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Exploring Entrepreneurial Knowledge and Usage of Islamic Micro Financing: A Case Study on Islamic Guarantee Schemes of Credit Guarantee Corporation (CGC)

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ABSTRACT

In 2006,the Malaysian government implemented a sustainable and comprehensive microfinance institutional framework. Since then, many of the financial institutions have launched microfinance products. The Islamic finance as such can flourish in the Small Medium Enterprises (SMEs) and the microfinance sector since financing in Islam involves the real economy. The Islamic financing which is based on Shari'ah differs in its spirit and motivation as compared to the conventional one. This paper, attempts to explore the Islamic Guarantee Schemes services as provided by the Credit Guarantee Corporation (CGC). What are the factors that could lead the SMEs to go for Islamic Guarantee Schemes and what are their perceptions and knowledge of Islamic financing?. The data set utilized in this study has been obtained via a self administered questionnaire, based on samples of 125 CGC's clients. Results of the survey postulated that many of the entrepreneurs were not aware of the

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existence of Islamic Guarantee Schemes, and their knowledge pertaining to the Shari'ah principles of Islamic micro financing is rather shallow. The results have important implications to the policy makers in strengthening the use of Islamic micro financing among SMEs. The CGC also must work with a concerted effort with participating financial institutions to market these schemes to other entrepreneurs, who may be looking for alternative modes of financing, which are Shari'ah compliant.

Keyword: *Islamic Guarantee Schemes, Islamic micro financing, Credit Guarantee Corporation*

Introduction

The small medium enterprises (SMEs) have indeed contributed a lot to the growth and development of a country, particularly towards income generation, employment creation and most importantly, poverty alleviation. Although the SMEs require small capital, the main constraint faced by SMEs is the difficulty in obtaining financing from the banking institution (Census of Establishment and Enterprises 2005, Department of Statistics Malaysia). The Census also revealed that a lack of collateral (55.2%) was the main obstacle faced by SMEs when seeking financing from banking institutions. Then, it was followed by insufficient loan documentation (13.1%), lack of financial track records (10.7%), longer time taken for loan processing (9.8%), as well as business viability (5.3%).

The issue of collateral is nothing new for SMEs. To some credit institutions, however, the outlook on collateral vis-à-vis the small entrepreneur has been changing over time with more emphasis given to credit worthiness in place of common collateral (Rweyemamu, 2003).

The new emphasis involves such factors as the history of loan repayment, trustworthiness and the capacity to repay (Kashuliza and Kydd, 1996). The other criteria added by the World Bank (2005) for assessing credit worthiness is the reputation of the individual within the area, the technical feasibility of the proposed enterprise, and expected cash flow generation. The collateral requirement and credit rationing have in fact affects most of the micro and small enterprises, thus has lead them to the exclusion from business activities. For the Muslim entrepreneurs, they can obtain funds either through conventional loans, which require collateral or through Islamic financial institutions. Though Islamic banks offer a similar kind of service as the conventional banks, they must adhere to Islamic principles such as observing strictly on free-interest transactions and other entities that are against Islamic law. On top of that, Islamic financing does not require collateral to obtain funds. Against this backdrop, this study investigates the perception of entrepreneurs towards the Islamic mode of financing as provided by thebCredit Guarantee Corporation

(CGC). Specifically, this study attempts to provide answers to the following research questions:

- What is the level of understanding among entrepreneurs towards Islamic financing?;
- Are the Islamic Guarantee Schemes offered by the Credit Guarantee Corporation (CGC) Shari'ah compliant?
- What are the factors that would encourage entrepreneurs to seek financing from the banks offering the Islamic mode of financing as an alternative to conventional financing?
- What are the efforts taken by the Malaysian government in promoting the development of SMEs, particularly on the aspects of financing?

This paper is structured as follows. The next section focuses on a brief outlook of SMEs in Malaysia, in particular the micro financing schemes offered by CGC; then followed by the literature review, methodology and data used in the study. The last section presents the results, a discussion and lastly a conclusion.

