

Contemporary Issues in Financing Micro Enterprises in Malaysia: A Qualitative Inquiry from Practitioners Perspective

Isu Kontemporari dalam Pembiayaan Perusahaan Mikro di Malaysia: Siasatan Kualitatif dari Perspektif Pengamal

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ABSTRAK

Micro enterprises are considered as one of the important sections of the Malaysian economy. Micro enterprises play an important role in providing employment opportunities for the workforce of the nation and significantly contributes to the GDP of Malaysia. Despite being an important force in economy, micro enterprises experience several issues and challenges in accessing external finance. This study attempted to in depth explore of contemporary issues and challenges in financing micro enterprises from the perspective of micro financing institutions. The study carried out semi structured interviews with 06 practitioners from leading micro financing institutions in Malaysia. The outcomes of the interviews found that, incomplete documentation from applicants, lack of business ideas and plans, lack of business skills and passion, non-viable businesses and projects and mismanagement of

business funds by borrowers are major challenges faced by micro financing institutions on providing financing for micro enterprises. The findings highlight the importance of risk management practices by micro finance institutions and providing necessary training for micro entrepreneurs to impart required business skills. The outcome of this study may enlighten commercial banks, development finance banks, micro financial institutions, and policy makers for their strategic planning activities in strengthening micro enterprises.

Kata Kunci:

Perusahaan mikro;
Mengakses kewangan;
Cabaran dalam Pembiayaan Mikro

ABSTRAK

Perusahaan mikro dianggap sebagai salah satu bahagian penting dalam ekonomi Malaysia. Perusahaan mikro memainkan peranan penting dalam menyediakan peluang pekerjaan untuk tenaga kerja negara dan menyumbang secara signifikan kepada KDNK Malaysia. Walaupun menjadi kuasa penting dalam ekonomi, perusahaan mikro mengalami beberapa isu dan cabaran dalam mengakses kewangan daripada luar. Kajian ini cuba meneroka secara mendalam isu dan cabaran kontemporari dalam pembiayaan perusahaan mikro dari perspektif institusi pembiayaan mikro. Kajian ini menjalankan temu bual separa berstruktur dengan 06 pengamal daripada institusi pembiayaan mikro terkemuka di Malaysia. Hasil temu bual mendapati bahawa, dokumentasi yang tidak lengkap daripada pemohon, kekurangan idea dan rancangan perniagaan, kekurangan kemahiran dan semangat perniagaan, perniagaan dan projek yang tidak berdaya maju dan salah urus dana perniagaan oleh peminjam merupakan cabaran utama yang dihadapi oleh institusi pembiayaan mikro dalam menyediakan pembiayaan untuk perusahaan mikro. Penemuan ini menyerlahkan kepentingan amalan pengurusan risiko oleh institusi kewangan mikro dan menyediakan latihan yang diperlukan untuk usahawan mikro untuk menyampaikan kemahiran perniagaan yang diperlukan. Hasil kajian ini boleh memberi pencerahan kepada bank perdagangan, bank kewangan pembangunan, institusi kewangan mikro dan penggubal dasar untuk aktiviti perancangan strategik mereka dalam memperkukuh perusahaan mikro.

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INTRODUCTION

Micro enterprises are emerging as a significant sector to economic growth as it constitutes significantly to gross domestic product (GDP) and provide livelihood opportunities to thousands of Malaysians. The development of the micro enterprises sub-sector is significant in ensuring shared prosperity and growth as the nation's transformation into a high-income

