

**The Role of SME's on Poor Power Empowerment In Amanah Ikhtiar
Malaysia:
Lesson Learned and Sharing Experiences**

*Country Paper: Malaysia
Organisation: Amanah Ikhtiar Malaysia
28-30 October 2009
Bali, Indonesia*

Participant:
Ruslan Mohamad
Amanah Ikhtiar Malaysia
Malaysia

The Role of SME's on Poor Power Empowerment In Amanah Ikhtiar Malaysia: Lesson Learned and Sharing Experiences

1. BACKGROUND

The Malaysian government has given commitment to develop SMEs as one of the strategies to develop the nation. A dynamic and viable SMEs is vital for the economic growth. Hence, Amanah Ikhtiar Malaysia (AIM) is also responsible to assist SMEs to expand the projects through continuous financing. The economic activities implemented are to generate income and therefore to move themselves out of poverty. At the moment, there is no comprehensive study done in regards of the role of SMEs on poor empowerment. Hence, this paper will only discuss on the role of AIM in developing SMEs among the borrowers.

2. INTRODUCTION

Amanah Ikhtiar Malaysia (AIM) was established in 1987 as a registered private trust (under the trustess incorporation act 1952-revised 1981). It is governed by a board of Trustees that comprising of Senior Government Officer and individuals on personal capacities. Ikhtiar Financing Scheme represents a tool through which capital is disbursed to the poor, currently known as microfinance. AIM has reversed the smart conventional banking with disbursement of small loans to finance income generating activities without any collateral, guarantor and any legal action against defaulters.

After two decades of operation, AIM has provided services to more than 200,000 families in Malaysia mostly in rural areas. This was undertaken through specialized delivery system designed exclusively for the poor and the marginalized group based on human potential development, closely monitored and decentralized supervision, participatory management, embedding positive values and culture among members, high discipline of credit compliance, professionally trained staff and strong support from the government. Based on AIM's Impact Studies, access to micro-credit, continuous utilization of it and the ability to get substantially bigger amount of loan were responsible for significant number of formerly very poor and poor household to move out of poverty.

3. OBJECTIVES

- i. To reduce poverty among the poor and poorest household in Malaysia by providing micro-credit financing to finance economic activities that can generate and improve income.
- ii. To provide continuous financing facilities to Ikhtiar's entrepreneurs (SMEs).
- iii. To provide continuous guidance and training to the poor and poorest household and Ikhtiar's entrepreneurs (SMEs).

4. PROCEDURE TO PARTICIPATE IN THE IKHTIAR FINANCING SCHEME

Basic qualifications to participate in the Ikhtiar Financing Scheme is household income must be below the Government's Current Poverty Line (RM 750). The procedure to join AIM are:

- i. Applicant, upon confirmation that she qualifies to join AIM, must set up a group comprising 5 person of the same gender who are without close family relationship, in mutual trust of each other and responsible.
- ii. All members, as a group must undergo Basic Financing Training, which is a short-term compulsory course for 5 days, 1 ½ hours per day. The course objective is to provide understanding on AIM's rules and procedures.
- iii. After passing the Group Recognition Test (a brief test carried out at the end of 5 day course), all members of the group must join the Centre Meeting (federation of 2 to 10 groups). Members of the Centre also known as Sahabat will have a meeting every week. The Centre Meeting is carried out in public areas such as community hall. All AIM transaction such as application, disbursement of capital financing, repayment and savings collection are carried out at this meeting.

5. OBLIGATION OF AIM MEMBERS

- i. Attend Center Meeting every week
- ii. Repay loan in accordance with the agreed period
- iii. Save in compulsory saving in accordance with the agreed amount
- iv. Assist other members within the group and centre when they are in difficulties.

6. IKHTIAR FINANCING CONDITION

- i. No collateral and guarantor required
- ii. No legal action taken to recover debt
- iii. Protect under Khairat Fund, forgoes all debt upon death
- iv. Through close supervision and human capital development, members will be trained and guided so that they will be responsible, disciplined, confident and competitive entrepreneurs (SMEs).

