CHAPTER V

A CASE STUDY OF THE CREDIT GUARANTEE CORPORATION'S ACCESSIBILITY AND LENDING OPERATIONS IN SEREMBAN

According to the 1993 Annual Report of the Association of Banks in Malaysia, there were 51 banking offices of commercial banks (inclusive of their respective branches) in Negeri Sembilan; out of which 24 were situated in Seremban town and the outskirt of Seremban town which include Paroi Jaya, Ampangan, Rasah and Rahang. Of the 24 banking offices, 19 were domestic banks and the rest foreign banks.

Since the analysis is until the year 1993, finance companies were not included in the survey because they only started lending under the CGC-LFHPT schemes in April 1994 and New PGS in October 1994.

The sample size chosen was 50% of all commercial banking offices in the heart of Seremban town as well as the outskirt of Seremban town like Paroi Jaya, Ampangan, Rasah and Rahang. Out of the 19 local banking offices, 9 were selected; three big, three medium and three small-sized banking offices selected based on their total assets as at June 1993. Out of the

1. Information Department (Seremban District)
2. As up to December 31, 1993.
3. See Appendix VI.
five foreign banking offices, three were selected - one big, one medium and one small-sized banking offices. The sample size and the selection of the participating banking offices were thought to be representative of banking offices in Seremban.

All selected banks responded to my requests for the in-depth interviews. The respondents were loan officers of the selected banks. All of them had between 2 to 13 years' experience in handling CGC loans. All of them were extremely cooperative and the average time taken to interview each officer was about 1 hour 45 minutes.

4.1 Accessibility

Table 5.1: Number and Amount of Loans Approved by Sectors as at

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>NO. OF BORROWERS</th>
<th>%</th>
<th>AMOUNT (RM m)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>127,610</td>
<td>72</td>
<td>3,063</td>
<td>80</td>
</tr>
<tr>
<td>Agriculture</td>
<td>35,114</td>
<td>20</td>
<td>312</td>
<td>8</td>
</tr>
<tr>
<td>Industries</td>
<td>13,349</td>
<td>8</td>
<td>460</td>
<td>12</td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>8</td>
<td>0</td>
<td>0.4</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>176,081</td>
<td>100</td>
<td>3,834.4</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: CGC (M) Annual Reports (1973 - 1993)

It can be noted from the statistics above that the commercial banks' services in providing capital are necessary even in sectors where the Government has established specialised institutions like MIDF, Bank Pembangunan and Bank Pertanian to cater for the needs of these sectors, in view of the fact that
the commercial banks with their wide network of branches could cover areas where these institutions could not cover.

Hence, CGC plays a very important role especially in helping the SMEs and to enable it to do this, it must be accessible. A general procedure to apply for such a loan is as follows:

An applicant should approach a commercial bank to fill in three copies of Form A (Application Form), a copy of Form B (Notification Form) and three copies of Form C (Guarantee Application). For those who do not know how to fill in the forms, the loan officer will fill in for them by conducting an interview with the applicant. Form B, which is the Notification Form should be sent by the commercial bank immediately to the CGC so that the CGC is aware of such an application and that it is in a position to keep an up-to-date record of the number of applications. If an application is rejected, Form A which is the Application Form, should be sent to the CGC, giving reasons for the rejection. A copy of this Form should also be sent to the applicant stating that his application has been rejected. It is important that this procedure be complied with by the commercial banks so that the CGC could give proper advice to the applicant and other interested parties should any enquiry be made with the CGC regarding the application. It is equally important that the applicant be advised of the status of his applications as the experience of the CGC was that in a number of cases banks had not responded to these applications by advising the CGC or the applicant when the applications were rejected resulting in complaints
being lodged on the banks.

On the other hand, if a loan application is approved, the bank is required to submit to the CGC three copies of the Form C (Guarantee Application Form) which should be duly completed, a copy of Form A (Application Form) and a copy of the relevant Borrower's Index Card which is green for agriculture, white for business and blue for industries so that the necessary guarantee formalities could be executed. When the loan is fully settled, the banks should send to the CGC a red index card indicating the full settlement of the loan.

