



**BUMIPUTRA SMALL AND MEDIUM ENTERPRISES IN KUCHING: A STUDY ON
THEIR AWARENESS TOWARDS THE GUARANTEE SCHEMES PROVIDED BY
CREDIT GUARANTEE CORPORATION MALAYSIA BERHAD**

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ABSTRACT

Banks are important sources of external credit but they are reluctant to lend to small and medium enterprises (SMEs) due to the high credit risk involved. Therefore, Credit Guarantee Corporation Malaysia Berhad was set up to assist SMEs to secure loans from financial institutions in Malaysia. Being the sole issuer of credit guarantees to SMEs, the performance of CGC directly reflects the availability of credit guarantees to SMEs. Hence to ascertain the accessibility of credit guarantees, this study evaluates the efficiency of credit guarantee schemes provided by CGC. From a non-parametric analysis, CGC is found to be operating at a relatively low level of overall technical efficiency. Therefore CGC should consider reallocating its existing inputs as well as increase the amount of credit guarantees granted to SMEs in order to achieve a reasonable level of efficiency.

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CHAPTER 1

1 INTRODUCTION

1.0 Background of the company

Credit Guarantee Corporation Malaysia Berhad (CGC) was incorporated on July 5, 1972 under the Companies Act 1965. Its shareholders are Bank Negara Malaysia Berhad (BNM) holding 79.3% and Financial Institutions (FI) holding 20.7% operating in the country. CGC's current Authorized Capital stands at RM3.0 billion and Paid up Capital of RM1, 435.6 million Ordinary Shares and RM200 million Preference Shares.

1.01 Main Objectives

- ❖ Assisting small and medium enterprises (SME) without collateral, inadequate collateral or no track record to gain accessibility to credit facilities from the Financial Institutions.

- ❖ CGC formulates and administers various guarantee schemes meant for specific target groups with the participation of all financial institutions. It also complements the government's efforts to promote the development of Small and Medium Industries (SMI) in the country, via its enhanced role as a "Credit Enhancer".

- ❖ To complement the government's efforts in promoting and developing businesses in priority sectors (manufacturing, food production and processing, tourism industries etc) identified by the Ministry of Entrepreneur & Cooperative Development all businesses as defined under the revised SME definition by BNM wef April, 2006 i.e. businesses with full time employees not exceeding 150 employees and turnover of not more than RM25.0 million.

CHAPTER 2

1. LITERATURE REVIEW

Small and medium enterprises (SMEs) are often small and inexperienced as compared to many larger and well-established multinational companies. Due to lack of knowledge, SMEs are ignorant of proper accounting principles of values to reflect their financial position. Consequently, banks are reluctant to lend to SMEs as quite a substantial amount of risk is involved in SME lendings (Camino and Cardon, 1999). Furthermore, when credit guarantee granted to SMEs turn bad, this would impair the future lending abilities of financial institutions. In most countries, especially developing nations like Malaysia, banks are net lenders where the demand for credit are generally more than the supply and it is just not worth the risk.

In the case of Malaysia, ¹apart from enhancing the soundness of financial sector, ²BNM said banking measures introduced in 2003 were directed at improving access to financing of businesses among SMEs. In regards to this, BNM had allocated RM1.0 billion in the form of guarantee fund provided through CGC with the maximum loan amount allowable of RM2.0 million for five years.

The potential for SMEs to power growth in transitional and developing countries is widely recognized. ³According to Public Bank's Economic review "By supporting the expanding manufacturing sector and creating job opportunities, SMEs have become pillars in the Malaysian economy."

⁴SMEs form an integral part of the industrial network in Malaysia by supplying products and services to large companies and multinational companies. They are an integral component of the Malaysian economy,

¹ Various Banking measures effected to improve Access to Financing (2003, March 28), Bernama

² Governor Tan Sri Dato Seri Abul Hassan Sulaiman, (2000, April 12) Towards a more efficient, effective and stable Financial System, BNM.

³ SMEs pillars of Malaysian Economy, (2004, December 23) The Borneo Post.

⁴ Government appreciates role of SMEs, (2004, August 11) Sarawak Tribune P.1.