

Zeti Akhtar Aziz: Grow your business – access to financing for SMEs in Malaysia

Opening remarks by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the book launch of “Grow your business: access to financing for SMEs in Malaysia”, Kuala Lumpur, 27 August 2013.

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It is my pleasure to be here this morning for the launch of the SME financing guide book “Grow Your Business: Access to Financing for SMEs in Malaysia”. Significant attention has been given to SME development in view of its relative importance in our economy, in terms of its role in generating growth and employment. SMEs are an important agent of growth and will be a vital component that will support our nation’s aspirations to transition to become a high income economy. SMEs have become a formidable force in the economy, accounting for 97% of established businesses and employing 57% of the nation’s workforce. The SME contribution to GDP is now 33% and is projected to increase to 41% by 2020 as envisaged in the SME Master Plan that has been endorsed by National SME Development Council.

As the economy becomes more sophisticated, so will the requirements of the SMEs. One of the major levers of growth for the SME sector is access to financing. Financial institutions therefore have an important role in the ecosystem for financing to SMEs. In the current environment, financial institutions provide 89% of the total SME financing.

The SME financing guide book being launched today is initiated by the Institute of Bankers Malaysia to provide detailed guidance to assist SMEs in their applications for financing from financial institutions. It also provides information on the factors that are taken into consideration by financial institutions in approving the applications. In addition, it elaborates on the responsibility of borrowers, and the redress mechanisms that are available.

Irrespective of sectors, SMEs should adopt best practices in financial management to ensure their business will remain sustainable. Managing costs will also enhance the performance and competitiveness of the business in both domestic and global markets. SMEs should therefore actively draw on the wide range of products and services including advisory services offered for every stage of its business cycle, whether it is a start-up, growing or a matured business. The expertise, extensive network and the broad range of services and products which are in place should be leveraged upon by the SMEs.

Recognising the importance of SMEs in contributing to the socioeconomic development of the country, the Government has introduced various programmes to assist SMEs through its Ministries and agencies. The infrastructure to support access to SME financing has also vastly improved compared to a decade ago. In 2012, a total of RM217.2 billion in financing has been disbursed to SMEs through the banking system, compared to only RM87.1 billion in 2003. This year, 155 SME development programmes with an allocation of RM18.4 billion have been developed and which is being channeled through government agencies and the private sector.

To enhance the enabling infrastructure for SME financing, the Credit Bureau Malaysia was established in 2008 to provide comprehensive and credible credit information and ratings for SMEs in Malaysia. More than 1.1 million credit reports have now been generated by Credit Bureau Malaysia to facilitate access to financing for businesses since its inception. In addition, SMEs with limited collateral or track record are able to benefit from the credit guarantee facility provided by Credit Guarantee Corporation that extends its services to include advisory.

In efforts to ensure simple, efficient and prompt application process, Bank Negara Malaysia and the Association of Banks in Malaysia (ABM) introduced PARTNER 1, a simplified application form and documentation checklist which has now been adopted by 8 domestic

banking institutions. This initiative has been enhanced in PARTNER 2, in which reasons are provided for loan applications that have not been successful. This is to provide to the SMEs the opportunity to address the weaknesses or limitation thereby enhancing their potential to gain access for financing.

In addition, SMEs facing challenges in their business operations, may now seek assistance from the various agencies namely the SME Corporation's One Referral Centre and the Bank Negara Malaysia's Small Debt Resolution Scheme (SDRS) when confronted with financial stress. Under the Small Debt Resolution Scheme, a total of 894 SMEs have now been assisted since its establishment in 2005. Addressing the problems and challenges at an earlier stage will contain the deterioration, and will enhance the prospect for a positive solution.

As our economy evolves and transitions towards higher value added activities, the financial support services that is being provided by the financial institutions also needs to evolve.

Financial institutions have to recognise that SMEs will increasingly become specialised and diversified, and will require a much more customised and differentiated financial services.

Financial institutions will also need to broaden their dimension to look beyond the traditional business activities and be positioned be able to provide financial services to businesses in new areas of growth such as green technology, medical sciences, and information technology. Today, the true value of companies is also not just measured by their tangible assets, but also includes their intellectual capital. The adoption of more dynamic methodologies to assess the businesses value should therefore be beyond collateral and historical performance. For this, financial institutions have to continuously be ahead of innovation and the new growth areas to be able to take into consideration the new related risks in their assessment.

Technology will also have a vital role to support efficient services and greater outreach. Financial institutions should also encourage technological enhancements by SMEs through the provision of financing, including adoption of end-to-end supply chain management solutions and greater expansion into regional production networks.

On this note, let me take this opportunity to congratulate Institute of Bankers Malaysia for the launch of this book. I applaud the initiative undertaken. It would definitely be an important reference for the SMEs.