Determinant Factors Influencing the Microfinance Repayment Performance among Borrowers of Amanah Ikhtiar Malaysia (AIM) in Jerantut, Pahang

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Abstract – Microfinance is one of the initiative sources of financial service for poor entrepreneurs that only have small businesses and lack access to banking and other services. Microfinance always focuses on poor people with no steady employment who cannot meet most of the qualifications to get financial services from normal banking. Thus, the abilities of borrowers to pay back their microfinance are one of the arguments that need concentration. The finding revealed that there were only two independent variables which were business experience and loan tenure which had a significant positive relationship with the dependent variable namely microfinance repayment performance among borrowers of Amanah Ikhtiar Malaysia (AIM) in Jerantut, Pahang. The knowledge of borrower was not significantly related to the microfinance repayment performance. The result provided the understanding and insight on AIM’s institution, financial institutions, and academic significance about how loan giving out and avoiding microfinance repayment defaults.

Keywords: “Knowledge”, “Business Experience”, “Microfinance”

1. Introduction

Although microfinance is a necessity for the improvement of SMEs, analysing repayment achievement can assure the resilience of MFIs. The researchers focused on the importance of loan repayment performance (Nawai, 2013). The biggest amount of breakdown of Monetary Financial Institution (MFI) is due to their weakness in ensuring the effective
achievement in repayment problem which happened in developing countries (Shu-Teng, Zariyawati, Suraya-Hanim & Annuar, 2015). In the year 1987, AIM is registered in the act of employed analysis project and at another time it was standardised as a personal loan. AIM selects clients according to their gross average income monthly from a household. The Malaysian government has been calculating the monthly gross of income from households under the Poverty Line Income (PLI) since 1976 and AIM just picks households which have gross monthly incomes that are below PLI. Therefore, it includes household from both poor and hard-core poor groups. AIM uses based model and supply little amount of loan without any complementary. Furthermore, unsuccessful borrowers who could not repay the loan would not be charged with legal action. The trend of repayment to AIM based on small repayment system during meeting every week (A. Al Mamun, Abdul Wahab & Malarvizhi, 2011). The abilities of borrowers in order to pay back their AIM’s loan are one of the arguments that need concentration.

The unpredictable circumstance is one of the uncontrolled situations in the business of borrower which will impact the repayment performance (Brehanu & Fufa, 2008). Unexpected situations include natural disasters, lower business revenue, and borrower’s illness (Mokhtar, 2011). In contrast, control situation is relevant to the knowledge of borrower, business experience, and loan tenure for the microfinance’s borrowers. Pahang has eleven branches of AIM and one of them is located in Jerantut. It was happened the problems among the borrower in order to payback the repayment. This research aims to provide any significant changes in the knowledge of borrower, business experience, and loan tenure that affects the repayment performance after receiving AIM loans. The repayment performance is very significant to ensure AIM is operated in preserve able basis. The prime aim of the research is to specify and investigate factors affecting repayment performance in microcredit programmes by AIM in Jerantut, which testing individual lending way. The research would be useful in understanding the causes that head the repayment problem of borrowers in a certain situation for the next. This comprehension may become better for their repayment collection scheme and future profit margins.

2. LITERATURE REVIEW

Amanah Ikhtiar Malaysia (AIM) is a private trust established by the law that provides as a microfinance institution (MFI) established in Malaysia on 17 September 1987 by the Deed of Agreement AIM. It is registered under the Trustees (Incorporation) Act 1952 as amended in 1981 (Act 258) which provides small loan to poor households and low-income households in Malaysia (Kadri, 2011). Furthermore, repayment performance is important to the lenders because in a case where borrowers do not pay in a specific time or do not repay the loan, the cyclic movement of funds could be disturbed as the liquidity of the fund of the institutions is insufficient (Norhaziah & Mohd Noor, 2013). According to Quercia and Stegman (1992), borrowers who are incapable of repayment or refuse to repay are considered as poor loan repayment performance. Their behaviour could lead to high default rates of the institutions on their repayment performance (Greenbaum, Thakor &
According to Micomonaco (2003), the lack of knowledge among college students could increase the risk in accumulating extensive debt in their studies. Mokhtar, Nartea, and Gan (2012) said that fresh graduates lack the knowledge if they do not have any experience of working in the real world. Wongnaa and Awunyo-Vitor (2013) mention that the term of business experience that increases in farming experience will increase the likelihood of farmers in repayment loan. Onyeagocha, Chidebelu, and Okorji (2012) reveal that business experience has a significant and positive relationship with repayment performance which proves that long business experience can be higher in loan repayment performance. According to Hisaki (2006), gathering the loaning component is powerful in decreasing borrower defaults. Group lending where each group has their own leader to collect their loan repayment every week. When making a group lending scheme, the spirit of responsibility can be implemented where peer-support can lead to repayment. Based on AIM (2009), AIM recorded reimbursement rates of 98.98% at 31st July 2009. Based on the Shariah law, loan cannot be charged with different amount of payment in Malaysia. The borrowers of AIM are mostly Bumiputera and Muslims, so the understanding on the amount of repayment is very important to convince them to join AIM’s borrower. Mokhtar et al. (2012) found that borrowers who are experienced in agricultural technology and another business income have no problem in loan repayment. Moreover, borrowers who receive a loan or cash loan show a different behavior.

