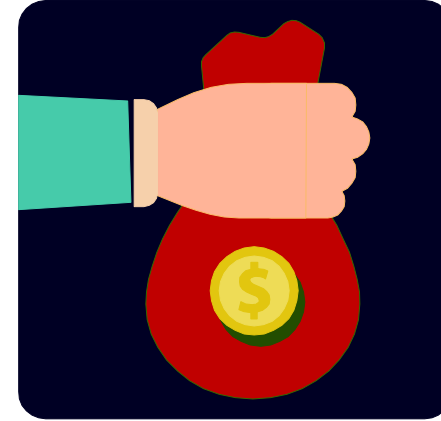


16th OECD-ADBI Roundtable on Capital Market and Financial Reform in Asia, 22-23 March 2016, Tokyo



A comprehensive Financing
Ecosystem for SMEs:
the Malaysian Experience

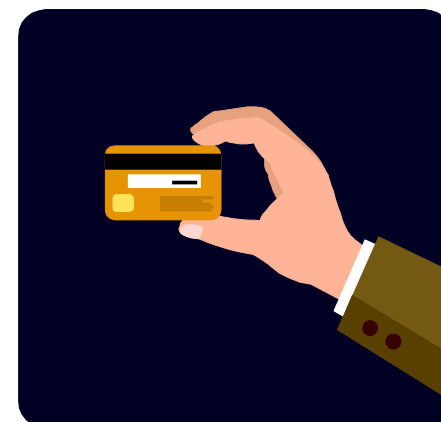


K. Karunajothi

Deputy CEO

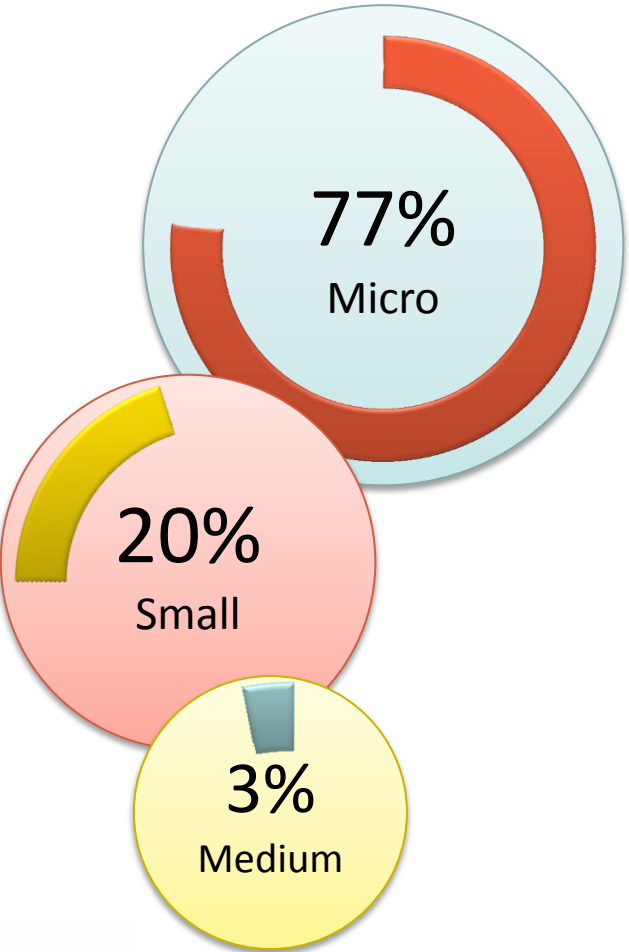
SME Corp. Malaysia

jothi@smecorp.gov.my

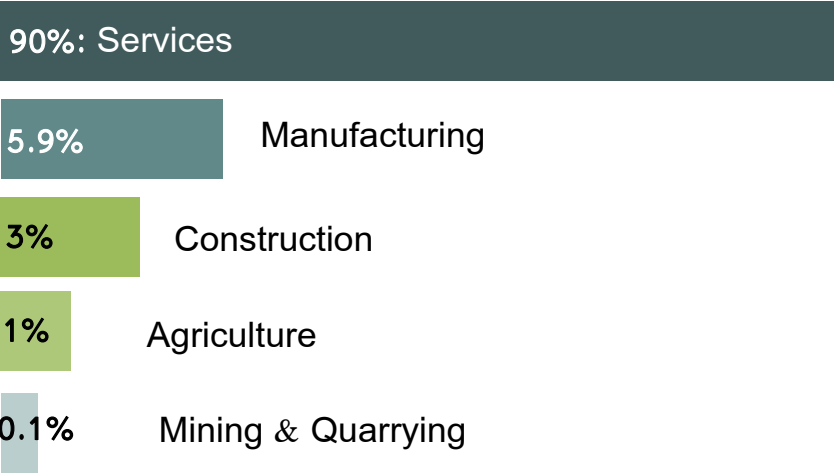


SMEs are important **economic agent** in Malaysia

97.3% (645,136) business establishments in the country are SMEs



SMEs cut across **all sectors** of the economy



SMEs contribution to the economy



Malaysia has a **comprehensive framework** for SME development



- **National SME Development Council** was set up in 2004
- Chair: Prime Minister of Malaysia
- Members: 13 Ministers, Chief Secretary to Government, Governor of Central Bank & Director General of Economic Planning Unit

Significant progress made...



SME Definition



SME Macro Statistics



Censuses on SMEs



SME Development Framework



SME Corp. as central coordination agency



SME Masterplan



Centralisation of training programme & advisory
Information – Annual Report, SMEIPA, SMEinfo portal



New financial products – microfinance, guarantee



Financial infrastructure – SME Credit Bureau, Small Debt Restructuring Scheme, transformation of DFIs

