

**EMPOWERING WOMEN THROUGH
MICROCREDIT: THE CASE STUDY OF
AMANAH IKHTIAR MALAYSIA RECIPIENTS IN
NORTHERN REGION OF MALAYSIA**

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UNIVERSITI SAINS MALAYSIA

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NORTHERN REGION OF MALAYSIA**

by

NOOR SYAFINAS BINTI MUDA

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LIST OF ABBREVIATIONS

AIM	Amanah Ikhtiar Malaysia
GDP	Gross Domestic Product
IADP	Integrated Agricultural Development Programme
MARA	Majlis Amanah Rakyat
MCO	Movement Control Order
MDGs	Millenium Development Goals
MFI	Microfinance Institution
MP	Malaysia Plan
NDP	New Development Policy
NEP	New Economic Policies
NGO	Non-governmental Organizations
NTP	National Transformation Policy
NVP	National Vision Policy
PLI	Poverty Line Income
RBV	Resource-Based View
SME	Small and Medium Enterprise
SME Corp	Small Medium Enterprise Corporation
SPSS	Statistical Package for Social Science
TEKUN	TEKUN Nasional
YUM	Yayasan Usaha Maju

**MEMPERKASAKAN WANITA MELALUI MIKROKREDIT: KAJIAN KES
PENERIMA AMANAH IKHTIAR MALAYSIA DI WILAYAH UTARA
MALAYSIA**

ABSTRAK

Kajian ini dijalankan dengan tumpuan diberikan kepada 4 objektif iaitu: 1) untuk menyediakan profil dan karakteristik usahawan wanita mikro di bawah pembiayaan AIM; 2) untuk menganalisis faktor-faktor kejayaan usahawan wanita mikro di bawah pembiayaan AIM; 3) untuk menganalisis impak mikro kredit terhadap pemberdayaan ekonomi usahawan wanita di bawah pembiayaan AIM dan; 4) untuk menganalisis hubungan antara kredit mikro dan pemberdayaan wanita dalam kalangan penerima mikro kredit dibawah pembiayaan AIM. Kajian ini telah dijalankan di bahagian utara Semenanjung Malaysia yang meliputi negeri Perlis, Kedah dan Pulau Pinang. Seramai 380 usahawan wanita mikro yang menerima pembiayaan mikro kredit daripada AIM telah terlibat dalam kajian ini dan maklumat diperolehi melalui borang kaji selidik yang diisi sendiri oleh responden kajian. Kajian ini menggunakan kaedah analisis regresi berbilang dan regresi ordinal bagi menganalisis faktor-faktor kejayaan usahawan wanita AIM. Hasil kajian daripada analisis regresi berbilang menunjukkan bahawa daya tahan, pengurusan perniagaan dan skim mikro kredit mempunyai pengaruh positif dan signifikan terhadap prestasi perniagaan. Hasil kajian daripada analisis regresi ordinal mendapati bahawa pengurusan perniagaan, jumlah pinjaman, tahap pendidikan dan jenis perniagaan mempunyai pengaruh yang signifikan terhadap kebarangkalian berada dalam kumpulan berpendapatan tinggi. Analisis uji ranking Wilcoxon dijalankan untuk menguji perubahan pendapatan di kalangan usahawan wanita mikro AIM dan hasil ujian mendapati bahawa mikro kredit telah berjaya

meningkatkan pendapatan penerimanya secara signifikan yang membolehkan mereka berada pada kumpulan pendapatan yang lebih tinggi. Dalam pada itu, kajian ini juga menjalankan analisis regresi dan korelasi spearman untuk mengenal pasti hubungan antara mikro Kredit dan pemberdayaan wanita. Hasil analisis regresi mendapati bahawa prestasi perniagaan mempunyai pengaruh yang signifikan terhadap pemberdayaan ekonomi dan sosial wanita. Manakala hasil analisis korelasi pearson mendapati faktor ekonomi iaitu tingkat pendapatan mempunyai hubungan dan pengaruh yang signifikan terhadap pemberdayaan ekonomi dan sosial wanita. Sehubungan itu, hasil kajian ini mencadangkan dua implikasi kajian yang utama. Pertama, berdasarkan kepada kejayaan mikro Kredit di bawah pembiayaan AIM dalam meningkatkan sosial ekonomi dan memberdaya wanita, AIM seharusnya memberi tumpuan kepada meningkatkan skim tersebut ke peringkat yang lebih tinggi dengan meluaskan jumlah penerimanya. Kedua, kajian ini mencadangkan kepada pembuat polisi dan institusi pembiayaan mikro supaya tidak hanya menumpukan kepada pembiayaan kewangan dalam memajukan usahawan wanita, tetapi juga pembiayaan bukan kewangan.

**EMPOWERING WOMEN THROUGH MICROCREDIT: THE CASE STUDY
OF AMANAH IKHTIAR MALAYSIA RECIPIENTS IN NORTHERN
REGION OF MALAYSIA**

