

Special Keynote Address by Deputy Governor Jessica Chew at the Malaysian SME National Conference Royale Chulan Kuala Lumpur | 14 May 2024

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It is an honour to address the Malaysian SME National Conference. Let me join others in congratulating the joint organisers for putting this important event together.

Supporting the development of SMEs is a long-standing priority for Bank Negara Malaysia as part of our efforts to promote an inclusive financial system. It is also crucial to Malaysia's long-term growth prospects given the critical role that SMEs play in encouraging innovation and broadening economic participation through job creation.

No less than a quarter of the strategies laid out in the Financial Sector Blueprint include a specific focus on SMEs. Similarly, SMEs remain a key focus segment under various national masterplans that have been announced by the Government - including the New Industrial Master Plan (NIMP) and the National Energy Transition Roadmap (NETR).

SMEs are also an important business segment for banks. In 2023, financing to SMEs comprised almost half of the total outstanding business financing (49.6%)^[1], with RM528 billion in total financing disbursed by banks into 2.28 million SME accounts.^[2] BNM has allocated a further RM32.4 billion in funds to further enhance access to financing for SMEs in strategic and new growth areas.

And if there was still any doubt that this is an issue that we care deeply about in the Bank, I counted at least seven departments in the Bank that work on various different aspects related to issues in SME financing!

Over past decades, we have made a lot of progress to build a comprehensive system of support for financing SMEs. This includes the establishment of institutions to drive and coordinate SME development at a national level, the expansion of credit guarantee schemes, reducing barriers to information for credit assessments through CCRIS and private credit bureaus, numerous facilitation programmes and debt resolution arrangements to help rehabilitate small businesses.

These efforts have been crucial to level up and scale SME financing by traditional banks in Malaysia. As already mentioned, financing to SMEs makes up almost half of total business financing by banks today. But the path forward to deliver an effective SME financing strategy in support of Malaysia's economic aspirations will need to go "**beyond banks and beyond lending**" to close the SME funding gap.

Given the diversity of SMEs and their financing needs, we believe a more complete solution to the SME financing challenge must address efforts in three equal parts:

1. First, enhancing the traditional role of banks and bank financing while recognising the limitations of bank financing, particularly at earlier stages of the life-cycle for new and innovative firms.
2. Second, developing and deepening alternative sources of financing to complement traditional bank financing.
3. And third, strengthening firm-level factors to improve the ability of SMEs to gain affordable access to finance.

Important strides have been made to advance efforts on these fronts. Access to traditional bank financing for SMEs continues to be enhanced through innovative modalities such as:

1. iTEKAD which blends philanthropic and commercial funds to provide seed capital and microfinancing to microentrepreneurs, alongside specific handholding and capacity building support.
2. Credit guarantee institutions such as CGC have introduced portfolio guarantees to provide credit enhancements at greater speed and scale for borrowers that lack collateral and track records.
3. Skim CAKNA, a liquidity scheme introduced in 2021, has also been successfully expanded to help SMEs manage their cashflows by leveraging on their contracts with the Government.
4. The imSME online referral platform, launched by the Credit Guarantee Corporation Malaysia (CGC), has helped reduce SMEs' search effort and costs for loans by matching their financing needs with relevant financing options from multiple providers – both banks and non-banks - thus addressing an important pain point faced by SMEs in sourcing suitable financing.
5. This is complemented by the Khidmat Nasihat Pembiayaan platform, or MyKNP, which provides advise to help unsuccessful financing applicants improve their eligibility for future financing.

Banks will continue to play an important role in the SME financing ecosystem, and there is still considerable room to further evolve their role – particularly in the area of enabling lending decisions based on alternative data and supporting larger ticket,

longer-tenure and flexible financing solutions through risk-sharing arrangements that will not expose depositor funds to excessive risk.

Here, we are also making important inroads. The entry of digital banks and alternative fund raising platforms such as crowdfunding and P2P platforms that offer different business models and innovative approaches to credit assessments will contribute to the expansion and diversification of funding sources for SMEs.

In addition, developmental financial institutions (DFIs) are being strengthened to play a bigger role in supporting financing to SMEs. The ongoing restructuring of DFIs as announced by the Government will enlarge their financing capacity while improving synergies and economies of scale to support financial flows to higher risk segments. This includes helping banks evolve their approach to SME financing through risk sharing arrangements as well as developing alternative non-bank funding sources. In parallel, we continue to leverage on BNM's funds for SMEs to better address financing gaps and encourage financial flows in more impactful areas of development. One example of this is our ongoing collaboration with the government to curate end-to-end tech adoption programs for SMEs that include elements of tech advisory, capacity building, financing, and proportionate incentives to encourage participation. Ongoing efforts to develop SME capital market segments and private equity financing are also important.

