

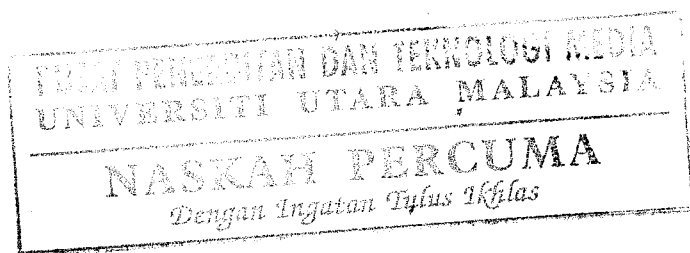
AN EVALUATION OF A GOVERNMENT-BACKED LOAN SCHEME IN MALAYSIA



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This work was submitted in March 2000 to the Loughborough University for the degree of Doctor of Philosophy in the Faculty of Social Sciences and Humanities. SMEs are considered to be an engine for growth in both developed and developing countries by generating employment opportunities, strengthening industrial linkages, securing home markets and earning valuable export revenue. Government-backed loan schemes play a major role in many countries, by enabling small and medium-sized enterprises (SMEs) to access credit facilities. The Credit Guarantee Corporation (CGC) in Malaysia has been charged with this key role in assisting SMEs, and its main financing instrument is the New Principal Guarantee Scheme (NPGS).

The overall aim of this study is to examine the extent to which the NPGS is appropriate to the financing needs of Malaysian SMEs. The primary objective is to identify the factors that determine the utilisation of the NPGS; utilisation depends upon a number of demand and supply factors, as well as the characteristics of firms and owner-managers (OMs). An important secondary objective is to investigate the effectiveness of the NPGS, by exploring the generation of finance and economic additionality, as well as the net cost of the scheme to the Treasury.

After reviewing on SME financing and the credit guarantee schemes in developed and developing countries, and the development of theoretical frameworks, a number of hypotheses are put forward. The methodological approach combines a questionnaire survey with case studies based on interviews with borrowers and financiers, and interviews with key informants. The questionnaire is principally concerned with the factors that affect the utilisation of the NPGS, whereas the case studies and interviews focus on the three elements of effectiveness. The questionnaire data are derived from a sample of firms from the CGC's database. The sample includes firms involved in a variety of activities, from the manufacture of high-technology goods to the processing of resource-based products. Firms were randomly selected to adequately represent racial composition, legal structure and loan size within the CGC's portfolio. The questionnaire data were supplemented by 15 in-depth case studies.

Two major findings emerge from this study. First, a number of independent variables did have a significant relationship on the utilisation of the NPGS: the amount of security or collateral; limited company status; manufacturing sector; size of firm; use of external advisers for fund raising; and the existence of written business plans. However, the majority of the hypotheses relating to the characteristics of OMs were rejected; the researcher offers some explanations for this apparent anomaly. Second, the case studies demonstrate that NPGS has achieved finance additionality comparable with having achieved in guarantee

schemes elsewhere, as well as a significant degree of economic additionality. The net cost of the scheme was difficult to determine with any degree of precision.

On the basis of the research findings, the researcher is able to put forward a series of recommendations to improve the operations of the CGC.