

SMEs in the Post Crisis Era: The DFI Experiences

Abu Hassan Alshari bin Yahya
Assistant Governor
Bank Negara Malaysia
6 July 2012



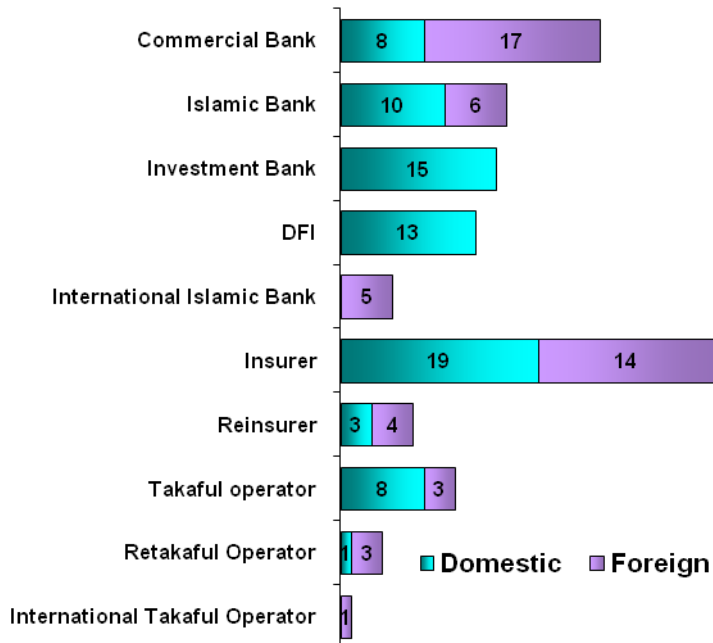
Outline of Presentation

- **Malaysia's Financial Landscape**
- **Importance and performance of SMEs during crisis**
- **Role of DFIs in SME Financing**
- **SME Financing and Development Landscape**
- **Moving Forward**
 - **SME Masterplan 2012 - 2020**
 - **Financial Sector Blueprint 2011 – 2020**

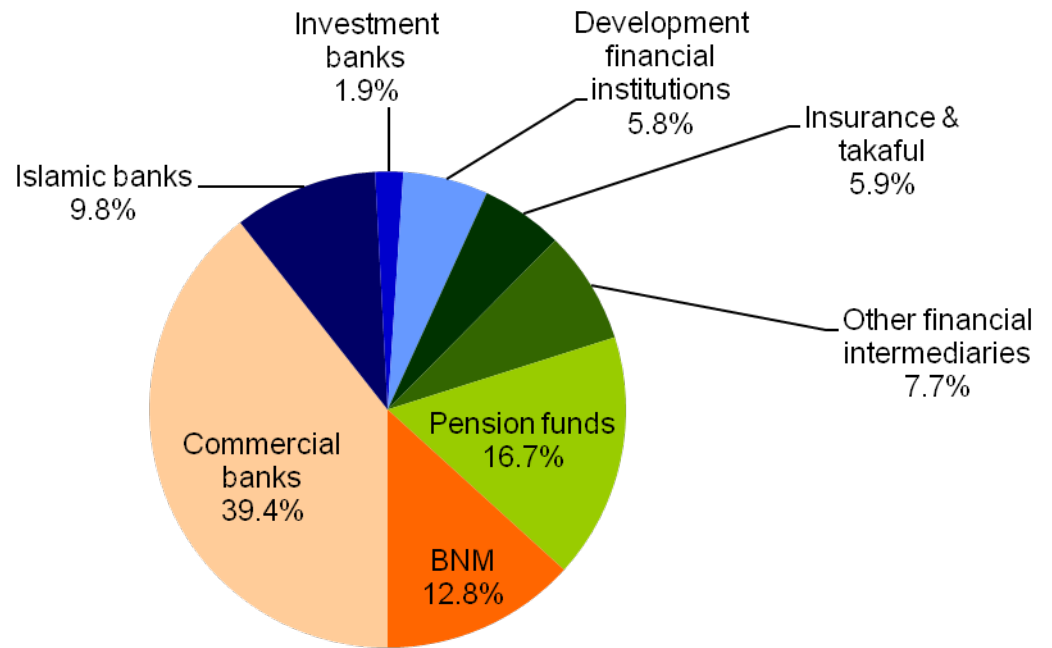


Size of financial system participants

- Total assets of financial system at end-2011 was RM3.51 trillion
- Banking system and DFIs continue to be primary financial intermediary
 - Accounted for 57% of total financial system assets



Number of financial institutions in Malaysia (as at end-2011)



Assets of the financial system (as at end-2011)



Representing 99% of total establishments, SMEs are important agents of growth in the economy

SME Definition

Annual turnover:

