Conference Paper

The Chronology of Microfinance Development in Malaysia: A Review

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Abstract

This study is to discover the development of microfinance in Malaysia through a review of relevant literature. Microfinance in Malaysia, especially the operations of Amanah Ikthiar Malaysia, are based on Grameen Bank Program innovated by Muhammad Yunus in Bangladesh. Malaysia is endeavoring to be a developed nation, and new age microfinance seems to play a crucial role in eradicating poverty. Poverty and development do not complement each other, and hence, it is essential to focus on poverty eradication through various means. Here, an attempt has been made to the methodological and systematical review of the past literature on the development of microfinance, from various sources. It is hoped that this paper would provide a better understanding of the chronological flow and evolution of microfinance in Malaysia.

Keywords: microfinance, Malaysia, poverty, development.

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1. Introduction

Development of a nation does not only depends on the physical infrastructure, technology, and modernization and emphasis must be laid on the development of every citizen in the country, especially in term of quality of life. A nation will move forward if all the people are happy and take part in the development by having access to a high standard of living and have access to all the services such as housing, food, electricity, and education. In other words, it can be defined as a Shared Prosperity. The development of a nation can not only be indicated by the high Gross Domestic Product (GDP), and it should be measured by ensuring that everyone enjoys the wealth of the nation. Microfinance plays an important role in poverty eradication.

While moving towards the goal of being a developed nation, poverty tends to be a setback as most developed nations have successfully eradicated poverty. New age microfinance provides a different approach and focuses on rural poverty, employment generation, and household income. The problem arises whether the new age microfinance in the timeline of Industrial Revolution 4.0 could provide a different dimension in poverty eradication. This is the major challenge facing Malaysia and other developing nations.

In Malaysia, microfinance is defined as small business loans that not exceeding RM 50,000 with loans tenure not more than seven years. (Shu-Teng, Mohd Ashhari, Suraya-Hanim, & Nassir, 2015). There are three major microfinance institutions in Malaysia viz. Amanah Ikhtiar Malaysia (AIM), National Entrepreneur Group Economic Fund (TEKUN) and Yayasan Usaha Maju Sabah (Yamamoto, Ota, Akiya, & Shintani). Starting from 2006, the Malaysian government has been collaborating with Bank Negara Malaysia (BNM), the central bank to promote more financial institution, especially banks, to extend microfinance loan service to the customers.

2. Literature Review

2.1. The Emergence of Microfinance

Microfinance has been clarified as the lending of a small amount of loans to the people who are living below the poverty line in developing nations (Robinson, 2001). It is a well-known definition that can be explained for the right meaning of microfinance. The most important agenda for microfinance is to help the poor and lift them out of poverty. According to Microfinance Barometer 2018, there are 139 million customers or borrowers at the microfinance institution globally. Furthermore, the loan portfolio for 2017 is worth $114billion across the globe. This shows that around 7 percent of the world population is still living under poverty. The past four decades, Muhammad Yunus from Bangladesh had come out an experiment to help poor underprivileged women by giving them a small loan to expand the bamboo business, and this led to the establishment of Grameen Bank *(Village Bank).* The initiative had led millions of the poor to access financial aids resulting in the increased standard of living and reduce poverty (Ledgerwood, Earne, & Nelson, 2013). The model of Grameen Bank had been replicated by many of the developing nations and led to the establishment of microfinance institutions.

2.2. The Development of Microfinance in Malaysia

2.2.1. The history of Microfinance in Malaysia

As the establishment of Grameen Bank in 1976, the model had inspired the Malaysian Government to found an organization to alleviate poverty. Thus in September 1987, Amanah Ikhtiar Malaysia (AIM) was established using the Grameen Bank model with

