

Information sharing crucial to improve access to finance for SMMEs

For Immediate Release

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Effective information sharing is crucial in efforts to ensure access to finance for South Africa's Small, Micro and Medium Enterprises (SMME), a research report commissioned by the National Credit Regulator (NCR) titled Information Sharing and SMME Financing in South Africa has found.

According to the report, acceptance rates for granting loans significantly improve when the financiers have access to suitable information about payment behaviours of small businesses.

One of the biggest obstacles faced by SMME's is access to finance. Financiers have little knowledge about the payment behaviour of an SMME and are thus reluctant to provide finance.

"The default assumption by many financiers is that insufficient information equals high credit risk," said the report, adding that financiers feel more comfortable to provide finance if they can see that an SMME has a good payment record with other providers of goods and services.

Gabriel Davel, CEO of the National Credit Regulator, commented that the report confirms that improvement on information sharing will enhance access to finance by SMME.

"The National Credit Act (NCA) has built a solid foundation for this to happen", said Davel. "The establishment of a National Register of Credit Agreements will further improve the quantity and quality of information."

The report, put together by Centre for Competitive Credit at the Political & Economic Research Council (PERC), found that the National Credit Register will be an ideal tool to promote information sharing of SMME data if it incorporates key functionalities that have, around the world, shown to improve access to credit.

The risk faced by financiers of collateral being pledged more than once to different financiers could be mitigated by having a register of collaterals. In countries where these items were introduced in credit application reviews, higher acceptance rates resulted, further revealed the report.

“This was especially true for groups that were underserved by the financial mainstream. Thus, appropriate credit information sharing can both expand credit access and importantly, distribute it more equitably.”

The report also found that by World Bank standards, South Africa has a remarkable level of Small, Micro and Medium Enterprises activity compared with similar economies. A survey conducted in 1997 showed 22 small businesses per 1,000 people. In a decade that figure has more than doubled to 58.

International studies show that acceptance rates for granting loans significantly improve when the financiers have access to suitable information about payment behaviours of SMMEs.

Studies done on data from South American countries, Japan and the United States all reveal that acceptance rates improve dramatically without compromising on quality of the debtors book when a wide range of payment behaviour indicators of SMMEs are taken into account by the credit provider.

A study from Colombia particularly indicated that the use of data by credit providers on payment behaviours towards non-financial items like cellphones and utility bills can greatly increase acceptance rates of applicants of SMME loans.

However for credit providers to provide credit more widely they need access to suitable data sources.

According to the report, information solutions can help bridge the divide between the formal and informal economies by putting much needed data in the hands of credit providers. In South Africa, a way to overcome this information barrier is by sharing key data via the proposed National Credit Register.

For Small, Micro and Medium Enterprises, access to credit and financing is crucial to their sustainability and growth. The report further found that SMMEs play an important role in the health of a country's economic growth, employment levels and asset formation.

A copy of the research report can be obtained from www.ncr.org.za

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