CHAPTER 4

RESEARCH RESULTS

4.1 Introduction

This chapter discusses the findings and analysis from the descriptive analysis obtained from the quantitative method based on the questionnaires given to lending officers in order to answer the research questions. The findings are further explored through interviews in order to complete the main objectives of this research.

4.2 Summary Statistics

4.2.1 Banks

All of the participants are from the credit background of which they are directly processing the SME applications or involved in the SME documentation process. The officers consist from the following banks:

Table 4.1

List of Banks: Survey Respondents

Banks	Frequency	Percent
Public Bank Berhad	10	20%
Affin Bank Berhad	10	20%
RHB Bank Berhad	5	10%
Maybank Berhad	10	20%
CIMB Bank Berhad	5	10%
SME Bank Berhad	10	20%
TOTAL	50	100%

The above banks are all local commercial banks except for SME Bank Berhad. SME Bank is considered a Development Financial Institutions (DFI) and was incorporated to be a one stop center for financing and business development for Malaysian SME. SME Bank's principal activity is to give financing to the SMEs.

4.2.2 Work Position

Meanwhile, 42% of the participants are assistant manager, 26% were executives, while 24% are managers. The remaining 6% and 2% are Senior Manager and Others respectively. The work position of the participants can be noted as follows:-

Table 4.2

Work Position

Position	Frequency	Percent
Senior Manager	3	6
Manager	12	24
Assistant Manager	21	42
Executive	13	26
Others	1	2
TOTAL	50	100

Presently, it is common that banks have relationship managers or assistant relationship managers to deal with SMEs and corporate customers for the application of loans. Most processing and relationship management with customers are being handled by middle management position in the banks.

4.2.3 Work Experience

Meanwhile as can be observed, the working experience of our respondents is depicted below:-

Table 4.3

Working Experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	below 5 years	13	26.0	26.0	26.0
	from 6 years to 10 years	10	20.0	20.0	46.0
	from 11 years to 15 years	9	18.0	18.0	64.0
	from 16 years to 20 years	5	10.0	10.0	74.0
	from 21 years to 25 years	9	18.0	18.0	92.0
	above 25 years	4	8.0	8.0	100.0
	Total	50	100.0	100.0	

Table 4.4

Experience in SME Lending

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	below 5 years	13	26.0	26.0	26.0
	from 6 years to 10 years	13	26.0	26.0	52.0
	from 11 years to 15 years	11	22.0	22.0	74.0
	from 16 years to 20 years	10	20.0	20.0	94.0
	from 21 years to 25 years	2	4.0	4.0	98.0
	above 25 years	1	2.0	2.0	100.0
	Total	50	100.0	100.0	

It can be noted that most banks officer participating in the surveys has less than 5 years of working experience in the banks. Nevertheless our respondents also consist of various work experience in the bank of which majority also falls under SME lending.

4.3 Findings

This research result is divided into four parts of which the first part deals with the result related to the company policies and regulations in relation to SME lending. The second part shows the result in relation to the bank's process and consideration in evaluating the SME loan application. Part three briefly shows the result and effects of the government initiatives and support has on the bank's perception. Finally the last part deals with the result on which lending technologies influence the bank's attitude on the SME lending.

Basically, the structured questionnaires adopt a five-point Likert-scale from strongly agree to strongly disagree. However, many respondents avoid answering strong opinion and mark a generally agreement or disagreement only. Thus at times we combined the two scales of strongly agree (disagree) and generally agree (disagree) as one result. Further, some results shows that there are mixed responses where the percentage of agreement and disagreement are similar. Despite varying responses depending on the statements, the interview sessions revealed that many respondents share specific reasons for their views.

4.3.1 Banks policies and regulations in relation to SME lending

The perception that a special unit of SME is needed in order to focus on SME companies and that a special SME lending unit is required so as to have high penetration rate of SME financing was found to be high as 92% generally and strongly agree on the statement. Meanwhile, 86% responded affirmatively that their banks have a special lending unit for SME companies. Our finding is in line with a report for Banks in Jordan (2007) produced by United States Agency for International Development (USAID) of which it stated that in order to focus on SME market, banks have formed a separate loan department in order to create efficiencies in processing higher loan applications and realize better profits.

