

LETTER OF SUBMISSION

8 JAN 2018

Coordinator

Faculty of Business Management

Universiti Teknologi MARA (Terengganu)

23000 Dungun

Terengganu

Dear Sir/Madam,

SUBMISSION OF PROJECT PAPER (FIN667)

Attached is the project paper title "THE DETERMINANTS OF SMALL MEDIUM ENTERPRISE (SME) FINANCING BY LOCAL COMMERCIAL AND ISLAMIC BANKS IN MALAYSIA" to fulfill the requirement as needed by the Faculty of Business Management, Universiti Teknologi MARA.

Thank you.

Yours sincerely,

MUHAMMAD AIMAN BIN MUHAMAD ZALALUDDIN
2015136641
Bachelor of Business Administration with Honours (Finance)

ACKNOWLEDGEMENT

Praise to Allah, The most benevolent and gracious for the commitment and strength given to endure the obstacles and overcome challenges upon completing this thesis in time. I would like to express highest gratitude to my advisor, Dr. Zuriyati Ahmad upon her consultation and guidance. Without it, I would not be able to reach this stage. My appreciation also goes to my lecturers, especially the coordinator for this final semester, Madam A'tiqah Rashidah Abu Samah for her advice and remind of procedure along the semester either directly and indirectly.

Special thanks to my family and friends who always support and encourage me to work on this thesis successfully. They provide motivations, sharing information and give tips for me in order to write this thesis. Also the staff of Inter Perfections Logistics, my internship place which provide me opportunity and helps in writing the proposal there. Hopefully this thesis will give benefits and contribute some information regarding the financial access among small medium enterprise.

TABLE OF CONTENT

<u>CONTENTS</u>	PAGE
ACKNOWLEDGEMENT	iv
LIST OF TABLE	viii
LIST OF FIGURE AND EQUATION	ix
ABSTRACT	X
CHAPTER ONE: INTRODUCTION	
1.0 Introduction	1
1.1 Background of Study	3
1.2 Problem Statement	6
1.3 Research Questions	7
1.4 Research Objectives	7
1.5 Scope of Study	7
1.6 Significance of Study	
1.6.1 Researcher	8
1.6.2 Future Research	8
1.6.3 Public	8
1.7 Limitation of study	9
1.8 Operational Definition	
1.8.1 SME Financing	9
1.8.2 Bank Size	9
1.8.3 Bank Liquidity	10
1.8.4 Bank Credit Risk	10
1.8.5 Gross Domestic Product	10
1.8.6 Interest Rate	10
CHAPTER TWO: LITERATURE REVIEW	
2.0 Introduction	11
2.1 Determinant of SME financing	
2.1.1 Bank Internal Characteristics	11
2.1.2 Macroeconomic factors	13

CHAPTER THREE: RESEARCH METHODOLOGY

3.0	Introduction	15
3.1	Research Design	15
3.2	Model Specification	15
3.3	Theoretical Framework	17
3.4	Variable Description	
	3.4.1 Dependent Variable	17
	3.4.2 Independent Variable	18
3.5	Expected Sign	20
3.6	Hypothesis	21
3.7	Data Collection	22
3.8	Measure of Analysis	
	3.8.1 Descriptive Analysis	23
	3.8.2 Statistical Problem Analysis	23
	3.8.3 Panel Data Analysis	23

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.0	Introduction	25
4.1	Descriptive Analysis	25
4.2	Pearson Correlation	27
4.3	Panel Data Analysis	
	4.3.1 Pooled Least Square	28
	4.3.2 Multicollinearity Test	30
	4.3.3 Breusch-Pagan / Cook-Weisberg Test	31
	4.3.4 Random Effect	32
	4.3.5 Breusch and Pagan Lagrangian Multiplier test	33
	4.3.6 Fixed Effect Model	33
	4.3.7 Hausman Test	35
4.4	Result Analysis	36

ABSTRACT

The research is conducted to study the irregularity in amount of financial supply by the local commercial and Islamic banks toward the small medium enterprise (SME) in Malaysia. The financing trends are uneven every year and differently from each bank to another. It gives problem towards the entrepreneurs to gain financial access in order to expand their business. This will inhibit the development of SME sectors and indirectly affecting the GDP growth in Malaysia. Panel data analysis was conducted from 110 observations throughout 10 local banks in Malaysia which comprised of Islamic and commercial banks. The time frames of observation are from 2006 until 2016. The study seeks the relationship of bank internal characteristics and macroeconomics factors towards SME financing in Malaysia. The findings show that bank internal characteristics which comprise of bank size, bank liquidity and bank credit risk has positive relationship with SME lending. While for macroeconomic factors, GDP and interest rate were both show *negative coefficient result which indicate adverse relationship with SME financing*. Yet the variables that yield significant result in this study are only bank size, credit risk and GDP. Thus in order to enhance the financial access among SME in Malaysia, the government should promote awareness on benefit of investing towards SME and its contributions for GDP. The banks performance also needs to be strengthen in order to have better small medium business lending. To reflect the situation of SME financing more accurately, future research can be done by including government owned bank and non-bank financial institutions into the scope of study. Multiple countries research also can be done to compare the result in order to evaluate the level of SME financing in Malaysia among other country.