earning economy. Small Medium Enterprises (SME) sector provide significant contribution in poverty alleviation because micro enterprises make up more than three fourth of total SMEs in Malaysia. A total number of 693,670 micro enterprises are operating in Malaysia. This is amounting to 76.5 percent of total number (907,305) of SMEs in Malaysia. In addition, it is amounting to 75.3 percent of total number (920,924) of business establishment in the country. (National Entrepreneur and SME Development Council, 2019-2020). However, securing external finance for micro enterprises is a challenging exercise as the risks associated with that are unavoidable. Despite the continuous efforts from the government of Malaysia by provision of a series of financial schemes and human capital development initiatives to support micro enterprises the sector is surrounded with several least attended issues. According to the outcome of series of studies, Malaysian micro enterprises encounter problems in securing finance. Considerable number of micro enterprises was unsuccessful in obtaining financing from financial institutions as they rated as a business entity associated with excessive risks. The lack of availability of collaterals to securitize the financing facility, higher cost of financing, difficulty in providing a proper forecast of future cash inflow of the business and lack of creative business plans is among the factors that act as barriers to them from obtaining finance from mainstream financial institutions. Considering the importance and contribution of the micro enterprises of Malaysia, this study attempts to conduct an in-depth analysis of problems and challenges in financing micro enterprises from the microfinancing institutions' perspectives. Literature reviews highlighted several issues in accessing finance for micro enterprises. Thus, the objective of the current study is to explore the practitioners' perspective in order to understand whether the highlighted issues and challenges in literature are still exists and whether there are emerging contemporary challenges in area of study. The key motivation of the study based on the believes that the practitioners from various micro financing institutions have a better insight and understanding of contemporary issues and challenges in the process of financing micro enterprises. Following sections discuss about in-depth analysis of available literature on the issues and challenges in financing micro enterprises. Thereafter study discusses about the research methodology adopted followed by analysis of the collected data and detailed discussion on findings. Finally, a section summarizes the study with the concussions.

REVIEW OF LITERATURE

Financing micro enterprises is a continuous area of research among the academicians for considerable period of time. In context of Malaysia, commercial banks, development financial institutions, microfinance institutions and other special government agencies significantly contribute to extending of financing for micro enterprises in the country. These agencies implemented significant number of programmes to finance micro enterprises. Despite that, accessing financing facilities for these micro enterprises from financial institutions became a challenging exercise.

Definition of micro enterprise

Definitions of micro enterprises are varies across the countries according to the level of economic growth macro-economic variables. In Malaysia, definition of micro enterprises developed and endorsed by National SME Development Council (NSDC). According NSDC as shown in Table 1 that Micro enterprises are defined as the establishment with less than five employees or less than RM 300,000 of the sales turnover and whichever lower will be considered for threshold. Current definition is effective since 1st January 2014 (National Entrepreneur and SME Development Council, 2019-2020)

Table 1: The definition of micro enterprises with effect from 1st January 2014.

Sector	Sales Turnover	Employees
Manufacturing	<RM300,000	< 5 employees
Services & other sectors		

Source: National Entrepreneur and SME Development Council, 2019-2020

Present Status of Financing of Micro Enterprises in Malaysia

There are notable numbers of Islamic and conventional schemes and models of financing are available for micro enterprises in Malaysia. Financial needs of micro enterprises depend on its nature, scope, stage in the business life cycle, size of business and strategic expansionary objectives. Depend on stages in the business life cycle, micro enterprises will demand their borrowing requirements from various sources. Accordingly, to the above requirements, there are available sources of financing for micro enterprises in Malaysia. Depend on the stages of business life cycle of micro enterprises, these sources of finance could be categorized namely: Commercial and Islamic banks, Development financial Institutes (DFI), Islamic and conventional microfinance institutes, Special government agencies, Equity crowd funding platforms and Leading Entrepreneur Accelerator Program (LEAP) market. The above sources have been offering various microfinancing schemes and models and stipulated various kinds of qualifications and screening criteria for selecting prospective borrowers.

Issues and challenges in financing micro enterprises

After analysing contemporary studies on the issue, one of the frequently discussed issues among authors on obstacles for accessing finance is the application processing time taken for approval of the facility. Shamshubaridah and Berma (2009) outlined that lack of accessibility to external financing from financial institutions due to longer period of time taken for approval

and disbursement of the facility and in certain instances SMEs were compelled to wait form more than 03 months for approval. In addition to the above, the study highlighted longer processing time for approval and rigorous screening procedures that lead borrowers to perceive that bank are not business friendly (Shamshubaridah and Berma, 2009). In similar context, Subramaniam (2010) has conducted a study using interview method to explore on challenges in accessing finance to young micro entrepreneurs in Malaysia and outcomes of study reveals that young micro entrepreneurs raised concerns about difficulties in accessing finance from financial institutions. Nevertheless, findings are general broad terms and specific factors are not discussed. Another study conducted by Salleh and Sidek (2011) based on interviews from 30 micro entrepreneurs of Perak state, found that strict requirements for loan approval, documentation requirements, lack of collateral and insufficient information are factors that have affected the accessibility of institutional finance for micro entrepreneurs.