SMEs in Malaysia: A Brief Outlook

The importance of SMEs development has been recognized by the Malaysian government since the early 1960s. In the beginning, the main reason for SMEs policies development was to establish business opportunities for the Malays. That is, government was very concerned with the increasing employment opportunities and participation in the economic activities by the Malays. However, until the later half of 1980s, the focus of SME development policy has shifted to the development of SMEs in supporting industries, particularly the pre-establishment of the medium-sized. In Malaysia, SMEs are being categorized under three categories, where the groupings are based on the number of people employed or on the total sales or revenues generated by a business in a year (refer to Table 1).

The contributions made by the Small and medium sized enterprises (SMEs) as a catalyst to the social and economic development have gained recognition from government. This can be verified when the government established the National SME Development Council (NSDC) in June 2004, which was chaired by the Prime Minister. The NSDC coordinates and ensures that inter-Ministry and Agency efforts are undertaken in order to support the key strategic thrusts of strengthening and enabling infrastructure for SME development, building SMEs' capacity and capabilities, and improving the access to financing by SMEs (MGCC Quarterly-http://www.smeinfo.com). Three approaches have been adopted to develop resilient and competitive SMEs in a more effective and efficient manner, namely by strengthening the enabling infrastructure for SME

Table 1: Definition of SMEs by Small and Medium Industries Development Corporation (SMIDEC) by Size

Category	Micro-enterprise	Small enterprise	Medium enterprise
Manufacturing, Manufacturing-Related Services and Agro-based industries	Sales turnover of less than RM250,000 OR full time employees less than 5	Sales turnover between RM250,000 and less than RM10 million OR full time emloyees between 5 and 50	Sales turnover between RM10 million and RM25 million OR full time employees between 51 and 150
Services, Primary Agriculture and Information & Communication Technology (ICT)	Sales turnover of less than RM200,000 OR full time employees less than 5	Sales turnover between RM200,000 and less than RM1 million OR full time employees between 5 and 19	Sales turnover between RM1 million and RM5 million oR full time employees between 20 and 50

Source: Small and Medium Industries Development Corporation (SMIDEC)

development, building the SMEs capacity and capability, and improving their access to financing.

The main providers of SMEs financing are banking institutions, development financial institutions (DFIs), leasing and factoring companies, as well as venture capital companies, which provide equity financing. The SMEs can even make use of various specific funds set up by the government. The trend of financing to SMEs has apparently shown an improvement. Recently, in 2006, the banking institutions has approved RM39.6 billion of financing to more than 84 000 SME accounts, an increase of 10.7% from 2005 (that is in 2005 only RM35.8 billion of fund being disbursed). Loan disbursements increased by 19.9% to RM132.6 billion (2005:RM110.7 billion), while loans outstanding to SMEs expanded by 4.2% to RM104.6 billion as at end-2006 (end 2005:RM100.3 billion). For year 2007, these financial institutions are expected to approve a total of RM51 billion in loans to about 110 000 SME accounts in 2007. On a sectoral basis, lending to SMEs was diversified, with almost two-thirds being channeled to the wholesale and retail trade, hotels and restaurants, manufacturing and construction sectors.

The Census of Establishment and Enterprise 2005 also revealed that the main purpose of financing by SMEs in Malaysia is the need for working capital (29.9%), followed by the requirements to purchase/lease of equipment/machinery (28.5%). The Census also revealed that working capital requirements are greater, the smaller the size of the establishment. Hence in order to meet the demand for

the funds, Bank Negara Malaysia has taken and adopted various measures in strengthening the existing infrastructure as to ensure a more effective channeling of funds to SMEs.

Credit Guarantee Corporation (CGC): A Brief History

The Credit Guarantee Corporation (CGC) was established in 1972 with Bank Negara Malaysia and all the commercial banks and finance companies as its shareholders, with the share of 79.3% and 20.7% respectively. It has a total of more than 2,600 branches in the country. The CGC is the sole provider of guarantee schemes and ancillary services to help SMEs with too little, or no collateral, to get loans from financial institutions. In line with the Government's effort to assist SMEs which form the base for industrial development, CGC is now classified as a Development Financial Institution.

Among the objectives of CGC are:

i. to assist small & medium scale enterprises particularly those without collateral or with inadequate collateral to obtain credit facilities from financial institutions by providing guarantee cover on such facilities.
ii. to formulates and manages viable credit guarantee schemes with the participation of its partners (lending institutions), which have over 2,600 branches throughout Malaysia.

