



**UNIVERSITI PUTRA MALAYSIA**

***EFFECTIVENESS OF MICROCREDIT FINANCING IN ENHANCING  
WELL-BEING OF MICRO ENTERPRISE ENTREPRENEURS IN  
SELANGOR,  
MALAYSIA***

**FATIN NAJIHA BINTI MOHD TAMMILI**

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WELL-BEING OF MICRO ENTERPRISE ENTREPRENEURS IN SELANGOR,  
MALAYSIA**

**By**

**FATIN NAJIHA BINTI MOHD TAMMILI**

**Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia, in  
Fulfillment of the Requirements for the Degree of Master of Science**

**August 2017**

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Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment of the requirement for the degree of Master of Science

**EFFECTIVENESS OF MICROCREDIT FINANCING IN ENHANCING  
WELL-BEING OF MICRO ENTERPRISE ENTREPRENEURS IN SELANGOR,  
MALAYSIA**

By

**FATIN NAJIHA BINTI MOHD TAMMILI**

**August 2017**

**Chairman : Rika Terano, PhD**  
**Faculty : Agriculture**

Poverty has been one of the pressing issues in developing countries like Malaysia. Microcredit institutions are effective tool for poor people can move out from poverty by improving their lives and giving them the provision of fund for their business. Amanah Ikhtiar Malaysia (AIM) was the first microcredit finance institution and one of the dominant players contributing to the poverty eradication in Malaysia by providing microcredit to the poor. Therefore, issues relating to the effectiveness of AIM on the well-being of AIM respondents need to be investigated.

Thus, the objective of this study is to investigate the effectiveness of microcredit finance program on poverty eradication as experienced by the AIM micro enterprise entrepreneur in Selangor.

Systematic random sampling was applied and sample 326 of respondents were interviewed by completing a structural questionnaire in AIM Selangor region. Six branches were approved to conduct the survey at their places in Selangor areas of Hulu Langat, Kuala Selangor, Barat Laut Selangor, Gombak, Selayang and Shah Alam and Klang. Descriptive analysis, chi-square analysis, factor analysis and multiple linear regression were used as a methodology to achieve the objective of the study.

Majority of respondents agreed that AIM have improved their well-being by deriving benefits from income generating activities, although most of them still generate less than RM1,501-RM2,500 per month. The results also indicate that respondents who were married with secondary education, age between 41-50 and involved in food stall business were significant characteristics that contribute to the increase in income and well-being.

Chi-Square analysis was employed to determine whether there is a significant association between demographic profile and the characteristics of successful micro enterprises. The result of the chi-square analysis shows that most of the demographic profile such as family workers and hired workers have significant association with income-investment ratio from microenterprise.

Exploratory Factor Analysis was used to explore the underlying factors that contribute to the effectiveness of microcredit financing. The 4 factors were identified as effectiveness in the microcredit program such as training and support, AIM and cooperation among respondents, role model, and AIM interest rate.

The multiple linear regression was applied to determine the effects of microcredit on income and well-being of respondents. The result of multiple linear regression provided support by conceptual framework to explain income and well-being. The result indicated that, for the first model (Model 1), number of household, family workers and hired workers are influential and affect the income. The second model (Model 2) of regression, training and support, AIM and cooperation among respondents, AIM interest rate, age and household numbers are influential and affect the well-being.

AIM plays an important role in meeting the financial needs of the respondents such as the provision of credits for enhancing their microenterprises and also serves as an effective tool for poverty eradication. Hence, AIM should find a way to increase income by improving the sustainability and growth. This is important as it has higher probabilities of improving family well-being and graduating AIM respondents above the poverty line income.

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

**KEBERKESANAN MIKROKREDIT KEWANGAN DALAM  
MENINGKATKAN USAHAWAN PERUSAHAAN MIKRO KESEJAHTERAAN  
DI SELANGOR, MALAYSIA**

Oleh

**FATIN NAJIHA BINTI MOHD TAMMILI**

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**Pengerusi : Rika Terano, PhD**  
**Fakulti : Pertanian**

Kemiskinan telah menjadi salah satu isu yang mendesak di negara-negara membangun seperti Malaysia. Institusi mikrokredit adalah alat yang berkesan untuk orang-orang miskin boleh keluar dari kemiskinan dengan meningkatkan kehidupan mereka dan memberi mereka peruntukan dana untuk perniagaan mereka. Amanah Ikhtiar Malaysia (AIM) merupakan institusi kewangan mikro yang pertama dan salah satu dominan menyumbang kepada pembasmian kemiskinan di Malaysia dengan menyediakan mikrokredit kepada golongan miskin. Oleh itu, isu yang berkaitan dengan keberkesanan AIM mengenai kesejahteraan responden AIM perlu disiasat.

Oleh itu, objektif kajian ini adalah untuk menyiasat keberkesanan kewangan mikrokredit kepada pembasmian.

Persampelan rawak sistematik telah digunakan dan sampel 326 responden telah ditemubual melalui borang kajian selidik berstruktur di rantau AIM Selangor. Enam cawangan di Selangor telah diluluskan untuk menjalankan kajian ini di tempat mereka iaitu Hulu Langat, Kuala Selangor, Barat Laut Selangor, Gombak, Selayang dan Shah Alam dan Klang. responden menunjukkan kepada AIM responden. Analisa deskriptif, analisa *Chi-square*, analisa *Exploratory Factor Analysis* dan analisa *Multiple Linear Regression* telah digunakan sebagai kaedah untuk mencapai objektif kajian.

Majoriti responden bersetuju bahawa AIM telah meningkatkan kesejahteraan mereka dengan memperolehi manfaat daripada aktiviti-aktiviti yang menjana pendapatan, walaupun kebanyakan daripada mereka masih menjana kurang daripada RM1,501-RM2,500 sebulan.

Keputusan ini juga menunjukkan bahawa responden yang berkahwin dengan pendidikan menengah, umur antara 41-50 dan terlibat dalam perniagaan gerai makanan adalah ciri-ciri penting yang menyumbang kepada peningkatan pendapatan dan kesejahteraan.

Analisa *Chi-Square* telah digunakan untuk menentukan hubungan antara profil demografi dan ciri-ciri perusahaan mikro yang berjaya. Keputusan dari analisa *Chi-square* menunjukkan bahawa kebanyakan profil demografi seperti pekerja keluarga dan pekerja upahan mempunyai hubungan yang ketara dengan nisbah pelaburan pendapatan daripada perusahaan mikro.

*Exploratory Factor Analysis* telah digunakan untuk mendedahkan faktor-faktor asas yang boleh mempengaruhi niat kepada keberkesanan dengan pembiayaan mikro Kredit. Terdapat 4 faktor telah dikenal pasti sebagai keberkesanan dalam program mikro Kredit seperti latihan dan sokongan, AIM dan kerjasama responden, contoh model, dan kadar bunga oleh AIM.

*Multiple Linear Regression* telah digunakan untuk menentukan kesan mikro pada pendapatan dan kesejahteraan responden. Keputusan *Multiple Linear Regression* memberikan sokongan oleh rangka kerja konseptual untuk menjelaskan pendapatan dan kesejahteraan. Keputusan menunjukkan bahawa, untuk model pertama (Model 1), bilangan isi rumah, pekerja keluarga, dan pekerja upahan berpengaruh dan memberi kesan kepada pendapatan. Model kedua (Model 2) *Multiple Linear Regression*, latihan dan sokongan, AIM dan kerjasama responden, kadar bunga oleh AIM, umur dan bilangan isi rumah berpengaruh dan memberi kesan kepada kesejahteraan.

AIM memainkan peranan penting dalam memenuhi keperluan kewangan responden seperti penyediaan kredit untuk meningkatkan mikro perniagaan mereka dan juga berfungsi sebagai alat yang berkesan untuk pembasmian kemiskinan. Oleh itu, AIM perlu mencari jalan untuk meningkatkan pendapatan dengan meningkatkan kemampuan dan pertumbuhan. Ini penting kerana ia mempunyai kebarangkalian yang lebih tinggi untuk memperbaiki kesejahteraan keluarga dan menamatkan pengajian AIM di atas pendapatan garis kemiskinan.

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Last but not least, I would like to thank all my lecturers from Department of Agribusiness and Bioresouce Economics for all their support during my study.



I certify that a Thesis Examination Committee has met on 10 August 2017 to conduct the final examination of Fatin Najiha binti Mohd Tammili on her thesis entitled "Effectiveness of Microcredit Financing in Enhancing Well-Being of Micro Enterprise Entrepreneurs in Selangor, Malaysia" in accordance with the Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 1998. The Committee recommends that the student be awarded the Master of Science.

