

## **Is Microfinance Program in Malaysia Really Effective in Helping the Poor?**

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*Microfinance<sup>1</sup> program is becoming more significant as the main contributor in creating new job opportunities and generating income for increasing social well-being and economic status of the poor and eradicating poverty. Basically, the microfinance program in Malaysia has been administered by various institutions and non-banking government agencies. The most important institutions for this study are Lembaga Zakat Selangor (LZS), Yayasan Basmi Kemiskinan (YBK) Selangor, Amanah Ikhtiar Malaysia (AIM) and Yayasan Tekun Nasional (TEKUN). The focus of this study is to evaluate the effectiveness of YBK Selangor, AIM, TEKUN and LZS microfinance programs in increasing the participants' income and eradicating poverty by conducting microenterprise businesses through the adoption of entrepreneurial concept. Based on the univariate and multivariate analysis, the results show that AIM is the most effective microfinance program as it enables the poor to increase their income and improve their social well-being. The study also shows that monitoring, fund size, purpose of loan usage and total income before participating in the microfinance program are the main factors which influence the level of income that poor people can generate. In addition, Islamic microfinance program which is based on Syariah and Islamic Finance concept has a very high potential in helping the poor people to expand and diversify their economic activities, increase their income and improve their social well-being.*

**Keywords:** Microfinance, microenterprise, entrepreneurial concept, eradicating poverty, Islamic microfinance program

### **1. Introduction**

Poverty has become an economic, social, political and moral problem all over the world especially in the developing and less developed countries. The local governments, international organizations such as the United Nations (UN) and World Bank, non-government organizations (NGO's) and social welfare institutions have been trying to eradicate poverty with all kinds of programs, services and policies (Ibrahim 2008; Dwyer 2007). In Islam, the eradication of poverty is encouraged through the effort of the society members' payment of zakat (tithe) and assistance of other agencies such as Baitulmal and wakaf (Dusuki 2008). Basically, there is a strong relationship between the entrepreneurial concept, microenterprise and poverty eradication. The entrepreneurial concept and microenterprise have major potentials in creating new job opportunities and

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generating income that could eradicate poverty as well as increasing the social and economic standards (Nichter & Goldmark 2009).

In Malaysia, the effort to eradicate poverty through entrepreneurship was undertaken since the independence (1957). It was further strengthened during the New Economic Policy (NEP), 1971-1990, which emphasized on the importance of industrial and entrepreneurship concepts (Saruwatari 1991). Entrepreneurial concept has become more significant with the introduction of Knowledge Economy concept (K-Economy) for the purpose of achieving the objective of National Mission Plan 2020 (Wee 2001) and to eradicate poverty. Thus, the government has been focusing on the Small and Medium Enterprises (SMEs), especially the microenterprise due to its small size, easy entry barrier and small capital requirement compared to bigger industries. Based on SMEs Annual Report 2006, more than 99 percent of new business establishments were SMEs and contributing to 32 percent to the Malaysian Gross Domestic Product (GDP). SMEs are also capable of creating more job opportunities; currently accounting for 5.6 million jobs of the total job opportunities created by the Malaysian government (Low 2007).

However, access to financial resources is the main challenge for starting a microenterprise by most entrepreneurs, especially the poors. According to several studies (Dusuki 2008; Sow 2005), most microentrepreneurs in Malaysia faced acute problem to start and operate their own businesses because of the difficulties in securing financial resources from banks or other financial institutions. This is basically due to the lack of guarantor, business plan and incomplete business records to support their loans. Banks have the perception that it is not profitable to provide credit facilities to small entrepreneurs aside from the high risk of failure to repay the loan. In this case, the development of entrepreneurial program among the poors is leaning towards the microfinance program (Ismail 2001).

In Islam, zakat fund is an important tool for the purpose of redistributing income and wealth (Choudhury & Harahap 2009). It can also be integrated into the microfinance program in multiple of ways based on the syariah and Islamic financial concepts. This is for the purpose of increasing the income and involvement of the poors in productive activities such as microenterprises (Sabri & Hassan 2006). An empirical study in Bangladesh shows that 'Women Sewing Project' (WSP) using zakat fund as its source of capital has managed to increase the participants' microenterprise income (Choudhury 2008). Similarly, zakat funds have been used to finance the microenterprises at night and morning markets in Indonesia, hence successfully increased the participants' income (Choudhury & Harahap 2009). Other Islamic microfinance programs in Bangladesh, such as Al-Fallah, Noble and Rescue (Ahmed, 2002), also stressed on the importance of zakat funds for financing the sustainability of Islamic microfinance programs offered to the poors and helping them to run their microenterprises.

In the Malaysian context, Lembaga Zakat Selangor (LZS) is the most innovative zakat institutions involved in the distribution of zakat to the qualified asnaf in a very productive form through the 'asnaf entrepreneurial development program' which is based on syariah and Islamic financial concepts. This was organized in the form of capital assistance and business equipments, interest free and non-repayment. The participants

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of this program have the option of using the funds to start their microenterprise businesses.