Table 4.5

Pol1:Our bank has a special or dedicated SME unit which is needed in order to focus on SME companies and their financing needs.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neither Agree Nor Disagree	7	14.0	14.0	14.0
	generally agree	26	52.0	52.0	66.0
	strongly agree	17	34.0	34.0	100.0
	Total	50	100.0	100.0	

Table 4.6

Pol2: A Special or dedicated SME lending unit is needed in order to have high penetration rate of SME financing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neither Agree Nor Disagree	4	8.0	8.0	8.0
	generally agree	25	50.0	50.0	58.0
	strongly agree	21	42.0	42.0	100.0
	Total	50	100.0	100.0	

As per the banks guidelines, lending directions are guided by selected industry sectors that the banks find favorable depending on the current economic condition. 84% of lending officers agreed that their banks have preferred industry sector to focus on while 76% said that their bank avoids selected industry as it is not in accordance to the lending direction.

Table 4.7

Pol3: Our Bank has preferred industry sector to focus in SME lending in line with the overall SME lending direction

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	generally disagree	1	2.0	2.0	2.0
	Neither Agree Nor Disagree	5	10.0	10.0	12.0
	generally agree	27	54.0	54.0	66.0
	strongly agree	17	34.0	34.0	100.0
	Total	50	100.0	100.0	

Table 4.8

Pol5: Our Bank avoids some industry sectors because it is not in accordance to prevailing SME lending direction

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	1	2.0	2.0	2.0
	generally disagree	3	6.0	6.0	8.0
	Neither Agree Nor Disagree	8	16.0	16.0	24.0
	generally agree	19	38.0	38.0	62.0
	strongly agree	19	38.0	38.0	100.0
	Total	50	100.0	100.0	

Meanwhile, based on the ranking of the mean, manufacturing is the most preferred industry that the banks looked for. This is followed by oil & gas industry, education industry, food & beverages industry, electronics, construction industry, automotive & transportation industry, rubber industry and finally wood industry as per Table 4.9. The ranking of most preferred industry is also in line with the government's direction to promote areas with high growth potential in relation to the National Key Economic areas (NKEAs) (SME Annual Report 2009/2010). Our results also show similar findings done by RAM Consultancy Services Sdn Bhd (2005).

Table 4.9

Most Preferred Industry for SME

	N	Minimum	Maximum	Mean	Std. Deviation
Pol4f	50	3.00	5.00	4.2800	.70102
Pol4a	50	2.00	5.00	4.1400	.83324
Pol4e	49	2.00	5.00	4.0000	.73598
Pol4g	50	3.00	5.00	3.9600	.75485
Pol4h	50	2.00	5.00	3.7200	.75701
Pol4c	50	3.00	5.00	3.7200	.64015
Pol4d	50	2.00	5.00	3.5600	.61146
Pol4i	50	2.00	5.00	3.3800	.69664
Pol4b	50	1.00	5.00	2.4400	.78662
Valid N (list wise)	49				

The perception that banks considers SMEs as higher risk are supported by the responds of which 60% agreed that bank charges higher margins on SME due to higher risk. However, the higher risk perception is not fully supported by the reason of lack of capital, lack of skills and professionalism, poor transparency and limited market access as 46% generally agree while 32% are neutral and 22% disagree with the statement.

An officer explained:

> "Overall banks find SME are riskier but not all SMEs have lack of skills professionalism, capital and transparency. Due to long relationship of some SMEs with the Banks, credit officers have better understanding on the businesses and fully understand the skills and professionalism of the SMEs. Thus, not all SMEs are risky."

The response above shows that despite the SMEs are seen as higher risk, the actual risk do not lies on all factors highlighted above. This is due to the fact that some SMEs have established a long relationship with the Banks, such that the Banks have acknowledged some of the good criteria adopted by the SMES in terms of skills and professionalism. Banks are more comfortable with SMEs who has been long with them and find them less risky.

Wattanapruttipaisan, T. (2003) highlighted that often SMEs have to pay higher interest rates and faced with more restrictive requirement on credit application by banks as compared to the large corporate. Further it was highlighted in the study that SMEs will accept interest rates charged to them as these rates are still far better than the rates offered by the grey markets.

Table 4.10:

Pol6: Our bank considers SME loans as higher risk because of lack of capital, lack of skills and professionalism, poor transparency and limited market access.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	1	2.0	2.0	2.0
	generally disagree	10	20.0	20.0	22.0
	Neither Agree Nor Disagree	16	32.0	32.0	54.0
	generally agree	19	38.0	38.0	92.0
	strongly agree	4	8.0	8.0	100.0
	Total	50	100.0	100.0	

Table 4.11

Pol8: Our Bank charges higher margins for SM financing because SME has higher risk

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	generally disagree	7	14.0	14.0	14.0
	Neither Agree Nor Disagree	13	26.0	26.0	40.0
	generally agree	30	60.0	60.0	100.0
	Total	50	100.0	100.0	

As can be observed banks still demanding collateral from the SMEs and they are not willing to finance them on a clean basis. About 64% officers agreed that the banks require SMEs financing to be secured while 62% disagree that their banks are willing to finance SME on a clean basis. An officer responded:

> "Banks are not willing to provide 100% clean loans and most application will require some form of collateral to be approved. This collateral can be in the combination of cash, directors' guarantee, third party properties as well as credit guarantee. However, there are cases when the banks still provide clean basis lending based on the contract received by SMEs which normally involved government contracts."

