

An Evaluation of Financing Without Collateral to Small and Medium Enterprises in Malaysia: A Conceptual Framework

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ABSTRACT

The challenges faced by SME to get access to formal lending are well-known. Lending to SME continue, but mostly it was backed up by collateral. However, providing collateral to secure financing is a mammoth task for SME. Establishment of credit guarantee company to woo commercial lenders to lend to SME is a strong signal that collateral remains strong in dictating the credit flow to the SME. Past studies have been too concentrating on collateral lending until the area of financing without collateral to SME has been neglected. Hence, it is vital to scrutiny the factor's considered by the commercial lenders to grant credit to SME without collateral, as collateral is the main reason SMEs are being denied on the formal lending. Therefore, this conceptual paper was formed to discuss the factors that might influence lending to SME without collateral by examining diverse literature and past studies related to financing to SME.

Keywords: *Financing without collateral, SME, Small business, Collateral, Financing*

INTRODUCTION

Challenges for SME to get access to formal financing is an evergreen issue (Abdul Rahman & Dean, 2014; Nanayakkara & Stewart, 2015). State government and international bodies, such as the World Bank and Asian Development Bank had engaged extensively with many stakeholders to ensure sufficient credit is available to SME (Asian Development Bank, 2014; World Bank, 2014). Establishment of CGC, SMECorp and also the implementation of SME Masterplan 2012-2020 are among the efforts taken by Malaysia in addressing the lack of credit to SME (National SME Development Council, 2015). However, all the efforts seem to derail, and Malaysian SME still experiences a shortage in capital and face difficulties to access formal lending.

Lack of collateral is the main reason for SME not getting access to formal lending. They considered as high-risk, and collateral is required to secure financing (Mohd Harif & Md Zali, 2011; Nawai & Shariff, 2011). Opaque characteristic and inability to provide collateral are the two leading reasons why SME remain restricted to formal lending (Ramlee & Berma,

2013). The latest study conducted by R. Haron & Ibrahim (2016) confirms that lack of collateral remains as the main obstacle for Malaysian SME to get access to formal lending. In the year 2015, SMECorp Malaysia conducted a survey which brings the same result. 90% of financing approval by the commercial lenders to SME require collateral as a backup, either by cash or any liquid collateral (National SME Development Council, 2015).

A study conducted by Alam (2010) brings further evidence that collateral is required for Malaysian manufacturing company to get access to formal lending. Many research indicates only the service sector or hi-tech company were facing this issue since they are operating with the less tangible asset (Asian Development Bank, 2014). But the trend has changed since hard for the lenders to ascertain the value of an asset such as machinery, stock, receivables or vehicle offered by SME (Ramlee & Berma, 2013). Due to the prolonged collateral issue, desperate SME turns to moneylenders to alleviate their financial needs, who typically do not require collateral to lend (Akoijam, 2013). However, moneylenders are known with exorbitant charges of interest, and it is a symbolic way of committing hara-kiri for the SME (A. Ahmed, 2010; Chan, 2005).

SME needs sufficient capital to flourish but internal sources frequently insufficient to support (Harvie, Oum, & Narjoko, 2010; Nor, Bin, Rafi, & Yaacob, 2010). They are channeling the need to commercial lenders, but collateral requirement becomes the stumbling block. Based on the above literature, Malaysian SME still faces the same problem, i.e. providing collateral to get financing from commercial lenders. So far, less attempt or studies have been made to exclude collateral from the equation. Hence, this conceptual paper trying to explore the area of financing without collateral to SME.

LITERATURE REVIEW

Small and medium enterprise (SME) is the main contributor to Malaysia gross domestic product (GDP) simultaneously acting as an economic backbone to the country (Mahzan & Yan, 2014). Besides serving as the Malaysia economic backbone, SME also plays a significant role as an employment provider since they are operating under labor intensive (National SME Development Council, 2015). The function of employment provider is not confined to Malaysia only, but also to the rest of the world (Ajagbe, Long, Aslan, & Ismail, 2012; SME Corp. Malaysia, 2015). SME also frequently used by many countries as an effective tool for poverty eradicator. Malaysia had launched *Projek Tekun* in the 1980s to test the effectiveness of SME as a poverty alleviator tool. *Projek Tekun* is a huge success, and the participants managed to reap the intended benefits of the project (Chan, 2005).

