

Funds Management and Financing Activities of TEKUN Nasional

Main Points

What we examined?

- TEKUN Nasional was established on 9th November 1998 under the Companies Act 1965 as a Company Limited by Guarantee (CLBG). The objective of establishing TEKUN Nasional is to provide easy, fast and entrepreneur-friendly micro financing; providing guidance and support services to TEKUN Nasional entrepreneurs; creating a community and network of entrepreneurs; fostering a culture of entrepreneurship and savings among entrepreneurs; and to ensure that loans issued are collectable according to the repayment schedule, for it to be channelled back to other entrepreneurs.
- TEKUN Nasional's main activity is to help micro-entrepreneurs to start and grow their businesses by introducing and implementing several financing programmes.
- The management of funds as well as TEKUN Nasional's financing activities that were evaluated are the 11 financing programmes/schemes that received budget allocation from the Ministry of Finance (MOF) in 2021. Out of these 11 programmes, five programmes underwent further auditing, namely TEKUN - Bumiputera, Indian Community Entrepreneur Financing Scheme (SPUMI), Covid Business Recovery Micro (CBRM) 2.0, Informal Entrepreneur Financing Scheme (SPIN) 2.0, and TEKUN Mobilepreneur 4.0. The funds of these five programmes have almost fully disbursed to entrepreneurs or exceeded the allocated funds. The KONTRAK-i (Small Contractors) was selected as the sample for TEKUN Bumiputera programme due to its highest financing value.
- The financing activities involved the evaluation of the financing application, financing approval, implementation of activities, financing repayment, and financing arrears.

Why is it important?

- The goals of establishing TEKUN Nasional are to provide business opportunities and income generation, business capital financing, guidance and support services; and networking of entrepreneurs.
- Since its establishment, TEKUN Nasional has received funds through Government loans and grants amounting to RM4.180 billion.

What we found?

- Overall, the management of funds and financing activities for the five programmes/schemes have been unsatisfactory.
- A sum of RM395 million (81.4%) of the total allocated funds for 11 programmes were received by TEKUN Nasional. As at 31 December 2021, funds for two programmes, CBRM 2.0 and SPIN 2.0, were disbursed to entrepreneurs according to the allocation. Funds of three programmes were disbursed to entrepreneurs exceeding the allocation limit, which were TEKUN - Bumiputera RM374.63 million (187.3%) with an excess of RM174.63 million, SPUMI RM30.44 million (152.2%) with an excess of RM10.44 million, and TEKUN Mobilepreneur 4.0 RM9.06 million (181.2%) with an excess of RM4.06 million. The allocated amount of RM325 million received for these five programmes were fully disbursed to entrepreneurs within a period of two to eight months. However, the approval from the Board of Trustees or the Ministry relating to the usage of internal funds totaling to RM39.13 million could not be verified.
- Furthermore, funds of six programmes were not fully disbursed to entrepreneurs.
- The aspect of financing applications management was good. However, 13 out of 80 entrepreneurs did not fill out the application forms completely, and 17 out of 80 entrepreneurs did not submit the supporting documents in full. The total financing involved is RM0.74 million. Additionally, TEKUN Nasional lacks a robust security system to prevent it from being hacked. In addition, some applications have been processed for approval even though the supporting information/documents were incomplete.
- The approval process for financing was good. However, there was insufficient control over the entry of entrepreneurs' commitment data into the scoring system. Furthermore, 56 (70%) entrepreneurs experienced delayed approval, taking up to 50 working days, involving financing amounting to RM0.97 million. Additionally, 13 (86.7%) entrepreneurs under SPIN 2.0 were approved for repayment periods exceeding the stipulated timeframe, 67 (1.9%) Malay entrepreneurs applications have been approved for SPUMI financing involving RM1.53 million.
- The activities of the financing programmes/schemes were satisfactory. 52 (65%) out of 80 entrepreneurs are still operating their businesses, and 28 (35%) entrepreneurs are no longer in business. Additionally, 26 (92.9%) out of the 28 entrepreneurs who are no longer in business also have arrears in repayment of six months and above, totaling RM102,313.
- Repayment management of financing was unsatisfactory. Repayments for 65 (81.3%) entrepreneurs were not according to schedule, resulting in arrears amounting to RM0.64 million. The overdue period was up to 14 months. Furthermore, there was a payment error for Bumiputera - Kontrak-i which was a factoring scheme, of which the payment for completed work was wrongly

credited to an entrepreneur's account instead of TEKUN Nasional's account. The mistake has caused the entrepreneur to receive an additional cash amount of RM166,083 against the contract work value, in addition to RM100,000 financing received from TEKUN Nasional.

- Arrears management for financing was unsatisfactory. 54 (67.5%) entrepreneurs have arrears exceeding six months, and 38 (70.4%) of them did not receive a notice of demand (NOD) for arrears totaling to RM301,187. Moreover, 12 (22.2%) out of 54 entrepreneurs have more than one active financing, ranging from two to four financings. Overall, the accumulated bad debts as of 2022 amounted to RM347.79 million. The list of overdue debts before 2009 did not have complete individual identification numbers for 199 entrepreneurs.

What do we recommend?

- TEKUN Nasional should consider the following recommendations:
 - Prevent data loss through the establishment of a backup database and to conduct regular data backup activities, as well as to develop a disaster recovery plan;
 - Ensure that entrepreneurs who receive financing from TEKUN Nasional have the ability to continue their business, and have a good credit background for repayment purposes. The calculation of credit score should take into account the entrepreneur's other liabilities, and the Debt Service Ratio (DSR) system needs to be accurately updated;
 - Improve efforts to collect financing repayments within the specified period through enforcement actions such as home/premises visits, issuance of NOD, and litigation actions;
 - Ensure internal audits are conducted to identify the causes of non-compliance in the approval process for repayment periods, disbursement of financing to the intended target groups, payments for factoring schemes, and outstanding loan payments; and
 - Review the policy on second and subsequent financing to ensure that entrepreneurs are capable of repaying the initial financing before further financing is granted.