



**UNIVERSITI PUTRA MALAYSIA**

**RANKING OF 5Cs IN CREDIT EVALUATION AND BANKERS'  
PERCEPTION OF COMMERCIAL BANK LENDING TO  
MALAYSIAN SMALL – SCALE FARMERS**

**MOHAMAD IRUWAN BIN GHUSLAN**

**GSM 2011 8**

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BANKERS' PERCEPTION OF COMMERCIAL BANK  
LENDING TO MALAYSIAN SMALL – SCALE  
FARMERS**

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**MOHAMAD IRUWAN BIN GHUSLAN**

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OF COMMERCIAL BANK LENDING TO MALAYSIAN SMALL – SCALE  
FARMERS**

**By**

**MOHAMAD IRUWAN BIN GHUSLAN**

**Thesis Submitted to the Graduate School of Management,  
Universiti Putra Malaysia, in Partial Fulfillment of the  
Requirement for the Degree of Master of Science**

**March 2011**

Abstract of thesis presented to the Senate of Universiti Putra  
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**MOHAMAD IRUWAN BIN GHUSLAN**

**March 2011**

**Chairman: Junaina Binti Muhammad, PhD**

**Faculty: Graduate School of Management**

The success of small farmers in business depends on their ability to tap credit, especially from commercial banks. The credit obtained from commercial banks can help farmers to modernize their agricultural activities (Bhat, 1982; Asiedu and Fuso, 2003). Therefore, there is a greater need for the commercial banks to provide credit to this vital sector of the economy since commercial banks are the largest and the most important credit institutions in Malaysia. However, the importance of Malaysian commercial bank as a source of financial to small agricultures has been less emphasized. Thus, the number of approved loans given to small farmers by Malaysian commercial banks is still considerably low due to the asymmetric information problems between the bankers and farmers.

Therefore, the first objective of this study is to examine the importance of 5Cs credit

evaluation on bank lending to the small-scale farmers. These 5Cs of credit evaluation have been reviewed in previous literatures to help banks evaluate borrower's creditworthiness. Second, this study also attempts to analyze the commercial bankers' perceptions on lending decisions to small-scale farmers.

To achieve the objectives of the study, two different sets of data are collected, which consist of survey and interview sessions. A total of 202 respondents (bank branches) randomly selected from the peninsular of Malaysia while the interview sessions were conducted with fifteen credit officers and credit managers. To determine the relationship between the 5Cs of credit evaluation, banker's perception and agricultural lending decisions, this study uses the Multiple Regression Analysis (MRA) to test the hypotheses.

The findings suggest that the five predictor variables which is character, capacity, condition, capital, and bankers' perceptions significantly influence the bank lending decision to small-scale farmers except for collateral. The results of this study show that capital is the most important rank of 5Cs in influencing the lending decision to small-scale farmers followed by condition, capacity, character and collateral. Apart from the importance of 5Cs, the result also shows that banker's perception gets the highest beta coefficient among variables selected confirms that not only 5Cs may influence on lending decision but also most importantly is the banker's perception.

Despite the importance of 5Cs credit evaluation to overcome the problem of asymmetric information between banker and farmer which would improve the number

of loan granted to this sector, loans given by commercial banks to the agricultural sector is still low. Therefore, to increase the number of loan to this sector, this study may suggest a few policies and strategies that will benefit many parties including banks, government as well as farmers. First, this study suggests commercial banks to maintain 5Cs credit evaluation with some adjustment to suit the farmer's ability, credibility and financial standing. Secondly, the government should also allocate more funds and incentives equally to both Agro Bank and commercial banks and should ensure that small-scale farmers have access to these incentives at a lower cost and in a more effective way similar to the ones provided by Agro Bank. Thirdly, the commercial banks are required to extend at least 10% of their total loan provisions to the agriculture applicants to show their strong support in this vital sector. Finally, the collaboration between banks and SME Corp. Malaysia under guidance of banking regulators is needed to be encouraged because the problem of asymmetric information between bank and farmer can be reduced through credit bureaus.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra  
Malaysia sebagai memenuhi sebahagian keperluan untuk ijazah  
Master Sains

