# Microfinance Service for Micro-Enterprise: Good Practices and Performance of Selected Microfinance Institutions in Malaysia

Roslan Abdul Haim*Faudziah Zainal Abidin**
Mohd Saifoul Zamzuri Noor*and Rahimah Majid*

**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 aim of this study is to document microfinance services in Malaysia. Specifically, the objective 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 also 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   Micro-Enterprise   Good Practices   Performance

*Faculty of Economics  University Utara Malaysia
**Faculty of Finance and Banking  University Utara Malaysia

# การบริการการเงินของสถาบันการเงินขนาดเล็กสำหรับผู้ประกอบการรายย่อย: ผลงานและ การปฏิบัติงานที่ดีของสถาบันการเงินขนาดเล็กในประเทศมาเลเซีย

โรสลัน อับดุล ฮากิม* ฟุดไซอะ ไซนอล อะบิดิน**
โมฮัมหมัด ไซฟูล ซัมซูรี นูร*และ ราฮิมะ หมัดยิด*

**บทคัดย่อ**

การบริการการเงินของสถาบันการเงินขนาดเล็ก มีกลไกที่ช่วยทำให้เกิดการเชื่อมโยงถึงผู้ประกอบการรายย่อย เช่น การจัดบริการให้เครดิตเงินกู้ตามความจำเป็นเพื่อเพิ่มรายได้ วิธีการให้กู้ยืมเงินของสถาบันการเงินขนาดเล็ก ช่วยให้ผู้ประกอบการรายย่อยมีเงินทุนหมุนเวียนในการลงทุนมากขึ้น และการให้บริการเงินกู้ลักษณะนี้จะตอบสนองกับนโยบายของรัฐในประเด็นที่ว่า พยายามทำให้ผู้ประกอบการรายย่อย พึ่งพาตนเองให้มากกว่าพึ่งพารัฐตลอดเวลา การวิจัยเรื่องนี้ จึงมีวัตถุประสงค์หลักเพื่อ สำรวจการให้บริการการเงินขนาดเล็กจำนวน 4 แห่ง ได้แก่ Amanah Ikhtiar Malaysia, Tabung Ekonomi Kunpulan Usaha Niaga, Koperasi Kredit Rakyat และ Bank Pertanian Malaysia ในเรื่องของขั้นตอนการกู้ การรับคืนเงินกู้ และการเพิ่มประสิทธิภาพการตามเก็บคืนเงินกู้ เพื่อความยั่งยืนของโครงการนี้ วิธีการศึกษาโดยการสัมภาษณ์แบบเจาะลึกจากผู้จัดการของทั้ง 4 ธนาคารข้างต้น และส่วนหนึ่งจากการสัมภาษณ์ผู้กู้ยืมในประเด็น เรื่องวิธีการให้กู้ที่แตกต่างกันของทั้ง 4 ธนาคาร พบว่า ปัจจัยสำคัญในการป้องกันปัญหาหนี้สูญที่จะเกิดขึ้นคือ การกำกับดูแลและตรวจสอบอย่างใกล้ชิดกับผู้กู้ยืมเงิน นอกจากนั้นยังมีปัจจัยอื่นๆ เช่น การสร้างความซื่อสัตย์และการตรวจสอบระหว่างสมาชิกด้วยกันเอง การสร้างความสัมพันธ์ใกล้ชิดอย่างไม่เป็นทางการกับผู้กู้ยืมอาจจะช่วยกำกับติดตามปัญหาที่จะเกิดขึ้นไว้ก่อน และช่วยลดอัตราการไม่จ่ายคืนเงินกู้ลงมาได้ นอกจากนั้นมีข้อเสนอแนะถึงวิธีการป้องกันหนี้สูญ ให้ประสบผลสำเร็จของทั้ง 4 ธนาคารว่า ควรพิจารณาเรื่องการสร้างความร่วมมือ และอาศัยเชื่อมโยงข้อมูลกันระหว่างธนาคารทั้ง 4 เพื่อการใช้ข้อมูลร่วมกันในการปล่อยกู้เพิ่มเติม และยังเชื่อว่าระบบการสนับสนุนเชื่อมโยงกันเหล่านี้จะนำไปสู่ความสำเร็จในเรื่องแผนการให้บริการลูกค้าของธนาคาร

