Dedicated bank not the answer to SMEs' financing plight

Teh Shi Ning
Business Times Singapore**,** 7 June 2013

Gaps in financing for small and medium enterprises here persist, but a dedicated SME bank may not be the solution. This was the majority view among those who spoke up on the issue of SME financing in Singapore at a recent economic forum.

Presenting the findings of a McKinsey study of Singapore's financial services sector at the 18th Singapore Economic Roundtable, Jessica Tan, a former McKinsey partner who is now group chief information officer, Ping An Group, China, said that opportunities exist for Singapore to strengthen SMEs' access to financing.

Economists, businessmen and policymakers at the twice-yearly gathering organised by the Institute of Policy Studies - and held under Chatham House rules ensuring anonymity of views to promote frank debate - heard how larger enterprises with more than $30 million in annual turnover generally have ready access to financing from five to 10 banks, but not smaller firms.

The 20,000 small enterprises with an annual turnover of above $1 million have access to three to five banks on average, primarily local ones with foreign banks offering them selected transaction banking or capital markets products and services.

They make up the largest gap, as many promising small enterprises may not have easy access to the funding they need to grow big quickly, Ms Tan said.

Then, there are the 150,000 micro enterprises which typically have access to one or two local banks for deposits, term loans or basic cash management services. But most banks would only consider secured lending for such micro businesses.

This makes up the big picture, in which SME loans make up a smaller proportion of total loans in Singapore than they do elsewhere. Some 35 per cent of loans went to SMEs in 2010, smaller than Indonesia's 52 per cent, Thailand's 40 per cent, Japan's 45 per cent and Korea's 44 per cent. But it was larger than the proportion of loans to SMEs in Hong Kong, China, Taiwan and India, McKinsey's study showed.

One participant wondered if there is cause to revive the idea of a government-led SME bank.

One of the discussants, Singapore Business Federation chief operating officer Victor Tay, said that while a common objection - that an SME bank might crowd out the market - is not necessarily true, he has other reservations. "Banks may, in fact, welcome that an SME bank can serve newer entrants and help them grow to a size, at which they can become banks' customers. But the problem is that such a bank may be too high risk."

Ms Tan agreed: "The challenge is, assuming that banks are not lending to SMEs for a good reason, then putting all SME loans into a single bank is likely to be financially unsound."

The lack of a credit bureau adds to this. "Without transparency, it is hard to gauge the credit worthiness of an SME," she said.

SMEs are feeling the pinch though. Sharing the results of SBF's recent sentiment survey, Mr Tay said: "SMEs' revenue is falling, so is their profitability. This coincides with the tightening of foreign manpower and the government encouraging SMEs to invest in technology to raise productivity. So some turn to the banks for support, but say that they have not been able to secure loans."

"Without the ability to access funding, SMEs cannot thrive," he said.

McKinsey shared that Singapore's annual failure rate for microbusiness of 12.5 per cent is higher than Korea's 6.25 per cent. But Taiwan, with its smaller proportion of SME loans, had a lower failure rate of 6 per cent.

But the failure rate of SMEs will naturally be high, McKinsey partner H V Vinayak points out. "We need to distinguish between business model failure, where the business model is not working and fails despite a healthy, growing economy, and SMEs failing due to market failure, because of a lack of financing," he said.

Another discussant, Tan Chin Hwee, head of a fund manager and CFA president, thinks the problem is with the wider ecosystem. "Venture capital has not developed in Singapore. Taiwan has that ecosystem of angel investors and venture capitalists, the VCs play a big role in financing SMEs. Once there is an equity structure in place, the banks are more willing to come in and lend too," he said.

Agreeing that VC funding is limited, Ms Tan said that in the past four to five years, the 19 VCs in Singapore invested only around $30 million into technology companies locally. "The right capital structure for the firm at the particular stage of growth, depending on the industries, is a critical factor for long-term sustainability," said Mr Tan.

This is not to say that Singapore is void of capital offered to SMEs. "There are already a lot of good grants and help from many agencies. Maybe we can think about a one-stop shop like EDB," he said, citing also Temasek Holding's SME-focused fund, Heliconia Capital Management.

And, the construct of the solution for SMEs has to go beyond financing. "It has to address not just financing, but also how to help companies grow," said Mr Vinayak. "Many SMEs, especially those in the rapid growth phase, require corporate support services such as accounting, HR and even business IT support," said Ms Tan.