

The Importance of Micro Financing to the Microenterprises Development in Malaysia's Experience

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Abstract

This paper aims to explore the importance of micro financing to the development of micro-enterprises (MEs) in Malaysia. MEs play a vital role in developing Malaysian economy. MEs accounted about 80% of the total Small and Medium Enterprises (SMEs) and 78.7% of business establishments in Malaysia. However, MEs face numerous problems such as lack of marketing, technology and credit facility. Therefore, micro financing is a choice to the MEs because it provides an easy, faster and convenient financing facility. The paper examines the microfinance programs offer to the MEs in Malaysia. The paper concludes that a small credit can help micro entrepreneurs to boost up their business.

Keywords: Micro financing, Microenterprises development, Malaysia

1. Background of the Study

Micro-enterprises (MEs) are a backbone for most of the country in the world including Malaysia (The Star, 27 March 2009). Micro and small enterprises have been recognized as a major source of employment and income in many countries of the Third World (Mead & Liedholm, 1998). The Inter-American Development Bank (1997) reported that MEs makes a major contribution to aggregate employment, production, and national income in Latin America and the Caribbean. MEs provide income and employment for significant workers in rural and urban areas by producing basic goods and services such as made traditional foods, tailoring, barber shop and hawkers for the need of rapidly growing populations.

MEs play a vital role in developing the Malaysian economy. MEs accounted for 79.4% (412,000 from a total of 552,804) of the total SMEs and 78.7% of business establishments in Malaysia (Department of Statistics, 2005; p.7). The census also indicates that Micro and SMEs contribute about 64% (3,223,000 out of 5,038,000) of total employment and generated RM159,411 million of value added in 2003 (Department of Statistics, 2005; p.12 & 14). The World Bank claims that between one third and three quarters of total employment in most developing countries comes from informal sector (Webster & Fidler, 1996).

However, there are several constraints to MEs development. Such constraints include lack of relevant laws and administrative procedures; a lack of or limited access to institutional credit; imperfect market information and lack of opportunities for skill development. Saleh & Ndubisi (2006), found that among the challenges faced by SME in Malaysia are the low level of technological capabilities and limited skilled human capital resources, a low level of technology and ICT penetration, low levels of research and development (R&D), a substantial orientation towards domestic markets, a high level of international competition, a high level of bureaucracy in government agencies and difficulty in obtaining funds from financial institutions and government.

Of the hurdles, the most formidable has been lack of access to credit (Cotler & Woodruff, 2008; Tambunan, 2007; Schoombee, 2000; Kurwijila & Due, 1991). Schoombee (2000) found that lack of access to formal bank credit is one of the important problems faced by South African MEs in the informal sector. Meanwhile, Mead & Liedholm (1998) concluded that small amount of a single missing ingredient; working capital is required to sustain the enterprise and to enable it to improve its performance. Access to capital is critical and essential for the development of small-scale enterprises (Leaman, Cook & Stewart, 1992). Most of MEs just relied on their own sources of funding such as personal savings and borrowings from family and friends (Ang, 1992; Petersen & Rajan, 1994; Berger & Udell, 1995; Binks & Ennew, 1996).

The limitation of the formal financial institutions in providing financial services especially credit encouraged the microfinance program to evolve. The microfinance program was initiated with the objective to provide credit to the poor people without collateral. Von Pischke (2002) argued that microfinance typically targets borrowers who do not have access to formal financial markets. Bangladesh has been a pioneer in the microfinance movement since its inception in the early 1980s and now it become a reference to the most extensive microfinance operations in the world. Microfinance program enable MEs to expand existing economic activities and consequently boost up their income (Roslan, Fauziah, Mohd Saifoul, & Rahimah, 2007).

Microfinance around the world shows that a small credit to MEs may help them grow (Khandker, 2005; Woller & Parsons, 2002; Mead & Liedholm, 1998; Hossain, 1988). Hartarska & Nadolnyak (2008) indicated that the existence of Microfinance Institutions was alleviating micro businesses' financing constraints. So, the development and sustainable microfinance is important to achieve greater financial inclusion and ensuring that all economic sectors, regions and communities have access to a full range of financial products and services (Khandker, Khalily, & Khan, 1995; Yaron, 1992). Micro financing is a way to provide an easy, faster and convenient financing facility to micro entrepreneurs. Microfinance requires no collateral, minimal documentation and simple procedures. The time taken to approve and disburse funds is also short.

