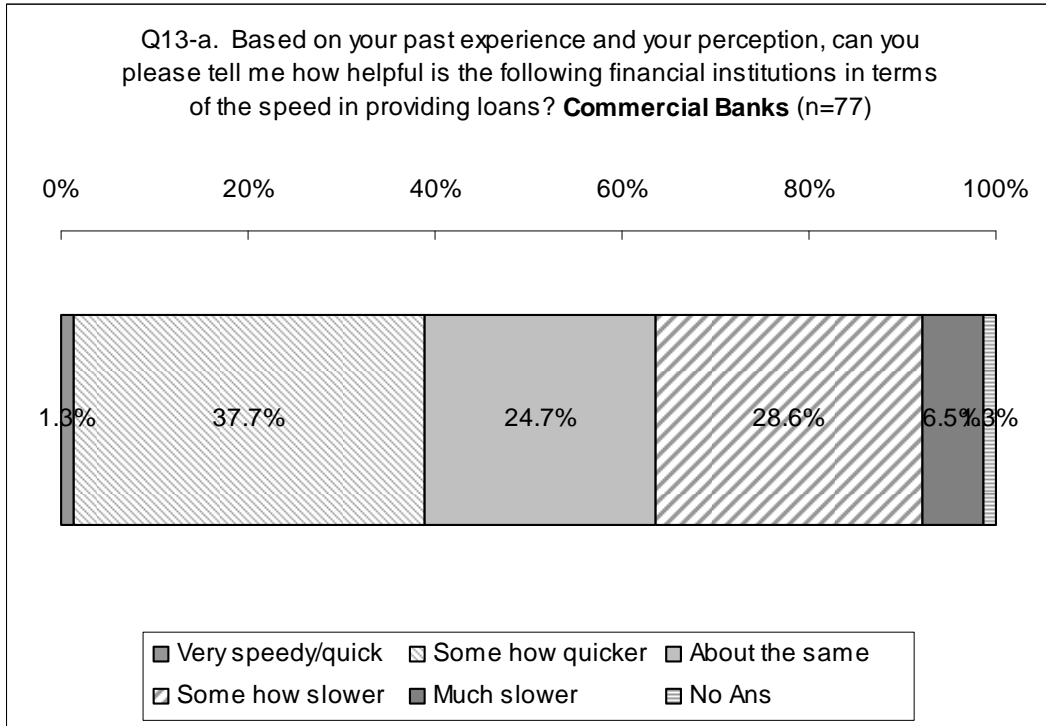


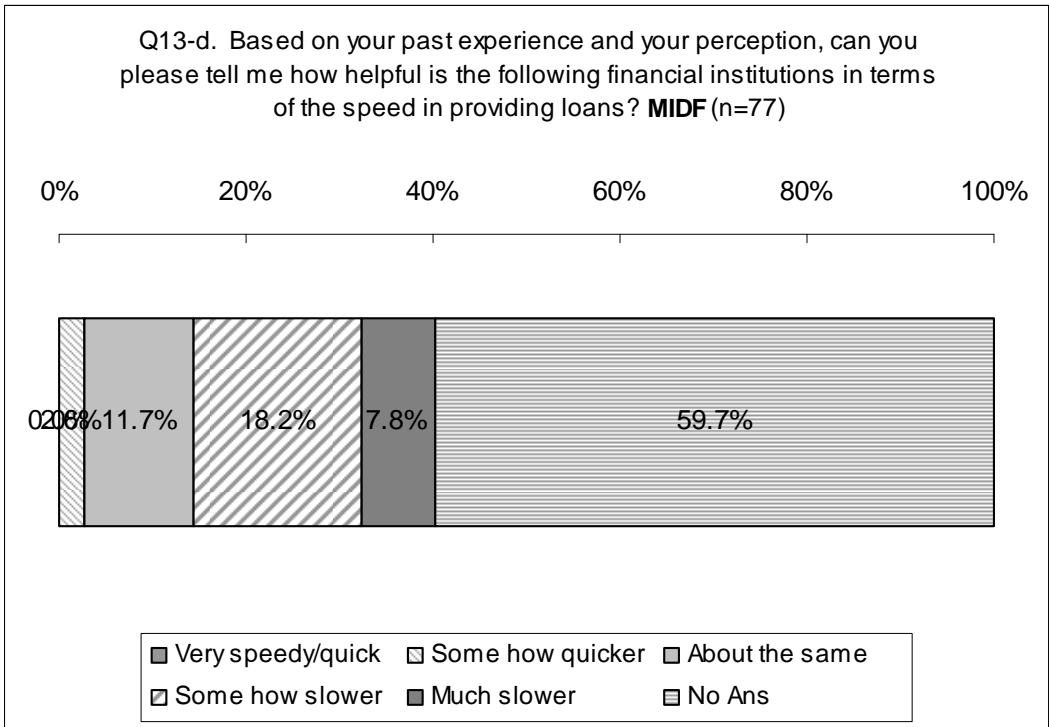
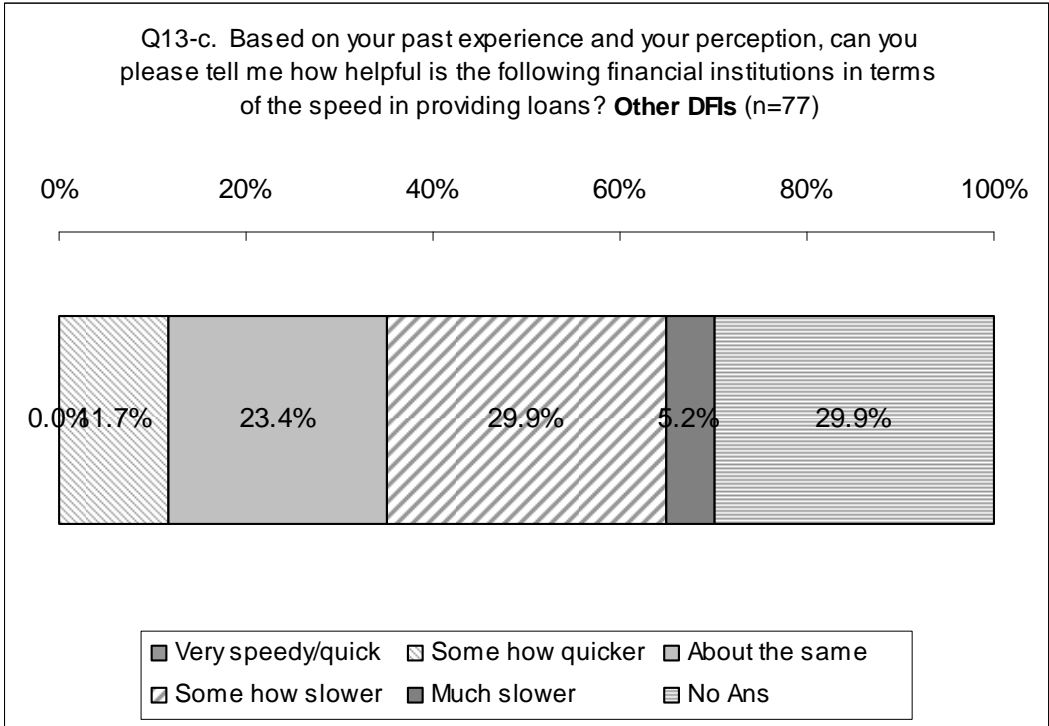


