DETERMINANTS OF ECONOMIC PERFORMANCE OF MICRO-CREDIT CLIENTS AND PROSPECTS FOR ISLAMIC MICROFINANCE IN MALAYSIA

Norma Md Saad* and Jarita Duasa**

Abstract

This study is divided into two parts. The first part of the study utilises econometric models to assess the economic performance of clients participating in the microcredit programme of Amanah Ikhtiar Malaysia (AIM). Several proxies are used for the economic performance variable (dependent variable), including level of earnings/income, ratio of spending to income and value of assets. The regressors (independent variables) used are education level, age, amount of loan, source of income and ownership of assets. The second part of this study concentrates on analysing the prospects of introducing Islamic microfinance products to be used in microfinance activities in Malaysia. In the first part of the study, we find that the economic performance of AIM participants is significantly determined by the amount of money borrowed from AIM. Other factors found to influence the respondents' economic performance are education level,

*   Norma Md Saad is an Associate Professor at the Economics Department of the Kulliyyah of Economics and Management Sciences at the International Islamic University Malaysia. She can be contacted at norma@iiu.edu.my.
** Jarita Duasa is an Associate Professor at the Economics Department of the Kulliyyah of Economics and Management Sciences at the International Islamic University Malaysia. She can be contacted at jarita@iiu.edu.my.

age, gender, assets owned before joining AIM and area of residence. Because level of education is found to contribute significantly to the economic performance of AIM participants, it is suggested that AIM work to educate its borrowers, and more specifically, to provide business training. In the second part of the study, the results show that there is a great demand for Islamic microfinance products in Malaysia. The findings of the study could serve as general guidelines for microfinance institutions in designing Islamic microfinance products for either Muslims or non-Muslim micro-entrepreneurs.

Keywords: Microcredit, Microfinance, Islamic microfinance, Poverty, Amanah Ikhtiar Malaysia (AIM)

I. INTRODUCTION

Microfinance, as has been argued and confirmed by researchers such as Khandker (2003), Gertler, P., Levine, D. & Moretti, E, (2003), and Park and Ren (2001), is an effective tool to alleviate poverty. This can be seen through the success of several microfinance programmes, including Grameen Bank in Bangladesh, Bank Rakyat Indonesia in Indonesia, Amanah Ikhtiar Malaysia (AIM) in Malaysia, the Center for Agriculture and Rural Development (CARD) in the Philippines and the Foundation for International Community Assistance (FINCA) and ACCION in Latin America. Given this widespread success, the United Nations has included microfinance among its tools for achieving its Millennium Development Goal of halving the number of people living in poverty by 2015.

Microcredit in Malaysia began in 1987 with the establishment of AIM, a non-governmental organisation that adopted the Grameen Bank model for rural microfinancing (Conroy, 2002). Working to alleviate rural poverty, AIM operated in 3,745 villages and had disbursed RM1.8 billion in financing to 157,787 rural poor by September 2006. AIM has achieved a remarkable repayment rate of 95 percent due to its unique method for managing risk. Social pressure motivates client members to avoid defaulting on their loans. The set up of the weekly meeting is already a mechanism by itself to make sure that members attend and make weekly payments. In the event that a group member fails to repay, others in the group will take responsibility to raise funds to help the defaulter. AIM personnel also make field trips to monitor member projects.

Studies evaluating whether AIM has been able to achieve its targets have been descriptive in nature. This study, in contrast, applies an econometric model to empirically test changes in the economic welfare of AIM clients after participating in the programme. In particular, it examines changes in income, the ratio of spending to total monthly income and asset value. The objectives of this study are to determine whether AIM loans contribute to an increase in income and to identify factors that contribute to any such increase.

This paper is organised as follows. Section 2 reviews the literature. Section 3 discusses the data and methodology used. Section 4 presents the results and analysis. Section 5 concludes.

II. LITERATURE REVIEW

Although to some extent ignored by conventional financial institutions, microfinance is currently showing strong potential, and funding microfinance projects has become a priority for international donors as well as for governments, private companies and philanthropic organisations (Ferro, 2005). There are several reasons why financial institutions may not be interested in microfinance. These include the real profitability of microfinance, the high risk posed by small and short-term lending operations and the widespread belief that the poor are often poor due to a lack of skills. Furthermore, it is extremely difficult for financial institutions, particularly in less developed countries, to overcome the social and cultural barriers in providing microfinance services (Ferro, 2005). Nevertheless, the development of microfinance institutions still receives strong support from many parties. Twenty-eight members of the Consultative Group to Assist the Poor (CGAP) have defined a vision for the future of microfinance: a world in which poor people everywhere enjoy permanent access to a wide range of financial services, delivered by different types of institutions through a variety of convenient mechanisms (CGAP, 2004).