Size	Manufacturing	Other Sectors
Micro	≤ RM250,000	≤ RM200,000
Small	≤ RM10 mil	≤ RM1 mil
Medium	≤ RM25 mil	≤ RM5 mil

OR

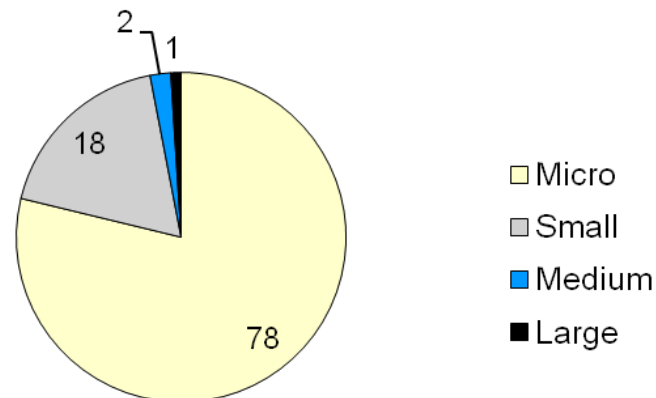
No of employees:

Size	Manufacturing	Other Sectors
Micro	≤ 5	≤ 5
Small	≤ 50	≤ 19
Medium	≤ 150	≤ 50

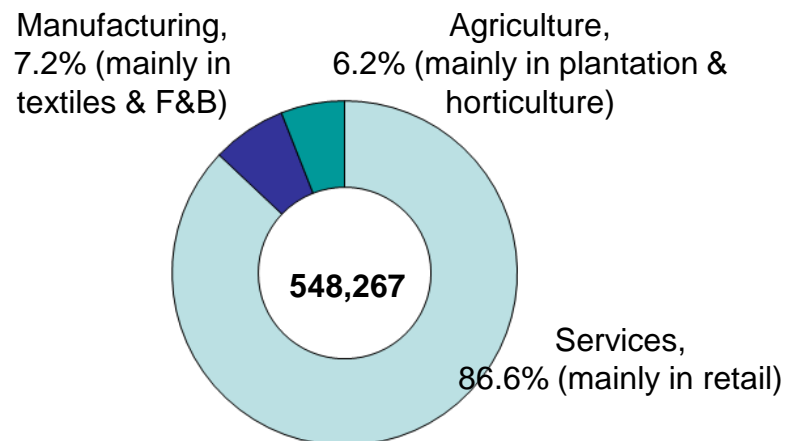
Contribution of SMEs to the Economy

GDP	32%
Exports	19%
Employments	56%

% to Total Establishments



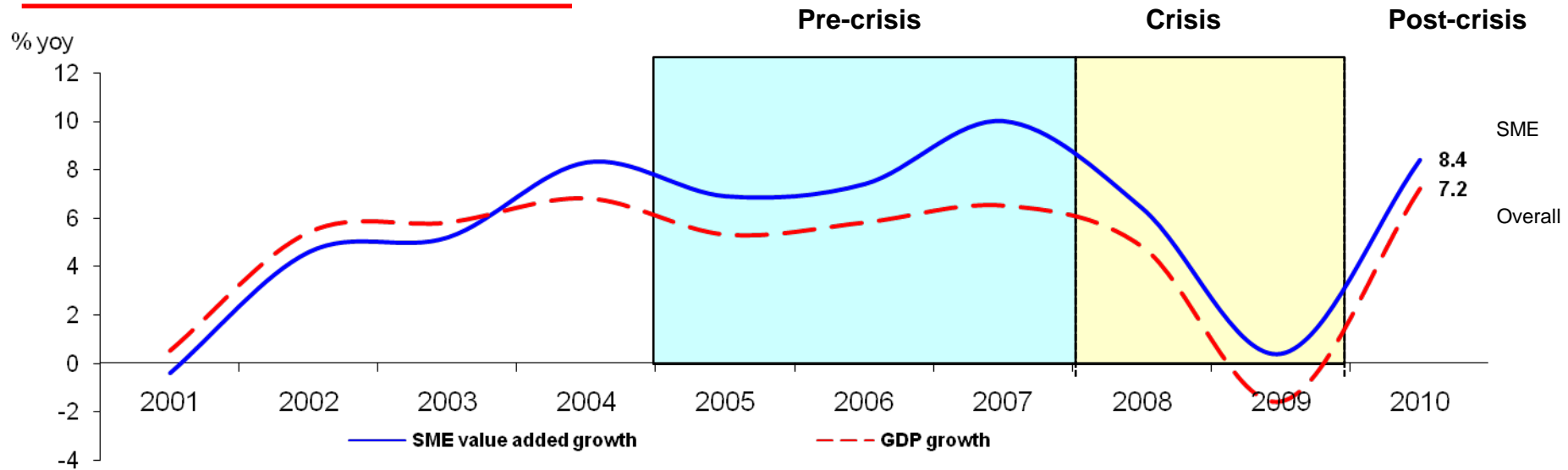
SMEs by Sector



Performance of SMEs outpaced the overall growth of the economy

Intervention measures by the Government played an important role

SME value added vs. GDP growth



Before 2004..