In order to ensure the schemes reached the target group, the CGC has works closely with both Bank Negara Malaysia (BNM) and the Ministry of Entrepreneur and Cooperative Development (MECD) in terms of its operations and progress.

To further enhance its role in supporting the growth and development of competitive and innovative SMEs, the CGC has undertaken transformation exercise which took place in 2005. Today, CGC is no longer known as a traditional guarantee provider. It has become an effective and financially sustainable institution which offers to the entrepreneurs a wider range of products and services in order to meet the needs of SMEs, which would enable them to sustain growth and be competitive globally. The most important approach taken by CGC through this transformation exercise is to have a holistic approach of better access to finance, by providing a broader range of products and services which include credit enhancement products, advisory services on financial and business development matters, and credit information services.

The schemes offer by the CGC can be categorized in two types, namely the Main Schemes and Programmed Lending Schemes.

The Main Schemes include:

i. Credit Enhancer Scheme (ENHANCER) [which replaced the New Principal Guarantee Scheme (NPGS)]

ii. Small Entrepreneur Guarantee Scheme (SEGS)
iii. Islamic Banking Guarantee Scheme (IBGS)
iv. Direct Access Guarantee Scheme (DAGS)
v. Direct Access Guarantee Scheme – Islamic (DAGS-*i*)
vi. Direct Access Guarantee Scheme – Start-Up (DAGS Start-Up)
vii. Direct Bank Guarantee Scheme (DBGS)

The Programmed Lending Schemes are:

i. Flexi Guarantee Scheme (FGS)
ii. Franchise Financing Scheme (FFS)
iii. Special Relief Guarantee Fund - 2 (SRGF-2)

Briefly, the nature of schemes available at CGC can be summarized as follows (refer to Table 2).

The Islamic Schemes

There are two Islamic micro financing schemes offered by CGC, namely;

i. Islamic Banking Guarantee Scheme (IBGS)
ii. Direct Access Guarantee Scheme – Islamic (DAGS-*i*)

i. Islamic Banking Guarantee Scheme (IBGS)

This scheme was introduced on July 2, 1997. It was launched through the concept of guarantee window for Interest-Free Banking Scheme (IFBS) together with all commercial banks and finance companies. The concept corresponds with the concept of Islamic window for banking and financial institutions. CGC was hoping that with the new scheme introduced, access to lending would be easier and further enhancing the Islamic financial services, not only in terms of the player but also the user. The guidelines of the scheme are similar to that of the NPGS but based on prescribed Islamic principles. As a results, loans to 15 borrowers amounting to RM9.8 million was guaranteed under the IFBS in 1997. However, in June 2003 the Islamic Banking Guarantee Scheme (IBGS), introduced in 1997 was revised. The revise was necessary to ensure that the IBGS would enabled any of the viable businesses to obtain maximum financing of up to RM10 million at a reasonable profit rate. Thus in 2003 the Corporation has approved 87 loans amounting to RM46.5 million. Table 4 shows the amount of loan given under this scheme.

ii. Direct Access Guarantee Scheme – Islamic (DAGS-*i*)

This scheme was introduced by CGC in December 2005. The Direct Access Guarantee Scheme-Islamic (DAGS-*i*), is the Islamic version of Direct Access Guarantee Scheme (DAGS). This new scheme was introduced as a response to the rapid increase of the needs to have Islamic financial instruments in the

market. The Islamic financial tools have become popular and highly demanded not only by locals but also the foreigners. Simultaneously, the CGC would be able to provide more choice to its clients, particularly for those entrepreneurs who want to go for permissible financing. This scheme is offered throughout its 16 branches nationwide.

Table 2: Characteristics of the Schemes

Scheme	Loan/Financing Amount	Maximum Loan/Financing Tenure	Interest/Profit Rate	Guarantee Coverage	Guarantee Fee	Participating FIs
Direct Access Guarantee Scheme (DAGS)	Min: RM50,000 Max: RM3mil >2mil, application with 2 yrs good record with CGC	i) 5 years ii) Term loan for the purpose of asset acquisition, the max. tenure is 8 years should also include: -can extend up to 15 years term loan financing for purchase of completed properties/ factories)	Between 1.0% to 1.75% p.a. + BLR	30% to 100%	revised as: secured portion: 0.50% - 3.00% p.a. unsecured portion: 0.75% - 3.50% p.a. Note: A processing fee of RM300.00 on each successful application. An annual fee of RM150	i) Participating Development Financial Institutions (DFI) ii)Commercial bank should also include: MBB, RHB, EONBANK, AMBANK AFFINBANK, CIMB
Small Entrepreneur Guarantee Scheme (SEGS)	Min: RM10,000 Max: RM50,000	5 years	Max 1.5% p.a. + BLR	i. Non-Bumi - 80% ii. Bumiputera - 100%	1.25% p.a. revised as: Secured portion: 3.00%p.a Unsecured portion: 3.50%p.a	i)Participating Development Financial Institutions (DFI) ii)Commercial bank

