The Need and Availability of Micro Finance Service for Micro-Enterprise: Fostering Good Practices in Malaysia

by

Faudziah Zainal Abidin
Faculty of Finance and Banking,

A.H. Roslan
Mohd Saifoul Zamzuri Noor
Rahimah Majid
Faculty of Economics
Universiti Utara Malaysia, 06010 UUM Sintok
Kedah Darul Aman, MALAYSIA

ABSTRACT

The attractiveness of microfinance programs lies in the fact that they provide a mechanism to link micro-enterpreneurs to the much needed credit which are normally inaccessible from the formal financial institutions. Microfinance programs enable micro-enterpreneurs to expand existing economic activities and consequently in scaling up their income. Furthermore, microfinance programs seem to appeal to policy makers as they promote the idea of "self-reliance" rather than "dependency" particularly on the government. In general, the objective of this study is to document microfinance services in Malaysia. Specifically, the aim of this study is to identify "best practices" offered by four microfinance institutions (MFIs), namely, Amanah Ikhtiar Malaysia, Tabung Ekonomi Kumpulan Usaha Niaga, Koperasi Kredit Rakyat, and Bank Pertanian Malaysia. We examine the performance of these MFIs in terms of their delivery mechanism, outreach, and sustainability. In-depth interviews with managers of MFIs and borrowers reveal best practices from each MFI. Close monitoring of and a close relationship with borrowers appear to be important for early detection of any problem. Another aspect that may be important is building up loyalty and developing reliability among members. A close and informal relationship with borrowers may also help in monitoring and early detection of problems that may arise in non-repayment of loans. Other factors that may be considered important to the success of a microfinance scheme are cooperation and coordination among various agencies that provide additional support to borrowers. Indirectly, these support systems contribute to the success of a client's project.

Keywords: microfinance studies, development objectives, credit, non-governmental organisations

1. OVERVIEW OF THE MALAYSIAN MICROFINANCE SERVICES

Microfinance programs have drawn much attention from researchers and policy makers alike as one of the practical means for achieving development objectives. The attractiveness of the microfinance programs lies with the fact that microfinance programs appear to provide a mechanism to link the poor households, who engage mainly in low productivity, self-employed economic activities, to the needed credit, which are normally inaccessible from the formal financial institutions. As such microfinance programs enable poor households to open up new as well as to expand their existing economic activities and consequently in scaling up their income. Besides, microfinance programs seem to appeal to policy makers since they promote the idea of "self-reliance" rather than "dependency", especially on the government, as a way out of poverty (Conroy, 2002; Siwar Quinones, 2000). This is in line with the idea of empowering the poor to achieve sustainable livelihood and scaling up income, and hence uplifting the well-being of the poor (Economic Planning Unit, 2004). Microfinance programs therefore, provide promising means of scaling up the income of poor households that go beyond simple monetary (credit) aid. In short, they help make the "impossible" become "possible".

One of the major problems facing the lower income groups and microenterpreneurs is access to credit. Lack of assets for collateral, lack of financial records and limited credit history has made it almost impossible for them to obtain credit from the formal banking system. Hence, the conventional banking system is not the appropriate mechanism to address their credit needs. As an alternative, some poor households and microenterpreneurs opt for illegal money-lenders, loan sharks or "*along*", where the interest charged is unreasonably high[1]. Taking this into consideration and the socio-economic objective of achieving an equitable growth and development, the Government has provided the necessary support in nurturing microfinance activities in Malaysia. This not only ensures that microfinance is able to fill the gap in the supply of financial services (that are usually not covered by conventional banks), but also to be used as a tool to promote social stability through improved standards of living among the lower-income population.

In Malaysia, poverty eradication and improving income equality are major concerns in its development policy and planning.[2] It is not surprising, therefore, to learn that since 1970, the problems of poverty and distribution, particularly enhancing the standard of living of the lower-income group, have been given special attention by the government. Anti-poverty and pro-active redistribution strategies aimed at improving the quality of life of the poor, of the Malays/*Bumiputera* in particular, can be found in all of the Malaysia Five-Year Plans. The government has also expressed that the goal of eradicating poverty continues to be a major emphasis in the Ninth Malaysia Plan (2006 – 2010). Furthermore, under the administration of the current Prime Minister revitalising agriculture and development of the rural areas are given special emphasis in reducing poverty in rural areas as well as a source of employment creation. Development of efficient and effective MFIs in Malaysia would certainly be important to unlock the potentials of the lower income groups, particularly in the agriculture sector and rural areas. Accessibility of the rural poor to the much needed credit is important and continues to be a significant issue in Malaysia.

