Unconventional financing options

There are other sources available to SMEs beyond conventional bank loans

Guest writer

BY AMY OOI

FINANCING a growing business is always challenging for any small and medium enterprise (SME). Fret not as there are various channels available to fund businesses, ranging from bank loans, government schemes to crowdfunding.

Whatever the size or sector, whether a startup or established business, access to external financing is an ongoing need for SMEs.

Selecting the right financing avenue is a matter of identifying the channel most suitable for an organisation's needs.

This list is not exhaustive, but provides a quick overview of the financial assistance programmes available to companies.

Malaysia offers a wide and diversified financing landscape for SMEs. Financial institutions (FIs), which comprise banking institutions (BIs) and development financial institutions (DFIs), are the main source of financing for SMEs in the country.

SMEs can also access a wide range of special funds and schemes made available by the government through various ministries and agencies, including Bank Negara Malaysia.

Sources of financing from non-banking avenues include venture capital companies, factoring and leasing, and microfinance institutions.

New avenues of financing

The emergence of fintech (financial technology) opens up greater financing options for SMEs which include equity crowdfunding (ECF) framework and peer-to-peer (P2P) lending. There are three primary types of crowdfunding, namely:

Rewards crowdfunding (RCF): Entrepreneurs presell a product or service to launch a business concept without incurring debt or sacrificing equity/shares.

Equity crowdfunding: The backer receives shares of a company, usually in its early stages, in exchange for the money pledged.

Peer-to-peer lending: This is a debt-based crowdfunding which is a relatively new online lending concept. These are online financing sites where individuals or small businesses can lend to one another. The advantage for the investor is a potentially higher return on savings.

P2P lending is the practice of lending money to individuals or businesses through online services that match lenders directly with borrowers. P2P lending companies offering these services operate entirely online.

As a result, lenders often earn higher returns compared to savings and investment products offered by banks, even after the P2P lending company has taken a fee for providing the match-making platform and credit assessment of the borrower.

In November last year, the Securities Commission introduced six registered P2P financing platform operators to widen funding avenues for SMEs.

The six operators are B2B FinPAL, Kapital, FundedByMe Malaysia, ManagePay Services, Modalku Ventures and Peoplender. These P2P operators are expected to be fully operational this year.

Despite the emergence of new financing avenues, FIs continues to serve as the primary source of financing for SMEs. Each FI has its own financing option and packages to SMEs. SMEs can also have access to a wide range of special funds and schemes made available via FIs.

Governmental assistance

The two government-aided schemes are Services Sector Guarantee Scheme (SSGS) and the extension of the Working Capital Guarantee Scheme (WCGS) from Syarikat Jaminan Pembiayaan Perniagaan Bhd (SJPP) is still available in the market.

SMEs can take advantage of the guarantee schemes made available by the government to gain better access to financing, especially those without any collateral.

SSGS, which facilitates access to working capital and capital expenses financing, is targeted at SMEs in the services sector, which encompasses construction; information and communication; arts, entertainment and recreation; real estate activities; education; as well as professional, scientific and technical activities.

WCGS (extension) is meant for SME companies across all sectors incorporated under the Companies Act with at least 51% of shares held by Malaysians and shareholders' fund of less than RM20 mil.

Besides the various guarantee schemes, Credit Guarantee Corp Malaysia Bhd (CGC) also plays the role of catalyst for new growth areas by providing direct financing schemes to start-ups and women entrepreneurs and for SMEs involved in green technology and undertaking intellectual property.

Apart from SJPP, CGC remains the main institution to provide guarantees for SMEs which may have otherwise not succeeded in getting financing from FIs.

CGC has introduced innovative products designed to improve the turnaround time for loan processing and disbursement of funds.

One of the products include portfolio guarantee, which allows banks to select customers based on a pre-determined set of criteria and process loan applications on a portfolio basis.

This enables both the CGC and the banks to expedite the approval and disbursement of loans to SMEs.

Existing CGC schemes with FIs are still available to SMEs but the CGC have renaming initiatives in January. Details are as follows.

No	Existing scheme	Revised name
1.	Credit Enhancer	BizJamin
2.	Credit Enhancer-i	BizJamin-i
3.	Enhancer Bumi	BizJamin Bumi
4.	Enhancer Bumi-i	BizJamin Bumi-i
5.	Enhancer Excel	BizMaju

It is important for SMEs to have a greater understanding of what each of these financing options can do for them. Some may offer better terms while others would include access to certain networks of people.

Whatever the decision may be, proper research and homework need to be done before unlocking any cave of treasures. FocusM

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