



Catalysing SME Growth



## Catalysing SME GROWTH

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Small and medium enterprises (SMEs) are the engines of economic growth of a nation. In Malaysia, SMEs form a major component of the economy constituting 97.3% of business establishments, employing a large section of the population and contributing significantly to gross domestic product (GDP). CGC has been an integral part of this dynamic sector, catalysing the growth of more than 420,000 SMEs with its guarantee mechanism. The title 'Catalysing SME Growth' aptly describes CGC's vital role in spurring SME development in the country.

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# table of Contents

02 Acknowledgement

03 Preface

05 Introduction

## **CHAPTER 1**

09 Setting The Foundation

## **CHAPTER 2**

27 Brick By Brick

## **CHAPTER 3**

53 Good Business, Better Lives

## **CHAPTER 4**

71 Pursuing A Dream

## **CHAPTER 5**

119 The Way Forward

# ACKNOWLEDGEMENT

Credit Guarantee Corporation Malaysia Berhad (CGC) would like to thank the many individuals who have generously shared their memories, thoughts and experiences with us. Your insight has been invaluable.

- Dato' Rastam Abdul Hadi (CGC Chairman, 1972-1974)
- Tan Sri Dato' Dr. Lin See Yan (CGC Chairman, 1980-1994)
- Tan Sri Dato' Ahmad Mohd. Don (CGC Chairman, 1994-1998)
- Allahyarham Tan Sri Dato' Seri Dr. Ali Abul Hassan Sulaiman (CGC Chairman, 1998-2000)
- Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz (CGC Chairman, 2000-2002 and current Governor, Bank Negara Malaysia)
- Dato' Mohd. Salleh Hj. Harun (CGC Chairman, 2002-2005)
- Datuk Zamani Abdul Ghani (CGC Chairman, 2005-2011)
- Dato' Khalil Hassan (CGC General Manager, 1972-1979)
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- Dato' J.J.C. Rajan (Managing Director, Tabco Group)
- Encik Che Amran Che Husin (Group Accountant, Tabco Group)

And last but not least,

The past and present Board of Directors, Management and employees of Credit Guarantee Corporation Malaysia Berhad.

# PREFACE

“ The world is always in movement. ”

**V.S. Naipaul**

Since its inception, the objective of Credit Guarantee Corporation Malaysia Berhad (CGC) has been constant: to promote financing avenues at reasonable costs for the growth of small and medium enterprises (SMEs), particularly enterprises without collateral or with inadequate collateral and no financial track record.

Nearly four decades on, CGC's mission remains unchanged; what has changed is how CGC operates in fulfilling this mission.

This book explores CGC's history to date, and looks forward to CGC's future as it continues to evolve. It delves into the importance of SMEs in driving Malaysia's economic growth and CGC's contribution to building up the SME sector.

CGC's own development mirrors the challenges and progress made by the SME sector and the country. The advent of globalisation, increased competition and changing economic conditions require SMEs to adapt to new market conditions. CGC itself is adopting new approaches to meet the increasingly sophisticated financial needs of Malaysian SMEs.

Today's CGC not only supports its borrowers; it is helping to reshape the wider financial credit landscape for SMEs in Malaysia.

CGC's development through the years has been a collaborative effort. It would not have been possible for CGC to function effectively without the support of Bank Negara Malaysia (BNM) [the Central Bank of Malaysia], the Government of Malaysia, financial institutions, various Government departments, Chambers of Commerce, trade associations, CGC's borrowers, CGC's past and present Board of Directors, and the dedication of the many CGC employees over the years.

To everyone who has worked together with CGC, we thank you for your support over the years and look forward to continuing our partnership in promoting the growth and development of SMEs in Malaysia.

# INTRODUCTION



The Credit Guarantee Corporation is a key institutional arrangement in facilitating greater access to financing by the SMEs. By providing guarantee to loans obtained by SMEs, CGC addresses one of the main constraints of SMEs that is, the lack of collateral.<sup>1</sup> ”

**Tan Sri Dr. Zeti Akhtar Aziz**

The history of CGC is closely entwined with the socio-economic development of Malaysia. Established at a time when two primary commodities – rubber and tin – were the country’s main exports, CGC has played a role in supporting the development of SMEs which have provided much impetus in diversifying Malaysia’s economy. Today, the country’s export base has expanded with manufacturing, oil and gas, and palm oil products being Malaysia’s leading exports.<sup>2</sup>

The foundation for balanced, sustainable economic growth is dependent on many factors, including an economic environment which encourages diversified economic activities, competitive opportunities, entrepreneurial drive and the availability of credit facilities to support business initiatives.

SMEs are recognised as engines of economic growth as they provide the entrepreneurial vibrancy and vitality which drives economic activity across different industries. Its importance to economic growth is reflected in the Census of Establishments and Enterprises 2011 (Census 2011) which showed that SMEs accounted for 97.3% of the total business establishments in Malaysia, and 52.7% of total employment.

However, the lack of collateral and insufficient financial track record makes it difficult for many SMEs to obtain credit facilities from financial institutions. As part of the financial infrastructure to promote SMEs, CGC was established in 1972 with the objective of helping SMEs gain access to financing at reasonable cost.

In nearly four decades since its set-up, CGC has helped over 420,000 Malaysian SMEs, and, by the end of December 2012, has provided more than RM50 billion worth of guarantees.

In the following pages, eight CGC borrowers share their own experiences in building successful businesses. These borrowers, drawn from a variety of industries such as food and beverage, retail and manufacturing, offer their insights into the challenges of running a business and the qualities required to achieve their business goals. They also speak of the predicaments they faced when seeking financing to build their businesses, and how CGC supported their endeavours.

CGC's support for SMEs has grown over the years. In addition to its role as guarantor of loans SMEs obtain from financial institutions, CGC has expanded its range of products and services. Its schemes are now tailored to meet the increasingly sophisticated needs of Malaysian enterprises. CGC also offers advisory services on financial and business development, credit information and rating services, and plays an important role in promoting the growth of Islamic financing amongst SMEs.



Together with its borrowers, CGC has weathered financial storms and emerged stronger. Like the country, CGC has matured and changed through the years. As a credit guarantee organisation, it has evolved through successive stages of the guarantee-based lending model. CGC today is just entering the model's final stage, and with experience, comes higher expectations from its stakeholders. In its early days, CGC was bolstered by BNM and Government support. As a mature organisation in the twenty-first century, CGC has taken measures to become financially sustainable.

CGC's pursuit of financial sustainability is guided by its social responsibility as a development financial institution (DFI). Its aim is to be profit-oriented, not profit-motivated. Whilst it is making the changes necessary for it to remain effective in supporting SMEs, CGC's objective remains focused: it will pursue activities which will ultimately be of benefit to this sector.

In this endeavour, CGC continues to collaborate with BNM which has put in place policies to ensure that the financial sector effectively supports the growth of SMEs. CGC remains fully committed to promoting a sound credit culture and providing financial products and services at competitive terms to support SMEs in the country.

## CGC's CHAIRMEN: 1972-Present



Dato' Rastam Abdul Hadi  
(1972-1974)



Tan Sri Dato' Abd Aziz  
Haji Taha  
(1974-1980)



Tan Sri Dato'  
Dr. Lin See-Yan  
(1980-1994)



Tan Sri Dato' Ahmad  
Mohd. Don  
(1994-1998)



Allahyarham Tan Sri Dato'  
Seri Dr. Ali Abul Hassan  
Sulaiman  
(1998-2000)



Tan Sri Dato' Sri Dr. Zeti  
Akhtar Aziz  
(2000-2002)



Dato' Mohd. Salleh  
Hj. Harun  
(2002-2005)



Datuk Zamani Abdul  
Ghani  
(2005-2011)



Allahyarham Dato' Mohd.  
Razif Abd. Kadir  
(March-August 2011)



Dato' Sri Abdul Hamidy  
Abdul Hafiz  
(November 2011-May 2013)

1

Setting  
the  
Foundation

“Credit is the lubricant needed to feed economic growth.”

**Dato' Rastam Abdul Hadi**

**D**ato' Rastam Abdul Hadi's comment rings true today as it did when CGC guaranteed its first loan in 1973.

As the first Chairman of CGC, Dato' Rastam was tasked with setting up an agency which would support and promote the growth of small enterprises in Malaysia. The agency's role was to help these enterprises obtain credit facilities from commercial banks at reasonable cost.

In developing countries such as Malaysia in the 1970s, small businesses faced difficulties in obtaining the financing required for growth as credit facilities for small businesses, especially start-ups, were minimal. At the time, financial institutions' lending programmes catered to big businesses with an established financial track record and the ability to provide collateral which many small businesses lacked.

However, the importance of SMEs as drivers of economic growth was apparent to Malaysian leaders who began setting out policies and building the infrastructure to support such businesses. These leaders believed that SME growth would provide the foundation of economic diversification and expansion, as well as contribute towards a positive socio-economic impact within the country.

## **Malaysia in the early 1970s**

At the beginning of the 1970s, Malaysia's economy was still heavily reliant on primary commodities, rubber and tin in particular. Whilst these resources provided the country with healthy export earnings, such heavy dependence on two primary commodities resulted in an economy which was vulnerable to sharp fluctuations in global demand and consequently, price and income instability.

Increasing competition from synthetic rubber and depleting tin reserves were also concerns for the long-term sustainability of these commodities as staple earners.

To reduce risk and instability, it was vital not only to diversify Malaysia's commodities export base, but also to encourage investment in non-agricultural sectors. The development of a broader based economic activities would also generate internal demand, thus boosting economic activity.

The need to reform the country's economic structure took on added urgency following the 13 May 1969 upheaval. This event heralded further emphasis on the economic expansion and socio-economic development of the country.

## **Development strategy and the New Economic Policy (NEP)**

A new development strategy for the nation was unveiled under the Second Malaysia Plan (1971-1975). The aim was to alleviate the problem of poverty, unemployment and economic disparities.



Based on the New Economic Policy (NEP), the Plan marked a new phase in the economic and social development of Malaysia. It incorporated the two-pronged NEP objectives. Firstly, the Plan aimed to reduce and eventually eradicate poverty by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race. Secondly, the Plan aimed to accelerate the process of restructuring Malaysian society to correct economic imbalance by reducing (and eventually eliminating) the identification of race with economic function.

Achieving the NEP objectives would require a higher rate of economic growth, increased employment opportunities to meet a changing, better-educated workforce, and structural changes to create a much larger modern economy.

The means by which to increase growth included increasing the productivity, income opportunities and general living standards of all Malaysians through policies which would promote fuller and more efficient utilisation of the country's human, natural and capital resources.

“Commercial banks are conduits linking CGC to borrowers.”

**Tan Sri Dato’ Ahmad Mohd. Don**

In a speech to Malaysian Chinese Association (MCA) representatives in August 1971, the then Prime Minister, Tun Haji Abdul Razak Hussein, gave a frank assessment on the outlook for the nation:

“The New Economic Policy must succeed. The stakes are too high to allow it to fail. It should not fail, because the Plan is not aimed at promoting any sectional interests. It is a blueprint for the progress and unity of our Nation.”<sup>1</sup>

This new development strategy required the Government and private sector to work together in achieving its economic and social objectives. The Malaysian government assumed a more active role in the economy, particularly in encouraging private investment and developing opportunities to create a Bumiputera Commercial and Industrial Community (BCIC).

The private sector could then utilise these opportunities to improve their productivity and competitive advantage leading to increased economic progress, employment opportunities and higher living standards. Collectively, these changes would lead to the fulfilment of the nation’s socio-economic strategy.

## **The setting-up of CGC**

It was within this economic environment with the country poised for economic restructuring that the CGC was set up.

Incorporated on 5<sup>th</sup> July 1972 with an authorised capital of RM20 million and paid-up capital of RM2.5 million, CGC's role was to assist small enterprises in obtaining credit facilities from commercial banks at reasonable rates.

The Government, having recognised that the proliferation of small businesses would drive economic expansion (and thus alleviate poverty), had provisioned financial support for small businesses to flourish. Supplying businesses with access to these funds was vital.

CGC was set up as a channel for small enterprises to access credit facilities within the formal financial structure. As a DFI, CGC would play a socio-economic role in supporting the country's economic development agenda by complementing banks.

In announcing the setting up of CGC, Tun Tan Siew Sin, the then Finance Minister, said that it would be jointly operated by BNM and all commercial banks in Malaysia.

The Finance Minister reminded bankers of the vital role they played in assisting the Government to achieve the objectives of the Second Malaysia Plan. "We should aim to reach a situation in which poverty or lack of capital is no bar to success in business or industry," he said.



He stated that the establishment of CGC would go a long way towards providing the necessary incentive to banks to make loans to small enterprises.

“The Corporation will provide guarantee against risk of default for a major portion of the loan, with the lending institution concerned bearing the risk of the balance,” he said. <sup>2</sup>

A BNM initiative, the structure of CGC was inspired by similar bodies set up by the World Bank and central banks around the world which had been successful in helping to improve the livelihood of borrowers.

In its first six months of operations, CGC prepared its first guarantee scheme, known as the ‘Credit Guarantee Corporation (Small Loans) Guarantee Scheme, 1973’ (known also as the General Guarantee Scheme, GGS). During this time, Mr. W.J.F. Vaz, an officer from the Credit Guarantee Corporation of India Limited which ran similar schemes, assisted CGC in the formulation and implementation of the scheme.

GGS was launched on 2 January 1973. Under the scheme, CGC would allocate guarantee cover to commercial banks for credit facilities extended to eligible small scale enterprises in the agricultural, commercial and industrial sectors. The funds could be used for financing their working capital or operational needs.

Individuals, proprietary and partnership firms, co-operative societies, groups and associations managing their own enterprises, qualified for the guarantees which were to be used in starting, carrying on or expanding any small-sized activity. <sup>3</sup>

Banks would assess the application for loans submitted by borrowers. Loans eligible for CGC guarantee would be charged a fee. Depending on the purpose and size of the enterprise, the ceiling for individual loans ranged from RM5,000 to RM75,000. The rate of interest charged was fixed at 1% per annum above the prime rate on the outstanding balance, inclusive of a guarantee fee of 0.5% per annum. The terms and conditions of repayment would be settled between the borrower and the bank.

In its first year, the scheme got off to a slow start, with only RM11.8 million loans approved. As a comparison, loans by commercial banks during that year had increased by RM1.6 billion, meaning that the loans under GGS formed only 0.36% of this increase.

Three reasons were identified for the sluggish start: firstly, there were too many limitations and restrictions relating to the eligibility of loans for guarantee; secondly, commercial banks' officials were not yet familiar with the scheme; and thirdly, some banks were not enthusiastic in implementing the scheme.

To overcome the first issue, GGS conditions were simplified. All economically viable activities requiring credit of less than RM100,000 were now eligible under the scheme, and no security was required for loans amounting to less than RM30,000.

As commercial banks played a critical role in disbursing loans to small businesses, their support was integral to the success of the scheme. And

as the banks became more aware of the significance of the strategy in expanding economic activity, they became more supportive of the initiative.

“Once banks understood the principle and reasons, and were persuaded as to the benefits, most showed a willingness to provide these facilities,” said Dato’ Rustam.

### **The role of commercial banks**

From its inception, the part played by commercial banks in supporting CGC’s objective has been vital. Commercial banks play several roles: as shareholders of CGC in partnership with BNM; as lenders assessing the viability of borrowers’ applications; as financial advisors in sharing their knowledge, expertise and experience; and as facilitators in disbursing loans through their extensive national network of branches.

On incorporation, CGC’s shareholders were BNM which held a 19.2% share, and commercial banks operating in Malaysia which held the balance of 80.8%.<sup>4</sup> As shareholders, the banks had an interest in the success of CGC. However, the banks were also accountable to their shareholders, and had to balance their responsibility as a business entity with their role in the country’s development.

In assessing a borrower’s application for loans, commercial banks assess five credit factors (known as the 5Cs) of an applicant: character, capacity, capital, condition and collateral.

Many small businesses however, lacked the collateral and a business track record to substantiate their credit standing. Thus, lending to small enterprises was seen as a risky proposition for banks.

CGC bridged the gap between the banks and the borrowers. By providing guarantee cover, CGC was able to work with banks to support enterprises which might have otherwise not been eligible for loans despite having a viable business plan. Banks were also reluctant to lend to businesses with small loans as the time spent to assess and process each loan was equal to that of a bigger loan.

“From a business perspective, it was more cost-efficient for banks to make one large loan to a bigger borrower than multiple smaller loans to many borrowers,” said Tan Sri Dr. Lin See-Yan, CGC’s third Chairman (1980-1994). “To justify the amount of work and amount of risk involved, a high margin of return would have been required, which defeated the purpose of making such loans.”

In an effort to encourage banks’ participation in building up the small enterprise customer base in the early years, BNM set a requirement for commercial banks to lend at least 3% of their savings deposits under GGS by March 1974. This requirement increased to 5% (by June 1974) and to 10% (by June 1975).<sup>5</sup>

The banks’ involvement was an important component in building a financial infrastructure to encourage small businesses’ growth.

“Commercial banks had the experience in assessing credit risks and the knowledge in providing credit,” explained Dato’ Rastam. “CGC could also tap into the banks’ lending mechanism and their branch network in drawing small enterprises into the financial system, as banks had a financial reach which CGC lacked.”

The success of GGS would be largely dependent on banks playing their part in promoting the scheme. The banks, in turn, would be able to demonstrate their willingness to contribute to the development of small enterprises in the country while drawing on CGC’s guarantee.

### **Building a business credit culture**

The establishment of CGC as guarantor for bank loans to small enterprises was a step in drawing in businesses to the financial system’s credit process. The success of GGS, however, would be dependent on CGC and the banks’ ability to promote the benefits of the scheme to borrowers.