Like in many other countries, microfinance programs in Malaysia are aimed to mainly address the financing needs of the low-income group in rural and urban areas, thus eradicate rural and urban poverty (Sukor Kasim, 2005; Siwar and Abd. Talib, 2001). Presently two NGOs actively engaged in microfinance activities are the Amanah Ikhtiar Malaysia (AIM) and Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN). While AIM focuses on providing financing to poor households and micro borrowers mainly for rural poverty eradication, TEKUN is specialised in the provision of small loans to micro enterprises of the indigenous group (*Bumiputera*). Other NGOs offering microfinance activities include Yayasan Usaha Maju (YUM) located in Sabah, and the Koperasi Kredit Rakyat (KKR) located in Selangor, but with operations smaller in scale as compared to either AIM or TEKUN.

Recognizing the important role of MFIs among the poor, the government launched a micro credit scheme in 2003 to stimulate the economy, particularly in the agricultural production activities and in expanding small and medium enterprise activities.[3] In June 2003, *Bank Negara Malaysia* embarked on

---

[1] Money-lending is illegal in Malaysia but *ah longs* still exist. Microentrepreneurs become patrons of *ah longs* when they find themselves unable to get loans from any other sources. Borrowing from *ah longs* is usually done as the last resort for the high interest rates charged. For example, a microentrepreneur borrowed RM1,000 from an *ah long* for which she had to pay back RM130 a week for 10 weeks (for a total of RM1,300). Lately, it was reported that *ah longs* had to cut back on the high interest rates charged because banks are offering loans at much lower interest rates. Borrowers who find themselves in trouble with *ah longs* usually run for help to representatives from their political party.

[2] The basic philosophy that underlies Malaysia's development policy and planning is that economic growth is not an end in itself but as a means in bringing prosperity and a better quality of life to all segments of society. In this regard, the principle of "growth with equity" has been central in all development policies and efforts. The philosophy and development approach was initially incorporated in the New Economic Policy (1971-1990), and remained entrenched in the National Development Policy (1991-2000) and the National Vision Policy (2001-2010).

[3] The micro credit scheme was launched by the Government in May 2003. It was part of an economic stimulating package to counter the slow down of the economy partially due to uncertainties in the global

the Microfinance Project, aimed at strengthening the microfinancing framework which would lay the necessary infrastructure for a smooth development of a microfinance industry in the country. This includes the development of product specification, policies and procedures for microfinance management, organizational structure of the MFI as well as a supervisory and regulatory framework. The framework would be used as a guide and reference for standard best practices among institutions providing micro finance products and services. For this purpose, about RM1 billion was allocated through two financial institutions, i.e. *Bank Pertanian Malaysia* (*BPM* or the Malaysian Agriculture Bank – RM500 million) and *Bank Simpanan National (BSN* or the National Saving Bank – RM300 million) while RM200 million was allocated to *Amanah Ikhtiar Malaysia (AIM).* Under this introductory scheme requiring no collateral, borrowers are eligible for a maximum loan of up to RM20,000 (or equivalent to US$5263) with interest rates charged at 4% per annum on reducing balance.[4]

The remainder of the paper is organised as follows. Section 2 provides the objective and research method of the study. Section 3 presents brief introduction of the MFIs selected for the study. Section 4 provides a comparison of the MFIs in terms of products and services and MFI performance.

2. OBJECTIVE AND RESEARCH METHOD

In general, the purpose of this study is to document microfinance services in Malaysia. Specifically, the aim of this study is to identify "best practices" among MFIs in Malaysia by examining three MFIs, that is, AIM, BPM and *Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN).* The MFIs were chosen on the basis of their diversity. AIM is an NGO, while TEKUN is a private company. Both started out as action research projects under the Center for Policy Research of *Universiti Sains Malaysia.* AIM and TEKUN have offices all over the country. BPM was one of two banks selected by the Malaysian government to distribute funds channelled through the Micro Credit Scheme[5].