ABSTRACT

This study was designed to investigate the relationship between microcredit and women's empowerment by concentrating on four objectives which are: 1) to profile the women micro-entrepreneurs and characteristics among AIM beneficiaries; 2) to analyse the success factors of women micro-entrepreneurs among AIM beneficiaries; 3) to analyse the impact of microcredit on economic empowerment among AIM beneficiaries, and 4) to analyse the relationship between microcredit and women's empowerment among AIM beneficiaries. This study was conducted in the North of Peninsular Malaysia covering the states of Perlis, Kedah and Pulau Pinang. A total of 380 AIM women micro-entrepreneurs have participated in this study and the data was collected through self-administered survey questionnaires. The study adopted multiple linear regression and ordinal regression to analyse the success factors of AIM women micro-entrepreneurs. The result from the multiple linear regression shows that resilience, business management and microcredit scheme were found to be positively and significantly related to the business performance. The finding on the ordinal regression shows that business management, amount of loan borrowed, educational level and type of business have a significant impact on the odd of being in the higher income group. In relation to the income changes among the AIM women micro-entrepreneurs, the result from Wilcoxon signed-rank test shows that AIM microcredit has significantly increased income among its borrowers which further

moved them up into a higher income group. On the other hand, the present study assesses the relationship between microcredit and women's empowerment using Multiple regression analysis and Spearman correlation. The result of regression analysis indicates that business performance is significant in influencing women's empowerment among AIM micro-entrepreneurs, socially and economically. Meanwhile, the finding from the Spearman correlation reveals that the economic factor which is the level of income also has a significant association with women's economic empowerment and women's social empowerment. As such the findings offer two main practical implications. First, due to the success of AIM microcredit in uplifting socio-economic and empowering women, AIM should consider taking the scheme to the next level by increasing the degree of outreach coverage. Second, the study suggests to policy makers and microfinance institutions to not only concentrate on providing financial support to facilitate women micro-entrepreneurs but also, they should be aided with non-financial support.

CHAPTER 1

INTRODUCTION

1.1 Introduction

Malaysia has achieved remarkable success in poverty reduction, whereby the poverty rate fell from 49.3% in the year 1970 to 6% in 2002 and further declined to 5.6% in 2019¹ (Economic Planning Unit, 2020). The government has been taking serious action on poverty reduction as poverty is always linked with negative conditions. The issue of poverty has led to social unrest that occurred on May 13, 1969. The unrest has resulted in the formulation of New Economic Policies (NEP) with the objectives to reduce the level of poverty and restructure society's socio-economic, especially to eliminate the economic disparities between the races (Abhayaratne, 2004). Since then, poverty eradication has remained a critical national agenda and a major concern of government in formulating policies to ensure the population's well-being. The core policies that contribute to the socio-economic development of Malaysia can be characterized into four long-term planning programmes, namely the New Economic Policy (NEP), National Development Policy (NDP), National Vision Policy (NVP) and National Transformation Policy (NTP).

As Malaysia has successfully reduced the poverty rate since the implementation of NEP, the government has shifted its attention from combating absolute poverty to relative poverty. Yet, Malaysia is still facing the issues of poverty within a new dimension of poverty, which poses a significant challenge to the country.

¹ Calculation of poverty is based on PLI 2019 Methodology where the PLI is set up at RM2208.

Moreover, the current economic shock due to the Covid-19 pandemic has a devastating impact on Malaysia's economy. The unemployment rate reported in May 2020 is 5.3% which is worse than the height of the Asian financial crisis in 1998 and the sub-prime crisis in 2009. The unemployment rate declined to 4.7% in August 2020 but remain the highest ever in the last 30 years (Khalid, 2020). Critically, the Covid-19 pandemic has severely impacted small businesses and vulnerable groups (Cheng, 2020). The loss of income by businesses, especially by SMEs, contributed to a higher unemployment rate (Khalid, 2020).

In view of this, the government has allocated RM110 billion through PRIHATIN Rakyat Economic Stimulus Package to assist SMEs in combatting the pandemic's economic impact, especially on the entrepreneurs. This initiative is crucial for the sustainability of the SME as it is expected that more people will be pushed into poverty due to the adverse economic impact of the pandemic. Apart from the government support, an effort from the non-government organization, Amanah Ikhtiar Malaysia (AIM), has been recognized as the significant contributor among microfinance institutions (MFI) to combat poverty through entrepreneurship. AIM is a Non-Governmental Organization that stepped in, in the late 1970s to help alleviate the problem of poverty among the hardcore poor in rural areas by providing small loans known as microcredit. This action allowed poor women to set up or enhance small businesses. This scheme has achieved tremendous success in reducing the incidence of poverty. In addition, AIM also plays a significant role in empowering women since AIM offers loans only to women due to women's good record in loan repayment and income increment compared to men (Mayoux, 2015). The microcredit scheme has become one of the government's focuses in Shared Prosperity Vision 2030

to increase the capability of micro-enterprise and develop entrepreneurial community among the poor and low-income groups.

1.2 Poverty in Malaysia Before and After Independence

1.2.1 Malaysia Before Independence

Malaya was under colonization for more than 400 years since the early sixteenth century, before achieving its independence in 1957. It started after Malacca fell to the Portuguese in 1511. In 1641, the Dutch conquered Malacca from the Portuguese and the British took possession of it in 1824. British first settlement was in Penang, and they gradually expanded their influence and controlled the whole of Malaya in 1914 (MyGovernment, 2018).

Prior to the British rule, the traditional societies in Malaya were majority Malays who were mostly involved in agricultural activities and relied on its natural resources for livelihood. Malays during this period lived in the rural area as farmers or fishers. Most of the economic activities were based on sustenance to fulfil their basic needs. British colonization involved a massive change in the economics, politics and social structure of Malaya and the Malays (Siwar & Hasan, 1985). Between 1850 to 1941, European capitalism has impacted Malaya's economy by changing its economic structure from traditional to modern (Abdullah, 2012). The land of Malaya was able to fulfil the demand for large supplies of raw materials of the West's industrial revolution. However, the British found some deficiency in the capital and labour market and prompted the colonist to bring in Chinese immigrants to work in the tin mining industries and Indian immigrants to work in the rubber plantation and rail roads (Abhayaratne, 2004).

