



Overview of

Financial Solutions for SMEs' Growing Business

For any business, the need to make adjustment to your business strategies is essential in order to remain competitive. Replacement of assets or capacity expansion for instance is an ongoing process and these acquisitions can be funded either through internal funds or bank borrowings.

However, determining which types of financing products are appropriate for your business can be a complex process. With a wide array of financing products and services that are offered by the banks, you may get confused or face difficulties in finding a product that will meet your preferences and requirements.

Thus, to facilitate small and medium enterprises (SMEs) in narrowing down the selection process and to provide greater awareness of the various financing products, this article seeks to give an overview of the financial solutions which are commonly available at the banks.

If you are looking at raising working capital to assist in the running of your business, you can choose either an overdraft or revolving credit. Generally, overdraft is the most common form of working capital financing as it provides flexibility in fund management while with revolving credit, the facility can be rolled-over by servicing the interest at the end of the loan period. For the acquisition of fixed assets, you may wish to consider applying for a term loan which is granted for a predetermined length of time and is to be repaid by fixed instalments.

In addition to financing, you may need facilities which can provide you peace of mind in running your domestic or international trade activities. Recognising the challenges and complexity of such trade activities, common trade facilities rendered by banks such as Letter of Credit, Trust Receipt or Bankers Acceptance are available to minimize trade risks, to assure payment or no delay in the processing of your

import/export documents. Not to be forgotten are several government assisted funding schemes at preferential interest rates and other attractive terms and conditions which are distributed through the banks.

As each product has different features and benefits, it will be worthwhile for you to talk to your bankers to seek an understanding of the various products that are available. For example, some banks have structured special integrated packages which can meet the entire spectrum of SME's financial needs from business property and equipment financing, provisions of working capital to insurance coverage. With the advent of ICT, you can also acquire information on SMEs' financing products from banks' portal and websites before deciding the financial products or loan package.

With banks' innovative and flexible financial solutions, owning or expanding your own business will not be such a far-off goal for aspiring entrepreneurs.

Types of Financing Solutions	Features
Asset Acquisition	
Term Loan (TL)	<ul style="list-style-type: none"> • A loan granted for a predetermined length of time and to be repaid by fixed instalments; • Commonly provided by the bank to finance the acquisition of fixed assets (immovable properties eg land, buildings, commercial vehicles).
Leasing	<ul style="list-style-type: none"> • A facility which allows SMEs to lease equipment from banks without having to purchase the equipment. • 2 types of leasing facilities available are Operating lease and Finance Lease. • To acquire capital assets such as equipments and machineries.
Industrial Hire-Purchase	<ul style="list-style-type: none"> • A form of financing whereby the capital asset such as equipment and machineries are purchased by the bank and hired to SMEs, with the ownership being retained by the bank until the loan is repaid. • SMEs make periodic payment to the bank.

Types of Financing Solutions	Features
Working Capital	
Overdraft (OD)	<ul style="list-style-type: none"> • A revolving loan made available to a business customer via a current account to meet working capital of businesses. • Borrower may withdraw from the account by issuing cheques (up to the approved OD limit) and it has no fixed repayment schedule. • Interest is calculated on a daily basis based on the balance outstanding at the end of the business day.
Revolving Credit	<ul style="list-style-type: none"> • A loan granted for a predetermined period and disbursed in multiples of a fixed amount to meet short-term working capital requirements. • Borrower can choose to either repay the full amount or renew the loan tenure by servicing the interest at the end of the loan period. As the facility can be rolled over, it provides continuous availability of funds.
Trade Financing	
Letter of Credit (LC) or Documentary Credit (DC)	<ul style="list-style-type: none"> • A written undertaking by the bank to pay a seller a certain amount of money upon presentation of specified documents, within a specified time limit and a specified place. • It provides assurance to buyers/importers to receive goods as required and to exporters/sellers to receive payments upon compliance with the terms of trade as stipulated in the LC.
Trust Receipt	<ul style="list-style-type: none"> • A financing facility that allows a customer to accept delivery of their local/foreign purchases before payment of the sight bills being made by them. • Payment is deferred for an agreed period of time as arranged with the bank.
Banker's Acceptance (BA)	<ul style="list-style-type: none"> • BA is used to finance bona fide trade i.e. export, import or domestic trade transactions. • BA is a draft (bill of exchange) drawn by customer to his order and accepted by the bank payable on a specified future date.
Guarantees	
Bank Guarantee (BG)	<ul style="list-style-type: none"> • BG is primarily a letter of guarantee provided by the bank for a fixed period and specific amount to a third party to support commercial undertakings. • The guarantee can be issued in the forms of tender, performance or financial bond to the government, statutory bodies and private companies. • Commission is charged based on the amount and period of guarantee.
Shipping Guarantee (SG)	<ul style="list-style-type: none"> • SG is primarily a guarantee or undertaking by the bank to the owners or agents of the vessel for delivery of goods pending presentation of the original shipping documents. • It expedites the release of goods which have arrived before the original shipping documents. • Importers will not have to incur excessive demurrage charges at the port.
Government Funded Schemes	
Funds for Small & Medium Industries 2 (FSMI2)	<ul style="list-style-type: none"> • A fund targeted at promoting SMEs activities in the export and domestic oriented sectors to raise working capital and to expand their production capacity. • Financing should not be used for purchase of shares, land or refinancing existing credit facilities. • Available to manufacturing and service sector.
New Entrepreneur Fund 2 (NEF2)	<ul style="list-style-type: none"> • A fund to help stimulate the growth of Bumiputra entrepreneurs to raise extra working capital or to expand their business. • Financing should not be used for purchase of shares or to refinance existing credit facilities. • Available to all economic sectors.
Rehabilitation Funds for Small Business (RFSB)	<ul style="list-style-type: none"> • A fund to provide assistance to viable SMEs that are constrained by NPL by facilitating loan restructuring or providing financial assistance to raise working capital or expansion of business. • SMEs in all economic sectors that fulfil the required criteria are eligible. • Financing should not be used for refinancing of existing credit facility.

Types of Financing Solutions	Features
Guarantee Schemes	
New Principal Guarantee Scheme (NPGS)	<ul style="list-style-type: none"> To facilitate SMEs with viable business venture that lack the collateral to obtain guarantee cover for credit facility up to RM10 million. For Malaysian-controlled or Malaysian-owned businesses with annual sales turnover not exceeding RM25 million or full time workers not exceeding 150. Borrowers must have good credit record and are not listed under Biro Maklumat Cek.
Small Entrepreneur Guarantee Scheme (SEGS)	<ul style="list-style-type: none"> To facilitate SMEs with viable business venture to obtain guarantee cover for credit facility up to RM50,000. For Malaysian-owned and controlled companies registered under the Companies Act 1965, the Co-operative Societies Act 1993 and entrepreneurs registered with the Registrar of Business or any other authoritative body.
Flexi Guarantee Scheme (FGS)	<ul style="list-style-type: none"> A borrower can only have one loan under the CGC guarantee at any one time. To facilitate guaranteeing loans under the FSMI2, NEF2 and RFSB. For Malaysian-owned and controlled companies with net asset or shareholders' funds not exceeding RM10 million. No adverse banking/financing record from any other financial institutions or any government agencies (except RFSB).

The above financing products/schemes are not exhaustive and are meant as a guide only. SMEs are advised to discuss their needs with their respective banks and the dedicated loan officers are more than eager to support and offer you the right financial solution which caters to your business need.