The Malaysian Microfinance System and a Comparison with the Grameen Bank (Bangladesh) and Bank Perkreditan Rakyat (BPR-Indonesia)

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Abstract

Microfinance programme in Malaysia has been implemented since 1987 as one of the poverty eradication strategies in the country. There are three large microfinance institutions in Malaysia namely AIM, YUM and TEKUN that targeted to different groups of people. Each of the microfinance institution has its own lending systems and has been subsidised by the government since their existence. This paper compares the Malaysian subsidised microfinance institutions' lending systems with the unsubsidised microfinance institutions such as the Grameen Bank in Bangladesh and People's Bank (*Bank Perkreditan Rakyat*/BPR) in Indonesia. This study found the Grameen Bank and BPR have more variety of microfinance services and flexible lending systems compared with Malaysian microfinance institutions.

Keywords: Malaysia, Grameen Bank, BPR, Subsidised microfinance institution, lending system.

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1.0 Introduction

Malaysia has four microfinance institutions, namely, Amanah Ikhtiar Malaysia, Yayasan Usaha Maju, Economic Fund for National Entrepreneurs Group and the People's Credit Cooperation (KKR). Both the AIM and YUM, established in 1987, were modelled on the Grameen Bank framework. TEKUN was established in 1998 and KKR in 1974. AIM is a non-government organisation (NGO) while YUM and TEKUN are under the Ministry of Agriculture and Agro-based Industry Malaysia, respectively. KKR is a credit union, or co-operative, belonging to rubber plantation workers in Selangor state. AIM is the dominant microfinance institution in Malaysia. This paper only examines AIM, YUM and TEKUN since they provide significant microfinance services to the poor throughout country and receive full support from the government. KKR is excluded because it provides microfinance services to only a small number of people. The rest of the paper is organised as follows: Section 2 discusses the background of Amanah Ikhtiar Malaysia (AIM) followed by Yayasan Usaha Maju (YUM) and The Economic Fund for National Entrepreneurs Group (TEKUN) in sections 3 and 4, respectively. Section 5 provides a summary of Malaysia's microfinance system. Section 6 compares Malaysia's microfinance system with the Grameen Bank and People's Bank (*Bank Perkreditan Rakyat*-BPR). Section 7 concludes the paper.

2.0 Amanah Ikhtiar Malaysia

Amanah Ikhtiar Malaysia was the first microfinance institution in Malaysia and the largest Grameen Bank replication outside Bangladesh (McGuire, Conroy, & Thapa, 1998). It was developed in 1988, under the Trustee Incorporation Act 258 (revised 1981) (Chamhuri & Quinones, 2000). AIM is a poverty-oriented microfinance institution that provides loans only to the poor.

Selangor, in Peninsular Malaysia, was the site of the pilot project of the Grameen Bank concept, known as "Project Ikhtiar". The pilot project was conducted by two social scientists, Dr David Gibbons and Professor Sukor Kasim from the Universiti Sains Malaysia. "Project Ikhtiar" was successful and showed that a group lending system similar to the Grameen Bank model can be applied in Malaysia. AIM's micro lending services have been widely offered throughout Malaysia.

AIM has had a convoluted development over the years, experiencing a mission breakdown from 1992 to 1999 when the original objective of AIM to assist the poor was distorted by political motives (Kasim, 2000). This breakdown began in 1992 when the existing members in top management were replaced with new members who wanted AIM to be a mechanism to attract political supporters (Kasim, 2000). The

breakdown included leakage from loans to not-so-poor people with the introduction of two new loan schemes (Kasim, 2000). The new loan schemes were "Skim Pinjaman Nelayan" (SPIN) loans for fishermen and "Skim Khas Ibu Tunggal" (SKIT) loans to single urban mothers (Kasim, 2000). The SPIN and SKIT participants were given very large amounts for their first loans (RM10,000) and this led to uncollectible loans since the borrowers could not afford to repay them (Kasim, 2000).

In addition, the loans were not cost-effective and were more like charity-loans (Conroy, 2002). The loss of direction resulted in managerial disarray and AIM recorded the highest non-loan repayments in the institution's history. In order to cover the cost of uncollectible loans, management increased administration fees from zero, at the beginning, to 19% (Conroy, 2002). The increased loan administrative fees contributed to higher drop-out rates among the borrowers who were significantly poor (Conroy, 2002). Following this, in 2003, major reforms were made in AIM and the institution underwent a change to a new management that struggled to re-establish AIM as a viable institution.

