DETERMINANTS OF REPAYMENT PERFORMANCE IN MICROFINANCE PROGRAMS IN MALAYSIA: THE CASE OF TEKUN NASIONAL PROGRAMS

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DOCTOR OF PHILOSOPHY
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DETERMINANTS OF REPAYMENT PERFORMANCE IN MICROFINANCE PROGRAMS IN MALAYSIA: THE CASE OF TEKUN NASIONAL PROGRAMS

By

NORHAZIAH BINTI NAWAI

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Othman Yeop Abdullah Graduate School of Business,
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ABSTRACT

The objective of this study is to assess the potential factors influencing micro entrepreneur’s repayment performance in microfinance programs in Malaysia by developing a model of repayment performance. The study chooses TEKUN Nasional (TN) microfinance programs as a case study. The research framework of this study is built by four factors namely individual/borrower factors, firm/business factors, loan factors and institutional/lender factors. The study used mixed methodology, combining between quantitative and qualitative data through survey questionnaire and in depth interviews. However, the main study is based on quantitative data and supported by qualitative data. The analysis began with a descriptive exploration, followed by multinomial logit regression analysis and content analysis. Data were collected using multi stage random sampling in Peninsular Malaysia. 401 microentrepreneurs were selected as a sample for quantitative data and 21 microentrepreneurs and 6 TN State managers were selected for qualitative data. The results show that in terms of individual/borrower characteristics, only micro entrepreneur’s religious education level is statistically significant in the relationship between delinquent and good borrowers and between default and good borrowers. Whereas, in firm/business characteristics, the result shows that distance, business formality and total sales are statistically significant. The finding shows that total loan received, loan type and repayment schedule are the loan characteristics that affect micro entrepreneur’s loan repayment. In terms of institutional/lender characteristics, the finding shows that loan monitoring is statistically significant in the relationship between delinquent and good borrowers. This study contributes significantly to the knowledge of microfinance program at large, wherein it explains that MFIs can continue providing microfinance to the micro entrepreneurs without depending on subsidies.

Keywords: Repayment Performance, Individual Lending Methodology, TEKUN Nasional

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for their supports and countless sacrifices; with my deepest love and gratitude, I dedicate this thesis to them.
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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Microfinance has been recognised as an essential socioeconomic and financial mechanism for poverty alleviation, promoting entrepreneurial development, and increasing the profile of disadvantaged people in numerous countries throughout the world (Hossain, Rees, & Millar, 2012). Microfinance serves to promote rural livelihoods and the urban poor by the creation of entrepreneurship opportunities that encourage the reduction of unemployment through creating potential business based on their interests and skills. Microfinance is targeted to poor people because these people usually lack collateral, have no steady employment and a verifiable credit history, which therefore, cannot even meet the most minimal qualifications to gain access to normal banking. Besides, it can avoid the poor people from illegal lending sources such as moneylenders and loan sharks that charge exorbitant or excessive interest rates.

The Microfinance Institutions (MFIs) provide funds for start-up business and for working capital purpose. In addition, some MFIs also provide funds for non-business activities such as for education and emergency purposes. Usually the MFIs offer credit as low as RM500 (USD142) to a maximum of RM50,000 (USD14,285) with a repayment
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