PROVIDING MICROFINANCE SERVICE FOR MICRO-ENTERPRISE: PERFORMANCE OF SELECTED MICROFINANCE INSTITUTIONS IN MALAYSIA

Rahimah Majid
A.H.Roslan
Mohd Saifoul Zamzuri Noor
Faculty of Economics, Universiti Utara Malaysia

Faudziah Zainal Abidin
Faculty of Finance and Banking, Universiti Utara Malaysia

Abstract

Like other developing countries, microfinance programs have been part of the poverty alleviation strategy in reaching the poor who are normally excluded from the formal credit sector. The inaccessibility of the poor to credit was mainly due to lack of good collateral or guarantors to qualify them for existing bank products. The microfinance programs as an approach taken to eradicate poverty is believed to be able in helping the poor to expand their economic activities and thus increase their income level as it open up the accessibility of the poor to credit. As such, to achieve its utmost impact on the poor, the development of effective and efficient microfinance institutions (MFIs) and improvement in the accessibility of the products and services provided by these institutions are crucial. This paper discusses the role and microfinance programs provided by two microfinance institutions in Malaysia, namely, the Bank Pertanian Malaysia (BPM) and Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN). In specific, we examine their performance in terms of the products and services offered, delivery mechanism, outreach and its sustainability.

Keywords: microfinance micro-enterprise performance

1. Introduction

Microfinance is often considered as one of the effective and flexible strategies in poverty alleviation. Microfinance refers to the practice of providing financial services such as micro credit or small loans to the poor and low income groups and their micro-enterprises. Today, microfinance plays a major role in the development of many developing countries including Malaysia, as it provide a mechanism that enabled the poor households who mainly engage in self-employed economic activities with low productivity to credits in the formal financial institutions.

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). As such, microfinance programs has been taken as one of the approach to eradicate poverty among the poor and to address the financing needs of the low-income group in rural and urban areas. Providing access to microfinance enable in helping the poor to expand their economic activities and increase their level of income, and thus improving their lives.

One of the major problems facing the poor, lower income groups and micro-entrepreneurs is access to credit. Therefore, most of the poor households run micro and small-scale business without or with minimum external financial assistance. since they do not have adequate access to financial resources offered by the formal financial sector. Their inaccessibility to financial resources offered by the formal financial sector was mainly due to lack of financial records, limited credit history and insufficient collateral or guarantors. Even when they do have income or collateral, the amounts they require are often too small to appeal to banks. As an alternative, some poor households and micro-entrepreneurs tend to rely on informal financial support like illegal money-lenders, loan sharks or "ah long", where the interest charged is unreasonably high[1]. Even though there were microfinance services initially offered by formal financial institutions such as financial cooperatives, financial non-governmental organizations and rural banks among others at reasonable interest rates, they are however have not been successful in providing financial services to the hardcore poor.

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

[1] Money-lending is illegal in Malaysia, but ah longs still exist. Micro-entrepreneurs become patrons of ah longs when they find themselves unable to get loans from any other sources. Borrowings from ah longs is usually done as the last resort for the high interest rates charged. 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.

among the lower-income population. The development of effective and efficient microfinance institutions (MFIs) and improvement in the accessibility of the products and services provided by these institutions would unlock the potentials of the lower income groups, particularly in the agriculture sector and rural areas.

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.[2] Bank Negara Malaysia embarked on the Microfinance Project, aimed at strengthening the microfinance 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 MFIs as well as a supervisory and regulatory framework. The framework would be used as a guide and references for standard best practices among institutions providing microfinance products and services. For this purpose, two financial institutions and one NGO were given the authority to disburse RM1 billion of funds, that are Bank Pertanian Malaysia (BPM), Bank Simpanan Nasional (BSN) and Amanah Ikhtiar Malaysia, respectively, with interest rates charged at 4% per annum on reducing balance [3]. Besides, there is another NGOs that actively engaged in microfinance activities, that is, Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN). Amanah Ikhtiar Malaysia (AIM) focuses on providing financing to the poor households and micro-borrowers mainly for rural poverty eradication, while TEKUN is specialized in the provision of small loans to micro-enterprises of the indigenous group (Bumiputra). Other NGOs offering microfinance activities include Yayasan Usaha Maju (YUM) located in Sabah, and the Koperasi Kredit Rakyat (KKR) located in Selangor, but their operations are much smaller in scale as compared to AIM or TEKUN.

