



***ANTECEDENTS OF BORROWER PARTICIPATION IN TOURISM MICRO
ENTERPRISES MODERATED BY A MICROFINANCE INSTITUTION IN
SEMPORNA, SABAH, MALAYSIA***

MOHD ROMZEE BIN IBRAHIM

IPTPH 2019 9



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By

MOHD ROMZEE BIN IBRAHIM

**Thesis Submitted to the School of Graduate Studies, Universiti
Putra Malaysia, in Fulfilment of the Requirements for the Degree of
Doctor of Philosophy**

April 2019

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Abstract of thesis presented to the Senate of Universiti Putra Malaysia in
fulfilment of the requirement for the Doctor of Philosophy

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April 2019

Chair : Professor Ahmad Bin Shuib, PhD
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The tourism industry is seen as a sector that can provide significant opportunities to local communities through the establishment of tourism enterprises. In most situations, these tourism enterprises will be in the form of micro businesses established and operated by the local community. The research in this field highlights the lack of participation in tourism micro enterprises among local communities as self-employed local communities instead tend to operate their own businesses in order to survive day-to-day without having any formal education and entrepreneurial skills. Therefore, this study aims to evaluate the indicators that are attributed to community participation and examining the factors contributing to the community's motivation to participate in tourism micro enterprises. Amanah Ikhtiar Malaysia (AIM) is the moderating element in this regard helping to improve and influence its borrowers to engage in tourism-related enterprises. A structured face-to-face survey was conducted to evaluate the participation of borrowers' in tourism micro enterprises in Semporna, Sabah which involved a total of 389 borrowers using a multi-stage random sampling method. Stepwise and Hierarchical regression model were utilised through exploratory factor analysis (EFA) to examine the conceptual research model developed in this study with and without the AIM's role in the relationship between the participation indicator, and its interaction effect.

The findings of this study indicate that motivation of the local community to participate was influenced by their ability to manage the enterprise, the value chain, and support by the institution, income generated from the business and the adaptability to manage critical issues surrounding the study location. AIM contributed towards moderating the influence by enhancing the effect of

borrowers' participation in the tourism micro enterprise. It was found that the capability of borrowers' was the most significant factor contributing to their involvement. It can, therefore, be concluded that participation does not occur through memberships although the authority which is the power holder needs to exercise their role in encouraging participation through evaluating local community characteristics regarding their capabilities towards fulfilling community expectations. Accordingly, a microfinance institution (AIM) is recommended to equip borrowers with appropriate knowledge, training and entrepreneurial skills to take advantage of the opportunities brought about through tourism in Semporna. Also, integration with various stakeholders such as local authorities at the federal and state government levels, non-governmental agencies and the private sector is essential in its delivery system to facilitate the creation of sustainable entrepreneurial activities especially towards the establishment of tourism micro enterprises.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia
Sebagai memenuhi keperluan untuk Ijazah Doktor Falsafah

**PETUNJUK PENYERTAAN PEMINJAM DALAM USAHAWAN MIKRO
PELANCONGAN DISEDERHANAKAN SEBUAH INSTITUSI KEWANGAN
MIKRO DI SEMPORNA, SABAH, MALAYSIA**

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Industri pelancongan dilihat sebagai sektor yang boleh memberi peluang yang besar kepada komuniti tempatan melalui perusahaan yang berasaskan pelancongan. Dalam kebanyakan situasi, perusahaan pelancongan ini adalah merupakan usahawan mikro yang ditubuhkan dan dikendalikan oleh masyarakat setempat. Penyelidikan ini mengengahkan kekurangan penyertaan di dalam usahawan mikro pelancongan di kalangan masyarakat tempatan. Komuniti tempatan tersebut lebih cenderung untuk bekerja sendiri dan mengendalikan perniagaan mereka untuk menyara kehidupan harian tanpa mempunyai pendidikan rasmi dan kemahiran keusahawanan. Oleh itu, kajian ini bertujuan untuk menilai indikator-indikator yang berkaitan dengan penyertaan masyarakat tempatan dan mengkaji faktor-faktor yang menyumbang kepada motivasi mereka untuk melibatkan diri di dalam usahawan mikro pelancongan. Amanah Ikhtiar Malaysia (AIM) adalah elemen penyederhana dalam kajian ini yang membantu meningkatkan dan mempengaruhi peminjamnya untuk melibatkan diri di dalam usahawan yang berkaitan dengan pelancongan. Soal selidik berstruktur secara bersemuka telah dijalankan untuk menilai penyertaan peminjam yang melibatkan sejumlah 389 peminjam menggunakan kaedah pensampelan rawak pelbagai peringkat. Model regresi Stepwise dan Hierarchical digunakan melalui analisis faktor ekspolasi (EFA) untuk mengkaji model penyelidikan konseptual yang dibangunkan dalam kajian ini dengan dan tanpa peranan AIM dalam hubungan antara penunjuk penyertaan, dan kesan interaksinya.

