



Funding a business

Sources of finance for SMEs

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Small & Medium Industries Development Corporation, Malaysia

Successful small and medium enterprises (SMEs) require support on all fronts, not least of all, financially. In many countries, governments have schemes for financing SMEs. The private sector too has some private sector alternatives for SMEs. In Malaysia, these include the following.

Banking institutions

SMEs can approach commercial banks and Islamic banks for funding, depending on their needs.

Conventional as well as Islamic financing products are available for a wide range of needs. These would cover: items like term loans, industrial hire-purchase for asset acquisitions or business expansions, and leasing; overdrafts, revolving credit facilities and factoring for working capital; letters of credit (LC), trust receipts, banker's acceptance (BA) and Export Credit Refinancing (ECR) for trade financing; and bank guarantee as well as shipping guarantee facilities.

Development financial institutions

Aside from commercial banks and Islamic banks, there are government-backed development financial institutions (DFIs), which can provide SME financing.

The government-backed DFIs (governed by the Development Financial Institutions Act 2002) are:

- Bank Perusahaan Kecil & Sederhana Malaysia Berhad (SME Bank)
- Bank Pembangunan Malaysia Berhad
- Export-Import Bank of Malaysia Berhad
- Bank Kerjasama Rakyat Malaysia Berhad
- Bank Pertanian Malaysia
- Bank Simpanan Nasional

Other DFIs are the following:

- Malaysian Industrial Development Finance Berhad
- Credit Guarantee Corporation Malaysia Berhad (CGC)

Leasing and factoring companies

Leasing

SMEs in need of expensive machinery need not rely only on hire-purchase arrangements as a means to financing their business. They can also choose to lease equipment, which would give them the use of equipment owned by a leasing company, in return for regular lease payments over a specific period of time. This allows SMEs the use of vital equipment without ever having to buy it.

Any moveable asset can be leased. This includes office

equipment, vehicles, industrial and manufacturing equipment, as well as construction and heavy equipment. There are two types of leasing facilities available: operating lease in which the ownership is held by the financial institutions; and finance Lease in which though ownership is held by the financial institutions, the lessee has the option to purchase the asset at the end of the tenure.

Leasing offers some benefits to SMEs such as:

- Facilitates management of funds, as leasing instalments amount is pre-determined;
- For an operating lease, maintenance cost is borne by the lessor (financial institution); and
- Instalments paid for lease are eligible for full tax relief.

Factoring

SMEs can also choose to pledge their future income in order to obtain working capital. Factoring companies specialise in buying debt owed to a business, or account receivables, at a discounted price. If this happens, the factoring company will take over collection of the debt, while the company selling the debt receives money for the debt earlier and up front.

Venture capital companies

SMEs in need of capital injections might also look to venture capital companies. Venture capitalists willing to take a stake in a business will provide capital, usually in exchange for a minority stake in the company concerned. Businesses with expansion and the potential for and eventual listing on the stock exchange are favoured targets of venture capitalists. The money is often provided for long-term expansion projects undertaken by the company concerned. □

LIRNEasia

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Venture capital fund for SMEs



Facilitating Thai business competitiveness

<http://cms.sme.go.th>

Rationale

Since Thailand recovered from the economic crisis, the government has set new policies for economic development and reforms, focusing on 2.2 million small and medium enterprises (SMEs) as new key driving forces for the overall growth of the economy. In response to the need of the SMEs, the government initiated an SMEs promotional policy to ensure systematic and sustainable growth of SMEs.

One of the basic problems facing SMEs was difficult access to finance. In response to the problem, the Venture Capital Fund for SMEs was set up as a financial tool for small and growing enterprises. It has helped SMEs increase their competitiveness mainly by providing equal access to finance. Furthermore, the Fund has also been providing support, assistance, and advice on many aspects of business operation including marketing, management, and accounting standards to enable professionalism, transparency, accessibility and good corporate governance among the Thai SMEs.

Objectives

The venture capital fund for SMEs was set up to:

- Act as a source of fund for SMEs entrepreneurs with high business potential and for SMEs under some selected business categories according to the Strategic Plan for SMEs Promotion (2002-2006);
- Encourage good corporate governance and transparency among SMEs entrepreneurs, especially small companies; and
- Support Thailand's capital market, which helps strengthen the country's macro financial system.

Venture capital investment procedures

Venture capital investment procedures are as follows:

- The Office of Small and Medium Enterprises Promotion (OSMEP), joining with a public or private venture partner, selects and classifies targeted SMEs. The Venture Capital Sub-committee and/or the Venture Capital Committee then respectively consider fund investment.
- A "due diligence" investigation will be conducted by independent financial consultants selected by OSMEP. Then a Venture Capital Fund shall be invested in a form of share purchase with qualified SMEs.
- A mentor, consultant or expert will be provided to reinforce the business performance in areas such as market management, manufacturing and accounting during the term of venture capital investment to ensure

Office of Small and Medium Enterprises Promotion, Thailand

good corporate governance as well as professionalism. OSMEP may cooperate with other public and private agencies for related support.

- OSMEP shall exit from a joint venture investment (JVI) as the investment term ends or when SMEs business becomes viable and stable.

Criteria for venture capital investment

The conditions/criteria for venture capital investment are:

Characteristics

SMEs qualified for venture capital funding must possess one of the following characteristics:

- Creativity/innovation/differentiation-based;
- Knowledge-based;
- IP application/local wisdom-based;
- Import substituting; and
- Export-oriented.

Target industries

- Fashion & Design;
- Information & Communication Technology;
- Food & Herbs;
- Automotive;
- Tourism & Spa;
- Energy & Nanotechnology; and
- Supporting industries for the above.

Other criteria for venture capital application

- The business must be categorized as SME under the definition set by the Ministry of Industry and registered with the Ministry of Commerce as a 'Co.Ltd.'
- Following a JVI, 25-35 per cent of the registered capital shall be held by OSMEP Fund.
- The period of a JVI may vary 1-7 years, depending on the SMEs business status or other conditions.
- OSMEP Fund shall buy shares of par value, book value, par value/book value plus premium, or other forms that are deemed appropriate by the Committee.
- Exit from a JVI shall take the following processes:
 - SMEs must register the shares in security market, either Market for Alternative Investment (mai) or the Stock Exchange of Thailand (SET), and OSMEP Fund shall sell the shares in the market, respectively.
 - If SMEs cannot register with mai/SET, OSMEP Fund shall sell the shares back to the business owners at book value, market value or prices deemed appropriate by the Venture Capital Committee. Otherwise, OSMEP Fund may sell shares to a new investor. □