THE MECHANISMS AND OPERATIONS OF CONVENTIONAL AND ISLAMIC GUARANTEE SCHEMES: A CASE STUDY OF CREDIT GUARANTEE CORPORATION MALAYSIA BERHAD

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ABSTRACT

The purpose of this paper is to evaluate and compare the operation and mechanism of CGC's Islamic and conventional guarantee scheme. Descriptive, analytical and comparative analyses are used based on data derived from the annual reports, previous studies and CGC's website. The booming phenomenon of Islamic finance especially in Malaysia has influenced the CGC to come up with Islamic guarantee scheme, parallel with the demand of Islamic financing products in the country. However, since the scheme was introduced by the Corporation, in general, the performance of the Islamic guarantee scheme has not performed as expected and has not been as competitive as the conventional guarantee scheme, even though the scheme has recorded positive growth for its products since the inception. This paper explores the other side of Islamic finance which is credit guarantee, which is not many studies have been done on it. The availability of empirical data would be an added value towards this kind of study. This paper provides insights into the implementation of Islamic guarantee scheme in Malaysia, which can be a source of reference for other organizations or countries in formulating the similar concept of guarantee. This paper is one of its kinds in evaluating and investigating the process of Islamic guarantee scheme. The finding presented would be good information for the practitioners as well as for the academicians and students.

Keywords – Islamic finance, credit guarantee, CGC, Credit Guarantee Corporation, SMEs