

SMEs need more govt help to get funding

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SMALL and medium enterprises (SMEs) need more government help to alleviate their No 1 problem: getting banks to lend them money.

One solution, said the Economic Development and SMEs feedback groups yesterday, would see the Government offering tax incentives to encourage financial institutions to lend to SMEs. It should also explore alternative sources of funding such as through Islamic banking and foreign banks.

The ideas are contained in a joint paper the two groups will present at the annual Conference of Feedback Groups on Saturday, although the funding problems SMEs face are already well documented.

"Although Singapore's economy is on the rebound, many SMEs still do not see any sign of economic recovery. Obtaining financing to fund expansion and daily operations remains a challenge for local businesses," the groups said.

The main reason is that financial institutions have largely focused their lending on large and well-established companies which take on huge loans, in turn generating substantial returns for the banks.

SMEs not only borrow smaller sums but also require banks to invest in staff with the skills to analyse new business plans without significant historical data.

The Economic Development Feed-

back Group's chairman, Mr George Abraham, said yesterday the recommendations are targeted at addressing the funding gaps for SMEs.

The Government could provide tax breaks and other incentives that will encourage banks to extend loans to SMEs. To encourage more private funding from angel investors and venture capitalists, it could also give tax deductions for investors to offset their lending expenses or capital losses against other unrelated income.

As for alternatives sources of funding, the Government's plan to set up an Islamic financial centre in Singapore bodes well for SMEs as Islamic banks do not charge interest on loans but take a portion of the profits, said Mr Abraham.

"SMEs cannot pay the high interest that is charged by commercial banks," he added.

The feedback groups also proposed that the Government opens up the banking sector further and allow foreign banks to provide financing for SMEs.

"Banks outside Singapore have more experience and better understanding of lending to SMEs. Foreign banks might come up with new ideas that will enhance lending to SMEs," said Mr Abraham.

Other recommendations include giving SMEs more access to the government procurement market through measures such as easing track record requirements as well as allowing private companies to manage whole blocks of Housing Board retail shops to achieve a better retail mix.