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## LIST OF ABBREVIATIONS

AIM	Amanah Ikhtiar Malaysia
ACP	ACCION Comunitaria del Peru
APDC	Asia Pacific Development Centre
ASA	Association for Social Advancement
BPM	Bank Pertanian Malaysia
BRAC	Bangladesh Rural Advancement Committee
BRDB	Bangladesh Rural Development Board
BRI	Indonesian People Bank
CPI	Consumer Price Index
CPR	Center for Policy Research
DF	Degree of Freedom
DOA	Department of Agriculture
DOSM	Department of Statistical Malaysia
ELS	Entrepreneur Loan Scheme
EPU	Economic Planning Unit
EFA	Exploratory Factor Analysis
FELCRA	Federal Land Consolidation and Rehabilitation Authority
FELDA	Federal Land Development Authority
GDP	Gross Domestic Product
GLS	General Loan Scheme
GB	Grammen Bank
HIS	Household Income Survey
HRLS	Home Repair Loan Scheme
IGAs	Income Generating Activities
IC1	Indifference Curve
IC2	Indifference Curve Upwards
KKP	Kooperasi Kredit Pekerja
KKR	Koperasi Kredit Rakyat
KMO	Kaiser-Meyer-Olkin
MARA	Council of Trust for the People
MES	Merakyatkan Ekonomi Selangor
MPI	Multidimensional Poverty Index
MSEs	Micro and Small Enterprises
MYKAD	Malaysian Identity Card
NDP	National Development Policy
NEP	National Economic Policy
NPP	Non Poor Participant
NTP	National Transformation Policy
NVP	National Vision Policy
NGOS	Non-Government Organizations
NMPS	Non-Governmental Microfinance Programmes
PCA	Principal Components Analysis
PIE	Partners in Enterprise Malaysian
PLI	Poverty Line Income
PPK	Proses Penurunan Kuasa

PPRT	Projek Perumahan Rakyat Termiskin
PT	Projek Tekun
RDS	Rural Development Scheme
RISDA	Rubber Industry Smallholders Development Authority
SI	Sustainable Income
SL	Sustainable Livelihood
SEWA	Self Employed Women's Association
TEKUN	The Economic Fund for National Entrepreneurs Group
TKH	contribute in debt fund
TSPI	Tulay Sa Pag-unlad, Inc
TKKS	Welfare Fund and Wellness Companion
UNDP	United Nation Development Programme
USM	Universiti Sains Malaysia
UTC	Urban Transformation Centre
VAPCF	Vietnam Association People's Credit Fund
VBARD	Vietnam Bank for Agriculture and Rural Development
VBSP	Vietnam Bank for Social Policy
YAPEIM	Malaysian Islamic Economic Development Foundation
YBJB	Yayasan Bandaraya Johor Bharu
YBUDR	Yayasan Bina Upaya Darul Ridzuan
YPKT	Yayasan Pembangunan Keluarga Terengganu
YPPK1M	Hawkers and Small Businesses Yayasan 1 Malaysia
YUM	Yayasan Usaha Maju

# CHAPTER 1

## INTRODUCTION

### 1.1 Introduction

The rapid economic growth witnessed in Malaysia during the last two decades has generated high paying employment opportunities and profitable micro and small-scale businesses. This has also led to a decline in poverty rate and development of small and micro-enterprises. The development of micro enterprises not only create more jobs but also contribute to the country's GDP. The establishment of microcredit institutions such as AIM further diversify the sources of income intended towards improving the well-being of the poor households in Malaysia. This chapter focus on the research background, problem statement, objective of the study, significance of the study and the organization of the thesis.

### 1.2 Background of the Study

Malaysia economy is often regarded as one of the successful stories in the Asian economic development. Since its independence from British rule in 1957 (Menon, 2009) and up to the 70's, the economy was concentrated on plantation crop such as rubber, oil palm, pineapple and paper and on mining such as tin. Though the Malaysian economy was predominantly based on mining and agriculture, the discovery of oil and gas in Sarawak during the early 60's brought about marked changes in the country's economy. Following the formation of Malaysia in 1963, the oil and gas sector was nationalized and PETRONAS was formed in 1971 to spearhead the oil and gas development. This represents the beginning of the Malaysian economic transformation towards industrialization. Even though the country continues to move toward manufacturing and services sectors, the agricultural sector and poverty eradication policy programmes have never been neglected.

Since the era of the New Economic Policy in Malaysia (NEP, 1971-1990), various poverty alleviation strategies and programmes were implemented in the context of growth and distribution with the overriding objective of poverty eradication among the Malaysians regardless of their ethnic affiliation. In 1991, the government introduced the National Development Policy (NDP) which focused on ensuring proportionate development in major economic sectors and regions as well as reducing the socio-economic inequalities among communities. In the Eight Malaysian Plan (2001-2005), the government introduced the National Vision Policy (NVP) which entailed the country's developmental plans in the first decade of the 21<sup>st</sup> century. The objectives of the NVP were to build and promote a resilient and equitable society, sustaining high economic growth, enhancing competitiveness, developing a knowledge-based economy, strengthening human resource development, and pursuing environmentally sustainable development (Economic Planning Unit, 2016). In 2011,

the National Transformation Policy (NTP) was introduced through the New Economic Model; this policy focused on improving the well-being of Malaysians and sets the goal of moving the country into a high-income economy that is both inclusive and sustainable.

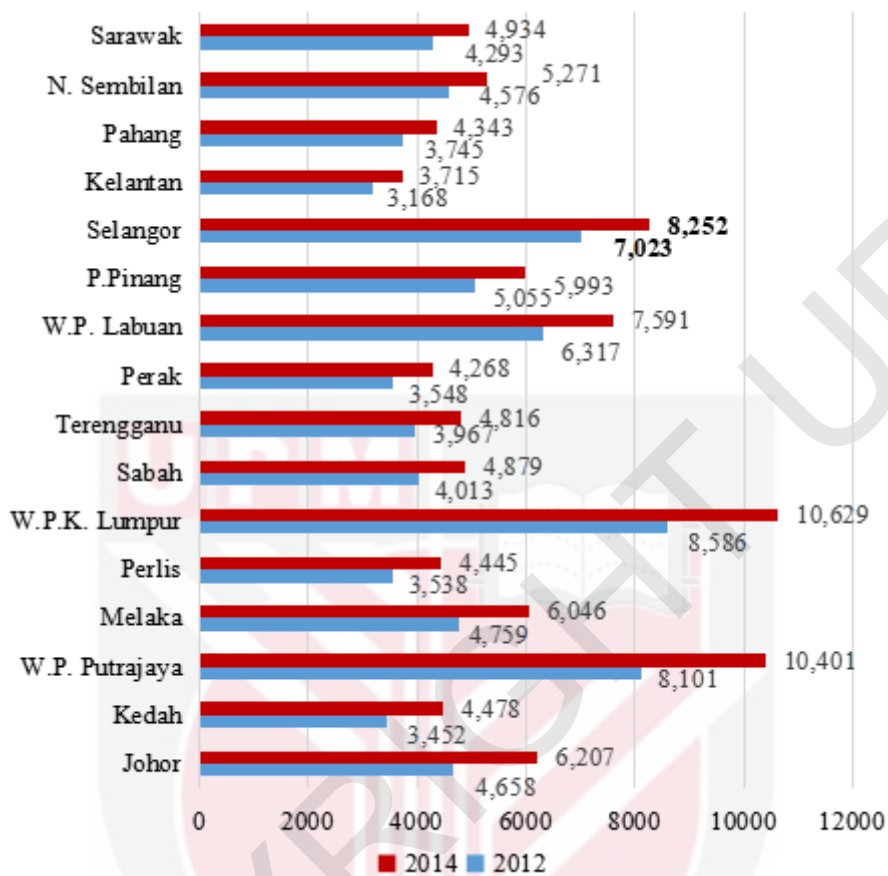
Since the implementation of NEP, NDP, NVP and NTP, Malaysia has achieved rapid economic growth. Malaysia recorded an increasing annual real gross domestic product (GDP) from the year 2004 until 2016. Table 1.1 shows Malaysia's real gross domestic product (GDP) from 2005 to 2016. The Gross domestic product (GDP) grew at 4 percent with a value of RM271.3 billion at constant 2010 prices and RM298.5 billion at current prices (Department of Statistic Malaysia, 2016).