continued

Table 2 – *continued*

Direct Bank Guarantee Scheme (DIRECT BG)	Min: RM50,000 Max: RM3mil (Applications above RM2 million only applicable to existing borrowers with at least 2 years good track record with CGC).	The tenure is to correspond with tenure of specific BG to be issued	0.6% subject to a minimum of RM50.00 per issuance	Up to 100%	i. Secured: 0.50% to 3.00% p.a. ii. Unsecured: 0.75% to 3.50% p.a. Note: A processing fee of RM300.00 on each successful application. No renewal fee as no annual review conducted.	Panel of Financial Institutions assigned by the Corporation. Maybank RHB Bank AmBank CIMB Bank EON Bank
Credit Enhancer Islamic Scheme (ENHANCER-i)	Financing up to RM10.0 million	"Term Financing-i "Cash Line Facility-i "Letter of Credit-i / Trust Receipt-i "Bills Purchased-i "Bank Guarantee-i "Export Credit Refinancing-i "Banker's Acceptance-i "Hire Purchase-i "Leasing-i	Financial Institutions to determine the profit rate.	Unsecured Portion Maximum cover of up to RM 3.0 million for unsecured portion. Secured Portion No capping imposed on the secured portion. The Corporation guarantee coverage ranges from 30% to 90% subject to the following:- Unsecured Portion - Up to 80% Secured	The guarantee fee is between 1.00% to 2.45% p. a. (secured portion) and 1.50% to 3.00% p.a. (unsecured portion) based on risk profiling of the SMEs. SMEs with higher risk profile will be charged higher guarantee fee, whereas SMEs with lower risk profile will be charged lower guarantee fee.	Participating Development Financial Institution (DFI), Commercial Banks and Islamic Banks.

continued

Table 2 – *continued*

				Portion - Up to 90%	The range observed is to match customer credibility in terms of risk rating with the pricing of the guarantee.	
Direct Access Guarantee Scheme Start Up (DAGS Start-Up)	Min: RM50,000 Max: RM2 mil	i) 5 years	Between 1.00% to 1.75% p.a. + BLR	Up to 100%	i. Secured: 0.50% to 3.00% p.a. ii.Unsecured: 0.75% to 3.50% p.a. Note: A processing fee of RM300.00 on each successful application A renewal fee of RM150 upon annual review.	Panel of Financial Institutions assigned by the Corporation. Maybank RHB Bank AmBank CIMB Bank EON Bank Affin Bank
Franchise Financing Scheme (FFS)	Max: RM7.5mil	5 years	Max.1.5% p.a.+ BLR	i. Unsecured - 80% ii. Secured - 90%	0.5% to 1.0% p.a.	i. Maybank ii. CIMB bank
Flexi Guarantee Scheme (FGS)	i. FSMI2 - RM50k - RM5mil ii. NEF2 - RM50k - RM5mil iii. RFSB - RM1.5mil (with effect from Nov 2003) iv. Prosper - RM1.0mil	i. FSMI2 - 5 years ii. NEF2 - 5 years iii. RFSB - 5 years iv. Prosper - 7 years	i. FSMI2 - 4.00% - 6.0%p.a. ii. NEF2 - 4.00% - 6.0%p.a. iii. RFSB - 5.0% p.a iv. Prosper - 4.00% (Islamic Banking Concept)	From 30% - 80%	FSM12 & NEF2: i. Unsecured - 0.50% to 1.85% p.a. ii. Secured - 0.80% to 2.15% p.a. RFSB:	i) Participating Development Financial Institutions (DFI) ii) Commercial bank Prosper: Perbadanan Usahawan Nasional Berhad (PUNB), TPPT, MBB