There have been many studies looking at the economic and social impact of microcredit, and the results have been mixed. Afrane (2002), for example, studies the impact of two microfinance interventions in Africa (Sinapi Alba Trust (SAT)) in Ghana during 1997 and Semeto Microfinance Development Program (SOMED) in South Africa during 1998. The results indicate that microfinance interventions lead to significant increases in business incomes, access to life-enhancing facilities and personal empowerment, particularly for women. Microfinance clients also experienced enhanced public respect, acceptance and self-esteem, participated more in community activities and made greater monetary contributions to social projects. On the other hand, they also experienced greater time pressures due to increased business activities, worsened family relations, and poorer church attendance and participation in church activities.

A study conducted by Morduch (1998) investigates the impact of microfinance in Bangladesh, also finds positive results among those who participate in a microfinance programme. The study shows that households served by microfinance programmes all do substantially better than control households. Nonetheless, this study found no evidence that the programmes increased consumption levels or educational enrollments for children relative to levels in control villages. The most important potential impacts were associated with a reduction of vulnerability and not with a reduction of poverty per se. Consumption smoothing appears to be driven largely by income smoothing, not by borrowing and lending. This study criticises microfinance programmes for mistargeting when selecting clients where approximately 20-30 percent of microfinance clients had income above the poverty levels.

Examining a group-lending programme in northeast Thailand, Coleman (1999) addresses the issues of self-selection and endogenous programme placement. In previous studies, these had led to biased assessments of the impact of microfinance programmes. To overcome these problems, Coleman conducts a quasi-experimental impact study, collecting detailed data on household and village characteristics. A Tobit regression analysis shows that the impact of group lending was insignificant on physical assets, savings, production, sales, productive expenses, labour time and on most measures of expenditures on healthcare and education. The impact was significant on only one

variable, a reduction in expenditure on men's healthcare. The impact on women's high-interest debt was significant and positive; this was perhaps because a number of members had fallen into a vicious cycle of debt from moneylenders to repay their village bank loans. At the same time, the impact is significant and positive on women's lending with interest; some female members engaged in arbitrage, borrowing from the village bank at a relatively low interest rate and then lending the money out at a higher rate. These results are consistent with those of Adams and von Pischke (1992), who note that debt is not an effective method for assisting poor people to improve their economic condition.

A more comprehensive impact study of microfinance is carried out by Kabeer and Noponen (2005), who examine the social and economic impact of microfinance enacted by a Self Help Group (SHG) organised by Professional Assistance for Development Action (PRADAN) in Jarkhand, one of India's poorest states. Their study uses interviews as its tool for qualitative research and descriptive statistics as its tool for quantitative research. The results indicate that the bank-linkage model of the PRADAN SHG significantly improved participants' livelihood bases, savings and debt positions and living and consumption standards. PRADAN participants secured their primary sources of livelihood through their own agriculture supplemented by labour, livestock and non-farm enterprise activities. By comparison, more marginally positioned non-members relied on working as unskilled labourers for their primary income source.

Participants' access to financial services and the strengthening of their agricultural activities is associated with less economic vulnerability as shown by higher savings, less onerous debt and fewer crises-related borrowing, more investment in productive activities and fewer months of seasonal migration. It is also associated with significant household welfare gains, especially in shelter, food security and education. Despite these improvements, the study shows that women's empowerment does not automatically result from targeting them with financial services. While women discernibly gained knowledge, awareness and skills, impacts were far more modest in terms of participation in decision-making within the household and the public domain.

Studying an education programme in Ghana, Nelly and Dunford (1998) investigate the impact of microcredit on the education of mothers and the nutrition of their young children in a rural setting. The study looks at a mother's economic capacity, her empowerment and her adoption of key practices that affect her children's nutrition, health and survival. Specifically, it examines several indicators such as income, health and nutrition practices, and women empowerment. The results indicate that credit and education services provided together to women can increase their incomes and savings, improve their health and nutrition knowledge and practices, empower them and ultimately improve their households' food security and their children's nutrition.