During the Ninth Malaysian Plan (9MP), 2006-2010, several of the entrepreneurial development programs based on microfinance concept that targeted the poor have been created and run by various Malaysian government agencies. Among the most important programs are Yayasan Tekun Nasional (TEKUN), Asnaf Economic Development Program (LZS), and Yayasan Basmi Kemiskinan (YBK), and Amanah Ikhtiar Malaysia (AIM). Therefore, the method of implementing the programs such as the conditions of selection and screening of participants, methods of operation, expertise, monitoring and program features are different. Thus, there might be some duplication of tasks between the agencies which lead to wastage of funds, manpower and time. In addition, the effectiveness of each microfinance program is difficult to determine. For example, based on microfinance program, the following question arises;

- (i) Which microfinance program is more effective in increasing the income of the participants and getting them out of poverty?
- (ii) Which microfinance program is capable of achieving its objectives? and
- (iii) What are the factors related to the impact of microfinance programs implementation for the poverty eradication purposes?

The focus of this study is to evaluate the effectiveness of LZS, AIM, YBK and TEKUN microfinance programs in increasing the participants' income through microenterprise businesses that assist in poverty eradication.

Overall, this paper is divided into four sections. The first section focuses on literature reviews pertaining to the factors that influence the microfinance program, entrepreneurial and poverty eradication concept as well as the implementation mechanisms adopted by LZS, YBK, AIM and TEKUN in financing microenterprises. The second section discusses research methodology followed by the third which covers research findings. The final section covers the concluding remarks with some policy implications and suggestions.

## 2. Literature Review

Poverty is normally caused by low level of education, health and income, and other conditions that have disabled the poors from fulfilling their basic needs such as food, clothing and shelter. As a result, the poors have been excluded from the formal financial system which restricts them from obtaining financial aids to undertake productive activities and to increase their household income (Sadeq 2002). Thus, supporting program such as microfinance is needed to support the poors' productive activities so that the global wealth resources can be fairly and equally distributed. Conroy (2005) states that microenterprises operated by the poor are mechanisms that helped to channel the benefits of economic growth to the poor. To enable the poors to establish potential microenterprises, capital aids from the government and NGO are needed to start and expand their businesses (Hartarska & Holtman 2006).

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Unfortunately, Morduch (2008) through his research on poor housewives in Bangladesh concludes that microfinance program does not help to alleviate poverty, but instead only leads them to fulfill their consumption pattern. In another research, Morris and Barnes (2005) showed the impacts of three microfinance programs - FINCA, FOCCAS and PRIDE, and concluded that microfinance program failed to reduce poverty but instead helped to reduce the problem of access to financing for the poor.

According to Koveos (2004), MFI<sup>2</sup> and the participants looked at the microfinance program as a grant and their rights and what the government should distribute to the poor. Such perception gives a negative impact towards the participants' microenterprise performances and effectiveness of MFI's operations. As a result, MFIs have been passive and non-aggressive in monitoring and have no interest in knowing how the micro financing is being used by the participants. Koveos (2004) concluded that the failure of government's micro financing programs was caused by selection methods, screening of participants and fundings that did not reach the target group. In this case, the funds were channeled to unprofitable small business sector that have political link to the borrowers. Chowdhury (2007) also mentioned that the program's weakness in administration and policy was caused by bureaucracy, untransparent administration, inconsistent enforcement, lack of accountability, experiences and bribery, hence rendered the micro financing program ineffective. Following this argument, the study therefore proposes that LZS, AIM, YBK and TEKUN are effective in increasing the poor participant's income and getting them out of poverty line, stated as follows:

*H<sub>1</sub>: Microfinancing programs TEKUN, AIM, LZS and YBK Selangor are effective in assisting recipients to generate income above the poverty line.*

Through the 9MP, the Malaysian government has recognised the importance of zakat fund as a source to be distributed to the Muslims in order to increase their economic status and eradicating poverty through microenterprise. This is in accordance with empirical studies by Choudhury and Harahap (2009) and Ibrahim (2007) which state that Islamic financial system, including zakat, can be widely used to generate the economy more effectively and helping the poor to generate sustainable flow of income. According to Sakai (2010), Islamic microfinance program known as Baitul Maal wat Tamwil (BMT) is very important in Indonesia and the scheme has a positive impact towards the development of microenterprises operated by the poor Muslims. The importance of Islamic microfinancing program is due to its characteristics that can overcome the weaknesses of conventional microfinance program pioneered by Grameen Bank which imposed increment of interest rate, high operating costs and default loan repayment. As for the microfinance program using the zakat fund through LZS, a study is needed to evaluate the effectiveness of the program in increasing the participants' income through entrepreneurial concept and microenterprise. Therefore, efforts are needed to assess whether the 'asnaf entrepreneurial development program' has successfully increased the participants' income and released them from poverty.

Following this argument, the study therefore proposes that Islamic microfinance programs are effective in increasing the income of the poor asnaf, stated as follows:

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*H<sub>2</sub>: Microfinancing programs based on syariah and Islamic financing concepts are effective in increasing the income of the poor asnaf and released them from poverty.*

### **2.1 Background of Microfinance Programs**

The summary of comparative analysis in terms of the key features of the four programs studied, namely AIM, TEKUN, LZS and YBK Selangor is stated below. This was obtained from published secondary information and from observations and interviews with the executive officers of micro-finance programs.

#### **2.1.1 Tekun**

TEKUN program, established by the Malaysian government in 1998, aims at providing additional capital to the poor and middle income groups consisting of hawkers and small traders. TEKUN also has the objective of guiding participants to become high quality entrepreneurs, competitive and encourage savings among borrowers. However, until December 2008, the total proceeds received through reimbursement only accounted for RM500 million compared with the total amount of micro credit issued at RM1.13 billion (Nordin, 2009).

