

## THE IMPACT OF MICROFINANCE ON GROWTH OF MICROENTERPRISES (MES) IN MALAYSIA

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**ABSTRACT** – This study examined the impact of microfinance criteria on growth of Microenterprises (MEs) in Malaysia. The critical issues arising in the study is the ability of MFIs and business itself to let their business expand and fully utilize the sources remain uncertain. There are ten variables were used in the study which are growth (MEG) as a dependent variable and 6 independent variables (IV) involved, there are Loan Size (LoanSiz), Loan Duration (LoanDur), Loan Repayment (LoanRep), Loan Utilization (LoanUti), Contact with Lender (ContactLen) and Training (Training). A multiple regression method has been used in the study to identify the impact of the growth among MEs in Malaysia. Based on the findings, this surely stated that microfinance criteria meet the significance level and contributes to MEs growth. Hence, the study recommends that MEs must be linked up to the larger financial sources such as SME bank and non-government agencies in terms of financial support. Besides that, Micro finance Institutions should provide a moral support such as entrepreneurial skills in order to enhance their financial management and operation as well as in handling resources efficiently. The policy makers should seek some strategies in the aim to promote MEs in the market penetration. Finally, for the future study, the study suggests to use longitudinal data for future research because this method can monitor changes before and after the joining microfinance schemes. Apart, also can make a comparison between borrower and non-borrower in the aspect of business growth among MEs in Malaysia. As a conclusion, the findings of the study have answered the research objectives.

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## INTRODUCTION

The ability of Micro Enterprises (MEs) in Malaysian economy has been proved since the mid 1990s in generating domestic investment (Aris, 2007). The contribution of employment and job opportunity cannot be denied since the increasing recognition of MEs being linked to employment generation, enhancement of income distribution as well as wealth creation (Hassan & Hart, 2016; Chaudury, 2011; Bernard and Jensen, 2007). ME represents about 97.3 % (645,136) from all firms in Malaysia (SME, 2015). In 2015, MEs also contributed to 33.1 % of Gross Domestic Product (GDP) and 55.1 % of the employment rate in Malaysia (SME, 2015). The contribution of MEs in the economic sector significantly proved. The ability of MEs for performing well in many sectors also definitely explained. Many Asian countries including Malaysia were taken into consideration regarding the importance of MEs in the economy. The important function of this group can be described as a better part for a better and healthy financial situation in a country (Tumkella, 2003; Ahmad & Seet, 2009). Due to this part, several parties such as government and non-government agencies have taken several actions to let MEs grow and be able to expand their business into the next level. In Malaysia, there three main microfinance institutions (MFI) which are Amanah Ikhtiar Malaysia, The Economic Fund for National Entrepreneurs Group (TEKUN) and Yayasan Usaha Maju (YUM) are the body that have the authority purposely help MEs in Malaysia in terms of financial and non-financial support. Microfinancing is a main product of these three agencies which plays an important element for MEs success.

Despite the potential importance of MEs in any economy sector is well known, actually majority of Micro enterprises (MSEs) remain at a low level of growth especially with regards to employment and wealth creation (Yano & Shiraishi, 2012; Tedecshi, 2008). This is primarily factored by the fact that most enterprises face difficulty in obtaining credit access from formal financial institutions (Pokhriyal Rani & Uniyal., 2014; Mahmood & Rosli, 2013). Subsequently, it becomes a major problem for microenterprises to expand their business, and it is also difficult for them to meet the level of standard growth. (Ebong & Dayo, 2007).

The microfinance institutions were first established in Malaysia during New Economic Policy (NEP) in 1987 but it was unable to fill the gap in terms of business growth and survival for MEs (Luen et al., 2013). Even though there are a lot of studies that discuss the importance and significance of microfinance on microenterprises' performance, the problems remain unsolved especially on the issues related to the growth. (Rahman, Yaacob & Radzi, 2014; Rahman & Dean 2013; Fattah, 2014).

High mortality rate among MEs was a major issue in developing countries including Malaysia. The fact that only 20.7% of MEs in Malaysia are succeed in the aspect of business growth (IFC, 2010) and some MEs were unable to operate the business within the first five years (Luen, Yong & Fook, 2013)

This situation is a crucial part to be discussed in the study and therefore important to know the extent to which microfinance significantly enhances MEs growth in Malaysia. Due to the lack of studies on MEs growth in Malaysia, this study comes to investigate the extent of Microfinancing criteria gives an impact on MEs growth. Therefore, the objective of this study is to analyse the impacts of micro financing criteria on the growth of MEs in Malaysia (peninsular).