Given that the production of tin and rubber had brought prosperity to the British, they emphasized the production of these two commodities. In the 1930s, the British had dominated over 65% of tin production and more than 75% of rubber plantation areas, and this percentage continued to rise until independence (Siwar & Hasan, 1985b). The large-scale influx of Chinese and Indian immigrants into Malaya has largely changed the population composition and created a multi-ethnic population. Table 1.1 shows the composition of the population by ethnicity in Malaya and Malaysia from 1931 to 1970. The British policy that segregated the Malay, Chinese, and Indian according to their economic activities resulted in a situation where each race lived only within their community and did not interact, apart from an economic transaction. The majority of Malays lived in rural areas and remained peasants. The majority of Chinese lived in the urban area and worked in tin mining and engaged in business, while most of the Indian lived in the estates and worked in the rubber plantation.

Table 1.1 Composition of Population by Ethnics in Malaya and Malaysia (%), 1931-1970

Races/Year	1931	1941	1957	1964	1970
Malays and Indigenous Group	49.17	41.34	46.5	46.1	53.18
Chinese	33.91	43.17	42.0	42.2	35.45
Indian	15.12	13.50	9.3	9.4	10.59
Others	1.80	1.98	2.2	2.3	0.59

Source: Ku' Azam (2015)

During the colonization period, Malaya's had become the leading producer of rubber and supplied over half of the world output for tin. Malaya's Gross Domestic Product (GDP) had surpassed other Southeast and East Asian regions by the late 1920s. Table 1.2 shows GDP per capita in Malaysia and other selected Asian countries before and after independence.

Table 1.2 GDP per Capita for Selected Asian Countries, 1900-1990
(in 1985 international dollars)

Countries/Year	1900	1929	1950	1973	1990
Malaya/Malaysia	6,002	1,910	1,828	3,088	5,775
Singapore	-	-	22,763	5,372	14,441
Burma	523	651	304	446	562
Thailand	594	623	652	1,559	3,694
Indonesia	617	1,009	727	1,253	1,228
Philippines	735	1,106	943	1,629	1,934
South Korea	568	945	565	1,782	6,012
Japan	724	1,192	1,208	7,133	13,197

Source: Van Der Eng, 1994 as cited by Drabble (2004)

However, despite the economic growth enjoyed by Malaya, there were no substantial economic developments programmes designed to improve the citizens' well-being. During this period, any economic development programme led by the British was to exploit the vast natural resources for British prosperity. Yet, some of the changes in the country have impacted the residence indirectly (Ali, 1987). Malay elite class and Chinese were among those who received the direct benefit of the economic development. The majority of the Chinese lived in the urban area and were associated with trade and commerce. This opportunity allowed them to become successful businessmen and thus control the trade. Moreover, most of the Chinese businesses were associated with the London firms, and this allowed them to strengthen their position in economic ownership (Drabble, 2004). Economic growth has its negative consequences. It has widened the gap between the poor and the rich. The benefit of economic growth did not trickle down, or if it did, its impact was very low to the lowest class in the country (Ali, 1987). Most of the Malays were among the lowest class, and they received a minimal benefit from economic growth.

During the colonial period, the British had abandoned the rural area and focused only on the urban areas. As a result, the Malay community who lived in the rural area were left behind. The economic disparities between urban and rural areas thus widened, and the rural Malay did not enjoy national prosperity compared to other races. In addition, traditional economic activities were still prevalent amongst the Malay society and their reaction to the changing economic patterns was relatively slow compared to other races. The number of Malays in the urban area was small and mostly settled in the city because they were hired as British administrators. Thus, Siwar and Hasan (1985) pointed out that Malaya has a clear dualistic economy due to the uneven economic development emphasised by the British, which focused on certain economic sectors and areas.

1.2.2 Malaysia After Independence

Malaya achieved its independence in 1957. In 1963, the name Malaya or '*Tanah Melayu*' was changed to Malaysia when Sabah, Sarawak and Singapore agreed to become part of the new Federation of Malaysia. However, in 1965, Singapore left the federation and has since become an independent state. The government launched its first economic development plan, namely the First Malaya Five-Year Plan (1956-1960). During 1957-1970, Malaysia economy has shown a remarkable growth performance with an average growth rate of 5.8% of GDP yearly (Shari, 1985). It is undeniable that British has shaped Malaysia economics towards the modern economy and therefore created the potential for higher GDP. However, GDP growth does not necessarily mean development in terms of improvement in quality of life, poverty and unemployment reduction among the populations.

British economic orientation has also created many problems for the country. Wealth inequality among races was apparent. The dualistic economy approach had given the advantage to those involved in the modern sector, mostly Chinese. Meanwhile, those who worked in a small-scale sector that was relatively backward in skill and technology remained poor and did not have the opportunity to enhance their productivity. Unfortunately, the majority of the Malays were involved in this sector. This resulted in the problem of poverty among Malays. Table 1.3 shows the incidence of poverty in Malaysia for selected years, from 1970 to 2019. As shown in Table 1.3, in 1970, more than half of the poverty rate in Malaya were Malay, with 65% of them being poor. Meanwhile, there were 26.0% Chinese and 39.0% Indians were poor. Poverty was prevalent in rural areas, where the majority of the Malays live. In 1970, 58.7% of the rural population were poor compared to 21.3% in the urban area.

Table 1.3 Incidence of Poverty in Malaysia (%), 1970-2019

Strata	1970^a	1990	2002	2014	2016^b	2019
Rural	58.7	19.3	11.4	1.6	17.5	12.4
Urban	21.3	7.3	2.0	0.3	4.8	3.8
Malay/Bumiputera	65.0	20.4	7.3	0.8	9.7	7.2
Chinese	26.0	5.4	1.5	0.1	2.2	1.4
India	39.2	7.6	1.9	0.6	5.5	4.8
Others	44.8	2.8	14.3	0.9	20.5	13.5
Malaysia	49.3	12.4	5.1	0.6	7.6	5.6

Sources: Siwar and Hasan (1985), Economic Planning Unit (2020).