#### **2.1.2 LZS**

This business capital assistance program was established by the Selangor state government in 2003 through the LZS with the aim of improving the economic status of the poor and the needy in the state. Through its Asnaf Economic Development Program, LZS provides business capital assistance to poor recipients. These potential recipients are identified to be viable and having the expertise in the field of applied technology or have been involved in businesses with the aim of increasing sources of income for the poor recipients (LZS 2008).

#### **2.1.3 YBK**

YBK economic program was initiated by the Selangor state government in 1996 with the aim of helping the extremely poor to improve their self-confidence, courage and ability to promote economic well-being. These goals are expected to be achieved through the provision of capital support, encouragement and coaching technical skills to the extremely poor and relatively poor groups to enable them to improve the socio-economics and living standards of their families (YBK 2008). Through interviews conducted on 30 participants of YBK Selangor, all claimed to having no basic knowledge on entrepreneurship and business training before they were allowed to conduct their business.

#### **2.1.4 AIM**

AIM program adopts the Grameen Bank concept where the main concern is building self-confidence among the poor and assisting them to grasp opportunities that benefit them. The implementation of this program is based on the concept of 'trust' on the

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monitoring among members and the pressure among members to enforce loan contracts, accountability and creativity as well as appropriate and reasonable terms and conditions. AIM exercised monitoring and management on the participants through the implementation of a mandatory weekly meeting to be attended by participants and also the formation of the 'center' and 'the concept of sharing liability' among participants. It also proves high ability of participants to repay the loans with very low default rate only at 0.92 percent in 2009.

As a summary of the writings and previous studies, the study concludes that there are differences in the characteristics, especially in terms of the program monitoring, processes and procedures, background of the officers involved and the method of conducting training to the microfinance program participants, as stated below:

*H<sub>3</sub>: There exist differences between the programs in terms of the effectiveness in program procedures, attitudes of program implementing officers, knowledge and experience of implementing officers, program monitoring, and program training based on the recipients' perspective.*

*H<sub>4</sub>: There exist significant differences between the programs based on the total business profits made by recipients.*

### 3. Data and Methodology

The respondents selected for this study are poor people involved in the microfinance program in rural areas from five different districts of Selangor, namely, Sabak Bernam, Kuala Selangor, Kuala Langat, Hulu Langat and Hulu Selangor, which are being served by AIM and TEKUN, LZS and YBK Selangor. These areas of Selangor were chosen due to the high concentration of rural poor. The total number of respondents during the research period accounted for 5,867 respondents (AIM), 4,350 respondents (TEKUN), 1,600 respondents (LZS), and 400 respondents (YBK).

For TEKUN, microfinance programs selected for this study are based on the *TEKUN Niaga*, *TEKUN Ternak* and *TEKUN Tani*. While for the AIM program, micro-finance programs studied were referred to *Pembiayaan Ekonomi Ikhtiar*, *Mesra*, *Srikandi*, *Wibawa*, *Penyayang* and *Wawasan*. Selangor state is selected as the study area because of its innovativeness, creativity, and possessing high capability of economic resources with high microfinance programs including LZS, YBK Selangor, TEKUN and AIM microfinance programs. Through LZS's innovation, Selangor is the only state in Malaysia that has a relatively high capability in operating microfinance program based on 'syariah' and Islamic finance in Malaysia. Similarly, YBK Selangor is the only NGO which is active in the microfinance capital assistance program in Malaysia.

In this study, sampling consists of participants who had operated microenterprise programs for more than three years. The sample size determination table by Krejcie and Morgan (1970) cited in Sekaran and Bougie (2010) was adopted. A stratified random sampling was used because of proportionate sub-population which refers to the different micro-finance programs. The study involved a total of 446 respondents consisting of

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YBK (32 samples), AIM (180 samples), TEKUN (134 samples), and LZS (49 samples). A total of 51 respondents were selected for the control group. Data collection was successfully completed in 2009.

Respondents were asked for their consent prior to the distribution of questionnaires. The questionnaire consists of three sections: (i) respondents and their microenterprise profile; (ii) the micro financing received; and (iii) respondents' perception towards the effectiveness of the program. The first section aims at getting the respondents' background and their microenterprise. The second section is to gain information about the financing received by the respondents. The final section is to scrutinize the respondents' perception towards the implementation effectiveness of the entire program including the processes, procedures, experiences, qualification and officer's attitudes. Respondents were asked to rate the factors using the scale of 1 (strongly disagree) to 5 (strongly agree).

The study relates between the objective outcomes of microfinance program, entrepreneurial concepts together with microenterprise, with the measurement of effectiveness that refer to the level of participant's microenterprise income (Khalily, 2004). The study evaluates the outcome of microfinance program towards participants, before and after they received the financing. All of the respondents were poor before their involvement with the program.

For the purpose of this study, the independent variable refers to monitoring and microfinance program (main variables) and control variables, that is, the number of dependents, participant's age, education level, gender, working experience, total income before joining the program, business classification, business period, business location, application purpose of microfinancing, total financing received, frequency of microfinance received, and training. Independent variable for microfinance program refers to the program's processes and procedures, experiences, qualification and officer's attitudes. This is based on Amha and Ageba (2006) regarding the development service of non financial assistance that can be integrated in the microfinance programs implementation process. The selection of experiences, attitudes and qualification of the program's officers are based on the research done by Hartungi (2007) on Bank Rakyat Indonesia's (BRI) microfinance program where well trained, qualified, dedicated, transparent and interesting incentives helped to contribute to positive impact towards participants.