Meza (2012) conducted a cross-country study comparing constraints to access of microfinancing in Malaysia and Costa Rica. The study found major constrains as insufficient income, inadequate financial records, lack of guarantees, incomplete application documentations and legal form of the business are the factors restricting the micro financing systems in Malaysia (Meza, 2012). According to a study conducted by Zainol and Abidin (2013) most of the micro enterprises are lacking in information about contemporary financing facilities offered by formal financing institutes and mostly depend on hearsays from peers. The authors further revealed that banks are not convincible without a proper financial report from micro enterprises which enable them to assess the latter's repayment ability. Banks are more interested to provide loans to micro enterprises with collaterals or qualified guarantors even though it is not an official requirement. With these barriers to access finance from formal financial systems, micro enterprises tend to reach to informal lenders such as loan sharks/ "Ah longs" at the cost of extremely higher interest rates (Zainol and Abidin, 2013). (Ah Long is a Malay term for informal channels of loan sharks in operates in Malaysia and Singapore. They lend money to individuals who are unable to access finance from formal systems such as banks or other formal financing bodies. They charge abnormally higher interest rates and use unethical manners if the borrower does not service the loan on time).

Kachkar et al., (2016) conducted a study using semi-structured interviews among Islamic finance practitioners in Malaysia. The study highlighted that default risk, lack of availability of funds for microfinance and shareholder's adverse concern on risk associated with microfinancing, huge operating costs, complicated processing of microfinance, lack of training to staff on proper managing of microfinance and regulatory concerns are main challenges and issues experienced by Islamic banks in implementing microfinance (Kachkar et al., 2016). Akma et al., (2017) highlighted that the important issues cited by financial institutions for disqualifying financing applications are poor financial track records and unsatisfactory credit record of applicant at the Central Credit Reference Information (CCRIS), due to history of defaults or delinquency, minimum level of capital contribution, poor business

record for sustaining continuous losses. Further to above, inability to provide documents such as bank statements, tax returns to authorities, management accounts to verify the ability of servicing the facility and defaulting repayments and moral hazard concerns such as records of misuse of borrowed funds for personal use were major concerns. (Akma et al., 2017).

Muridan and Ibrahim, (2018) reviewed that there are series of financing schemes launched by financial institutions, other government, and semi government agencies for SMEs in Malaysia. In spite of that, micro enterprises which accounts for 76.5 percent of total SMEs, continued to sustain difficulties in accessing these financing modes and compared to micro enterprises, medium and small enterprises that are benefitting most from these financing schemes while majority of financing applications submitted by micro enterprises are denied. (Muridan and Ibrahim, 2018). Further to above among the issues cited by authors are that most of the micro enterprises are new and operate at their inception stage of the business life cycle, because of that they are not in a position to provide a collateral to securitize the loan and not in a position to provide a financial report to convince the lender (Muridan and Ibrahim, 2018). Group lending strategy is one of commonly applied in the providing financing for micro enterprises. Amana Ikhtiar Malaysia (AIM), a prominent micro financing agency provide financing based on group lending strategy. The AIM became microfinance agency with the highest financing repayment rate in the world which is around 99.2 per cent by year 2010 (Al Shami et al., 2014). However, study conducted by Salleh, Kassim and Kassim (2019) found that group members who are not disciplined in the repayments affects the performance of the group as whole.

A comparative study was conducted by Satar and Kassim (2020) on the issues and challenges faced in financing micro enterprises in Indonesia and Malaysia. The study highlighted several issues such as the repayment issues among micro entrepreneurs, tendency of using the borrowed funds other non-productive causes, lack of technical skills and business knowledge (Satar and Kassim, 2020). Sharizan et al., (2021) conducted semi structured interviews with experts of financial institutions and members of the public who belong to B40 (Below 40, a category of the poverty line in Malaysia) in Pahang state. Based on the findings on interview of expert reveals that default risk is due to non-payment, higher operating cost, lack of financial literacy, improper documentation, higher interest rates. Communication barriers are identified as issues and challenges in micro financing. Similarly, members of the public also highlighted utilizing the funds borrowed for other purposes than the stated purpose in application, lack of confidence, improper documentation, and lack of financial management skills as the barriers in accessing to finance. Since the study is exploratory in nature and findings are generalized. However, the notable point here is the findings highlight existence of the issues and challenges in finance.