**Table 1.1 : Malaysia's real gross domestic product (GDP), 2005-2016**

<b>Year (2000s)</b>	05	06	07	08	09	10	11	12	13	14	15	16
<b>Real GDP (%)</b>	5. 0	5.6	6. 3	4. 8	-1.5	7. 5	5.3	5.5	4.7	6.0	5.0	4. 0

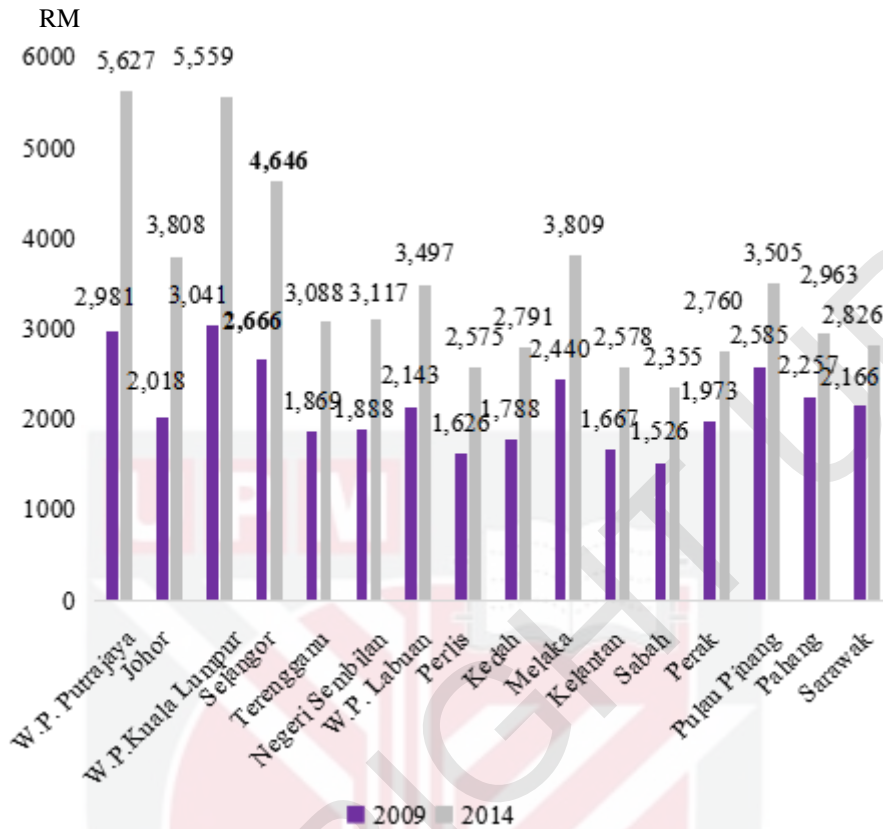
(Source: Focus Economic, 2016)

Based on the EPU report (2015), Wilayah Persekutuan Kuala Lumpur recorded the Highest mean household income (RM10,629) in 2014, followed by Wilayah Persekutuan Putrajaya (RM10,401) Selangor (RM8,252), W. Labuan (RM7,591) and Johor (RM6,207). (Figure 1.1).



**Figure 1.1: Mean Monthly Household Income by State, Malaysia (2012 and 2014)**  
 (Source: Economic Planning Unit, 2015)

In 2014, Wilayah Persekutuan Putrajaya recorded the highest mean monthly household consumption Expenditure (RM5,627), followed by Wilayah Persekutuan Kuala Lumpur (RM5,559) and Selangor (RM4,646) (Figure 1.2).



**Figure 1.2: Mean Monthly Household Consumption Expenditure by State, Malaysia (2009 and 2014)**

(Source: Department of Statistic Malaysia, 2015)

### 1.3 The Concept of Poverty in Malaysia Context

Poverty refers to the lack or inadequate access to basic amenities such as good healthcare, education, and social networks and minimal command over economic resources which are essential to fulfilling an individual's chosen endeavors (Sen, 1992). According to Sulochana (2015), poverty can be defined, measured and conceptualized into a multidimensional phenomenon. In the Malaysian context, poverty is measured both in absolute and relative terms. Absolute poverty is measured in terms of Poverty Line Income (PLI). The PLI is updated annually to reflect the changes in prices and consumption pattern on the basis of Consumer Price Index (CPI). The incidence of poverty can be estimated using the Household Income Survey (HIS) by considering its size, demographics composition and the location across state and stratum. This will provide a more accurate poverty profiles which can be employed by the policymakers to gain better insight into the characteristics of the poorest households. The PLI is the level of income which is sufficient to obtain the minimum standard of living and necessary needs which includes both food and non-food items such as rent, fuel and



power, furniture and household equipment, medical care and health expenses, transport and communications, and recreation, education, and cultural services.

The 11<sup>th</sup> Malaysia Plan (2016-2020), shows that the current economic scenario is very challenging due to the possibility of global economic recession and drastic climate change. Thus, effective implementation of the poverty eradication programme requires proper identification of the target poverty group. To ensure this, the first PLI introduced by the government in 1977 has witnessed significant changes in price structures, consumption patterns and standard of living. The PLI is designed to provide accurate information about poverty which can be used to identify and reduce the burden of the poor households as indicated by their current socio-economic conditions. The incidence of poverty in Malaysia has always been indicated using the PLI. This witnessed slight changes in 2010 when the United Nation Development Programme (UNDP) introduced The Multidimensional Poverty Index (MPI). In the 11<sup>th</sup> Malaysian Plan, the multidimensional poverty index (MPI) which is a relative poverty measurement practiced in developed nations was adopted to complement the absolute income-based measurement of the PLI. The MPI measures access to basic infrastructure and services to facilitate social mobility and enable intensity-based analysis which can provide clear identification of the needs of the lower income households toward the socio-economic well-being and development framework of the nation. The use of MPI ensures that the policy deliberations shift beyond poverty to include vulnerability. The MPI comprised of four dimensions with eleven indicators which are education, health, living standards, and income (Table 1.2).

**Table 1.2: Dimensions, Indicator and Cut off for Multidimensional Poverty Index**

<b>Dimensions</b>	<b>Indicator</b>	<b>Deprivation cut-off</b>
Education	Years of schooling	All household members aged 17-60 have less than eleven years of education
	School attendance	Any school-aged children (aged 6-16) not schooling
Health	Access to health facility	Distance to health facility is more than 5 kilometers away and no mobile health facility is provided
	Access to clean water supply	Other than treated pipe water inside house and public water pipe or standpipe.
Living standards	Conditions of living in quarters	Dilapidated or deteriorating
	Number of bedrooms	More than 2 members or room
	Toilet facility	Other than flush toilet
	Garbage collection facility	No facility
	Transportation	All members of the household do not use private or public transport to commute
Income	Access to basic communication tools	Does not have consistent fixed-line phone or mobile phone
	Mean monthly household income	Mean monthly household income less than PLI

(Source: 11<sup>th</sup> Malaysian Plan, 2016-2020)

The Malaysian government has introduced various poverty eradication policies and programmes in various Malaysia plans. These programmes have somehow managed to reduce poverty over the years. One of the notable interventions includes the introduction of microcredit institution with poverty eradication as one of its objective. As can be seen in Table 1.3, the incidence of poverty in Malaysia has been successfully reduced to 0.6 percent in 2014, compared to 12.4 percent in 1992. Specifically, the incidence of urban poverty decreased from 4.7 percent in 1992 to 0.3 percent in 2014 while that of rural poverty decreased from 21.1 percent to 1.6 percent during the same period. However, the incidence of rural poverty increased slightly to 14.8 percent in 1999 due to the impact of financial crisis in the year 1997 to 1998.

**Table 1.3: Incidence of Poverty by Strata in Malaysia, (1992-2014)**

<b>Year</b>	<b>1992</b>	<b>1995</b>	<b>1997</b>	<b>1999</b>	<b>2002</b>	<b>2004</b>	<b>2007</b>	<b>2009</b>	<b>2012</b>	<b>2014</b>
<b>Malaysia (%)</b>	12.4	8.7	6.1	8.5	6.0	5.7	3.6	3.8	1.7	0.6
<b><u>Strata</u></b>										
<b>Urban (%)</b>	4.7	3.6	2.1	3.3	2.3	2.5	2.0	1.7	1.0	0.3
<b>Rural</b>	21.2	14.9	10.9	14.8	13.5	11.9	7.1	8.4	3.4	1.6

(Source: Economic Planning Unit, 2014)

There are five (5) factors related to poverty issues in Selangor state which are income, education, behavior and spiritual well-being, health, and physical mobility. Income is more complex and elaborate than what is perceived by the people in Selangor. However, most of the residents in Selangor are not natives as most people live there due to the job opportunities. Most of the jobs in Selangor require high level of education coupled with behavioral and spiritual well-being to withstand the day-to-day challenges. As shown in Figure 1.2, Selangor is one of the states in Malaysia with the highest monthly expenditure. Based on Dewan Negeri Selangor (2015), the distance between the population and health facilities is an average of 9 km and most of the residents in Selangor do not have adequate access to good healthcare. Physical mobility is accessing the information to focus on building strength and opportunities the potential of work among the population.