SME Corp. is the **Central Agency** for SME development



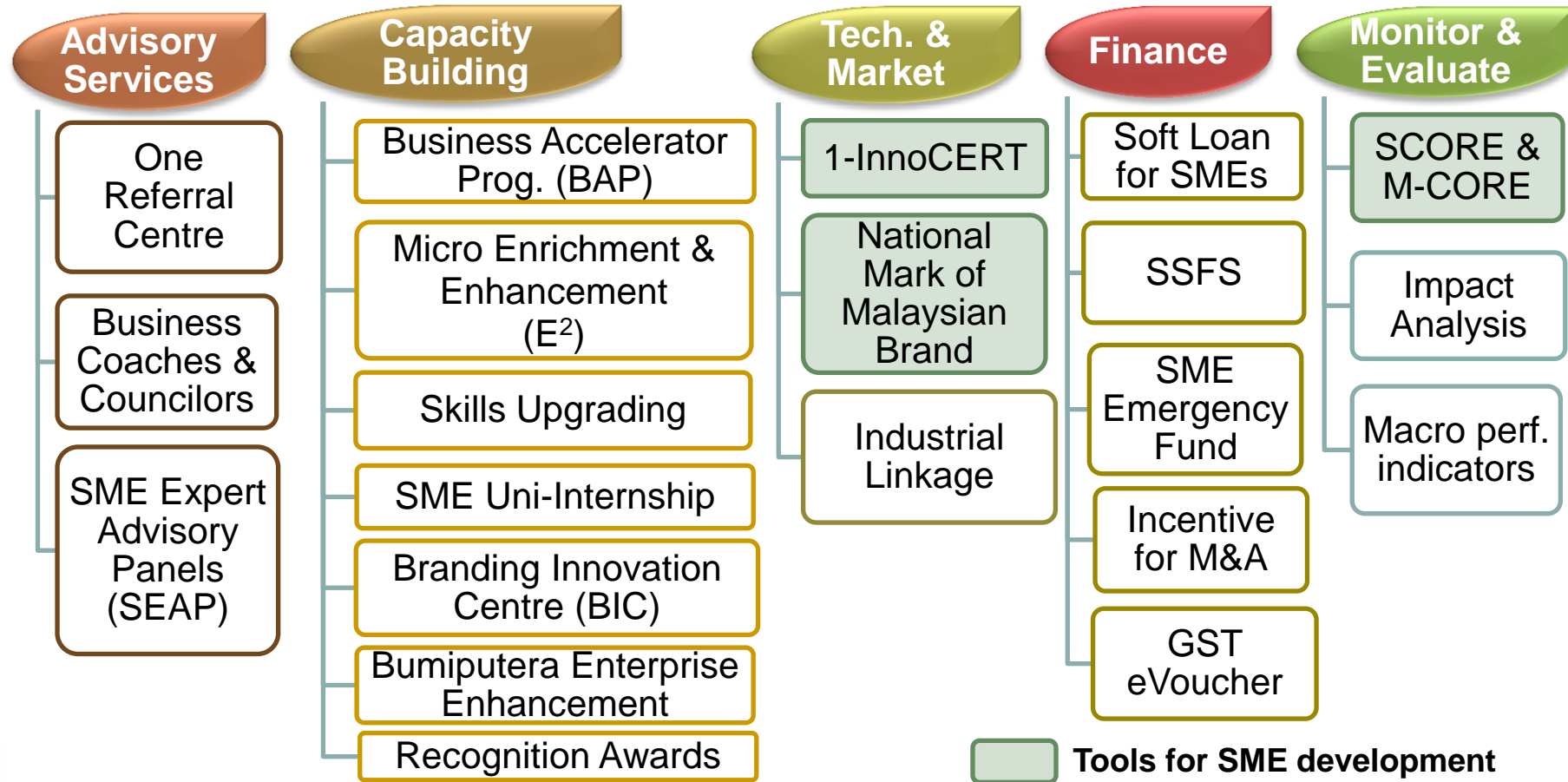
Roles of SME Corp:

- National SME Policy
- Coordination of SME programmes
- Business development and outreach
- Secretariat to NSDC

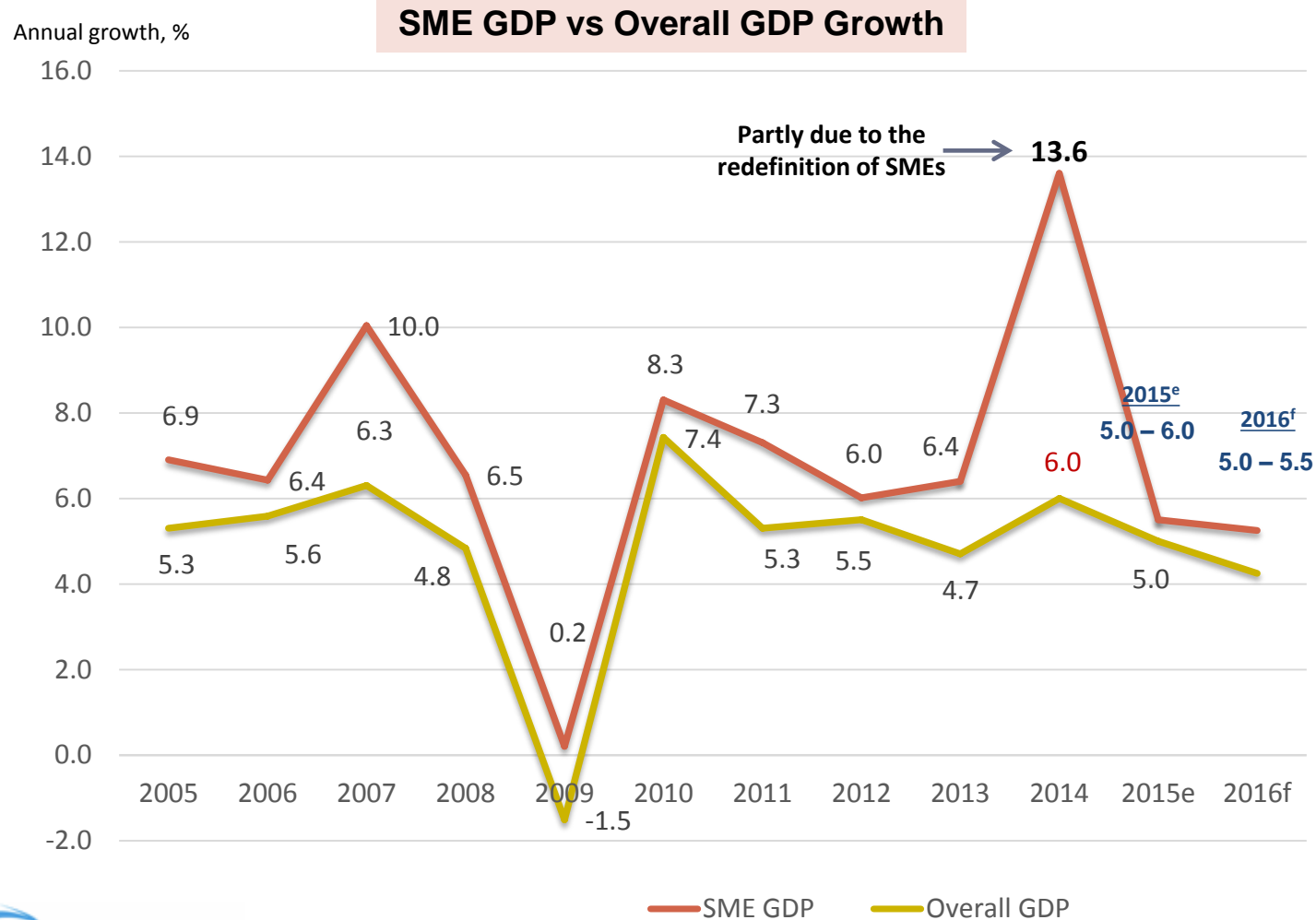
SME Corp. has **specific** programmes

Promote development of dynamic, competitive and resilient SMEs in all sectors towards increasing SME contribution to the economy

