Programme to aid Bumi SME

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A RM500m fund will benefit Bumiputera SME across all sectors, ranging from manufacturing to trading, construction and vendors

By HAMISAH HAMID

OVER 10,000 Bumiputera small- and medium-scale entrepreneurs (SME) with non-performing loan (NPL) problems will benefit from the RM120 million allocation under the Entrepreneurs Recovery and Development Fund (TPPU).

In a statement released yesterday, Prime Minister Datuk Seri Dr Mahathir Mohamad said the main objective of the RM500 million TTPU is to help Bumiputera entrepreneurs with NPLs of not more than RM1 million through the existing loan reduction mechanism as well as to assist the recovery of businesses with potential.

The fund also aims to address problems in getting working capital for the SME; RM380 million will be made available to the SME through fresh loans.

Malay Chamber of Commerce Malaysia (DPMM), representing Malay entrepreneurs of all levels, lauded the move yesterday while the economists see it as timely and benefiting genuine entrepreneurs.

DPMM's newly-elected president Datuk Seri Abdul Rahman Maidin said the fund will benefit Bumputera SME across all sectors, ranging from manufacturing to trading, construction and vendors.

He said some SME business, such as those supplying parts and components to large firms and multinationals, are viable but their cash flows were affected when their clients experienced a drop in demand and production due to the economic crisis.

"When their bad debts can be resolved through the fund, the SME can contribute to the country's economic growth," he said when contacted by Business Times in Kuala Lumpur yesterday.

Abdul Rahman urged banks, which are involved in the disbursal of the fund, not to attach additional conditions to the loans, such as mortgage, guarantors and others.

"Banks must be aware that this fund aims to reduce NPLs faced by SME with viable businesses. The success of this programme requires cooperation from the Government, banks and entrepeneurs," he said.

Economists pointed out that conditions attached to the loans will allow the Government to properly screen the applicants so that fresh loans given out to entrepreneurs will not turn out to be bad loans again.

International Strategic International Studies deputy director-general Dr Zainal Aznam Yusof said the programme is designed for genuine and viable Bumiputera entrepreneurs and not those who mismanage their companies.

He said the conditions are necessary to ensure that only those with business potential secure assistance under the programme.

Among the conditions set by the fund for Bumiputera entrepreneurs are having NPLs not exceeding RM1 million; the NPL must be one taken for business and not personal reasons; the company applying for the loan must be at least 60 per cent Bumiputera-owned; the NPL did not arise because of mismanagement or fraud; the applicant has a viable business with potential; and only loans classified as NPLs between January 1 1998 and June 30 2001 are eligible.

The programme is part of the RM500 million TPPU announced by Dr Mahathir in March when he unveiled pre-emptive measures, incluing a RM3 billion fiscal package, to stimulate the economy in view of the US economic slowdown.

Zainal said the introduction of the fund reflects a balanced policy by the Government towards local businesses.

He noted that if previously the Government was criticised for only helping large companies with NPLs through the setting up of Danaharta, it has now come out with a programme to help smaller businesses.

On whether the allocation to reduce NPLs will reflect in banks' books, Zainal said it is too small.

He said the amount (RM120 million) constitutes less than 1 per cent of the total NPLs in the banking industry.

As of April this year, total NPLs (based on six months' classification) stood at RM29.2 billion, up from March's RM28 billion.

A banking analyst with a local securities firm concurred, saying that the fund will not help much in clearing total bad debts in the banking system.

"However, in terms of account, it could help a few accounts in the banks," he said.

In the statement, Dr Mahathir, who is also the Finance Minister, said the fund will provide an opportunity for companies facing difficulties to revive their businesses due to their high gearing.

One of the key features of the programme is the abolishment of accumulated interest payments, including penalties imposed by financial institutions.

The programme will also see a reduction of the remaining amount of the unsecured principal loan payment through a "haircut" of 40 per cent by the finance institution and 30 per cent from the Government's financial assistance.

The remaining 30 per cent of the loan will have to be settled in not more than 18 months by the entrepreneur after being accepted into the TPPU programme.

For the secured loans, the financial institution will remove between 50 and 100 per cent of accumulated interest payments due, including penalty interest, and provide a two-year moratorium for the loan repayment.

Another aspect of the TPPU fund programme is the support for entrepreneurs in working capital through fresh loans, limited to RM3 million.

A total of RM380 million has been allocated for this purpose, with 80 per cent of the allocation to be provided by the Government through ERF Sdn Bhd and the rest by financial institutions.

The maximum interest rate for the loans is 5 per cent per annum for a maximum period of five years.

Participants in the TPPU fund programme will be required to attend various training and awareness programmes, aimed at providing them with the skills needed to compete amid current business trends.

The training programmes will cover financial management, computer-based accounting systems and motivational courses.