

Zamani Abdul Ghani: The SME sector in Malaysia

Speech by Mr Zamani Abdul Ghani, Deputy Governor of the Central Bank of Malaysia, at the Signing of Strategic Alliance Agreement between Credit Guarantee Corporation Malaysia Berhad (CGC) and Dun and Bradstreet (D&B) Malaysia Sdn Bhd, Kuala Lumpur, 3 July 2007.

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Yang Berbahagia Datuk Wan Azhar Wan Ahmad
Chief Executive Officer
Credit Guarantee Corporation Malaysia Berhad

Mr. William Lim Wah Liang
Group Executive Director
Dun & Bradstreet (D&B) Malaysia and Singapore

Distinguished guests,
Members of the media,
Ladies and Gentlemen,

Assalamualaikum w.b.t. and Good Morning

It gives me great pleasure to be here with you this morning to officiate and witness yet another milestone of progress for the Credit Guarantee Corporation Malaysia Berhad. I would also like to take this opportunity to thank both CGC and Dun & Bradstreet Malaysia Sdn. Bhd. for the invitation to be a part of this significant occasion. The forging of this strategic alliance between CGC and D&B is indeed timely. In the long run, we believe this initiative would bring much benefit to the financial sector and contribute greatly towards the development of the SME sector, especially in enhancing SMEs' access to financing as well as market penetration and awareness on the importance of SMEs.

The SME sector has been and shall remain one of the key drivers of the nation's economic growth. Accounting for 99.2% of the total business establishments in the country, there is vast potential to enhance the SMEs' contribution to the economy. In view of both their significance and potential, the Government has given due recognition and allocated significant amount of funds and resources to further enhance the growth of this sector. Various initiatives undertaken by the financial sector had also led to the SMEs enjoying a high level of financing from the financial system. In 2006, banking institutions approved RM39.6 billion to more than 84,000 SME accounts, an increase of 10.7% from the previous year. Meanwhile, outstanding loans to SMEs expanded by 4.2% on an annual basis to RM104.6 billion at end 2006, accounting for 45% of total outstanding business loans.

In spite of these priorities and efforts, certain segments of the SME sector continue to lament the lack of financing access, which is deemed as a major challenge that hinders their growth and development. Interestingly, this is not unique to Malaysian SMEs, but rather a worldwide phenomenon. According to the Asian Banker's 2005 Report, it was estimated that only about 5%3 of the world's 500 million low-income entrepreneurs have access to financial services. The main reasons for the financial constraints faced by SMEs are quite generic, and high on the list is the perception that SMEs are historically a high risk group lacking in financial discipline and unable to provide trustworthy financial track records. To overcome this perception, there should be adequate and reliable credit information mechanism, such as an SME credit bureau, that serves the needs of both the SMEs' and the potential lenders'.

The establishment of a proposed SME Credit Bureau under this strategic alliance between CGC and D&B would complement other initiatives of the Government and the financial sector to further enhance SMEs' access to financing. One of the most important roles of the Bureau is to make available SME information, which includes their operational and financial status to potential lenders. In addition to relevant and timely information, potential lenders could also take comfort that the information is independently provided, hence increasing its reliability. The importance of a credit bureau in the current environment cannot be over-emphasized. A World Bank report stated that a good credit information infrastructure can contribute significantly towards assisting SMEs' access to capital. The report further highlighted that small firms with access to credit bureaus have a 40% chance of obtaining a loan, whereas firms without access to credit bureaus have only a 28% chance of receiving a loan. Therefore, significant opportunities exist to increase lending activities to SMEs in Malaysia with the establishment of an SME credit bureau.

Currently, information available for lenders to assess the creditworthiness of Malaysian SMEs is quite fragmented. Although there are a number of parties providing information on SMEs, the information are mostly tailored towards specific requirements and does not add the necessary values required from the perspective of potential lenders. To bridge this information gap, the SME Credit Bureau would effectively consolidate the fragmented information. This convergence of data from various sources would be enhanced, resulting in a convenient, timely and efficient access to SME information and credit ratings to assist the potential lenders to make a more objective evaluation of loan applications. It is our ardent hope that the SME Credit Bureau will become an integral component towards enabling SMEs to gain access to financing.

The SME Credit Bureau also aims at promoting greater transparency, professionalism and sound credit culture among SMEs. SMEs can be assured that their good track records would be captured and evaluated by an independent third party, which in turn, would assist them to increase their financing and business opportunities. The credit reports would serve as a convenient tool for SMEs to carry out a self evaluation in identifying areas that needs improvement.

This strategic alliance represents a meeting of the common objective of CGC and D&B to bridge the gaps in the availability and access to SME credit information in the country. The SME Credit Bureau is a big step towards a more sophisticated and transparent financing environment for SMEs in Malaysia. Both CGC, which is in the business of providing credit enhancement to Malaysian SMEs; and D&B, a global operator and provider of credit bureau services, are well equipped to drive this initiative forward.

On this note, I would like to congratulate CGC and D&B Malaysia Sdn. Bhd. in making this initiative possible. I am also confident that this will open up a new chapter in the history of credit bureaus and enable these entities to play an even greater role in the future development of the financial industry in Malaysia.