continued

Table 2 – *continued*

					i. Unsecured - 0.75% to 1.5% p.a. ii. Secured - 0.50% to 1.25% p.a. Prosper: 2.00% p.a Note: Guarantee Fees are borne by FIs.	
Direct Access Guarantee Scheme Islamic (DAGS-i)	Min: RM50,000 Max: RM3mil (revise up to 3mil - existing borrowers with 2 years good track record)	i) 5 years ii) Term financing-i for the purpose of asset acquisition, the max.tenure is 8 years. should also include: -can extend up to 15 years (term loan financing for purchase of completed properties/ factories)	Between 1.0% to 1.75% p.a. + BLR	30% to 100%	Revised as: Secured: 0.50% - 3.00%p.a Unsecured: 0.75% - 3.50%p.a A processing fee of RM300.00 on each successful application. Note: RM150 will be impose for annual renewal of DAGS-i accounts.	Participating Development Financial Institutions (DFI) ii) Commercial bank iii)Islamic bank (At the moment: MBB, RHB, EON Bank, CIMB, Ambank & Affin Bank)
Credit Enhancer Scheme (ENHANCER)	Min: RM50,000 Max: RM10mil	i. Overdraft & other credit facilities with no fixed tenure - 3 years ii. Term Loan & other credit facilities with fixed tenure - up to maturity date	As determined by the Financial Institutions	revised as: i.Unsecured - 30% to 80% (max. guarantee up to RM3.0mil) ii. Secured - 30% to 90% (no capping for secured portion)	i.Unsecured - Between 2.40% to 3.00% p.a ii. Secured - Between 2.10% to 2.70% p.a	i)Participating Development Financial Institutions (DFI) ii)Commercial bank

source: http://www.iguarantee.com.my

Table 3: Loan Approved based on Schemes by CGC

Year	2006		2007	
Schemes	Ao	Value(RM million)	Ao	Value (RM million)
Main Schemes	6191	2507.4	6 914	2 819.3
NPGS	3298	1 204.2	632	242.5
ENHANCER	9	1.1	2431	971.6
SEGS	659	24.5	1312	45.5
IBGS	91	63.3	128	74.6
DAGS	2110	1204.3	2390	1468.6
DAG-I	24	100	13	9.5
DAGS Starts Up	-	-	7	5.9
DBGS	-	-	1	1.1
Programmed Lending Schemes	1332	512.1	6090	1147.2
FGS	1329	511.1	1731	695.3
FFS	3	1.0	2	0.9
SRGF-2	-	-	4357	451.0
Securitisation	-	-	-	600.0
Total	7523	3019.5	13004	4566.5

Source: CGC Annual Report 2007

Table 4: The Islamic Banking Guarantee Scheme (IBGS)

Year	Ao	Value (RM Million)
1997	15	9.83
1998[1]	N.A	N.A
1999	16	11.9
2000	23	5.8
2001	68	38.2
2002	91	62.5
2003	87	46.48
2004	105	104.05
2005	88	51.99
2006	91	63.28
2007	128	74.6

Source: CGC Annual Report, various series

Table 5: The Direct Access Guarantee Scheme – Islamic (DAGS-*I*)

Year	Ao	Value (RM Million)
2006	24	10.0
2007	13	9.5

Literature Review

The small and medium sized businesses (SMEs) development is very crucial particularly for emerging economies as it boosts economic growth and innovation, as well as to compete in the global market. Birch et al. (1993) stated that SMEs are the key players in motivating, facilitating industrial restructuring in developed economies and most importantly is in the creation of employment, wealth and economic growth. The SMEs industries are usually associated with the usage of relatively labor-intensive production techniques, where they may employ more labor in their production. Despite their contribution to the economy, the SMEs do face some problems and challenges.

Meanwhile the study conducted by Timberg (2000) and Beyene (2004) disclosed that rules and collateral were among the biggest problems faced by SMEs, as the entrepreneurs were unable to fulfill minimum requirements as set by financial institutions (Winter, 1995). Several factors were also affecting SMEs which include lack of credit available at a reasonable cost as well as lack of working capital, poor infrastructure and competition from larger foreign firms (Cook, 2001). In addition, Rodriguez et al. (2002) concluded that there are three main constraints faced by SMEs, namely, constraint in policy and regulatory framework; constraint in managerial capacity and lastly, constraints in access to financial markets.