One of the characteristics of successful lending schemes is to simplify application procedures to a minimum so that the loans become more accessible. In terms of repayment, there seems to be little difference between schemes that "write a book" on each applicant and try to guess who will be successful based on formal business criteria and those that reduce applications to one or two pages.

From the interviews, the survey results show that 92% of the loan officers agreed that the application procedures of the CGC loans are simple enough for the applicants. Basically, the LFHPT scheme has its standard forms prepared by the CGC (see Appendix VII) but the PGS scheme follows normal bank loan application forms of the respective banks.

However, 4% of the loan officers suggested that some

1. Ashe, J. et. al., op. cit., p. 19.
unnecessary information like the biodata of the borrower's spouse, whether he/she is the owner or tenant of his residence, whether he/she is staying with his/her family or relative and the period of stay at the address are irrelevant and another 4% suggested that information on a referee can be omitted to simplify the application form and reduce some paper work. However, if a referee is really necessary, it is better to get his/her supplier rather than a friend.

On the other requirements insisted by the banks in addition to those specified by the CGC to obtain a loan include the applicant must be an account holder of the bank for at least 6 months (25% of the sample size and most of them were the local banks), character reference from the borrower's suppliers (17% of the sample size and most of them were the foreign banks), whereas 33% answered that their requirements are similar to those of the CGC.

Despite the fact that the objective of CGC is to encourage financial institutions to lend to SMEs with no or inadequate collateral but with good ideas, expertise and initiative, there are still 25% of the banks (both local and foreign, mostly the big banks) who insist on collaterals. This might be related to the number of years of experience of being the loan officers and they are so used to being, and expected to be prudent in their financial management. Moreover, banks tend to regard collateral chiefly as a means of exerting pressure on the borrowers to make maximum efforts to repay.

Another characteristic of a successful lending scheme
is that it does not require complex business plans initially. An interest in better planning, management and record-keeping tends to emerge as small farms and micro-businesses begin to grow. Keeping in mind that only a small percentage of farmers, petty-traders and micro-manufacturers at this level keep any kind of written records, and that very simple systems, or perhaps none at all, are more appropriate, staff should not insist that tiny businesses reflect the organization and work style of larger firms.

The result from the survey shows that all the selected commercial banks agreed that no business plan is required when applying for the LFHPT loans. Information on a business plan may be acquired through a personal interview between the loan officer and the LFHPT applicant.

Nevertheless, for the PGS loans, 83% of the respondents said that they would require the applicants to show their business plans especially for new business set-ups involving big loan amount (those exceeding RM 50,000). However, if a firm has already borrowed say, a RM 300,000 loan and later needs to borrow another RM 50,000 due to its expansion, then, there is no need to produce another business plan. Also, for the already existing, on-going or business take-over, no business plan is required.

The third characteristics of a successful lending scheme is its ability to extend credit quickly. Loans applicants become discouraged if they have to wait for months before receiving services. They are accustomed to moneylenders who dispense
money, albeit at exorbitant rates, on the spot. Well-managed schemes extend credit in less than a month and often within a week. Subsequent loans are approved even faster.

From the survey, the average time taken for the applications to be approved ranges from 4 weeks to 6 weeks for foreign banks and big local banks but between 4 to 12 weeks for medium and small local banks. The difference is due to the relatively faster processing of loans by the foreign commercial banks and big local commercial banks (between 3 working days to 14 days) as compared to the small and medium-sized local commercial banks which take between 14 to 30 days. Under Clause 6 (4) of the CGC Scheme, the CGC can return the Guarantee Application Form to the commercial banks indicating its guarantee or otherwise within 14 days (except under abnormal circumstances where delivery is delayed or is lost in the post, or there is a long public holiday or other abnormal circumstances) so that the loans could be disbursed. However, the survey shows that the CGC took about a month to reply to the commercial banks although the time taken by CGC to do the processing is almost the same for all banks.