Question 12: Easiness/difficulty of getting loan (Others)

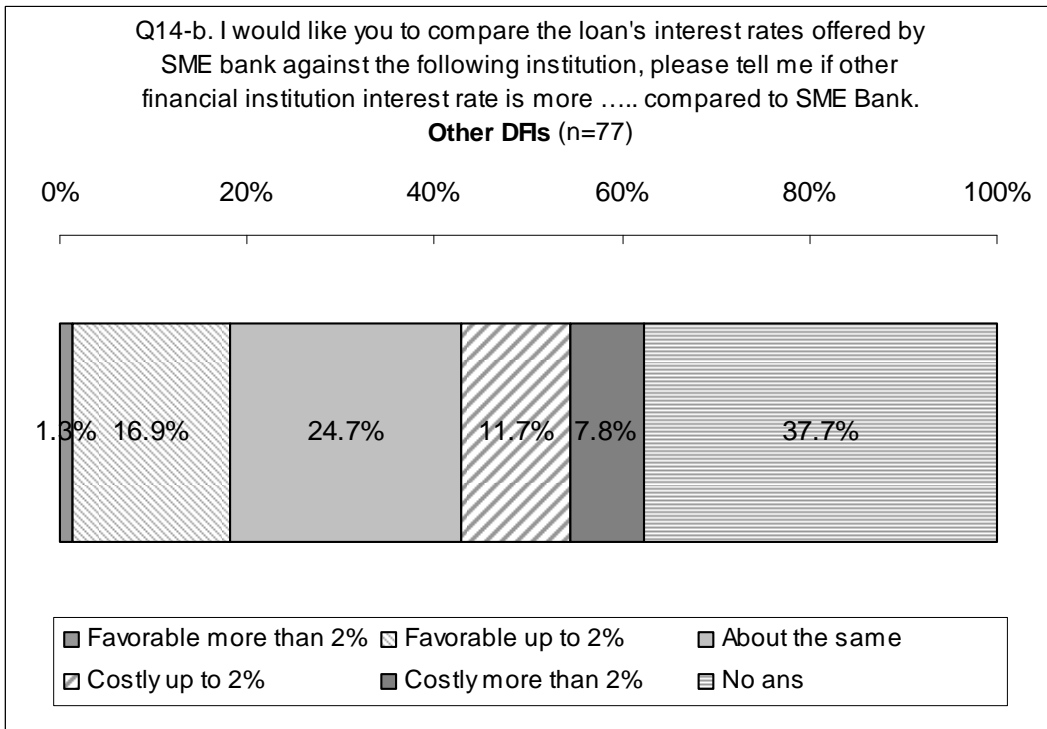
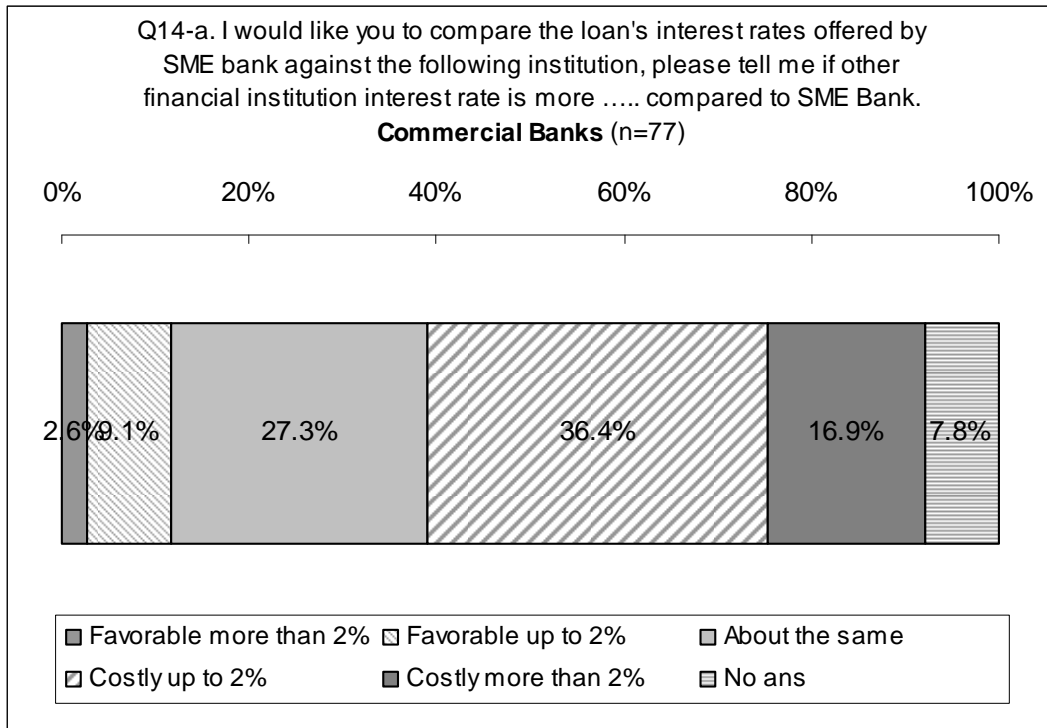
All respondent answered “Do not know / no answer.