The SMEs, in general have encountered problems when assessing finance to support fixed capital investment and working capital (Graham, 2004; Tucker and Lean, 2001). Deakins and Hussain (1994) too, have acknowledged the importance of and financing issues for SMEs for economic well being. They have stated that banks tend to provide short term financing that restrict the SMEs' capacity to plan and undertake long term decisions.

Accordingly, due to the inability to meet the requirements set by financial institutions, some entrepreneurs of SMEs have sought funds from other sources. Studies conducted by Scherr (1990), Mayers (1984), Cosh and Hughes (1994) suggested that under such circumstances the owner will choose initially from a personal source; secondly short term borrowings; thirdly, longer-term debt and finally, least preferred, equity finance which will affect owners' control of the business. In addition, informal sources of finance overcomes the finance gap but the evidence at large suggests bank finance remains an important for start up businesses in the UK (Mason and Harrison,1993). In addition, imperfections

in financial markets limit the scope of a small business to raise finance such that it is likely to rely on banks to finance (Walker, 1989). Meanwhile Wesselink (1995) identifies six areas of business monitoring, as far financing of SMEs is concerned. Among them are loan performance monitoring and business performance monitoring.

Loan performance monitoring involves establishing contract to safeguard the interest of lenders. While business performance monitoring involves assisting clients address difficulties within the business environment.

Policy and regulatory framework from the authority are seen as another factor which can support the development of the SMEs. Policies to promote the development of SMEs are common both in developed and developing countries (Storey, 1994; Levitsky, 1996 and Hallberg, 2000). In the case of developed countries, it is very important that the government implement policies or programs designed to promote aspects of SMEs (Harvie and Chye Lee, 2005). Consequently, it has contributed towards employment opportunities and GDP growth in most of the developed economies (Storey, 1994).

Essentially, Islamic banking has evolved and it also plays a significant role in the development of the SMEs. It has emerged to be one of the fastest growing services that have been acknowledged by both the Muslims and non Muslims (Iqbal and Molyneux, 2005). The operation of Islamic banks derives from Shari'ah and thus differs in its spirit and motivation compared to the conventional banking practices. Consequently, Islamic banks offer similar kind of services to their customers as the conventional banks but they must adhere to the Islamic principles which include the prohibition of interest (usury), *gharar* (uncertainty), *maisir* (alcohol), gambling and other entities that are against Islamic law.

In Malaysia, the Islamic banks such as Bank Islam Malaysia Berhad (BIMB) and Bank Muamalat, have created funds/schemes for entrepreneurs. These schemes are created in order to provide financial assistance for the entrepreneurs in developing their businesses. The importance of business can never be over-emphasized as it has always plays a role in the economic and social life of people especially in this present world. Millions of people today engage in some kind of business activities or in other words become entrepreneurs. Thus, entrepreneurs would be one of the potential customers of Islamic banks as they need financing to expand their businesses and thus they have to cater to these needs within the principles of Islamic law. According to Bank Negara, the financing for the SMEs by the Islamic banks continue to increase from RM3.5 billion in 2002 to RM6.2 billion in 2003 to RM8 billion in 2004 (Bank Negara Report, 2005). More encouragingly, the market share of Islamic banking in terms of providing fund for financing to the SMEs in Malaysia almost doubled from 7.5 percent in 2003 to 13.9 percent in 2004.

However, the Islamic SMEs financing in Malaysia in 2004 is merely RM8 billion out of a total financing by the Islamic financial sector of RM57.882 billion, which suggests that there is a huge challenge and business opportunity for Islamic banks in Malaysia in respect of financing SMEs.

Few studies have been conducted in terms of the Islamic mode of financing to the SMEs. Though there are many products which is offered in the market, yet the most popular Islamic modes of financing used to facilitate the loans to SMEs are Murabahah, Ijarah, Bai' Bithaman Ajil and Mudarabah (Yakcop, 1996). In addition, Karim (2002), who investigated the practice of PLS in *Bank Muamalat Indonesia*, BMI, shows that *mudarabah* and *musharakah* financing are viable modes of financing for small and medium enterprises.