As at November 2009, cumulative amount disbursed since inception is US\$8.6 million (RM29.3 million) and cumulative amount repaid since inception is US\$7.7 million (RM23.8 million) where the rate of recovery is 96.68% (Grameen Bank Monthly Report, 2009). As at November 2009, Grameen Bank has 7.95 million borrowers which comprised of 97% of women. Grameen Bank's activities attracted the attention of other countries to follow, including the Bank Rakyat Indonesia (BRI) in Indonesia, BancoSol in Bolivia, K-REP in Kenya, ADEMI in the Dominican Republic and Amanah Ikhtiar Malaysia (AIM) in Malaysia. Since the 1980s, the field of microfinance has grown substantially and most microfinance NGOs such as BancoSol, K-REP and ADEMI have begun transforming into formal financial institutions.

Therefore the paper tries to review microfinance programs in Malaysia by comparing their products and targeting MEs. The paper is divided into four sections. The first section discusses the background of the study. This is followed by a discussion on microfinance definition and microfinance in Malaysia in a third section. The last section provides the conclusions of the study.

2. Microfinance Definition

Microfinance is a provision of a broad range of financial services such as savings, credit, insurance and payment services to the poor or low-income group who are excluded from the normal banking sectors (Ledgerwood, 1999). Microfinance is a development approach that provides financial as well as social intermediation. The financial intermediation includes the provision of savings, credit and insurance services, while social intermediation involves organising citizens' groups to voice their aspirations and raise concerns for consideration by policy makers and develop their self-confidence (Robinson, 2002).

However, Conroy (2002) stated that microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their micro-enterprises. The term evolved from the concepts of "microcredit" and "microenterprise" financing, to include the importance of savings as well as borrowing. Although the terms are used interchangeably, microfinance represents the field as a whole, while the other two terms are more technical and refer only to credit provision (Maria, 2004). The World Bank defines microfinance as "... Small-scale financial services – primarily credit and savings – provided to people who farm or fish and who operate small enterprises or microenterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban" (Robinson, 2001). While, Bank Negara Malaysia (BNM) defined microfinance as the provision of

small loans/financing up to RM50,000 (USD16,129) to microenterprises or self-employed individuals, for their business activities.

Microfinance activities usually involve giving small loans to customers for working capital, group guarantees, compulsory savings, insurance and access to repeat loans for a larger amount based on repayment performance. Microfinance is one of the important components required to get sustainable micro enterprise besides technical support, training, technology, input supplies and market access. Many clients around the world benefited from these services. A survey conducted by the Microcredit Summit Campaign (2007) reported that about 3,552 MFIs provide financial services to more than 154 million clients around the world and more than 106 million of them were the poorest borrowers (Daley-Harris, 2009). This achievement is the fulfilment of a goal set a decade ago (in Table 1).

Meanwhile, the Consultative Group to Assist the Poor (CGAP) estimated that MFIs in Asia have about 41 million loan accounts and 98 million deposit accounts.

3. Microfinance in Malaysia

Microfinance was introduced in Malaysia during the last three decades. Two types of institutions namely banking institutions and non-bank institutions offer microfinance programs. Banking institutions that offer microfinance products are Public Bank, AMBank, EONCAP Islamic Bank, CIMB Bank, Alliance Bank, United Overseas Bank, Bank Simpanan Nasional, Agro Bank and Bank Rakyat. The non-bank institutions that offer microfinance include NGOs, government agencies and credit unions. NGOs that offer microfinance are Amanah Ikhtiar Malaysia (AIM) and Yayasan Usaha Maju (YUM) that specialised for Sabah state. There are several government agencies that offer microfinance including TEKUN Nasional (TN), Council of Trust to the Bumiputera (MARA), Farmers Organization Authority (FOA), Federal Land Development Authority (FELDA) and Permodalan Usahawan Nasional Berhad (PUNB). Others, also include, several credit unions that offers microfinance such as Koperasi Kredit Rakyat in Selangor. Below are the microfinance institutions in Malaysia:

3.1 Amanah Ikhtiar Malaysia (AIM)

Amanah Ikhtiar Malaysia (AIM) is the largest and the oldest microfinance institution in Malaysia. AIM was registered as an NGO under the Trustee Incorporation Act 1952 (Amendment 1981) (Act 258). It replicated Grameen Bank model with some modification to suit the local context (AIM Annual Report, 1989). AIM was established in September 1987 to institutionalise an action research project carried out by the Centre for Policy Research of Universiti Sains Malaysia (USM), sponsored by the Asia and Pacific Development Centre (APDC), Islamic Economic Development Foundation of Malaysia (YPEIM) and the Selangor State Government. The project called "Ikhtiar Project" was carried out in 1986 as a program to eradicate poverty of the rural poor in Northwest Selangor, through providing small loans to finance income-generating activities (Gibbons & Kassim, 1990). The project was successful where the small loans given to the hardcore poor could reduce extreme rural poverty and the repayment rate was above 90 percent (Gibbons & Kassim, 1990). It is complementary to the government objective in eradicating poverty amongst the poor households in Malaysia.

AIM operational costs are borne through its administration charges to its borrowers, state government, federal government, banks and financial institutions and also the private sectors. The two major sources of AIM's operating funds are the state government and federal government. The concept of AIM is to create highly motivated individuals from hardcore poor households who are committed to earn an honest living and finally move out from the poverty level. Loans are disbursed with no collateral; no interest charges except a 10 percent of administrative charge and no legal action are taken for unpaid debt. For the borrowers who died before completing the repayment, their debt would be written-off. For the borrowers who success repaid the first loan, the bigger loans are being offered. This process goes on as the need arises. The first loan is normally restricted to a maximum of RM2,000 (USD645) and increase RM1,000 (USD322) for a successive loan. Successful borrowers could apply for a much bigger loans and usually double from the previous loans up to RM20,000 (USD6,452). AIM's borrower that received income at least 5 times from the current poverty line income and has been applied for a loan more than RM10,000 (USD3,225) could apply for a loan between RM20,000 (USD6,452) to RM50,000 (USD16,129). The AIM targets are the household whereby their income is less than 2/3 from the poverty line that is stated by the government as shown in the Table 2.

Before the individual is taken as a client of AIM, they have to go through several stages of test. The staffs of AIM will check the house of client according to the housing index eligibility test which are the house must be small, bad condition and under 20 points of marks. Then, the client will be interviewed to identify whether they are under poverty line that stated by AIM and after they are successful, a group of 5 people will be selected. The terms of the group approval are as follows:

- The same gender
- No blood relation
- Responsible
- Trustworthy
- Agree to be the group member

AIM also list several regulations to its member:

- 1) every member must attend weekly centre meeting.
- 2) loan must be repaid every week according to the amount a member has borrowed.
- 3) every member has to deposit RM1 to RM15 in Group Fund every week.
- 4) every member is allow to deposit 1 percent of the total loans in Group Fund for emergency case.

AIM offers four types of products namely “Ikhtiar Rezeki”, “Ikhtiar Penyayang”, “Ikhtiar Bestari” and “Ikhtiar Sejahtera”. “Ikhtiar Rezeki” is for income generating activities with a loan between RM2,000 (USD645) to RM50,000 (USD16,129). While, “Ikhtiar Penyayang” is for client who face problems in their activities such as project failure or natural disaster with a loan up to RM5,000 (USD1,613). “Ikhtiar Bestari” is for education purpose and the maximum limit for that loan is RM5,000 (USD1,613). “Ikhtiar Sejahtera” is for others purposes such as to buy asset and investment and the maximum limit is RM10,000 (USD3,226) . Table 3 show the types of products offered by AIM.

As at November 2009, total “Sahabat” of AIM is 235,325 and total groups are 54,981 with 6,494 centres. AIM has 87 branches all over the nation with 1,377 staffs. Total financing disbursed is 3.7 billion with a repayment rates is 99.15 percent (AIM Annual Report, 2009).

3.2 Yayasan Usaha Maju (YUM)

YUM was established in 1988 as an action project called Usahamaju Project (PU) that was implemented by the Institute of Development Studies (IDS, Sabah) and the Rural Development Cooperatives (KPD) to reduce poverty through microcredit program using Grameen Bank model. The project was implemented in Kota Marudu, Sabah and after three years evaluation from 1991 to 1994; it indicated that the project was successful. It was reached the often-neglected target group, the rural poor women of Sabah. Then, it was institutionalised to YUM in June 1995. YUM is a trustee agency under the Trustee (Incorporation) Ordinance 1951, chapter 148 (Sabah) which established to implement microcredit program for the poor families throughout Sabah. YUM is placed under the purview of the Ministry of Agriculture Development and Food Industries, which functions to provide loans to the hardcore target groups and to complement government efforts to overcome poverty in Sabah. It replicated the Grameen Bank model but with some adjustment to suit the local conditions and the uniqueness of the type of poverty, economic opportunities, infrastructure and socio-political structure of Sabah.