## PREVIOUS STUDY ON MICRO FINANCING CRITERIA OF THIS STUDY

### Underpinning theories

**Financial growth** theory is a financial theory for small and micro businesses where they need financial support and financing options for business growth and to become more experienced. (Berger & Udell, 1998). Berger and Udell (1998) have proposed this theory and they further proposed that firms depend on a size, age and variety of information indicating that small and micro entrepreneurs should rely on initial finance injection from related institutions or trade credit from suppliers. Sometimes they also wish to obtain financing from family and friends. In the growth cycle model, firms are predicted to gain access to venture capital (VC) as a source of intermediate equity, and midterm loans as an intermediate liability or debt. At the last stage of growth, when the firms become older, they will have more experiences and are clearer in information or they can be knowledgeable in their field. The firm will also likely gain access to Public equity and long term debt financing.

**Pecking order theory** as proposed by Myers (1984) is another theory that is familiar with the activities of micro and small enterprise. It is about the incentives that drive MEs' capital structure decisions. This theory proposes that firms intend to use internal sources as an initial capital rather than external sources and will use the external sources if the initial capital is inadequate. Most MSEs use the internal sources before looking for external sources and this theory has been found to be suitable or relevant to the financing of MSE. This means that older firms have more opportunities to collect retained earnings as compared to new firms, and hence, funds are used to finance operational growth. This theory suggests that funds from internal sources should be fully utilised before looking for external capital sources (Holmes & Kent, 1991). On the other hand, Adair and Adaskou (2015) agreed in their study that the leader in the enterprise complies with self-financing, and non-risky debt issuance and risky debt issuance will be the last resort in the business operation. It has been known that MSEs vary in their capital structure but their passionate reliance on pecking theory makes MEs' decision unique. MSE operations will rely on self-funding or internal sources for capital as compared to larger firms they are financed through public market or external sources (Babajide, 2011; Ballelette, 2010; Dufour & Malay, 2010).

Hence, the theory of financial growth and pecking order theory are the most suitable theories to be related in the study.

### Conceptual issues of Microfinance and Microenterprise

The definition of microfinance is a provision of wide range of financial services including loans, deposits, money transfers, payment services and insurance specifically developed for poor and low income people for micro enterprise and it was specifically designed to combat poverty, increase household income and improve the quality of health and education (Chin & Nor, 2016; Rijawanti, 2013; Hassan, Rahman, Bakar, Mohd & Muhammad, 2013; Mokhtar, Nartea & Gan 2012; Yunus, 2007). Many studies have confirmed that microfinance is an effective tool to eliminate poverty and increase the standard of living among poor people, especially in developing countries and poor countries. Muhammad Yunus was the first scholar who introducing and promoting a microfinance scheme in Bangladesh by establishing Grameen Bank with a modern concept. At the early stage of microfinance establishment, it was particularly to help women in the country.

Hence most developing countries including Malaysia recognized this scheme as a successful initiative in combating poverty among the poor. Furthermore, Pokhriyal, Rani & Uniyal, 2014 in their study also found that microfinance gives a significant to poor life improvement.

In Malaysia, there are three major institutions that play an important part to ensure MEs in Malaysia get what they are supposed to receive as a micro business player. These three institutions are Amanah Ikhtiar Malaysia (AIM), Yayasan Usaha Maju (YUM) which is particularly in Sabah and The Economic Fund for National Entrepreneurs Group (TEKUN).

Based on Bank Negara Malaysia, the definition of Microenterprise is where a group of business who achieved sales turnover of less than RM300,000 or full time employees less than 5. the contribution of MEs has been discussed in many studies and most of studies agreed that MEs are able to give an impact in economy (Chin & Nor 2016; Emad, Suhail, & Jabbar, 2014; Fred & Timothy, 2013; Tambunan, 2007).

### Impact of Microfinance criteria on ME's growth

#### Growth

According to Niskanen and Niskanen (2007), growth can be defined as  $Gr = \{(St/S0)^{1/n} - 1\} \times 100$ , where St can be said as the current sales level, S0 is the base year sales value, n is the number of years considered in the study, and lastly, Gr can be considered as the annual growth rate. On the other hand, some studies agreed that growth is not a real objective for small and microenterprise but the ability of a firms to grow is important because it has been advised that firms with negative or low growth rates seem to have inclination to fail (Phillips & Kirchoff, 1989; Babajide, 2011).

