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9 in 10 SMEs successful in securing debt financing, but delayed payments from customers remains a key challenge

Access to financing remains strong

1. Findings from the second edition of the SME Financing Survey conducted by SPRING Singapore, revealed that about 13% of SMEs sought external financing in the past year and out of these, 90% that applied for debt financing¹ were successful in their applications.
2. The most commonly cited purpose by over 60% of SMEs that sought external financing² in 2017 was for cash flow management. Bank loans were the most popular form of external financing across SMEs of different sizes, industries and stages of development.
3. Majority of the remaining 87% that did not turn to external financing, indicated that they had sufficient funds to operate, while a smaller proportion (9%) indicated a personal preference not to borrow.
4. The survey also found that larger SMEs were more likely to seek external financing given their growth needs and the approval rate for debt financing was higher compared to micro companies (i.e. companies with revenue below S\$1 million). Micro companies faced lower approval rates largely due to the lack of financial documents and/or weaker business performance to support their debt application (i.e. revenue could not justify the

¹ More than 1,800 SMEs were surveyed. About one in ten SMEs (13%) applied for external financing and out of these 90% were successful in applying for debt financing. This includes working capital loans, trade facilities, hire purchase/equipment loans, overdraft, factoring and factory loans.

² Types of external financing options include, bank loans, equity, crowdfunding and others.

quantum of financing requested). This also reflects the ability and risk of the micro companies to manage the loan repayment.

Finance-related challenges by SMEs

5. While viable SMEs continued to be able to access debt financing, managing delays in customers' payment remains as a key finance-related challenge. The findings further revealed that 64% of SMEs (i.e. three in five SMEs) currently faced some form of delay in receiving payments from customers. SMEs also continued to rank delays in customers' payments as the top finance-related challenge they expect to face in the coming year. Refer to **Annex A** for key findings and charts.

6. The issue with managing delayed payments, thereby affecting cash flow and working capital management, is a consistent finding across various recent surveys/studies released. For instance, the 2017 Singapore Working Capital Study showed that Singapore businesses generally took about 41.5 days to convert their working capital to revenue as measured by net working capital days³, and recorded a worsened year-on-year figure⁴ (increased by 3% / 1.3 days). This longer cycle was driven by both an increase in the time taken to collect payment from customers and convert inventory into sales. This study is a collaboration between PwC Singapore and SPRING to enable SMEs to benchmark their working capital management practices and find ways to improve their performance.

Managing cash flow key to long term business success

7. While external financing can help bridge gaps in payment cycles in the short term, SMEs should strengthen their cash flow management capabilities to improve long-term resilience and competitiveness.

8. "No business can operate successfully without effective cash flow management. Even profitable companies can go under if their cash flow is not well managed, which may result in them being unable to meet their financial obligations. To better manage cash

³ Net Working Capital (NWC) days measure the liquidity of a business and how long it takes to convert its working capital into revenue. The longer the cycle is, the longer a business is tying up capital in its working capital without earning a return on it.

⁴ Source: PwC-SPRING Singapore Working Capital Benchmarking Study 2017 - Singapore's Net Working Capital days was 40.3 days (FY2015) compared to 41.5 days (FY2016), (increased by 3% / 1.3 days).

flow, SMEs can put in place regular reviews and controls on financial reporting so that any potential issues with billing, cash collection and credit terms with customers can be promptly addressed,” said Ms Chew Mok Lee, Assistant Chief Executive, Capabilities & Partnership Group of SPRING Singapore. SMEs can also turn to other sources of help made available online such as the PwC-SPRING Working Capital Study interactive tool to benchmark their financial performance against industry peers or make an appointment with a business advisor at any of the SME Centres for basic business diagnosis and advice.

9. For additional information on how SMEs can improve financial management capabilities, refer to **Annex B**.

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About the SME Financing Survey

The 2017 SME Financing Survey is conducted by SPRING Singapore in partnership with Dun & Bradstreet between June 2017 to September 2017. Now in its second year, the survey involved over 1,800 SME respondents across various industries, revenue bands and stages of development. Findings from the survey serves as an insight into the pulse of SME financing and financial management practices, which are used in SPRING’s review of relevant policies and initiatives.