7. TYPE OF CAPITAL FINANCING

AIM offers four types of financing scheme to suit the need of its members (SMEs):

Financing	Amount (RM)	Explanation
I-Rezeki (Economic Loan Scheme)	2,000 - 19,900	Fist Financing for new members (RM2000). Financing for members who has succeed in Micro Enterprises.
I-Wawasan (Entrepreneur Loan Scheme)	20,000 - 50,000	Financing for members who succeed in achieving Small and Medium Enterprises
I-Bistari (Educational Scheme)	1,000 - 5,000	Educational purpose
I-Sejahtera (Multi-purpose Loan Scheme)	1,000 - 10,000	For multiple uses

8. ACHIEVEMENT

As of August 2009, AIM has cumulatively disbursed nearly RM 3.4 billion of microcredit loan to assist SMEs in expanding their business ventures. AIM has registered 230,779 members or SMEs who have received continuous financing from AIM.

	TOTAL
Cumulative Loan Disbursement	RM 3,433,486
No. of Members/SMEs	230,779
No. of Groups	54,400
No. of Centres	6,369
No. of Branches	86
No. of Regions	8
No. of Staff	1450

The success of the business results in the increase of income which contribute to the community economic development and provide job opportunities for the local people.

9. THE DEFINITION OF SME USED BY AIM

Based on the official definition adopted by the National Council for the SMEs Development, SMEs is divided into three major sectors:-

i. Micro Enterprises

Categories Enterprises	Micro Enterprises	
Type Of Enterprises	Number Of Workers	Annual Sales (RM)
Basic Agricultural	Less Than 5	Less Than RM200,000
Factory/Goods	Less Than 5	Less Than RM250,000
Services	Less Than 5	Less Than RM200,000

ii. Small Enterprises

Categories Enterprises	Small Enterprises	
Type Of Enterprises	Number Of Workers	Annual Sales (RM)
Basic Agricultural	5-19	RM200,000 -RM 1 Billion
Factory/Goods	5-50	RM250,000 -RM10 Billion
Services	5-19	RM200,000 - RM 1 Billion

iii. Medium Enterprises

Categories Enterprises	Medium Enterprises	
Type Of Enterprises	Number Of Workers	Annual Sales (RM)
Basic Agricultural	20-50	RM 1 Billion -RM 5 Billion
Factory/Goods	51-150	RM 10 Billion -RM 25 Billion
Services	20-50	RM 1 Billion - RM 5 Billion

(source: The National Council for SME Development, Malaysia)

9.1 SMEs Category in AIM

Based on the definition, there was a simple study conducted in 2008 which involved 711 borrowers as samples. The result showed that 75.8% of the entrepreneurs (SME) are in the micro enterprise category. The remaining 24.2% are categorized as small enterprise and yet there is no entrepreneur has achieved the category of medium enterprise.

Category of SMEs according to AIM Regions

No.	AIM's Regions	Categories Of SME						
		Sample Of SME	Micro	%	Small	%	Medium	%
1	Perak	120	93	77.5	27	22.5	0	0
2	Kedah	124	77	62.1	47	37.9	0	0.0
3	Kelantan	132	97	73.5	35	26.5	0	0.0
4	Terengganu	86	54	62.8	32	37.2	0	0.0
5	Southern	82	69	84.1	13	15.9	0	0.0
6	Sabah 1	17	17	100.0	0	0.0	0	0.0
7	Sabah 2	74	64	86.5	10	13.5	0	0.0
8	Sarawak	76	68	89.5	8	10.5	0	0.0
	Total	711	539	75.8	172	24.2	0	0.0

Based on this simple study, the majority of AIM's entrepreneurs (SMEs) are in micro-enterprise category. The reasons for this are because of the followings:

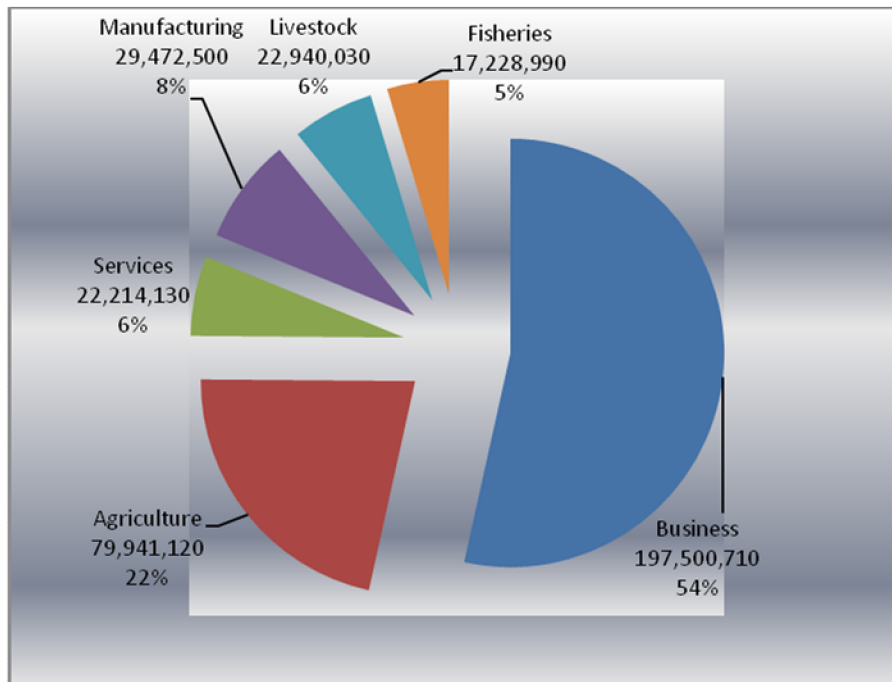
- i. The projects started as side income activities.
- ii. The projects which operate in rural areas have low potentials of developing.
- iii. The projects use small financing.
- iv. These micro entrepreneurs have low level of education and little knowledge of entrepreneurship.
- v. The projects use traditional-type or low application of technology
- vi. The poor project management and limited marketing

In this regards, the role of AIM is to transform the micro entrepreneurs (SMEs) to small and medium enterprises and through this manner, then, the objective of alleviating poverty will be successful.

9.2 The Distribution of the Economic Activities for AIM's Entrepreneurs (SMEs)

The entrepreneurs in AIM mainly involved in the sector of agriculture, small businesses, fisheries, animal husbandry, manufacturing and services. Business sector comprises more than 50% of the projects chosen. The following chart describes the distribution of the activities:

Distribution of SMEs Activities In Amanah Ikhtiar Malaysia (2008)



9.3 Number of Workers

AIM conducted a simple study on 1012 of AIM entrepreneurs (SMEs) in 2007 and found the followings result:

- i. Each entrepreneur hire 3.3 worker on average.
- ii. Average daily wages paid is RM20.
- iii. The highest number of workers hired is 45.

No. of Workers	No. of SME	%
1-4	807	79.7
5-19	200	19.7
20-50	5	0.6
Total	1012	100