The view above is important and shared by many respondents because they agree that all banks require collateral in order to obtain financing. Therefore our interview with the officer revealed that one of the banking rules and practices in determining SMEs approval is collateral.

Our findings are not only supported by findings from RAM Consultancy Services Sdn Bhd (2005) but Wattanapruttipaisan, T., (2003) also indicated that even in developing countries, collateral requirements has been a means for justification to lend and repay in case of default. 92% of small businesses in US with debt to financial institutions are secured (IFC, 2000).

Table 4.12

Pol7: In general our bank requires SME financing to be secured

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	generally disagree	1	2.0	2.0	2.0
	Neither Agree Nor Disagree	17	34.0	34.0	36.0
	generally agree	23	46.0	46.0	82.0
	strongly agree	9	18.0	18.0	100.0
	Total	50	100.0	100.0	

Table 4.13

Pol10: Our bank is willing to provide SME financing on a clean basis

		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	strongly disagree	23	46.0	46.0	46.0
	generally disagree	8	16.0	16.0	62.0
	Neither Agree Nor Disagree	11	22.0	22.0	84.0
	generally agree	6	12.0	12.0	96.0
	strongly agree	2	4.0	4.0	100.0
	Total	50	100.0	100.0	

4.3.2 Banks processes and consideration in evaluating the SME loan

It is noted that Banks require many documents from SMEs in order to process their application. 100% of respondent agree that their banks require documentation in order to evaluate the SMEs. Among the documents needed are financial statements, business plan, cash flow statement, bank statements, proof of income and proof of asset ownership.

About 98% of credit officers agree that their banks require financial statements for evaluation. 92% generally and strongly agree that cash flow statement is required while 100% required bank statements to evaluate SMEs. 90% of respondent also required proof of income whereas 72% needed proof of income for evaluation. However, only 68% of respondents generally and strongly agree that business plan is required while 32**%** neither agree nor disagree. An officer said:

> "Business plans are not required if the financing are on asset based lending i.e. for the purchase of property or financing fully secured against cash."

The quote above suggests that the neutral stand of the respondents relate to the financing which are already secured in nature. Secured financing attract less documentation requirement. We found that it is necessary to conduct interview on this statement because we need to understand why 32% of the respondents take the neutral stand.

In appraising SMEs, 70% said they agree that SMEs can provide all the necessary documents while 24% are neither agree or disagree. Majority of the respondents (96%) agree that they rely on all the information and documents to access potential SME borrowers. Only 24% feel that the information is reliable and accurate while 74% of credit officers neither agree nor disagree that the information is reliable and accurate. An officer highlighted:

> "Some SME companies are not able to provide all documents but are being guided by credit officers on how to present the information. On top of that, some information submitted by the SME companies are normally assisted by consultant whereby the consultant will present the information as very "rosy and nice" whereas it does not "show the true picture of the company". Further, some SMEs may also present "many versions" of their financial statement depending of the relevant authorities or organizations viewing their reports. Therefore, you have to probe further on the information"

The quote above suggests that not all information obtained from SMEs is reliable as some information does not show the true picture of the SMEs. Credit officers need to probe further on the given information because this will help them in evaluating the SMEs. We found that it is necessary to conduct interview on this statement because reliability on the information given by SMEs are very important in order for the SMEs to obtain financing.

36% of the respondents feel that it is easy to obtain information from SME while 20% disagree with the statement. The rest (44%) are neither agree nor disagree. As mentioned earlier by the respondent, some presentation of document requires guidance from the credit officers in order for the SME companies "*submitting the right information*".

On another note, 58% of the credit officers feel that their bank relies on the information required to price SME loan while 18% disagree on this. 24 % credit officers are neutral that this information is needed to price the SME loans granted. An officer highlighted:

> "Pricing depends on product program owned by some banks. Pricing may vary from banks to banks as well as case to case basis depending on the nature of the application. SME loan which does not fall under any product program will usual be charged higher."