CGC’s marketing campaign in those early years included publicising the scheme through the media, briefings to chambers of commerce, trade associations and government departments such as State Information Offices and District Offices across the country. CGC also participated in seminars and workshops promoting small businesses organised by Majlis Amanah Rakyat (MARA), the Urban Development Authority (UDA) and commercial banks to explain the scheme and its mechanisms.

# Credit firm for the small man opens today

**THE Credit Guarantee Corporation**, set up to encourage commercial bank to provide more loans to small entrepreneurs, begins operations tomorrow.

The chairman of the corporation, Encik Rastam Hadi, who is also deputy Governor of Bank Negara Malaysia, said today that under its guarantee scheme, the corporation would cover "a substantial percentage" of any loss suffered by commercial banks arising from the loans they give.

He added that Bank Negara and all commercial banks were members of the corporation and under the scheme commercial banks would be able to make available credits to small businessmen at reasonable cost.

The rate of interest would be 8.5 per cent a year but this could be revised when necessary.

Individuals, proprietary and partnership firms, co-operative societies, groups and associations managing

their own enterprises in which they are principally occupied can qualify for credits for starting, carrying on or expanding any small-sized activity.

Encik Rastam said the borrower should be of good character and should be able to manage the project he proposes to undertake. The project should also earn sufficient returns to repay the capital with interest.

However, commercial banks have been advised not to be choosy in granting credits as long as the project was viable because the scheme was aimed at general-

## \$20mil firm to help the small man

**KUALA LUMPUR, Wed.** — A \$20 million Credit Guarantee Corporation (CGC) will be set up in three months to guarantee bank loans given to rural and small-scale enterprises.

Initially, it will cover small loans given to farmers, small businesses and small scale industries for production and marketing purposes.

The corporation will be operated jointly by Bank Negara and all the commercial banks in Malaysia.

It will be set up as a public company.

### Good response

This followed the suggestion of Finance Minister Tun Tan Siew Sin, at his one-hour closed door session today with heads of 26 commercial banks.

Tan Tan said his proposal was favourably received by the bankers.

"They will have detailed discussions with a view to setting up the proposed corporation within three months."

"The establishment will go a long way towards providing the necessary incentive to banks to

## PROPOSAL RECEIVED FAVOURABLY BY BANKERS SAYS TUN TAN

make loans to small enterprises.

Tun Tan said the CGC would have an authorized capital of about \$20 million and a paid-up capital of \$2 million to be subscribed by the commercial banks and Bank Negara.

"The corporation will provide guarantee against risk of default for a major portion of the loan, with the lending institution concerned bearing the risk of the balance."

### Reasonable fee

"A reasonable guarantee fee will be charged."

"Initially, the guarantee scheme will cover small loans granted directly to farmers, small businesses and small-scale industries."

Tun Tan noted that banks in Malaysia were already devoting a sizeable sum in providing small loans.

At the end of last year, more than \$4,500 loans of below \$10,000 each had been granted. These amounted to \$134 million.

During the first three months of this year, a total of \$60 such loans had been made.

He said a number of banks had already started small loan schemes for agriculture, industry and general business, based on the viability of the project rather than on availability of security.

### Viable loans

At the meeting, Tun Tan reiterated his view that availability of security should not be a precondition for loans, particularly for small-scale enterprises.

"Banks should be prepared to give long-term loans if they are satisfied that the projects for which the loans are required are viable and the character of the borrower is such as to give a reasonable assurance of repayment," he said.

He reminded the bankers of the vital role they should play in assisting the Government to achieve the objectives of the Second Malaysia Plan.



CGC's office was located at Wisma Yakin, Kuala Lumpur in the early 1970s.  
Photograph courtesy of The New Straits Times Press (Malaysia)

In promoting the scheme, CGC was encouraging enterprises to borrow for business growth. Its guarantee mechanism helped these businesses gain entry into the formal banking system and exposed them to commercial borrowing elements. Borrowing for business expansion was a novel concept to some business owners who had previously relied on their own savings or family assistance when entering or expanding a business venture.

However, such organic growth was insufficient when the aim of the country was to increase the rate of economic development rapidly. Enterprises with viable ideas and initiatives had to be encouraged to borrow for expansion.

“Lending is an important element in developing the economy. Relying solely on the use of the enterprise’s own funds is insufficient for growth. These businesses needed additional financing and help in obtaining the financing as they lacked the ability to borrow,” said Dato’ Rastam.

At the same time, borrowers needed to understand the responsibilities which came with financing. The commitment to repay the loan was a primary responsibility, as was the understanding that the funds were to be used for its intended purposes. Prudent financial management was required of the borrowers.

“The objective of the loans was to help small businesses grow,” explained Dato’ Khalil Hassan, the first General Manager of CGC (1972-1979). “Many small businesses had ideas, but little access to the funds and capital needed for expansion. Most lacked knowledge on the workings of the financial system.”



As GGS was administered via the banks, borrowers had to work within the financial system. For some enterprises, this meant having to learn application processes required by banks.

Dato' Khalil Hassan recalled advising small enterprises of the required measures.



Dato' Khalil Hassan

“To do up a business plan for the bank, you needed to provide information on your product, market, competition and expected income,” he said. “You needed to show the viability of your plan. Many small enterprises had never done a plan like this before.”

He continued, “For example, a sundry shop or ‘kedai runcit’ owner would need to estimate the population of the area where he is setting up or expanding his shop, their average income and spending patterns. In addition to the revenue, he would need to consider the costs and factor in the competition in the area.”

A similar view on helping small enterprises operate in a business environment was reiterated by Dato' Dr. Haji Zabir Bajuri, the second General Manager of CGC (1979-1987), who succeeded Dato' Khalil.



“Some enterprises lacked a licence to operate; others did not understand banking procedures on opening bank accounts or understand the importance of cash flow accounting,” said Dato’ Zabir. “They needed to understand the need for approvals and proper financial record-keeping.”

Dato’ Dr. Haji Zabir  
Bajuri

The introduction of GGS not only provided borrowers with access to funding, it exposed them to the banking infrastructure and allowed them to build a credit history which would be needed as their business expanded and as they applied for further banking facilities.

### **Progress in the 1970s**

The measures taken to improve on the response to GGS’s initial slow start were successful. CGC’s activities picked up the following year. At the end of 1974, its second year of operation, the number of CGC-guaranteed

borrowers had increased to 23,655 from 2,292 in 1973. The loans approved for the year 1974 was RM164.4 million compared with RM11.8 million in 1973. <sup>6</sup>

With the exception of a slower rate of increase in new loans during the worldwide economic recession in 1975, CGC's lending activities continued to grow through the 1970s. The pattern of CGC lending, which emerged by the end of 1979 showed that the bulk of loans were directed to the general business sector, followed by the agriculture and industrial sectors respectively. A total of 8,552 loans amounting to RM142.5 million were approved during the year.<sup>7</sup>

Loans in the category of RM30,000 and below (where no collateral was required), represented the highest number of loans approved under the Scheme, taking up 94% in terms of number of loans and 72% of the amount of loans. <sup>8</sup>

In terms of racial breakdown, 49% of the loans made during the year were to Bumiputeras, 44% to the Chinese, 6% to the Indians and the balance of 1% to joint-venture enterprises between the various races. <sup>9</sup>

CGC had itself grown steadily during the decade. A snapshot of CGC's operational results in its 1979 Annual Report showed income amounting to RM1,848,745 which was derived from guarantee fees and interest income earned in 1979. With operating expenses before provision for claims of RM366,197 operating results for the year showed a surplus of RM1,482,548. A provision for claims under the Scheme amounting to RM1,081,000 was made during the year, leaving CGC with a profit of RM401,548. General Reserve at year end was RM51,550.<sup>10</sup>

Over the next three decades (1980-2010), the economic environment of Malaysia changed rapidly. The part played by commercial banks and DFIs under BNM supervision would evolve as well. Priority sectors were identified, supported and developed, then superseded by newer sectors. The growth of the economy led to larger-sized and a larger number of market participants with new demands. The next chapter explores these changes through the development of CGC schemes.

2

Brick  
by Brick

“Lending to businesses with a track record is easy. The challenge lies in lending to small enterprises without such record. This requires a different mindset.”

**Tan Sri Dato’ Dr. Lin See-Yan**

Over the last 40 years, CGC has introduced or managed close to 42 guarantee schemes.<sup>1</sup> These schemes are a mirror of the economic conditions of their time.

The demands from enterprises and financial institutions as well as Government and BNM initiatives were significant factors in shaping CGC schemes, with schemes introduced or adapted to meet the particular demands and challenges of each period of the nation’s economic development.



In its first 15 years in operation, CGC unveiled only three schemes.<sup>2</sup> The pace at which new schemes were introduced from 1989 reflected the growth of Malaysian enterprises, the dynamic transformation of the nation’s economy and the effects of globalisation over the next 20 years.

## **The Special Loan Scheme (SLS)**

In 1981, there were two major developments which influenced CGC guarantees.

It had been eight years since the launch of the original CGC scheme, the General Guarantee Scheme 1973 (GGS). The positive results GGS had generated prompted the Government to propose the creation of a new scheme to further boost small enterprises' economic participation.

On 1 January 1981, a new CGC scheme known as the Special Loan Scheme (SLS) was launched.<sup>3</sup> SLS was designed to assist small enterprises by reducing their cost of operations, while ensuring commercial banks received a reasonably attractive return on loans guaranteed by CGC.

The main features of SLS included the availability of loans of up to RM50,000 without security, as well as interest rate, tax and stamp duty benefits. CGC would guarantee 60% of the approved loans. These loans were extended to all small enterprises including those engaged in agriculture and petty trading, with maximum net assets or shareholders' equity of RM250,000.

While both GGS and SLS were offered concurrently, SLS soon became the preferred scheme amongst most enterprises as it was relatively cheaper. GGS, however, continued to be attractive to borrowers wanting to borrow in excess of RM50,000 which was the maximum loan offered under SLS. Those ineligible under SLS, such as practising professionals, also continued to utilise GGS facilities.

The second major development was in the loan quantum commercial banks were expected to make to small businesses. From 1 April 1981, BNM guidelines required each bank to extend at least 12% of its total loans outstanding at the end of 1980 to small enterprises, of which 5% had to be provided under SLS.<sup>4</sup>

With this new directive, banks were no longer required to observe the guideline that loans to CGC should be equivalent to at least 10% of their total outstanding savings deposits.

This second measure was a continuation of BNM's policy to encourage active participation from commercial banks in promoting the growth of small enterprises.

Tan Sri Dr. Lin See-Yan, who had succeeded Tan Sri Dato' Abdul Aziz Haji Taha as Chairman in 1980, explained the reasons for imposing quantitative guidelines on the banks.

“BNM believed that it was part of a financial institution's responsibility to contribute to the growth of our economy. As lending to small enterprises was part of the blueprint for economic growth, financial institutions had to play their part in developing these businesses even if they were considered to be more risky.”

“The risk is compounded by the borrower's lack of collateral, but lending needed to be based on the viability of a project, not security,” he continued. “The Government and BNM were prepared to allocate the funds needed by businesses, but banks would have to play their part in getting these funds on the ground.”



The national objective of correcting economic imbalance among races was not forgotten with BNM introducing new guidelines aimed at accelerating the growth of small Bumiputera enterprises in 1983. Under these guidelines, banks were required to ensure that at least 50% of their SLS loans were extended to the Bumiputera community, to be met by the end of 1985.<sup>5</sup>

### **Hawkers and Petty Traders (HPT) Loan Scheme**

A third CGC scheme, the Hawkers and Petty Traders (HPT) Loan Scheme was introduced in 1986. Through this scheme, financial assistance was provided to encourage and assist the unemployed in generating income through hawking and petty trading. Traders included tailors, barbers and those in the motor repair and tourism-related industries.

While the scheme was aimed at helping to boost economic activity which was lagging during the mid-1980s recession, it also served BNM's financial inclusion agenda. As loans made under HPT required borrowers to maintain a savings account with a bank, it was an opportunity to draw the lower income and underserved segments of the community into the financial system.

In addition, borrowers had to possess valid licenses and permits to trade and had to be a member of a trade association. These requirements encouraged entrepreneurs to formalise their business processes and tap into organisations which could promote their collective growth as an industry.

This scheme, implemented via four commercial banks, provided loans which ranged from RM500 to RM2,000 with a maximum repayment period of three years. No collateral was required, with CGC guaranteeing 60% of the amount.

### **Changing with the times**

In 1982, CGC hired a World Bank consultant to evaluate its role and operations. In the ten years since CGC's incorporation, much had changed. As the economy had grown, businesses needs had become more sophisticated and demand for financing had increased. The review also covered CGC's organisational set-up, capital structure and resource adequacy.

As a result of the review, changes were made in several areas. One was to simplify the processing procedures of claims made by banks. CGC studied DFIs in South Korea, Taiwan and Japan with similar aims of developing small enterprises in their respective countries, and adopted some of the successful features of these organisations which could be adapted to meet the requirements of the Malaysian model.

The working relationship CGC established with its regional counterparts led to the setting up in 1987 of the Asian Credit Supplementation Institution Confederation (ACSIC), a regional body which promotes the development of the credit supplementation system for small businesses in Asia.

Amongst early members of ACSIC were Japan, South Korea, Indonesia, the Philippines, Nepal, Sri Lanka, Thailand, Taiwan and Malaysia. Through its participation in ACSIC, CGC added another dimension to its evolving

role – attracting foreign investors, particularly enterprises in Japan and South Korea, to assist in the development of small enterprises in Malaysia.<sup>6</sup>

Another result of the review was the strengthening of CGC's reserves. As its portfolio of loans grew, CGC intensified measures to strengthen its reserves base to be able to meet potential claims by banks.

'Penalty deposits' channelled from BNM provided interest income which was used to boost the reserves. The 'penalty' funds emanated from the non-compliance of several banks in meeting their lending guidelines, and were placed with other financial institutions allowing CGC to earn interest arbitrage.

The results of the review also prompted a revamping of existing guarantee schemes.

### **The Principal Guarantee Scheme (PGS) and the revamping of CGC**

Both GGS and SLS had worked well in the 1970s and 1980s in providing improved access to liquidity for small enterprises. But by the late 1980s, increasing demands from businesses and processing concerns voiced by banks in rapidly changing economic conditions led to an overhaul of CGC's guarantee schemes.

While adjustments had been made to the schemes from time to time, they were usually related to changes in the economic environment. These included interest rate changes, the scale of loans and lending guidelines. The process of administering the schemes had largely remained unchanged for almost 16 years.

The introduction of the Principal Guarantee Scheme (PGS) in 1989 marked a change in the way the guarantee schemes worked.<sup>7</sup>

At CGC's inception, the evaluation of loan applications was left to the banks as banks had the experience, expertise and resources which CGC did not. Under this arrangement, CGC assessed the loans only when the loans turned bad and banks claimed on the guarantee.

This approach applied for CGC's first three schemes – GGS, SLS and the HPT Scheme. However, weaknesses in the mechanism had resulted in disputes between the banks and CGC when claims were rejected and questions were raised over the viability of the evaluation done at the time the loan was approved by the banks.

Datuk Haji Mohd Idris Haji Mohd Isa, the third General Manager of CGC (1988-1997) played a major role in the development of PGS.



“Under the new scheme (PGS), CGC would evaluate loan applications at the front-end of the credit cycle instead of at the back-end as previously done. Guarantees were not issued without looking at the clients’ viability and prior results,” he said.

Datuk Haji Mohd Idris  
Haji Mohd Isa

CGC would now scrutinise all guarantee applications submitted by banks to ensure a proper evaluation had been made prior to the banks approving the loans. With this change in operation, CGC adopted the concept of effective guarantee, instead of the previous ex-post evaluation. Its effect was to make guarantee cover more definite and allowed for automatic settlement of claims once conditions triggering the guarantee cover were met.

Another major change was in the structure of the guarantee where collateral was involved. Banks usually grant facilities up to a certain percentage of the value of collateral offered by the borrower. This is known as the margin of finance, which was typically between 50-70%.

Under PGS, CGC would only guarantee the portion of the loan in excess of the bank's normal margin of finance, including the portion not covered by any collateral. This reduces the risk factor for banks as it was covered by both collateral and CGC guarantee.

The type of credit facilities available was also increased. Under GGS and SLS, only term loans and overdraft facilities were eligible. Under PGS, borrowers were also eligible for guarantees under letters of credit, trust receipts, bills purchased, shipping guarantees, performance guarantees and facilities under the Export Credit Refinancing (ECR) Scheme.

Loan amount eligibility was revised as well. A higher combined limit of RM500,000 for credit facilities was extended to small enterprises of all races, as opposed to the previous limits of RM200,000 for Bumiputeras and RM100,000 for others. In addition, PGS provided guarantee coverage of 70% (to a maximum of RM50,000) for clean facilities, an increase from 60% under SLS.

Acknowledging the growth of enterprises which had taken place over the years, a broader definition of small enterprises was revised to include all registered businesses with net assets or shareholders' funds of up to RM500,000. Professionals, who had been excluded from participating in SLS, were now eligible under PGS.

PGS also offered a reasonable return to banks as interest rates were no longer fixed (as under GGS and SLS), but pegged to the Base Lending Rate (BLR).

These changes provided impetus for banks to ramp up their lending activities to small enterprises. The change in the guarantee mechanism resulted in a more effective system with processing of claims simplified and claim procedures better defined. As CGC guarantees covered some portion of loans not covered by collateral, there was less risk to the banks, and the banks would earn margin of returns pegged to the BLR.

For small enterprises, the changes resulted in increased access to funding as banks were better positioned to increase lending. In addition, borrowers enjoyed a higher margin of financing as well as a wider range of facilities. The revised definition of small enterprises also meant more businesses became eligible under the scheme.