Nevertheless, this great economic powerhouse is beleaguered with many problems. The most pressing issue reported by Malaysian SME is to get access to formal lending (Rahman, Yaacob, & Radzi, 2016; Shu-Teng, Zariyawati, Suraya-Hanim, & Annuar, 2015). Diverse academic literature also provides strong evidence that SME all over the world also share the same problem, i.e. access to formal lending. A survey conducted by SMECorp Malaysia in the year 2015 shows that 90% of financing approval to SME require collateral, either by cash or any liquid collateral (National SME Development Council, 2015). On the same notes, a study done by R. Haron & Ibrahim (2016) indicates 57% of the respondent agrees collateral is their main hurdle to get financing. Owing sufficient collateral also become a condition for microenterprise in Malaysia to receive adequate funding from commercial lenders (Mohamed Asmy & Mohammed, 2015). Hence, it is common to read SME literature that links financing accessibility with collateral sufficiency (Ahinful, 2012; Goel, 2015).

Since the discussion is too concentrating on the collateral requirement, there is a discussion gap left behind on financing without collateral. The importance of financing without collateral and its benefit to SME is yet extensively discussed and explored, particularly to the Malaysian academic sphere. Hence, this conceptual paper trying to examine the probability of financing without collateral to Malaysian SME. The study had chosen three major theories which are Agency Theory, Asymmetry Information Theory and Adverse Selection Theory, to build up the research framework. These theories were selected due to it was popularly discussed in many papers related to SME financing, and it was best to explain the relationship between the borrower (an agent) and the principle (the lenders).

Agency Theory

The theory explains how the organisation organise their relationship by dictating who is determine the job and who is doing the job (Eisenhardt, 1989). The theory assumes both the principal and the agent are motivated by self-interest (Eisenhardt, 1989; Hill & Jones, 1992). The ultimate objective of the lender is to ensure their agent acts by the contract, i.e. repaying the loan plus interest (Mohd Shariff, 2000) while the agent, i.e. the borrower is trying to breach the contract by not honoring the obligations. Deviation by agent occurs since control over agent is expensive (Eisenhardt, 1989). Since the study concentrates on the 'person' receiving financing without collateral, the agent features will be scrutinised under this study instead of the principal. Hence, the theory offers a necessary foundation to develop the first two independent variables for this conceptual framework, i.e. Owner Manager (OM) and the Firm.

Asymmetry Information Risk

The problem in dealing with SME is the inheritance of asymmetry information risk, and it cast a significant threat to small business financing (Tze Sheng, Abdul Rani, & M.Shaikh, 2011). Asymmetry risk imposes difficulties for the lender to observe SME's behavior (Grunert & Norden, 2012; Tze Sheng et al., 2011). When critical information in the lending process is affected by opaqueness, many aspects of SMEs become uncertain and require a personal judgment of the loan officer (Bruns, Holland, Shepherd, & Wiklund, 2008). Building-up a close relationship with the lenders might work to reduce the asymmetry risk (Hernandez-Canovas & Koeter-Kant, 2008). Relationship lending allows lenders to collect as many as possible soft information of the borrower from the unofficial dealing (Banerjee, 2014). Accumulation of soft information through long relationship allows the lender to form its own opinion on the borrower and this enhances competitive advantage over its competitors (Perry & Coetzer, 2013). Hence, the theory provides a necessary foundation to develop a third independent variable for this conceptual framework, i.e. Relationship Lending.

Adverse Selection Risk

Adverse selection from a lending perspective is a selection of riskier borrowers by the lender (Stiglitz-Weiss, 1981, as cited in Salvatore Zecchini & Marco Ventura, 2006). Selection of risky borrower occurred when credit was approved based on insufficient information (Shapiro 2005, Demski et al. 1978, as cited in Rudiger Smith, 2011). Hence, the lender's responding to this problem by restraining their financing to risky firms (Zecchini & Ventura, 2006). Other than requesting collateral, lenders will structure an appropriate loan package as to emplace control in facility utilization. Loan type, tenure, pricing and loan amount are among the controlling measure imposed by the lenders to minimize the risk. Hence, the last variable to be included in this study will be Financing Variable.