The remainder of the paper is organized as follows. Section 2 presents brief background of microfinance programs and services offered by MFIs in Malaysia. Section 3 provides introduction of the MFIs selected for the study: Bank Pertanian Malaysia (BPM) and Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN). Section 4 provides a comparison of the MFIs in terms of products and services and MFI performance. We examine the performance of these MFIs in extending credit to the poor in terms of products and services they provide, delivery mechanism, outreach and its sustainability. Section 5 concludes the discussion.

---

[2] The micro credit scheme launched by the government was part of an economic stimulating package to counter the economic slow down partially due to uncertainties in the global political and economic incidence.

[3] 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).

2. Background to Microfinance in Malaysia

The role of microfinance provider was initially carried out by government institutions, public enterprises and credit institutions to assist poverty eradication strategies among the Bumiputera. Emphasis of the programs was given to the development of the agricultural sector and provision of subsidized credit to assist farmers and fishermen obtain credit at a subsidized rate, as well as to small and medium enterprises. Among the institutions that provide microfinance services to various sectors are the Agricultural Bank of Malaysia (BPM), Farmers Organization Authority (LPP), Federal Land Development Authority (FELDA), agro-based Co-operative Societies, Majlis Amanah Rakyat (MARA), Credit Guarantee Corporation (CGC). However, these financing agencies and co-operative societies have not been successfully in providing financial services to the hardcore poor, partly due to the formality of the credit delivery system including requiring guarantors and collateral.

There are a number of non-governmental organizations (NGOs) that engaged in microfinance activities. These include Amanah Ikhtiar Malaysia (AIM) – the dominant and significant MFI, Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN), Yayasan Usaha Maju (YUM) in Sabah, and Koperasi Kredit Rakyat operating in Selangor. Yayasan Usaha Maju was established in 1995, adopting an approach incorporating capacity building and economic development. The capacity building is targeted to the heads and members of households towards their human, social and organizational development; while economic development is facilitated through the loan scheme, which also incorporated enhancing technical and resource management skills of members (Siwar, Talib: 2001). While Koperasi Kredit Rakyat (KKR) is a rural based co-operative credit scheme, and was registered in 1975. It operates in the rural town of Batang Berjuntai, Selangor. With the objective of uplifting of the rural communities to a higher level of socio-economic life by creating economic opportunities and develop social integration through economic co-operation. The target groups: estate and mine workers, smallholders, government industrial management group workers, contract workers and squatters.

The oldest microfinance institution in Malaysia, Amanah Ikhtiar Malaysia (AIM) was established in 1986 and is the largest poverty-oriented MFI in Malaysia. AIM, modeled on the Grameen Bank of Bangladesh, is the first NGO aimed at poverty alleviation. With the objective of providing small loans to the very poor households to finance additional income-generating activities, AIM's activities have been directed mostly to the alleviation of poverty among the indigenous groups (*Bumiputera*). AIM has been heavily subsidized by the government and related agencies. AIM operational costs are borne through its administrative charges to its borrowers, state government, federal government, banks and financial institutions and private sectors[4]. This implies that AIM had limited stimulus to strive for self-sufficiency

[4] Ilias Ahmad, BPM at http://banktani.tripod.com/microfinance.html

(Conroy, 2002). Starting with Ikhtiar Loan Scheme (ILS) which was implemented with a specialized delivery system of direct targeting to the extreme poor, small loans are provided for various agricultural and non-agricultural self-chosen projects[5]. Loans are provided with no collateral, no guarantors, reasonable administrative fee, and simple application procedure. It also adopts group-based lending practices, close monitoring, high frequency repayments (weekly basis) and compulsory savings of 1% of total loan per week. Presently, various types of loan have been developed including economic loans and special educational and housing loans. As at end of 2003, the total loans disbursed by AIM to borrowers amounted to RM941 million (Che Zakiah Che Din, 2004).