From 2004, the new management team struggled to restore AIM to its original objective. Many efforts have been made to improve the efficiency of the operation, loan repayment collection and to attract more borrowers. As a result, AIM has had 59,971 new members with an average of 4998 new members every month (Chan, 2010). AIM also introduced additional microcredit loan schemes for economic and social purposes and maintained the policy of charging a low management fee. Today, AIM is the leading microfinance institution in Malaysia.

2.1 AIM's loan schemes

The loan schemes offered by AIM can be divided into three categories. The first is loans for economic purposes, the second is for non-economic purposes and the third is for recovery. The urban micro loan in the economic category is a new loan scheme introduced by AIM. This loan scheme is tailored to poor and low-income earners living in urban areas. With this loan scheme, it is hoped that the poor can set up small businesses to increase their income and have a better life in the city. Each loan group has different eligible loan amounts and duration of instalments (see Table 2.1).

AIM offers loans to borrowers involved in various types of legal business activities. The AIM borrowers' major business activities include small businesses, agriculture, manufacturing, animal husbandry, fishing and services. As of December 2007, small business activity received most financing from AIM. As of 31 July 2009, AIM had 222,559 borrowers with RM3,328,694,213 in total loans disbursed, with a recorded 98.98% loan repayment performance (see Table 2.2).

As part of making loans to its members, AIM is concerned about members who face difficulties in their lives, for example, death, accidents, chronic disease, destruction of their house or project due to fire and natural disasters. In recognition of these disasters, AIM has established the Welfare and Well Being Fund for AIM members. The funds are collected from the members and are for the use of members and their families (see Table 2.3).

Table 2.1: AIM's loan schemes

Loan Schemes		**Detail**	**Amount- in *Ringgit Malaysia* (RM)**	**Instalment**
Economic (General loan)	I-Mesra	Continuously	2,000-20,000	25-150 weeks
	I-Srikandi	Continuously	2,000-20,000	25-150 weeks
	I-Wibawa	Short term loan	5,000	24 weeks
	Urban micro loan	Continuously	3,000-20,000	12-100 weeks
Non-Economic (Social loan)	I-Bistari	Educational loan	5,000	50-100 weeks
	I-Sejahtera	Multipurpose loan	10,000	50-100 weeks
Recovery Loan	I-Penyayang	Provide for those who had a project failure because of health problems or natural disasters.	1,000 –5,000	12 – 50 weeks
Management fees: 10% for all types of loans Group Savings: RM1 –RM15 per week Grace Period: 1 week after receiving the loan				

Source: AIM (2009)

Table 2.2: AIM's achievements as of 31 July, 2009

Total borrowers	222, 559
Total branches	86
Total staff	1416
Total loans disbursed	RM3,328,694,213
Repayment rate	98.98%

Source: AIM (2009)

Table 2.3: Welfare and well being fund for AIM members

Schemes/Type of Benefit	Rate of award (RM)	
(A) Death		
i. Member	500	
ii. Husband	500	
iii. Children under care aged below 18 years (except children who are still studying or disabled)	250	
(B) Ward admission due to accident or chronic disease. (member or husband only- minimum two days and maximum 20 days in one year).	30 per day	
(C) Contribution for costs of chronic disease treatment only. (member and husband only - treatments such as surgery)	Maximum 500 in a life time	
(D) Destruction of own house caused by fire (unintentional) or natural disaster (flood, storm and others).	House on land	water/squatter/long house
i. Total destruction (100%)	10,000	4,000
ii. More than half destroyed	7,000	3,000
iii. Less than half destroyed	4,000	2,000
(E) Destruction of rented/lodging house	According to the damage – maximum 2,000	
(F) Total destruction of the project (to AIM loan sponsored only- caused by natural disasters (not inclusive of drought) and fires (unintentional)	20 per cent of current economic loan (whichever is lower)	
(G) Halal loan (for members who are not eligible to be covered by insurance (members who are above 75 years old)	Maximum 2,000	

Source: AIM (2009)

3.0 Yayasan Usaha Maju

The second Grameen-modelled microfinance institution in Malaysia is Yayasan Usaha Maju, located in Sabah. Sabah is east of Peninsular Malaysia and forms the north east part of Borneo. Sabah is the second largest state in Malaysia after Sarawak (Sabah, 2009). There are 32 officially recognised ethnic groups in Sabah, with Kadazan the largest group, followed by Bajau and Murut (Sabah, 2009). Sabah's economy traditionally relied heavily on timber exports and some agricultural products such as cocoa and rubber (Sabah, 2009).