COLLATERAL LENDING IN MALAYSIA: AN UPDATES

Malaysian SME involved in five key sectors comprises of agriculture, mining & quarry, construction, manufacturing and services. As of December 2014, a total of RM239.5 billion of the financing was approved and released to Malaysian SME (National SME Development Council, 2015). A total of 735, 435 SMEs receiving the financing which mostly granted by the banking institution. Service sector gaining most of the financing (60%), followed by manufacturing (17%) and the construction (11%). Others sector is receiving the remaining of the portion. In the year 2014 alone, a total of RM74.3 billion loan was approved involving 140, 379 recipients.

Aim to enhance the long-term competitiveness and sustainability of local SME, Malaysian government launching a total of 163 SME programmes with a total budget allocation of RM11.34 billion. Through its various agencies, 139 programmes were launched with total money of RM4.84 billion and remaining 29 programmes with a budget of RM6.5 billion were undertake through collaboration with the private sector. Market Access, Human Capital Development, Access to Financing, Innovation and Technology Adoption and Infrastructure were the five key focus areas targeted under the programmes. Interestingly, out of RM4.84 billion allocation under 139 programmes, RM4.10 billion (85%) alone was allocated to improve Access to Financing. Such costly effort shows real determination to transform the SME into lead engine growth for Malaysia by ensuring the sector is sufficiently financed.

SME share in term of total business loan financing had increased to 42.8% (2013: 42.1%). The latest trend on SME financing indicates the sector loan outstanding expanding to RM261.6 billion as of June 2015, an expansion of 16.8% from the last year (2014: RM239.5 billion). Main funder for SME financing in Malaysia mostly Banking Institution (94%), Development Financial Institution (DFI), Government Funds and Scheme, Venture Capital and Factoring & Leasing. Loan approval rate to SME remains healthy at 81.6%. Such approval rates and double-digit loan expansion reflect the keen interest of Malaysian lenders on financing to SME (National SME Development Council, 2015). Surprisingly, such loan expansion is required collateral to support. A survey conducted by SMECorp, a secretariat established by National SME Development Council (NSDC) to manage all the agenda in developing SME in Malaysia, in first quarter 2015 concludes, 95% loan approval to SME mainly backed up with collateral, i.e. property and fixed deposit. Apart from property and liquid asset (fixed deposit, monies), Malaysian lenders are also relying on credit guarantee company to provide collateral (provide guarantee).

Credit Guarantee Corporation Malaysia (CGC) established in 1972 purposely to assist viable SME with lack of collateral and track record to obtain financing from financial institutions by providing a guarantee to the lender. In return, the borrower was charged on guarantee fees. Since established in 1972 up to December 2014, CGC had provided a guarantee to a total of 429, 424 SMEs with total guarantee value of RM56.1 billion (National SME Development Council, 2015). To show greater commitment in providing a guarantee, CGC had signed block guarantee known as Portfolio Guarantee-PG totaling RM1.0 billion with Maybank in March 2014, mark the history as the biggest guarantee deal ever signed in Malaysia. CGC also signed a PG with SME Bank and Affin Bank of RM30 million and RM50 million respectively. The PG introduced purposely to ease the loan approving and processing (rather one by one submission for guarantee) simultaneously expedite disbursement of financing to SME (Ann Nee, 2016) with the backdrop of collateral lending. The year 2014 saw guarantee expansion at the rate of 189% compare to the last year, a post effect of PG programme sealed by CGC. The guarantee's expansion is important evidence Malaysian lenders heavily rely on collateral (CGC guarantee) to provide financing to SME.