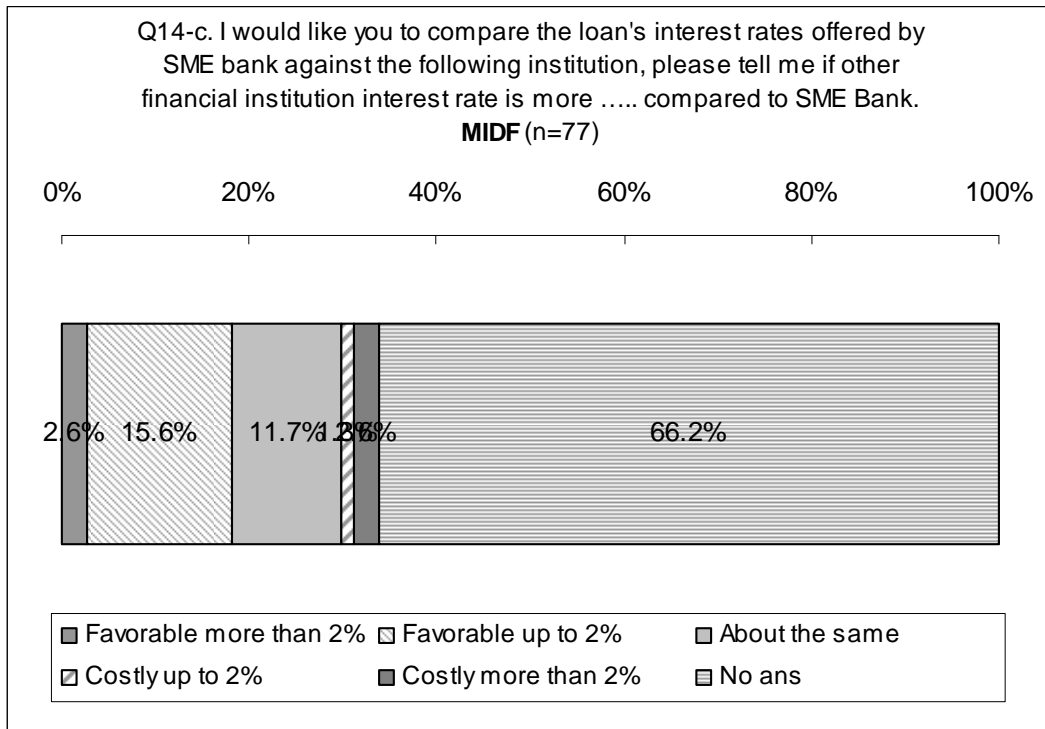
Question 13: Helpfulness of financial institutions



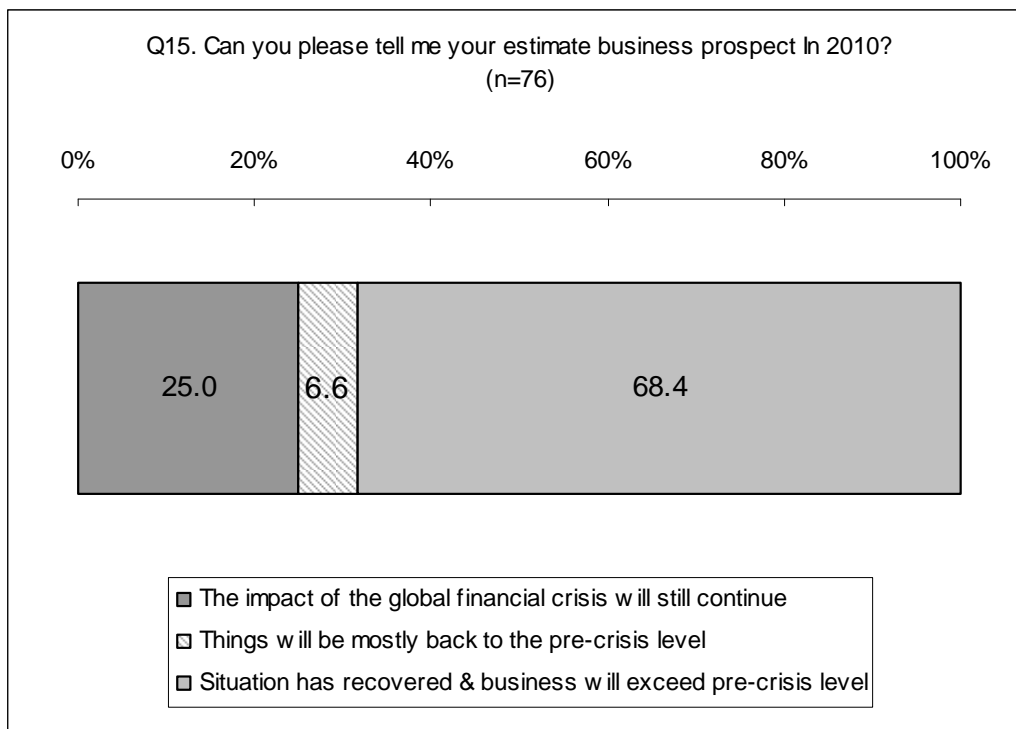


Question 14: Loan's interest rates compared to SME Bank





Question 15: Business prospect in 2010



Selected answer	Comment
1	The market is recovering slowly
1	I only can try to maintain the business because I don't have cash flow for the operation cost and to get more business
2	The economy will only recover a bit and it will take 2 to 3 years to fully recover.
2	Will recover a bit only
3	Improving day by day as it may be more to break-even
3	Last 2 months, the business is going up around 10% so far
3	Our business is not affected by the current economy crisis because we just sent petrol from oil platform to Petronas. The cars in Malaysia is increasing therefore, we had the opportunity to expand our business because cars are using petrol.
3	Economy will increase about 5% to 10% compare to year 2009.
3	Will recover to better but it take times
3	I think the economic crisis will recover slowly.
3	It will slowly recover and it need some time
3	Things will recover but maybe to break-even and not better.
3	Will increase by 30% to 40% based on the past 3 months market trend.
3	The economy will recover
3	My business category is in sport area. I open a futsal court. Currently, many people realize the goodness of sport, so, although economy crisis, sport activities still got request.
3	The economy will be better but not fully recovered. Maybe it would takes 2-3 years more to fully recoved
3	Improving but not recovering like as good as before and it maybe only break-even
3	I got 4 projects for next year and I think that the economy will recover too.
3	The economy may be affect by the US economy because the US economy had a strong effect.