Penemuan kajian ini menunjukkan bahawa motivasi masyarakat setempat untuk mengambil bahagian dipengaruhi oleh keupayaan mereka untuk menguruskan perusahaan, rangkaian nilai, dan sokongan institusi, pendapatan yang dihasilkan daripada perusahaan dan kebolehsuaian di dalam mengendalikan isu-isu kritikal di sekeliling lokasi kajian. AIM menyumbang ke arah menyederhanakan pengaruh dengan meningkatkan kesan penyertaan peminjam di dalam usahawan mikro pelancongan. Keupayaan peminjam didapati merupakan faktor paling penting yang menyumbang kepada penglibatan mereka. Oleh itu, dapat disimpulkan bahawa penyertaan mereka tidak berlaku hanya melalui keahlian AIM. Pihak berkuasa yang merupakan pemegang kuasa perlu melaksanakan peranan mereka dalam menggalakkan penyertaan melalui penilaian ciri-ciri komuniti tempatan di dalam mengenalpasti keupayaan mereka ke arah memenuhi harapan masyarakat tempatan. Oleh itu, institusi pembiayaan mikro (AIM) disarankan untuk melengkapkan peminjam dengan pengetahuan, latihan dan kemahiran keusahawanan yang sesuai untuk memanfaatkan peluang-peluang melalui industri pelancongan di Semporna. Selain itu, integrasi dengan pelbagai pihak berkepentingan seperti pihak berkuasa tempatan di peringkat persekutuan dan kerajaan negeri, agensi bukan kerajaan dan sektor swasta adalah penting dalam sistem penyampaiannya untuk memudahkan penubuhan aktiviti keusahawanan yang mampan terutamanya ke arah penubuhan usahawan mikro pelancongan.

ACKNOWLEDGEMENTS

I wish to express my utmost gratitude to a number of people who have provided me with full support, commitment, direction and assistance towards the completion of this thesis. Without their words of encouragement and contributions, this research would not have been completed. First and foremost, a very special thank is extended to my beloved supervisory committee chairman, Prof. Dr. Ahmad Shuib and co-members Associate Prof. Dr. Sridar Ramachandran and Associate Prof. Dr. Syamsul Herman Mohammad Afandi. Their continuous support and encouragement were invaluable to the completion of my wonderful journey in UPM.

My heartfelt appreciation also extended to all friends at LRGS group members for their help and guidance over the past years of my graduate student life.

Finally, to my parents, wife and children for their unconditional support, sacrifice and prayers over the durations of the study. Furthermore, for believing and encouraging me to keep on going for the completion of this research.

I certify that a Thesis Examination Committee has met on 9th April 2019 to conduct the final examination of Mohd Romzee Bin Ibrahim on his thesis entitled “Antecedents of Borrower Participation in Tourism Micro Enterprises Moderated by a Microfinance Institution in Semporna, Sabah, 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 Doctor of Philosophy.

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LIST OF ABBREVIATIONS

AIM	Amanah Ikhtiar Malaysia
BNM	Bank Negara Malaysia
CBT	Community-based Tourism
CGAP	Consultative Group to Assist the Poor
EPU	Economic Planning Un
ETP	Economic Transformation Plan
EU	European Commission
GDP	Gross Domestic Product
GNI	Gross National Income
IFC	International Finance Corporation
MFI	Microfinance Institution
MITI	Ministry of International Trade and Industry
NKEAS	National Key Economic Areas
NSDC	National SME Development Council
OIC	Organisation of Islamic Cooperation
SDC	Sabah Development Corridor
SET	Social Exchange Theory
SME	Small and Medium Enterprises
SEDIA	Sabah Economic Development and Investment Authority
UNWTO	United Nation World Tourism Organisation
WTTC	World Travel and Tourism Council

CHAPTER 1

INTRODUCTION

1.1 Introduction

This research study is organised into five chapters. The layout of this chapter comprises an introduction to the study which includes the research background, problem statement, research questions and objectives, a brief snapshot of the study area, theoretical framework, research approach, justification of the significance and research contributions. Chapter Two critically reviews the literature in this field, leading to the establishment of the conceptual research framework. This is followed by Chapter Three which presents the methodological overview applied in this study. Chapter Four presents the findings and empirical results on community participation in tourism micro- enterprises. Finally, Chapter Five discusses the key findings based on the research objectives drawing conclusions and implications. This chapter also includes limitations of the study and recommendations for future study.

1.2 Research Background

The tourism industry comprises a variety of hospitality, food and beverage services delivered through various corporations, ranging from multi-national companies to private limited companies and small and medium-sized enterprises (SMEs). The growth of the industry globally is also providing many opportunities to local populations and communities in many least developed countries through establishing micro, small and medium-sized enterprises, usually operated as a family business (World Tourism Organisation (UNWTO), 2005). In 2014, a consensus on promoting sustainable tourism was adopted by UNWTO which included ecotourism, environmental preservation and poverty reduction through sustainable tourism. Various publications on the tourism industry have also highlighted the need for international bodies and national governments to play an active role in promoting tourism in local communities, in order to help reduce poverty in rural areas (UNWTO, 2010). As a result, the International Year of Sustainable Tourism for Development was declared in 2017, recognising tourism as an instrument to reduce poverty, helping to improve the quality of life and empowering women and youth towards sustainable development, with a major focus in a rural tourism destination. Therefore, for the development of a sustainable tourism destination in which to benefit the local community, collective participation and collaboration among relevant stakeholders living in and hosting of the tourism destination are required.

