

Development of a Vibrant and Sustainable Microfinance Industry

Importance of microfinance

The 2005 Census of Establishments and Enterprises (Census) showed that micro enterprises formed about 80% of the small and medium enterprises in Malaysia. Given its significance, the development of micro enterprises is critical to ensuring equitable and balanced economic growth that would lead to wealth and economic growth that are distributed and enjoyed by all segments of society, particularly the low income individuals who represent the largest constituents of micro entrepreneurs.

The Census also revealed that financial institutions contributed only 13% of the source of financing for micro enterprises. This indicated the enormous potential for the banking system to contribute to the development of micro enterprises to bring them into the economic mainstream. Access to microfinance¹ will enable more micro enterprises the opportunity to start and expand their businesses. This in turn will create more job opportunities, generate more income and thereby improve the overall standard of living. Micro enterprises that are brought into the formal financial and economic mainstream will also contribute towards achieving balanced and sustained economic development.

Roll out of microfinance

The development of a vibrant and sustainable microfinance industry is part of Bank Negara Malaysia's strategic objective of achieving greater financial inclusion, ensuring that all economic sectors, regions and communities have access to a full range of financial products and services. The development of a pool of microfinance providers amongst existing financial service providers was a strategy adopted to promote sustainable access to financing by micro enterprises.

In August 2006, the National SME Development Council (NSDC) approved a comprehensive microfinance institutional framework proposed by Bank Negara Malaysia, comprising banking institutions, development financial institutions (DFIs) and credit cooperatives to develop a sustainable microfinance industry. Bank Simpanan Nasional was mandated to provide microfinance, while Bank Kerjasama Rakyat Malaysia Berhad would provide microfinance to members of cooperatives and Bank Pertanian Malaysia would continue to provide microfinance to micro enterprises in the agriculture and agro-based sector. The banking institutions will be a further source of funding with its extensive nationwide network of branches to ensure widespread outreach of microfinance.

There has been considerable progress in the participation of financial institutions in providing microfinance. Currently, nine financial institutions (six banking institutions and three DFIs) have launched microfinance products. These financial institutions have adopted various business models to meet the diverse financial needs of the micro enterprises involved in various economic activities and sectors. The business models are:

- the **mass market model** where microfinance is provided through the financial institutions' nationwide branches;
- the **distributor network model** that involves financial institutions forming strategic partnerships with other institutions, and leveraging on the partner's customer base, key capabilities and infrastructure network;

¹ Defined by Bank Negara Malaysia as the provision of small loans/financing (up to RM50,000), to micro enterprises or self-employed individuals, for their business activities.

- the **community banking model**, where microfinance is provided to selected communities or target segments;
- the **cooperative model** that leverages on the infrastructure and capabilities of the cooperative movement; and
- the **monoline model** involving the formation of dedicated microfinance branches with branding, business model and processes separate from the parent financial institution to provide microfinance.

To strengthen the role of credit cooperatives in providing credit to micro enterprises, Bank Negara Malaysia proposed the establishment of the Cooperative Societies Commission to provide the supervisory oversight on the cooperatives to ensure prudential standards and best practices. The Act for its establishment was passed by Parliament in April 2007 and it commenced operations on 1 January 2008.

Practices from other countries with vibrant microfinance industries and research findings by Malaysian financial institutions have shown that micro enterprises value simple, easily accessible and timely provision of financing to cater to the needs of the small businesses. In this regard, microfinance products offered by the financial institutions have been made simple, fast and convenient. Microfinance is easy to obtain as there is no collateral required, documentation is minimal and the financing procedure is simple. The time taken by the financial institutions to approve and disburse microfinance is also kept short. Microfinance can also be obtained at branches and various distribution channels of financial institutions and their strategic partners to ensure extensive outreach and to provide convenience to the customers.

There are more than nine microfinance products, both conventional and Islamic, that are already available in the market. As at end-2007, total financing outstanding of RM224.7 million was provided to 22,788 microfinance customer accounts, with an average financing size of RM9,800.

Promoting awareness among the microfinance customers and the public

A national microfinance logo was launched by YAB Prime Minister at the 7th NSDC meeting held on 13 September 2007. Since the launch of the logo, financial institutions that offer microfinance have displayed the logo and a microfinance client charter to signify commitment in providing easy, fast and convenient microfinance services. Microfinance customers who have successfully obtained microfinance are encouraged to display the logo at their business premises.

To further promote and create public awareness on the availability of microfinance, Bank Negara Malaysia has embarked on various promotion and awareness programmes such as the distribution of microfinance flyers at strategic locations, through various chambers of commerce, trade associations and local councils. The media have also been an important channel to inform and educate the public on the availability and benefits of microfinance. Financial institutions that provide microfinance are also encouraged to promote and advertise microfinance products and services to the general public.