The aim of the study is to analyse the practices and performance of these MFIs in terms of products and services, and performance as measured by availability, outreach, efficiency and productivity and sustainability. The case study approach was chosen for the current investigation as it is appropriate at this stage due to its goals of gaining insights rather than forming conclusions. The case study allows for an understanding of individual cases through a holistic perspective and offers a viable method of generating ideas and insight into future studies (Reinharz, 1992).

Data was gathered from each MFI and microenterprises through questionnaires and interviews. Interviews were conducted with the officers of these MFIs as well as with the owner-managers of the microenterprises. Thus, the analysis presented in this report is based on the interviews, and members of these MFIs. All MFIs have their headquarters in Kuala Lumpur (AIM, BPM and TEKUN). The interviews lasted between four to eight hours.

---

political and economic incidence such as the September 11, the invasion of Iraq, the SARS outbreak and the threat of terrorism in Asia after the Bali bombings. The micro credit scheme was introduced to enhance access of microenterprises to meet their financial needs, which in turn will support the Government's on-going strategy to promote growth through local private investment, i.e. domestic-led growth (See the translation of the Prime Minister's Speech on the "New Strategies Towards Stimulating the Nation's Economic Growth", The New Straits Times, 22nd May 2003).

[4] As at end-2003, the total loans disbursed by *Bank Simpanan National* and *Bank Pertanian Malaysia* amounted to RM431 million (US$113 million) and RM194 million (US$51 million), respectively (Che Zakiah, 2004).

[5] The other bank involved is Bank Simpanan Nasional (BSN). However, BSN is not covered in the current study. US$1 = RM3.80.

3. CASE STUDIES ON SELECTED MFIs IN MALAYSIA

3.1 AMANAH IKHTIAR MALAYSIA (AIM)

The idea of establishing AIM comes from the viability and success of approach adopted by the Grameen Bank to reduce poverty in the rural areas of Bangladesh. A trial project, named *Projek Ikhtiar*, was introduced to examine the suitability and viability of the Grameen Bank approach in Malaysia. As a result, AIM was established in 1987 spurred by the success of *Projek Ikhtiar*. The core responsibility of AIM is to provide credit to the rural poor similar to the earlier *Projek Ikhtiar* but focusing on women as the target group and tightening the terms and conditions of loan approvals. It provides loans to poor households to finance activities that will scale up their income with the objective of alleviating them out of poverty. Towards this end, AIM provides poor households with interest free loans to undertake income-generating projects. The loans are to be repaid on a weekly basis. Once the loan being fully paid, bigger loans are offered by AIM. The first loan is normally limited to RM1,000 (USD263) up to a maximum of RM4,000 (USD1,289) for successive loan. “Good” borrowers could also apply for larger loans of between RM5,000 (USD1,315) to RM10,000 (USD2,2631). Following the Grameen Bank model, borrowers are divided into groups of five who guarantee each other’s loans[6]. AIM receives funds from the government (interest free) to provide loans to its members and to cover its operational costs. Table 1 shows AIM sources of fund for 1988 - 2003.

Table 1: Source of Operational Costs and Revolving Loan Capital, 1988-2003

ON-LENDING FUND	**AMOUNT**
Government-interest free loan	RM300.0 million (USD78.9 million)
Government-grant	RM18.2 million (USD4.9 million)
Financial institutions – soft loans	RM28.05 million (USD7.4 million)
GOVERNMENT AGENCIES	RM16.8 million (USD4.45 million)
GRANTS FOR OPERATIONAL COSTS	
Federal and States Government	RM30.0 million (USD7.9 million)
TOTAL	**RM393.05 million**

Source: http://banktani.tripod.com/microfinance.htm

3.2 *BANK PERTANIAN MALAYSIA (BPM)*

The main objective of BPM is to promote agricultural development through lending and mobilizing of deposit particularly to the agricultural sector. To carry out its operation, BPM has been receiving soft loans from the government. The main purpose is to enable the bank to accomplish development tasks of uplifting the income and livelihood of farmers, fishermen and livestock producers, as well as modernising the agriculture communities through special concessionary loans schemes. Table 2 shows the amount of allocation from the Government given to BPM since 1991.