About SPRING Singapore

SPRING Singapore is an agency under the Ministry of Trade and Industry responsible for helping Singapore enterprises grow and building trust in Singapore products and services. As the enterprise development agency, SPRING works with partners to help enterprises in financing, capability and management development, technology and innovation, and access to markets. As the national standards and accreditation body, SPRING develops and promotes an internationally-recognised standards and quality assurance infrastructure. SPRING also oversees the safety of general consumer goods in Singapore.

SPRING will merge with IE Singapore to form Enterprise Singapore in Q2 2018. Enterprise Singapore will enable the growth of Singapore companies through an integrated support network to build business capabilities and access overseas markets.

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For media enquiries, please contact:

Chow Zhi Ting
Senior Officer, Corporate Communications
Direct: 6279 3782
Mobile: 9635 7071
Email: chow_zhi_ting@spring.gov.sg

Farah Fami
Head, Corporate Communications
Direct: 6279 3184
Mobile: 9833 9532
Email: farah_fami@spring.gov.sg

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Key Findings and Charts from 2017 SME Financing Survey

- I. 13% of SMEs applied for external financing in 2017. Of those, 96% were successful in their applications for external financing:
 - a. Full approval: 90%
 - b. Partial approval: 6%

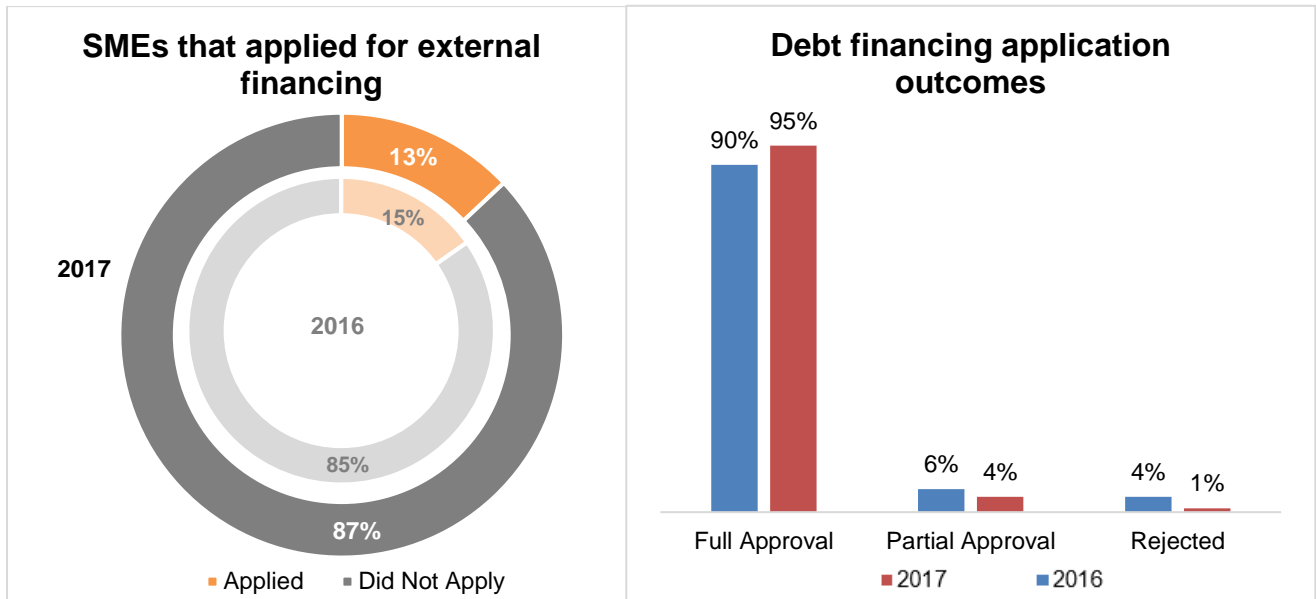


Chart 1: Comparison of SMEs that applied for external financing in 2016 and 2017

Chart 2: Comparison of debt financing application outcomes between 2016 and 2017

- II. Bank loans are the most popular external financing products for SMEs.