### 4. Analysis and Findings

Table 1 shows the respondents' personal profile. Majority of respondents are women (70.4 percent) and the remaining 29.6 percent are men. Gender inequality among the selected respondents is purely due to the nature of the programs where women were given priority as in the case of AIM and YBK Selangor. Majority of the respondents are married (91.3 percent). Based on the level of education, majority of the respondents reached secondary school. The results of the current study coincide with an empirical study by World Bank (2009) that concludes that most microentrepreneurs have a low level education. Most of the participants also did not have any business experiences

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(53.1 percent). Majority of respondents have income below the poverty line prior to joining the program (63.0 percent). The study also found that most of the respondents have working experience of less than 4 years (32.3 percent) while 25.8 percent of respondents have working experience between 8 to 11 years. In addition, most respondents have working experience in agricultural industries (23.8 percent). All findings for this descriptive statistics fulfill the criteria of microfinance program participants' selection.

In terms of classification of businesses, Table 2 shows that most of the participants are involved in 'permanent stall' (25.8 percent), 'services' (20.4 percent) and 'food and beverages production' (24.7 percent). The results show that most of LZS and YBK participants are involved with small scale business activities with low skills and technology level, that is, 'permanent stall' (LZS 30.6 percent and YBK 40.6 percent) and 'mobile stall and night market' (LZS 26.5 percent). The business characteristics will affect the amount of participants' business income. In terms of business location, most respondents conduct their business at their residential areas or own land (49.3 percent) and 'rented space' (16.8 percent). The location of microenterprise close to the residences will definitely affect the amount of microenterprise income. This is simply because of the fact that most of their customers will consist of their own neighbours who also have low level of income and purchasing power.

A majority of participants started their business with a capital less than RM3,000 (59.9 percent) and between RM3,001 to RM6,000 (17.9 percent). Based on the results, small amounts of start-up capital limit the poor participants' ability to expand their microenterprise operations. However, low educational level, lack of working experiences and skills limit MFIs from providing a bigger amount of capital assistant to the poor participants. Most respondents also have a short business period of 4 to 6 years (33.2 percent) and 7 to 9 years (38.3 percent). The findings of this study show that most microenterprises are still in the growth stage of the business life cycle. Therefore, more capital is required to grow their businesses at the initial stage. Efforts to increase working capital and decrease the dependency from microfinance program, and the ability to create sustainable and continuous revenues are highly important. However, during the early stages, capital assistance from microfinance program is very important to finance the poor entrepreneurs.

Statistical inferences for the paired sample *t*-test for comparing between total incomes before and after participants' involvement in microfinance programs are shown in Table 3. Results showed that AIM, TEKUN and YBK programs with "mean difference" between both sets of data are very significant and high -1421.833 (AIM), -1202.388 (TEKUN) and -1028.571 (LZS). The *t*-values for AIM, TEKUN and LZS programs are negative -19.975 (AIM), -14.109 (TEKUN) and -8.249 (LZS). This is due to the fact that the mean scores of business income after involvement in microfinance programs at AIM, TEKUN and LZS are far greater than the total income before their involvement with the programs. The *t*-value for AIM program is also the highest among other programs. This means that the participants of AIM, TEKUN and LZS programs have been able to increase their revenues beyond the poverty line and meet with the objectives of the programs.



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On the other hand, for the YBK program, the 'mean difference' between the two sets of data are positive (59.063), small and almost insignificant. The  $t$ -value for YBK program is also positive (2.097) because of the higher mean scores before the participants' involvement with the YBK compared to that of after their involvement with the program. This means that the YBK program failed to help participants to improve their income level above the poverty line.

Statistical inference for the  $t$ -test for comparing between micro-finance programs and control samples are shown in Table 4. Results showed that AIM and TEKUN programs have 'mean difference' between both sets of data which are very significant and positive at 320.408 (AIM) and 276.756 (TEKUN). The  $t$ -values for AIM and TEKUN programs are also positive 2.096 (AIM) and 1.695 (TEKUN); mainly due to the higher mean scores. Their involvement with AIM and TEKUN programs has been able to increase their income much higher than that of the control group. On the contrary, for the LZS and YBK programs, the 'mean difference' between the two sets of data are negative -202.341 (LZS) and -1292.335 (YBK).

The  $t$ -values for LZS and YBK programs are also negative -1.061 (LZS) and -7.219 (YBK), simply because of the lower mean income of LZS and YBK program participants than that of the control group. This means that LZS and YBK program participants generate business income lower than that of the control group.

Based on Table 4, independent sample  $t$ -test showed that AIM program is more effective compared to those of TEKUN, LZS and YBK programs in assisting participants to generate profits above the poverty line. This is based on the mean value of business income among AIM program participants of (2038.06) which is higher than those of TEKUN (1994.40), LZS (1515.31) and YBK (425.31). The study results showed that TEKUN program is more effective in generating business profits above the poverty line compared to LZS and YBK programs, with the exception of AIM. Nevertheless, the study results indicate that YBK program is less effective compared to TEKUN, LZS and AIM programs in generating participants' income above the poverty line. The study results also indicate that LZS program is less effective compared to TEKUN and AIM programs, except for YBK program in generating participants' income above the poverty line.

