

Zeti Akhtar Aziz: Developing a strong and dynamic SME sector

Keynote address by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Launch of SME Credit Bureau, Kuala Lumpur, 16 April 2009.

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Introduction

It is my pleasure to be here this morning to speak at the launch of the SME Credit Bureau. The development of a strong and dynamic SME sector is a priority on our national agenda to promote a vibrant and active SME sector that will contribute towards generating a sustainable and balanced economic growth. Malaysia has therefore adopted an aggressive SME development programme to strengthen the viability and capacity of the SMEs to increase their contribution to high quality growth of the economy.

Over the recent five years, the SMEs contribution to economic growth has increased. Indeed, the SME contribution to economic growth in the manufacturing sector has increased from 6% of real gross domestic product in 2001 to 8.4% in 2005. The overall SME contribution to the gross domestic product has increased to 32% while 19% of total exports are by SMEs. Experience has shown in several of the developed countries, that SMEs contribute to at least half of the gross domestic product. Benchmarked against this, there is clearly a significant potential for SMEs in Malaysia to increase their contribution to the economy.

Economic outlook and policy response

The year 2009 is likely to be a difficult year for businesses. The global economy is expected to remain weak following the synchronized recession in the advanced economies. While there is significant uncertainty on the prospects for recovery, the stimulus measures being implemented across the globe and the measures to address the financial crisis in the advanced economies are expected to contribute to improving conditions in the second half of this year. However, should there be further delays in addressing the impairment of the financial systems in the crisis affected countries, this would be a risk to the economic recovery process. This would in turn continue to have significant spillover effects on the rest of the world.

Whilst Malaysia has successfully maintained the stability of its financial system during this period of uncertainty, the economy is not insulated from these global developments. Despite the high degree of openness of our economy, Malaysian businesses are however, less leveraged with significantly less foreign financial exposures and therefore better able to cope with the effects of the global economic downturn.

During this recent decade, Malaysia has aggressively implemented measures to promote domestic demand as a driver for growth and thus achieve a more balanced growth. While the export sector is still important, the significance of domestic demand has gradually increased. In this current environment, the Malaysian Government has implemented a significant fiscal stimulus to sustain domestic demand. Following the reduction in interest rates, retail borrowing costs have declined to new historical lows. Thus both the fiscal stimulus and the accommodative monetary environment are expected to improve demand conditions in the second half of the year.

Malaysia also has diverse trading partners which contributes towards mitigating the full impact of the global slowdown on our domestic economy. Businesses in Malaysia have over the years continued to build trade and investment linkages with other emerging countries especially in Asia . Adequate access to financing is therefore vital not only for supporting domestic demand but also to ensure that Malaysian businesses are able to take advantage of the opportunities in the regional and global economy.

The strong domestic banking system, with its ample liquidity, has the potential capacity to provide the access to financing. Some SMEs however are experiencing stress from the current more difficult environment. Several preemptive measures have therefore been introduced to enhance the prospect for access to financing. The SME Assistance Guarantee Scheme that was launched on 3 February 2009 to provide SMEs with an 80% guarantee cover will enhance access to financing in addition to keeping the cost of financing low. As at 5 April 2009, more than 880 applicants have successfully obtained financing through this scheme and more than 790 applicants are still being evaluated. Two additional schemes, the Working Capital Guarantee Scheme and the Industry Restructuring Financing Guarantee Scheme, has been recently launched to enhance access to financing for working capital and to support long-term investments that will increase productivity and that will generate high value-added activities.

The measures to enhance access to financing are also reinforced by the provision of financial advisory services and by developing channels for redress by borrowers. The BNM LINK and TELELINK established by Bank Negara Malaysia and the ABM-Connect that has been set up by the Association of Banks in Malaysia serve as important conduits for greater interface between the banks and the borrowers. These measures are also complemented by the institutional framework to deal with problem loans in the retail and business segments. The Small Debt Resolution Scheme (SDRS), which was created in 2003 to facilitate the restructuring and rescheduling of credit facilities for small businesses has now been expanded to include all viable SMEs facing financial difficulties with financing from multiple financial institutions.