In 1970, Sabah was one of the richest states in Malaysia but by 2007 it was recorded as one of the poorest (Sabah, 2009). In the Ninth Malaysia Plan (2006-2010), Sabah's poverty was three times higher than the national average caused by the inequitable distribution of wealth between the State and Federal governments (Sabah, 2009).

YUM began in 1988 as a "Project Usaha Maju" initiated by the Grameen Trust Fund and the Rural Development Corporation (Chamhuri & Quinones, 2000). Project Usaha Maju was successful in lifting its members out of poverty. The state government of Sabah decided to institutionalise Project Usaha Maju and form Yayasan Usaha Maju on June 30, 1995. YUM is registered as a foundation under the Trustee (Incorporation) ordinance 1951 chapter 148 of Sabah (YUM, 2009).

YUM is under the purview of the Ministry of Agriculture and Agro-based Industry Malaysia. The core role of YUM is to provide loans to the poor and hard-core poor and to complement government efforts to alleviate poverty in Sabah (YUM, 2009). YUM's lending system is similar to that of AIM, since both are poverty-oriented institutions. The only difference is that YUM uses an individual lending system rather than AIM's group lending system. The reason YUM uses an individual lending system is because its borrowers live far apart even though they live in the same village. Due to the geographical conditions, it is difficult for the borrowers to meet each other often. Peer monitoring will not work effectively in such a situation.

3.1 YUM's loan schemes

YUM has two loan schemes, namely, "General Loan" and "Short-Term Loan". Each loan scheme has different eligible loan amounts and duration of loan instalments (see Table 3.1).

As of 31 December 2008, YUM had 8,252 borrowers with a total of RM 46,070,700 in loans disbursed and a 90.72% repayment rate. Table 3.2 shows the YUM achievements as of 31 December, 2008.

Table **Error! No text of specified style in document.**.1: YUM's loan schemes

Characteristics	General Loan Scheme	Short-Term Loan Scheme
Loan size	• RM 500 – RM 20,000. • Maximum loan for borrower in hard-core poverty group is RM 10,000.	RM 100 – RM 5,000
Type of activities	• Vegetable cultivation • Fruit farming • Cattle farming (livestock and fishery) • Grocery shops, food stalls, vegetable vendor • Hair salon, motor workshops, tailoring • Craftsmanship	This type of loan is offered only to hawkers. The purpose of this loan is to limit the role of 'loan sharks" in giving capital to hawkers.
Instalment Periods	a. Loan value = RM 500 – RM 900 Instalments = 50 weeks b. Loan value = RM 1,000 – RM 5,400 Instalments = 50 -100 weeks c. Loan value = RM 5,500 – RM 7,400 Instalments = 50 -150 weeks d. Loan value = RM 7,500 – RM 8,900 Instalments = 50-200 weeks e. Loan value =RM 9,000 – RM 20,000 Instalments = 50 -250 weeks	Loan value = RM 100 – RM 5,000 instalments: 50 weeks instalments are three times per week (Monday, Wednesday and Friday).
Management fees	: General loan scheme = 10% every 50 weeks Short-term loan scheme = 18% every 50 weeks	
Compulsory Savings	: 2% of total loan	
Grace Period	: General loan scheme = 2 weeks after receipt of the loan Short-term loan scheme = 1 week after receipt of the loan	

Source: YUM (2009)

Table 3.2: YUM's achievements as of 31 December, 2008

No of borrowers	8,252
No of branches	20
No of staff	165
Loans disbursed	RM 46,070,700
Repayment rate	90.72%

Source: YUM (2009)

4.0 The Economic Fund for National Entrepreneurs Group

The third microfinance institution in Malaysia is The Economic Fund for National Entrepreneurs Group (TEKUN) established on 9 November 1998. TEKUN is different from AIM and YUM. It provides loans to both poor and not-so-poor people. The main objective of TEKUN is to provide easy and quick loans to *Bumiputra*[4] and Indian entrepreneurs. Since 2008, TEKUN has expanded its services to provide business opportunities and business skills training to its borrowers and to develop networking among innovative and progressive entrepreneurs from all over Malaysia. TEKUN is under the purview of Ministry of Agriculture and Agro-Based Malaysia.