The funding of PU comes from the state government grants through KPD, Sabah Credit Cooperation and Grameen Trust, Bangladesh. The mission of YUM is to provide efficient microcredit services to women to enhance their family income where the loan is targeted to women whose age between 18 to 55 years. It similar to AIM approach, where no interest charged on loans, just an 11 percent of administrative charge in levied on every loan and no collateral or guarantor required. Before they select the clients, a few criteria will be tested including housing conditions, income and physical assets of the target clients. Then, a group of 5 members will be formed that each member must be familiar to each other with the same locality and socio-economic background. Besides, the group must attend group training and recognition test and the formation of centres have to be formalised.

The loan has to be repaid on a weekly basis and every member must save RM2.00 every week. Besides, each group member must contribute to the Group Fund, which is created as recognition to the establishment of the group. Contribution to the Group Fund can be borrowed by the members of the group. The loans also provide emergency fund as loan insurance to the member where the contribution is as low as 0.5 percent of loan amount. Borrower or next of kin “beneficiary” can claim compensation due to accident or death.

YUM has offered 3 types of products namely General Loan, General Loan 2 and Group Fund Loan. General Loan is offered to all members of YUM for start-up capital or additional capital to finance their existing activities. The size of loan is too small between RM100 (USD32) to RM6,000 (USD1,935) which be disbursed in various stages which the first loan up to RM2,000 (USD645), the second loan up to RM4,000 (USD1,290) and the third and subsequent loan up to RM6,000 (USD1,935). A repayment period is between 50 to 150 weeks. General Loan 2 is offered to members who are successful crossing over the poverty line income. This loan is

extended from the previous loans. The purpose of this loan is to prepare them and link them with banks and financial institutions. The loan size is between RM7,000 (USD2,258) to RM20,000 (USD6,451). While, the Group Fund Loan is an additional loan package for members for various purposes.

From 1990 to January 2005, total loan disbursed for General Loan is 43.1 million with the number of loan given is 25,154 and the total loan repayment is 42.4 million or 98.49 percent. Total Group Fund disbursed from 1990 to January 2005 is 1.9 million with the number of loan is 5,706. The total loan repayment is 1.88 million with the repayment rate is 98 percent. Total members of YUM from 1990 to January 2005 is 14,019 with a total group formation is 2,229. YUM has 1,173 center and total village entered is 1,082 (Yayasan Usaha Maju, 2005).

3.3 Council of Trust to the Bumiputera (MARA)

MARA was established in March 1966 under Parliament Act as a Statutory Body. MARA is an agency under Ministry of Rural and Regional Development. MARA was established to encourage, motivate and help Bumiputera (Note 1) especially in the rural areas to involve in business activities to produce excellent Bumiputera entrepreneur community. This is in line with the government mission to create Bumiputera Commercial and Industrial Community (BCIC) as stated in the NDP agenda. MARA provides business financing to help Bumiputera entrepreneurs to increase capital or to start-up the business. The concepts of financing are based on Bai Bithaman Ajil, Al-Murabahah, Al-Ijarah and Bai Al-Inah. The types of financing offered by MARA are as follows:

1) General Loan

This loan covers all area of Halal businesses including services, manufacturing and trading.

2) Start-up Business Loan

This loan is offered to former training students under MARA or government agencies who keen to start business.

3) Professional Loan

The loan is for professional bodies such as accountant, lawyer and medical doctor who want to start-up business or to develop their current business.

4) Transportation Loan

The loan is to buy transport for whom that involved in transportation business such as bus and lorry.

5) Mini Market Loan

The loan is specific to mini market business.

6) Technical Entrepreneur Loan

Specific for former students of MARA in Technical Entrepreneur Centre (PUTEK)

7) Small Business Loan

To finance small business with a maximum limit up to RM10,000 (USD3,226)

8) Agriculture Loan

To finance agriculture, aquaculture and husbandry activities.