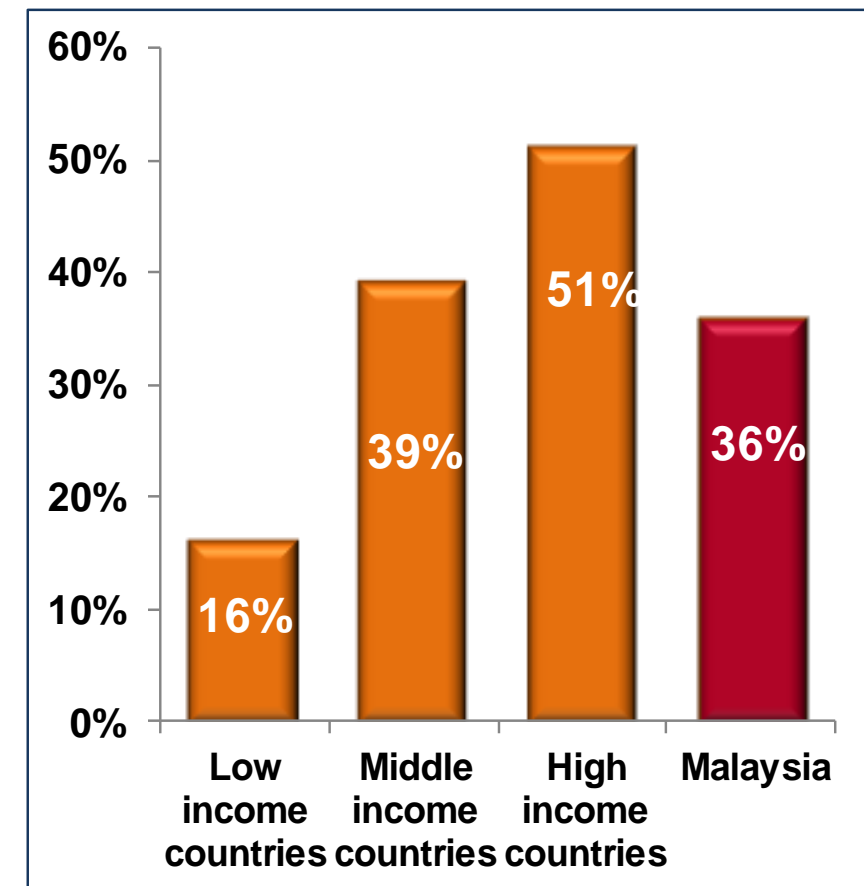
SME Corp. Initiatives



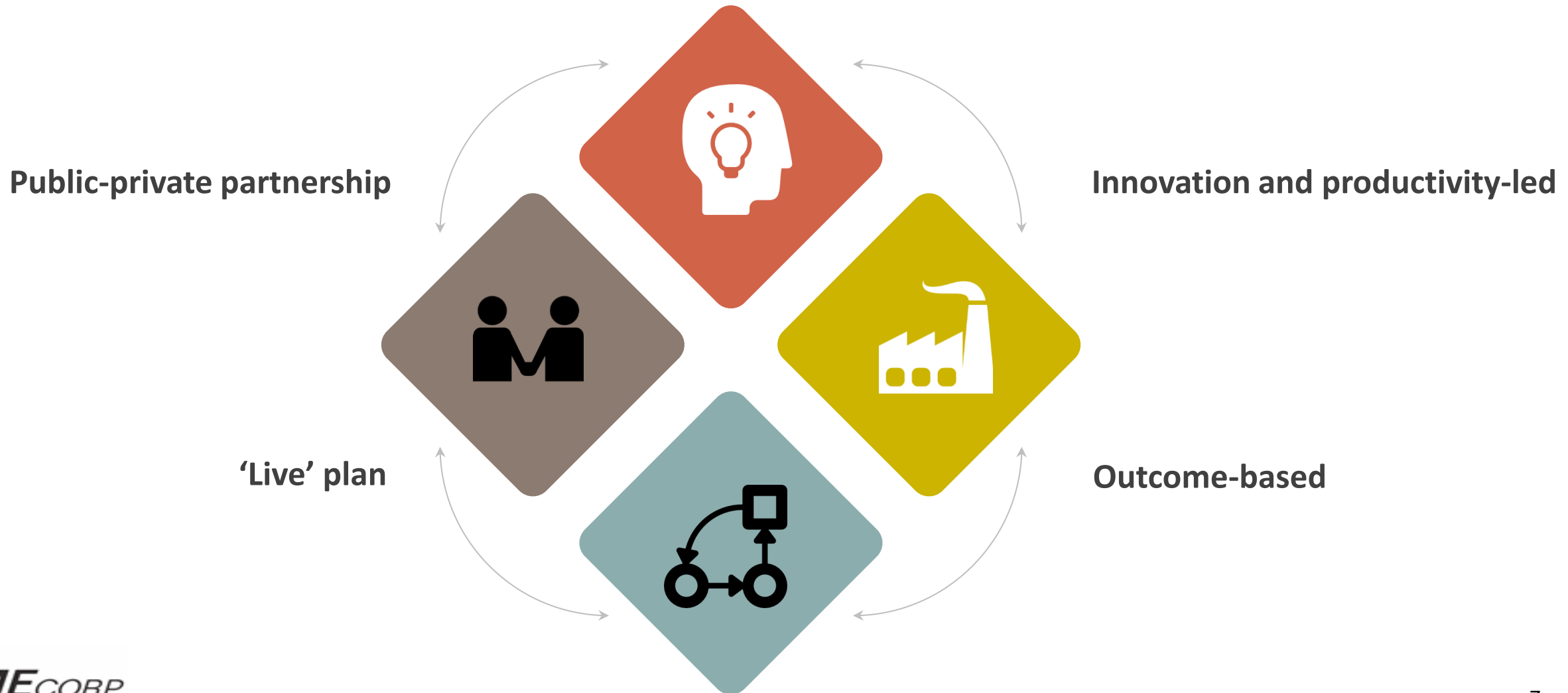
Resulting in **impressive** SME growth... but still lagging compared to other high income nations



Contribution of SMEs to GDP in 2014



Why the SME Masterplan?



To unleash the growth potential of SMEs

4 key findings of the Masterplan.....

Low productivity:
compared to large firms in Malaysia & SMEs in developed countries



01

Material share of informal sector
in economy:
31% of GNI



02

Low business formation
compared to high income countries, mainly registered are sole proprietorships & partnerships



03

Small no. of high growth firms
contribute most to economy



04

A new SME development framework for innovation-led & productivity-driven growth

Vision

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

SME Development Framework

Goals

Increase business formation

Expand number of high growth and innovative firms

Raise productivity

Intensify formalisation

Focus Areas

Innovation & Technology Adoption

Human Capital Development

Access to Financing

Market Access

Legal & Regulatory Environment

Infrastructure

Action Plan

Institutional Support

Reliable Database

Monitoring & Evaluation

Effective Coordination

Effective Business Services

Focus will be on addressing **key constraints to growth**

Constraints to Growth



INNOVATION & TECHNOLOGY

- Access to national innovation system
- Low commercialisation & R&D
- Poor technology uptake



MARKET ACCESS

- Procurement by Govt/LSIs
- Information barrier to exports
- Limited focus on marketing & branding
- Low bargaining power



HUMAN CAPITAL DEVELOPMENT

- Workforce lacks job readiness
- Low utilisation of existing training
- Non-competitive rewards & benefits



LEGAL & REGULATORY FRAMEWORK

- Licensing / permits
- Complying to regulations
- Legislations disincentivising formation & growth