From the survey, it is found that the criteria of a successful CGC applicant include:

i. viability of the business which include good track record, good business prospect and not a 'sunset' business, and good location of the business;

ii. good management including experience and commitment in the

business. The success of a business depends very much on the manager's knowledge of his product, the market, technical and trade expertise. Poor management appears to be the major weakness and cause of failure of small businesses;

iii. good character of the applicant;

iv. for a new business, the ability to indicate clearly the purpose of the business and to justify the loan amount.

From the survey, it is found that an interested applicant should make some preparation before approaching a financial institution for a loan so as to avoid making 'to-and-fro' trips to the bank. They must bring along all supporting documents like copies of their identity cards, business registration certificate, profit and loss balance sheet (for existing business), business plan (for new business under the PGS loans) and if there is collateral, its evaluation report, and six months' current account statement, preferably with the same bank.

On the location of C6C loans disbursed by commercial banks in Seremban, the big and medium-sized local banks lent out 96% of their PGS loans to borrowers from Seremban area whereas the remaining 4% to borrowers outside Seremban area. The 4% are borrowers whose suppliers are in Seremban and go down to the town quite often or borrowers whose loan applications to banks in the outskirt of Seremban were rejected and had appealed to the Bank

6. PGS loans are usually given to companies (either sole proprietorships, partnerships or limited companies) where the owners may be males or females or all males or all females or males and females respectively.
Negara who directed the 'big brothers' (the big local banks) to accept them. The small-sized local banks lent out 100% of their PGS loans to the Seremban folks.

The big and medium-sized foreign banks have about 55% of their PGS borrowers from Seremban but the small-sized foreign bank has 100% of their borrowers from Seremban. This is because the big and medium-sized foreign banks ventured into new markets in the surrounding industrial areas in Negeri Sembilan like Nilai.

For the LFHPT loans, the big local banks have an average of 85% of their borrowers from Seremban whereas 60% of the LFHPT borrowers of big foreign banks are from Seremban. The small and medium-sized banks record a 100% LFHPT borrowers from Seremban. There are some interesting reasons for this. Firstly, because of being the 'big brothers', the big banks have to show good example by putting in some effort to promote the schemes to the petty traders in Port Dickson and also accepting deserving cases rejected by the smaller banks. Secondly, a significant promotional effort can be seen from the big foreign bank. The reason for this maybe potential borrowers conceive big foreign banks more as an international wholesaler financial institution rather than a small-man bank. This corporate image has produced unfavourable psychological set-back for the SSEs or the petty traders to approach the institution. Therefore, concerted efforts have been made to attract the SSEs to come forward through active and direct marketing activities especially when the bank has not
reached the minimum target for lending through CGC schemes nearing the end of the compliance period. Besides, it also shows that smaller banks do not promote the scheme.

About 75% of the LFHPT borrowers in big local banks are male, 60% of the LFHPT borrowers in medium-sized local banks are also male and in small local banks all LFHPT borrowers are male. For foreign banks, female borrowers exceed male borrowers by about 10 to 20%. This is partially due to the fact that some businesses are registered under their wives' names.

Only the big local banks participate in the New Entrepreneur's Fund (NEF) scheme and 100% of the NEF borrowers are from Seremban area. The NEF borrowers are registered companies and therefore whether the borrowers are male or female does not arise here. Out of the survey sample, only one big local bank participates in the Association Special Loan Scheme (ASLS) and 90% of the borrowers are from Seremban. Eighty percent of the ASLS borrowers are male. Ten percent of the ASLS are from outside Seremban and female made up 20% of the ASLS borrowers.

