

Impact of Microfinance and Micro Credit facilities on Entrepreneurs in Malaysia

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Abstract

Micro enterprises play a role in socio-economic development in Malaysia. In 1971 the Malaysia government started New Economic Policy (NEP) for developing the micro enterprises from the government's to help an equitable and balance economic growth and still has been maintained as key development area under the updated New Economic Model (NEM) in 2010. Microfinance is nothing new in Malaysian Enterprises and Malaysia government already operated various credit unions, cooperative banks and specialized credit windows banking systems. Microfinance services in Malaysian financial credit range about RM 10,000 (USD 2631) spending on the small businesses, agricultural loans and loans for poverty reduction. The various despite on financial assistance offered by the government and Banks supports on micro enterprises financing, the critical issues of shortage of financial capital and limited access to commercial bank financing. Specifically, this research paper is looking into the impact on the microfinance and microcredit on the enterprises and small scale enterprises and roles of non-bank and bank Microfinance institutions (MFIs) in provision of micro credit to support the development of micro enterprises in Malaysia. Both of these MFIs categories is approaching the same market segments and small scale business units with various operational approaches and lending criteria for developing entrepreneurs in Malaysia.

Key words: *Micro Finance, Micro Credit, Impact, Financial Management, Credit facilities*

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1. Introduction:

Microcredit is used as changeable function in the finance services as a microfinance in Malaysia because microfinance products were encompass the micro loans like micro insurances products in Malaysia.

Amanah Ikhtiar Malaysia (AIM) is the first institution in Malaysia that offers the micro loans which was started in 1988. AIM provided loans only for the poor people to setting their own micro enterprise and AIM was followed by Yayasan Usaha Maju (YUM) and The Economic Fund for National entrepreneurs Group (TEKUN), which was established in the period 1988 and 1998 respectively. After successive functioning on AIM microfinance service in Malaysia it improves the Malaysia economic growth. Since 2006, the Malaysia government start function the cooperation of bank Negara has improved the involvement of financial institutions in providing the microcredit products to the public. At present there are seven commercial banks and mainly three development banks which were provide microloans facilities for the small scale business.

Where to Apply for a Micro Loan?

There are many banks that provide microloans for the small scale business in the Malaysia with low interest rate. The leading top micro loans providing banks in Malaysia are:

(a) Commercial Bank

- Alliance Bank
- AmBank
- CIMB Bank
- Public Bank
- Maybank
- United Overseas Bank
- Bank Muamalat

(b) Development Bank

- Agrobank
- Bank Rakyat
- Bank Simpanan Nasional

Amanah Ikhtiar Malaysia (AIM) was started and founded in September 1987 to institutionalize an actions on the project carried out by the various universities for policy research and few sponsored by the Asia and pacific development centre (APDC), Islamic economic development foundation of Malaysia (YPEIMO) and state government agencies for developing the poverty of the rural poor in Malaysia.

On-lending fund

Amount

- Government-free interest loan
- RM300.0 million (USD78.9 M)
- Government-grant
- RM18.2 million (USD4.9 M)
- Financial institutions – soft loan
- RM28.05 million (USD7.4 M)

Government Agencies

- LKIM – free interest loan
- RM4.0 million (USD1.05 M)
- Rural Development Ministry - grant
- RM12.8 million (USD3.4 M)
- The same gender
- No blood relation
- Responsible
- Trustworthy
- Agree to be the group member

AIM also list several regulations to its member:

- Every member must attend weekly centre meeting.
- Loan must be repaid every week according to the amount a member has borrowed.
- Every member has to deposit RM1 to RM15 in Group Fund every week.
- Every member is allowed 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). As at November 2009, total “Sahabat” of AIM is 235,325 and total groups are 54,981 with 6,494 centers. 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).