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## Table 1: Respondents Personal Profile

Respondent Profile	TEKUN (N=134)		AIM (N=180)		LZS (N=49)		YBK (N=32)		Control (N=51)		Overall (N=446)	
	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%
Gender	134	100	180	100	49	100	32	100	51	100	446	100
Male	74	55.2	0	0	28	57.1	6	18.8	24	47.1	132	29.6
Female	60	44.8	180	100	21	42.9	26	81.2	27	52.9	314	70.4
Age (min)	43	-	42	-	44	-	43	-	41	-	42	-
21-30 years	6	4.5	15	8.3	1	2.0	0	0	5	9.8	27	6.1
31-40 years	45	33.6	58	32.2	17	34.7	13	40.6	23	45.1	156	35.0
41-50 years	60	44.8	86	47.8	21	42.9	15	46.9	18	35.3	200	44.8
51-60 years	23	17.2	20	11.1	8	16.3	4	12.5	4	7.8	59	13.2
>61 years	0	0	1	0.6	2	4.1	0	0	1	2.0	4	0.9
Marital Status	134	100	180	100	49	100	32	100	51	100	446	100
Married	122	91.0	178	98.9	43	87.8	19	59.4	45	88.2	407	91.3
Single	10	7.5	0	0	1	2.0	0	0	5	9.8	16	3.6
Single Mother	2	1.5	2	1.1	5	10.2	13	40.6	1	2.0	23	5.2
Education level	134	100	180	100	49	100	32	100	51	100	446	100
Primary School	18	13.4	45	25.0	16	32.7	21	65.6	5	9.8	105	23.5
SRP/PMR	21	15.7	59	32.8	17	34.7	10	31.3	16	31.4	123	27.6
SPM	67	50.0	66	36.7	16	32.7	1	3.1	23	45.1	173	38.8
STPM	12	9.0	7	3.9	0	0	0	0	3	5.9	22	4.9
Tech Cert.above	16	12.0	3	1.7	0	0	0	0	4	7.9	23	5.2
Business Knowledge	134	100	180	100	49	100	32	100	51	100	446	100
Yes	69	51.5	82	45.6	22	44.9	11	34.4	25	49.0	209	46.9
No	65	48.5	98	54.4	27	55.1	21	65.6	26	51.0	237	53.1
Income before involvement with the program	134	100	180	100	49	100	32	100	51	100	446	100
< RM700	52	38.8	127	70.6	44	89.8	32	100	26	51	281	63.0
RM701 – RM1,400	82	61.2	53	29.4	5	10.2	0	0	25	49	165	37.0
>RM1,401	0	0	0	0	0	0	0	0	0	0	0	0
Working Experience (min)	9	-	6	-	7	-	9	-	7	-	7	-
<4 years	25	18.7	83	46.1	15	30.6	3	9.4	18	35.3	144	32.3
4-7 years	28	20.9	48	26.7	11	22.4	9	28.1	7	13.7	103	23.1
8-11 years	43	32.1	23	12.8	14	28.6	14	43.8	21	41.2	115	25.8
>11 years	38	28.4	26	14.4	9	18.4	6	18.8	5	9.8	84	18.8
Working Experience	134	100	180	100	49	100	32	100	51	100	446	100
No Experience	17	12.7	49	27.2	7	14.3	1	3.1	7	13.7	81	18.2
Mgmt, Admin, Finance	36	26.9	10	5.6	1	2.0	0	0	11	21.6	58	13.0
Industrial	9	6.7	57	31.7	8	16.3	5	15.6	14	27.5	93	20.9
Algriculture	36	26.9	22	12.2	17	34.7	19	59.4	12	23.5	106	23.8
Business	18	13.4	36	20.0	10	20.4	1	3.1	5	9.8	70	15.7

Source: Sample Research, 2009

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## Table 2: Microenterprise Profile

Respondent Profile	TEKUN (N=134)		AIM (N=180)		LZS (N=49)		YBK (N=32)		Control (N=51)		Overall (N=446)	
	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%
Business Classification	134	100	180	100	49	100	32	100	51	100	446	100
Food & beverages production	29	21.6	51	28.3	11	22.4	11	34.4	8	15.7	110	24.7
Other production	3	2.2	7	3.9	0	0	2	6.3	0	0	12	2.7
Permanent stall	30	22.4	43	23.9	15	30.6	13	40.6	14	27.5	115	25.8
Mobile Stall & night market	20	14.9	16	8.9	13	26.5	0	0	7	13.7	56	12.6
Services	32	23.9	38	21.1	5	10.2	5	15.6	11	21.6	91	20.4
Algriculture	10	7.5	13	7.2	5	10.2	1	3.1	3	5.9	32	7.2
Permanent shop	6	4.5	9	5.0	0	0	0	0	6	11.8	21	4.7
Others	4	3.0	3	1.7	0	0	0	0	2	3.9	9	2.0
Business Location	134	100	180	100	49	100	32	100	51	100	446	100
Own residence or own land	55	41.0	101	56.1	18	36.7	28	87.5	18	35.3	220	49.3
Rented shop or stall	48	35.8	13	7.2	5	10.2	0	0	16	31.4	82	18.4
Purchased shop or stall	4	3.0	0	0	0	0	0	0	5	9.8	9	2.0
Rented space	23	17.2	31	17.2	13	26.5	0	0	8	15.7	75	16.8
Own residence/ own land and rented space	4	3.0	35	19.4	4	8.2	4	12.5	4	7.8	51	11.4
Stall/shop/free business space	0	0	0	0	9	18.4	0	0	0	0	9	2.0
Initial Capital (min)	10845	-	2837	-	4020	-	3600	-	1097	-	6227	-
Up to RM3,000	36	26.8	158	87.8	35	71.4	12	37.5	26	51.0	267	59.9
RM3,001- RM6,000	36	26.9	13	7.2	10	20.4	16	50.0	5	9.8	80	17.9
RM6,001- RM9,000	11	8.2	4	2.2	0	0	4	12.5	4	7.8	23	5.2
RM9,001- RM12,000	20	14.9	2	1.1	1	2.0	0	0	3	5.9	26	5.8
> RM12,000	31	23.1	3	1.7	3	6.1	0	0	13	25.5	50	11.2
Business Period	134	100	180	100	49	100	32	100	51	100	446	100
< 3 years	4	3.0	9	5.0	3	6.1	2	6.3	1	2.0	19	4.3
4 years – 6 years	32	23.9	42	23.3	21	42.9	21	65.6	32	62.7	148	33.2
7 years – 9 years	62	46.3	66	36.7	22	44.9	9	28.1	12	23.5	171	38.3
10 years – 12 years	31	23.1	46	25.6	3	6.1	0	0	6	11.8	86	19.3
> 13 years	5	3.7	17	9.4	0	0	0	0	0	0	22	4.9