1.2.1 Tourism in Malaysia

Malaysia has been listed among the 10 most visited 'Organisation of Islamic Cooperation' (OIC) countries globally (Table 1.1) and is the number one choice as a tourist destination for the past 6 years. In 2013, Malaysia was recognised as the most preferred tourist destination for Muslims (Crescent Rating, 2017; Economic Transformation Programmed Annual Report, 2013). The discourse and travelling pattern of Muslim tourists became most prominent following the 9/11 terrorist attacks in the US followed by subsequent terror attacks in other countries which resulted in the global war in fighting against terrorism. Hanafiah and Harun (2010) suggested that tourism is an important industry sector not only for local economies in Malaysia but is also a significant contributor to the global economy. Being part of the ASEAN region, Malaysia represents a 74.3 per cent share of the total number of tourist arrivals in the region (representing 19.1 million), (World Travel and Tourism Council (WTTC), 2014).

Table 1.1: Top 10 OIC Destinations

Rank	Country	Travel Index
1	Malaysia	82.5
2	United Arab Emirates	76.9
3	Indonesia	72.6
4	Turkey	72.4
5	Saudi Arabia	71.4
6	Qatar	70.5
7	Morocco	68.1
8	Oman	67.9
9	Bahrain	67.9
10	Iran	66.8

(Source: Crescent Rating, 2017)

In 2013, Malaysia's Gross Domestic Product (GDP) contribution from Travel and Tourism was at 16.1%, amounting to MYR 158.2 Billion, thereby creating 1,857,490 jobs (14.1% of total employment) resulting from tourist arrivals (WTTC, 2014).

Table 1.2: Tourist Arrivals and Receipts Trend in Malaysia

Year	Arrivals (million)	Receipts (MYR billions)
2018	25.83	84.1
2017	25.95	82.1
2016	26.76	82.1
2015	25.70	69.1
2014	27.44	72.0
2013	25.72	65.4
2012	25.03	60.6
2011	24.71	58.3
2010	24.58	56.5

(Source: Ministry of Tourism and Culture, 2019)

The tourism sector is one of the most significant contributors to the Malaysian economy, recording a stable growth rate, and contributing RM 51.5 billion to the country's Gross National Income (GNI) in 2013, continuously growing until 2018. Tourists' receipts (refer to Table 1.2) recorded RM 65.44 billion for the same year resulting from tourist arrivals, a growth of 2.7 per cent with an increment from 25 million to 25.83 million arrivals in 2018 (the Ministry of Tourism and Culture, 2019; WTTC, 2014). Also, the contribution of Malaysia travel and tourism to global GDP rose to 9.5% of the world's GDP (US\$7 trillion), employing more than 266 million people, and creating 4.7 million new jobs being (WTTC, 2014). The growth in tourism receipts resulted from prioritisation of the industry between the periods of the Eighth Malaysia Plan (8MP) to the Eleventh Malaysia Plan (11MP). The tourism industry has also been acknowledged as one of the national key economic areas (NKEAS) to stimulate economic growth, thus, realising the potential of Malaysia to become a high-income earning nation by 2020 (ETP, 2013; PEMANDU, 2012; Norasmah Suzana and Farlizawati, 2012).

On the other hand, Sabah, which is the main focus of this research, in 2018, recorded 3,879,413 visitors; considered as the most visited state by international and domestic travellers with overall growth rate of 9.2 per cent compared to the previous year (Sabah Tourism Board, 2019). The primary driver for the state's tourism and agriculture growth is under the purview of Sabah Development Corridor (SDC) which was initially established in 2008, entrusted by the Sabah Economic Development and Investment Authority (SEDIA) in line with the national Economic Transformation Programme (ETP) (SEDIA Annual Report, 2010). Furthermore, the state has also recorded the highest rate of poverty (19.7%) compared to other states in Malaysia (Economic Planning Unit, 2010). Thus, the initiatives towards capitalising on tourism products and services to improve local community living conditions are expected to grow with the proposed RM 2.5 billion tourism-based integrated development project located in Semporna. By 2020, it is expected that about 2000 semi-skilled and low-skilled jobs will be created through their participation in tourism development (SEDIA, 2007).

1.2.2 Entrepreneurial Participation and Community Based Tourism Development

Community-based tourism (CBT) has been investigated in previous studies mainly focusing on sustainable tourism development (Murphy, 1985; Haywood, 1988; Jamal & Getz, 1995; Johari, Ramachandran, Shuib & Herman, 2015). The term "*Sustainability*" has been widely used in studies, concerning the environment, social and economic development of the society (Baum et al., 2016). Thus, the initiative to promote active participation amongst the local community in the tourism development process is guaranteed to bring about socio-economic returns to benefit communities at a specific tourism destination (Murphy, 1985). According to Catley (1999), tourism development initiatives are normally managed by the power holder at the higher authority level which has

resulted in barriers for the local community to participate directly. Numerous authorities such as the World Bank, the United Nations and the World Tourism Organisation have emphasised the significance of community participation in rural areas, specifically in addressing community development as part of the strategy to reduce poverty in today's society. These initiatives take into consideration local community involvement from planning right through to execution of the plan and have an equal share of the benefits of any tourism development programs (Catley, 1999).

