Asian Social Science; Vol. 11, No. 26; 2015
ISSN 1911-2017 E-ISSN 1911-2025
Published by Canadian Center of Science and Education

Issues and Challenges of Microcredit Programmes in Malaysia

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Received: December 2, 2014 Accepted: September 6, 2015 Online Published: September 21, 2015

doi:10.5539/ass.v11n26p191 URL: http://dx.doi.org/10.5539/ass.v11n26p191

Abstract

Most of the Small Medium Enterprises (SME) in Malaysia are microenterprises. To date, the government has played an important role, by giving unwavering support in terms of financial assistance to spurs businesses amongst the microfinance industry. This study highlighted microcredit loan cannot be used as a yardstick to measure one's success in business. It is highly recommended that continuous business and technical knowledge be given to all borrowers. A Graduation Model can also be implemented in microcredit programme in order to attract more poor people to venture into small business.

Keywords: microcredit, microenterprise, graduation model

1. Introduction

Microfinance programme in Malaysia have been implemented since 1987 as one of the poverty eradication strategies in the country. There are three large microfinance institutions in Malaysia namely Amanah Ikhtiar Malaysia (AIM), Yayasan Usaha Maju (YUM) and The Economic Fund for National Entrepreneurs Group (TEKUN). AIM and YUM are poverty-oriented institutions that only give microcredit loans only to people who live at, or below, the country's poverty line. TEKUN provides microcredit loans to both poor and below average income people. AIM and TEKUN provide microcredit services throughout Malaysia (Peninsular, Sabah and Sarawak). Meanwhile, Yayasan Usaha Maju (YUM) focus on providing microcredit loans to the poor people of Sabah. Each of these microfinance institutions has its own lending systems and has been subsidised by the government since their existence.

Although poverty reductions in Malaysia have been reduced and many *Bumiputra's* entrepreneurs are recipients from microcredit programme, there are still unresolved issues that need to be addressed. Amongst them are the poverty-oriented microfinance institutions such as AIM and YUM do not reach many of the poor in the country (Mokhtar, 2011). According to Nawai and Bashir 2010, AIM only reached 4% of the total poor in Malaysia. A study by Hamdan, Fadzim and Wan Sabri (2012) also showed that the positive impact of microcredit loans will only occur on the better-off borrowers, who have better financial income prior joining the microcredit programme. This leaves the issue of whether the microfinance borrowers in Malaysia are really poor?

Another important issue is that the borrowers also lacks of business knowledge and technical skills related to their business. A study by Mokhtar, 2011 found that most microfinance borrowers in Malaysia lack knowledge on how to manage their business income. Most did not know how to separate their business income, between their business and personal consumption. Many borrowers allocated a large portion of their income for personal consumption and only a minimal amount for their businesses. Many used their businesses to financially support their daily living expenses and made little effort to expand their businesses. This is one of many reasons, why some of their businesses either unsuccessful or stagnant even after continuous microcredit loans. Thus, this study will focus on these two issues and will provide recommendations to the problems.

2. Issue 1: Do Not Reach Poor People

Studies on the impact of microcredit loans on household level in Bangladesh by Khandker (2005), Pitt and Khandker (1998) and Zaman (1999) showed that microcredit loans improved the poor borrower's consumption, food spending and children's education. However, different countries documented different impact results. For example, the study of microcredit borrowers in Peru by Dunn and Arbuckle (2001) showed that microcredit loans increased the poor borrower's household income and food consumption but not expenditure on household appliances and children's education. However, a study by Mosley (2001) on microcredit borrowers in Bolivia showed that richer borrowers enjoyed a larger positive impact than the poor. A similar result was reported in Thailand by Coleman (2002) who also documented that microcredit loans had a larger impact on richer borrowers. A study on Malaysian microfinance borrowers also found similar results, whereby the most benefited from the programme are the non-poor borrowers (Nawai & Bashir, 2010; Mokhtar, 2011).

It is very challenging to the microcredit providers in Malaysia to reach and attract the poor by giving them microcredit loans in order to operate a business. According to this study, lacks of confidence amongst the poor negates them from borrowing. The other factor is their high credit risk that excluded them from the programme. The usual question arises, do the poor have the capability to conduct a business while at the same time struggling with the issues to survive. The poor is as a group of people who lack of necessities in their daily living such as food, clothing, shelter and also education. Without basic education and business exposures, these group of people certainly do not have the skills and knowledge needed to operate a business. Microfinance institutions need to equip the poor with basic nessesities and certain knowledge before granting the poor with microcredit loan. Hence, microcredit prgrammes need to be redesigned to make it more attractive and beneficial for the poor.