Importance of Information Credit Bureaus

Malaysia has been ranked number one in the world in terms of access to credit by the World Bank in 2008. Despite its favourable assessment, efforts will continue to be intensified to ensure that this access continues, particularly during this more challenging and uncertain time. The establishment of the SME Credit Bureau is one of these measures. The SME Credit Bureau is a vital element in the information credit bureau industry. SMEs are thus encouraged to maintain and compile the required information so as to enhance their potential access to credit.

SMEs are expected to benefit greatly from the services of the SME Credit Bureau. Firstly, the SME Credit Bureau empowers SMEs to build their credit reputation from a wide range of transaction behaviors. These include transactions with suppliers, customers and utility providers. The record of transaction behavior is expected to provide comprehensive information on the SMEs, especially for SMEs that are accessing financing from the banking sector for the first time. Secondly, the SME Credit Bureau uses a credit methodology that discounts aged information thus providing a fairer assessment of the SMEs current credit worthiness.

SMEs should also use the services provided by the SME Credit Bureau to better understand the credit evaluation processes. This will facilitate the efficient processing of the loan applications. This will also allow SMEs to secure more favorable financing terms from financial institutions. This approach is also expected to incentivise SMEs to inculcate a credit culture that enhances their eligibility for financing. A positive assessment from the SME Credit Bureau will be recognized by all financial institutions. The SMEs will therefore have increased options and will be able to compare and obtain the most favorable terms.

Over the years, SMEs have become an increasingly important segment of the loan portfolio of our financial institutions. With higher exposures to this sector, the comprehensive information compiled by the SME Credit Bureau will be a valuable information source that will facilitate better monitoring and management of the SME portfolio. The information from the SME Credit Bureau will also expedite the assessment of developments in new markets and

the creation of a liquid secondary market which would in turn increase the availability of funds to SMEs.

Consistent with the importance of the SME segment in the total loan portfolio, financial institutions should also regularly interface with SME associations so that financial services rendered to the sector can be more customised to the specific requirements of the sector. In this current challenging period of slower growth, financial institutions need to understand and address early the problems being faced by the SMEs. This may involve adopting greater flexibility in structuring SMEs' financing facilities including in the restructuring programmes and to provide the supporting financial advisory services. In addition, early assessments and taking the appropriate remedial actions before the financial conditions deteriorate will avoid other more costly solutions.

In this highly challenging environment, SMEs also need to initiate their own measures to achieve greater cost efficiency and to enhance productivity improvements. This would involve looking at every facet of the business operations and to identify ways to streamline processes, eliminate waste, consolidate activities and adopt new technology and energy-efficient processes. A number of funds have been established to support these enhancements. Other initiatives could include the pooling of resource requirements such as the purchase of common raw materials to benefit from bulk discounts from suppliers and to share transportation costs. The Chambers of Commerce and Industry associations can have an important coordinating role in such undertakings. Experience-sharing sessions can also be organized in which successful members can share experiences in achieving cost efficiency and productivity improvements.

Equally important is increasing the value creation and seeking new areas of business growth. This may involve shifting resources to new areas of business or markets. In striving towards long-term competitiveness. Experience has shown that the aptitude for hard work, prudent practices, the agility to adapt to changing conditions, perseverance and the ability for reinvention are some of the qualities of the successful SMEs in our economy.

The creation of the SME Credit Bureau is another milestone in the development of the enabling supporting infrastructure for strengthening the SME sector. The creation of such an information credit bureau industry is a further step forward in generating a financial intermediation process that is more efficient and effective. I hope that financial institutions and the SME Credit Bureau would work together towards making today's initiative achieve its objective. In enhancing greater access to credit to the SME sector, it would strengthen the potential for SME contribution to the economy.