The quote above suggests that some SME loan is not priced based on the information obtained. Pricing are basically depending on each banks lending program available. This is an important statement that warrants for us to conduct interview in order to determine the pricing criteria for SME financing.

Table 4.14

Pro3: In appraising SME loans, SME companies are able to provide all the necessary documents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	generally disagree	3	6.0	6.0	6.0
	Neither Agree Nor Disagree	12	24.0	24.0	30.0
	generally agree	32	64.0	64.0	94.0
	strongly agree	3	6.0	6.0	100.0
	Total	50	100.0	100.0	

Table 4.15

Pro4: Our bank relies on the above information to access the creditworthiness of potential SME borrowers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neither Agree Nor Disagree	2	4.0	4.0	4.0
	generally agree	37	74.0	74.0	78.0
	strongly agree	11	22.0	22.0	100.0
	Total	50	100.0	100.0	

Table 4.16

Pro5: We find that it is easy to obtain information from SME companies

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	1	2.0	2.0	2.0
	generally disagree	9	18.0	18.0	20.0
	Neither Agree Nor Disagree	22	44.0	44.0	64.0
	generally agree	17	34.0	34.0	98.0
	strongly agree	1	2.0	2.0	100.0
	Total	50	100.0	100.0	

Table 4.17

Pro6: We find that the SME information provided is reliable and accurate for us to evaluate the financing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	generally disagree	1	2.0	2.0	2.0
	Neither Agree Nor Disagree	37	74.0	74.0	76.0
	generally agree	10	20.0	20.0	96.0
	strongly agree	2	4.0	4.0	100.0
	Total	50	100.0	100.0	

Table 4.18

Pro7: Our bank relies on the information to price SME loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	generally disagree	9	18.0	18.0	18.0
	Neither Agree Nor Disagree	12	24.0	24.0	42.0
	generally agree	27	54.0	54.0	96.0
	strongly agree	2	4.0	4.0	100.0
	Total	50	100.0	100.0	

It is noted that based on the means, financial statements is ranked the most required documents needed, followed by bank statements, cash flow statement, proof of income, business plan and the least required is proof of asset ownership.

Table 4.19:

Documents most required for credit evaluation

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Statement	50	3.00	5.00	4.8600	.40457
Bank Statements	50	4.00	5.00	4.7800	.41845
Cash Flow Statement	50	3.00	5.00	4.6400	.63116
Proof of Income	50	2.00	5.00	4.4800	.73512
Business Plan	50	3.00	5.00	4.2200	.91003
Proof of Asset Ownership	50	3.00	5.00	4.1800	.84973
Valid N (listwise)	50				

On another note, it shows that if the SME cannot provide the necessary documents for evaluation, 76% of the respondents agree that their bank will reject the application while 16% are neutral. Further, 56% agree that if the SME cannot provide the necessary documents, they will refer the loan to a guarantee scheme or the loan will be approved with conditions.

Table 4.20

Pro10: If SME cannot provide the necessary documents, our bank will reject the loan.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	2	4.0	4.0	4.0
	generally disagree	2	4.0	4.0	8.0
	Neither Agree Nor Disagree	8	16.0	16.0	24.0
	generally agree	29	58.0	58.0	82.0
	strongly agree	9	18.0	18.0	100.0
	Total	50	100.0	100.0	

Table 4.21

Pro11: If SME cannot provide the necessary documents, our bank will approve the loan with conditions or refer the loan to credit guarantee scheme

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	2	4.0	4.0	4.0
	generally disagree	7	14.0	14.0	18.0
	Neither Agree Nor Disagree	13	26.0	26.0	44.0
	generally agree	25	50.0	50.0	94.0
	strongly agree	3	6.0	6.0	100.0
	Total	50	100.0	100.0	

Our findings above are in line with findings by RAM Consultancy Services Sdn Bhd in 2005. Findings by Wattanapruttipaisan, T. (2003) also suggested that careful screening is required for loan evaluation which has become even more complex when SMEs are involved. The risks faced by the banks can be assessed if there are adequate disclosure of financial and governance information in the SMEs documents and business plan. It was further suggested by Jappelli and Pagano (2000b) that bank financing tends to be higher in countries where lenders have access to quality information on loan applicants.

For further processing and evaluation of SMEs, credit officers relies on credit databases like CRISS, CTOS, own internal databases, checking with other banks as well as associations. Our findings suggest that 68% agree on reliance of credit databases. It is noted that based on the ranking of the mean, credit databases like CRISS is ranked the most relied on for credit evaluation, followed by credit rating, internal databases, CTOS, checking with other banks and least order is information from associations as described in Table 4.22.