To see whether the schemes are expanding significantly in terms of areas and new borrowers, the response of the local banks is that the schemes are not expanding in terms of area. This is because the local banks are allowed to establish new branches in other parts of Negeri Sembilan and thus the people in the outskirts can approach their nearest bank. They also state that the schemes are expanding very slowly in terms of borrowers. This is due to the lack of promotion of the CGC schemes by the financial institutions.
As for the foreign banks, the big banks took the initiative to market the schemes especially the PGS scheme in industrial areas in Negeri Sembilan. Except for the Standard Chartered Bank, the foreign banks in Seremban do not have branches elsewhere in Negeri Sembilan. This is because the expansion of foreign banks is restricted by Bank Negara Malaysia where they are not allowed to establish new branches in any part of the country since 1973. Nevertheless, for the LFHPT loans, after the foreign banks had already achieved the minimum target, they will stop promoting the LFHPT scheme. The medium and small-sized foreign banks do not expand in terms of new areas but expand gradually in terms of new borrowers.

Generally, since there is a lack in promotional effort shown, a question on which party could promote the CGC schemes more effectively was posed to the officers. About 42% answered that the promotion of CGC schemes should be borne by both the CGC and the lending institutions. The CGC should set a general framework for promotion and the financial institutions can help to carry out the promotions. However, the CGC should set some incentives for the financial institutions for these promotions.

On the other hand, 33% felt that the lending institutions can promote the schemes more effectively because they deal directly with the borrowers. However, some voiced that there are no incentives from CGC for them to promote the schemes. One suggested that the CGC schemes themselves are good marketing tools for the financial institutions.
The remaining 25% said that the promotion should be either a joint effort between the CGC, commercial banks and Bank Negara Malaysia or by the CGC alone. Those advocating the former felt that the BNM should chip in some effort to ensure the effectiveness of the promotion whereas those advocating the latter would like the CGC to play a more active role.

Overall, the above results seems to indicate that the banks are never very enthusiastic about guarantee schemes. They may either lack confidence that their claims will be met if default takes place, or they may fear that satisfaction of their claims will involve considerable delay and costly administrative work.

The next issue concerns with whether the guarantee schemes are reaching the small businessman who really need the financing or going to the comparatively better-offs. It is generally believed that despite the declared preference for the relatively disadvantaged in the schemes, the largest loans often go to the better-off borrowers as their ability to absorb credit is generally higher. The current system thus provides most to those who need it least.

In the survey, only 33% agreed that the LFHPT loans go to the needy businessman who did not have adequate collateral whereas PGS loans go to the middle market business especially

7. The evidence collected from most developing countries – and also to some extent from developed countries – indicates that banks are never very enthusiastic about guarantee schemes (Levitsky, 1989)
those with small but developing business. Another 45% agreed that the loans go to both the deserving as well as non-deserving borrowers citing that the latter took them as a cheaper source of fund. A further 11% said that most of the loans go to the comparatively better-offs because they are more educated and can furnish the banks with all the necessary documents and also the bank officers are more comfortable with their character. The remaining 11% said that they focus more on small and medium-sized enterprises (SMEs) after achieving the minimum requirement stipulated by the Bank Negara Malaysia for the small businessman.

A further question on what the CGC can do to ensure that only those who have inadequate collateral get the CGC loans, only 17% gave their opinion. One suggested that the banks should try to search and identify these potential clients while another suggested that the CGC should go directly to these "needy people" and then refer them to the commercial banks.

5.2 Lending Operations

It is clear that so long as the commercial banks remain as vehicles for the CGC lending, the success of the schemes will be dependent on the efforts of the commercial banks in their direct lending activities to the SMEs. Perhaps it is fair not to ask that the CGC guaranteed lending be given the top priority in all the commercial bank lendings. Granted that the commercial banks are the shareholders of the CGC and also the beneficiaries of the guarantee payments under the CGC schemes, the commercial banks should play a more committed role in the development of the
CGC schemes. Moreover, in their daily quest for more profit, let all banks be reminded that they have also to fulfill their social responsibility to this country. In the 1985 annual report of the CGC the Chairman made a remark that "the true test of the success of the CGC must lie ultimately in demonstrating to the banks in particular, that doing business with small borrowers is good business."