Source: Sample Research, 2009

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**Table 3: Changes in Income Levels Before and After Joining the Program**

	Program	n	M	SD	df	t	sig. p
1.	<b>AIM (before-after)</b>	180	-1421.833	955.004	179	-19.975	.000**
	Before (allincome)	180	616.22	200.678			
	After (profit/income)	180	2038.06	951.805			
2.	<b>TEKUN (before-after)</b>	134	-1202.388	986.502	133	-14.109	.000**
	Before (allincome)	134	792.01	232.352			
	After (profit/income)	134	1994.40	986.919			
3.	<b>LZS (before-after)</b>	49	-1028.571	872.783	48	-8.249	.000**
	Before (allincome)	49	486.73	186.630			
	After (profit/income)	49	1515.31	895.138			
4.	<b>YBK (before-after)</b>	32	59.063	159.300	31	2.097	.044*
	Before (allincome)	32	484.38	86.544			
	After (profit/income)	32	425.31	122.184			

Note : \* Significant at  $p < 0.05$  \*\* Significant at  $p < 0.001$  Source: Sample Research, 2009

**Table 4: Comparison of Business Incomes between Microfinance Programs and Control Group**

	Program	n	Min (M)	SD	Mean Difference	dk	T	sig. p
1.	AIM	180	2038.06	951.805	320.408	229	2.096	.037**
	Control	51	1717.65	1005.725				
2.	TEKUN	134	1994.40	986.919	276.756	183	1.695	.092*
	Control	51	1717.65	1005.725				
3.	LZS	49	1515.31	895.138	-202.341	98	-1.061	.291
	Control	51	1717.65	1005.725				
4.	YBK	32	425.31	122.184	-1292.335	81	-7.219	.000***
	Control	51	1717.65	1005.725				

Note : \* Significant at  $p < 0.1$  \*\* Significant at  $p < 0.05$  \*\*\* Significant at  $p < 0.001$  Source: Sample Research, 2009

### 4.1 Multiple Regression Analysis

The results of multiple regression analysis showed that the independent variables - age, educational level, number of dependents and work experience did not show positive and significant coefficients. However, experience showed that the variable coefficient is positive and significant for the AIM program participants ( $t = 3.608$ ,  $p < 0.001$ ). While TEKUN ( $t = -2.682$ ,  $p < 0.05$ ) showed a significant negative coefficient. But the results of the tests on the overall samples ( $n = 395$ ) and LZS program respondents show that the coefficient is negative and not significant. This situation explained that the longer the work experience acquired by the AIM program respondents the higher would be their ability to generate business income. However, TEKUN participants, despite their shorter period of work experience, also enable them to generate higher business income. This indicates that a long period of work experience for the TEKUN participants is not a prerequisite for their business success.

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Test results on the variable “total income before” the participants’ involvement with the program showed positive and significant coefficient for the TEKUN participants ( $t = 2.590$ ,  $p < 0.05$ ) and for overall participants ( $t = 5.552$ ,  $p < 0.001$ ,  $n = 395$ ). But for the participants of AIM and LZS, the coefficients are positive and not significant. This explained that the higher the income of the participants prior to their involvement with the program, the higher would be their ability to generate business income. The results also confirmed that only participants who are relatively poor and vulnerably poor are able to generate higher profitability compared to the hardcore poor participants.

Regression test results for "business classification" in Table 5 show that the coefficient is positive and significant for the AIM program participants ( $t = 1.650$ ,  $p < 0.1$ ) and for overall participants ( $t = 1.640$ ,  $p < 0.1$ ), while the TEKUN and LZS programs show negative and insignificant coefficients. This proves that the classification of business also affects the ability of participants to generate profits. Results of multiple regression tests for 'business' period in Table 7 show that the coefficient is positive and highly significant for the AIM program participants ( $t = 3.246$ ,  $p < 0.001$ ) and for overall participants ( $t = 2.934$ ,  $p < 0.05$ ,  $n = 395$ ), while TEKUN and LZS programs showed negative coefficients and are not significant. These results clearly prove that the longer is the business period for overall participants and AIM's participants the higher would be their ability to generate higher business profits. Regression test results for the 'initial capital' also show that the coefficient is positive and significant for TEKUN participants ( $t = 2.511$ ,  $p < 0.05$ ), LZS ( $t = 2.348$ ,  $p < 0.05$ ) and for overall participants ( $t = 1.945$ ,  $p < 0.05$ ,  $n = 395$ ). Instead, for the AIM program, the coefficient is negative and insignificant; indicating that the higher the amount of initial capital used the higher would be the ability of participants to generate higher business profits.