Table 4.22

Pro8: Our bank relies on credit databases to determine the creditworthiness of SME borrowers.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	generally disagree	8	16.0	16.0	16.0
	Neither Agree Nor Disagree	8	16.0	16.0	32.0
	generally agree	32	64.0	64.0	96.0
	strongly agree	2	4.0	4.0	100.0
	Total	50	100.0	100.0	

Table 4.23

Credit databases most relied on for evaluation

	N	Minimum	Maximum	Sum	Mean	Std. Deviation
Credit t Bureau (CCRIS)	50	4.00	5.00	223.00	4.4600	.50346
Credit Rating	50	2.00	5.00	207.00	4.1400	.75620
Internal databases	50	2.00	5.00	207.00	4.1400	.75620
Private company (CTOS)	49	1.00	5.00	199.00	4.0612	.96627
Other Banks	50	2.00	5.00	164.00	3.2800	.70102
Associations	49	1.00	5.00	159.00	3.2449	.96890
Valid N (listwise)	49					

In accordance with Basel II requirements, Banks must complete credit grading of each application. As such 82% agree that their bank will complete credit grading of the SME as a determinant to loan approval. 90% of credit officers said that they generally agree that they complete credit rating of SME with other considerations for loan approval. 64% of the respondents however agree that if the SME failed the credit test, they will reject the loan application. Nevertheless, 14% are neutral on this while 22% disagree that they will reject the loan. 54% of credit officer is going to refer the SME loan to higher authority if SME failed the passing grade while 24**%** disagree with such action.

Table 4.24

Pro13: Our Bank completes credit grading of SME loan as a determinant to loan approval

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neither Agree Nor Disagree	9	18.0	18.0	18.0
	generally agree	38	76.0	76.0	94.0
	strongly agree	3	6.0	6.0	100.0
	Total	50	100.0	100.0	

Table 4.25

Pro14: Our Bank completes credit rating of SME loan in conjunction with other considerations for loan approval

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neither Agree Nor Disagree	5	10.0	10.0	10.0
	generally agree	41	82.0	82.0	92.0
	strongly agree	4	8.0	8.0	100.0
	Total	50	100.0	100.0	

Table 4.26

Pro15: Our bank will reject the loan if the SME cannot achieve the passing grade of credit rating

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	generally disagree	11	22.0	22.0	22.0
	Neither Agree Nor Disagree	7	14.0	14.0	36.0
	generally agree	21	42.0	42.0	78.0
	strongly agree	11	22.0	22.0	100.0
	Total	50	100.0	100.0	

Table 4.27

Pro16: Our bank will refer the SME loan to higher authority if the SME cannot achieve passing grade on the credit rating.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	generally disagree	12	24.0	24.5	24.5
	Neither Agree Nor Disagree	10	20.0	20.4	44.9
	generally agree	25	50.0	51.0	95.9
	strongly agree	2	4.0	4.1	100.0
	Total	49	98.0	100.0	
Missing	NAP	1	2.0		
Total		50	100.0		

An officer said:

> "All business loans are required to undergo credit grading as per Bank Negara Malaysia's regulation. However, on a case to case basis if the applications are fully secured by cash and property, credit officers will recommend moderation of grading based on the securitization of the application in conjunction with other aspects of documents. As such there are some officers who will not reject the application based on the credit grading alone."

Another officer pointed*:*

> "The credit evaluation will also depend on the "overall picture" of the company of which the officers will not only make assessment on the grading but also future prospects of the company."

The above explains why some of the respondents are neutral or disagree in rejecting the loan despite not meeting the credit test. Also some officers are willing to refer the case to higher authority for approval.

It is important to interview the respondents on this statement because based on the whole documentation process of SME application whereby credit officers seek many documents and using credit databases, the fact remains that the process is to determine creditworthiness of the SME in question.

The most important analysis for any given SME application for financing is their repayment ability, character of the SME, track record, management quality, financial data, capital and the least important is collateral as per the result depicted in Table 4.28. Surprisingly, despite the banks perception that they are not going to lend to the SME on a clean basis, collateral is the least important for analysis. 88% agree that the bank will refer the application to credit guarantee scheme if insufficient collateral is provided.