Another NGO that have been actively involved in microfinance in Malaysia is TEKUN, which is an MFI that specialized in the provision of small loans to micro enterprises of the native groups (Bumiputra). Its operation is financed mainly by funding from the government. Another institution that provides financing to small business is Credit Guarantee Corporation (CGC), under the Small Entrepreneur Guarantee Scheme. The scheme enables small entrepreneurs to obtain loans from the banking institutions and CGC provides guarantee coverage of the loan.

As microfinance programs have been recognized to play a greater role in the development of SMEs, a micro credit scheme was launched by the government in year 2003 to enhance access to financing to micro enterprises. Two development financial institutions – Bank Pertanian Malaysia (The Malaysian Agriculture Bank) and Bank Simpanan Nasional (The National Savings Bank) are mandated to implement this micro credit scheme. BPM provides financing and savings services to small farmers while BSN provides savings services and consumer loans to small borrowers. The scheme is collateral free but the interest rate charge is 4 per cent per annum on reducing balance. 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 Che Din, 2004).

3. Case Studies of Selected MFIs

Here, two of the microfinance institutions are examined - Bank Pertanian Malaysia (BPM) and Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN).

3.1 Bank Pertanian Malaysia (BPM)

Bank Pertanian Malaysia is wholly owned by the government with the main objective of promoting agricultural development through lending and

[5] The amount of loan is up to RM500 for first loan and a maximum of RM2000 for fourth loan.

mobilizing of deposits 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 modernizing the agriculture communities through special concessionary loans schemes. Table 1 shows the amount of allocation from the Government given to BPM since 1991.

Table 1: Allocation Received by BPM from 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).

The significant involvement of BPM in microfinance activities started when the government launched micro credit scheme in year 2003 with funds allocation of RM500 million. 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[6]. The client does not have to provide any collateral to support the application. The approval, which normally takes a week, is based primarily on the viability of the project, that is, the project's securitization 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.

3.2. Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN)

Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN) was established as a result of the resolution made in the Bumiputera Economic Congress, Penang in 1994 with the objective of providing easy, quick and unburdened loan loan as additional capital to Bumiputera micro enterprises. It is also aim to encourage saving culture among small enterprise, as well to create a networking amongst the Bumiputera entrepreneurs and to build competitive entrepreneurs. Starting with a pilot project in Penang in 1995, the pilot project was further extended to two other areas – Jeli, Kelantan (1996) dan Besut, Terengganu (1997). As these pilot projects has proven to be a success in enhancing the business activities of the entrepreneurs, the government decided to expand the coverage to the whole nation in 1998. TEKUN

[6] 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.

National Foundation (YTN) was registered as a Limited by Guarantee Company in 1999 to manage the TEKUN scheme and is put under the supervision of the Ministry of Entrepreneur and Co-operative Development (MECD).

The operation of TEKUN is mainly financed by the government through a free interest rate loan with initial loan of RM150 million. The TEKUN microfinance scheme is a simple loan based on a saving 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 per cent. They also adopt close monitoring, impose high frequency repayment basis (weekly or fortnightly), and compulsory savings of 0.5 per cent of loan amount per week. Loans offered are between RM1,000 – RM10,000 for the first loan and a higher amount of up to RM20,000 for consecutive loans. TEKUN has operating offices located throughout Peninsular, Sabah and Sarawak[7]. As at September 2007, there are 179 operation areas with total loans disbursed amounting to RM690.19 million benefiting 130,455 borrowers.

4. Analyses of the Selected MFIS

4.1 Research Method

The aim of the study is to identify good practices offered by MFIs in Malaysia. We examined two MFIs that are, Bank Pertanian Malaysia (BPM) and Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN). These institutions were chosen on the basis of their diversity. Bank Pertanian Malaysia was one of the two financial institutions selected by the Malaysian government to distribute funds under the micro credit scheme launched by the government[8]. TEKUN is a private company and their scheme is managed by TEKUN National Foundation (YTN). The practices and performance of these MFIs is analysed in terms of products and services offered, and the performance is measured by outreach to the poor, availability, efficiency and productivity and viability or sustainability. The case study approach was chosen as it 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 MFIs and micro-enterprises through questionnaires and interviews with the officers of these MFIs as well as the owner-managers of the micro-enterprises.

