

SME PRODUCT

New Products for Malaysian SMEs

New trade products - Multi Currency Trade Finance (MCTF) and Indirect Exporter Financing Scheme (IEFS) - under both conventional; and Islamic financing to the small and medium enterprises (SMEs) are offered by Malaysian participating banks.

"These new trade finance products are introduced to encourage greater SME's participation in export markets, especially in the non-traditional markets"

The MCTF provides financing to Malaysian direct exporters in Ringgit and major foreign currencies in the form of pre and post shipment financing. The IEFS provides Ringgit financing to indirect exporters without recourse, whereby the participating banks will discount their trade invoices arising from the supply of goods and services to direct exporters.

These new trade finance products are introduced to encourage greater SMEs' participation in the export markets, especially in the non-traditional markets as well as trade with members of the Organisation of Islamic Conference (OIC). These products will benefit the SMEs by lowering financing costs, without collateral require-

ments. Under the arrangements, the SMEs can obtain financing from the participating banks, with the credit risks being shared between the banks and Export-Import Bank of Malaysia Berhad (EXIM Bank).

The participating banks in this scheme are Malayan Banking Berhad, Bumiputra-

Commerce Bank Berhad, RHB Bank Berhad, Affin Bank Berhad, Alliance Bank Malaysia Berhad, AmBank Berhad, EON Bank Berhad, Hong Leong Bank Berhad, Public Bank Berhad, Southern Bank Berhad, Bank Islam Malaysia Berhad, Bank Muamalat

Malaysia Berhad, RHB Islamic Bank Berhad, Commerce Tijari Bank Berhad, Hong Leong Islamic Bank Berhad and SME Bank.

SMEs can contact the participating banks or EXIM Bank for further information on MCTF and IEFS.

"Factoring has become an important source of financing--especially short-term working capital--for SMEs"

FACTORING

What is Factoring?

Factoring is a form of asset-based finance where the credit is extended based on the value of the borrower's accounts receivable. In recent years, factoring has experienced phenomenal growth and has become an important source of financing—especially short-term working capital—for small and medium-sized enterprises and corporations, reaching a worldwide volume of 760 billion Euro in 2003. Although the importance of factoring varies considerably around the world, it occurs in most countries and is growing especially quickly in many developing countries. Bakker, Klapper, and Udell explore the advantages of factoring over other types of lending for firms in developing economies, and discuss the informational, legal, tax, and regulatory barriers to its growth. They also

examine the role of factoring in the eight Eastern European countries that became EU members on May 1, 2004—the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic, and Slovenia,

referred to as the EU 8. The authors conclude that factoring offers key advantages over other lending products and is likely to become more important in these countries, and suggest policies to accelerate its development

SME TOOLKIT

IFC's SME Toolkit

A project of the International Finance Corporation, a member of the World Bank Group, the SME Toolkit offers free business management information and training for small businesses / small and medium enterprises (SMEs) on accounting and finance, business planning, human resources (HR), marketing and sales, operations, and information technology (IT). The SME Toolkit



offers a wide range of how-to articles, business forms, free business software, online training, self-assessment exercises, quizzes, and resources to help entrepreneurs, business owners, and managers in emerging markets and developing countries start, finance, formalize, and grow their businesses.

For more details, please visit IFC website at <http://www.ifc.org>

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BPIMB's Factory Scheme

Factory Scheme addresses the need to promote Bumiputera entrepreneurs who can compete competitively and helps in the process of socio-economic restructuring of the Malaysian society.

The Scheme is an integrated program that offers factory facility at a discounted rate together with financial assistance and advisory services.

Several benefits to the participants include additional cash during the grace period to focus on production and sales; reduction of pre-operating cost due to discounted rental rates; additional time and cash in order to expand and grow the business; and the opportunity to focus on its production by investing in better production equipment.

A total of 368 factory units located all over Malaysia were made available for the country's entrepreneurs in 2003. Apart from the cost benefit from the scheme, participants also benefit in the advisory services that the program offers.

With the program, BPIMB have created more than 300 entrepreneurs that are involved in the manufacturing sector such as in the

food-based industry, plastic, textile, chemical, paper, electrical, metal, transportation components, wood and furniture industries, and in the service industries like engineering, advertising and others.

In 2005, following the rationalization exercise initiated by the Government, the function of Bank Pembangunan and another Development Financial Institution (DFI) Bank



Industri & Teknologi Malaysia Berhad were rationalized resulting in the formation of Bank

Perusahaan Kecil & Sederhana Malaysia Berhad (SME Bank) as the wholly owned subsidiary of Bank Pembangunan.

Bank Pembangunan's present mandated role is to provide medium to long term financing that are of capital intensive in nature to the infrastructure, maritime and high technology sectors. Whereas SME Bank's mandated role is to assist the development of Malaysia's small and medium-sized enterprises (SME), through provision of various financing facilities and advisory services. In line with the exercise, Bank Pembangunan once again changed its name to Bank Pembangunan Malaysia Berhad on 30 September 2005.

What is ABF?

Asset-based finance (ABF) is a financing method that is driven by the assets of companies. Assets include current assets, such as accounts receivables and inventory, and fixed assets, such as plant and machinery. ABF allows an SME to utilize its own assets to meet its short, medium and long-term funding needs.

Short term financing (up to one year).

Offered in forms like factoring or accounts receivable/inventory revolving loans.

Factoring: A company sells all or part of its book debts to the ABF provider for cash advance (generally up to 60% - 90% of invoice value). After collection of the debt, the balance is paid to the company.

Accounts receivable/inventory financing: A revolving loan against the entire accounts receivable and inventory of a company.

Medium term financing (one year to three years) Based on a company's existing plant and equipment that is free from encumbrances. Can be in the form of hire purchase, leasing, sale and lease back, etc.

Long term financing (three to seven years) A term loan based on the real estate of the company.

Benefits of ABF Allows SMEs to maximize the benefits of their assets, to match the life of assets with that of liabilities, and to match the cash flow generated by relevant investments.

Cost of ABF Based on the different forms of ABF, the cost may include service fees and interests. As ABF is not secured by collateral, the cost of ABF may be higher than normal banking facilities.

Source: <http://www.tdctrade.com/sme/financeproj/asset.htm>

What is Trade Credit?

Trade credit is an important source of SME financing. Trade credit is extended by a firm's suppliers when the supplier sells the firm goods or services on account. Instead of paying for the goods and services with cash (i.e., immediately), the firm

pays its suppliers with a lag which creates the equivalent of a loan (i.e., trade credit) from the suppliers to the firm. In the United States, for example, trade credit accounts for 16 percent of SME financing.

When you have exhausted all possibilities, remember this. You haven't.

- Thomas Edison