According to Tosun (2000, p. 615), the tourism development bottom-up approach is *"a tool whose aim is to readjust the balance of power and to reassert local community views against those of the developers or the local authority"*. Furthermore, the inclusion of the local community to participate in the tourism development process will allow more extensive opportunities which will benefit the community in their local area (Tosun, 2006); thereby increasing their motivation and attitudes positively towards improving their community (i.e. social) living conditions and creating a higher level of awareness regarding conservation of local environments.

However, sustaining community-based tourism development will be difficult if the empowerment and means to participate are not granted to the local community (Lea, 2006). Likewise, their involvement in tourism development projects should be inclusive of the community from low-income groups in both rural and urban areas (Agrawal & Gupta, 2005; Lea, 2006). Accordingly, this will enable the community to engage in the tourism development process actively and contribute to decision making and planning for their locality (Murphy, 1985). Moreover, the interests of the community and their needs will be preserved which will ultimately benefit the society as a whole (Prabhakaran, Nair & Ramachandran, 2016).

The tourism industry will provide the advantage of contributing towards improving socio-economic conditions in the local community in rural areas (Manyara and Jones, 2007). However, financial constraints are the main obstacles in the tourism development process for the less fortunate (poor) local communities, especially in the least developed nations. The recognition of microcredit services by international bodies as one of the options to assist the poorest of populations in urban and rural areas has opened up opportunities for financial access for tourism venture creation. The availability of microcredit facilities will aid the local community to partake in new tourism ventures with broader opportunities apart from being small-scale handicraft retailers (UNWTO, 2010; 2005). Furthermore, microcredit facilities could help to transform family-owned businesses and individual entrepreneurs to transition into becoming large scale business operators (Getz & Carlsen, 2000).

Choi & Sirikaya (2006) emphasised the importance of community participation to ensure the benefits of the tourism industry are transferred to society. This can be achieved through the community's involvement in tourism, hospitality

and culinary arts-related activities and not simply limited to providing accommodation and food and beverage services. Likewise, the barriers to community participation in operations, structure, culture and economic needs should also be evaluated in order to encourage the establishment of tourism-related ventures by the local community (Tosun, 2000). Moreover, the capacity of the local community such the necessary public infrastructure, communication channel, education, health care services and other amenities for both the community and tourists visiting these tourism destinations need to be addressed thereby allowing the creation of tourism products and services (Cioce *et al.*, 2007).

1.2.3 Entrepreneurial Classification

Small to medium-sized enterprises (SMEs) in developing and emerging countries are considered one of the main sources in the process of creating employment (Kok, Deijl, & Van Essen, 2013). Similarly, governments and non-government organisations globally have been providing billions of dollars to support the development of programmes for SMEs. According to the Department of Statistics, Malaysia (2014, p, 7), '*SMEs are one of the driving forces of an economy in promoting economic development for the nation*'. In 2013, the contribution by SMEs' to Malaysia's GDP was 33.1% with significant growth of 6.8% originating from the retail, accommodation and restaurant sectors. Indeed, these service sectors have been recognised as stimulants for the growth of SMEs in Malaysia (Department of Statistics, Malaysia, 2014). SME's can be classified as micro and small enterprises; thus the focus of this research is on the establishment of tourism micro enterprises at specific tourism destinations.

The size of an SME size is determined by the number of employees, annual sales turnover or vested capital (European Commission, 2019). However, the most common indicator used to describe an enterprise is founded on the number of workers and/or the number of businesses that are licenced and owned by entrepreneurs (Kok, Deijl, & Van Essen, 2013). The official definition of micro, small and medium-sized categories from the European Commission and the International Finance Corporation (IFC) is shown in Tables 1.3 and 1.4 respectively.

Table 1.3: European Commission Definition of Micro, Small and Medium-Sized Enterprises

Indicator	Size class*		
	Micro	Small	Medium
Headcount: Annual work units**	< 10	< 50	< 250
Annual turnover	≤ €2 mln.	≤ €10 mln.	≤ €50 mln.
Annual balance sheet total	≤ €2 mln.	≤ €10 mln.	≤ €43 mln.

* An enterprise is classified into a specific size class if it qualifies for the headcount indicator and either one of the other two indicators (annual turnover OR annual balance sheet total).

** The headcount includes employees, persons working for the enterprise being subordinated to it and considered to be employees under national law, owner-managers and partners engaged in a regular activity in the enterprise and benefiting from financial advantages from the enterprise. Full-time, part-time and seasonal staff are included, where part-time and seasonal staff are counted as fractions of an annual unit.

(Source: European Commission, 2019)

Table 1.4: International Finance Corporation Definition of Micro, Small and Medium-Sized Enterprises

Indicator	Size class*		
	Micro	Small	Medium
Employees	< 10**	10 < 50	50 < 250
Total Assets	< \$100,000	\$100,000 < \$3 mln.	\$3 mln. < \$15 mln.
Total Annual Sales	< \$100,000	\$100,000 < \$3 mln.	\$3 mln. < \$15 mln.

* An enterprise is classified into a specific size class if it qualifies for two of the three indicators mentioned in this table.

** Another IFC publication explicitly states that micro enterprises should employ at least one employee (Kushnir et al., 2012), which excludes self-employed.

(Source: Adapted from International Finance Corporation (IFC), 2012b)

Although, according to Kok, Deijl, & Van Essen (2013), the number of employees is used as the indicator for the SME's size, inclusive of micro enterprises. These SMEs are fundamentally connected to various tourism related service sectors such as food and beverages, public transportation, accommodation, petty traders and retailers etc. Therefore, to address the diversity of businesses with different sized enterprises in the tourism sector, Sterren (2008) recommended the following classification as shown in Table 1.5.