For CGC, the changes meant increased exposure, which was mitigated by pre-guarantee evaluation. The revamping of the guarantee schemes, however, was a necessary measure to rebuild trust and confidence in CGC.

“The acceptance of PGS marked a turning point for CGC, and laid the foundation for CGC’s growth,” said Datuk Haji Mohd Idris. “CGC spent over a year developing the scheme, and another year selling the idea of the improved product to the banks.”

It was not only the schemes which were revitalised. These changes were part of a larger exercise in rejuvenating CGC and changing the perception of CGC.

To certain quarters, CGC was perceived to be an arm of the Government; guaranteeing loans to those in need of financing was seen as its ‘duty’. Some borrowers regarded the loans as gifts, without the need to repay. Others minimised the importance of repaying the loans as they believed the Government could readily pick up the tab.



That perception had to change. As a DFI, CGC does play a role in supporting the national economic development agenda. However, it works as a partner in bringing together borrowers which require financing but lack the track record and collateral to get access to funds, and financial institutions which could provide such financing.

To be seen as a business partner to both banks and small enterprises, CGC itself started to adopt a more commercial, result-oriented approach similar to a private sector company.



## **Vision 2020**

In 1991, the then Prime Minister Tun Dr Mahathir Mohamad unveiled a new vision for the nation: Malaysia's aim was to become a developed nation in its own mould by the year 2020.

To achieve an industrialised and a fully developed nation status, Malaysia would need to sustain economic growth at 7% per annum and initiate structural changes in the economy as well as within the manufacturing sector.



In a Working Paper - The Way Forward – presented at the Malaysian Business Council in February 1991, the Prime Minister spoke of the role small and medium-sized industries would play in establishing a competitive economy which would sustain itself over the longer term.

*“Small and medium-scale industries (SMIs) have an important role to play in generating employment opportunities, in strengthening industrial linkages, in penetrating markets and generating export earnings. They have a crucial role as a spawning ground for the birth of tomorrow’s entrepreneurs. The SMIs will be one of the primary foundations for our future industrial thrust. The Government is fully committed to its healthiest development.”*

With SMEs at the forefront of driving this bold new vision, CGC schemes were further liberalised as CGC sought to encourage greater participation amongst financial institutions in supporting SMEs’ financial needs.

The New Principal Guarantee Scheme (New PGS), implemented at the start of 1994, placed special emphasis on assisting SMEs which were engaged in the production of goods promoted by the Ministry of International Trade and Industry (MITI). These products included the manufacture of rubber, palm oil, wood, textile, plastic and electrical products.

Under the New PGS, the quantum and processing of guarantees were amended. The maximum guarantee cover and total amount SMEs could borrow were raised, with higher levels provided to priority sectors. To speed up the approvals on small loans of between RM10,000 and RM50,000 each, a Block Guarantee Scheme (BGS) was introduced within the New PGS which offered a pre-approved guarantee arrangement to all lending institutions without their having to obtain prior approval from CGC.<sup>8</sup>



To ensure greater access to institutional financing, guarantees under the New PGS was extended to all licensed finance companies, which could grant unsecured loans of up to RM750,000 each. With this move, a total of 77 financial institutions with a network of over 2,000 branches could participate in the scheme, ensuring easy reach for SMEs throughout the country.<sup>9</sup>

Funding for CGC itself was boosted to accommodate these new challenges. To meet its obligations in guaranteeing higher levels of loans, CGC's financials were strengthened through a combined RM100 million injection of funds.

Both BNM and the Government each provided long-term interest-free loans of RM40 million each. In addition, CGC increased its paid-up capital by RM20 million, with its existing shareholders (commercial banks) subscribing to an additional RM13.2 million shares, and a new share issue of RM6.8 million subscribed by all licensed finance companies. The amount of capital contribution by each participating financial institution was based on the financial institution's shareholders' funds.<sup>10</sup>

The new shareholding structure on completion of this exercise had BNM holding 20%, commercial banks 50% and finance companies 30%.

### **Into the twenty-first century**

“As SMEs become more innovative and entrepreneurial, financial institutions will need to be able to form sound judgements about the business of the SMEs based on a broader range of credit information which goes beyond the narrow traditional focus on collateral and historical financial information.”<sup>11</sup>

**Tan Sri Dr. Zeti Akhtar Aziz**

By the end of the twentieth century, the demands from enterprises for customised and differentiated financial products to meet the unique financing requirements of different sectors had increased. More distinct products were required to cater to the diversified nature of the economy and also to help enterprises at various stages of their business development cycle.

The new century would see CGC transform from a traditional guarantee provider into a financially sustainable institution offering a wider range of products and services. (CGC's transformation will be expanded further in Chapter 5: The Way Forward). Guarantee schemes, however, remained CGC's core business and these were continually developed to meet SMEs' evolving needs.

The introduction of Islamic financing products also opened new avenues of financing for SMEs. CGC offered its first Islamic financing product, the Interest-Free Banking Scheme (IFBS), based on prescribed Islamic Principles in 1997. This scheme was replaced by the Islamic Banking Guarantee Scheme (IBGS) in 2003. IBGS provided financing to a maximum of RM10 million for eligible customers. CGC has since increased its Islamic financing portfolio with products such as DAGS-i, Credit Enhancer Islamic Scheme (ENHANCER-i) and the Bumiputera Entrepreneur Project Fund-i (Tabung Projek Usahawan Bumiputera-i, TPUB-i).

### **Direct Access Guarantee Scheme (DAGS)**

CGC marked the start of the new century with the introduction of the Direct Access Guarantee Scheme (DAGS), an alternative delivery channel in providing SMEs with access to credit. Under DAGS, SMEs could apply directly to CGC for credit facilities without going through banks.

Whilst CGC continued to work closely with banks in financing SMEs, DAGS provided enterprises with additional financing options. One of the lessons learned from the Asian Financial Crisis of the late 1990s was that access to

financing become more restricted during such times. Banks tightened their loans eligibility criteria resulting in increased difficulty for those in need of financing. By introducing DAGS, CGC provided an alternate source for SMEs in need of financing, enabling it to play a larger and more flexible role in supporting SME growth.

As direct engagement between CGC and its borrowers increased, CGC began to establish its branch network across the country to further promote interaction with their borrowers. Such presence provided SMEs with support and financial advisory services at a time when financial institutions in the country were undergoing consolidation and rationalising their own branch networks.

The success of DAGS led to the introduction of schemes based on DAGS features in later years. These include the Islamic finance-based DAGS-i and DAGS Start-up.

### **Credit Enhancer Scheme (ENHANCER)**

A replacement for New PGS, the Credit Enhancer Scheme (ENHANCER) was introduced in 2006 as CGC embarked on the first year of its three-year Business Transformation Plan. For the first time, CGC introduced a risk-adjusted pricing structure where the guarantee fee charged would correspond to the risk profile of the SME borrower. An enterprise with a lower risk rating would be able to get better pricing compared to an enterprise with a higher risk rating. The focus on the credit standing of the SME in pricing the loan reflects the current financial market practice which rewards financially disciplined SMEs.

## **SmallBiz Express**

The SmallBiz Express was introduced in 2010 to replace the Small Entrepreneurs Guarantee Scheme (SEGS). This scheme, which offers loans ranging from RM20,000 to RM50,000, is targeted at smaller enterprises with viable business.

## **Programmed Lending Schemes**

Whilst CGC's main schemes have been general in nature and open to most enterprises, CGC has also managed programmed lending schemes initiated by BNM and Government ministries. These schemes were targeted at specific sectors, introduced for specific purposes or launched during difficult economic periods in support of SMEs.

Promoting the growth of Bumiputera SMEs is a major goal of the Government. Over the years, CGC has supported this goal by encouraging Bumiputera businesses through its financing schemes and advisory services. Schemes specifically aimed at helping Bumiputera SMEs include the New Entrepreneur Fund (NEF) and the Bumiputera Entrepreneur Project Fund-i (Tabung Projek Usahawan Bumiputera-i, TPUB-i).

The TPUB-i is a Syari'ah-based, direct financing scheme which was launched in July 2009. It provides financing capital to SMEs which have secured contracts from Government agencies or Government-Linked Companies (GLCs).

Quick turnaround time for approvals is critical for SMEs involved in such contract projects, particularly short-term contracts. Encik Ahmad Suradi Adnan, Managing Director of NSF Group, explains the financing challenges facing SMEs contracted to projects in Chapter 4: Pursuing a Dream – NSF Group (pages 100-105).

TPUB-i was originally conceived under ERF Sdn Bhd which was established by BNM in 1989 to help Bumiputera entrepreneurs and wholly-owned Bumiputera enterprises. In 2009, ERF's operations were absorbed into CGC as part of BNM's measures to streamline Bumiputera entrepreneur development funds.

Until 2005, CGC was under the purview of what is now the Ministry of Domestic Trade, Co-operatives and Consumerism, and helped to implement funds set up by the Ministry to promote entrepreneurial activities. These included the Franchise Financing Scheme (FFS) and the Small Entrepreneurs Financing Fund (SEFF).

The FFS assisted the Government in developing middle-class Bumiputera entrepreneurs with viable franchise businesses. By subsidising the cost of financing in the early years of the loan, it made the loan more affordable to borrowers.<sup>12</sup>

The SEFF was a scheme which involved Permodalan Nasional Berhad (PNB) as well. At the request of the Government, PNB contributed RM200 million to the fund. The objective of the SEFF was to provide small entrepreneurs with additional avenues to obtain small loans to improve and upgrade their businesses. The scheme focused on training and preparing selected entrepreneurs on how to approach banks for loans ranging from RM10,000 to RM50,000.<sup>13</sup>

Today, CGC continues to work closely with Government ministries in promoting sectors identified for growth such as green technology. The Green Technology Financing Scheme (GTFS), launched in 2010, is a Government-initiated, CGC-managed scheme which supports the National Green Technology Policy. Under this scheme, RM1.5 billion was initially allocated to finance companies that supply and utilise green technology, which is expected to be one of the emerging drivers of the national economy. To further boost the production and utilisation of green technology-based products, the Government had increased the GTFS fund by another RM2 billion under the 2013 Budget, bringing the total funds allocated to RM3.5 billion.

Other schemes programmed for specific targets include micro-financing schemes (See Box story: The Smallest of Small Borrowers), the Special Relief Guarantee Facility (SRGF) launched in June 2003 to provide temporary relief to SARS-affected industries and the Special Relief Guarantee Facility-2 (SRGF-2) which was set up to help the business community affected by massive floods in 2007.



CGC has also worked closely with BNM and the Government to provide additional support during prolonged periods of economic downturn to ensure financing channels remained open to SMEs in need of funds. (See Box story: The Asian Financial Crisis).

### **Setting the environment for SME growth**

A key area in the national strategy on SME growth has been the Government's focus on capacity building and providing an enabling environment which will allow for the development of high-performing and resilient SMEs.

On the financing front, BNM has focused its efforts on ensuring that SMEs, at different stages of the business life cycle, have adequate access to financing. Measures taken include strengthening the role of financial institutions in providing financing to SMEs and transforming financial service providers such as CGC to meet SME requirements in a dynamic economic environment.

These measures provide a platform for SMEs to launch their efforts in meeting the challenges in a global economy.

The next chapter explores the challenges Malaysian SMEs will face in the coming years.

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## The Smallest of Small Borrowers

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Hawkers and petty traders are considered the riskiest segment of small business lending, and therefore, has the most difficulty in gaining access to financing.

The Hawkers and Petty Traders (HPT) Loan Scheme, introduced in 1986, was the first of CGC schemes targeted at this business segment to help raise the income levels and employment opportunities amongst the poorer section of society.

In 1990, two other micro-credit schemes aimed at helping these smallest of small enterprises were launched. Trade associations, with strong ties to their members, were roped in to play their part in helping their members obtain loans while educating them on their responsibilities as borrowers.

Under the Loan Fund for Hawkers and Petty Traders (LFHPT) which replaced the 1986 HPT Scheme, trade associations assisted their members in obtaining loans and helped banks in recovering delinquent accounts, where necessary.

The second scheme, the Association Special Loan Scheme (ASLS) enabled trade associations to play a more direct role. The trade associations were responsible for processing, evaluating and approving each loan application before submission to CGC for final consideration.

Once approved, a guarantee letter would be issued to the appointed bank to disburse the loan. The trade associations were then responsible for collecting the loan repayments.

Trade associations were drawn into the guarantee process to encourage participation of its members. It also allowed the trade associations to play a direct role in helping their members secure and subsequently repay bank loans, and exposed the trade associations to the workings of basic lending functions, under the guidance of CGC.

Both the LFHPT and ASLS schemes ran until 1998 but in a modified form. Modifications were made to the mechanism as some trade associations were unable to manage their role effectively resulting in too many loan defaults. Both schemes were replaced by the Small Entrepreneurs Fund (or Tabung Usahawan Kecil, TUK).

CGC also participated in micro-financing through its cooperative efforts with Amanah Ikhtiar Malaysia (AIM). AIM is a non-governmental organisation with the objective of reducing poverty in Malaysia. Based on Grameen Bank's micro-financing model in Bangladesh, AIM provides loans to poor households in the rural areas to facilitate income-generating activities.

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## The Asian Financial Crisis

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The Asian Financial Crisis in the late 1990s resulted in a severe economic slowdown in Asia as currencies depreciated, stock markets slumped and business confidence across the region plunged.

Based on the World Bank indicator, the Malaysian economy suffered a 7.4% contraction in 1998 after 12 years of Gross Domestic Product (GDP) growth from 1986 to 1997.<sup>14</sup>

Businesses which imported raw materials, products and equipment from overseas markets were hardest hit, as the Ringgit to US Dollar exchange rate depreciated from RM2.50 in mid-1997 to RM4.00 in mid-1998.

Escalating operating costs, the drop in consumer demand and tight liquidity led to a drop in economic activity. Businesses facing difficulties were also hit by the lack of access to financing as banks sought to contain non-performing loans and tightened their loan eligibility criteria.

Under these circumstances, demand for CGC guarantees increased. Working with the Government and BNM, CGC's focus at this time was to ensure financing channels remained available to SMEs.

Tan Sri (Dr.) Ali Abul Hassan Sulaiman was BNM Governor and CGC Chairman during this period.

“The Government together with BNM implemented a series of unconventional measures to stop the economy from further eroding and to enable the economy to recover. CGC stepped up efforts to ensure the growth of SMEs by assisting the SMEs to have access to financing,” he said.

“During this period, CGC was severely challenged both in terms of ensuring adequate access to credit for viable SMEs as well as in managing CGC's credit risk in view of the increasing non-performing loans (NPL).”

To promote the utilisation of Government-initiated funds aimed at helping SMEs, CGC introduced the Flexi Guarantee Scheme (FGS) in 1999. This new scheme provided guarantee coverage for four funds – Fund for SMI, Rehabilitation Fund for SMI, Fund for Food and the New Entrepreneurs Fund.

CGC also introduced two new schemes to help generate core economic activities. Under the Small Entrepreneurs Fund, the Government allocated RM50 million as additional funds to help small entrepreneurs obtain loans between RM2,000 and RM20,000.

The second scheme, the Youth Economic Development Programme (Tabung Ekonomi Belia, TEB) was an extension of an existing loan scheme which had been managed by the Ministry of Youth & Sports, and aimed at assisting youths.

In addition to facilitating funding, CGC plays a vital role in helping SMEs to remain viable by aiding SMEs with problematic loans to restructure and reschedule their loan facilities.

CGC's role takes on added significance during difficult economic periods as it helps to implement special financing schemes established by the Government for SMEs.

In 2008, the SME Assistance Facility (SAF) and SME Modernisation Facility (SMF) aimed at assisting SMEs hard hit by rising costs of operations due to increased fuel prices and raw materials were administered by CGC.

The most recent scheme introduced specifically to help enterprises in troubled times was the SME Assistance Guarantee Scheme (SME AGS), which was introduced in 2009 to assist viable SMEs adversely impacted by the 2008-2009 economic slowdown.

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“ CGC is a bridge for business to grow.  
Businesses which have successfully grown and gone  
on to bigger things no longer require CGC assistance.  
They can borrow on their own merits. ”

**Dato' Mohd Salleh Hj Harun**

**S**MEs in Japan and South Korea contribute more than 50% to their respective country's Gross Domestic Product (GDP).<sup>1</sup>

In the United States, small businesses employ about half of its private sector workers.<sup>2</sup>

Germany's SMEs – its *mittelstand* companies - employ more than 70% of the country's workers and contribute to about half of its GDP.<sup>3</sup>

The Census 2011 showed that SMEs in Malaysia accounted for 97.3% of the total business establishments and 52.7% of total employment, whilst contributing 28.5% to the nation's gross output.<sup>4</sup>

Using these figures as a benchmark, Malaysian SMEs have the potential to contribute further to economic growth.



Malaysia's economic strategy is to achieve balanced growth through a diversified economic structure. The national economy has moved from one which was commodity-based to a more industrialised economy, and now to an economy where services are an increasingly important source of growth.

The pursuit of sustainable, long-term economic advancement requires constant reinvention of the economy and the search for new sectors which can augment the country's progress. Innovative SMEs are a catalyst in driving the country's economic transformation to a high-income developed country. Thus, the establishment of a solid yet flexible SME sector is a priority.

### **The importance of SMEs**

The contribution of SMEs to a dynamic economy lies in its ability to generate growth and competitiveness. SMEs increase market competition resulting in a more vibrant economy. Their size allows them to be nimble and flexible in adapting to market changes. SME owners tend to be hands-on in their day-to-day operations and in their relationships with customers. Such close customer contact provides them with an edge in price and execution strategies.