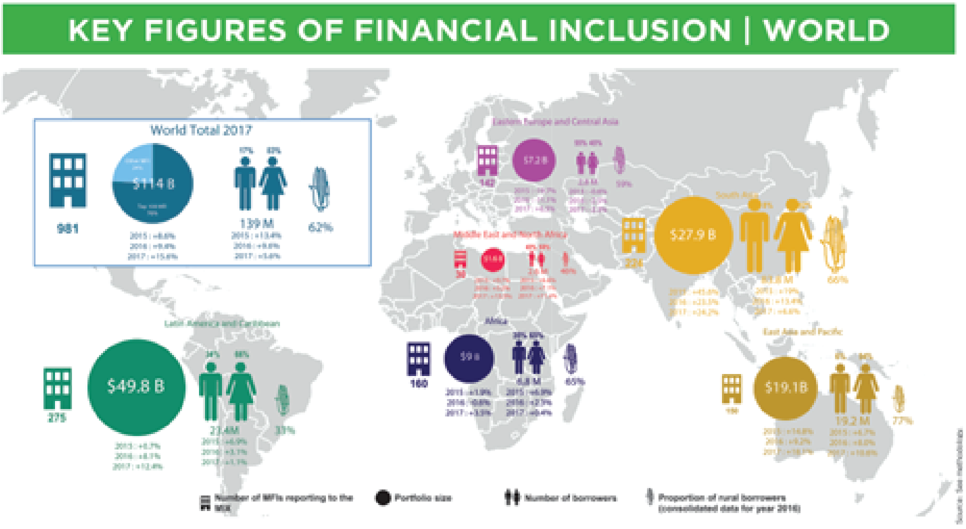

Figure 1: Shows Key Financial Inclusion (**Source:** *Microfinance Barometer 2018*).

several changes and modifications. As one of the leading microfinance institution in Asia, AIM plays a vital role in combating poverty in Malaysia (Ramli, 2001). AIM is the first microfinance institution founded in Malaysia, and the largest Grameen Bank replication outside Bangladesh (McGuire, Conroy, & Thapa, 1998) AIM was developed in 1988 under the Trustee Incorporation Act 258 (revised 1981). Initially known as the *'projek ikhtiar,'* AIM shows the successfully lending group model and the program had been expanding widely throughout Malaysia. AIM had been through ups and downs and facing several constraints in its mission to assist the poor. For example, in 1992-1999 AIM had a mission breakdown when its initial objective to help the poor was distorted by political motives (Kasim, 2000). Nevertheless, AIM still being the leader of microfinance Institution in Malaysia that promotes the loan to assist the poor in combating poverty. Besides AIM the second model of Grameen bank replication in Yayasan Usaha Maju Sabah YUM which is located in Sabah. YUM began in 1988 under 'Projek Usaha Maju' and being institutionalized in 1995 by the State Government of Sabah. YUM is registered as a foundation under the Trustee (Incorporation) ordinance 1951 chapter 148 of Sabah (YUM, 2009). Thus, in a timeline, YUM is the second microfinance institution entity that had been established in Malaysia. The lending system of YUM is similar to AIM since the original objective is to assist the poor and poverty-based institutions. The only difference between YUM and AIM is using group lending program while YUM uses an individual lending system due to the geographical factor. The third microfinance institution is The Economic Funds for National Entrepreneurs TEKUN and was established on 9 November 1998 (TEKUN, 2009). TEKUN main objective is to provide express and easy loan service to *Bumiputra* and Indian entrepreneurs. For the past ten years, TEKUN has expanded its services to provide business chances and training skills to its participants.

2.2.2. The Incidence of Poverty in Malaysia

Malaysia is a country that is dynamic with ethnic diversity and community. The incidence of poverty in Malaysia has declined in the last four decades ago by the success of effective government policies. New Economic Policy MNEP 1970-1990, New Development Policy NDP 1991-2000 and the New Economic Model NEM 2010 are the policies that aim to increase people's income and productivity by ensuring the continuity of economic growth in order to achieve developed country status by the year 2020.

Table 1: The Incidence of Poverty (% of the population) from 1970-2012 ((Henderson, Hulme, Phillips, & Nur, 2002) (1970-2002): Department of Statistic Malaysia, 2013 (2004-2012)).

Year	1970	1980	1990	1995	2004	2009	2012
Incidence of Poverty %	49.3	29.2	17.1	8.9	5.7	3.8	1.7

Table 1 shows the incidence of poverty in terms of percentage of the Malaysian population. The stable economic growth by the last four decades has contributed to a continuous decline trend in the incidence of poverty from 49.3% in 1970 to 1.7% in 2012. Microfinance is one instrument to eliminate poverty. Many studies were done either within or outside Malaysia, which gives clear evidence that microfinance is one way to eliminate poverty. Hussain, Mahmood, and Scott (2019) found in the study in Pakistan that microfinance has a positive impact in reducing poverty amongst women and help in promoting the financial inclusion among the borrowers. Meanwhile, Al-Mamun and Mazumder (2015) conducted a study in Malaysia to assess the impact of microfinance on the poverty of the borrowers, and the authors found a positive impact of microfinance on poverty reductions. Hence, this paper is trying to shed light on the poverty alleviation by microfinance approach.