Table 1.5: Characteristics of Micro and Small Enterprises

Type	Number of Employees	Characteristics	Asset Base for Accumulation
Self-employed poor	0	Mostly part-time labour, temporary, sometimes seasonal activity, family-based labour main aim = additional family income	No permanent asset base, no capital accumulation, permanent cash shortage. Business only as a survival strategy.
Micro enterprise	1-9	Not focused on economic expansion, fixed business premises, limited fixed assets. Family labour, informal or formal status. Little orientation to growth. Tourism is one of multiple family income sources	Permanent availability of liquid assets, some savings. Little capital accumulation. Business as the main strategy. Income stabilisation as the main purpose.
Small enterprise	10-49	Partially formalised operating license. Profit/growth oriented. Specialised tourism business is possible.	Business as the main strategy, non-permanent availability of fixed assets, capital accumulation, income and return oriented.

(Source: Sterren, 2008; adapted from International Labour Organisation, 2003)

The definition of micro enterprises and SMEs as guided and applied in this research has been adopted from the latest secular issued by Bank Negara Malaysia's (BNM) as at 1st April 2014. The new definition has also been recommended by the National SME Development Council (NSDC) on 11th July 2013 (refer to Table 1.6). According to BNM (2014), *'the share of SMEs to total establishments has increased from 97.3% to 98.5% based on the Economic Census 2011 - Profile of Small and Medium Enterprise due to the change in its definition'*. Thus, indicating steady growth in their establishments, of which include micro enterprises.

Table 1.6: Definition of Small and Medium Enterprises (SMEs) in Malaysia

Sector	Micro	Small	Medium
Number of Full-Time Employees			
Manufacturing	Less than 5 employees	From 5 to less than 75 employees	From 75 to not exceeding 200 employees
Agriculture, Construction, Mining & Quarrying and Services	Less than 5 employees	From 5 to less than 30 employees	From 30 to not exceeding 75 employees
Annual Sales Turnover			
Manufacturing	Less than RM300,000	From RM300,000 to less than RM15 million	From RM15 million to not exceeding RM50 million
Agriculture, Construction, Mining & Quarrying and Services	Less than RM300,000	From RM300,000 to less than RM3 million	From RM3 million to not exceeding RM20 million

(Source: Adapted from Bank Negara Malaysia, 2014)

1.2.4 The Evolution of Microfinance Institutions

The Grameen Bank model was founded by Professor Mohamed Yunus, in the mid-1970s and who was also the recipient of the 2006 Nobel Laureate for Economics for his effort to eradicate poverty in his village in Bangladesh. This has been highly acknowledged as the most successful development initiative to combat poverty (Hulme, 1990). The model gives women borrowers the freedom to utilise loans based on their survival skills and knowledge. Here, group liability is used to replace collateral and group supervision is established to oversee the processing and the repayment of the loan (Egger, 1986; Ghai, 1989). Since then, the term “*Microfinance or microcredit*” has been widely accepted with many publicised success stories resulting in the development of financial innovation in serving the most indigent population with financial aid (Robinson, 2001). The success of the poverty eradication strategy in Bangladesh led to the establishment of Amanah Ikhtiar Malaysia (AIM) 1987, which replicates the Grameen Bank Model (Omar, M.Z., 2010; McGuire, Conroy, & Thapa, 1998). The main goal in its establishment is to provide financial services for the eradication of poverty in Malaysia (AIM, 2013).

AIM members or borrowers are known as ‘*sahabat*’, which is a term widely accepted and commonly used by the AIM and its members. According to the AIM’s Deputy Director of Finance, Mohd Ramdani Kassim; the term ‘*sahabat*’ means friends, to inculcate the spirit of close relationships among members in a group. This is also in line with the institution’s credit requirement in substituting collateral and guarantors by forming a solidarity group of five persons (equal in the level of education, economic status and knowledge of each other).

Initially, the establishment of microfinance institutions (MFIs) was to target the disadvantaged or poor population and reduce their dependency on private money lenders which normally overburden them with exorbitant rates for financial services. The growth of the MFI’s financial services also served many local communities globally resulting in the evolution of its financial products and services. In fact, many countries like Bangladesh, Indonesia and Bolivia have successfully been executing these services (Zeller and Meyer, 2002). Babri and Dorp (2009) state that “*The incentive behind microfinance lies in helping the poor, providing them with an opportunity to raise their standard of living rather from the motivation to only make money*”. The government has made a continuous effort to reduce the poverty level resulting in an increase in the number of government agencies and non-governmental organisations in providing various financial and non-financial aid to assist the extremely less fortunate people in Malaysia. These also would include microfinance institutions.

The challenges in providing financial aid to the most impoverished communities in rural areas remain visible given the poor infrastructure, lack of information on the community itself and poor institutional establishments to deliver services,

thereby leading to higher transaction costs (UNWTO, 2005). Furthermore, it has been seen that community involvement is concentrated in agricultural in rural areas which are subjected to seasonality influences thereby also leading to uncertainty in generating income (UNWTO, 2005). This issue is also visible in tourism products and services that affect rural poor populations in establishing tourism enterprises.