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Differences between a Micro Loan and Personal Loan

Micro loans do share some similarities with personal loans. No collateral or guarantors are required to apply, fast approval, and both of them use flat interest rates. However, there are also some key differences:

| | Micro Loan | Personal Loan |
|----------------------------|---|--|
| Loan Amount | Relatively small, generally ranging between RM1,000 to RM50,000 | The loan amount is larger, generally ranging from RM5,000 to RM200,000. |
| Loan Tenure | The loan tenure is relatively shorter, normally up to 5 years at most. | Personal loans can have longer loan tenures, up to 10 years. |
| Requirement or Eligibility | Emphasis on validity of business. E.g.: I. Must has valid business license/permit. II. Must be owner operated and on a full time basis. III. Must have been operational at least 6 months – 2 years | Emphasis on income requirements and Debt Servicing Ratio. Eg: Minimum monthly salary requirement for Maybank Personal Loan is RM2, 500. |
| Eligible Economic Sector | Some loans are only for specific economic sectors. E.g.: PBMicro Finance is only for agriculture, services and manufacturing sector E.g.: BSN Teman Mesra is only for manufacturing, service and retail sector. | Irrelevant |
| Customer Type | Self – employee Micro enterprises. The definition of micro enterprise is as in the following: I. Sales turnover not exceeding RM300,000 OR full-time employees not exceeding 5 | Any individual that can show proof of income |
| Financing Purpose | Working capital and capital expenditure Financing for fixed assets not allowed Not for personal use Banks perform random checks on the proper use of the money | No limitations on use |

Advantages of Microcredit

- Lenient eligibility requirements (eg: May bank Micro only requires a valid business license and does not have any income requirement for the borrower)
- Generally, no collateral and guarantors are required
- Fast approval and disbursement, ranging from 1 to 10 working days
- Minimum documentation. Identity Card, Income proof (eg: pay slip and bank statement), utility bills and business registration form/license/permit

Disadvantages of Micro financing/Microcredit

- Low loan size
- Short repayment period
- Flat interest rate
- Interest rate is normally higher compared to other loan packages

2. Problem Statement

- To find out the Impact of microfinance facilities on Entrepreneurs' in Malaysia
- To find out the Impact of microcredit facilities on Entrepreneurs' in Malaysia

3. Purpose of the Study

This study examines to find out the Impact of Microfinance and Microcredit facilities on Entrepreneurs' in Malaysia relationship. To further advance our knowledge of microfinance and microcredit facilities for the entrepreneurs from Malaysia

The individual employees were chosen as the unit of analysis in this study. The respondents are entrepreneurs' in the Malaysia. Participants in the study were selected from a range of industry sectors and the data was collected from 100 employees across the Malaysia.

4. Research Objectives

The general objective of this study is to examine to find out the Impact of Micro-finance and Microcredit facilities on Entrepreneurs' in Malaysia

5. Significance of the Study

Although there are empirical studies that have been carried in Malaysia with regards to the effect of microfinance and microcredit facilities available for the entrepreneurs, the result of this study would be to add to the body of knowledge of microfinance, specifically in the area of human capital management.

6. Limitations of the Study:

Since previous research on microfinance is rather limited, this research was faced with a lack of empirical evidence, notably in the Malaysian context. Likewise, no textbooks on Malaysian are available which meant the use of foreign literature was necessary. The samples are collected only from the entrepreneurs who are from Kelantan and Kota Bharu and Kula lumpur in Malaysia.

7. Research Design

A research design is a specific plan for selecting sources and information from a list of all categories of companies in Malaysia in order to answer the research questions. For this reason, the researcher is employing quantitative methods in order to test the hypotheses.

Data CollectionThe employee respondents were collected from popular ranking of Entrepreneurs' in Malaysia. The companies in Malaysia were selected based on the directory of entrepreneurs in Malaysia (<http://my.asiatatler.com/300list/>) listed in MSC status companies of Malaysia, 2013. The companies were located in Kuala Lumpur, Malaysia.

The survey analysis of employees in the information technology and small scale enterprise companies for the research is based on popular ranking companies in Malaysia. The data was collected through questionnaires through email survey and distribution of

questionnaires to the employees. The employees were selected randomly from each company listing. A total of 175 samples from Malaysia were distributed. However, a total of 100 respondents were gathered respondents from Malaysia.

