

1.0 Introduction

'Bank Perusahaan Kecil & Sederhana Malaysia Berhad' or the SME Bank, which commenced its operation on 3rd October 2005, is one of the Development Financial Institutions in Malaysia. Development Financial Institution (DFIs) is established by the government to focus and specialize on key sectors of the economy. DFIs are given the task to develop and promote strategic sectors such as agriculture, capital-intensive and high-technology infrastructure, maritime, export-oriented sector and the most important sectors in the country; the small and medium enterprises (SMEs). Being the specialised institutions, DFIs offer various ranges of specialised financial products and services. The products and services offers are to nurture and develop the selected sectors. Therefore the establishment of DFIs are to complement the banking institutions and others financial institutions in the country.

Specifically, the establishment of SME Bank is to help the development of Small Medium Enterprises (SMEs) in Malaysia. It is also to fulfill the unique needs of the Small Medium Entrepreneurs (SMEs). SME Bank also acts as complement to others commercial banking by offering a one-stop comprehensive and integrated financial and non – financial products and services for the SMEs. What differentiate the SME Bank with other financial institutions, particularly with the

commercial banks is in its mandated role that covers both financial and non financial supports to the SMEs.

1.1 Vision and Mission of SME Bank

1.1.1 Vision

To become the **SME Hub by 2010** with the **unique capability** to evaluate, promote and grow Malaysian SMEs with a focus on the development of the Bumiputera Commercial and Industrial Community (BCIC) in line with the **Government's aspirations**. *(SME Bank Website)*

1.1.2 Mission

In achieving recognition as the SME Hub, the management and employees of the Bank will **collaborate** with its network of strategic **partners/providers** to focus on becoming the **centre of knowledge and expertise** on the **financing and growth needs of Malaysian SMEs**. *(SME Bank Website)*

The financial products are the direct lending activities such as term loans, revolving working capital, equity financing, industrial hire purchase, leasing, project and contract financing and guarantee schemes. It is open to all eligible existing SMEs including SMEs who are planning to start-up a business and venturing in the new growth areas. SME Bank also provides financing facilities for SMEs in professional services, export-oriented activities, project financing and franchise businesses.

1.2 The Financial Products

The financing facilities are offered through five specially designed products, namely:-

1.2.1 SME Start Up

Design especially to start-ups and new entrepreneurs who have a good and viable business idea and the will to materialise it. Starting up a business is not an easy task as it involves various steps from having a product or service, penetrating the right market for the products or services, able to compete with others competitors and the most important part is whether the products or services can sustain and stay competitive in market. The SME Start-Up is very unique as it assists the entrepreneurs on financing and business development

support for products or services commercialisation. The SME Start-Up has been designed and geared towards all new businesses across SME classifications and industries with concentration on businesses with market-viable products or services ready for domestic and international commercialisation.

1.2.2 SME Professional

This product is designed to assist the development and growth of professional services in Malaysia. Professional such as healthcare provider (doctors), lawyer, architect, auditor, designer, logistics expert or a management consultant and others professional occupations are contributing to the growth of country's economy. To show commitment, SME Bank offers opportunity on access to financing and expansion of existing business as well as to start up a new one by providing initial capital investment and service advisory.

1.2.3 SME Franchise

It is a joint offering SME Bank and Perbadanan Nasional Berhad (PNS) in promoting entrepreneurs in franchise business. The objective is to help entrepreneurs (franchisee) to set up a franchise business even without collaterals or track record. The uniqueness of this product is the cooperation with PNS as

the agency which provides total franchise solution by focusing and evaluating the franchise business. With PNS assistance, franchisees are guided into the business and assistance from SME Bank in term of financing provides enable franchisee to secure business opportunities from franchisors. Under the Ninth Malaysian Plan, one of the objectives is to develop Malaysian Franchisees. With this product, franchising business is on the right track to growth into regional and international market and business.

1.2.4 SME Procurement

The SME Procurement is focusing in providing financial assistance to Malaysian Vendors. It is only for establish business operation as it requires contracts or projects awarded to vendors. These contracts and projects are the main documents for the Bank's assessment for loans application. In line with the Ninth Malaysian Plan, the Bank has given the task to promote homegrown suppliers/vendors internationally. The Bank and its strategic partners will coordinate and ensure that Malaysian vendors remain competitive with sufficient funds and business advisory support.

1.2.5 SME Global

This product is designed to assist and assess entrepreneurs into global market. It is focusing in the growth and opportunities in export market. Malaysian companies need to expand abroad to sustain its operation and to introduce the homegrown product or services globally. SME Global provides assistance in providing financing and advisory for business which is ready for overseas market.

Others financing are **SME Bank Factory Scheme** which offers factory lots for rental by SMEs, **Craft Entrepreneur Development Program** which to promote craft industry particularly Bumiputera SMEs, **Public Transport Development Fund** which is to support the Government efforts in upgrading public transport system. The fund is to finance the purchasing of bus and taxis for public use. **Graduate Entrepreneur Fund** is to help fresh graduates to start their own business and also to encourage graduates to venture into entrepreneurships.

Other than funds, SME Bank also offers programmes which aims to develop and increase the number participation from Bumiputeras SMEs. It is also to accelerate and enhance their company's growth to be more competitive in competing with others players. Programmes such as **Entrepreneur**

Development in Outsourcing Service, SMartBiz Vendor Programme, Halal Hub Programme, Programme for Contractors in Maintenance of Government Buildings and Third Window Groombig Programme.