An officer said:

> "Analysis for SME application is based on any normal application. Thus any credit officers will use the method used by lender to determine the credit worthiness of potential borrowers through 5Cs i.e. Character, Capacity, Capital, Collateral and Conditions. Thus collateral will be the least important analysis. However, banks still require collateral for approval"

Based on the above quote note that credit officers evaluate SME application via normal evaluation method and that collateral is the least important in credit analysis but the decision for approval are still based on the banking rules and practices.

Table 4.28

Most important analysis for SME application

	N	Minimum	Maximum	Mean	Std. Deviation
Repayment ability	50	1.00	5.00	4.4800	.81416
Character	50	1.00	5.00	4.3600	.80204
Track Record	49	2.00	5.00	4.2245	.62133
Management Quality	50	3.00	5.00	4.2200	.58169
Financial Data	50	1.00	5.00	4.2000	.75593
Capital	50	2.00	5.00	4.0400	.66884
Collateral	50	1.00	5.00	3.9600	.78142
Valid N (listwise)	49				

Table 4.29;

Pro12: Our bank will refer the loan to credit guarantee scheme if the SME companies provide insufficient collateral.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	generally disagree	1	2.0	2.0	2.0
	Neither Agree Nor Disagree	5	10.0	10.0	12.0
	generally agree	43	86.0	86.0	98.0
	strongly agree	1	2.0	2.0	100.0
	Total	50	100.0	100.0	

As per literature review mentioned, that the evaluation of character of SME borrowers' and their credit history is important in their evaluation for financing more so if there are insufficient disclosure of financial and governance information (Wattanapruttipaisan, T, 2003) This is further aggravated by differences in opinion between financial institutions in regards to project viability and future prospects of the SMEs. It also mentioned that credit information on borrowers is accessed via private credit bureaus and public credit registers and that information from them is limited to selective focus and high reporting threshold.

In Malaysia, financial institutions greatly depend on CTOSS and CCRIS. Wattanapruttipaisan also reiterated that guarantee schemes are especially pertinent as a way of improving access to financing for SMEs borrowers with inadequate collateral requirements as well as viable projects (Asian Development Bank, 2003, 35).

4.3.3 Government initiatives and support

Various government schemes have been introduced and local banks are entrusted to implement the schemes in order to boost the growth of SME portfolio in the country. 90% of respondent indicated that their bank participate in government sponsored schemes while 92% agree that their bank has to comply with the government decision.

Table 4.30

Gov1: Our Bank participates in SME financing through government sponsored schemes

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neither Agree Nor Disagree	5	10.0	10.0	10.0
	generally agree	37	74.0	74.0	84.0
	strongly agree	8	16.0	16.0	100.0
	Total	50	100.0	100.0	

Table 4.31

Gov2: Our bank has to comply with government direction in SME lending.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neither Agree Nor Disagree	4	8.0	8.0	8.0
	generally agree	35	70.0	70.0	78.0
	strongly agree	11	22.0	22.0	100.0
	Total	50	100.0	100.0	

80% of credit officers find that Government supported funds have been successful in their bank while 20% neither agree nor disagree. Further, 78% of the credit officers find that for government sponsored schemes, the banks provide lower interest rates. An officer mentioned:

> "Credit officers are normally being directed by the banks to propose financing for SMEs under the Government supported funds in order to support the government direction in providing financing for eligible SMEs. Such schemes are normally low in interest rates and guaranteed by the government. Thus, evaluations for securitization are much easier"

The above quote suggests that schemes provided by the government are much cheaper for SMEs because the schemes are guaranteed by the government. Thus it is important for us to probe further in an interview.

However, the whole process of evaluating the SMEs creditworthiness is still similar with other application as noted in Table 4.37 to 4.40.

Table 4.32

Gov3: The government supported funds have been successful in our bank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neither Agree Nor Disagree	10	20.0	20.0	20.0
	generally agree	35	70.0	70.0	90.0
	strongly agree	5	10.0	10.0	100.0
	Total	50	100.0	100.0	

Table 4.33

Gov5: Our bank provides lower interest rates for government sponsored schemes.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	generally disagree	1	2.0	2.0	2.0
	Neither Agree Nor Disagree	10	20.0	20.0	22.0
	generally agree	34	68.0	68.0	90.0
	strongly agree	5	10.0	10.0	100.0
	Total	50	100.0	100.0	

Meanwhile, the success rate for government funding schemes can be measured by their high approval rates, lower NPL and increase in growth rate in SME portfolio. 56% of officers think that the government funded schemes are successful by way of high approval rates. 40% neither agree nor disagree on the statement. Further, 68% of officers neither agrees nor disagree that the success of the government funded schemes is by way of lower NPL generated. It is affirmative that our government funding resulted in increased growth rate for SME schemes as responded by 74% of the credit officers.