With this regard, this study suggest the Graduation Model proposed by the Bangladesh Rural Advancement Community (BRAC) to be implemented in Malaysia. The Graduation Model by BRAC is a framework of strategy in helping the poorest to be involved in microcredit programme. It is based on the realization that majority of the poorest in Bangladesh are excluded from the programme (El-Zoghbi, de Montesquiou, & Hashemi, 2009).

According to the framework as shown in Figure 1, firstly the microfinance institution needs to identify the poor or their potential borrowers to be involved in the programme. In this case, not all the poor will be selected. Only the physically and mentally capable that can learn and have the potential in managing a business will be chosen. Once the recepients are selected, they will be provided with the consumption support such as food, clothes, comfortable house and children education. In addition, the poor will be given with livelihood training, business skills, saving service, heathcare and productive assets transfer. In the productive assets transfer, the poor will be given in-kind good such as tools and equipment, seeds, fertilizer or livestocks to help the poor to start the business. They will be graduated once they have passed the poverty line and are eligible for the microcredit loans.

Even though, the Graduation Model originally is designed to the poor living in extreme poverty line, it is also can be applied to all the poor community. It is because the core of the model is to give a "breathing space" to the poor before they venture into a business (El-Zoghbi et al., 2009). The goverment can give subsidies along the "breathing space" periods and the subsidies should be stopped when the poor are graduated. With the monetary and non-monetary supports given during the "breathing space" it is hope that the poor will be confident and independent in managing their business. According to BRAC experience, 70% from 800,000 poor in the Graduation Model programme has been succesfully graduated, independent and lifted their life from poverty line (El-Zoghbi et al., 2009).

The Graduation Model framework has been replicated in other countries such as India, Pakistan, Haiti, Honduras, Peru, Ethiopia, Yemen and Ghana (El-Zoghbi et al., 2009). Most of these countries reported a positive impact on this model and they have scale-up the programme (El-Zoghbi et al., 2009). Thus, it is hope that the Graduation Model could provide a strategy to Malaysian microfinance institutions in reaching out to the poor and attract them to participate in microcredit programme. As stressed by Mosley, (2011) in the article "Rebalancing Microfinance", the microcredit programme should act as a tool-kit or credit-plus (Note 1) instruments rather than a single instrument (microcredit loan only) in order to become effective tool in combating the poverty. It is believe that the Graduation Model framework could provide a complete "tool-kit" for the Malaysian microfinance institutions.

3. Issue 2: Lack of Business Knowledge and Technical Skills

Research studies have shown that by giving financial literacy education to borrowers and prospective borrowers can help them make better financial decision (Bernheim et al., 2003; Lusardi et al., 2007). A study by Cole, Sampson and Zia (2009) show a strong association between financial literacy, better financial decisions and household well-being. However, in Malaysian microcredit industry, many borrowers are financial illiterate and lack of knowledge in business management (Mokhtar, 2011).

This study surveyed 100 borrowers of AIM and YUM institutions in order to investigate the reasons why most of the microfinance borrowers lack of business knowledge and skills. This study used a stratified sampling procedure where the population (borrowers) was divided into subgroups or strata (seasonal borrowers). This study randomly selected borrowers in various microcredit loan schemes (economic purposes only), such as small businesses, services, plantations, animal husbandry, fishery and manufacturing.

The results found that most of the borrowers never attended any business management course since many of them never been given the opportunity to attend the course (see Table 1). This study also found that most of the microcredit borrowers do not have any technical skills that's related to their businesses. With this limited knowledge and exposure, they lack of self-understanding about the importance of continous business improvement. The results support a study by Mokhtar, 2011.

In Malaysian context, entrepreneurship culture is not well-blend amongst the Malays and *Bumiputera* as compared to the Chinesse. For Chinese, most of their businesses succeeds, as they inherit their skills through generations. Therefore, knowledge in business management and related technical skills have to be given to all microfinance borrowers, when majority of them are Malays and *Bumiputera.*

In recent development, microfinance institutions in Malaysia do provide business and financial management course to their borrowers. The courses either conducted by the microfinance institution itself or other agencies such as SME Corporation and MARA. However, according to the borrowers, only selected borrowers will be chosen to attend the course. The course is also conducted on a seasonal basis and there is no fix training schedule in the calendar. In addition, the location of training and workshop is held in town and not all borrowers especially those who live in rural areas can attend.

The microfinance institutions also do not have a standardized module of training specifically to handle different level of borrowers. For example, the level of understanding financial and business management topics may differ from each borrower. The microfinance institutions should have different sets of training module specifically to the new borrower and repeating borrower. The trainer or the speaker also needs to simplify the information and knowledge given because the audiences lack education.

Hence, it is suggested that microfinance institutions in Malaysia have their own education and training trainers. In the current practice, the trainers are from other agencies and they do not understand the needs of the microentrepreneurs. It is also suggested that coaching system or mentor-mentee programme should be introduced for the borrowers. This is due to the fact that the borrowers need continous guidance and support in order to succeed. Since each of the microfinance institutions in Malaysia has thousands of borrowers scattered all over country, having the trainers and coaches on their own, will make the knowledge transfer process more effective.