Note: a. Data in 1970 is for Peninsular Malaysia

Data in 1990-2019 is for Malaysia

b. Starting 2016 onwards, calculation of poverty is based on PLI 2019 Methodology

Wealth inequality among races has also created inter-ethnic tension, which led to the racial riot in 1969. This incident occurred because the Malay people felt threatened and dissatisfied with the Chinese's economic ownership in Malaysia, while the Chinese felt unhappy with the privileged given to the Malay and Malay domination in the government. This 1969 racial riot led to the introduction of the New Economic Policy (NEP) to ensure national unity (Jomo & Shari, 1984). The government has realized the importance of equality in income distribution among the races as a way forward to achieve racial harmony. Ethnic identification by economic activities should be eliminated. National wealth should be equally distributed and shared by every race.

1.3 Malaysia Poverty Alleviation Programme

The government of Malaysia has taken serious steps in formulating and implementing various poverty alleviation programmes. The core policies can be classified into four long-term planning programmes, namely the New Economic Policies (NEP), 1971-1990; National Development Policy (NDP), 1991-2000; National Vision Policy (NVP), 2001-2010; and National Transformation Policy (NTP), 2011-2020. Malaysia also has formulated its medium-term planning with a five-year plan known as Malaysia Plan (MP). The first Malaysia Plan (1MP) was the first economic development plan launched by the government in 1966. Beginning from the Second Malaysia Plan (2MP), 1971-1975, all the five-year development plans address the policy objectives outlined in the nation's long-term national development agenda or policies. Table 1.4 shows Malaysia long-term development policies, namely NEP, NDP, NVP and NTP, with its strategic poverty reduction programmes under medium-term development planning, 1st MP until 11th MP.

1.3.1 New Economic Policy, NEP (1971-1990)

NEP is the first long-term national policy. NEP was introduced in the 2nd MP (1971-1975) and lasted until the 5th MP (1986-1990). The NEP was formulated to achieve national unity in response to the racial riot in 1969. The NEP carried two fundamental objectives which were to eradicate poverty and to restructure the society to eliminate economic disparities between the races (Abhayaratne, 2004). As shown in Table 1.3, during the 1970s, most poor people in Malaysia were Malays and Bumiputera with 65.0%, while only 26.0% and 39.0% of Chinese and Indian were respectively poor. Therefore, the poverty alleviation programmes during NEP focused more on the Malays and emphasized the Malays dominant economic sector, which is agriculture. Malay poverty also became synonym with rural poverty because most Malays lived in the rural area and practised subsistence agriculture, which only produced low yield and small agricultural land use (Hussin & Abdullah, 2012).

Poverty alleviation programmes during the NEP focused on distribution and land settlement, development of cultivated land through drainage and irrigation, application of fertilizers and more intensive cultivation such as double cropping and intercropping (Abhayaratne, 2004). The government also provided marketing, credit, financial and technical assistance for agriculture activities to increase the poor's productivity and income. The government was only able to plan the specific programme for poverty reduction during the 3rd MP (1976-80) because until then, the government did not have enough information about poverty in Malaysia (Milne, 1986).

Table 1.4 Malaysia Poverty Eradication Programmes under Malaysia Plan (MP)

1966-1970	NEP 1971-1990	NDP 1991-2000	NVP 2001-2010	NTP 2011-2020
<p><u>1st MP (1966-1970)</u></p> <ul style="list-style-type: none"> • Land development schemes by FELDA • Land consolidation and rehabilitation by FELCRA • Irrigation and drainage • Rubber replanting • coconut rehabilitation • modernisation of small-scale fishery • improvement in the marketing system • revision of credit facilities 	<p><u>2nd MP (1971-1975)</u></p> <ul style="list-style-type: none"> • Land development, consolidation and rehabilitation. • Provision of basic facilities and amenities • Employment expansion in the manufacturing and construction sector <p><u>3rd MP (1976-1980)</u></p> <ul style="list-style-type: none"> • Irrigation and drainage for paddy cultivators • Replanting for rubber smallholders • Subsidised distribution of engines, nets and gears. • Land settlements schemes for agricultural labourers • Special settlement schemes for Orang Asli (native people) <p><u>4th MP (1981-1985)</u></p> <ul style="list-style-type: none"> • Integrated Agricultural Development Programme (IADP) • Irrigation and drainage • Crop diversification and livestock integration • Provision of agricultural support services such as training, extension, research, credit, marketing and processing • Dispersive industrialization and building of new urban centre <p><u>5th MP (1986-1990)</u></p> <ul style="list-style-type: none"> • Group farming • Rural distribution • Establishment of rural growth centres • Promotion off-farm employment 	<p><u>6th MP (1990-1995)</u></p> <ul style="list-style-type: none"> • Special package for the hardcore poor (PPRT) • Micro-finance schemes by AIM • Integrated Agricultural Development Programme (IADP) • Land consolidation and rehabilitation • Economic and commercial linkages of rural with modern sectors • Employment opportunities in manufacturing, construction and other urban activities <p><u>7th MP (1996-2000)</u></p> <ul style="list-style-type: none"> • Special package for the hardcore poor (PPRT) to be continued. • NGOs to complement governmental activities. • Participation of the private sector in poverty alleviation programmes • Provision of better education and training to low-income groups. • Provision of low and medium-cost housing for the urban poor. 	<p><u>8th MP (2001-2005)</u></p> <ul style="list-style-type: none"> • Enhancing education of the poor and low income groups. • Low cost housing projects for low income families • Micro-credit and loan schemes by AIM to be expanded to all states • Reducing the income gap between lower-higher income groups in rural areas • Enhancing the government's role in eradicating absolute poverty, reducing relative poverty and imbalances among and within ethnic groups, regions and states. <p><u>9th MP (2006-2010)</u></p> <ul style="list-style-type: none"> • Pro-poor financing, self-help/income generating programme through AIM and other NGOs • Capacity building programme for indigenous communities. • National poverty database and poverty mapping for better targeting. • Special programme for Bumiputera minorities of Sabah, Sarawak and indigenous communities. 	<p><u>10th MP (2011-2015)</u></p> <ul style="list-style-type: none"> • Promotion of initiatives such as Azam-tani (agricultural businesses); Azam-niaga (businesses); Azam-Kerja (job matching and placement); and Azam-khidmat (participation in the services sector) • Implementation of public health programmes such as rural clinics, family health, rural dental service and food nutrition advisory services. • Targeting 30% rural folk, especially women, for participation in entrepreneurial activities by 2020. <p><u>11th MP (2016-2020)</u></p> <ul style="list-style-type: none"> • Providing adequate quality affordable housing to poor, low and middle-income households. • Initiatives to address the educational needs of children in below 40% households. income. • Building capacity for below 40% household's income to participate in high-productivity, innovative, and creative economic activities.