In 2014, the Poverty Line Income (PLI) in Peninsular Malaysia is less than RM940 while those of Sabah and Sarawak are less than RM1,160 and RM1,040 respectively. Poverty can no longer be viewed from the rural perspective alone as about 0.3 percent of the urban population now experience its incidence. (Ministry of Urban Wellbeing, Housing, and Local Government, 2016).

The incidence of poverty among the states in Malaysia showed that Sabah (3.9 percent) has the highest rate in 2014. This is followed by Sarawak and Kelantan which recorded 0.9 percent poverty rates. Meanwhile, the lowest incidence of poverty was recorded in Johor (0 percent). As displayed in Table 1.4, the incidence of poverty among the states in Malaysia showed declining trends. Thus, Malaysia has successfully transformed from a poor country to a middle-income nation.

Despite these commendable poverty reductions, some vulnerable groups are still inclined towards poverty due to certain geographical, economical and societal reasons especially in Selangor.

**Table 1.4: Incidence of Poverty by State, Malaysia (1992-2014)**

<b>State/ Year (%)</b>	<b>199 2</b>	<b>199 5</b>	<b>199 7</b>	<b>199 9</b>	<b>200 2</b>	<b>200 4</b>	<b>200 7</b>	<b>200 9</b>	<b>201 2</b>	<b>201 4</b>
Johor	5.6	3.1	1.6	3.1	2.5	2.0	1.5	1.3	0.9	0.0
Kedah	21. 2	12.2	11.5	14.2	9.7	7.0	3.1	5.3	1.7	0.3
Kelantan	29. 5	22.9	19.2	25.2	17.8	10. 6	7.2	4.8	2.7	0.9
Melaka	8.5	5.3	3.5	2.9	1.8	1.8	1.8	0.5	0.1	0.1
Negeri Sembilan	8.1	4.9	4.7	4.1	2.6	1.4	1.3	0.7	0.5	0.4
Pahang	6.9	6.8	4.4	9.8	9.4	4.0	1.7	2.1	1.3	0.7
Perak	4.0	4.0	1.7	0.7	1.2	0.3	1.4	1.2	0.6	0.3
Perlis	10. 2	9.1	4.5	6.8	6.2	4.9	3.4	3.5	1.5	0.7
Pulau Pinang	19. 8	11.8	10.7	13.6	8.9	6.3	7.0	6.0	1.9	0.2
Selangor	4.3	2.2	1.3	1.9	1.1	1.0	0.7	0.7	0.4	0.2
Terenggan u	25. 6	23.4	17.3	22.7	14.9	15. 4	6.5	4.0	1.7	0.6
Sabah	27. 8	22.6	16.5	23.4	16.0	23. 0	16.0	19.2	7.8	3.9
Sarawak	19. 2	10.0	7.3	10.9	11.3	7.5	4.2	5.3	2.4	0.9
W.P. Labuan	1.7	0.5	0.1	0.4	0.5	1.5	1.5	0.7	0.8	0.1
W. P. Putrajaya	na	na	na	na	na	na	na	0.0	0.0	0.0

na = not available

(Source: Economic Planning Unit, 2015)

## **1.4 The History of Microfinance**

### **1.4.1 Global Microfinance Development**

Jonathan Morduch (2000) defined microfinance as an initiative aimed towards combating poverty and developing the institutional capacity of the financial system to be cost effective in lending money to the poor. According to Christen et al. (2003), microfinance refers to a programme which involves encouraging and enforcing the banking services to lower the interest rate given to the less privileged. He further used this term to describe the microcredit made available in the 1980s by socially-oriented Non-Governmental Organization (NGOs) for small informal business operated by micro entrepreneurs. According to Gonzalez-Vega, (1998), microfinance involves various types of financial services such as loans, deposit, facilities and instruments for the transfer of funds to marginal clienteles especially to the poor people. He noted further that this programme warrants public attention as it is very difficult to supply financial services to the target population.

Heather et al., (2005) acknowledged that microfinance in Asia and Latin America developed under very different ideological, political and economic conditions. The rapid development of formal microfinance started in Bangladesh in the 1970s. The programme was initiated by Muhammad Yunus, a Bangladeshi economist who established the Grameen Bank for the poor in his country (Bank, NIBC 2011). Yunus, who was the head of the Rural Economics Program at the University of Chittagong became conscious of the hardship faced by the poor especially women in Bangladesh. Based on this, he launched an action research project to examine the possibility of designing a credit delivery system that can provide banking services to the rural poor as he noticed that the capitalist banking system could not resolve the poverty predicament in Bangladesh. Finally, convincing the people of the validity of his ideas, he set up the "Grameen Bank". The Grameen Bank was designed to provide credit to the poorest in Bangladesh without any collateral. The programme was based on a realistic strategy which ensured its effectiveness in changing the poor people's lives. The credit was a cost effective weapon in fighting poverty as it served as a catalyst for the overall development of the socio-economic conditions of the poor who have been kept outside the banking orbit on the ground that they were poor and hence not bankable. For instance, the women borrowers become more financially independent and have more confidence to participate in community organization due to the availability of the Grameen Bank's microcredit. As a pioneer of the modern microcredit concept, Professor Dr. Muhammad Yunus, and Grameen Bank were jointly awarded the Nobel Peace Prize in 2006 (Bank Grameen, 2011).

While there were successful stories or evidence regarding the effectiveness of the microcredit model initiated by Muhammad Yunus and Grameen bank, it has also been widely criticized (Bateman, M. 2014). Bateman indicated that Muhammad Yunus was wrong in promising that the microcredit would ensure a historic episode of poverty reduction. Though Muhammad Yunus popularized the concept in alleviating poverty, he was not the first person to introduce the concept of microcredit. In Germany, rural

savings and credit cooperative was introduced in 1864 by Friedrich Wilhelm Raiffeisen (Steinwand, 2013). In 1895, the Dutch also set up rural cooperative based on Raiffeisen Model during their regime in Indonesia. Seibel (2005) noted that BRI (Bank Rakyat Indonesia or Indonesia People Bank) established in 1895 was a highly profitable and self-reliant financial, microfinance, microsavings, and microcredit provider to low-income people.

Furthermore, the Self-employed Women's Association (SEWA) bank in India was established by Ghandian in 1972 (Shalini, 2013). The Bank focused on low-income and independently employed women workers who depend on their own labor and small business for sustenance without regular employment with welfare benefit. SEWA (2016) indicated that 94 percent of this group of people were in unorganized sectors. Chen and Snodgrass (2001) evaluated the SEWA loan programme; they found that it has a significant benefit on the participants as the loans move them out of poverty line.

In the United States, microfinance started in the 1980s and aimed towards creating an inclusive financial system for those that lack access to appropriate financial products and services. Microfinance in the U.S empowers low and moderate income earners through access to capital and financial education. The U.S. ACCION network has grown to become one of the largest microfinance by providing low-income households and other retail organizations and technology entrepreneurs with the financial assistance needed to grow their business (ACCION, 2016). Mark et al. (2003) stated that most of the borrowers in the U.S engage in services such as childcare, haircuts, retail sales, transport, home, car and office maintenance. This is in contrast with developing countries where microfinance beneficiaries also engage in the manufacturing of goods. Microfinance in the US is more difficult than in the developing countries.

The Tulay Sa Pag-unlad, Inc. (TSPI) established in 1981 is a Non-Governmental organization (NGOs) providing microfinance services in the Philippine. The TSPI adopted the group lending model of Grameen Bank and targeted poor women. TSPI also provides microfinance to micro-entrepreneurs and farmers. Even though the TSPI is committed to shielding the poor women, farmers and micro-entrepreneurs from shocks such as calamities, illnesses or unexpected cash drains, it also offers support services necessary for addressing basic needs such as healthcare, housing, education, micro-insurance, training and other non-financial services (TSPI, 2016).

In 1982, a Peruvian economist by the name Hernando de Soto initiated the ACCION Comunitaria del Peru (ACP). ACP is a microfinance organization with more than 30 institutions providing loans to micro-entrepreneurs in the commercial, service and industrial sector (Bateman, 2013). ACP is a pioneer in the country with regards to the rapid growth in the supply of microfinance (Webb, 2009). Despite the global financial crisis witnessed in 2008, rapid growth was maintained. Vogel (2012) acknowledged that Peru microfinance is largely self-funded with US\$6.6 billion in deposits involving 3.5 million borrowers.