[7] Operation offices are set up according to parliamentary division but for Sarawak it is based on town and economic growth center.
[8] The other bnak involved is Bank Simpanan Nasional (BSN).

4.2 Good Practive and Performance

4.2.1 Products and Services

BPM offers a wide range of products that includes among others paddy credit scheme; agriculture mechanization and automation scheme (MAP); Entrepreneur Scheme for Graduates (SUTKS); Oil Palm Replanting Scheme (TASKS); Special Fund for Fishery; and Micro Credit Scheme.[9] The Micro Credit Scheme is the latest product introduced by BPM to comply with the direction of the government. The objective of the micro credit scheme is to provide working capital to small entrepreneurs who undertake agricultural activities, covering all agricultural activities involving production, processing and distribution. The target group is entrepreneurs at all level of agricultural activities including part-time entrepreneurs who are government or private sector employees. The maximum loan amount is RM20,000. The general features of BPM micro credit scheme is given in Table 2.

Table 2: General Features of BPM Micro Credit Scheme

	ITEM	Description
1	Objective	To provide working capital to entrepreneurs who undertake agricultural activies.
2	Financing Scope	All agricultural activities involving production, processing and distribution.
3	Basis of Financing	Viable projects Financing is dependent upon project requirement and cash flow Financing is dependent upon household income
4	Target Group	Entrepreneurs at all level of agricultural activities including part-time entrepreneurs who are government or private sector employees.
5	Eligibility	
	Status	Individual, Sole proprietor, individuals group
	Age	18 – 60 years old
	Citizenship	Malaysian citizen only
	Business License	Must possess the necessary licences
6	Long Terms and Condition	
	Loan Amount	Maximum of RM20,000 (USD5263)
	Loan Term	Not more than 4 years
	Interest rate	4% per annum
	Financing margin	100%
	Insurance coverage	Is a must
	Loan Disbursement	All funds will be disbursed based on project progress and cash flow requirements. Funds will be credited to customer's "Patriot Perdana" account or direct to suppliers, vendors or other third parties
	Repayment	Based on customer or project cash flows and following the schedule fixed by the bank

[9] Bank Pertanian Malaysia Annual Report 2003, pp.122-125.

Under this scheme, loans are offered to small entrepreneurs involved in agriculture related projects such as production, processing and marketing. To obtain the loan, a client is required to submit an application form together with a business proposal. No collateral is required to support the application. The approval of loans is primarily based on the viability of the project, particularly in regard to the project's securitization of cash flow. The chances of getting approval are usually higher if the client already has a project underway. A client can borrow up to a maximum of RM20,000 with an interest rate of 4 per cent per annum, and the maximum loan 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. Two loan schemes were introduced initially, that are, the National TEKUN and Terengganu TEKUN. These loans are extended to Bumiputra small enterprise seeking additional capital to expand their existing business preferably in the services (business and transportation), trade (retail, wholesale and restaurants) and manufacturing (food processing and others) 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. These two products are largest offered by TEKUN, but there are other products provided such as TEKUN short term, TEKUN agro-based and others. Depending on the amount of loan, the borrowers has the option to make repayments over a period of 26 weeks, 52 weeks, 78 weeks, 104 weeks, 130 weeks and 156 weeks (Table 3).

Table 3: 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

Delivery of products to clients is done in many ways. These include personal approach, through entrepreneur training center, NGOs, MARA and political party. Approval of loans are based on the good track records, capacity to repay loan and business conditions. The collections of repayment are done weekly at the borrower's business premises or at home. The repayment amount includes the principal, service charge and compulsory savings. Those who fail to pay on the scheduled time, the payment can be made at a later date agreed at the branch office.