Methodology

In view of the research issue and objectives, this study was conducted as a descriptive research. It utilizes the primary and secondary data to describe the perception of entrepreneurs on Islamic mode of financing as provided by the CGC. The method of obtaining the primary data was mainly through structured questionnaire where convenient sampling of 125 of CGC's clients (Table 6). In designing the questionnaire, effort was made to ask as simple as possible questions, considering the background of the respondents. The questionnaire was divided into several sections which include demographic profiles, sources and type of financing, and perceptions on the Islamic financing. The data was analyzed using The Statistical Package for Social Science (SPSS) software.

Results and Discussion

Table 6: The Respondents' Profile

No.	Demographic Variables	No. of Respondents	%
1	Age		
	Less than 30 years	36	28.8
	Between 30 to 40 years	46	36.8
	Between 41 to 50 years	26	20.8
	More than 50 years	17	13.6
2	Gender		
	Male	80	64.0
	Female	45	36.0
3	Race		
	Malay	24	19.2
	Chinese	64	51.2
	Indian	15	12.0
	Others	22	17.6

Table 6 summarizes the profile of the respondents. Generally, the respondents are male (64%) with the remaining being females. Among the respondents, the majority (31%) are in the age range of 30 – 40 years old. Chinese constitute 51.2 percent of the total respondents.

In terms of the types of business activity, it seems that out of 125 respondents the majority (26.4 percent) were in business services. Whole sale and Retail sector was the second type of business chosen by the entrepreneurs to be ventured in which comprises of 23.2 percent. The third highest sector was transport, storage and communication and manufacturing (13.6 percent). The least type of business was in finance; insurance and real estate with 3.2 percent (see Table 7).

The majority of the SMEs involved in this survey were the existing entrepreneurs, who already have a stable business. Only 22.4 percent of the respondents have considered themselves as 'first timer' in the business activity.

Out of 125 respondents, majority of them were small scale enterprises which constitutes 56 percent or 70 out of 125 respondents. Meanwhile, 28 percent of the respondents fall under the category of medium scales enterprises. The remaining respondents were categorized as micro scales enterprises.

Table 7: Structure of the Enterprise

No	Items	No. of Respondents	%
1.	Types of Business		
	Business Services	33	26.4
	Whole and Retail	29	23.2
	Transport, Storage and Communication	17	13.6
	Manufacturing	17	13.6
	Others	8	6.4
	Hotels and Restaurants	7	5.6
	Electricity, Gas and Water	5	4
	Construction	5	4
	Finance, Insurance and Real Estate	4	3.2
2.	Classification of Business Activities		
	Small Scale Enterprises	70	56
	Medium Scales Enterprises	35	28
	Micro Scales Enterprises	20	16
3.	How do you describe yourself		
	Existing, Stable Business	97	77.6
	First Time Entrepreneur	28	22.4
4.	Receive any outside funding when set up business		
	No	98	78.4
	Yes	27	21.6

In terms of the purpose of the loan taken, majority of the respondents requested loan for the purpose of their working capital. 60 percent of the respondents felt that their current capital is not sufficient enough to meet the current demand of the market on their products. 29.6 percent seek loan for the reason to start a business.

Table 8: Purpose of Loan

No	Purpose of the loan	Frequency	%
1	Working Capital	75	60
2	Startup capital	37	29.6
3	Business Expansion	10	8
4	Others	3	2.4
	Total	125	100.00

Table 9 presents the range of credit/financing schemes provided by the CGC. The entrepreneurs were asked to pick the most preferable scheme that they have dealt with the organization. The most demanding scheme was Direct Access Guarantee Scheme (DAGS), which is 24.39 percent, then followed by Small Entrepreneur Guarantee Scheme (SEGS), which constitutes of 20.33 percent. The Flexi Guarantee Scheme (FGS) and the Islamic Banking Guarantee Scheme (IBGS), both represent 15 percent of total demand of the schemes. The less scheme being demanded was Credit Enhancer Scheme, which is only 5 percent.