Financing to the microenterprises is one of the financing schemes offered by MARA to develop entrepreneur skill amongst Bumiputera in Malaysia. The total financing for microenterprises is up to RM10,000 (USD3,226) only. The financing products offered by MARA more to help Small and Medium Size industry that owned and managed by Bumiputera.

3.4 Permodalan Usahawan Nasional Berhad (PUNB)

PUNB was set up on July 1991 under the Malaysia Companies Act, 1965 with an authorised capital of RM300 million (USD96.7 million) of which RM250 million (USD80.6 million) is fully paid-up. It is a wholly owned subsidiary of Bumiputera Investment Foundation, the coordinating body for investment activities with government agencies, Bumiputera companies and individuals. PUNB's business operation are focused on providing integrated entrepreneur development packages to assist Bumiputera entrepreneurs in Retail and SME sectors. The organisation works to develop truly professional, highly ethical and genuine Bumiputera entrepreneurs whose involvement and contribution is pivotal to the country's economic growth. The objective of its establishment is to become premier centre for the development of Bumiputera entrepreneurs. The products offered by PUNB are as follows:

1) Retail PROSPER

Retail PROSPER has two packages of product namely Business Funding Package A & B that based on Shariah. Package A for financing amount from RM70,000 (USD22,580) to the maximum RM200,000 (USD64,516). The package includes business financing based on the principle of Qard Al-Hassan, whereby the borrower must pay back the loan's principal amount through a fixed instalment schedule. The borrower needs to contribute at least 10 percent of the total project cost while PUNB provides financing up to 90 percent subject to the maximum amount of RM200,000 (USD64,516). The package also provides business services for pre-business operations, monitoring of accounts and business advice where the borrower will be charged an affordable fee for these services.

Package B includes business financing amount up to the maximum of RM1 million based on Musyarakah Mutanaqisah (equity injection), Bai Al-Inah (BAI), Bai Bithaman Ajil (BBA) and/or any financing instrument depending on the requirement of the proposed business. The company must be Sendirian Berhad (Sdn Bhd) with an exception to Petrol station business. If the borrower can only contribute 10 percent as the start-up capital, PUNB will contribute another 10 percent to make the total equity of the company to at least 20 percent of the project cost. The remaining amount will be financed by PUNB through BAI or BBA or other financing instruments deemed suitable. This package also offers business services for pre-business operations, monitoring of accounts and business advisory.

Retail PROSPER is open to all types of retail business such workshop, clothing shop, pharmacy and shoe shop. Besides, PUNB also provide courses in areas relating entrepreneur skills such as management development, operational monitoring skills and corporate governance.

2) Graduate PROSPER

This package offers to the young Bumiputera graduates and certificate holders to become entrepreneurs. The objectives of this package are to equip young Bumiputera graduates with skill and knowledge to venture in retail and distribution business and to assist young Bumiputera graduates to embark on retail and distribution business through structured and systematic development mechanism. The package offers loan facility and business services. The loan facility offers two types of packages based on the concept of Qard Al-Hassan namely Package A and B. package A provides loan facility from RM5,000 (USD1,612) to RM50,000 (USD16,129) for sole proprietorship, partnership or Sdn.Bhd. The borrower must provide a minimum capital of RM500 (USD161) for each project and the repayment period ranges from three to seven years. While, package B provides loan facility from RM50,001 (USD16,129) to a maximum of RM100,000 (USD32,258) for partnership or Sdn.Bhd business. The borrower must provide a minimum capital of RM500 (USD161) per project and the loan repayment period ranges between five to seven years. PUNB also provides business services for both packages comprising pre-operation advisory, monitoring of accounts, business advisory and training. These services are chargeable at a nominal rate on a monthly basis.

3) Wholesaler PROSPER

Wholesale PROSPER targets Bumiputera who aspires to venture or expand their wholesale, distribution or supply business. The objectives of this scheme are to develop Bumiputera entrepreneurs involved in bulk buying and selling activity of goods and supplies and to provide the source of goods and supplies at the cost that helps to enhance the competitiveness of Bumiputera entrepreneurs in the retail business. The package offers financing facilities from RM250,000 (USD80,645) to a maximum of RM5 million (USD1.6 million) and the repayment period is up to seven years. The fund is provided for the purposes of working capital, purchase of stocks and assets and others that are related to the needs of the proposed business. Besides, PUNB also provides business services comprising monitoring, identification of the premises, networking and entrepreneur training.