Regarding the economic impact of microcredit programmes in Malaysia, a few studies have examined the effectiveness of AIM's microcredit programme in reducing poverty. An impact assessment was conducted on 283 members of AIM's pilot programme in 1988. Specifically, it evaluates the organisation's effectiveness in replicating the results of Grameen Bank's microcredit programme in increasing household income. The study finds that 70 percent of the participants have significantly increased their monthly household incomes, from an average of RM142 to RM220 (Kasim, 2000).

The Social and Economic Unit (SERU) of Malaysia's Prime Minister's Department initiated another impact assessment of AIM's microcredit programme in 1990. Among other things, the study evaluates AIM's mechanism of delivering credit to its members and the organisation's overall effectiveness as well as its cost effectiveness in reducing poverty. The study discovers that, by using rigourous means testing, AIM has ensured that only the poor have gained access to its microcredit programme. The study also concludes that members' household incomes had more than doubled, from an average of RM198 per month before joining AIM to a total of RM457 per month after becoming AIM members.

AIM conducted its own internal assessment in 2005. This study finds that, after clients borrowed from AIM, their average monthly household incomes almost tripled, from RM326 to RM932 (Amanah Ikhtiar Malaysia, 2008).

Even though some studies find evidence of negative impacts of microfinance programmes, a majority of the studies reviewed,

especially those conducted in Malaysia, reveal that microfinance programmes are able to help the poor to improve their income and, to a certain extent, to improve their standard of living.

There are relatively few studies concentrated on Islamic microfinance. Among these few studies, Dhumale and Sapcanin (1999) drafted a technical note in which they attempted to analyse how to combine Islamic banking with microfinance. The study took into consideration the three main instruments of Islamic finance, namely, *mudārabah, mushārakah* and *murābaḥah* as tools to design a successful microfinance programme. The recent study by Dusuki (2008) reviews the microfinance scheme and discusses how Islamic banks can participate in such an endeavour without compromising the issue of institutional viability and sustainability. The study finds that microfinance requires innovative approaches beyond the traditional financial intermediary role. Among others, building human capacity through social intermediation and designing group-based lending programmes are proven to be among the effective tools to reduce transaction costs and lower exposure to numerous financial risks in relation to providing credit to the poor. The study suggests the use of a special purpose vehicle (SPV) as one of the possible alternatives for Islamic banks channeling funds to the poor. Similarly, Abdul Rahman (2007) argued that there is a nexus between Islamic banking and microfinance as many elements of microfinance could be consistent with the broader goals of Islamic banking. The study suggested that the *wakālah* model as used by many Islamic *takāful* insurance companies has the potential to become an alternative structure for Islamic banks to offer Islamic microfinance instruments.

III. DATA AND METHODOLOGY

A. Participants and Sampling Procedures

This study examines the economic performance of participants in AIM's microcredit programme. The subjects include Malaysians who borrow from AIM to improve their standards of living. We restrict the sample to programme participants in the states of Perak and Kelantan, the two states with the largest number of programme clients.

We apply several stages of stratification. First, two territories or areas of each state are chosen to represent that state's recipients of AIM funding. These areas are as follows:

i.   Kuala Kangsar and Teluk Intan in Perak
ii. Kota Bharu and Tumpat in Kelantan.

Second, in each area, participants are selected randomly from different centres ("pusat"), where their names are obtained from AIM branch offices. The sample size from each area is specified at 500. Consequently, the total number of survey participants from the four areas is 2,000.

B. Sampling Instrument

Questionnaires are prepared in the Malay language since almost all survey participants are ethnic Malays. Question topics include the respondents' socio-economic backgrounds, their borrowings from AIM, their incomes and assets before and after borrowing from AIM, their expenditures and their awareness of available Islamic financial products and their opinions of these products.

C. Model and Data Analysis Techniques

This study utilises several methods to analyse results. Descriptive measures such as frequencies, proportions and means provide a general summary of the findings. For more in-depth analyses, ordinary least squares (OLS) regressions are estimated to determine factors that may affect particular variables. Several proxies are used to estimate the economic performance variable (dependent variable), including level of earnings/income, ratio of spending to income and value of assets. The regressors (independent variables) include education level, age, marital status, ownership of assets, amount of loan and others.