2.2.3. Microfinance and its Operations

In the global perspective, the microfinance market had served more than 33 million borrowers and 48 million savers (Lensink, Mersland, Vu, & Zamore, 2018). For years, microfinance had upheld this primary goal, and the traditional MFIs consisted only of non-governmental organizations NGO, specialized microfinance banks and public sector banks. Lately, the marketplace of microfinance has been evolving, and some of the non-profit MFIs are changing into profit-seeking institutions to attain greater strength, sustainability, and market reach. The delivery of subsidized credit to financial institutions is an important and commonly used policy tool of governments and central banks. There are several forms of lending mechanism in microfinance, which are single-based lending and group-based lending. The usual mechanism that is practice in Microfinance operation is group-based lending. In Malaysia, the group based lending mechanism is the main approach practiced by Amanah Ikhtiar Malaysia (Al-Mamun, Mazumder, & Malarvizhi, 2014). Besides, AIM had been recognised as one of the successful Grameen Bank replication models. Based on the study of Ramli (2001), the author had described that AIM is the oldest model of Grameen Bank and had a victory in alleviating poverty in Malaysia since the establishment in 1987. Meanwhile, Yayasan Usaha Maju Sabah YUM is an entity that practice the individual based lending method. This is because of the logistic factor of the state of Sabah and difficulty in gathering the participants to make a collective group lending based (Mokhtar, Nartea, & Gan, 2012). Regardless of the lending mechanism, the microfinance system should be objectively focusing on the poverty eradication, and the main agenda is to help the lower-income community to raise their income and lifting them out of poverty.

2.2.4. Microfinance and Rural Area of Malaysia

The vast majority of the world poor live in rural areas of developing countries. Enduring long periods between inputs into and outputs from agricultural production, uncertainty on the harvest outcomes and dependency on the weather are the constraints facing by the poor (Ksoll, Lilleør, Lønborg, & Rasmussen, 2016). Based on Malaysia Statistic Department, rural area is an area with less than 10,000 population. Therefore microfinance plays a vital role in developing the household income of the rural population, enhancing the quality life and social wellbeing of the rural community, assisting in generating the employment generations of the rural community and improving the microenterprise and business performance of the microfinance participants in the rural area. Due to the logistical and geographical factor, the rural is left behind in term of development and as well as access to the financial services. According to the previous study of Lopez and Winkler (2018) challenging of stronger sustainably appears in the rural market compared to urban. The study tests the data covering 772 microfinance institution from 2008 to 2013. Thus it was found that sustainability challenge is higher in rural rather than in urban area. Based on the study, it is shown that the challenging phase appears in rural in terms of microfinance. As microfinance is acknowledged to be a tool to combat poverty especially in rural areas, past studies had been done by previous scholars (Hussain et al., 2019) and (Lønborg & Rasmussen, 2014) and these found that microfinance participant's poverty level can be reduced by the microfinance program. Therefore, this paper would shed light on the importance of microfinance in providing financial services to rural society.

2.2.5. A methodological review of Microfinance on Social Wellbeing, Employment generations, household income, and microenterprise performance