4.1 TEKUN's loan scheme

TEKUN offers six financing schemes to micro-entrepreneurs. The value of the loans ranges from RM500 to RM50,000. TEKUN offers loans to both male and female small-medium scale entrepreneurs aged between 18 and 65 years old. The modes of loan repayment are weekly, monthly or semi-annually, depending on the types of business involved and TEKUN management's decisions. Management fees are 4% of the loan. This new fee charge started in August 2008; it was previously 8%. Apart from their loan repayments, each borrower is also encouraged to put savings into TEKUN at a minimum value of 5% of the annual payment, from their repayments. The details of TEKUN's loan schemes are documented in Table 4.1.

TEKUN provides its services to the both Peninsular and East Malaysia and has set up offices according to parliamentary divisions. As of August 2009, TEKUN had 150,131 borrowers with RM1,377,371,300 value of loans disbursed (see Table 4.2).

TEKUN is experiencing a crisis in loan repayments. As stated by the Minister of Agriculture and Agro-Based Industry, Datuk Noh Omar, in Berita Harian (national newspaper) on 8 July 2009, TEKUN recorded a non-performing loan rate as high as 15% with a value of RM225 million uncollectible loans that had accumulated since 1999 (Berita Harian, 2009). The minister also mentioned that TEKUN has difficulty in disbursing loans to new borrowers because it does not have enough capital. TEKUN launched the campaign "Let's Pay Back the Loan" to its borrowers on July 1, 2009 (TEKUN, 2009). Discounts were given as an incentive to borrowers to repay loans. Recently, TEKUN management blacklisted defaulters who continued to ignore loan repayment reminders.

[4] *Bumiputra* is a Malay word that refers to the Malays and Indigenous people in Malaysia

Table 4.1: TEKUN's loan schemes

Loan Scheme	Type of business activity finance	Loan size (RM)	Instalment
General Loan	• Manufacturing • Retailing • Services • Farming • Animal husbandry • Fishery • Tourism • Education • Transportation	500 - 50,000	Periods: 1 month to 5 years -weekly -monthly -semi-annually
	Management fees: 4% Compulsory Savings: 5 % of annual repayment Grace Period: Flexible – according to project		

Source: TEKUN (2009)

Table 4.2: TEKUN's achievements as of 31 July, 2009

Total borrowers	150,131
Total branches	194
Total staff	920
Total loan disbursed	RM 1,377,371,300
Repayment rate	85.0%

Source: TEKUN (2009)

5.0 Malaysian Microfinance System

Malaysian microfinance institutions (AIM, YUM and TEKUN) have different types of lending systems and provide services to different strata of people. AIM and YUM offer loans to the poor and hard-core poor women, whereas TEKUN gives loans to both poor and not-so-poor men and women borrowers. AIM uses a group lending scheme, whereas TEKUN and YUM use an individual lending scheme.

Microfinance institutions in Malaysia offer only microcredit loans and no other microfinance services such as microsavings or microinsurance. This limited financial service is due to restrictions based on the Malaysia Banking and Financial Act 1989 that states *"No person shall carry on banking services, including receiving deposits on current account, deposit account, savings account or no other similar account, without a licence as a bank or financial institutions"* (McGuire et al., 1998, p. 9). Furthermore,

within the restrictions of Muslim law (*Sharia Law*)[5], interest cannot be charged on loans in Malaysia, therefore it has been replaced with management fees.

Both AIM and YUM impose weekly loan instalments for all kinds of business activities regardless of their revenue cycle. They impose one to two week grace periods for the borrowers involved in agricultural businesses. TEKUN, in contrast, imposes a weekly loan instalment system for small business activities and monthly or seasonal loan instalments for some small business activities and agricultural businesses such as farming, fisheries and animal husbandry. TEKUN allows borrowers involved in agricultural businesses to choose the duration of grace periods based on their harvest or production times. Among the three microfinance institutions, only AIM has taken the initiative to provide welfare benefits to its borrowers and families in order to reduce the burden on borrowers in cases of emergency and disasters. Table 5.1 shows the comparison between AIM, YUM and TEKUN lending systems.