**คำสำคัญ** : สถาบันการเงินขนาดเล็ก ผู้ประกอบการรายย่อย แนวทางการปฏิบัติที่ดี ผลของงาน

*คณะเศรษฐศาสตร์ มหาวิทยาลัยอุตตาระ ประเทศมาเลเซีย
**คณะการเงินและการธนาคาร มหาวิทยาลัยอุตตาระ ประเทศมาเลเซีย

**Introduction**

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 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 have an appeal to policy makers since the program promote the idea of "self-reliance" rather than "dependency", especially on the government, as a way out of poverty (1,2). 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 (3). Microfinance programs therefore, provide promising means of scaling up the income of poor households that go beyond simple monetary (credit) aid. In short, microfinance institutions (MFIs) help make the "impossible" become "possible".

It has been argued elsewhere that 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. 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 achieve development objectives and promote social stability through improved standards of living among the lower-income population, and hence reducing poverty (4-5).

In Malaysia, poverty eradication and improving income equality are major concerns in its development policy and planning. 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 can be found in all of the Malaysia Five-Year Plans. Indeed, the government has also expressed that the goal of eradicating poverty continues to be a major emphasis in the Ninth Malaysia Plan (2006–2010). Besides, 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. Thus, 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.

Recognizing the important role of MFIs to the lower income group, especially micro-enterpreneurs, 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. 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 RM 20,000 (or equivalent to US$5263) with interest rates charged at 4% per annum on reducing balance. Furthermore, in June 2003, *Bank Negara Malaysia* embarked on 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 (6).

Given the importance of microfinance services in addressing the financing needs of the low-income group, as well as the attention given by the government on microfinance, examining the performance as well as identifying “best practices” of the MFIs would be a worthwhile endeavour. This is imperative since to achieve its utmost impact on the poor, the development of effective and efficient microfinance institutions, as well as improvement in the accessibility of the products and services provided by these institutions to the poor, are crucial. The aim of this paper is to document microfinance services in Malaysia. Specifically, the objective is to identify “best practices” as well as the performances of selected MFIs in Malaysia, particularly in terms of their delivery mechanism, outreach and sustainability.

**Methods**

The purpose of this study is to document microfinance services in Malaysia. Specifically, the aim of this study is to analyse the practices and performance of these MFIs in terms of products and services, delivery mechanism, outreach, efficiency and productivity and sustainability.

A 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 (7).

Three MFIs were selected, i.e. *Amanah Ikhtiar Malaysia* (AIM), *Bank Pertanian Malaysia* (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. Data analysed and presented in this study 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, i.e. the borrowers. The performance of MFIs is analysed by following a set of performance standards developed by the National Credit Council (NCC) of Philippines.

**Results**

**The Selected Institutions**

(i) 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. Spurred by the success of *Projek Ikhtiar*, AIM was established in 1987. 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 largerloans of between RM5,000 (USD1,315) to RM10,000 (USD2 2,631). Following the Grameen Bank model, borrowers are divided into groups of five who guarantee each other’s loans. 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<br>Government-grant<br>Financial institutions – soft loans | RM300.0 million (USD78.9 million)<br>RM18.2 million (USD4.9 million)<br>RM28.05 million (USD7.4 million) |
| **GOVERNMENT AGENCIES** | RM 30.0 million (USD7.9 million) |
| **GRANTS FOR OPERATIONAL COSTS**<br>Federal and States Government | RM16.8 million (USD4.45 million) |
| **TOTAL** | **RM 393.05 million** |

Source: BPM

**(ii) 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 (8). 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: BPM

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. The client does not have to provide any collateral to support the application. The approval, which normally takes about 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.