Table 9: Products/Schemes used at CGC

No	Products that you have used at CGC	Frequency	%
1	Direct Access Guarantee Scheme	30	24.39
2	Small Entrepreneur Guarantee Scheme	25	20.33
3	Flexi Guarantee Scheme	15	12.20
4	Islamic Banking Guarantee Scheme	15	12.20
5	Franchise Financing Scheme	13	10.57
6	Direct Access Guarantee Scheme Islamic	11	8.94
7	New Principal Guarantee Scheme	9	7.32
8	Credit Enhancer Scheme	5	4.07
	Total	123	100.00

The result portrayed in Table 10 illustrates the reason for choosing the Islamic schemes. The most important reason of choosing the Islamic scheme was determination of rate of profit which is reasonable to the clients, which is 38.96 percent. Secondly, it goes for the service charge imposed, where according to the respondents it is lower. The third reason was due to the relationship between the clients and the finance provider. 15.58 percent held to this view. The most important point that worth to note was with regards to the religious awareness. It is surprisingly to notice that only 11.68 percent who have chosen the Islamic scheme were motivated by the religious awareness. The less chosen one was due to the nature of financing, which is based on profit sharing.

Table 10: Reason for Choosing the Islamic Schemes

No	Reason for choosing the Islamic schemes	Frequency	%
1	Determination rate of profit is reasonable	30	38.96
2	The services charge is lower compared to the conventional	22	28.57
3	A close relationship between client and institution	12	15.58
4	I was motivate by my religious awareness	9	11.68
5	It offer profit sharing types of business	4	5.19
	Total	77	100.00

Table 11 displays the opinions of the respondents pertaining to Islamic scheme as offered by CGC. In this regard, it shows that their knowledge on Islamic mode of financing was more on the determination of rate of profit which is reasonable, that is it represent 55.1 percent or 27 frequencies out of 49 responses.

Table 11: Knowledge on Islamic Mode of Financing

No	Knowledge on Islamic mode of financing	Frequency	%
1	Determination of rate of profits reasonable	27	55.1
2	I have more freedom in handling my business	6	12.24
3	I was not affected when there is economic crisis	6	12.24
4	There exist close relationship between clients and institution	5	10.2
5	The nature of financing granted is more towards profit sharing	3	6.12
	Total	49	100.00

The responses given by the respondents also indicate that credit guarantee mechanism of CGC offers considerable opportunities, and it is Shari'ah compliant. The Shari'ah Council of Bank Negara Malaysia resolved that the Islamic guarantee scheme (by charging guarantee fee) provided by CGC to the Islamic institutions offering Islamic financing products to customers is permissible. It is based on the contract of kafalah.

What would be the measures taken by the government in order to enhance Islamic financing among the SMEs entrepreneurs? Among the suggestions given by the respondents were the respective parties should hire officers who can be trusted and are responsible (25%); the respective parties should increase the promotion up to the remote area (21%); that the officers in charge of financing particularly marketing officers, should go to each of the SMEs company to promote the funds (34%), and lastly the bureaucracy problems should be minimized among the officers who process and approve the loan applications (20%).

Conclusion

Though the size of SMEs in each country may differ, either for developed or less developed countries, depending upon the size of the economy but yet, their contributions to the employment, GDP growth, poverty alleviation and to innovation have make them as a backbone of the economy, and have gained high recognition from the government. Even SMEs help in creating and promoting entrepreneurial culture that helps transform economies from low to middle income levels. Despite the fact that the performance and contribution of SMEs sector in Malaysia is quite encouraging, yet due to some structural weaknesses and problems, its access to financing from the formal sector, particularly from Islamic finance institutions has been inadequate.

Therefore, further efforts need to be made by various parties in the economy as to ensure continuous contributions can be seen from this industry. Factors like lack of information and documentations, reluctance to disclose the financial position, lack of awareness programs for SMEs, complexity of lending procedures and process, etc. are some of the common reasons for the lack of access to finance on the demand side. Thus, in order to promote and encourage greater involvement of SMEs to take Islamic mode of financing then the CGC should improve delivery mechanisms, provide business development services to those entrepreneurs etc. Another aspect is that the institution need to train their staff well and adequate them with the information about Islamic SMEs financing. This is because the staff will be the intermediaries between SMEs participants and the institution. They also carry reputations and image as good Muslims to society as well as Muslim entrepreneurs. In other words, to position effectively in terms of providing better services of Islamic financing requires a

comprehensive understanding of consumers needs especially Muslim entrepreneurs and an awareness of variations across market segments Thus, training programs is seen to be a useful tool for improving the managerial capabilities between staff and the clients.

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