In a recent development in the microfinance industry in Malaysia, Bank Negara Malaysia (The Central Bank), in 2007, gave a mandate to several banking institutions in the country to offer microcredit loans (Bank Negara Malaysia, 2010). This was due to the realisation that, of the existing half million small medium enterprises in the country, 80% were microenterprises (Bank Negara Malaysia, 2010). Nine banks are involved: Bank Simpanan Nasional, Bank Rakyat, AgroBank, Alliance Bank, AMBANK, CIMB Bank, EONCAP Islamic Bank, Public Bank, and United Overseas Berhad (Bank Negara Malaysia, 2010). The size of the microcredit loan given is between RM1,000 to RM50,000 with no collateral (Bank Negara Malaysia, 2010). The interest rate charged is based on the Bank Lending Rate (BLR) plus 0.50%. As of 2010, the BLR is 6.30%, so the interest charged on microcredit loans is 6.80% (Bank Negara Malaysia, 2010). This rate is slightly higher than the management fee charged by TEKUN, at 4%, but lower than AIM, at 10%, and YUM, at 10-18%.

The microcredit loans offered by commercial banks are guaranteed by the Credit Guarantee Cooperation (CGC). The CGC is a government agency that provides guarantees on lending by other financial institutions to small and medium enterprises that have no track record or collateral to obtain credit facilities from the financial institutions (Bank Negara Malaysia, 2010). With this development, the opportunity for microfinance borrowers in the country to access a credit facility has widened.

[5] Sharia law is a Muslim or Islamic law. It covers both civil and criminal justice as well as regulating personal and moral conduct of individuals based on the Holy Quran and Prophet Muhammad's teachings (Esposito, 2003).

Table 5.1: A comparison of Malaysia's microfinance institutions lending systems

Characteristic	AIM	TEKUN	YUM
Target borrower Service outreach	Female only All over Malaysia	Both female and male All over Malaysia	Female only Sabah only
Loan eligibility	People who live at or below the poverty line	People who live at or below the poverty line and not-so-poor people	People who live at or below the poverty line
Lending design	Group lending	Individual lending	Individual lending
Loan size	Min: RM1,000 Max: RM20,000	Min: RM500 Max: RM50,000	Min: RM100 Max: RM20,000
Loan instalment	Weekly	Weekly, monthly and seasonally.	Weekly
Grace periods	1 week after receiving the loan	Flexible - according to the project	1-2 weeks after receiving the loan
Management charge	10%	4%	10% per 50 weeks for General Loan Scheme. 18% per 50 weeks for Short-Term Loan Scheme.
Compulsory savings	RM1-RM15 per week	5% from annual repayment	2% from the loan

6.0 Comparison of Malaysia Microfinance System and Product Offered with the Grameen Bank and People's Bank (*Bank Perkreditan Rakyat*/BPR)

This section compares the Malaysian microfinance institution's lending systems and products offered by the Grameen Bank of Bangladesh and the People's Bank (*Bank Perkreditan Rakyat*-BPR) in Indonesia. Malaysia replicated the Grameen Bank model that is the leading example of the microfinance framework in the world. BPR in Indonesia has a unique microfinance system and has a long history in microlending practices since the Dutch colonial time of the 1890s[6] (Jay et al., 2007).

One of the major differences between Malaysian microfinance institutions and the Grameen Bank and BPR is that the Malaysian microfinance institutions are subsidised. Microfinance institutions in Malaysia also only offer microcredit loans and no other microfinance products. The Grameen Bank, in contrast, apart from offering microcredit loans as a core products, also offers microsavings, microinsurance and pension funds to its borrowers, and BPR offers microcredit loans and microsavings to its borrowers.

[6]BPR in Indonesia serves only poor borrowers compared with the Bank Rakyat Indonesia (BRI) that offered microfinance services to both poor and not-so-poor borrowers. The BPR in Indonesia can be classified into three categories: BPR established as a limited liability company and in private ownership; BPR registered as a cooperative; and BPR established by the commercial bank as their subsidiary division (Conroy, 2003).

Malaysian microfinance institutions do not offer microsavings facilities because taking deposits is legally restricted (Siwar & Abd. Talib, 2001; McGuire et al., 1998)[7].

The Bank Nagari-BPRs in West Sumatra, Indonesia[8] has a unique way to attract deposit savings from its borrowers. Each borrower needs to put some savings in the BPR before being able to start borrowing. The borrowers can request a loan only if the amount of the loan requested is less than their savings. Some borrowers said that they are comfortable with placing their savings into the BPR because sometimes they wanted to save only 1,000 Rp (less than USD 1) and they felt embarrassed to go to a commercial bank just to deposit that amount. Besides depositing their savings in the banks, the borrowers' savings can also be collected by the BPR's staff (Bank Nagari, 2009).