We were informed by assistant managers that the success rate on the government funded schemes greatly dependent on the creditworthiness of the SMEs and their eligibility to the schemes offered. They further informed that SMEs are all subjected to the same evaluation process despite being categorized under the government funded schemes. As such, higher approval rates and lower NPL really depending on the evaluation by the credit officers notwithstanding the fact that the government funded schemes do help in their proposal

Table 4.34

Gov4a: Success in government funding schemes includes high approval rates

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	1	2.0	2.0	2.0
	Neither Agree Nor Disagree	20	40.0	40.8	42.9
	generally agree	26	52.0	53.1	95.9
	strongly agree	2	4.0	4.1	100.0
	Total	49	98.0	100.0	
Missing	NAP	1	2.0		
Total		50	100.0		

Table 4.35

Gov4b: Success in government funding schemes includes lower NPL

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	1	2.0	2.0	2.0
	generally disagree	2	4.0	4.1	6.1
	Neither Agree Nor Disagree	34	68.0	69.4	75.5
	generally agree	11	22.0	22.4	98.0
	strongly agree	1	2.0	2.0	100.0
	Total	49	98.0	100.0	
Missing	NAP	1	2.0		
Total		50	100.0		

Table 4.36

Gov4c: Success in government funding schemes includes increase in growth rate in SME portfolio

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neither Agree Nor Disagree	13	26.0	26.0	26.0
	generally agree	33	66.0	66.0	92.0
	strongly agree	4	8.0	8.0	100.0
	Total	50	100.0	100.0	

For government funded schemes, based on the respond by credit officers noted that despite the facilities being categorized as government sponsored schemes, 80% said that full documentation from the SME companies are still required for their assessment while 20% neither agree or disagree. Meanwhile, credit databases are also done for the evaluation of loans as mentioned by the respondents. 68% disagree that credit databases are not needed for evaluation while 20% agreed. Meanwhile 68% of credit officers also disagree that credit rating and scoring are not needed for evaluation while 22% generally agree. In terms of collateral, 52% disagree that collateral is not needed for government funded schemes while 18% disagree. Meanwhile 30% are neutral on the above negative statement.

Table 4.37

Gov6a: Our bank does not require full documentation from SME companies for government funded schemes.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	8	16.0	16.0	16.0
	generally disagree	32	64.0	64.0	80.0
	Neither Agree Nor Disagree	10	20.0	20.0	100.0
	Total	50	100.0	100.0	

Table 4.38

Gov6b: Our bank does not require credit databases for evaluation for government funded schemes

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	11	22.0	22.0	22.0
	generally disagree	23	46.0	46.0	68.0
	Neither Agree Nor Disagree	6	12.0	12.0	80.0
	generally agree	10	20.0	20.0	100.0
	Total	50	100.0	100.0	

Table 4.39

Gov6c: Our bank does not require credit scoring and rating for approval under the government funded schemes

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	10	20.0	20.0	20.0
	generally disagree	24	48.0	48.0	68.0
	Neither Agree Nor Disagree	5	10.0	10.0	78.0
	generally agree	11	22.0	22.0	100.0
	Total	50	100.0	100.0	

Table 4.40

Gov6d: Our bank does not require collateral for government funded schemes.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	2	4.0	4.0	4.0
	generally disagree	24	48.0	48.0	52.0
	Neither Agree Nor Disagree	15	30.0	30.0	82.0
	generally agree	7	14.0	14.0	96.0
	strongly agree	2	4.0	4.0	100.0
	Total	50	100.0	100.0	

4.3.4 Lending technologies

In Part v of the questionnaires, we seek to find out if lending technologies indeed is being used by the credit officers in assessing the SME and to determine their credit worthiness. 76% of the credit officers agree that they assessed SMEs by transaction lending and 82% on relationship lending. Even with lending technologies adopted by the bankers, it is noted that officers are still not willing to lend SMEs on a clean basis. 68% said that their bank is not willing to lend to SME on a clean basis.

Based on Berger and Udell (2006), for SME financing, a more complete conceptual framework is developed in that lending technologies are the key channel that affect credit availability through government policies and financial structures. It is further highlighted that lending technologies have pertinent effects on the access to financing for opaque and creditworthy transparent SMEs.

According to Fletcher (1995), collaterals serve as a replacement for detailed information on the risks involved in any loan applications. Bester (1994) informed that collaterals are useful for smaller firms to compensate for the information asymmetry .Collaterals will result in further improved of credit terms and approval potential as highlighted by Voordeckers & Steijvers (2006).