In Malaysia, other than a personal loan to the business owner or the director of the company (Briozzo & Vigier, 2015), giving financing to SME without collateral had shown some progress. In Oct 2007, the Malaysian government had introduced micro-financing under Skim Pembiayaan Mikro, targeted micro businesses to bridge their working capital or capital expenditure (Alhabshi et al., 2009). It is small financing ranging from RM500 to RM50, 000 come with no collateral requirement and having tenure up to 5 years. Simple loan processing is allowing micro-financing for past disbursement (Alhabshi et al., 2009). The scheme using Grameen Bank's blueprint to address the credit gap in hardcore poverty credit recipient, monitored by Amanah Ikhtiar Malaysia (AIM) and Yayasan TEKUN Nasional (TEKUN). AIM and TEKUN were given a task to disseminate the scheme to micro businesses as these two institutions are known to be working closely with micro firms in the past.

Nonetheless, AIM and TEKUN have limited branches all over Malaysia. The limitation has made effective channeling process of the scheme to the deserving parties, futile. As of May 2016, AIM only has 138 branches while TEKUN has 218, throughout Malaysia, shows a limited market outreach by the institutions. To face this criticism, the Malaysian government had collaborated with commercial banking institution and Development Financial Institution (DFI) (Bank Simpanan Nasional, Bank Rakyat and Agro Bank) to achieve broader outreach of microfinance by leveraging extensive network and substantial funding owned by the banking institution and DFI (Alhabshi et al., 2009).

Untapped and non-developed credit market of Malaysian SME is appeal features for commercial banking to keep engaging with this sector. Despite high in risk, some commercial bank had equipped themselves with acceptable risk framework including using credit scoring in evaluating loan from this sector (Athaide, 2009; Brewer III, 2007; Jonathan A. Scott, 2006; Rauterkus & Munchus, 2014). Maybank under its SME Clean Loan product which was launched in the year 2014, had targeted SME as market lending. Maybank offers up to RM500K financing without collateral at the tenure of 5 years. Facility granted was the non-revolving basis (term financing), and minimum sales of the business are RM2.0 million. The facility comes clean without collateral but required Joint and Several Guarantee (JSG) from all directors. On the other hand, Standard Chartered Malaysia Berhad also offers financing without a collateral minimum of RM100, 000 and maximum RM1.0 million to Malaysian SME. The loan to be paid maximum in 3 years and granted on a non-revolving basis, i.e. fixed term loan. Personal Guarantee and JSG are required for financing.

Tremendous effort and high budget allocation merely to address collateral needs for financing are counterproductive. Economics precious and limited resources should be used on high impact economy activities for its long-run sustainability. Some mechanism should be established to encourage lenders to lend to SME without collateral rather than need too much form of guarantee from CGC or government funds. This ambitious mechanism shall start from a small step leading to advanced stage due to knowledge and technology accumulation, and this research is leading the way. Examining the factors considered by Malaysian lenders in giving loans without collateral to SME is greatly welcomed by many parties. By encouraging commercial lenders to take the lead, it reduces the burden of the government to allocate hefty budget each year for various programmes with the ultimate goal of providing collateral to woo the banking institution to participate in SME lending. Hopefully, access by Malaysian SME towards formal lending is improved, and the government might utilize the billion budget each year for other important economic agenda.

CONCEPTUAL FRAMEWORK

The conceptual framework was put forward in this section, and it was build up based on the diverse literature review. The conceptual framework was adopted from the study conducted by Mohd Shariff (2000), and it was modified accordingly to suit the variable chosen in this conceptual framework.

