CHAPTER VI

CONCLUSIONS

Credit guarantee schemes appear to be an attractive form of support for small enterprise development in developing countries like Malaysia, where non-availability of finance has been a serious constraint in developing the small and medium-scale enterprises. However, guarantee schemes only have meaning to the extent that the commercial banking system is ready to participate in the scheme. Schemes in which the only participants are publicly-funded development finance institutions have little meaning, since ultimately the losses of these institutions must be made good from the public treasury.

Evidence from developed countries is that the government, the business community, and the banking system must all assume some part of the risk. The Credit Guarantee Corporation (M) Berhad schemes cannot and should not completely absolve banks from taking a normal level of risk as such risk-taking is acceptable banking practice. Similarly, its credit guarantee schemes should not be expected to provide finance for projects of doubtful viability. Credit guarantee backed by public funds like the LFHPT '92 and ASLS '92 schemes should not eliminate the need for the lender where possible, to obtain some form of personal guarantee of collateral.

Finally, the CGC (M) Berhad schemes should be launched only when it is recognized by all concerned - and specifically the guarantee organization that the scheme will entail costs. The CGC (M) Berhad must accept that it is entering into contracts on which payments will have to be paid. All its guaranteee schemes should be monitored constantly and changes should be made when necessary in the proportion of risks, participation and guarantee fees. These changes, of course, should apply only to future commitments as any attempt to change the rules on guarantees already approved would seriously undermine confidence in the schemes.

Summing, up, it can be stated that guarantee schemes provided by the CGC (M) Berhad can represent an important financial instrument available to compensate for market imperfections which may result in the small and medium-scale enterprises, particularly the micro-enterprises[1] being deprived of access to institutional finance. As a financial instrument which can play an important role in redistributing credit, the Credit Guarantee Corporatio (M) Berhad, should aim at self-sufficiency and financial independence over the course of time. Its fund will need to be capitalized adequately to meet its obligation (i.e. the claims). All CGC schemes should be designed with a financial plan which should set down the capital needed for the guarantee fund and the estimated level of claims expected to be paid out. This should determine the total amount of guarantees that can be undertaken at the projected level of claims, and of the fund

---

1. This refers to the smallest of small businesses ; the hawkers and petty traders.

available. This provides the basis for setting the fees, in light of other revenues available and the administrative costs needed to achieve the estimated level of operations.

If managed efficiently, with a realistic level of fees and revenues from investments, and if operated with a business approach and assuming only prudent risks, the Credit Guarantee Corporation (M) Berhad should be able to achieve financial autonomy while fulfilling its main purpose in assisting small and medium scale enterprises to obtain the finance they need for their development as well as for the country's development.