According to this study, Langkawi Development Authority (LADA) under Investment & Business Facilitation Division, has taken initiatives to educate the entrepreneurs with capacity building rather than giving loans. This agency recognized the needs for knowledge to be given for microentrepreneurs in Langkawi in order to be successful in managing their business.

4. Conclusion

Microfinance institutions such as AIM, YUM and TEKUN have played a significant role in providing financial assistance to microentrepreneurs in Malaysia. Many of them have been benefited from the programmes. However, the most benefited from the programmes are under the non-poor borrower category. The offer by these institutions is not attractive enough to lure the poor people because of limited microfinance product (microcredit only). Microcredit loan cannot be used as a measure of success in the business. Hence, this study recommends to all microfinance institutions provide the entrepreneurial skills and technical skills related to business to all microcredit's borrowers in Malaysia. In fact, the borrowers must be equipped with this knowledge before the microcredit loan is disbursed. Thus, it is highly recommended that the government modify the recent design of the Malaysian microcredit programme to make it more effective in alleviating poverty and more sustainable in the future.

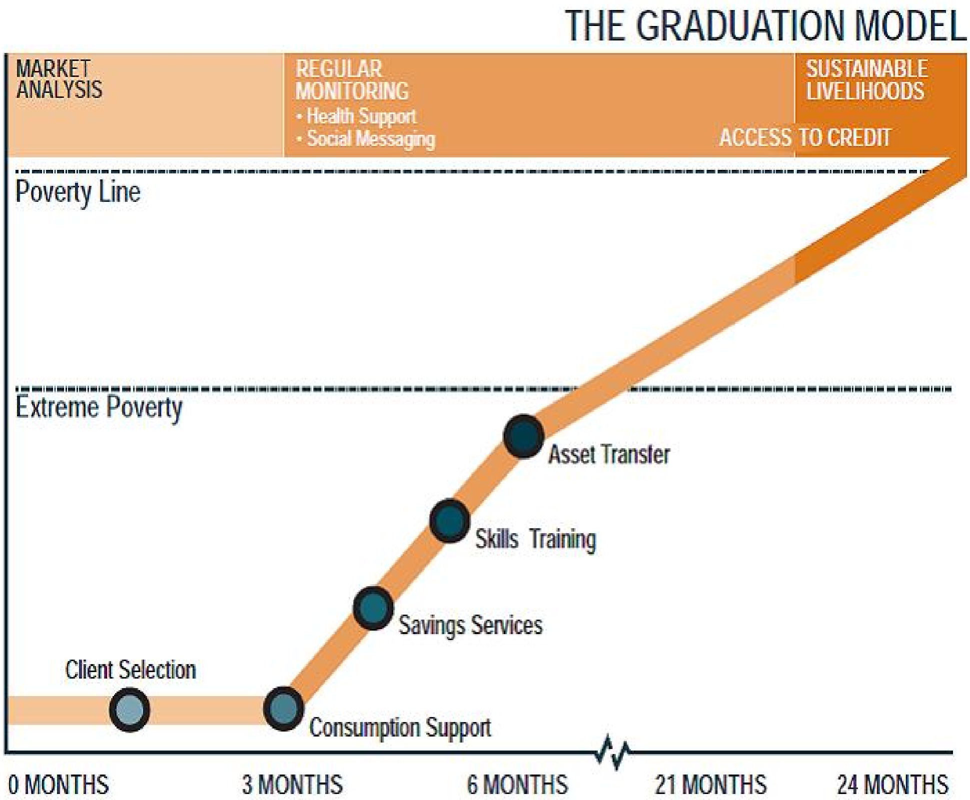

Figure 1. The Graduation Model

Source: Adapted from El-Zoghbi, de Montesquiou and Hashemi (2009, p. 2)

Table 1. Borrowers involvement in technical and business management course

	AIM	YUM
	%	%
Attended Any Technical Course Related to Business		
Yes	26.7	15.1
Never*	73.3	84.9
Total	100.0	100.0
Accuses if Never Attended Any		
Never been offered	57.0	78.2
Family and time constraints	33.0	21.8
Total	100.0	100.0
Attended Any Business Management Course		
Yes	15.6	9.4
Never*	84.4	90.6
Total	100.0	100.0
Accuses if Never Attended Any		
Never been offered	65.0	75.2
Family and time constraints	25.0	24.8
Total	100.0	100.0

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Note

Note 1. Credit-plus means apart of microcredit loan, microfinance institutions also need to provide other financial services such as microsaving, weather insurance, continuous business and livelihood training to the borrowers.

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