9.4 Value Of Productive Assets

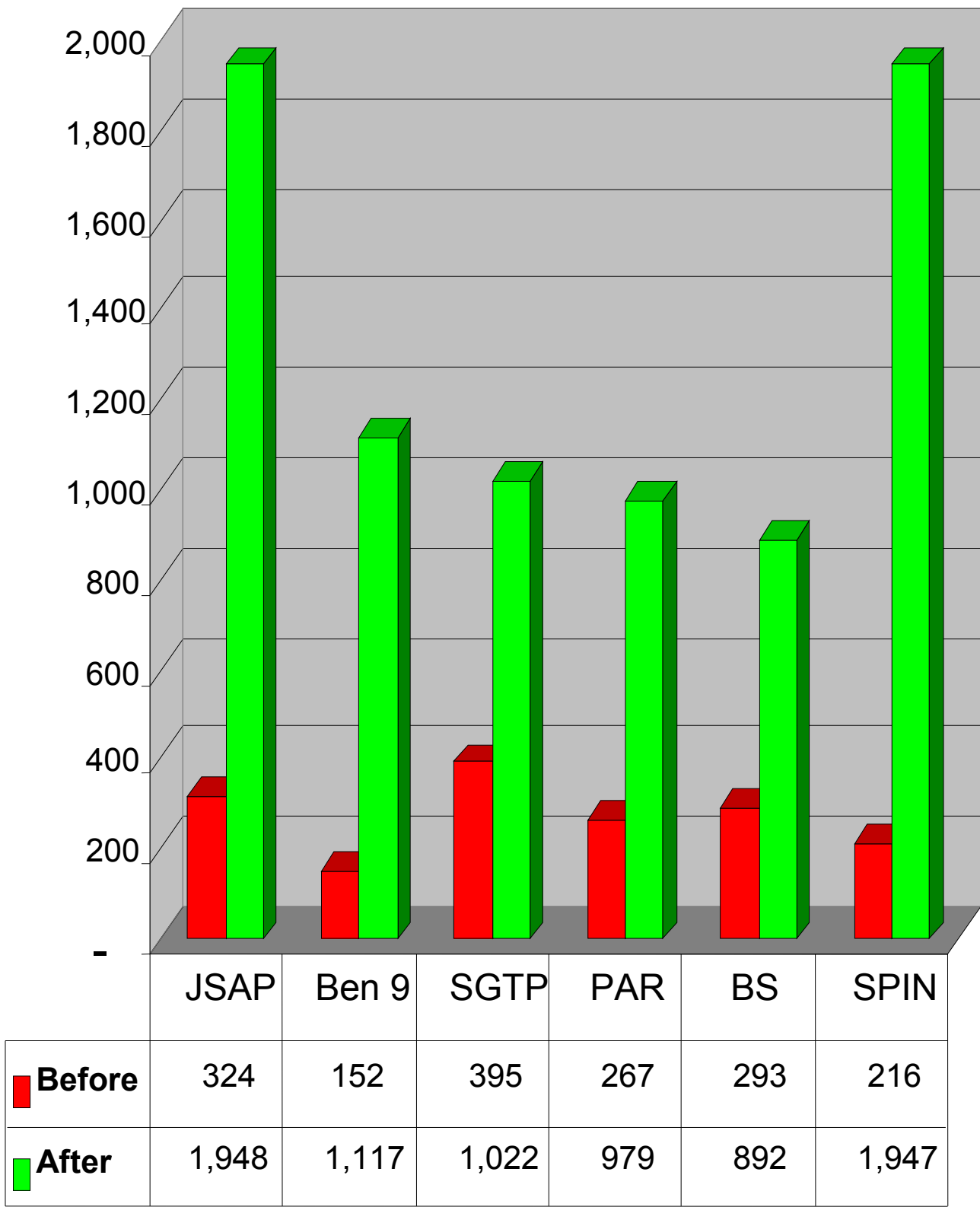
From the study, we found a significant increase in ownership of asset especially among the active borrowers (SMEs). The result shows the increase in asset ownership for the active borrowers is 349% as compared to the other respondent groups under this study. Average period of membership for the respondents in this study is 6.3 years. Whereas, average loan size is RM2,417. This shows the success of AIM in developing entrepreneur (SMEs) to expand the business and to achieve the objective of poverty alleviation.

Respondent	Before joining AIM (RM)	After joining AIM (RM)	%
Active Borrowers (SMEs)	9,903	44,514	349
Non-Borrowing Members (SGTP)	8,900	14,770	67
PAR (Portfolio At Risk)	9,890	18,177	83

Note: USD 1 = RM 3.4

9.5 Comparisons of Monthly Income Earned Before and After Joining AIM

The Impact Study conducted by AIM in 2007 shows the increment of income for all respondents under the study. The average monthly income has increased from RM324 to RM1948 or 502% or five times as compared to the income before joining AIM. In comparison, the non-borrowing members show the income increment for only 1.5 times as compared to the previous income. The increment is the lowest as compared to the other groups under this study



10. Entrepreneurship Development Programs

There have been various actions and strategies implemented to assist the SMEs in AIM. Such strategies are listed below:

- i. Continuous disbursement of loan to increase sales and to strengthen business finance.
- ii. The plan to increase the maximum amount of loan to RM100,00 especially for SMEs.
- iii. Providing entrepreneurship training to all borrowers categorized under SMEs.
- iv. Creating business networking among SMEs.

11. CONCLUSION

It is such an honor for AIM to be given an opportunity in participating in this workshop. Although AIM is only a microcredit institution, it plays vital role in assisting the Malaysian Government for the alleviation of poverty and also to provide the foundation for creating SMEs.

Ruslan Mohamad
Amanah IKhtiar Malaysia
Malaysia