PUNB is focus financing to small and medium business in retail and wholesale industry where financing to microenterprises is open only to young Bumiputera, who at least hold a diploma certificate from higher learning institutions recognised by the government.

3.5 TEKUN Nasional (TN)

TN was established based on one resolution done in Penang Bumiputera Economic Convention in 1994. The resolution suggested one system that can help micro entrepreneur to get an easy and faster financing for additional capital without burden the entrepreneur. Therefore, in 1995, the Research Centre of Science University of Malaysia (USM) was formed one research team to carry out TEKUN project in Penang. Then, the project was continued to Jeli, Kelantan in 1996 and Besut, Terengganu in 1997. The result of the project showed that micro entrepreneur able to pay the micro loan continually and improve their business activities.

TN was established on 9 November 1998 known as Yayasan TEKUN Nasional and it started the operation on February first 1999. It is an agency under Ministry of Agriculture and Agro-Based Industry. The aim of establishment of TEKUN Nasional is to provide an easy and faster financing facility to the Bumiputera entrepreneurs to open or develop their business. The objectives of TEKUN programme are:

- 1) to offer additional capital financing to small Bumiputera enterprises
- 2) to encourage saving culture within TEKUN entrepreneurs
- 3) to create a business opportunities and network of Bumiputera entrepreneurs
- 4) to develop TEKUN entrepreneurs who are competitive and successful
- 5) to develop entrepreneurship culture to the Malaysian communities.

Started from 2008, TEKUN Nasional has made some changes in its objectives where it not limited to give loan only but also provides business opportunities, the opportunities to create income, working capital financing, opportunities to establish business networking and support and advisory. Besides, TN also provides guidance for entrepreneurs before and after receiving the loans and this can help to create a successful Bumiputera businessman. To achieve the objectives, TN was enscended it vision and mission to be a financial institution to small entrepreneurs and low-income group. The types of products offered by TN are as follows:

1) TEKUN Financing Scheme

The scheme provides financing to Bumiputera entrepreneurs to start up the business and to increase business capital. The total financing is from RM500 (USD161) to up RM50,000 (USD16,129). The repayment period is between 1 month to 5 years with a repayment method either in a weekly basis, bi-weekly or monthly basis.

2) Young Indian Entrepreneur Development Scheme

The scheme is a special scheme to the Indian Youth who are keen to involve in entrepreneur field. The scheme provides financing to Indian Youth to start up the business and for working capital purpose. This is the exceptional where it is not offered to Bumiputera as other schemes because the funding is come from Indian organisation.

3) Poverty Special Scheme

The scheme is for poverty alleviation purpose where it offered financing to the poor to help them increase their life status.

4) MECD Scheme

The scheme provides business financing under the programs implemented by the Ministry of Entrepreneurs and Cooperative Development (MECD).

5) Trustee Financing Scheme

This is a financing scheme offered to the selected entrepreneurs where the funding is from Government Link Companies contribution and public donation.

TN loans open for all Bumiputeras who are keen to venture into small business or want to increase working capital. The conditions imposed by TN are very minimal which are:

- 1) Bumiputera and aged between 18 and 65 years.
- 2) Possess a valid business license/ permit/registration.
- 3) Appropriate business premise
- 4) Operate the business on a full time basis.
- 5) Current outstanding business loan does not exceed RM20,000 (USD6,451).
- 6) Has been operating for at least 6 months.
- 7) Only one application per household

The borrower only need to fill up one form only and the process to get loans only takes 45 days and for the short-term loan, the process takes only two weeks. TN offers loans in the amount from RM500 (USD161) to RM50,000 (USD16,129) with a service charge fixed at 4 percent annually. The repayment period between 6 months to 5 years or depend on the grace period between 1 to 12 months. The loan is on the weekly or monthly basis depend on loan agreement and it need compulsory saving of 10% from the total financing every year. The range of activities includes agriculture and agro based industry, aquaculture and livestock, food and beverages,

services, communication and technology, health and beauty and grocery. TN financing is based on the concept of Al-Qardhul Hasan (benevolent loan) or interest free loan.