Table 2: Allocation Received by BPM from the Government

Period	Amount
Sixth Malaysia Plan (6MP) (1991-1995)	USD32.29 mil
Seventh Malaysia Plan (7MP)1996-2000)	USD12.31 mil
Eighth Malaysia Plan (8MP) (2001-2005)	USD32.39 mil

Source: Zainul Kamar Mohd Zain (2004).

[6] However, the requirement of guaranteeing each others’ loan is under review. AIM is on the opinion of scrapping the practice.

In 2003, BPM was directed to allocate RM500 million of funds under the Micro Credit Scheme. The target group is entrepreneurs at all level of agricultural activities including part-time entrepreneurs who are government or private sector employees. The mechanism employed by BPM to deliver its microfinance facilities is relatively simple. A client has to complete an application form together with a business proposal[7]. The client does not have to provide any collateral to support the application. The approval, which normally takes between a week, is based primarily on the viability of the project, that is, the project's securitisation of cash flow. Furthermore, the likelihood of obtaining approval is higher if the client already has a project underway. A client can borrow up to a maximum of RM20,000 at 4.0% interest as directed by the government. The maximum repayment period is four years. Disbursement of the loan funds is made lump-sum into the client's account at BPM. The repayment is on a monthly basis, but flexibility is given to clients whose earnings depend on their less-frequent harvests.

3.3 TABUNG EKONOMI KUMPULAN USAHA NIAGA (TEKUN)

TEKUN was established in 1994 to provide easy, quick and unburdened loan as additional capital as well as to encourage savings and to create networking among the *Bumiputera* entrepreneurs. The scheme is a simple loan based on a savings-based lending concept whereby loans are provided with no collateral or guarantor. The application procedure is simple and borrowers are charged an administrative fee of 8 percent. TEKUN adopts close monitoring and imposes a frequent repayment period on a weekly or fortnightly basis and compulsory savings of 0.5% of loan amount per week. Loans offered are between RM1,000 - RM10,000 for a first-time loan and higher amounts of up to RM20,000 for consecutive loans. TEKUN has operating offices located throughout Peninsular Malaysia, Sabah and Sarawak[8]. As at December 2004, it has 179 operation offices with total loans disbursed amounting to RM488.3 million benefiting 102,398 borrowers.

4. ANALYSES OF THE SELECTED MFIs

4.1 PRODUCTS AND SERVICES

Currently AIM offers four types of products: Ikhtiar Bistari, Ikhtiar Sejahtera, Ikhtiar Penyayang and Ikhtiar Rezeki. *I-Rezeki* is basically a loan to support income-generating activities. It offers three different types of loans as shown in Table 3.

Table 3: AIM: Types of Microfinane Schemes

Financing Scheme	Description
1. Ikhtiar Bistari	A loan for educational purposes, First loan, maximum ofRM1000 Maximum limit of RM5,000; Repayment period of 50 – 100 weeks.
2. Ikhtiar Sejahtera	A multi-purpose loan such as for purchase of assets, investment etc. First loan, maximum of RM3000; Maximum limit of RM10000; Repayment period of 50 – 150 weeks.
3. Ikhtiar Penyayang	A loan for project recovery; Maximum limit of RM1,000; Repayment period of 12 - 50 weeks.
4. Ikhtiar Rezeki	
I-Mesra	A loan for new members. Each successive loan could be increased up to RM1000 more from the previous loan; Maximum loan of RM2000 – RM20000; Repayment period of 25 – 150 weeks.

[7] BPM helps with the preparation of the business proposal for customers who do not know how to prepare business proposals, particularly among the less educated farmers.

[8] There are 13 states in Malaysia: 11 states (Perlis, Penang, Kedah, Perak, Selangor, Malacca, Negeri Sembilan, Johor, Pahang, Kelantan and Trengganu) situated in Peninsular Malaysia and Sabah and Sarawak situated on the Borneo continent.

