

# INTI INTERNATIONAL UNIVERSITY

## MASTER OF BUSINESS ADMINISTRATION

### CONSIDERATIONS OF MALAYSIAN BANKING INSTITUTIONS IN ACCESSING CAPITAL MARKET FUNDING FOR MICROFINANCE

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## Abstract

Microfinance refers to the provision of a wide range of financial services, such as deposit, loan, insurance and payment services to the poor or low-income groups who are not eligible to obtain financial aid from the formal banking sectors. In Malaysia, poverty alleviation through the microfinance program has been taken into account since year 1957. To date, there are two types of microfinance institutions in Malaysia provide microfinance program, namely Formal Microfinance Institutions and Informal Microfinance Institutions.

Nevertheless, it has found that there is a gap in terms of the numbers of formal and semi-formal microfinance institutions in Malaysia. To date, there are only 20% commercial banks, 6% Islamic banks and 33% of Development Financial Institutions (DFIs) in Malaysia that provide the microfinance program. In contrast, the three main representatives of semi-formal microfinance institutions, which namely AIM, YUM and TN had 86, 20, and 194 branches respectively in 2009.

Therefore, it is important to increase the exposure of more formal microfinance institutions to step into the Malaysian microfinance industry, especially the banking institutions. It is because banking institutions are having large funding and network of branches, where it is critical to ensure the wide outreach of microfinance. Additionally, in Malaysia, microfinance institutions are relied heavily on government grants and subsidies; and thus it would stagnate the growth and lending capability of microfinance institutions.

As a result, the purpose of this study is used to explore the considerations/ issues faced by Malaysian Banking Institutions in penetrating to the mode of capital market funding for microfinance purpose. Besides, at the end of this study, the researcher will also recommend the appropriate capital market instrument that could be offered by the Malaysian Banking Institutions in accessing capital market funding for microfinance.

**Keywords:**

microfinance    Malaysian Banking Institutions    capital market funding

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## Declaration

I hereby declare that this thesis is based on my original work and I have acknowledged all the material and sources used in the preparation of this thesis. I also declare that this work has not been previously or concurrently submitted for any master degree at INTI International University or other institutions.

Date: 13<sup>th</sup> August 2012

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## List of Abbreviation

ADB	Asian Development Bank
AIM	Amanah Ikhtiar Malaysia
ATMs	Automatic Teller Machines
BIs	Banking Institutions
BLR	Bank Lending Rate
BNM	Bank Negara Malaysia
BPM	Agriculture Bank of Malaysia
BRI	Bank Rakyat in Indonesia
BSE	Bombay Stock Exchange
BSN	National Savings Bank
CDs	Certificates of Deposit
CGC	Credit Guarantee Cooperation
CGPA	Consultative Group to Assist the Poor
CSR	Corporate Social Responsibility
CULS	Redeemable Convertible Unsecured Loan Stocks
DFIs	Development Financial Institutions
DRAM	Dynamic Random Access Memory
FELDA	Federal Land Development Authority
FIs	Financial Institutions
FOA	Farmers Organization Authority
GDP	Gross Domestic Product
GK	Grameen Koota
GOB	Government of Bangladesh
ICULS	Irredeemable Convertible Unsecured Loan Stocks
K-Economy	Knowledge Economy
KMO	Kaiser-Meyer-Olkin Measure of Sampling Adequacy
MARA	Council of Trust to the Bumiputera
MEs	Microenterprises

MF	Microfinance
MFIs	Microfinance Institutions
MSA	Measure of Sampling Adequacy
NCB	Non-Convertible Bond
NCD	Non-Convertible Debenture
NEP	New Economic Policy
NGOs	Non-Government Organizations
NSDC	National SME Development Council
OBS	Off-Balance-Sheet
PUNB	Permodalan Usahawan Nasional Berhad
SHARE	SHARE Microfin Limited
SMEs	Small and Medium Enterprises
TN	TEKUN Nasional
USAID	United States Agency for International Development
WWB	Women's World Banking
YUM	Yayasan Usaha Maju

## Chapter I

### Introduction

#### 1.1 Introduction

This chapter begins with the definition of microfinance (MF) and moves on to discuss about the history of MF. Subsequently, it is then followed by the research background of the MF in Malaysia, problem definition, general objective, four (4) research questions and objectives are outlined. In addition, significance of study, scope of the study, research assumptions and limitations are presented. Lastly, an outline of every chapter in this study is included.

#### 1.2 Definition of Microfinance

According to Ledgerwood (2000), MF refers to the provision of a wide range of financial services, such as deposit, loan, insurance and payment services to the poor or low-income groups who are not eligible to obtain financial aid from the formal banking sectors. In the context of Malaysia, Bank Negara Malaysia (BNM) has defined MF as the provision of financing up to RM 50,000, which is equivalent to USD 16K to microenterprises (MEs) for business purpose (Bank Negara Malaysia, 2012).

Basically, the main purpose of the MF is to alleviate the poverty problems by providing the capital funds for those who want to become micro entrepreneurs but cannot access the funding through the formal financial system (Khavul, 2010). Besides, as stated by Paul Wolfowitz, the President of World Bank, MF is a powerful tool in helping people to increase their income, to save and to manage risk (World Bank, 2007 cited in Dixon, Ritchie and Siwale, 2007). On the other hand, it reduces vulnerability and allows poor households to move from everyday survival to planning for the future (Dixon, Ritchie and Siwale, 2007).