TN received fund from several sources namely the Ministry of Finance (MOF), a grant under Economy Stimulation Package, Ministry of Agriculture and Agro based Industry (MOA), Malacca state government and Economic Planning Unit (EPU). As at May 2009, total fund received by TN is RM863.9 million (USD278.6 million). TN has 192 branches all over the nation. As at August 2009, a totalled of 187,805 financing amounted RM1.4 billion (USD0.45 billion) was approved which are 150,131 financing amounted RM944.1 million (USD304.5 million) for first time loan and 37,674 financing amounted RM433.3 million (USD139.7 million) for repeated loan. As at end May 2009, the total repayment received by TN is RM741 million (USD239 million). Table 4 shows the the comparative table on microfinance scheme offered by Non-bank Institutions in Malaysia.

Besides, the above institutions, microfinance in Malaysia also offered by small credit unions that cater for certain areas such as Koperasi Kredit Rakyat (KKR) that cater for members in Batang Berjuntai areas in Selangor. Koperasi Kredit Rakyat (People's Co-Operative Credit) is a co-operative scheme operating under the umbrella of the credit union. It registered under the Society's Act. KKR is a rural based co-operative scheme operating from a rural town of Batang Berjuntai in Selangor. KKR was registered in 1975 to improve the socio-economic status of estate workers and mine workers through involving in economic activities. The vision of KKR is to uplift the largest possible number of ordinary men and women of the rural communities to a higher level of socio-economic life by creating economic opportunities and develop social integration through economic co-operation. The target groups of KKR include estate and mine workers, smallholders, government industrial management group workers, contract workers and squatters.

The KKR's programs consist of economic and community projects where economic projects include credit, savings, group insurance scheme, women income generating activities and youth income generating projects. KKR encourages small savings between RM5 to RM10 per month to be pooled into a community fund. Community fund are for emergency loan such as accidents, death and hospitalisation, providential loan for family enhancement, children's education and to purchase household appliances and small business and equity loans for microfinance program. Community projects of KKR include Community Tuition Centres, Family Life Education Program and Consumer Education Program (Chamhuri & Basri, 2001).

In August 2006, the National SME Development Council (NSDC) approved a comprehensive microfinance institutional framework proposed by BNM, comprising banking institutions, development financial institutions (DFIs) and credit cooperative to develop a sustainable microfinance industry in Malaysia under Micro Financing Scheme. Bank Simpanan Malaysia was given a mandate to provide microfinance, while Bank Rakyat would provide microfinance to members of cooperatives and Agro Bank would continue to provide microfinance to microenterprises in the agriculture and agro-based sector. Besides that, six commercial banks namely CIMB Bank, Alliance Bank, EonCap Islamic Bank, AMBank, Public Bank and United Overseas Berhad also offered microfinance products, both conventional and Islamic. The key features of the products offered by these banks are as follows:

- 1) Small financing size ranging from RM500 (USD161) to RM50,000 (USD16,129) for business activities.
- 2) Ease to obtain where they only need minimum documentation, simple procedures and no collateral requirements.
- 3) Fast approval and disbursed of financing (as fast as 2 days).
- 4) Flexible tenures (from 1 month to 10 years).
- 5) Widely accessible via branches and other alternative distribution channels such as post offices.

Since its inception, the Micro Financing Scheme has provided financing to over 40,000 micro enterprises (BNM, 2008). As at end 2007, RM224.7 million (USD72.48 million) total financing outstanding was provided to 22,788 microfinance clients with an average financing size of RM9,800 (USD3,161) (BNM Annual Report, 2007). YAB Prime Minister was launched a National Microfinance Logo at the 7th NSDC meeting held on 13 September 2007 to create awareness on the availability of microfinance products. Financial institutions which offer microfinance need to display the logo in front of their bank and microfinance clients who have successfully obtained microfinance are also encouraged to display the microfinance logo at their premises.

4. Conclusions

Credit is always become the missing link for MEs that try to operate small microenterprises although MEs have proven that they are a good credit risks. Limited access to credit for both new and growing firms becomes a major barrier for microentrepreneurs to start and expand their business. Microcredits are seen as an efficient instrument in helping MEs that faced financial constraints. Microcredit allows MEs to acquire assets, start businesses, finance emergency needs and insure themselves against negative shocks. The result of the study shows that a small credit to microentrepreneurs can help them boost up their business and help them to meet their working capital. The study also found that majority of microentrepreneurs is able to repay their loan within the time given.