The OLS model used is as follows:

Equation (1):

$(income)_t = \beta_0 + \beta_1 (area\_residence)_t + \beta_2 (education)_t + \beta_3 (age)_t + \beta_4 (gender)_t$
$+ \beta_5 (amt\_loan)_t + \beta_6 (source\_income)_t + \beta_7 (assets\_own)_t + \beta_8 (martial\_status)_t + ...$

Equation (2):

$(spending/income)_t = \beta_0 + \beta_1 (area\_residence)_t + \beta_2 (education)_t + \beta_3 (age)_t + \beta_4 (gender)_t$
$+ \beta_5 (amt\_loan)_t + \beta_6 (source\_income)_t + \beta_7 (assets\_own)_t + \beta_8 (martial\_status)_t + ...$

Equation (3):

$(asset\_value)_t = \beta_0 + \beta_1 (area\_residence)_t + \beta_2 (education)_t + \beta_3 (age)_t + \beta_4 (gender)_t$
$+ \beta_5 (amt\_loan)_t + \beta_6 (source\_income)_t + \beta_7 (assets\_own)_t + \beta_9 (martial\_status)_t + ...$

D. Empirical Findings

Table 1 reports the description of sample respondents. AIM participants in both provinces are overwhelmingly women. Of total respondents (usable data), 89.6 percent (1,758 respondents) are women and 2.6 percent (51) are men; the remaining 7.8 percent (152) are missing value. Respondents from Perak constitute 55.3 percent (1,000) of the sample, while 44.7 percent (758) are from Kelantan. Of those from Perak, 94.9 percent (949) are women and only 5.1 percent (51) are men. In Kelantan, 100 percent of respondents are women.

Table 1: Description of Respondents

		Gender		Total
		Female	Male	(within gender)
Ethnicity	Malay	1676 (97.0)	51 (3.0)	1727 (96.1)
	Chinese	7 (100.0)	0 (0.0)	7 (0.4)
	Indian	60 (100.0)	0 (0.0)	60 (3.3)
	Others	3 (100.0)	0 (0.0)	3 (0.2)
	Total	1746 (97.2)	51 (2.8)	1589 (100.0)
State	Perak	949 (94.9)	51 (5.1)	1000 (55.3)
	Kelantan	809 (100.0)	0 (0.0)	809 (44.7)
	Total	1758 (97.2)	51 (2.8)	1809 (100.0)
Marital Status	Married	1563 (97.4)	42 (2.6)	1605 (94.0)
	Unmarried/Divorced	101 (99.0)	1 (1.0)	102 (6.0)
	Total	1664 (97.5)	43 (2.5)	1707 (100.0)
Religion	Muslim	1679 (97.1)	51 (2.9)	1730 (96.2)
	Christian	4 (100.0)	0 (0.0)	4 (0.2)
	Buddhist	10 (100.0)	0 (0.0)	10 (0.6)
	Hindu	54 (100.0)	0 (0.0)	54 (3.0)
	Other	0 (0.0)	0 (0.0)	0 (0.0)
	Total	1747 (97.2)	51 (2.8)	1798 (100.0)
Highest Education Level	No formal education	210 (98.6)	3 (1.4)	213 (11.9)
	Primary school/PMR/SRP	976 (96.6)	34 (3.4)	1010 (56.6)
	Secondary School (SPM)	505 (97.5)	13 (2.5)	518 (29.1)
	Certificate/STPM/Diploma	39 (97.5)	1 (2.5)	40 (2.2)
	Bachelor degree and above	2 (100.0)	0 (0.0)	2 (0.1)
	Total	1732 (97.1)	51 (2.9)	1783 (100.0)

Note: Percentage in parentheses.

Malays make up 96.1 percent of respondents. Other ethnicities include Chinese (0.4 percent), Indians (3.3 percent) and others (0.2 percent). Among the Malays, 97.0 percent (1676) are women and 3.0 percent (51) are men. There are no men from other ethnicities.

In general, sample respondents are literate. Only 11.9 percent do not have any formal education. Most respondents (56.6 percent) have some primary schooling or/and lower secondary school education and 29.1 percent have a middle secondary school certificate (Sijil Pelajaran Malaysia, or SPM). Only 2.2 percent have a Malaysian high school certificate (Sijil Tinggi Persekolahan Malaysia, or STPM), and 0.1 percent (two participants) have a bachelor's degree or higher.