- Fragmented development efforts of SME development
- Lack of capacity building programmes for SMEs
- Duplication of programmes and role of ministries
- No standard definition of SMEs

After NSDC was established in 2004..

- SME growth outperformed the overall economy growth mainly to policy initiatives mainly due to:
- Improved coordination of SME programmes
 - Improvement in Government delivery system (PEMUDAH);

Post crisis..

- SME growth continue to outperform the overall economic growth during the global crisis: mainly due to:
- 1 Stimulus package by the Government amounting to RM15.6 b for SMEs and other policies
 - 2 Financial institutions supportive



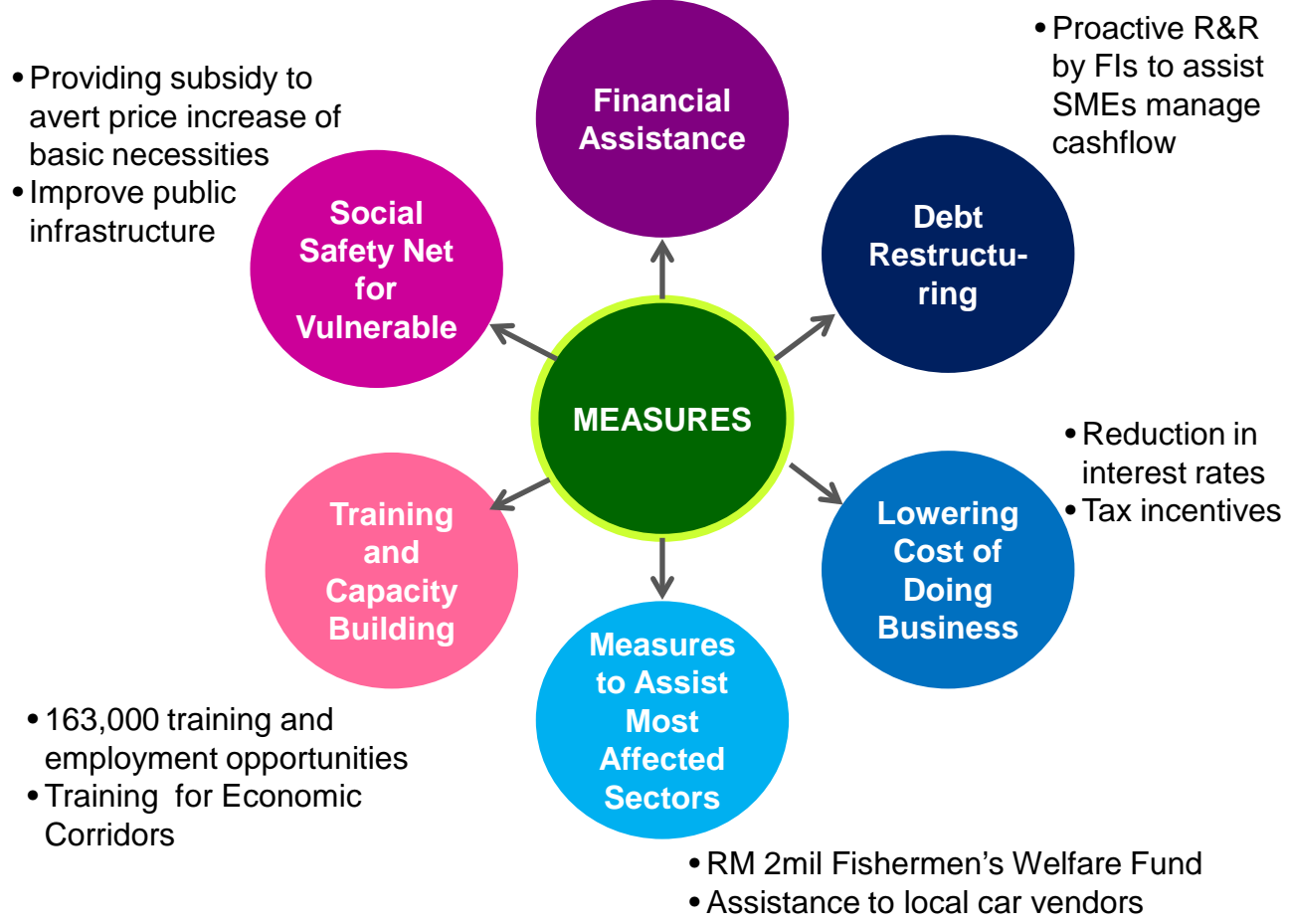
1 Stimulus package by the Government to address challenges faced by SMEs during (2008- 2009) crisis