Accessing finance for micro enterprises is a challenging task despite the governments' effort for provision of a series of hassle-free financing schemes and to absorb them into mainstream financial system. After reviewing above contemporary literature suggests that micro enterprises are continuously facing challenges in accessing finance. Among the challenges suggested by authors, lack of collateral, lack of financial reports, rigorous approval procedures by financial institutions, longer time taken for approval and poor credit history of micro entrepreneurs are highlighted as major challenges for micro enterprises.

RESEARCH METHODOLOGY

This study conducted semi structured interviews to gather first hand data. Semi structured interviews offer more lenience to the process of interview despite having prearranged open ended questions, as semi structured interviews may have unexpected responses and issues. (Ryan et al., 2009). The interview questions are designed to the gauge the various aspects of issues in micro financing in Malaysia. This includes the issues in application screening, group-based financing, obtaining collaterals, post financing monitoring, managing repayment and questions arose as progress of the interview. In order to ensure the validity and reliability of the interview questions, prior to the formal interviews, a series of pilot interviews were conducted with staff at Kulliyah of Economics and Management Sciences of International Islamic University Malaysia, who already engaged in microfinancing-based research. According to the responses received from the pilot interview were, there was consistency in the answers and respondents were well understood the interview questions. The formal interviews are conducted with 06 practitioners in the micro finance industry. Basically, practitioners were selected from Amanah Ikhtiar Malaysia (AIM), Perbadanan Usahawan Nasional Berhad (PUNB), SME Corp, TEKUN Nasional and Majlis Amanah Rakyat (MARA). Table 2 depicts the profile of the interviewees. The discussion of the findings includes quotes from interview participants. The quotations of interviewees are numbered (R1 to R6) with references to the respondent's profile.

Table 2: Profile of Interviewees

No	Institutions	Position	Codes
1	Amanah Ikhtiar Malaysia	Managing Director	R1
2	Tekun National-Selangor Region	Executive Officer-Selangor	R2
3	Majlis Amanah Rakyat (MARA)	Senior Assistant Director, Business Finance Division	R3

4	Perbadanan Usahawan Nasional Berhad (PUNB)	Head of Department of Business finance	R4
5	SME Corporation of Malaysia	Manager- Ecosystem Development	R5
6	Tekun National-Gombak Branch	Manager	R6

Source: Author

Generally, all interviews were conducted in the English language except for few interviews, which were conducted in Malay language. The interview conversations were recorded through a digital recording device. Thereafter gathered data were transcribed into written format, analysed thematically in order to narrow down to the common themes which represented views of participants. The qualitative data analysis part of this study is basically divided as sections of data reduction, data display and conclusion (Sekaran and Bougie, 2010). This study adopted the thematic analysis for interview data analysis processes. According to Yin (2015) in qualitative studies, there are five major steps in the process of thematic analysis: (a) Compiling, (b) Disassembling, (c) Reassembling, (d) Interpreting, and (e) Concluding. The study identified themes that were explored from the respective interviewees according to the requirement of the research question. After thematic analysis, the study identified related themes for the research question. Table 3 depicts the relationship between categorical themes and interview questions.

Table 3: Categorical themes and Interview questions

Categorical Theme	Interview Questions
Current Challenges in Microfinancing	a) What are the challenges in financing micro enterprises in Malaysia?
Obtaining Collaterals from Micro Entrepreneurs	a) What are the challenges in obtaining collateral from micro enterprises?
Group Based Financing and Social Collateral	a) What are the challenges in social collateral (group lending)?
Post financing monitoring of micro enterprises	a) What are the challenges in post financing monitoring of the operation's micro enterprises in the locality?
Managing repayments	a) what are challenges in managing repayments in micro financing

ANALYSIS AND FINDINGS

This subsection presents the results of the interviews with practitioners, and it is arranged according to the categorical themes identified from the collected data. Further to above at the end of each discussion of categorical theme, findings are compared and supported by previous literature on the subject matter. Finally, a tabulated summary of findings is presented.