The overwhelming majority (94.0 percent) of respondents are married; the remainder (6.0 percent) are not married or divorced. Among female respondents, 93.9 percent are married, and 6.1 percent are not married or divorced. The marriage rate among men is slightly higher (97.7 percent, with only 2.3 percent not married or divorced).

A regression analysis is performed to determine important factors that might contribute to the economic performance of respondents after they participate in AIM micro-credit activities. For this purpose, the OLS model is adopted; the indicators of economic performance used are income (Equation 1), ratio of spending to total monthly income (Equation 2) and value of assets after the respondents participated in AIM activities (Equation 3). For the income indicator, the study uses per capita yearly income, as it best reflects a respondent's standard of living. The regressors used are education, age, loan amount, source of income and assets owned. For per capita income, asset value and amount of loan, the variables are converted into logarithm in order to minimise the gap between data within a similar variable so that the coefficients could be interpreted as elasticity. Heteroscedasticity is detected in the original OLS estimation, but is corrected using White-heteroscedasticity estimates.

Table 2 displays the regression results. Applying per capita yearly income to the sample data as a dependent variable, Equation 1 shows that the economic performance of AIM participants is significantly determined by the respondents' education level, gender, the amount of loan made and the area of residence. Specifically, the study found that higher levels of education correlated to higher levels of per capita income after respondents participated in AIM activities. It is expected that more educated respondents are more knowledgeable in handling projects. With regards to age, older respondents tend to earn higher per capita incomes from the AIM programme. It is expected that experience comes into play to help older respondents earn more. For the gender variable, men (*male*) record higher per capita income than women (*female*). The significant and positive sign of the dummy for the Tumpat coefficient indicates that respondents from that area earn higher per capita incomes than those from Hilir Perak. Looking at the coefficient of the focal variable, the amount of loan from AIM, the positive and significant sign is a clear indication that the borrowings from AIM contribute to increases in respondents' per capita income.

Applying the ratio of monthly spending to total income as the indicator of economic performance (Equation 2), the results show that only two factors significantly determine this ratio: the amount of the loan obtained from AIM and the area of residence. Similar to the results of Equation 1, the amount of loan obtained from AIM contributes significantly and positively to respondents' ratios of spending to income. Contrary to Equation 1, however, the coefficient of the dummy for Tumpat has a negative sign and is significant at the five percent level. This means that the ratio of business spending to total business income is less for participants residing in Tumpat. This could be because the scale of businesses in Tumpat (an area where many households are poor) tends to be very small and thus enterprises require less revolving capital.

*Table 2: Regressions on income, ratio of spending to loan size and ratio
of asset value to loan size*

Dependent variable	Log (Per capita yearly income)	Spending/ total income monthly	Log (Asset value)
(Constant)	-10925.3***	-3.60	5.15***
Education level	511.45***	0.02	-0.14**
Age	2.12	-0.00006	0.0004
Dummy gender	1941.39**	4.37	N/A
Dummy marital status	191.48	0.061	0.46**
Person handling AIM project	145.84	0.42	0.20**
Dummy asset owned before Joining AIM	1076.05	-0.27	0.47***
Log (Amount of loan)	1692.86***	0.53*	0.43***
Dummy source of income/ type of expenses	-95.76	-0.17	0.46**
Dummy Tumpat	1774.20***	-0.72**	0.021
Dummy Kota Bharu	492.58	-0.14	0.052
Dummy Kuala Kangsar	136.42	-0.29	0.22
R-squared	0.08	0.02	0.08
Adjusted R-squared	0.08	0.01	0.07
Durbin-Watson	2.08	1.39	1.63
F-statistic	13.77***	2.73***	7.14***

Notes: *, ** and *** indicate significance at the 10, 5 and 1 percent levels, respectively.

When the value of assets after participating in AIM is used as the dependent variable to measure respondents' economic performance (Equation 3), the study identifies six determinants that significantly affect economic performance: education level, marital status, person responsible for handling the AIM project, assets owned before joining AIM, amount of loan from AIM and sources of income. Regarding education level, the variable's negative sign shows that respondents who have lower levels of education tend to possess more valuable assets. This result contrasts with the first regression when per capita income is the dependent variable. This is possible if the value of assets owned does not necessarily depend on a person's education level. For example, assets could be inherited. Income, however, is a flow of money which is highly dependent on education level. With regards to marital status, the regression finds that married respondents are more likely to own assets of greater value than unmarried respondents. The positive sign of the coefficient of person handling the AIM projects implies that respondents who co-manage AIM projects with a spouse or children are more likely to own assets of higher value than those who manage projects alone.