However, the expansion of microcredit facilities does not always reach the poor communities in which it is targeting, and the majority of these facilities do not have the ability to acquire and serve debt as part of their operations. According to the Consultative Group to Assist the Poor (CGAP) (2006), the most impoverished community need more than just financial assistance. The institutional provider should be looking at providing other non-financial assistance regarding helping to fulfil their basic needs like food, health care services, skills training, communications and infrastructure which will increase their ability for loan repayment. Usually, microfinance programs do not prepare them to become micro-entrepreneurs, and most commonly have been used as commercial financial providers (CGAP, 2006).

Furthermore, due to the widespread commercialisation of its financial services, the MFI's mission to serve the poor has been diverted from its main goal of serving the poor. Instead, the MFI's seek to achieve ratings for their performance in providing loans, which has led instead, to distributing loans to the marginal poor or the not so poor (Epstein & Yuthas, 2010). Therefore, MFIs need to be sustainable in their operations in serving the poor much better. Although, it has been reported that the lending process often reaches the wrong target group when they are financially self-sustaining (Morduch, 2000). The MFIs tend to fix higher interest rates due to the absence of financial collateral in order to obtain the loan, resulting in the inability of the poor to serve the loan. Therefore, to achieve sustainable microfinance services, it requires optimal cooperation between various stakeholders which should benefit both lenders and borrowers and at the same time reaching the correct targeted group.

In order for these MFIs to better serve the poor, they need to be sustainable. Morduch (2000) reports that around 1 per cent of MFIs are currently financially self-sustainable and less than 5 per cent are not. However, if they are sustainable and financially self-sufficient, they will offer loans to a different target group.

1.3 Research Site

Semporna is located on the east coast of Sabah, Malaysia and is the gateway to many beautiful islands such as Sipadan, Mabul, Kapalai and Matakang. These islands are the main attractions for both domestic and international tourists for scuba diving and snorkelling activities. The Marine Park, also known

as Tun Sakaran Marine Park, also promises a beautiful and pleasant experience, both above and under the water, to visitors and scuba diving enthusiasts. The Marine Park comprises of eight beautiful islands: Bohey Dulang, Bodgaya, Sebangkat, Selakan, Mantabuan, Sibuan, Miaga, Church Reef and Kapikan Reef.

Semporna is also known for the 'Regatta Lepa', an annual water festival which includes traditional boat races occurring in April each year. Amongst the other activities that one can do while visiting Semporna is taking a tour to the Bukit Tengkorak archaeological site. The site is a volcanic rock shelter located about 600 feet above sea level on a hilltop which is also part of a volcano mouth spanning 2 km in diameter. Semporna is unique given its diverse ethnics groups. In addition to Sabahan Malay which is the main language spoken in this area, there are also other different local dialects spoken from various ethnic groups such as Bajau, Bajau Laut, Bugis and Suluk. According to the local District Officer, the cause for these various dialects is attributed to Filipino and Indonesian refugees that brought the language to this area. However, over 95 per cent of the population is Muslim (District Office of Semporna, 2014).

1.4 Theoretical Framework

The research approach in this study includes the development of a conceptual framework and inclusion of the social exchange theory (SET) to facilitate the investigation and in appraising the participation of the local community in respect to tourism microenterprises in Semporna. The theoretical framework helps to establish the concept of community participation, linking to the interaction of individuals in a society concerning the material and social needs of the community (Blau, 1964; Emerson, 1962; Homans, 1958). The evolution of the theory incorporated various economic, psychology and sociology aspects which highlighted the motive of individuals to participate given the expectation they would be compensated in some form for their involvement (Zafirovski, 2003). Understanding the theoretical concept is important, in order to associate the integration of the institution (AIM) and its borrowers in promoting active participation in tourism microenterprises. Also, the inputs collected from the observations and semi-structured interviews involving relevant authorities such as Amanah Ikhtiar Malaysia, the District Office of Semporna and Sabah Park were evaluated and reviewed in producing the conceptual framework of this study. Details of the conceptual framework are discussed in Chapter 3 of this study.

1.5 Problem Statement

Semporna is the gateway to the Tun Sakaran Marine Park, which includes Sipadan Island renowned for scuba diving and snorkelling activities (District Office of Semporna, 2019). The number of tourist arrivals that Tun Sakaran

Marine Park between 2007 and 2017 was 556,941 (refer to Table 1.7) (Sabah Park, 2019). This figure represents an average of around 50,631 tourist arrivals annual, resulting in a growth rate of 91 per cent since 2007. Sipadan Island already recorded a steady growth rate during this period, averaging 44,298 (Table 1.8) tourist arrivals annually, mainly for scuba diving and snorkelling activities. Semporna district has also been recognised as the main dive tourism destination and hotspot for divers globally as it has the most significant concentration of coral in Malaysia (Choo, Kassem, Sumampouw, 2012).