Multiple regression test results for “initial capital source” show that program members of TEKUN ( $t = -1.612$ ,  $p < 0.1$ ), LZS ( $t = -4.633$ ,  $p < 0.001$ ) and for overall participants ( $t = -1.602$ ,  $p < 0.1$ ) have negative coefficient values but are significant, while that of AIM has a positive coefficient value and is not significant. Current study test results explain that the higher the initial capital sources, either from own savings or from family members, to start a microenterprise, the higher would be the ability of program members to generate higher business incomes. These results prove that the program members should not be fully dependent on the microfunds to start their microenterprises. Multiple regression test results on “frequency of monitoring” for overall ( $t = 3.579$ ,  $p < 0.001$ ,  $n = 395$ ) show a positive coefficient value and is very significant. However, similar test results for TEKUN and LZS show positive coefficient values but are not significant. Understandably, multiple regression tests cannot be carried out for AIM program due to the existence of constant values attached to the frequency of monitoring. This is purely because of the weekly scheduled meetings strictly imposed on all AIM program members. These test results prove that frequency of monitoring has a very strong impact on the effectiveness of microfunds to generate higher business income and profits for the program members.

Multiple regression test results for “total microfunds” show that program members of TEKUN ( $t = 1.663$ ,  $p < 0.1$ ), AIM ( $t = 3.937$ ,  $p < 0.001$ ) and for overall ( $t = 2.002$ ,  $p < 0.05$ ,  $n = 395$ ) have positive coefficient values and are significant. These analysis results also prove that the larger is the total accumulated microfunds obtained by program members

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of TEKUN, AIM and overall (n=395) the higher would be their ability to generate business profits. This is due to the positive and significant coefficient values for the correlation tests and multiple regression test results. Nevertheless, the multiple regression test results failed to prove that the “frequency of microfunds received” affects the ability of program members to generate business profits simply because of the insignificant coefficient values.

The multiple regression results for “training” showed that all the three programs TEKUN, AIM, LZS, with the exception of YBK, and overall respondents have both positive and negative coefficient values and are not significant. The regression test results for this variable prove that the training sessions provided by the program management teams are not effective in promoting participants’ capability in generating higher business profits. The multiple regression results also showed that participants of TEKUN, AIM and LZS programs have positive coefficient values but are not significant. However, test results on the overall participants showed ( $t = 2.812$ ,  $p < 0.001$ ,  $n = 395$ ), indicating that the coefficient values are positive and very significant. These test results stressed that the higher the needs for microfunds and variations in the consumption of microfunds the higher would be the business profits generated by all participants of the micro enterprises because of the positive and very significant coefficient values.

In its totality, the multiple regression analysis indicated that there is no significant relationship between total profits generated with the number of dependents, age of respondents, educational level, frequency of getting microcredit facilities, business location, gender and training gained prior to accepting microcredit funding. The multiple regression results also showed that work and business experience, classification of business involvement, total monthly income before joining the microcredit program, business period, accumulated microcredit received, frequency of monitoring, and the need for microcredit, seemed to affect the monthly profit generated by the microcredit program members.

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**Table 5: Summary of Multiple Regression Analysis**

Independent Variables	TEKUN (N=134)	AIM (N=180)	LZS (N=49)	YBK (N=32)	Oveall (N=395)
Period of Work Experience	0.008 (-2.682)***	0.0001 (3.608)***	0.526 (0.640)	#	0.806 (-0.246)
Total Previous Income	0.011 (2.590)**	0.398 (0.847)	0.138 (1.510)	#	0.0001 (5.552)***
Business Classification	0.417 (-0.814)	0.099 (1.650)*	0.996 (-0.005)	#	0.099 (1.640)*
Need for Microcredit Funding	0.177 (1.357)	0.153 (1.436)	0.906 (-0.119)	#	0.005 (2.812)***
Age of Business	0.476 (-0.715)	0.001 (3.246)***	0.553 (0.598)	#	0.004 (2.934)***
Total Initial Capital	0.013 (2.511)**	0.869 (-0.165)	0.023 (2.348)**	#	0.048 (1.985)**
Source of Capital	0.098 (-1.612)*	0.139 (1.487)	0.0001 (-4.633)***	#	0.099 (-1.602)*
Total Microcredit Received	0.099 (1.663)*	0.0001 (3.937)***	0.152 (1.460)	#	0.046 (2.002)**
Type of Training	0.902 (-0.123)	0.549 (0.601)	0.416 (0.820)	#	0.111 (-1.596)
Frequency of Monitoring	0.962 (0.048)	t.b	0.475 (0.720)	#	0.0001 (3.579)***
Type of Monitoring	0.528 (0.632)	t.b	0.052 (-1.996)*	#	0.921 (0.099)
R <sup>2</sup>	0.132	0.176	0.330	#	0.238
R <sup>2</sup> Adjusted	0.112	0.162	0.300	#	0.226
F-Statistics	6.460	12.524	11.090	#	20.024

Note:

( ) value in brackets refers to *t*-statistics.

t.b. indicates that correlation test on the variables cannot be done because of constant values

# indicates that multiple regression analysis cannot be done on the dependent variable for YBK due to profits generated was lower than the total income of respondents before their involvement with the YBK program.