A strong SME sector creates jobs and builds skills. While individual companies may not hire a large number of workers, collectively SMEs provide over half the employment in Malaysia. In addition, SMEs which are located outside the major cities provide employment opportunities and give local communities a lifeline.

SMEs play an important part in the supply chain, providing materials and services to larger companies. In some cases, they eventually take over some of the higher-value responsibilities from the larger companies. In Penang, for example, SMEs which provided services to multinational corporations (MNCs) in the semiconductor industry eventually took over some functions as the MNCs themselves moved up to a higher level of production.

SMEs are also a source of innovation as important “incubators” in fostering new ideas and entrepreneurial skills. As these companies develop, they have the potential to expand beyond Malaysia’s borders. The more ambitious SMEs will seek to export their products and services. The resulting foreign exchange earnings will strengthen the national economy.

### **Success factors**

A BNM survey on SMEs conducted in 2001 showed common critical factors amongst successful SMEs.<sup>5</sup>

These included solid management capability and integrity, and prudent financial management. The businesses exhibited a sound business culture and entrepreneurial spirit. They produced high quality products and services. They had strong marketing strategies, and showed a forward-looking mentality in human resource development programmes. These enterprises also received strong support from financial institutions in terms of lending and advisory services.

Globalisation provides both more competition and opportunities. Open markets and increased trade lead to higher competition at home and abroad. Thus, SMEs will have to improve their productivity and performance, find areas of competitive advantage and be cost-competitive. At the same time, efficient Malaysian SMEs seeking rapid growth beyond the domestic market can venture abroad more easily in search of new markets for their products. This, in turn, will generate a significant multiplier effect for the domestic economy.

To succeed in the global environment, SMEs will have to create higher value products to move up the value chain. They will have to develop new business models, better risk management processes, improve on their marketing reach and widen their distribution channels. And they need to be innovative.

To do all these, they need to develop human capital, invest in technology and research, and will need to have access to financing.

### **Preparing SMEs for the future**

Recognising the need for a coordinated approach in directing SME development, the Government created the National SME Development Council (NSDC) in 2004 to map the strategic direction for SMEs. (See Box story: National SME Development Council, pages 64-65).

The basic principle that the NSDC has adopted is to help SMEs help themselves. From a financing standpoint, that means that both borrowers and financial institutions need to play their part in meeting their respective responsibilities.

Borrowers need to ensure they make proper use of their loans, and repay those loans in a timely manner while building up creditworthiness to give them every chance of obtaining loans in the future. In addition, there is a need for borrowers to develop processes and systems for maintaining up-to-date documentation and accurate financial records which are crucial in assessing loan applications.

Financial institutions, both commercial and development, need to recognise the need for a diversified economic structure and balanced growth, and be proactive in providing services to new industries and businesses. They need to evaluate the overall credit-worthiness of SMEs and not be limited by relying solely on the narrow traditional focus on collateral and historical financial information.

SME development programmes under the 10th Malaysia Plan focus on developing SMEs that are innovative, competitive and resilient, which can in turn, contribute significantly to the economy.

### **Access to Financing**

BNM has led the way in ensuring that Malaysian SMEs have adequate access to financing at different stages of the business lifecycle. The wide-ranging measures implemented in the restructuring and consolidation of the banking sector in recent years have strengthened financial institutions' capacity to provide more diversified financial services to SMEs.

In July 2010, BNM Governor, Tan Sri Dr. Zeti spoke of the measures taken by the Central Bank in strengthening the financial infrastructure for SMEs.<sup>6</sup>

These measures included the enhancement of corporate governance and strengthening of risk management practices at financial institutions, as well as the introduction of a new interest rate framework. The new framework allowed for flexible pricing to reflect risks while promoting increased competition in the financial system.

BNM, commercial banks and DFIs such as CGC had also established credit information services such as Credit Bureau Malaysia Sdn. Bhd., and advisory services which catered to SMEs. (To learn more of Credit Bureau Malaysia, please refer to pages 126-128).

Tan Sri Dr. Zeti, who was the sixth CGC Chairman (2000-2002), concluded with the reminder of the importance of SMEs.



*“It is their potential that places them at the centre of the economic transformation agenda. The ultimate goal is to promote entrepreneurship and develop an environment favourable to SMEs that will allow them to become more competitive in both the domestic and international markets.”*

Financial institutions undoubtedly have an important role to play in supporting SME growth. The Census 2011 showed that the bulk of SMEs relied on funding from family, friends and their own savings to finance their enterprises. (See Box Story: Sources of SME Financing, page 66).

Thus, SMEs provide financial institutions with a large customer base to tap into. In recent years, financial institutions have focused strongly on developing their SME lending portfolio.

All commercial banks have dedicated SME divisions which are responsible for providing lending as well as ancillary support and advisory services to the SMEs.<sup>7</sup> They now offer a wider range of financing options, a larger selection of products and competitive rates. BNM figures indicate that financing provided to SMEs as a percentage of total business financing by the banking system has increased from 27.1% as at end 1998 to 39.6% as at end December 2011, amounting to RM140.6 billion.

The 2010/11 SME Annual Report showed that banks continue to be the main source of financing for SMEs, accounting for 85% of the total financing extended by the various SME financiers as at the end of 2009.<sup>8</sup> In 2010 itself, financial institutions approved RM62.2 billion to 140,118 SME accounts.<sup>9</sup>

The strong ties between CGC and commercial banks and DFIs continue to be vital in extending financing to SMEs. Since 1996, CGC has shown its appreciation for the important role played by its partners through its 'Top SME Supporter Awards'. These annual awards recognise financial institutions which have significantly supported and participated in CGC's credit guarantee schemes, and acknowledge the quantitative and qualitative contributions of CGC's partners in ensuring credit access for SMEs.

In addition to broadening financing opportunities for SMEs, BNM provided a different avenue of support for SMEs in establishing the Small Debt Resolution Scheme (SDRS) in 2003. The SDRS was set up to assist SMEs which were financially constrained and had problems repaying loans as scheduled. If these SMEs were assessed to be viable business entities, its non-performing loans (NPLs) could be restructured and additional funding provided under SDRS.

These financial inclusion measures in broadening access and support to the financial network have positioned Malaysia as the highest ranked nation in terms of 'Getting Credit' in the *'Doing Business Report' 2010-2012, World Bank*, and number eight in terms of 'Ease of Access to Loans' in the *'Global Competitiveness Report 2012', World Economic Forum*.

## **A new breed of SMEs**

In his opening speech at the SME Innovation Showcase (SMIDEX) 2010 in June, Prime Minister Dato' Sri Mohd Najib Tun Haji Abdul Razak spoke of new challenges facing SMEs today.

*“The era of globalisation and trade liberalisation has changed the rules of the game. Companies that deliver the best product at the most competitive price will benefit the most from trade liberalisation. Knowledge has become a key driver of economic growth and development internationally. But innovation will provide the tipping point.”*

The Prime Minister went on to speak of the need for a new breed of SMEs, one which could foster market and technology-driven innovation and create high-skilled jobs in all economic sectors.

This new breed of SMEs will be building on the foundation paved by SMEs which have navigated their course to success. In addition to their business achievements, the current generation of successful SMEs has created an impact on individual lives and communities.

SMEs have contributed to the way of life in cities, towns and rural areas, reviving some communities and creating change in others.

Entrepreneurial vibrancy is infectious. Many a business has been built on an entrepreneur's desire for personal achievement and willingness to take on commercial risks to fulfil a vision.



Such can-do spirit provides those around them with a sense of freshness, energy and urgency to succeed as well. Entrepreneurial zeal encourages others and gives them the confidence to dream and build on their own ideas.

A successful business acts as a catalyst to make a difference to those around them. The SMEs featured in the next chapter, all CGC borrowers, have made that difference.



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# National SME Development Council

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Recognising the importance of SMEs to the economy's growth, the Malaysian Government has placed heavy emphasis on developing the sector.

Governments play a major role in coordinating the support and setting the conditions required for SMEs to thrive. In 2004, the Government set up the National SME Development Council (NSDC). Chaired by the Prime Minister, the Council is the highest policy-making body for SME development in the country and brings together more than 15 ministries and 60 agencies under a coordinated national strategy.<sup>10</sup>

Its task is to chart the future strategic direction for government policies and strategies on SME development aimed at creating an enabling environment for the comprehensive development of SMEs across all sectors.

The measures undertaken have been clustered under three broad strategic thrusts: firstly, strengthening the enabling infrastructure; secondly, enhancing the capacity and capability of SMEs; and thirdly, enhancing access to financing.

The basic principle adopted has been to help SMEs to help themselves.

To provide a roadmap for Government ministries and related agencies involved in SME development, the annual SME Development Blueprint outlines objectives, strategies and targets, as well as key programmes and financial commitments, for SME development in a particular year.

The SME Annual Report 2011/12 indicated that a total of 144 key programmes were implemented with a financial commitment of RM14.8 billion which benefited 487,871 SMEs across all sectors.<sup>11</sup>

SME Corporation Malaysia (SME Corp), a specialised government agency, was tasked with implementing the policies of the Council. Its role is to ensure the effective implementation of SME development programmes which focus on the development of high performing and resilient SMEs.

SME Corp was originally known as the Small and Medium Industries Development Corporation (SMIDEC). SMIDEC was first established in 1996. Prior to its rebranding to SME Corp in 2009, its aim was to develop SMEs' competitiveness in global markets.<sup>12</sup>

SME Corp serves as the central point of information, reference and advisory services for SMEs in all sectors and is the Secretariat to the Council, a role previously undertaken by BNM.

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## Sources of SME Financing

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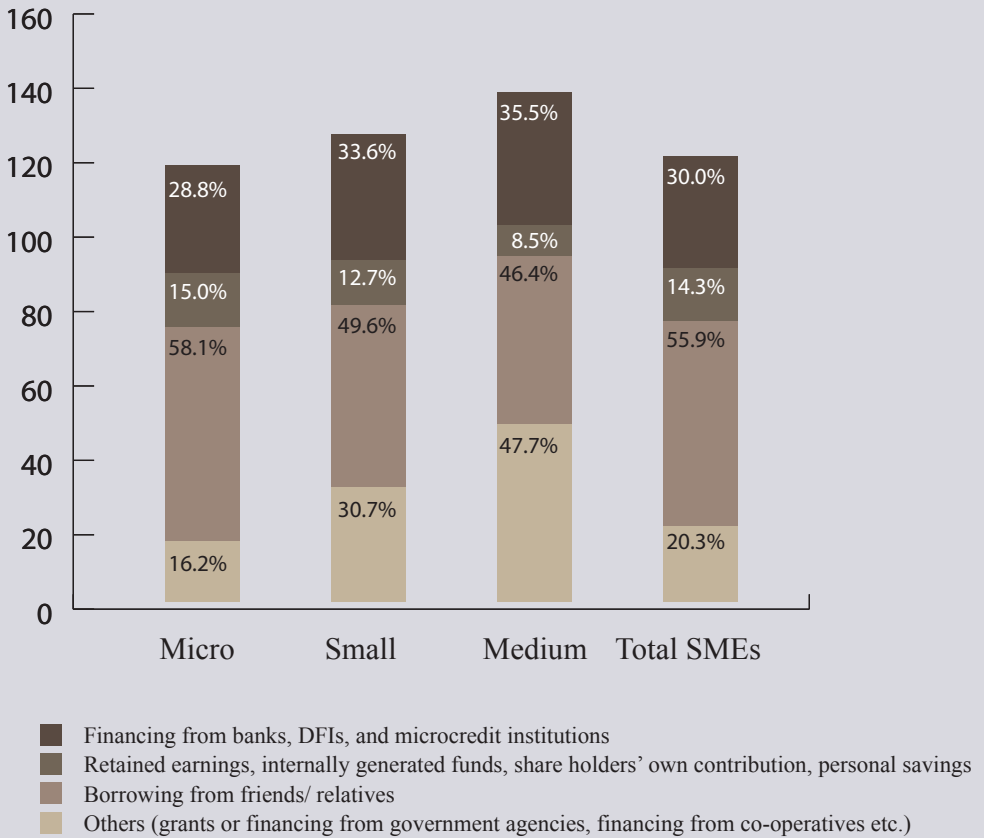


More than half of the SMEs surveyed in the Census of Establishments and Enterprises 2011 used their own internally generated funds or funds from shareholders, friends and relatives to finance their operations.<sup>13</sup>

This was particularly true for micro and small enterprises, with only 16.2% of micro establishments indicating that they relied on financial institutions for financing. However, financial institutions were the main source of financing for medium-sized enterprises.

In overall terms, 20.3% of SMEs received financing from financial institutions which included banking, micro credit and development financial institutions. Other sources accounted for 30% of SME financing. These sources included grants or financing from government and co-operatives.

## Sources of SME Financing



In 2011, respondents were given the option of selecting more than one source of financing, thus resulting in total sum of more than 100%.

Source: Economic Census 2011, Department of Statistics, Malaysia.

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## SME Sector Breakdown

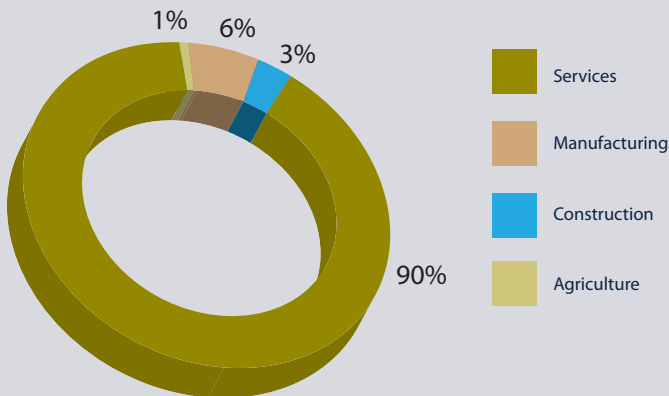
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The Census 2011 was the second such census to be conducted by the Department of Statistics of Malaysia and covered all sectors of the economy. The Malaysian SME sector breakdown under Census 2011 showed services to be the prevailing industry sector, followed by manufacturing, construction, agriculture, mining and quarrying.<sup>14</sup>

Micro-sized enterprises made up the bulk of the Malaysian SME sector with 77% of businesses falling under this category. Small enterprises accounted for 20%, with just 3% falling into the medium-sized establishment category.

This pattern is reflected in the industry sector breakdown. In the largest industry sector, micro-sized enterprises dominated the services sector representing over 79% of total SMEs in this sector, with small and medium-sized establishments accounting for just 18.3% and 2.1% respectively.

Census 2011 also showed that over half of SMEs in the country were concentrated in Selangor, Kuala Lumpur, Johor and Perak, with 13% of SMEs located in the East Malaysian states of Sabah and Sarawak.



### Definition of Small and Medium Enterprises (SMEs)

Sector Size/Sectors	Micro-Enterprise	Small Enterprise	Medium Enterprise
Manufacturing, Manufacturing-related Services and Agro-based industries	Sales turnover of less than RM250,000; or  Full time employees less than 5	Sales turnover between RM250,000 and less than RM10 million; or  Full time employees between 5 and 50	Sales turnover between RM10 million and less than RM25 million; or  Full time employees between 51 and 150
Services, Primary Agriculture and Information & Communication Technology (ICT)	Sales turnover of less than RM200,000; or  Full time employees less than 5	Sales turnover between RM200,000 and less than RM1 million; or  Full time employees between 5 and 19	Sales turnover between RM1 million and less than RM5 million; or  Full time employees between 20 and 50

### Category of SMEs

Manufacturing, Manufacturing-Related Services and Agro-based industries  
‘Small and medium enterprises in the manufacturing, manufacturing-related services and agro-based industries are enterprises with full-time employees not exceeding 150, or with annual sales turnover not exceeding RM25 million’

Services, Primary Agriculture and Information & Communication Technology (ICT)

‘Small and medium enterprises in the services, primary agriculture and Information & Communication Technology (ICT) sectors are enterprises with full-time employees not exceeding 50 or with annual sales turnover not exceeding RM5 million’

Source: SME Corp website, retrieved 10 February 2011,  
<http://www.smecorp.gov.my/v4/node/14>



**Credit Guarantee Corporation (M) Ltd.**

**First Annual Report  
1973**



4

Pursuing A  
Dream

## Featured Borrowers

1. Nelson's Franchise: A Simple Product, A Simple Idea
2. Golden Palm Oil Industries: Building on a solid foundation
3. Nadira Shoppe: Partners in trumping adversity
4. Sukame Products: Toiling away quietly
5. D'Tandoor: The courage to succeed
6. NSF Group: Within every crisis lies opportunity
7. Kicap Tamin: Tradition and change
8. Tabco Group: Persistence pays

*Over the past four decades, CGC has worked together with many entrepreneurs in pursuit of their dreams. We hope that in extending our helping hand to them, we have contributed to their success.*

Successful entrepreneurs share certain traits: a passion and belief in the products and services they provide; the courage and commitment to battle through barriers in their chosen path; and the ambition and strategic mindset to achieve their long-term vision for their businesses.

In achieving their goals, entrepreneurs display discipline, attention to detail, perseverance and the flexibility to adapt to a changing business environment. They show a willingness to take risks when opportunities arise and exhibit the imagination to differentiate themselves from their competitors.

Successful entrepreneurs strive to be better, faster and more efficient in providing what their customers want.

The entrepreneurs featured in this chapter display these traits. They have built thriving businesses in their chosen industry. In the following pages, the people behind these SMEs share their thoughts and experiences in their journey to success. CGC is proud to have collaborated with them in their endeavours.

# Nelson's Franchise

## A Simple Product, A Simple Idea



One simple idea.  
One passionate entrepreneur.  
One successful franchise.