Table 1.7: Tourist Arrivals in Tun Sakaran Marine Park

Year	Foreign Tourist	Local Tourist	Total
2007	12	51	63
2008	3700	909	4609
2009	3737	663	4400
2010	7910	2039	9949
2011	22891	6505	29396
2012	46918	12852	59770
2013	30541	4614	35155
2014	39998	7518	47516
2015	63017	27073	90090
2016	87125	25685	112810
2017	128925	34258	163183

(Source: Sabah Parks, 2019)

Table 1.8: Tourist Arrivals in Sipadan Island Marine Park

Year	Foreign Tourist	Local Tourist	Total
2007	39288	4094	43382
2008	39172	4453	43625
2009	38015	5538	43553
2010	37784	5692	43476
2011	37861	5810	43671
2012	38467	5431	43898
2013	38929	4721	43650
2014	42713	3158	45871
2015	42660	3415	46075
2016	44140	2223	46363
2017	41372	2345	43717

(Source: Sabah Parks, 2019)

Recently, the Ministry of International Trade and Industry (MITI) (2014) highlighted the need to continue focussing on the capital economy (i.e. macro policies, GDP growth, private sector investment, financial markets, etc.) and the people economy (i.e. wage growth, SMEs, household expenditure, cost of living, jobs and family well-being). In line with this focus, the 2015 Budget was extremely encouraging, demonstrating the continued support for SMEs and entrepreneurship development. A total of 18 specific programmes, with financial funds allocated of RM 14.3 billion (vs. RM 2.8 billion in 2014) were announced for the development of SMEs covering the “services sector, Bumiputera entrepreneurs; youth; graduates; microenterprises; petty traders; women; smallholders; cooperatives; and associations”. Also, a further RM 1.8

billion was allocated to AIM's operations to serve its members, with RM 30 million allocated specifically to Indian women to encourage their involvement in entrepreneurial activities (MITI, 2014).

As previously mentioned, Semporna is the gateway to many beautiful islands for visiting tourists on vacation and specifically for divers, having the potential of becoming an income generating source for the local community (Aref, 2011). However, it is noticeably apparent that local communities in the area are not directly involved in tourism-related ventures despite the potential of this area of becoming a tourism hub with various opportunities including the feasibility of gaining micro-financing services. The Companies Commission of Malaysia (2014) reported that only 33 companies had registered their businesses as private limited companies in Semporna and 9 companies (27 per cent) had registered under '*Bumiputera*' status. Further reported was that only 13 companies (39 per cent) were directly involved in the tourism sector. This indication shows that outsiders residing in Semporna tend to establish most of the companies. Tourism development is often initiated by private companies and tourism service providers (Harrill & Potts, 2003); which leaves many micro-entrepreneurs lagging due to the substantial amount of capital required at start-up.

It is undeniable that the tourism industry could provide the diversity of community economic activities that are required through the establishment of micro-entrepreneurs and improving their living conditions (Manyara and Jones, 2007; UNWTO, 2005; Godfrey & Clarke, 2000). To this end, the tourism sector in Semporna could potentially be developed on a much larger scale through establishing microfinance institutions (AIMs) to benefit the community instead of focusing on small-scale of retailers that sell handicrafts for tourists (UNWTO, 2005). Based on AIM's financial report (2014), 70% of members are involved in entrepreneurial activities although, they are only indirectly involved in tourism-related activities such as operating grocery shops, direct selling (multi-level marketing), wet market traders (selling fish and poultry items), sewing services and street hawkers. Also, there is limited interest shown among the local community to register for job placement (see Table 1.9) with the office of the Department of Labour (according to Semporna's Labour Office (2017)). It is further indicated that many local communities are mainly self-employed, involved in agricultural work (palm garden, vegetable farming, livestock farm, seaweed farm, and fisherman) on their own land. Further, they are also involved in receiving multiple sources of income, usually on a part-time basis, such as providing private transportation services using their own car or van for locals. This is evidenced resulting from the lack of infrastructure and public transportation services in the Semporna district.

Table 1.9: Number of Workers Based on Job Placement by Industry

Industry	Local	Foreign	Total
Agriculture, Forestry & Fishery	190	1746	1936
Wholesale, Retail & Workshop	124	6	130
Transportation & Storage	40	10	50
Accommodation, Food & Beverage	66	3	69
Financial & Insurance Services	110	-	110
Administration & Support Staff	3	-	3
Other services	157	1	158

(Source: Labour Office of Semporna, as at April 2017)

In many countries, these scenarios are common where the local community comprises of self-employed low-income groups operating their business to survive and with little to no specific knowledge or entrepreneurial skills (Sterren, 2008, UNWTO, 2005). Moreover, AIM has not indicated any specific entrepreneurial activities are required as part of its condition in obtaining a loan, with a minimum between RM 500 and RM 3,000 for first-time borrowers. Subsequently, borrowers are free to engage in any activities they wish, as long as they are engaged in activities to improve their socio-economic income (Mohd Ramdani Kassim, Deputy Director of Finance, Amanah Ikhtiar Malaysia, pers.comm, 20 February 2014).

Therefore, this research aims to identify community participation indicators and determine factors influencing AIM members' participation in tourism micro enterprises, as well as determining the institution's role in providing micro-financing facilities to the local community. It is also anticipated that appropriate financial instruments can be developed to meet the needs of potential tourism micro enterprises. The government, local authorities, non-government organisations (NGOs), and the private sector in Semporna could also help to facilitate the transformation process towards delivering specific financial products and services through AIM that are oriented towards transferring the benefits back to the local community; specifically, towards establishing sustainable tourism micro entrepreneurs.