Table 4.41

LT1b: Credit officers assess creditworthiness of SMEs borrowers by transaction lending

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	generally disagree	3	6.0	6.0	6.0
	Neither Agree Nor Disagree	9	18.0	18.0	24.0
	generally agree	34	68.0	68.0	92.0
	strongly agree	4	8.0	8.0	100.0
	Total	50	100.0	100.0	

Table 4.42

LT1c: Credit officers assess creditworthiness of SMEs borrowers by relationship lending

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	1	2.0	2.0	2.0
	Neither Agree Nor Disagree	8	16.0	16.0	18.0
	generally agree	38	76.0	76.0	94.0
	strongly agree	3	6.0	6.0	100.0
	Total	50	100.0	100.0	

Table 4.43

LT2: Our bank is willing to lend on a clean basis to SME borrowers.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	10	20.0	20.4	20.4
	generally disagree	24	48.0	49.0	69.4
	Neither Agree Nor Disagree	11	22.0	22.4	91.8
	generally agree	3	6.0	6.1	98.0
	strongly agree	1	2.0	2.0	100.0
	Total	49	98.0	100.0	
Missing	NAP	1	2.0		
Total		50	100.0		

The most common method of SME financing when ranked by the means are term loan, collateral lending, contract financing, trade financing, revolving loan, leasing and factoring as depicted below. Most common durations of loan granted to SMEs ranked according to the means are medium term, long term, short term followed by revolving loan. The most preferred types of security for the banks are ranked according to the means are cash, property, shares, plant and machinery and finally receivables. An officer highlighted:

> "Term loans, asset based lending and fixed tenure financing are criteria for financing based on value of an asset of which collateral are pledged to the Banks. As such these criteria are more favorable to the lending officers as the lending are against assets which are long lived and not sold in the normal course of the SME business. Revolving loans like Overdraft are riskier as they are based on financial statement lending."

The above quote suggests that despite the availability of lending technologies, it is closely related to the collateral pledge to the banks.

This findings are supported by Berger & Udell, 2006 which stated that lending technologies identified as above are tied to the observation of timely repayment as specified by the amortization table. As such it is easy to monitor borrower's ability to pay as inability to make monthly payment signal a default on the loan as well as failure to meet the financial obligations.

Table 4.44

Most common SME financing approach

	N	Minimum	Maximum	Mean	Std. Deviation
Term Loan	50	2.00	5.00	4.3800	.66670
Asset based	50	1.00	5.00	4.1200	.89534
Contract Financing	50	1.00	5.00	3.9000	.78895
Trade Financing	50	1.00	5.00	3.8000	1.14286
Revolving Loan	50	2.00	5.00	3.7400	.87622
Leasing	50	1.00	5.00	2.8600	1.10675
Factoring	50	1.00	5.00	2.6800	1.03884
Valid N (listwise)	50				

Table 4.45

Most common duration of loans granted to SME financing

	N	Minimum	Maximum	Mean	Std. Deviation
Medium Term	50	3.00	5.00	3.9400	.54995
Long Term	50	2.00	5.00	3.9400	.61974
Short Term	50	1.00	5.00	3.9000	.61445
Revolving	50	1.00	5.00	3.8800	.55842
Valid N (listwise)	50				

Table 4.46

Preferred type of security by banks

	N	Minimum	Maximum	Mean	Std. Deviation
Cash	50	3.00	5.00	4.5800	.53795
Property	50	3.00	5.00	4.5800	.53795
Shares	50	1.00	4.00	2.5600	.76024
Plant and Machinery	50	1.00	5.00	2.4400	.92934
Receivables	50	1.00	4.00	2.1000	.86307
Valid N (list wise)	50				

Wattanapruttipaisan, T. (2003) also indicated that land and buildings are most required but few SMEs can provide a good title to real assets which are free from encumbrances especially SMEs in developing countries. Further in the literature review, it is noted that bank's lending direction are skewed towards the availability of fixed assets offered as collateral, a good business plan and for a lesser extend personal guarantee and plant & machinery and equipment purchased.

4.4 Summary of Research Results

The research results show that in the first part the banking policies and regulations do affect SMEs access to financing. The second part which deals with the bank's process and consideration in evaluating the SME loan application highlighted the affect of documentation towards SME's access to financing. Part three and the last part shows that government initiatives and lending technologies have an affects to the SME's access to financing. In brief, the analysis revealed that the access to financing by the SMEs is depending on the overall attitude of the Banks.