ACCESS TO FINANCING

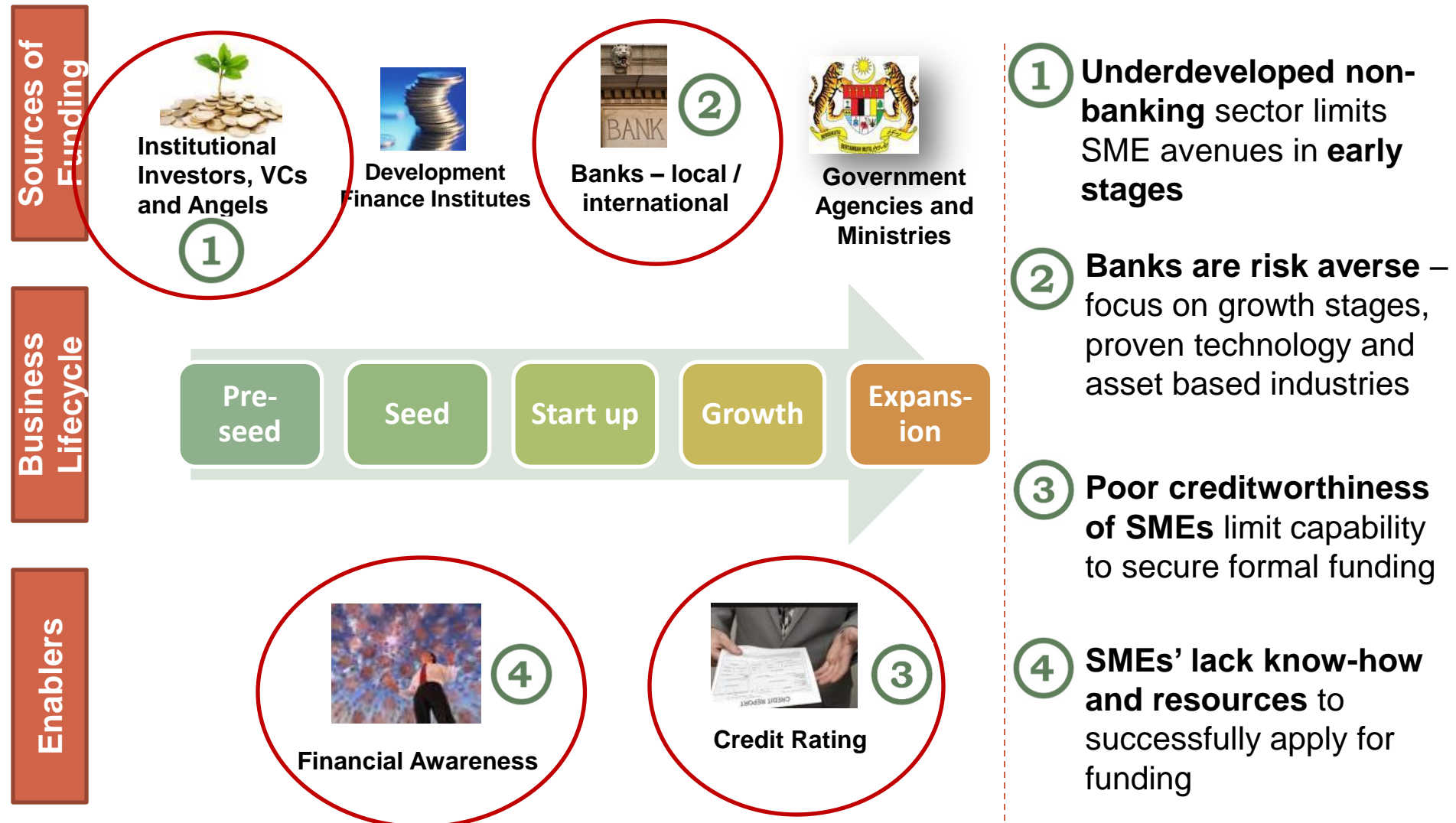
- **Limited non-banking avenues**
- Poor creditworthiness
- Lack of know-how and resources



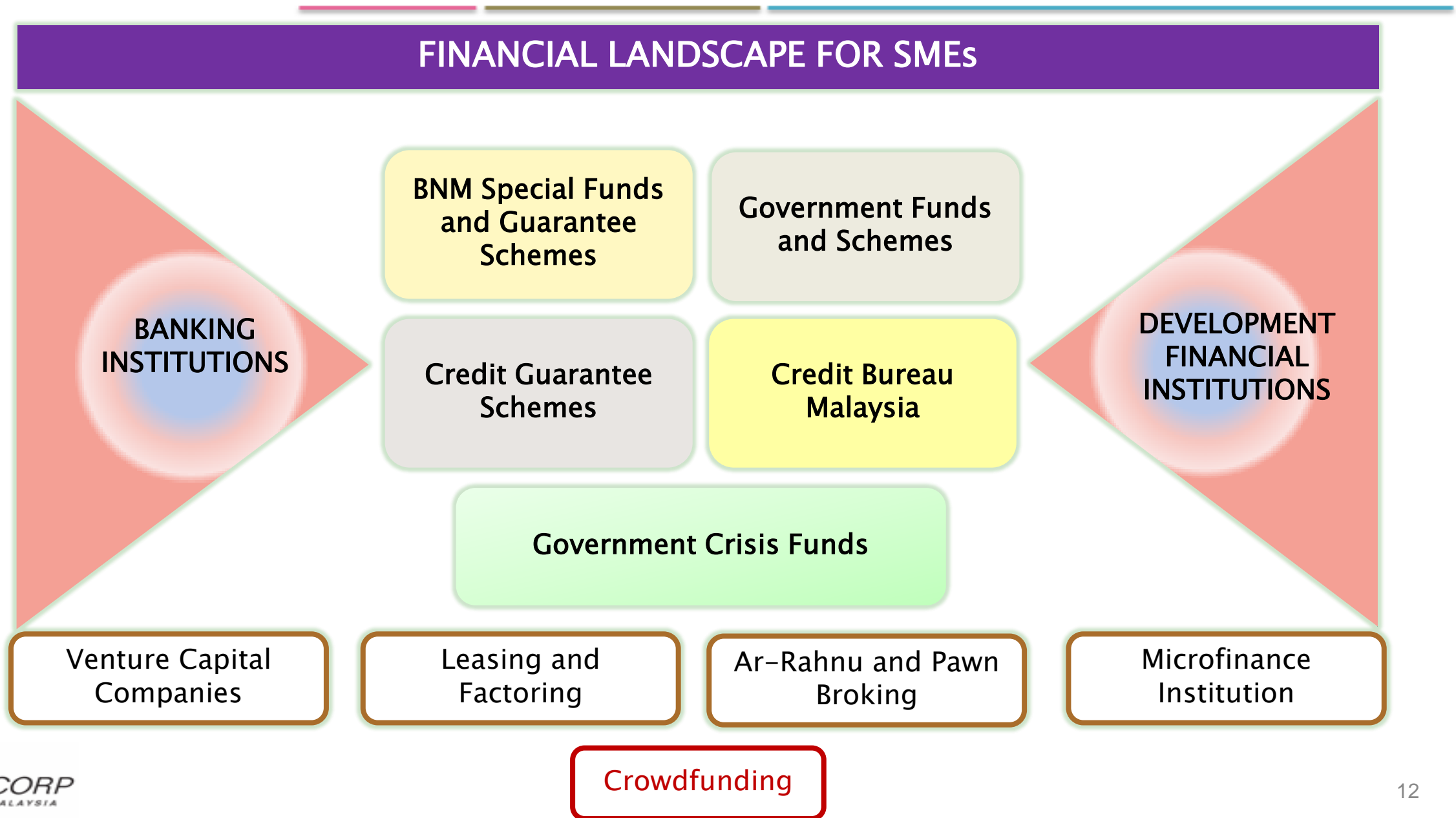
INFRASTRUCTURE

- Trade clearance and facilitation system
- Low and infrequent trade volume

Challenges related to access to finance



While Malaysia has a relatively **comprehensive financial landscape** for SMEs....