In Bolivia, microfinance developed under quite different conditions. Banco Sol is the pioneer with regards to microfinance institution in Bolivia and was developed in 1992 to address the problem of urban unemployment. The institution also provides credit to the cash-strapped informal sector (Heather et al., 2005). Banco Sol focuses on medium and micro-enterprises situated in the urban areas with less concern on poverty eradication. That is, ACCION funds people that need capital to grow their businesses. Zambuko Trust began in 1992 as one of the first microfinance programme in Zimbabwe. The programme focuses on empowering the marginalized, and the unemployed and improving business opportunities and income generation. Zambuko Trust initiated loans and compulsory savings. Carolyn Barnes (2001) noted that Zambuko microfinance programme centres on microcredit, supplemented by business management training that is suitable for low-income households. In addition, Zambuko Trust offers loans to individuals who are not employed full-time, and those who operate a financially viable micro-enterprise which is at least six months old. It also offers business training to its clients due to the rising number of Zimbabweans who are involved in micro-enterprise activities. It charges a nominal annual interest rate of 32 percent on its entire loan (MIX Market, 2005).

Microfinance in Vietnam started in the early 1990s and consisted of both the formal and the semi-formal sectors. The formal sectors constitute the Vietnam Bank for Agriculture and Rural Development (VBARD), the Vietnam Bank for Social Policy (VBSP) and the Vietnam Association People's Credit Fund (VAPCF). Wolz (1997) noted that the VBARD established in 1988 represents one of the largest banks in Vietnam and focuses on rural households especially micro-enterprise than poor household. In 2002, VBSP was established based on the re-organization of VBARD to eradicate poverty, provide microfinance to the poor and other suitable beneficiaries, ensure social stability, and protect the environment (VBSP, 2016). VAPCF was developed in 2005 to further enhance social and economic development in the rural areas (VAPCF, 2016). Son et al. (2012) noted that the semi-formal sectors constitute the Non-Governmental organizations (NGOs) and the microfinance programmes (NMPs). The semi-formal sectors adopted the Grameen Bank model and focused their activities on poor women.

#### **1.4.2 Malaysia Microfinance Development**

In Malaysia, microfinance services are mostly focused on financing small businesses, agricultural loans, and loan for poverty alleviation. Poverty eradication programmes started in the country in the mid-1980s. The Fifth Malaysia Plan (1986-1990), which marked the end of the NEP era, focused on poverty eradication irrespective of ethnic affiliation and eliminating racial segregation in economic opportunities. The Government agencies initiated with aim of assisting the Bumiputera include: The Council of Trust for the People (MARA) established in 1966, Federal Land Development Authority (FELDA) in 1956, Federal Land Consolidation and Rehabilitation Authority (FELCRA) in 1966 and Rubber Industry Smallholders Development Authority (RISDA) in 1973. These agencies were equipped with considerable funds needed for implementing and accelerating rural development projects. The government expenditure on poverty alleviation mainly focused on

agriculture and rural development, social and infrastructure projects. On the other hand, rural credit institutions such as Bank Pertanian Malaysia (BPM) established in 1969 also received capital injections from the government to further offer microfinance services to the people in addition to the existing financial services.

Among the Non-Governmental Organization (NGOs) engaging in microcredit services, Amanah Ikhtiar Malaysia (AIM) has been widely acknowledged for its outstanding services. Amanah Ikhtiar Malaysia (AIM) which was established in 1987 adopted the Grameen Bank model in its activities. The Grameen Bank history begins when Muhammad Yunus, an Economics lecturer at the University of Chittagong, Bangladesh conducted a study in 1976 about the poor who rarely engage in banking activities. Following the footsteps of Grameen Bank, AIM is a poverty-oriented microcredit institution that provides loans only to the poor. The pilot project using the Grameen Bank concept known as “Project Ikhtiar” was held in the Northwest of Selangor state from 1986 to 1987. The project was conducted by two social scientists namely David Gibbons and Sukor Kasim from the Universiti Sains Malaysia (USM) and funded by the Malaysian Islamic Economic Development Foundation (YPEIM), Asia-Pacific Development Centre (APD) and the Selangor State Government.

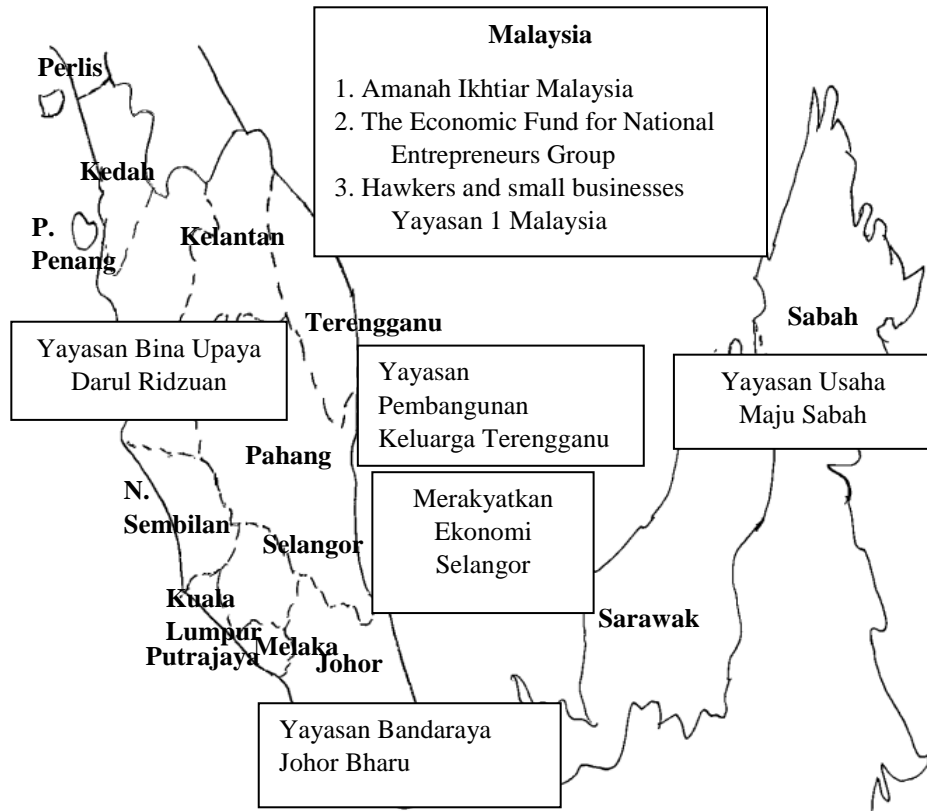
It involved 373 poorest in which 232 men and 141 women received the first loan. At the end of June 1988, the results showed that female members were more diligent in carrying out their projects. The rate of repayment was high among the female members (95 percent) compared to their male counterparts (75 percent). Attendance at the center meeting also showed a significant difference between male and female. About 60 percent of the male members attended the meeting per week while the female members exceed 85 percent per week. The project was considered successful in enhancing the poor’s participation in entrepreneurship development. Based on the above findings, AIM appointed only women as the representatives in the microcredit programme. About 10 years later “The Economic Fund for National Entrepreneurs Group” (TEKUN) was established in 1998. TEKUN is another microcredit institution which also provides microcredit finance services throughout Malaysia.

In the same token, some states within the federation of Malaysia also established their own microcredit institutions with the aim of providing loans to the poor and alleviating poverty among the people. For instance, the Sabah state government established its own microcredit institution called Yayasan Usaha Maju Sabah (YUM) in 1988.

## **1.5 Overview of Microcredit Institutions in Malaysia**

Figure 1.3 illustrates the microcredit financing such as AIM, TEKUN, YPPK1M, YPKT, YUM, YBJB, MES and YBUDR available to the poor households in Malaysia.