Current Challenges in Microfinancing, Group Based Lending and Social Collateral

According to the requirement of the research question 2, micro financing practitioners were interviewed. The interviewees were inquired about the current challenges and issues in microfinancing. In general, all participants highlighted different challenges they encountered in their operations. Below are the some of the responses that were derived from the interviews.

In recent past the biggest challenge in microfinancing is deficit of trust, so people leave AIM for about 80,000 borrowers in 2018. One of the biggest challenges is interest, which we call as management fee, it was supposed to be kept at 10%, but the other indirect cost incurred up to 35% to 40%. So, this was the biggest challenge to keep it and maintain it at 10%. This year, 2019, we have additional 115,000 borrowers nationwide, so our total borrowers become 400,000 borrowers; that is maximum because we cannot give anymore because our budget is finished. Next, maintaining human resources. In this case, AIM is the largest human power company in microfinance and also banking sector. Our closest competitor, TEKUN hiring about 1,100 staffs, we are closer to 2,400 staffs. (R1)

Most of the micro entrepreneurs, they don't have proper documentations like mainly bank statements. Sometimes even micro entrepreneurs they run their business, but they don't have the business registration, so if they have business registration and the bank statements maybe we can consider. even though they have bank statements, but the transactions in that bank statement is not showing the business turn over. That is difficult for us to identify whether person is able to repay the loan or not. That are the main challenges. Another challenge we are facing is to give out the finance to micro entrepreneurs who need money to expand they business, but they don't exactly have a proper idea what they want to do. All they know if they can get money, they can expand the business. We ask what you want to do? How you want to expand the business? Their answer would be it depends how much I get, so we find that there is no concrete need for us to finance them. (R2)

In case of Micro entrepreneurs, their businesses are not viable. Most of their projects are not viable projects. (R3)

Challenges are lack of passion, lack of focus and some want to be successful in short time. First, they need to choose the right business, so how? First, they must have the passion and knowledge for it. Some people they have the knowledge but after 1 year, they feel bored about the business. For business skills, they need business support, and they need a mentor. Also, they tend to take funds from business to pay their own personal thing and that is a big issue now. Simply because the business is only way that they have to do for their livelihood. So, they don't have the discipline, where they think the business money is also my personal money. (R4)

The challenges are definitely from base start up, they do not know about the official documentation, official way of doing business. They never record the daily sales. (R5)

The challenges in financing micro enterprises are, mostly depend on the qualification of the business itself. There are many types of business they are doing, but most of those are not certified and they have too many choices and keep changing the nature of business. To simplify type of business and the business registration are the main issues. Currently there are some challenges that we are facing is, we keep finding fraud in business documentation, because people submitting document claiming that they are conducting the business, but when my officer go for site visit, the truth comes out. The truth is that they are not do any business, and then they are submitting fraud documentation. (R6)

According to opinions provided by practitioners in the microfinancing sector, they highlighted several challenges faced by them. One of the major challenges identified was incomplete documentation submitted as support the applications. This was highlighted by three out of six respondents (n=3). Addition to above higher rate of return required by MFI in order to cover the administration costs, lack of business ideas and plans, lack of necessary business skills and passion, mismanagement of business funds and fraudulent documentations also identified as challenges by participants. These findings are consistent with the findings of studies of Aris (2006), Meza (2012), Kachkar et al., (2016), Akmal et al., (2017) and Zainol and Abidin (2013). Table 4 summarizes the responses of interviewees.