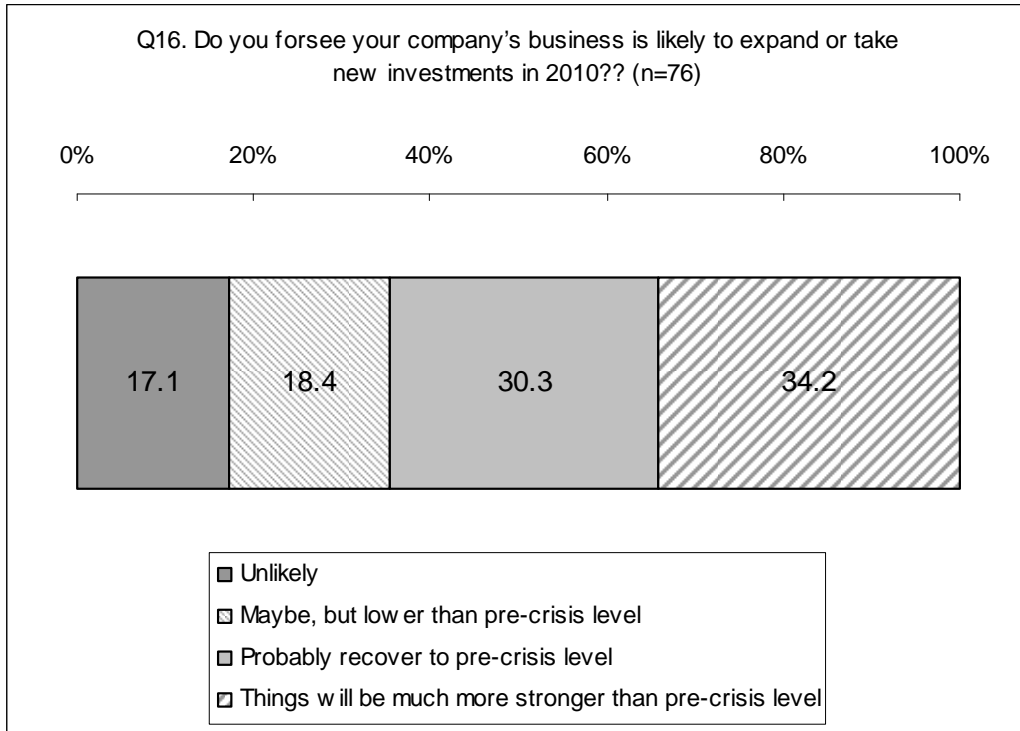
Note: the numbers for “selected answer” mean the following choices,

1: The impact of the global financial crisis will still continue

2: Things will be mostly back to the pre-crisis level

3: Situation has recovered & business will exceed pre-crisis level

Question 16: expand / take new investments in 2010



Selected answer	Comment
2	Might go further compare to this year
4	Depends on the oversea project because the oversea client had shown interest to work together with us.
4	Diversify new product & got new product line coming in to expand our business.
4	Thinking of having new product for our business

Note: the numbers for “selected answer” mean the following choices,

2: Maybe, but lower than pre-crisis level

4: Things will be much more stronger than pre-crisis level

Question 17: Suggestion on how SME Bank can assist you in your business growth

<p>Add more fund for the tourism industry, around RM5,000,000 to support the tourism industry companies.</p>
<p>All the while, SME bank practice a way where if we got projects from government, SME Bank will give us loan easily because the government will directly pay to the SME Bank. However, if our client's are international or private company, it is hard for us to get the loan because the client's only pay to use directly the amount instead of paying to SME Bank.</p>
<p>Approve the loan application within 2 weeks or latest 1 month after application. Last time when I apply, they didn't promise when they will approve. The staff said I have to wait for the next meeting within 1 month and they will decide whether my loan were approve or not. But after 1 month, there is still no meeting with the board of staff. They keep on delaying 2 to 3 times but they do inform me about the delay of meeting. Then, after 4 to 6 months waiting, they only approve my loan.</p>
<p>Better loan interest rate like from 5% to 10% interest rate and work faster for the approval time. For example, the approval duration can be within 2 weeks time.</p>
<p>Currently SME Bank only offer me loan for bus and I hope SME Bank can offer me other loan such as working capital around RM200,000. SME Bank can also organize seminar (finance management) for SME Entrepreneurs to understand more about it.</p>
<p>Easier to get loan by using less or don't need guarantee & collateral. Provide loan up to RM100,000.</p>
<p>Faster the duration to approve the application of the loan to within 2 months time.</p>
<p>Faster the speed of approval to within 1 month because we have our target of payment to be made and if SME Bank keep delaying the approval, this will affect our cash flow. Reduce the amount to pay back the loan every month by 50%. For example, if every month we need to pay back RM500,000, SME bank can reduce the monthly payment to RM250,000. SME Bank can also prolong the loan payment period from 5 years to 7 years.</p>
<p>For SME bank, company that had high paid up capital can't apply for the loan because it is only for companies with RM5,000,000 to RM10,000,000 paid up capital, therefore, I think they should increase it to around RM30,000,000.</p>
<p>Give Banker Acceptance (BA), for example, the bank pay the supplier first than after 60 days, we pay the bank back so we can have fund for other operation cost in the business or projects. For the SME Bank, we are compulsory to purchase insurance based on the loan amount to cover the stock and it is not based on the stock volume, therefore if our stock volume is lower, we still need to pay the amount based on our loan amount.</p>

<p>Give fixed interest rate for the working capital fund. Because currently, the interest rate sometimes higher or lower depends on the current economic. So I hope the SME Bank can set a fixed interest rate and it will be more easier and convenient for the company to calculate the amount they need to loan or the interest rate they need to pay.</p>
<p>Hope than SME Bank interest would be 2% lower compare with other bank.</p>
<p>I hope SME Bank can pay attention and give loan to small business that had a good profit business and potential projects.</p>
<p>I hope SME Bank will approve the amount of the loan that I apply for. For example, I need RM10,000,000 to expand the business, therefore I hope SME bank will approve the loan up until RM10,000,000.</p>
<p>I hope SME Bank will provide loan for cash flow because currently none of the bank were providing this type of loan. So far all banks only offer loan for hire purchase, working capital. Therefore, if there is cash flow loan, it would be better.</p>
<p>I hope that the SME Bank will come out with an contingency funds around RM50,000 to RM100,000 to help the SME Companies. This fund is to help those companies that just got new business/projects but don't have enough cash flow for the operating cost. Moreover, this fund must be approve within 6 weeks because our clients cannot wait up to 5 to 6 months for us to get the loan and only start the projects. I also need working capital loan around RM300,000 because currently I have all the machinery but I don't have enough cash flow to support the operating cost such as manpower and materials. Moreover, we are in the coating service and we need cash to buy paints and other materials because the supplier don't give us any credit terms.</p>
<p>I need about RM1,000,000 to RM2,000,000 of working capital loan to smoothen the operation cost.</p>
<p>I need machinery loans around RM200,000 to RM250,000 to replace the old machinery next year. Lower the interest rate by 1% compare to the current rate now and offer some free grant like human capital for the staff to increase on their product knowledge and marketing.</p>
<p>I need other loans such as fixed working capital around RM3,000,000 for the company operation cost.</p>
<p>I need working capital loan around RM300,000 to operate the business</p>
<p>I need working capital loan around RM500,000 and PA loan to buy materials which is around RM300,000.</p>
<p>I think the approval process (duration) to approve the loans take too many days until more than 6 months because lack of staff to manage the process. So I suggest them to add up more staff to manage the loan application.</p>