### Microfinance criteria

**Size of loan or loan amount (*LoanSiz*)** is the one of the determinants that will be measured in the study. It refers to how much borrowers received from the loan applied to generate the business activities whether as an initial capital or as a working capital (Wolde and Geta, 2015). On the other hand, Barney (1991) and Carroll (1993) found that the amount of loan or loan size enterprises with a high initial investment tend to grow well than enterprises with smaller initial capital. This finding was agreed by Mosalakae (2009) in his study, the amount of loan invested can increase the profitability of firms. Again, Cecchetti, Mohanty, and Zampolli (2011) mentioned in their study that over borrowing leads to bankruptcy as well as financial ruin. Hence, debt in the amount of loan and loan repayment should be matched with business operation in order to make the firm grow smoothly. Meanwhile, Wolde and Geta (2015) agreed that there was a positive relationship and a significant impact occurring between the amount of loan and firm's growth. Thus, those studies agreed that sufficient amount of loan is positively correlated to the firms or MEs' growth and significantly gives an impact towards MEs' growth.

Another criterion which include in the study is a **loan duration (*LoanDur*)**, this is referring to the engagement period of borrowers with the lender and yet, borrowers have to give commitment in terms of repayment of loan along the period of time. According to Mokhtar (2011), loan tenure is highly related to loan repayment, and she agreed that a longer period of repayment allows borrowers perform better in their business. Furthermore, in a previous study that has been conducted by Wen et al. (2016) found that loan tenure or loan duration is positively related to and significantly impacts MEs' success. The authors stated that longer loan tenure given to borrowers will increase business income and lead to better business performance. Therefore, it can be concluded that loan duration has a positive relationship with MEs' growth and significantly gives a contribution towards MEs' growth.

In the aspect of **loan repayment (*LoanRep*)**, most previous studies discussed loan repayment and business performance (Roslan & Karim, 2009; Mokhtar, 2011; Mokhtar et al., 2012). This study is focusing on MEs' growth and productivity as this subject has not been adequately addressed in previous studies. Repayment of loan is highly correlated with loan duration. This means that loan duration reflects the situation of engagement between borrowers and lenders. Apart from that, Wolde and Geta (2015) considered that inadequate loan amount provided by MFIs and shorter repayment period will produce MSEs with a limited growth, survival and diversification. Also, a shorter period of repayment burdens borrowers because they have to commit with a large amount to be paid to MFIs and subsequently will affect the level of liquidity in a firm (Nor, 2019). Thus, A shorter period of repayment and inadequate credit access are the most significant factors that negatively affected the MEs' growth because they need to contribute more money to the repayment instead of for working capital (Mulu, 2007). Hence, based on the literature above, it can be said that loan repayment contributes to MEs' growth.

Another criteria is a **loan utilization (*LoanUti*)** on MEs' growth. Loan utilization is referring to the attitude of borrowers or MEs in managing the loan obtained efficiently. In his study, Oji (2006) suggested that loan utilization should be monitored regularly by visiting the borrowers and groups in order to evaluate their business activities, and at the same time helping them to be careful in managing the fund received efficiently. Subsequently, through the monitoring and visiting, borrowers could fully utilize the fund and this ultimately helps their business to grow and expand to the next level. Another study that has been conducted by Babajide (2011) found that loan utilization was a significant indicator for firm's growth and expansion and has a positive correlation towards MEs' growth. Thus, the conclusion that can be made is that loan utilization contributes to MEs' growth and expansion.

This study also considers the element of **contact with lender (*ContactLen*)** or lender-firm relationship as an independent variable. Only a few studies discussed the impact of contact with lender on MEs' growth, such as Babajide (2011) and she found that contact with lenders has a positive impact on MEs' growth. Besides that, another study by Choudhury (2005) found that lender monitoring of borrower's activities in joint lending enables the members to perform better in their business operation. Thus, the study concludes that contact with lenders has a positive impact on MEs' growth.