In the survey, to ascertain the progress of each scheme, it is found that there is some progress in the PGS scheme. Eighty-three percent of the banks agreed that the amount lent under PGS has increased gradually. The remaining 17% said that the amount lent under the PGS has remained the same every year over the past three years (or there has been no increase) due to the slow economic development in Seremban or there were no newcomers (referring to new investors) or they have already achieved the minimum target and thus have stopped lending under PGS.

Eighty-three percent of the survey sample also agreed that the average loan size of the PGS loans is increasing whereas 17% said that the average loan size of the PGS loans either has not changed or has not increased much. This might be due to the increasing demand for bigger loan amounts in line with the brisk economic development of our country. Moreover, the PGS offered a reasonable return to the banks as interest rates were no longer fixed (as under the BGS and SLB) but pegged to float at 1.5% points above the declared Base Lending Rate of the individual
commercial bank, thus enabling the participating banks to earn a reasonable return on the CGC backed loans, resulting in banks more willing to lend under the PGS scheme.

The loan repayment for the PGS scheme was either good or improving (84%), or satisfactory (8%) or not improving (8%). Generally, it can be said that the loan repayment for the PGS scheme was good due to the current good economic condition of the country.

Only the local banks participate in the NEF (New Entrepreneur’s Fund). They all agreed that the amount lent under NEF has been increasing slowly each year.

The response regarding the loan amount of LFHPT was mixed. Sixty percent said that the loan amount is either stagnant or decreasing due to stringent ways of selecting borrowers and disinterest among banks in lending to the hawkers and petty traders because of their high default rate. In the event that an account subsequently turns bad and doubtful, commercial banks are required to take legal action to the extent of pursuing bankruptcy proceedings. In certain cases the cost involved in such a legal action may exceed the amount claimed and as all legal costs incurred are to be met by the bank, it is placed in an awkward position whereby it has to decide whether to undertake such legal action or to write off the debt. (For loans which do not exceed RM 3,000, banks are required to take legal actions only on one out of ten cases. The decision as to which of the ten cases should legal actions be taken on is left to the discretion of the banks concerned.)
Another 40% said that the amount lent under LFHPT scheme is increasing especially after November 1992 where an "adoption" scheme was introduced under the LFHPT '92 whereby each branch office of all participating financial institutions is required to adopt and grant credit facilities to at least 10 hawkers or petty traders under the scheme.

The average loan size of the LFHPT was more or less the same (not increasing) at around RM 2,000 to RM 10,000 although the LFHPT scheme was revised to become LFHPT '92 on November 1, 1992, whereby the maximum loan amount was increased from RM 5,000 to RM 10,000.

Most bankers agreed that loan repayments for the LFHPT '92 scheme are improving (84%) but 8% said that there was no improvement and another 8% said that the loan repayments have deteriorated. The reason for the improvement in loan repayments is due to the more stringent selection of borrowers and the good economic condition of the country also contributed to this.

On possibilities of improving loan repayments, a further question on whether the banks give incentives for prompt repayment was asked. Eighty percent replied that is no incentives are given but a minority of them said that the incentive is that those who pay promptly might be considered for future additional loans.

On the question of what actions are taken to recover problem accounts, almost all bankers quoted the usual procedures as:
i) ring up to remind the borrowers, then

ii) send them reminders and if the first two actions did not work, then

iii) pay them a visit and if the three actions did not work, then

iv) the bank will take legal action to the extent of bankruptcy proceedings.

However, for those banks that insisted that their CGC borrowers hold an account with them, the bankers will deduct the defaulted loan repayment amount from the borrowers' accounts. Nevertheless, there is one small local bank which is more sympathetic towards the small borrowers. The bank would usually get to know the problem of its clients first and then would try to accommodate the delay during which it would let them come up with another reasonable repayment plan.