**Figure 1.3: Some Notable Microcredit Institutions in Malaysia**

Source: (AIM, 2016; TEKUN, 2016; YPPK1M, 2016; YPKT, 2016; YUM, 2016; YBJB, 2016; MES, 2016; and YBUDR, 2016)

Amanah Ikhtiar Malaysia (AIM) is the first microcredit institution in Malaysia. Following the footsteps of Grameen Bank of Bangladesh, AIM has successfully carried out several programmes and projects. AIM was established in 1987 under the Trustee Incorporation Act 258 following a research project designed to test the replicability of a credit delivery scheme modeled on the highly successful Grameen Bank of Bangladesh. Professor David Gibbons and Associate Professor Sukor Kasim were inspired by Professor Muhammad Yunus as they decided to emulate his success in Malaysia. These two notable academicians from the Center for Policy Research (CPR), Universiti Sains Malaysia (USM), Pulau Pinang undertake an action research program known as the 'Ikhtiar Project'. The 'Ikhtiar Project' which started in 1986 was funded by the Malaysian Islamic Economic Development Foundation (YAPEIM), Asia Pacific Development Centre (APDC) and the Selangor State Government. At the end of the pilot project, AIM was launched in 1987 as the first microcredit institution in Malaysia. The 'Ikhtiar Project' was successful and showed that a group lending system similar to the Grameen Bank concept can be applied in Malaysia. AIM microcredit offers lending services throughout Malaysia. The objectives of AIM are reducing poverty among the poor and low-income households, providing microcredit financing for activities that

can improve income and providing fund, guidance, and training to the entrepreneurs and low-income families. Hence, it is a group lending among AIM members.

The second national microcredit institution in Malaysia is the Economic Fund for National Entrepreneurs Group (TEKUN), established in 1998. TEKUN is under the purview of the Ministry of Agriculture and Agro-Based industry, Malaysia. TEKUN has five (5) main objectives. Firstly, to provide easy business financing; Secondly, to provide business opportunities and entrepreneurial information; thirdly, to provide support services and guidance to entrepreneurs participating in TEKUN's programme; fourthly, to develop a progressive and dynamic TEKUN entrepreneurial community and business network and lastly, to encourage savings lifestyle among TEKUN's entrepreneurs. TEKUN uses group lending scheme. TEKUN has three different financing schemes. Firstly, TEKUN National Financing scheme which includes micro loan "RM1,000-RM10,000", small loan "RM10,000-RM50,000" and medium loan "RM50,000-RM100,000"; Secondly, the Teman TEKUN Financing scheme "RM1,000-RM50,000" and lastly, the I-Factoring Financing scheme "RM1,000-RM100,000". TEKUN expanded its services through providing business opportunities and skills training to its borrowers and developing innovative and progressive networks among the entrepreneurs in Malaysia. According to Ahmad Zabani (2014), between 1998 and 2013, TEKUN has 276,934 borrowers with the total loan disbursed standing at RM 2,934,964,800. TEKUN has 218 branches throughout Malaysia (TEKUN, 2016).

The third national microcredit institution "Hawkers and Small Businesses Yayasan 1 Malaysia (YPPKM)" was established in 2015. YPPKM aimed at extending the 1 Malaysia concept to the hawkers and petty traders. YPPKM provides microcredit services throughout Malaysia (Peninsular, Sabah, and Sarawak), especially to the Chinese and uses a individual lending. The main objectives are channeling microcredit finance schemes to the current needs, helping the hawkers and petty traders generate business opportunities in order to improve their living standard and welfare and enhancing business benefits by increasing individuals' earnings (YPPKM, 2016).

In the state of Terengganu Darul Iman, the government established a programme known as "Yayasan Pembangunan Keluarga Terengganu (YPKT)" on 25<sup>th</sup> April 1986 under the Enactment No. 13 of 1985. This was based on the approval of the Legislative Assembly which met on December 5<sup>th</sup>, 1985 and addressed issues on poverty eradication in the state. YPKT's main objectives are: encouraging the participation of the poor in Personal Development Program, improving the mindset of target groups, raising awareness and developing the capacity of the target individuals in helping themselves out of poverty, and the providing necessary opportunities with aim of improving the economic condition of the target groups (YPKT, 2016 and Table 1.6).

The Yayasan Usaha Maju microcredit located in Sabah is another microcredit institution in Malaysia which adopted the Grameen Bank concept. Sabah is Malaysia's easternmost state and one of two Malaysian states on the island of Borneo. The state is situated on the Northern portion of the island of Borneo and represents the second

largest state in Malaysia after Sarawak. YUM was established in 1995 and registered under the name "The Registered Trustees of Yayasan Usaha Maju" under the Trustee (Incorporation) Ordinance 1951 Chapter 148 of Sabah (YUM, 2016). YUM is under the purview of the Ministry of Agriculture and Agro-based Industry, Malaysia. The core roles of YUM are: encouraging the participation of the poor in economic enhancement programme, increasing household income and the quality of life of the poor, improving the borrowers and the YUM entrepreneurs skills through training and guidance. YUM offers two categories of loans namely; the entrepreneur loan which includes the General Loan Scheme (GLS) and the Entrepreneur Loan Scheme (ELS) and the second one is the loan for improved quality of life known as the Home Repair Loan Scheme (HRLS) with individual lending designs (Table 1.6). With these loan schemes, it is hoped that the poor can set up small businesses such as crop, livestock and fishery farming, retail businesses, processing, carpentry, services, and home repair to increase their income and well-being. As of February 2015, YUM has 11, 512, 838 borrowers with a total of RM 258,830,111 in loan disbursed across 24 branches involving six regions in Sabah. The schemes enjoy a steady repayment rate (97.24%) which enables YUM to fulfill its objectives (The Metro, 2015).

The state of Johor started the Yayasan Bandaraya Johor Baharu (YBJB) in 1995. In 2008, YBJB initiated a program aimed towards eradicating poverty among the people residing in the urban area (Table 1.6). YBJB as a foundation set up by the Johor Baharu City Council also introduced some additional anti-poverty programmes to improve the effectiveness of such programmes run by the Ministry such as aid IKHSAN, urban housing, education and training, and school and university admission.

The state of Selangor established the Merakyatkan Ekonomi Selangor (MES) in 2008. MES spelled out four main objectives. Firstly, offering additional capital that is easy, fast and unencumbered; secondly, promoting savings culture among hawkers and petty traders; thirdly, creating an operational network of entrepreneur and fourthly; developing visionary entrepreneurs that are competitive, skilled and proactive. The loan scheme offered by MES known as *Hijrah Selangor* is divided into four with a minimum of RM1,000 and the maximum of RM50,000 with individual lending designs (Table 1.6). As of December 2015, *Hijrah Selangor* has a total of 14,920 borrowers with RM74,885,000 in loan disbursed across 23 branches in Selangor (MES, 2016).

In 2009, the state of Perak established its own microcredit institution called Yayasan Bina Upaya Darul Ridzuan (YBUDR) under Act Holder of Ordinance 1952. This institution specialized and focused on providing microcredit loans to poor people in Perak. YBUDR set up Microcredit Scheme under the Department of Finance with the intention of creating Sustainable Livelihoods (SL) such as basic income or Sustainable Income (SI) to the lower group. The lower group consist of the poor, easy poor and hardcore poor with individual lending designs (Table 1.6). This study will concentrate on Amanah Ikhtiar Malaysia.

As indicated by this Table 1.5 showed that the purpose of AIM is to provide loan to the poor and hardcore poor women, whereas TEKUN and YUM give loans to entrepreneurs and micro-entrepreneurs among Chinese people in Malaysia

respectively. AIM and TEKUN uses as a group lending design while YPPK1M uses an individual lending design.

**Table 1.5: Microcredit Institutions in Malaysia**

<b>Year</b>	<b>Agencies</b>	<b>Purpose</b>	<b>Lending Designs</b>
1987	Amanah Ikhtiar Malaysia (AIM)	Provides loans to the poor and hardcore poor among Malaysian women only.	Group lending
1998	The Economic Fund for National Entrepreneurs Group (TEKUN)	Provide loans to the entrepreneurs in Malaysia.	Group lending
2015	Hawkers and small businesses Yayasan 1 Malaysia (YPPK1M)	Provide loans to micro-entrepreneurs among Chinese people in Malaysia.	Individual lending

Source: (AIM, 2016; TEKUN, 2016; and YPPK1M, 2016)

**Table 1.6: Microcredit Institutions by State in Malaysia**

<b>Year</b>	<b>Agencies</b>	<b>Purpose</b>	<b>Lending Designs</b>
1985	Yayasan Pembangunan Keluarga Terengganu (YPJT)	Provides loans for strengthening the quality of life in Terengganu residence.	Group lending
1995	Yayasan Usaha Maju Sabah (YUM)	Provides loans to the poor and hardcore poor among Sabahan women only.	Individual lending
1995	Yayasan Bandaraya Johor Bharu (YBJB)	Provides loans for reducing and eradicating poverty, particularly around the city of Johor Bahru.	Individual lending
2008	Merakyatkan Ekonomi Selangor (MES)	Provides loans to the middle-class income micro-entrepreneurs in Selangor residence.	Individual lending
2009	Yayasan Bina Upaya Darul Ridzuan (YBUDR)	Provide loans to the poor, vulnerable, hardcore poor, and small enterprises in the Perakian residence.	Individual lending

Source: (YPKT, 2016; YUM, 2016; YBJB, 2016; MES, 2016; and YBUDR, 2016)

## **1.6 Amanah Ikhtiar Malaysia (AIM) Microcredit**

As mention earlier, Amanah Ikhtiar represent one of the notable microcredit institutions in Malaysia since its inception 29 years ago as a private trust. The loan schemes offered by AIM can be divided into two categories. The first category is the loans for economic purposes which are i-Mesra, i-Srikandi, and i-Wibawa, and the second is the loans for non-economic purposes which are i-Sejahtera, i-Bestari, i-Penyayang, and i-Emas. These microcredit schemes are aimed at the poor households as they can improve their income and well-being by setting up small businesses. As of 2017, AIM has more than 396 thousand members with 7 zones, 23 federal branches and 138 centers all over the country. AIM has successfully disbursed about RM 17,279,898,437 as of Feb 2017 to its members with a repayment rate of 99.6 percent since its inception in 1987. It is an effective credit delivery system as well as an efficient group-based lending model since it involves little or no contractual term, but adequate support and trust among the group AIM members .