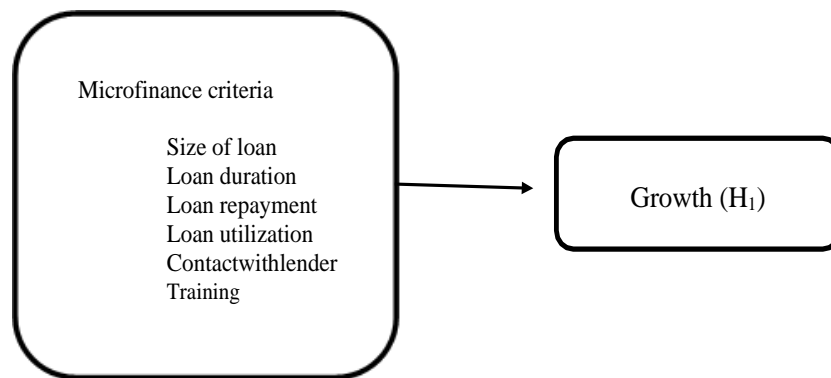
Lastly, the element of **training (*Training*)** also considered as a variable in the study. Training can be considered as a skill development where all the knowledge and skills can be developed in the content of training, and training can transform people's ability into skills successfully. Critically, Jackson (2004) indicated that training and business skills need to be given attention instead of financial constraints because the knowledge and skills in dealing in business is a key to growth of business. Other studies conducted by Orji (2006) and Babajide (2011) found that credit advice and training have a positive impact on growth and he also found that the transformation of microenterprise into small scale enterprise could be assessed using the factor of amount of asset, size of loan, number of loan obtained, loan duration, loan utilization and changes in employment over time.

Based on the literature above, the hypothesis can be developed as follows:

**H1: Microfinance Criteria and characteristics of business has a significant impact on growth of MEs in Malaysia.**

### Conceptual Framework

Conceptual Framework The conceptual framework of this study is based on the actual explanatory variables involved.



**Figure 1.** Theoretical framework for understanding microenterprises' (MEs) growth

## RESEARCH METHODOLOGY

This paper focused on the MEs growth based on the microfinance criteria that has been discussed in the previous chapter. The selection of microenterprises is in peninsular Malaysia which consists of two MFIs, there are AIM and TEKUN. The primary data was obtained through a survey by using closed-ended questionnaires. The close ended questions were developed and it was used to simplify the respondent answer the questions. The paper adapted questionnaires from Babjide (2011) and Mokhtar (2011) which both studies included the same variables such as business characteristics and microfinancing criteria. However, every item chosen in questionnaires has been reviewed and suitable with the nature of the sample's study. The questionnaire was divided into two sections. Section A contains demographic information of respondents. It Includes gender, age of respondent, marriage status, number of dependent, educational level. While section B has covered the question related the explanatory involved in the study and Likert scales regarding the impact of microfinance characteristics on MEs growth and productivity. Section B also includes, the questionnaire deals with MEs growth and productivity and the related information involved in the study while Likert scale has been used to measure the growth.

### Population

This study identifies two groups of study which consist of MF institutions (TEKUN and AIM) and clients who engage with the microfinance product or scheme which is micro or small enterprise entrepreneurs. TEKUN and AIM are providing microcredit services throughout Malaysia and have a large number of clients or borrowers. TEKUN as of 31 December 2015, had 337,090 borrowers (TEKUN 2015) consisting of micro and small enterprises, whereas AIM had 280,000 borrowers (AIM, 2015). 8 regions in Peninsular Malaysia which covers all 23 areas and 15 branches of AIM and across 9 states of TEKUN involved this study to conduct the survey in order to obtain the related information and data.

**Table 1.** Population of Study

Institutions	Number of borrower	States covered
AIM	280,000	8
TEKUN	337,090	9

Source: AIM (2015) & TEKUN (2015)

### Sampling Technique and Sample Selection

This study will randomly select borrowers in various schemes for economic purposes only such as small businesses, services, plantations, animal husbandry, fishery and manufacturing. A stratified sampling technique has been used in this study where the clients or borrowers as a population will be divided into subgroups or strata (Zikmund, 2003). The satisfactory sample response will be calculated based on the formula given by Mendenhall, Reinmuth and Bearer (1993).

$$n = \frac{NZ_{\alpha/2}^2 pq}{(N - 1)e^2 + Z_{\alpha/2}^2 pq} \tag{1}$$

where:

n = the sample size

N = the size of population

$NZ_{2\alpha/2}$  = the critical value of a two-tailed Z test at 1  $\alpha$  confidence level e = the tolerable error level for estimation (5%)

pq = component of sample proportion variance estimate (maximize 0.5)

This research assigned p =0.5 and q =0.5 to the equation above. Applying the formula above, the calculation of the minimum sample size, as follows:

Sample size for TEKUN

$$n = \frac{337,090 \times (1.96)^2 \times 0.25}{337,090 \times (0.5)^2 + (1.96)^2(0.25)} = 384 \tag{2}$$

Sample size for AIM

$$n = \frac{288,912 \times (1.96)^2 \times 0.25}{280,000 \times (0.5)^2 + (1.96)^2(0.25)} = 384 \tag{3}$$

According to the formula above, the sample size of both MF institutions are 384 borrowers from TEKUN and 384 borrowers from AIM. To overcome the attrition in sample, the sample size should be larger than the calculated sample response required. Response rate, based on surveys of questionnaires in previous research, were usually between 60%-90% (Mokhtar, 2011; Coleman 1999; Husain 1998). This study was taking an 80% estimated response rate, so the calculated working sample size is 480 for TEKUN and 480 for AIM.

**Method and data analysis**

The descriptive and inferential analytical techniques have been used in this study. The analytical technique employed is a linear multiple regression analysis approach to identify the impact of all explanatory variables involved on the MEs growth. A linear Multiple regression has been used to the analysis for MEs growth (MEG). These all variables were performed by using the multiple regression technique. The initial part of the analysing the data, it consisted of the definition of the related variables. The study has focused on growth which growth has sales and revenue also marketing elements which enable the capability of a business to enter the new market and obtain the loyalty of new customers. MEG) and key predictors of MEs growth are the independent variables.

The independent variables in this study are loan size or amount of loan, loan duration, loan repayment, loan utilization, contact with lender and training. The variables are represented as, *LoanSiz<sub>1</sub>*, *LoanDur<sub>2</sub>*, *LoanRep<sub>3</sub>*, *LoanUti<sub>4</sub>*, *ContactLen<sub>5</sub>*, and *Training<sub>6</sub>*. In this matter, MEs growth was regressed on the set of explanatory variables that predicted MEs growth in the respect of microfinance characteristics. Additionally, the coefficient of variables is measured by the marginal effect of the explanatory independent variables on MEs growth. The equation of the model will be presented in model specification below:

$$MEG = \alpha_0 + \beta_1 LoanSiz_{it} + \beta_2 LoanDur_{it} - \beta_3 LoanRep_{it} + \beta_4 LoanUti_{it} + \beta_5 ContactLen_{it} + \beta_6 Training_{it} + \mu \tag{3}$$

(Adapted with amendment from: Babjide, 2011)

**RESULT AND ANALYSIS**

At the beginning of this study, 960 questionnaires were distributed to selected respondents where 480 questionnaires were allocated to AIM whereas another 480 were allocated to TEKUN. However, only 263 respondents from AIM and 315 respondents from TEKUN returned the questionnaires, which accounted to 578 questionnaires in total. From the 578 returned questionnaires, only 199 (41.50 %) and 277 (57.70 %) were functional questionnaires, from AIM and TEKUN, correspondingly.

**Multiple Regression Analysis on Microfinance Criteria on MEs Growth**

Based on the multiple regression analysis on microfinance criteria on MEs growth, it shows a result of the regression of sales growth on the microfinance criteria. The data presented in column I is represented is a total sample. Also, column II refers to AIM and column III refers to TEKUN. This is because AIM and TEKUN have their own client’s characteristics and different requirements.

**Table 2.** Microfinance criteria and characteristic of business on MEs growth

MICROFINANCE INSTITUTIONS						
sample	Total		AIM			
	Coefficient statistic	t-statistic	TEKUN t-statistic	Coefficient-	t-statistic	t-
Constant	0.986	2.968 (.003)**	2.124	3.900 (.000)** *	0.949	5.396 (.093)
<b>Microfinance</b>						
<b>Criteria</b>						
Size of Loan	0.124**	2.381 (.018)	0.053	0.544 (.143)	0.164**	2.521 (.022)
Loan Duration	0.140**	3.104 (.002)	0.025	0.402 (.688)	0.196***	0.607 (.003)
Repayment of Loan	0.200***	3.736 (.000)	0.124	1.666 (.097)	0.196**	-1.667 (.028)
Loan Utilization	0.072	1.746 (.081)	0.114	0.786 (.433)	0.028	-0.032 (.634)
Contact with lender	0.068	1.753 (.080)	0.012	1.726 (.087)	0.126**	0.451 (.036)
Training	0.072	1.402 (.162)	0.106**	2.377 (0.018)	0.063	2.120 (.374)
<b>R-Squared</b>	0.228		0.110		0.264	
<b>Adjusted R- Squared</b>	0.213		0.067		0.240	
<b>No. of Observation</b>	476		199		277	
<b>F-test Statistic</b>	15.320	(.000)***	3.778	(0.003)**	10.663	(.000)***