As expected, the dummy for assets owned before joining AIM has a positive and significant sign. This result implies that those who owned assets before joining AIM, either land or a vehicle, tend to continue to own more valuable assets after joining the programme. They also earn more per capita income than those who did not have any assets. The focal variable, the amount of loan obtained from AIM, again shows that the loans do in fact contribute positively to the value of assets that respondents acquire. Finally, the positive and significant sign of the dummy variable for source of income or type of expenses indicates that spending the loan on business items tends to increase the value of respondents' assets.

Table 3 reports findings on respondents' understanding of terminology used in Islamic finance. The results show that a majority of the respondents report that they only understand one of the nine terms listed in the questionnaire. The results reveal that *Riba* is the only term that a majority of the respondents are familiar with. A total of 1,372 (78.2%) respondents answered that they fully understand and understand the term *ribā*. Less than 50 respondents (43) report that they do not have an idea what *ribā* means and 341 respondents (19.4%) choose to answer that they either do not understand or do not understand at all the meaning of the word *ribā*. The understanding of the word *salam* ranks second after *ribā* with 561 respondents (32%) answering that they either fully understand or understand what it means. This is followed by *muḍārabah* (20.3%), *mushārakah* (17.5%), *qard ḥasan* (14.3%), *bay' al-'īnah* (12.0%), *bay' bi-thamin ājil* (11.2%), *gharar* (8.9%) and *istisnā'* (6.9%).

Table 3: Awareness on Islamic Finance Terminology

Islamic finance terminology	Degree of (Number of and Percentage) Understanding Respondents				
	Fully understand	Understand	No idea	Do not understand	Do not understand at all
ribā	245 (14.0%)	1127(64.2%)	43 (2.4%)	311 (17.7%)	30 (1.7%)
gharar	11 (0.6%)	146(8.3%)	80 (4.6%)	1367(77.8%)	152 (8.7%)
muḍārabah	21 (1.2%)	336 (19.1%)	91 (5.2%)	1184 (67.4)	124(7.1%)
mushārakah	24 (1.4%)	283 (16.1%)	83 (4.7%)	1248(71.1%)	118 (6.7%)
bay' bi-thamin ājil	16 (0.9%)	181 (10.3%)	73 (4.2%)	1338(76.2%)	148 (8.4%)
salam	98 (5.6%)	463(26.4%)	55 (3.1%)	1031(58.7%)	109 (6.2%)
istisnā'	12 (0.7%)	109(6.2%)	87 (5.0%)	1404(80.0%)	114 (8.2%)
qard ḥasan	20 (1.1%)	232(13.2%)	62 (3.5%)	1306(74.4%)	136 (7.7%)
bay' al-'īnah	25 (1.4%)	187 (10.6%)	70 (4.0%)	1336(76.1%)	138 (7.9%)

Table 4 shows responses to question 4.10, on whether the respondent is interested in Islamic financing products. The table reveals that AIM members who participate in the survey are overwhelmingly interested in the Islamic financing products. A total of 1,710 respondents (97.4%) from Kelantan and Perak answer that they are interested in Islamic finance products. Another interesting observation has to do with the answers given by non-Muslim participants involved in the study. In Perak, 61 of the respondents are non-Muslims. Interestingly, all but one non-Muslim respondent answered that they are interested in Islamic finance products. Similar results are observed in the survey data in Kelantan. For Kelantan, only 9 non-Muslim respondents were involved in the survey. All of the respondents (100%) answered that they are interested in Islamic finance products.

Table 4: Interest in Islamic Finance Products

	Respondents interested in Islamic finance products		Respondents not interested in Islamic finance products	
	Frequency	Percentage	Frequency	Percentage
Kelantan	785	97.0	24	3.0
Perak	925	97.8	22	2.2
Total	1,710	97.4	46	2.6

Table 5 displays survey results on the opinions of the respondents on what should be the attributes or characteristics of Islamic financing products. The results show that 1,726 respondents (98.3%) agree or strongly agree that Islamic finance products should ensure borrowers' ease of repayment. A total of 1,698 respondents (96.7%) believe that Islamic finance products should impose a reasonable service charge. With regards to the question about a penalty for late payment, 1,682 respondents (95.8%) say that Islamic finance products should not charge a penalty for late payment. In addition, 1,718 respondents (97.8%) agree or strongly agree that Islamic finance products should have a speedy evaluation and approval process. A total of 1,703 respondents (97%) feel that Islamic finance products should require only minimal forms for loan application. Islamic finance products must be *Sharī'ah* compliant according to 98.1% of the respondents and should be handled by efficient staff (according to 97.8% of the respondents). A total of 1,700 respondents (96.8%) believe that any application form for Islamic finance products should be easy to understand and 91.8% (1613 respondents) say that Islamic finance products should allow borrowers some flexibility in payment of arrears.