Notwithstanding these efforts, we recognise that there are pockets of SMEs that continue to face challenges in accessing finance. We have looked at this issue very closely and the evidence we have suggests that these challenges are commonly associated with a history of credit defaults, uncertain repayment capacity and business management concerns^[3]. This underscores the importance of the third area of focus which concerns the need to strengthen SMEs themselves as a necessary precondition to improving access to finance.

Through programmes like iTekad and BNM's SME funds, we continue to collaborate with relevant SME agencies and associations to integrate technical training, financial capability and business support services with financing support. Following the significant impact on SMEs from the pandemic crisis, we significantly scaled up the capacity of AKPK to help SMEs improve their financial resilience and resolve debt problems. And we continue to intensify our financial literacy efforts which reached more than 6.3 million Malaysians including SME entrepreneurs in 2023.

Ladies and gentlemen,

Looking ahead, SMEs will need to contend with emerging mega trends that will fundamentally shape future business prospects of SMEs. One such trend is the growing global momentum of transitions to sustainable or green business practices.

The case for transition towards more sustainable practices is by now well established not just as a socially responsible response to business. It is vital for long term business survival. For some businesses, this is already having an impact on performance and access to funding as demand for climate-related disclosures increase and become more commonplace.

For Malaysia, the stakes are high.

- It is estimated that 20% of Malaysia's GDP and 23% of the workforce are associated with hard-to-abate sectors of our economy.
- Based on the National Energy Transition Roadmap (NETR), the Carbon Border Adjustment Mechanism (CBAM) introduced by the EU has the potential to impact as much as 57% of Malaysia's total exports to the EU by 2026.
- 60% of SMEs claim that they are looking to increase business opportunities and create long-term value by strengthening ESG practices, and will need help to do so.
- Malaysia faces sizable GDP losses from flood damages materialising within the present decade without adaptation measures and investments to build supply chain resiliency. This is backed by findings from a recently published joint research project undertaken by Bank Negara Malaysia and the World Bank.

This underscores the urgency for SMEs to transition. Adopting sustainable practices would strengthen SMEs resilience to climate risks, as well as facilitate access to affordable financial protection and sustainability-linked financing. Conversely, physical and transition risks if not well managed could lead to significant disruptions in business activity, property damage and a potentially irreversible erosion in economic value.

Through the Joint Committee on Climate Change (JC3) which Bank Negara co-chairs with the Securities Commission, significant efforts are being made to support transition efforts by SMEs.

- The Greening Value Chain (GVC) programme with Bursa Malaysia has enabled more than 330 participating SMEs operating within the supply chains of large corporates to start measuring and reporting their GHG emissions, through a combination of capacity-building, technology adoption, as well as financing support.
- A dedicated SME Focus Group (SFG) has now been established under JC3 to provide a more targeted focus and strategy with the aim of accelerating the

transition and adoption of sustainable practices and business models by SMEs. The JC3 SFG has delivered several key initiatives to help SMEs get started on and advance their transition journey. This includes the ESG Jumpstart Portal, a one-stop online information hub for SMEs to access foundational information, resources, tools and guidance to jump-start their sustainable journey.

BNM has also made available a RM1 billion Low Carbon Transition Facility (LCTF) facility established on a matching basis with participating financial institutions to help SMEs embrace sustainable and low carbon practices in their business operations. We aim to further increase support for financing to businesses that can develop and scale green technologies and processes, or that are making meaningful efforts to transition to a low carbon model.

Financial institutions are also ramping up their own capacity to advise and provide technical support to SMEs on their transition journey, including in risk management and disclosure practices. These efforts are crucial to ensure alignment between banks' business and risk strategies with the transition path of SMEs.

Ladies and gentlemen,

Let me conclude my remarks.

SME financing is an ongoing journey – and a crucial one for economic development and progress. Although the share of bank financing to SMEs is high, relative to their current contribution to GDP, our goal is not to claim victory by a finite point in time, but rather to ensure, through effective policy interventions, that the broader financial system “beyond banks and beyond traditional forms of lending” is working to adapt and respond to SME financing needs. To do this, we will continue to engage closely with the SME community to understand your issues and challenges, and where relevant, to support your progress and development beyond financing. As these needs will continue to change over time, innovation is key.

It goes without saying that we cannot do this alone. In any country, the agenda of uplifting SMEs calls for a whole-of-nation approach. Government and financial policies play a critical role, but so does the willingness of banks to evolve current approaches. SMEs themselves also need to more actively engage in strengthening their own financial and business capabilities. BNM remains committed to working closely with partners within the industry and Government. We will continue efforts to crowd-in private sector financing, whilst highlighting policy considerations and necessary reforms in the process. And we count on industry associations and experts to continue playing an active role as an aggregation point for SMEs, helping to raise awareness, co-create solutions and disseminate vital information.

On that note, I thank you very much for your attention.

[1] Source: Bank Negara Malaysia

[2] Source: Bank Negara Malaysia

[3] Source: Bank Negara Malaysia