Key challenges during crisis

- 1 Contraction in demand and lower sales
- 2 Cashflow problems
- 3 Increase in price of raw materials
- 4 Labour problem
- 5 Delay in payments collections

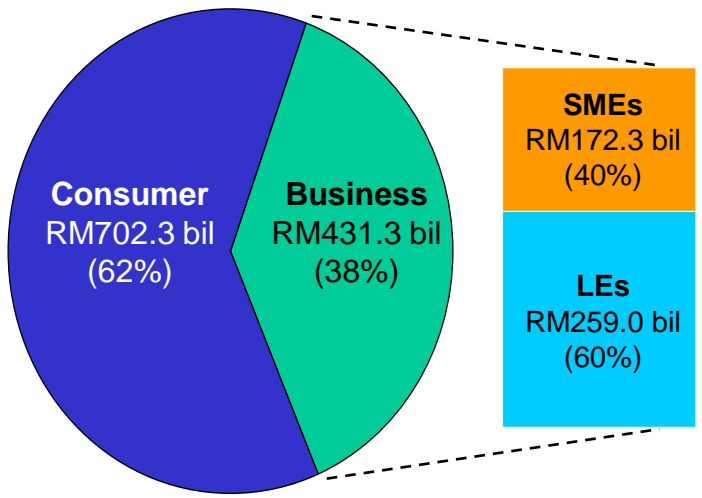
BNM and Government Policy Response

- RM1.2 bil SME Assistance Facility & SME Modernisation Facility
- RM5 bil Working Capital Guarantee Scheme
- RM2 bil SME Assistance Facility



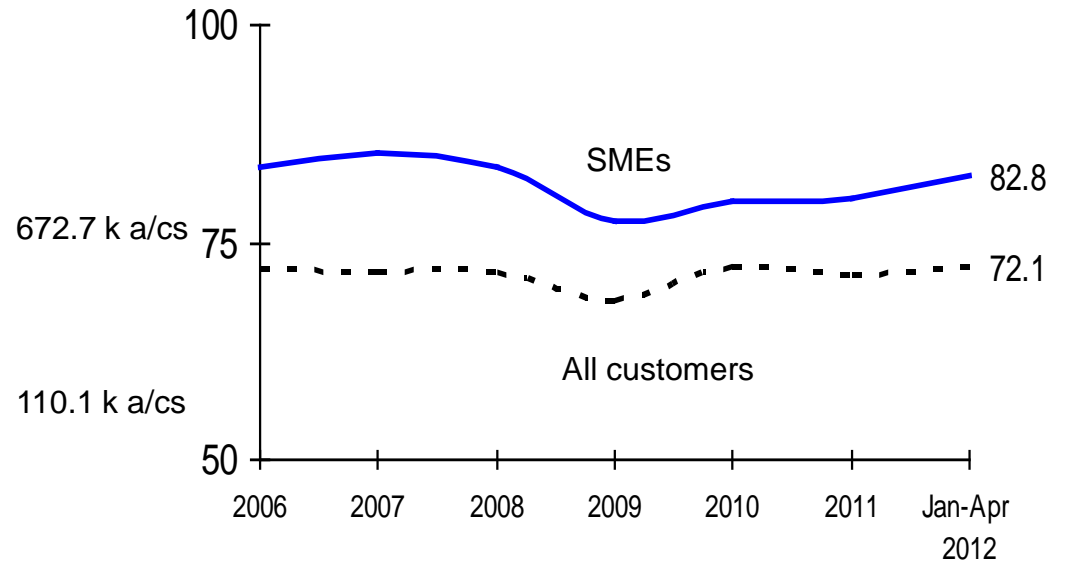
2 Financial institutions continue to be supportive of SMEs

End April 2012: SMEs constitute 40% of outstanding business financing



- Total loans extended by the financial system: RM1,133.6 bil
- 13% of financing extended to SMEs are Islamic financing

Financing approval rate (%)