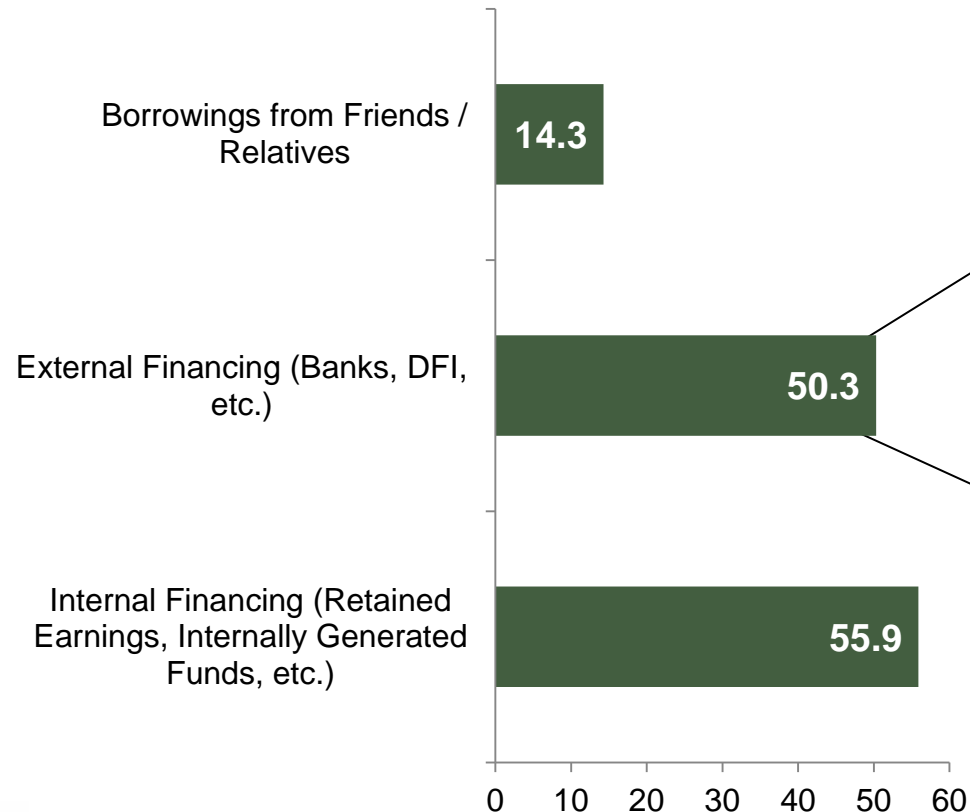


...FIs have been the **main** source of **external** financing

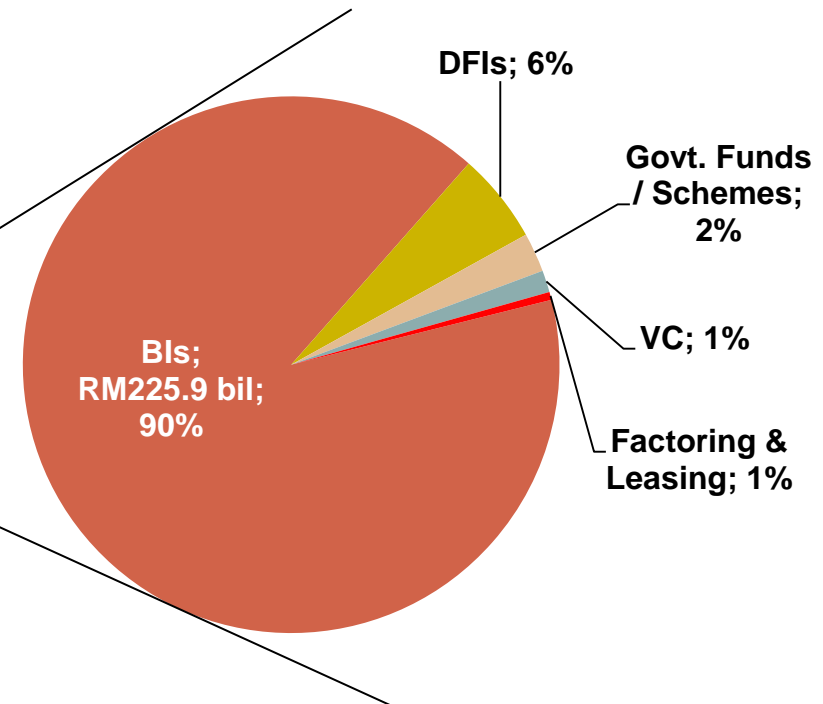
Share of SME financing to total business financing increased to **46.6%** as at Nov 2015 from 30% in 2002

FIs account for 96% of total financing

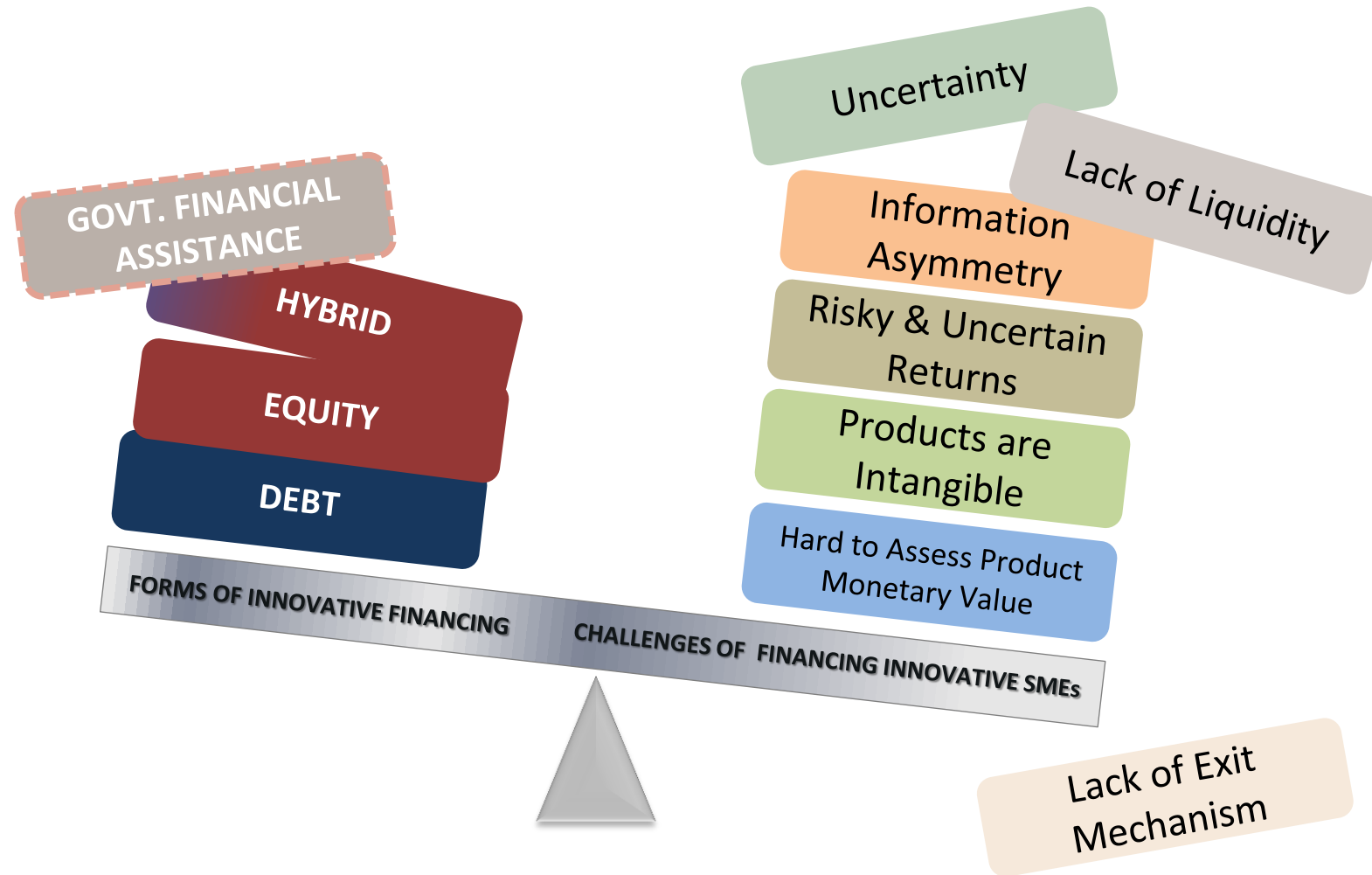
Source of Financing of SMEs (% share)