BPR realised that not all borrowers are able to go to the bank regularly because of business and family commitments as well as transportation constraints. Therefore, BPR staff took the initiative go to the borrower's house or business premises on a daily or weekly basis to collect the savings. This is an almost unique aspect of the BPR system; a similar system has been applied by Bank Rakyat Indonesia (BRI). This shows that microfinance providers in Indonesia place considerable emphasis on savings. This approach was recommended by Robinson (2001b) and Morduch (2000) whereby microfinance institutions emphasised savings mobilisation as a way to achieve financial self-sufficiency.

Grameen Bank is the only microfinance institution among Malaysian microfinance institutions and BPR that offers microinsurance policies to its borrowers. In realising the higher climatic risk faced by the agricultural activities, microinsurance not only reduces the burden on the borrowers when a disaster happens but also saves the financial accounts of the Grameen Bank from deficits caused by uncollectible loans. Other microfinance products offered by Grameen Bank are a pension fund and scholarships to the outstanding of borrowers children. The pension fund is to help the poor build a nest egg for their old age. Among the subsidiary microfinance products offered, the Grameen Bank pension fund savings programme is the most successful programme in the Grameen Bank (Yunus, 2007b). In 2007, total deposits in the pension fund amounted to USD 400 million, which represented 53% of the total deposits in the bank (Yunus, 2007b).

[7] This restriction is based on the Malaysia Banking and Financial Act 1989 that states only bank and financial institutions are allowed to take deposits from borrowers.

[8] Bank Nagari was established in 12 March 1962, by the West Sumatra regional government with the objective of providing financial services to the local people of West Sumatra (Bank Nagari, 2009). The Bank Nagari's headquarters are located in Padang, the capital of the West Sumatra. Bank Nagari not only acts as a commercial financial institution but also plays a role as one of the microfinance providers in the province.

AIM and YUM impose weekly loan payments on all types of businesses, both small and agricultural businesses, regardless of their business revenue cycle (AIM, 2009; YUM, 2009). Both AIM and YUM also impose one and two week grace periods, respectively, to agricultural types of businesses (AIM, 2009; YUM, 2009). Unlike YUM and AIM, TEKUN gives reasonable grace periods to borrowers involved in agricultural businesses. For example, a one-year grace period is given for cattle farming activities, six months for fishponds and poultry farming and one year for fruit and vegetable farming (TEKUN, 2009). According to TEKUN, the duration of the grace period given to the borrowers is based on harvesting cycles (TEKUN, 2009).

The Grameen Bank and BPR lending contracts are more flexible than the Malaysian microfinance institutions, especially AIM and YUM. Both Grameen Bank and BPR loan repayment modes, duration, amount, grace periods and interest rates charged are tailored to the nature of the borrowers' businesses and are based on the borrowers' affordability. They do not impose similar loan contracts on all borrowers or business types as do Malaysian microfinance institutions.

For example, in the Grameen Bank the borrowers involved in dairy farming are allowed to pay their loans according to the milking cycle (Yunus, 2007b). Thus, with the Grameen Bank, loan repayments are based on the cash flow cycle of the borrowers' businesses (Islam, 2007). In terms of loan products, Grameen Bank offers four different loan products with four different interest rates and the loans are flexible. In a flexible loan, borrowers who cannot pay the loan according to the original repayment schedule are allowed to extend the repayment schedule (Yunus, 2007b).

Similar practices are applied by the BPR in Indonesia. There are many BPRs in one district and the types of loans offered by the BPRs are also different from others (Bank Nagari, 2009). The microfinance services offered are tailored to the needs of the borrowers in a particular village in the district. Before the BPR grants a particular loan, it conducts market research, such as the amount of repayment and interest rate that can be afforded by the borrower or the nature of cash flow cycle that will be generated by the business. This ensures that the loan contracts will not burden the borrowers (Bank Nagari, 2009). Since there are many BPRs in one particular district, there is competition among them in terms of the types of loan offered, interest rates on savings and the attractiveness of the loans to the borrowers (Bank Nagari, 2009).