I-Srikandi	Each successive loan could be increased up to double the amount of the previous loan. Loans between RM2,000 - RM20,000; Repayment period of 25-150 weeks.
I-Wibawa	Seasonal loan/short-term; Maximum limit of RM5,000; Repayment period of 6 months (could be repaid weekly /monthly/lump-sum).

Source: AIM

The maximum loan amount under the BPM micro credit scheme is RM20,000 at 4 percent per annum. The loan term is no longer than four years. The mechanism employed by BPM to deliver its microfinance facilities is simple. A client has to fill up an application form as well as to submit a business proposal[9]. He or she then will have to wait about one week to get the approval. The approval is based on the viability of the project, particularly in regard to the project's securitisation of cash flow. Furthermore, the chances of getting approval are usually higher if the client already has a project underway. Disbursement of the loan funds is made lump-sum into the clients account at the BPM. A client can borrow up to a maximum of RM20,000 at 4.0 percent interest as directed by the government. The maximum repayment period is four years. The repayment is on a monthly basis, but flexibility is given to clients whose earnings depend on their harvests.

The financial products offered by TEKUN are mainly loans and savings. The National TEKUN and Terengganu TEKUN loan schemes are extended to Bumiputera small business operators seeking additional capital to expand their existing business preferably in the services, trade and manufacturing sectors. The value of loan offered ranges from a minimum of RM1000 to a maximum of RM20000 depending upon whether it is the first or the second loan. Depending on the amount of loan, the borrowers has the option to make repayments over a period of 26, 52, 78, 104 weeks, 130 or 156 weeks (Table 4).

Table 4: TEKUN Loan Scheme

Scheme	Payment Period (weeks)	Amount of Loans (RM)	
		First Loan	Repetitive Loan
1	26	1,000 – 10,000	1,000 – 20,000
2	52	1,000 – 10,000	1,000 – 20,000
3	78	1,000 – 10,000	1,000 – 20,000
4	104	1,000 – 10,000	1,000 – 20,000
5	130	6,000 – 10,000	6,000 – 20,000
6	156	6,000 – 10,000	6,000 – 20,000

Source: TEKUN

4.2 PERFORMANCE[10]

Availability

AIM, BPM and TEKUN have offices offering their products and services in many areas throughout Malaysia, Sabah and Sarawak. Offices are open every Monday to Friday (BPM's offices are open even on Saturday). Office hours are usually between 8.00 am to 4.30 pm or 5:00 pm on week days. On Saturday however, offices are open from 8.00am to 12.00 noon. Occasionally, BPM bank officers work longer hours when they visit their clients at their project sites. TEKUN officers even extend their services even to the more remote and isolated areas that can only be reached by boats.

Outreach

[9] For those clients who have no experience in preparing business proposal, particularly among the less educated farmers, the BPM officer will help prepare the proposal.

[10] Here we follow a set of performance standards developed by the National Credit Council (NCC) of Philippines (available upon request)

Outreach signifies how successful an MFI reaches its target group. It shows the coverage of the microfinancing services provided by the MFI, both in terms of breadth and depth. The easiest and simplest measure of outreach is the number of borrowers, branches and the number of employees. Outreach for AIM from 1990 to 2004 shows a positive trend (Table 5). In 2004, AIM has 69 branches, 922 number of staffs and a total of 131,032 clients. Besides opening additional branches, AIM has also increase its outreach by recruiting more credit officers (or credit analysts) as well as equipping the credit officers with vehicles, especially motorcycle, to enable officers to reach their clients deep in difficult-to-reach areas.

Table 5: AIM: Progress of AIM 1990 to 2004

Years	No. of Branches	No. Staffs	No. of Clients
1990	27	240	3220
1995	35	453	39401
2000	61	821	69017
2001	62	884	79492
2002	63	899	87436
2003	69	834	70197
2004	69	922	131032

Source: AIM

The depth of outreach measures to what extent the MFI has been able to reach its target group, primarily, the poorer section of the society. Since the introduction of the microfinance program until June 2005, the depth of outreach is about 67%. BPM's target group is small-scale agricultural entrepreneurs with the objective of expanding agricultural production and to reduce dependence on agricultural imports. Thus, although the depth of outreach of 67% is greater than the standard indicator of 20%, BPM has actually served its intended target group. In terms of groups, the *Bumiputera* form the majority of BPM microcredit borrowers. They form 84.1% of total borrowers, and make up 80.0% the value of total loan. The *non-Bumiputera* was 15.9 % of total borrowers with 20.0% of the value of total loan (Table 6).