Source: Mohamed and Xavier (2015); Economic Planning Unit (2010); Economic Planning Unit (2015) and National Economic Advisory Council (2010)

1.3.2 Period after NEP

The poverty rate has decreased remarkably during the NEP, whereby the poverty rate fell from 49.3% in 1970 to 12.4% in 1990 and it is commendable for the government for this record. However, despite this remarkable poverty reduction, the NEP was not wholly successful in achieving its objective (Shari, 1988). Even though the poverty rate among Malays or Bumiputera decreased from 65% in 1970 to 24% in 1990, the poverty rate is still higher relatively compared with other races. Chinese and Indian achieved a poverty rate of 5.4% and 7.6%, respectively, when the NEP ended in 1990, as shown in Table 1.3. The government spent RM32.9 billion for poverty reduction under the NEP, but it reached only 40% of the targeted groups. The poverty reduction during the NEP period was also due to economic growth and increased productivity rather than government poverty reduction programme regarding equitable redistribution of economic resources, especially capital and land (Jomo, 1991).

It was also argued that the majority of the benefits of the NEP had been obtained by those who were not necessarily poor. For instance, when the government distributed input subsidies such as fertilizer to the farmers, they only took into account the land size owned by the farmer, therefore it only benefited those who were eligible and the poorest who did not own any land or had non-economic land has remained marginalized (Mohamed Zaini Omar, 2010). Similarly, the guaranteed minimum price scheme for rice farmers gave more benefits to big farmers who were able to market more rice than the poor rice farmers (Jomo, 1991). Reviewing the effectiveness of the government poverty alleviation programme, the NEP was not wholly successful in combating rural poverty (Shari, 1988).

However, apart from the arguments on the effectiveness of the NEP, the incidence of poverty in Malaysia has been continuously declined, reaching 7.6% in 2016 and further declining to 5.6% in 2019. Unfortunately, the poverty rate among Malay or Bumiputera is still the highest compared to other races, as shown in Table 1.3. Given the low rates of absolute poverty, the 10th Malaysia Plan launched in 2011 has shifted its focus from combating absolute poverty, which encompasses households below the poverty line income (PLI), to relative poverty, concentrating on the poorest 40% of the households (B40). This new orientation on elevating the livelihoods of the bottom 40% of households was prompted by concerns about income inequalities. Furthermore, the new dimension of poverty ensures inclusive development, which includes the lower-income and vulnerable group to gain benefit from the economic growth (Khazanah Research Institute, 2019). The strategies of elevating the B40 differ from poverty eradication. The programme is not based on dispensing assistance but on facilitating the low-income group to raise their capacities and capabilities to increase their earning potential. In doing this, the development of entrepreneurs and skills training are the core elements of the programmes targeted towards the B40. In this aspect, the government has highlighted microcredit as one of the essential tools to improve the livelihood among the B40 (Economic Planning Unit, 2010).

1.4 Microfinance Industry in Malaysia

Microfinance (MFI) is an organization that offers financial services to poor and low-income groups to allow them to engage in any economic activities, particularly micro-enterprise. This institution aims to provide micro loans known as microcredit, which are designed to become more affordable to the poor and socially

marginalized customers to help them become economically independent through micro-entrepreneurship.

The disbursement of microloans in Malaysia has emerged before independence by credit unions, cooperative banks, and the specialized credit windows of banks. The formal microcredit institution called Majlis Amanah Rakyat (MARA) was developed in 1966 by the government. However, the term microcredit has been used widely since Amanah Ikhtiar Malaysia (AIM), which was introduced in 1986, implemented the microcredit scheme replicated from Grameen Bank, Bangladesh. To date, the major players of MFIs in Malaysia are AIM, The Economic Fund for National Entrepreneurs Group (TEKUN) and Yayasan Usaha Maju Sabah (YUM) (Revindo & Christopher Gan, 2017). Microcredit scheme is also provided by financial institutions such as Agrobank, Bank Rakyat and Bank Simpanan Nasional, and banking institutions namely Alliance Bank Malaysia Berhad, CIMB Bank Berhad, AmBank (M) Berhad, Bank Islam Malaysia Berhad, Bank Muamalat Malaysia Berhad, Maybank Banking Berhad, Public Bank Berhad, United Overseas Bank (Malaysia) Berhad and Bank Muamalat Malaysia Berhad (Central Bank of Malaysia, 2020). There are several forms of microfinance lending mechanisms, which can be single-based lending groups or group-based lending. Group-based lending is the main approach of main MFIs in Malaysia, such as AIM, TEKUN and YUM. Meanwhile, microcredit offered by financial and banking institutions is based on single-based lending.