In making claims on the CGC, the guiding principle as stated in Clause 8 (5) of the Scheme is that:

"The lending institution shall in respect of the guaranteed account, continue to exercise the same diligence in recovering the dues in all ways open to it as it might have exercised if no guarantee had been furnished by the Corporation."

The CGC has provided guidelines and procedures to be complied with by the banks in submitting their claims but prior to this, the banks are required to submit to the CGC a monthly report of the accounts that they feel are doubtful. In this report, the banks are not required to submit a return on all the irregular accounts as this would create a misleading picture, but only those that they feel might become bad and doubtful after
various attempts had been made to recover them from the borrowers, thereby leading to claims being made on the CGC. All claims on the Corporation would have to be made on the prescribed forms which are different from the forms on doubtful accounts and are available from the CGC on request.

Out of the survey sample, 50% said that they had no experience in getting compensation for defaulted loans from CGC. Interestingly, all small-sized banks be it foreign/local did not have any experience in making the claims. Another 50% discussed about the problems of getting compensation. The main problems center on the efforts to claim from CGC. For this, the banks have to go through a lot of procedures which they found very tedious and time-consuming. For example, when a particular CGC facility turns bad and all avenues of recovery from the debtors have been exhausted (like sealing off their collateral/property), the bank concerned would invoke the CGC guarantee and lodge a claim against the CGC for 70% (P68 scheme) or 100% (LFHP'T '92 scheme) of the amount in default as provided for under the schemes. A claim is lodged on the CGC through the

Head Office of the bank by using the Claim Form E together with Form E1 (if the outstanding balance is not more than RM5,000) or Form E2 (if more than RM5,000) and to be accompanied by the following documents:

i. the external auditors' certificate, certifying that the account has been classified as bad and doubtful of recovery and a provision of not less than 40% of the amount out-
standing has been set aside by the bank,

ii. certified true copies of a full set of the ledger cards in respect of the loan/overdraft account from the date of release of the facility up to the date of submission of claim.

iii. the original copy of the Form C, i.e. the guarantee document executed by the CGC on the facility.

With the introduction of the new claim forms effective from July 1, 1985, only all eligible claims with outstanding balances in excess of RM5,000 need to be inspected by way of 'on-site' inspection by the CGC claims inspectors of the credit files and other related records maintained by the claimant banks. To facilitate such inspections, claimant banks are to keep all the relevant documents as listed in Appendix XII and to make them readily available to the CGC officers assigned to carry out the claims inspections.

Upon completion of inspection, individual reports are compiled, outlining a summary of the history of the credit facility, the findings made and the recommendations of the inspecting officers on the fate of the claims. As for claims of RM5,000 and below, the 'on-site' inspections are dispensed with and individual reports will be compiled based on information supplied by the claimant banks in the Form E1. However, in exceptional instances where verification of certain pertinent information could only be undertaken by way of 'on-site' inspection of the actual records, an inspection will be conducted on the claimant bank.

Thus, from the above explanation, we can understand why
some bankers said that the procedures are tedious and time-consuming. However, one respondent said that there is no problem with the CGC but that the difficulties arise because the claims have to go through their Headquarters; since the Headquarter only submits the claims twice a year (in June and December each year), the claimant bank which cannot provide the complete information, will have to wait for the next six months. Another respondent admitted that the claims for defaulted loans from CGC were rejected because of the bank’s own fault in that the appraisal of loan applications were not thorough enough.

From the literature review, many complained about the difficulty in getting the full amount of claims lodged from the CGC. From the field study, most of the respondents agreed that the situation is improving and that they could recover between 70% to 100% of the amount of claims lodged with the CGC. This may be due to the more selective/thorough appraisals.

The average default rate of the PGS loans of the survey sample was between 0% to 10% for PGS loans. Comparatively, the local banks have a higher PGS default rate i.e. between 0% to 10% whereas the foreign banks, a lower default rate; 0% to 5% only. Loans under the NEF have an average default rate of 10%. Loans under the LFHPT have an average default rate of between 0% to 80%. In the survey, the small banks have 0% default rate for the LFHPT ‘92 loans. Loans under the ABLS ‘92 have a high default rate of 80%. (According to the 1991 CGC (M) Berhad Annual Report, the default rate in some trade associations have even
reached a high 95%!