‘Corn-in-a-cup’ is everywhere these days: It can be found at shopping malls, petrol stations or by the streets. Its success lies in its simplicity: Corn-in-a-cup is a snack which can be quickly whipped up and easily consumed.

It takes less than a minute to serve. A ladleful of corn, separated from its cob, is scooped from the steamer into a small pot. Add a little bit of butter and salt, a quick stir, and it is ready to be served in a cup.

Nelson's takes credit for introducing the concept of corn-in-a-cup in Malaysia. Dato' Nelson Kwok, founder and Managing Director of Nelson's Franchise (M) Sdn Bhd has overseen the growth of Nelson's from a single shop to over 80 local outlets and 800 outlets worldwide.

A toy retailer early in his career, Dato' Kwok recounted how he entered into the corn (or 'jagung') business.

“In the 1980s, I owned five shops selling toys. One day, a farmer from Banting brought me some corn samples and said that I should sell these,” he said. “I brought it home, my wife and I tried it, and we found that it tasted great. So I started selling corn in a corner of my shop.”

He soon realised the demand for corn was excellent, with a turnover exceeding that for toys. Eventually he converted his toy shops into shops selling corn.

Nelson’s started by selling corn-on-cob. Eating corn-on-cob was a messy affair. By the 1990s, Malaysian consumers had become more affluent and their on-the-run lifestyle demanded snacks which could be easily consumed on-the-go.

Nelson’s offered them something new. In 1993, it introduced corn-in-a-cup in Malaysia. It was tasty, easy to consume, inexpensive and caught on instantly.

The success of the corn-in-a-cup led to Nelson’s rapid growth. By 1994, Dato’ Kwok directly owned and managed seven stores. He decided that a different approach was needed if the business were to grow.

“We decided to adopt the franchising model for financing as well as manpower reasons. What we look for in a franchisee is someone who is keen to own his own business and is going to be hands-on. Those are our priorities. To succeed, you need to be hands-on and responsible for your own business,” said Dato’ Kwok.



Capital outlay depends on the franchisees' available capital. In Malaysia, this ranges from RM30,000 to RM80,000 per outlet. The size, look and product range of the outlet will be tailored according to capital outlay, and franchisees are trained on how to operate outlets which are located in high traffic areas.

The franchise model has worked well for Nelson's. Its first franchise outlet was launched in Penang in 1995. Today, its 800 overseas outlets operate in 14 different countries including Indonesia (where Nelson's opened its first overseas outlet), Russia, Romania, USA, Saudi Arabia and Turkey.

While there is still room for growth locally, Nelson's expects most of its future expansion to be in the overseas markets. Seventy percent of Nelson's revenues today are derived abroad, with interest particularly high in the Middle East.

Nelson's also produces other snacks such as ice cream potong, soft serve ice cream, waffles and beverages. However, corn-in-a-cup remains a favourite.

To maintain the quality and control of its corn, Nelson's has moved to integrate its corn production process. Nelson's supplies all its franchises with the corn. The N28 corn seed is a unique breed grown on farms in Perak and Terengganu which are contracted exclusively to Nelson's.

Nelson's provide an example of SME linkages which provide employment in rural areas. Chemor is a town in the Kinta district, north of Ipoh, Perak, which was once famous for its tapioca plantations. The electronic industry dominated its economy in the 1990s but activities had dropped since the 1997 Asia Financial Crisis.

The growth of Nelson's is a boon to the town. As the number of Nelson's retail outlets has increased, so has its demand for raw corn. Nelson's corn is now grown across 600 acres of land in Chemor. Through its contracts with local farms, Nelson's provides employment opportunities to 30-odd farmers as well as farm workers who process the corn. Some of those who participate in these activities are the elderly who de-husk and de-cob the corn ears.

Dato' Kwok believes in taking up opportunities as they arise and putting your passion into what you believe will work.

“Successful entrepreneurs must be passionate about what they do and believe in their products,” he said.

Nelson's has thrived by exploring new business opportunities, taking chances on product innovation and expanding vertically in its supply chain. It has grown from a husband-and-wife business venture to one involving over 200 people in production, distribution and retail. In its first year of operation, its revenue turnover was RM20,000; today, its revenue is over RM20 million.

These numbers reflect Nelson's growth as does Dato' Kwok's recollection of his early financing arrangements with CGC.

“I still remember my first CGC loan. It was a RM50,000, five-year term loan. Monthly repayment was just RM1,000 a month.” He paused, then continued with a laugh, “It was a long time ago!”

As with many budding entrepreneurs, Dato' Kwok faced significant challenges in obtaining loans in the early days of his business in the 1980s.

“CGC helped us a lot in our early years. Banks required collateral and would fund only up to 70% of any collateral provided. We managed to get a higher level of loans with CGC's guarantee than we would have managed to get from the banks alone,” said Dato' Kwok.

He continued, “The loan helped us to grow. As we expanded further and required more funding, CGC again provided us with guarantees to obtain larger loans.”

In his view, what doesn’t change regardless of the loan amount, are two principles of borrowing: firstly, the need to utilise the loans carefully, prudently and responsibly; secondly, to remember that timely repayment is important.

The company has recommended and underwritten financial undertakings for some of its franchisees which have approached CGC for funding.

Asked what his proudest achievement is, Dato’ Kwok referred back to his most famous product – corn or ‘jagung’.

“Nelson’s is a recognisable brand because of corn. Our success is due to a simple product and a simple idea. Corn is a humble product, but it has brought Nelson’s much success.”



# Golden Palm Oil Industries

Building on a solid foundation



**Palm oil, native to Africa, is a Malaysian success story.**

**A**t a factory in Bandar Tun Razak, Kuala Lumpur, smooth golden liquid flows through gleaming pipes into clear plastic containers. The rhythmic sounds of machines sealing packages of cooking oil combine smoothly with the deftness of workers quickly and carefully placing packages into boxes for distribution to wholesalers, retailers and consumers in turn.

The packing operation in this factory reflects an industry which has prospered from the small but tough red fruit first brought into this country in the late 1800s as an ornamental plant.

Palm oil, native to Africa, is a Malaysian success story.

After Independence, palm oil was identified as a commodity on which an industry could be built upon. As the country sought to diversify its export base and increase industrialisation, strong Government support, innovative research and development, and a new breed of palm oil farmers and entrepreneurs, combined to develop the industry.

Encik Ali A. Bakar @ Md Talib and his wife, Puan Hajjah Gulab Bibi Haji Mydin Khan were amongst the new Bumiputera entrepreneurs who took up opportunities which opened in the industry 30 years ago.

Alijaya Enterprises started as a sole proprietorship distributing cooking gas to restaurants, factories and canteens. Distributing cooking oil was a natural progression as it had a common customer base. Alijaya Enterprises subsequently focused its attention on the palm oil business as palm oil prices rocketed and the industry boomed in the 1980s. Today, Alijaya Enterprises is known as Golden Palm Oil Industries Sdn. Bhd.

As with many small businesses, financing was a major challenge in the early days of the enterprise. Small businesses with limited financial track records found it difficult to obtain loans, as banks were asking for collateral the businesses did not have.

“For enterprises without other sources of funds, CGC’s help is vital,” said Hajjah Gulab. “We would not have been able to start our business without CGC’s financing assistance.”

The business has built a strong relationship with CGC over the years. Its initial loan of RM50,000 was used to start its cooking gas business. Later, a second loan of RM50,000 was used to gain a foothold in the palm oil business.

“We were unable to get loans from banks as we did not have any collateral and we were a new enterprise,” said Hajjah Gulab. “With CGC guarantees, no collateral was required.”

As the business became more established in the industry, it obtained a further RM200,000 guarantee from CGC to expand its palm oil business. The loan was used as working capital to purchase the stock needed for trading. It also allowed the company to invest in machinery, tanks, oil tankers and a factory.

What started as a husband-and-wife distribution business has grown into a business with over 20 employees. From its roots in the packaging and distribution of refined, bleached and deodorised palm oil in the Klang Valley, the company has diversified to being a stockist and trader of palm olein nationwide, and operate palm oil tankers around the country.

Golden Palm Oil Industries now produces high-quality cooking oil under the *Alijaya* and *Fatin* brands which are distributed to wholesalers and large supermarket chains around the country. It also provides contract packaging services.

The owners of Golden Palm Oil Industries believe that challenges remain for businesses trying to obtain credit facilities at the right price. And their advice to SMEs which have succeeded in getting credit facilities is to ensure that they make timely repayment a priority from the very start.

“Every entrepreneur needs to cultivate the discipline to repay what they have borrowed. If there is a secret to success, it is making the commitment to repay a priority,” said Encik Ali. “It builds trust; people - regardless whether they are your suppliers, customers or bankers – need to know that you will honour what you have committed to do.”

“I believe that the subsequent loans we received from banks and CGC resulted not only from our profitability and turnover, but also from our good repayment record,” added Hajjah Gulab. “We have been able to get multiple guarantees from CGC because we had proved our trustworthiness in meeting our financial obligations. Even when we were exporting our products to higher risk countries such as Pakistan and Cameroon, CGC supported us with their guarantees.”

Business management is an important area of focus for any entrepreneur.

“Entrepreneurs need to have some business management knowledge. I took up a Bachelor of Business Administration (BBA) course which helped me in writing up bank proposals, managing accounts, reviewing targets and assessing project feasibility”, said Hajjah Gulab. “These are skills every business - regardless whether it is big or small – needs to have.”

She continues, “Experience is important, but so is management knowledge in setting clear directions for your company’s growth. Accounting knowledge is also a must.”

The guidance a business receives through management training helps it expand, as does support during economic downturns. CGC plays an

important role in helping businesses through such times. In addition to ensuring that funding remains available, its advisory services and the rescheduling options it provides to businesses in times of crisis are crucial.

In Hajjah Gulab's view, this support has wider implications beyond the survival of individual companies. It has a chain effect of helping other businesses through their own crisis. SMEs which have been in business for over five years and have survived downturns are valuable to the economy.

“Businesses which have weathered difficult times emerge stronger. The experience gained will help them grow and manage more efficiently,” she said.

“Such businesses are most likely to contribute to economic growth over the long term.”

Schemes such as the SME Assistance Guarantee Scheme (SME AGS) which was introduced to ensure that viable SMEs adversely impacted by the 2008 economic slowdown continued to have access to adequate financing is important for long-term SME sector development.

In the three decades since it entered the palm oil downstream processing industry, Golden Palm Oil Industries has achieved much. Its success today is testament to the hard work and commitment of its owners, and the underlying solid foundation on which the business was built.

“We made a commitment to the company and to paying our debts on time,” said Hajjah Gulab.

As Hajjah Gulab reflects on the early years, she recalled that, “The first few years were the toughest. We were new to the palm oil industry and had yet to establish a network. We were working seven days a week just to manage the business.”

Cooking oil distribution is a hands-on business, and the whole family was committed to its success.

“In those early days, the whole family pitched in to help: our children helped with the labelling, I made distributions - I even drove the oil tankers myself at times!” said Encik Ali.

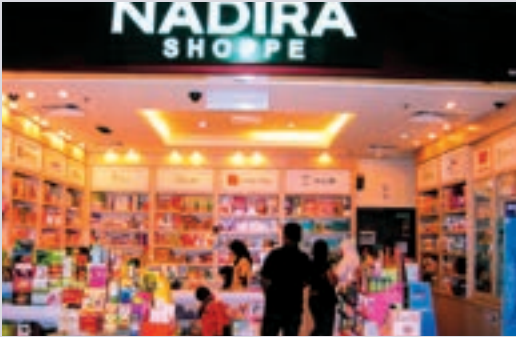
With a solid foundation in place, managing business growth is today’s challenge.

“Business is like a plant, a creeper,” said Hajjah Gulab. “When you first plant a seed, you need to pay a lot of attention to it and nurture it well. It becomes easier to take care of once it grows; the challenge then is to manage its growth.”

“With creepers, you need stakes to control the direction of its growth. In business, you need to exercise similar discipline and control in directing its growth to remain successful.”

# Nadira Shoppe

Partners in trumping adversity



Some entrepreneurs succeed because they are destined to; most succeed because they are determined to.

From its humble beginnings as a sidewalk trading booth, Nadira Shoppe's growth has been spectacular. Its owners, the husband-and-wife team of Encik Jaafar Osman and Puan Nadira Othman, have combined resilience and hard work with a knack for spotting business opportunities which has resulted in the opening of four Nadira Shoppe branches within ten years.

Nadira Shoppe started as a trading booth on the sidewalk outside Pos Malaysia, Melaka in 1999 amidst hard times for the couple. Encik Jaafar had just closed his restaurant business and the young family had also to cope with their eldest son's health issues.

“Our son was a special needs child. We needed to find jobs which allowed us to spend time with him as he was frequently ill. Operating our own business as traders seemed to be the best option for us as it provided us with the flexibility we needed to be there for him,” said Puan Nadira.

Running a sidewalk booth was a new experience for both Encik Jaafar and Puan Nadira, and one which was especially unsettling for Encik Jaafar.

“Running the booth was a necessity. We needed to make a living,” said Encik Jaafar. “It is an honest business, but there is a social stigma associated with running a sidewalk business and I felt it. Initially, I felt uncomfortable, it hit my pride, but I got over it.”

In the early days, the business traded in various products but soon the owners realised that customers paid more attention to local personal care and health products.

“We noticed that customers were buying more personal care and healthcare products than other products,” said Puan Nadira. “So we started focusing on these products. I made it a point to learn more about the products we were selling so I could advise customers on its benefits.”

Whilst Puan Nadira lacked a background in trading, she discovered a flair for customer interaction. This, coupled with the product knowledge she accumulated, proved a successful mix.

The effort paid off. The business did well enough to allow the couple to move their booth into the Kotamas Shopping Centre a year later, and subsequently to move from a booth to a shop lot in the centre.

What the couple lacked in experience, they made up with initiative and a burning desire to succeed.



“We were determined to succeed,” said Encik Jaafar. “After my earlier restaurant failure and the sidewalk experience, we wanted to prove to ourselves and to others that we could make it.”

In 2004, the business was again on the move. Kotamas was closing down and Nadira Shoppe was ready for a new challenge. Tesco Melaka had opened in 2002 and Encik Jaafar was keen to make a move to Tesco as it drew in a good crowd. The move, however, would entail a substantial increase in rental and costs. So it was with some trepidation that Nadira Shoppe relocated to its new booth at Tesco.

The worries proved unfounded.

“From our first day at Tesco, demand has been strong. We had a constant stream of customers stopping by the booth even as we were unpacking our goods,” said Puan Nadira. “We sold enough to cover our rent within 2 days!”

The move to Tesco proved to be a landmark decision for Nadira Shoppe in more ways than one.

“One day, a man approached us at our booth and started a discussion about our business and expansion plans. It turned out that he was from CGC, and he ended up introducing us to CGC schemes which supported small businesses such as ours,” said Encik Jaafar.

Promoting the use of credit facilities is an important element in boosting economic activities. Owners of small businesses often use their own funds as capital at the initial start-up stage. However, once the business shows that it has the capability to expand, the use of credit can help facilitate that growth.

This is the basis for promoting a business credit culture which CGC has pursued since its inception. Part of its agenda has been to identify businesses with the capacity to grow and to help them attain the next stage of their development. Businesses which extend its reach also provide a multiplier effect of pulling its suppliers and business partners to the next level.

Up to that point, each stage of Nadira Shoppe's expansion had been self-funded through savings. However, the owners were convinced that further financing could aid in their expansion, and applied for a loan under CGC's Tabung Usahawan Kecil (TUK) or Small Entrepreneurs Fund.

“Our first CGC loan was an overdraft facility. The funds certainly helped but we were wary in making use of it initially,” recalls Encik Jaafar. “We weren't used to having such financing facilities. Eventually, we realised that using the facility helped us in managing our cash flow.”

It also provided a boost in their confidence.

“Both my wife and I are cautious and we take calculated risks. We will pursue opportunities but only if we believe we can achieve our aim,” said Encik Jaafar. “Getting a loan showed us how far we had come and how much we had achieved since those early days on the sidewalk.”

Encik Jaafar believes that Nadira Shoppe’s success in obtaining financing was due to two main factors: Firstly, meticulous record-keeping. From the time they started the booth outside Pos Malaysia, the owners have ensured that they kept thorough accounting records. The second factor was its discipline in utilising borrowed funds for the business use only and timely repayment of the loan.

Their exposure to the use of credit to help business growth opened the door to further expansion possibilities. In 2005, Nadira Shoppe achieved its aim in moving from a booth to a shop lot at Tesco. Over the next four years, Nadira Shoppe would open branches at Melaka Mall, Mydin MITC and Jusco with additional CGC financing.

With the opening of Nadira Shoppe at Jusco came the opportunity to try a new concept. With Jusco’s wider clientele mix, Nadira Shoppe stocked foreign personal and healthcare brands alongside its local brands increasing customer choices.

The new concept store is the next step in Nadira Shoppe’s growth. Plans for the near future include starting a programme for members, e-retailing and expansion beyond Melaka.

The success of Nadira Shoppe has been built on the relationships its owners have cultivated with customers and suppliers. Customer service has always been a priority from its earliest days, and diligence in acquiring product knowledge is a must for all employees.

“We carry 200 products, and 5,000 items. It’s tough to remember them all but it is necessary if you intend to provide your customers with the best information available,” said Puan Nadira.

While business decisions are made by both, each has focused on certain areas of the business as it expanded. Encik Jaafar concentrates on the accounting and financing portion of the business, while Puan Nadira focuses on sales and marketing. The enterprise has grown from a husband-and-wife operation to one employing 18 staff. Sales turnover has grown from RM360,000 from its early Tesco years to RM6 million per annum today.