**Figure 1: A Research Framework of the Determinant Factors Influencing the Microfinance Repayment Performance among Amanah Ikhtiar Malaysia’s (AIM’s) Borrower in Jerantut, Pahang**

### 3. Methodology of Study

This research chose questionnaire survey as the research instrument to collect data from respondents. The reason for choosing this method was because it is cheaper and easy to administer questionnaires to a large number of respondents. A set of questionnaire was
administered randomly to AIM’s microfinance borrowers in Jerantut, Pahang. Furthermore, this research used the statistic of the online library database through MyAthens such as Emerald Management Plus, SAGE Journals, ProQuest, and business monitor online as the secondary data source. The researcher decided to use SPSS which stands for Statistical Package for Social Science. The purpose of SPSS is to make a data collection for microfinance repayment performance. The descriptive statistics are used to summarise the demographic in the questionnaire by simplifying the data for better understanding. Pearson’s correlation is used to measure correlation. It represents the degree of a linear relationship between dependent variables and independent variables. Multiple linear regression is used to measure the relationship between dependent variables and independent variables. The researcher could determine which independent variables that are more distributed towards the factors of repayment performance of AIM’s borrowers. The researcher used this method by testing the coefficient of determination (R^2). The coefficient of determination was tested using the t-test to determine the difference between (R^2) in the competing models. Moreover, the researcher also used regression coefficient (β) that was tested using t-tests by comparing other t-tests with different standardised partial regression coefficients (β). A normality test was conducted to ensure that the collected data was normally distributed.

4. Findings and Discussion

This research had 111 respondents in which the highest number was in the range age of 46 to 55 which makes up 38.7% of the respondents (43 respondents). Most of the borrowers were elderly who do not have permanent jobs or have retired from their permanent jobs. Most borrowers join AIM to use the existing platform to earn extra income by running a small business and having savings for future use. A total of 100% respondents (111 respondents) were Malay. The researcher informed that the majority of AIM’s borrowers are Malay as they have household income eligibility limit around as mentioned by AIM which is between RM610 until RM3,050 per capita. Malays are often given priority and widespread exposure of knowledge including using AIM’s financing platform in improving the standard of living compared to other races like Chinese, Indian, and others. The highest percentage for education level was below Sijil Pelajaran Malaysia (SPM) because most of the borrowers of AIM did not further their studies as they have their challenges in the past. However, they are motivated to change their life and use this platform as the turning point of their life.

Most of the respondent took this financing repeatedly because they understand the services well. In addition, they are monitored and cared for throughout the repayment period and they can inform existing problems directly to the AIM’s executive. Therefore, most of the respondents need to know their ability in borrowing huge financing and maintaining the institution without any bad record.
Table 1 shows that only business experience and loan tenure are significant in predicting the dependent variable (microfinance repayment performance) which is the reason that the p-value (Sig. 0.000) is less than 0.05 (where p-value < 0.05). However, knowledge has the p-value (Sig. 0.917) that is greater than 0.05 revealing that knowledge is non-significant to predict microfinance repayment performance. On the other hand, the strongest impact factor towards microfinance repayment performance is loan tenure with the highest coefficients, 0.426 which is 42.6% in explaining microfinance repayment performance.