Financing Outstanding as at end 2014

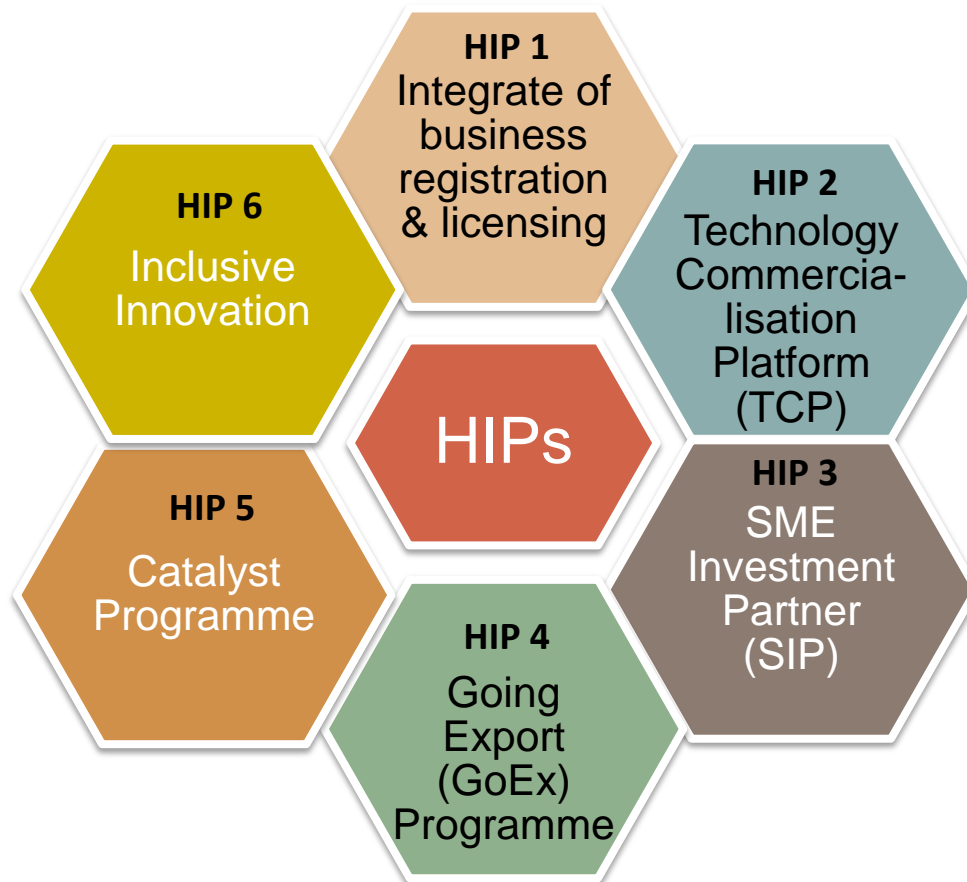


Financing **start-ups & innovative and high growth SMEs** still a challenge



Recommendations under the SME Masterplan

① 6 High Impact Programmes (HIPs)



② 4 Thematic Measures

- Resource pooling & shared services
- Create demand for SME products & service
- Reduce information asymmetry
- Building capacity & knowledge

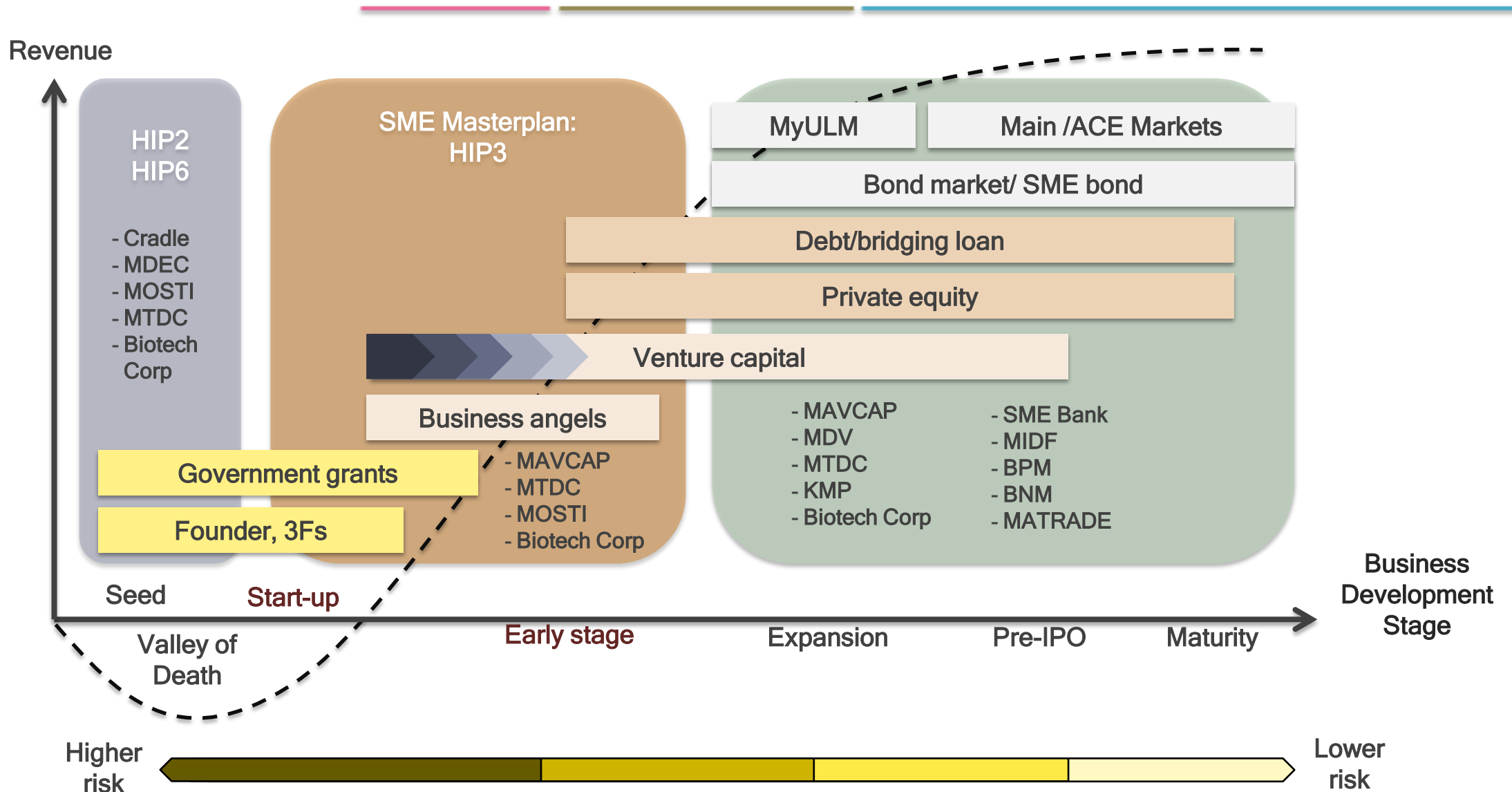
③ East Malaysia

- Improve connectivity & basic amenities
- Review restrictive laws & policies
- Ease market access