Small and medium-sized enterprises, as well as lower-income groups, notably women, are the key drivers of the microfinance market. The involvement of poor women in micro-enterprise is the backbone of the microfinance industry. Therefore, the development of SMEs is crucial to ensure that microcredit will benefit its

beneficiaries, mainly the poor women, to its full potential. SME in Malaysia is defined based on sales turnover and the number of employees presented in Table 1.5. According to Table 1.5, any enterprise is considered micro if its sales turnover is not exceeding RM300,000 or the number of full-time employees is not exceeding 5, across all sectors. Therefore, any person who runs any business under these criteria is called a micro-entrepreneur.

Table 1.5 The Definition of Micro, Small and Medium Enterprise in Malaysia

	Manufacturing	Services and other sectors
Micro	Sales turnover not exceeding RM300,000 or full-time employee not exceeding 5	
Small	Sales turnover from RM300,00 to less than RM15 million or full-time employee from 5 to less than 75.	Sales turnover from RM300,00 to less than RM3 million or full-time employee from 5 to less than 30.
Medium	Sales turnover from RM15 million to less than RM50 million or full-time employee from 75 to less than 200.	Sales turnover from RM3 million to less than RM20 million or full-time employee from 30 to less than 75.

Source: SME Corp Malaysia (2019)

SME Corp (2019) reported that in 2018, the micro SMEs made up the highest establishment category, which is 76.5% of total SMEs in Malaysia, followed by 21.2% is small SMEs and 2.3% is medium SMEs. The total number of SMEs operating in Malaysia in 2018 is 907,065, and 20.6% of the total SMEs are women-owned. SMEs contributes significantly to the total GDP. In 2018, the annual growth of SME to GDP increased by 6.2% and registered a contribution of 38.3% to overall GDP (SME Corp Malaysia, 2019).

Acknowledging the importance of SME to the nation, the government is committed to developing the entrepreneurial community by scaling up SME through *Dasar Keusahawanan Nasional 2030* (Kementerian Pembangunan Usahawan Malaysia, 2019). This policy focuses on micro and small enterprises by developing

appropriate programmes to enhance entrepreneurship skills and capabilities. The significance of microcredit in developing a nation and alleviating poverty has also been recognised by United Nations (UN). UN declared microcredit as an effective tool for poverty alleviation and economic development through the Millenium Development Goals (MDGs), which aimed to combat poverty by 2015 (Pati, 2017).

1.5 Microcredit as a Tool for Poverty Reduction and Women's Empowerment

Apart from SMEs, poor women are also among the drivers of microcredit, implying that more attention should be paid to women's empowerment through microcredit. Globally, there were 3,300 microfinance institutions reached 133 million clients in 2006. 93 million of the clients were among the poorest when they took their first loan, and 85% of them were women (International Labour Organization, 2007). In the case of Malaysia, 95% of the MFIs clients are women (Haque et al., 2019). Microcredit is often associated with the large participation of women due to several reasons. D'Espallier et al. (2011) concluded that MFIs concentrate on women in offering microcredit because women are able to settle their payment with a higher repayment rate than men and women were found to be more credit worthy than men. Moreover, giving financial access to women is more likely to benefit the children and family more compared to men as women spend a higher level of expenditure on their family (Pitt, Khandker, & Cartwright, 2006). Thus, assessing how microcredit can empower women is relevant to be studied.

This view is supported by AIM, whereby it decided to offer microcredit facilities only to women considering the success of the women in loan repayment and earning higher income compared to men. This decision was taken due to the success of women in the Ikhtiar Project, the initial project of AIM microcredit disbursement

in 1986. Ikhtiar Project or the Pilot Project had been implemented in an extreme poverty area in Northwest Selangor for two and a half years, commencing in January 1986 to June 1988 as a strategy and programme on poverty alleviation. Those who earned less than two-thirds of the government's poverty line (PLI was RM350, based on 1987/86), which was less than RM250 monthly income, were eligible to apply for this programme (Gibbons & Kasim, 1990). They were 448 participants registered at the end of the Ikhtiar Project. A study was conducted in 1988 to assess the effectiveness of this programme participating by 178 respondents. The result is shown in Table 1.6. Before joining the programme, the average monthly income of the respondents was RM173 or RM29 per capita. After joining Ikhtiar Project, the beneficiaries were able to increase their income remarkably, especially women. As stated in Table 1.6, they were 125 or 70% of beneficiaries who had successfully increased their income, with the total percentage of average income increment was RM119. The female recipients experienced tremendous success whereby 84% of them were able to increase their average income by RM136 monthly, while 65% of the male participants gained RM65 average monthly income increment. Only 53 or 30% of the beneficiaries had no changes or negative changes in their average monthly income after joining the programme. 16% of the female participants had experienced a decrease in their monthly income with an average of RM1, while 35% of male respondents stated an RM21 reduction in average monthly income.

Table 1.6 Average Monthly Household Income Increment of Project Ikhtiar Beneficiaries -Based on Gender, December 1986 – August 1988.

	Female		Male		Total		Total Respondents
	RM	Respondent (%)	RM	Respondent (%)	RM	Respondent (%)	
Positive	136	84	65	65	119	70	125
Negative/no changes	1	16	21	35	20	30	53
Total	113	100	63	100	78	100	178

Source: Gibbons and Kasim (1990)

In addition to this success, women also had a good record in loan repayment, whereby 90% of them had settled their loan. Even though total loan repayment was 78%, this programme has declared a success when considering women’s performance (Gibbons & Kasim, 1990). Taking into account the success of the women in loan repayment and earning greater income than their counterparts, AIM decided to focus the microcredit facilities only on women micro-entrepreneurs.