Table 6: Borrowers by ethnic groups (%)

	% of total of borrowers	% of total of loan
Bumiputera	84.1	80.0
Non-Bumiputera	15.9	20.0
TOTAL	**100.0**	**100.0**

Source: Bank Pertanian Malaysia

Except in 1999, which were due to re-screening of members, the amount of loan disbursed by AIM shows an increasing trend. Nonetheless the growth of loan disbursed fell until to reaches 8.1% in 2003 (Table 7). However, between 2003 and 2004, AIM saw a large increase in the percentage of loans disbursed of 116.1%. In addition to the significant increase in the number of clients, the increase in the percentage of loans disbursed might be due to larger amounts of loan borrowed, on average, by members.

Table 7: AIM: Loan Disbursed 1990-2004

Years	No. of Clients	Amounts of loan	Loan/Client	Growth of loan disbursed
1990	3220	891,488	276.86	-
1995	39401	34716000	881.09	48.74
2000	69017	107247260	1553.93	29.24
2001	79492	128126650	1611.82	19.47
2002	87436	140712480	1609.32	9.82
2003	70197	152,082,150	2166.50	8.08
2004	131032	328,647,600	2508.15	116.10

Source: AIM

One of important aspects of outreach that is of concern to AIM how far has their microfinancing services accessible to the lower segments of the poor. In this regards, the calculated depth of AIM's outreach is 14.8% implying that most of AIM's clients (or members) are made up of the lower segment of the poor households. This figure is within the standard measure used (equal or less than 20%).

As at 19 June 2005, the total number of BPM microcredit borrowers is 17,613, with the total value of loan amounting to RM202,151,288. The average loan size, i.e. total amount of loans divided by the number of borrowers, is RM11,477. Borrowers are quite evenly distributed throughout the states in Malaysia, with the highest concentration in Sarawak, followed by Kedah, Perlis and Perak. With regards to the number of branches, BPM has established an extensive network with 12 regional offices (state branches), 119 branches, 20 sub-branches and 43 permanent service counters, and 5135 mobile units that are distributed throughout Malaysia. All branches are linked by a computer system. Another indicator of outreach is clients' growth and depth of outreach. Within the first six months of introduction of the microcredit scheme (June 2003 to December 2003), the number of BPM's clients reached 17,227.

As at 31st December 2004, TEKUN had a total of 102,398 borrowers. In terms of growth of clients, total number of borrowers had increased between 2001 and 2002, from 20,953 to 21,324 (Table 8). Since 2002, the number of borrowers has declined to 18,625 in 2004. This reflects a decrease of 12.7%. The percentage of women clients shows an increasing trend from 46.1% to 64.7% through out the period of 2001 – 2004, while the number of men client decreases from 53.9% to 35.3% during the same period. This explains the decline in the total number of borrowers during the period 2002-2004. As the extent of outreach to women is higher, the scheme can be considered as an effective mechanism in empowering and enhancing women's business activities. The average loan size may also reflect the outreach to the poor or target groups. In 2004, the average loan size for TEKUN is RM6609 per borrower.

As for the depth of outreach, the ratio is 25.7%, slightly above the standard indicator of 20%. This implies that most of TEKUN's borrowers were not among the lower segment of the poor households. Alike BPM, this is not surprising since TEKUN's target group is the small-scale enterprises among the *Bumiputera*, where one of the objectives is developing entrepreneurial skills among them. Unlike AIM, TEKUN's program is not focused on reaching the lower segment of the poor households.

Table 8: TEKUN: Number of Borrowers, 2001-2004.