**KEDUDUKAN 5C DALAM PENILAIAN KREDIT DAN TANGGAPAN  
PEGAWAI BANK TERHADAP PINJAMAN BANK PERDAGANGAN  
KEPADA PETANI BERSKALA KECIL DI MALAYSIA**

Oleh

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Kejayaan para petani kecil dalam perniagaan bergantung kepada keupayaan mereka untuk memperolehi kredit terutamanya daripada bank perdagangan. Kredit yang diperolehi daripada bank perdagangan boleh membantu para petani memodenkan aktiviti pertanian mereka (Bhat, 1982; Asiedu and Fuso, 2003). Oleh itu, terdapat keperluan yang lebih besar bagi bank perdagangan untuk menyediakan kredit kepada sektor ekonomi yang penting ini, memandangkan bank perdagangan adalah institusi kredit yang penting dan terbesar di Malaysia. Walau bagaimanapun, kepentingan bank perdagangan di Malaysia sebagai sumber pembiayaan kepada sektor pertanian kecil kurang diberikan penekanan. Maka, bilangan pinjaman yang diluluskan dan diberi kepada para petani kecil oleh bank perdagangan di Malaysia ini masih agak kecil di sebabkan masalah maklumat tidak simetri antara bank dan petani.

Oleh itu, matlamat pertama kajian ini adalah untuk mengkaji kepentingan penilaian kredit 5C terhadap pinjaman bank kepada para petani kecil. Penilaian kredit 5C ini

telah diulas dalam bahan ilmiah sebelum ini untuk membantu bank menilai kewibawaan kredit peminjam. Kedua, Kajian ini juga cuba menilai sama ada persepsi pegawai bank mempunyai sebarang pengaruh terhadap keputusan untuk memberi pinjaman kepada para petani kecil.

Untuk mencapai objektif kajian ini, dua set data berbeza dikumpulkan yang terdiri daripada soal selidik dan sesi temu bual. Sejumlah 202 responden (cawangan bank) telah dipilih secara rambang dari semenanjung Malaysia sementara sesi temu bual pula dikendalikan dengan lima belas orang pegawai kredit dan pengurus kredit. Untuk menentukan hubungan antara penilaian kredit 5C, persepsi pegawai bank dan keputusan pembiayaan pertanian, kajian ini menggunakan kaedah analisis regresi untuk menguji hipotesisnya.

Penemuan mencadangkan bahawa lima pemboleh ubah yakni sifat, kemampuan, keadaan, modal dan persepsi pegawai bank mempunyai pengaruh yang ketara terhadap keputusan pinjaman kepada para petani kecil kecuali kolateral. Keputusan daripada kajian menunjukkan bahawa modal merupakan faktor yang terpenting dalam mempengaruhi keputusan pinjaman kepada para petani kecil diikuti dengan keadaan, kemampuan, sifat dan kolateral. Selain daripada kepentingan 5C, keputusan juga menunjukkan persepsi pegawai bank mendapat beta koefisien yang tertinggi antara pemboleh ubah yang dipilih, ini membuktikan bukan sahaja 5C yang mempengaruhi keputusan pinjaman tetapi juga yang terpenting adalah persepsi pegawai bank.