- Continuous high approval rate

DFIs complement banking institutions in supporting the needs of targeted sectors

Financing Outstanding as at end-Apr 2012 RM billion



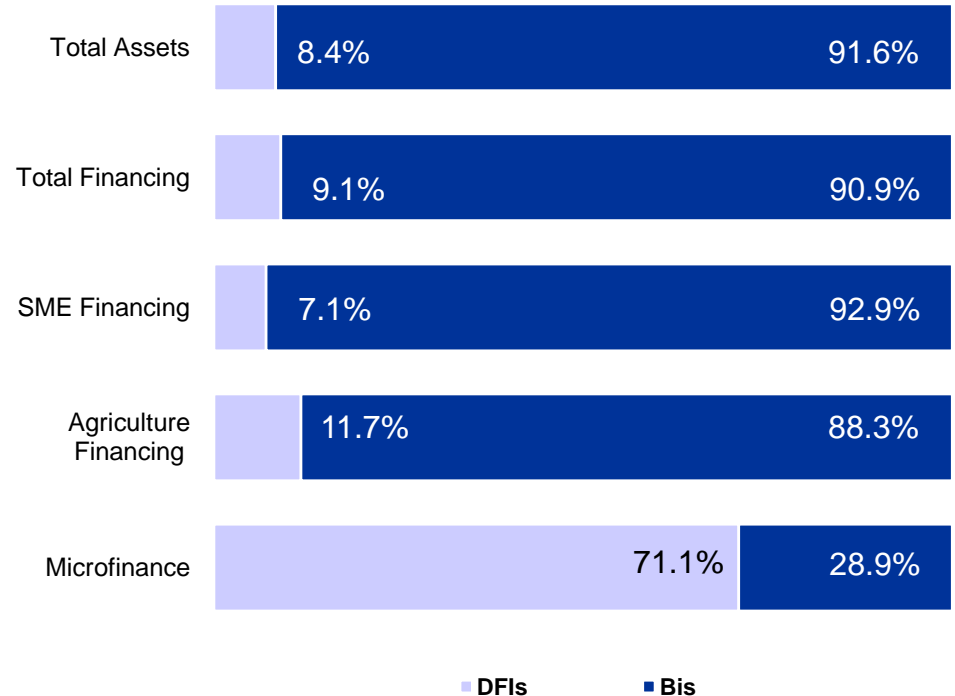
- 93% of total SME financing are from BIs and DFIs
- FIs have 672,621 SME accounts (Banks: 659,981, DFIs: 102,640)

Note:

*Excluding funds channeled through FIs

¹As at end-2011

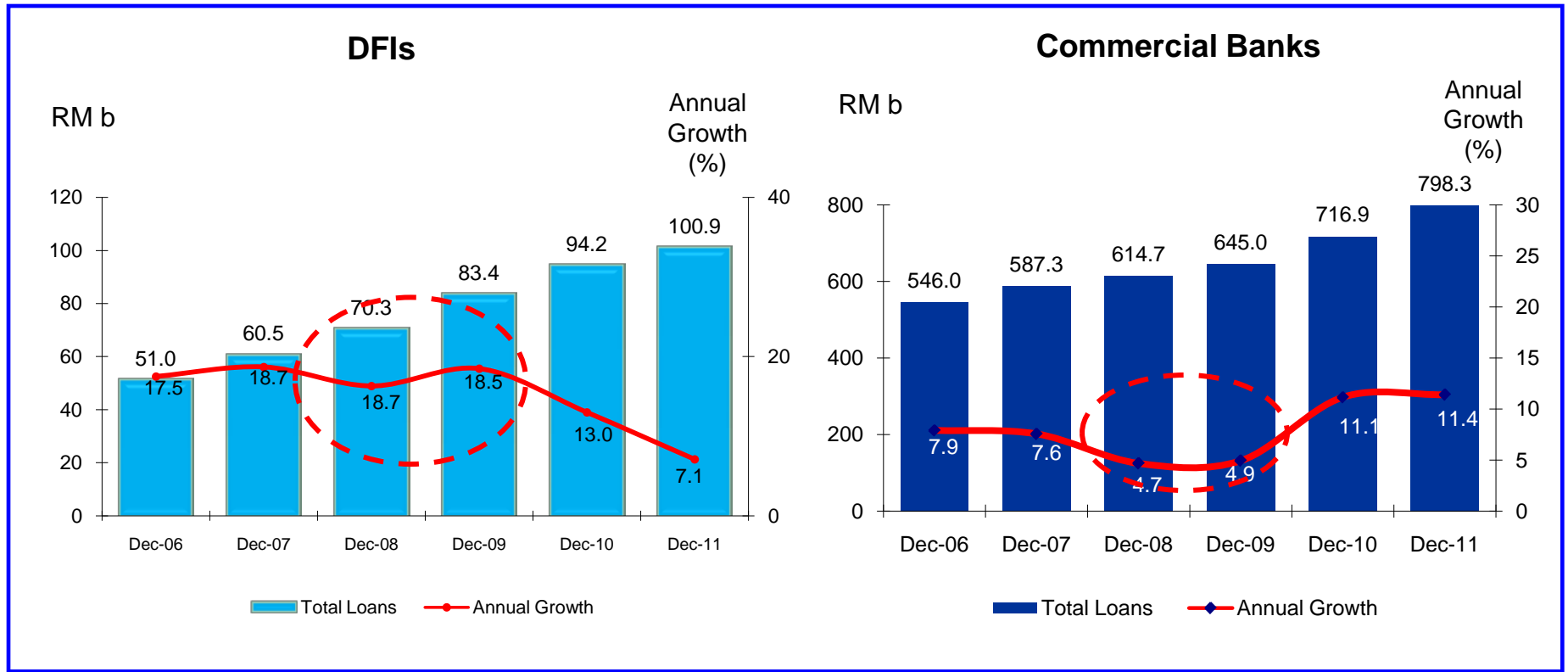
Share of DFIs to total financial system



Total Islamic financing portfolio of DFIs are 65% of total financing portfolio



DFIs play a complementary role to banking institutions, offering customised products and services to SMEs