1.3 Non – Financial Products

For the non – financial products, SME Bank offers services related to entrepreneurial development and service advisory through its **Small Medium Entrepreneur Development and Advisory (SMEDA)**. The service advisory includes business assessments and matching, business dialogues / seminars, preparation of business plan, groom big programs and industry research. The non-financial products, namely business advisory services, are timely and most relevant, particularly when it was designed to assist the SMEs with their business development issue during difficult times and also when SMEs need to get opinion and advices from the bank. Under the ultimate one-stop financing and business development centre for SMEs, called **SME Hub**, all SMEs would benefit from a one-stop experience – where value added advisory services and financial are offered. Clearly all SMEs which the Bank focuses to support also affect the Bank's ability to succeed and projected higher performance in the banking industry.

SME Bank's policy to reflect the objective or a designated fund that was created by the Government is as follows (*SME Bank Annual Report 2008*):-

- **Improving the competitiveness of existing SME businesses in the country**
- **Supporting the industries traditionally located in the country**
- **Improving the number and survival rate of business start-ups**

As a result of the rationalization process between **Bank Pembangunan dan Infrastruktur Malaysia Bhd. (BPMB)** and **Bank Industri dan Teknologi Malaysia Bhd. (BITMB)**, SME Bank is wholly-owned by the Ministry of Finance Incorporated (MOF Inc.) and as one of the agency under the Ministry Of International Trade and Industry (MITI). The Bank continues its primary role to strengthen the national implementation infrastructure through enhanced SME capacity and to contribute to the development of entrepreneurial community in Malaysia. The integration exercise between both banks BPMB and BITMB has opened a new door to SMEs in accessing financing as well as providing assistance pertaining SMEs matters. Besides offering financial and non – financial products, the Bank has designed in such a way to be an ultimate one-stop financing and business development centre for SMEs, called **SME Hub**. Currently, The Bank operates through its Head Office in Kuala Lumpur and from 19 branches nationwide powered by 1025 number of staff.

1.4 Strategic Partners

One of the strategies to accelerate the growth of Malaysian SMEs is to have strategic partners with selected government agencies and financial institutions. The strategic partners are SME Corp., MARA, PUNB, CIMB Bank, Bank Muamalat, Halal Industry Development Corporation (HDC), Malaysian Technology Development Corporation (MTDC), UUM, FAMA, and UKM Holdings. Through this approach, the Bank has a better segmentation of SME financial and non-financial needs. This collaboration between strategic partners would enhance and improvised the Bank lending mechanisms in supporting the SMEs requirement for their businesses.

1.5 National SME Development Council (NSDC)

The idea of rationalization both Banks were part of the National Development Council initiatives to create an access to financing for the SMEs. The National SME Development Council (NSDC) was established on 13th August 2004 with the objectives to formulate broad policies and strategies for SMEs; provide direction for comprehensive development of SMEs across all sectors; and to

oversee coordination of and ensure effectiveness in policy implementation.
(NSDC Report)

To show strong commitment in promoting SMEs in Malaysia, Government under its National SME Development Council (NSDC) had outlined a National SME Development Blueprint, designed accordingly to assist and support the progress and development of SMEs in the country. The blueprint is structured to deliver cohesive framework and to delivery effective programmes for the maximum benefits of the SMEs. In 2007 (NSDC, 2007), a total of 189 programmes had been carried out by 14 ministers and others related agencies which benefiting 286,755 SMEs, in which the establishment of Small Medium Enterprise Bank (SME Bank) has strengthen the foundations of SMEs financing and development.

In addition to the National SME Development Blueprint, a proper guideline from the comprehensive regulatory and supervisory framework; the enactment of the Development Financial Institutions Act 2002 (DFIA), has guided DFIs especially SME Bank to equip themselves with a strong, effective and efficient performance in order to perform the challenging tasks in developing and nurturing specified sectors,. This Act allows DFIs to perform their duties more prudent, efficient and effective. The Act which became effective on 15 February 2002 highlighted the

roles, functions and objectives of each DFI to ensure that the DFIs' policies and objectives are consistent and in line with the Government's initiatives and direction in developing and promoting the specified sectors to support the nation growth. It is important for an organization especially SMEs to stay competitive and survive in the era of globalization and liberalization. In achieving a competitive, productive and resilient SME sector, the Malaysian Government is focusing on programmes to enhance SME competitiveness locally and globally. Hence, the SMEs have to play an important role in realizing the effort by taking advantage on the changing economic environment both domestically and abroad.

SME Bank has plays it role in supporting SMEs and it shows that 90% or RM124.8 billion of total SMEs financing comes from the banking industries; commercial and development financial institutions. This financial assistance had benefited 550,716 SME accounts as at end of 2008 in which is reflected in the share of SME financing to total business financing which has risen to 40% as at end of September 2009 (end of 1998: 27%). (SME Annual Report 2008)

Financial Institution roles in restructuring and rescheduling facilities has resulted a two-fold increase in the number of cases restructured and rescheduled to about 3,235 cases (2007: 1,537). (SME Annual Report 2008). For SME Bank, the Bank continues to be proactive in providing restructuring and rescheduling financing facilities as well as to offer comprehensive advisory services to problems SMEs. The Bank's Rehabilitation Department under the purview of Supervision is responsible for the recovery and rehabilitation process of problems SMEs. The Bank also one of the participating Banks to facilitate the Small Debt Resolution Scheme (SDRS) by Bank Negara. This scheme is to help SMEs with Non Performing Loans (NPLs) status for loan financing restructuring, rescheduling and also providing additional loans.