	2001	**2002**	**2003**	**2004**
No of Female clients	9,669 (46.1%)	10,410 (48.8%)	10,725 (50.8%)	12,042 (64.7%)
No of Male clients	11,284 (53.9%)	10,914 (51.2%)	10,381 (49.2%)	6,583 (35.3%)
Total No of clients	**20,953**	**21,324**	**21,106**	**18,625**

Source: TEKUN

In providing products and services, MFIs in Malaysia seem to complement each other, ensuring that microfinance covers the largest possible of the population. In terms of outreach, AIM is the largest and it reaches women from the lower segment of the poor households. Indeed, AIM could be commended for its achievement in reaching the poorest of the poor, thus, complementing the government's effort to reduce poverty.Since BPM and TEKUN have branches that are accessible from many offices scattered throughout the country, their outreach is maximised.

Efficiency and Productivity

The loan officer productivity for AIM is 201.8 loans per officer, which is higher than the acceptable norm of 150 loans per officer. This implies that for every field officer of AIM, there are about 202 clients. Besides, the portfolio at risk (PAR), defined as the ratio of loan portfolio with at least one missed payment to the total loans outstanding at a given point of time, as reported by AIM is only 2.0%. It appears that AIM has a very low PAR.

Currently, the loan officer productivity of BPM is 142 loans per officer. It is slightly below the standard score of 150 per officer. However, this is deemed to be unsatisfactory as it is far below the benchmark set by BPM, i.e. 250 loans per officer. In terms of repayment, as at 31st March 2005, the amount collected is RM107 million, which is 54.0% of the loan disbursed.

In 2004, the loan officer productivity for TEKUN is estimated at 34.7 loans per officer[11]. While this figure may be considered very low compared to the standard measure (150 per officer), this is not unsatisfactory given that TEKUN has to provide its services even to the most remote areas. This limits the officers' capacity to cover a large number of potential clients. As a matter of fact, the estimated value of loan per credit officer is at RM229236.

Sustainability

In terms of collection of loans, AIM has an overall good collection rate of about 96% from its loan disbursed. As at 31st March 2005, the total loan outstanding is about RM104 million, consisting 16,687 borrowers. The non-performing loan (NPL), defined by greater than three months repayment in arrears, is about RM49 million (involving 5485 borrowers) or 47% of total loan outstanding

Based on our interview, it seems that TEKUN micro credit scheme *per se* is unsustainable. Currently, even income generated from the microcredit scheme is not enough to cover its operating costs without income received from its short-term investments. As an agency established to build the entrepreneurial skills among Bumiputera, profits is not the main objective of TEKUN. Hence its dependence on the government for financial support is one of the key elements for TEKUN's survival. Furthermore, many of TEKUN's clients are not repaying their loans. For example, in 2004, the non-performing loan of TEKUN is estimated at RM84,737,059 (inclusive of interest) or 18.9% of total loans outstanding, involving 41,046 clients or 40.1% of the total borrowers.

AIM, TEKUN and BPM receive capital injections from the government. BPM and TEKUN appear to be unsustainable because they were directed by the government to disburse loans at a low 4% interest rate. Given the flexibility of charging loans at competitive market rates, their microcredit scheme may be in a better financial position. With regards to BPM, even though its microcredit scheme appears unsustainable, since the scheme is just recently launched in 2003, it is too early to make any conclusive judgement the scheme. In the case of AIM, although still dependent on government support, AIM appears to be reducing its reliance on government funds to provide services and to assume its operations. Indeed, AIM is prepared to obtain funds from the market at competitive rates.

5. SUMMARY AND CONCLUSION

While there are shortcomings and there still exists room for improvement for the MFIs examined in this study, there are nonetheless some practices that could be learned from each. Close monitoring of and a close relationship with customers appear to be important for early detection of any problem, ensuring a higher rate of repayment. AIM has a close and informal relationship with their clients. They meet their clients regularly, i.e. weekly, and their officers appear to know their clients on a personal basis. These allows for easy monitoring and early detection of any problem that may arise. Aside from their own officers, AIM appoint leaders from among their clients to monitor members' activities and report any problems. Hence early help and support could be given to solve any problem.