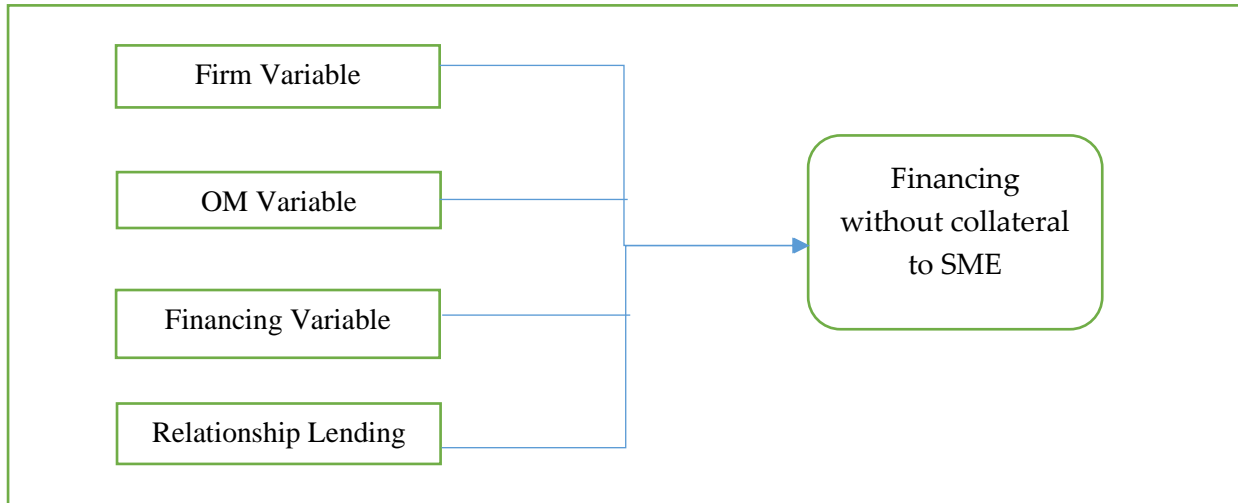


Figure 1: Conceptual Framework of Financing without Collateral to Malaysian SME

Based on three selected theories discussed in literature section earlier, four main group variables explaining the accessibility of financing without collateral by SME were tabulated. The variables are expectedly to make a distinctive contribution to the access of financing without collateral by Malaysian SME. Schematic diagram for the conceptual framework, i.e. the accessibility of financing without collateral by SME is shown in Figure 1 above.

LENDING TO SMALL AND MEDIUM ENTERPRISES WITHOUT COLLATERAL

Based on theories discussed in the literature section, variables that are predicted to have an influence on commercial lenders decision to grant SME loan without collateral will be tabulated under this section. The Firm, Owner-Manager (OM), Relationship Lending, as well as Financing variable, are among the variables chosen.

Firm Variable

a) *The legal structure of a business.*

When the business legalized, it dictates the form of ownership. A non-anonymous ownership structure is of great importance to the company's financial performance (Pudil, Pirozek, Somol, & Komarkova, 2016). SME mostly start small which bring disadvantage in the eyes of lender since small entity related to instability and lead to loan rejection (Mac an Bhaird, Lucey, & Vidal, 2016). In contrast, a large enterprise which usually has a track record, visible tangible asset, and high level of transparency is easy to secure financing (Briozzo & Vigier, 2015; H. Haron et al., 2013; Ramlee & Berma, 2013). The entity who has good corporate governance also easy to secure financing since lenders can avoid opaqueness issue (Zuoping, 2010).

b) Business sector.

The company that operates in the service sector, hi-tech industry and ICT sector are the most denied business entity on access to financing (Ajagbe et al., 2012; Asian Development Bank, 2014; Hong & Zhou, 2013). They required a less fixed asset to operate, and it explains why a small firm that has less asset have no access to formal credit (Comeig, Fernández-blanco, & Ramírez, 2015). Concisely, chances to secure financing is increasing when they have a more tangible asset to offer (Ukaegbu & Oino, 2014). SME that operates in general trade, food processing and low-tech manufacturing are favourite company for financing since their tangible asset is visible (Asian Development Bank, 2014).

c) Size of the firm.

There is vast literature confirming access to finance is directly influenced by their firm's size (Zecchini & Ventura, 2006). Size influence a firm's profitability and performance (Ismail, 2014; Mohd Noor, 1997; Park, Shin, & Kim, 2010). Only performing and profitable business is eyeing by the lender for financing (Kartikasari & Merianti, 2016; Ozturk & Mrkaic, 2014). Size of the firm also affects the profitability of the lender. Lending to more prominent firms allows economy of scale and brings down the cost of establishing the borrowing including the cost for monitoring and screening (Ramlee & Berma, 2013). Size of the firm also closely associated with stability and this directly affects the loan tenure and its pricing (R. T. Hamilton & Fox, 2008; Mohd Shariff, 2000). Hence, the size of the firm plays a role in access to financing.