Muhamad Yunus, in his book *Creating a World without Poverty: Social Business and the Future of Capitalism* (Yunus, 2007b, p. 74), stressed that if any commercial banks wanted to participate in a microcredit business, they needed to create a subsidiary microcredit division in their bank. This microcredit subsidiary division must have separate management from the bank itself. This principle has

been applied in West Sumatra by the Bank Nagari, which is also a commercial bank. The BPRs set up by the Bank Nagari have a separate management from the bank. However, Malaysian commercial banks that offer microcredit loans do not use this system; there is no separate subsidiary microcredit division created by those banks.

Bank Nagari set up BPRs in particular districts and villages so are they easily accessible by the poor (Bank Nagari, 2009). In the beginning, Bank Nagari provided capital, management and information technology (IT) support to the BPRs which, in turn, hired eligible local people as staff (Bank Nagari, 2009). Other than receiving capital from the Bank Nagari, the villagers welcome public shares in the BPR and, as a return each year, they receive dividends from the profits generated by the BPR (Bank Nagari, 2009).

The opportunity to contribute capital by the villagers gave a feeling to them that the BPR belonged to their village and they gave full support to ensure its survival. After several years of operation, and once the Bank Nagari is confident that the BPR could operate alone, the BPR is given autonomous status by Bank Nagari (Bank Nagari, 2009). However, BPRs still need to report their operational and financial performance to the Bank Nagari and, in some circumstances, Bank Nagari still gives professional advice. Even though the BPRs and Bank Nagari are separate entities, BPRs still play a role in promoting Bank Nagari's financial services, such as Hajj savings, money transfers and pawn services to their borrowers (Bank Nagari, 2009). The establishment of the Bank Nagari BPRs is not only for channelling microfinance services to the poor in rural areas but also serves as part of Bank Nagari's social business. Giving local communities the autonomy to run the BPRs by themselves provides a good incentive for the local people to save. Table 6.1 summarises the similarities and differences of the Malaysian microfinance institutions, the Grameen Bank and the BPR.

Table 6.1: Comparison of Malaysian microfinance institutions, Grameen Bank and the BPR system

	Malaysian Microfinance Institutions (AIM, TEKUN YUM)	**Grameen Bank**	**BPR**
Type of institution	Subsidised	Unsubsidised	Unsubsidised
Source of operation	(i) Management fees (ii) Government grants and soft loans	(i) Interest rates (ii) Savings	(i) Interest rates (ii) Savings (iii) Investment from borrower and local people
Lending design	AIM : Group lending TEKUN: Individual lending YUM : Individual lending	Group lending	Individual lending
Product offered	Microcredit	Microcredit Microsaving Microinsurance Pension fund	Microcredit Microsaving
Lending contracts			
(i) Interest rate	Fixed to all kind of loan schemes.	Different on each loan schemes	Different on each loan schemes
(ii) Repayment mode	AIM and YUM: Weekly to all kind of business and borrowers. TEKUN: Weekly mostly to small business activity and monthly/seasonally to agricultural businesses	Flexible according to borrower's business revenue cycle.	Flexible according to borrower's business revenue cycle.
(iii) Grace periods	AIM : 1 week YUM : 2 weeks TEKUN : According to harvesting cycle.	According to harvesting cycle	According to harvesting cycle

7.0 Conclusion

This paper compares Malaysia's microfinance system and products offered with the Grameen Bank in Bangladesh and BPR in Indonesia. Malaysian microfinance institutions are subsidised by the government, offer limited microfinance products, and have standardised lending contracts compared with the Grameen bank and BPR. The Grameen Bank and BPR have more variety in their microfinance products and a flexible lending contract. Furthermore, the Grameen Bank and BPR are unsubsidised microfinance institutions, thus they need to offer a variety of microfinance products to generate revenue from the services. The revenue generated is used to support their operation and loanable fund. This operation is different from the Malaysian microfinance institutions whereby the operation is fully subsidised by the government. Therefore, there is no incentive from such institutions to offer any other microfinance products apart from microcredit loans to finance their operation.

Microfinance products such as microinsurance and pension funds that are offered by the Grameen Bank and BPR provide important benefits to the institutions's clients.. Microinsurance for example can give protection to the borrower's business especially agricultural business which is exposed to climatic factor while pension funds can reduce the borrower's financial burden during their old age. Therefore, Malaysian microfinance institutions should consider introducing microinsurance and pension funds to support their borrowers. The Malaysian microfinance institutions could also emulate the flexible repayment systems and schemes of the Grameen Bank and the BPR.

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