Table 4: Current challenges and issues in micro financing

Participant's Opinion	R1	R2	R3	R4	R5	R6	Total
a Higher rate of return	✓	n.a	n.a	n.a	n.a	n.a	1/6
b Incomplete documentation	n.a	✓	n.a	n.a	✓	✓	3/6
c Lack of business ideas and plans	n.a	✓	n.a	n.a	n.a	✓	2/6
d Lack of business skills and passion	n.a	n.a	n.a	✓	n.a	n.a	1/6
e Non-viable businesses and projects	n.a	n.a	✓	n.a	n.a	n.a	1/6
f Mismanagement of business funds	n.a	n.a	n.a	✓	n.a	n.a	1/6
g Fraud	n.a	n.a	n.a	n.a	n.a	✓	1/6

Obtaining Collaterals from Micro Entrepreneurs

Interviewees were asked about their opinions on obtaining collaterals from micro enterprises for securitizing the financing facility. Majority of participants indicated they neither require nor micro entrepreneurs able to provide collaterals. Further, participants explained the challenges in obtaining collaterals. Based on the interviews following opinions were collected:

We don't have any collateral. Our collateral is what we call 'gantung air muka', (you pledge your face water referring to personal dignity). Once you want to borrow, that is the highest thing people can do. Instead of pledging cars or whatsoever, we trust them. We called this as 'understand, love and trust', it is something that we need. The trust is there, so we trust you we give the money then you trust us and repay the money [...] The target group of AIM is mainly the poor or hardcore poor and normally these groups are unable to provide physical collateral. (R1)

For us we don't want any collateral. We don't ask for any collateral as well. (R2)

As collateral, we need a guarantor and collateral as a land. But it is difficult to them to find a guarantor. (R3)

Zero. We cannot get collateral from them. Because our collateral is a test. So, that's why we have a psychometric test so that is not full process. but it can profile the applicant whether they are the risk-averse or risk taker. So, those who have done business or go through ups and downs in business, most likely they become risk takers because they're quite willing to take risk, but for those who are working and never did business before, normally for sure they are risk-averse people. (R4)

Don't even mention about collateral, as to find the working capital to initiate the business is a great challenge for them. So, when you talk about collateral from micro enterprise level, it is like you are asking moon and stars from them, except if they luckily have an inherited land, that would be different case. (R5)

We do not take any collateral for our schemes. Because TEKUN is an agency for microfinance. Collateral is for banking and corporation. (R6)

Based on above findings five of out six participants (n=5) agreed that there are difficulties in obtaining collaterals from micro entrepreneurs. These finding are consistent with finding of previous studies of Aris (2006), Salleh and Sidek (2011), Meza (2012), Muridan and Ibrahim (2018), Zainol and Abidin (2013), Abbas et al., (2014). Meanwhile one practitioner mentioned about an alternative method as a psychometrics test to assess the risk profile of the applicant. Despite the above, one participant mentioned that they still insist for a guarantor and an immovable asset as collateral. Table 5 summarizes the responses on above as follows.

Table 5: Obtaining Collaterals from Micro Entrepreneurs

Participant's Opinion	R1	R2	R3	R4	R5	R6	Total
a Do not required collaterals	✓	✓	n.a	✓	✓	✓	5/6
b Unable to get collaterals	✓	n.a	n.a	✓	✓	n.a	2/6
c Psychometrics test	n.a	✓	n.a	n.a	n.a	n.a	1/6
d Required collaterals and guarantors	n.a	n.a	✓	n.a	n.a	n.a	1/6

Group Based Financing and Social Collateral

The participating interviewees were asked about their opinions on challenges in the group-based financing and obtaining social collaterals. Majority of the participants (n=4) mentioned that the failure or default of one member affects the other members in group-based financing schemes.

There are other views from different perspectives as well. Below are the participants' views obtained from the interviews:

The challenge is when one person did not pay. We face this in urban areas, compare to village and semi-urban areas, where the community is very tight knit. But in urban areas, maybe you are staying in one place, but you work in other place, so people do not really know each other. I'm talking in the sense of collection rate, so we always have problem in urban areas like Kuala Lumpur and Selangor, but we won't face this in the Sabah. [...] The group themselves will do the screening where we have one case, one of the applicant complaints to us, saying she is eligible because of her financial track record and credit score are good but the peer group won't be allowing her to get funding from AIM, she referred to us and asked why application of her was rejected at peer level? Happened to be, she has another case in which she subscribed to 'main kutu' (Chit pays) and left earlier and did not pay on time. So that becomes the credit checking mechanism. (R1)