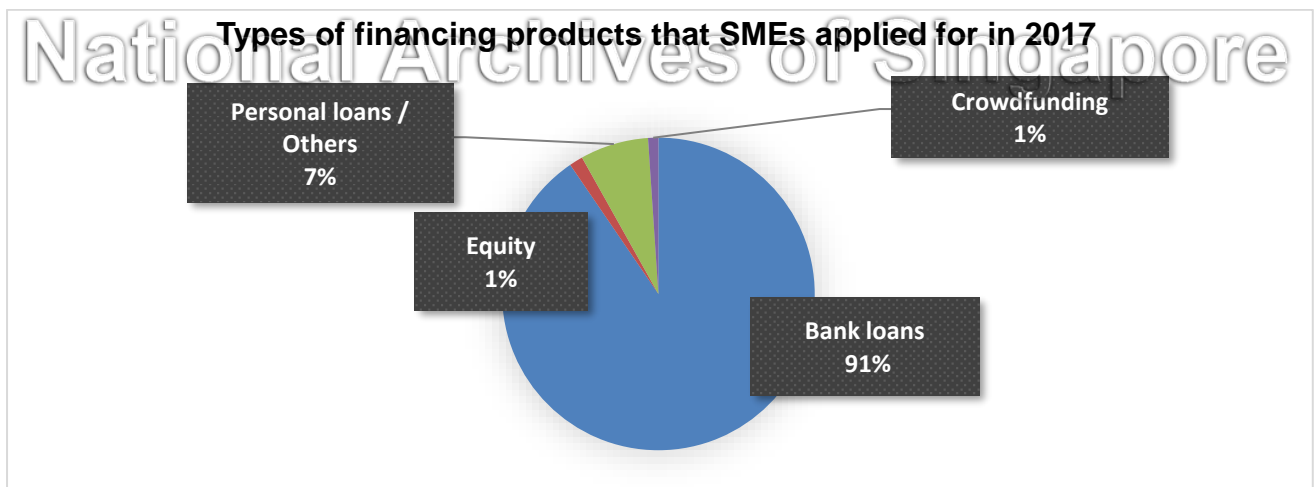


Chart 3: Breakdown of the types of external financing products that SMEs applied for in 2017

III. Micro SMEs are less successful in their applications for debt financing products as compared to their larger counterparts.

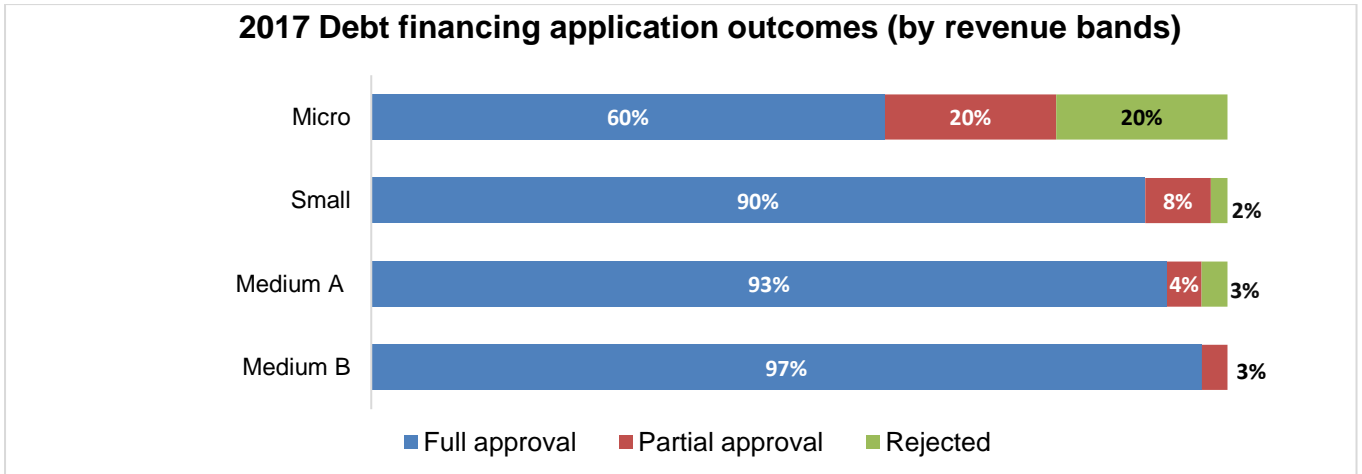


Chart 4: Breakdown of approval rates for bank loan financing outcomes by revenue bands in 2017