Microfinance is reflected to be a tool to improve the social and economic status of the society by empowering women, improving financial literacy, and encouraging savings. There are researches conducted to examine the impact of microfinance on social wellbeing (Hussain et al., 2019), but the research is limit to South Asia. There still need depth research that studies on the impact of microfinance on social wellbeing. Sayed Samer Ali Al-Shami, Majid, Rashid, and Hamid (2014a) that conduct a cross-sectional study between Malaysia and Yamen microfinance system and (S. S. A. Al-Shami, Majid, Mohamad, & Rashid, 2017) found that microcredit program microcredit has significant positive effects on borrowers' household income and personal asset acquisition which could be assumed as the social status in a society. For employment generations, a fine-functioning financial system that delivers sufficient access to financial resources promotes economic growth and employment generation, mainly in developing countries where access to credit is limited. According to Atiase, Wang, and Mahmood (2019) microfinance institutions regulated by FNGOs with a social logic in delivering the microcredit to the financially excluded in Ghana. This study aims to investigate the impact of microcredit on employment growth among MSEs in Ghana. It is found that through a multiple regressions analysis, the microcredit shows a positive impact on employment generations among MSEs in Ghana. There still needs further research on microfinance and how it regulates the employment generation in Malaysia. There is a lack of literature that studies the impact of microfinance on employment generation in Malaysia, and future research is required to analyze the issue. In the household income, microfinance had played a significant role in enhancing the household income of the borrowers. Studies had found that microfinance is an efficient instrument to generate household income, especially in the low-income family (Alia, Ashta, & Ratsimalahelo, 2017; Ksoll et al., 2016). The authors had found that Household Economic Portfolio HEP model limitation and wrap up the gap through a qualitative experiment using diaries to evaluate the impact of microfinance and household income. However, the study is using a case study, and the scope of the study is not broad to critically review the

HEP limitation. Next literature was reviewing the impact of Village Saving and Loan Association VLSA in Northern Malawi and had found that positive interaction between microfinance and household expenditure. For the Malaysian context, Al-Shami et al. (2017) found that the household welfare of the low-income participants of AIM had shown a positive impact. The authors employed a cross-sectional survey and distributed a questionnaire to the 495 borrowers. The positive impact of microcredit on household income and personal asset acquisitions discovered. Microenterprise is an important tool for the development of low-income rural societies in many countries, including Ethiopia, Nigeria, and Malaysia (Banerjee, Karlan, & Zinman, 2015). Microfinance is normally offered to the neediest to start up a microenterprise or to expand the existing business (Atmadja Adwin, 2016). According to Beck, Lu, and Yang (2015), the authors examine the access to financial services could become a positive impact on the decision to the entrepreneur and initial investment of microenterprise. The study conducted in China and with the survey, it is found that the use of informal finance family is positively associated with sales growth of microenterprise.

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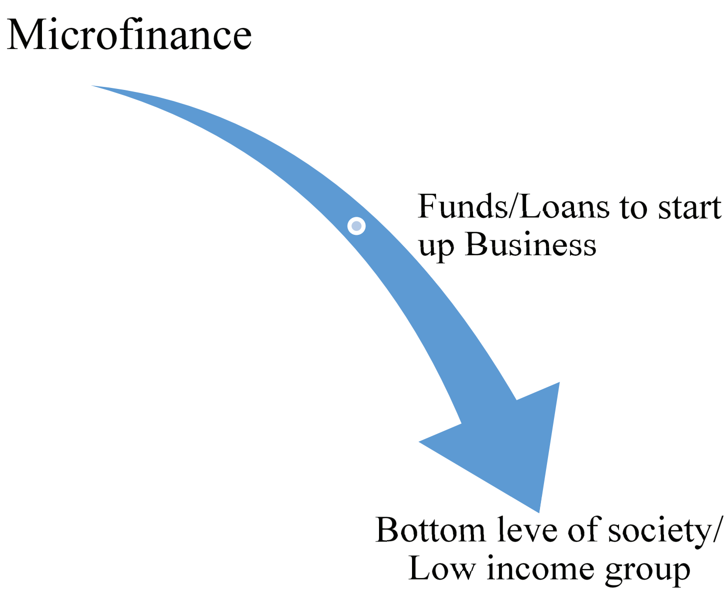

Figure 2: The Loan Targeted in Microfinance Concept (**Source:** Author).

As for Malaysia, microenterprise had been a catalyst in the economy. However, the financial gap between Small and Medium Enterprise and microenterprise an important issue, the author reviewed the past literature and come out with the findings of appearance in the financial gap in various situations with various form of agencies offer a different mode of financing. The study revealed microenterprise is risky borrowers and financial institution are not willing to provide the loans. Therefore, microfinance institution should act as a financial service provider to the microenterprise. It is important to make a depth review on the impact of microfinance on microenterprise performance in Malaysia.