Women success in elevating their income after receiving microcredit has been reported in many studies (Chowdhury et al., 2021; Tammili et al., 2018; Sandhya & Sri Ranjini, 2018; Samer et al., 2015). Given the efficacy of microcredit in reducing poverty among women, studies on the impact of microcredit in recent years have been expanded to analyse the role of microcredit in women’s empowerment (Saravanan & Dash, 2017). Microcredit has huge potential to make a significant contribution to gender equality and promote sustainable livelihoods for women. Hence, recent development in microcredit has shown an increasing interest in women’s empowerment. Microcredit recently has been promoted as an essential component for women’s empowerment by MFIs and other global organizations such as International

Labour Organization (ILO), The World Bank and United Nations Women (Gobezie, 2011; Mayoux, 2000).

1.6 Amanah Ikhtiar Malaysia (AIM)

The microcredit scheme by Amanah Ikhtiar Malaysia (AIM) is the replication of Grameen Bank from Bangladesh. Despite the fact that the notion of microcredit dates back centuries, it was not until the 1970s that the name was coined and widely used when Professor Muhammad Yunus, an economics lecturer at the University of Chittagong in Bangladesh, launched a microfinancing programme for the underprivileged. It all started when he was conducting research on the poor in the village of Jobra, Bangladesh and discovered that the poor were suffering from the impact of money-lending activities due to the extremely harsh conditions imposed by the lenders, which forced these poor people to live in close to slavery. He noticed that the difficulty in getting access to credit is the major reason these people remained impoverished. This motivated him to offer small loans as a means of assisting underprivileged individuals in improving their socioeconomic status. (Yunus, 2017).

This proposal culminated in the establishment of the ‘Grameen Bank Project’ in 1976 to figure out the possibilities to engage the rural poor into viable financial institutions by providing microcredit assistance for them. In 1983, Grameen Bank received the formal status of a ‘specialised credit institution’ for the rural poor and began to expand its activities to other regions after receiving some funds from International Fund for Agricultural Development (Mohamad Zaini Omar, 1995)

The microcredit programme under Grameen Bank was designed to provide small loans to groups of poor women to generate income-generating self-employment

through micro-entrepreneurship, based on solidarity group lending in which every member of a group is responsible for the repayment of all members (Mohamed Zaini, 2010). This project has achieved remarkable success in helping poor women to move out from poverty. With this tremendous success in Bangladesh, the microcredit programme has diffused to other countries and became an institutional model to alleviate poverty in developing countries, including Malaysia (Bhuiyan et al., 2012).

Microcredit disbursement was started as action research called the Ikhtiar Project, initiated by Professor David Gibson and Associate Professor Sukor Kasim under the Centre of Policy Research in Universiti Sains Malaysia in 1986. This project was funded by the Asia and Pacific Development Centre, Islamic Economic Development Foundation of Malaysia and the Selangor State Government. The Ikhtiar Project was institutionalized in 1987 as a private trust body and known as Amanah Ikhtiar Malaysia (AIM). Since then, AIM has grown to become Malaysia's leading microfinance organisation, offering microcredit to the poor.

The huge success of the Ikhtiar Project has turned a research pilot project into one of the country's poverty reduction programmes, which are specially designed to empower poor women. Amanah Ikhtiar Malaysia (AIM) was established in 1987 as Malaysia's first microfinance institution, responsible for providing microcredit to the poor. AIM is the private trust body that has been introduced to extend financial assistance only for the poor and low-income households to engage in any economic activities, particularly micro-enterprise.

AIM is funded by the government, financial institutions and Koperasi Sahabat (Cooperatives of Sahabat) (Ali, 2019). AIM is funded by the government through government grants and financing, and contributions from government agencies or

corporations. The government has supported AIM since MP6. In the 2018 Budget, the government allocated RM2.7 billion for AIM to fund micro-entrepreneurs to benefit nearly 400,000 borrowers (Ministry of Finance Malaysia, 2018). AIM also has been listed as one of the significant institutions for Entrepreneurship Development Programmes in 2018 by the government. This programme is intended to develop entrepreneurial skills by providing business financing to the poor and low-income group through the Ikhtiar Financing Scheme, which concentrates only on women (SME annual report 2017/2018). Total loan disbursed by AIM has increased every year as shown in Table 1.7, which had benefited more poor women.

Table 1.7 Total Number of AIM Members and Total Loan Disbursed, 1986-2007

Years	Total number of Members	Total Loans Disbursed (RM)
1986	20	n.a
1987	359	n.a
1988	283	n.a
1989	909	n.a
1990	3,220	891,488
1991	9,401	2,970,467
1992	18,918	7,318,141
1993	25,470	18,512,693
1994	33,001	23,339,550
1995	39,401	34,716,000
1996	42,861	47,912,552
1997	51,052	90,216,140
1998	55,954	102,685,700
1999	59,716	82,980,990
2000	66,683	107,247,260
2001	77,283	128,126,650
2002	85,229	140,712,480
2003	88,657	152,082,150
2004	148,628	325,969,550
2005	148,664	304,531,030
2006	157,218	344,883,284
2007	173,973	423,497,990

Source: Mohammed Zaini (2010)

Concerning the current socio-economics situation in Malaysia, AIM offers a microcredit scheme to those who earn below RM3,855 or income per capita of RM838 to become AIM members. Up to 2018, AIM has 136 branches and 378,721 members. It also has disbursed RM21,478,044,131 of the total loan with a 98.2% repayment rate (Amanah Ikhtiar Malaysia, 2018). AIM offers 7 types of microcredit schemes, as shown in Table 1.8, with the lowest amount being RM1,000 and the highest amount being RM30,000. All new borrowers can only apply for the lowest range of the scheme. The borrowers further can apply for the subsequent loan if only they have a good repayment record and fulfil other requirements. All loans provided by AIM as stated in Table 1.8, are disbursed with no requirement for collateral or guarantor, and no legal action will be taken on those who fail to settle their payment (Siti Noor & Halimah, 2015).