**(iii) Tabung Ekonomi Kumpulan UsahaNiaga (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 locatedthroughout Peninsular Malaysia, Sabah and Sarawak. As at December 2004, it has 179 operation offices with total loans disbursed amounting to RM488.3 million benefiting 102,398 borrowers.

**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 Microfinance Schemes

| Financing Scheme | Description |
|---|---|
| 1. Ikhtiar Bistari | A loan for educational purposes, First loan, maximum of RM1,000 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 RM3,000; Maximum limit of RM10,000; 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<br>I-Mesra | A loan for new members. Each successive loan could be increased up to RM1,000 more from the previous loan; Maximum loan of RM2000–RM20,000; Repayment period of 25–150 weeks. |

**Table 3** AIM: Types of Microfinance Schemes (Cont.)

| Financing Scheme | Description |
|---|---|
| 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. 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 RM1,000 to a maximum of RM20,000 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

**Performance**

*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 8.00 am to 12.00 noon. Occasionally, BPM bank officers work longer hours when they visit their clients at their projectsites. TEKUN services even to the more remote and isolated areas that can only be reached by boats.

*Outreach*

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).

**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

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.

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: BPM

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). 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. However, between 2003 and 2004, AIM saw a large increase in the percentage of loans disbursed of 116.1%.

**Table 7** AIM: Loan Disbursed 1990-2004

| YEARS | NO. OF CLIENTS | AMOUNTS OF LOAN (Ringgit Malaysia) | LOAN/CLIENT (Ringgit Malaysia) | GROWTH OF LOAN DISBURSED |
|---|---|---|---|---|
| 1990 | 3220 | 891,488 | 276.86 | - |
| 1995 | 69401 | 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 5,135 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 RM6,609 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** | **20,953** | **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. 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 RM229,236.

*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 5,485 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.

**Discussion**

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.

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 sotisfy thevarying needs of the groups. Thus, the existence varying needs of the groups. Thus, the existence of different but specialised MFLs 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.

**References**

1. Conroy, J.D.: The challenges of microfinancing in Southeast Asia. Institute of Southeast Asian Studies, Singapore. pp.41, 2003.
2. Siwar, C. and Quinones B. : Microfinance in Malaysia: aiming at success. In: Remenyi J. and Quinones B., editors. Microfinance and poverty alleviation – case studies from Asia and the Pacific. Pinter Publishers Ltd, London and New York. pp. 272, 2000.
3. Economic Planning Unit: Malaysia: 30 years of poverty reduction, growth and racial harmony. Scaling up poverty reduction: a global learning process and conference, Shanghai, May 25-27, pp. 51, 2004.
4. Sukor K.: 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. National seminar on poverty eradication through empowerment; Grand Plaza Park Royal Hotel, Kuala Lumpur. pp.15, 2005.

5. Siwar, C. and Basri AT.: Microfinance capacity assessment for poverty alleviation: outreach, viability and sustainability. Humanomics. 17(1&2): 116-133 pp., 2001.
6. Che Zakiah C. D.: Creating a conducive environment for micro and rural finance – the Malaysian experience. High-level policy meeting on micro finance and rural finance in Asia, Yogyakarta, Indonesia. pp. 8, 26-28 February 2004. Available from: http://www.cgap.org/direct/docs/other/ProceedingsHLPM.pdf
7. Reinharz, S.: Feminist methods in social research. Oxford University Press, New York. pp. 424, 1992.
8. Zainul Kamar M.Z.: The future of rural and agricultural finance institutions: Bank Pertanian Malaysia. The 48th APRACA executive committee meeting and regional symposium on the future of rutal and agricultural finance institutions, Tehran and lifahan, Iran. 9 pp., October 9-15, 2004. Available from: http://banktani.tripod.com/Zainul.htm