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Banking on small businessmen

TO all banks, prudence equals profit. But the reluctance of some of them to extend loans to small and medium-sized businesses is harsh prudence which, simply put, can equal insensitivity and lack of foresight.

If Datuk Seri Dr Mahathir Mohamad has been prompted to lament yet again the difficulties of the small businessman in getting loans from banks, the situation must be as serious now as it was two or three years ago, when the economy was sluggish and the spectre of non-performing loans loomed large over financial institutions.

He spoke about the many complaints received by the Government against banks for their delays and impractical approaches to SMI loan applications. And he expressed hope that these institutions would not only be interested in deriving profits but also in their social responsibility to ensure the success of the national agenda. The Prime Minister and Finance Minister's words should be heeded.

Perhaps the main problem is a lack of understanding on the part of banks, which forget that small and medium enterprises are important elements in the national economy and contribute significantly to economic growth. Banks also almost always carry the simplistic notion that most small and medium enterprises are not economically viable and hence, if they borrow, can't pay back.

It is here that credit officers have a critical role to play, if only they are equipped with knowledge of business to allow them to better understand small entrepreneurs who apply for the loans. They need to do proper evaluations of every applicant, regardless of the size of the business. A better-trained credit officer can take a longer-term view beyond the economic cycle. Perhaps even a reschedule of the loan repayment scheme could be worked out for entrepreneurs facing cash-flow problems along the way despite their businesses showing good prospects.

At the same time, small businessmen should realise that proper account management is essential and could certainly facilitate loan applications. It is no secret that some of these businesses don't have proper accounts, which makes it difficult for banks to size up their capabilities and potential.

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