Table 5: Views on Characteristics of Islamic Finance Products

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1. Ease of repayment	521 (29.7%)	1205(68.6%)	25 (1.4%)	4 (0.2%)	1 (0.1%)
2. Reasonable service charge	457 (26.0%)	1241(70.7%)	41 (2.3%)	17 (1.0%)	0 (0%)
3. No penalty for late repayment	559 (31.8%)	1123(64.0%)	42 (2.4%)	26 (1.5%)	6 (0.3%)
4. Speedy evaluation and approval process	587 (33.4%)	1131(64.4%)	33 (1.9%)	5 (0.3%)	0 (0%)
5. Minimal forms required for loan application	513 (29.2%)	1190(67.8%)	35 (2.0%)	16 (0.9%)	2 (0.1%)
6. *Sharī'ah* compliant	512(29.2%)	1210(68.9%)	28 (1.6%)	6 (0.3%)	0 (0%)
7. Efficient staff	520 (29.6%)	1197(68.2%)	29 (1.7%)	8 (0.5%)	2 (0.1%)
8. Application form is easy to understand	507 (28.9%)	1193(67.9%)	32 (1.8%)	20 (1.1%)	4 (0.2%)
9. Flexibility in payment of arrears	497 (28.3%)	1115(63.5%)	60(3.4%)	73(4.2%)	11(0.6%)

E. Conclusion

The OLS regression analysis of the sample data shows that the economic performance of AIM participants (measured by per capita income, ratio of spending to income and value of assets) correlate significantly and positively with the amount of money borrowed from AIM. These findings are consistent with most previous studies of microcredit in other countries, including Bangladesh (Hossain, 1988, Khandker, Samad & Khan, 1998) and Ghana and South Africa (Afrane, 2002).

Other factors that affect respondents' economic performance are education level, assets owned before joining AIM, marital status,

gender, source of income and area of residence. The study finds that respondents' levels of education is correlated with their levels of per capita income, a key indicator of economic performance. It is expected that respondents who are more educated are more knowledgeable in handling their projects. It is therefore important that AIM, in addition to lending money, instill knowledge and provide education to its clients. Such knowledge and education would enable clients/ participants to better manage their loans as well as their businesses and personal expenses. Thus, an educational programme could accelerate poverty alleviation. Government agencies, working with AIM, could also provide such education programmes for AIM clients. For example, relevant government agencies could give business training or disseminate information about information technology.

Although conventional microfinance has been successful in combating poverty, Karim, Tarazi and Reille (2008) report that market studies in Jordan, Palestine, Algeria, Syria and Indonesia show evidence of a strong demand for Islamic microfinance. According to their analysis, these market studies reveal a high percentage of poor Muslims in these countries who do not apply for loans because of religious reasons. Karim, Tarazi and Reille (2008) also report that in some Muslim-majority countries, there are a number of Muslim clients who use conventional microfinance products but would prefer Islamic ones. Indeed, some clients switch over once Islamic microfinance products become available. The results of our survey confirm the findings of studies cited in Karim, Tarazi and Reille (2008) that there is a great demand for Islamic microfinance products. Even though clients of microfinance have little understanding of Islamic finance, they articulate a strong interest in Islamic microfinance products.

The findings of the study on the desirable characteristics of Islamic microfinance products could serve as guidelines to microfinance institutions in designing Islamic microfinance products. As expressed by clients of microfinance in our study, microfinance institutions offering Islamic microfinance products should impose reasonable service charges, provide easy and speedy evaluations and offer flexibility in payment of arrears. If Islamic microfinance products are introduced by AIM or other microfinance institutions, many more religious Muslims living in poverty (who previously abstained from taking conventional interest-based microfinance loans) will be able to access credit and use it productively to uplift themselves from poverty.

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