Apart from loans, TEKUN mobilizes compulsory savings of 0.5 per cent of loan amount which are collected every week together with the loan repayment. But for second time borrowers, they are required to save at a fixed amount. For example if the loan amount borrowed is between RM10,000 – RM20,000 the amount of saving is RM50 per week. The amount of savings collected increase significantly for the period of 2001 – 2004, from RM7.32 million to RM20.52 million (Table 4). Withdrawal of savings is only allowed when the loan has been paid fully. However, for those who wish to make second loan they are not allowed to withdraw their savings. Besides loans and savings, TEKUN provides non-financial services to their clients like entrepreneur development program, and excellent student program for family members. Other services include training, motivation, networking and product marketing.

Table 4: TEKUN - Loan Disbursed and Saving Collected

	2001	2002	2003	2004
Loan disbursed (RM million)	150.0	248.9	365.2	488.3
Savings collected (RM million)	7.32	11.76	17.76	20.52

Source: TEKUN

4.2.2 Performance

In measuring the performance of MFIs, we follow a set of performance standards developed by the National Credit Council (NCC) of Philippines. We analyze the performance in terms of its outreach, availability, efficiency and productivity and its sustainability.

Outreach.

Outreach signifies how successful an MFI reaches its target group. It shows the coverage of the micro financing services by the MFI, both in terms of breadth and depth. Indicators of outreach include the number of borrowers (client), per cent of women client, loan size, savings size, loan outstanding, number of branch, and efficiency ratios (Siwar & Talib; 2001). Number of branches shows how extensive the MFI network to reach its target groups, primarily, the poorer section of the society As with the loan size, the smaller the average loan size and the more female clients, the higher the confidence that services are being provided to a poor clientele.

Since the introduction of the microfinance program until June 2005, the depth of outreach for BPM programs 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 Bumiputra form the majority of BPM micro credit borrowers. They form 84.1% of total borrowers, and make up 80.0% the value of total loan. The non-

Bumiputra was 15.9 % of total borrowers with 20.0% of the value of total loan (Table 5). In terms of gender distribution, 68.4 % of the borrowers are male, and only 31.6% are female.

Table 4: Borrowers by ethnic groups and gender (%)

	% of total of borrowers	% of total of loan
Bumiputera	84.1	80.0
Non-Bumiputera	15.9	20.0
TOTAL	**100.0**	**100.0**
Male	68.4	72.2
Female	31.6	27.8
TOTAL	**100.0**	**100.0**

Source: Bank Pertanian Malaysia

As at 19 June 2005, the total number of BPM micro credit borrowers is 17,613, with the total value of loan amounting to RM202, 151,288 (Table 5). 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, 20m sub-branches and 43 permanent service counters, and 5135 mobile units that are distributed throughout Malaysia. The extensive network has provided easy access to BPM's loan, credit and banking facilities and helps the bank in its deposit mobilization activities. With the development of information and communication technology (ICT), all branches are linked-up by computer system.

Table 5: Approved Loan by Number of borrowers and amount of loan, as 19 June 2005.

State/Region	Number of borrowers	Value (RM)
Johor	1491	17,067,500
Kedah/Perlis	2291	22,914,900
Kelantan	1261	13,781,000
Negeri Sembilan/Melaka	1498	16,597,418
Pulau Pinang	694	9,089,910
Pahang	1104	12,065,000
Perak	1988	25,220,000
Kuala Lumpur	671	10,035,000
Sabah	1371	14,090,000
Sarawak	2577	28,126,960
Selangor	1712	21,961,500
Terengganu	955	11,202,100
TOTAL	**17613**	**202,151,288**

Source: Bank Pertanian Malaysia

In terms of growth of borrowers, TEKUN total number of borrowers had increased to 130,455 as at September 2007. The average loan size may also reflect the outreach to the poor or target groups. 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. Therefore, TEKUN's program is not focused on reaching the lower segment of the poor households.

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, it can be said that the outreach of BPM and TEKUN is maximized since they have branches that are accessible from many offices scattered throughout he country.