I want the loan process to be done within 3 months. Widen the scope of industry that want to apply for SME bank loans because last time I apply to open a business under Trading mineral product but SME bank don't approve it because they did not cover that business industry.
Lower the interest rate by 1% for SME enterprise compare with other bank.
Lower the interest rate to 2% per year & fasten the loan approval process within 1 month because last time when I loan from the SME Bank it took 6 months
Make it easier for companies that doing or taking government projects to get loan from SME Bank. Faster the approval period to within 1 month.
Please approve the application within 1 month after apply because previously it takes about 2 to 3 months for approval.
Please approve the loan application within 6 months and reduce the interest rate to 3% only. Hope SME Bank will give more priority and easier loan approval for those companies that have the potential to expand or companies that have established for 4 to 5 years.
Please fasten the approval duration of the loan to within 1 month.
Please maintain the interest rate to 3% every year
Please reduce the approval duration to within 3 weeks after apply.
Please reduce the interest to 2.5% (current interest rate were 5%). Please charge the interest yearly, not as current charge which is daily because our sales are not good every day or every month, therefore, it will affect our payout to the bank every month. Moreover, please reduce the interest for the refinance to 3.5% because the current interest rate is 7%.
Previously in 2006, SME bank had their SME develop business team to conduct SME fair in other country like Dubai, Vietnam and South Africa for Company to promote their product. However, it is limited to few company only and I hope they will give more of this chances even to all the small enterprise/medium enterprise
Provide higher amount of loan, around RM200,000 because I need to buy higher technologies equipment as I am in the car repairing & servicing industries instead of relying on manpower because the car now are new and high tech.
Provide more amount of loans like RM2,000,000 to RM3,000,000 because our machine already cost RM1,000,000 to 2,000,000 each. Give lower rates like 2% lower from the current rate and prolong the time for paying the loans (for example, first 6 months pay the interest rate only and after 1 year only start pay the installment). Stated clearly what type of documents they needed to get approval for loan in 1 time. They need to provide lead time to inform the customers whether the loan is approve or not instead of saying that the board of committee is not around and the officer can't make the decision. (For example, RM2,000,000 loans take 2 weeks, RM5,000,000 loans take 4 weeks for approval.)

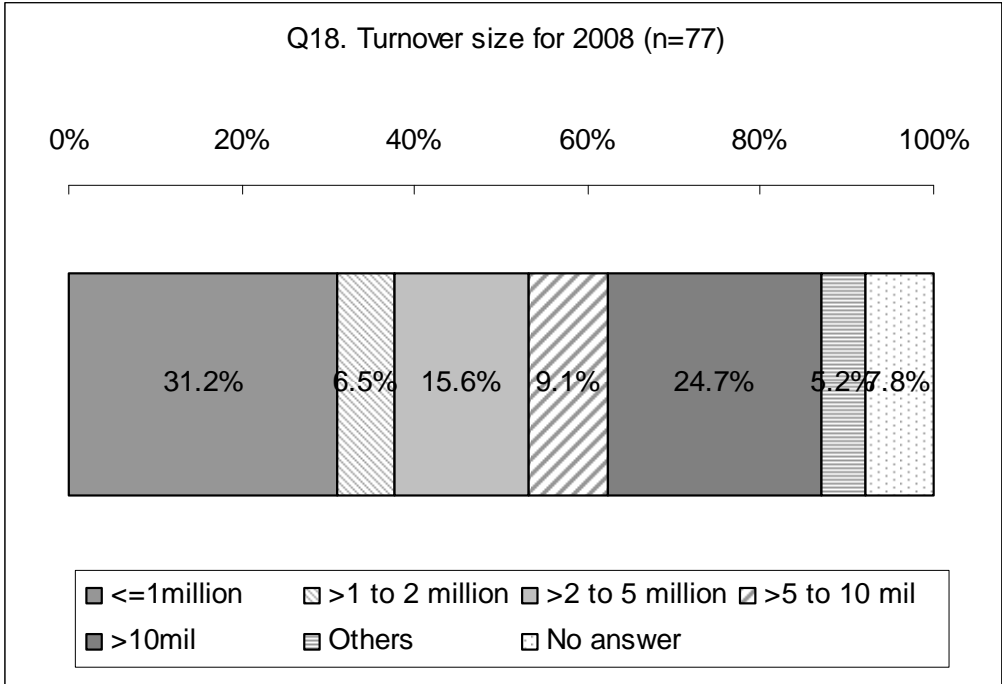
Provide more capital loan for SME Companies which is around RM300,000 for the company operation cost.
Provide more working capital loan around RM1,000,000.
Recently in May'09, I apply for loan from SME bank but until now Dec'09 I still don't know whether my loan approve or not. Therefore, I hope the SME Bank can faster the application process within 2 months. The staff inform me before a few months ago that my application is still in process.
Reduce the documents needed. For example, SME bank want a lot of documents. However, I don't have any experience on business before this and don't know anything about paperwork. So, if can, please provide the example of paperwork or documents they required and we can draft based on the format that they want.
Reduce the interest rate to 4 - 5%.
Reduce the interest rate to 5% as currently SME bank charge 6.25% interest rate.
Reduced the documents required to apply for loan from SME bank. For example, currently they want the financial report for the past 5 years, I hope they reduced it by only asking the financial report for the past 3 years.
Shorter the time to process the loan like around 1 month is reasonable, don't focus too much on collateral to get loan but to viability of the company project so that it is easier for new company to get loan too
SME Bank can help us to expand our network by introducing us to their big customers. (Giving us a chance to penetrate & expand our business too)
SME Bank need to approve our loan within 1 month period and require only 50% collateral based on the loan we apply instead of 100%. They should get advice from the professional consultant to look into our business whether it had the potential to growth or not instead of just judging the company by looking at their yearly financial statement, bank statement or invoice only.
SME bank only provide Hire purchase loan to us now and I already require for something like capital facilities or capital loans (capital turnover loans) but the officer at the SME bank still can't work it out. SME bank should announce the fund and type of facilities they got so we are aware of it.
SME Bank should be more aggressive to come out and approach those SME Enterprise that are in financial crisis instead of just keep quiet (because I think that they are hibernating) by providing those enterprise that are in financial crisis with loans based on the companies needs.