### **1.6.1 Requirement for Borrowing**

AIM provides small scale financial services and training to the poor households in order to improve their socio-economic conditions. AIM uses a group based Grameen Bank model, which has been replicated by many Micro Finance Institutions around the world. AIM selects their members based on the members ' average monthly household income. AIM only selects the households which their average monthly household income falls below the poverty line income (PLI) as indicated for poor households. Moreover, new applicants must be (1) Malaysian citizens who have identity card (MyKad) aged 18 years and above; (2) AIM only selects applicants with a household income below RM3855 per month and a per capita income below RM838 per month; and (3) applicant's asset ownership for instance land areas in the names of heads of households or potential members must not exceed 3 acres, the residential home and vehicle owned by potential applicants must not be more than an average value of RM200,000 and RM50,000 respectively (AIM,2016).

### **1.6.2 AIM Loan Procedure**

AIM loan procedures involve several requirements which mostly relate to the applicants' background information. One of the basic requirement is the gender as the members must be female. According to AIM (2016), Attendance at the center meeting showed significant difference between male and female. During the pilot study, about 60 percent of the male members attended the meeting per week while the female members exceed 85 percent per week. This showed lower attendance of male members as they might be engaged in other sources of income. Based on this, AIM appointed the female members only as representatives. Each group is made up of at least five people who are usually not related. For instance, it is not appropriate for mother and daughter to share the same group. Furthermore, age difference is also an important element in the group formation. A group with a member who is 28 years old and another member

who is 60 years old is not suitable due to the significant age disparities.

AIM procedures involve several systematic steps that vary from one applicant to the other. However, all these steps are aimed towards ensuring smooth application processes. Step 1; firstly, a group exist with four members and requires one more member. Thus, the new members must identify the groups with four members. Secondly, the new member needs to meet an AIM officer at the meeting center nearer to her place. Step 2 pertains to an individual who is not familiar with any member of AIM. To get more information about AIM, she can go directly to AIM headquarter, Branches and UTC. After meeting the AIM officer, the individual also needs to visit the meeting center so as to get familiar with other AIM members. Step 1 and step 2 are the same procedure as they facilitate the meeting of the new member and an AIM officer. In the third step, the new member needs to wait for the AIM officer to contact her. Fourth step; once the new member is contacted, an AIM officer will visit the new members and survey (1) their house or site project. The AIM officer will collect important information about the new members ' households or site projects such as expenditure, asset, facilities, and others.

Furthermore, the AIM officer will bring the survey (1) to the office and show it to the assistance branch manager. Based on this, the decision will be made on whether to accept the new members or not. The fifth step pertains to the AIM officer's acceptance of the new members, the branch manager will also visit the new members and survey (2) their houses or site projects. This is carried out to determine whether the members pass or fail. In the sixth step, members will be certified as eligible AIM members and a group consisting of 5 members without any intimate relationship will be organized. All group members must attend a compulsory course '*Proses Penurunan Kuasa (PPK)*' for 5 days. It consists of 5 classes with a session lasting up to an hour or 1 hour and half. The PPK is aimed towards enlightening the new members about the rules and regulations of AIM. At the end of the course, the AIM officer will examine the new members through an oral test to determine whether they pass or fail.

In the Seventh step, the members that pass the oral test will meet at AIM meeting centre. The meeting is usually held at public places such as mosque, hall, the house of other AIM members or AIM built centers. The new members will then fill up forms at the AIM centre meeting and apply for their respective loans. The loan is usually ready within 28 days.

### **1.6.3 Ikhtiar Financing Schemes**

Table 1.7 illustrates the financing schemes offered by AIM. There are three (3) types of loans which include: the loan for economic purposes, loan for non-economic purposes and recovery loan.

The loan for economic purposes known as the Ikhtiar Rezeki loan schemes (i-Rezeki)

is designed to help the poor people in creating income generating activities and consequently improving their standard of living and well-being. This includes schemes such as i-Mesra, i-Srikandi, and i-Wibawa. The non-economic purpose loans known as Social Ikhtiar loan scheme (i-Sosial) includes i-Sejahtera, i-Bestari and i-Emas. Lastly, the recovery loan scheme is also known as i-Penyayang. Each loan group has different regulations, financing, and payback period.

I-Mesra is a basic loan available to new AIM members before they can gain access to other types of schemes. In the i-Mesra loan scheme, new members can first apply for a maximum amount of RM3000. members can apply for subsequent i-Mesra loans after full repayment of the initial one. The subsequent i-Mesra loan application could be increased by RM2000 from the amount of the previous loan. The i-Mesra loan can increase to a maximum amount of RM10,000 based on subsequent applications. On the other hand, the i-Srikandi loan is offered to potential members who are successful in their businesses and want to continue their loan applications. The maximum loan in i-Srikandi is RM20,000. The i-Wibawa is a new scheme introduced by AIM to members who need fast and short-term loans. The maximum amount that could be received in the i-Wibawa scheme is RM5000 and the payback period is usually within 12 weeks, 25 weeks, monthly, 6 months, or lump sum.

I-Bestari is a loan scheme offered for educational purposes. This loan can only be received after the i-Mesra loan has been paid for at least six months. This scheme is the first loan usually granted after the completion of i-Mesra. The maximum loan in i-Bestari is RM5,000. The objective of this scheme is to help members and their family especially children in pursuing education and higher skills. I-Sejahtera is another scheme available to the members after the repayment of the i-Mesra loan. This scheme is usually directed towards business capital and assets, ASB investment, and Tabung Haji for enhancing living standard. The maximum loan is RM10,000. Others than that, the i-Emas is a financing scheme for people who are 75 years old and above.

I-Penyayang is a financing scheme available to members who had business failures because of health problems or natural disasters. This loan helps the members in tackling their challenges and at the same time ensures their commitment to AIM services.

All financing assistance are covered by the micro-finance except for i-Emas. The financing schemes requirement pertains to the members' compliance with AIM rules. members need to understand AIM's rules and regulations. The management usually charges 5 percent for 6 months or the rate prescribed from time to time or 10 percent per year. Furthermore, members need to contribute 1 percent of the funding to the Welfare Fund and Wellness Companion (TKKS) and the debt fund (TKH). The loan process takes 28 working days after the branch manager approval and members need to start paying back 2 weeks after the money is collected (AIM, 2016).

**Table 1.7: Financing Schemes offered by AIM**

<b>Financing Scheme Ikhtiar</b>	<b>Total Financing</b>	<b>Payback Period</b>	<b>Information</b>
<b><u>I-REZEKI</u></b>			
(Economic)			
1. i-Mesra	RM1,000-RM10,000 (starting RM3,000)	12-150 weeks	The first financing (New AIM member) until RM 3000.
2. I-Srikandi	RM11,000-RM20,00	12-150 weeks	Offered to AIM member who took i-Mesra.
3. i-Wibawa	RM 3,000- RM 5,000	6 months	Short Period.
<b><u>I-RECOVERY</u></b>			
1. i-Penyayang	RM 1,000-RM 5,000	12-150 weeks	Offered to a AIM member who experience project failure.
<b><u>I-SOCIAL</u></b>			
(Non-Economic)			
1. i-Bistari	RM1,000 -RM5,000	12-100 weeks	The first loan granted after repayment of i-Mesra. For education and skill purposes.
2. i-Sejahtera	RM 2,000 - RM 10,000	12-150 weeks	Used for business capital and assets, ASB investment, Tabung Haji.
3. i-Emas	RM 2,000 (max)	12-50 weeks	For AIM member who are 75 years old and above.