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Note

Note 1. Malay and aborigine people

Table 1. Progress of Microfinance from 1997 to 2007

Year	Number of Institutions	Total Number of Client Reached (millions)	Number of Poorest Client Reported (millions)
1997	618	13.5	7.6
1998	925	20.9	12.2
1999	1,065	23.6	13.8
2000	1,567	30.7	19.3
2001	2,186	54.9	26.8
2002	2,572	67.6	41.6
2003	2,931	80.9	54.8
2004	3,164	92.3	66.6
2005	3,133	113.3	81.9
2006	3,316	133.0	92.9
2007	3,552	154.8	106.6

Source: Daley-Harris, 2009

Table 1 shows the progress of microfinance from 1997 until 2007. The table shows that the number of microfinance institutions was increased about 83 percent from only 618 institutions in 1997 to 3,552 institutions in 2007.

Table 2. Poverty Line and the Eligibility Income

Area	Household Income (RM)	Income Per Capita (RM)	Hardcore Income (RM)	Income Per Capita (RM)
Peninsular	661	152	398	91
Sabah	888	173	503	97
Sarawak	765	167	482	105

Source: Amanah Ikhtiar Malaysia, 2009

Table 2 shows the poverty line and the eligibility income stated by the government of Malaysia. Amanah Ikhtiar Malaysia uses the table to select the potential borrowers.

Table 3. Types of Products Offered by AIM

Ikhtiar Financing	Maximum limit (RM)	Repayment period	Purpose of Financing
Ikhtiar Rezeki			
a) I-Mesra	2,000 – 20,000	25 – 150 weeks (weekly repayment)	For first time loan up to RM2,000. Subsequent loan increase RM1,000
b) I-Serikandi	2,000 – 20,000	25 – 150 weeks (weekly repayment)	For subsequent loans. The amount double from the previous loans
c) I-Wibawa	5,000	6 months (weekly repayment/monthly/lump sum)	Seasonal loans/short-term loans
d) I-Wawasan	20,000 – 50,000	25 – 250 weeks (not more than 5 years)(weekly repayment)	Income of “sahabat” was 5 times more than current poverty line stated by government “sahabat” was made “Ikhtiar” financing at least 5 times before with the highest financing more than RM10,000
Ikhtiar Penyayang	5,000	25 – 150 weeks (weekly repayment)	Recovery financing
Ikhtiar Bestari	5,000	25 – 150 weeks (weekly repayment)	For first time: maximum RM1,000 For education purpose
Ikhtiar Sejahtera	10,000	25 – 150 weeks (weekly repayment)	First time up to RM3,000 Various purposes: to buy asset or investment

Source: Amanah Ikhtiar Malaysia, 2009

Table 3 shows the types of products offered by AIM. There are four types of products offered by AIM namely Ikhtiar Financing, Ikhtiar Penyayang, Ikhtiar Bestari and Ikhtiar Sejahtera that offer financing between RM5,000 to RM50,000.

Table 4. Comparative Table on Microfinance Scheme Offered by Non-Bank Institutions in Malaysia

Institution	AIM	TN	YUM	MARA	PUNB
Type of Institution	NGO	Government agency	NGO	Government agency	Subsidiary Company
Target Clients	Hardcore poor especially for women	Bumiputera Microenterprises	Women hardcore poor in Sabah	Bumiputera microenterprises	Young Bumiputera Graduates and certificate holders
Lending Methodology	Group based lending	Individual lending	Group based lending	Individual lending	Individual lending
Loan Size (RM)	2,000 - 50,000	500 – 50,000	100 – 20,000	Up to 10,000	5,000 -50,000
Repayment Period	25 – 250 weeks	1 month to 5 years	50 – 150 weeks	1 – 4 years	3 – 7 years
Place of Loan collection	At the centre (during weekly meeting)	At the premises	At the centre (during weekly meeting)	MARA offices/post office/banks	Banks
Repayment method	Weekly	Weekly/bi-weekly /monthly	Weekly	Monthly	Monthly
Administrative Charge	10%	4%	11%	4 – 6% (reduced rate)	Nominal rate on monthly basis
Compulsory Savings	Yes	Yes	Yes	No	No
Repayment Rate	99.03%	86.1%	98.5%	90%	80%

Source: Author's compilation, 2010

Table 4 shows the comparative table on microfinance scheme offered by Non-bank Institutions in Malaysia. The table shows that majority of institutions have good repayment rate which AIM has highest repayment rate almost 100 percent and PUNB has lowest repayment rate, 80 percent. It shows that offering credit to microentrepreneurs is not high risk even without collateral.