Whilst there is pride in their accomplishments, it is mixed with humility as they recall the early days of the business. Both point to hard work, discipline, strong customer relations, the ability to pursue changes and a hands-on approach to all aspects of their business as characteristics which have served them well.

“Although we started the business out of necessity, we quickly discovered we had an instinct for it and we enjoyed it,” said Encik Jaafar. “We are passionate about the business we have built together, and that has been the reason for our success.”

# Sukame Products

Toiling away quietly



The quietness is deceiving. At the light industrial area of Tupai in Taiping, there is little sign of activity. There is no blaring noise of machinery and little traffic, save an occasional motorcycle pattering along an almost deserted street. Small lorries are parked by the side of the road, with covers wrapped protectively across the top, hinting silently at wares to be carted away.

The buildings are nondescript, aluminium awnings and cement walls fiercely guarding the privacy of activities taking place within. Occasionally, gates slide open to reveal emerging trucks which slowly disappear down the road.

As one enters into the premises of Sukame Products, the scene changes. Bursts of colourful fabrics hit the eyes. Vibrant colours of all hues – pastels, solids, patterns – can be seen in all corners of the building.

Mattresses - thick and thin, big and small – are stacked up, reaching up towards the high ceilings of the warehouse. Bales of foam and other raw materials have been pushed to the sides and await their turn to be transformed into brightly coloured pillows and cushions which are piled up in the centre of the warehouse awaiting shipment.

In the next room, the sense of controlled calm remains but activity pervades. Here, fabrics are strewn across large flat surfaces. Young men lean over to measure, then cut the fabrics to pre-determined sizes. These are passed along to ladies seated at sewing machines at the back of the room. Heads bowed down and focused on the task in front of them, the silence here is broken only by the whirrs of the machines as it attacks at the material.

At the front of the room, near the entrance, there is another row of wide tables. Here, the packing team takes centre stage in folding, bundling and wrapping bed sheets, pillow cases and comforters into clear plastic wrapping.

The sense of efficiency pervades throughout the plant.

Sukame Products is an example of the many SMEs which form the backbone of Malaysia's economy. While these individual companies quietly toil away at building their own business, the collective results these companies achieve drive the nation's growth.

Sukame is a manufacturer of home furnishing products such as pillows, mattresses, comforters, cushions, bed sheets, covers and curtains. It supplies to hypermarkets and supermarkets such as Giant, The Store, Econsave, Mydin and Bintang. It has also been exporting its products to Brunei and Singapore in the past few years.

“The heights by great men reached and kept,  
were not attained by sudden flight. But they,  
while their companions slept, were toiling  
upward in the night.”

**H.W. Longfellow**

Mr. Cha Kean Giap, founder and Managing Director, started the company in 2003.

“I had spent four years in this line of business before I started Sukame. Previously, I was sub-contracted to produce such products to suppliers and traders,” said Mr. Cha. “Once Sukame was established, we started producing under our own brands.”

Sukame produces a range of brands which include Eros, Style, Sense, Venustas, MyRoom and Babyland. Each brand caters to a different target market.

The range of brands Sukame produces reflects the choice of quality available. The quality of bed sheets, for example, is dependent on the material used and the thread count. Thread count is the number of threads per square inch. The higher the thread count, the finer the quality of the sheet.

Sukame is certified ISO 9001:2008 by BM Trada, a leading multi-sector certification body accredited by UKAS (United Kingdom Accreditation Service). This means that the company adheres to the ISO requirements to maintain quality in its management system. The scope of the ISO 9001:2008 certification includes company design, development and the manufacturing of home furnishing textile products.

The company sources its raw materials locally and from abroad. Its own research and development and design teams work closely with manufacturing. Turnover time in production is quick; it usually takes a week from the time Sukame's customer places an order to when they receive the finished product.

“When I started doing my sub-contracting business, I worked from my backyard. I was doing the cutting, sewing and filling out foam for the pillows with two others,” said Mr. Cha. “That was just over ten years ago. We moved our operations to a factory in 2001. Today, we have three lots in the Tupai Light Industrial Area where we manufacture and hold our stock.”

Once Sukame moved to its factory, it could expand more freely. With CGC's financing, it invested in machinery which filled up foam in mattresses and pillows. Many aspects of the business, however, require manual input. The company now employs 150 workers.



Asked what his biggest challenge has been to date, Mr. Cha immediately points to financing.

“Trying to get loans to start this company was my main challenge. It was difficult because we did not have proper accounting records which the banks wanted. It took us a year to put the financial information in place before our bankers could recommend a loan with CGC’s guarantee,” said Mr. Cha.

The lack of proper financial data and credit history is one of the biggest drawbacks facing SMEs seeking loans. CGC established Credit Bureau Malaysia to assist businesses facing this issue. Credit Bureau Malaysia, which was established in 2008, help businesses build a credit history through an information database which provides details on the business, its financial statements and relationships with banks, as well as its transactional behaviour with trade partners and utility providers.

Mr. Cha describes Sukame’s growth as steady rather than spectacular. Its financial performance is solid. Its products provide value for its price. It takes great pride in its close involvement with its customers. It goes about its business efficiently.

That could easily sum up the qualities and strengths SMEs provide to an economy.

# D'Tandoor

The courage to succeed



## What makes an entrepreneur successful?

“Passion is the most vital ingredient. Perseverance too,” said Encik Abdul Malik Abdullah, founder and Managing Director, D’Tandoor International Group of Restaurants.

D’Tandoor is the largest North Indian restaurant chain in Malaysia and specialises in fine Indian cuisine, in particular Moghul cuisine.

A self-described ‘graduate of the university of hard knocks,’ Encik Malik is today a successful restaurateur and caterer, but his journey to success has been strewn with obstacles.

Penang-born Encik Malik was drawn to the food and beverage (F&B) industry as soon as he left school. After spending two years working in a Mexican restaurant in Singapore, he joined a Northern Indian restaurant named Shezan in Subang Jaya, Selangor. It was 1984 and he was only 21 years old.

Young and ambitious, he left the next year to open his own Northern Indian restaurant – Shikara - with two partners. Shikara soon had branches in Bangsar and Petaling Jaya. However, partnership problems took its toll and Shikara closed its doors. Encik Malik ended up with debts and spent the next four years working as a caterer at Kelab Aman, Selangor to repay his debts.

In 1990, four days after getting married, he flew off to Australia in pursuit of his other love - North Indian cuisine. He had been offered the position of Manager at a North Indian restaurant in Sydney and decided that a change of scene would provide him with the opportunity to learn about restaurant management in a new environment. A favourable exchange rate of 2.4 Ringgit to an Australian Dollar reinforced his decision as he could save more money to restart his dream.

Encik Malik's wife, Mumtaz Begum Mohd Sidek, joined him in Sydney six months later and both combined the theory and practice of running a restaurant by studying while working.

Three years later, they were back in Kuala Lumpur and opened the first D'Tandoor restaurant in Damansara Utama. This was followed by a second branch in Subang Jaya in 1996. Today, D'Tandoor branches can be found at Damansara Utama, Menara Kuala Lumpur, Kuala Lumpur International Airport (KLIA), Putrajaya, Ipoh, Australia, New Zealand and Saudi Arabia.

In addition to the 13 D'Tandoor-associated outlets currently in operation, D'Tandoor has also signed a master franchise partnership in the United Arab Emirates and expects the franchisees to open soon.

“We went into franchising as it offered further investment opportunities and was the fastest way to grow. Having franchisees manage and be responsible for running the restaurants also helped with the constraints of time and capital,” said Encik Malik.

In addition to its outlets, D’Tandoor operates a central processing kitchen which supplies to its restaurants and catering needs.

D’Tandoor approached CGC when they sought additional funding to expand their operations and start their central kitchen.

“We had problems getting funding in our early years as banks wanted to see our business track record. As a fairly new business, it is difficult to provide a comprehensive track record,” said Encik Malik. “CGC has been extremely helpful in supporting our growth. Our catering business has also grown tremendously and contributes about 40% of our revenue today.”

D’Tandoor’s success in blending the rich culture of Moghul food into a global business franchise is recognised by the accolades it has received. Amongst awards D’Tandoor has won over the years are the ‘Malaysia Tourism Award for Innovative Indian Restaurant’ (2009) and Malaysia Tatler’s ‘Malaysian Best Restaurant’ award (1998-2001). The Malaysia International Halal Showcase (MIHAS) has also named D’Tandoor as the ‘Best Indian Restaurant’ (2005-2007).



Encik Malik was himself awarded the Malaysia Australia Business Council Entrepreneur of the Year award in 2005. He currently holds the position of Chairman, Malaysian Franchise Association, and sits on the Board of Governors in the Malaysia Canada Business Council. He is also a member of the Malaysia Australia Business Council and an advisor to Lembaga Penasihat Francais.

After the early struggles in his career, Encik Malik's advice to budding entrepreneurs is simple, "Make sure you have worked in the industry for at least a year and understand how it works before starting your own business. The view from inside a business and the view from the outside are totally different."

# NSF Group

Within every crisis lies opportunity



Starting a business venture at the height of the Asian Financial Crisis may seem odd, but Encik Ahmad Suradi Adnan, Managing Director of NSF Group, sees things differently.

“Within every crisis lies opportunity. I was lucky to have a business opportunity come up at that time,” he recalled.

At a time when many businesses were failing, an overseas contact sought his help.

“They were expecting furniture from their Malaysian supplier which was having some difficulties. I managed to ship the customer their furniture and that was how this company started,” said Encik Suradi.

From that one opportunity, Encik Suradi has built a group of companies with its core businesses in furniture manufacturing and interior fit-out (or interior renovation).

NS Furniture Sdn. Bhd. (as the company was known then) started in 1998 as a furniture export business which sourced furniture for customers in Japan. It also acted as a supplier to local retailers and contract markets.

With Encik Suradi as the majority shareholder, NS Furniture moved into furniture manufacturing and continues that line of business today from its factory in Negeri Sembilan's Galla Industrial Park.

The company produces standard and customised furniture for residences, offices and institutions, focusing on built-in furniture such as wardrobes, kitchen cabinets and reception counters. It also makes customised joinery works such as architrave, solid and flush door, wall panelling and pantry counters.

However, much of its new business is in interior fit-out. Interior fit-out refers to the fitting-out of a building or space such as ceilings, floors, partitions and furnishings.

“The company moved into the interior fit-out business because it offered us a wider scope of work,” explained Encik Suradi. “As furniture manufacturers, we used to supply fit-out contractors with furniture. But we felt that we could do more, so we learnt about interior fit-out, obtained the necessary licences and qualifications, hired people skilled in this area and became fit-out contractors as well.”

NSF manufactures and installs internal fittings in new or renovated buildings around the country. These fittings are manufactured by NSF, or sourced from foreign markets and customised to client specifications. For example, NSF is able to source a product which is manufactured in Germany, send it to China for processing before fitting it to an office in Malaysia.

Today, the Seremban-based group consists of four companies: NSF Integrated Sdn. Bhd., Office at Work Sdn. Bhd., Space Platform Sdn. Bhd. and NSF Manufacturing Sdn. Bhd..

NSF Integrated carries out interior fit-out contract work; Office at Work provides office fit-out solutions and is the launch pad for the Group to expand regionally; Space Platform specialises in project management and has the potential to develop into the building maintenance business, while NSF Manufacturing manufactures furniture and does Customised Joinery Works (CJW).

Having worked with SMEs for over 25 years, Encik Suradi believes there are two main challenges facing SMEs today. Talent management is one area. To retain employees, SMEs need to invest in training and create a work environment which stimulates employees' growth potential similar to those offered by multinational corporations (MNCs).

The second is access to financing.

The company initially relied on its own funds and advances from project owners as working capital. However, as the number and size of its projects increased, so did its financing needs.



In seeking financing options, NSF turned to two sources. One was ERF Sdn. Bhd. ERF was established by Bank Negara Malaysia in 1989 to help Bumiputera entrepreneurs or enterprises which were wholly-owned by Bumiputeras. It served as a one-stop centre in providing financing, training and advisory services to Bumiputera SMEs (the operations of ERF were absorbed into CGC in 2009).

NSF obtained a loan under ERF's Bumiputera Entrepreneur Project Fund, which provided financing to Bumiputera entrepreneurs who had been awarded Government projects. These funds were used as term loans or working capital.

The second source was CGC.

For companies like NSF which handle projects on a contract basis, the time taken to process applications is crucial. Typically, small companies without credit facilities can only apply for working capital loans once they receive a contract. Financial institutions will then assess their applications on a case-to-case basis. However, the time taken to assess the application and disburse the loan could be up to six weeks, by which time the project may have already been completed.

Using CGC's Direct Access Guarantee Scheme (DAGS), NSF was successful in obtaining a Multiple Option Line (MOL) facility in 2007. This revolving loan facility provided NSF with a Letter of Credit/Overdraft (LC/OD) line which suited the nature of NSF's business. It could draw on the facility without having to wait for case-by-case approvals which had been a stumbling block in the past, and could pursue opportunities more freely.

“This financial facility helped NSF tremendously during the tender bidding process as it provided assurance to clients as far as financial capability was concerned,” said Encik Suradi.

From a one-person operation, NSF has grown into a business employing 57 employees in areas such as manufacturing, design and technical specialisation. To pursue larger opportunities, it has built its financial base, increasing its initial paid-up capital from RM100,000 to RM1 million today.

NSF has proved itself in the industry with strong performances and the credit track record it has established has widened its loan financing options. The company’s growth is reflected in the size of projects it bids for these days.

“In the early years, we would only bid for projects with a ceiling of RM200,000. Between 2003 and 2005, the next stage of our growth, we were bidding for projects in the range of RM500,000-RM2 million. Since we increased our capital to RM1 million in 2008, we are now able to bid for projects in the RM15 million-RM20 million range,” said Encik Suradi.

NSF Group’s clients include Putra Perdana Construction Sdn. Bhd., Putrajaya Holdings Sdn. Bhd., Putrajaya Corporation, UEM Construction Sdn. Bhd., Bank Negara Malaysia, Pembinaan BLT Sdn. Bhd., Construction Industry Development Board (CIDB) and many ministries, government departments and agencies.

The company has continued to pursue opportunities which will enhance its growth. A recent milestone was its work on the Energy Commission Diamond Building in Putrajaya. This building has obtained the Green Building Index platinum rating from the Singapore Green Building Council which supports the building industry's drive toward sustainability. With increasing importance placed on environmental preservation, NSF is incorporating its experience into the design of offices which are energy efficient and environmentally sustainable for its clients.

NSF believes that there is further scope for expansion in the interior fit-out business. As it pursues its next phase of growth, the group plans are to get ISO-certification, step up its pursuit of private sector projects and increase its profile by focusing on marketing and branding activities.

“Our business is contract-dependent and therefore, we are subjected to a variable earnings cycle. In a year, a single contract could contribute 80% of that year's revenue; then for next year, the revenue could be more evenly spread out over a number of contracts,” said Encik Suradi. “So, ensuring the company's growth is a challenge. We need to have the right strategy in place to take up future opportunities.”

# Kicap Tamin

## Tradition and change



Many small businesses in Asia have started as home-based businesses with family members playing an important supporting role. The businesses which have prospered over generations have embraced change even as they hold on to the traditional qualities which made them successful.

Kicap Tamin was first established as a sole proprietorship by Tuan Haji Mohd. Tamin in 1951. Like many small businesses in its infancy, the whole family was heavily involved in the operations of the business.

Kicap Tamin was produced at Batu Gajah which is located at the heart of Perak's tin mining district. As the tin mining industry boomed, the town attracted visitors who were introduced to local cuisine and condiments. Kicap Tamin, which was already a popular product within the local Batu Gajah community, gradually became identified with Batu Gajah and became a product visitors to the area would bring home with them. Batu Gajah's own community contributed to the spread of Kicap Tamin's popularity beyond the town.

What began as a small scale business gradually grew. A second factory was established in Kuala Kangsar in the 1960s.

The 1980s marked a period of change for the industry and the company. In 1982, the companies Syarikat Salmi Hj. Tamin Sdn. Bhd. and Syarikat Zamani Hj. Tamin Sdn. Bhd. were formed to manage the growth of the business. By the 1990s, Puan Hajjah Sharifah Mohd Tamin, Tuan Haji Mohd. Tamin's daughter who had taken over the running of the company, was faced with the challenge of driving the company forward.

Government regulations on the production of sauces had been introduced to ensure overall consistency in product quality. Kicap Tamin which previously relied heavily on family members had brought in professional management as it continued to expand production and its product range. The company had built its market in Perak, expanded to the Klang Valley and gone nationwide. The overseas market was Kicap Tamin's next hurdle.

To meet these challenges, Kicap Tamin sought financing support from CGC. The loan guarantee and favourable rates it received provided Kicap Tamin with the funds to invest in machinery required for automation as the company moved from traditional to modern production methods. It also allowed the company to put its expansion plans for overseas market into action while boosting its working capital base.

Kicap Tamin's overseas markets today include the United Kingdom, Brunei, Japan, Vietnam and the Maldives.

“There is a slight difference in the taste of the sauces we export compared to those we sell locally. The exported versions have been altered to meet the taste buds of people in those countries,” she said. “The Arabs, for example, prefer a more vinegary taste in their chilli sauce.”

The company, which is ISO9001:2000 and halal-certified, now employs over 250 people. In addition to its Batu Gajah and Kuala Kangsar factories, the company has four distribution centres.

To maintain the integrity of his product, Tuan Haji Mohd. Tamin had insisted on using only ingredients of the highest quality. The main ingredients for sauces such as soy beans, wheat flour and caramel were sourced with quality and taste in mind. That same expectation persists today.