Meskipun keperluan 5C itu adalah penting untuk mengatasi masalah maklumat tidak



simetri antara pegawai bank dan petani yang mana boleh meningkatkan bilangan pinjaman kepada sektor ini, pinjaman yang diluluskan oleh bank perdagangan kepada sektor pertanian masih agak kecil. Oleh itu, untuk meningkatkan bilangan pinjaman kepada sektor ini, kajian ini boleh mencadangkan beberapa polisi dan strategik yang akan memberi manfaat kepada banyak pihak termasuklah bank, kerajaan dan petani itu sendiri. Pertama, kajian ini mencadangkan kepada bank perdagangan untuk mengekalkan 5C dengan sedikit perubahan bagi menyesuaikan kebolehan, keupayaan dan kedudukan kewangan pihak petani. Kedua, kerajaan juga hendaklah memperuntukan lebih banyak dana dan insentif secara saksama kepada bank pertanian dan bank perdagangan dan perlu memastikan para petani kecil mendapatkan insentif berikut pada kos yang rendah dan dengan cara yang lebih berkesan sama seperti yang disediakan oleh Agro Bank. Ketiga, bank perdagangan perlu meningkatkan sekurang-kurangnya 10% daripada jumlah peruntukan pinjaman kepada pemohon pertanian untuk menunjukkan sokongan yang kuat kepada sektor yang penting ini. Akhir sekali, kerjasama antara bank dan SME Corp. Malaysia di bawah panduan peraturan perbankan perlu digalakkan kerana masalah maklumat tidak semetri antara bank dan petani akan dapat dikurangkan melalui biro kredit.

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I certify that an Examination Committee met on **15 March 2011** to conduct the final examination of **Mohamad Iruwan Bin Ghuslan** on his **Master of Science** thesis entitled “**Ranking of 5Cs in Credit Evaluation and Bankers’ Perception of Commercial Bank Lending to Malaysian Small-scale Farmers**” in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulations 1981. The Committee recommends that the candidate be awarded the relevant degree. Members of the Examination Committee are as follows:

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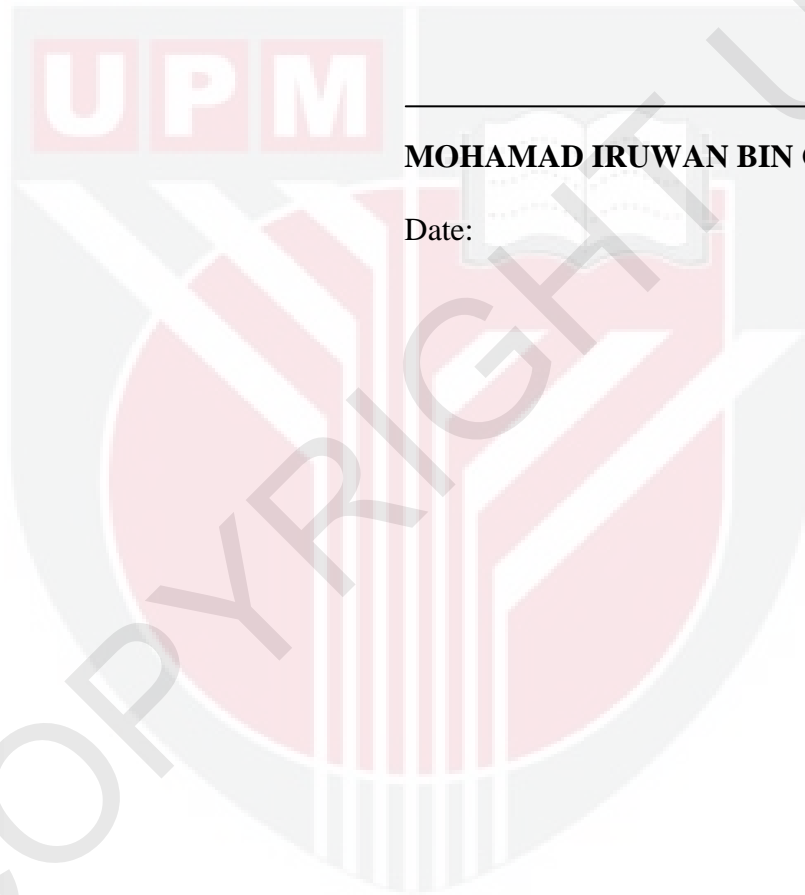
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## DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at UPM or other institutions.



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**MOHAMAD IRUWAN BIN GHUSLAN**

Date:



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