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# Measuring the Effectiveness of Credit Guarantee Schemes: Evidence from Malaysia

*Grahame Boocock and Mohd Noor Mohd Shariff*

## Introduction

Small and medium-sized enterprises (SMEs) are considered to be an engine for growth in both developed and developing countries. The benefits of a vibrant SME sector include: the creation of employment opportunities; the strengthening of industrial linkages; the promotion of flexibility and innovation; and, the generation of export revenues (Harvie and Lee, 2001; Lerner, 2002; Mensah, 1996). In addition, there is growing acceptance of the role that SMEs play in wider social and economic restructuring (Smallbone and Welter, 2001). In order to capture these economic and social benefits, virtually all governments offer soft business support to this sector (Wren and Storey, 2002). There has also been increasing utilization of more traditional forms of hard support, notably credit guarantee schemes (Levitsky, 1997a), whereby financial institutions are encouraged to make loans available to smaller enterprises, on the understanding that a government or quasi-government body will reimburse a percentage of the loan should the firm default.

The contribution of SMEs in Malaysia has been acknowledged since the early 1980s (Chee, 1992), and the Government has introduced a variety of agencies and schemes to promote the development of this sector. Bank Negara Malaysia (BNM – the Central Bank) confirmed (BNM, 2001a: 8) that

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