These days, Kicap Tamin produces over 50 sauces and cordials. Amongst its sauces are its traditional kicap istimewa (based on the founder's original recipe), kicap soya, kicap mee, kicap cair tamin, and the new oyster, chilli and tomato sauces.

Today, the company produces 24,000 bottles per day compared with 100 bottles when it started.

Hajjah Sharifah plans to expand further locally and through exports.

“There is room for further expansion within the business. We plan to improve on operational efficiencies through more automation, improved quality control and increased productivity. We will need additional financing as we replace our machinery and invest in new technology,” said Hajjah Sharifah.

With a solid record of growth and the financial discipline it has displayed in meeting its financial obligations, it has built up a credit track record which will prove useful when seeking financing options to expand.

Successful family businesses are open to changes it has to make as it expands.



“When I took over the business, I had some ideas which were different from my father’s,” explained Hajjah Sharifah. “I was more aggressive and willing to take on more risk. For example, my father preferred not to take up too much debt. I was willing to borrow more as I believed that to grow, we needed the extra financing.”

While open to expanding its range of products further, Hajjah Sharifah is adamant that Kicap Tamin will remain true to its core products.

“Whatever new products we come out with, it has to have some connection to our original products. We will not diversify too far away from it,” she said. “I would like for us to have products which can be appreciated by all Malaysians, regardless of race.”





Kicap Tamin will be celebrating its 61<sup>st</sup> year in operation in 2012. It has come a long way since Tuan Haji Mohd. Tamin started the business with a capital of just RM10.

With Hajjah Sharifah’s children getting more involved in the business, it may be the turn of a new generation to provide fresh input.

“Just like I had my own ideas, I am sure that they too have their own plans for the company,” said Hajjah Sharifah. “I am proud of what we have achieved over the past 60 years. Tamin is a recognised brand today. It has a loyal customer base, it is built on quality, taste and reasonable pricing, and we are targeting a new generation of customers.”

# Tabco Group

Persistence pays



To returning Malaysian travellers, the sight and smell of a steaming bowl of noodles is a sign that they are home. And NÖÖDLES Restaurants, located at the three main air hubs in the Klang Valley, are ideally placed to welcome them back.

“Healthy, fast and tasty,” is how Dato’ J.J.C. Rajan, Chief Executive Officer of Tabco Group which owns NÖÖDLES, described his product.

Be it for breakfast, lunch, dinner or any meal in between, noodles is a favourite in many parts of the world. As filler or a main meal, noodles can be eaten hot or cold, and cooked in a variety of ways. The Chinese, Arabs and Italians have all laid claim to be the originator of noodles.

Fresh noodles are produced daily at Tabco's factory under halal standards before being sent to the various NÖÖDLES outlets.

In keeping with its health philosophy, noodles at the outlets are blanched and served dry, or doused in soup. Fried noodles are not on the menu.

The growth of Tabco is rooted in a successful product and a strategic business plan which focuses on cost, control and persistence.

For over 10 years, Tabco has been providing food catering services to industrial clients, hospitals, universities and schools, as well as corporate and events catering services. Each area of service has its own unique requirements. Hospitals, for example, require not only food prepared under special high standards of hygiene; special dietary needs have to be observed.



The diverse requirements of its varied clientele provide Tabco with a challenge when forecasting its financial outlook.

“Costing is always a concern in the food business,” explained Dato’ Rajan. “We cater for a variety of dishes and a variety of customers. We can’t just adjust the price on the menu each time the price of raw materials change, so the fluctuation in costs made it difficult for us to forecast financial performances such as earnings and profit margins.”

In 2005, Tabco was ready for its next level of expansion, and decided to focus on outlets specialising in a particular product. The brand name chosen for this venture said it all: NÖÖÖDLES.

Our local version of fast food, noodle dishes usually require short preparation time and can be consumed quickly. Noodles are also staple food which is nutritious, versatile, inexpensive and highly popular amongst Asians.

Focusing on a single product allowed Tabco to better manage its costs and forecasts. Fixing prices over long term contracts with suppliers enabled Tabco to better gauge its manufacturing costs and margins.

When deciding on locations for NÖÖÖDLES restaurants and kiosks, Tabco made the strategic decision to set up in locations with a captive market.

“Our catering experience led to our decision to open outlets at locations with a contained, captive market. At such places, there is already a constant stream of people. The advantage to us is that we do not need to do much marketing and this helps us reduce marketing costs,” Dato’ Rajan explained.

Such locations include airports. Today, NÖÖÖDLES restaurants can be found at the KLIA, the Low-Cost Carrier Terminal (LCCT) and Subang Skypark.

The success of NÖÖÖDLES owes much to the tenacity of Tabco's management. While Tabco was confident that it had a product, concept and business strategy which would be successful with NÖÖÖDLES, financing the expansion was a challenge.

With insufficient internal funds and lack of collateral to offer to the banks, the company's applications for financing were initially unsuccessful. But the persistence of Tabco's management paid off when it convinced CGC of the viability of the project.

“We felt that the banks we approached were swayed more by our past financial records rather than the potential of the project,” said Dato' Rajan.

CGC was drawn to the feasibility of Tabco's proposal. Whilst Tabco's financial accounts at the time was mediocre, the viability of the strategy it had put forward was sound and well-planned. The projects Tabco had lined up and its projected cashflow showed that the company could meet monthly repayments.

The operational experience and commitment displayed by Tabco's directors were additional factors which convinced CGC to guarantee the loan.

Dato' Rajan believes that experience is a key factor when starting up a company in the food and beverage industry. Tabco started with six employees in 2002, all of whom had prior professional experience in the industry. The collective experience turned out to be one of the company's major assets as these employees provided solid foundation for the growth of the company.

Today the company employs 120 employees in Malaysia. The company's average yearly sales in Malaysia have grown from year to year and the future looks promising.

CGC's support of NÖÖDLES kick-started Tabco's growth. From a single outlet, it expanded to all major airports in the Klang Valley and has opened overseas outlets in Australia and Indonesia.

Entering into overseas ventures has been rewarding for Tabco, despite the challenges of having to grasp the regulatory requirements of different countries, adapting the products to local palates and finding the right partners. Overseas markets provide Malaysian companies which have already established themselves locally with increased growth opportunities.



“We expect our future growth to be through overseas expansion,” said Dato’ Rajan. “These are new, exciting markets. We are keen to expand, but at the same time, we want to ensure that we maintain control over the brand and quality of the product. So, we are aiming for steady growth with the right partners.”



5

The Way  
Forward

“The overarching objective of economic transformation is surely to generate sustainable and balanced growth, to improve living standards, to create employment opportunities and to achieve a more inclusive development.”<sup>1</sup>

**Tan Sri Dr. Zeti Akhtar Aziz**



Malaysia's economic background in 2011 is far different from that of 1972, the year CGC was established. The nation has achieved much in the intervening years, but past accomplishments have given way to new demands.

As BNM Governor Tan Sri Dr. Zeti has pointed out, economic transformation is a means to achieve national goals. In a speech entitled 'Innovative Financing for Transformation' delivered in June 2011, the Governor noted that having a well functioning financial system and the right financial policies are essential for effective participation in this new economic and financial environment. As SMEs and micro enterprises contribute significantly to GDP, employment and wealth creation, efficient access to finance for them remains critical.

BNM, as the largest shareholder of CGC, is committed to ensuring that CGC continues to play an effective role in assisting viable SMEs with inadequate collateral and track record through enhancing SMEs' access to financing.

Thus, BNM has worked with CGC to lay the foundation for its future by transforming CGC and positioning it to reinforce BNM's initiatives in stimulating SME competitiveness in a more dynamic global environment.

### **The nation at a crossroad**

In his foreword to the 2010 book 'Economic Transformation Programme – A Roadmap for Malaysia', Prime Minister Dato' Sri Mohd Najib Tun Haji Abdul Razak spoke of Malaysia being at a crossroad.<sup>2</sup>

The nation has progressed from a low-income agricultural and commodity-based economy to a successful middle-income economy and improved the quality of life for Malaysians. While acknowledging such achievements, he warned of significant challenges which lay ahead as the nation sought growth in a changing world. If Malaysia is to achieve its goal of becoming a high-income nation, it will need to adopt a new economic model.<sup>3</sup>

The Economic Transformation Programme (ETP) sets out a roadmap to transform Malaysia into a high-income nation by the year 2020. To achieve this objective, the Prime Minister noted the nation's need to shift its focus to prioritising investments of public funds in key growth engines where

Malaysia has inherent competitive advantages. To do so, the Government is changing its approach from that of being an active player to a role of supporting and facilitating private sector-led growth.

The SME Masterplan (2011-2020) which charts the policy direction of SMEs in all sectors towards the 2020 goal envisions the creation of globally competitive SMEs. This will be achieved through the establishment of an enabling ecosystem to accelerate the growth of SMEs through productivity gains and innovation and to bring them to the next level of development. SMEs will also act as an enabler of growth through the creation of effective value chain that links with the global supply network.

### **Setting the stage**

To facilitate a private sector-led economic expansion, BNM has taken steps to encourage a financial landscape which hones SMEs' competitive edge and gives them more opportunities to gain access to financing.

BNM policies have led to the strengthening of financial institutions' capacity to provide diversified banking services to SMEs (as discussed in Chapter 3), establishing venture capital funds to spur the development of new SMEs, and putting in place a comprehensive consumer protection, redress and education framework to enhance the financial literacy of SMEs.

BNM has also introduced measures to strengthen and regulate DFIs such as CGC, to ensure that these organisations have the capacity to serve SMEs effectively.

CGC's three-year Business Transformation Plan (2006-2008) resulted in a re-invigorated organisation which is more responsive to client needs. CGC has stretched itself to address the challenges its borrowers are facing. To do so, it has undergone a transformation programme to strengthen its operational core. It has taken on increased responsibilities to enhance the ability of SMEs to obtain financing from financial institutions based on their own merits and to extend financing options available to SMEs. Its drive for financial sustainability is a reflection of its role in facilitating growth under the new economic model.

In the first year (2006) of its transformation plan, the organisation focused on ensuring that it had the capacity to effectively perform its enhanced role in supporting the growth and development of competitive SMEs. Measures were taken to strengthen CGC's internal operations through enhancement in its human capital development, IT infrastructure and corporate governance areas.

In the second year (2007), the focus shifted to expanding CGC's SME outreach through the provision of a broader range of innovative products and services, beyond its traditional loan guarantees.

Finally, in the third year (2008), the strategic thrust was the attainment of financial sustainability. Specific initiatives were pursued to help CGC achieve financial sustainability which was considered a critical foundation necessary for it to further expand its SME outreach. The initiatives include enhancing loan quality and expansion of its income stream.

As a result of this transformation process, CGC is more commercially driven which BNM believes is crucial to enable it to continue performing its developmental role more effectively. CGC has developed better products to serve SMEs, enhanced risk management, corporate governance and asset management capabilities, and broadened advisory services to SMEs.

### **Moving beyond guarantees**

For most of its existence, CGC has augmented SME financing through the use of credit guarantees. However, a more competitive environment brought about by increased trade, globalisation and the growth of capital markets has eroded the effectiveness of a single method of influence, and calls for the adoption of a more comprehensive package of measures instead.

Therefore, CGC is now a financial facilitator which provides an expanded array of products and services. It has set up Credit Bureau Malaysia Sdn. Bhd. to collect and provide reliable credit information on SMEs and micro enterprises. CGC has developed alternative financing strategies through Islamic financing, linking capital markets to SMEs through direct and indirect investments and establishing strategic portfolio guarantee (PG) programmes with individual banks.

The PG, with simplified processes, targeted SME segments such as women entrepreneurs. CGC has also extended its advisory services on financial and business development matters.

These initiatives reflect BNM and CGC’s approach in setting the foundation for the financing and development of Malaysian SMEs in the twenty-first century.



“CGC’s role in helping SMEs with access to funding will not change, but the methodology will,” stressed Datuk Wan Azhar Wan Ahmad, CGC’s current Managing Director.

Datuk Wan Azhar  
Wan Ahmad

### **Credit information services**

As SMEs become increasingly specialised, financial institutions’ traditional credit and transaction-based banking approach is shifting towards a more customised approach tailored to the size, profile and specific needs of individual SMEs. As products and services become increasingly differentiated, the creditworthiness of individual companies will come under further scrutiny.

The establishment of Credit Bureau Malaysia Sdn. Bhd. (formerly known as SME Credit Bureau Sdn. Bhd.) in 2008 is a step towards strengthening the SME sector by addressing the quality of information available on SMEs and promoting a sound credit culture in the country.

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## Credit Bureau Malaysia

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The establishment of Credit Bureau Malaysia Sdn. Bhd. is another major step towards promoting a sound credit culture amongst Malaysian SMEs.

SMEs seeking financing opportunities have lamented on the difficulties they face in accessing funding from the financial institutions. A major drawback has been the lack of comprehensive and credible information to evaluate the SMEs.

The absence of such credit history or lack of business background information increases the lending risk for financial institutions. This may lead to their adopting a cautious approach which results in rejection or delays in the loan approval process, consequently causing inefficiencies and lost business opportunities.

CGC, Dun & Bradstreet Malaysia Sdn. Bhd. and The Association of Banks in Malaysia (ABM) sought to address such gaps in the availability of credit information on SMEs by establishing the first credit bureau in 2008 catering to SMEs in Malaysia.

The Bureau is a central database of credit information on SMEs. It acts as a key source of information on business registry details, credit track record with banks and non-bank trade partners and level of indebtedness of SMEs.

This joint initiative combines CGC's SME reach with Dun & Bradstreet's experience in establishing and operating credit bureaus globally. The ABM supports the Bureau by promoting its relationship with its members which are the commercial banks operating in Malaysia.



The Bureau functions as an information intermediary between SMEs and lenders (banks and non-bank credit grantors). As at the end of December 2012, the Bureau had issued over 800,000 SME-related credit reports and rated over 400,000 SMEs. Currently, it has a membership that includes 42 financial institutions, and over 30,000 SMEs and non-bank credit grantors. The Bureau draws its data from various sources including the Companies Commission of Malaysia, the Central Credit Reference Information System (CCRIS), the Dishonoured Cheque Information System (DCHEQS) and non-bank credit data from SMEs and non-bank credit grantors.

The Bureau improves credit assessment efficiency as a one-stop centre for financial institutions seeking consolidated credit information on SMEs. Financial institutions no longer have to seek information from varied sources, thus shortening loan processing time.

For financial institutions, information provided by the Bureau can be used to support the risk management of their SME portfolios as the diversity of information available includes information on various economic sectors which may not be available within their existing credit portfolios.

SMEs without any previous banking history lack a historical record of conduct on their accounts. The Bureau addresses this information gap by collecting and disseminating information from a wider base, including transaction behaviour and trade credit data that captures the dealings between SMEs and their suppliers, customers and utility providers.

Thus, SMEs which may have no financial relationship with banks, but do have a strong credit standing among their trade creditors and suppliers, will be rewarded through favourable ratings that can be used to support financing applications.



The Bureau provides a balanced view of SMEs' credit standings as it includes both positive and negative information on SMEs. A good transactional behaviour record may compensate for the lack of financial credit history. The Bureau uses a credit methodology that discounts aged information, thus providing a fairer assessment of the SME's current creditworthiness.

Such business information and methodology provides a counter balance against some third party information used by financial institutions in the evaluation of credit applications which only provides negative information on the business conduct (such as information on bankruptcy and legal suits) which maybe outdated.

Finally, analysis provided through the Bureau's ratings and reports can help SMEs gain a better understanding of their financial deficiencies. These credit reports identify areas of concern which led to rejections of financing applications by financial institutions. By understanding the credit evaluation process, SMEs are able to initiate actions to strengthen these areas of concern. Such improvements will place SMEs in a stronger position when negotiating with financial institutions.

While banks are currently the main source of financing for SMEs, SMEs now have other options such as Islamic banking funding or capital market funding. The Credit Bureau Malaysia database provides such customers with access to SMEs' financial track record, thus improving the financing options of SMEs with good records.

The Bureau's change of name from SME Credit Bureau to Credit Bureau Malaysia in October 2010 reflects the transformation of the bureau from a provider of SME credit information into a full-fledged credit bureau. The Bureau is currently embarking on efforts to expand its range and depth of services to become a one-stop, comprehensive credit bureau for SMEs and micro-businesses.

## **Expansion of Strategic Partnerships**

In addition to working closely with local commercial financial institutions, CGC has developed new strategic partnerships to increase financing access for SMEs. Three groups of new partners are foreign-owned locally incorporated banks, Islamic financial institutions and DFIs.

CGC's 2009 partnership with Standard Chartered Bank in establishing a PG agreement provided another avenue for SMEs to gain access to funding. This arrangement provides faster turnaround time for approval and disbursement of loans. Customer eligibilities are pre-selected based on certain criteria thereby minimising processing time for approval.

A second similar agreement with Standard Chartered Bank later in the year was aimed at providing financing facilities to women entrepreneurs to accelerate their participation in economic development.

A Memorandum of Understanding signed with OCBC Bank in 2010 opened the door for participation of foreign-owned locally incorporated banks in CGC's guarantee schemes.

The PG is an example of CGC's new product-driven packages catering to targeted customer groups. The success with initial partners has led to further PG agreements with other banks including RHB Bank, Public Bank and Alliance Bank.

## **Islamic Financing**

Malaysian SMEs are uniquely placed to take advantage of Kuala Lumpur's position as a major centre of Islamic financing.

Addressing the World Congress of Accountants (WCOA) in November 2010, Tan Sri Dr. Zeti spoke of Islamic financing as one of the fastest growing segments in the financial industry today. With an average annual growth rate of 20%, the global Islamic financial services industry is now approximated to be worth more than US\$1 trillion. In Malaysia, the Islamic banking system currently accounts for 20% of its banking system.<sup>4</sup>

As Islamic financing becomes more internationally integrated, it will become an increasingly important financing source. Islamic financial institutions will be able to provide attractive financing packages as well as a differentiated Islamic financial product to suit the unique requirements of SMEs.