If one person does not pay, another person will need to cover it, TemanTekun 2.0(a financing facility), in that we got the clause in the agreement saying that if any member failed to pay, the other members have to resolve it. [...] in this case we still consider as long as they got a bank statement, but it has to come with a group of 5 people, but they find it difficult to get another 4 members to form the group. We came out with a product which can be easily given the loan to them, but still the challenge is they couldn't get another 4 people to create the group. (R2)

MARA had done this before, in that case a financing given to group of 3 entrepreneurs but one of them made a mistake, so it brings difficulties to the other 2 entrepreneurs to find the defaulting person. Due to these incidents and other difficulties that comes with it, MARA no longer provide this financing scheme which called as "*Skim Pembiayaan Asing*". (R3)

That's why we do it bit different. Where we try to group these entrepreneurs by their businesses. [...] So, when we group businesses and we give funding, the members know that this member has got funding, then we have a lot of session like networking, and we even do have yearly team building session including team members where they get to know each other, and the senior members will see the new members. And they can network among themselves, and they are also buying

among themselves. So, grouping is very important, just like AIM doing but ours we do by the business. (R4)

I'm a bit on the positive side of this approach on having groups. But the thing is, having an establishment of group itself becomes challenge for individual participants for example they cannot find remaining partners to join group. So, this challenge is a negative side of entrepreneurship. (R5)

But for social collateral, when borrowing money with a group the challenges are mistrust. Because during time, one of member being selfish, that affecting other in the group. [...] we are keep giving funding to people, to grow, all 5 people (in one group) should grow. That are the expectations of our agency. (R6)

Based on above finding the majority of the participants are of the opinion that group-based financing is effective when all members are committed for their obligations and one person's failure affects the other members' performance as well. Addition to above, participants mentioned that group-based financing controls the members' behaviour and minimizes the defaults. Above findings are further supported by the studies of Armendariz and Morduch (2000) and Nkwocha et al., (2019). Table 6 summarizes the responses as below:

Table 6: Group Based Financing and Social Collateral

Participant's Opinion	R1	R2	R3	R4	R5	R6	Total
a One member's behaviour affects others	✓	✓	✓	n.a	n.a	✓	4/6
b Difficulties in finding members for group	n.a	✓	n.a	n.a	✓	n.a	2/6
c Grouping businesses	✓	n.a	n.a	✓	n.a	n.a	2/6
d Networking helps for improvements	✓	n.a	n.a	✓	n.a	n.a	2/6

Post Financing Monitoring of Micro Enterprises

The participating interviewees were asked about their opinions on the challenges in post financing monitoring the operations of micro enterprises. Below are the opinions shared by the practitioners on post financing monitoring.

In our case, we have regular meetings, every week we spend about 1 hour and there are 12 topics to be discussed. During that discussion period, we get to understand the nature of business nature, whether it's going well or not. We also provide additional support, the case of training, let's say we provide the machine, so we will get experts to teach them on how to use the machine [...] (R1)

In Tekun, once we finance them, after the following month of finance was given, we will go again and do a site visit to see. Let's say he get the fund from us to buy a machine etc. He wants to buy a freezer, so we go and see whether he already purchased the freezer or not, did he bought the right thing or any other? as long as he buys something for the business, we will accept his feedback as long as financing is used to expand the business and not for any other purposes. (R2)

Because financing starts when you disburse. After that we have to monitor sales. [...] For us, every month businesses have to submit sales report, they must use whatever medium they have like email, WhatsApp, and hardcopy. For every half of the year, they have to submit the income statement. For private limited companies they must get it audited. (R4)

Based on above findings, participating interviewees highlighted that regular site visits, inspections of business activities and assets and obtaining periodical financial performance reports of the business are important post financing monitoring strategies to minimize the risks associated with microfinancing. Further participants opined that there is a need to verify that the financing is utilized for the actual purpose mentioned at the time of application. Table 7 summarizes the responses as below:

Table 7: Post Financing Monitoring of Micro Enterprises

Participant's Opinion	R1	R2	R4	Total
a Regular site visits	✓	✓	n.a	2/3
b Collecting repayments on time	✓	n.a	n.a	1/3
c Inspecting business activities	✓	✓	n.a	2/3
d Financial reports	✓	n.a	✓	2/3
e Regular meetings	✓	n.a	n.a	1/3

Managing Repayments

Collection of repayment is one of the important tasks of any form of financing, the participating interviewees were asked about opinions about challenges in managing repayments in micro financing. Below are the opinions shared by interviewees on post financing monitoring.

