

Muhammad bin Ibrahim: Catalysing SME growth

Speech by Mr Muhammad bin Ibrahim, Deputy Governor of the Central Bank of Malaysia, at the Official Book Launch of “Catalysing SME growth”, organised by Credit Guarantee Corporation Malaysia Berhad (CGC), Kuala Lumpur, 21 June 2013.

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Saya ingin mengucapkan tahniah kepada CGC atas pelancaran buku “Catalysing SME Growth”, sempena menyambut ulangtahun yang ke-40, yang merakam sejarah CGC dalam menyokong institusi kewangan di Malaysia bagi mambantu menyediakan pembiayaan kewangan untuk perusahaan kecil dan sederhana. CGC sebagai satu institusi, terus kekal kukuh dan teguh serta mempunyai pengetahuan yang dalam mengenai teras perniagaannya setelah melalui pelbagai kitaran perniagaan dan ekonomi sepanjang 4 dekad. Izinkan saya meneruskan ucapan saya dalam bahasa Inggeris.

The Malaysian economy has undergone many changes in terms of both size and sectoral composition since CGC’s establishment in 1972. From being an agricultural-based economy with a GDP per capita of RM1,5981, Malaysia has become a more industrialised and service-oriented economy with a GDP per capita of RM32,124 as at end-2012.¹

This remarkable story of growth is supported by the expansion of financing to the private sector by the financial system. In 1973, outstanding loans by commercial banks in Malaysia stood at RM5.5 billion. As at 30 April 2013, total outstanding loans by commercial banks increased to RM1,138.6 billion² with annual growth rate (CAGR) of 19.6% since 1973. The outstanding amount of SME financing stood at RM184.5 billion (16.2%).

Relative to large companies, SMEs were traditionally considered riskier, as SMEs tend to have fewer assets that can be offered as collateral, lack of sufficient credit history and regarded as unbankable for some. CGC was established to address these concerns, by providing guarantees that enable SMEs to have expanded access to loans offered by financial institutions. Thus far, CGC has done a commendable job, providing guarantees to more than 420,000 companies, representing about 65% of the total SMEs, with total loans approved of more than RM51 billion as at end of 2012.

SMEs are an important agent of growth and a component to support the nation’s aspiration to transform into high income and a high value-added economy. As a group, SMEs is a formidable force in the economy, as it forms 97.3% of established businesses and provides employment to 57.3% of the nation’s workforce. This contribution was recognised in the SME Master Plan where the growth by SMEs to the GDP is targeted to increase from 32.5% currently, to 41% by 2020.

As the economy grows and becomes more sophisticated, so does the needs and requirements by the SMEs.

In this regards, CGC has shown its ability to constantly reinvent itself to meet the needs of both the SMEs and financial institutions over the last 40 years. Looking at the list of CGC schemes throughout the years, the development of CGC’s products had mirrored the development of the country and the increased sophistication of the economy.

From the book, we can see a long list of CGC schemes introduced throughout the years, each reflecting the stage of development of the country then, and also consistent with the strategy of the country’s economic policies. From CGC’s earliest products such as the

¹ *Keluaran dalam Negeri Kasardan Pendapatan Negara Kasar pada Harga Semasa dan Harga Malar*, Economic Planning Unit (EPU) statistics

² Bank Negara Malaysia data

Hawkers and Petty Traders Loan Scheme, catering to financing as low as RM500, to the recent Green Technology Financing Scheme, CGC has done well in providing the needed support to the ever-progressing and expanded nature of the Malaysian economy.

CGC's achievements would not have been possible without the support of the financial institutions. The successes of CGC's guarantee schemes were the result of the trust and collaboration between the corporation and the participating financial institutions. It is for this reason that over the years many achievements have materialised.

CGC has achieved a lot of success it can be proud of, but as with life, we must move forward. Change is constant it becomes more rapid. There are a few things that we could do for the SMEs.

First, we can lower the financing cost for SMEs which obtain guaranteed financing under CGC. On the average, SMEs are being charged between 10 to 12 percent. This is about BLR plus 5 to 6 percent. The rate imposed is much too high. It seems that pricing mechanism doesn't price properly the guarantees given by CGC. We ought to work on this. On the part of CGC, we need to respond quickly to the banks when guarantees are being called upon. An ideal situation is akin to an irrevocable undertaking where once a guarantee is called upon, it will be made good immediately.

Second, to intensify promotion and awareness program on CGC products and services. CGC needs to work closely with the trade associations and generate more media exposures through radios and TVs. Make CGC a household name among the SMEs.

Third, expand further advisory services, its reach and contents. Not all SMEs require financing, some might need more "hand holding", and rather than access to financing above.

Lastly, come up with new and specific guarantee products for new growth area, start-ups and young entrepreneurs. Existing guarantee products might not be suitable to meet the needs of these groups. CGC should embark a study on this matter and come up with an action plan.

Before I end my speech, I would like to express my heartfelt congratulations and appreciation to the Board, Management and staff of CGC for 40 years of service to the Malaysian SMEs. It is our greatest wish that CGC will continue to walk and grow alongside our SMEs in our effort to make our country prosperous.