2.2.6. A systematic review of Microfinance on Social Wellbeing, Employment generations, household income, and microenterprise performance

According to Sayed Samer Ali Al-Shami, Majid, Rashid, and Hamid (2014b), the wellbeing of the microfinance participants refers to the participant's household, micro and small enterprises performance and empowerment. In term of social wellbeing, in the aspect of social well-being, the borrower micro consists of a cluster of low income can enjoy the financial services provided by micro-financing institutions. Logically, microfinance services received by the borrower can help the borrower out from poverty. Participation in the economic market can also help in the generation of household income, gender balance, and also improve the quality of life better. This can improve social well-being among borrowers. When low-income earners are caught in poverty, they are quite difficult to contribute to society, and it is closely related to the psychological impact that could stunt the growth of sustainable social well-being. Therefore it is needed a further understanding of how microfinance would help in providing better social wellbeing among the borrowers. To what extent does the microfinance contribute to social wellbeing is the main critical point that should be highlighted.

Employment generation is important in order to help the poor to escape from financial exclusion. Through microcredit, the financially excluded can involve in self-employment and generation of both skilled and unskilled employment for others (Sappleton & Lourenço, 2016). The generation of employment and new job opportunities are very important in being able to provide facilities to the financially excluded to a consistent income and more pleasant live plus positive impact to the overall content households. Erhardt (2017) found new evidence that micro-financing and the generation of new job opportunities have to do a very positive relation besides creating job opportunities. New job opportunities generated by the microfinance system is an important aspect in helping low-income community escape from poverty as well as to assist the community in contributing to the economy. In the Malaysian context, a more in-depth study should continue to review the positive impact of the production of microfinance opportunities. In a study conducted by several researchers Al Mamun, Abdul Wahab, and Malarvizhi (2011) found positive impact microfinance over the production of new job opportunities, but the study focused in Peninsular Malaysia and have also been outdated. In answering the argument of microfinance contributions to the employment generations, this review is critically synthesis the point of view of describing the relationship and connection between that particular matters.

One of the main objectives of microfinance is helping to increase household income. This goal is in line with the primary objective, which eliminates poverty microfinance. Household income was an important factor that determines the demand for credit. Those in the bottom income class has minimal savings and less demand for credit as compared with those in high income. Based on the study of K. C. Chen and Chivakul (2008) a household with high income was more often require high credit demand. Therefore, the household income should be generated to the lower income group to reduce poverty as well as increase the credit demand. There are vast studies had been conducted to review the impact of microfinance and household income in Malaysia, and the result found the positive impact of microfinance program and household income like (Al-Mamun & Mazumder, 2015; Al-Mamun et al., 2014). The finding points out the concrete evidence of the contribution of microfinance towards household income. In the context of microfinance and microenterprise, financial resources for capital is much needed to expand or start a business. It is important to review the impact of microfinance on the successful performance of microenterprise. There are past studies that question the effectiveness of microenterprise in eliminating poverty and improve welfare (Cull, Demirgüç-Kunt, & Morduch, 2009). Microfinance also criticized for trusted could endanger the borrower if the money received is not well managed. Hence, the issue of managing the capital arise in order to ensure the sustainability and good performance of microenterprise and the business. Wan Nurulasiah Binti Wan, Abdullah Al, Nur Izzati Binti Mohamad, and Naeem (2019) extend that training program is required to give the skill of how to manage the funds in order to ensure the good business performance of the microfinance participants.

3. A Proposed Theoretical Framework

The theoretical framework developed based on the depth review of the literature on the perspective of Microfinance and the impact to the four pillars, which are social wellbeing, employment generations, household income, and microenterprise performance. The household economic portfolio HEP is the theory suggested to underpin this framework. This theory was pioneered by (M. A. Chen & Dunn, 1996) based on the analysis of Sebstad's et al. framework. The household portfolio model is based on the fact than individuals of the household has one or more identity, especially in gender, marital status, and parental status. This model allows systematic study on the social implication within the household (Chen & Dunn, 1996). It was expected that this framework could be utilized for the policymakers and stakeholders in the Microfinance program, especially in Malaysia.