Table 1.8 Microcredit Schemes Offered by Amanah Ikhtiar Malaysia (AIM)

Financing Scheme	Financing Limit (RM)
Economy	
i-Mesra	1,000 – 5,000
	5,001 – 10,000 (max)
i-Srikandi	10,001 – 20,000
	20,001 – 30,000 (max)
i-Wibawa	5,000 (max)
Others	
i-Sejahtera	1,000 – 5,000
	5,001 – 15,000 (max)
i-Bestari	1,000 – 3,000
	3,001 – 5,000 (max)
i-Penyayang	1,000 – 3,000
	3,001 – 5,000 (max)
i-Emas	2,000 (max)

Source: Amanah Ikhtiar Malaysia (2018)

AIM offers microcredit only to women and practices group-lending in which every group member is responsible for ensuring that all members pay their dues. Other members in the group are responsible for bearing the payment if any one of the members fails to fulfil their commitment. They are required to attend the centre's weekly meeting once a week monitored by AIM staff known as *Cikgu*. Each meeting session assembles 2 up to 12 groups (each group has 5 members), and the centre's head will conduct the meeting. The head of the member in each group will present the group's weekly financial report, and loan repayment must be made during this weekly meeting. The meeting also discusses the problem faced by the member if any member is not able to make a payment. Besides, members who intend to apply for a subsequent loan must present their business progress and financial report during the meeting and get approval from the majority of the members. All participants are eligible to apply for subsequent loans only if they have a good repayment record and fulfil other conditions (Siti Noor Shamilah & Halimah, 2015).

AIM is the leading and the largest MFI provider in Malaysia, aiming to spur poor women's participation in entrepreneurship (Haque et al., 2019). AIM also Given that all AIM clients are women, it plays a critical role in empowering women. Moreover, AIM stated that they are committed to empowering its beneficiaries through entrepreneurship (Monash University, 2021). Therefore, focusing only on AIM for this study is relevant for the discussion of microcredit in relation to women's empowerment in Malaysia.

1.7 Problem Statement

The Malaysian government has given a serious focus on facilitating the poor and the low-income group, which include B40. Among those measures are efforts to empower poor women by providing financial assistance to expand the capacities and capabilities of the low-income income group in generating income through micro-entrepreneurship. One such institution which received strong backing from the government to empower poor women through micro-enterprise is AIM. The major objective of AIM is to increase income among the poor and low-income women through micro-enterprise by providing microcredit, which is specially designed for the poor. This mechanism opens up opportunities for poor women to be financially independent and become successful entrepreneurs, which further leads to women's empowerment.

However, the aspiration to empower poor micro women-entrepreneurs through microcredit paints a worrisome picture whereby the failure rate among new SMEs in Malaysia is still relatively high (Yusoff et al., 2018). Many new SMEs in Malaysia are prone to fail within the first 5 years, with a 60% failure rate (Yusoff et al., 2018). Moreover, 42% of SMEs that existed in 2000 failed to survive in 2005 (National Economic Advisor Council, 2009). This critically affects the sustainability growth of micro-enterprise, given that 76.5% of SMEs in 2018 is micro. Moreover, the Companies Commission of Malaysia (SSM) reported that among 100 companies, including SMEs that registered with SSM, only 18 companies can survive within the first 5 years of their operation (Bernama, 2017). Despite huge government support, the issue of sustainable growth among micro-enterprise hampers the efforts undertaken by AIM to empower poor women in micro-enterprise. Malarvizhi (2018) highlighted that the sustainability of micro-enterprises is essential to uplift the socio-

economic of the poor and low-income groups among the microcredit borrowers, subsequently empower them.

In addition, Al-Shami et al. (2019) argued that the current microcredit mechanism in Malaysia has less effect on micro and small business sustainability, indicating that women micro-entrepreneurs in Malaysia are still facing sustainability issues. Alshami et al. (2019) further revealed that microcredit assistance only contributed marginally to the income of women micro-entrepreneurs, but business profit did not grow. Omar, Nazri and Che Wel, (2014) stated that women micro-entrepreneurs in Malaysia from low-income groups have low business sustainability due to the lack of confidence and low business skills. Wahab et al. (2018) found that most women were dissatisfied with the performance of jobs that received microcredit assistance and desired to shift to another job. In addition, Zainudin and Kamarudin (2015) found that the total amount of loan borrowed from microcredit does not affect the business profit. Mustapa et al. (2018) also showed that total loan received from microcredit has a negative effect on micro-enterprise performance and sustainability.

A possible cause of the problem of sustainability growth among women micro-entrepreneurs is a lack of understanding of factors that influence the success of women micro-entrepreneurs. The problem of sustainable growth of SME could be affected by many reasons, including the personal level issues related to the entrepreneurs' attitude, entrepreneur and business characteristics, motivation, competencies, to the firm-level problem such as strategies, innovations and to the macro-level regarding the external business climate conditions. Despite the fact that many studies have been conducted to determine the success factors of micro-entrepreneurs, the success factors that influence successful micro-entrepreneurs differ from one study to the next due to the