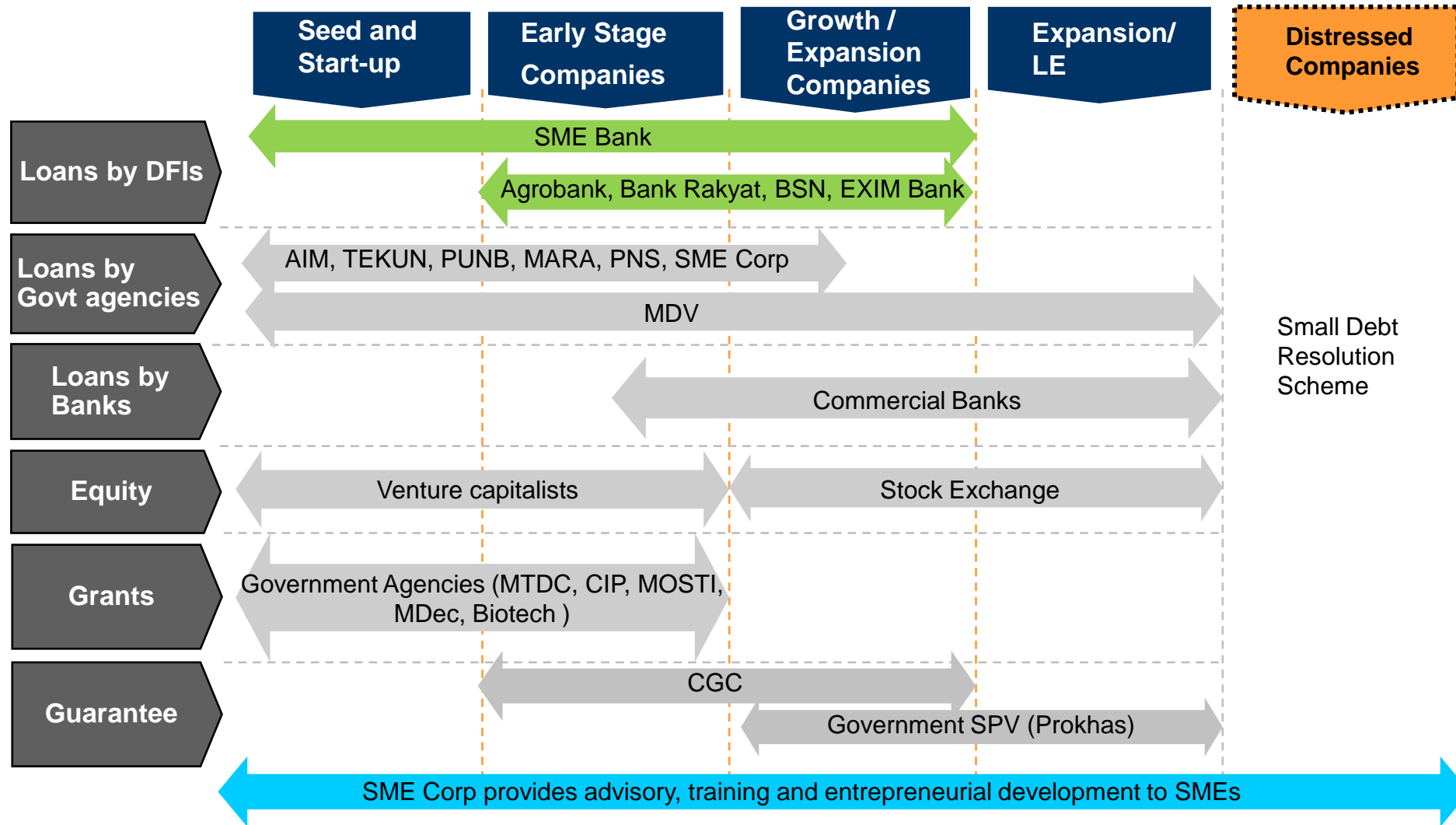


- **DFIs complement the banking institutions:**

- Provide advisory services to nurture and handhold SMEs;
- Availability of government funds to targeted sub-sectors; and
- Offer customised financial products and services



Comprehensive financing landscape supports the development of SMEs at all stages of the business life-cycle