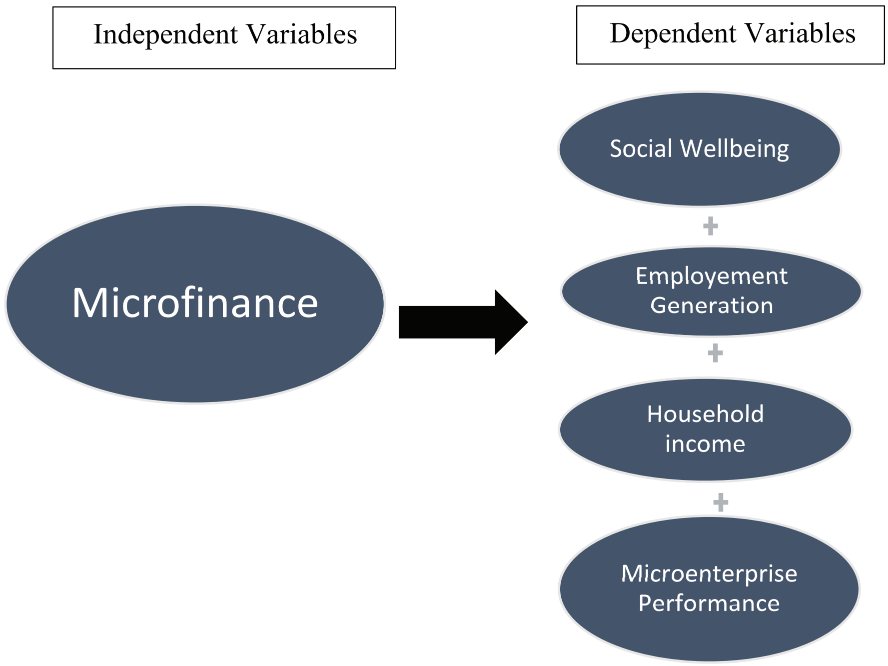

Figure 3: The Theoretical Framework of Microfinance and The Factors That Impacted By (**Source:** Authors).

4. Discussion

In discussions on microfinance and its effects into four factors stated, microfinance provides a positive impact on the elements mentioned, namely social wellbeing, employment, household income generations, and microenterprise their performance. The specified element is the leading indicator in measuring the effectiveness of the system of microfinance in the context of Malaysia and outside Malaysia. In line with the four factors set out, poverty is the main goal to be detailed. Poverty is the primary goal of why this microfinance system implemented. Based on past research, microfinance is a very effective way to remove the low-income group out of poverty. Therefore, this paper is expected to provide a clear picture to the upcoming study on the importance of microfinance in the fight against poverty and also the effectiveness of microfinance in regards of the four elements that had been mentioned. The four pillars in the theoretical framework that had been developed are the objective that arises in the questions, and the impact of microfinance is observed. Based on the review literature:

1. Microfinance has a positive impact on the social wellbeing of the borrowers in Malaysia

2. Microfinance has a positive impact on employment generations and job creations. Based on the previous studies Erhardt (2017); (Sappleton & Lourenço, 2016) microfinance plays a vital role in promoting job creation and employment generation. A further study needs to be done in Malaysia as a lack of literature that examines the impact of microfinance on employment generations.

3. Microfinance has a positive impact on household income. A considerable volume of literature is found out the evidence of microfinance impact on the household income.

4. Microfinance has a positive impact on microenterprise performance. However, literature also stated that the training skill and consultation are also important to ensure sound business performance.

5. Align with all the above matters, and poverty is the main agenda that should be highlighted as the main objective of microfinance is to combat poverty. Microfinance is believed to be an instrument to lift the low-income group out of poverty and at the same time increase their social wellbeing, generate employment and job creations, improve the household income and lastly rise the microenterprise performance and business.

5. Conclusion and Implications

The current literature review discusses the impact of microfinance on social wellbeing, employment generations, household income, and microenterprise performance as developed in a proposed theoretical framework. All of these elements are significant with the primary purpose of microfinance, which is poverty eradication. The main objective of this paper is to give a clear explanation of the development of microfinance in Malaysia and its operations. The key finding of this paper is that there is a positive interaction between microfinance and the four-element that had been mentioned earlier. However, there is still a gap that arises in this paper as there is required the further depth study of the microfinance in Malaysia, especially to the employment generation. It is due to the lack of study in that particular matter. Lastly, this paper is hoping to give a better explanation and help future research to conduct the study in the field of microfinance in Malaysia and also at the global level.

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