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Need for banks to better understand small businesses

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CREDIT officers need to equip themselves with knowledge on business to allow them to better understand small entrepreneurs who apply for bank loans, economists and businessmen say.

Economist and ex-banker Tan Sri Ramon Navaratnam said bankers should not take the easy way out and only approve loans to large businesses because it is safer to lend to big companies.

"Bankers should be more emphatic and sympathetic with small businessmen; they must understand the way small businessmen operate as well as their needs," he told Business Times.

Prime Minister Datuk Seri Dr Mahathir Mohamad, who recently told banks to treat loan applications from small companies with more consideration, said banks sometimes do not want to take the risk at all as their priority is profit.

He noted that banks are sometimes too prudent and the Government will persuade them to be more considerate to small entrepreneurs.

The Prime Minister, also reminded borrowers to pay back their loans and not to borrow if they could not pay back.

Deputy Finance Minister Datuk Dr Shafie Salleh said in Parliament early this month the ministry received complaints that banks were reluctant to give out loans, particularly to small companies and traders.

He said Bank Negara Malaysia had met with the banks and urged them not to be too strict with small borrowers.

Navaratnam said to understand and deal with small businessmen, bankers should be more knowledgeable and better trained.

"The backbone of Malaysia's economy is small businesses and not the large businesses or multinational corporations (MNCs).

"MNCs come and go but local businesses stay on, so they should be given priority," he noted.

RAM Consultancy Sdn Bhd chief operating officer Dr Yeah Kim Leng said credit officers need to do proper evaluation of every applicant, regardless of the size of their businesses.

"Banks have to evaluate the prospects of each of the businesses... they have to look beyond the economic cycle and take a longer term view because high-risk borrowers may have viable business ventures," he said.

Yeah noted that a better trained credit officer can take a longer-term view, which is beyond the economic cycle.

He said bankers have to consider applications on a case by case basis.

Although the business may be from a sector badly hit by the economic downturn, he said its success depends on the quality of the management.

"Although business may be badly affected, the company will have good prospects for lending if its management is pro-active and manages a crisis effectively," he said.

Economists acknowledged that companies in export-oriented sectors like manufacturing and electronics, may find it hard to convince banks to provide loans for them because the export sector is badly affected by the slowdown in the US and global economies.

Perak Malay Chamber of Commerce president Datuk Muhammad Muhiyuddin Abdullah said bank officers must be pro-active and go down to the field to understand problems faced by entrepreneurs who borrow from banks.

"If they see a businessman miss the repayment once, they should go and see him and advice him accordingly.

"If officers can talk to these people, they can help resolve the issue earlier... maybe reschedule the loan repayment," he said when contacted in Perak.

He said banks do consider rescheduling loan repayments for small- and medium-sized enterprises (SMEs) because some of the businesses have good prospects.

Muhammad said weakness in account management is the main reason small Malay businessmen have difficulty getting bank loans.

"They don't have proper accounts and the accounts are not properly audited.

"Banks want a track record and accounts which are properly kept," he said.

He said the Perak Malay Chamber has organised a course on keeping proper company accounts but response from businessmen has been lukewarm.

He said the chamber will go through members' loan application forms to ensure that they are complete and fulfil all conditions before forwarding the forms to the banks.

The chamber will also attach a recommendation letter with the application forms.

"The Perak Chamber of Commerce has also established a cooperation with Mara to arrange for approval of loan applications within two weeks," he said.

Muhammad said so far, loans taken from Mara have been fully paid by its members according to schedule.

"We don't have such a cooperation with banks, but we hope to set up a similar arrangement so as to be able to monitor members' loan repayments," he said.

Muhammad, who is also Malay Contractors Association of Malaysia vice-president, said new contractors may have problems getting loans as they do not have a track record to present to the banks.

Economists agreed that banks have to be prudent in their lending or otherwise their non-performing loans will rise.

However, Navaratnam said while prudence is necessary, banks should also be more aggressive and innovative.

He said there are a lot of high potential small businesses, and bankers who understand the operation of small businesses should help rather than avoid them.

Asked whether the banks' reluctance to extend loans is due to bad loan repayment records by small businessmen, Navaratnam said: "It's not true because large companies also have default payments but banks can restructure their loans. There are a lot of good small businesses.

Yeah, meanwhile, said that there must be a balance between the bank's credit risk and sufficient loans given to small businesses.

At this point of time, he said the slowing economy poses higher risk in lending and banks are understandably more careful.

However, he said banks should not neglect the SMEs and should instead identify borrowers which can ride the economic cycle.

He acknowledged that there are businesses which are more dependent on economic outlook, which make them harder to convince the banks to lend.

"Sectors which are badly affected due to the fall in demand and economic slowdown will affect the business prospects of individual companies and their cashflow.

"These are the ones which banks find difficult to provide loans to without sufficient collateral," he said.

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