

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

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**DOCTOR OF PHILOSOPHY
UNIVERSITI UTARA MALAYSIA
SEPTEMBER 2014**

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By

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**Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
in Fulfillment of the Requirement for the Degree of Doctor of Philosophy**

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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 repayment performance plays an important role to ensure that MFIs can continue providing microfinance to the micro entrepreneurs without depending on subsidies.

Keywords: Repayment Performance, Individual Lending Methodology, TEKUN Nasional

ABSTRAK

Objektif kajian ini adalah untuk menilai faktor-faktor yang berpotensi yang boleh mempengaruhi prestasi pembayaran usahawan mikro dalam program pembiayaan mikro di Malaysia dengan membangunkan model prestasi pembayaran balik. Kajian ini memilih program kewangan mikro TEKUN Nasional (TN) sebagai kajian kes. Kerangka penyelidikan ini dibina oleh empat faktor iaitu faktor individu/peminjam, faktor firma/perniagaan, faktor pinjaman dan faktor institusi/pemberi pinjam. Kajian ini menggunakan kaedah campuran iaitu gabungan antara data kuantitatif dan kualitatif melalui kaedah soal-selidik dan temubual secara mendalam. Walau bagaimanapun, kajian utama adalah berdasarkan data kuantitatif dan disokong oleh data kualitatif. Analisis data dimulakan dengan penerokaan deskriptif, diikuti oleh analisis regresi multinomial logit dan analisis kandungan. Data kajian telah dikutip menggunakan persampelen rawak pelbagai peringkat di Semenanjung Malaysia. Seramai 401 usahawan mikro telah dipilih sebagai sampel bagi data kuantitatif dan 21 usahawan mikro dan 6 orang pengurus TEKUN negeri telah dipilih untuk data kualitatif. Hasil kajian ini menunjukkan bahawa dari segi ciri-ciri individu/peminjam, hanya tahap pendidikan agama usahawan mikro yang signifikan secara statistiknya dalam hubungan di antara peminjam yang bermasalah dan baik dan di antara peminjam yang tertunggak dan baik. Manakala, bagi ciri-ciri firma/perniagaan, hasil kajian menunjukkan bahawa jarak, formaliti perniagaan dan jumlah jualan adalah signifikan secara statistiknya. Hasil kajian menunjukkan bahawa jumlah pinjaman yang diterima, jenis pinjaman dan jadual pembayaran balik pinjaman adalah ciri-ciri pinjaman yang member kesan kepada pembayaran balik pinjaman usahawan mikro ini. Dari segi institusi/pemberi pinjam, dapatan kajian menunjukkan bahawa pemantauan pinjaman adalah signifikan dalam hubungan antara peminjam bermasalah dan baik. Kajian ini menyumbang kepada pengetahuan program pembiayaan mikro secara amnya di mana ia menjelaskan kepentingan prestasi pembayaran balik pinjaman bagi memastikan institusi pembiayaan mikro boleh terus menyediakan pembiayaan mikro kepada usahawan mikro tanpa bergantung kepada subsidi.

Kata Kunci: Prestasi Pembayaran Balik, Kaedah Pinjaman Individu, TEKUN Nasional.

ACKNOWLEDGEMENTS

All praise and gratitude to Allah for His mercy to complete this thesis writing. Author expressed the utmost gratitude to all who helped her directly and indirectly, either moral support or material assistance. Without their help and support, this thesis will never be exist.

My sincere appreciation is extended to those who have extended their help, encouragement, and understanding to this thesis has been possible. Particularly; my utmost humble appreciation to my supervisor, Prof. Dr. Mohd Noor Mohd Shariff, a Professor in College of Business, Universiti Utara Malaysia; who has invested his tireless efforts, times, and dedications in making this thesis a success.

Next, my utmost humble appreciation is to En. Azman Yusuf, a TEKUN Officer, who has helped me a lot in data collection. My sincere thank to the Government of Malaysia for offering me a scholarship to pursue my study, Universiti Sains Islam Malaysia and Universiti Utara Malaysia who have admitted me the opportunity for the study in this university.

Last but not least, my sincere thank and appreciation to all the respondents, colleagues and friends for their help over the research period. Their sincere encouragement and help have been invaluable and unforgettable to me. Lastly; my many thanks to my parents (Nawai Bin Hamidi and Sarijah Binti Md. Sohol), my husband (Mohd Nor Bin Abdul Rahman), and my daughters (Nayli Ilhami Sofea and Nadia Iewani Sofea),

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

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LIST OF ABBREVIATIONS

Abbreviations

ADB	Asian Development Bank
AID	Agency for International Development
AIM	Amanah Ikhtiar Malaysia
ALC	Approval Loan Committee
ASA	Association for Social Advancement
BAAC	Bank of Agriculture and Agricultural Cooperative
BRAC	Bangladesh Rehabilitation Assistance Committee
BKK	Badan Kredit Kecamatan
BNM	Bank Negara Malaysia
BPR	Bank Perkreditan Rakyat
BRI	Bank Rakyat Indonesia
BUD	Bank Rakyat Indonesia Unit Desa
CCM	Company Commission of Malaysia
CGAP	The Consultative Group to Assist the Poor
CGC	Credit Guarantee Corporation

DFIs	Development Financial Institutions
EPU	Economic Planning Unit
EU	European Union
FIs	Financial Institutions
FFIs	Formal Financial Institutions
FINCA	Foundation for International Community Assistance
GGs	Grameen Generalized System
IADB	Inter-American Development Bank
IFIs	Informal Financial Institutions
KKR	Koperasi Kredit Rakyat
LDC	Least Developed Countries
LDKP	Lembaga Dana Kredit Pedesaan
MEs	Microenterprises
MECD	Ministry of Entrepreneur and Cooperative Development
MFI	Microfinance Institutions
MOA	Ministry of Agriculture
MOF	Ministry of Finance

NEM	New Economic Model
NEP	New Economic Policy
NKRA	National Key Result Area
NSDC	National Small Medium Development Council
NGOs	Non-Governmental Organizations
NPLs	Non-Performing Loans
OMs	Owner-Managers
PNB	Permodalan Nasional Berhad
PUNB	Perbadanan Usahawan Nasional Berhad
ROSCAs	Rotating Savings and Credit Associations
SKM	Suruhanjaya Koperasi Malaysia
SMEs	Small andMedium Enterprises
SME Corp	Small and Medium Enterprise Corporation Malaysia
SFIs	Semi-formal Financial Institutions
TN	TEKUN Nasional
USAID	United States Agency for International Development
USD	United States Dollar

VO Village Organisation

YUM Yayasan Usaha Maju

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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