Revenue band	SPRING
Micro (< \$1 million)	27%
Small (\$1 - \$10 million)	30%
Medium A (>\$10 million - \$50 million)	26%
Medium B (>\$50 million)	17%

Chart 5: Profile of SMEs by revenue bands

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IV. Most common purpose of SMEs seeking external financing is for management of working capital, with 64% of SMEs facing delayed payments from customers.

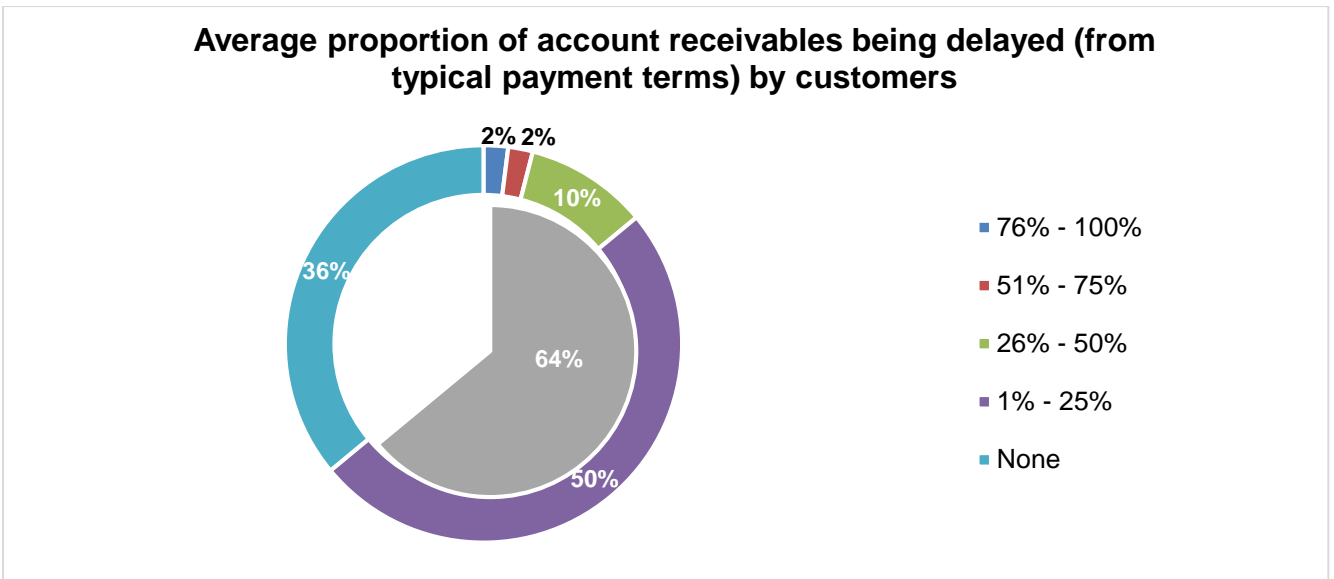


Chart 6: Average proportion of account receivables being delayed (from typical payment terms) by customers in 2017