Owner Manager (OM) Variable

a) Gender of OM

Regarded as small, unstable and too risky, a business owned by women use less bank as their source of finance compare than business managed by men (Lindvert, Yazdanfar, & Boter, 2015; Mohd Shariff, 2000; Siringi, 2011). Female entrepreneurs also face higher obstacles which, in many countries, is linked to legal and cultural issues (K. Hamilton & Beck, 2016). Significant involvement of women in low capital industries where less funding is required also cited as a barrier for women to get financing (Klapper and Parker, 2011, as quoted in K. Hamilton & Beck, 2016). Since women are facing a higher obstacle in obtaining financing, they opted to borrow from moneylenders, where usury interest rates usually charged (Chan, 2005).

b) Age of OM

The pattern of borrowing also differs according to the owner's age. Young OM mostly starts small, capitalize everything within their means (bootstrap financing) and prefer less credit from lenders. Younger's owner utilises more bootstrap financing than owners age above 50 (Neeley & Auken, 2009). Furthermore, their newly established business have less collateral, and they viewed as unstable from the lenders' perspective (Brown & Medoff, 2016; Ukaegbu & Oino, 2014). On the other hand, the probability of the firm to success turns out to be influenced by the age of the owner (Lee, Jeon, & Na, 2016). Experience in managing daily business affairs equips the owner with the necessary tools of problem-solving and this influence business success. This increase the chance of business sustainability and directly affects the firm's ability to obtain finance (Mohd Shariff, 2000).

c) Training in core business

Training improves knowledge, close the skill gaps, fosters positive working behavior and increase the firm competitiveness and performance (Ahmad & Seet, 2009; Awang, Ismail, & Mohd Noor, 2010; Dumas & Hanchane, 2010; Wang & Yang, 2014). Reportedly, the growth of the business responds positively to the short-term financial courses targeted to the business

owner (Kirsten, 2013). In Ghana, when sufficient training provided to the business owner, their small business sector thriving (Coleman & Okyere, 2016). Training also makes a small business look appealing to the lender's eye. Lack of training less motivate women-led business to apply loan for their business (K. Hamilton & Beck, 2016).

d) Formal education level

OM's education level significantly influence ownership status and borrowing pattern of Malaysian SME (Mohamed Zabri, Ahmad, & Lean, 2011). As an example, financial literacy owned by the OM viewed favorably by the lenders when they want to approve loan (Korutaro, Nkudabanyanga, Kasozi, Nalukenge, & Tauringana, 2014). Educated OM also knows their business well, and this is one of the critical criteria for lending decision (Alhabshi, Abd Khalid, & Bardai, 2009; Singh & Griffiths, 2010). Educated OM also good at the negotiation table and this directly influence their access to formal credit (Constantinidis, Cornet, & Asandei, 2006; Grunert & Norden, 2012). Excellence business plan crafted by educated OM attract potential investor including commercial lenders, to finance the business (Abdesamed & Abd Wahab, 2014; Ferrari, Morone, & Tartiu, 2016; Lee et al., 2016).

Financing Variable

a) Financing type

Mitchell & Pearce (2011) generalize loans to small business into two types, i.e. line of credit and non-line of credit. SME prefer lines of credit since the facility provide flexibility for working capital and seasonal fluctuations, followed by term loans and short-term loans (Asia News Monitor, 2015). Nevertheless, lenders only keen to grant short-term loans to SME instead of lines of credit as SMEs are more susceptible to the risk and prone to failure (Yeoh, 2014). For commercial mortgages, SME has no access due to collateral issue (Alabi, Lawal, & Chiogor, 2016). SME also have no access to bond and equity market due to cost constraint, and commercial lenders remain as their major sources of financing (Rubens & Barton, 1988; Yartey, 2011).