Another aspect that may be important is building up loyalty as well as assessing and developing reliability among clients. Loyalty may be enhanced by rewarding trustworthy clients. For new members, AIM and TEKUN, normally approve a small amount of loan to be repaid within a short period, normally a year. However, once the client has successfully repaid his or her first loan, a new loan could be made at a larger amount. Other factors that may be considered important to the success of a microfinance scheme are cooperation and coordination among agencies that provide additional support to the clients. The MFIs examined in this study appear to play a limited role in post-loan delivery. However, technical assistance and support are provided by related agencies. For instance, while BPM do not provide any technical assistance, most of their clients (mostly farmers) receive technical assistance related to agriculture from the agriculture, fishery, as well as from the veterinary departments. Indirectly, this type of support contributed to the success of a project. Hence, clients are able to repay their loans to MFI and increasing its rate of loan collection.

---

[11] TEKUN has 179 offices throughout Malaysia and assuming three field staffs at each office, gives us a total of 537 officers.

In addition, it should be realised that the target groups of these microfinance programs are not homogeneous. Therefore, no single MFI could possibly match up to the needs of the groups that the microfinance programs intended to serve. One size does not fit all. Different types and forms of MFI are necessary to cater and satisfy the varying needs of the groups. Thus, the existence of different but specialised MFIs is also important for microfinance program to realise the most impact and coverage.

Given that microfinance activity in Malaysia is relatively less developed compared to some developing countries such as Bangladesh, Philippines, and Indonesia, significant support from the Government is therefore important in developing a viable and sustainable microfinance system. The current policy of the government towards microfinance is more focused on assisting and developing microfinance programs to provide finance for microenterprises at lower costs. While government aids were used as a catalyst to boost microfinance activities at the initial stage, MFIs should not continue to rely on such support. Such a situation is not conducive for the MFIs to generate sufficient profit margin to sustain their activities. To ensure the sustainability of MFIs, government support should eventually be replaced with a market-oriented microfinance programme, where the MFI is able to be self-sustaining in sourcing its own funding; adopting market-based lending rates and generating sufficient profits to finance its activities.

REFERENCE

Che Zakiah Che Din (2004). Creating a Conducive Environment for Micro and Rural Finance – The Malaysian Experience. Paper presented at High-Level Policy Meeting on Micro Finance and Rural Finance in Asia, Yogyakarta, Indonesia on 26-28 February 2004.

Conroy, John D. (2002). The Challenges of Microfinancing in Southeast Asia. Singapore: Institute of Southeast Asian Studies.

Economic Planning Unit (2004). Malaysia: 30 Years of Poverty Reduction, Growth and Racial Harmony. A Case Study from Reducing Poverty, Sustaining Growth – What Works, What Doesn't, and Why: A Global Exchange for Scaling Up Success. Scaling Up Poverty Reduction: A Global Learning Process and Conference, Shanghai, May 25-27, 2004.

Reinharz, S. (1992). Feminist Methods in Social Research. New York: Oxford University Press.

Siwar, Chamhuri and Basri Abd. Talib (2001). Microfinance Capacity Assessment for Poverty Alleviation: Outreach, Viability and Sustainability. *Humanomics*, Vol. 17, No. 1/2, pp. 116-133.

Siwar, Chamhuri and B. Quinones (2000). Microfinance in Malaysia: Aiming at Success in Joe Remenyi and Benjamin Quinones Jr. (eds.) (2000), Microfinance and Poverty Alleviation – Case Studies from Asia and the Pacific. London and New York: Pinter.

Sukor Kasim (2005). The Role of Financial Non-Government Organisation in Poverty Reduction: Lessons from the Experience of Amanah Ikhtiar Malaysia in Providing Micro-finance Service to the Rural Poor. A paper presented at the National Seminar on Poverty Eradication Through Empowerment, held at Grand Plaza Park Royal Hotel, Kuala Lumpur on 23 August 2005.

The New Straits Times, "New Strategies Towards Stimulating the Nation's Economic Growth", 22nd May 2003

Zainul Kamar Mohd Zain (2004). The Future of Rural and Agricultural Finance Institutions: Bank Pertanian Malaysia. Paper Presented in the 48th APRACA Executive Committee Meeting and Regional Symposium on the Future of Rural and Agricultural Finance Institutions,Tehran and Isfahan, Iran, October 9-15, 2004.