Innovative SMEs are given incentives under the Green Lane Policy (GLP) and the Green Technology Financing Scheme (GTFS)

Green Lane Policy

Objective

- To facilitate innovative SMEs to obtain various incentives provided under this policy

Eligibility

- Innovative SMEs under 1-InnoCERT programme by SME Corp Malaysia
- Bionexus companies of Malaysian Biotechnology Corporation
- MSC status companies of Multimedia Development Corporation
- Malaysian Technology Development Corporation grant recipients

Incentives

- **Subsidised financing from 3 DFIs** - 2% p.a. profit/interest rebate subject to max. subsidy RM200,000 annually or cum. RM1 million for 5 years
- Tax incentive – Stamp duty waiver for financing agreements and single tax deduction for cost of obtaining 1-InnoCERT
- Priority procurement by GLCs & Govt

Green Technology Financing Scheme (GTFS)

- To facilitate the improvement of supply and utilization of Green Technology by providing easier access to financing

- Companies who have passed technical audit by GreenTech Malaysia
- Producers or users of Green Technology which refers to products, equipment, systems which:
 - Minimises degradation of environment
 - Zero or low green house gas emissions
 - Safe for use and promotes healthy & improved environment for all forms of life
 - Conserves the use of energy & natural resources
 - Promotes the use of renewable resources

- Govt bears 2% of financing rate charged to customers (Financing is provided by FIs)
- Govt guarantees 60% of financing approved
- Only 0.5% p.a guarantee fee



Holistic Framework is in place to assist SMEs access financing

I Financial Infrastructure

- Microfinance Institutional Framework
- Strengthening the Development Financial Institutions (DFI)
- Credit Guarantee Corporation (CGC) & PROKHAS
- Credit Bureau Malaysia
- SME Financing Facilitation (ABM-PARTNER)

IV Avenues to Obtain Information & Advice/Redress

- BNMLINK, BNMTELELINK, Mobile LINK
- Financing Help Desks at SME Business Assocs.
- ABMConnect
- Bankinginfo & SMEInfo Portal (www.bnm.gov.my)
- Complaint & SME advisory units at FIs

II Financing Schemes

- 5 BNM SME Funds (*RM1.4 bil still available*)
- Venture Capital Funds Agriculture & ICT

V Debt Resolution & Management

- Small Debt Resolution Scheme (SDRS)
- Agensi Kaunseling dan Pengurusan Kredit (AKPK)

III Guarantee Schemes

- 8 CGC Guarantee Schemes
- Green Tech. Financing Scheme (RM1.5b)
- EXIM Overseas Guarantee Facility

VI Outreach & Awareness Programmes

- SME financial exhibition
- Mass media advertisements
- Distribution of promotional materials through strategic partners, including Local Authorities



Malaysia ranks high in terms of financial access

<u>Category</u>	<u>Ranking</u>	<u>Source</u>
'Getting Credit'	No. 1 for 4 consecutive years	<i>World Bank (Doing Business 2009, 2010, 2011 & 2012 Reports)</i>
'Ease of Access to Loans'	No. 8 in 2011 from no.10 in 2010	<i>World Economic Forum (The Global Competitiveness Reports 2010-2011 and 2011-2012)</i>
'Ease of Access to Credit'	No. 2 out of 60	<i>World Economic Forum (The Financial Development Report 2011)</i>
'Venture Capital Availability'	No. 10 out of 142	<i>World Economic Forum (Global Competitiveness Report 2011 – 2012)</i>



Moving forward, SME Masterplan 2011-2020 to facilitate innovation-led and productivity-driven growth to achieve high income nation

SME Development Framework

Vision:

Globally competitive SMEs across all sectors that enhance wealth creation and contribute to the social well-being