Sampling

The unit of analysis for this study is employees working for information technology companies in Malaysia. Too small a sample size would not be representative of the population (Salkind, 2000) and too large a sample size, would be prone to Type II errors. According to Sekaran and Bougie (2010), the sample size should be based on the suitable power of the statistical test. Power analysis takes into consideration a several elements, notably sample size, significant criteria and population size. Therefore, there is a need to balance the power analysis with sample size, clinically significant effective sizes and adequate power. As suggested by Sekaran and Bougie (2010), the advantage of using power analysis is that it can be used to calculate the number of respondents to be used in any study. This study size is the largest sample size found from all the mentioned sample size determination processes.

Sampling Design

The process of selecting a sufficient number of elements from a population is called the sampling design. There are two major types of sampling designs, probability and non-probability sampling. As discussed in many statistics books on probability sampling, the elements (single members) in the population have some known chance or probability of being selected as sample subjects. In non-probability sampling, on the other hand, the elements do not have a known or predetermined chance of being selected as subjects. For this study, a prospective convenience sampling design was used because it provides delegate sampling for the purpose of a wider generalization (Sekaran, 2003). On this basis, the systematic sampling design involves drawing every n th element in the population starting with a randomly chosen element between 1 and n .

Sample Size

The sample size, as in the case of the sampling frame, will be drawn from the directory of the information technology and small scale enterprises companies in Malaysia and also from the list of companies involved, meaning that there are a total of 175 questionnaires were send to respondents in the 100 were respondent that is 57% were respond that involved in this sample. Cavana et al. (2001, p.252) define the sampling frame as a listing of the groups in the population from which the sample is drawn. The above source has been used by many researchers in the past, such as Calvo and Rafael, (2010) and Connie (2009), and will also be used in this study. The population for this study consisted of entrepreneurs in Malaysia. The unit of analysis for this study is the entrepreneurs selected based on a directory of MSC companies in Malaysia.

Data Analysis: As these study entrepreneurs a survey method for data analysis, the author has used one way ANOVA and Chi square as the model for testing direct.

Data Analysis Procedure: After the data for the survey questionnaires was collected, a running number was assigned for each individual respondent before the data was entered into the computer for analysis. The running number functions as an identification code for each respondent for the purpose of checking their responses if there is a problem with the quality and validity of data collected. The collected data was analyzed using the statistical package for the social science (SPSS) 20.0 program (George, 2003; Kline, 1998). IBM SPSS 20.0 software was used from UMK library for the analysis part.

Questionnaire Transaction: The population for this study consists of entrepreneurs in Malaysia. A total population of around 175 entrepreneurs has been chosen based on the branches of the selective companies. The sample list was drawn from the directory of the MSC and entrepreneurs list in Malaysia, also from the list of selective companies and branches. The population sampling refers to Cavana et al. 92001, p.252, who defines the sampling frame as a listing of all the factors in the population form which the sample is drawn. The unit of analysis for this study is the entrepreneurs companies in Malaysia. The questionnaires was developed using past literatures from the American institute of stress (AIS), Survey monkey.com, Zarca interactive, Bottom line impact, Remusilies, Michael (2011) and NIOSH (national Institute for Occupational Safety and Healthy). The Five items to measure performance management, specifically relationship between organization culture, job stress, employees morale, employees intervention program, interpersonal conflicts and job efficiency, were used in the Information technology industries. Respondents were asked to use a Five-Point Liker-type scale to indicate the extent to which each item describes their capabilities. The Five Point Likert type scale ranges from Strongly Disagree (1) to Strongly Agree (5).