A survey on the contributory factors for default indicates that one of them is inadequate communication given to the applicants concerning the terms governing the scheme. As a result of this, many applicants had the impression that the loans are from the government and that they were fully guaranteed by the Corporation. Publicity given to the scheme also prompted many applicants who were relatively newcomers to the trade apply for loans to undertake such activities. Other factors include business failures (genuine cases) due to mismanagement, the closure of a business as a result of the death of the borrower, attitude of the borrowers in which they knew that if the amount is small (usually below RM5,000, the bank would not take legal action against them); the attitude of trade associations' leaders who did not emphasize to their members on prudence in the utilization of loan proceeds for the very purpose they were intended; and lack of responsibility in servicing the loans on a timely basis. Moreover, bankers who admitted that they had no time or found it difficult to monitor the loans approved especially to the mobile businesses such as "pasar malam" operators also contributed to the default in loan repayments.

Concerning the terms of loans and the loan size, on the average, about 50% of the PGS loans were using the overdraft facilities of the various banks whereas 33% used term loans of

1. Note that since the interest rate for CEC loans is relatively lower, most borrowers would prefer to prolong the term of their loans.
more than five years and 17% used term loans of between one to five years. The PGS loan sizes of the big local banks fell between the range of RM10,000 to RM50,000, the medium-sized local banks between RM20,000 to RM200,000 and the small-sized local banks between RM10,000 to RM100,000. The above shows that it is not necessarily that big banks disbursed the largest amount of PGS loans, in fact, of the local banks, the medium-sized banks have lent out the larger loan size of the PGS loans.

For the foreign banks, loan size of the PGS loans was between RM20,000 to RM500,000 and comparatively, the larger of the size of the PGS loans were also disbursed by the medium-sized foreign banks. Overall, it is found that the foreign banks are more interested in lending out bigger PGS loans than the local banks.

For the NEF scheme, 100% of the loans were in the one to five years term loans. Similarly, the LFHPT '92 and ASLS '92 loans were also in this category. Most LFHPT '92 loans fell within the period of repayment of between 99 weeks to 138 weeks.

On whether the participating banks have their own scheme (other than the CGC schemes) for the small business, 58% answered 'No' and 42% said that they have special schemes for the SSEs or the SMIs. Local banks either use the factoring method or loan scheme which require one guarantor whose income must be at least RM2,000. The loan size is between RM10,000 to RM50,000 and they charge an interest rate of BLR plus 3% (a higher interest rate as compared to the PGS loan which charge a rate of BLR)
plus 1.5%). The period of repayment is between 3 years to 5 years and so far the repayment has been good. This scheme in one of the banks has attracted about 20 borrowers.

The foreign banks said that their SMI schemes charge a higher interest rate (BLR plus 2 to 4%) and they ask for a higher collateral requirement. Correspondingly, the margin of finance is also higher. The loan size is between RM50,000 to RM100,000. The repayment has been satisfactory and these schemes have attracted about 60 borrowers in one bank and about 200 borrowers in another bank.

5.3 Some Views Of Lending Banks

Lessons learned in lending under the CGC schemes are since the borrowers especially the hawkers and petty traders take the loans lightly and not committed to repay the loans since they thought or rather would like to think that the loans are free money from the Government, talks or seminars should be held more often by the CGC (M) Bhd. and the Association of Banks in Malaysia to create awareness so that they could become responsible borrowers. Since these borrowers feel more comfortable among themselves, perhaps trade associations or the chambers of commerce can play a more significant role. If we assume that the loan recipients, with their network of friendships and their relationships within the association, can take a major role in promoting and assessing loans applicants and even collecting loan repayments. Borrowers can form their own groups and provide each other with advice and assistance, thereby reducing operational
costs significantly. At the same time, this intensified interaction serves to develop a commitment to the scheme and to each other.

