LES CONSEILLERS DU COMMERCE EXTÉRIEUR DE LA FRANCE
MALAISIE

FRENCH SMEs OPERATING IN MALAYSIA DIFFICULTIES ACCESSING LOCAL FINANCING

The presence of French related SMEs in Malaysia is quite significant, generating a yearly turnover of MYR 1.7b and employing more than 4.200 staff, including a vast majority of Malaysian citizens. These companies, either subsidiaries of a France based enterprise or only Malaysia based created by a French entrepreneur, are serving both the local Malaysian market and have often the ambition to serve the ASEAN market from Malaysia.

While it is well recognized that Malaysia has put measures in place to attract foreign investments, there are recurring complaints from those SMEs regarding access to financing. It is viewed as a major hurdle in their daily operations and a clear obstacle to their development. In order to understand the roots of those difficulties, the <u>local and foreign</u> commercial banks' usual practices and current offers regarding financing to foreign SMEs have been reviewed.

In short, what appears is that below a certain threshold, in terms of revenue and 3 years of existence, none of the banks offer any form of financing. Above the threshold, and even for companies having a very good track record and sound financial situation, the terms and conditions offered are very restrictive and most of the time not economically viable.

Foreign SMEs are being applied the same credit analysis requirements than the Malaysian owned SMEs but with the following exceptions. Malaysian owned SMEs could get access to public banks such as SME Bank, offering them attractive terms and conditions. They can also benefit from Malaysian Government dedicated guarantee schemes such as **<u>CGC</u>** (Credit Guarantee Corporation) or **<u>SJPP</u>**, which allow local Commercial Banks to derogate from their usual terms thanks to credit counter guarantee. However, neither public banks nor Government guarantee schemes are currently accessible to SMEs below 51% to 60% Malaysian ownership.

The views we would like to express is that the criteria of capital ownership is not anymore the most relevant one when it comes to assess the contribution of companies to the country in which they are operating. What matters is the direct and indirect economic benefits that those companies are providing in term of employment, salaries and tax paid, contribution to the export, training and upscaling the local work force. While such criteria's are more difficult to assess, they are better aligned with the Malaysia objective in term of economic development. Moreover, Malaysia objective to attract foreign SME's serving also the ASEAN countries is very much achievable but subject to local financing accessibility.

All SME's whenever Malaysian or foreign owned are currently badly hit by the COVID-19 crisis, are in critical financial position and will need some further assistance to re-start quickly their activities. We understand that CGC is currently considering extending its credit coverage to more Foreign SME's in lowering the local ownership requirements. It is a very wise move and recommend that the scheme be structured so most of those foreign owned companies can benefit from it.

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