<p>SME Bank should be proactive in understanding the business category and area. For example, last time when I apply loan to buy new software for computers which is about RM200,000 and they asked me take my property/house as collateral because they are not confident with me. Software is a thing that you can't see like other product, therefore please be proactive cause not all industry especially those industry dealing with computers were not the same like others.</p>
<p>SME bank should do more seminar for the companies that rented their factory (Komplek kilang berkomploit, KKB) so that entrepreneurs can do business matching and share idea on their business. If SME Bank have any new loans or grants, they should promote it and make sure that we know that.</p>
<p>SME Bank should fasten up their service in loan approval duration because last time when I apply for the loan and after more than 6 months I still don't know whether my loan is approve or not. They need to shorten the time to within 1 month to inform us whether the loan is approve or not so that we can find or think of other alternative way if we know that the loan is not approve.</p>
<p>SME Bank should focus and provide more loan and facilities to the company that have the potential to growth in their business.</p>
<p>SME Bank should help those companies that are badly affected by the financial crisis if they see that the companies still had the potential to growth. For example, like companies that have potential or profitable projects in hand.</p>
<p>SME Bank should not increase our interest rate once the company is establish, but they should maintain it at 5%. Moreover, they need to faster their approval period for the loans to within 3 months instead of 6 to 7 months previously.</p>
<p>Speed up the loan process to 6 months or less cause previously it took 2 years. Give the exact amount we apply for because for example, we apply for RM2,000,000, they just give RM1,000,000. Give more loan capital after 2 years, like about RM500,000 depending on the company performance because we only can apply for loan after 3 years after the first loan.</p>
<p>Speed up the process of loan approval to 1 and the half months because previously it take 3 months for approval.</p>
<p>The bank should had more discussion with us to look into our company business and provide more loan (estimated RM2,000,000) to help us survive during the economy crisis and for company turnover.</p>
<p>The bank should not take the company fixed deposits as collateral. Even if they take it as collateral, they should release the amount of the fixed deposits from time to time so that we have enough cash flow in the company.</p>

<p>The rules or the documents needed burden us. For example, SME bank request our bank account statement but for some small business such as food stall, they don't have bank account because the sales/profit they got, they will use it back as a capital for the next day business. Therefore, please take out the documents needed for loan such as bank account statement for small business.</p>
<p>The staff should have more knowledge about all the industry in the market because this may fasten up the approval period of loan. For example, if the staff is only knowledgeable in manufacturing industry while I am in the telecommunications industry, this may slower down the time for them to process the loan because they need to know more about the industry first. They need to fasten the approval loan period within 2 months because last time it takes 4 to 6 months to approve.</p>
<p>They can have one or two officer taking care of the SME Bank existing account and look into their business development, business plan, projects and their difficulty to monitor whether they need any help in terms of loans or other credit facilities. They should not burden the SME companies by using collateral as the main priority to get loan too.</p>
<p>They need to improve and be more professional in the internal processing system. For example, when we had agree with this terms & condition, they should not add in any new terms and conditions when processing the loan procedure.</p>
<p>We are required to take our company fixed deposit as collateral to get loans from SME Bank, therefore I hope that SME Bank would reduced the fixed deposit as collateral to 10% only.</p>
<p>We need working capital loans around RM1,000,000 to operate the business because even we get loan from SME bank to purchase machine, we only get the exact amount of loan to pay for the machine, therefore we don't have extra cash flow for the operation. They should fasten up their loan approval period to within 1 months because we need the money to pay our supplier. For example, if I buy a machine from an oversea company, they will keep follow-up and chase for the payment but we still can't pay them because we haven't get the loan and this may affect us in the future because they may ask us pay first before sending use the machine or spare parts. I also hope SME Bank will give us grace period around 1 year before start paying back as we need some time to market our new product first.</p>
<p>When we already finish paying our loan for buying bus, we had problem to change the ownership. The process will take about 1 to 3 months. Whereas, the process to change the ownership is supposedly only around 2 weeks. When we want to change the ownership to 3rd party, we will put a price of RM100,000 for one bus but SME bank will increased the price to RM150,000. Therefore, if we sold the bus to 3rd party for RM100,000 based on current market value, we have to cover the additional RM50,000 because we still have outstanding balance with them. I hope SME bank will not burden us with such things.</p>

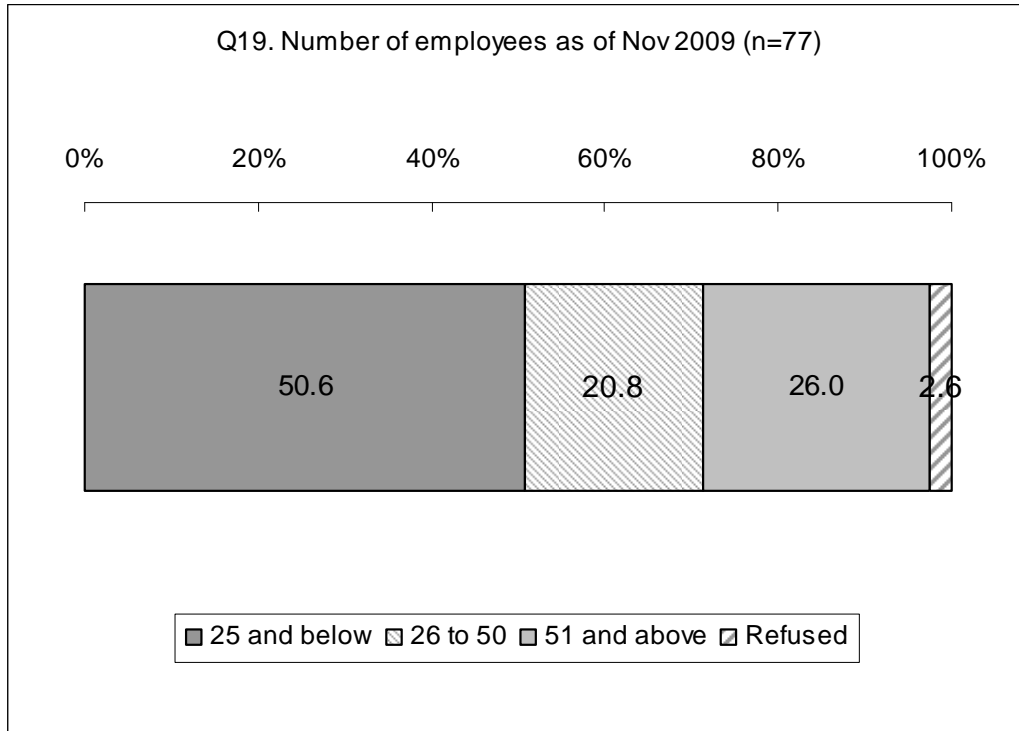
No comment because so far I had no problem with SME Bank
No idea and currently we also do not need any loan
No suggestion because currently I'm satisfied
No suggestion (by 10 respondents)