Another lesson learned is regarding the pegging of interest rates of the CCG scheme. Often ceilings on interest rates are established as usury laws with the good intention of preventing the small businessman from being overcharged. However, they also can prevent commercial banks from recovering their costs for administering such small loans. Therefore, the lifting of interest rate ceilings may enable the flow of capital to small enterprises be increased by providing a profit incentive to the commercial banks. This move was well-received by all the participating commercial banks. According to the respondents, from the perspective of clients, quick credit is more important than a low interest rate. For very small businesses, the percentage charged on the loan is rarely a crucial factor in business profitability. On the other hand, an adequate interest rate ensures continuing bank interest in the scheme if administering these loans is profitable. Also, high interest loans tend to ensure that the needy, and not those accommodated elsewhere in the formal credit system, receive the loans.

On suggestions to make the CCG schemes more effective,

1. For example, the 9% interest rate ceiling was removed following the new lending guidelines issued on March 30, 1992 and the interest rate on new PGS loans approved from April 1, 1992 was pegged to float at 1.5% points above the BLR of the respective banks.
most of the respondents agreed that seminars like the CGC Seminar 1979 and the CGC Seminar 1985 organized by the Association of Banks in Malaysia (ABM) and CGC (M) Bhd. were very useful to get a better feel of the problems of lending to SSEs, to provide information on the Corporation's experience in processing claims, and to exchange views on the bankers' experiences in the operation of the CGC schemes. These seminars identified many practical problems at the ground level and many of the suggestions for improvement was taken into consideration to make recommendations for further changes and thus making the CGC scheme more effective. Besides, three pilot seminars have been organised at the district level by the CGC (M) Bhd. in Selangor and Negeri Sembilan with participation by Bumiputra entrepreneurs as well as the banks operating in the respective areas, to publicise the assistance and facilities offered by the CGC to promote the development of the SSEs and SMIs. The bankers suggested that seminars like the above should be held more often.

The lack of promotion also hinders the healthy growth of the schemes. Presently, the bankers are not too enthusiastic about the CGC schemes because commercial banks used as vehicles to extend credit to the SMEs face a few problems both from the BNM/CGC (M) Bhd. as well as from the borrowers. Firstly, if the commercial banks are only allowed to charge a low interest rate (lower than the market rate), it may prevent banks from recovering their costs (since lending to many small borrowers are comparatively more costly) and thus discourage capital from flowing to the target group (the SSEs and the SMEs). As men-
tioned earlier, assessability may be more important than a low interest rate because for the very small businesses, the percentage charged on the loan is rarely a crucial factor in business profitability. Therefore, an adequate interest rates ( at market rate or even higher ) will sustain the banks' interest in the schemes. Also, high interest loans tend to ensure that the needy, and not those accommodated elsewhere in the formal credit system, receive the loans.

Secondly, lending to small borrowers are more risky if the selection of applicants was not thorough. This is mainly due to the attitude of these borrowers as mentioned earlier. Thirdly, in the event of a default, the claims procedure is quite tedious - the bankers will have to trace from the stage of appraisal of the loan application up to the recovery efforts made before the claims is lodged. If the above three problems could be corrected, then the bankers will be more willing to help to promote the schemes.

Another suggestion concerns loans below RM30,000 where no security is required. This may not be very attractive to the commercial banks. The bankers may like to maintain the arrangements that loans be guaranteed by two or more persons. This, for the banks, is the safer way because, in case of default, the bank will be able to get full repayment from the guarantors while CGC guarantees only part of the loan ( PGS up to 70% ). However, in my opinion, if the above is allowed to happen, it will defeat the purpose of having CGC to guarantee loan within the RM30,000
category. The banks should be prepared to accept the lesser risk, as compared to the risk taken by CGC, in order to encourage and promote SSEs and SMEs.