Thus, the relationship can be denoted as the following equation:

\[ Y \text{ (Microfinance Repayment Performance)} = 0.280 + 0.422x_2 \text{ (Business Experience)} + 0.426x_3 \text{ (Loan Tenure)} \]

Based on the model equation stated above, the coefficient of business experience is 0.422. When every one unit is increased in business experience, it will lead to an increase of 0.422 units in microfinance repayment performance when other variables remain constant. Subsequently, the model shows that when loan tenure increases by one unit, it will lead to an increase of 0.426 units in microfinance repayment performance while other variables are constant. In general, this study had answered the objectives by identifying the relationship among all independent variables namely knowledge, business experience, and loan tenure in influencing the microfinance repayment performance among AIM’s borrowers.
One of the possible reasons for the insignificant result might be due to the small sample size. The result might be different if the sample size is increased to more than 111 respondents. Moreover, the results of correlation and Beta for knowledge are the lowest among the other two variables. It is believed that objective is different for the relation between knowledge against microfinance repayment performance among AIM’s borrowers. The respondents gave a good performance to repay the loan with a low education level. All the respondents have education levels which are below SPM or the Malaysian Certificate of Education, which is the national examination taken by all fifth-year secondary school students in Malaysia. They have expertise in business and good business revenue cycles. Hence, they can repay the loan according to the agreement contract by both parties. In addition, previous researchers said that knowledge is insignificant in affecting microfinance repayment performance. The distance between client’s businesses and lack of knowledge about each other’s weekly sales do not affect the chance of encountering repayment problem (A. A. W. Al Mamun, S. Malarvizhi, C. A. & Mariapun, 2011). Thus, the results in this study provide at least tentative supported for the view that in financial institutions where loan officers’ subjective judgment matters in lending decisions, officers’ loss of tacit knowledge may have a negative effect on repayment performance in the short run (one year in the present study) (Heikkilä, 2011). Even if the results indicate a negative repayment effect for loan officer rotation in the short run, it was not to say that such rotations should not be carried out. The long-run impact of the rotation on repayment rates may be positive, but this study did not focus on this scope.

5. Conclusion

Microfinance has been recognised as the vital socio-economic and financial mechanism to alleviate poverty and promote entrepreneurship. Higher micro-financing can lead to a lower poverty level in Malaysia. Microfinance given to entrepreneurs can improve their business
and motivate the poor to be involved in business activities. Hence, it is crucial to examine the determinants that contribute to loan repayment performance.

This study provides quantifications and factual evidence that some factors affect microfinance repayment performance among AIM’s borrowers in Jerantut. The results show that borrower’s knowledge, business experience, and loan tenure have an incredible effect on the loan repayment performance among AIM’s borrowers in Jerantut, Pahang as proven by the high correlation to repayment rate. This study found that loan tenure is the most crucial factor that affects the microfinance repayment performance among the respondents. Therefore, providing a suitable amount of loan and structured loan tenure will improve the loan repayment among the borrowers. This study suggested that AIM should derive the background checks on borrowers to identify their business experience business revenue cycle before providing loans to them. This study has several limitations during the progress of the research. First, previous researches only focused on loan repayment performance and did not compare the default and non-default groups in the context as well as government agencies and non-government agencies in Malaysia. Accordingly, it is difficult to find related journals in Malaysia to support this study.

Additionally, the respondents of this study were mainly borrowers in Jerantut, Pahang. Therefore, the sample cannot be described as representative with the random sample of respondents who borrowed AIM’s loans in Malaysia as a whole. Hence, the findings are not generalisable across Malaysia. Besides that, the second potential limitation is sample size. This study only obtained 111 respondents who borrowed loans which are considered as a small sample size. Therefore, the data collected cannot be used to represent the larger population. A larger sample size which covers the whole parts of Malaysia is recommended to generalise the results. For example, the sample size in Kedah Utara, Based on Figure 2, Kedah Utara has the most borrowers up until April 2016 with a total of 27,241 borrowers. Thus, future researchers will get accurate results about microfinance repayment performance among AIM’s borrowers.

Lastly, future researchers should consider using the factor of knowledge to determine the microfinance repayment performance among AIM’s borrowers. This study found that the
results of correlation and Beta for knowledge were the lowest among the other two variables. It is believed that the objective is different towards the relation between knowledge against microfinance repayment performance among AIM’s borrowers. The respondents gave a good performance to repay the loan even with a low education level of below SPM. They have expertise in business and good business revenue cycles. Hence, they can repay the loan under the agreement contract by both parties.

**Disclosure Statement**
No potential conflict of interest was reported by the authors.

**Funding**
No funding was involved in this research.

**Acknowledgement**
N/A

**References**