In our case, we have online repayment system, we have done it before 2018. So, all borrowers need to come to a designated place every time and you need to pay and then we will record the attendance, so if attendance is less than 70%, member might face an obstacle in future borrowings. Thereafter we introduced online repayment using digital platform [...] (R1)

In Tekun, sometimes we advise them to pay more than what they're supposed to pay, so there will be always a surplus. Whenever they find difficulties to pay 1 or 2 months, the surplus money in the account will be utilized to set off the monthly or weekly payments. So, the account won't be simply defaulted. That is how normally we arrange although the amount they have to pay is according to the agreement, we advise them to do in such a way to pay little bit extra. We don't force them. We will advise them in such a way. It will go to their repayment account, and they will be a surplus. So, in case of no payment received for any month, surplus will be utilized to off-set the payments. (R2)

If small business you have to do like that, because if you collect monthly the sum is too big [...], so they need to keep aside daily around RM 15 or RM20 just to pay our instalment. So, for daily it is quite hard to do it but weekly, yes for small business. Some businesses we collect weekly but record monthly. Depends on the nature of business. Because they can't pay huge sums. (R4)

Based on the above findings participating interviewees agreed that there is an advantage for AJK officers in collection of repayments because of their existing relationship with micro entrepreneurs. Further to above interviewees opined collection on weekly basis is important and keeping the instalments amount as low as possible in order to reduce the burden on micro entrepreneurs. Table 8 summarizes the opinions of interviewees as below:

Table 8: Managing repayments

	Participant's Opinion	R1	R2	R4	Total
a	Advantage of an existing relationship	✓	n.a	n.a	1/3
b	Instalments in weekly basis	✓	n.a	✓	2/3
c	Regular follow ups for payments	✓	n.a	✓	2/3
d	Surplus payments	✓	✓	n.a	2/3

Suggestions and Recommendations

According to the above findings from experts' views of practitioner, identified several issues and challenges in financing micro enterprises. One of the key challenges is higher interest rates charged by the micro financing institutions. This study recommends to regulated framework which integrates the Islamic social finance solutions such zakat, waqf and charities with relevant state authorities of Malaysia with micro financing institutions. Cash waqf is identified as one such potential source of finance for micro enterprises. Further to above, mismanagement of business funds by micro enterprises is one of the issues highlighted by the findings. To overcome that, microfinance institutions need to consider re-modelling of their financing methods. Instead of providing cash at the disposal of micro enterprise, providing assets based on the leasing also one possible strategy. Similarly post financing monitoring also a notable challenge highlighted in the findings, and it is n costly exercise for micro financing institutions. Therefore, this study suggests them to enter a mutual co-operation framework where the assistance of community based institutional bodies such as mosques administrating committees (AJK), members of community police and village development committees (MPKK) to monitor the post finance behaviour of the micro enterprises in the respective localities.

CONCLUSION

Findings on current challenges in microfinancing in Malaysia reveal that micro entrepreneur face challenges in obtaining finance because of reasons such as higher rate of interest, incomplete documentation, lack of business ideas and plans, lack of business skills and passion, non-viable businesses, and projects, mismanagement of business funds and Frauds. Findings on obtaining collateral from micro entrepreneurs, participating practitioners have divided opinions on obtaining and not obtaining collaterals. Also explained is the inability of micro entrepreneurs to provide collaterals. The findings on group-based lending reveals that one member's behaviour affects the other members of the group. Further some members found difficulties in finding the required number of members to form the group and a few participating practitioners suggested that grouping of businesses instead of individuals. Addition to above findings reveals that regular

site visits, meetings and collecting on repayments on time are important strategies in post financing monitoring. This study is in qualitative nature and results are not generalizable. However, finding indicate the existence of the issues and challenges in financing micro enterprises. This will open the way for the future research in quantitative nature to generalize the findings using the bigger sample size. The findings of this study may useful policy makers, commercial banks, development finance banks, micro financial institutions and for their strategic planning activities in financings micro enterprises.

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