Dependent variable: Total Profits of Microenterprise

Fulfills multiple regression assumptions, that is normality, collinearity, multicollinearity and outlier data.

\* significant at 0.10

\*\* significant at 0.05

\*\*\* significant at 0.01

Source: Sample Research, 2009

## 5. Conclusion and Recommendations

The findings of this study showed that microcredit programs served by AIM and TEKUN are more effective compared to LZS and YBK which provide non-refundable micro funds. This is due to several factors such as the existence of non-sharing liability and contracts as being practiced by AIM and TEKUN and the non-existence of basic entrepreneurial and business trainings or training contents which are less practical to the needs of the poor. This deficiency is further compounded by poor quality monitoring by the program management. In the case of LZS, the responsibility of monitoring the program members is either done by the consultants or left to the appointed private parties. Hence, the monitoring services provided by the consultants are tuned towards commercial perspectives and done purely for the purpose of fulfilling the service specifications as requested by the LZS and also for claim purposes. This approach has failed to meet the objective of enhancing the socio-economic development of the program members. In addition, this approach also leads to a fragile principal-agent

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linkage, hence increasing “assymmetric” information risk, which is also termed as “adverse selection” and “moral hazard”. In the case of YBK, no monitoring on the program members was ever conducted. The study findings indicated that members of AIM’s microcredit program had the highest quality of monitoring and this was done through the weekly meetings with the program managers. In similar notion, TEKUN also conducted close monitoring on its program members although of average quality.

Based on these research findings, a more aggressive monitoring is recommended for the program members of LZS and YBK. In this context, the scope of monitoring should not only be limited to the profit-making for the businesses as being stressed by the consultants, but it should also be extended to cover other elements such as counseling, skills training and consultation services on a continuous basis. This approach is expected to be more effective in the long run compared to the current approach that only stressed on increasing business profits which is more of a short term in nature. This is likely to increase the confidence level and competitiveness among the program members although they may have started their businesses much earlier. The recommended approach would have positive impacts towards the sustainability and continuity of microcredit enterprises and extension of the business period, thus reduce “assymmetric” information pertaining to “adverse selection” and “moral hazard”.

It is also envisaged that entrepreneurial training based on Islamic concept embedded with Islamic entrepreneurial approach is able to create respondents’ awareness towards the importance of the allocation of microfunds through the distribution of zakat for the purpose of operating microenterprises. This awareness would enhance their responsibility towards the usage of microfunds in the best possible way, hence increasing their self-reliance and striving forward to alleviate poverty. If program members can increase their income level and move out of poverty, they would be able to indirectly repay back the zakat funds later in their life as they soon become active contributors of zakat. Furthermore, continuous monitoring enables the adoption of social contracts among program members in the wider context as relationship between the principal (MFI) and agents (program members) can be enhanced for the purpose of economic development for the entire Muslim ummah.

Empirical evidences showed that the total income of members prior to joining the program seemed to be the most important factor that contributes to the effectiveness of the microcredit program in creating and increasing business profits. The findings of the current study are also consistent with those of Morduch (2008), Coleman (2006), Matin and Hulme (2003) which stated that microcredit programs are very effective for the vulnerable poor and low income groups but are not effective for the hard-core poor as the current findings proved it among the program members of YBK.

Findings of this study also indicated that the screening procedures and choice of program members should be refined especially for the LZS and YBK programs. This should be done simply because the hard-core poor groups are in need of direct support from the government and other sources in the form of non-productive supports such as housing, education, food and jobs which can sustain their life (Nair 2007; Matin & Hulme 2003). Job opportunity is more important to the hard-core poor than business enterprise



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due to their low educational level and lack of skills (Karnani 2008). Based on other studies, Coleman (2006) and Nichter and Goldmark (2009), most microenterprises failed due to the inability of the implementation of the microenterprise development program to create favorable job opportunities and identify potential members to undertake microenterprise businesses such as the level of knowledge, skills and resources owned by the members. Findings of this study showed that asnaf entrepreneurial development program among the poor groups organized by LZS should be revised and updated as it was more appropriate for the asnaf fisabilillah (Othman & Kari 2009) compared to the poor asnaf. In addition, stringent screening of potential program members should be adhered to by the LZS program management officers (Wan Hussin 2009) and similarly for the YBK program, in order to ensure that the poor members are really appropriate for the program and that only those that are prepared to take risk are selected.

The current study findings also imply that the program members should be exposed to basic entrepreneurial and business skills training even before they start their microenterprise businesses. Training exposure of this nature should also be organized as an on-going, continuous and sustainable activity in order to help those in the business activities. This is of critical importance due to the low educational level in addition to lack of business knowledge among the program members, especially those of the YBK program compared to the other programs. In reality, all program members, especially those under the YBK, are basically not ready or unable to undertake any business activities.

## Endnotes

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<sup>1</sup> microfinance is a term that has been widely used to refer to financial service such as deposit or savings, micro credit, capital assistance, payment service, money transfer and insurance, formally and informally as well as non banking to operate a microenterprise or self-employment (Conroy 2005), that is offered to the poor and low income (WSBI 2008) as well as being put aside from the traditional banking system because there are no collateral, fixed income and determinable credit background.

<sup>2</sup> MFI refers to organization that offers small scale financial services to the poor, who is incapable to provide collateral as well as unable to receive financial service from formal banking system (WSBI 2008). MFI organization here refers to NGO, cooperative, banking institutions, non banking financial institution and government institutions.

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