④ Other Measures

- Completion of Integrated trade system (single window)
- Bankruptcy Law to give entrepreneurs 2nd chance
- Review SME taxation policy
- Synchronise measures on productivity enhancement

SME Masterplan addresses the gap at **start-up** & **early stages**

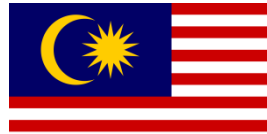


Source: Securities Commission Malaysia

HIP 3 aims to address market imperfections

SME Investment Partner Programme (HIP 3)

Government



Seed capital

Funding Agency



- Authorisation
- 2X matching loan @ 2%
- Monitoring



Private Investors



- Capital repayment
- Share of returns

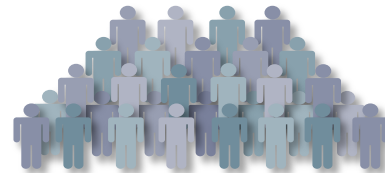
SME Partners



- Debt, equity or hybrid
- Guidance



SMEs

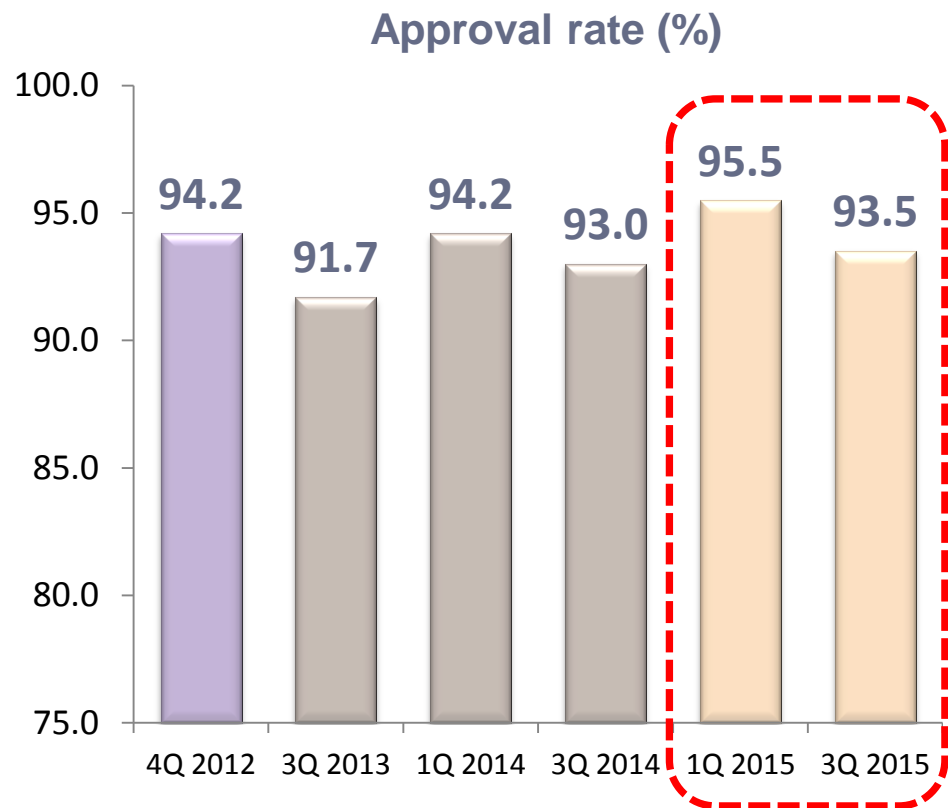


There has been growing sources of **new funding** for SMEs

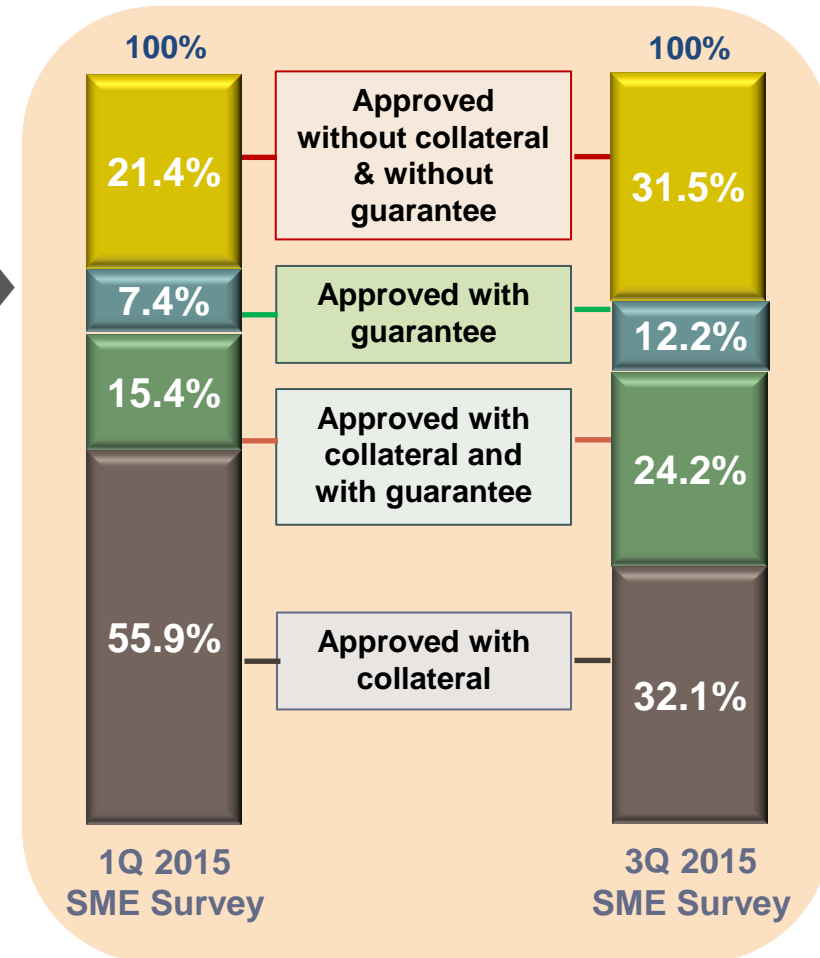


Increasing usage of guarantees by SME

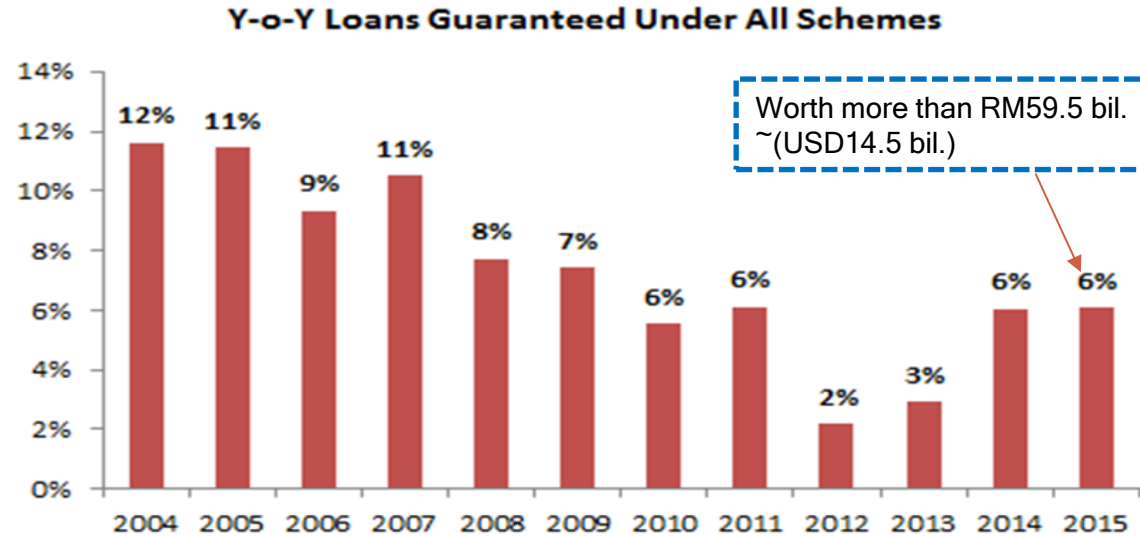
- 42% applied for financing of which 93% approved
- Lending supported by increasing guarantees
- Banks also lending more without collateral



Source: SME Corp. Malaysia Quarterly Surveys



Government agencies & DFIs offer **guarantee schemes** for greater access to financing



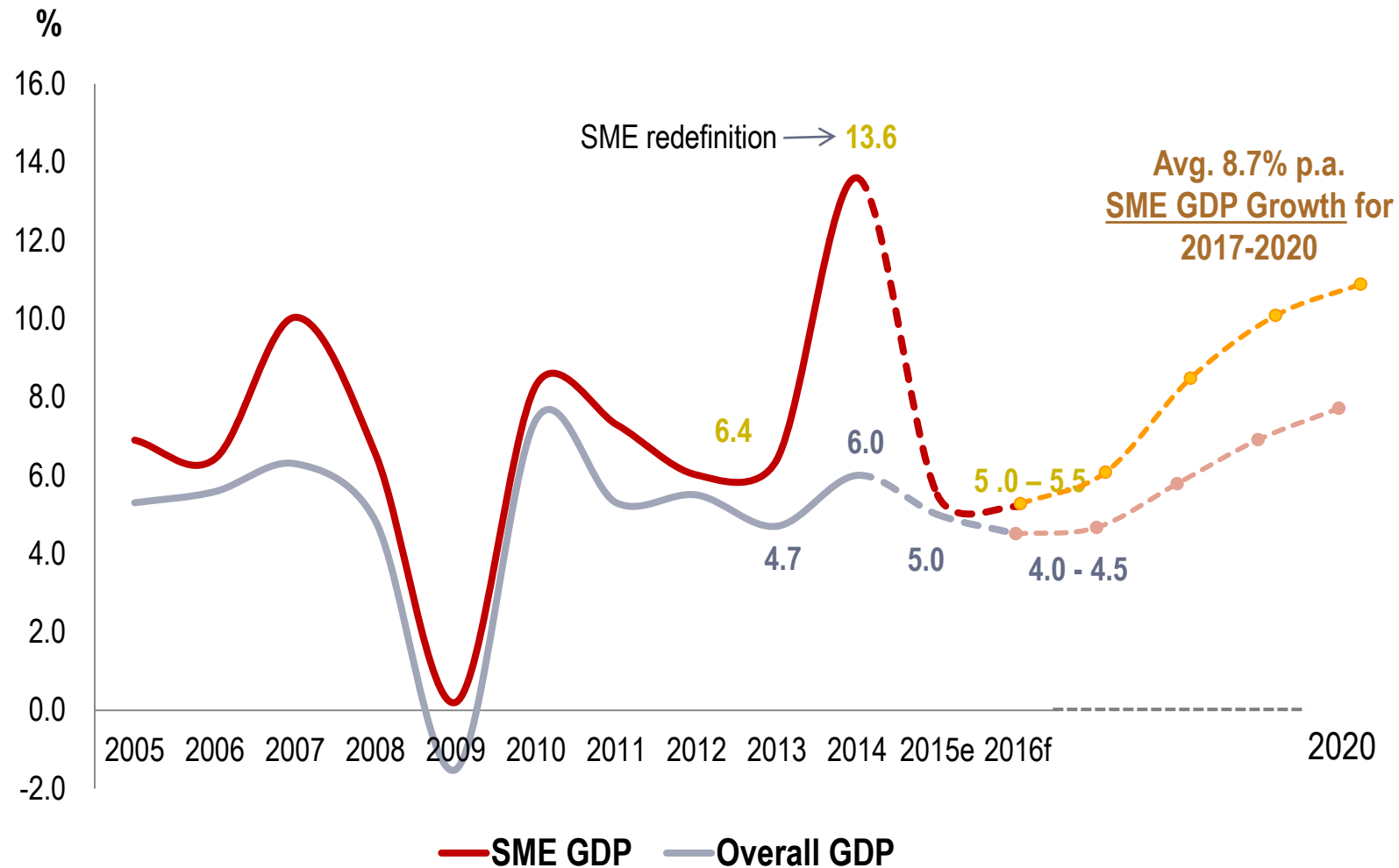
Bigger share for guarantee facility in 2014 (7.2%) as compared to 2013 (6.9%).
Facilities include **ADB-EXIM Trade Finance Programme** from 16 Asian countries