1.6 Research Objectives

This study aims to appraise an active participation framework in synergy with an organisation that is recognised in the field of microfinance (AIM), and its borrowers in the development of tourism micro entrepreneurs in Semporna, Sabah.

The specific objectives of this study are:

1. To identify socio demographic and enterprise characteristics of AIM's micro-entrepreneurs in Semporna, Sabah.

2. To identify the indicators of participation in tourism micro enterprises among AIM's entrepreneurs in Semporna, Sabah.
3. To determine the factors influencing participation in tourism micro enterprises among AIM's entrepreneurs in Semporna, Sabah.
4. To determine the moderating effect of AIM's role between predictors and participation in tourism micro enterprises in Semporna, Sabah.

Research Questions

Several research questions have been formulated for this study which includes:

1. What are the indicators for borrowers' participation and which factors have influenced their participation in tourism micro enterprises?
2. Does the microfinance institution's (AIM) role enhance borrowers' participation in tourism micro enterprises and how does its role influence their participation?

1.7 Research Significance and Contribution

This research aims to investigate the limited level of participation in tourism micro-enterprises among AIM entrepreneurs in Semporna, Sabah. The study also aims to identify the characteristics, determine factors and indicators that influence the degree of participation in tourism micro enterprises. Given Semporna's tourism potential and the assessable credit from AIM discussed in the previous section, this study attempts to recommend the possibilities of adapting microfinance to the specific needs of the tourism sector.

Tourism's contribution has been recognised towards stirring action of all tourism stakeholders in building opportunities for sustainable development (WTO, 2018) and social inclusiveness referring to employment and poverty reduction is identified as one of the pillars for the International Year of Sustainable Tourism for Development in 2017 resulted from various initiatives and publications (*Manual on Tourism and Poverty Alleviation: Practical Steps for Destination, 2010; Poverty Alleviation through Tourism: A Compilation of Good Practices, 2006; Tourism, Microfinance and Poverty Alleviation , 2005; Tourism and Poverty Alleviation: Recommendation for Action, 2004; Tourism and Poverty Alleviation, 2002*) to promote tourism to benefit the disadvantaged individual and communities since 2002. It is the top priority in ensuring job creation for the local community via entrepreneurship through tourism income generation, thus could possibly end poverty by empowering local community to act and improve their social living conditions consistent with the national poverty reduction strategies (WTO, 2019).

This study will help to bring both micro entrepreneurs and microfinance institutions together in stimulating tourism development to benefit the local

community through the establishment of tourism micro enterprises. A framework to synergise microfinance institutions and its borrowers will be developed in creating micro tourism entrepreneurs and will hopefully encourage microfinance institutions to adapt their lending, to the specific characteristics of tourism-related activities. It is also vital to integrate relevant authorities during this process of supporting tourism ventures engaged by the local community.

1.8 Research Structure and Procedures

The research examines the notion of participation in tourism micro enterprises and identifies different variables based on the participation dimension regarding microfinance institutional resources. The selection of variables for this study is based on an extensive review of relevant on the social exchange theory (SET) and the participation framework. The study is organised into five (5) chapters. The first chapter provides an introduction with the background of the research. This chapter also includes the identification of the research problem, objectives and questions, highlighting the theoretical framework and emphasising the significance of the research.

Chapter Two presents a critical review of the research's conceptual framework which comprises the theoretical and conceptual perspectives, community participation dimensions and factors influencing community participation. Chapter Three describes and justifies the research methodological approach focusing on the chosen conceptual framework and explaining the various research variables. Also, research sites, research population and sampling techniques, research instrument development and data collection procedures are elaborated. This research emphasises the quantitative approach in the context of the participation in tourism microenterprises in Semporna. In order to construct the empirical model, a participation framework from the perspectives of the local community by incorporating the microfinance institution's role is proposed to examine the effectiveness of community participation.

Chapter Four reports on the research findings and the empirical analysis of community participation in tourism micro enterprises are evaluated. Descriptive statistics are used to analyse the sociodemographic and micro enterprises characteristics of the survey population and are explored together employing confirmatory factor analysis to identify the main factors for this research. Various multiple regressions techniques are also incorporated to access community participation with and without the moderating variables to evaluate the role of a microfinance institution in proving financial services to its members, specifically towards tourism micro enterprise development. Finally, Chapter Five summarises the overall research and findings by drawing conclusions and discussing the implications and along with recommendations. This chapter also highlights the limitations of the research along with recommendations for future research.

1.9 Definition of Terms

Amanah Ikhtiar Malaysia (AIM) - the microfinance institution established in Malaysia to provide financial services for micro, small and medium scale entrepreneurs.

Local community - the individual members of AIM receiving financial services provided by the institution.

'Sahabat' AIM - the borrower of a financial institution who benefits from receiving various financial services.

Entrepreneurial - local community collaborative activities which act as entrepreneur by becoming a member, owner, manager and employee to identify market opportunities.

Community participation - focus on the local community acting corporately as both an entrepreneur and enterprise which aim to contribute to social, and economic development.

Tourism micro enterprise – the business ventures which directly or indirectly are established to benefit visitors at the destination.

Community-based tourism – refers to any activities engaged by the local community which are directly related to the tourism industry that contributes to the socio-economic development of the community residing at the tourism destination.

Critical incidence – refers to an external factor beyond the control of the local community.

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