V. SMEs continued to rank delay in customer's payments as top finance-related concern in the coming year.

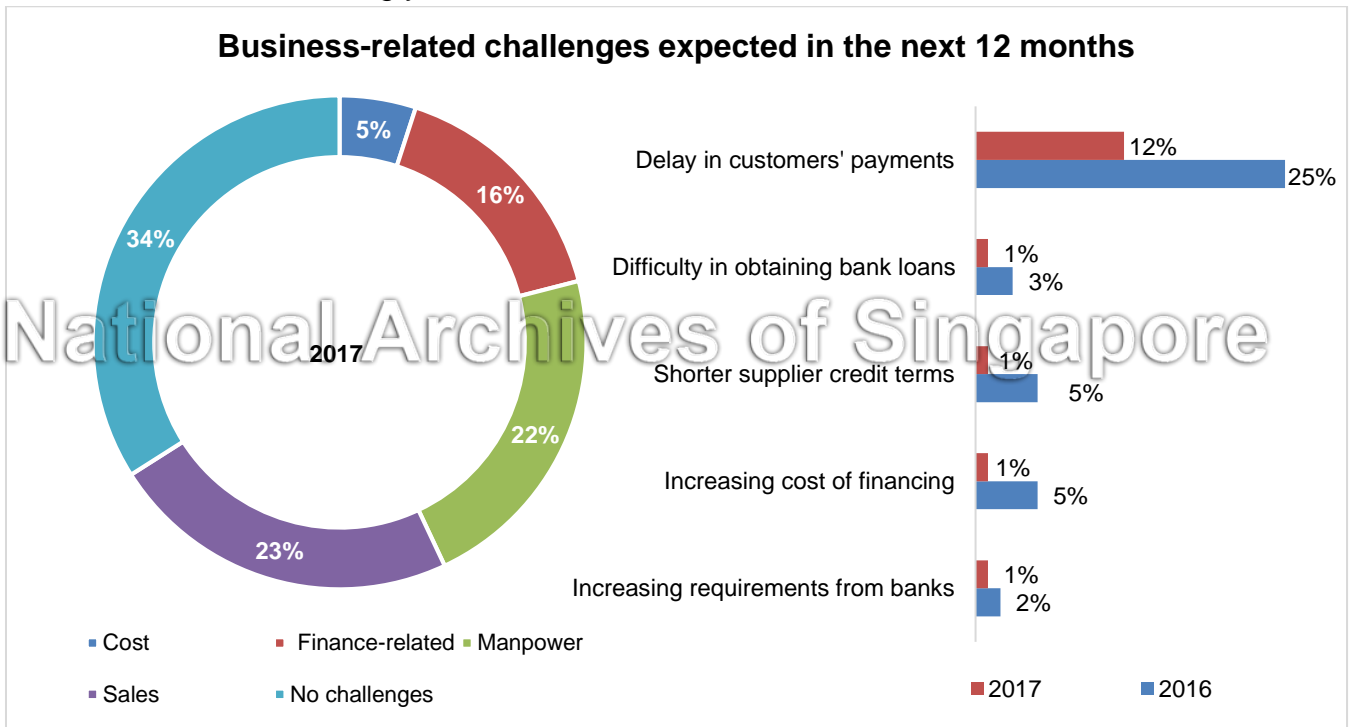


Chart 7: Comparison of business-related challenges expected by SMEs in 2016 and 2017

Annex B

Sources of Help for SMEs to Improve Financial Management Capabilities

- I. SMEs keen to understand the average working capital performance in Singapore by industry and company size can access **PwC's online data explorer** (www.pwc.com/sg/working-capital) for more insight.
- II. SMEs are encouraged to use technology-enabled solutions, such as e-invoicing and accounting systems. Such solutions can help SMEs address common inefficiencies such as paper-intensive and manual invoice settlement processes through automation. These solutions can also help SMEs gain better financial visibility and optimise the use of their cash flow to reduce reliance on external financing.
 - a. SMEs that are keen to adopt such technology to strengthen their financial management capabilities can visit the **Tech Depot** (www.smeportal.sg/techdepot) for a listing of simple, easy-to-adopt financial management solutions.
- III. SMEs in need of financial management advice and help can approach any of the 12 **SME Centres** (www.smeportal.sg/smecentres) for free business diagnosis and basic advisory services on budgeting, cash flow management, and financial statement analysis.
- IV. SMEs keen to engage a consultant and embark on a **financial management project** may also apply for the Capability Development Grant (www.spring.gov.sg/cdg) to offset up to 70% of eligible project cost.