- Managed guarantee for **working capital** and **financial industry restructuring** worth RM10 billion during economic crisis in late 2008 and was an important role in **reviving the Malaysian Economy** in 2009
- Released **Services Sector Guarantee Scheme** of RM5 bil and the **Flood Relief Loan Guarantee Scheme** of RM0.5 bil were in Oct 2014



Moving forward into 2020....



Economic Contribution in 2020:		
	2014	2020
GDP	35.9%	41%
Employment	65%	65%
Exports	17.8%	23%

Key take away points

- 1 SMEs are key to any economy. They are the new “BIG”
- 2 Cannot just address financing in isolation but together with all other growth levers
- 3 Banks and capital markets are not geared for innovative SMEs, high growth firms nor those in new areas of growth
- 4 Guarantees help to some extent traditional SMEs to have access but not for the above types of SMEs
- 5 Need innovative SME financing for these kind of SMEs – new avenues and products. These firms will be the future “Apple”, “HP”, market movers that generate bulk of GDP, jobs, exports
- 6 Avenues of risk capital for SMEs:
 - Crowd funding
 - P2P
 - Other forms of platform funding
 - Venture capital
 - Angels
- 7 Still relatively underdeveloped. Governments would need to play a role for market creation of new financiers to fill in the gaps.

Thank you

www.smeinfo.com.my www.smecorp.gov.my 1-300-30-6000



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