Note: \*\*\*= 1% level of significance \*\*= 5% level of significance

Source: field survey, 2016

### Loan Size (LoanSiz)

The result above proves that the explanatory variable of size of loan or the amount of loan on MEs growth shows that 1-unit increase in size of loan leads to increase in sales growth by 12.4% for total sample and 5.3% and 16.4% for AIM and TEKUN respectively. This figure also shows the positive relationship between growth and loan size, and yet, the result obtained is significant for the total sample at 5% and TEKUN sample at 5%. This study is similar to some past works (e.g., Okoh and Song, 2000; Mosalaka, 2009; Cecchetti et al., 2011) where they established that there is a significant impact of amount of loan or loan size on business growth, and a positive relationship between loan size and firm's growth. This means that larger size of loan provides more chances to firms to grow better and expand their capacity. Furthermore, a sufficient amount of loan is essential for firms as it is a key indicator for successful firm and expansion (Ababiya, 2013; Wolde & Geta, 2015).

### Loan duration (LoanDur)

The duration on asset loan or loan duration (*LoanDur*) also reveals a positive correlation to the expansion capacity with the coefficient for total sample at 15.1 % 3 % for AIM and 19.7 % for TEKUN. Surprisingly, the total sample and TEKUN sample demonstrate statistical significance levels at 5 % and 1%. This means that 1-unit increase in loan size brings a positive impact by a mentioned figure on the expansion capacity or growth for Microenterprise in Malaysia.

However, the result also shows that the AIM sample does not show any significant result. This is because the amount of loan offered by AIM is smaller than that by TEKUN, and also, AIM offers less duration of loan which is two years maximum that borrowers faced with limited funds to operate their business. (Nawai & Bashir, 2011).

### Loan repayment (*LoanRep*)

On the repayment of loan (*LoanRep*), the results obtained reveal that there is a positive correlation with ME's growth. Based on this result, 1-unit increase in repayment will cause subsequent increase of 20.0 % of MEs growth for total sample, 12.4 % increase for AIM and TEKUN also increase by 19.6 %. Yet, the result shows a significant sign at 1% for the total sample and 5 % at TEKUN. This result was contradicting with Babajide (2011) who stated that the negative relationship situation supports economic theory because of the frequency of repayment while appearing contradictory to microfinance theory. The author mentioned that if the amount of repayment and the frequency of repayment increase, sales growth will decrease. However, the repayment system implemented by AIM and TEKUN including the amount of repayment is under the government supervision and 109 purposely to help MEs in terms of financial assistance. Furthermore, AIM and TEKUN are implementing Islamic financial systems in which no interest is behind the loan given. This is the reason for a positive correlation to ME's growth.

### Loan Utilization (*LoanUti*)

On the utilization of loan (*LoanUti*), the results obtained reveal a positive relationship with MEs growth. A unit increase in loan utilization will increase MEs growth by 7.2 %, 11.4 % and 2.8 % respectively. This finding is compatible with Babajide (2011) who found loan utilization as a significant indicator for firm's growth and expansion capacity and has a positive correlation between them. Consequently, based on the result obtained, loan utilization is positively related to MEs growth.

### Contact with lender (*ContactLen*)

In the aspect of contact with lender (*ContactLen*), according to the result above the correlation which is to measure the strength of relationship between contact with lender 110 and the growth of MEs, a positive relationship is affirmed between contact with lender and MEs growth. As clarification, contact with lenders relates to how frequent a borrower makes a contact with a lender or MFIs regarding the business operation and activities. This is important for lenders or MFIs, as they need to know that the loan given is exactly used for business or other non-business purposes. It also relates to the performance of loan repayment. The result shows that a unit increase in contact with lenders will cause an increase in the growth of MEs by 6.8 % for total sample, 12.0 % for AIM, and 12.6 % for TEKUN. Therefore, this study statistically agrees that contact with lenders is positively correlated with MEs growth.