Goals

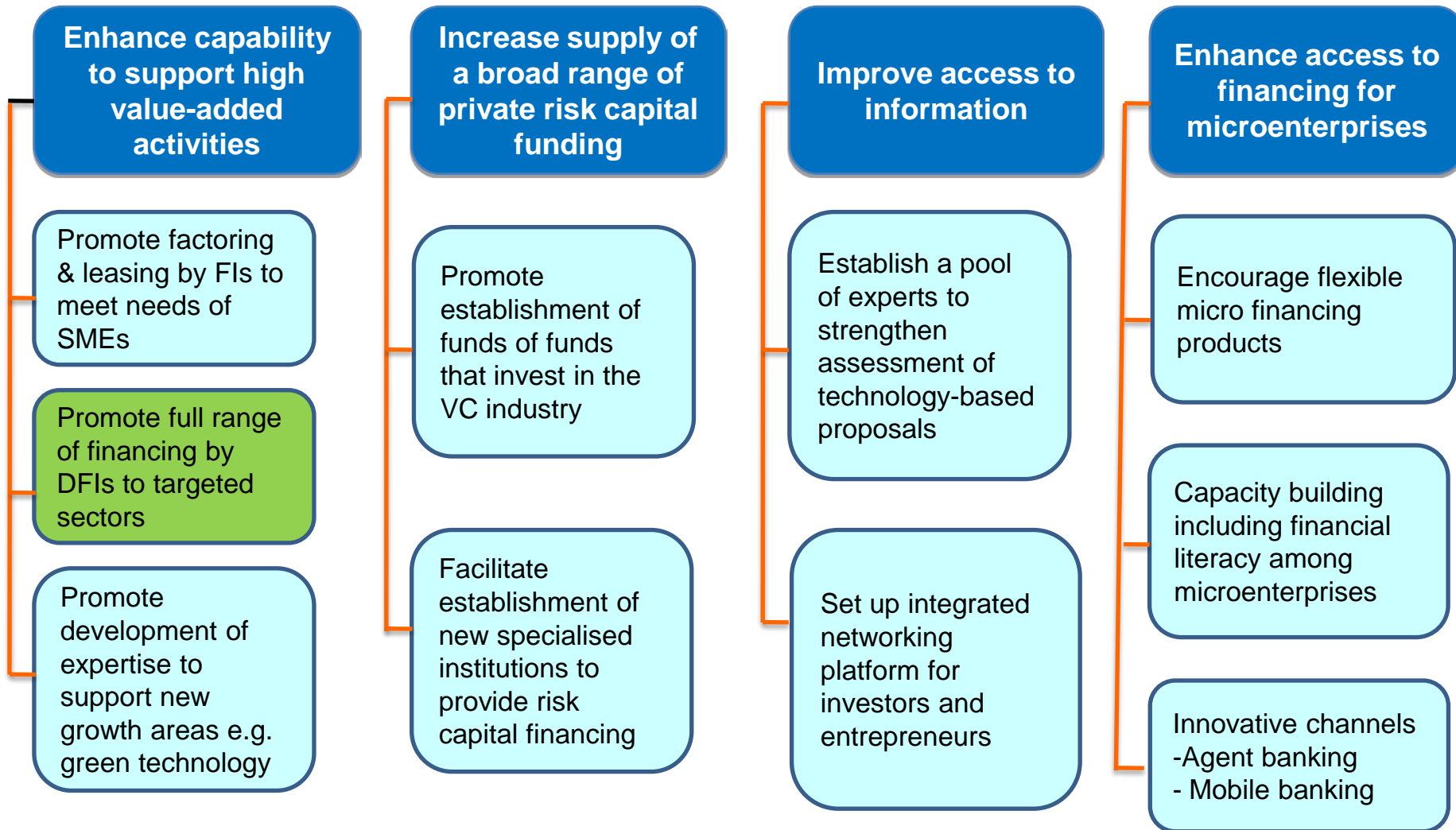
- 1 Increase Business Information
- 2 Expand number of high growth and innovative firms
- 3 Raise Productivity
- 4 Intensify formalisation

Focus Areas

- 1 Innovation & Technology
- 2 Access to Financing
- 3 Human Capital
- 4 Market Access
- 5 Legal & Regulatory Environment
- 6 Infrastructure



Financial Sector Blueprint 2011 – 2020 focuses on developing a larger pool of innovative and frontier SMEs



DFIs will play a more significant role in financing targeted sectors to support Malaysia's economic transformation

Needs of the Economy in 2020

- Diversification in economic structure and **higher value chain activities**
- Larger pool of **frontier SMEs**
- Extensive, efficient and modern **infrastructure projects**
- Intermediation of funds from **deeper regional and global integration**
- **Internationalisation and regionalisation** of Malaysian firms

Envisioned Role of DFIs by 2020

Catalyst for economic transformation

- Leading **provider of innovative and flexible products and services** to targeted sectors i.e. agriculture, SMEs, retail, micro-enterprises and cooperative sectors
- Support financing to **new strategic growth areas and high value, technology and innovation driven industries**
- **Promote exports and stimulate local growth** through innovation and knowledge

Driver for financial inclusion

- Steer the implementation and promotion of **financial inclusion** policies and initiatives



Summary

- SMEs due to its size are **agile and flexible**. They strengthen resilience of the economy, and act as agents promoting innovation and new growth areas.
- Given the importance of **SMEs**, the **Government has been very supportive** for the SME development particularly during the global crisis period.
- On the financing aspect, SMEs **continue** to get **access to financing** of financial institutions. **Financial Sector Blueprint 2011 – 2020** focuses on supporting SMEs in high value-added sector and building capacity of microenterprises.
- **DFIs** act as **catalyst of economic transformation** and **drivers for financial inclusion**.
- Moving forward the SME Masterplan 2012 -2020 will focus on strengthening the innovation and productivity of SMEs.