b) Financing Tenure

Small business receives shorter loan tenure compare to the large firms since large firms have an excellent track record, visible financial muscle, good security to offer and more stable (U. Ahmed, Beck, McDaniel, & Schropp, 2016; Ukaegbu & Oino, 2014). High risk and opaque in nature of SME are also lead to shorter loan tenure (Belás, Doležal, & Hlawiczka, 2015; Ramlee & Berma, 2013). Another reason for shorter tenure is high mortality rate among SME (Briozzo & Vigier, 2015). 50% to 70% of new start-up firms in the UK are facing closure, which refrains lenders from considering long-term borrowing (Yeoh, 2014). For Malaysian SME, they are mostly facing failure within their first five years of establishment (Kee-luen et al., 2013).

c) Financing Pricing

Compensation for the high risk and defraying the lending cost are the two leading reasons used by the lenders to charge SME with the higher interest rate (U. Ahmed et al., 2016; Botsch & Vanasco, 2015; World Bank, 2014). Lenders experience high lending cost since screening and monitoring cost escalated up as SME is located everywhere (Goel, 2015; W. Blackwell & B. Winters, 2000; Yadav, 2015). The issue discourages lenders from servicing SME as an increase in cost did not increase revenue proportionally (Chan, 2005). Since lenders are not keen in servicing them, SME picks moneylender for their financing need despite knowing exorbitant interest charged (Akoijam, 2013; Chan, 2005; Turvey, Kong, & Huo, 2014).

Relationship Lending

a) Length of the relationship

Soft information that pre-exists between the prospective borrower and the lender is vital in relationship lending (Berger & Udell, 2001). As an example, a small bank that serves their close community has strong advantages since they are known personally to each other for quite sometimes (E. Laderman, 2012). When an existing customer of the bank is requesting an additional loan, commercial lenders are expecting positive pre and post borrowing experience with them, indicates the length of the relationship is very important (Craig, Jackson, & Thomson, 2005). The essence of relationship lending is the trust factor that builds up within a specific period, between the lender and its borrower, which directly affect loan decision making (Greene & Han, 2006). A long relationship reduces asymmetrical risk, and this enhances small business access to financing (Goldberg, White, & Akhavein, 2004).

b) A distance between small business premises and lender's branch

Strength, depth, length and distance are among the elements studied in explaining lending relationships (Schafer, 2015). Distance has a significant influence on access to financing, as an increase in the distance makes the lender less effective in collecting soft information, a core ingredient in lending relationships (Berger & Udell, 2001). The far distance between business premise and the lender's office will aggravate the problem of transmitting soft information for loan decision making (Berger & Udell, 2001). Far distance also decreases the lender's monitoring activity which leads to a widening asymmetry risk, increasing the adverse selection risk and default rate, concurrently (Ajagbe et al., 2012). It is clear that distance is a vital element for access to financing since its influence repayment patterns of small businesses (Bongini, Luisa, Battista, & Nieri, 2015). Hence, lenders are favor more to the firms that are located reasonably near to them (Rauterkus & Munchus, 2014).

c) Conducting site visits to the business premise

Site visits to the business premise usually took place after the interviewing process of the prospective borrower (Baiden, 2011). Loan officers are required to do a site visit to understand the business modus operandi and verify the need for financing (Bank Negara Malaysia, 2003). It is an inevitable step before lending and still carries weight on post borrowing particularly in the annual review exercise (Asian Development Bank, 2014). Review exercise requires a site visit to verify the ongoing of the business and its current states (P.S, 2004). Site visit also acts as monitoring tools and a channel to communicate expectation between SME and its suppliers (Prasad, Tata, & Guo, 2014; World Bank, 2014).

CONCLUSION

This conceptual paper is trying to increase the understanding of the impact of financing without collateral to Malaysian SME. Factors affecting the accessibility of financing by SME were discussed in detail. In reality, SME still has a small access to credit facility despite high resistance from the commercial lenders (Briozzo & Vigier, 2015). Personal loans and credit cards are among the facilities granted to them. Providing collateral for financing is a colossal task for SME, and hence, a better understanding of accessing financing without collateral may provide an alternative for SME to defray their pressure when looking for capital. As financing without collateral appears to be essential to mitigate the collateral requirement, more research on this topic is called for, and this conceptual paper is part of the effort.

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