Hypothesis Testing:

Table no.1: Reliability value for the hypothesis testing

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | |
|-------|------|----------|-------------------|----------------------------|-------------------|--------|----|
| | | | | | R Square | F | df |
| 1 | .723 | .522 | .475 | .98493 | .522 | 10.942 | 9 |

Hypothesis Test Summary

| | Null Hypothesis | Test | Sig. | Decision |
|----|---|----------------------------|------|-----------------------------|
| 1 | The categories of DoYouKnowMicroCredit occur with equal probabilities. | One-Sample Chi-Square Test | .000 | Reject the null hypothesis. |
| 2 | The categories of MicroFinanceHelpfull occur with equal probabilities. | One-Sample Chi-Square Test | .000 | Reject the null hypothesis. |
| 3 | The categories of HappyWithInterestRate occur with equal probabilities. | One-Sample Chi-Square Test | .000 | Reject the null hypothesis. |
| 4 | The categories of MicroFinanceProducts occur with equal probabilities. | One-Sample Chi-Square Test | .000 | Reject the null hypothesis. |
| 5 | The categories of AbleToPayInterest occur with equal probabilities. | One-Sample Chi-Square Test | .000 | Reject the null hypothesis. |
| 6 | The categories of CustomerCareSatisfaction occur with equal probabilities. | One-Sample Chi-Square Test | .000 | Reject the null hypothesis. |
| 7 | The categories of SatisfactionWithMicroCredit occur with equal probabilities. | One-Sample Chi-Square Test | .001 | Reject the null hypothesis. |
| 8 | The categories of TransparencyAboutProduct occur with equal probabilities. | One-Sample Chi-Square Test | .000 | Reject the null hypothesis. |
| 9 | The categories of SatisfactionWithPaymentMood occur with equal probabilities. | One-Sample Chi-Square Test | .000 | Reject the null hypothesis. |
| 10 | The categories of TechnicalAssistanceSatisfaction occur with equal probabilities. | One-Sample Chi-Square Test | .000 | Reject the null hypothesis. |

Asymptotic significances are displayed. The significance level is .05.

Figure No. 1: Figure show the testing of the hypothesis

Table no.2: Means of the variables of the questionnaires

Mean of all the Variables

| | Mean | Std. Deviation | N |
|-----------------------------------|--------|----------------|-----|
| Satisfaction With Micro Credit | 3.5400 | 1.35900 | 100 |
| Do You Know Micro Credit | 3.3700 | .97084 | 100 |
| Micro Finance Help full | 3.8300 | 1.04500 | 100 |
| Happy With Interest Rate | 3.7200 | .86550 | 100 |
| Micro Finance Products | 3.5500 | 1.03840 | 100 |
| Able to Pay Interest | 3.4500 | .93609 | 100 |
| Customer Care Satisfaction | 3.3700 | .88369 | 100 |
| Transparency About Product | 3.1800 | 1.17534 | 100 |
| Satisfaction With Payment Mood | 3.1800 | 1.11355 | 100 |
| Technical Assistance Satisfaction | 3.5600 | .86830 | 100 |

The results show that there is an impact of the micro finance and micro credit facilities in the Malaysia for developing the entrepreneurs.

8. Conclusion and Suggestions:

Perhaps, the most unique and distinct feature of microloans is its lenient income requirements. However, as a tradeoff, microcredit is often accompanied by high interest rates and short repayment periods. If you are looking to finance a small business venture, you can consider a micro loan or a personal loan. Make use of Loan Street’s personal loan comparison wizard to help you in your search for right product for your needs.

There is clear evidence that micro financing would bring a deep impact towards the reduction of poverty level in Malaysia. The evidence shown that the higher the micro-financing, the lower will be the poverty level and improve the entrepreneurs in Malaysia. However from the primary research done, the participation and awareness level on Microfinance and Microcredit among Malaysia is still under process. Out of every 100 participants surveyed, only 35.3 percent claimed to have participated in the Microfinance Scheme. However, 56.3 percent of respondent indicated that they wanted to know more information about microfinance. Furthermore, 69.2 percent of the respondents indicated they would apply for micro-financing/financial assistance, if given a chance. Based on the above survey, there is a need for us to identify the level of awareness and the factors that will influence the participation of society in Malaysia to adopt micro-financing scheme introduced by the government.

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