Question 18: Turnover size for 2008

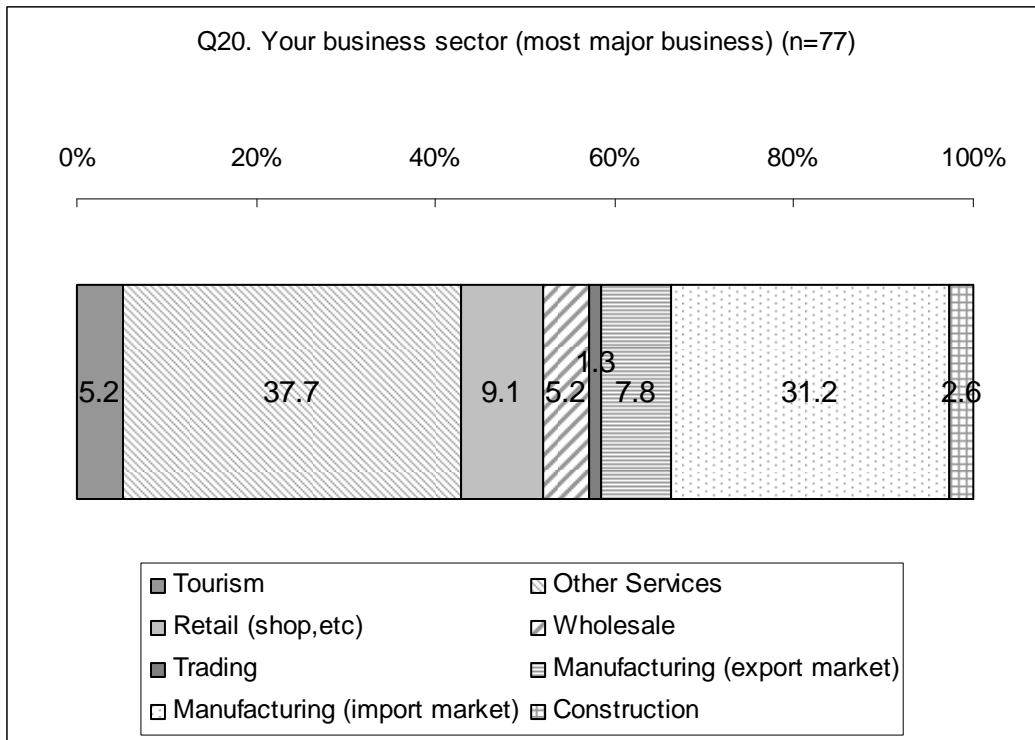


Note: "Others" includes stopped production (n=1) and not sure (n=3)

Question 19: Number of employees



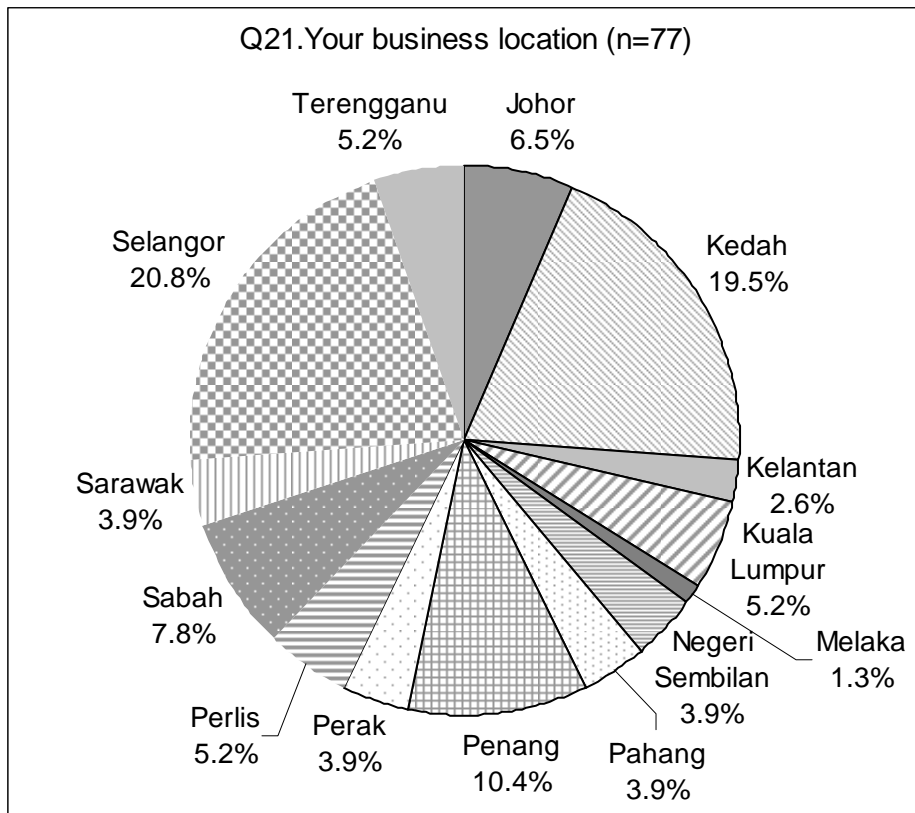
Question 20: Your business sector (most major business)



Details of “Other Services”

Sector	N
Logistic	7
Hospitality	2
IT services	2
Medical Service	2
Transportation (Express Bas)	2
Accounting Firm	1
Advertising	1
Agriculture	1
Cleaning Services	1
Consultant for waste management	1
Driving Class	1
Education	1
Futsal field rental	1
IT & Broadcasting	1
Logistic & Transportation	1
Oil & Gas services	1
Printing Services	1
Recycle & Cleaning Services	1
Transportation (Tour Bus)	1

Question 21: Location by state



Questionnaire

<h2 style="margin: 0;">SME Bank Study 2009</h2>

Job No	Name	Date
Screening		
Data Entry		

Respondent Name	Listing ID		
Company Name			
Tel No. (Hp/Hse)	Date	2009	
Interviewer Name	Time	AM	PM

Good morning/afternoon. My name is _____ calling on behalf of Nomura Research Institute in Japan.

We are currently conducting a study to understand how Malaysian Small and Medium sized enterprises are affected by the current economic crisis. Can I speak to MD / Financial controller please? (If the person is on the line, continue. Otherwise, ask to speak to the person). This will only take 10-15 minutes of your time. Please be assured that your responses will be kept confidential. Thank you.

Q1. To what extend is your business affected by the recent global financial crisis in terms of the sales/revenue of your business as of November 2009 compared with last year? (*researcher to read out the choices*) (SA)

Sejauh manakah Krisis Kewangan sedunia/global memberi kesan kepada pendapatan/hasil dalam business anda sehingga November 2009 bebanding dengan tahun lepas?

Increased	1
No change	2
Down 10% or less	3
Down more than 10 but less than 20%	4
Down more than 20% but less than 30%	5
Down more than 30% but less than 40%	6
Down more than 40%	7

Commnet _____ :

Q2. To what extend is your business's cash flow affected as of November 2009 compared with last year (Nov 2008)? (*researcher to read out the choices*) (SA)

Sejauh manakah Krisis Kewangan memberi kesan kepada aliran tunai anda sehingga November 2009 bebanding dengan tahun lepas?