Availability

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, between 8.am to 5.00 pm. Occasionally BPM bank officers work longer hours when they visit their clients at their project sites. TEKUN officers extend their services even to the more remote and isolated areas that can be reached by boats.

Efficiency and Productivity

Efficiency and productivity aspect of MFIs shows whether the institution is able to generate sufficient income to cover expenses related to its operations, and the amount of quality services delivered by the microfinance staff to their clients. Two indicators that are commonly used are the administrative efficiency, measured as the ratio of administrative costs to average gross loan portfolio; and, loan officer productivity, measured as the number of active borrowers as a ratio of number of account officers.

Based on the loan officer productivity, BPM has the score of 142 loans per officer. Even though it is slightly below the standard score of 150 loans per officer, it is deemed to be unsatisfactory as it is below the benchmark set by BPM. In 2004, the loan officer productivity for TEKUN is estimated at 34.7 loans per officer[10]. 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

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

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

Sustainability shows the capacity of the MFIs to become independent of donor or government subsidies that enable them to move towards self-financing. Indicator to assess financial sustainability includes the cost structure, operational efficiency and productivity measures, revenues from interest earned, assets, grants, soft loans, returns on assets, ratios of cost/assets; and degrees of partial and full self-sufficiency, benefit cost (Siwar & Talib, 2001).

Sustainability of the BPM's micro credit scheme could be gauged from Table 6 below that shows the Cost-Benefit Analysis of the micro credit scheme. As can be seen, total cost of the scheme exceeds total income by 4.48 percent. This implies that that, current reimbursement rate for administrative cost by the government at 8.45% is insufficient.

Table 6: Cost-Benefit Analysis of BPM Micro Credit Scheme

	%
Income	
i. Net Interest Income	3.43%
ii. Government Reimbursement	8.45%
TOTAL INCOME	11.88%
Cost	
i. Administrative Cost	11.36%
ii. Cost of Fund/Opportunity Cost	5.00%
iii. Credit Risk	Borned by Government
TOTAL COST	16.36%
Surplus/ (Deficit)	(4.48%)

Source: Bank Pertanian Malaysia

Based on our interview, it seems that TEKUN micro credit scheme per se is unsustainable. Currently, even income generated from the micro credit scheme is not enough to cover its operating costs without income received from its short-term investments. An an agency established to build the entrepreneurial skills among Bumiputera, profits is not the main objective of TEKUN. Hence its dependence on the government financial support is one of the key elements of TEKUN's survival. Furthermore, many of TEKUN's clients are not repaying their loans. For example, in 2004, the non-performing loans is estimated at RM84, 737, 059 (inclusive if interest) or 18.9% of the total loans outstanding, involving 41,046 clients or 40.1% of the total borrowers. . However, the loan portfolio growth rates has declined gradually since 2002 (Table 7), partly due to declining growth of clients. To be sustainable, TEKUN may have to consider increasing the number of clients by introducing new marketing strategies.

Table 7: TEKUN: Loan Portfolio Growth, 2001-2004

	2001	2002	2003	2004
Loan Portfolio (RM million)	150.0	248.9	365.2	488.3
% Growth	149	65.9	46.7	33.7

Source: TEKUN

Since BPM and TEKUN receive capital injection from the government, they appear to be unsustainable because they were directed by the government to disburse loans at a low 4 per cent interest rate. Given the flexibility of charging loans at competitive market rates, their micro credit scheme may be in a better financial position. However, in the case of BPM micro credit scheme, it is too early to make any conclusive judgment since the scheme is just launched in 2003.

5. Summary and Conclusion

While some strongly support the believe that microfinance has had positive effect, but some question the efficacy of the scheme in reaching the poorest of the poor. Performance of microfinance programs has not been encouraging; many have been plagued with such problems as high default rates, inability to reach sufficient numbers of borrowers, and unending dependence on subsidies. One key debate within microfinance has been whether donors and practitioners should focus on impact, i.e. improved living standards for the poor or financial sustainability.

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. 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, 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 realized 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 specialized MFIs is also important for microfinance program to realize 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 micro enterprises 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 program, 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

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.