(Source: Amanah Ikhtiar Malaysia (AIM, 2016))

#### **1.6.4 Meeting Agenda in Meeting Centre**

Before joining AIM, prospective members need to participate in a week long training programme where they will be educated on AIM's rules, procedures and conditions. At end of the programme, members will be examined through an oral test and the successful ones can then apply for the i-Mesra scheme (maximum of RM3,000). The specialized delivery system is designed in such a way that the loan is given without any collateral or guarantors and no threat of legal action if the borrowers default on the loans. The loan is given to the poor without going through any intermediaries as the application and approval processes are simplified to cater for illiterate borrowers. During these meeting centre AIM members empower each other by sharing success stories and discussing ideas for solving business and personal problems.



Punctuality is very important as the AIM group members need to be at the meeting centre before the AIM staff. The leader among the AIM members requires 4 assistant that will take the minute of the meeting, a member that will take attendance and two members that will serve as the accountant. The meeting will start with an opening prayer and vow from both the AIM staff and members . The member responsible for the attendance will take the attendance for the members of each group. The leaders in each group need to provide the names of the members who are present and those who are absent. Attendance is important in the meeting centre because this is how the members demonstrate their commitment and responsibility towards their groups except if they have a good reason for not coming. Minutes pertaining to the previous week meeting will then be read such as total amount repayment, the percentage of attendance and others. Following this, the first accountant will call each of the groups with their respective loans (total amount of loan). In case some members are not present at the meeting, the available members of a particular group need to divide the total amount of loan among themselves and pay for the members that are not around. Others than that, if members are planning not to attend the meeting centre they have to give their money or receipt to their group leaders. In the case of receipt, members can pay their loans online through their debit cards. It is an easier option as members will avoid coming to the meeting with a lot of money. After that, the leader will give the total amount of loan to the first account with the vow of approval. The first accountant will give the money or receipt of payment to the second accountant based on the total amount of loan for recalculation. After the recalculation, the second accountant will hand it over to the AIM staff in front of all members in the meeting centre with a vow.

The group members have to choose a good leader who will be responsible for their welfare. For instance, the leader has to settle any misunderstanding among the members and ensures that every member obeys the rules and regulation set by AIM. Each member shares the responsibility of supporting the others to succeed. When any matter arises among the AIM members , the leader and other members need to deliberate and solve the problem amicably. This is because team spirit is not only encouraged among the group members , it also represents one of the core aims of AIM. When the group members present their applicants for the next loan, the decision is made based on the group's opinion with regards to the cost of the proposed projects as well as the repayment ability of the applicants. When the meeting centre approves the project, the members can apply and submit the loan to the AIM staff for proceeding. The loan given is usually in small amounts for income generating projects and requires weekly repayments for periods not exceeding one year. This is to ensure that the members are not burdened and the interval between subsequent loans is not too long. In the meeting centre members are allowed to sell food and drink; donuts, *nasi lemak*, fruits, and vegetables to increase their income.

## **1.7 Problem Statement**

Poverty eradication continued to be one of the objectives of the country's developmental policy. Under the Tenth Malaysian Plan (2011-2015), the Government launched the National Transformation Policy (NTP) through the New Economic Model and sets the goal of moving the country into a high-income economy. This

transformation is supported by the Economic Transformation Programmes which focused on eradicating poverty and improving the living standard of Malaysians. The government continues to focus on improving public services such as the *rakyat* and introducing other important programs which are immensely beneficial to the masses (Economic Planning Unit, 2011). The private sector and Non-Governmental organizations (NGOs) also contribute to these efforts. Amanah Ikhtiar Malaysia is one of the NGOs which focusses on reducing poverty among the poor and low-income households in Malaysia. As of Feb 2017, AIM has more than 396 thousand members and disbursed about RM17 billion in loan with a repayment rate of 99.6 percent since its inception in 1987 (AIM, 2017). Majority of AIM members are micro-entrepreneurs operating small businesses. AIM has expanded its services throughout the nation and also continue to witness increase in the number of members due to the innovative approach adopted in improving the participants' well-being.

While there have been anecdotal reports alluding AIM contributions in poverty eradication, empirical information about the effectiveness of the AIM microcredit financing in enhancing the well-being of the AIM members is still ineffective. Therefore, issues relating to the effectiveness of AIM programme on the well-being of the members need to be investigated. The factors influencing the success of AIM can be determined through AIM members and opinions on the AIM delivery system (Kalthum et al., 2015). The AIM members need to attend weekly meetings for loan application and repayments (AIM, 2017), this might not be convenient for some of them as they have to leave their business activities behind during the meeting period. In some instances, the available AIM members might bear the burden of those who are absent by sharing the total amount of loan due for repayment among themselves especially if the absent members didn't send their part through the group leader. Thus, it is important for the policy makers to implement necessary strategies for enhancing the delivery system. Besides that, it is also important to look at the factors motivating or affecting the AIM members operating their businesses with their husband. This is necessary as they manage the business together to make ends meet.

On the other hand, poor and low-income people are provided access to financial services which can be employed to start or expand their micro-enterprise and subsequently move them out of the poverty line. Increased income from enterprises and loan fund can be used to enhance the standard of living of the respective households. Therefore, it is necessary to investigate the levels of the AIM schemes and their impacts on the members' well-being. Training and guidance are important prerequisites for an effective and successful enterprise. While some of the AIM members are unceasingly diligent in attending the training, others see it as unsuitable for their business similar to (Mizanur et al., 2010). Thus, the success of AIM program in graduating the poor above the poverty line as compared to those who failed is another important aspect that requires proper attention (Norma, 2011).

This study will investigate the effectiveness of Amanah Ikhtiar Malaysia on the well-being of the AIM members. The study will also address the question of whether the AIM can improve the AIM members' well-being and move them out of the poverty line through the income generated from their respective micro-enterprises.

## **1.8 Research Questions**

- 1) What is the relationship between the respondents' demographic profiles and the characteristics of successful microenterprises?
- 2) What are the factors influencing the effectiveness of microcredit financing?
- 3) Does microcredit financing has any effect on the income and well-being of the respondents?

## **1.9 Objectives of the Study**

The general objective of the study is to investigate the effectiveness of microcredit financing in enhancing well-being on poverty eradication as experienced by the AIM micro-enterprise entrepreneurs in Selangor. The specific objectives are:

- 1) To determine the demographic profile of respondents.
- 2) To investigate the association between the demographic profiles of the respondents and the characteristics of successful micro enterprises.
- 3) To explore the underlying factors influencing the effectiveness of microcredit financing.
- 4) To determine the effect of microcredit financing on the income and well-being of the respondents.

## **1.10 Significance of the Study**

The study will benefit the government, NGOs and microcredit finance institutions in Malaysia. The results of this research can be helpful for the Malaysia government and NGOs on ways they can improve and strengthen the development of microcredit finance institutions and well-being of the members. Thus, it hoped that this study will help in order to raise the income level and diversify their services.

The study will benefit the Amanah Ikhtiar Malaysia (AIM) by gaining more information and better improvement of the key factors which influence the effective delivery of the microcredit financing as this research would find out about to make AIM more successful. They can strengthen their services with the best strategies to reach their target AIM members. The effective delivery system used to gauge the effectiveness of microcredit financing to measure the AIM members by improving well-being due to the services they provide. Therefore, it can contribute the knowledge and identify the factors based on their influence AIM members' well-being such as training and support, AIM and cooperation among respondents, role model and interest rate.

### **1.11 Organization of the Study**

The development of the study starts with chapter one. In the first chapter, essential issues regarding the effectiveness of microcredit financing and other related matters were highlighted. Chapter two presents the previous studies of microcredit financing on income and well-being in Global as well as in the Malaysia settings and also explains related findings of the factors influencing the effectiveness of microcredit financing. Chapter three explains the methodology and framework of the study, and the analytical tools used to explore the variables and their determinants. The chapter also presents the sampling technique, questionnaire, and data collection procedure. Chapter four presents the results of the study. Chapter five explains and summarizes the findings from the study. It also provides recommendations for the future endeavors and conclusion of the study.

### **1.12 Summary**

This chapter briefly explains microcredit financing in Malaysia and the different policies initiated to ensure its effectiveness. It also introduces the concept of poverty and the history of microcredit finance. Furthermore, the chapter provides an overview of the microcredit institutions in Malaysia and explains their different forms. Amanah Ikhtiar Malaysia was discussed comprehensively in the chapter. AIM is a prominent microcredit organization modeled on the highly successful Grameen Bank concept. The problem statement as well as the objectives of the study, significance of the study and the organization of the study were presented in this chapter.

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