Better off	1	Skip to Q4
No change	2	
Worse off up to 10%	3	Continue Q3
Worse off 10 to 30%	4	
Worse off more than 30%	5	

Commnet _____ :

Q3. What action / steps did you do to the decreased in cash flow since the financial crisis (since November 2008)?

Please let me know if you have done the following action / steps since Nov 2008 till now (*researcher to read out attribute*) (MA)

Apakah tindakan/langkah yang anda ambil berikutan masalah penurunan aliran wang tunai yang disebabkan krisis kewangan semenjak November 2009 yang lalu?

Sold some assets to get cash	1	Continue Q4
Asked suppliers to wait further than before for payment	2	
Asked clients to pay faster than before	3	
Asked financial institutions (including government agencies) for loan	4	
Asked individuals for loan	5	
Managed within cash at hand	6	
Others (specify): _____	7	

Commnet _____ :

Q4. Did you obtain any loan / credit facilities since November 2008?

Adakah anda memperoleh sebarang pinjaman sejak Nov2008?

Yes	1	Continue Q5
No	2	Skip to Q7

Q5. In total, how much is the loan / credit facilities your company obtained since November 2008?

Secara keseluruhan, berapakah jumlah pinjaman yang syarikat anda peroleh sejak Nov2008?

RM

Q6. Can you please tell me if your company obtain any loan / credit facilities from the following financial institutions since Nov2008? Select all you used within the past one year (since November 2008) (*researcher to read out the choices*) (MA)

Adakah syarikat anda mendapat sebarang pinjaman dari perbadanan kewangan tersebut sejak November 2008?

Commercial banks	1
SME Bank	2
Other Development Financial Institutions (e.g. EXIM Bank, Bank Rakyat, Agro Bank, Bank Simpanan Nasional, Bank Pembangunan)	3
Malaysian Industrial Development Finance Berhad (MIDF)	4
Others (specify): _____	5

Commnet _____ :

Q7. What kind of funding / new funding do you think your company requires right now? (researcher to read out choices) (MA)

Apakah jenis pemodalan/pembiayaan/dana yang anda fikir syarikat anda perlukan sekarang?

	MA	SA Most urgent
Incremental working capital	1	1
Investment	2	2
Restructuring for better	3	3
None of the above (please describe _____)	4	4

Q7a. You mentioned that your company would require the type of funding, can you please share with us the reason why and the estimated amount in RM your company require?

Anda menyatakan bahawa syarikat anda memerlukan pemodalan, bolehkah anda beritahu saya sebab kenapa dan jumlah anggaran dalam RM yang syarikat anda perlukan?

a. _____

b. RM _____

Q8 to Q12. Based on your past experience and your perception, can you please tell me how easy or difficult is it to get a loan from the following financial institute?

Bedasarkan pengalaman dan persepsi anda, Bolehkah anda beritahu saya, betapa senang/susahkah untuk mendapat pinjaman daripada institute berikut:

		Q8	Q9	Q10	Q11	Q12
		Commercial banks	SME Bank	Other Development Financial Institutions	Malaysian Industrial Development Finance	Others (specify): _____
a	Took more days than before	1	1	1	1	1
	Took less days than before	2	2	2	2	2
	Same as before	3	3	3	3	3
b	Required additional collateral than before	1	1	1	1	1
	Required less (or no) collateral than before	2	2	2	2	2
	Same as before	3	3	3	3	3
c	Required additional guarantee than before	1	1	1	1	1
	Required less (or no) guarantee than before	2	2	2	2	2
	Same as before	3	3	3	3	3
d	Required more documents than before	1	1	1	1	1
	Required less documents than before	2	2	2	2	2
	Same as before	3	3	3	3	3

Q13. Based on your past experience and your perception, can you please tell me how helpful is the following financial institutions in terms of the speed in providing loans? (SA)

Bedasarkan pengalaman dan persepsi anda, Bolehkah anda beritahu saya, sejauh manakah institusi kewangan ini membantu dari segi jangkamasa untuk mendapat pinjaman?

	Q13a	Q13b	Q13c	Q13d	Q13e
	Commercial banks	SME Bank	Other Development Financial Institutions	Malaysian Industrial Development Finance	Others (specify): _____
Very speedy/quick	1	1	1	1	1
Some how quicker	2	2	2	2	2
About the same	3	3	3	3	3
Some how slower	4	4	4	4	4
Much slower	5	5	5	5	5

Q14. I would like you to compare the loan's interest rates offered by SME bank against the following financial institution, please tell me if the other financial institution interest rate is more compared to SME Bank.

Saya ingin anda bezakan antara SME bank dengan institusi kewangan yang lain dari segi kadar faedah untuk pinjaman, bolehkah anda beritahu saya, institusi kewangan lain menawarkan kadar faedah yang lebih berbanding dengan SME Bank?

	Q14a	Q14b	Q14c	Q14f
	Commercial banks	Other Development Financial Institutions	Malaysian Industrial Development Finance	Others (specify): _____
Favorable more than 2%	1	1	1	1
Favorable up to 2%	2	2	2	2
About the same	3	3	3	3
Costly up to 2%	4	4	4	4
Costly more than 2%	5	5	5	5

Q15. Can you please tell me your estimate business prospect In 2010? (SA)

Apakah anggaran anda terhadap prospek business anda pada tahun 2010?

The impact of the global financial crisis will still continue.	1
Things will be mostly back to the pre-crisis level (early 2008)	2
Situation has already recovered, and business will significantly exceed the pre-crisis level (early 2008)	3

Commnet

:

Q16. Do you foresee your company's business is likely to expand or take new investments in 2010? (SA)
 Adakah anda merasakan/jangkakan yang syarikat anda akan berkembang ataupun mengambil/menerima sebarang pelaburan pada tahun 2010?

Unlikely	1
Maybe, but lower than pre-crisis (early 2008) level	2
Probably recover to pre-crisis (early 2008) level	3
Things will be much stronger than pre-crisis level	4

Commnet

:

Q17. Before we end our survey, do you have any suggestion to us on how SME Bank can assist you in your business growth? (Please be specific on the suggestion given)

Respondent's Profile

Q18. Your business turnover size

Turnover size for 2008	RM
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Q19. Your business employee size

Number of employees as of November 2009	
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Q20. Your business sector (select one most major business)

Tourism	1
Other services	2
Retail (shops, etc.)	3
Wholesale	4
Trading	5
Manufacturing (export market)	6
Manufacturing (domestic market)	7
Construction	8
Other (specify): _____	9

Q21. Your business location (city/state)

City	
State	