In 2007, CGC established strategic partnerships with eight Islamic financial institutions, bringing together two important objectives of the Government: enhancing SMEs' access to financing and promoting the growth of Islamic finance.

This strategic partnership provides Islamic financial institutions with a platform to extend greater financing to SMEs and provides CGC with the opportunity to expand the scope of its guarantee beneficiaries to include Islamic financial institutions.

## **DFI Partners**

CGC has also established partnerships with other Malaysian DFIs which were established by the Government to promote sectors of strategic importance. These DFIs include Bank Rakyat, SME Bank, Agro Bank and the Malaysian Industrial Development Finance Berhad (MIDF).

As specialised financial institutions, DFIs are mandated to meet socio-economic goals through financing key areas such as agriculture, infrastructure and manufacturing. They complement commercial banking institutions in bridging the credit gap as financial conduits, while promoting growth through advisory and business support services in their defined sectors.

Although each DFI has its own differentiated role, they share with CGC a common national development objective. Thus, the establishment of these strategic partnerships enhances financing opportunities for clients in their respective sectors whilst collectively building towards long-term economic development.

## **Outreach Programmes**

CGC has also continued its Outreach Programmes by expanding its general advisory services activities. It works with the various chambers of commerce and trade associations in organising seminars, briefing sessions and training programmes on business and financial management to entrepreneurs. These include advice on how to start a business, preparation

and analysis of financial statements, basic accounting, marketing and networking skills. The Entrepreneur Clinic sessions is an example of an outreach programme which provides such advisory support to businesses.

CGC also collaborates with SME Corporation Malaysia in conducting capacity-building programmes for SMEs to develop technical, marketing and business management capabilities. This broad range of advisory services contributes towards improving SMEs' business viability, competitiveness and financing opportunities.

These strategic partnerships and services are the outward manifestation of CGC's transformation. Equally important in setting the forward direction of CGC has been the decision taken by CGC's stakeholders to ensure that it is able to achieve its future goals while operating as a self-sustainable organisation.

### **Being a financially sustainable organisation**

“To achieve financial sustainability, CGC's operations must be profit-oriented but it must also never be profit-motivated in its objective.”

**Datuk Wan Azhar Wan Ahmad**

Historically, CGC has been dependent on funding from its shareholders: BNM and financial institutions, as well as the Government. It was incorporated in 1972 with a paid-up capital of RM2.5 million.<sup>5</sup> Its next injection of capital occurred in 1994 when paid-up capital was increased to RM22.6 million following the introduction of the New PGS.<sup>6</sup> CGC increased its paid-up capital through commercial banks' subscribing to new shares and by bringing in finance companies as new shareholders.

Throughout the 1990s, CGC's capital was gradually increased to strengthen the organisation and position it to meet greater demands on its guarantees. The capital injections were done through issuance of new shares, capital restructuring and rights issues. In 2000, BNM injected RM1 billion into CGC, increasing its paid-up capital to RM1.6 billion. BNM's approval of CGC's Capital Restructuring Plan in 2010 led to its injecting RM150 million of equity into CGC to further strengthen CGC's capacity to provide guarantees.

CGC's strengthened capital position, together with its enhanced institutional capabilities, establishes it as a preeminent provider of credit guarantees for SMEs in the region today. However, to continue supporting SMEs effectively, CGC will have to be flexible and responsive to market changes. It will need alternative sources of funding and not depend solely on past funding methods to meet tomorrow's challenges.

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## Snapshot : CGC 1974 and CGC 2012

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	1974	2012
Total assets	RM2.8 million	RM5.0 billion
Share capital	RM2.5 million	RM1.8 billion
Reserves	RM0.05 million	RM806.2 million
Net Profit	RM0.3 million	RM65.5 million
Total number of guarantees approved to-date (No. of accounts)	23,655	420,000
Total Guarantees approved to-date (Amount)	RM176.2 million	RM51.4 billion



The long-term measures CGC has embarked on mirror the demands its borrowers face in today's economy. The shift in emphasis to private sector-led economic growth requires SMEs to be less dependent on public funding. Instead, SME borrowing needs are being addressed by the widening of private-sector financing avenues. Similarly, CGC has acted to ensure it continues to operate effectively without being reliant on the Government and BNM's financing support. It is exploring alternate sources of funding to support its financial sustainability goals.

### **Managing CGC's income stream**

In earlier years, CGC's income was derived from guarantee fees and interest income. Datuk Zamani Abdul Ghani, the eighth Chairman of CGC identified five areas of revenue for today's CGC - guarantee fees, investment income, income from direct lending, the credit bureau and equity funding.

In building up its revolving income stream, CGC will not stray from its core SME business objective of assisting SMEs access to financing. It will, however, explore opportunities related to its activities.

An example lies in the introduction of risk-adjusted pricing (RAP) in its guarantee schemes since 2006. Pricing under RAP takes the risk rating of a borrower into consideration - a lower-risk borrower will be charged a lower guarantee fee, while a higher-risk borrower is charged with a higher fee.

With the new fee structure, higher risk ventures will still be supported but will be evaluated and priced appropriately. This is a move away from the subsidised credit guarantees in the past which was not tied to the risk profile of borrowers. The move to price the products according to the risk profile of borrowers highlights the importance of building up good credit standing by SMEs.

“The move will also enable CGC to better channel its limited financial resources to truly viable SME borrowers,” said Datuk Wan Azhar.

In addition, Datuk Wan Azhar indicated that the introduction of RAP would encourage borrowers who are able to obtain bank financing without relying on CGC guarantees to minimise their cost of borrowing.

Minimising the cost of borrowing is a feature of CGC’s recently introduced conversion and redemption repayment facilities. These repayment facilities allow customers to convert existing loans with financial institutions into term loans with CGC. In doing so, borrowers will reduce their financing costs as the guarantee fee will no longer apply whilst interest incurred on the loan will be reduced when the loan is paid down.

The redemption facility applies to distressed borrowers which reflect higher risks while the conversion facility is offered to borrowers with better track record or lower risks, which allows for lower interest rates to be charged. Additionally, the Redemption facility provides businesses facing cash flow problems or business difficulties with the opportunity to overcome their current constraints.

From CGC's perspective, these two facilities assist viable SMEs which are in distress or seeking more favourable financing terms. It allows CGC to better manage the credit risk and NPL provisioning of the borrower as the account comes under its direct control. The interest earned from the facilities also adds to CGC's stream of recurring income.

Direct lending is another area where CGC is seeking to expand. Whilst fairly new to CGC's portfolio of products, direct lending has proven to be both an effective channel for SMEs to obtain cost-effective financing and will help CGC meet its financial sustainability objective. The Bumiputera Entrepreneur Project Fund-i (Tabung Projek Usahawan Bumiputera-i, TPUB-i), which provides capital to Bumiputera entrepreneurs for contract financing, is a direct lending facility.

CGC's intent in structuring its new products and services is to encourage SMEs to be focused on their credit risk rating. A good rating will enable them to be less dependent on CGC and open up a wider range of funding options to them. This will help SMEs lower their costs and increase their competitiveness. At the same time, it allows CGC to assist SMEs in other aspects of financing such as the restructuring of financial loans and provision of outreach services which will serve to enhance SME growth while meeting its financial sustainability objectives.

## Evolution of a Guarantee System

Stage	Features
<b>Pre-development</b>	<ul style="list-style-type: none"> <li>• Set-up &amp; establish clear objectives</li> </ul>
<b>Seed</b>	<ul style="list-style-type: none"> <li>• Limited facility –Term Loan</li> <li>• Repayment over a fixed tenure</li> <li>• Enables SMEs to learn the art of managing a loan</li> <li>• Guarantee schemes are not sophisticated</li> <li>• Entire loan is placed under guarantee to ensure proper monitoring and supervision</li> </ul>
<b>Nurture</b>	<ul style="list-style-type: none"> <li>• As business advances, lending pattern becomes more sophisticated with expansion of credit facilities, eg. trade lines</li> <li>• Portions of the loans can be guaranteed as financial institutions and SMEs are more knowledgeable</li> </ul>
<b>Growth</b>	<ul style="list-style-type: none"> <li>• Products are developed jointly with financial institutions and feedback from SMEs to ensure relevance</li> <li>• Products are priced based on risk to benefit SMEs – better credit standing and hence, lower cost of financing</li> </ul>
<b>Maturity</b>	<ul style="list-style-type: none"> <li>• SMEs able to leverage on a hybrid of products to optimise benefits</li> <li>• Infrastructure is sophisticated – information is timely which enhances credibility of SMEs</li> <li>• SMEs have ‘bargaining position’ in availing themselves to the best suited products in the market</li> <li>• Financially sustainable credit guarantee enhancer</li> </ul>



## The Evolution of a Guarantee System

CGC has evolved through the different stages of a Guarantee-Based Lending model in the last 40 years. In its early years (or the ‘seed’ stage), a credit guarantee organisation focuses on simplicity: the credit guarantee products it offers are simple in structure and choices are limited. This allows for easier management of the guarantees as the schemes are introduced, infrastructure built and SMEs educated on the responsibilities of managing their loans. CGC’s first schemes, the General Guarantee Scheme (GGS) and Special Loan Scheme (SLS) reflect the type of products a credit guarantee organisation provides in its ‘seed’ years.

The next stage of the credit guarantee system focuses on nurturing. With all parties – the credit guarantee organisation, financial institutions and borrowers – more experienced at managing their roles and responsibilities, there is increased complexity and nuances built into the guarantee products on offer. At this stage of ‘nurture’,

different financing options are made available and operational changes made to improve efficiency. The introduction of the Principal Guarantee Scheme (PGS) in 1989 illustrated CGC's advancement to this stage as it made changes to the way its guarantee schemes worked and introduced new products which reflected new economic priorities and the adoption of a more commercially-driven, result-oriented approach.

'Growth' is the focus of the third stage. As SMEs grow, their needs become increasingly sophisticated and more distinct. Credit guarantee organisations work closely with commercial financial institutions in developing credit guarantee products which are market-oriented and relevant to SMEs' financial needs. SMEs' credit behaviour becomes increasingly important as financing options move away from subsidies and gravitate towards an assessment of a company's credit history, which in turn influences the weighing of its credit risk and ultimately pricing of loans and guarantees. At this stage of 'growth', credit guarantee organisations' products, services and operations become increasingly market-driven. CGC's Business Transformation Plan laid the groundwork in expanding its role beyond that of credit guarantor. The setting up of Credit Bureau Malaysia and CGC's strategic partnerships with various financial institutions have helped widen and improve financing options available to SMEs, while highlighting the importance of cultivating a sound credit culture amongst SMEs.

The final stage of the Guarantee-Based Lending model is the ‘maturity’ stage. Here, the credit guarantee organisation acts as facilitator in promoting a competitive financial environment for SME growth. The improved financial infrastructure combined with more sophisticated products allow SMEs to leverage on products which suit their needs best. At this stage, the credit guarantee enhancer itself would have grown into an organisation which is able to financially sustain itself and is less dependent on stakeholder support for funding. Currently, CGC is at the early phase of this ‘maturity’ stage.

### **Fostering opportunities, influencing outcomes**

“CGC will continue to stand behind the ‘small man’ - those who are unable to get financial assistance elsewhere. However, CGC also aims to nurture companies to a stage where businesses are able to get financing on their own.”

**Datuk Zamani Abdul Ghani**

The financial system's role is to effectively intermediate and to meaningfully mobilise funds. For SMEs, efficient access to financing remains critical. To spearhead the nation's goal of creating globally competitive SMEs, financial solutions need to meet the differentiated and changing requirements of SMEs.

Since its establishment, CGC has functioned as a key enabler in supporting the growth of SME financing. By being the link between financial institutions and SMEs, CGC has developed a deep and broad knowledge on the business challenges and needs of SMEs. Thus, it is well-positioned to leverage on its existing linkages with the SME community and various fund providers to offer continued training support for SMEs as they develop and move up the value chain.

CGC has adapted its role in facilitating greater access to financing for SMEs to suit its times. As a facilitator of growth, today's CGC is influencing the broader financial environment and encouraging competition amongst financial providers to offer SMEs with financing at competitive rates. It is helping to expand the financial options open to SMEs by drawing in new players such as the Islamic financial institutions and helping SMEs tap into the capital markets in their pursuit of a competitive cost of financing. In doing this, it is helping to establish a credit culture which will provide the financial foundation for greater SME growth.

It also continues to play a key developmental role in administering guarantee schemes aimed at priority sectors, such as the Green Technology Financing Scheme.



CGC has underwritten close to RM51 billion worth of guarantees to over 420,000 businesses, and after close to four decades, it is still standing strong. Reflecting on the history of the organisation, Datuk Zamani pointed out that this is an achievement as well.

“Despite the many economic crises over the years and the financial losses resulting from these crises, CGC continues to do what it does and is still branching out into areas where the country needs it to,” he says.

### **Layers of Growth**

In the introduction to this book, Tan Sri Dr. Zeti spoke of CGC’s role in addressing one of the main constraints of SMEs, that is, the lack of collateral.

Today’s CGC, however, has already moved beyond providing credit guarantees only to better achieve its function.

Tan Sri Dr. Zeti noted that, “CGC has functioned as a key enabler in supporting the growth of SME financing. The ability to unlock the economic potential of SMEs is vital in the transformation of Malaysia to a high income, high value-add nation given the significance of SMEs in the economy.”

“By being the link between financial institutions and SMEs, CGC has developed a deep and broad knowledge on the business challenges and needs of SMEs, and is well-positioned to leverage on its existing linkages with the SME community.”

## **Harnessing the winds of change**

Malaysia's journey from a low-income agricultural and commodity-based economy to a successful middle-income economy has resulted in an improved quality of life. Along the way, there have been moments of calm and moments of trial, moments of exhilaration and moments of discouragement. There have been times when we have grabbed on to the momentum of gusting winds and times when we have had to take out the paddles to propel ourselves forward. There have been detours from our set course and there will be more divergences in the future. It is up to us as a nation to adjust our sails in harnessing the energy of the global winds of change.

As we reach out further, aim higher and accelerate towards our goal of becoming a high-income nation, we at CGC look forward to playing our part in this on-going odyssey.

Writer and poet Khalil Gibran's deliberation on the passage of time reflects CGC's conviction as we embrace the future:

*Time has been transformed and we have changed;  
it has advanced and set us in motion;  
it has unveiled its face, inspiring us with bewilderment and exhilaration.*

## Appendix 1: CGC Schemes

Since 1973, CGC has introduced or managed the guarantee schemes listed below. Some have been discontinued over time.

	<b>Scheme</b>	<b>Year introduced</b>
1	General Guarantee Scheme (GGS)	1973
2	Special Loan Scheme (SLS)	1981
3	Hawkers and Petty Traders Loan Scheme (HPT)	1986
4	New Entrepreneur Fund (NEF)	1989
5	Principal Guarantee Scheme (PGS)	1989
6	Association Special Loan Scheme (ASLS)	1990
7	Loan Fund for Hawkiers and Petty Traders (LFHPT)	1990
8	Amanah Ikhtiar Malaysia (AIM)	1992
9	Association Special Loan Scheme (ASLS 1992)	1992
10	Loan Fund for Hawkiers and Petty Traders (LFHPT 1992)	1992
11	New Principal Guarantee Scheme (New PGS)	1994
12	Block Guarantee Scheme (BGS)	1994
13	Small Entrepreneurs Financing Fund (SEFF)	1996
14	Franchise Financing Scheme (FFS)	1997
15	Interest-Free Banking Scheme (IFBS)	1997

16	Small Entrepreneurs Fund (Tabung Usahawan Kecil, TUK)	1998
17	Youth Economic Development Programme (Tabung Ekonomi Belia, TEB)	1998
18	Flexi Guarantee Scheme (FGS) – includes Fund for SMI, Rehabilitation Fund for SMI, Fund for Food and the New Entrepreneurs Fund	1999
19	Direct Access Guarantee Scheme (DAGS)	2000
20	Enterprise Programme Guarantee Scheme (EPGS)	2000
21	Small Entrepreneurs Guarantee Scheme (SEGS)	2000
22	Fund for Small and Medium Industries 2 (FSMI 2)	2001
23	New Entrepreneur Fund 2 (NEF2)	2001
24	Islamic Banking Guarantee Scheme (IBGS)	2003
25	Special Relief Guarantee Fund (SRGF)	2003
26	Direct Access Guarantee Scheme-Islamic (DAGS-i)	2005
27	Credit Enhancer Scheme (ENHANCER)	2006
28	Direct Access Guarantee Scheme - Start-up (DAGS Start-up)	2007
29	Direct Bank Guarantee Scheme (DBGS)	2007
30	Special Relief Guarantee Facility-2 (SRGF-2)	2007
31	Credit Enhancer-i Scheme (ENHANCER -i)	2008
32	SME Assistance Facility (SAF)	2008

33	SME Modernisation Facility (SMF)	2008
34	Bumiputera Entrepreneur Project Fund-i (Tabung Projek Usahawan Bumiputera-i, TPUB-i)	2009
35	SME Assistance Guarantee Scheme (SME AGS)	2009
36	Green Technology Financing Scheme (GTFS)	2010
37	SmallBiz Express Scheme (SBE)	2010
38	SmallBiz Express Scheme-i (SBE-i)	2010
39	SME Express	2010
40	SME Quick Financing	2010
41	Enhancer Express	2011
42	Enhancer Direct	2011

## Footnotes

### Introduction

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- <sup>6</sup> *CGC Annual Report 1994*, p8.



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