### Training (*Training*)

For the training (*Training*) variable, the result shows a positive relationship for all three samples and the significant sign has occurred for AIM sample at 5 %. This result is in line with some studies (e.g., Jackson, 2004; Orji, 2006; Babajide, 2011; Mulu, 2007) that investigated the positive relationship of training to MEs, and established the presence of a significant impact of training on enterprise expansion. In addition, Mulu (2007) confirmed that business growth and productivity are highly related to the sufficient training received by entrepreneurs. Business skills obtained from training give a positive impact to business expansion or the next stage of business. Therefore, it can be concluded that training has a significant impact on MEs growth.

Based on the result above, the value of R-squared for the total sample is 22.8 %, 11.0 % and

26.4 % for AIM and TEKUN samples. These results indicate that 22.8 %, 11.0 % and 26.4 % of growth have been influenced by microfinance criteria. The results appeared as a weak relationship between both variables. This is because perhaps, the study was ignoring the practise of mandatory savings as a predictor to investigate the impact of microfinance criteria in the study. 111 In the aspect of F-statistics and P-value, the study confirmed that total and TEKUN samples are statistically significant at 1% while 5% for AIM and it gives an impact on MEs growth in Malaysia. To support this result, Babajide (2011) also found that business characteristics and Microfinance criteria play an important role in business expansion and contribute to the MEs growth.

### Goodness of Fit of the Model for MEs Growth

Evaluation of fit of the model found  $R_2 = 22.8$ ; prob. = 0.000; for total sample, while TEKUN sample found  $R_2 = 26.4$ , prob. = 0.000 and AIM  $R_2 = 11.0$ ; prob. = 0.003. Based on the result of testing goodness of fit, all three samples have met the criteria and it can be inferred that the model meets the conformance model.

Based on the result and findings of F-test, it was confirmed that the study has fir the model and answered the research objectives for MEs growth. This is because F-test value represents a sign of significant level at 1% in which all the variables involved in the study contribute to the MEs growth. This finding is in line with Babajide (2011) and Mulu (2007) stated that microfinance characteristics is the element that need to be emphasized to ensure the growth of MEs. The relationship of all variables also accept hypothesis and support the findings of previous research. Thus, this study accepts H1 as follows;

**H1: Microfinance criteria give a significant impact to growth of MEs in Malaysia.**

## SUGGESTIONS AND RECOMMENDATION

There are some suggestions and recommendations offered in this study. The suggestions basically focus on the targeted groups where these groups would enhance the quality of implementation of microfinance to the Microenterprise (MEs) in the entire world generally, and entire Malaysia specifically.

### Microfinance Institutions (MFIs)

MFIs should be linked up to larger financing windows such as SME banks or non-government agencies in terms of social capital. This will allow MFIs to introduce technology-based products such as equipment, machinery and strategy targeted at financing technology acquisition by MEs. Apart, cooperation from commercial banks in Malaysia who offer microcredit products is very important by reviewing the implementation of interest rate to MEs. MFIs should strengthen their training service especially skills in business management and technology related skills. The study also perceives that most MEs that act as MFIs borrowers lack the knowledge of financial management. Thus this study suggests that MFIs provide entrepreneurial skills to borrowers so that they could manage their income and handle resources efficiently.

### Regulator or Policymakers

The regulator or policymakers should adopt some policies that are aimed to promote MEs in the market penetration to expand their business into growth levels. Thus, resources should be channelled to the right sector so that each sector has an adequate fund. Moreover, regulators should critically grab the problems that occur in infrastructure development and maintenance such as electricity and water transportation systems.

### Recommendation for Future Research

The study can include the interest rate determination imposed by commercial banks to their MEs borrowers in terms of impact of interest rate on business performance and growth. Additionally, a longitudinal study is also recommended for future research. Longitudinal research can monitor changes before and after the borrowers joined microfinance 138 schemes. Future research can also make a comparison study between borrower and non borrower in terms of business growth and productivity.

Other fields that future researchers should look into are the amount of loan given to MEs whether the particular amount is sufficient to support the business. The size of loan in the determination of business growth should be considered as well. Multiple regression method is only look at the relationship for both dependent and independent variables and show a report of variance analysis, more predictors inputted, the high value of R<sup>2</sup> presented. The R<sup>2</sup> value will increase even when adding statistically non-significant variables into the equation. Based on this, the study was unable to reveal the importance of independent variables by using only the increment of R<sup>2</sup>. Furthermore, multiple regression needs a larger sample size in generalizing the result. As an alternative, the study may use correlation coefficient methods to analyse the data.

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